

File No. CV-11-9159-  
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**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,  
R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF  
PRISZM INCOME FUND, PRISZM CANADIAN OPERATING TRUST,  
PRISZM INC., AND KIT FINANCE INC.

(the "Applicants")

**APPLICATION RECORD  
(returnable March 31, 2011)**

**VOLUME III OF III**

March 31, 2011

**STIKEMAN ELLIOTT LLP**  
Barristers & Solicitors  
5300 Commerce Court West  
199 Bay Street  
Toronto, Canada M5L 1B9

**Ashley John Taylor** LSUC#: 39932E  
Tel: (416) 869-5236

**Maria Konyukhova** LSUC#: 52880V  
Tel: (416) 869-5230

**Kathryn Esaw** LSUC#: 58264F  
Tel: (416) 869-6820  
Fax: (416) 947-0866

Lawyers for the Applicants

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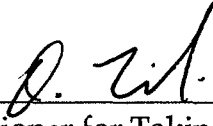
(the "Applicants")

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This is Exhibit "G"  
to the affidavit of Deborah Papernick,  
sworn before me on the 31<sup>st</sup> day  
of March, 2011



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Commissioner for Taking Affidavits

## **Prizm Income Fund**

Interim Consolidated Financial Statements  
(Unaudited)  
**Second Quarter from  
March 22, 2010 to June 13, 2010**

**Prizm Income Fund**  
**Interim Consolidated Balance Sheets (Unaudited)**  
(in thousands of dollars)

	June 13, 2010 \$	December 27, 2009 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 17)	11,734	25,670
Trade and other accounts receivable	606	1,739
Inventories	3,285	3,776
Prepaid expenses	3,722	962
Other assets	218	219
	<u>19,565</u>	<u>32,366</u>
<b>Other receivables</b>	376	376
<b>Property and equipment (note 4)</b>	61,115	62,553
<b>Future income taxes (note 5)</b>	4,883	4,986
<b>Franchise rights (note 6)</b>	31,668	32,968
<b>Goodwill</b>	57,434	57,434
	<u>175,041</u>	<u>190,683</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 8)	41,087	43,368
Current portion of long-term loan (note 9)	67,327	10,000
	<u>108,414</u>	<u>53,368</u>
<b>Long-term loan (note 9)</b>	-	65,112
<b>Convertible debentures (note 10)</b>	29,090	28,885
<b>Future income taxes (note 5)</b>	33	31
<b>Deferred contract amounts (note 7)</b>	6,223	6,465
<b>Liabilities of discontinued operations (note 21)</b>	-	2
	<u>143,760</u>	<u>153,863</u>
<b>Non-controlling interest (note 11)</b>	13,779	15,968
	<u>175,041</u>	<u>190,683</u>
<b>UNITHOLDERS' EQUITY</b>		
<b>Equity (note 12)</b>	143,335	143,335
<b>Deficit</b>	(125,833)	(122,483)
	<u>17,502</u>	<u>20,852</u>
	<u>175,041</u>	<u>190,683</u>
<b>Basis of presentation and liquidity risk (note 2)</b>		

The accompanying notes are an integral part of these interim consolidated financial statements.

# Prizm Income Fund

## Interim Consolidated Statements of Operations (Unaudited)

(in thousands of dollars)

	Period from March 22, 2010 to June 13, 2010 \$	Period from March 23, 2009 to June 14, 2009 \$	Period from December 28, 2009 to June 13, 2010 \$	Period from December 29, 2008 to June 14, 2009 \$
Restaurant sales	99,107	105,768	182,604	196,802
<b>Restaurant cost and expenses</b>				
Cost of restaurant sales (note 14)	59,214	61,811	110,816	117,695
Restaurant operating expenses (note 14)	14,646	16,395	30,448	32,740
Rent	8,492	8,454	17,089	16,992
Franchise royalty expense	5,950	6,350	10,961	11,812
Amortization	2,735	3,024	5,342	5,635
	91,037	96,034	174,656	184,874
Income from restaurant operations	8,070	9,734	7,948	11,928
<b>General and administrative expenses</b> - including amortization of \$684 (December 28, 2009 to June 13, 2010 - \$1,383)	4,068	4,887	8,730	9,623
Income (loss) before the undernoted	4,002	4,847	(782)	2,305
Interest income	3	1	6	8
Interest expense (note 9)	(2,073)	(2,097)	(4,225)	(4,189)
Income (loss) before income taxes and non-controlling interest	1,932	2,751	(5,001)	(1,876)
Income tax (recovery) expense (note 5)	(364)	(320)	105	(533)
Income (loss) from continuing operations before non- controlling interest	2,296	3,071	(5,106)	(1,343)
Non-controlling interest (note 11)	(778)	(1,111)	2,014	759
Income (loss) from continuing operations	1,518	1,960	(3,092)	(584)
<b>Loss from discontinued operations</b> - net of income taxes and non-controlling interest (note 21)	(88)	(199)	(258)	(253)
Net income (loss) for the period	1,430	1,761	(3,350)	(837)

The accompanying notes are an integral part of these interim consolidated financial statements.



**Priszm Income Fund****Interim Consolidated Statements of Deficit (Unaudited)**

(in thousands of dollars, except per Unit amounts)

	Period from March 22, 2010 to June 13, 2010 \$	Period from March 23, 2009 to June 14, 2009 \$	Period from December 28, 2009 to June 13, 2010 \$	Period from December 29, 2008 to June 14, 2009 \$
<b>Basic income (loss) per Unit (note 15)</b>				
Continuing operations	0.100	0.128	(0.203)	(0.038)
Discontinued operations	(0.006)	(0.013)	(0.017)	(0.017)
	<u>0.094</u>	<u>0.115</u>	<u>(0.220)</u>	<u>(0.055)</u>
<b>Diluted income (loss) per Unit (note 15)</b>				
Continuing operations	0.038	0.076	(0.203)	(0.053)
Discontinued operations	(0.002)	(0.008)	(0.017)	(0.017)
	<u>0.036</u>	<u>0.068</u>	<u>(0.220)</u>	<u>(0.070)</u>

The accompanying notes are an integral part of these interim consolidated financial statements.

## Prizm Income Fund

### Interim Consolidated Statements of Deficit (Unaudited)

(in thousands of dollars, except per Unit amounts)

	Period from March 22, 2010 to June 13, 2010 \$	Period from March 23, 2009 to June 14, 2009 \$	Period from December 28, 2009 to June 13, 2010 \$	Period from December 29, 2008 to June 14, 2009 \$
Deficit - Beginning of period	(127,263)	(121,449)	(122,483)	(116,577)
Net income (loss) for the period	1,430	1,761	(3,350)	(837)
Distributions (note 16)	-	(1,532)	-	(3,806)
Deficit - End of period	(125,833)	(121,220)	(125,833)	(121,220)

### Interim Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(in thousands of dollars)

	Period from March 22, 2010 to June 13, 2010 \$	Period from March 23, 2009 to June 14, 2009 \$	Period from December 28, 2009 to June 13, 2010 \$	Period from December 29, 2008 to June 14, 2009 \$
Net income (loss) for the period	1,430	1,761	(3,350)	(837)
Other comprehensive income	-	-	-	-
Comprehensive income (loss)	1,430	1,761	(3,350)	(837)

The accompanying notes are an integral part of these interim consolidated financial statements.

# Prizm Income Fund

## Interim Consolidated Statements of Cash Flows (Unaudited)

(in thousands of dollars)

	Period from March 22, 2010 to June 13, 2010 \$	Period from March 23, 2009 to June 14, 2009 \$	Period from December 28, 2009 to June 13, 2010 \$	Period from December 29, 2008 to June 14, 2009 \$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Income (loss) from continuing operations	1,518	1,960	(3,092)	(584)
Add: Non-cash items				
Income tax (recovery) expense	(364)	(320)	105	(533)
Non-controlling interest	778	1,111	(2,014)	(759)
Amortization of property and equipment	2,742	3,086	5,378	5,753
Amortization of franchise rights	677	674	1,347	1,347
Amortization of deferred financing charges	-	44	-	64
Interest accretion	215	211	429	419
Amortization of deferred contract amounts (note 7)	(122)	(149)	(242)	(371)
Unit-based compensation	-	19	-	170
Long-term incentive plan accrual	-	(52)	-	(52)
Writedown of restaurant assets	-	231	-	231
Cash provided by operating activities of continuing operations	5,444	6,815	1,911	5,685
Net change in continuing non-cash working capital (note 17)	1,048	2,557	(3,416)	(741)
Tenant inducements and supply contract prepayment	-	67	-	627
Cash provided by (used in) continuing operations	6,492	9,439	(1,505)	5,571
Loss from discontinued operations (note 21)	(88)	(199)	(258)	(253)
Change in discontinued operations - non-cash items (note 21)	(61)	(134)	(175)	(204)
Net change in discontinued non-cash working capital (note 21)	(2)	2	(2)	(61)
Cash provided by (used in) operating activities	6,341	9,108	(1,940)	5,053
<b>Investing activities</b>				
Purchase of property and equipment	(2,646)	(1,095)	(3,940)	(2,491)
Purchase of franchise rights	(47)	-	(47)	-
Net proceeds on disposal of property and equipment	-	-	-	374
Cash used in investing activities	(2,693)	(1,095)	(3,987)	(2,117)
<b>Financing activities</b>				
Long-term loan repayments	(4,000)	-	(8,000)	-
Distributions to Unitholders	-	(2,284)	-	(5,710)
Repayment of operating facility	-	(2,700)	-	-
Deferred financing charges	-	-	(9)	-
Cash used in financing activities	(4,000)	(4,984)	(8,009)	(5,710)
Change in cash and cash equivalents during the period	(352)	3,029	(13,936)	(2,774)
Cash and cash equivalents - Beginning of period	12,086	5,636	25,670	11,439
Cash and cash equivalents - End of period	11,734	8,665	11,734	8,665
<b>Supplemental disclosure of cash flow information (note 17)</b>				

The accompanying notes are an integral part of these interim consolidated financial statements.

## **Prizm Income Fund**

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

(in thousands of dollars, except per Unit amounts)

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### **I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of preparation**

The interim consolidated financial statements of Prizm Income Fund ("the Fund") have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The note disclosure in these interim consolidated financial statements includes only material changes from the disclosure found in the Fund's annual consolidated financial statements for the year ended December 27, 2009. Therefore, these interim consolidated financial statements should be read in conjunction with those consolidated financial statements. Except as discussed below, these interim consolidated financial statements follow the same accounting policies as the Fund's audited annual consolidated financial statements.

#### **Recent Canadian accounting pronouncements issued and not yet adopted**

In October 2008, The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 1582, Business Combinations, concurrently with Handbook Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests. Handbook Section 1582, which replaces Handbook Section 1581, Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Handbook Section 1601, which replaces Handbook Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. Handbook Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Fund's interim and annual consolidated financial statements commencing on December 26, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Fund is currently evaluating the effects of adopting these standards.

#### **International Financial Reporting Standards ("IFRS")**

In March 2009, the Accounting Standards Board issued a second Omnibus Exposure Draft with transition and introductory material confirming that the use of IFRS will be required in interim financial statements for publicly accountable enterprises in Canada in years beginning on or after January 1, 2011. Since the 2011 fiscal year for the Fund begins on December 27, 2010, these standards will apply to the interim and annual consolidated financial statements relating to fiscal years beginning on December 26, 2011 for the Fund. The Fund is continuing to assess the financial reporting impacts of adopting IFRS. Changes in accounting policies upon adoption of IFRS are likely and may materially impact the Fund's consolidated financial statements. The Fund does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required as well as systems changes that may be necessary to gather and process the information.

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

(in thousands of dollars, except per Unit amounts)

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### 2 BASIS OF PRESENTATION AND LIQUIDITY RISK

#### Basis of presentation

The interim consolidated financial statements have been prepared using Canadian GAAP applicable to a going concern, which assumes the Fund will continue in operation for the foreseeable future and will be able to realize its assets and settle its liabilities in the normal course of operations. The following discussion presents some of the more significant facts, timelines, forecasts, projections or events which, among others, were considered by management in assessing the going concern assumption; while these factors indicate funding needs have not yet been fully met, management has determined that these circumstances do not at this time represent material uncertainties, which may lend significant doubt as to the ability of the Fund to continue to operate as a going concern.

#### Liquidity risk

Liquidity risk is the risk the Fund will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

While the Fund has been generating positive net cash from operating activities on an annual basis (2009 - \$21,328) and had \$11,734 cash on hand at June 13, 2010, there are two categories of financial events or commitments in the near future that raise uncertainties as to whether the Fund has the capital structure and sufficient liquidity to allow it to continue in normal business operations, and they are described in detail below:

#### *Debt*

The Fund has three debt components: two tranches of long-term debt, with \$65,596 and \$2,037 to be repaid on or before December 31, 2010, as well as \$30,000 of convertible, unsecured subordinated debentures maturing on June 30, 2012.

The latest covenant amendment requires the Fund to repay \$10,000 of the long-term debt during the first three quarters of 2010. The Fund made the first two repayments of \$4,000 each on March 15 and May 31, 2010, as required by the latest amendment, with the remaining \$2,000 to be repaid in August 2010. All three debt facilities are more fully described in notes 9 and 10.

The amendment did require the Fund to meet certain financial covenants, which were met for the quarter.

The amendment also required the Fund to deliver a fully executed letter of intent on or before June 30, 2010, from a bona fide lender, committing to refinance the outstanding amount on both tranches of long-term debt on or before December 31, 2010. While the Fund did not deliver a letter of intent by June 30, 2010, the Fund had received some expressions of interest from potential lenders that may be willing to take part in one or more refinancing alternatives. These alternatives are currently being assessed by the Fund and the Fund remains in active discussions with both its current lender and prospective lenders, and continues to work diligently with its investment banker to identify additional opportunities.

The Fund has presented its current refinancing alternatives to the franchisor, as it is clear that the continued support of the franchisor with respect to required future capital commitments is an important and key factor in the Fund achieving a successful debt refinancing.

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

(in thousands of dollars, except per Unit amounts)

### 2 BASIS OF PRESENTATION AND LIQUIDITY RISK - CONTINUED

#### *Franchise rights renewals*

From 2009 through 2013, the franchise agreements for the bulk of the Fund's restaurants expire. The renewals are dependent on the Fund paying both a renewal fee as well as investing capital to upgrade restaurant facilities that do not meet the Franchisor's current standard.

Under the terms of the master franchise amending agreement signed in November, 2009, the Fund is required to complete upgrades to 34 of its restaurants by July 15, 2010. While some of the upgrades have been completed, others are behind schedule due to management's focus on debt refinancing, liquidity and cash preservation, as well as some development-related logistics issues. As such, the July 15, 2010 requirement has not been met. However, the Fund and the franchisor are in active discussions regarding various refinancing alternatives, and the Fund currently believes that the franchisor will actively support the Fund's efforts to secure an acceptable financing arrangement in the foreseeable future. The Fund anticipates that negotiations with lenders and the franchisor will lead to a comprehensive plan for debt refinancing and facilities development that will be acceptable within the refinancing options that its investment banker has solicited from a number of potential lenders.

#### *Summary*

In summarizing these two major categories of financial events or commitments described above, the Fund faces demands on cash of approximately \$23,000 (debt repayments of \$2,000, planned restaurant upgrade capital as per the master franchise agreement amendment signed November 2009 at a minimum of \$13,800, in addition to \$1,200 of upgrade capital spent by the end of second quarter of 2010, franchise renewal fees of \$2,000, and regular maintenance and other capital spending of \$5,200 over the balance of the 2010 fiscal year), followed by a further \$65,633 in debt repayments on its current term loan by December 31, 2010. Currently, the Fund does not have sufficient liquid resources to retire its long-term debt obligation and meet the capital obligations associated with its franchise renewals. As described above, the Fund is actively pursuing replacement financing for its long-term debt from a variety of possible lenders while at the same time evaluating the credit market opportunities in support of any potential decisions the Trustees may make with regard to corporate structure given the impact of tax legislation, which takes effect at the beginning of 2011 (note 5).

In light of amendments to the financial covenants that were made subsequent to 2009 year-end, management projects that the Fund will remain in a cash-positive position and achieve financial covenants through fiscal 2010. Further, the Fund anticipates that it will be successful in securing a financing arrangement and in achieving the necessary concession, if required, by the franchisor. To do so, it is necessary for the Fund to establish a new financing relationship, including an operating line, to provide the flexibility and liquidity to meet the fluctuating demands on cash it faces in the coming years. This is especially important given the near term maturity on \$67,633 in term debt and \$30,000 in convertible debentures. The Fund cannot refinance its entire present term debt with its incumbent senior lender and, given the tightness of credit globally, the Fund may be unable to conclude satisfactory refinancing arrangements. The Fund's projections incorporate assumptions regarding general economic conditions and operating results as well as sensitivities regarding underperformance, among other things. Actual results could vary significantly from these assumptions with a related impact on liquidity and it is possible that the Fund may be unable to refinance its maturing debt obligations.

In addition to refinancing, the Fund must establish plans to secure the renewal of its franchise agreements to ensure business continuity. Although the process of negotiating renewals and reinvestment criteria is inherently unpredictable, management is encouraged by the ongoing dialogue and exchange of proposals between the

## Priszm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

(in thousands of dollars, except per Unit amounts)

### 2 BASIS OF PRESENTATION AND LIQUIDITY RISK - CONTINUED

Fund, its current lender, potential new lenders and the franchisor. While the process undertaken in 2009 established a solid basis for negotiations and mitigated some of the risk in this process, there can be no assurance that the Fund will successfully negotiate an upgrade plan with the franchisor that fits within its available funding and, therefore, the Fund may not be able to renew the franchise agreements on some of the restaurants it operates today, or it may elect to sell a certain number of its restaurants as part of its negotiations with its lender and the franchisor.

Due to the inherent uncertainty in negotiations, both with lenders and the franchisor, and continued weak operating performance compounded by a weak economic climate, the degree of variability in assumptions and projections may be larger than historical experience causing performance variances. As a result, it is possible the Fund will be unable to achieve its projected future cash flows or other business plans.

### 3 SEASONALITY

The Fund operates on a 13-period accounting basis, with the first three quarters consisting of 12 weeks and the fourth quarter consisting of 16 weeks. The business is seasonal. The following table shows the percentage of annual sales achieved in each fiscal reporting quarter, on average, over the last three years.

	%
First quarter (12 weeks)	21
Second quarter (12 weeks)	24
Third quarter (12 weeks)	25
Fourth quarter (16 weeks)	<u>30</u>
	<u>100</u>

**Prizm Income Fund**

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

(in thousands of dollars, except per Unit amounts)

**4 PROPERTY AND EQUIPMENT**

	June 13, 2010		
	Cost \$	Accumulated amortization \$	Net \$
Land	514	-	514
Building	1,386	453	933
Leasehold improvements	68,182	34,470	33,712
Furnishings and equipment	75,284	51,224	24,060
Restaurants under development	1,896	-	1,896
	<u>147,262</u>	<u>86,147</u>	<u>61,115</u>
	December 27, 2009		
	Cost \$	Accumulated amortization \$	Net \$
Land	514	-	514
Building	1,386	417	969
Leasehold improvements	66,940	32,858	34,082
Furnishings and equipment	74,199	48,239	25,960
Restaurants under development	1,028	-	1,028
	<u>144,067</u>	<u>81,514</u>	<u>62,553</u>



## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

(in thousands of dollars, except per Unit amounts)

### 5 FUTURE INCOME TAXES

On October 31, 2006, the Minister of Finance announced proposed tax legislation ("trust legislation") that changed the income tax rules applicable to publicly traded trusts, rendering income trusts taxable in 2011. In 2011, the Fund will be required to pay income taxes on its distributions. Accordingly, distributable cash will be reduced by an equal amount.

The October 31, 2006 trust legislation was substantively enacted into law on June 12, 2007, at which time the Fund gave accounting recognition to these new tax rules.

On January 27, 2009, the Minister of Finance announced a change in the structure of the tax rate applicable to the Fund. The change eliminated the flat provincial SIFT tax rate of 13% and replaced it with a requirement for SIFTs to calculate their provincial tax rate based on an allocation of taxable SIFT distributions to provinces in which the SIFT maintains a permanent establishment. For the Fund, that permanent establishment is the Province of Ontario. While the Fund will not be liable for current taxes until January 1, 2011, it gave recognition to future income taxes arising from those temporary tax differences expected to reverse during fiscal 2011, 2012, 2013 and 2014 and thereafter at the tax rates of 28.25%, 26.25%, 25.5% and 25%, respectively, calculated as being applicable to the Fund. The impact of the rate change on prior year estimates is immaterial.

Future income tax assets and liabilities are recognized on temporary differences between the accounting and tax bases of existing assets and liabilities as follows:

	June 13, 2010 S	December 27, 2009 S
Property and equipment	927	859
Franchise rights	1,914	1,776
Goodwill	1,410	1,635
Deferred contract amounts	632	716
	<hr/>	<hr/>
Future income taxes - assets	4,883	4,986
Future income taxes - liabilities	33	31
	<hr/>	<hr/>
Net future income tax assets	4,850	4,955

### 6 FRANCHISE RIGHTS

Franchise rights are net of accumulated amortization of \$34,321 (December 27, 2009 - \$32,974). In 2009, the Fund paid \$1,970 of renewal fees in accordance with its franchise agreement with Yum! Restaurants International (Canada) LP.

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

(in thousands of dollars, except per Unit amounts)

### 7 DEFERRED CONTRACT AMOUNTS

Deferred contract amounts include step lease amortization, supply contract prepayment, tenant inducements and restoration costs.

With respect to the Fund's operating leases, step lease amortization is included in the determination of net income over the term of the lease on a straight-line basis resulting in an expense of \$5 for the current quarter (March 23, 2009 to June 14, 2009 - recovery of \$8), and year-to-date accrued expense of \$2 (December 29, 2008 to June 14, 2009 - recovery of \$3). The cumulative amount as at June 13, 2010 is \$4,093 (December 27, 2009 - \$4,091).

Supply contract prepayments were \$1,072 (December 27, 2009 - \$1,287), net of \$110 amortized into income for the quarter (March 23, 2009 to June 14, 2009 - \$245), and \$215 amortized into income for year-to-date (December 29, 2008 to June 14, 2009 - \$334).

There was \$996 (December 27, 2009 - \$1,032) of tenant inducements included in the deferred contract amounts, net of \$18 amortized to income for the current quarter (March 23, 2009 to June 14, 2009 - \$17), and \$36 amortized into income for the year-to-date (December 29, 2008 to June 14, 2009 - \$34). The tenant inducements are amortized to income over the term of the lease on a straight-line basis.

Restoration costs were \$62 (December 27, 2009 - \$55), which related to an obligation of an operating restaurant.

### 8 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprise of the following:

	June 13, 2010 \$	December 27, 2009 \$
Trade accounts payable	14,482	18,127
Royalties payable	2,026	1,872
Advertising payable	2,320	1,065
Payroll payable	7,371	9,145
Sales taxes payable	4,960	2,656
Severance accrual	1,068	1,983
Closed store reserves	1,766	1,817
Utility accrual	1,695	1,267
Interest accrual	881	1,188
Fixed assets accrual	1,558	557
Other accrued liabilities	2,960	3,691
	<u>41,087</u>	<u>43,368</u>

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

(in thousands of dollars, except per Unit amounts)

### 9 LONG-TERM LOAN

During the first quarter of 2010, the Fund's long-term loan became current as it is due and payable on or before December 31, 2010. As at June 13, 2010, the long-term loan has a balance of \$67,327 (face value of \$67,633 net of \$306 in transaction costs). At December 27, 2009, the long-term loan was \$75,112 (face value of \$75,633 net of \$521 in transaction costs), including \$10,000 of current portion and \$65,112 of long-term portion.

Interest expense comprises the following:

	Period from March 22, 2010 to June 13, 2010 \$	Period from March 23, 2009 to June 14, 2009 \$	Period from December 28, 2009 to June 13, 2010 \$	Period from December 29, 2008 to June 14, 2009 \$
Interest expense on long-term loan	1,398	1,359	2,922	2,716
Interest expense on debenture	453	453	905	905
Interest expense on operating facility and other	7	74	(31)	149
Accretion and amortization of deferred financing charges	215	211	429	419
	<u>2,073</u>	<u>2,097</u>	<u>4,225</u>	<u>4,189</u>

The loan originally included two advances: \$73,596 and \$2,037. The \$73,596 advance has a fixed interest rate of 7.8% and the principal was due in full on January 13, 2011 with payment of interest due on a monthly basis. The \$2,037 advance has a fixed interest rate of 8.09% and the principal was due in full on November 11, 2011 with payment of interest due on a monthly basis. The long-term loan is secured by substantially all of the assets of the Fund.

In March 2010, the Fund amended the long-term loan agreement, which requires early repayments of the debt principal in the amounts of \$4,000 on March 15, 2010, \$4,000 on May 31, 2010, and an additional \$2,000 on August 4, 2010, plus interest yield maintenance amounts. The amendment contains covenants that require a minimum amount of earnings before interest expenses, tax expenses, and amortization expenses be met each quarter in fiscal 2010. The amendment requires the Fund to actively pursue refinancing alternatives to ensure that the entire long-term debt is repaid on or before December 31, 2010. The amendment also restricts the Fund from making distributions or making any further purchases under the normal course issuer bids. The Fund made two repayments of \$4,000 each on March 15 and May 31, 2010 as required.

The Fund records long-term debt at amortized cost using the effective interest rate method. At June 13, 2010, the estimated fair value of the long-term debt was \$67,123 (December 27, 2009 - \$75,302) as compared to the carrying value of \$67,327 (December 27, 2009 - \$75,112). The fair value of long-term debt is estimated by discounting the remaining contractual cash flows using a rate at which the Fund could issue debt with a similar remaining maturity as of the consolidated balance sheet date.

The Fund is in compliance with the covenants of the term loan as at June 13, 2010, and currently expects to be in compliance with the covenants for the rest of the term.

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

(in thousands of dollars, except per Unit amounts)

### 10 CONVERTIBLE DEBENTURES

On June 22, 2007, the Fund completed the issuance of \$30,000 convertible, unsecured, subordinated debentures ("Debentures") due June 30, 2012. The Debentures bear interest at an annual rate of 6.5% payable semi-annually in arrears on June 30 and December 31 in each year commencing December 31, 2007. The Debentures are convertible at a conversion price of \$12.28 per Unit at the holders' option into fully paid Units of the Fund 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. The Debentures are redeemable by the Fund at any time after June 30, 2010 and prior to June 30, 2011, at a price equal to their principal amount plus accrued and unpaid interest provided certain criteria are met, including the fact that the current market price per Unit must be at least 125% of the conversion price on the date the redemption notice is given. The Debentures are redeemable by the Fund at any time on and after June 30, 2011 and on or prior to the maturity date at a price equal to their principal amount plus accrued and unpaid interest. On redemption, or on the maturity date, the Debentures may, at the option of the Fund, be repaid in cash or Units of the Fund.

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 the Debentures at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest.

The Debentures are treated as compound instruments for financial reporting purposes. Accordingly, the conversion feature has been separately valued and presented as a component of equity in the amount of \$747 (note 12). In accordance with the adoption of CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, the Fund has elected to present the Debentures net of transaction costs. Transaction costs of \$1,477 are amortized on the consolidated statements of operations using the effective interest rate method. At maturity, the consolidated balance sheet value of the Debentures will be equal to the face value of \$30,000. As at June 13, 2010, the net convertible debenture balance is \$29,090 (December 27, 2009 - \$28,885) and the fair value is approximately \$21,000 (December 27, 2009 - \$19,500) based on the closing market value of the last trading day of the period ended June 13, 2010.

### 11 NON-CONTROLLING INTEREST

	24 weeks ended June 13, 2010	Year ended December 27, 2009
	\$	\$
Balance - Beginning of period	15,968	19,598
Share of net loss from continuing operations for the period	(2,014)	(574)
Share of net loss from discontinued operations for the period (note 21)	(175)	(443)
Distributions for the period (note 16)	-	(2,613)
Balance - End of period	<u>13,779</u>	<u>15,968</u>
Subordinated Units - number of Units	2,582,000	2,582,000
Exchangeable Units - number of Units	7,688,000	7,688,000
	<u>10,270,000</u>	<u>10,270,000</u>

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

(in thousands of dollars, except per Unit amounts)

### 12 EQUITY

The Fund Trust Indenture provides that an unlimited number of Fund Units may be issued.

Equity comprises the following balances:

	June 13, 2010 \$	December 27, 2009 \$
Capital contributions	137,442	137,442
Contributed surplus	5,146	5,146
Convertible debentures (note 10)	747	747
	<u>143,335</u>	<u>143,335</u>

The year to date weighted average number of Units outstanding was 15,225,726 (December 27, 2009 - 15,264,788).

As at June 13, 2010 and December 27, 2009. Units outstanding and capital contributions are as follows:

	Period ended June 13, 2010	
	Number of Units	Amount \$
Fund Units		
Issued under IPO	15,000,000	150,000
Issued upon exercise of over-allotment option	550,000	5,500
Issued upon management retention bonus plan	346,326	1,257
Issuance costs	-	(13,210)
Purchased upon normal course issuer bids	(670,600)	(6,105)
	<u>15,225,726</u>	<u>137,442</u>

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

(in thousands of dollars, except per Unit amounts)

### 12 EQUITY - CONTINUED

	Year ended December 27, 2009	
	Number of Units	Amount \$
Fund Units		
Issued under IPO	15,000,000	150,000
Issued upon exercise of over-allotment option	550,000	5,500
Issued upon management retention bonus plan	346,326	1,257
Issuance costs	-	(13,210)
Purchased upon normal course issuer bids	(670,600)	(6,105)
	<u>15,225,726</u>	<u>137,442</u>

### 13 RELATED PARTY ACCOUNTS AND TRANSACTIONS

The Fund entered into the following transactions during the period. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The terms of trade with related parties are similar to those with other third parties.

- a) **Obelysk Inc.** ("Obelysk") is controlled by the Executive Chairman of the Fund. The Fund pays Obelysk rents for certain leased properties, including office space.

	Amount of Transactions			
	Period from March 22, 2010 to June 13, 2010 \$	Period from March 23, 2009 to June 14, 2009 \$	Period from December 28, 2009 to June 13, 2010 \$	Period from December 29, 2008 to June 14, 2009 \$
Rent paid to Obelysk for leased properties	66	114	150	278
Rent paid to Obelysk for leased office space	164	163	328	326
Reimbursement of costs incurred by the Fund	31	4	42	8
Purchases of services and reimbursements of costs incurred by Obelysk	2	30	38	122
		<u>June 13, 2010 \$</u>	<u>December 27, 2009 \$</u>	
Balance owing from Obelysk		68		57
Balance owing to Obelysk		-		25

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

(in thousands of dollars, except per Unit amounts)

### 13 RELATED PARTY ACCOUNTS AND TRANSACTIONS - CONTINUED

- b) Scott's Real Estate Investment Trust ("Scott's REIT") is 24.4% owned by Obelysk. The Fund pays Scott's REIT rents for certain leased properties.

	Amount of transactions			
	Period from March 22, 2010 to June 13, 2010 \$	Period from March 23, 2009 to June 14, 2009 \$	Period from December 28, 2009 to June 13, 2010 \$	Period from December 29, 2008 to June 14, 2009 \$
Rent paid to Scott's REIT	2,816	2,791	5,594	5,582
Reimbursement of costs incurred by the Fund	-	7	-	16
Purchases of services and reimbursements of costs incurred by Scott's REIT	-	13	28	15
	<b>Balance owing</b>			
		June 13, 2010	December 27, 2009	
		\$	\$	
Balance owing to Scott's REIT		8	-	

- c) Canadian Satellite Radio Holding Inc.'s ("CSR") Executive Chairman and controlling shareholder is the Executive Chairman of the Fund. The Fund provided certain general and administrative services to CSR. In addition, the Fund subscribed to satellite radio services, advertised on programs and reimbursed costs incurred by CSR on behalf of the Fund.

	Amount of transactions			
	Period from March 22, 2010 to June 13, 2010 \$	Period from March 23, 2009 to June 14, 2009 \$	Period from December 28, 2009 to June 13, 2010 \$	Period from December 29, 2008 to June 14, 2009 \$
Reimbursement of costs incurred by the Fund	-	6	2	18
Purchases of services and reimbursements of costs incurred by CSR	1	15	4	18
	<b>Balance owing</b>			
		June 13, 2010	December 27, 2009	
		\$	\$	
Balance owing from CSR		2	-	
Balance owing to CSR		1	-	

## Priszm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

(in thousands of dollars, except per Unit amounts)

### 13 RELATED PARTY ACCOUNTS AND TRANSACTIONS - CONTINUED

- d) Data & Audio Visual Enterprises Wireless Inc.'s ("DAVE Wireless") Executive Chairman and controlling shareholder is the Executive Chairman of the Fund. The Fund sublet part of its office space and provided certain general and administrative services to DAVE Wireless.

	<u>Amount of transactions</u>			
	Period from March 22, 2010 to June 13, 2010	Period from March 23, 2009 to June 14, 2009	Period from December 28, 2009 to June 13, 2010	Period from December 29, 2008 to June 14, 2009
	\$	\$	\$	\$
Rent revenue from DAVE Wireless	97	30	191	30
Fees received by the Fund for general and administrative services	9	-	16	-
	<u>Balance owing</u>			
		June 13, 2010		December 27, 2009
		\$		\$
Balance owing from DAVE Wireless		-		4

### 14 COSTS AND EXPENSES

Cost of restaurant sales and restaurant operating expenses consisted of the following:

	Period from March 22, 2010 to June 13, 2010	Period from March 23, 2009 to June 14, 2009	Period from December 28, 2009 to June 13, 2010	Period from December 29, 2008 to June 14, 2009
	\$	\$	\$	\$
Cost of restaurant sales				
Food and supplies	34,981	36,909	64,720	69,202
Amortization of supply contract prepayments	(96)	(93)	(187)	(303)
Labour	24,329	24,995	46,283	48,796
	<u>59,214</u>	<u>61,811</u>	<u>110,816</u>	<u>117,695</u>
Restaurant operating expenses				
Utilities and maintenance	5,300	5,940	12,617	13,322
Advertising	4,959	5,438	9,137	9,951
Other	4,387	5,017	8,694	9,467
	<u>14,646</u>	<u>16,395</u>	<u>30,448</u>	<u>32,740</u>



## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

(in thousands of dollars, except per Unit amounts)

### 15 INCOME (LOSS) PER UNIT

The computation for basic and diluted income (loss) per Unit is as follows:

	Period from March 22, 2010 to June 13, \$	Period from March 23, 2009 to June 14, 2009 \$	Period from December 28, 2009 to June 13, 2010 \$	Period from December 29, 2008 to June 14, 2009 \$
Income (loss) from continuing operations available to Unitholders	1,518	1,960	(3,092)	(584)
Dilutive effect of				
Non-controlling interest	778	1,111	(2,014)	(759)
Convertible debentures	102	102	-	-
Diluted income (loss) from continuing operations available to Unitholders	2,398	3,173	(5,106)	(1,343)
Loss from discontinued operations available to Unitholders	(88)	(199)	(258)	(253)
Dilutive effect of				
Non-controlling interest	(61)	(134)	(175)	(169)
Diluted loss from discontinued operations available to Unitholders	(149)	(333)	(433)	(422)
Basic weighted average number of Units (in thousands)	15,226	15,259	15,226	15,205
Dilutive effect of				
Non-controlling interest	10,270	10,270	10,270	10,270
Convertible debentures	38,412	16,231	-	-
Unit-based compensation	-	64	-	64
Diluted weighted average number of Units	63,908	41,824	25,496	25,539
Basic income (loss) per Unit				
Continuing operations	0.100	0.128	(0.203)	(0.038)
Discontinued operations	(0.006)	(0.013)	(0.017)	(0.017)
	0.094	0.115	(0.220)	(0.055)
Diluted income (loss) per Unit				
Continuing operations	0.038	0.076	(0.203)	(0.053)
Discontinued operations	(0.002)	(0.008)	(0.017)	(0.017)
	0.036	0.068	(0.220)	(0.070)

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

(in thousands of dollars, except per Unit amounts)

### 16 DISTRIBUTIONS TO UNITHOLDERS

The distribution was suspended effective November 19, 2009. As a result, no distribution was declared to Trust Units or Exchangeable Units during the period from December 28, 2009 to June 13, 2010 (December 29, 2008 to June 14, 2009 - \$3,805 to Trust Units and \$1.921 to Exchangeable Units).

No distribution was declared to Subordinated Units during the period from December 28, 2009 to June 13, 2010, and from December 29, 2008 to June 14, 2009.

### 17 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash and cash equivalents consist of the following:

	June 13, 2010 \$	December 27, 2009 \$
Cash	4,234	5,970
GIC/term deposits	7,500	19,700
	<u>11,734</u>	<u>25,670</u>

Net change in non-cash working capital comprises the following:

	Period from March 22, 2010 to June 13, 2010 \$	Period from March 23 2009 to June 14, 2009 \$	Period from December 28, 2009 to June 13, 2010 \$	Period from December 29, 2008 to June 14, 2009 \$
Trade accounts receivable	969	923	1,133	1,759
Inventories	3	(437)	491	168
Prepaid expenses and other assets	(1,405)	(1,735)	(2,759)	(2,912)
Accounts payable and accrued liabilities	1,481	3,806	(2,281)	244
	<u>1,048</u>	<u>2,557</u>	<u>(3,416)</u>	<u>(741)</u>
Interest paid	1,516	1,511	4,158	3,995
Interest received	2	1	6	7

### 18 SEGMENTED INFORMATION

For financial reporting purposes, the Fund considers itself to be in one business segment as its various restaurant operations have similar economic and business characteristics. All restaurant operations are located in Canada.

## Priszm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

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(in thousands of dollars, except per Unit amounts)

### 19 MANAGEMENT OF CAPITAL

The Fund views its capital as the combination of its long-term loan, convertible debentures, Unitholders' equity and non-controlling interest. The Fund's objectives when managing capital are to safeguard the Fund's ability to continue as a going concern while maintaining the growth of its business and the distributable cash to its Unitholders. In general, the overall capital of the Fund is evaluated and determined in the context of its financial objectives and its strategic plan.

The Fund determines the appropriate level of long-term loan and convertible debentures in the context of its cash flow and overall business risks. The funds from long-term loans and convertible debentures were mainly used to finance growth initiatives such as acquisition and development projects. The current level of capital is considered adequate in the context of current operations. In the light of the changes in economic conditions and credit markets, the Fund reviews and updates its short-term and long-term strategic plans periodically to manage the capital structure and make adjustments to it.

Although there are no statutory capital requirements, the Fund is subject to certain covenants and restrictions under the loan agreements, including the requirement to maintain minimum amounts of earnings before interest expenses, tax expenses, and amortization expenses, which it has complied with as at the interim consolidated balance sheet date.

As part of the Fund's objective to increase its cash position and strengthen its consolidated balance sheets in advance of its long-term debt refinancing in 2010 and to fuel future growth, the Trustees approved a change to the Fund's monthly distribution. Effective July 2009, the distribution was adjusted to \$0.01 per Unit on a monthly basis. The distribution was completely suspended effective November 19, 2009.

The Fund will also review its capital in the context of the change in taxation impacting the Fund commencing 2011.

### 20 FINANCIAL RISK MANAGEMENT

The Fund is exposed to liquidity risk, interest rate risk and credit risk. The Fund's Trustees have overall responsibility for the establishment and oversight of the Fund's risk management framework and to review the Fund's policies on an ongoing basis.

#### Interest rate risk

The Fund's interest rate risk is low due to the fixed rate nature of the long-term loan and convertible debentures.

The Fund plans to refinance its long-term loan when it becomes due on or before December 31, 2010. The Fund is exposed to interest rate risk associated with the renewal of its aggregate outstanding debt as it is expected that borrowings at the time of renewal will be at rates higher than those in place under existing agreements.

## Priszm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

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(in thousands of dollars, except per Unit amounts)

### 20 FINANCIAL RISK MANAGEMENT - CONTINUED

#### Credit risk

The Fund's financial instruments exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash and cash equivalents are maintained at major Canadian financial institutions that have high credit ratings assigned by international credit rating agencies and therefore the exposure to credit risk is minimal. Credit risk from accounts receivable is minimized as a result of the review and evaluation of customer account balances beyond a particular age and credit limit. The Fund accounts for a specific bad debt provision when management considers the expected recovery is less than the actual accounts receivable. The credit risk of accounts receivable is limited because the majority of the Fund's revenue is cash or debit/credit card transactions.

#### Fair value of financial instruments

The carrying amounts of cash and cash equivalents, trade and other accounts receivable and accounts payable and accrued liabilities approximate their fair values because of the near-term maturity of these instruments. The fair values of the long-term loan and convertible debentures are disclosed in notes 9 and 10, respectively.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical financial assets or financial liabilities that the Fund has the ability to access. The Fund's cash and cash equivalents are valued based on their quoted market price.

Fair values determined by Level 2 inputs use inputs other than quoted prices included in Level 1 that are observable for the financial asset or financial liability, either directly or indirectly. Level 2 inputs include quoted prices for similar financial assets and financial liabilities in active markets, and inputs other than quoted prices that are observable for the financial assets or financial liabilities. The Fund had no financial instruments valued under Level 2 inputs on its interim consolidated balance sheets.

Level 3 inputs are unobservable inputs for the financial asset or financial liability and include situations where there is little, if any, market activity for the financial asset or financial liability. The Fund's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial asset or financial liability. The Fund had no financial instruments valued under Level 3 inputs on its interim consolidated balance sheets.

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

(in thousands of dollars, except per Unit amounts)

### 21 DISCONTINUED OPERATIONS

#### Disposition plan

On October 17, 2007, the Board of Trustees of the Fund approved a restructuring plan to sell approximately 128 restaurants and close 19 unprofitable restaurants, for a total of 147 restaurants being classified as discontinued. Additionally, consistent with this plan, the Fund has realigned the structure of its business, which resulted in restructuring costs, including lease termination, severance, and other exit costs.

As at December 28, 2008, 21 of the 147 restaurants were closed (18 restaurants were closed in 2007 and 3 were closed in 2008). Due to the change in the economy and credit markets during the latter part of 2008, the Board of Trustees of the Fund approved a change of plan to sell the restaurants late in the fourth quarter of 2008. The Fund reduced the number of restaurants to be sold from 128 to 34. The remaining 95 stores were reclassified to continuing operations and two restaurants were closed in 2008.

	Number of stores
Total number of restaurants classified as discontinued as per the original disposition plan	147
Add: sold or to be sold restaurants not included in the original disposition plan	3
Less: closed during 2007 and 2008	(21)
Less: reclassified to continuing operations	(95)
	<hr/>
To-be-sold restaurants as per the revised disposition plan	<hr/>

#### Sale of restaurants

Of the 34 to-be-sold restaurants in the revised disposition plan, 16 were sold in 2008 and 5 were sold in the first quarter of 2009. Due to the continued change in the economy and credit markets, in the second quarter of fiscal 2009, the Board of Trustees of the Fund approved that the remaining 13 restaurants also be reclassified back to continuing operations at the end of the second quarter. At the time of reclassification, these 13 restaurants were valued individually at the lower of carrying amount before they were classified as discontinued, adjusted for any amortization expense that would have been recognized had they been continuously classified as held and used, or fair value.

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

(in thousands of dollars, except per Unit amounts)

### 21 DISCONTINUED OPERATIONS - CONTINUED

#### Results for the discontinued operations

Prior to the second quarter of 2009, discontinued operations consisted of the 34 restaurants, which were sold or to be sold, and the 21 closed restaurants. Commencing in the second quarter of 2009, discontinued operations only consist of the 16 restaurants that were sold in 2008 and 5 that were sold in the first quarter of 2009 (total of 21 restaurants).

The operating results and cash flow information for the discontinued operations are as follows:

	Period from March 22, 2010 to June 13, 2010 \$	Period from March 23, 2009 to June 14, 2009 \$	Period from December 28, 2009 to June 13, 2010 \$	Period from December 29, 2008 to June 14, 2009 \$
Revenues	-	-	-	274
Loss from discontinued operations before non-controlling interest	(149)	(333)	(433)	(422)
Non-controlling interest	61	134	175	169
Loss from discontinued operations	(88)	(199)	(258)	(253)

As a result of the restructuring plan, the Fund recorded restaurant closure costs of \$2.443 in the fourth quarter of 2007. In the quarter ended June 13, 2010, the Fund paid out \$106 to reduce these obligations (March 23, 2009 to June 14, 2009 - \$70). As of June 13, 2010, the balances owing and outstanding are \$1.385 (December 27, 2009 - \$1,370).

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

June 13, 2010 and June 14, 2009

(in thousands of dollars, except per Unit amounts)

### 21 DISCONTINUED OPERATIONS - CONTINUED

The following table provides additional information with respect to amounts included in the consolidated statements of cash flows related to discontinued operations:

	Period from March 22, 2010 to June 13, 2010 \$	Period from March 23, 2009 to June 14, 2009 \$	Period from December 28, 2009 to June 13, 2010 \$	Period from December 29, 2008 to June 14, 2009 \$
Loss from discontinued operations	(88)	(199)	(258)	(253)
Items not affecting cash				
Gain on disposal of property and equipment	-	-	-	(35)
Non-controlling interest	(61)	(134)	(175)	(169)
	(61)	(134)	(175)	(204)
Cash used in discontinued operations	(149)	(333)	(433)	(457)

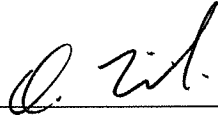
Components of changes in non-cash working capital balances of discontinued operations are as follows:

	Period from March 22, 2010 to June 13, 2010 \$	Period from March 23, 2009 to June 14, 2009 \$	Period from December 28, 2009 to June 13, 2010 \$	Period from December 29, 2008 to June 14, 2009 \$
Inventories	-	-	-	12
Prepaid expenses and other assets	-	5	-	17
Accounts payable and accrued liabilities	(2)	(3)	(2)	(90)
	(2)	2	(2)	(61)





This is Exhibit "H"  
to the affidavit of Deborah Papernick,  
sworn before me on the 31<sup>st</sup> day  
of March, 2011



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Commissioner for Taking Affidavits

## **Prizm Income Fund**

Interim Consolidated Financial Statements  
(Unaudited)

**Third Quarter from  
June 14, 2010 to September 5, 2010**

**Prizm Income Fund****Interim Consolidated Balance Sheets (Unaudited)**

(in thousands of dollars)

	September 5, 2010 \$	December 27, 2009 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 17)	13,428	25,670
Trade and other accounts receivable	513	1,739
Inventories	3,384	3,776
Prepaid expenses	4,408	962
Other assets	217	219
	<u>21,950</u>	<u>32,366</u>
<b>Other receivables</b>	376	376
<b>Property and equipment (note 4)</b>	59,931	62,553
<b>Future income taxes (note 5)</b>	5,040	4,986
<b>Franchise rights (note 6)</b>	30,994	32,968
<b>Goodwill</b>	57,434	57,434
	<u>175,725</u>	<u>190,683</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 8)	40,737	43,368
Long-term loan (note 9)	65,441	10,000
	<u>106,178</u>	<u>53,368</u>
<b>Long-term loan (note 9)</b>	-	65,112
<b>Convertible debentures (note 10)</b>	29,194	28,885
<b>Future income taxes (note 5)</b>	33	31
<b>Deferred contract amounts (note 7)</b>	6,101	6,465
<b>Liabilities of discontinued operations (note 21)</b>	-	2
	<u>141,506</u>	<u>153,863</u>
<b>Non-controlling interest (note 11)</b>	14,900	15,968
<b>UNITHOLDERS' EQUITY</b>		
Equity (note 12)	143,335	143,335
Deficit	(124,016)	(122,483)
	<u>19,319</u>	<u>20,852</u>
	<u>175,725</u>	<u>190,683</u>
<b>Going concern uncertainty (note 1)</b>		

The accompanying notes are an integral part of these interim consolidated financial statements.

# Prizm Income Fund

## Interim Consolidated Statements of Operations (Unaudited)

(in thousands of dollars)

	Period from June 14, 2010 to September 5, 2010 \$	Period from June 15, 2009 to September 6, 2009 \$	Period from December 28, 2009 to September 5, 2010 \$	Period from December 29, 2008 to September 6, 2009 \$
<b>Restaurant sales</b>	106,205	113,652	288,809	310,454
<b>Restaurant cost and expenses</b>				
Cost of restaurant sales (note 14)	62,926	66,851	173,742	184,546
Restaurant operating expenses (note 14)	16,609	16,524	47,057	49,264
Rent	8,311	8,342	25,400	25,334
Franchise royalty expense	6,375	6,823	17,336	18,635
Amortization	2,647	2,685	7,989	8,320
	96,868	101,225	271,524	286,099
<b>Income from restaurant operations</b>	9,337	12,427	17,285	24,355
<b>General and administrative expenses</b>				
- including amortization of \$876 (December 28, 2009 to September 5, 2010 - \$2,259)	4,526	4,719	13,256	14,342
<b>Income before the undernoted</b>	4,811	7,708	4,029	10,013
<b>Interest income</b>	8	1	14	9
<b>Interest expense (note 9)</b>	(1,912)	(2,093)	(6,137)	(6,282)
<b>Income (loss) before income taxes and non-controlling interest</b>	2,907	5,616	(2,094)	3,740
<b>Income tax (recovery) expense (note 5)</b>	(157)	57	(52)	(476)
<b>Income (loss) from continuing operations before non-controlling interest</b>	3,064	5,559	(2,042)	4,216
<b>Non-controlling interest (note 11)</b>	(1,171)	(2,245)	843	(1,486)
<b>Income (loss) from continuing operations</b>	1,893	3,314	(1,199)	2,730
<b>Loss from discontinued operations</b>				
- net of income taxes and non-controlling interest (note 21)	(76)	(88)	(334)	(341)
<b>Net income (loss) for the period</b>	1,817	3,226	(1,533)	2,389

The accompanying notes are an integral part of these interim consolidated financial statements.

**Priszm Income Fund****Interim Consolidated Statements of Operations (Unaudited)**

(in thousands of dollars, except per Unit amounts)

	Period from June 14, 2010 to September 5, 2010 \$	Period from June 15, 2009 to September 6, 2009 \$	Period from December 28, 2009 to September 5, 2010 \$	Period from December 29, 2008 to September 6, 2009 \$
<b>Basic income (loss) per Unit (note 15)</b>				
Continuing operations	0.124	0.215	(0.079)	0.179
Discontinued operations	(0.005)	(0.006)	(0.022)	(0.022)
	<u>0.119</u>	<u>0.209</u>	<u>(0.101)</u>	<u>0.157</u>
<b>Diluted income (loss) per Unit (note 15)</b>				
Continuing operations	0.036	0.132	(0.079)	0.115
Discontinued operations	(0.001)	(0.003)	(0.022)	(0.013)
	<u>0.035</u>	<u>0.129</u>	<u>(0.101)</u>	<u>0.102</u>

The accompanying notes are an integral part of these interim consolidated financial statements.

## Prizm Income Fund

### Interim Consolidated Statements of Deficit (Unaudited)

(in thousands of dollars)

	Period from June 14, 2010 to September 5, 2010 \$	Period from June 15, 2009 to September 6, 2009 \$	Period from December 28, 2009 to September 5, 2010 \$	Period from December 29, 2008 to September 6, 2009 \$
Deficit - Beginning of period	(125,833)	(121,220)	(122,483)	(116,577)
Net income (loss) for the period	1,817	3,226	(1,533)	2,389
Distributions (note 16)	-	(1,079)	-	(4,885)
Deficit - End of period	(124,016)	(119,073)	(124,016)	(119,073)

### Interim Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(in thousands of dollars)

	Period from June 14, 2010 to September 5, 2010 \$	Period from June 15, 2009 to September 6, 2009 \$	Period from December 28, 2009 to September 5, 2010 \$	Period from December 29, 2008 to September 6, 2009 \$
Net income (loss) for the period	1,817	3,226	(1,533)	2,389
Other comprehensive income	-	-	-	-
Comprehensive income (loss)	1,817	3,226	(1,533)	2,389

The accompanying notes are an integral part of these interim consolidated financial statements.

# Prizm Income Fund

## Interim Consolidated Statements of Cash Flows (Unaudited)

(in thousands of dollars)

	Period from June 14, 2010 to September 5, 2010 \$	Period from June 15, 2009 to September 6, 2009 \$	Period from December 28, 2009 to September 5, 2010 \$	Period from December 29, 2008 to September 6, 2009 \$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Income (loss) from continuing operations	1,893	3,314	(1,199)	2,730
Add: Non-cash items				
Income tax (recovery) expense	(157)	57	(52)	(476)
Non-controlling interest	1,171	2,245	(843)	1,486
Amortization of property and equipment	2,850	2,743	8,228	8,496
Amortization of franchise rights	673	673	2,020	2,020
Amortization of deferred financing charges	-	44	-	108
Interest accretion	218	199	647	618
Amortization of deferred contract amounts (note 7)	(122)	(115)	(364)	(486)
Unit-based compensation	-	52	-	222
Long-term incentive plan accrual	-	-	-	(52)
Writedown of restaurant assets	-	-	-	231
Cash provided by operating activities of continuing operations	6,526	9,212	8,437	14,897
Net change in continuing non-cash working capital (note 17)	(1,043)	(291)	(4,459)	(1,032)
Tenant inducements and supply contract prepayment	-	10	-	637
Cash provided by continuing operations	5,483	8,931	3,978	14,502
Loss from discontinued operations (note 21)	(76)	(88)	(334)	(341)
Change in discontinued operations - non-cash items (note 21)	(50)	(58)	(225)	(262)
Net change in discontinued non-cash working capital (note 21)	-	-	(2)	(61)
Cash provided by operating activities	5,357	8,785	3,417	13,838
<b>Investing activities</b>				
Purchase of property and equipment	(1,663)	(1,218)	(5,603)	(3,709)
Purchase of franchise rights	-	(1,833)	(47)	(1,833)
Net proceeds on disposal of property and equipment	-	-	-	374
Cash used in investing activities	(1,663)	(3,051)	(5,650)	(5,168)
<b>Financing activities</b>				
Long-term loan repayments	(2,000)	-	(10,000)	-
Distributions to Unitholders	-	(2,542)	-	(8,252)
Deferred financing charges	-	(167)	(9)	(167)
Cash used in financing activities	(2,000)	(2,709)	(10,009)	(8,419)
Change in cash and cash equivalents during the period	1,694	3,025	(12,242)	251
Cash and cash equivalents - Beginning of period	11,734	8,665	25,670	11,439
Cash and cash equivalents - End of period	13,428	11,690	13,428	11,690
<b>Supplemental disclosure of cash flow information (note 17)</b>				

The accompanying notes are an integral part of these interim consolidated financial statements.

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

September 5, 2010 and September 6, 2009

(in thousands of dollars, except per Unit amounts)

### 1. GOING CONCERN UNCERTAINTY

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business for the foreseeable future.

While the Fund has been generating positive net cash from operating activities on an annual basis (2009 - \$21,328 and \$3,417 for nine periods ended September 5, 2010) and had \$13,428 cash on hand at September 5, 2010, there are recent financial events, and near term commitments, that raise significant doubt as to the ability of the Fund to meet its obligations as they come due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

#### Recent financial events

The Fund has experienced financial performance in the last nine periods that has been below budgeted expectations due to same store sales declines in YUM! Canada's KFC and Taco Bell brands. As a result, during the third quarter, the Fund was unable to comply with a minimum level of earnings before interest, income taxes, depreciation and amortization ("EBITDA") as required by the lender, with the consequence that its term debt is now due on demand. In addition, the credit markets have proven to be more challenging than originally anticipated at the beginning of the fiscal year, which has affected the Fund's ability to address certain near term commitments as discussed below.

#### Near term commitments

##### *Debt*

The Fund has three debt components: two tranches of term debt, with \$63,596 and \$2,037 to be repaid on December 31, 2010, as well as \$30,000 of convertible, unsecured subordinated debentures maturing on June 30, 2012. Although the Fund continues to aggressively pursue various refinancing strategies it does not, at the present time, have sufficient liquid resources to retire its current and long-term debt obligations.

The Fund amended its financial covenants in the first quarter of 2010, which required the Fund to achieve, among other things, a minimum level of EBITDA on a quarterly basis. While during the third quarter the Fund was unable to comply with this financial covenant, due to a lack of sales growth, with the consequence that the term debt is now due on demand, there has been no indication from the lender that it will exercise its rights to call the loan at this time. Management remains engaged in active discussions with the lender regarding various refinancing strategies. The Fund's debt facilities are more fully described in notes 9 and 10.

##### *Franchise rights renewals*

Each year from 2009 through 2013 a number of the Fund's franchise agreements expire. In aggregate these expiries cover the majority of the Fund's operating locations. For 2010, there are 75 locations that are up for renewal. The terms of the franchise agreement provide a right to renew for a further ten-year term dependent on the Fund paying both a per location renewal fee (estimated to total \$1,600 in 2010) as well as investing capital to upgrade restaurant facilities that do not meet the franchisor's current standards (estimated to be a minimum of \$15,000 in 2010). In light of ongoing negotiations taking place with both the franchisor and lender regarding various debt refinancing strategies, as well as the reduced cash flow due to negative KFC and Taco Bell brand sales, the Fund has opted not to pay its franchise renewal fee that was due on August 10, 2010 and has put the capital upgrades on hold. While some of the upgrades have been completed, others are behind schedule due to management's focus on debt refinancing, liquidity and cash preservation, as well as some development related logistical issues.



## Priszm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

September 5, 2010 and September 6, 2009

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(in thousands of dollars, except per Unit amounts)

### 1 GOING CONCERN UNCERTAINTY- CONTINUED

It is unlikely at this time that the Fund will be able to invest the minimum required capital to meet the upgrade requirements for its restaurant facilities required by the master franchise amending agreement signed in November 2009. Consequently, the Fund may be unable to renew its upcoming 75 franchise licenses, or will be required to secure relief from this commitment through negotiations with the franchisor.

While management's most recent projections indicate the Fund will remain in a cash-positive position for the remainder of fiscal 2010 it is also currently projected that the Fund will be unlikely to achieve financial covenants in the fourth quarter driven by the underperformance of KFC and Taco Bell brand sales. The Fund is actively pursuing refinancing strategies for its term debt, which may or may not include disposition of some, or even a significant portion, of the Fund's restaurants and use of the proceeds to pay down debt. At the same time, the Fund is evaluating the credit market for opportunities in order to be prepared to support any potential decisions the Trustees may make with regard to corporate structure, while taking into consideration anticipated lending proposals and the impact of tax legislation that takes effect at the beginning of 2011 (note 5). While the Fund currently anticipates it will be successful in securing an acceptable refinancing arrangement, the financial forecasts and projections incorporate assumptions regarding general economic conditions, operating results and negotiation outcomes as well as sensitivities regarding underperformance, among other things. There is no assurance the Fund will be able to achieve the intended outcomes, or execute any initiatives or course of action undertaken in a timely manner, in order to repay its debt and meet other obligations as they fall due.

The Fund has been working with the franchisor to establish plans to secure the renewal of its franchise agreements in order to ensure business continuity and management currently believes the franchisor will actively support the Fund in its efforts to secure an acceptable financing arrangement in the foreseeable future. However, the process of negotiating renewals and reinvestment criteria is inherently unpredictable. While the negotiations undertaken in 2009 established a solid basis for future discussions and mitigated some of the risk in this process, there can be no assurance the Fund will successfully negotiate an upgrade plan with the franchisor that fits within its available funding and, therefore, the Fund may not be able to renew the franchise agreements on some of the restaurants it operates today, which could result in their closure and loss of the earnings stream.

The Fund's continuance as a going concern is dependent on the franchisor's success in driving KFC and Taco Bell brand sales in Canada and on the ability of management to successfully mitigate the factors and execute the plans outlined in the preceding paragraphs. These interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported expenses and balance sheet classifications that would be necessary should the going concern assumption become inappropriate. These adjustments could be material.

## **Priszm Income Fund**

Notes to Interim Consolidated Financial Statements (Unaudited)

**September 5, 2010 and September 6, 2009**

(in thousands of dollars, except per Unit amounts)

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### **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of preparation**

The interim consolidated financial statements of Priszm Income Fund (“the Fund”) have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The note disclosure in these interim consolidated financial statements includes only material changes from the disclosure found in the Fund’s annual consolidated financial statements for the year ended December 27, 2009. Therefore, these interim consolidated financial statements should be read in conjunction with those consolidated financial statements. Except as discussed below, these interim consolidated financial statements follow the same accounting policies as the Fund’s audited annual consolidated financial statements.

#### **Recent Canadian accounting pronouncements issued and not yet adopted**

In October 2008, The Canadian Institute of Chartered Accountants (“CICA”) issued Handbook Section 1582, Business Combinations, concurrently with Handbook Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests. Handbook Section 1582, which replaces Handbook Section 1581, Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Handbook Section 1601, which replaces Handbook Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. Handbook Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Fund’s interim and annual consolidated financial statements commencing on December 26, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Fund is currently evaluating the effects of adopting these standards.

#### **International Financial Reporting Standards (“IFRS”)**

In March 2009, the Accounting Standards Board issued a second Omnibus Exposure Draft with transition and introductory material confirming that the use of IFRS will be required in interim financial statements for publicly accountable enterprises in Canada in years beginning on or after January 1, 2011. Since the 2011 fiscal year for the Fund begins on December 27, 2010, these standards will apply to the interim and annual consolidated financial statements relating to fiscal years beginning on December 26, 2011 for the Fund. The Fund is continuing to assess the financial reporting impacts of adopting IFRS. Changes in accounting policies upon adoption of IFRS are likely and may materially impact the Fund’s consolidated financial statements. The Fund does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required as well as systems changes that may be necessary to gather and process the information.

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

September 5, 2010 and September 6, 2009

(in thousands of dollars, except per Unit amounts)

### 3 SEASONALITY

The Fund operates on a 13-period accounting basis, with the first three quarters consisting of 12 weeks and the fourth quarter consisting of 16 weeks. The business is seasonal. The following table shows the percentage of annual sales achieved in each fiscal reporting quarter, on average, over the last three years.

	%
First quarter (12 weeks)	21
Second quarter (12 weeks)	24
Third quarter (12 weeks)	25
Fourth quarter (16 weeks)	30
	<u>100</u>

### 4 PROPERTY AND EQUIPMENT

	September 5, 2010		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	514	-	514
Building	1,386	471	915
Leasehold improvements	69,852	35,279	34,573
Furnishings and equipment	74,925	52,073	22,852
Restaurants under development	1,077	-	1,077
	<u>147,754</u>	<u>87,823</u>	<u>59,931</u>
	December 27, 2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	514	-	514
Building	1,386	417	969
Leasehold improvements	66,940	32,858	34,082
Furnishings and equipment	74,199	48,239	25,960
Restaurants under development	1,028	-	1,028
	<u>144,067</u>	<u>81,514</u>	<u>62,553</u>

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

September 5, 2010 and September 6, 2009

(in thousands of dollars, except per Unit amounts)

### 5 FUTURE INCOME TAXES

On October 31, 2006, the Minister of Finance announced proposed tax legislation ("trust legislation") that changed the income tax rules applicable to publicly traded trusts, rendering income trusts taxable in 2011. In 2011, the Fund will be required to pay income taxes on its distributions. Accordingly, distributable cash will be reduced by an equal amount.

The October 31, 2006 trust legislation was substantively enacted into law on June 12, 2007, at which time the Fund gave accounting recognition to these new tax rules.

On January 27, 2009, the Minister of Finance announced a change in the structure of the tax rate applicable to the Fund. The change eliminated the flat provincial SIFT tax rate of 13% and replaced it with a requirement for SIFTs to calculate their provincial tax rate based on an allocation of taxable SIFT distributions to provinces in which the SIFT maintains a permanent establishment. For the Fund, that permanent establishment is the Province of Ontario. While the Fund will not be liable for current taxes until January 1, 2011, it gave recognition to future income taxes arising from those temporary tax differences expected to reverse during fiscal 2011, 2012, 2013 and 2014 and thereafter at the tax rates of 28.25%, 26.25%, 25.5% and 25%, respectively, calculated as being applicable to the Fund. The impact of the rate change on prior year estimates is immaterial.

Future income tax assets and liabilities are recognized on temporary differences between the accounting and tax bases of existing assets and liabilities as follows:

	September 5, 2010	December 27, 2009
	\$	\$
Property and equipment	1,076	859
Franchise rights	1,914	1,776
Goodwill	1,410	1,635
Deferred contract amounts	640	716
	<hr/>	<hr/>
Future income taxes - assets	5,040	4,986
Future income taxes - liabilities	33	31
	<hr/>	<hr/>
Net future income tax assets	5,007	4,955

### 6 FRANCHISE RIGHTS

Franchise rights are net of accumulated amortization of \$34,994 (December 27, 2009 - \$32,974). In 2009, the Fund paid \$1,970 of renewal fees in accordance with its franchise agreement with Yum! Restaurants International (Canada) LP.

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

September 5, 2010 and September 6, 2009

(in thousands of dollars, except per Unit amounts)

### 7 DEFERRED CONTRACT AMOUNTS

Deferred contract amounts include step lease amortization, supply contract prepayment, tenant inducements and restoration costs.

With respect to the Fund's operating leases, step lease amortization is included in the determination of net income over the term of the lease on a straight-line basis resulting in an expense of \$1 for the current quarter (June 15, 2009 to September 6, 2009 - recovery of \$8), and year-to-date accrued expense of \$3 (December 29, 2008 to September 6, 2009 - recovery of \$11). The cumulative amount as at September 5, 2010 is \$4,094 (December 27, 2009 - \$4,091).

Supply contract prepayments were \$964 (December 27, 2009 - \$1,287), net of \$108 amortized into income for the quarter (June 15, 2009 to September 6, 2009 - \$125), and \$323 amortized into income for year-to-date (December 29, 2008 to September 6, 2009 - \$459).

There was \$978 (December 27, 2009 - \$1,032) of tenant inducements included in the deferred contract amounts, net of \$18 amortized to income for the current quarter (June 15, 2009 to September 6, 2009 - \$9), and \$54 amortized into income for the year-to date (December 29, 2008 to September 6, 2009 - \$43). The tenant inducements are amortized to income over the term of the lease on a straight-line basis.

Restoration costs were \$65 (December 27, 2009 - \$55), which related to an obligation of an operating restaurant.

### 8 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprise the following:

	September 5, 2010	December 27, 2009
	\$	\$
Trade accounts payable	17,885	18,127
Royalties payable	2,060	1,872
Advertising payable	1,173	1,065
Payroll payable	7,637	9,145
Sales taxes payable	2,849	2,656
Severance accrual	795	1,983
Closed store reserves	1,571	1,817
Utility accrual	2,229	1,267
Interest accrual	677	1,188
Insurance accrual	1,163	1,079
Other accrued liabilities	2,698	3,169
	40,737	43,368

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

September 5, 2010 and September 6, 2009

(in thousands of dollars, except per Unit amounts)

### 9. LONG-TERM LOAN

As at September 5, 2010, the Fund's long-term loan became due on demand, and it has a balance of \$65,441 (face value of \$65,633 net of \$192 in transaction costs). At December 27, 2009, the long-term loan was \$75,112 (face value of \$75,633 net of \$521 in transaction costs), including \$10,000 of current portion and \$65,112 of long-term portion.

Interest expense comprises the following:

	Period from June 14, 2010 to September 5, 2010 \$	Period from June 15, 2009 to September 6, 2009 \$	Period from December 28, 2009 to September 5, 2010 \$	Period from December 29, 2008 to September 6, 2009 \$
Interest expense on long-term loan	1,242	1,358	4,164	4,074
Interest expense on debenture	447	447	1,352	1,352
Interest expense on operating facility and other	5	89	(26)	238
Accretion and amortization of deferred financing charges	218	199	647	618
	1,912	2,093	6,137	6,282

The loan originally included two advances: \$73,596 and \$2,037. The \$73,596 advance has a fixed interest rate of 7.8% and the principal was due in full on January 13, 2011 with payment of interest due on a monthly basis. The \$2,037 advance has a fixed interest rate of 8.09% and the principal was due in full on November 11, 2011 with payment of interest due on a monthly basis. The long-term loan is secured by substantially all of the assets of the Fund.

In March 2010, the Fund amended the long-term loan agreement, which requires early repayments of the debt principal in the amounts of \$4,000 on March 15, 2010, \$4,000 on May 31, 2010, and an additional \$2,000 on August 4, 2010, plus interest yield maintenance amounts. The amendment contains covenants that require a minimum amount of earnings before interest expenses, tax expenses, and amortization expenses be met each quarter in fiscal 2010. The amendment requires the Fund to actively pursue refinancing alternatives to ensure that the entire long-term debt is repaid on or before December 31, 2010. The amendment also restricts the Fund from making distributions or making any further purchases under the normal course issuer bids. The Fund made three repayments of \$4,000, \$4,000, and \$2,000 on March 15, May 31, and August 4, 2010 respectively as required.

The Fund records long-term debt at amortized cost using the effective interest rate method. At September 5, 2010, the estimated fair value of the long-term debt was \$65,339 (December 27, 2009 - \$75,302) as compared to the carrying value of \$65,441 (December 27, 2009 - \$75,112). The fair value of long-term debt is estimated by discounting the remaining contractual cash flows using a rate at which the Fund could issue debt with a similar remaining maturity as of the consolidated balance sheet date.

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

September 5, 2010 and September 6, 2009

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(in thousands of dollars, except per Unit amounts)

### 9 LONG-TERM LOAN - CONTINUED

The Fund did not meet the minimum EBITDA required by the amended loan agreement for the quarter ended September 5, 2010 due to the lack of sales growth in the KFC and Taco Bell brands. The Fund is in compliance with the rest of covenants of the term loan as at September 5, 2010, and currently does not expect to be in compliance with the EBITDA covenant for the rest of the term.

### 10 CONVERTIBLE DEBENTURES

On June 22, 2007, the Fund completed the issuance of \$30,000 convertible, unsecured, subordinated debentures ("Debentures") due June 30, 2012. The Debentures bear interest at an annual rate of 6.5% payable semi-annually in arrears on June 30 and December 31 in each year commencing December 31, 2007. The Debentures are convertible at a conversion price of \$12.28 per Unit at the holders' option into fully paid Units of the Fund 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. The Debentures are redeemable by the Fund at any time after June 30, 2010 and prior to June 30, 2011, at a price equal to their principal amount plus accrued and unpaid interest provided certain criteria are met, including the fact that the current market price per Unit must be at least 125% of the conversion price on the date the redemption notice is given. The Debentures are redeemable by the Fund at any time on and after June 30, 2011 and on or prior to the maturity date at a price equal to their principal amount plus accrued and unpaid interest. On redemption, or on the maturity date, the Debentures may, at the option of the Fund, be repaid in cash or Units of the Fund.

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 the Debentures at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest.

The Debentures are treated as compound instruments for financial reporting purposes. Accordingly, the conversion feature has been separately valued and presented as a component of equity in the amount of \$747 (note 12). In accordance with the adoption of CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, the Fund has elected to present the Debentures net of transaction costs. Transaction costs of \$1,477 are amortized on the consolidated statements of operations using the effective interest rate method. At maturity, the consolidated balance sheet value of the Debentures will be equal to the face value of \$30,000. As at September 5, 2010, the net convertible debenture balance is \$29,194 (December 27, 2009 - \$28,885) and the fair value is approximately \$24,645 (December 27, 2009 - \$19,500) based on the closing market value of the last trading day of the period ended September 5, 2010.

# Prizm Income Fund

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Notes to Interim Consolidated Financial Statements (Unaudited)

September 5, 2010 and September 6, 2009

(in thousands of dollars, except per Unit amounts)

## 11 NON-CONTROLLING INTEREST

	36 weeks ended September 5, 2010	Year ended December 27, 2009
	\$	\$
Balance - Beginning of period	15,968	19,598
Share of net loss from continuing operations for the period	(843)	(574)
Share of net loss from discontinued operations for the period (note 21)	(225)	(443)
Distributions for the period (note 16)	-	(2,613)
Balance - End of period	14,900	15,968
Subordinated Units - number of Units	2,582,000	2,582,000
Exchangeable Units - number of Units	7,688,000	7,688,000
	10,270,000	10,270,000

## 12 EQUITY

The Fund Trust Indenture provides that an unlimited number of Fund Units may be issued.

Equity comprises the following balances:

	September 5, 2010	December 27, 2009
	\$	\$
Capital contributions	137,442	137,442
Contributed surplus	5,146	5,146
Convertible debentures (note 10)	747	747
	143,335	143,335

The year to date weighted average number of Units outstanding was 15,225,726 (December 27, 2009 - 15,264,788).

As at September 5, 2010 and December 27, 2009, Units outstanding and capital contributions are as follows:

	September 5, 2010	
	Number of Units	Amount \$
Fund Units		
Issued under IPO	15,000,000	150,000
Issued upon exercise of over-allotment option	550,000	5,500
Issued upon management retention bonus plan	346,326	1,257
Issuance costs	-	(13,210)
Purchased upon normal course issuer bids	(670,600)	(6,105)
	15,225,726	137,442



## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

September 5, 2010 and September 6, 2009

(in thousands of dollars, except per Unit amounts)

### 12 EQUITY - CONTINUED

	December 27, 2009	
	Number of Units	Amount \$
Fund Units		
Issued under IPO	15,000,000	150,000
Issued upon exercise of over-allotment option	550,000	5,500
Issued upon management retention bonus plan	346,326	1,257
Issuance costs	-	(13,210)
Purchased upon normal course issuer bids	(670,600)	(6,105)
	15,225,726	137,442

### 13 RELATED PARTY ACCOUNTS AND TRANSACTIONS

The Fund entered into the following transactions during the period. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The terms of trade with related parties are similar to those with other third parties.

- a) **Obelysk Inc.** ("Obelysk") is controlled by the Executive Chairman of the Fund. The Fund pays Obelysk rents for certain leased properties, including office space.

	Amount of transactions			
	Period from June 14, 2010 to September 5, 2010 \$	Period from June 15, 2009 to September 6, 2009 \$	Period from December 28, 2009 to September 5, 2010 \$	Period from December 29, 2008 to September 6, 2009 \$
Rent paid to Obelysk for leased properties	52	85	202	363
Rent paid to Obelysk for leased office space	164	162	492	488
Reimbursement of costs incurred by the Fund	33	12	75	20
Purchases of services and reimbursements of costs incurred by Obelysk	19	55	57	177
	<b>Balance owing</b>			
			September 5, 2010 \$	December 27, 2009 \$
Balance owing from Obelysk			70	57
Balance owing to Obelysk			-	25

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

September 5, 2010 and September 6, 2009

(in thousands of dollars, except per Unit amounts)

### 13 RELATED PARTY ACCOUNTS AND TRANSACTIONS - CONTINUED

- b) **Scott's Real Estate Investment Trust** ("Scott's REIT") is 24.4% owned by Obelysk. The Fund pays Scott's REIT rents for certain leased properties.

	Amount of transactions			
	Period from June 14, 2010 to September 5, 2010 \$	Period from June 15, 2009 to September 6, 2009 \$	Period from December 28, 2009 to September 5, 2010 \$	Period from December 29, 2008 to September 6, 2009 \$
Rent paid to Scott's REIT	2,823	2,821	8,417	8,403
Reimbursement of costs incurred by the Fund	-	-	-	16
Purchases of services and reimbursements of costs incurred by Scott's REIT	-	-	28	15
	<b>Balance owing</b>			
		September 5, 2010	December 27, 2009	
		\$	\$	
Balance owing to Scott's REIT		16	-	

- c) **Canadian Satellite Radio Holding Inc.'s** ("CSR") Executive Chairman and controlling shareholder is the Executive Chairman of the Fund. The Fund provided certain general and administrative services to CSR. In addition, the Fund subscribed to satellite radio services, advertised on programs and reimbursed costs incurred by CSR on behalf of the Fund.

	Amount of transactions			
	Period from June 14, 2010 to September 5, 2010 \$	Period from June 15, 2009 to September 6, 2009 \$	Period from December 28, 2009 to September 5, 2010 \$	Period from December 29, 2008 to September 6, 2009 \$
Reimbursement of costs incurred by the Fund	-	3	2	21
Purchases of services and reimbursements of costs incurred by CSR	2	2	6	20
	<b>Balance owing</b>			
		September 5, 2010	December 27, 2009	
		\$	\$	
Balance owing from CSR		1	-	
Balance owing to CSR		1	-	

## Priszm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

September 5, 2010 and September 6, 2009

(in thousands of dollars, except per Unit amounts)

### 13 RELATED PARTY ACCOUNTS AND TRANSACTIONS - CONTINUED

- d) Data & Audio Visual Enterprises Wireless Inc.'s ("DAVE Wireless") Executive Chairman and controlling shareholder is the Executive Chairman of the Fund. The Fund sublet part of its office space and provided certain general and administrative services to DAVE Wireless.

	Amount of transactions			
	Period from June 14, 2010 to September 5, 2010	Period from June 15, 2009 to September 6, 2009	Period from December 28, 2009 to September 5, 2010	Period from December 29, 2008 to September 6, 2009
Rent revenue from DAVE Wireless	\$ 104	\$ 41	\$ 295	\$ 71
Fees received by the Fund for general and administrative services	17	20	33	20
	<b>Balance owing</b>			
		September 5, 2010	December 27, 2009	
		\$	\$	
Balance owing from DAVE Wireless		41	4	

### 14 COSTS AND EXPENSES

Cost of restaurant sales and restaurant operating expenses consisted of the following:

	Period from June 14, 2010 to September 5, 2010	Period from June 15, 2009 to September 6, 2009	Period from December 28, 2009 to September 5, 2010	Period from December 29, 2008 to September 6, 2009
	\$	\$	\$	\$
Cost of restaurant sales				
Food and supplies	38,052	41,392	102,772	110,594
Amortization of supply contract prepayments	(94)	(285)	(281)	(588)
Labour	24,968	25,744	71,251	74,540
	62,926	66,851	173,742	184,546
Restaurant operating expenses				
Utilities and maintenance	6,321	5,822	18,938	19,144
Advertising	5,348	5,837	14,485	15,788
Other	4,940	4,865	13,634	14,332
	16,609	16,524	47,057	49,264

**Prizm Income Fund**

Notes to Interim Consolidated Financial Statements (Unaudited)

**September 5, 2010 and September 6, 2009**

(in thousands of dollars, except per Unit amounts)

**15 INCOME (LOSS) PER UNIT**

The computation for basic and diluted income (loss) per Unit is as follows:

	Period from June 14, 2010 to September 5, 2010 \$	Period from June 15, 2009 to September 6, 2009 \$	Period from December 28, 2009 to September 5, 2010 \$	Period from December 29, 2008 to September 6, 2009 \$
Income (loss) from continuing operations available to Unitholders	1,893	3,314	(1,199)	2,730
Dilutive effect of				
Non-controlling interest	1,171	2,245	(843)	1,486
Convertible debentures	104	463	-	665
Diluted income (loss) from continuing operations available to Unitholders	3,168	6,022	(2,042)	4,881
Loss from discontinued operations available to Unitholders	(76)	(88)	(334)	(341)
Dilutive effect of				
Non-controlling interest	(50)	(58)	(225)	(227)
Diluted loss from discontinued operations available to Unitholders	(126)	(146)	(559)	(568)
Basic weighted average number of Units (in thousands)	15,226	15,391	15,226	15,267
Dilutive effect of				
Non-controlling interest	10,270	10,270	10,270	10,270
Convertible debentures	62,261	20,005	-	16,825
Diluted weighted average number of Units	87,757	45,666	25,496	42,362
Basic income (loss) per Unit				
Continuing operations	0.124	0.215	(0.079)	0.179
Discontinued operations	(0.005)	(0.006)	(0.022)	(0.022)
	0.119	0.209	(0.101)	0.157
Diluted income (loss) per Unit				
Continuing operations	0.036	0.132	(0.079)	0.115
Discontinued operations	(0.001)	(0.003)	(0.022)	(0.013)
	0.035	0.129	(0.101)	0.102

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

September 5, 2010 and September 6, 2009

(in thousands of dollars, except per Unit amounts)

### 16 DISTRIBUTIONS TO UNITHOLDERS

The distribution was suspended effective November 19, 2009. As a result, no distribution was declared to Trust Units or Exchangeable Units during the period from December 28, 2009 to September 5, 2010 (December 29, 2008 to September 6, 2009 - \$4,885 to Trust Units and \$2,459 to Exchangeable Units).

No distribution was declared to Subordinated Units during the period from December 28, 2009 to September 5, 2010, and from December 29, 2008 to September 6, 2009.

### 17 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash and cash equivalents consist of the following:

	September 5, 2010 \$	December 27, 2009 \$
Cash	5,128	5,970
GIC/term deposits	8,300	19,700
	13,428	25,670

Net change in non-cash working capital comprises the following:

	Period from June 14, 2010 to September 5, 2010 \$	Period from June 15, 2009 to September 5, 2010 \$	Period from December 28, 2009 to September 5, 2010 \$	Period from December 29, 2008 to September 6, 2009 \$
Trade accounts receivable	93	(130)	1,226	1,629
Inventories	(99)	147	392	315
Prepaid expenses and other assets	(685)	11	(3,444)	(2,961)
Accounts payable and accrued liabilities	(352)	(319)	(2,633)	(75)
	(1,043)	(291)	(4,459)	(1,032)
Interest paid	1,900	1,977	6,058	5,972
Interest received	7	1	13	8

### 18 SEGMENTED INFORMATION

For financial reporting purposes, the Fund considers itself to be in one business segment as its various restaurant operations have similar economic and business characteristics. All restaurant operations are located in Canada.

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

September 5, 2010 and September 6, 2009

(in thousands of dollars, except per Unit amounts)

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### 19 MANAGEMENT OF CAPITAL

The Fund views its capital as the combination of its long-term loan, convertible debentures, Unitholders' equity and non-controlling interest. The Fund's objectives when managing capital are to safeguard the Fund's ability to continue as a going concern while maintaining the growth of its business and the distributable cash to its Unitholders. In general, the overall capital of the Fund is evaluated and determined in the context of its financial objectives and its strategic plan.

The Fund determines the appropriate level of long-term loan and convertible debentures in the context of its cash flow and overall business risks. The funds from long-term loans and convertible debentures were mainly used to finance growth initiatives such as acquisition and development projects. In the light of the changes in economic conditions and credit markets, the Fund reviews and updates its short-term and long-term strategic plans periodically to manage the capital structure and make adjustments to it.

Although there are no statutory capital requirements, the Fund is subject to certain covenants and restrictions under the loan agreements, including the requirement to maintain minimum amounts of earnings before interest expenses, tax expenses, and amortization expenses, which it was not in compliance with as at the interim consolidated balance sheet date. The related details were described fully in note 1 and note 9.

As part of the Fund's objective to increase its cash position and strengthen its consolidated balance sheets in advance of its long-term debt refinancing in 2010 and to fuel future growth, the Trustees approved a change to the Fund's monthly distribution. Effective July 2009, the distribution was adjusted to \$0.01 per Unit on a monthly basis. The distribution was completely suspended effective November 19, 2009.

The Fund will also review its capital in the context of the change in taxation impacting the Fund commencing 2011.

### 20 FINANCIAL RISK MANAGEMENT

The Fund is exposed to liquidity risk, interest rate risk and credit risk. The Fund's Trustees have overall responsibility for the establishment and oversight of the Fund's risk management framework and to review the Fund's policies on an ongoing basis.

#### Liquidity risk

Liquidity risk is the risk the Fund will not be able to meet its financial obligations as they come due. The liquidity risk the Fund is currently facing is fully disclosed in note 1 of the interim consolidated financial statements.

#### Interest rate risk

The Fund's interest rate risk is low due to the fixed rate nature of the long-term loan and convertible debentures.

The Fund plans to refinance its long-term loan when it becomes due on or before December 31, 2010. The Fund is exposed to interest rate risk associated with the renewal of its aggregate outstanding debt as it is expected that borrowings at the time of renewal will be at rates higher than those in place under existing agreements.

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

September 5, 2010 and September 6, 2009

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(in thousands of dollars, except per Unit amounts)

### 20 FINANCIAL RISK MANAGEMENT - CONTINUED

#### Credit risk

The Fund's financial instruments exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash and cash equivalents are maintained at major Canadian financial institutions that have high credit ratings assigned by international credit rating agencies and therefore the exposure to credit risk is minimal. Credit risk from accounts receivable is minimized as a result of the review and evaluation of customer account balances beyond a particular age and credit limit. The Fund accounts for a specific bad debt provision when management considers the expected recovery is less than the actual accounts receivable. The credit risk of accounts receivable is limited because the majority of the Fund's revenue is cash or debit/credit card transactions.

#### Fair value of financial instruments

The carrying amounts of cash and cash equivalents, trade and other accounts receivable and accounts payable and accrued liabilities approximate their fair values because of the near-term maturity of these instruments. The fair values of the long-term loan and convertible debentures are disclosed in notes 9 and 10, respectively.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical financial assets or financial liabilities that the Fund has the ability to access. The Fund's cash and cash equivalents are valued based on their quoted market price.

Fair values determined by Level 2 inputs use inputs other than quoted prices included in Level 1 that are observable for the financial asset or financial liability, either directly or indirectly. Level 2 inputs include quoted prices for similar financial assets and financial liabilities in active markets, and inputs other than quoted prices that are observable for the financial assets or financial liabilities. The Fund had no financial instruments valued under Level 2 inputs on its interim consolidated balance sheets.

Level 3 inputs are unobservable inputs for the financial asset or financial liability and include situations where there is little, if any, market activity for the financial asset or financial liability. The Fund's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial asset or financial liability. The Fund had no financial instruments valued under Level 3 inputs on its interim consolidated balance sheets.

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

September 5, 2010 and September 6, 2009

(in thousands of dollars, except per Unit amounts)

### 21 DISCONTINUED OPERATIONS

#### Disposition plan

On October 17, 2007, the Board of Trustees of the Fund approved a restructuring plan to sell approximately 128 restaurants and close 19 unprofitable restaurants, for a total of 147 restaurants being classified as discontinued. Additionally, consistent with this plan, the Fund has realigned the structure of its business, which resulted in restructuring costs, including lease termination, severance, and other exit costs.

As at December 28, 2008, 21 of the 147 restaurants were closed (18 restaurants were closed in 2007 and 3 were closed in 2008). Due to the change in the economy and credit markets during the latter part of 2008, the Board of Trustees of the Fund approved a change of plan to sell the restaurants late in the fourth quarter of 2008. The Fund reduced the number of restaurants to be sold from 128 to 34. The remaining 95 stores were reclassified to continuing operations and two restaurants were closed in 2008.

	Number of stores
Total number of restaurants classified as discontinued as per the original disposition plan	147
Add: sold or to be sold restaurants not included in the original disposition plan	3
Less: closed during 2007 and 2008	(21)
Less: reclassified to continuing operations	(95)
	<hr/>
To-be-sold restaurants as per the revised disposition plan	<u>34</u>

#### Sale of restaurants

Of the 34 to-be-sold restaurants in the revised disposition plan, 16 were sold in 2008 and 5 were sold in the first quarter of 2009. Due to the continued change in the economy and credit markets, in the second quarter of fiscal 2009, the Board of Trustees of the Fund approved that the remaining 13 restaurants also be reclassified back to continuing operations at the end of the second quarter. At the time of reclassification, these 13 restaurants were valued individually at the lower of carrying amount before they were classified as discontinued, adjusted for any amortization expense that would have been recognized had they been continuously classified as held and used, or fair value.



## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

September 5, 2010 and September 6, 2009

(in thousands of dollars, except per Unit amounts)

### 21 DISCONTINUED OPERATIONS - CONTINUED

#### Results for the discontinued operations

Prior to the second quarter of 2009, discontinued operations consisted of the 34 restaurants, which were sold or to be sold, and the 21 closed restaurants. Commencing in the second quarter of 2009, discontinued operations only consist of the 16 restaurants that were sold in 2008 and 5 that were sold in the first quarter of 2009 (total of 21 restaurants).

The operating results and cash flow information for the discontinued operations are as follows:

	Period from June 14, 2010 to September 5, 2010 \$	Period from June 15, 2009 to September 6, 2009 \$	Period from December 28, 2009 to September 5, 2010 \$	Period from December 29, 2008 to September 6, 2009 \$
Revenues	-	-	-	274
Loss from discontinued operations before non-controlling interest	(126)	(146)	(559)	(568)
Non-controlling interest	50	58	225	227
Loss from discontinued operations	(76)	(88)	(334)	(341)

As a result of the restructuring plan, the Fund recorded restaurant closure costs of \$2,443 in the fourth quarter of 2007. In the quarter ended September 5, 2010, the Fund paid out \$155 to reduce these obligations (June 15, 2009 to September 6, 2009 - \$152). As of September 5, 2010, the balances owing and outstanding are \$1,282 (December 27, 2009 - \$1,370).

## Prizm Income Fund

Notes to Interim Consolidated Financial Statements (Unaudited)

September 5, 2010 and September 6, 2009

(in thousands of dollars, except per Unit amounts)

### 21 DISCONTINUED OPERATIONS - CONTINUED

The following table provides additional information with respect to amounts included in the interim consolidated statements of cash flows related to discontinued operations:

	Period from June 14, 2010 to September 5, 2010 \$	Period from June 15, 2009 to September 6, 2009 \$	Period from December 28, 2009 to September 5, 2010 \$	Period from December 29, 2008 to September 6, 2009 \$
Loss from discontinued operations	(76)	(88)	(334)	(341)
Items not affecting cash				
Gain on disposal of property and equipment	-	-	-	(35)
Non-controlling interest	(50)	(58)	(225)	(227)
	(50)	(58)	(225)	(262)
Cash used in discontinued operations	(126)	(146)	(559)	(603)

Components of changes in non-cash working capital balances of discontinued operations are as follows:

	Period from June 14, 2010 to September 5, 2010 \$	Period from June 15, 2009 to September 6, 2009 \$	Period from December 28, 2009 to September 5, 2010 \$	Period from December 29, 2008 to September 6, 2009 \$
Inventories	-	-	-	12
Prepaid expenses and other assets	-	-	-	17
Accounts payable and accrued liabilities	-	-	(2)	(90)
	-	-	(2)	(61)

### 22 SUBSEQUENT EVENT

Subsequent to the end of the third quarter, as a result of management's exploration of alternatives, the Fund received preliminary, non-binding expressions of interest for the purchase of certain restaurant assets. These proposals are being evaluated by management and the Board as part of a comprehensive plan to address debt refinancing and franchise renewal obligations. At this point in time no decisions have been taken with regard to the sale of assets and there is no certainty that any sale will result from these initial non-binding expressions of interest.

**Prizm Income Fund**

Notes to Interim Consolidated Financial Statements (Unaudited)

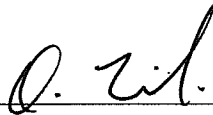
**September 5, 2010 and September 6, 2009**

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(in thousands of dollars, except per Unit amounts)



This is Exhibit "I"  
to the affidavit of Deborah Papernick,  
sworn before me on the 31<sup>st</sup> day  
of March, 2011



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Commissioner for Taking Affidavits

PricewaterhouseCoopers LLP  
 Chartered Accountants  
 PO Box 82  
 Royal Trust Tower, Suite 3000  
 Toronto-Dominion Centre  
 Toronto, Ontario  
 Canada M5K 1G8  
 Telephone +1 416 863 1133  
 Facsimile +1 416 365 8215

March 21, 2011

## Independent Auditor's Report

**To the Unitholders of  
 Prizm Income Fund**

We have audited the accompanying consolidated financial statements of Prizm Income Fund and its subsidiaries, which comprise the consolidated balance sheets as at December 26, 2010 and December 27, 2009 and the consolidated statements of operations, deficit, comprehensive loss and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Prism Income Fund and its subsidiaries as at December 26, 2010 and December 27, 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**Emphasis of matter or other matter**

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Fund's ability to continue as a going concern.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Accountants, Licensed Public Accountants**

## **Prizm Income Fund**

Consolidated Financial Statements  
December 26, 2010 and December 27, 2009



## Prizm Income Fund

### Consolidated Balance Sheets

(in thousands of dollars)

	December 26, 2010 \$	December 27, 2009 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 24)	13,907	25,670
Trade and other accounts receivable	1,254	1,739
Inventories	3,580	3,776
Prepaid expenses	1,689	962
Other assets	215	219
	<u>20,645</u>	<u>32,366</u>
<b>Other receivables</b>	376	376
<b>Property and equipment (note 7)</b>	53,709	62,553
<b>Future income taxes (note 8)</b>	87	4,986
<b>Franchise rights (note 9)</b>	23,508	32,968
<b>Goodwill (notes 12)</b>	17,052	57,434
	<u>115,377</u>	<u>190,683</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 11)	41,619	43,368
Current portion of long-term loan (note 13)	65,592	10,000
	<u>107,211</u>	<u>53,368</u>
<b>Long-term loan (note 13)</b>	-	65,112
<b>Convertible debentures (note 14)</b>	29,333	28,885
<b>Future income taxes (note 8)</b>	-	31
<b>Deferred contract amounts (note 10)</b>	6,132	6,465
<b>Liabilities of discontinued operations (note 28)</b>	-	2
	<u>142,676</u>	<u>153,863</u>
<b>Non-controlling interest (note 15)</b>	-	15,968
	<u>-</u>	<u>15,968</u>
<b>UNITHOLDERS' EQUITY (DEFICIT)</b>		
<b>Equity (note 16)</b>	143,335	143,335
<b>Deficit</b>	(170,634)	(122,483)
	<u>(27,299)</u>	<u>20,852</u>
	<u>115,377</u>	<u>190,683</u>
Going concern uncertainty (note 1)		
Contingent liabilities and commitments (notes 19 and 20, respectively)		
Subsequent events (note 29)		
The accompanying notes are an integral part of these consolidated financial statements.		

## Prizm Income Fund

### Consolidated Statements of Operations

(in thousands of dollars, except per Unit amounts)

	Year ended December 26, 2010 \$	Year ended December 27, 2009 \$
Restaurant sales	415,807	441,807
<b>Restaurant cost and expenses</b>		
Cost of restaurant sales (note 18)	252,541	263,336
Restaurant operating expenses (note 18)	68,969	70,832
Rent	36,388	36,389
Franchise royalty expense	24,961	26,522
Amortization	11,565	11,926
Writedown of restaurant assets and franchise rights (notes 7 and 9)	12,051	3,907
	406,475	412,912
<b>Income from restaurant operations</b>	9,332	28,895
Impairment costs (note 12)	40,382	8,418
General and administrative expenses - including amortization of \$3,138 (2009 - \$3,174)	18,979	21,489
<b>Loss before the undernoted</b>	(50,029)	(1,012)
Net gain on disposal of salad production facility and other property and equipment	-	8,602
Interest income	31	12
Interest expense (note 13)	(8,605)	(9,012)
<b>Loss before income taxes and non-controlling interest</b>	(58,603)	(1,410)
Income tax expense (recovery) including valuation allowance (note 8)	4,868	(760)
<b>Loss from continuing operations before non-controlling interest</b>	(63,471)	(650)
Non-controlling interest (note 15)	15,706	574
<b>Loss from continuing operations</b>	(47,765)	(76)
Loss from discontinued operations - net of income taxes and non-controlling interest (note 28)	(386)	(641)
<b>Net loss for the year</b>	(48,151)	(717)
<b>Basic and diluted loss per Unit (note 21)</b>		
Continuing operations	(2.489)	(0.025)
Discontinued operations	(0.025)	(0.042)
	(2.514)	(0.067)

The accompanying notes are an integral part of these consolidated financial statements.

## Priszm Income Fund

### Consolidated Statements of Deficit

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(in thousands of dollars)

	Year ended December 26, 2010	Year ended December 27, 2009
	\$	\$
Deficit - Beginning of year	(122,483)	(116,577)
Net loss for the year	(48,151)	(717)
Distributions (note 23)	-	(5,189)
	<hr/>	<hr/>
Deficit - End of year	(170,634)	(122,483)
	<hr/>	<hr/>

### Consolidated Statements of Comprehensive Loss

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(in thousands of dollars)

	Year ended December 26, 2010	Year ended December 27, 2009
	\$	\$
Net loss for the year	(48,151)	(717)
Other comprehensive income	-	-
	<hr/>	<hr/>
Comprehensive loss	(48,151)	(717)
	<hr/>	<hr/>

The accompanying notes are an integral part of these consolidated financial statements.

## Priszm Income Fund

### Consolidated Statements of Cash Flows

(in thousands of dollars)

	Year ended December 26, 2010 \$	Year ended December 27, 2009 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Loss from continuing operations	(47,765)	(76)
Add: Non-cash items		
Income tax (recovery) including valuation allowance	4,868	(760)
Non-controlling interest	(15,706)	(574)
Amortization of property and equipment	11,767	12,138
Amortization of franchise rights	2,936	2,962
Amortization of deferred financing charges	-	130
Interest accretion	938	886
Amortization of deferred contract amounts (note 10)	(518)	(617)
Net gain on disposal of salad production facility and other property and equipment	-	(8,602)
Unit-based compensation	-	226
Long-term incentive plan accrual	-	(52)
Writedown of restaurant assets and franchise rights (notes 7 and 9)	12,051	3,907
Writedown of goodwill (note 12)	40,382	8,418
Cash provided by operating activities of continuing operations	8,953	17,986
Net change in continuing non-cash working capital (note 24)	(1,793)	3,644
Tenant inducements and supply contract prepayment	185	738
Cash from continuing operations	7,345	22,368
Loss from discontinued operations (note 28)	(386)	(641)
Change in discontinued operations - non-cash items (note 28)	(262)	(337)
Net change in discontinued non-cash working capital (note 28)	(2)	(62)
Cash provided by operating activities	6,695	21,328
<b>Investing activities</b>		
Purchase of property and equipment	(7,202)	(6,273)
Purchase of franchise rights (note 9)	(1,247)	(1,970)
Net proceeds on disposal of salad production facility and other property and equipment	-	10,401
Cash provided by (used in) investing activities	(8,449)	2,158
<b>Financing activities</b>		
Long-term loan repayments	(10,000)	-
Distributions to Unitholders	-	(8,944)
Buyback of Units (note 16)	-	(304)
Deferred financing charges	(9)	(7)
Cash used in financing activities	(10,009)	(9,255)
Change in cash and cash equivalents during the year	(11,763)	14,231
Cash and cash equivalents - Beginning of year	25,670	11,439
Cash and cash equivalents - End of year	13,907	25,670

Supplemental disclosure of cash flow information (note 24)

The accompanying notes are an integral part of these consolidated financial statements.

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## Priszm Income Fund

Notes to Consolidated Financial Statements  
December 26, 2010 and December 27, 2009

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(in thousands of dollars, except per Unit amounts)

### 1 GOING CONCERN UNCERTAINTY

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business for the foreseeable future.

While Priszm Income Fund (the "Fund") has been generating positive net cash from operating activities on an annual basis (2010 - \$6,695 and 2009 - \$21,328) and had \$13,907 of cash on hand at December 26, 2010 (2009 - \$25,670), there are recent financial events that raise significant doubt as to the ability of the Fund to meet its obligations as they come due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

#### *Recent financial events*

The Fund has experienced financial performance during the 2010 fiscal year that has been below budgeted expectations. As a result, during the third quarter, the Fund was unable to comply with a minimum level of earnings before interest, income taxes, depreciation and amortization ("EBITDA") covenant as required under its long-term loan agreement ("Senior Facility"), with the consequence that this Senior Facility, with an outstanding amount of \$65,633 and a maturity date of December 31, 2010, became due on demand. In addition, credit markets have proven to be more challenging than originally anticipated at the beginning of this fiscal year, which has affected the Fund's ability to comply with certain near term commitments as discussed below.

The Fund has two debt components: a Senior Facility of \$65,633 which, absent the covenant violation described above, was due to be repaid on December 31, 2010, as well as \$30,000 of convertible, unsecured subordinated debentures maturing on June 30, 2012.

Ongoing negotiations are taking place with both the franchisor and lender of the Senior Facility ("lender") regarding strategies to refinance, repay or retire the existing Senior Facility. These strategies include the potential sale of all assets which may occur within a court facilitated process including those available under applicable insolvency laws.

On December 13, 2010, the Fund announced the execution of an asset purchase agreement to sell 232 of its operating restaurants in the Ontario and British Columbia regions, which is still subject to certain conditions including adequate landlord consent, material contract consents, approval which may be required by the Fund's governing documents or alternatively be subject to a court facilitated approval process, and other customary closing conditions. On January 15, 2011, the number of restaurants in the transaction was reduced to 231 with no change in purchase price. A landlord, who is related to the Fund, has asserted a right through their independent trustees, under the lease arrangements in respect of 40 locations that could result in some of the proceeds from such locations being payable to said landlord. The Fund's independent trustees are currently seeking legal advice on the validity of the landlord's assertion.

In December 2010, the Fund withheld the interest payments that were due under its Senior Facility and also interest payments on the convertible, unsecured subordinated debentures. Additionally, in January 2011, continuing royalty fee payments in respect of sales made in November and December 2010 were also withheld. No further payments have been made subsequent to year-end and, as at March 21, 2011, interest amounts accrued and owing on the Senior Facility and convertible, unsecured subordinated debentures amounted to

## Priszm Income Fund

Notes to Consolidated Financial Statements

December 26, 2010 and December 27, 2009

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(in thousands of dollars, except per Unit amounts)

### 1 GOING CONCERN UNCERTAINTY - CONTINUED

\$1,707 and \$1,376, respectively.

On January 19, 2011, the Fund executed a forbearance agreement to extend the maturity date of its Senior Facility, including the payment of all interest accrued but unpaid to January 31, 2011. Subsequently, on February 4, 2011, a modification to this forbearance agreement extended it to May 20, 2011. The forbearance agreement results in the Senior Facility lender agreeing to temporarily suspend action to exercise its remedies for the Fund's defaults in respect of the existing terms of its Senior Facility, and requiring the Fund to work with the lender on an asset sale process to explore the potential sale of all assets and use the proceeds to pay down its obligations to the lender. Subsequent to year-end, the Fund has engaged Canaccord Genuity to explore the sale of its remaining locations.

Although the Fund continues to work closely with the Senior Facility lender on the aforementioned asset sale plan, it does not at the present time, have sufficient liquid resources to retire its current and long-term debt obligations and it is uncertain whether the proceeds from the sale of the assets will be sufficient to meet all of the Fund's current and long-term obligations.

The Fund's debt facilities are more fully described in notes 13 and 14. The Fund's asset sale plan is more fully described in note 5.

#### *Franchise rights renewals and continuing payments*

Each year from 2009 through 2013, a number of the Fund's franchise agreements have expired or will expire and in aggregate these expiries cover the majority of the Fund's operating locations.

The details with respect to the 70 locations that currently are operating without franchise rights are as follows. On November 10, 2010, franchise agreements for 84 of the Fund's locations expired. Of those locations, 5 were closed or will close and 9 had been upgraded and were renewed. The franchise terms for the remaining 70 locations were extended to December 10, 2010. Subsequent to year-end, these franchise agreements were extended to January 15, 2011, and following that extended again to February 28, 2011. No further extensions have been granted although the Fund continues to operate the locations with no formal franchise agreements in place in respect of these 70 locations.

The terms of the franchise agreement provide a right to renew for a further ten-year term dependent on the Fund paying a per location renewal fee (the Fund paid renewal fees on 32 out of the 70 stores during 2010 and renewal fees on 38 stores are still outstanding). In addition, the und is also committed to invest capital to upgrade restaurant facilities that do not meet the franchisor's current standards. The capital spent in 2010 was estimated to be a minimum of \$15,000. In light of ongoing negotiations taking place with both the franchisor and lender regarding various debt refinancing strategies, the Fund has opted not to pay its franchise renewal fee that was due on August 10, 2010 and has put the capital upgrades on hold. While some of the upgrades have been completed, others are behind schedule due to management's focus on debt refinancing, liquidity and cash preservation, as well as some development related logistical issues. As a result of the Fund not meeting its capital upgrade requirements and not paying its franchise renewal fees on all of the expired locations, the franchisor has not renewed the rights on the aforementioned 70 stores.

## Prizm Income Fund

Notes to Consolidated Financial Statements  
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(in thousands of dollars, except per Unit amounts)

### 1 GOING CONCERN UNCERTAINTY - CONTINUED

As described above, in an effort to conserve cash as the Fund prepared for the traditional KFC sales decline during the winter season, the Fund withheld its continuing royalty fee that was payable to the franchisor at and subsequent to the balance sheet date. As at March 16, 2011, the amounts outstanding to the franchisor in respect of continuing royalty fees amounted to \$6,697.

At this time, the Fund remains in ongoing discussions with its franchisor regarding the extension of franchise terms for the 70 restaurants and unpaid continuing royalty fees.

#### *Management's plans*

While the forbearance and Senior Facility, subject to certain terms and conditions, have been extended and some additional credit facilities were made available to the Fund by the senior lender (note 13), the Fund continues to experience negative same stores sales growth in fiscal 2011.

The Fund is actively pursuing a resolution with the Senior Facility lender, which will likely involve disposition of some or all of the Fund's restaurants, which may occur within a court facilitated process, with the proceeds used to pay down its Senior Facility. While the Fund currently plans that it will comply with the terms of the forbearance agreement and that it will repay its Senior Facility, the financial projections incorporate assumptions regarding general economic conditions, operating results and negotiation outcomes as well as sensitivities regarding underperformance, among other things. There is no assurance that the Fund will be able to achieve the aforementioned intended outcomes, or execute any initiatives or course of action undertaken in a timely manner, in order to repay its debt and meet all other obligations as they fall due.

The Fund has been working with the franchisor to establish plans to secure the renewal of its franchise agreements in order to ensure business continuity for all or part of the Fund's restaurant outlets. However, the process of negotiating renewals and reinvestment criteria is inherently unpredictable and, therefore, the Fund may not be able to renew the franchise agreements on some of the restaurants it operates today, which could result in their closure and loss of earnings.

In the event of a reorganization under applicable insolvency laws there can be no assurance that any proceeds would be payable to the holders of the convertible, unsecured, subordinated debentures or other security or debt holders

The Fund's continuance as a going concern is dependent on KFC and Taco Bell brand sales in Canada and on the ability of management to successfully mitigate the factors and execute the plans outlined in the preceding paragraphs. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported expenses and balance sheet classifications that would be necessary should the going concern assumption become inappropriate. These adjustments could be material.

## Priszm Income Fund

Notes to Consolidated Financial Statements  
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(in thousands of dollars, except per Unit amounts)

### 2 ORGANIZATION

The Fund is an unincorporated open-ended limited purpose trust with an unlimited number of trust Units established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated September 24, 2003. The Fund was established to acquire, through wholly owned Priszm LP, the KFC restaurant business of PBI LP comprising 466 KFC restaurants and a salad production facility. The salad production facility was sold in 2009. As at December 26, 2010, the Fund has 429 stores.

The Fund commenced operations on November 10, 2003, with an Initial Public Offering (the "IPO") of 15,000,000 Fund Units, at a price of \$10 per Unit, for aggregate proceeds of \$150,000. Concurrent with the closing of the IPO, the Fund acquired the KFC restaurant business of PBI LP.

#### Fiscal year-end

The year is based on an accounting cycle of 13 four-week accounting periods, ending on the last Sunday of December. The impact on quarterly and annual periods is not significant.

### 3 CHANGES IN ACCOUNTING POLICIES

#### Recent Canadian accounting pronouncements issued and not yet adopted

In October of 2008, the Canadian Institute of Chartered Accountants (the "CICA") issued Handbook Section 1582, Business Combinations, concurrently with Handbook Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests. Handbook Section 1582, which replaces Handbook Section 1581, Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Handbook Section 1601, which replaces Handbook Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. Handbook Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Fund's interim and annual consolidated financial statements commencing on December 26, 2011, with earlier adoption permitted as of the beginning of a fiscal year. The Fund is currently evaluating the effects of adopting these standards.

In April 2009, the CICA amended Section 3855, Financial Instruments – Recognition and Measurement, adding and amending paragraphs regarding the application of the effective interest method to previously impaired financial assets and embedded prepayment options. The amendments are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, with early adoption permitted. The Fund is currently evaluating the impact of the adoption of this standard.



## **Priszm Income Fund**

Notes to Consolidated Financial Statements  
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(in thousands of dollars, except per Unit amounts)

### **3 CHANGES IN ACCOUNTING POLICIES - CONTINUED**

#### **International Financial Reporting Standards ("IFRS")**

In March 2009, the Accounting Standards Board ("AcSB") issued a second Omnibus Exposure Draft with transition and introductory material confirming that the use of IFRS will be required in interim statements for publicly accountable enterprises in Canada in years beginning on or after January 1, 2011. Since the 2011 fiscal year for the Fund begins on December 27, 2010, these standards will apply to the interim and annual consolidated financial statements relating to fiscal years beginning on December 26, 2011 for the Fund. The Fund is continuing to assess the financial reporting impacts of the adoption of IFRS. Changes in accounting policies upon adoption of IFRS are likely and may materially impact the Fund's consolidated financial statements. The Fund does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required as well as systems changes that may be necessary to gather and process the information.

### **4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements of the Fund have been prepared in accordance with Generally Accepted Accounting Principles (the "GAAP") and include the following significant accounting policies:

#### **Principles of consolidation**

The consolidated financial statements include the accounts of the Fund and all of its subsidiary companies. All material intercompany transactions and balances have been eliminated.

#### **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and cash balances with major financial institutions and highly liquid short-term investments with an original maturity of three months or less.

#### **Inventories**

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. During the year, the Fund charged \$149,461 of inventory to cost of sales, and did not have any inventory writedown or reversal.

## Priszm Income Fund

Notes to Consolidated Financial Statements  
December 26, 2010 and December 27, 2009

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(in thousands of dollars, except per Unit amounts)

### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### Property and equipment

Property and equipment are recorded at cost less accumulated amortization and are adjusted to fair value when the net recoverable amount is below cost.

Amortization is computed primarily on a straight-line basis, at rates sufficient to amortize the cost of the assets over their estimated useful lives:

Building		20 years
Leasehold improvements	initial lease term plus the first renewal period, if applicable	
Furnishings and equipment		3 to 10 years
Step leases	initial lease term plus the first renewal period, if applicable	

Repairs and maintenance that do not enhance the service potential of the related assets are charged to expenses as incurred. Renewals and betterments, which materially prolong the useful lives of the assets, are capitalized. The cost and related accumulated amortization of property sold are removed from the accounts, and gains or losses are recognized in the consolidated statements of operations.

#### Impairment of long-lived assets

In accordance with CICA Handbook Section 3063, Impairment of Long-lived Assets, the Fund reviews long-lived assets, which consist of franchise rights and property and equipment, for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable and exceeds its projected undiscounted future net cash flows on the remaining term of the agreement. The impairment loss is measured as the extent to which the carrying value exceeds the fair value. Fair value of franchise rights and property and equipment is determined using the market approach. Under the market approach, the fair value of an asset reflects the price at which comparable assets are purchased under similar circumstances, using a going concern assumption.

#### Restaurants under development

Restaurants under development consist of restaurants under construction. The cost of restaurants under development includes direct costs associated with the site acquisition (which includes leased sites) and restaurant construction, including direct internal payroll and payroll-related costs. Only those site specific costs incurred subsequent to the time of the site acquisition, which are considered probable, are capitalized. Acquisitions are considered probable upon final site approval. If a subsequent determination is made that a site for which internal development costs have been capitalized will not be acquired or developed, any previously capitalized internal development costs are expensed and included in general and administrative expenses.

Restaurants under development are recorded at the lower of cost and net realizable value, reduced for impairment losses where appropriate.

## **Prizm Income Fund**

Notes to Consolidated Financial Statements

December 26, 2010 and December 27, 2009

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(in thousands of dollars, except per Unit amounts)

### **4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

#### **Franchise rights**

The cost of franchise and development rights is amortized on a straight-line basis over the term of the related agreements, typically 20 years (ten-year initial and ten-year renewal).

#### **Goodwill**

Goodwill represents the excess of the cost of business acquired over the fair value of identifiable assets acquired and liabilities assumed. In accordance with the recommendations of the CICA Handbook pertaining to goodwill and other intangible assets, goodwill is not amortized but will be tested for impairment annually, or when an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit below its carrying amount. Any impairment in the value of goodwill is written off against income.

#### **Deferred contract amounts**

Deferred contract amounts include step lease amortization, supply contract prepayment, tenant inducements and restoration costs. The amounts are amortized according to the terms of the related contracts.

#### **Income taxes**

Future income tax assets and liabilities are recorded on the difference between the accounting and carrying values of balance sheet assets and liabilities and the tax cost basis of these assets and liabilities based on substantively enacted tax laws and rates for those differences that are expected to reverse after January 1, 2011.

The Fund reviews the value of its future income tax assets and liabilities quarterly and records adjustments, as necessary, to reflect the realizable amounts of its future income tax assets and liabilities. A valuation allowance is provided to the extent that it is more likely than not that the future income tax assets will not be realized.

#### **Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the consolidated balance sheet date and non-monetary items are translated at historical exchange rates. Operating revenue and expenses are translated at average exchange rates prevailing during the year. Gains or losses arising from these transactions are included in income.

#### **Revenue recognition**

The Fund earns revenues from the sale of food and beverages at its operating restaurants. Revenues are recognized as the goods and services are delivered.

## Prizm Income Fund

Notes to Consolidated Financial Statements  
December 26, 2010 and December 27, 2009

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(in thousands of dollars, except per Unit amounts)

### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### Disposal of long-lived assets and discontinued operations

Long-lived assets are classified as held-for-sale when specific criteria are met in accordance with CICA Handbook Section 3475, Disposal of Long-lived Assets and Discontinued Operations. Assets held-for-sale are measured at the lower of their carrying amounts and fair values less costs to dispose and are no longer amortized. Assets and liabilities classified as held-for-sale are reported separately on the consolidated balance sheet. A component of the Fund that is held for sale is reported as discontinued operations if the operations and cash flows of the component will be eliminated from the ongoing operations as a result of the disposal transaction and the Fund will not have a significant continuing involvement in the operations of the component after the disposal transaction.

#### Financial instruments

The Fund has classified its financial instruments as follows:

<u>Financial Instrument</u>	<u>Measurement</u>
Cash and cash equivalents	Fair value
Trade and other accounts receivable	Amortized cost using the effective interest method
Convertible debentures	Amortized cost using the effective interest method
Accounts payable and accrued liabilities	Amortized cost using the effective interest method
Long-term loan	Amortized cost using the effective interest method

The Fund did not have any held-to-maturity or available-for-sale financial instruments.

The carrying amounts of cash and cash equivalents, trade and other accounts receivable and accounts payable and accrued liabilities approximate their fair values because of the near-term maturity of these instruments.

The fair value of the term loan and convertible debentures is disclosed in notes 13 and 14, respectively.

Financial instruments that potentially subject the Fund to concentrations of credit risk consist primarily of trade and other accounts receivable. The Fund performs periodic credit evaluations of the financial condition of its significant customers. Allowances are maintained for potential credit losses consistent with the credit risk of specific customers, historical trends and other information.

## Priszm Income Fund

Notes to Consolidated Financial Statements  
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(in thousands of dollars, except per Unit amounts)

### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### Unit-based compensation

The Fund has a management retention bonus plan where Units are granted to certain employees and vest over a period normally 12 to 18 months from the date of grant. The Fund determines the expense based on the fair value of the Units on the date granted and amortizes the expense over the vesting period.

In addition, the Fund also has a Unit option plan. The Fund accounts for Unit options using the fair value method. For option awards, fair value is measured at the grant date using a Binomial valuation model and is recognized as a charge to compensation expense and an increase in contributed surplus over the vesting period of the options granted. Consideration paid by employees on exercise of Unit options is recorded as share capital.

#### Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and sales and expenses for the reporting period. Actual results could differ from those estimates. The Fund makes estimates of inventory obsolescence, fair value of goodwill, recoverable amounts of long-lived assets, fair value of long-term loan and certain of its accrued liabilities.

### 5 ASSET SALE PLAN

On December 13, 2011, the Fund executed an asset purchase agreement to sell some of its restaurants to 7716443 Canada Inc. (the "Purchaser"), an entity that is affiliated with a U.K. group of companies that operate KFC franchise outlets in that jurisdiction.

The agreement encompasses the sale of 231 of the Fund's operating restaurants in Ontario and British Columbia for an aggregate gross purchase price of approximately \$46.4 million before customary purchase price adjustments including a current asset adjustment. Pre-closing current liabilities of the restaurants currently estimated in the amount of approximately \$13 to 16 million will remain with the Fund.

As at December 26, 2010, there were several conditions that needed to be satisfied by both the Fund and the Purchaser including such items as satisfactory due diligence and financing, adequate landlord and material contract consents, any approvals as may be required by the Fund's governing documents and consent to the transaction by both Yum! Restaurants International and the Fund's Senior Facility lender. Due to these unfulfilled conditions as at the year-end, the assets and operations subject to this potential sale have not been presented as discontinued operations in these consolidated financial statements.

Subsequent to year-end, the Purchaser has satisfied its due diligence and financing conditions with respect to the potential sale of all of the Fund's restaurants in Ontario and British Columbia, however the transaction still remains subject to adequate landlord and material contract consents, any approvals that may be required by the Fund's governing documents or alternatively be subject to a court facilitated approval process, and consent to the transaction by both Yum! Restaurants International and the Fund's senior facility lender, as well as some

## Prizm Income Fund

Notes to Consolidated Financial Statements  
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(in thousands of dollars, except per Unit amounts)

### 5 ASSET SALE PLAN - CONTINUED

other customary closing conditions. The Fund continues to work with the Purchaser and other parties to satisfy these remaining conditions.

In March 2011, as required by the Fund's forbearance agreement (see notes 1 and 13), the Fund engaged Canaccord Genuity to explore the potential sale of all of the Fund's other outlets, outside of those located in Ontario and British Columbia.

### 6 SEASONALITY

The Fund operates on a 13-period accounting basis, with the first three quarters consisting of 12 weeks and the fourth quarter consisting of 16 weeks. The business is seasonal. The following table shows the percentage of annual sales achieved in each fiscal reporting quarter, on average, over the last three years.

	%
First quarter (12 weeks)	21
Second quarter (12 weeks)	24
Third quarter (12 weeks)	25
Fourth quarter (16 weeks)	<u>30</u>
	<u>100</u>

## Prizm Income Fund

Notes to Consolidated Financial Statements  
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(in thousands of dollars, except per Unit amounts)

### 7 PROPERTY AND EQUIPMENT

	December 26, 2010		
	Cost \$	Accumulated amortization \$	Net \$
Land	514	-	514
Building	1,386	495	891
Leasehold improvements	59,243	27,995	31,248
Furnishings and equipment	72,427	51,371	21,056
	<u>133,570</u>	<u>79,861</u>	<u>53,709</u>
	December 27, 2009		
	Cost \$	Accumulated amortization \$	Net \$
Land	514	-	514
Building	1,386	417	969
Leasehold improvements	66,940	32,858	34,082
Furnishings and equipment	74,199	48,239	25,960
Restaurants under development	1,028	-	1,028
	<u>144,067</u>	<u>81,514</u>	<u>62,553</u>

As at December 26, 2010, the Fund recorded a writedown of \$4,281 (December 27, 2009 - \$1,746) to adjust the net carrying value of leasehold improvements and equipment due to the underperforming current and expected operating cash flows from these restaurants. During 2010, nine locations closed due to lease and franchise agreement expiry, while one restaurant was temporarily closed due to fire damage. The Fund accelerated the amortization on the property and equipment subject to these closures and recorded \$175 of additional amortization.

## Priszm Income Fund

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### 8 .FUTURE INCOME TAXES

On October 31, 2006, the Minister of Finance (Canada) announced proposed tax legislation ("trust legislation") that changed the income tax rules applicable to publicly traded trusts, rendering income trusts taxable in 2011. In 2011, the Fund will be required to pay income taxes on its distributions. Accordingly, distributable cash will be reduced by an equal amount.

The October 31, 2006 trust legislation was substantively enacted into law on June 12, 2007, at which time the Fund gave accounting recognition to these new tax rules.

On January 27, 2009, the Minister of Finance announced a change in the structure of the tax rate applicable to the Fund. The change eliminated the flat provincial specified investment flow ("SIFT") through tax rate of 13% and replaced it with a requirement for SIFTs to calculate their provincial tax rate based on an allocation of taxable SIFT distributions to provinces in which the SIFT maintains a permanent establishment. For the Fund, that permanent establishment is the Province of Ontario. The Fund gave recognition to future income taxes arising from those temporary tax differences expected to reverse during fiscal 2011, 2012, 2013, and 2014 and thereafter at the tax rates of 28.25%, 26.25%, 25.5%, and 25%, respectively, calculated as being applicable to the Fund. The impact of the rate change on prior year estimates is immaterial.

Future income tax assets and liabilities are recognized on temporary differences between the accounting and tax bases of existing assets and liabilities as follows:

	December 26, 2010 \$	December 27, 2009 \$
Property and equipment	1,638	859
Franchise rights	3,059	1,776
Goodwill	1,978	1,635
Deferred contract amounts	651	716
Future income taxes – assets	<u>7,326</u>	<u>4,986</u>
Future income taxes - liabilities	(33)	(31)
Valuation allowance	<u>(7,206)</u>	<u>-</u>
Net future income tax assets	<u>87</u>	<u>4,955</u>

A valuation allowance has been provided to offset the future income tax assets, as the Fund does not believe that such benefits are more likely than not to be realized.

### 9 FRANCHISE RIGHTS

Franchise rights are net of accumulated amortization of \$35,910 (December 27, 2009 - \$32,974). In 2010, the Fund paid \$1,201 of franchise renewal fees for 41 stores, and \$46 of franchise initiation fees for a new store opened in the year.

The Fund recorded a writedown of \$7,771 (December 27, 2009 - \$1,930) to adjust the net carrying value of franchise rights due to underperforming current and expected cash flows from certain restaurants.



## Priszm Income Fund

Notes to Consolidated Financial Statements  
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### 10 DEFERRED CONTRACT AMOUNTS

Deferred contract amounts include step lease amortization, supply contract prepayment, tenant inducements and restoration costs.

With respect to the Fund's operating leases, step lease amortization is included in the determination of net income over the term of the lease on a straight-line basis resulting in a current year expense and cumulative accrual of \$17 and \$4,108, respectively (December 27, 2009 - \$18 and \$4,091, respectively).

Supply contract prepayments were \$820 (December 27, 2009 - \$1,287), net of \$467 (December 27, 2009 - \$599) amortized to income for the year ended December 26, 2010.

There was \$1,134 (December 27, 2009 - \$1,032) of tenant inducements included in the deferred contract amounts, net of \$83 amortized to income for the year (December 27, 2009 - \$36). The tenant inducements are amortized to income over the term of the lease on a straight-line basis.

Restoration costs were \$70 (December 27, 2009 - \$55), which related to an obligation of an operating restaurant.

### 11 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	December 26, 2010	December 27, 2009
	\$	\$
Trade accounts payable	18,234	18,837
Royalties payable	3,705	1,872
Advertising payable	1,044	1,065
Payroll payable	8,271	9,145
Sales taxes payable	2,526	2,656
Interest accrual	1,562	1,188
Insurance accrual	1,331	1,079
Closed store reserves	1,306	1,817
Utility accrual	1,298	1,267
Severance accrual	276	1,983
Other accrued liabilities	2,066	2,459
	<u>41,619</u>	<u>43,368</u>

## Prizm Income Fund

Notes to Consolidated Financial Statements  
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(in thousands of dollars, except per Unit amounts)

### 12 GOODWILL IMPAIRMENT

The Fund performs an impairment assessment of goodwill on an annual basis or at any time if events occur or circumstances indicate the carrying amount of goodwill may not be recoverable.

The goodwill impairment test involves a two-step methodology. The first step is accomplished by comparing the fair value of the Fund's reporting units to their carrying value. The Fund determines fair value based on a number of factors, including discounted operating cash flow of the reporting unit and market data. If the carrying value of the reporting unit exceeds its estimated fair value, a second step is required. In the second step, the Fund must allocate the fair value of the reporting unit to the reporting unit's identifiable net assets, with any value in excess allocated to goodwill. The Fund's reporting units are comprised of operating regions. A goodwill impairment loss would be recognized to the extent that the carrying value of goodwill exceeds its implied fair value.

In 2010, the Fund completed an annual impairment test and determined the goodwill was impaired by \$40,382 (December 27, 2009 - \$8,418) due to the underperforming current and expected cash flows from certain restaurants. The business experienced a decline in revenue primarily as a result of 4.4% negative same store sales growth. The lower revenue levels generated reduced income from restaurant operations and caused lower future profit and cash flow expectations, which resulted in a shortfall of the fair value of goodwill versus its carrying value. As a result, an impairment loss was recorded in the consolidated statements of operations.

## Priszm Income Fund

Notes to Consolidated Financial Statements  
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### 13 LONG-TERM LOAN

During fiscal 2010, the Fund's long-term loan became due on demand (note 1), and it has a balance of \$65,592 (face value of \$65,633 net of \$41 in transaction costs). At December 27, 2009, the long-term loan was \$75,112 (face value of \$75,633 net of \$521 in transaction costs) of which \$10,000 was classified as current.

Interest expense comprises the following:

	December 26, 2010	December 27, 2009
	\$	\$
Interest expense on long-term loan	5,736	5,885
Interest expense on debentures	1,945	1,945
Interest expense on operating facility and other	-	130
Accretion and amortization of deferred financing charges	924	1,052
	<u>8,605</u>	<u>9,012</u>

The loan originally included two advances: \$73,596 and \$2,037. The \$73,596 advance has a fixed interest rate of 7.8% and the principal was due in full on January 13, 2011 with payment of interest due on a monthly basis. The \$2,037 advance has a fixed interest rate of 8.09% and the principal was due in full on November 11, 2011 with payment of interest due on a monthly basis. The long-term loan is collateralized by substantially all of the assets of the Fund.

In March 2010, the Fund amended the long-term loan agreement, which required early repayments of the debt principal in the amounts of \$4,000 on March 15, 2010, \$4,000 on May 31, 2010, and an additional \$2,000 on August 4, 2010, plus interest yield maintenance amounts, which were paid as required. The amendment contained covenants that required a minimum amount EBITDA be met each quarter in fiscal 2010. The amendment also required the Fund to actively pursue refinancing alternatives to ensure that the entire long-term debt would be repaid on or before December 31, 2010. The amendment also restricted the Fund from making distributions or making any further purchases under the normal course issuer bids.

During the third quarter of fiscal 2010, the Fund did not meet the minimum EBITDA required by the amended loan agreement, due to the lack of sales growth in the KFC and Taco Bell brands. As a result, the loan became due on demand.

In January 2011, the Fund executed a forbearance agreement to extend the maturity date of its senior debt facility, including the payment of all interest accrued but unpaid to January 31, 2011. In addition the senior debt lender agreed to temporarily suspend action to exercise its remedies for the Fund's defaults in respect of the existing terms of its senior debt facility. As part of the agreement, the Fund was not permitted to make payments in respect of obligations that are subordinated to the senior debt facility, other than those relating to the direct operation of the business in ordinary course. At that time, the senior debt lender and the Fund also executed a separate short-term financing agreement that provide the Fund a supplemental facility of up to \$4 million to ensure the business has sufficient liquidity to continue operations while a longer-term plan is

## Prizm Income Fund

Notes to Consolidated Financial Statements

December 26, 2010 and December 27, 2009

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(in thousands of dollars, except per Unit amounts)

### 13 LONG-TERM LOAN - CONTINUED

developed. The facility bears interest of 10% per annum with a maximum one draw per week and it matured January 31, 2011. Prior to its maturity the Fund drew \$3.7 million.

On February 4, 2011, the Fund extended its forbearance and financing agreements with its senior debt lender to May 20, 2011 subject to certain terms and conditions. In addition to the maturity date extension of all of the outstanding debt, including the \$3.7 million drawn up to January 31, 2011, the agreements provide the Fund with an additional facility of up to \$2.9 million, subject to the satisfaction of the conditions contained therein. As part of the agreements, the Fund is required to work with the senior debt lender on an asset sale process to explore the potential sale of all of its restaurant locations. The asset sale process contemplates the achievement of various prescribed milestones. In addition, the forbearance agreement requires that the Fund not allow its weekly cash position to be less than 90% of the closing cash projected amount as defined in the agreements. To the extent the Fund has excess cash in any particular week, as defined in the agreements; it is required to make a prepayment of the facility, but can re-draw amounts on the additional facility (\$2.9 million) as required in future weeks.

The Fund records long-term debt at amortized cost using the effective interest rate method.

### 14 CONVERTIBLE DEBENTURES

On June 22, 2007, the Fund completed the issuance of \$30,000 convertible, unsecured, subordinated debentures ("Debentures") due June 30, 2012. The Debentures bear interest at an annual rate of 6.5% payable semi-annually in arrears on June 30 and December 31 in each year commencing December 31, 2007. The Debentures are convertible into units of the Fund ("Units") at a conversion price of \$12.28 per Unit at the holders' option into fully paid Units at any time prior to the close of business on the earlier of June 30, 2012 or the business day immediately preceding the date fixed for redemption. The Debentures are redeemable by the Fund at any time after June 30, 2010 and prior to June 30, 2011, at a price equal to their principal amount plus accrued and unpaid interest provided certain criteria are met, including the fact that the current market price per Unit must be at least 125% of the conversion price on the date the redemption notice is given. The Debentures are redeemable by the Fund at any time on and after June 30, 2011 and on or prior to the maturity date at a price equal to their principal amount plus accrued and unpaid interest. On redemption, or on the maturity date, the Debentures may, at the option of the Fund, be repaid in cash or Units.

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 the Debentures at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest.

## Prizm Income Fund

Notes to Consolidated Financial Statements  
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(in thousands of dollars, except per Unit amounts)

### 14 CONVERTIBLE DEBENTURES - CONTINUED

The Debentures are treated as compound instruments for financial reporting purposes. Accordingly, the conversion feature has been separately valued and presented as a component of equity in the amount of \$747 (note 16). In accordance with the adoption of CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, the Fund has elected to present the Debentures net of transaction costs. Transaction costs of \$1,477 are amortized on the consolidated statements of operations using the effective interest rate method. At maturity, the consolidated balance sheet value of the Debentures will be equal to the face value of \$30,000. As at December 26, 2010, the net convertible debenture balance is \$29,333 (December 27, 2009 - \$28,885) and the fair value is approximately \$12,900 (December 27, 2009 - \$19,500) based on the closing market value of the last trading day of the year ended December 26, 2010.

As mentioned in note 1 and note 13, the Fund has withheld the interest payment of \$975 on the Debenture that was due on December 31, 2010. Pursuant to both the Fund's forbearance agreement in respect of its Senior Facility and the indenture related to the Debentures, the Fund is not permitted to make payments of principal or interest in respect of the Debentures.

### 15 NON-CONTROLLING INTEREST

	December 26, 2010	December 27, 2009
	\$	\$
Balance - Beginning of year	15,968	19,598
Share of net loss from continuing operations for the year	(15,706)	(574)
Share of net loss from discontinued operations for the year (note 28)	(262)	(443)
Distributions for the year (note 23)	-	(2,613)
Balance - End of year	-	15,968
Subordinated Units - number of Units	2,582,000	2,582,000
Exchangeable Units - number of Units	7,688,000	7,688,000
	<u>10,270,000</u>	<u>10,270,000</u>

The Fund made a loss from continuing operations before non-controlling interest in the amount of \$63,471, of which \$15,706 reduced the non-controlling interest balance to nil at the current year-end.

## Prizm Income Fund

Notes to Consolidated Financial Statements  
December 26, 2010 and December 27, 2009

(in thousands of dollars, except per Unit amounts)

### 16 EQUITY

The Fund Trust Indenture provides that an unlimited number of Fund Units may be issued.

Equity comprises the following balances:

	December 26, 2010	December 27, 2009
	\$	\$
Capital contributions	137,442	137,442
Contributed surplus	5,146	5,146
Convertible debentures (note 14)	747	747
	143,335	143,335

On February 13, 2008, the Fund granted 134,000 Units (valued at the closing market price of the grant day of \$6.20 per Unit) to certain employees under the 2008 management retention bonus plan. In May 2009, 3,350 Units were cancelled at the departure of one employee. On July 21, 2008, the Fund granted 30,000 Units (valued at the closing market price of the grant day of \$3.48 per Unit) to an employee. The related compensation expenses are amortized over the vesting periods (12 or 18 months). On May 11, 2009, the Fund issued 259,507 Units (valued at \$1.90, the five-day volume weighted average ending three days before issuance) to certain employees, 188,607 of which were to satisfy the long-term incentive plan liability that was outstanding at the end of 2008 in the amount of \$347. No further units have been issued with respect to the long-term incentive plan. On July 31, 2009, the remaining 64,250 Units were issued. A total of \$756 contributed surplus was reclassified to capital contributions as a result of the Unit issuances. A total expense of \$226 (December 28, 2008 - \$529) has been recognized as the Unit based compensation expense in 2009, included in general and administrative expenses in the consolidated statements of operations. As no units were issued in 2010, there was no such expense for the year ended December 26, 2010.

On August 14, 2008, the Fund announced a normal course issuer bid for its Units. Under the terms of the normal course issuer bid, the Fund may purchase its Units up to a maximum of 1,271,585 Units during the period from August 18, 2008 to August 17, 2009. In 2008, 421,700 Units were purchased and subsequently cancelled. In the third quarter of 2009, the Fund purchased an additional 140,800 Units for cancellation at an average price of \$1.19 per Unit, for a total amount of \$171 (including commission costs). When the Fund redeems its own Units and cancels them, the cost is allocated to capital contributions for the amount equal to par, stated or assigned value of the Units, with the difference recorded to contributed surplus. As a result of the cancelled Units, \$1,272 was charged to equity and \$1,101 was recorded in contributed surplus during the third quarter of 2009.

On September 18, 2009, the Fund announced a normal course issuer bid for its Units. Under the terms of the normal course issuer bid, the Fund may purchase its Units up to a maximum of 1,478,452 during the period from September 22, 2009 to September 21, 2010. In the fourth quarter of 2009, the Fund purchased 108,100 Units for cancellation at an average price of \$1.2288 per Unit, for a total amount of \$133. As a result of the cancelled Units, \$975 was charged to equity and \$842 was recorded in contributed surplus during the fourth quarter of 2009.

The Fund did not purchase any of its Units in 2010.

The year to date weighted average number of Units outstanding was 15,225,726 (December 27, 2009 - 15,264,788).

## Prizm Income Fund

Notes to Consolidated Financial Statements  
December 26, 2010 and December 27, 2009

(in thousands of dollars, except per Unit amounts)

### 16 EQUITY - CONTINUED

Units outstanding and capital contributions at the end of 2010 and 2009 are as follows:

	Years ended December 26, 2010 and December 27, 2009	
	Number of Units	Amount \$
Fund Units		
Issued under IPO	15,000,000	150,000
Issued upon the exercise of the over-allotment option	550,000	5,500
Issued upon the management retention bonus plan	346,326	1,257
Issuance costs	-	(13,210)
Purchased upon normal course issuer bids	(670,600)	(6,105)
	15,225,726	137,442

#### Fund Units

The Fund Trust Indenture provides that an unlimited number of Fund Units may be issued. Each Fund Unit represents an undivided beneficial interest in the distributions from the Fund and the net assets remaining after satisfaction of all liabilities in the event of termination of the Fund. All Fund Units have equal voting rights and privileges. Fund Units are redeemable at any time on demand at the option of the holders at a price per Fund Unit (the "Redemption Price") equal to the lesser of: (i) 90% of the weighted average price per Fund Unit during the period of the last ten days during which the Fund Units traded; and (ii) an amount equal to the price of the Fund Units on the date of redemption, as defined in the Fund Trust Indenture. The aggregate Redemption Price payable by the Fund in respect of any Fund 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 the entitlement of the Unitholders to receive cash on 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 the Trustees may, at 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, at 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 on the date the Units are tendered for redemption or for more than five trading days during the ten-day trading period prior to the date on which the Units are tendered for redemption.

## Priszm Income Fund

Notes to Consolidated Financial Statements  
December 26, 2010 and December 27, 2009

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(in thousands of dollars, except per Unit amounts)

### 16 EQUITY - CONTINUED

#### Special Fund Units

The Declaration of Trust and the Exchange Agreement provide for the issuance of voting non-participating Units (the "Special Fund Units") to the holders of Exchangeable Units and Subordinated Units of Priszm LP, used solely for providing voting rights proportionate to the votes of Fund Units issuable on exchange of the Exchangeable Units and Subordinated Units on a one-for-one basis. The Special Fund Units are non-transferable other than to the Fund or to affiliates or associates of the original investors. If the Exchangeable Units and Subordinated Units are purchased in accordance with the Exchange Agreement, a like number of Special Fund Units will be redeemed by the Fund for a nominal price. The Fund issued 10,820,000 Special Fund Units relating to the 5,656,000 Exchangeable Units and 5,164,000 Subordinated Units issued at the time of the IPO, of which 550,000 Exchangeable Units were subsequently redeemed for fund Units upon the exercise of the underwriters' over-allotment option.

#### Exchangeable Units

The Exchangeable Units issued by Priszm LP to PBI LP have economic and voting rights equivalent, in all material respects, to the Fund Units. As a result, they have been treated for accounting purposes as Fund Unit equivalents. They are exchangeable, directly or indirectly, on a one-for-one basis for Fund Units at the option of the holder, under the terms of an Exchange Agreement.

Each Exchangeable Unit entitles the holder to receive distributions from Priszm LP, pro rata with distributions made by the Fund on a Fund Unit.

#### Subordinated Units

The Subordinated Units have economic and voting rights equivalent, in all material respects, to the Fund Units, except in connection with the subordination terms as described below.

Distributions of up to an equivalent amount of distributions made monthly to the Fund Units and Exchangeable Units will be made quarterly to the Subordinated Units subject to available cash. However, until the release from subordination, Subordinated Unit distributions will be subordinated to those of the Fund Units and Exchangeable Units and made only if the monthly distributions of \$0.10 per Unit have been made to the Fund and Exchangeable Unitholders. To the extent the Subordinated Unitholders have not received their quarterly distributions for the preceding four fiscal quarters, any excess of the distributable cash at the end of any given quarter will be paid to the Subordinated Unitholders, up to \$0.30 per quarter. Any excess distributable cash, determined quarterly, after payment of the monthly \$0.10 distribution to the Fund and Exchangeable Unitholders and the \$0.30 quarterly distribution to the Subordinated Unitholders, will be shared pro rata among the Fund Units, Exchangeable Units and Subordinated Units. Each Subordinated Unit will automatically convert into one Exchangeable Unit on the earlier of: (i) December 31, 2008 (given year-end was changed from a calendar to a fiscal year-end containing 13 four-week accounting periods, fiscal 2008 ended on



## Priszm Income Fund

Notes to Consolidated Financial Statements  
December 26, 2010 and December 27, 2009

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(in thousands of dollars, except per Unit amounts)

### 16 EQUITY - CONTINUED

December 28, 2008 instead of December 31, 2008) provided the EBITDA of the Fund are equal to or greater than \$39,191, and the average monthly cash distributions per Fund Unit have been equal to or greater than \$0.10 per Fund Unit throughout the period from formation of the Fund to December 31, 2008; and (ii) the end of any fiscal year following December 31, 2008 that the above EBITDA and distribution targets are achieved. As of December 26, 2010, both EBITDA and distribution targets were not achieved.

Notwithstanding the above conditions, 50% of the Subordinated Units will automatically convert into Exchangeable Units, if, for the fiscal year ended December 31, 2006, the Fund has earned EBITDA equal to or greater than \$43,110 and has paid out average monthly cash distributions equal to or greater than \$0.11 per Fund Unit. As a result of the performance of the Fund in fiscal 2006, 50% of the Subordinated Units qualified for conversion into Exchangeable Units. On March 8, 2007, upon approval by the Board of Trustees of the 2006 year-end consolidated financial statements of the Fund and in accordance with the terms of the Priszm Limited Partnership Agreement, 50% of the Subordinated Units (2,582,000 Units) automatically converted into Exchangeable Units.

#### Unit option plan

On December 22, 2005, the Board of Trustees amended the Unit option plan for the President and Chief Operating Officer (who subsequently became the Chief Executive Officer) of the Fund. Under this plan, the Fund has granted options to purchase 75,000 Units on May 31, 2005 at an exercise price of \$13.50, 75,000 Units on January 31, 2006 at an exercise price of \$9.28, 75,000 Units on January 31, 2007 at an exercise price of \$11.50, 75,000 Units on January 31, 2008 at an exercise price of \$6.30 and a further 75,000 Units on January 31, 2009 at an exercise price equal to the closing trading price on the trading day immediately prior to the date of grant. The Fund expenses, over the vesting period, the fair value of Unit options when granted to employees.

On December 19, 2007, the Board granted to the President and Chief Operating Officer (who subsequently became the Chief Executive Officer) of the Fund options to purchase 100,000 Units on December 31, 2008, 50,000 Units on December 31, 2009 and 50,000 Units on December 31, 2010 at an exercise price of \$5.65, subject to Unitholder approval. The Fund expenses, over the vesting period, the fair value of Unit options when granted to employees.

On October 31, 2008, the former Chief Executive Officer resigned. The 2009 option grant (75,000 Units to be granted on January 31, 2009) and the 2007 option grant to be vested in 2009 and 2010 were terminated on the same day.

All Unit options granted expired on February 28, 2009, at which time none had been exercised.

## Prizm Income Fund

Notes to Consolidated Financial Statements  
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(in thousands of dollars, except per Unit amounts)

### 16 EQUITY - CONTINUED

The fair values of the option grants were estimated on the date of the original grant using the Binomial option pricing model with the following assumptions:

	2005 grant	2007 grant	2008 grant
Fair value of the options granted per Unit	\$0.84	\$0.46	\$0.52
Risk-free interest rate*	3.27%	3.83%	3.34%
Distribution yield	9.30%	12.37%	11.95%
Option term	7 years	3 years	4 years
Volatility	16.50%	23.37%	23.63%

\* The risk-free interest rates were obtained by interpolating between the three and five-year benchmark Government of Canada bond yields on each grant date.

The Fund did not have any Unit option activity in 2010, and the following table summarizes information about Unit option activities in 2009:

	Year ended December 27, 2009		
	Units	Average exercise price/Unit \$	Fair value/Unit \$
Beginning of fiscal year	400,000	9.0	0.69
Granted	-	-	-
Exercised	-	-	-
Expired	<u>(400,000)</u>	9.0	-
End of fiscal year	<u>-</u>	-	-

## Priszm Income Fund

Notes to Consolidated Financial Statements  
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(in thousands of dollars, except per Unit amounts)

### 17 RELATED PARTY ACCOUNTS AND TRANSACTIONS

The Fund entered into the following transactions during the year. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The terms of trade with related parties are similar to those with other third parties.

- a) Obelysk Inc. ("Obelysk") is controlled by the Executive Chairman of the Fund. The Fund pays Obelysk rents for certain leased properties, including office space.

	<u>Amount of transactions</u>	
	Year ended December 26, 2010	Year ended December 27, 2009
	\$	\$
Rent paid to Obelysk for leased properties	242	444
Rent paid to Obelysk for leased office space	657	651
Reimbursement of costs incurred by the Fund	118	27
Purchases of services and reimbursements of costs incurred by Obelysk	69	274
	<u>Balance owing</u>	
	\$	\$
Balance owing from Obelysk	12	57
Balance owing to Obelysk	-	25

## Prizm Income Fund

Notes to Consolidated Financial Statements  
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(in thousands of dollars, except per Unit amounts)

### 17 RELATED PARTY ACCOUNTS AND TRANSACTIONS - CONTINUED

- b) Scott's Real Estate Investment Trust ("Scott's REIT") is 24.4% owned by Obelysk (see Note 1). The Fund pays Scott's REIT rents for 188 leased properties (2009 – 187).

	Amount of transactions	
	Year ended December 26, 2010	Year ended December 27, 2009
	\$	\$
Rent paid to Scott's REIT	11,179	11,193
Tenant inducement received from Scott's REIT	185	-
Reimbursement of costs incurred by the Fund	-	16
Purchases of services and reimbursements of costs incurred by Scott's REIT	28	15
	<b>Balance owing</b>	
	\$	\$
Balance owing to Scott's REIT	24	-

- c) Canadian Satellite Radio Holding Inc.'s ("CSR") Executive Chairman and controlling shareholder is the Executive Chairman of the Fund. The Fund provided certain general and administrative services to CSR. In addition, the Fund subscribed to satellite radio services, advertised on programs and reimbursed costs incurred by CSR on behalf of the Fund.

	Amount of transactions	
	Year ended December 26, 2010	Year ended December 27, 2009
	\$	\$
Reimbursement of costs incurred by the Fund	3	22
Purchases of services and reimbursements of costs incurred by CSR	8	22
	<b>Balance owing</b>	
	\$	\$
Balance owing to CSR	1	-

## Prizm Income Fund

Notes to Consolidated Financial Statements  
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(in thousands of dollars, except per Unit amounts)

### 17 RELATED PARTY ACCOUNTS AND TRANSACTIONS - CONTINUED

- d) Data & Audio Visual Enterprises Wireless Inc.'s ("DAVE Wireless") Executive Chairman and controlling shareholder is the Executive Chairman of the Fund. The Fund sublet part of its office space and provided certain general and administrative services to DAVE Wireless.

	Amount of transactions	
	Year ended December 26, 2010	Year ended December 27, 2009
	\$	\$
Rent revenue from DAVE Wireless	370	160
Fees received by the Fund for general and administrative services	55	19
	<b>Balance owing</b>	
	\$	\$
Balance owing from DAVE Wireless	49	4

- e) JBM Properties Inc.'s ("JBM") controlling shareholder is the Executive Chairman of the Fund. JBM developed the property where the Fund opened its new restaurant during the year. The Fund reimbursed to JBM for a third-party sub-contractor services incurred for the restaurant. The Fund also paid rents to JBM during 2010.

	Amount of transactions	
	Year ended December 26, 2010	Year ended December 27, 2009
	\$	\$
Rent paid to JBM	16	-
Reimbursement of costs incurred by JBM for the Fund	483	134
	<b>Balance owing</b>	
	\$	\$
Balance owing from JBM	9	-

## Prizm Income Fund

Notes to Consolidated Financial Statements  
December 26, 2010 and December 27, 2009

(in thousands of dollars, except per Unit amounts)

### 18 COSTS AND EXPENSES

Cost of restaurant sales and restaurant operating expenses consisted of the following:

	Year ended December 26, 2010	Year ended December 27, 2009
	\$	\$
Cost of restaurant sales		
Food and supplies	149,461	156,818
Amortization of supply contract prepayments	(405)	(712)
Labour	103,485	107,230
	<u>252,541</u>	<u>263,336</u>
Restaurant operating expenses		
Utilities and maintenance	27,777	27,446
Advertising	21,258	22,794
Other	19,934	20,592
	<u>68,969</u>	<u>70,832</u>

### 19 CONTINGENT LIABILITIES

The Fund is subject to various claims and disputes from time to time. The Fund does not expect to incur any material losses with respect to such matters.

### 20 COMMITMENTS

The Fund is committed to the following amounts under non-cancellable operating leases for all of its own operated restaurants and corporate facilities. Total annual minimum lease payments in the table below exclude the Fund's share of common costs, such as real estate taxes and utilities, which cannot be determined in advance.

	\$
2011	27,862
2012	24,365
2013	21,681
2014	19,410
2015	17,600
Thereafter	45,120
	<u>156,038</u>

## Prizm Income Fund

Notes to Consolidated Financial Statements  
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### 20 COMMITMENTS - CONTINUED

Included in the amounts above are the following commitments to related parties:

	Scott's REIT \$	Obelysk \$
2011	11,041	695
2012	11,087	708
2013	11,280	637
2014	11,554	172
2015	11,562	172
Thereafter	28,974	326
	<u>85,498</u>	<u>2,710</u>

The Fund did not have significant commitments to purchase broadcast advertising media and information technology goods and services at current year-end (December 27, 2009 - \$1,903). The Fund has car lease commitments of \$215 (December 27, 2009 - \$419) in the next two years. The Fund has entered into construction agreements for renovating stores with commitments to spend \$632 (December 27, 2009 - \$189) in the next fiscal year. The Fund also has commitments relating to the future delivery of natural gas, which is for its own use, totalling \$1,329 (December 27, 2009 - \$3,863), with \$740 payable in 2011 and \$589 payable in 2012.

Under the terms of the master franchise agreement signed in 2009, renewal fees to extend the franchise rights for ten years are scheduled and payable on approximately 85 locations per year commencing 2009. The per location renewal fee for the first brand is 50% of the franchisor's then current initial fee, with additional brands at half of the first brand renewal fee rate. This blended fee is estimated based on an average of current initial fees at US\$24 per location for 2009 brand renewals.

While the Fund is able to extend its rights for an additional ten years upon payment of a renewal fee, the franchisor requires facility upgrade investments on restaurant facilities that do not meet the franchisor's current standards. These facility investment amounts will vary depending on the scope of work required for individual assets to meet the franchisor design, and they will be subject to approval by the franchisee's Trustees and the Board of Directors. The Fund renewed franchise rights on 69 locations in 2009. The future renewals are dependent on the Fund meeting its investment obligations as negotiated with the franchisor. Locations and agreements that are not renewed may be required to close. The Fund may also elect to close restaurants upon franchise term expiry if management assesses that they have minimal or negative cash flow.

Franchise renewal fees	\$
2011	1,898
2012	2,172
2013	2,332
2015	46
	<u>6,448</u>

**Priszm Income Fund**

Notes to Consolidated Financial Statements  
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(in thousands of dollars, except per Unit amounts)

**20 COMMITMENTS - CONTINUED**

As described in note 1, the Fund has opted not to pay its franchise renewal fees in full, that were due on August 10, 2010, and has put majority of the required capital upgrades on hold. For the 9 restaurants for which the Fund completed upgrades in 2010, the Fund paid franchise renewal fees of \$200 on them in November, 2010. The Fund also paid an additional \$900 for further franchise renewals while it continued to negotiate with the franchisor.

Also, the Fund's commitment to franchise renewals and upgrade investments will be significantly reduced should the sale of the Fund's 231 restaurants be finalized in 2011.



## Prizm Income Fund

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(in thousands of dollars, except per Unit amounts)

### 21 LOSS PER UNIT

The computation for basic and diluted loss per Unit is as follows:

	Year ended December 26, 2010 \$	Year ended December 27, 2009 \$
Loss from continuing operations available to Unitholders	(47,765)	(76)
Dilutive effect of non-controlling interest	(15,706)	(574)
Diluted loss from continuing operations available to Unitholders	<u>(63,471)</u>	<u>(650)</u>
Loss from discontinued operations available to Unitholders	(386)	(641)
Dilutive effect of non-controlling interest	(262)	(443)
Diluted loss from discontinued operations available to Unitholders	<u>(648)</u>	<u>(1,084)</u>
Basic weighted average number of Units (in thousands)	15,226	15,265
Dilutive effect of non-controlling interest	10,270	10,270
Diluted weighted average number of Units	<u>25,496</u>	<u>25,535</u>
Basic and diluted loss per Unit		
Continuing operations	(2.489)	(0.025)
Discontinued operations	(0.025)	(0.042)
	<u>(2.514)</u>	<u>(0.067)</u>

Convertible debentures and Unit based compensation could potentially dilute basic loss per Unit in the future but were not included in the computation of diluted loss per Unit because to do so would have been anti-dilutive for the years presented.

### 22 BENEFIT PLANS

The Fund sponsors a group registered retirement savings plan and a registered pension plan, which is a defined contribution plan for selected members. Under these plans, contributions are made by plan members with varying matching contributions by the Fund. The total expense related to these plans was \$220 (December 27, 2009 - \$249).

## Prizm Income Fund

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### 23 DISTRIBUTIONS TO UNITHOLDERS

The Fund suspended distribution to its unitholders effective November 19, 2009. As a result, no distribution was made in 2010. During the year from December 29, 2008 to December 27, 2009, \$5,189 and \$2,613 of distributions were declared to the Fund's Trust unitholders and Exchangeable unitholders respectively.

No distribution was declared to Subordinated Units during the years from December 28, 2009 to December 26, 2010, and from December 29, 2008 to December 27, 2009.

### 24 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash and cash equivalents consist of the following:

	December 26, 2010 \$	December 27, 2009 \$
Cash	4,207	5,970
GIC/term deposits	9,700	19,700
	<u>13,907</u>	<u>25,670</u>

Net change in non-cash working capital is comprised of the following:

	Year ended December 26, 2010 \$	Year ended December 27, 2009 \$
Trade accounts receivable	485	940
Inventories	196	951
Prepaid expenses and other assets	(723)	(65)
Accounts payable and accrued liabilities	(1,751)	1,818
	<u>(1,793)</u>	<u>3,644</u>
Interest paid	7,341	7,950
Interest received	31	12

### 25 SEGMENTED INFORMATION

For financial reporting purposes, the Fund considers itself to be in one business segment as its various restaurant operations have similar economic and business characteristics. All restaurant operations are located in Canada.

### 26 MANAGEMENT OF CAPITAL

The Fund views its capital as the combination of its long-term loan, convertible debentures, Unitholders' equity and non-controlling interest. The Fund's objectives when managing capital are to safeguard the Fund's ability to continue as a going concern.

## Prizm Income Fund

Notes to Consolidated Financial Statements  
December 26, 2010 and December 27, 2009

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(in thousands of dollars, except per Unit amounts)

### 26 MANAGEMENT OF CAPITAL - CONTINUED

In general, the overall capital of the Fund is evaluated and determined in the context of its financial objectives and its strategic plan.

The Fund determines the appropriate level of long-term loan and convertible debentures in the context of its cash flow and overall business risks. The funds from long-term loans and convertible debentures were mainly used to finance previous growth initiatives such as acquisition and development projects. In the light of the changes in economic conditions and credit markets, the Fund reviews and updates its short-term and long-term strategic plans periodically to manage the capital structure and make adjustments to it.

Although there are no statutory capital requirements, the Fund is subject to certain covenants and restrictions under the loan agreements, including the requirements to maintain minimum amounts of earnings before interest expenses, tax expenses, and amortization expenses, which it was not in compliance with as at the consolidated balance sheet date. The related details were fully described in note 1 and note 13.

As part of the Fund's objective to preserve its cash position and strengthen its consolidated balance sheets in advance of its long-term debt renewal in 2011 and to fuel future growth, the Trustees approved a change to the Fund's monthly distribution. Effective July 2009, the distribution was adjusted to \$0.01 per Unit on a monthly basis. The distribution was completely suspended effective November 19, 2009.

The Fund will also review its capital in the context of the change in taxation impacting the Fund commencing 2011 and possible sale of its restaurants.

### 27 FINANCIAL RISK MANAGEMENT

The Fund is exposed to liquidity risk, interest rate risk and credit risk. The Fund's Trustees have overall responsibility for the establishment and oversight of the Fund's risk management framework and to review the Fund's policies on an ongoing basis.

#### Liquidity risk

Liquidity risk is the risk the Fund will not be able to meet its financial obligations as they come due. The liquidity risk the Fund is currently facing is fully disclosed in note 1.

#### Interest rate risk

The Fund's interest rate risk is low due to the fixed rate nature of the long-term loan, operating line that was entered into subsequent to year-end and convertible debentures.

## Priszm Income Fund

Notes to Consolidated Financial Statements  
December 26, 2010 and December 27, 2009

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(in thousands of dollars, except per Unit amounts)

### 27 FINANCIAL RISK MANAGEMENT - CONTINUED

#### Credit risk

The Fund's financial instruments exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash and cash equivalents are maintained at major Canadian financial institutions that have high credit ratings assigned by international credit rating agencies and therefore the exposure to credit risk is minimal. Credit risk from accounts receivable is minimized as a result of the review and evaluation of customer account balances beyond a particular age and credit limit. The Fund accounts for a specific bad debt provision when management considers the expected recovery is less than the actual accounts receivable. The credit risk of accounts receivable is limited because the majority of the Fund's revenue is cash or debit/credit card transactions.

#### Fair value of financial instruments

The carrying amounts of cash and cash equivalents, trade and other accounts receivable and accounts payable and accrued liabilities approximate their fair value because of the near-term maturity of these instruments. The fair values of the long-term loan and convertible debentures are disclosed in notes 13 and 14, respectively.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical financial assets or financial liabilities that the Fund has the ability to access. The Fund's cash and cash equivalents are valued based on their quoted market price.

Fair values determined by Level 2 inputs use inputs other than quoted prices included in Level 1 that are observable for the financial asset or financial liability, either directly or indirectly. Level 2 inputs include quoted prices for similar financial assets and financial liabilities in active markets, and inputs other than quoted prices that are observable for the financial assets or financial liabilities. The Fund had no financial instruments valued under Level 2 inputs on the 2010 or 2009 consolidated balance sheets.

Level 3 inputs are unobservable inputs for the financial asset or financial liability and include situations where there is little, if any, market activity for the financial asset or financial liability. The Fund's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial asset or financial liability. The Fund had no financial instruments valued under Level 3 inputs on the 2010 or 2009 consolidated balance sheets.

## Prizm Income Fund

Notes to Consolidated Financial Statements  
December 26, 2010 and December 27, 2009

(in thousands of dollars, except per Unit amounts)

### 28 DISCONTINUED OPERATIONS

The Fund's discontinued operations consist of 21 stores that were sold in 2008 and 2009.

The operating results and cash flow information for the discontinued operations are as follows:

	Year ended December 26, 2010 \$	Year ended December 27, 2009 \$
Revenues	-	274
Loss from discontinued operations before non-controlling interest	(648)	(1,084)
Non-controlling interest	262	443
Loss from discontinued operations	(386)	(641)

During 2010, the Fund incurred \$648 of expenses related to the aforementioned discontinued stores. Expenses related to variable costs, such as utilities and property taxes.

The following table provides additional information with respect to amounts included in the consolidated statements of cash flows related to discontinued operations:

	December 26, 2010 \$	December 27, 2009 \$
Loss from discontinued operations	(386)	(641)
Items not affecting cash		
Non-controlling interest	(262)	(443)
Gain on sale of restaurants	-	(30)
Impairment charges of goodwill and intangible assets	-	136
	(262)	(337)
Cash used in discontinued operations	(648)	(978)

**Prizm Income Fund**

Notes to Consolidated Financial Statements  
**December 26, 2010 and December 27, 2009**

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(in thousands of dollars, except per Unit amounts)

**28 DISCONTINUED OPERATIONS - CONTINUED**

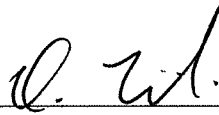
Components of changes in non-cash working capital balances of discontinued operations:

	December 26, 2010	December 27, 2009
	\$	\$
Inventories	-	12
Prepaid and other assets	-	16
Accounts payable and accrued liabilities	(2)	(90)
	<u>(2)</u>	<u>(62)</u>

**29 SUBSEQUENT EVENTS**

Subsequent events related to the Fund's ongoing negotiation with the senior facility lender and the franchisor are fully described in note 1 and note 13.

This is Exhibit "J"  
to the affidavit of Deborah Papernick,  
sworn before me on the 31<sup>st</sup> day  
of March, 2011



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Commissioner for Taking Affidavits

## NOTEHOLDER FORBEARANCE AGREEMENT

**NOTEHOLDER FORBEARANCE AGREEMENT** (this “**Agreement**”), dated as of January 19, 2011, among (i) **KIT FINANCE INC.** (the “**Company**”), an Alberta corporation, and **PRISZM INC.**, a Canadian corporation formerly known as **KIT Inc.** (together with its successors and assigns, “**Priszm Inc.**”, and together with the Company, the “**Obligors**”), and (ii) each of the undersigned holders of the Notes (as constituted from time to time, the “**Noteholders**”).

### RECITALS:

A. The Company issued and sold (a) C\$73,596,400 in aggregate principal amount of its 6.795% Series A Senior Secured Guaranteed Notes due January 13, 2011 (as in effect and as may be amended, restated, replaced or otherwise modified from time to time, the “**Series A Notes**”) and (b) C\$2,036,700 of its Shelf Notes (as in effect and as may be amended, restated, replaced or otherwise modified from time to time, the “**Shelf Notes**”, and together with the Series A Notes, collectively, the “**Notes**”) pursuant to a Note Purchase and Private Shelf Agreement, dated as of January 12, 2006, entered into by and among the Obligors, Prudential Investment Management, Inc. (“**Prudential**”) and each of the Purchasers listed in Annex A attached thereto), as amended by (i) Amendment No. 1 to Note Purchase and Private Shelf Agreement dated as of January 31, 2006, (ii) Amendment No. 2 to Note Purchase and Private Shelf Agreement, dated as of July 11, 2006, (iii) Amendment No. 3 to Note Purchase and Private Shelf Agreement dated as of June 21, 2007, (iv) Amendment No. 4 to Note Purchase and Private Shelf Agreement dated as of February 29, 2008, (v) Amendment No. 5 to Note Purchase and Private Shelf Agreement dated as of September 7, 2008, (vi) Amendment No. 6 to 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) Waiver and Amendment No. 8 to Note Purchase and Private Shelf Agreement dated as of March 12, 2010 (as so amended and as further amended from time to time, the “**Note Agreement**”). The register for the registration and transfer of the Notes indicates that the Persons named on the signature pages hereto are currently the holders of the entire outstanding principal amount of the Notes.

B. The Obligors have informed the Noteholders that they are in default of certain of their obligations under the Note Agreement and the Notes, and that as a result, certain Defaults and Events of Default have occurred and continue to exist under and in respect of the Note Agreement and the Notes.

C. The Obligors (and/or certain of their Subsidiaries or partnerships of which one or more of them are the general partner) and the Franchisor (as defined in the Note Agreement) are parties to one or more Franchise Agreements (as defined in the Note Agreement). The Obligors have informed the Noteholders that they (and/or certain of their Subsidiaries or partnerships of which one or more of them are the general partner) are in default of certain of their obligations under the Franchise Agreements (the “**Franchise Agreement Defaults**”) as set forth in the letters from the Franchisor dated December 10, 2010 and January 7, 2011 (the “**Franchise Letters**”).



D. The Obligors have requested that the Noteholders temporarily suspend action and forebear from exercising remedies in respect of those Defaults and Events of Default, all as is more particularly set forth in this Agreement.

E. Subject to the terms and conditions hereinafter set forth, the Noteholders have agreed to the Obligors' request to temporarily suspend action and forebear from exercising remedies in respect of such specified Defaults and Events of Default.

**AGREEMENT:**

NOW THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

**SECTION 1. DEFINED TERMS.**

1.1 **Defined Terms.** As used herein, the following terms shall have the meanings set forth below or in the document or the Section of this Agreement referenced below. The terms used herein and not defined herein shall have the respective meanings ascribed to such terms in the Note Agreement.

*"Agreement"* -- Introduction.

*"Canadian Special Counsel"* -- Gowling Lafleur Henderson LLP, or such other law firm as the Required Holders may designate from time to time.

*"Claims"* -- Section 7.8.

*"Company"* -- Introduction.

*"Disposition"* -- means with respect to any Person, any transaction in which such Person sells, conveys, transfers or leases (as lessor) any of its property, including, without limitation, Capital Stock (including by way of a merger or consolidation of a Subsidiary of such Person with a third party or otherwise).

*"Effective Date"* -- Section 5.

*"Forbearance Period"* -- the period from January 19, 2011 until the Forbearance Termination Date.

*"Forbearance Termination Date"* -- means the date of the earlier to occur of (i) 5:00 p.m. (New York time) on January 31, 2011 and (ii) the first occurrence of any Forbearance Termination Event.

*"Forbearance Termination Event"* -- means any of the following:

(a) the failure by either Obligor to comply with any of the terms and provisions set forth in this Agreement;

- (b) the failure of any representation or warranty in Section 3 to be true and correct;
- (c) the occurrence of any Default or Event of Default other than a Specified Default;
- (d) any termination of, or remedies or enforcement action taken in respect of, any Franchise Agreement; or
- (e) the termination by either Obligor of the Fee Agreement dated as of December 13, 2010 between the Obligors and Bingham McCutchen LLP.

*“Franchise Agreement Defaults”* – Recitals.

*“Franchisor Letters”* – Recitals.

*“Indebtedness”* with respect to any Person means, at any time, without duplication:

- (a) its liabilities for borrowed money and its redemption obligations in respect of mandatorily redeemable Preferred Stock;
- (b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business, but including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);
- (c) all liabilities appearing on its balance sheet in accordance with GAAP in respect of Capital Leases and all liabilities which would appear on its balance sheet in accordance with GAAP in respect of synthetic leases assuming such synthetic leases were accounted for as Capital Leases;
- (d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);
- (e) all liabilities in respect of hedging obligations other than those entered into in the ordinary course of business and pursuant to the reasonable requirements of the Company’s business consistent with past practice;
- (f) all its liabilities in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions (whether or not representing obligations for borrowed money); and
- (g) any Guaranty Obligation of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

Indebtedness of any Person shall include all obligations of such Person of the character described in clauses (a) through (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

*“Note Agreement”* -- Recitals.

*“Noteholders”* -- Introduction.

*“Noteholders’ Financial Advisor”* -- means such financial advisor that the Noteholders shall designate from time to time.

*“Noteholders’ Professionals”* -- Section 4.2.

*“Notes”* -- Recitals.

*“Obligors”* -- Introduction.

*“Prizm, Inc.”* -- Introduction.

*“Prudential”* -- Recitals.

*“Released Parties”* -- Section 7.8.

*“Releasers”* -- Section 7.8.

*“Required Holders”* -- means, with respect to the Notes, the holders of at least 50.1% of the aggregate principal amount of the Notes.

*“Restricted Payment”* -- means:

(a) the making or declaration of, or the incurrence of any liability to make or declare, any dividends or other distributions on Capital Stock of either Obligor or any Subsidiary (other than distributions in such stock and dividends and distributions made by a Subsidiary to the extent, but solely to the extent, that such dividends or distributions are payable to a member of the Obligor Group);

(b) any optional or mandatory redemption, retirement, purchase or other acquisition, direct or indirect, of any Capital Stock of either Obligor or any Subsidiary by either Obligor or any Subsidiary thereof (other than, with respect to any Subsidiary, in respect of Capital Stock of such Subsidiary owned legally and beneficially by either Obligor), now or hereafter outstanding;

(c) any payment of any obligation that by, its terms (or pursuant to the terms of an agreement related thereto), is subordinated in any manner to the Notes; and

(d) any payment of any bonus, director fee, management fee, consulting fee or similar amount to any Affiliate, other than (i) salary and other similar compensatory arrangements in effect on the Effective Date and consistent with past practices and reasonable business judgment of the Obligors, (ii) payment of “stay” bonuses that are, in

the reasonable business judgment of the Obligors, required to retain certain employees and officers that are integral to the continued operation of the Obligors' principal business, in a maximum aggregate amount of (A) C\$200,000 for senior officers of the Company and (B) C\$150,000 for other non-executive officers and employees of the Company (in the case of (A) and (B), such amounts shall be measured from and after January 1, 2011), or (iii) the retainer paid to the Obligors' financial monitor, if any.

**"Retainer Letters"** -- collectively, (i) the retainer letter dated December 13, 2010, signed by Special Counsel and countersigned by the Obligors, (ii) the retainer letter dated on or around December 20, 2010, signed by Canadian special counsel to the Noteholders and countersigned by the Obligors, and (iii) the retainer letter dated December 20, 2010, signed by Special Counsel and the Noteholders' Financial Advisor and countersigned by the Obligors, and (iv) such other retainer letters as may hereinafter be signed by one of the Noteholders' Professionals and countersigned by the Obligors in respect of fees and expenses payable by the Obligors in accordance with the Note Agreement, the Notes and this Agreement.

**"Series A Notes"** -- Recitals.

**"Shelf Notes"** -- Recitals.

**"Special Counsel"** -- Bingham McCutchen LLP or such other law firm as the Required Holders may designate from time to time.

**"Specified Defaults"** -- Section 2.1.

**1.2 Rules of Construction.** All definitions contained in this Agreement are equally applicable to the singular and plural forms of the terms defined. The words "hereof," "herein," and "hereunder" and words of similar import referring to this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Unless otherwise specified, all Section references pertain to this Agreement. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles as in effect on the Effective Date. All references herein to "this Agreement" or to any other agreement or document shall, unless stated otherwise, be deemed to refer to this Agreement or such other agreement or document as the same may be amended from time to time. All references herein to sections or clauses of any other agreement or document shall, unless the context otherwise requires, be deemed to refer to such sections as they may be renumbered from time to time in connection with any amendment of the type referred to in the immediately preceding sentence of this Section. All references herein to any person shall be deemed to refer to such person and its lawful successors and assigns.

## **SECTION 2. TEMPORARY FORBEARANCE.**

**2.1 During Forbearance Period.** During the Forbearance Period (but not thereafter), each of the Noteholders hereby agrees to temporarily suspend action and forbear from accelerating the maturity of the Notes, taking action to foreclose on the Collateral or exercising remedies in respect of the Defaults and Events of Default specified on Schedule A hereto (the **"Specified Defaults"**). In addition to the foregoing, the Noteholders agree that the maturity date

of the Notes, and the due date for payment of all interest accrued but unpaid as of the date hereof with respect to the Notes, shall be the Forbearance Termination Date.

### **SECTION 3. WARRANTIES AND REPRESENTATIONS.**

To induce the Noteholders to enter into this Agreement, each of the Obligors hereby warrants and represents to the Noteholders, as of the date hereof and as of the Effective Date:

#### **3.1 Organization, Power and Authority, etc.**

Each Obligor is a corporation duly organized and existing in good standing under the laws of its jurisdiction of organization and has all requisite power and authority to enter into and perform its obligations under this Agreement.

#### **3.2 Legal Validity.**

(a) The execution and delivery of this Agreement by each of the Obligors and compliance by each of the Obligors with its obligations hereunder: (i) are within the powers of such Obligor; and (ii) are legal and do not conflict with, result in any breach of, constitute a default under, or result in the creation of any Lien upon any property of such Obligor under the provisions of: (1) any charter instrument or bylaw to which such Obligor is a party or by which such Obligor or any of its property may be bound; (2) any order, judgment, decree or ruling of any court, arbitrator or governmental authority applicable to such Obligor or its property; or (3) any agreement or instrument to which such Obligor is a party or by which such Obligor or any of its property may be bound or any statute or other rule or regulation of any governmental authority applicable to such Obligor or its property.

(b) This Agreement has been duly authorized by all necessary action on the part of the Obligors, has been executed and delivered by a duly authorized officer of each Obligor, and constitutes a legal, valid and binding obligation of the Obligors, enforceable in accordance with its terms, except that enforceability may be limited by applicable bankruptcy, reorganization, arrangement, insolvency, moratorium, or other similar laws affecting the enforceability of creditors' rights generally and subject to the availability of equitable remedies.

**3.3 No Conflicts or Defaults.** Neither the execution and delivery by the Obligors of this Agreement, nor the performance by each Obligor of its obligations hereunder, conflicts with, results in any breach in any of the provisions of, constitutes a default under, violates or results in the creation of any Lien upon any property of either Obligor under the provisions of:

(a) any charter document or bylaws of either Obligor;

(b) any material agreement, instrument or conveyance to which either Obligor may be bound or affected; or

(c) any statute, rule or regulation or any order, judgment or award of any court, tribunal or arbitrator by which either Obligor, or any properties of either Obligor, may be bound or affected.

**3.4 Governmental Consent.** Neither the execution and delivery by the Obligors of this Agreement, nor the performance by each of the Obligors of its obligations hereunder, is such as to require a consent, approval or authorization of, or filing, registration or qualification with, any governmental authority on the part of either Obligor as a condition thereto under the circumstances and conditions contemplated by this Agreement.

**3.5 No Defaults or Events of Default.** After giving effect to the transactions contemplated by this Agreement, no Default or Event of Default (other than the Specified Defaults) will exist under the Note Agreement, and there will be no default or event of default under, or any breach of, this Agreement or any Franchise Agreement (other than the events identified in the Franchisor Letters). Immediately prior to giving effect to the transactions contemplated by this Agreement, those Defaults or Events of Default identified as "Specified Defaults" constituted the only Defaults or Events of Default that existed at such time.

**3.6 True and Correct Copies.** The Obligors have delivered to the Noteholders or Special Counsel a true and correct copy of the Franchisor Letters as in effect on the Effective Date.

**3.7 No Undisclosed Consideration.** Except as expressly set forth herein, neither of the Obligors nor any of their Subsidiaries has paid or will pay, directly or indirectly, any fee, charge, increased interest or other consideration to any creditor or Franchisor of either of the Obligors or any of their Subsidiaries as a condition to, or otherwise in connection with, the execution or delivery of this Agreement or the Franchisor Letters or the performance of any Franchise Agreement.

**3.8 Existing Indebtedness and Liens.** Schedule 3.8 hereto sets forth a complete and correct list of all outstanding Indebtedness of the Obligors and their Subsidiaries as of January 19, 2011 (other than Indebtedness under the Transaction Documents and items of Indebtedness individually not greater than \$100,000 in principal amount which do not, in the aggregate, exceed \$1,000,000), including with respect thereto, identification of the obligor(s) and the payee or creditor with respect to such Indebtedness and whether such Indebtedness is secured, guaranteed or subordinated to any other Indebtedness of any Obligor or any of their Subsidiaries.

**3.9 Litigation.** There are no material actions, suits, proceedings, claims or disputes pending or, to the knowledge of the Obligors, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, by or against the Obligors or any of their Subsidiaries or against any of their properties or revenues that (a) purport to affect or pertain hereto, or to the Note Agreement, any Franchise Agreement, or any of the transactions contemplated hereby or thereby, or (b) either individually or in the aggregate, if determined adversely, could reasonably be expected to have a Material Adverse Effect.

#### SECTION 4. OBLIGORS' COVENANTS AND AGREEMENTS.

From and after the Effective Date, and irrespective of the occurrence of a Forbearance Termination Event, the Company shall comply with and be bound by the following covenants and agreements:

**4.1 Inspection.** The Obligors will, and each will cause each of its Subsidiaries, officers, employees, outside accountants, and financial and other advisors and consultants to, permit representatives of any Noteholder (including, without limitation, the Noteholders' Professionals) to examine, copy and make extracts from its books and records (excepting customer confidential information that is specifically identifiable with respect to individual customers and books and records subject to solicitor-client privilege), to inspect any of its properties, and to discuss its business and affairs with its officers, its outside accountants, and any financial or other advisor, consultant or monitor to or of the Obligors, all at such reasonable times and as often as such Noteholder or such Noteholders' Professional may reasonably request. This Section hereby constitutes permission and direction to such Persons to discuss and disclose such information in order to permit the Noteholders and the Noteholders' Professionals to fully investigate any matter that arises in the context of their work with the Obligors and their Subsidiaries.

**4.2 Fees and Expenses of Noteholders and Noteholders' Professionals.** Without limiting anything set forth in the Note Agreement, the Obligors shall pay, within three (3) Business Days of receipt of any invoice, all reasonable fees, expenses and disbursements of the Noteholders (including, but not limited to, travel and related expenses of the Noteholders and the Noteholders' Professionals). The Obligors shall make all payments required to be made by either of them pursuant to and in the manner set forth in, each of the Retainer Letters. The Obligors also agree to the hiring and the continued employment by the Noteholders of their Special Counsel and the Noteholders' Canadian Counsel, and by their Special Counsel of the Noteholders' Financial Advisor, as well as local counsel in one or more applicable states or countries who can render advice and services in connection with local specific law or specialized issues of law in connection with the matters to which this Agreement relates (all such Persons, together with Special Counsel, the Noteholders' Canadian Counsel and the Noteholders' Financial Advisor, the "Noteholders' Professionals"). The Noteholders' Professionals shall be selected by the Noteholders in their sole discretion. The Obligors may be asked to fund a retainer for the engagement of each of the Noteholders' Professionals (other than Special Counsel and Noteholders Canadian Counsel which shall be funded on or prior to the Effective Date), and if so asked in writing the Obligors shall promptly (and in any event, within two (2) Business Days) fund each such retainer in immediately available funds by wire transfer in such amount as shall be reasonable, taking into account the amount of the retainers paid to Special Counsel and Noteholders' Canadian Counsel. Except as otherwise agreed in writing, the Noteholders' Financial Advisor shall not have any duty to share its work product with, or accept instructions from, the Obligors or any other Person.

**4.3 Additional Supplemental Covenants of the Obligors.** From and after the Effective Date, and irrespective of the occurrence of a Forbearance Termination Event, the Obligors shall not, and shall not permit any Subsidiary, to:

- (a) make, directly or indirectly, any Restricted Payment;
- (b) make, directly or indirectly, any payment, prepayment or purchase in respect of any Indebtedness, whether principal, interest, fees, premium or otherwise, other than in respect of the Transaction Documents;
- (c) create, incur or assume any Indebtedness other than as set forth on Schedule 3.8 and Indebtedness outstanding under the Transaction Documents;
- (d) effectuate any Disposition, except (A) Dispositions of inventory in the ordinary course of business, and (B) Dispositions of equipment, fixtures, supplies and materials no longer required in the operation of the business of the Company and its Subsidiaries that are obsolete, worn out or unusable with an aggregate value for all such property not in excess of C\$250,000;
- (e) merge or consolidate with any other Person;
- (f) make or agree to make any loans or similar provisions of credit to, or purchase or otherwise acquire equity interests in or assets constituting a business unit or all or a substantial part of the business of, any Person; or
- (g) create, incur or assume any Lien (other than Permitted Liens) upon any of the property or assets of the Company or any Subsidiary, whether now owned or hereafter acquired.

**4.4 No Fees, etc.** Neither Obligor nor any of their Subsidiaries has paid or will pay any fees, charges, premium, rate enhancements, letter of credit fees or any similar amounts with respect to, or provide any new collateral or other credit enhancement for, any Franchise Agreement in connection with or as an inducement to enter into the Franchisor Forbearance Agreement.

**4.5 Reaffirmation.** Each of the Obligors, hereby (i) acknowledges and affirms all of its obligations under the terms of each Security Document and Transaction Document to which it is a party, and in the case of Prizm Inc, the KIT Inc. Guarantee, and agrees all such agreements shall continue to remain in full force and effect, and (ii) acknowledges and agrees that such Security Documents and Transaction Documents, and in the case of Prizm Inc., the Kit Inc. Guarantee, shall secure and guaranty the obligations under the Note Agreement and the Notes pursuant to the terms thereof.

**4.6 Negative Pledges.** The Obligors shall not grant or suffer to exist any "negative pledges" with respect to its material assets or properties other than negative pledges granted to the Noteholders, to the Franchisor in respect of Franchise Agreements, or otherwise in connection with leases entered into in the ordinary course of business, or otherwise in connection with the security documents being executed in favor of the "Collateral Agent" as provided in the Intercreditor Agreement.

**4.7 Meetings.** During the Forbearance Period, the Obligors and their senior management and advisors shall make themselves available for such periodic meetings as the



Noteholders may reasonably request, to take place at mutually convenient times, in person or by telephone with representatives of the Noteholders, the Noteholders' Professionals, and any financial or other advisor or consultant to the Obligors, to discuss the Obligors' business operations and such other matters as such representatives may reasonably request.

**4.8 Access to Obligor Advisors.** The Obligors shall ensure free communication from any financial or other advisor, consultant or monitor to the Obligors to and from the Noteholders and the Noteholders' Professionals, provided that this covenant shall not require the Obligor's outside counsel to provide attorney-client privileged information or information constituting attorney work product.

**4.9 Additional Financial and Other Information.** The Obligors shall prepare and deliver (a) by the second Business Day of each calendar week, an updated and current 13 week cash flow projection starting with such week and reflecting the actual cash position of the Obligors as of such time, prepared in consultation with the Company's financial advisor or financial monitor and accompanied by the agreement of such advisor or monitor that such projections are reasonable, (b) on or before January 31, 2011, a restructuring plan for the operations and assets of the Obligors' business and (c) upon request by the Noteholders or the Noteholders' Professionals, such other information and materials (in form and substance reasonably satisfactory to the Noteholders) as may be reasonably requested.

**4.10 Further Assurances.** The Obligors will cooperate with the Noteholders and execute such further instruments and documents as the Noteholders shall reasonably request to carry out to their satisfaction the transactions contemplated by this Agreement as well as the Note Agreement, the Notes and the Security Documents. To the extent reasonably requested by a Noteholder or a Noteholders' Professional, the Obligors and their financial advisor or financial monitor shall share information and analysis with, and otherwise cooperate with, the Noteholders' Professionals, and by their execution hereof the Obligors instruct and direct their financial advisor and/or financial monitor to so share and cooperate.

## SECTION 5. CONDITIONS PRECEDENT.

The temporary forbearances granted in Section 2.1 shall not become effective unless all of the following conditions precedent shall have been satisfied (which satisfaction shall be conclusively presumed once each of the Noteholders shall have executed and delivered this Agreement) on or before January 19, 2011 (the date of such satisfaction being herein referred to as the "**Effective Date**"):

**5.1 Execution and Delivery of this Agreement.** The Obligors shall have executed and delivered to each Noteholder a counterpart of this Agreement.

**5.2 Delivery of Franchisor Letters.** A true and correct copy of the Franchisor Letters shall have been provided to the Noteholders, shall be in full force and effect.

**5.3 No Default; Representations and Warranties True.** The warranties and representations set forth in Section 3 shall be true and correct on the Effective Date.

**5.4 Authorization of Transactions.** The Obligors shall have duly authorized the execution and delivery of this Agreement and each of the documents executed and delivered in connection herewith and the performance of all of their obligations contemplated by this Agreement.

**5.5 Retainer Letters.** The Obligors shall have executed the Retainer Letters for Special Counsel and Noteholders' Canadian Counsel, and shall have paid the retainers set forth therein.

**5.6 Proceedings Satisfactory.** All documents executed and delivered, and actions and proceedings taken, in connection with this Agreement shall be satisfactory to the Noteholders and Special Counsel. The Noteholders and Special Counsel shall have received copies of such documents and papers as they may reasonably request in connection therewith, in form and substance satisfactory to each of them.

## **SECTION 6. NO PREJUDICE OR WAIVER; REAFFIRMATION.**

**6.1 No Prejudice or Waiver.** Except as provided herein, the terms of this Agreement shall not operate as a waiver by the Noteholders of, or otherwise prejudice the Noteholders' rights, remedies or powers under, the Note Agreement, the Notes or applicable law. Except as expressly provided herein:

(a) no terms and provisions of any Transaction Document are modified or changed by this Agreement; and

(b) the terms and provisions of the Note Agreement shall continue in full force and effect.

### **6.2 Reaffirmation of Outstanding Obligations, Ratification, etc**

(a) Each of the Obligors hereby adopts again, ratifies and confirms in all respects, as its own act and deed, each of the Note Agreement and the Notes and any document or instrument delivered pursuant to or in connection therewith and acknowledges (i) that all such instruments and documents shall continue in full force and effect and (ii) that as of the Effective Date, it has no claim or cause of action against any Noteholder (or any of its respective directors, officers, employees or agents) or any offset right, counterclaim or defense of any kind against any of its obligations, indebtedness or liabilities to any Noteholder nor does it have any intention of bringing any such claim or cause of action against any Noteholder in respect of the foregoing.

(b) This Agreement shall not, under any condition or any jurisdiction whatsoever, be deemed to be or be construed as a novation of the respective rights and obligations of the parties hereto under the Note Agreement or the Notes.

## **SECTION 7. MISCELLANEOUS.**

**7.1 Successors and Assigns.** This Agreement shall be binding upon and enforceable by and against the parties hereto and their respective successors and assigns.

**7.2 Governing Law.** This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York.

**7.3 Duplicate Originals; Facsimile Signatures.** Two or more duplicate originals of this Agreement may be signed by the parties, each of which shall be an original but all of which together shall constitute one and the same instrument. This Agreement may be executed in one or more counterparts and shall be effective when at least one counterpart shall have been executed by each party hereto, and each set of counterparts which, collectively, show execution by each party hereto shall constitute one duplicate original. Facsimile signatures, or signatures reproduced or transmitted via electronic means such as email or email attachment, shall be deemed to constitute original signatures and shall be admissible into evidence for all purposes.

**7.4 Waivers and Amendments.** Neither this Agreement nor any term hereof may be changed, waived, discharged or terminated orally, or by any action or inaction, but only by an instrument in writing signed by the Required Holders and the Obligors.

**7.5 Section Headings.** The titles of the sections hereof appear as a matter of convenience only, do not constitute a part of this Agreement and shall not affect the construction hereof.

**7.6 Survival.** All warranties, representations, certifications and covenants made by or on behalf of the Obligors and/or the Subsidiaries herein or in any certificate or other instrument delivered pursuant hereto shall be considered to have been relied upon by the Noteholders and shall survive the execution of this Agreement, regardless of any investigation made by or on behalf of the Noteholders. All statements in any such certificate or other instrument shall constitute warranties and representations of the Obligors and/or the Subsidiaries as the case may be, hereunder.

**7.7 No Third Party Beneficiaries.** This Agreement shall be solely for the benefit of the parties hereto and their respective successors and assigns. No person not a party hereto, including, without limitation, any other creditor of the Obligors or the Subsidiaries, shall have any rights under, or as a result of the existence of, this Agreement.

**7.8 Waiver and Release.** For and in consideration of the agreements contained in this Agreement, and other good and valuable consideration, the receipt and sufficiency of all of which are hereby acknowledged, each Obligor and each Guarantor, on its own behalf, and to the extent that it is lawfully able to do so, on behalf of its predecessors, successors, assigns, subsidiaries, affiliates and agents and all of their respective past, present and future officers, directors, trustees, shareholders, employees, contractors and attorneys, and the predecessors, heirs, successors, and assigns of each of them (collectively referred to in this Section 7.8 as the "Releasers") do hereby jointly and severally fully RELEASE, REMISE, ACQUIT, IRREVOCABLY WAIVE and FOREVER DISCHARGE each of the Noteholders, together with their respective predecessors, successors, assigns, subsidiaries, affiliates and agents and all of their respective past, present and future officers, directors, trustees, shareholders, employees,

contractors and professionals (including, without limitation, the Noteholders' Professionals), and the predecessors, heirs, successors and assigns of each of them (the Noteholders and all of the foregoing being collectively referred to in this Section as the "Released Parties"), from and with respect to any and all Claims (as defined below).

As used in this Section 7.8, the term "**Claims**" shall mean and include any and all, and all manner of, action and actions, cause and causes of action, suits, disputes, controversies, claims, debts, sums of money, offset rights, defenses to payment, agreements, promises, notes, bonds, bills, covenants, losses, damages, judgments, executions and demands of whatever nature, known or unknown, whether in contract, in tort or otherwise, at law or in equity, for money damages or dues, recovery of property, or specific performance, or any other redress or recompense which have accrued, may have been had, or may be now possessed by or on behalf of any one or more of the Releasors against any one or more of the Released Parties for, upon, by reason of, on account of, or arising from or out of, or by virtue of, any transaction, event or occurrence, duty or obligation, indemnification, agreement, promise, warranty, covenant or representation, breach of fiduciary duty, breach of any duty of fair dealing, breach of confidence, breach of funding commitment, undue influence, duress, economic coercion, conflict of interest, negligence, bad faith, malpractice, violations of federal or state securities laws or the Racketeer Influenced and Corrupt Organizations Act, intentional or negligent infliction of mental distress, tortious interference with contractual relations, tortious interference with corporate governance or prospective business advantage, breach of contract, deceptive trade practices, libel, slander, usury, conspiracy, wrongful acceleration of any indebtedness, wrongful foreclosure or attempt to foreclose on any collateral relating to any indebtedness, action or inaction, relationship or activity, service rendered, matter, cause or thing, whatsoever, express or implied, transpiring, entered into, created or existing from the beginning of time to the date of the execution of this Agreement in respect of the Notes or the Note Agreement, and shall include, but not be limited to, any and all Claims in connection with, as a result of, by reason of, or in any way related to or arising from the existence of any relationships or communications by and between the Releasors and the Released Parties with respect to the Notes, the Note Agreement and all agreements, documents and instruments related thereto, as presently constituted and as the same may from time to time be amended. However, the term "**Claims**" does not include any obligations arising after the date of this Agreement of the Released Parties under the Notes, the Note Agreement, any other Transaction Document, this Agreement or any agreements, documents and instruments related thereto, as presently constituted and as the same may from time to time be amended, or Claims resulting from the gross negligence, wilful misconduct or bad faith of the Released Parties.

Each Obligor hereby represents and warrants to the Released Parties that:

(a) it has the full right, power, and authority to execute and deliver this Agreement containing this Section 7.8 without the necessity of obtaining the consent of any other party;

(b) it has received independent legal advice from attorneys of its choice with respect to the advisability of granting the release provided herein, and with respect to the advisability of executing this Agreement containing this Section 7.8;

(c) it has not relied upon any statements, representations or promises of any of the Released Parties in executing this Agreement containing this Section 7.8, or in granting the release provided herein;

(d) it has not entered into any other agreements or understandings relating to the Claims;

(e) the terms of this Section 7.8 are contractual, not a mere recital, and are the result of negotiation among all the parties; and

(f) this Section 7.8 has been carefully read by, and the contents hereof are known and understood by, and it is signed freely by, such Obligor.

The Company covenants and agrees not to bring any claim, action, suit or proceeding regarding or related in any manner to the matters released hereby, and each Obligor further covenants and agrees that this Section 7.8 is a bar to any such claim, action, suit or proceeding.

All prior discussions and negotiations regarding the Claims have been and are merged and integrated into, and are superseded by, this Section 7.8. Each Obligor acknowledges that no representation or warranty of any kind or character has been made to either Obligor by any one or more of the Released Parties or any agent, representative or attorney of the Released Parties to induce the execution of this Agreement containing this Section 7.8. Each Obligor understands, agrees and expressly assumes the risk of any fact not recited, contained or embodied in this Section 7.8 which may hereafter turn out to be other than, different from, or contrary to, the facts now known to either Obligor or believed by either Obligor to be true, and further agree that this Section 7.8 shall not be subject to termination, modification, or rescission, by reason of any such difference in facts.

**7.9 Acknowledgement.** Each Obligor acknowledges that (a) except as expressly set forth herein, none of the Noteholders has agreed to (and none has any obligation whatsoever to discuss, negotiate or agree to) any other restructuring, modification, amendment, waiver or forbearance with respect to the Notes or the Note Agreement; (b) no understanding with respect to any other restructuring, modification, amendment, waiver or forbearance with respect to the Notes or the Note Agreement shall constitute a legally binding agreement or contract, or have any force or effect whatsoever, unless and until reduced to writing and signed by authorized representatives of each party hereto; (c) the execution and delivery of this Agreement has not established any course of dealing between the parties hereto or created any obligation or agreement of any Noteholder with respect to any future restructuring, modification, amendment, waiver or forbearance with respect to the Note Agreement or the Notes; and (d) the Noteholders have heretofore properly performed and satisfied in a timely manner all of their respective obligations, if any, to either of the Obligors and each Subsidiary, if any, under any of the Note Agreement or the Notes.

**7.10 Indemnification.** Each of the Obligors agrees to indemnify each of the Noteholders and their affiliates, and their respective representatives, affiliates, directors, officers, trustees, employees, agents and professionals from, and hold each of them harmless against, any and all losses, liabilities, claims, damages or expenses incurred by any of them arising out of or

by reason of any investigation or litigation or other proceedings (including any threatened investigation, litigation or other proceedings) relating to, or in connection with, this Agreement, including, without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation, litigation or other proceedings (but excluding any such losses, liabilities, claims, damages or expenses incurred by reason of the bad faith, gross negligence or willful misconduct of the person to be indemnified). Without limiting the generality of the foregoing, each of the Obligors agrees to pay currently the expenses reasonably and necessarily incurred by the Noteholders relating to any such investigation, litigation or other proceedings (including, without limitation, the fees and expenses of legal counsel) in advance of the final disposition thereof, unless a court of competent jurisdiction finally determines that such Obligor is not obligated to provide such current payment in respect of such investigation, litigation or proceeding.

**7.11 Tolling of Statutes of Limitation.** The parties hereto agree that all applicable statutes of limitation in respect of the Note Agreement are tolled as of the Effective Date and shall continue to be tolled and shall not begin running until the Forbearance Termination Date.

**7.12 Notices.** All notices and communications to the Obligors and the Noteholders shall be sent to the addresses and in the manner specified in the Note Agreement. A copy of all notices and communications to any Noteholder shall simultaneously be delivered to:

Bingham McCutchen LLP  
 One State Street  
 Hartford, Connecticut 06103  
 Attention: Scott Falk  
 Phone: 860.240.2763  
 Fax: 860.240.2800  
 E-mail: scott.falk@bingham.com

**7.13 Directly or Indirectly.** Where any provision in this Agreement refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person, including actions taken by or on behalf of any partnership or limited liability company in which such Person is a general partner or managing member, as applicable.

**7.14 Entire Agreement.** This Agreement, the Note Agreement and the Notes, as amended to the date hereof, embody the entire agreement and understanding between the Noteholders and the Obligors and supersede all prior agreements and understandings relating to the subject matter hereof and thereof.

**7.15 Severability.** Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

*[Remainder of page intentionally left blank. Next page is signature page.]*

KIT FINANCE INC.

By: DP  
Name: Deborah Papernick  
Title: CFO

PRISZM INC.

By: DP  
Name: Deborah Papernick  
Title: CFO

PRISZM LP, by its general partner, PRISZM INC.


By: DP

The foregoing Agreement is hereby accepted as of the date first above written.

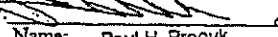
**PRUDENTIAL INVESTMENT  
MANAGEMENT, INC.**

By:   
Name: Paul H. Procyk  
Title: Vice President

**THE PRUDENTIAL INSURANCE COMPANY  
OF AMERICA**


By:   
Name: Paul H. Procyk  
Title: Vice President

**PRUCO LIFE INSURANCE COMPANY**

By:   
Name: Paul H. Procyk  
Title: Vice President

**PRUDENTIAL RETIREMENT INSURANCE  
AND ANNUITY COMPANY**

By: Prudential Investment Management, Inc., its investment  
manager

By:   
Name: Paul H. Procyk  
Title: Vice President



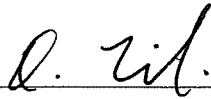
**SCHEDULE A****SPECIFIED DEFAULTS**

- 1) Failure to comply with 6H(9) Minimum EBITDA of the Existing Note Agreement, as amended on March 12, 2010, for the quarter ended September 5, 2010.
- 2) Failure to comply with 6H(9) Minimum EBITDA of the Existing Note Agreement, as amended on March 12, 2010, for the quarter ended December 26, 2010.
- 3) Failure to comply with 5V Refinancing Efforts as at June 30, 2010 (failure to deliver letter of intent or commitment letter from a bona fide lender setting forth such lender's commitment to the terms of a financing transaction providing for repayment in full of amounts owing to the holders of the Notes under the Notes and the Existing Note Agreement.)
- 4) Failure to comply with 5V Refinancing Efforts as at December 31, 2010 (failure to repay all amounts owing to the holders of the Notes under the Notes and the Existing Note Agreement on or before December 31, 2010)
- 5) Failure to pay interest owing on December 12, 2010 and December 13, 2010 related to the Notes.
- 6) Failure to pay interest owing on January 12, 2011 and January 13, 2011 related to the Notes.
- 7) Failure to itemize the Guarantee by Prizm Inc. of the obligations of Prizm LP under the Franchise Agreements in Paragraphs 6D and 6I of the Existing Note Agreement
- 8) Failure to itemize the Indebtedness listed on Schedule 3.8 hereof in connection with Paragraph 6D of the Existing Note Agreement

**SCHEDULE 3.8****Indebtedness**

Unsecured debt of Prizm LP owing to Prizm Income Fund in the principal amount of C\$30,000,000. Such debt is subordinated to the Senior Indebtedness of Prizm LP.

This is Exhibit "K"  
to the affidavit of Deborah Papernick,  
sworn before me on the 31<sup>st</sup> day  
of March, 2011



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Commissioner for Taking Affidavits

## NOTEHOLDER FORBEARANCE AGREEMENT

**NOTEHOLDER FORBEARANCE AGREEMENT** (this “**Agreement**”), dated as of February 1, 2011, among (i) **KIT FINANCE INC.** (the “**Company**”), an Alberta corporation, **PRISZM LP** (“**LP**”), a Manitoba limited partnership, and **PRISZM INC.**, a Canadian corporation formerly known as KIT Inc. (together with its successors and assigns, “**Priszm Inc.**”, and together with the Company and LP, the “**Obligors**”), and (ii) each of the undersigned holders of the Notes (as constituted from time to time, the “**Noteholders**”).

### RECITALS:

A. The Company issued and sold (a) C\$73,596,400 in aggregate principal amount of its 6.795% Series A Senior Secured Guaranteed Notes due January 13, 2011 (as in effect and as may be amended, restated, replaced or otherwise modified from time to time, the “**Series A Notes**”) and (b) C\$2,036,700 of its Shelf Notes (as in effect and as may be amended, restated, replaced or otherwise modified from time to time, the “**Shelf Notes**”, and together with the Series A Notes and the Series 2011 Notes (as defined below) collectively, the “**Notes**”) pursuant to a Note Purchase and Private Shelf Agreement, dated as of January 12, 2006, entered into by and among the Obligors, Prudential Investment Management, Inc. (“**Prudential**”) and each of the Purchasers listed in Annex A attached thereto), as amended by (i) Amendment No. 1 to Note Purchase and Private Shelf Agreement dated as of January 31, 2006, (ii) Amendment No. 2 to Note Purchase and Private Shelf Agreement, dated as of July 11, 2006, (iii) Amendment No. 3 to Note Purchase and Private Shelf Agreement dated as of June 21, 2007, (iv) Amendment No. 4 to Note Purchase and Private Shelf Agreement dated as of February 29, 2008, (v) Amendment No. 5 to Note Purchase and Private Shelf Agreement dated as of September 7, 2008, (vi) Amendment No. 6 to 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, (viii) Waiver and Amendment No. 8 to Note Purchase and Private Shelf Agreement dated as of March 12, 2010 and (ix) Amendment No. 9 to Note Purchase and Private Shelf Agreement (“**Amendment No. 9**”) dated as of January 19, 2011 (as so amended and as further amended from time to time, including pursuant to Amendment No. 10 (as defined below), the “**Note Agreement**”). The register for the registration and transfer of the Notes indicates that the Persons named on the signature pages hereto are currently the holders of the entire outstanding principal amount of the Notes.

B. The Obligors have informed the Noteholders that they are in default of certain of their obligations under the Note Agreement and the Notes, and that as a result, certain Defaults and Events of Default have occurred and continue to exist under and in respect of the Note Agreement and the Notes.

C. The Obligors and the Noteholders entered into a Noteholder Forbearance Agreement dated as of January 19, 2011 (the “**January Forbearance Agreement**”), providing for, among other things, a temporary forbearance by the Noteholders with respect to the “**Specified Defaults**” (as defined therein). The January Forbearance Agreement expired by its terms on January 31, 2011.

D. Pursuant to Amendment No. 9, the Obligors authorized US\$4,000,000 and subsequently issued an aggregate principal amount of US\$3,700,000 of their pari passu senior secured notes due January 31, 2011 (as amended from time to time, the “**Initial Series 2011 Notes**”), all of which are outstanding on the date hereof.

E. The Obligors and the Noteholders are entering into, substantially contemporaneously herewith, Amendment No. 10 to Note Purchase and Private Shelf Agreement dated as of February 1, 2011 (“**Amendment No. 10**”), pursuant to which, among other things, (1) the Noteholders and the Obligors agree that the maturity date of the Initial Series 2011 Notes is amended to be May 20, 2011, and (2) the Obligors authorize up to US\$2,900,000 of their new pari passu senior secured notes due May 20, 2011 (as amended and outstanding from time to time, the “**Second Series 2011 Notes**” and, together with the Initial Series 2011 Notes, the “**Series 2011 Notes**”).

F. The Obligors (and/or certain of their Subsidiaries or partnerships of which one or more of them are the general partner) and the Franchisor (as defined in the Note Agreement) are parties to one or more Franchise Agreements (as defined in the Note Agreement). The Obligors have informed the Noteholders that they (and/or certain of their Subsidiaries or partnerships of which one or more of them are the general partner) are in default of certain of their obligations under the Franchise Agreements and/or that certain Franchise Agreements have expired by their terms.

G. The Obligors have requested that the Noteholders temporarily suspend action and forebear from exercising remedies in respect of those Defaults and Events of Default, all as is more particularly set forth in this Agreement.

H. Subject to the terms and conditions hereinafter set forth, the Noteholders have agreed to the Obligors’ request to temporarily suspend action and forebear from exercising remedies in respect of such specified Defaults and Events of Default.

#### **AGREEMENT:**

**NOW THEREFORE**, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

#### **SECTION 1. DEFINED TERMS.**

**1.1 Defined Terms.** As used herein, the following terms shall have the meanings set forth below or in the document or the Section of this Agreement referenced below. The terms used herein and not defined herein shall have the respective meanings ascribed to such terms in the Note Agreement.

“*Agreement*” -- Introduction.

“*Amendment No. 9*” -- Introduction.

“*Amendment No. 10*” -- Recitals.

**“Canadian Special Counsel”** -- Gowling Lafleur Henderson LLP, or such other law firm as the Required Holders may designate from time to time.

**“Claims”** -- Section 7.8.

**“Company”** -- Introduction.

**“Disposition”** -- means with respect to any Person, any transaction in which such Person sells, conveys, transfers or leases (as lessor) any of its property, including, without limitation, Capital Stock (including by way of a merger or consolidation of a Subsidiary of such Person with a third party or otherwise).

**“Effective Date”** -- Section 5.

**“Forbearance Period”** -- the period from February 1, 2011 until the Forbearance Termination Date.

**“Forbearance Termination Date”** -- means the date of the earlier to occur of (i) 5:00 p.m. (New York time) on May 20, 2011 and (ii) the first occurrence of any Forbearance Termination Event.

**“Forbearance Termination Event”** -- means any of the following:

- (a) the failure by either Obligor to comply with any of the terms and provisions set forth in this Agreement;
- (b) the failure of any representation or warranty in Section 3 to be true and correct;
- (c) the occurrence of any Default or Event of Default other than a Specified Default;
- (d) any termination of, or remedies or enforcement action taken in respect of, any Franchise Agreement; or
- (e) the termination by either Obligor of the Fee Agreement dated as of December 13, 2010 between the Obligors and Bingham McCutchen LLP.

**“Indebtedness”** with respect to any Person means, at any time, without duplication:

- (a) its liabilities for borrowed money and its redemption obligations in respect of mandatorily redeemable Preferred Stock;
- (b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business, but including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) all liabilities appearing on its balance sheet in accordance with GAAP in respect of Capital Leases and all liabilities which would appear on its balance sheet in accordance with GAAP in respect of synthetic leases assuming such synthetic leases were accounted for as Capital Leases;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

(e) all liabilities in respect of hedging obligations other than those entered into in the ordinary course of business and pursuant to the reasonable requirements of the Company's business consistent with past practice;

(f) all its liabilities in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions (whether or not representing obligations for borrowed money); and

(g) any Guaranty Obligation of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

Indebtedness of any Person shall include all obligations of such Person of the character described in clauses (a) through (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

*"Initial Series 2011 Notes"* -- Recitals.

*"January Forbearance Agreement"* -- Recitals.

*"LP"* -- Introduction.

*"Note Agreement"* -- Recitals.

*"Noteholders"* -- Introduction.

*"Noteholders' Financial Advisor"* -- means such financial advisor that the Noteholders shall designate from time to time.

*"Noteholders' Professionals"* -- Section 4.2.

*"Notes"* -- Recitals.

*"Obligors"* -- Introduction.

*"Prizm, Inc."* -- Introduction.

*"Prudential"* -- Recitals.

*"Released Parties"* -- Section 7.8.

***“Releasers”*** – Section 7.8.

***“Required Holders”*** -- means, with respect to the Notes, the holders of at least 50.1% of the aggregate principal amount of the Notes.

***“Restricted Payment”*** -- means:

(a) the making or declaration of, or the incurrence of any liability to make or declare, any dividends or other distributions on Capital Stock of either Obligor or any Subsidiary (other than distributions in such stock and dividends and distributions made by a Subsidiary to the extent, but solely to the extent, that such dividends or distributions are payable to a member of the Obligor Group);

(b) any optional or mandatory redemption, retirement, purchase or other acquisition, direct or indirect, of any Capital Stock of either Obligor or any Subsidiary by either Obligor or any Subsidiary thereof (other than, with respect to any Subsidiary, in respect of Capital Stock of such Subsidiary owned legally and beneficially by either Obligor), now or hereafter outstanding;

(c) any payment of any obligation that by, its terms (or pursuant to the terms of an agreement related thereto), is subordinated in any manner to the Notes; and

(d) any payment of any bonus, director fee, management fee, consulting fee or similar amount to any Affiliate, other than (i) salary and other similar compensatory arrangements in effect on the Effective Date and consistent with past practices and reasonable business judgment of the Obligors, (ii) payment of “stay” bonuses that are, in the reasonable business judgment of the Obligors, required to retain certain employees and officers that are integral to the continued operation of the Obligors’ principal business, and that are in an amount no greater than provided in, and measured in accordance with, clause (d) of the definition of “Restricted Payment” contained in the January Forbearance Agreement, and (iii) the retainer paid to the Obligors’ financial monitor, if any.

***“Retainer Letters”*** -- collectively, (i) the retainer letter dated December 13, 2010, signed by Special Counsel and countersigned by the Obligors, (ii) the retainer letter dated on or around December 20, 2010, signed by Canadian special counsel to the Noteholders and countersigned by the Obligors, and (iii) the retainer letter dated December 20, 2010, signed by Special Counsel and the Noteholders’ Financial Advisor and countersigned by the Obligors, and (iv) such other retainer letters as may hereinafter be signed by one of the Noteholders’ Professionals and countersigned by the Obligors in respect of fees and expenses payable by the Obligors in accordance with the Note Agreement, the Notes and this Agreement.

***“Second Series 2011 Notes”*** -- Recitals.

***“Series 2011 Notes”*** -- Recitals.

***“Series A Notes”*** -- Recitals.



*“Shelf Notes”* -- Recitals.

*“Special Counsel”* -- Bingham McCutchen LLP or such other law firm as the Required Holders may designate from time to time.

*“Specified Defaults”* -- Section 2.1.

**1.2 Rules of Construction.** All definitions contained in this Agreement are equally applicable to the singular and plural forms of the terms defined. The words “hereof,” “herein,” and “hereunder” and words of similar import referring to this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Unless otherwise specified, all Section references pertain to this Agreement. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles as in effect on the Effective Date. All references herein to “this Agreement” or to any other agreement or document shall, unless stated otherwise, be deemed to refer to this Agreement or such other agreement or document as the same may be amended from time to time. All references herein to sections or clauses of any other agreement or document shall, unless the context otherwise requires, be deemed to refer to such sections as they may be renumbered from time to time in connection with any amendment of the type referred to in the immediately preceding sentence of this Section. All references herein to any person shall be deemed to refer to such person and its lawful successors and assigns.

## **SECTION 2. TEMPORARY FORBEARANCE.**

**2.1 During Forbearance Period.** During the Forbearance Period (but not thereafter), each of the Noteholders hereby agrees to temporarily suspend action and forebear from accelerating the maturity of the Notes, taking action to foreclose on the Collateral or exercising remedies in respect of the Defaults and Events of Default specified on Schedule A hereto (the “Specified Defaults”). In addition to the foregoing, the Noteholders agree that the maturity date of the Notes, and the due date for payment of all interest accrued but unpaid as of the date hereof with respect to the Notes, shall be the Forbearance Termination Date.

## **SECTION 3. WARRANTIES AND REPRESENTATIONS.**

To induce the Noteholders to enter into this Agreement, each of the Obligors hereby warrants and represents to the Noteholders, as of the date hereof and as of the Effective Date:

### **3.1 Organization, Power and Authority, etc.**

Each Obligor is a corporation duly organized and existing in good standing under the laws of its jurisdiction of organization and has all requisite power and authority to enter into and perform its obligations under this Agreement.

### **3.2 Legal Validity.**

(a) The execution and delivery of this Agreement by each of the Obligors and compliance by each of the Obligors with its obligations hereunder: (i) are within the powers of such Obligor; and (ii) are legal and do not conflict with, result in any breach

of, constitute a default under, or result in the creation of any Lien upon any property of such Obligor under the provisions of: (1) any charter instrument or bylaw to which such Obligor is a party or by which such Obligor or any of its property may be bound; (2) any order, judgment, decree or ruling of any court, arbitrator or governmental authority applicable to such Obligor or its property; or (3) any agreement or instrument to which such Obligor is a party or by which such Obligor or any of its property may be bound or any statute or other rule or regulation of any governmental authority applicable to such Obligor or its property.

(b) This Agreement has been duly authorized by all necessary action on the part of the Obligors, has been executed and delivered by a duly authorized officer of each Obligor, and constitutes a legal, valid and binding obligation of the Obligors, enforceable in accordance with its terms, except that enforceability may be limited by applicable bankruptcy, reorganization, arrangement, insolvency, moratorium, or other similar laws affecting the enforceability of creditors' rights generally and subject to the availability of equitable remedies.

**3.3 No Conflicts or Defaults.** Neither the execution and delivery by the Obligors of this Agreement, nor the performance by each Obligor of its obligations hereunder, conflicts with, results in any breach in any of the provisions of, constitutes a default under, violates or results in the creation of any Lien upon any property of either Obligor under the provisions of:

- (a) any charter document or bylaws of either Obligor;
- (b) any material agreement, instrument or conveyance to which either Obligor may be bound or affected; or
- (c) any statute, rule or regulation or any order, judgment or award of any court, tribunal or arbitrator by which either Obligor, or any properties of either Obligor, may be bound or affected.

**3.4 Governmental Consent.** Neither the execution and delivery by the Obligors of this Agreement, nor the performance by each of the Obligors of its obligations hereunder, is such as to require a consent, approval or authorization of, or filing, registration or qualification with, any governmental authority on the part of either Obligor as a condition thereto under the circumstances and conditions contemplated by this Agreement.

**3.5 No Defaults or Events of Default.** After giving effect to the transactions contemplated by this Agreement, no Default or Event of Default (other than the Specified Defaults) will exist under the Note Agreement, and there will be no default or event of default under, or any breach of, this Agreement. Immediately prior to giving effect to the transactions contemplated by this Agreement, those Defaults or Events of Default identified as "Specified Defaults" constituted the only Defaults or Events of Default that existed at such time.

**3.6 No Undisclosed Consideration.** Except as expressly set forth herein, neither of the Obligors nor any of their Subsidiaries has paid or will pay, directly or indirectly, any fee, charge, increased interest or other consideration to any creditor or Franchisor of either of the Obligors or any of their Subsidiaries as a condition to, or otherwise in connection with, the

execution or delivery of this Agreement or the performance of any Franchise Agreement, or in connection with any forbearance granted by the Franchisor.

**3.7 Existing Indebtedness and Liens.** Schedule 3.8 hereto sets forth a complete and correct list of all outstanding Indebtedness of the Obligor and their Subsidiaries as of February 1, 2011 (other than Indebtedness under the Transaction Documents and items of Indebtedness individually not greater than \$100,000 in principal amount which do not, in the aggregate, exceed \$1,000,000), including with respect thereto, identification of the obligor(s) and the payee or creditor with respect to such Indebtedness and whether such Indebtedness is secured, guaranteed or subordinated to any other Indebtedness of any Obligor or any of their Subsidiaries.

**3.8 Litigation.** There are no material actions, suits, proceedings, claims or disputes pending or, to the knowledge of the Obligor, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, by or against the Obligor or any of their Subsidiaries or against any of their properties or revenues that (a) purport to affect or pertain hereto, or to the Note Agreement, any Franchise Agreement, or any of the transactions contemplated hereby or thereby, or (b) either individually or in the aggregate, if determined adversely, could reasonably be expected to have a Material Adverse Effect.

#### **SECTION 4. OBLIGORS' COVENANTS AND AGREEMENTS.**

From and after the Effective Date, and irrespective of the occurrence of a Forbearance Termination Event, the Company shall comply with and be bound by the following covenants and agreements:

**4.1 Inspection.** The Obligor will, and each will cause each of its Subsidiaries, officers, employees, outside accountants, and financial and other advisors and consultants to, permit representatives of any Noteholder (including, without limitation, the Noteholders' Professionals) to examine, copy and make extracts from its books and records (excepting customer confidential information that is specifically identifiable with respect to individual customers and books and records subject to solicitor-client privilege), to inspect any of its properties, and to discuss its business and affairs with its officers, its outside accountants, and any financial or other advisor, consultant or monitor to or of the Obligor, all at such reasonable times and as often as such Noteholder or such Noteholders' Professional may reasonably request. This Section hereby constitutes permission and direction to such Persons to discuss and disclose such information in order to permit the Noteholders and the Noteholders' Professionals to fully investigate any matter that arises in the context of their work with the Obligor and their Subsidiaries.

**4.2 Fees and Expenses of Noteholders and Noteholders' Professionals.** Without limiting anything set forth in the Note Agreement, the Obligor shall pay, within three (3) Business Days of receipt of any invoice, all reasonable fees, expenses and disbursements of the Noteholders (including, but not limited to, travel and related expenses of the Noteholders and the Noteholders' Professionals). The Obligor shall make all payments required to be made by either of them pursuant to and in the manner set forth in, each of the Retainer Letters. The Obligor also agree to the hiring and the continued employment by the Noteholders of their Special Counsel and the Noteholders' Canadian Counsel, and by their Special Counsel of the

Noteholders' Financial Advisor, as well as local counsel in one or more applicable states or countries who can render advice and services in connection with local specific law or specialized issues of law in connection with the matters to which this Agreement relates (all such Persons, together with Special Counsel, the Noteholders' Canadian Counsel and the Noteholders' Financial Advisor, the "Noteholders' Professionals"). The Noteholders' Professionals shall be selected by the Noteholders in their sole discretion. The Obligors may be asked to fund a retainer for the engagement of each of the Noteholders' Professionals (other than Special Counsel and Noteholders Canadian Counsel which shall be funded on or prior to the Effective Date), and if so asked in writing the Obligors shall promptly (and in any event, within two (2) Business Days) fund each such retainer in immediately available funds by wire transfer in such amount as shall be reasonable, taking into account the amount of the retainers paid to Special Counsel and Noteholders' Canadian Counsel. Except as otherwise agreed in writing, the Noteholders' Financial Advisor shall not have any duty to share its work product with, or accept instructions from, the Obligors or any other Person.

**4.3 Additional Supplemental Covenants of the Obligors.** From and after the Effective Date, and irrespective of the occurrence of a Forbearance Termination Event, the Obligors shall not, and shall not permit any Subsidiary, to:

- (a) make, directly or indirectly, any Restricted Payment;
- (b) make, directly or indirectly, any payment, prepayment or purchase in respect of any Indebtedness, whether principal, interest, fees, premium or otherwise, other than in respect of the Transaction Documents;
- (c) create, incur or assume any Indebtedness other than as set forth on Schedule 3.8 and Indebtedness outstanding under the Transaction Documents;
- (d) effectuate any Disposition, except (A) Dispositions of inventory in the ordinary course of business, and (B) Dispositions of equipment, fixtures, supplies and materials no longer required in the operation of the business of the Company and its Subsidiaries that are obsolete, worn out or unusable with an aggregate value for all such property so disposed of on or after January 19, 2011 not in excess of C\$250,000;
- (e) merge or consolidate with any other Person;
- (f) make or agree to make any loans or similar provisions of credit to, or purchase or otherwise acquire equity interests in or assets constituting a business unit or all or a substantial part of the business of, any Person; or
- (g) create, incur or assume any Lien (other than Permitted Liens) upon any of the property or assets of the Company or any Subsidiary, whether now owned or hereafter acquired.

**4.4 No Fees, etc.** Neither Obligor nor any of their Subsidiaries has paid or will pay any fees, charges, premium, rate enhancements, letter of credit fees or any similar amounts with respect to, or provide any new collateral or other credit enhancement for, any Franchise

Agreement in connection with or as an inducement to enter into the Franchisor Forbearance Agreement.

**4.5 Reaffirmation.** Each of the Obligors hereby (i) acknowledges and affirms all of its obligations under the terms of each Security Document and Transaction Document to which it is a party, and in the case of Prizm Inc, the KIT Inc. Guarantee, and agrees all such agreements shall continue to remain in full force and effect, and (ii) acknowledges and agrees that such Security Documents and Transaction Documents, and in the case of Prizm Inc., the Kit Inc. Guarantee, shall secure and guaranty the obligations under the Note Agreement and the Notes pursuant to the terms thereof.

**4.6 Negative Pledges.** The Obligors shall not grant or suffer to exist any “negative pledges” with respect to its material assets or properties other than negative pledges granted to the Noteholders, to the Franchisor in respect of Franchise Agreements, or otherwise in connection with leases entered into in the ordinary course of business, or otherwise in connection with the security documents being executed in favor of the “Collateral Agent” as provided in the Intercreditor Agreement.

**4.7 Meetings.** During the Forbearance Period, the Obligors and their senior management and advisors shall make themselves available for such periodic meetings as the Noteholders may reasonably request, to take place at mutually convenient times, in person or by telephone with representatives of the Noteholders, the Noteholders’ Professionals, and any financial or other advisor or consultant to the Obligors, to discuss the Obligors’ business operations and such other matters as such representatives may reasonably request.

**4.8 Access to Obligor Advisors.** The Obligors shall ensure free communication from any financial or other advisor, consultant or monitor to the Obligors to and from the Noteholders and the Noteholders’ Professionals, provided that this covenant shall not require the Obligor’s outside counsel to provide attorney-client privileged information or information constituting attorney work product.

**4.9 Additional Financial and Other Information.** The Obligors shall prepare and deliver (a) by the second Business Day of each calendar week, an updated and current 13 week cash flow projection starting with such week and reflecting the actual cash position of the Obligors as of such time, prepared in consultation with the Company’s financial advisor or financial monitor and accompanied by the agreement of such advisor or monitor that such projections are reasonable, (b) on or before each Friday during the Forbearance Period, a weekly update from the Company or its professionals on the status of the Sales Process Plan (as defined below) and progress with respect thereto, and (c) upon request by the Noteholders or the Noteholders’ Professionals, such other information and materials (in form and substance reasonably satisfactory to the Noteholders) as may be reasonably requested.

**4.10 Cash Position.** The Obligors shall not allow their Closing Cash Position (as defined below) as of the end of any week during the Forbearance Period to be less than 90% of the Closing Cash Projected Amount (as defined below) as at the end of such week. Notwithstanding the foregoing, the Obligors shall not be in breach of this Section 4.10 as of the

end of any week during the Forbearance Period if the differential between the Closing Cash Position and the Closing Cash Projected Amount is less than C\$200,000.

*As used herein:* “**Closing Cash Projected Amount**” means, for any week, the dollar amount set forth with respect to such week beside the line item “Closing Cash Position” under the heading “[A] Adjusted for Royalties/Revolver” on the most recent weekly cash flow projections accompanying a Verified Issuance Notice (as defined in Amendment No. 10) that was accepted by the Noteholders’ Financial Advisor as provided in section 1.6 of Amendment No. 10; and “**Closing Cash Position**” means, for any week, the actual cash position of the Obligors on the last Business Day of such week, determined in the same manner as the Closing Cash Projected Amount is determined.

**4.11 Disposition Process.** The Obligors will perform and comply with such other obligations and undertakings as are contained in that certain letter agreement dated as of February 1, 2011 between the Obligors on the one hand and the Noteholders on the other. A failure of the Obligors to perform such obligations as and when due shall constitute a default hereof and an Event of Default.

**4.12 Further Assurances.** The Obligors will cooperate with the Noteholders and execute such further instruments and documents as the Noteholders shall reasonably request to carry out to their satisfaction the transactions contemplated by this Agreement as well as the Note Agreement, the Notes and the Security Documents. To the extent reasonably requested by a Noteholder or a Noteholders’ Professional, the Obligors and their financial advisor or financial monitor shall share information and analysis with, and otherwise cooperate with, the Noteholders’ Professionals, and by their execution hereof the Obligors instruct and direct their financial advisor and/or financial monitor to so share and cooperate.

## **SECTION 5. CONDITIONS PRECEDENT.**

The temporary forbearances granted in Section 2.1 shall not become effective unless all of the following conditions precedent shall have been satisfied (which satisfaction shall be conclusively presumed once each of the Noteholders shall have executed and delivered this Agreement) on or before February 1, 2011 (the date of such satisfaction being herein referred to as the “**Effective Date**”):

**5.1 Execution and Delivery of this Agreement.** The Obligors shall have executed and delivered to each Noteholder a counterpart of this Agreement.

**5.2 Delivery of Franchisor Letters.** A true and correct copy of the Franchisor Letters shall have been provided to the Noteholders and shall be in full force and effect.

**5.3 No Default; Representations and Warranties True.** The warranties and representations set forth in Section 3 shall be true and correct on the Effective Date.

**5.4 Authorization of Transactions.** The Obligors shall have duly authorized the execution and delivery of this Agreement and each of the documents executed and delivered in connection herewith and the performance of all of their obligations contemplated by this Agreement.

**5.5 Proceedings Satisfactory.** All documents executed and delivered, and actions and proceedings taken, in connection with this Agreement shall be satisfactory to the Noteholders and Special Counsel. The Noteholders and Special Counsel shall have received copies of such documents and papers as they may reasonably request in connection therewith, in form and substance satisfactory to each of them.

## **SECTION 6. NO PREJUDICE OR WAIVER; REAFFIRMATION.**

**6.1 No Prejudice or Waiver.** Except as provided herein, the terms of this Agreement shall not operate as a waiver by the Noteholders of, or otherwise prejudice the Noteholders' rights, remedies or powers under, the Note Agreement, the Notes or applicable law. Except as expressly provided herein:

(a) no terms and provisions of any Transaction Document are modified or changed by this Agreement; and

(b) the terms and provisions of the Note Agreement shall continue in full force and effect.

### **6.2 Reaffirmation of Outstanding Obligations, Ratification, etc**

(a) Each of the Obligors hereby adopts again, ratifies and confirms in all respects, as its own act and deed, each of the Note Agreement and the Notes and any document or instrument delivered pursuant to or in connection therewith and acknowledges (i) that all such instruments and documents shall continue in full force and effect and (ii) that as of the Effective Date, it has no claim or cause of action against any Noteholder (or any of its respective directors, officers, employees or agents) or any offset right, counterclaim or defense of any kind against any of its obligations, indebtedness or liabilities to any Noteholder nor does it have any intention of bringing any such claim or cause of action against any Noteholder in respect of the foregoing.

(b) This Agreement shall not, under any condition or any jurisdiction whatsoever, be deemed to be or be construed as a novation of the respective rights and obligations of the parties hereto under the Note Agreement or the Notes.

## **SECTION 7. MISCELLANEOUS.**

**7.1 Successors and Assigns.** This Agreement shall be binding upon and enforceable by and against the parties hereto and their respective successors and assigns.

**7.2 Governing Law.** This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York.

**7.3 Duplicate Originals; Facsimile Signatures.** Two or more duplicate originals of this Agreement may be signed by the parties, each of which shall be an original but all of which together shall constitute one and the same instrument. This Agreement may be executed in one

or more counterparts and shall be effective when at least one counterpart shall have been executed by each party hereto, and each set of counterparts which, collectively, show execution by each party hereto shall constitute one duplicate original. Facsimile signatures, or signatures reproduced or transmitted via electronic means such as email or email attachment, shall be deemed to constitute original signatures and shall be admissible into evidence for all purposes.

**7.4 Waivers and Amendments.** Neither this Agreement nor any term hereof may be changed, waived, discharged or terminated orally, or by any action or inaction, but only by an instrument in writing signed by the Required Holders and the Obligors.

**7.5 Section Headings.** The titles of the sections hereof appear as a matter of convenience only, do not constitute a part of this Agreement and shall not affect the construction hereof.

**7.6 Survival.** All warranties, representations, certifications and covenants made by or on behalf of the Obligors and/or the Subsidiaries herein or in any certificate or other instrument delivered pursuant hereto shall be considered to have been relied upon by the Noteholders and shall survive the execution of this Agreement, regardless of any investigation made by or on behalf of the Noteholders. All statements in any such certificate or other instrument shall constitute warranties and representations of the Obligors and/or the Subsidiaries as the case may be, hereunder.

**7.7 No Third Party Beneficiaries.** This Agreement shall be solely for the benefit of the parties hereto and their respective successors and assigns. No person not a party hereto, including, without limitation, any other creditor of the Obligors or the Subsidiaries, shall have any rights under, or as a result of the existence of, this Agreement.

**7.8 Waiver and Release.** For and in consideration of the agreements contained in this Agreement, and other good and valuable consideration, the receipt and sufficiency of all of which are hereby acknowledged, each Obligor and each Guarantor, on its own behalf, and to the extent that it is lawfully able to do so, on behalf of its predecessors, successors, assigns, subsidiaries, affiliates and agents and all of their respective past, present and future officers, directors, trustees, shareholders, employees, contractors and attorneys, and the predecessors, heirs, successors, and assigns of each of them (collectively referred to in this Section 7.8 as the “**Releasers**”) do hereby jointly and severally fully RELEASE, REMISE, ACQUIT, IRREVOCABLY WAIVE and FOREVER DISCHARGE each of the Noteholders, together with their respective predecessors, successors, assigns, subsidiaries, affiliates and agents and all of their respective past, present and future officers, directors, trustees, shareholders, employees, contractors and professionals (including, without limitation, the Noteholders’ Professionals), and the predecessors, heirs, successors and assigns of each of them (the Noteholders and all of the foregoing being collectively referred to in this Section as the “**Released Parties**”), from and with respect to any and all Claims (as defined below).

As used in this Section 7.8, the term “**Claims**” shall mean and include any and all, and all manner of, action and actions, cause and causes of action, suits, disputes, controversies, claims, debts, sums of money, offset rights, defenses to payment, agreements, promises, notes, bonds, bills, covenants, losses, damages, judgments, executions and demands of whatever nature,



known or unknown, whether in contract, in tort or otherwise, at law or in equity, for money damages or dues, recovery of property, or specific performance, or any other redress or recompense which have accrued, may have been had, or may be now possessed by or on behalf of any one or more of the Releasors against any one or more of the Released Parties for, upon, by reason of, on account of, or arising from or out of, or by virtue of, any transaction, event or occurrence, duty or obligation, indemnification, agreement, promise, warranty, covenant or representation, breach of fiduciary duty, breach of any duty of fair dealing, breach of confidence, breach of funding commitment, undue influence, duress, economic coercion, conflict of interest, negligence, bad faith, malpractice, violations of federal or state securities laws or the Racketeer Influenced and Corrupt Organizations Act, intentional or negligent infliction of mental distress, tortious interference with contractual relations, tortious interference with corporate governance or prospective business advantage, breach of contract, deceptive trade practices, libel, slander, usury, conspiracy, wrongful acceleration of any indebtedness, wrongful foreclosure or attempt to foreclose on any collateral relating to any indebtedness, action or inaction, relationship or activity, service rendered, matter, cause or thing, whatsoever, express or implied, transpiring, entered into, created or existing from the beginning of time to the date of the execution of this Agreement in respect of the Notes or the Note Agreement, and shall include, but not be limited to, any and all Claims in connection with, as a result of, by reason of, or in any way related to or arising from the existence of any relationships or communications by and between the Releasors and the Released Parties with respect to the Notes, the Note Agreement and all agreements, documents and instruments related thereto, as presently constituted and as the same may from time to time be amended. However, the term “**Claims**” does not include any obligations arising after the date of this Agreement of the Released Parties under the Notes, the Note Agreement, any other Transaction Document, this Agreement or any agreements, documents and instruments related thereto, as presently constituted and as the same may from time to time be amended, or Claims resulting from the gross negligence, wilful misconduct or bad faith of the Released Parties.

Each Obligor hereby represents and warrants to the Released Parties that:

- (a) it has the full right, power, and authority to execute and deliver this Agreement containing this Section 7.8 without the necessity of obtaining the consent of any other party;
- (b) it has received independent legal advice from attorneys of its choice with respect to the advisability of granting the release provided herein, and with respect to the advisability of executing this Agreement containing this Section 7.8;
- (c) it has not relied upon any statements, representations or promises of any of the Released Parties in executing this Agreement containing this Section 7.8, or in granting the release provided herein;
- (d) it has not entered into any other agreements or understandings relating to the Claims;
- (e) the terms of this Section 7.8 are contractual, not a mere recital, and are the result of negotiation among all the parties; and

(f) this Section 7.8 has been carefully read by, and the contents hereof are known and understood by, and it is signed freely by, such Obligor.

The Company covenants and agrees not to bring any claim, action, suit or proceeding regarding or related in any manner to the matters released hereby, and each Obligor further covenants and agrees that this Section 7.8 is a bar to any such claim, action, suit or proceeding.

All prior discussions and negotiations regarding the Claims have been and are merged and integrated into, and are superseded by, this Section 7.8. Each Obligor acknowledges that no representation or warranty of any kind or character has been made to either Obligor by any one or more of the Released Parties or any agent, representative or attorney of the Released Parties to induce the execution of this Agreement containing this Section 7.8. Each Obligor understands, agrees and expressly assumes the risk of any fact not recited, contained or embodied in this Section 7.8 which may hereafter turn out to be other than, different from, or contrary to, the facts now known to either Obligor or believed by either Obligor to be true, and further agree that this Section 7.8 shall not be subject to termination, modification, or rescission, by reason of any such difference in facts.

**7.9 Acknowledgement.** Each Obligor acknowledges that (a) except as expressly set forth herein, none of the Noteholders has agreed to (and none has any obligation whatsoever to discuss, negotiate or agree to) any other restructuring, modification, amendment, waiver or forbearance with respect to the Notes or the Note Agreement; (b) no understanding with respect to any other restructuring, modification, amendment, waiver or forbearance with respect to the Notes or the Note Agreement shall constitute a legally binding agreement or contract, or have any force or effect whatsoever, unless and until reduced to writing and signed by authorized representatives of each party hereto; (c) the execution and delivery of this Agreement has not established any course of dealing between the parties hereto or created any obligation or agreement of any Noteholder with respect to any future restructuring, modification, amendment, waiver or forbearance with respect to the Note Agreement or the Notes; and (d) the Noteholders have heretofore properly performed and satisfied in a timely manner all of their respective obligations, if any, to either of the Obligors and each Subsidiary, if any, under any of the Note Agreement or the Notes.

**7.10 Indemnification.** Each of the Obligors agrees to indemnify each of the Noteholders and their affiliates, and their respective representatives, affiliates, directors, officers, trustees, employees, agents and professionals from, and hold each of them harmless against, any and all losses, liabilities, claims, damages or expenses incurred by any of them arising out of or by reason of any investigation or litigation or other proceedings (including any threatened investigation, litigation or other proceedings) relating to, or in connection with, this Agreement, including, without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation, litigation or other proceedings (but excluding any such losses, liabilities, claims, damages or expenses incurred by reason of the bad faith, gross negligence or willful misconduct of the person to be indemnified). Without limiting the generality of the foregoing, each of the Obligors agrees to pay currently the expenses reasonably and necessarily incurred by the Noteholders relating to any such investigation, litigation or other proceedings (including, without limitation, the fees and expenses of legal counsel) in advance of the final disposition thereof, unless a court of competent jurisdiction finally determines that such

Obligor is not obligated to provide such current payment in respect of such investigation, litigation or proceeding.

**7.11 Tolling of Statutes of Limitation.** The parties hereto agree that all applicable statutes of limitation in respect of the Note Agreement are tolled as of the Effective Date and shall continue to be tolled and shall not begin running until the Forbearance Termination Date.

**7.12 Notices.** All notices and communications to the Obligors and the Noteholders shall be sent to the addresses and in the manner specified in the Note Agreement. A copy of all notices and communications to any Noteholder shall simultaneously be delivered to:

Bingham McCutchen LLP  
One State Street  
Hartford, Connecticut 06103  
Attention: Scott Falk  
Phone: 860.240.2763  
Fax: 860.240.2800  
E-mail: scott.falk@bingham.com

**7.13 Directly or Indirectly.** Where any provision in this Agreement refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person, including actions taken by or on behalf of any partnership or limited liability company in which such Person is a general partner or managing member, as applicable.

**7.14 Entire Agreement.** This Agreement, the Note Agreement and the Notes, as amended to the date hereof, embody the entire agreement and understanding between the Noteholders and the Obligors and supersede all prior agreements and understandings relating to the subject matter hereof and thereof.

**7.15 Severability.** Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

*[Remainder of page intentionally left blank. Next page is signature page.]*

KIT FINANCE INC.

By: DPIC  
Name: Deborah Papernick  
Title: CFO

PRISZM INC.


By: DPIC  
Name: Deborah Papernick  
Title: CFO

PRISZM LP, by its general partner, PRISZM INC.

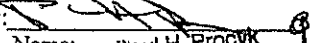
By: DPIC

The foregoing Agreement is hereby accepted as of the date first above written.

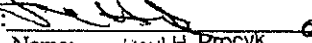
**PRUDENTIAL INVESTMENT  
MANAGEMENT, INC.**

By:   
Name: Paul H. Procyk  
Title: Vice President

**THE PRUDENTIAL INSURANCE COMPANY  
OF AMERICA**

By:   
Name: Paul H. Procyk  
Title: Vice President

**PRUCO LIFE INSURANCE COMPANY**

By:   
Name: Paul H. Procyk  
Title: Vice President

**PRUDENTIAL RETIREMENT INSURANCE  
AND ANNUITY COMPANY**

By: Prudential Investment Management, Inc., its investment  
manager

By:   
Name: Paul H. Procyk  
Title: Vice President

**SCHEDULE A****SPECIFIED DEFAULTS**

- 1) Failure to comply with 6H(9) Minimum EBITDA of the Existing Note Agreement, as amended on March 12, 2010, for the quarter ended September 5, 2010.
- 2) Failure to comply with 6H(9) Minimum EBITDA of the Existing Note Agreement, as amended on March 12, 2010, for the quarter ended December 26, 2010.
- 3) Failure to comply with 5V Refinancing Efforts as at June 30, 2010 (failure to deliver letter of intent or commitment letter from a bona fide lender setting forth such lender's commitment to the terms of a financing transaction providing for repayment in full of amounts owing to the holders of the Notes under the Notes and the Existing Note Agreement.)
- 4) Failure to comply with 5V Refinancing Efforts as at December 31, 2010 (failure to repay all amounts owing to the holders of the Notes under the Notes and the Existing Note Agreement on or before December 31, 2010)
- 5) Failure to pay interest owing on December 12, 2010 and December 13, 2010 related to the Notes.
- 6) Failure to pay interest owing on January 12, 2011 and January 13, 2011 related to the Notes.
- 7) Failure to itemize the Guarantee by Prizm Inc. of the obligations of Prizm LP under the Franchise Agreements in Paragraphs 6D and 6I of the Existing Note Agreement
- 8) Failure to itemize the Indebtedness listed on Schedule 3.8 hereof in connection with Paragraph 6D of the Existing Note Agreement

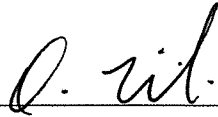
**SCHEDULE 3.8****Indebtedness**

Unsecured debt of Prizm LP owing to Prizm Income Fund in the principal amount of C\$30,000,000. Such debt is subordinated to the Senior Indebtedness of Prizm LP.





This is Exhibit "L"  
to the affidavit of Deborah Papernick,  
sworn before me on the 31<sup>st</sup> day  
of March, 2011



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Commissioner for Taking Affidavits

**AMENDED AND RESTATED NOTEHOLDER FORBEARANCE AGREEMENT**

**AMENDED AND RESTATED NOTEHOLDER FORBEARANCE AGREEMENT** (this “**Agreement**”), dated as of March 31, 2011, among (i) **KIT FINANCE INC.** (the “**Company**”), an Alberta corporation, **PRISZM LP** (“**LP**”), a Manitoba limited partnership, and **PRISZM INC.**, a Canadian corporation formerly known as **KIT Inc.** (together with its successors and assigns, “**Priszm Inc.**”, and together with the Company and LP, the “**Obligors**”), and (ii) each of the undersigned holders of the Notes (as constituted from time to time, the “**Noteholders**”).

**RECITALS:**

A. The Company issued and sold (a) C\$73,596,400 in aggregate principal amount of its 6.795% Series A Senior Secured Guaranteed Notes due January 13, 2011 (as in effect and as may be amended, restated, replaced or otherwise modified from time to time, the “**Series A Notes**”) and (b) C\$2,036,700 of its Shelf Notes (as in effect and as may be amended, restated, replaced or otherwise modified from time to time, the “**Shelf Notes**”, and together with the Series A Notes, the Series 2011 Notes (as defined below) and the Post-Petition Notes (as defined below), collectively, the “**Notes**”) pursuant to a Note Purchase and Private Shelf Agreement, dated as of January 12, 2006, entered into by and among the Obligors, Prudential Investment Management, Inc. (“**Prudential**”) and each of the Purchasers listed in Annex A attached thereto), as amended by (i) Amendment No. 1 to Note Purchase and Private Shelf Agreement dated as of January 31, 2006, (ii) Amendment No. 2 to Note Purchase and Private Shelf Agreement, dated as of July 11, 2006, (iii) Amendment No. 3 to Note Purchase and Private Shelf Agreement dated as of June 21, 2007, (iv) Amendment No. 4 to Note Purchase and Private Shelf Agreement dated as of February 29, 2008, (v) Amendment No. 5 to Note Purchase and Private Shelf Agreement dated as of September 7, 2008, (vi) Amendment No. 6 to 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, (viii) Waiver and Amendment No. 8 to Note Purchase and Private Shelf Agreement dated as of March 12, 2010, (ix) Amendment No. 9 to Note Purchase and Private Shelf Agreement (“**Amendment No. 9**”) dated as of January 19, 2011, (x) Amendment No. 10 to Note Purchase and Private Shelf Agreement (“**Amendment No. 10**”) dated as of February 1, 2011, and (xi) Amendment No. 11 to Note Purchase and Private Shelf Agreement (“**Amendment No. 11**”) dated as of March 31, 2011 (as so amended and as further amended from time to time, the “**Note Agreement**”). The register for the registration and transfer of the Notes indicates that the Persons named on the signature pages hereto are currently the holders of the entire outstanding principal amount of the Notes.

B. The Obligors have informed the Noteholders that they are in default of certain of their obligations under the Note Agreement and the Notes, and that as a result, certain Defaults and Events of Default have occurred and continue to exist under and in respect of the Note Agreement and the Notes.

C. The Obligors and the Noteholders entered into a Noteholder Forbearance Agreement dated as of January 19, 2011 (the “**January Forbearance Agreement**”), providing for, among other things, a temporary forbearance by the Noteholders with respect to the

“Specified Defaults” (as defined therein). The January Forbearance Agreement expired by its terms on January 31, 2011.

D. The Obligors and the Noteholders entered into a Noteholder Forbearance Agreement dated as of February 1, 2011 (the “**February Forbearance Agreement**”), providing for, among other things, a temporary forbearance by the Noteholders with respect to the “Specified Defaults” (as defined therein). The February Forbearance Agreement is being amended, restated and superseded by this Agreement.

E. Pursuant to Amendment No. 9, the Obligors authorized the issuance of up to US\$4,000,000 of their pari passu senior secured notes due January 31, 2011 (as amended from time to time, the “**Initial Series 2011 Notes**”); the Obligors and the Noteholders agree that the maturity date of the Initial Series 2011 Notes has been extended to May 20, 2011. On and as of March 31, 2011, no interest has been paid or received in respect of the Initial Series 2011 Notes that have been issued and are or have been outstanding from time to time; the outstanding principal amount of Initial Series 2011 Notes on such date is US\$1,675,000. The Obligors hereby covenant and confirm that all such amounts in respect of the Initial Series 2011 Notes are secured equally and ratably and on a pari passu basis with all other Notes other than the Post-Petition Notes, if any.

F. Pursuant to Amendment No. 10, the Obligors authorized the issuance of up to US\$2,900,000 of their pari passu senior secured notes due May 20, 2011 (as amended from time to time, the “**Second Series 2011 Notes**” and, together with the Initial Series 2011 Notes, the “**Series 2011 Notes**”). On and as of March 31, 2011, no interest has been paid or received in respect of the Second Series 2011 Notes that have been issued and are or have been outstanding from time to time; the outstanding principal amount of Second Series 2011 Notes on such date is US\$0.00. The Obligors hereby covenant and confirm that all such amounts in respect of the Second Series 2011 Notes are secured equally and ratably and on a pari passu basis with all other Notes other than the Post-Petition Notes, if any.

G. The Obligors and the Noteholders are entering into, substantially contemporaneously herewith, Amendment No. 11, pursuant to which, among other things, the Obligors will authorize the issuance of up to US\$3,000,000 of new senior secured notes due May 20, 2011 (as amended and outstanding from time to time, the “**Post-Petition Notes**”), which Post-Petition Notes shall be secured by all or substantially all of the assets of the Obligors, and which Post-Petition Notes will have, subject to the terms of any applicable Court orders, priority as to time and right of payment with respect to such Collateral over all other Notes and all other obligations in respect of pre-existing indebtedness of the Obligors, to the extent they are issued by the Obligors after the filing of an application by the Obligors pursuant to, and during the proceedings encompassed by, the CCAA (the “**CCAA Proceedings**”).

H. The Obligors have requested that the Noteholders temporarily suspend action and forebear from exercising remedies in respect of those Defaults and Events of Default that have occurred and continue to exist, all as is more particularly set forth in this Agreement.

I. Subject to the terms and conditions hereinafter set forth, the Noteholders have agreed to the Obligors' request to temporarily suspend action and forbear from exercising remedies in respect of such specified Defaults and Events of Default.

**AGREEMENT:**

**NOW THEREFORE**, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

**SECTION 1. DEFINED TERMS.**

**1.1 Defined Terms.** As used herein, the following terms shall have the meanings set forth below or in the document or the Section of this Agreement referenced below. The terms used herein and not defined herein shall have the respective meanings ascribed to such terms in the Note Agreement.

*"Agreement"* -- Introduction.

*"Amendment No. 9"* -- Recitals.

*"Amendment No. 10"* -- Recitals.

*"Amendment No. 11"* -- Recitals.

*"Canadian Special Counsel"* -- Gowling Lafleur Henderson LLP, or such other law firm as the Required Holders may designate from time to time.

*"CCAA Proceedings"* -- Recitals.

*"Claims"* -- Section 7.8.

*"Company"* -- Introduction.

*"Disposition"* -- means with respect to any Person, any transaction in which such Person sells, conveys, transfers or leases (as lessor) any of its property, including, without limitation, Capital Stock (including by way of a merger or consolidation of a Subsidiary of such Person with a third party or otherwise).

*"Effective Date"* -- Section 5.

*"February Forbearance Agreement"* -- Recitals.

*"Forbearance Period"* -- the period from March 31, 2011 until the Forbearance Termination Date.

*"Forbearance Termination Date"* -- means the date of the earlier to occur of (i) 5:00 p.m. (New York time) on May 20, 2011 and (ii) the first occurrence of any Forbearance Termination Event.

**“Forbearance Termination Event”** -- means any of the following, immediately upon the occurrence thereof:

- (a) the failure by either Obligor to comply with any of the terms and provisions set forth in this Agreement;
- (b) the failure of any representation or warranty in Section 3 to be true and correct;
- (c) the occurrence of any Default or Event of Default other than a Specified Default;
- (d) any termination of, or remedies or enforcement action taken in respect of, any Franchise Agreement;
- (e) the termination by either Obligor of any of the Retainer Letters (as defined in the January Forbearance Agreement);
- (f) the failure of the proposed sale of the Obligors’ Ontario- and British Columbia-located stores to close, on the terms previously described in the asset purchase agreement between the buyer and the Obligors with respect to such transaction, by April 29, 2011 (or such later date as shall have been approved by the Noteholders in writing or via electronic mail), with the amount and application of proceeds from such sale being satisfactory to the Noteholders in their sole discretion;
- (g) May 9, 2011, if the Obligors shall not have received formal final bids (which bids shall include draft asset purchase agreements and a description of the proposed purchase financing) with respect to at least 90% of the Obligors’ locations (other than those locations that are subject to Asset Purchase Agreements that have been executed and delivered and are in effect on the date hereof) by such date;
- (h) May 20, 2011, if the Court overseeing the Obligors’ CCAA Proceeding shall not have entered appropriate supportive motions with respect to sales of at least 90% of the Obligors locations described in clause (g) immediately above by such date; or
- (i) the occurrence of any Material Adverse Change, *provided* that the mere filing of an application by the Obligors pursuant to the Companies’ Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the “CCAA”), shall not itself constitute a Material Adverse Change.

**“Indebtedness”** with respect to any Person means, at any time, without duplication:

- (a) its liabilities for borrowed money and its redemption obligations in respect of mandatorily redeemable Preferred Stock;
- (b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business, but

including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) all liabilities appearing on its balance sheet in accordance with GAAP in respect of Capital Leases and all liabilities which would appear on its balance sheet in accordance with GAAP in respect of synthetic leases assuming such synthetic leases were accounted for as Capital Leases;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

(e) all liabilities in respect of hedging obligations other than those entered into in the ordinary course of business and pursuant to the reasonable requirements of the Company's business consistent with past practice;

(f) all its liabilities in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions (whether or not representing obligations for borrowed money); and

(g) any Guaranty Obligation of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

Indebtedness of any Person shall include all obligations of such Person of the character described in clauses (a) through (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

***"Initial Series 2011 Notes"*** -- Recitals.

***"January Forbearance Agreement"*** -- Recitals.

***"LP"*** -- Introduction.

***"Material Adverse Change"*** -- means (a) a material adverse change in the business, condition, assets, liabilities, operations or financial performance of the Obligors after the date of this Agreement, except for (x) any such material adverse change that is demonstrated to have resulted directly from changes that occurred after the date of this Agreement in the general business conditions in the industry in which the Obligors operate, and (y) any material adverse change in the Obligors' financial performance that is highly temporary in nature and is demonstrated to have resulted directly from the public announcement of the Obligors' CCAA Proceedings, or (b) a 10% or greater negative variance in cash position as at the end of any fiscal week of the Obligors from the value for such week end contained in the latest cash flow projections for the Obligors filed with the Court in connection with the Obligors' CCAA Proceedings, to the extent such variance exceeds \$200,000.

***"Note Agreement"*** -- Recitals.

***"Noteholders"*** -- Introduction.

**“Noteholders’ Financial Advisor”** -- means such financial advisor that the Noteholders shall designate from time to time.

**“Noteholders’ Professionals”** -- Section 4.2.

**“Notes”** -- Recitals.

**“Obligors”** --Introduction.

**“Post-Petition Notes”** -- Recitals.

**“Priszm, Inc.** -- Introduction.

**“Prudential”** -- Recitals.

**“Released Parties”** – Section 7.8.

**“Releasers”** – Section 7.8.

**“Required Holders”** -- means, with respect to the Notes, the holders of at least 50.1% of the aggregate principal amount of the Notes.

**“Restricted Payment”** -- means:

(a) the making or declaration of, or the incurrence of any liability to make or declare, any dividends or other distributions on Capital Stock of either Obligor or any Subsidiary (other than distributions in such stock and dividends and distributions made by a Subsidiary to the extent, but solely to the extent, that such dividends or distributions are payable to a member of the Obligor Group);

(b) any optional or mandatory redemption, retirement, purchase or other acquisition, direct or indirect, of any Capital Stock of either Obligor or any Subsidiary by either Obligor or any Subsidiary thereof (other than, with respect to any Subsidiary, in respect of Capital Stock of such Subsidiary owned legally and beneficially by either Obligor), now or hereafter outstanding;

(c) any payment of any obligation that by, its terms (or pursuant to the terms of an agreement related thereto), is subordinated in any manner to the Notes; and

(d) any payment of any bonus, director fee, management fee, consulting fee or similar amount to any Affiliate, other than (i) salary and other similar compensatory arrangements in effect on the Effective Date and consistent with past practices and reasonable business judgment of the Obligors, (ii) payment of “stay” bonuses that are, in the reasonable business judgment of the Obligors, required to retain certain employees and officers that are integral to the continued operation of the Obligors’ principal business, and that are in an amount no greater than provided in, and measured in accordance with, clause (d) of the definition of “Restricted Payment” contained in the

January Forbearance Agreement, and (iii) the retainer paid to the Obligors' financial monitor, if any.

**"Retainer Letters"** -- collectively, (i) the retainer letter dated December 13, 2010, signed by Special Counsel and countersigned by the Obligors, (ii) the retainer letter dated on or around December 20, 2010, signed by Canadian special counsel to the Noteholders and countersigned by the Obligors, and (iii) the retainer letter dated December 20, 2010, signed by Special Counsel and the Noteholders' Financial Advisor and countersigned by the Obligors, and (iv) such other retainer letters as may hereinafter be signed by one of the Noteholders' Professionals and countersigned by the Obligors in respect of fees and expenses payable by the Obligors in accordance with the Note Agreement, the Notes and this Agreement.

**"Second Series 2011 Notes"** -- Recitals.

**"Series 2011 Notes"** -- Recitals.

**"Series A Notes"** -- Recitals.

**"Shelf Notes"** -- Recitals.

**"Special Counsel"** -- Bingham McCutchen LLP or such other law firm as the Required Holders may designate from time to time.

**"Specified Defaults"** -- Section 2.1.

**1.2 Rules of Construction.** All definitions contained in this Agreement are equally applicable to the singular and plural forms of the terms defined. The words "hereof," "herein," and "hereunder" and words of similar import referring to this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Unless otherwise specified, all Section references pertain to this Agreement. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles as in effect on the Effective Date. All references herein to "this Agreement" or to any other agreement or document shall, unless stated otherwise, be deemed to refer to this Agreement or such other agreement or document as the same may be amended from time to time. All references herein to sections or clauses of any other agreement or document shall, unless the context otherwise requires, be deemed to refer to such sections as they may be renumbered from time to time in connection with any amendment of the type referred to in the immediately preceding sentence of this Section. All references herein to any person shall be deemed to refer to such person and its lawful successors and assigns.

## **SECTION 2. TEMPORARY FORBEARANCE.**

**2.1 During Forbearance Period.** During the Forbearance Period (but not thereafter), each of the Noteholders hereby agrees to temporarily suspend action and forbear from accelerating the maturity of the Notes, taking action to foreclose on the Collateral or exercising remedies in respect of the Defaults and Events of Default specified on Schedule A hereto (the **"Specified Defaults"**). In addition to the foregoing, the Noteholders agree that the maturity date of all Notes, and the due date for payment of all interest accrued but unpaid as of the date hereof



with respect to the Notes, shall be the Forbearance Termination Date. For the avoidance of doubt, immediately upon the occurrence of a Forbearance Termination Event, all of the Notes shall become immediately due and payable and the Noteholders shall, among other things, be entitled to exercise of all of their rights and remedies under the Security Documents, subject to the terms of the orders issued in connection with the CCAA Proceedings.

### **SECTION 3. WARRANTIES AND REPRESENTATIONS.**

To induce the Noteholders to enter into this Agreement, each of the Obligors hereby warrants and represents to the Noteholders, as of the date hereof and as of the Effective Date:

#### **3.1 Organization, Power and Authority, etc.**

Each Obligor is a corporation duly organized and existing in good standing under the laws of its jurisdiction of organization and has all requisite power and authority to enter into and perform its obligations under this Agreement.

#### **3.2 Legal Validity.**

(a) Assuming the effectiveness of the Initial Order granted by the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) under the Obligors’ CCAA Proceedings, the execution and delivery of this Agreement by each of the Obligors and compliance by each of the Obligors with its obligations hereunder: (i) are within the powers of such Obligor; and (ii) are legal and do not conflict with, result in any breach of, constitute a default under, or result in the creation of any Lien upon any property of such Obligor under the provisions of: (1) any charter instrument or bylaw to which such Obligor is a party or by which such Obligor or any of its property may be bound; (2) any order, judgment, decree or ruling of any court, arbitrator or governmental authority applicable to such Obligor or its property; or (3) any agreement or instrument to which such Obligor is a party or by which such Obligor or any of its property may be bound or any statute or other rule or regulation of any governmental authority applicable to such Obligor or its property.

(b) Assuming the effectiveness of the Initial Order granted by the Court in the Obligors’ CCAA Proceedings, this Agreement has been duly authorized by all necessary action on the part of the Obligors, has been executed and delivered by a duly authorized officer of each Obligor, and constitutes a legal, valid and binding obligation of the Obligors, enforceable in accordance with its terms, except that enforceability may be limited by applicable bankruptcy, reorganization, arrangement, insolvency, moratorium, or other similar laws affecting the enforceability of creditors’ rights generally and subject to the availability of equitable remedies.

**3.3 No Conflicts or Defaults.** Assuming the effectiveness of the Initial Order granted by the Court in the Obligors’ CCAA Proceedings, neither the execution and delivery by the Obligors of this Agreement, nor the performance by each Obligor of its obligations hereunder, conflicts with, results in any breach in any of the provisions of, constitutes a default under, violates or results in the creation of any Lien upon any property of either Obligor under the provisions of:

- (a) any charter document or bylaws of either Obligor;
- (b) any material agreement, instrument or conveyance to which either Obligor may be bound or affected; or
- (c) any statute, rule or regulation or any order, judgment or award of any court, tribunal or arbitrator by which either Obligor, or any properties of either Obligor, may be bound or affected.

**3.4 Governmental Consent.** Neither the execution and delivery by the Obligors of this Agreement, nor the performance by each of the Obligors of its obligations hereunder, is such as to require a consent, approval or authorization of, or filing, registration or qualification with, any governmental authority on the part of either Obligor as a condition thereto under the circumstances and conditions contemplated by this Agreement.

**3.5 No Defaults or Events of Default.** After giving effect to the transactions contemplated by this Agreement, no Default or Event of Default (other than the Specified Defaults) will exist under the Note Agreement, and there will be no default or event of default under, or any breach of, this Agreement. Immediately prior to giving effect to the transactions contemplated by this Agreement, those Defaults or Events of Default identified as "Specified Defaults" constituted the only Defaults or Events of Default that existed at such time.

**3.6 No Undisclosed Consideration.** Except as expressly set forth herein, neither of the Obligors nor any of their Subsidiaries has paid or will pay, directly or indirectly, any fee, charge, increased interest or other consideration to any creditor or Franchisor of either of the Obligors or any of their Subsidiaries as a condition to, or otherwise in connection with, the execution or delivery of this Agreement or the performance of any Franchise Agreement, or in connection with any forbearance granted by the Franchisor.

**3.7 Existing Indebtedness and Liens.** Schedule 3.8 hereto sets forth a complete and correct list of all outstanding Indebtedness of the Obligors and their Subsidiaries as of March 31, 2011 (other than Indebtedness under the Transaction Documents and items of Indebtedness individually not greater than \$100,000 in principal amount which do not, in the aggregate, exceed \$1,000,000), including with respect thereto, identification of the obligor(s) and the payee or creditor with respect to such Indebtedness and whether such Indebtedness is secured, guaranteed or subordinated to any other Indebtedness of any Obligor or any of their Subsidiaries.

**3.8 Litigation.** There are no material actions, suits, proceedings, claims or disputes pending or, to the knowledge of the Obligors, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, by or against the Obligors or any of their Subsidiaries or against any of their properties or revenues that (a) purport to affect or pertain hereto, or to the Note Agreement, any Franchise Agreement, or any of the transactions contemplated hereby or thereby, or (b) either individually or in the aggregate, if determined adversely, could reasonably be expected to have a Material Adverse Effect.

## SECTION 4. OBLIGORS' COVENANTS AND AGREEMENTS.

From and after the Effective Date, and irrespective of the occurrence of a Forbearance Termination Event, the Company shall comply with and be bound by the following covenants and agreements:

**4.1 Inspection.** The Obligors will, and each will cause each of its Subsidiaries, officers, employees, outside accountants, and financial and other advisors and consultants to, permit representatives of any Noteholder (including, without limitation, the Noteholders' Professionals) to examine, copy and make extracts from its books and records (excepting customer confidential information that is specifically identifiable with respect to individual customers and books and records subject to solicitor-client privilege), to inspect any of its properties, and to discuss its business and affairs with its officers, its outside accountants, and any financial or other advisor, consultant or monitor to or of the Obligors, all at such reasonable times and as often as such Noteholder or such Noteholders' Professional may reasonably request. This Section hereby constitutes permission and direction to such Persons to discuss and disclose such information in order to permit the Noteholders and the Noteholders' Professionals to fully investigate any matter that arises in the context of their work with the Obligors and their Subsidiaries.

**4.2 Fees and Expenses of Noteholders and Noteholders' Professionals.** Without limiting anything set forth in the Note Agreement, the Obligors shall pay, within three (3) Business Days of receipt of any invoice, all reasonable fees, expenses and disbursements of the Noteholders (including, but not limited to, travel and related expenses of the Noteholders and the Noteholders' Professionals). The Obligors shall make all payments required to be made by either of them pursuant to and in the manner set forth in, each of the Retainer Letters. The Obligors also agree to the hiring and the continued employment by the Noteholders of their Special Counsel and the Noteholders' Canadian Counsel, and by their Special Counsel of the Noteholders' Financial Advisor, as well as local counsel in one or more applicable states or countries who can render advice and services in connection with local specific law or specialized issues of law in connection with the matters to which this Agreement relates (all such Persons, together with Special Counsel, the Noteholders' Canadian Counsel and the Noteholders' Financial Advisor, the "Noteholders' Professionals"). The Noteholders' Professionals shall be selected by the Noteholders in their sole discretion. The Obligors may be asked to fund a retainer for the engagement of each of the Noteholders' Professionals (other than Special Counsel and Noteholders Canadian Counsel which shall be funded on or prior to the Effective Date), and if so asked in writing the Obligors shall promptly (and in any event, within two (2) Business Days) fund each such retainer in immediately available funds by wire transfer in such amount as shall be reasonable, taking into account the amount of the retainers paid to Special Counsel and Noteholders' Canadian Counsel. Except as otherwise agreed in writing, the Noteholders' Financial Advisor shall not have any duty to share its work product with, or accept instructions from, the Obligors or any other Person.

**4.3 Additional Supplemental Covenants of the Obligors.** From and after the Effective Date, and irrespective of the occurrence of a Forbearance Termination Event, the Obligors shall not, and shall not permit any Subsidiary, to:

- (a) make, directly or indirectly, any Restricted Payment;
- (b) make, directly or indirectly, any payment, prepayment or purchase in respect of any Indebtedness, whether principal, interest, fees, premium or otherwise, other than in respect of the Transaction Documents;
- (c) create, incur or assume any Indebtedness other than as set forth on Schedule 3.8 and Indebtedness outstanding under the Transaction Documents;
- (d) effectuate any Disposition, except (A) Dispositions of inventory in the ordinary course of business, (B) Dispositions of equipment, fixtures, supplies and materials no longer required in the operation of the business of the Company and its Subsidiaries that are obsolete, worn out or unusable with an aggregate value for all such property so disposed of on or after January 19, 2011 not in excess of C\$250,000, and (C) Dispositions approved by the Noteholders and the Court in the CCAA Proceedings;
- (e) merge or consolidate with any other Person;
- (f) make or agree to make any loans or similar provisions of credit to, or purchase or otherwise acquire equity interests in or assets constituting a business unit or all or a substantial part of the business of, any Person; or
- (g) create, incur or assume any Lien (other than Permitted Liens and Liens contemplated by the Specified Default that is last-listed on Schedule A) upon any of the property or assets of the Company or any Subsidiary, whether now owned or hereafter acquired.

**4.4 No Fees, etc.** Neither Obligor nor any of their Subsidiaries has paid or will pay any fees, charges, premium, rate enhancements, letter of credit fees or any similar amounts with respect to, or provide any new collateral or other credit enhancement for, any Franchise Agreement in connection with or as an inducement to enter into the Franchisor Forbearance Agreement.

**4.5 Reaffirmation.** Each of the Obligors hereby (i) acknowledges and affirms all of its obligations under the terms of each Security Document and Transaction Document to which it is a party, and in the case of Prizm Inc, the KIT Inc. Guarantee, and agrees all such agreements shall continue to remain in full force and effect, and (ii) acknowledges and agrees that such Security Documents and Transaction Documents, and in the case of Prizm Inc., the Kit Inc. Guarantee, shall secure and guaranty the obligations under the Note Agreement and the Notes pursuant to the terms thereof.

**4.6 Negative Pledges.** The Obligors shall not grant or suffer to exist any “negative pledges” with respect to its material assets or properties other than negative pledges granted to the Noteholders, to the Franchisor in respect of Franchise Agreements, or otherwise in connection with leases entered into in the ordinary course of business, or otherwise in connection with the security documents being executed in favor of the “Collateral Agent” as provided in the Intercreditor Agreement.

**4.7 Meetings.** During the Forbearance Period, the Obligors and their senior management and advisors shall make themselves available for such periodic meetings as the Noteholders may reasonably request, to take place at mutually convenient times, in person or by telephone with representatives of the Noteholders, the Noteholders' Professionals, and any financial or other advisor or consultant to the Obligors, to discuss the Obligors' business operations and such other matters as such representatives may reasonably request.

**4.8 Access to Obligor Advisors.** The Obligors shall ensure free communication from any financial or other advisor, consultant or monitor to the Obligors to and from the Noteholders and the Noteholders' Professionals, provided that this covenant shall not require the Obligor's outside counsel to provide attorney-client privileged information or information constituting attorney work product.

**4.9 Additional Financial and Other Information.** The Obligors shall prepare and deliver (a) by the second Business Day of each calendar week, an updated and current 13 week cash flow projection starting with such week and reflecting the actual cash position of the Obligors as of such time, prepared in consultation with the Company's financial advisor or financial monitor and accompanied by the agreement of such advisor or monitor that such projections are reasonable, (b) on or before each Friday during the Forbearance Period, a weekly update from the Company or its professionals on the status of the sales process plan and progress with respect thereto, and (c) upon request by the Noteholders or the Noteholders' Professionals, such other information and materials (in form and substance reasonably satisfactory to the Noteholders) as may be reasonably requested.

**4.10 Cash Position.** The Obligors shall not allow their Closing Cash Position (as defined below) as of the end of any week during the Forbearance Period to be less than 90% of the Closing Cash Projected Amount (as defined below) as at the end of such week. Notwithstanding the foregoing, the Obligors shall not be in breach of this Section 4.10 as of the end of any week during the Forbearance Period if the differential between the Closing Cash Position and the Closing Cash Projected Amount is less than C\$200,000.

*As used herein:* "**Closing Cash Projected Amount**" means, for any week, the dollar amount set forth with respect to such week beside the line item entitled "Adjusted Cash Position-Forbearance and Financing Costs" on the most recent weekly cash flow projections filed with the Court in the Obligors' CCAA Proceedings; and "**Closing Cash Position**" means, for any week, the actual cash position of the Obligors on the last Business Day of such week, determined in the same manner as the Closing Cash Projected Amount is determined.

**4.11 Disposition of Collateral.** The Obligors covenant and agree that the disposition of the Collateral securing the Notes, and the application of the proceeds thereof, are each subject to the consent of the Noteholders, which consent may be granted or withheld in their sole discretion, in all cases subject to the provisions of the Security Documents. A failure of the Obligors to obtain such consent prior to any such disposition shall constitute an immediate Forbearance Termination Event, a Default and an Event of Default.

**4.12 Further Assurances.** The Obligors will cooperate with the Noteholders and execute such further instruments and documents as the Noteholders shall reasonably request to

carry out to their satisfaction the transactions contemplated by this Agreement as well as the Note Agreement, the Notes and the Security Documents. To the extent reasonably requested by a Noteholder or a Noteholders' Professional, the Obligors and their financial advisor or financial monitor shall share information and analysis with, and otherwise cooperate with, the Noteholders' Professionals, and by their execution hereof the Obligors instruct and direct their financial advisor and/or financial monitor to so share and cooperate.

## **SECTION 5. CONDITIONS PRECEDENT.**

The temporary forbearances granted in Section 2.1 shall not become effective unless all of the following conditions precedent shall have been satisfied (which satisfaction shall be conclusively presumed once each of the Noteholders shall have executed and delivered this Agreement) on or before March 31, 2011 (the date of such satisfaction being herein referred to as the "Effective Date"):

**5.1 Execution and Delivery of this Agreement.** The Obligors shall have executed and delivered to each Noteholder a counterpart of this Agreement.

**5.2 No Default; Representations and Warranties True.** The warranties and representations set forth in Section 3 shall be true and correct on the Effective Date.

**5.3 Authorization of Transactions.** The Obligors shall have duly authorized the execution and delivery of this Agreement and each of the documents executed and delivered in connection herewith and the performance of all of their obligations contemplated by this Agreement.

**5.4 Proceedings Satisfactory.** All documents executed and delivered, and actions and proceedings taken, in connection with this Agreement shall be satisfactory to the Noteholders and Special Counsel. The Noteholders and Special Counsel shall have received copies of such documents and papers as they may reasonably request in connection therewith, in form and substance satisfactory to each of them.

## **SECTION 6. NO PREJUDICE OR WAIVER; REAFFIRMATION.**

**6.1 No Prejudice or Waiver.** Except as provided herein, the terms of this Agreement shall not operate as a waiver by the Noteholders of, or otherwise prejudice the Noteholders' rights, remedies or powers under, the Note Agreement, the Notes or applicable law. Except as expressly provided herein:

(a) no terms and provisions of any Transaction Document are modified or changed by this Agreement; and

(b) the terms and provisions of the Note Agreement shall continue in full force and effect.

**6.2 Reaffirmation of Outstanding Obligations, Ratification, etc**

(a) Each of the Obligors hereby adopts again, ratifies and confirms in all respects, as its own act and deed, each of the Note Agreement and the Notes and any document or instrument delivered pursuant to or in connection therewith and acknowledges (i) that all such instruments and documents shall continue in full force and effect and (ii) that as of the Effective Date, it has no claim or cause of action against any Noteholder (or any of its respective directors, officers, employees or agents) or any offset right, counterclaim or defense of any kind against any of its obligations, indebtedness or liabilities to any Noteholder nor does it have any intention of bringing any such claim or cause of action against any Noteholder in respect of the foregoing.

(b) This Agreement shall not, under any condition or any jurisdiction whatsoever, be deemed to be or be construed as a novation of the respective rights and obligations of the parties hereto under the Note Agreement or the Notes.

## SECTION 7. MISCELLANEOUS.

**7.1 Successors and Assigns.** This Agreement shall be binding upon and enforceable by and against the parties hereto and their respective successors and assigns.

**7.2 Governing Law.** This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York.

**7.3 Duplicate Originals; Facsimile Signatures.** Two or more duplicate originals of this Agreement may be signed by the parties, each of which shall be an original but all of which together shall constitute one and the same instrument. This Agreement may be executed in one or more counterparts and shall be effective when at least one counterpart shall have been executed by each party hereto, and each set of counterparts which, collectively, show execution by each party hereto shall constitute one duplicate original. Facsimile signatures, or signatures reproduced or transmitted via electronic means such as email or email attachment, shall be deemed to constitute original signatures and shall be admissible into evidence for all purposes.

**7.4 Waivers and Amendments.** Neither this Agreement nor any term hereof may be changed, waived, discharged or terminated orally, or by any action or inaction, but only by an instrument in writing signed by the Required Holders and the Obligors.

**7.5 Section Headings.** The titles of the sections hereof appear as a matter of convenience only, do not constitute a part of this Agreement and shall not affect the construction hereof.

**7.6 Survival.** All warranties, representations, certifications and covenants made by or on behalf of the Obligors and/or the Subsidiaries herein or in any certificate or other instrument delivered pursuant hereto shall be considered to have been relied upon by the Noteholders and shall survive the execution of this Agreement, regardless of any investigation made by or on behalf of the Noteholders. All statements in any such certificate or other instrument shall constitute warranties and representations of the Obligors and/or the Subsidiaries as the case may be, hereunder.

**7.7 No Third Party Beneficiaries.** This Agreement shall be solely for the benefit of the parties hereto and their respective successors and assigns. No person not a party hereto, including, without limitation, any other creditor of the Obligors or the Subsidiaries, shall have any rights under, or as a result of the existence of, this Agreement.

**7.8 Waiver and Release.** For and in consideration of the agreements contained in this Agreement, and other good and valuable consideration, the receipt and sufficiency of all of which are hereby acknowledged, each Obligor and each Guarantor, on its own behalf, and to the extent that it is lawfully able to do so, on behalf of its predecessors, successors, assigns, subsidiaries, affiliates and agents and all of their respective past, present and future officers, directors, trustees, shareholders, employees, contractors and attorneys, and the predecessors, heirs, successors, and assigns of each of them (collectively referred to in this Section 7.8 as the “**Releasors**”) do hereby jointly and severally fully RELEASE, REMISE, ACQUIT, IRREVOCABLY WAIVE and FOREVER DISCHARGE each of the Noteholders, together with their respective predecessors, successors, assigns, subsidiaries, affiliates and agents and all of their respective past, present and future officers, directors, trustees, shareholders, employees, contractors and professionals (including, without limitation, the Noteholders’ Professionals), and the predecessors, heirs, successors and assigns of each of them (the Noteholders and all of the foregoing being collectively referred to in this Section as the “**Released Parties**”), from and with respect to any and all Claims (as defined below).

As used in this Section 7.8, the term “**Claims**” shall mean and include any and all, and all manner of, action and actions, cause and causes of action, suits, disputes, controversies, claims, debts, sums of money, offset rights, defenses to payment, agreements, promises, notes, bonds, bills, covenants, losses, damages, judgments, executions and demands of whatever nature, known or unknown, whether in contract, in tort or otherwise, at law or in equity, for money damages or dues, recovery of property, or specific performance, or any other redress or recompense which have accrued, may have been had, or may be now possessed by or on behalf of any one or more of the Releasors against any one or more of the Released Parties for, upon, by reason of, on account of, or arising from or out of, or by virtue of, any transaction, event or occurrence, duty or obligation, indemnification, agreement, promise, warranty, covenant or representation, breach of fiduciary duty, breach of any duty of fair dealing, breach of confidence, breach of funding commitment, undue influence, duress, economic coercion, conflict of interest, negligence, bad faith, malpractice, violations of federal or state securities laws or the Racketeer Influenced and Corrupt Organizations Act, intentional or negligent infliction of mental distress, tortious interference with contractual relations, tortious interference with corporate governance or prospective business advantage, breach of contract, deceptive trade practices, libel, slander, usury, conspiracy, wrongful acceleration of any indebtedness, wrongful foreclosure or attempt to foreclose on any collateral relating to any indebtedness, action or inaction, relationship or activity, service rendered, matter, cause or thing, whatsoever, express or implied, transpiring, entered into, created or existing from the beginning of time to the date of the execution of this Agreement in respect of the Notes or the Note Agreement, and shall include, but not be limited to, any and all Claims in connection with, as a result of, by reason of, or in any way related to or arising from the existence of any relationships or communications by and between the Releasors and the Released Parties with respect to the Notes, the Note Agreement and all agreements, documents and instruments related thereto, as presently constituted and as the same may from time to time be amended. However, the term “**Claims**” does not include any obligations arising



after the date of this Agreement of the Released Parties under the Notes, the Note Agreement, any other Transaction Document, this Agreement or any agreements, documents and instruments related thereto, as presently constituted and as the same may from time to time be amended, or Claims resulting from the gross negligence, willful misconduct or bad faith of the Released Parties.

Each Obligor hereby represents and warrants to the Released Parties that:

(a) it has the full right, power, and authority to execute and deliver this Agreement containing this Section 7.8 without the necessity of obtaining the consent of any other party;

(b) it has received independent legal advice from attorneys of its choice with respect to the advisability of granting the release provided herein, and with respect to the advisability of executing this Agreement containing this Section 7.8;

(c) it has not relied upon any statements, representations or promises of any of the Released Parties in executing this Agreement containing this Section 7.8, or in granting the release provided herein;

(d) it has not entered into any other agreements or understandings relating to the Claims;

(e) the terms of this Section 7.8 are contractual, not a mere recital, and are the result of negotiation among all the parties; and

(f) this Section 7.8 has been carefully read by, and the contents hereof are known and understood by, and it is signed freely by, such Obligor.

The Company covenants and agrees not to bring any claim, action, suit or proceeding regarding or related in any manner to the matters released hereby, and each Obligor further covenants and agrees that this Section 7.8 is a bar to any such claim, action, suit or proceeding.

All prior discussions and negotiations regarding the Claims have been and are merged and integrated into, and are superseded by, this Section 7.8. Each Obligor acknowledges that no representation or warranty of any kind or character has been made to either Obligor by any one or more of the Released Parties or any agent, representative or attorney of the Released Parties to induce the execution of this Agreement containing this Section 7.8. Each Obligor understands, agrees and expressly assumes the risk of any fact not recited, contained or embodied in this Section 7.8 which may hereafter turn out to be other than, different from, or contrary to, the facts now known to either Obligor or believed by either Obligor to be true, and further agree that this Section 7.8 shall not be subject to termination, modification, or rescission, by reason of any such difference in facts.

**7.9 Acknowledgement.** Each Obligor acknowledges that (a) except as expressly set forth herein, none of the Noteholders has agreed to (and none has any obligation whatsoever to discuss, negotiate or agree to) any other restructuring, modification, amendment, waiver or forbearance with respect to the Notes or the Note Agreement; (b) no understanding with respect

to any other restructuring, modification, amendment, waiver or forbearance with respect to the Notes or the Note Agreement shall constitute a legally binding agreement or contract, or have any force or effect whatsoever, unless and until reduced to writing and signed by authorized representatives of each party hereto; (c) the execution and delivery of this Agreement has not established any course of dealing between the parties hereto or created any obligation or agreement of any Noteholder with respect to any future restructuring, modification, amendment, waiver or forbearance with respect to the Note Agreement or the Notes; and (d) the Noteholders have heretofore properly performed and satisfied in a timely manner all of their respective obligations, if any, to either of the Obligors and each Subsidiary, if any, under any of the Note Agreement or the Notes.

**7.10 Indemnification.** Each of the Obligors agrees to indemnify each of the Noteholders and their affiliates, and their respective representatives, affiliates, directors, officers, trustees, employees, agents and professionals from, and hold each of them harmless against, any and all losses, liabilities, claims, damages or expenses incurred by any of them arising out of or by reason of any investigation or litigation or other proceedings (including any threatened investigation, litigation or other proceedings) relating to, or in connection with, this Agreement, including, without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation, litigation or other proceedings (but excluding any such losses, liabilities, claims, damages or expenses incurred by reason of the bad faith, gross negligence or willful misconduct of the person to be indemnified). Without limiting the generality of the foregoing, each of the Obligors agrees to pay currently the expenses reasonably and necessarily incurred by the Noteholders relating to any such investigation, litigation or other proceedings (including, without limitation, the fees and expenses of legal counsel) in advance of the final disposition thereof, unless a court of competent jurisdiction finally determines that such Obligor is not obligated to provide such current payment in respect of such investigation, litigation or proceeding.

**7.11 Tolling of Statutes of Limitation.** The parties hereto agree that all applicable statutes of limitation in respect of the Note Agreement are tolled as of the Effective Date and shall continue to be tolled and shall not begin running until the Forbearance Termination Date.

**7.12 Notices.** All notices and communications to the Obligors and the Noteholders shall be sent to the addresses and in the manner specified in the Note Agreement. A copy of all notices and communications to any Noteholder shall simultaneously be delivered to:

Bingham McCutchen LLP  
 One State Street  
 Hartford, Connecticut 06103  
 Attention: Scott Falk  
 Phone: 860.240.2763  
 Fax: 860.240.2800  
 E-mail: scott.falk@bingham.com

**7.13 Directly or Indirectly.** Where any provision in this Agreement refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person, including actions

taken by or on behalf of any partnership or limited liability company in which such Person is a general partner or managing member, as applicable.

**7.14 Entire Agreement.** This Agreement, the Note Agreement and the Notes, as amended to the date hereof, embody the entire agreement and understanding between the Noteholders and the Obligors and supersede all prior agreements and understandings relating to the subject matter hereof and thereof.

**7.15 Severability.** Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

*[Remainder of page intentionally left blank. Next page is signature page.]*

KIT FINANCE INC.

By: DMC  
Name: Deborah Papernick  
Title: CFO

PRISZM INC.

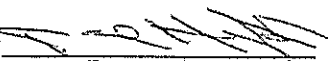
By: DMC  
Name: Deborah Papernick  
Title: CFO

PRISZM LP, by its general partner,  
PRISZM INC.

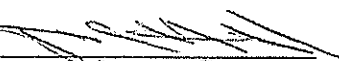
By: DMC

The foregoing Agreement is hereby accepted as of the date first above written.

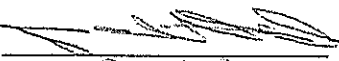
**PRUDENTIAL INVESTMENT  
MANAGEMENT, INC.**

By:   
Name: Paul H. Prange  
Title: Vice President

**THE PRUDENTIAL INSURANCE  
COMPANY OF AMERICA**

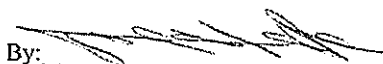
By:   
Name: Paul H. Prange  
Title: Vice President

**PRUCO LIFE INSURANCE COMPANY**

By:   
Name: Paul H. Prange  
Title: Vice President

**PRUDENTIAL RETIREMENT  
INSURANCE AND ANNUITY COMPANY**

By: Prudential Investment Management, Inc., its  
investment manager

By:   
Name: Paul H. Prange  
Title: Vice President

KIT FINANCE INC.

By: DMC  
Name: Deborah Papernick  
Title: CFO

PRISZM INC.

By: DMC  
Name: Deborah Papernick  
Title: CFO

PRISZM LP, by its general partner,  
PRISZM INC.

By: DMC

**SCHEDULE A****SPECIFIED DEFAULTS**

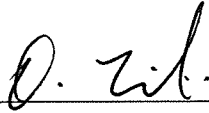
- 1) Failure to comply with 6H(9) Minimum EBITDA of the Existing Note Agreement, as amended on March 12, 2010, for the quarter ended September 5, 2010.
- 2) Failure to comply with 6H(9) Minimum EBITDA of the Existing Note Agreement, as amended on March 12, 2010, for the quarter ended December 26, 2010.
- 3) Failure to comply with 5V Refinancing Efforts as at June 30, 2010 (failure to deliver letter of intent or commitment letter from a bona fide lender setting forth such lender's commitment to the terms of a financing transaction providing for repayment in full of amounts owing to the holders of the Notes under the Notes and the Existing Note Agreement.)
- 4) Failure to comply with 5V Refinancing Efforts as at December 31, 2010 (failure to repay all amounts owing to the holders of the Notes under the Notes and the Existing Note Agreement on or before December 31, 2010)
- 5) Failure to pay interest owing on December 12, 2010 and December 13, 2010 related to the Notes.
- 6) Failure to pay interest owing on January 12, 2011 and January 13, 2011 related to the Notes.
- 7) Failure to itemize the Guarantee by Prizm Inc. of the obligations of Prizm LP under the Franchise Agreements in Paragraphs 6D and 6I of the Existing Note Agreement
- 8) Failure to itemize the Indebtedness listed on Schedule 3.8 hereof in connection with Paragraph 6D of the Existing Note Agreement
- 9) Filing of an application by the Obligors pursuant to the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended
- 10) The granting of the Administration Charge, the Critical Suppliers' Charge and the Directors' Charge pursuant to the Initial Order granted by the Court in the CCAA Proceedings.

**SCHEDULE 3.8****Indebtedness**

Unsecured debt of Prizm LP owing to Prizm Income Fund in the principal amount of C\$30,000,000. Such debt is subordinated to the Senior Indebtedness of Prizm LP.



This is Exhibit "M"  
to the affidavit of Deborah Papernick,  
sworn before me on the 31<sup>st</sup> day  
of March, 2011



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Commissioner for Taking Affidavits



February 2, 2011

John Bitove  
Prizm LP  
101 Exchange Avenue  
Vaughan, Ontario L4K 5R6

Re: Extension of Master Franchise Agreement initial term expiration dates

Dear John:

As you know, the expiration date of the initial term of the franchise agreements for 70 outlets listed on Schedule D to the Master Franchise Agreement dated November 10, 2003 between Prizm, LP ("Prizm") and Yum! Restaurants International (Canada) Company ("YRI") (as amended, the "Master Franchise Agreement") was extended until January 15, 2011. We understand pursuant to the Asset Purchase Agreement between Prizm and Aly Janmohamed (or his nominee) (the "Asset Purchase Agreement") for the sale of Prizm's outlets in Ontario and British Columbia, the closing date for transfer of the outlets is February 28, 2011.

In consideration of the agreements contained in this letter, as well as other good and valuable consideration the receipt of which is hereby acknowledged, YRI and Prizm agree as follows:

***Extension***

YRI will extend the initial term of the franchise agreement for the 70 outlets listed on Exhibit 1 to this letter until February 28, 2011 (provided that the renewal date would remain November 10, 2010).

***Renewal Fees and U&R's***

Included within these 70 outlets are 24 outlets in Ontario and BC that are subject to the Asset Purchase Agreement. Mr. Janmohamed (or his nominee) must pay the Renewal Fees corresponding to these 24 outlets at the time of acquisition, and must agree to an upgrade and renovation schedule for the outlets with YRI.

***Other Outlets***

The extensions of the initial terms of outlets #1366, #1441, #1318 and #1551 will remain as agreed in the letter agreement dated November 15, 2010 regarding the renewal and extension of Master Franchise Agreement initial term expiration dates between YRI and PriszM.

The foregoing agreement to extend of the terms of the franchise agreements is subject to PriszM's continued cooperation with YRI and PriszM's senior secured lender on the restructuring of the KFC business, including the timely transfer of PriszM's outlets in Ontario and British Columbia to Aly Janmohamed (or his nominee). This letter and the agreements contained herein are without prejudice to YRI's rights under the Master Franchise Agreement. Except for the amendments expressly set forth in this letter agreement, all other terms of the Master Franchise Agreement will remain in full force and effect.

Please confirm your acknowledgement of and agreement with the foregoing by signing this letter where indicated below, returning the signed copy to me and keeping a copy for your files. If you have any questions or comments, please let me know.

Sincerely,

Yum! Restaurants International (Canada)  
Company

Enclosure - Exhibit 1

ACKNOWLEDGED AND AGREED

This 2 day of February, 2011

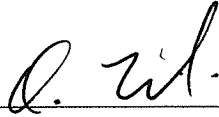
PRISZM, LP

By *John Barlowe*

cc: Deborah Papernick  
Phillips Nazro



This is Exhibit "N"  
to the affidavit of Deborah Papernick,  
sworn before me on the 31<sup>st</sup> day  
of March, 2011



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Commissioner for Taking Affidavits

## NOTICE

TO: CIBC Mellon Trust Company (the "Debenture Trustee")

Reference is made to a trust indenture, dated June 22, 2007 between Prizm Income Fund (the "Fund") and the Debenture Trustee (the "Trust Indenture") providing for the issue of unsecured subordinated debentures of which Series 2007 6.50% Convertible Unsecured Subordinated Debentures due June 30, 2012 are outstanding (the "Debentures").

Capitalized terms not defined herein have the meaning ascribed to them in the Trust Indenture.

In accordance with Section 5.8 and Section 5.5 of the Trust Indenture, the undersigned hereby notifies you that as of January 15, 2011 events of default have occurred under the Fund's Senior Indebtedness, and such events of default are continuing and notice of such events of default have been given by the holders of such Senior Indebtedness to the Fund.

DATED this 16 day of January, 2011.

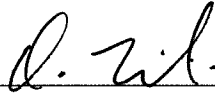
PRISZM INCOME FUND

By: 

Name: Deborah Papernick

Title: Chief Financial Officer

This is Exhibit "O"  
to the affidavit of Deborah Papernick,  
sworn before me on the 31<sup>st</sup> day  
of March, 2011



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Commissioner for Taking Affidavits

## CRITICAL SUPPLIERS TO THE PRISZM ENTITIES

### A) Suppliers of Food and Restaurant Consumables

#### Proposed Payment Terms

- The later of 21<sup>1</sup> days from receipt of invoice or the Monday following the day which is 21 days from the receipt of invoice.
- To the extent that there are any annual fees, such fees to be prorated and paid them bi-monthly.

#### **Listing of suppliers of food and restaurant consumables to be declared Critical Suppliers and subject to the above payment terms**

Pepsi-Cola Bev. Canada ( Nss )	Sysco Serca Food Serv.West Inc (34010)
Praxair Products Inc	Sysco Serca Food Serv.West Inc (34011)
Canada Bread Co.Ltd. #V4065	Sysco Milton (Pronamic) Ph
Sysco Milton (Pronamic)	Sysco Milton (Pronamic) Tb
Baxter Foods Limited	Canada Bread Company Ltd. (321228)
Canada Bread – Atlantic	Sysco Food Services
Distagro (34002)	Multi-Marques Inc.
Serca Foodservice Inc	Sysco Food Services (Kingston)
Konings Wholesale	Distagro (52285)
Sysco Milton (Pronamic) KFC	Canada Bread Company, Limited (52383)
Sysco Food Services Calgary	Linde Canada Ltd.

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<sup>1</sup> Where Monday is a holiday the payment date will be shifted to Tuesday.





**B) Chicken Suppliers**

**Proposed Payment Terms**

- The later of 7<sup>2</sup> days from receipt of invoice or the Monday following the day which is 7 days from the receipt of invoice.
- To the extent that there are any annual fees, such fees to be prorated and paid them bi-monthly.

**Listing of chicken suppliers to be declared Critical Suppliers and subject to the above payment terms**

Exceldor Cooperative Avicole

Dunn-Rite Food Product

Maple Lodge Farms Ltd.

Sunrise Poultry Processors Ltd

Olymel S.E.C./L.P.

Nadeau Poultry Farm Ltd

Mountain View Poultry Farms

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<sup>2</sup> Where Monday is a holiday the payment date will be shifted to Tuesday.



**C) Utility Service Providers**

**Proposed Payment Terms**

- Payment on the Thursday following the receipt of invoice.
- To the extent that there are any annual fees, such fees to be prorated and paid them bi-monthly.

**Listing of utility service providers to be declared Critical Suppliers and subject to the above payment terms**

Eastlink	Energie Nb Power
Town Of Arnprior	Town Of Antigonish
Haldimand H E C	Edmundston La Ville
Bell Canada (638)	Nova Scotia Power Corporation
Belleville Utilities Comm.	City Of Bathurst
Hydro One Brampton	Pictou, Town Of
Brantford Power Inc	Yarmouth, Town Of
Barrie Public Utilities Comm.	New Glasgow, Town Of (Water)
Rogers AT&T (Don Mills)	Windsor, Town Of
Lakefront Utility Services Inc	Digby, Town Of
Cornwall Electric	Kings, Municipality County Of
Enbridge Consumers Gas Systems	Halifax Water Commission
Cambridge & North Dumfries	Bridgewater, Town Of
City Of Cornwall	Oromocto, Town Of
Town Of Carleton Place	Kamloops, City Of
City Of St Catherines	Delta, Corp Of
Reg Munic Durham	Corp. Of The New Westminster

## CRITICAL SUPPLIERS TO THE PRISZM ENTITIES

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The Corp. Of The Town Of	Penticton, City Of
E L K Energy Inc	City Of Terrace
Hawkesbury Hydro	Terasen Gas
Town Of Kingsville	City Of Victoria
Essex Powerlines Corporation	White Rock Utilities Ltd
London Public Utilities	Campbell River, District Of
Enersource Hydro Mississauga	Vernon, Corp Of The City Of
Newmarket Hydro Elect. Comm.	Kelowna, City Of - Utility
Toronto Finance Department	Town Of Amherst
Natural Resource Gas Ltd.	City Of Portage La Prairie
Niagara Falls Hydro	Capital Regional District
Oshawa Public Utilities Comm.	Maple Ridge Corp City Of
Ottawa Hydro	Cranbrook Corp Of The City Of
Ottawa-Carleton	Chilliwack, District Of
Brant County Power	Nanaimo, City Of
Ottawa River Power Corporation	Williams Lake, City Of
Peterborough Utilities Comm.	Sidney, Town Of
Veridian Connections	Salmon Arm, District Of
Pembroke Waterworks	Squamish, District Of
Renfrew Hydro Electric Comm.	Port Alberni, City Of
St Thomas Public Utilities	City Of White Rock
Norfolk Power Distribution Inc	Regional District Of Central Okanagan
GSU	Coquitlam, City Of
Town Of Smiths Falls	Sussex, Town Of
Sault Ste. Marie, P U C	New Glasgow, Town Of

Imperial Oil	M3 & W Inc.
Rogers Payment Centre	MTS Communications Inc.
Bell Canada (13065)	Collus Power Corp
Propane M & M Inc	FortisBC Inc
Bell Mobilite Pagette	Town Of Lakeshore
Bell Canada (21360)	Cablevision
Prince Edward Public Works	Keep In Touch
Guelph Hydro	Powerstream
Erie Thames Power Corp	Direct Energy
Telus Communications Inc	Village Of New Minas
Strathcona County	Horizon Utilities Corporation
Westbank Irrigation District	Bell Canada (46557)
Black Mountain Irrigation Dist	Town Of Richmond Hill
City Of Abbotsford	Rogers Telecom - Business
Clearbrook Waterworks District	Bluewave Energy
Rogers Cablesystems	Orangeville Hydro Limited
Cape Breton Regional Municipal	Enmax
District Of Langford	Enbridge Gas New Brunswick
Bell Mobility Paging	Allstream
Queens Municipality, Region Of	Bell Conferencing Inc.
Brandon, City Of	Wireless Personal
Steinbech, Town Of	Terago Networks Inc.
Central Okanagan, Regional	Voicemailtel Inc.
City Of Selkirk	Irving Energy Distribution
Winnipeg, City Of (Water)	Midland Power Utility

## CRITICAL SUPPLIERS TO THE PRISZM ENTITIES

655

Manitoba Hydro/Centra Gas	On Telecom Management
St. Albert, City Of	Ari Financial Services Inc.
Campbellton, City Of	Cogeco Cable Inc.
City Of Fredericton	Internet Lightspeed
Moncton, City Of	Direct Energy
Saint John, City Of	Consumers' Waterheater
Aliant (34791)	Societe De L'assurance
Aliant (34786)	Ville De Montreal
St Stephen Utility Dept	Halifax Regional Municipality
Riverview, Town Of	Veridian Energy Inc.
Port Hawkesbury, Town Of	Region Of Peel (37018)
Saint John Energy	





## CRITICAL SUPPLIERS TO THE PRISZM ENTITIES

### D) Suppliers of Waste Disposal and Pest Control Services

#### Proposed Payment Terms

- The later of 30 days from receipt of invoice or the Thursday following the day which is 30 days from the receipt of invoice.
- To the extent that there are any annual fees, such fees to be prorated and paid them bi-monthly.

#### Listing of suppliers of waste disposal and pest control services to be declared Critical Suppliers and subject to the above payment terms

Organic Resource Mgmt. Inc.	Wasteco
Owen Sound Septic Service	BFI Canada-Penticton
Wasteless Environmental Serv	Abell
Sanimax San Inc.	



**E) Providers of Appliance Repair and Information Technology Services**

**Proposed Payment Terms**

- The later of 30 days from receipt of invoice or the Thursday following the day which is 30 days from the receipt of invoice.
- To the extent that there are any annual fees, such fees to be prorated and paid them bi-monthly.

**Listing of providers of appliance repair and information technology services to be declared Critical Suppliers and subject to the above payment terms**

Radiant Systems

Global Payments

NCR Canada Ltd (34379)

DSL (Dairy Supplies Limited)

NCR Canada Ltd (49264)

Bazinet Taylor Ltee

Sitel

TFI Food Equipment Solutions

Menulink



This is Exhibit "P"  
to the affidavit of Deborah Papernick,  
sworn before me on the 31<sup>st</sup> day  
of March, 2011

*D. Vit.*

---

Commissioner for Taking Affidavits

**KIT FINANCE INC.**  
**AMENDMENT NO. 11 TO NOTE PURCHASE AND**  
**PRIVATE SHELF AGREEMENT**

As of March 31, 2011

**To each of the Current Noteholders  
Named in Annex I hereto**

Ladies and Gentlemen:

**KIT FINANCE INC.**, an Alberta corporation (together with its successors and assigns, the "**Company**"), and **PRISZM INC.**, a Canadian corporation formerly known as "KIT Inc." (together with its successors and assigns, "**Priszm Inc.**", and together with the Company, collectively, the "**Obligors**"), each hereby agrees with you as follows:

**1. PRELIMINARY MATTERS.**

**1.1. Note Issuance, etc.**

The Company issued and sold (a) C\$73,596,400 in aggregate principal amount of its 6.795% Series A Senior Secured Guaranteed Notes originally due January 13, 2011 (as in effect and as may be amended, restated, replaced or otherwise modified from time to time, the "**Series A Notes**") and (b) C\$2,036,700 of its Shelf Notes (as in effect and as may be amended, restated, replaced or otherwise modified from time to time, the "**Shelf Notes**"); the Company also issued and, in part from time to time, sold, (c) US\$3,700,000 of its senior secured guaranteed promissory notes originally due January 31, 2011 (as in effect and as may be amended, restated, replaced or otherwise modified from time to time, the "**Initial Series 2011 Notes**") and (d) \$2,900,000 of its senior secured guaranteed promissory notes due May 20, 2011 (as in effect and as may be amended, restated, replaced or otherwise modified from time to time, the "**Second Series 2011 Notes**"; the Initial Series 2011 Notes and the Second Series 2011 Notes herein referred to as the "**Series 2011 Notes**", and together with the Series A Notes and the Shelf Notes, collectively, the "**Existing Notes**"), in each case pursuant to a Note Purchase and Private Shelf Agreement, dated as of January 12, 2006, entered into by and among the Obligors, Prudential Investment Management, Inc. ("**Prudential**") and each of the Purchasers listed in Annex A attached thereto, as amended by (i) Amendment No. 1 to Note Purchase and Private Shelf Agreement dated as of January 31, 2006, (ii) Amendment No. 2 to Note Purchase and Private Shelf Agreement, dated as of July 11, 2006, (iii) Amendment No. 3 to Note Purchase and Private Shelf Agreement dated as of June 21, 2007, (iv) Amendment No. 4 to Note Purchase and Private Shelf Agreement dated as of February 29, 2008, (v) Amendment No. 5 to Note Purchase and Private Shelf Agreement dated as of September 7, 2008, (vi) Amendment No. 6 to 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, (viii) Waiver and Amendment No. 8 to Note Purchase and Private Shelf Agreement dated as of March 12, 2010,

(ix) Amendment No. 9 to Note Purchase and Private Shelf Agreement dated as of January 19, 2011 and (x) Amendment No. 10 to Note Purchase and Private Shelf Agreement (“**Amendment No. 10**”) dated as of February 1, 2011 (as so amended, the “**Existing Note Agreement**”; and as amended by this Amendment No. 11 to Note Purchase and Private Shelf Agreement (together with all Annexes, Exhibits, Schedules and attachments hereto, this “**Amendment Agreement**” or this “**Agreement**”), the “**Note Agreement**”). The register for the registration and transfer of the Notes indicates that the Persons named in Annex 1 hereto (collectively, the “**Current Noteholders**”) are currently the holders of the entire outstanding principal amount of the Existing Notes.

## **1.2. Requested Actions.**

The Obligors have requested that the Current Noteholders amend certain provisions of the Existing Note Agreement, and that the Current Noteholders conditionally agree to purchase a new series of senior secured promissory notes entitled the “**Post-Petition Notes**”, all as more particularly provided for herein.

## **2. DEFINED TERMS.**

Capitalized terms used herein and not defined herein have the respective meanings given them pursuant to Amendment No. 10 or, if not defined therein, in the Noteholder Forbearance Agreement (defined below), or, if not defined therein, in the Note Agreement.

## **3. AMENDMENTS TO AMENDMENT NO. 10 AND TO EXISTING NOTE AGREEMENT.**

Subject to Section 5 hereof, Amendment No. 10 and the Existing Note Agreement are hereby amended as set forth in this Section 3 (the “**Amendments**”):

### **3.1. Amendment and Restatement of Section 1.3 through Section 1.7 of Amendment No. 10.**

Section 1.3 through Section 1.7, inclusive, of Amendment No. 10 are hereby amended and restated in their entirety as follows:

#### **“1.3 Authorization of Post-Petition Notes.**

The Company has authorized the issue and sale of its senior secured guaranteed promissory notes (as may be amended, restated, replaced or otherwise modified from time to time, the “**Post-Petition Notes**”; the Post-Petition Notes, the Series 2011 Notes, and the Existing Notes, are herein collectively referred to as the “**Notes**”) in the maximum aggregate principal amount of up to US\$3,000,000 at any time, to be dated the date of issue thereof, to mature May 20, 2011, to bear interest on the unpaid balance thereof from the date thereof until the principal thereof shall have become due and payable at the rate of 10.00% *per annum* and on overdue

principal and overdue interest, at the rate specified in the Note Agreement, to have such other terms as are provided in the Note Agreement, and to be substantially in the form attached as Exhibit A-5 to the Note Agreement. For the avoidance of doubt, and subject to the terms and conditions provided herein and in the Note Agreement, the Post-Petition Notes shall be issued and sold to the Current Noteholders from time to time as provided herein and in the Note Agreement, ratably to each Current Noteholder based on the percentage of each such Post-Petition Note as set forth in the Post-Petition Notes Purchaser Schedule (defined below); subject to the terms and conditions contained herein and in the Note Agreement, the Company shall be entitled to issue Post-Petition Notes, and the Current Noteholders shall be obligated to purchase such Post-Petition Notes, from the Effective Date through May 13, 2011 (the "**Post-Petition Notes Issuance Period**"). In no event shall the aggregate principal amount of all Post-Petition Notes outstanding at any time hereunder and under the Note Agreement exceed US\$3,000,000 at any time. For the avoidance of doubt, the obligation of each Noteholder to purchase any Post-Petition Note at any time shall be limited so that any such proposed issuance or purchase would not cause the aggregate principal amount of Post-Petition Notes outstanding to exceed US\$3,000,000. The terms "**Post-Petition Note**" and "**Post-Petition Notes**" as used herein shall include each Post-Petition Note delivered pursuant to any provision of this Agreement and each Post-Petition Note delivered in substitution or exchange for any such Post-Petition Note pursuant to any such provision. Each of the Post-Petition Notes shall constitute a "Note" for all purposes, including under the Note Agreement, the other Transaction Documents and the Security Documents.

#### **1.4 Purchase and Sale of Post-Petition Notes.**

Subject to the terms and conditions set forth herein and in the Note Agreement, the Company may (but shall not be obligated to) issue and sell to each Current Noteholder, and each Current Noteholder agrees to purchase from the Company during the Post-Petition Notes Issuance Period, Post-Petition Notes up to an amount outstanding at any time as is set forth opposite its name on the Post-Petition Notes Purchaser Schedule attached as Annex 1C to the Note Agreement (the "**Post-Petition Notes Purchaser Schedule**"), at 100% of such aggregate principal amount from time to time.

#### **1.5 Purchase and Sale Mechanics.**

On any Business Day during the Post-Petition Notes Issuance Period, the Obligors may, by delivery to the Current Holders of a Verified Issuance Notice (as defined below) prior to 1:00 pm Eastern time, inform the Current Holders of its intention to issue Post-Petition Notes on the immediately following Business Day (such immediately following Business Day with respect to such Verified Issuance Notice is herein referred to as a "**Proposed Issuance Date**"). On such Proposed Issuance Date, the Obligors shall execute and deliver to each Current Noteholder at the offices of Prudential Capital Group in New York, NY (and any other such location directed by the Current Noteholders), a Post-Petition Note registered in its name, dated the date of issuance, evidencing the principal amount of such Post-Petition Note to be purchased by such Current Noteholder (denominated in U.S. Dollars), which principal amount shall constitute the respective percentage (as set forth in the Post-Petition Notes Purchaser Schedule) for such Current Holder of the aggregate amount of Post-Petition Notes issued and sold on such date, against payment of the purchase price thereof by transfer of immediately available U.S. Dollar funds for credit to the



Company's account as set forth on Exhibit C hereto. The aggregate amount of Post-Petition Notes that may be issued on any Proposed Issuance Date shall be no less than US\$1,000,000, and any greater amount shall be in even aggregate increments of US\$25,000.

#### 1.6 Verified Issuance Notice.

(a) As used herein, "**Verified Issuance Notice**" means a written issuance notification as described in this Section 1.6, certified by a Senior Financial Officer or the Chief Restructuring Officer of the Company and delivered to the Current Noteholders by 1:00 pm Eastern time on any Business Day (other than the last Business Day) during the Post-Petition Notes Issuance Period (such written issuance notification shall be delivered to the Current Noteholders via email transmission to the addresses set forth on the Post-Petition Notes Purchaser Schedule, and confirmed by Company personnel by telephone contact with each recipient of such email prior to 1:00 pm on such date), which written issuance notification shall not have been superseded pursuant to Section 1.6(b) hereof. Such written issuance notification shall constitute the Company's irrevocable determination to issue Post-Petition Notes on the Proposed Issuance Date, and shall be prepared, delivered and consist of, and be subject to, the following: (i) the certification by the Company that the representations and warranties contained in Section 4 hereof are true and correct on and as of the date of such certification, that no Default or Event of Default other than the "Specified Defaults" as defined in the Noteholder Forbearance Agreement exist at such time; (ii) the satisfaction of the Current Noteholders in their sole discretion with respect to the form and substance of all orders, if any, that have been entered in respect of the Obligors' application pursuant to the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the "CCAA"), including with respect to priority and preference on collateral, and after such application is made, the continuation of such proceeding; (iii) the Company shall have previously, in consultation with the monitor in the CCAA proceedings in respect of, *inter alia*, the Company (the "**CCAA Proceedings**"), FTI Consulting Canada Inc. (in such capacity, the "**Monitor**") prepared a cash projection on a cash-book basis that is current as of the Monday immediately prior to the date of delivery of such Verified Issuance Notice (or, if such date of delivery is a Monday, such projection shall be current as of such date), the contents of which have been reviewed by the Monitor and as to which the Monitor has provided a report substantially in the form set forth as Exhibit D hereto; (iv) such cash projection shall be accompanied by a certificate of a Senior Financial Officer or the Chief Restructuring Officer of the Company setting forth the Company's request for additional funds to be met through the issuance of Post-Petition Notes at such time, with the requested amount of such additional funds supported by such cash projection; (v) such cash projection and such certificate of a Senior Financial Officer or the Chief Restructuring Officer of the Company shall be delivered to the Current Noteholders, and the Current Noteholders' financial advisor RSM Richter Corporation ("**Richter**"), by 5:00 pm on the Business Day that is two Business Days immediately prior to the Proposed Issuance Date; (vi) if the Current Noteholders and Richter are satisfied with such cash projection and if clauses (i) to (v) above have been satisfied or waived, such Post-Petition Notes shall be purchased in accordance with the terms hereof; and (vii) if the Current Noteholders or Richter are not satisfied with such cash projection, then they shall promptly contact the Monitor and Richter and the Monitor shall consult and use

reasonable commercial efforts to come to agreement on any discrepancies as quickly as possible. If after such consultation the Current Noteholders and Richter are satisfied with such cash projection and any changes thereto, such Post-Petition Notes shall be purchased in accordance with the terms hereof.

(b) If the Current Noteholders and Richter are not satisfied with such cash projection and cannot come to agreement on any discrepancies with the Company and/or the Monitor, the Current Noteholders may thereafter inform the Company, prior to 5:00 pm Eastern time on the Business Day immediately prior to the Proposed Issuance Date, that they will not purchase such Post-Petition Notes on the Proposed Issuance Date, such written issuance notification shall be superseded and the Company shall thereafter not issue and sell such Notes on such Proposed Issuance Date and the Current Noteholders shall have no obligation to purchase any such Notes.

(c) On the date of issuance of any Post-Petition Notes, the Company shall pay to each Current Noteholder an issuance fee equal to one percent (1.00%) of the principal amount of the Post-Petition Notes issued to such Current Holder on such date, up to an aggregate issuance fee for the Post-Petition Notes of US\$30,000, after receipt of which no additional issuance fee shall be due and payable in connection with the issuance of Post-Petition Notes.

(d) The Company shall be entitled to issue Post-Petition Notes no more than one time during each calendar week.

#### **1.7 Required Prepayments of the Post-Petition Notes.**

(a) On each Wednesday during the Forbearance Period the Obligors will make a payment on the Post-Petition Notes in the aggregate amount of the Excess Cash Amount determined at such time (which payment shall be applied to the Post-Petition Notes in the manner set forth in Section 1.7(c) hereof). As used herein, the term “**Excess Cash Amount**” means, as of any Wednesday, the excess, if any, of (1) the Obligors’ cash balance as of the immediately preceding Friday over (2) US\$2,000,000. Notwithstanding the foregoing (x) the calculation of Excess Cash Amount shall be reduced by (i) the maximum amount of Post-Petition Notes that the Obligors could have issued to the Noteholders by delivery of a Verified Issuance Notice on such Wednesday and (ii) the additional cash amount required (beyond such balance of \$2,000,000) to pay current-week disbursements in accordance with the Obligors’ cash flow projections, (x) the amount of such payment shall be rounded (up or down) to the nearest increment of US\$25,000, (y) a prepayment need not be made hereunder if the aggregate amount of such payment would be less than US\$100,000 and (z) the calculation of “**Excess Cash Amount**” shall exclude any proceeds arising directly from the Disposition of any Assets of the Obligor Group, Prizm Income Fund or Prizm Canadian Operating Trust that has been approved by the Court.

(b) The Obligors shall provide notice of any payment to be made pursuant to Section 1.7(a) as soon as practicable but in no event later than the time of such payment, by delivery to the Noteholders of a notice of payment (such notice to be delivered to the Persons, and via the email addresses with telephone confirmations, provided herein with respect to delivery of a

Verified Issuance Notice for a new issuance of Post-Petition Notes) specifying the Excess Cash Amount and accompanied by the Obligors' detailed calculation of such amount.

(c) Each payment received pursuant to this Section 1.7 shall be applied *first*, to the outstanding Post-Petition Notes, to the principal thereof until the amount of such payment is exhausted, applied ratably with respect to all such Post-Petition Notes held by all Noteholders, to the extent of all of the outstanding principal amount of Post-Petition Notes at such time, and *second*, to the payment of all interest accrued and unpaid with respect to the Post-Petition Notes."

### **3.2 Confirmation with respect to Certain Interest Accruals and Payments.**

The Obligors and the Noteholders hereby confirm (a) that, notwithstanding the provisions of Section 1.7(c) of Amendment No. 10 as in effect immediately prior to the Effective Date, the payments received on or prior to the date hereof from the Obligors in respect of the Initial Series 2011 Notes and the Second Series 2011 Notes, have been applied to reduce the outstanding principal amount of such Notes and have not been applied to interest (which remains outstanding and unpaid); (b) that, while interest continues to accrue on all outstanding Notes, and notwithstanding the terms of such Notes, payment of accrued interest in respect of the Notes (other than with respect to the Post-Petition Notes) has been deferred until the earlier of (i) payment of the underlying principal amount of the Notes and (ii) the occurrence of a "Forbearance Termination Event" as defined in the Amended and Restated Noteholder Forbearance Agreement dated as of March 31, 2011 between the Noteholders and the Obligors (as amended, restated, supplemented or modified from time to time, the "Noteholder Forbearance Agreement"); and (c) notwithstanding any provisions of Amendment No. 9, Amendment No. 10 or the Note Agreement to the contrary, no Initial Series 2011 Notes and no Second Series 2011 Notes shall be issuable or issued on or at any time after the Effective Date.

### **3.3 Amendment of Note Agreement.**

The Existing Note Agreement is hereby amended as provided for by this Amendment Agreement in the manner specified in Exhibit A hereto (the "Note Agreement Amendments").

## **4. REPRESENTATIONS AND WARRANTIES OF THE OBLIGORS.**

To induce you to enter into this Amendment Agreement and to consent to the Amendments, each of the Obligors represents and warrants as follows:

### **4.1. Organization, Power and Authority, etc.**

Each Obligor is a corporation duly organized and existing in good standing under the laws of its jurisdiction of organization and has all requisite power and authority to enter into and perform its obligations under this Amendment Agreement.

#### 4.2. Authorization, etc.

Assuming the effectiveness of the Initial Order granted by the Court in the CCAA Proceedings, this Amendment Agreement has been duly authorized by all necessary corporate action on the part of each Obligor, and constitutes a legal, valid and binding obligation of each Obligor, in each case, enforceable against the such Obligor in accordance with its terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

#### 4.3. Legal Validity.

(a) Assuming the effectiveness of the Initial Order granted by the Court in the CCAA Proceedings, the execution and delivery of this Amendment Agreement by each of the Obligors and compliance by each of the applicable Obligors with its obligations hereunder: (i) are within the powers of such Obligor; and (ii) are legal and do not conflict with, result in any breach of, constitute a default under, or result in the creation of any Lien upon any property of such Obligor under the provisions of: (1) any charter instrument or bylaw to which such Obligor is a party or by which such Obligor or any of its property may be bound; (2) any order, judgment, decree or ruling of any court, arbitrator or governmental authority applicable to such Obligor or its property; or (3) any agreement or instrument to which such Obligor is a party or by which such Obligor or any of its property may be bound or any statute or other rule or regulation of any governmental authority applicable to such Obligor or its property.

(b) Assuming the effectiveness of the Initial Order granted by the Court in the CCAA Proceedings, this Amendment Agreement has been duly authorized by all necessary action on the part of the Obligors, has been duly executed and delivered by a duly authorized officer of each applicable Obligor, and constitutes a legal, valid and binding obligation of the applicable Obligors, enforceable in accordance with its terms, except that enforceability may be limited by applicable bankruptcy, reorganization, arrangement, insolvency, moratorium, or other similar laws affecting the enforceability of creditors' rights generally and subject to the availability of equitable remedies.

#### 4.4. No Defaults.

No event has occurred and no condition exists that, upon the execution and delivery of this Amendment Agreement, would constitute a Default or an Event of Default, other than the "Specified Defaults" as defined in the Noteholder Forbearance Agreement.

#### 4.5. Benefit of Security.

The obligations of the Obligors in respect of the Note Agreement and the Notes are entitled to the full and ratable benefit of the Security. The Post-Petition Notes shall have the full benefit of the Security. In addition, any Post-Petition Notes issued on or after the filing of an application by the Obligors pursuant to the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the "CCAA") shall be secured by all or substantially all of the assets

of the Obligors, and (assuming the effectiveness of the Initial Order granted by the Court in the CCAA Proceedings) shall have priority as to time and right of payment and shall have priority with respect to such collateral in accordance with the terms of the Initial Order.

## 5. EFFECTIVENESS OF THE AMENDMENTS.

The Amendments shall become effective as of the first date written above (the “Effective Date”) upon the satisfaction, on or before the Effective Date, of all of the following conditions:

(a) the receipt by each of the Obligors of the duly executed and delivered written consent to this Amendment Agreement by the Current Noteholders and receipt by Prudential and the Current Noteholders of the duly executed and delivered written consent to this Amendment Agreement from each of the Obligors;

(b) the payment by the Obligors of all legal fees and disbursements incurred by the Current Noteholders, including without limitation the fees and expenses of their various counsels and financial advisor; and

(c) all documents and papers relating to this Amendment Agreement shall be satisfactory to the Current Noteholders and their counsel.

## 6. EXPENSES.

Whether or not the Amendments become effective, the Obligors will promptly (and in any event within three Business Days of receiving any statement or invoice therefor) pay all fees, expenses and costs relating to this Amendment Agreement, including, but not limited to, the reasonable fees of the Current Noteholders’ special counsel, Bingham McCutchen LLP, and the Current Noteholders’ special Canadian counsel, Gowlings, incurred in connection with the preparation, negotiation and delivery of the Amendment Agreement and any other documents related thereto. Notwithstanding the foregoing, the Company will on the date of execution and delivery hereof, pay the fees and expenses of Bingham McCutchen LLP incurred through the date of execution and delivery hereof. Nothing in this Section shall limit the obligations of the Obligors pursuant to paragraph 14B of the Existing Note Agreement.

## 7. REAFFIRMATION.

Each of the Company and Prizm Inc. hereby (i) acknowledges and affirms all of its obligations under the terms of each Security Document and Transaction Document to which it is a party, including, without limitation, the Omnibus Amendment Agreement, and in the case of Prizm Inc, the KIT Inc. Guarantee, and agrees all such agreements shall continue to remain in full force and effect, and (ii) acknowledges and agrees that such Security Documents and Transaction Documents, including, without limitation, the Omnibus Amendment Agreement, and

in the case of Prizm Inc., the Kit Inc. Guarantee, shall secure and guaranty the obligations under the Note Agreement and the Notes pursuant to the terms thereof.

## **8. MISCELLANEOUS.**

### **8.1. Part of Existing Note Agreement; Future References, etc.**

This Amendment Agreement shall be construed in connection with and as a part of the Note Agreement and, except as expressly amended by this Amendment Agreement, all terms, conditions and covenants contained in the Existing Note Agreement are hereby ratified and shall be and remain in full force and effect. Any and all notices, requests, certificates and other instruments executed and delivered after the execution and delivery of this Amendment Agreement may refer to the Note Agreement without making specific reference to this Amendment Agreement, but nevertheless all such references shall include this Amendment Agreement unless the context otherwise requires.

### **8.2. Counterparts; Effectiveness.**

This Amendment Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto. Delivery of an executed signature page by facsimile or electronic transmission shall be effective as delivery of a manually signed counterpart of this Amendment Agreement.

### **8.3. Governing Law.**

**THIS AMENDMENT AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAW OF THE STATE OF NEW YORK EXCLUDING CHOICE-OF-LAW PRINCIPLES OF THE LAW OF SUCH STATE THAT WOULD REQUIRE THE APPLICATION OF THE LAWS OF A JURISDICTION OTHER THAN SUCH STATE.**

If you are in agreement with the foregoing, please so indicate by signing the acceptance below on the accompanying counterpart of this Amendment Agreement and returning it to the Company, whereupon it will become a binding agreement among each of you and each of the Obligors.

KIT FINANCE INC.

By: DMC  
Name: Deborah Papernick  
Title: CFO

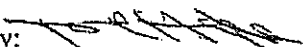
PRISZM INC.

By: DMC  
Name: Deborah Papernick  
Title: CFO

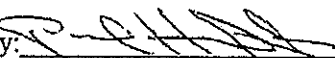
[Signature page to Amendment No. 11 to Note Purchase and Private Shelf Agreement]

The foregoing Amendment Agreement is hereby accepted as of the date first above written.

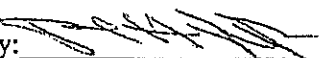
**PRUDENTIAL INVESTMENT  
MANAGEMENT, INC.**

By:   
Name: Paul H. Prueck  
Title: Vice President

**THE PRUDENTIAL INSURANCE  
COMPANY OF AMERICA**

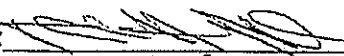
By:   
Name: Paul H. Prueck  
Title: Vice President

**PRUCO LIFE INSURANCE COMPANY**

By:   
Name: Paul H. Prueck  
Title: Assistant Vice President

**PRUDENTIAL RETIREMENT  
INSURANCE AND ANNUITY  
COMPANY**

By: Prudential Investment Management,  
Inc., its investment manager

By:   
Name: Paul H. Prueck  
Title: Vice President

[Signature page to Amendment No. 11 to Note Purchase and Private Shelf Agreement]



**Annex 1****CURRENT NOTEHOLDERS**

The Prudential Insurance Company of America

Pruco Life Insurance Company

Prudential Retirement Insurance and Annuity Company

Exhibit A to 11<sup>th</sup> Amendment**NOTE AGREEMENT AMENDMENTS**

1. Paragraph 2A of the Existing Note Agreement shall be amended to amend and restate the penultimate sentence thereof in its entirety as follows:

“The terms “Note” and “Notes” as used herein shall include each Series A Note, each Shelf Note, each Series 2011 Note, each Second Series 2011 Note and each Post-Petition Note delivered pursuant to any provision of this Agreement and each Note delivered in substitution or exchange for any such Note pursuant to any such provision.”

2. Paragraph 4 of the Existing Note Agreement shall be amended by inserting the following new paragraph 4J at the end thereof to read as follows:

**“4J Certain Terms of the Post-Petition Notes.** On or around March 31, 2011, the Company’s additional senior secured guaranteed promissory notes due May 20, 2011 (as amended from time to time, the “**Post-Petition Notes**”) were authorized within and pursuant to Amendment No. 11 to Note Purchase and Private Shelf Agreement, dated as of March 31, 2011, between the Obligor and the holders of the Notes at such time (the “**11<sup>th</sup> Amendment**”). As further set forth in the 11<sup>th</sup> Amendment and herein, such Post-Petition Notes may be issued from time to time and, subject to the terms and conditions contained therein and herein, each such issuance shall be made to the Persons identified on the schedule attached as Annex 1C hereto (the “**Post-Petition Notes Purchaser Schedule**”). The Post-Petition Notes shall: (i) constitute “Notes” for all purposes hereunder and under the other Transaction Documents and the Security Documents, (ii) be denominated in U.S. Dollars and be subject to issue up to a maximum aggregate principal amount of US\$3,000,000, (iii) be dated the date of issue thereof, (iv) mature on May 20, 2011, (v) bear interest on the unpaid balance thereof from the date thereof until the principal thereof shall have become due and payable at the rate of 10.00% *per annum* and on overdue principal and overdue interest at the Default Rate, (vi) be subject to prepayment in full together with all accrued interest thereon at any time without penalty or premium and without payment of a Yield-Maintenance Amount upon at least 5 Business Days notice to the holders thereof, and (vii) be substantially in the form attached as Exhibit A-5 hereto.”

3. Paragraph 8I of the Existing Note Agreement shall be amended by amending and restating the last sentence at the end of Paragraph 8I to read as follows:

“Notwithstanding the first sentence of this paragraph 8I, the use of the proceeds from the issuance of the Second Series 2011 Notes and the Post-Petition Notes shall be for the general corporate purposes of the Obligor.”

4. Paragraph 11B of the Existing Note Agreement shall be amended by inserting each of the following defined terms in their respective alphabetical locations within such Paragraph 11B:

“**Post-Petition Notes**” shall have the meaning specified in paragraph 4J.”

“**Post-Petition Notes Purchaser Schedule**” shall have the meaning specified in paragraph 4J.”

“**11<sup>th</sup> Amendment**” shall have the meaning specified in paragraph 4J.”

5. The Annexes to the Existing Note Agreement shall be amended by inserting a new Annex entitled “Annex 1C to Note Agreement” immediately following Annex 1B to the Existing Note Agreement as is set forth on the following page:

## Annex 1C to Note Agreement

## POST-PETITION NOTES PURCHASER SCHEDULE

	<u>Aggregate Principal Amount of Notes to be Purchased</u>	<u>Percentage of each issuance of Post-Petition Notes</u>
<b>THE PRUDENTIAL INSURANCE COMPANY OF AMERICA</b>	\$	85.43481%

- (1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

Account Name: Prudential Managed Portfolio  
Account No.: P86188 (please do not include spaces)

JPMorgan Chase Bank  
New York, NY  
ABA No.: 021-000-021

Each such wire transfer shall set forth the name of the Company, a reference to "[Description of Notes], PPN \_\_\_\_\_" and the due date and application (as among principal and interest) of the payment being made.

- (2) Address for all notices relating to payments:

The Prudential Insurance Company of America  
c/o Investment Operations Group  
Gateway Center Two, 10th Floor  
100 Mulberry Street  
Newark, NJ 07102-4077

Attention: Manager, Billings and Collections

- (3) Address for all other communications and notices:

The Prudential Insurance Company of America

Exhibit A-3

c/o Prudential Capital Group - Corporate and Project  
Workouts  
Three Gateway Center, 18<sup>th</sup> Floor  
100 Mulberry Street  
Newark, NJ 07102

Attention: Managing Director

Exhibit A-4

(4) Recipient of telephonic prepayment notices:

Manager, Trade Management Group  
Telephone: (973) 367-3141  
Facsimile: (888) 889-3832

(5) Contact Persons and email addresses for delivery of Verified Issuance Notice:

Paul Procyk: paul.procyk@prudential.com (973-367-3279)  
Bobby Kofman: rkofman@rsmrichter.com (416-932-6228)  
Scott Falk: scott.falk@bingham.com (860-240-2763)

(6) Address for Delivery of Notes:

Send physical security by nationwide overnight delivery service to:

Prudential Capital Group  
1114 Avenue of the Americas, 30<sup>th</sup> Floor  
New York, NY 10036

Attention: Thais M. Alexander, Esq.  
Telephone: (212) 626-2067

(7) Tax Identification No.: 22-1211670

## PURCHASER SCHEDULE

	<u>Aggregate Principal Amount of Notes to be Purchased</u>	<u>Percentage of each issuance of Post Petition Notes</u>
<b>PRUCO LIFE INSURANCE COMPANY</b>	\$	12.03544%

- (1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

JPMorgan Chase Bank  
 New York, NY  
 ABA No.: 021-000-021  
 Account No.: P86192 (please do not include spaces)  
 Account Name: Pruco Life Private Placement

Each such wire transfer shall set forth the name of the Company, a reference to "[Description of Notes], PPN \_\_\_\_\_", and the due date and application (as among principal and interest) of the payment being made.

- (2) Address for all notices relating to payments:

Pruco Life Insurance Company  
 c/o The Prudential Insurance Company of America  
 c/o Investment Operations Group  
 Gateway Center Two, 10th Floor  
 100 Mulberry Street  
 Newark, NJ 07102-4077

Attention: Manager, Billings and Collections

- (3) Address for all other communications and notices:

Pruco Life Insurance Company  
 c/o Prudential Capital Group - Corporate and Project  
 Workouts  
 Three Gateway Center, 18<sup>th</sup> Floor  
 100 Mulberry Street  
 Newark, NJ 07102

Attention: Managing Director



(4) Recipient of telephonic prepayment notices:

Manager, Trade Management Group

Telephone: (973) 367-3141

Facsimile: (888) 889-3832

(5) Contact Persons and email addresses for delivery of Verified Issuance Notice:

Paul Procyk: paul.procyk@prudential.com (973-367-3279)

Bobby Kofman: rkofman@rsmrichter.com (416-932-6228)

Scott Falk: scott.falk@bingham.com (860-240-2763)

(6) Address for Delivery of Notes:

Send physical security by nationwide overnight delivery service to:

Prudential Capital Group

1114 Avenue of the Americas, 30<sup>th</sup> Floor

New York, NY 10036

Attention: Thais M. Alexander, Esq.

Telephone: (212) 626-2067

(7) Tax Identification No.: 22-1944557

## PURCHASER SCHEDULE

	<u>Aggregate Principal Amount of Notes to be Purchased</u>	<u>Percentage of each issuance of Post Petition Notes</u>
<b>PRUDENTIAL RETIREMENT INSURANCE AND ANNUITY COMPANY</b>	\$	2.52974%

- (1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

JP Morgan Chase Bank  
New York, NY  
ABA No. 021000021

Account Name: PRIAC  
Account No. P86329 (please do not include spaces)

Each such wire transfer shall set forth the name of the Company, a reference to "[Description of Notes], PPN \_\_\_\_\_" and the due date and application (as among principal and interest) of the payment being made.

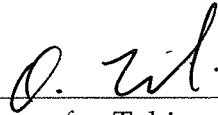
- (2) Address for all notices relating to payments:

Prudential Retirement Insurance and Annuity  
Company  
c/o Prudential Investment Management, Inc.  
Private Placement Trade Management  
PRIAC Administration  
Gateway Center Four, 7th Floor  
100 Mulberry Street  
Newark, NJ 07102  
Telephone: (973) 802-8107  
Facsimile: (888) 889-3832

- (3) Address for all other communications and notices:

Prudential Retirement Insurance and Annuity  
Company  
c/o Prudential Capital Group – Corporate Project and  
Workouts

This is Exhibit "Q"  
to the affidavit of Deborah Papernick,  
sworn before me on the 31<sup>st</sup> day  
of March, 2011



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Commissioner for Taking Affidavits



**Notes:**

- 1) The purpose of this cash flow projection is to determine the liquidity requirements of Prizm during the forecast period.
- 2) Receipts from operations have been forecast based on historical trends in collections, the sales forecast for the forecast period has been forecast based on recent trends adjusted for the impact of non-recurring promotional activities from the prior year to the current period.
- 3) Payroll and Benefits costs are based on actual payroll funding in the months leading up to the forecast period and include any impacts on labour levels as a result of forecast changes in sales levels.
- 4) Distributor disbursements are forecast based on historical trends in these costs as a percentage of sales.
- 5) Disbursements for the purchase of chicken are forecast based on a combination of historical analysis of chicken costs as a percentage of sales combined with expected changes in pricing over the forecast period.
- 6) Rent disbursements are based on historical analysis of rent expenses at a store-level basis adjusted to reflect bi-monthly payments as permitted under the Initial Order.
- 7) Royalties are forecast based on the terms of underlying royalty agreements with the Franchisor which assess royalties as a percentage of sales. Royalties are assumed to remain unpaid during the course of the CCAA.
- 8) Co-Op Advertising disbursements are forecast based on underlying agreements with various national and regional advertising cooperatives which are determined as a percentage of sales.
- 9) Forecast Tax disbursements reflect historical rates and forecast sales and disbursements.
- 10) Legal and Professional fees are based on estimates provided by legal and financial advisors currently involved in the case.
- 11) The cash flow does not reflect interest charges being levied by Yumi with respect to unpaid royalties.
- 12) The repayment of \$2,425k is a pre-filing repayment of the Series 1 and 2 2011 Notes.
- 13) The cash flow includes a DIP facility as approved in the Initial Order.
- 14) An adjustment was made to the results in the week ending February 18, 2011 to reflect that Prudential has applied payments received to date against interest and principle. The payment had been recorded in the cash flow against interest and principle.



Court File No. 11- CL- \_\_\_\_\_

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

THE HONOURABLE MR.	)	THURSDAY, THE 31 <sup>ST</sup>
	)	
JUSTICE MORAWETZ	)	DAY OF MARCH, 2011

**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,  
R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT  
OF PRISZM INCOME FUND, PRISZM CANADIAN OPERATING TRUST,  
PRISZM INC. AND KIT FINANCE INC.**

(the "Applicants")

**INITIAL ORDER**

THIS APPLICATION, made by Prizm Income Fund, Prizm Canadian Operating Trust, Prizm Inc. and Kit Finance Inc. (collectively, the "Applicants"), pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of Deborah Papernick sworn March 30, 2011 and the Exhibits attached thereto (the "Papernick Affidavit"), and the pre-filing report of the proposed monitor, and on being advised that the secured creditors who are likely to be affected by the charges created herein were given notice, and on hearing the submissions of counsel for the Applicants and Prizm Limited Partnership ("Prizm LP"), the independent Trustees, Prudential Investment Management, Inc., FTI Consulting Canada Inc., the CRO (as hereinafter defined) and Deborah Papernick, and

Yum! Restaurants International (Canada) LP, and on reading the consent of FTI Consulting Canada Inc. to act as the Monitor (the "**Monitor**"),

### **SERVICE**

1. **THIS COURT ORDERS** that the time for service of the Notice of Application and the Application Record is hereby abridged and validated so that this Application is properly returnable today and hereby dispenses with further service thereof.

### **APPLICATION**

2. **THIS COURT ORDERS AND DECLARES** that the Applicants are companies to which the CCAA applies. Although not an Applicant, Prizm LP (together with the Applicants, the "**Prizm Entities**") shall enjoy the benefits of the protections and authorizations provided by this Order.

### **PLAN OF ARRANGEMENT**

3. **THIS COURT ORDERS** that one or more of the Applicants shall have the authority to file and may, subject to further order of this Court, file with this Court a plan of compromise or arrangement (hereinafter referred to as the "**Plan**").

### **POSSESSION OF PROPERTY AND OPERATIONS**

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4. **THIS COURT ORDERS** that the Prizm Entities shall remain in possession and control of their current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "**Property**"). Subject to further Order of this Court, the Prizm Entities shall continue to carry on business in a manner consistent with the preservation of their business (the "**Business**") and Property. The Prizm Entities shall be authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively, the "**Assistants**") currently retained or employed by them, with liberty to retain such further Assistants as they deem



reasonably necessary or desirable in the ordinary course of business or for the carrying out of the terms of this Order.

5. **THIS COURT ORDERS** that the Priszm Entities shall be entitled to continue to utilize the central cash management system currently in place as described in the Papernick Affidavit or replace it with another substantially similar central cash management system (the “Cash Management System”) and that any present or future bank providing the Cash Management System shall not be under any obligation whatsoever to inquire into the propriety, validity or legality of any transfer, payment, collection or other action taken under the Cash Management System, or as to the use or application by the Priszm Entities of funds transferred, paid, collected or otherwise dealt with in the Cash Management System, shall be entitled to provide the Cash Management System without any liability in respect thereof to any Person (as hereinafter defined) other than the Priszm Entities, pursuant to the terms of the documentation applicable to the Cash Management System, and shall be, in its capacity as provider of the Cash Management System, an unaffected creditor under the Plan with regard to any claims or expenses it may suffer or incur in connection with the provision of the Cash Management System.

6. **THIS COURT ORDERS** that the Priszm Entities shall be entitled but not required to pay the following expenses whether incurred prior to or after this Order:

- (a) all outstanding and future wages, salaries, employee and pension benefits, vacation pay and expenses, and similar amounts owed to independent contractors, payable on or after the date of this Order, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements; and
- (b) the fees and disbursements of any Assistants retained or employed by the Priszm Entities in respect of these proceedings, at their standard rates and charges.

7. **THIS COURT ORDERS** that, except as otherwise provided to the contrary herein, the Prizm Entities shall be entitled but not required to pay all reasonable expenses incurred by the Prizm Entities in carrying on the Business in the ordinary course after this Order, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

- (a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors and officers insurance), maintenance and security services; and
- (b) payment for goods or services actually supplied to the Prizm Entities following the date of this Order.

8. **THIS COURT ORDERS** that the Prizm Entities shall remit, in accordance with legal requirements, or pay:

- (a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from employees' wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes;
- (b) all goods and services or other applicable sales taxes (collectively, "Sales Taxes") required to be remitted by the Prizm Entities in connection with the sale of goods and services by the Prizm Entities, but only where such Sales Taxes are accrued or collected after the date of this Order, or where such Sales Taxes were accrued or collected prior to the date of this Order but not required to be remitted until on or after the date of this Order, and
- (c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in

respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors and which are attributable to or in respect of the carrying on of the Business by the Prizm Entities.

9. **THIS COURT ORDERS** that until a real property lease is assigned, disclaimed or resiliated in accordance with the CCAA, the Prizm Entities shall pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable to the landlord under the lease) or as otherwise may be negotiated between the Prizm Entities and the landlord from time to time ("**Rent**"), for the period commencing from and including the date of this Order, twice-monthly in equal payments on the first and fifteenth day of each month, in advance (but not in arrears). On the date of the first of such payments, any Rent relating to the period commencing from and including the date of this Order shall also be paid.

10. **THIS COURT ORDERS** that, except as specifically permitted herein, the Prizm Entities are hereby directed, until further Order of this Court: (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Prizm Entities to any of its creditors as of this date; (b) to grant no security interests, trusts, liens, charges or encumbrances upon or in respect of any of their Property; and (c) to not grant credit or incur liabilities except in the ordinary course of the Business.

## **RESTRUCTURING**

11. **THIS COURT ORDERS** that the Prizm Entities shall, subject to such requirements as are imposed by the CCAA and such covenants as may be contained in the DIP Amendment (as hereinafter defined), have the right to:

- (a) permanently or temporarily cease, downsize or shut down any of its business or operations;

- (b) terminate the employment of such of its employees or temporarily lay off such of its employees as it deems appropriate; and
- (c) pursue all avenues of refinancing of their Business or Property, in whole or part, subject to prior approval of this Court being obtained before any material refinancing,

all of the foregoing to permit the Prizm Entities to proceed with an orderly restructuring of the Business (the “**Restructuring**”).

12. **THIS COURT ORDERS** that the Prizm Entities shall provide each of the relevant landlords with notice of the Prizm Entities’ intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the Prizm Entities’ entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors, such landlord and the Prizm Entities, or by further Order of this Court upon application by the Prizm Entities on at least two (2) days notice to such landlord and any such secured creditors. If the Prizm Entities disclaim or resiliate the lease governing such leased premises in accordance with Section 32 of the CCAA, they shall not be required to pay Rent under such lease pending resolution of any such dispute (other than Rent payable for the notice period provided for in Section 32(5) of the CCAA), and the disclaimer or resiliation of the lease shall be without prejudice to the Prizm Entities’ claim to the fixtures in dispute.

13. **THIS COURT ORDERS** that if a notice of disclaimer or resiliation is delivered pursuant to Section 32 of the CCAA, then (a) during the notice period prior to the effective time of the disclaimer or resiliation, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the Prizm Entities and the Monitor 24 hours’ prior written notice, and (b) at the effective time of

the disclaimer or resiliation, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the Prizm Entities in respect of such lease or leased premises and such landlord shall be entitled to notify the Prizm Entities of the basis on which it is taking possession and to gain possession of and re-lease such leased premises to any third party or parties on such terms as such landlord considers advisable, provided that nothing herein shall relieve such landlord of its obligation to mitigate any damages claimed in connection therewith.

#### **NO PROCEEDINGS AGAINST THE PRIZM ENTITIES OR THE PROPERTY**

14. **THIS COURT ORDERS** that until and including April 29, 2011, or such later date as this Court may order (the “**Stay Period**”), no proceeding or enforcement process in any court or tribunal (each, a “**Proceeding**”) shall be commenced or continued against or in respect of the Prizm Entities or the Monitor, or affecting the Business or the Property, except with the written consent of the Prizm Entities and the Monitor, or with leave of this Court, and any and all Proceedings currently under way against or in respect of the Prizm Entities or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

#### **NO EXERCISE OF RIGHTS OR REMEDIES**

15. **THIS COURT ORDERS** that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being “**Persons**” and each being a “**Person**”) against or in respect of the Prizm Entities or the Monitor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the Prizm Entities and the Monitor, or leave of this Court, provided that nothing in this Order shall (a) empower the Prizm Entities to carry on any business which the Prizm Entities are not lawfully entitled to carry on, (b) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA, (c)

prevent the filing of any registration to preserve or perfect a security interest, or (d) prevent the registration of a claim for lien.

#### **NO INTERFERENCE WITH RIGHTS**

16. **THIS COURT ORDERS** that during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Prizm Entities, except with the written consent of the Prizm Entities and the Monitor, or leave of this Court.

#### **CONTINUATION OF SERVICES**

17. **THIS COURT ORDERS** that during the Stay Period, all Persons having oral or written agreements with the Prizm Entities or statutory or regulatory mandates for the supply of goods and/or services, including without limitation suppliers of chicken and other food and restaurant consumables, waste disposal service providers, all computer software, information technology services, communication and other data services, centralized banking services, payroll services, insurance, transportation services, utility or other services to the Business or the Prizm Entities, are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Prizm Entities, and that the Prizm Entities shall be entitled to the continued use of their current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Prizm Entities in accordance with normal payment practices of the Prizm Entities or such other practices as may be agreed upon by the supplier or service provider and each of the Prizm Entities and the Monitor, or as may be ordered by this Court.

## **NON-DEROGATION OF RIGHTS**

18. **THIS COURT ORDERS** that, notwithstanding anything else in this Order, but subject to sections 19 to 21 below, no Person shall be prohibited from requiring immediate payment for goods, services, use of leased or licensed property or other valuable consideration provided on or after the date of this Order, nor shall any Person be under any obligation on or after the date of this Order to advance or re-advance any monies or otherwise extend any credit to the Prizm Entities. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

## **CRITICAL SUPPLIERS**

19. **THIS COURT ORDERS AND DECLARES** that each of the entities listed in Schedule "A" hereto is a critical supplier to the Prizm Entities as contemplated by Section 11.4 of the CCAA (each, a "**Critical Supplier**").

20. **THIS COURT ORDERS** that each Critical Supplier shall continue to supply the Prizm Entities with goods and/or services on terms and conditions that are consistent with existing arrangements and past practices, as may be amended by the payment terms set forth in Schedule "A". No Critical Supplier may require the payment of a deposit or the posting of any security in connection with the supply of goods and/or services to the Prizm Entities after the date of this Order.

21. **THIS COURT ORDERS** that each Critical Supplier shall be entitled to the benefit of and is hereby granted a charge (together, the "**Critical Supplier Charge**") on the Property in an amount equal to the value of the goods and services supplied by such Critical Supplier and received by the Prizm Entities after the date of this Order less all amounts paid to such Critical Supplier in respect of such goods and services. The Critical Supplier Charge shall have the priority set out in paragraphs 46 and 48 hereof.

## **PROCEEDINGS AGAINST DIRECTORS AND OFFICERS**

22. **THIS COURT ORDERS** that during the Stay Period, and except as permitted by subsection 11.03(2) of the CCAA, no Proceeding may be commenced or continued against any of the former, current or future trustees, directors or officers of the Prizm Entities with respect to any claim against the trustees, directors or officers that arose before the date hereof and that relates to any obligations of the Prizm Entities whereby the trustees, directors or officers are alleged under any law to be liable in their capacity as trustees, directors or officers for the payment or performance of such obligations, or against any employee of the Prizm Entities that is a party to an action involving the Prizm Entities, until a compromise or arrangement in respect of the Prizm Entities, if one is filed, is sanctioned by this Court or is refused by the creditors of the Prizm Entities or this Court.

## **DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE**

23. **THIS COURT ORDERS** that the Prizm Entities shall indemnify (a) their directors and officers against obligations and liabilities that they may incur as directors or officers of the Prizm Entities, and (b) the CRO and Deborah Papernick against any obligations and liabilities that they may incur as CRO of the Prizm Entities, after the commencement of the within proceedings, except to the extent that, with respect to any individual, the obligation or liability was incurred as a result of the individual's gross negligence or wilful misconduct.

24. **THIS COURT ORDERS** that the directors and officers of the Prizm Entities and the CRO and Deborah Papernick shall be entitled to the benefit of and are hereby granted a charge (the "Directors' Charge") on the Property, which charge shall not exceed an aggregate amount of \$9.8 million, as security for the indemnity provided in paragraph 23 of this Order. The Directors' Charge shall have the priority set out in paragraphs 46 and 48 herein.



25. **THIS COURT ORDERS** that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors' Charge, and (b) the Prizm Entities' directors and officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 23 of this Order.

#### **APPOINTMENT OF CHIEF RESTRUCTURING OFFICER**

26. **THIS COURT ORDERS** that 2279549 Ontario Inc. is hereby appointed Chief Restructuring Officer, an officer of this Court, and shall have the powers and obligations set out in the agreement entered into between the Prizm Entities and 2279549 Ontario Inc. (the "CRO") dated March 30, 2011 (the "CRO Agreement").

27. **THIS COURT ORDERS** that the CRO Agreement is approved and the Prizm Entities are authorized to perform all of their obligations pursuant to the CRO Agreement.

28. **THIS COURT ORDERS** that the CRO shall consult with the Monitor regarding all material issues relating to the Business and all issues relating to these proceedings and shall not authorize any payment greater than \$500,000 on behalf of the Prizm Entities without the prior concurrence of the Monitor to such payment.

29. **THIS COURT ORDERS** that, in addition to the rights and protections afforded the CRO as an officer of this Court, neither the CRO nor any employee of the CRO shall be deemed to be a director or trustee of any of the Prizm Entities.

30. **THIS COURT ORDERS** that neither the CRO nor any employee of the CRO shall incur any liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful

misconduct on its or their part; provided that any liability of the CRO hereunder shall in no event exceed the quantum of the fees paid to the CRO.

31. **THIS COURT ORDERS** that no action or other proceeding shall be commenced against or in respect of the CRO or any employee of the CRO, except with the written consent of the CRO or with leave of this Court on notice to the CRO, the Monitor, and the Prizm Entities.

#### **APPOINTMENT OF MONITOR**

32. **THIS COURT ORDERS** that FTI Consulting Canada Inc. is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the business and financial affairs of the Prizm Entities with the powers and obligations set out in the CCAA or set forth herein and that the Prizm Entities and their unitholders, shareholders, officers, directors, trustees, and Assistants and the CRO shall advise the Monitor of all material steps taken by the Prizm Entities pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations and provide the Monitor with the assistance that is necessary to enable the Monitor to adequately carry out the Monitor's functions.

33. **THIS COURT ORDERS** that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

- (a) monitor the Prizm Entities' receipts and disbursements;
- (b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;
- (c) assist the Prizm Entities, to the extent required by the Prizm Entities, in their dissemination, to the DIP Lender and its counsel of financial and other

information which may be used in these proceedings in accordance with the DIP Amendment (as hereinafter defined) or on reasonable request;

- (d) advise the Prizm Entities in their preparation of the Prizm Entities' cash flow statements and reporting required by the DIP Lender, which information shall be reviewed with the Monitor and delivered to the DIP Lender and its counsel in accordance with the DIP Amendment or on reasonable request;
- (e) advise the Prizm Entities in their development of the Plan and any amendments to the Plan;
- (f) assist the Prizm Entities, to the extent required by the Prizm Entities, with the holding and administering of creditors' or unitholders' or shareholders' meetings for voting on the Plan;
- (g) have full and complete access to the Property, including the premises, books, records, data, including data in electronic form, and other financial documents of the Prizm Entities, to the extent that is necessary to adequately assess the Prizm Entities' business and financial affairs or to perform its duties arising under this Order;
- (h) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order;
- (i) assist the CRO in the performance of its duties set out in the CRO Agreement;
- (j) advise and assist the Prizm Entities, as requested, in their negotiations with suppliers, customers, creditors and other stakeholders;

- (k) hold and administer funds in connection with arrangements made among the Prizm Entities, any counter-parties, and the Monitor, or by Order of this Court; and
- (l) perform such other duties as are required by this Order or by this Court from time to time.

34. **THIS COURT ORDERS** that the Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof.

35. **THIS COURT ORDERS** that nothing herein contained shall require the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "**Possession**") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder (the "**Environmental Legislation**"), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

36. **THIS COURT ORDERS** that the Monitor shall provide any creditor of the Prizm Entities and the DIP Lender with information provided by the Prizm Entities in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Prizm Entities is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Prizm Entities may agree.

37. **THIS COURT ORDERS** that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

38. **THIS COURT ORDERS** that the Monitor, counsel to the Monitor and counsel to the Prizm Entities shall be paid their reasonable fees and disbursements incurred both before and after the making of this Order, in each case at their standard rates and charges, by the Prizm Entities as part of the costs of these proceedings. The Prizm Entities are hereby authorized and directed to pay the accounts of the Monitor, counsel for the Monitor and counsel for the Prizm Entities on a weekly basis, or such other period as may be agreed with the Prizm Entities, and, in addition, the Prizm Entities are hereby authorized and directed to pay to the Monitor, counsel to the Monitor, and counsel to the Prizm Entities, retainers in the amounts of \$200,000, \$100,000, and \$200,000, respectively, to be held by them as security for payment of their respective fees and disbursements outstanding from time to time.

39. **THIS COURT ORDERS** that, at the request of the Prizm Entities, the DIP Lender, any other party in interest, or this Court, the Monitor and its legal counsel shall pass their accounts, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

40. **THIS COURT ORDERS** that the Monitor, counsel to the Monitor, the Prizm Entities' counsel, and the CRO shall be entitled to the benefit of and are hereby granted a charge (the "**Administration Charge**") on the Property, which charge shall not exceed an aggregate amount of \$1.5 million, as security for their professional fees and disbursements incurred at the standard rates and charges of the Monitor, such counsel, and the CRO, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs 46 and 48 hereof.

#### **DIP FINANCING**

41. **THIS COURT ORDERS** that the Prizm Entities are hereby authorized and empowered to obtain and borrow under a credit facility from Prudential Investment Management, Inc. and certain of its affiliates (the "**DIP Lender**") in order to finance the Prizm Entities' working capital requirements, provided that borrowings under such credit facility shall not exceed \$3 million unless permitted by further Order of this Court.

42. **THIS COURT ORDERS** that such credit facility shall be on the terms and subject to the conditions set forth in Amendment No. 11 to the Note Purchase and Private Shelf Agreement dated as of March 30, 2011 (the "**DIP Amendment**"), filed and the Prizm Entities are hereby authorized and directed to pay and perform all of its indebtedness, interest, fees, liabilities and obligations to the DIP Lender under and pursuant to the DIP Amendment as and when the same become due and are to be performed, notwithstanding any other provision of this Order.

43. **THIS COURT ORDERS** that, in addition to the existing security held by or on behalf of the DIP Lender securing the Prudential Loan, as amended by the Prudential Loan Amendments (as those terms are defined in the Papernick Affidavit (the “**Prudential Security**”), the DIP Lender shall be entitled to the benefit of and is hereby granted a charge (the “**DIP Lender’s Charge**”) on the Property, which DIP Lender's Charge shall only secure advances under the DIP Amendment and shall not secure an obligation that exists before this Order is made. The DIP Lender’s Charge shall have the priority set out in paragraphs 46 and 48 hereof.

44. **THIS COURT ORDERS** that, notwithstanding any other provision of this Order:

- (a) the DIP Lender may take such steps from time to time as it may deem necessary or appropriate to file, register, record or perfect the DIP Lender’s Charge;
- (b) upon the occurrence of an event of default under the DIP Amendment or the Amended and Restated Noteholder Forbearance Agreement dated as of March 31, 2011 among Prizm LP, Prizm GP, Kit Finance, Prudential, and each Prudential affiliate a party thereto the DIP Lender, upon seven (7) days notice to the Prizm Entities and the Monitor, may exercise any and all of its rights and remedies against the Prizm Entities or the Property under or pursuant to the DIP Amendment, the Note Purchase and Private Shelf Agreement dated January 12, 2006, among Prizm GP, Kit Finance, Prudential Investment Management, Inc., and each Prudential affiliate a party thereto, as amended, the Prudential Security and the DIP Lender’s Charge, including without limitation, to cease making advances to the Prizm Entities and set off and/or consolidate any amounts owing by the DIP Lender to the Prizm Entities against the obligations of the Prizm Entities to the DIP Lender under the DIP Amendment, to make demand, accelerate payment and give other

notices, or to apply to this Court for the appointment of a receiver, receiver and manager or interim receiver, or for a bankruptcy order against the Priszm Entities and for the appointment of a trustee in bankruptcy of the Priszm Entities; and

- (c) the foregoing rights and remedies of the DIP Lender shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Priszm Entities or the Property.

45. **THIS COURT ORDERS AND DECLARES** that the DIP Lender shall be treated as unaffected in any plan of arrangement or compromise filed by the Priszm Entities under the CCAA, or any proposal filed by the Priszm Entities under the *Bankruptcy and Insolvency Act* (Canada) (the "BIA"), with respect to any advances made under the DIP Amendment.

#### **VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER**

46. **THIS COURT ORDERS** that the priorities of the Administration Charge, the Critical Supplier Charge, the DIP Lender's Charge and the Directors' Charge, as among them, shall be as follows:

First - Administration Charge (to the maximum amount of \$1.5 million);

Second - Critical Supplier Charge;

Third - DIP Lender's Charge; and

Fourth - Directors' Charge.

47. **THIS COURT ORDERS** that the filing, registration or perfection of the Administration Charge, the Critical Supplier Charge, the DIP Lender's Charge or the Directors' Charge (collectively, the "Charges") shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right,



title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

48. **THIS COURT ORDERS** that each of the Administration Charge, the Critical Supplier Charge, the DIP Lender's Charge and the Directors' Charge (all as constituted and defined herein) shall constitute a charge on the Property and such Charges shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, the "Encumbrances") in favour of any Person, notwithstanding the order of perfection or attachment, except for any Person who is a "secured creditor", as defined in the CCAA, as of the date of this Order and who has not received notice of this Application.

49. **THIS COURT ORDERS** that except as otherwise expressly provided for herein, or as may be approved by this Court, the Prizm Entities shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, any of the Administration Charge, the Critical Supplier Charge, the DIP Lender's Charge or the Directors' Charge, unless the Prizm Entities also obtain the prior written consent of the Monitor, the DIP Lender and the beneficiaries of the Administration Charge, or further Order of this Court.

50. **THIS COURT ORDERS** that the Administration Charge, the Critical Supplier Charge, the DIP Amendment and the DIP Lender's Charge, and the Directors' Charge, shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the "Chargees") thereunder shall not otherwise be limited or impaired in any way by: (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e)

any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an “**Agreement**”) which binds the Prizm Entities, and notwithstanding any provision to the contrary in any Agreement:

- (a) neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of the DIP Amendment shall create or be deemed to constitute a breach by the Prizm Entities of any Agreement to which it is a party;
- (b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the Prizm Entities entering into the DIP Amendment or the creation of the Charges; and
- (c) the payments made by the Prizm Entities pursuant to this Order, the DIP Amendment, and the granting of the Charges, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

51. **THIS COURT ORDERS** that any Charge created by this Order over leases of real property in Canada shall only be a Charge in the Prizm Entities' interest in such real property leases.

#### **SERVICE AND NOTICE**

52. **THIS COURT ORDERS** that the Monitor shall (a) without delay, publish in *The Globe and Mail*, National Edition, and *La Presse*, in French, a notice containing the information prescribed under the CCAA, and (b) within five days after the date of this Order (i) make this Order publicly available in the manner prescribed under the CCAA, (ii) send, in the prescribed manner, a notice to every known creditor who has a claim

against the Prizm Entities of more than \$1,000, and (iii) prepare a list showing the names and addresses of those creditors and the estimated amounts of those claims, and make it publicly available in the prescribed manner, all in accordance with Section 23(1)(a) of the CCAA and the regulations made thereunder, provided that the Monitor shall not make the names and addresses of individuals who are creditors publicly available.

53. **THIS COURT ORDERS** that the Prizm Entities and the Monitor be at liberty to serve this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or electronic transmission to the Prizm Entities' creditors or other interested parties at their respective addresses as last shown on the records of the Prizm Entities and that any such service or notice by courier, personal delivery or electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

54. **THIS COURT ORDERS** that the Prizm Entities, the Monitor, and any party who has filed a Notice of Appearance may serve any court materials in these proceedings by e-mailing a PDF or other electronic copy of such materials to counsels' email addresses as recorded on the Service List from time to time, and the Monitor may post a copy of any or all such materials on its website at <http://cfcanada.fticonsulting.com/prizm>.

#### **GENERAL**

55. **THIS COURT ORDERS** that the Prizm Entities, the Monitor or the CRO may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

56. **THIS COURT ORDERS** that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Prizm Entities, the Business or the Property.

57. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, to give effect to this Order and to assist the Prizm Entities, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Prizm Entities and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Prizm Entities and the Monitor and their respective agents in carrying out the terms of this Order.

58. **THIS COURT ORDERS** that each of the Prizm Entities and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Monitor is authorized and empowered to act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada.

59. **THIS COURT ORDERS** that any interested party (including the Prizm Entities, the CRO and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

60. **THIS COURT ORDERS** that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Daylight Time on the date of this Order.

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**A) Suppliers of Food and Restaurant Consumables**

**Proposed Payment Terms**

- The later of 21<sup>1</sup> days from receipt of invoice or the Monday following the day which is 21 days from the receipt of invoice.
- To the extent that there are any annual fees, such fees to be prorated and paid them bi-monthly.

**Listing of suppliers of food and restaurant consumables to be declared Critical Suppliers and subject to the above payment terms**

Pepsi-Cola Bev. Canada ( Nss )	Sysco Serca Food Serv.West Inc (34010)
Praxair Products Inc	Sysco Serca Food Serv.West Inc (34011)
Canada Bread Co.Ltd. #V4065	Sysco Milton (Pronamic) Ph
Sysco Milton (Pronamic)	Sysco Milton (Pronamic) Tb
Baxter Foods Limited	Canada Bread Company Ltd. (321228)
Canada Bread – Atlantic	Sysco Food Services
Distagro (34002)	Multi-Marques Inc.
Serca Foodservice Inc	Sysco Food Services (Kingston)
Konings Wholesale	Distagro (52285)
Sysco Milton (Pronamic) KFC	Canada Bread Company, Limited (52383)
Sysco Food Services Calgary	Linde Canada Ltd.

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<sup>1</sup> Where Monday is a holiday the payment date will be shifted to Tuesday.

## CRITICAL SUPPLIERS TO THE PRISZM ENTITIES

### B) Chicken Suppliers

#### Proposed Payment Terms

- The later of 7<sup>2</sup> days from receipt of invoice or the Monday following the day which is 7 days from the receipt of invoice.
- To the extent that there are any annual fees, such fees to be prorated and paid them bi-monthly.

#### **Listing of chicken suppliers to be declared Critical Suppliers and subject to the above payment terms**

Exceldor Cooperative Avicole

Dunn-Rite Food Product

Maple Lodge Farms Ltd.

Sunrise Poultry Processors Ltd

Olymel S.E.C./L.P.

Nadeau Poultry Farm Ltd

Mountain View Poultry Farms

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<sup>2</sup> Where Monday is a holiday the payment date will be shifted to Tuesday.

**C) Utility Service Providers**

**Proposed Payment Terms**

- Payment on the Thursday following the receipt of invoice.
- To the extent that there are any annual fees, such fees to be prorated and paid them bi-monthly.

**Listing of utility service providers to be declared Critical Suppliers and subject to the above payment terms**

Eastlink	Energie Nb Power
Town Of Arnprior	Town Of Antigonish
Haldimand H E C	Edmundston La Ville
Bell Canada (638)	Nova Scotia Power Corporation
Belleville Utilities Comm.	City Of Bathurst
Hydro One Brampton	Pictou, Town Of
Brantford Power Inc	Yarmouth, Town Of
Barrie Public Utilities Comm.	New Glasgow, Town Of (Water)
Rogers AT&T (Don Mills)	Windsor, Town Of
Lakefront Utility Services Inc	Digby, Town Of
Cornwall Electric	Kings, Municipality County Of
Enbridge Consumers Gas Systems	Halifax Water Commission
Cambridge & North Dumfries	Bridgewater, Town Of
City Of Cornwall	Oromocto, Town Of
Town Of Carleton Place	Kamloops, City Of
City Of St Catherines	Delta, Corp Of
Reg Munic Durham	Corp. Of The New Westminster



## CRITICAL SUPPLIERS TO THE PRISZM ENTITIES

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The Corp. Of The Town Of	Penticton, City Of
E L K Energy Inc	City Of Terrace
Hawkesbury Hydro	Terasen Gas
Town Of Kingsville	City Of Victoria
Essex Powerlines Corporation	White Rock Utilities Ltd
London Public Utilities	Campbell River, District Of
Enersource Hydro Mississauga	Vernon, Corp Of The City Of
Newmarket Hydro Elect. Comm.	Kelowna, City Of - Utility
Toronto Finance Department	Town Of Amherst
Natural Resource Gas Ltd.	City Of Portage La Prairie
Niagara Falls Hydro	Capital Regional District
Oshawa Public Utilities Comm.	Maple Ridge Corp City Of
Ottawa Hydro	Cranbrook Corp Of The City Of
Ottawa-Carleton	Chilliwack, District Of
Brant County Power	Nanaimo, City Of
Ottawa River Power Corporation	Williams Lake, City Of
Peterborough Utilities Comm.	Sidney, Town Of
Veridian Connections	Salmon Arm, District Of
Pembroke Waterworks	Squamish, District Of
Renfrew Hydro Electric Comm.	Port Alberni, City Of
St Thomas Public Utilities	City Of White Rock
Norfolk Power Distribution Inc	Regional District Of Central Okanagan
GSU	Coquitlam, City Of
Town Of Smiths Falls	Sussex, Town Of
Sault Ste. Marie, P U C	New Glasgow, Town Of

## CRITICAL SUPPLIERS TO THE PRISZM ENTITIES

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Thunder Bay Telephone	Niagara Regional Police
Thunder Bay Hydro	Camrose, City Of
Toronto Hydro	BC Hydro
Union Gas Ltd	City Of Surrey
Hydro One Networks Inc	Township Of Langley
Enwin Utilities	Epcor
Whitby Hydro Electric Comm.	Burnaby, City Of
Ville D'alma	Shaw Cable
Bell Canada (2310)	Reliance Home Comfort
Ville De Coaticook	Edmonton, The City Of
Gaz Metropolitan	City Of Miramichi
Gazifere Inc	Halton Hills Hydro Inc
Hydro-Quebec	Telus Quebec
Ville De Joliette	Chatham-Kent Utility Services
Ville De Magog	Pacific Northern Gas Ltd.
Telebec Ltee.	City Of Winkler
Ville De Sherbrooke	Region Of Peel (53359)
City Of Airdrie	Superior Propane Inc.- Calgary
Town Of High River	Culligan
Town Of Stettler	Greater Napanee Utilities
Town Of Strathmore	Town Of Drayton Valley
Town Of Brooks	Bell Expressvu
Town Of Cochrane	Telus Mobility
Bell Canada (7736)	City Of Richmond, BC
Bell Cellular	The City Of Greater Sudbury

## CRITICAL SUPPLIERS TO THE PRISZM ENTITIES

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Imperial Oil	M3 & W Inc.
Rogers Payment Centre	MTS Communications Inc.
Bell Canada (13065)	Collus Power Corp
Propane M & M Inc	FortisBC Inc
Bell Mobilite Pagette	Town Of Lakeshore
Bell Canada (21360)	Cablevision
Prince Edward Public Works	Keep In Touch
Guelph Hydro	Powerstream
Erie Thames Power Corp.	Direct Energy
Telus Communications Inc	Village Of New Minas
Strathcona County	Horizon Utilities Corporation
Westbank Irrigation District	Bell Canada (46557)
Black Mountain Irrigation Dist	Town Of Richmond Hill
City Of Abbotsford	Rogers Telecom - Business
Clearbrook Waterworks District	Bluewave Energy
Rogers Cablesystems	Orangeville Hydro Limited
Cape Breton Regional Municipal	Enmax
District Of Langford	Enbridge Gas New Brunswick
Bell Mobility Paging	Allstream
Queens Municipality, Region Of	Bell Conferencing Inc.
Brandon, City Of	Wireless Personal
Steinbech, Town Of	Terago Networks Inc.
Central Okanagan, Regional	Voicemailtel Inc.
City Of Selkirk	Irving Energy Distribution
Winnipeg, City Of (Water)	Midland Power Utility

## CRITICAL SUPPLIERS TO THE PRISZM ENTITIES

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Manitoba Hydro/Centra Gas	On Telecom Management
St. Albert, City Of	Ari Financial Services Inc.
Campbellton, City Of	Cogeco Cable Inc.
City Of Fredericton	Internet Lightspeed
Moncton, City Of	Direct Energy
Saint John, City Of	Consumers' Waterheater
Aliant (34791)	Societe De L'assurance
Aliant (34786)	Ville De Montreal
St Stephen Utility Dept	Halifax Regional Municipality
Riverview, Town Of	Veridian Energy Inc.
Port Hawkesbury, Town Of	Region Of Peel (37018)
Saint John Energy	

# CRITICAL SUPPLIERS TO THE PRISZM ENTITIES

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## D) Suppliers of Waste Disposal and Pest Control Services

### Proposed Payment Terms

- The later of 30 days from receipt of invoice or the Thursday following the day which is 30 days from the receipt of invoice.
- To the extent that there are any annual fees, such fees to be prorated and paid them bi-monthly.

### **Listing of suppliers of waste disposal and pest control services to be declared Critical Suppliers and subject to the above payment terms**

Organic Resource Mgmt. Inc.	Wasteco
Owen Sound Septic Service	BFI Canada-Penticton
Wasteless Environmental Serv	Abell
Sanimax San Inc.	

**E) Providers of Appliance Repair and Information Technology Services**

**Proposed Payment Terms**

- The later of 30 days from receipt of invoice or the Thursday following the day which is 30 days from the receipt of invoice.
- To the extent that there are any annual fees, such fees to be prorated and paid them bi-monthly.

**Listing of providers of appliance repair and information technology services to be declared Critical Suppliers and subject to the above payment terms**

Radiant Systems

Global Payments

NCR Canada Ltd (34379)

DSL (Dairy Supplies Limited)

NCR Canada Ltd (49264)

Bazinet Taylor Ltee

Sitel

TFI Food Equipment Solutions

Menulink

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED  
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT  
OF PRISZM INCOME FUND, PRISZM CANADIAN OPERATING TRUST, PRISZM INC. AND KIT FINANCE INC.

Court File No: \_\_\_\_\_

**ONTARIO  
SUPERIOR COURT OF JUSTICE -  
COMMERCIAL LIST**

Proceeding commenced at Toronto

**INITIAL ORDER**

**STIKEMAN ELLIOTT LLP**  
Barristers & Solicitors  
5300 Commerce Court West  
199 Bay Street  
Toronto, Canada M5L 1B9

**Ashley John Taylor** LSUC#: 39932E  
Tel: (416) 869-5236

**Maria Konyukhova** LSUC#: 52880V  
Tel: (416) 869-5230

**Kathryn Esaw** LSUC#: 58264F  
Tel: (416) 869-6820  
Fax: (416) 947-0866

Lawyers for the Applicants

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED  
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT  
OF PRISZM INCOME FUND, PRISZM CANADIAN OPERATING TRUST, PRISZM INC. AND KIT FINANCE INC.

Court File No: CV-11-9159-  
OOC

ONTARIO  
SUPERIOR COURT OF JUSTICE

Proceeding commenced at Toronto

APPLICATION RECORD  
(RETURNABLE March 31, 2011)

VOLUME III OF III

STIKEMAN ELLIOTT LLP  
Barristers & Solicitors  
5300 Commerce Court West  
199 Bay Street  
Toronto, Canada M5L 1B9

Ashley John Taylor LSUC#: 39932E  
Tel: (416) 869-5236

Maria Konyukhova LSUC#: 52880V  
Tel: (416) 869-5230

Kathryn Esaw LSUC#: 58264F  
Tel: (416) 869-5230

Fax: (416) 947-0866

Lawyers for the Applicants