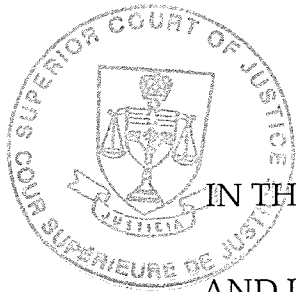


ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST



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")

NOTICE OF APPLICATION

TO THE RESPONDENTS:

A LEGAL PROCEEDING HAS BEEN COMMENCED by the Applicants. The claim made by the Applicants appears on the following page.

THIS APPLICATION will come on for a hearing on Thursday, March 31, 2011, at 8:30am, at 330 University Avenue, Toronto, Ontario.

IF YOU WISH TO OPPOSE THIS APPLICATION, to receive notice of any step in the application or to be served with any documents in the application, you or an Ontario lawyer acting for you must forthwith prepare a notice of appearance in Form 38A prescribed by the Rules of Civil Procedure, serve it on the Applicants' lawyer or, where the Applicants do not have a lawyer, serve it on the Applicants, and file it, with proof of service, in this court office, and you or your lawyer must appear at the hearing.

IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION, you or your lawyer must, in addition to serving your notice of appearance, serve a copy of the evidence on the Applicants' lawyer or, where the Applicants do not have a lawyer, serve it on the Applicants, and file it, with proof of service, in the court office where the application is to be heard as soon as possible, but at least four days before the hearing.

IF YOU FAIL TO APPEAR AT THE HEARING, JUDGMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO OPPOSE THIS APPLICATION BUT ARE UNABLE TO PAY LEGAL FEES,

LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

Date March 31, 2011

Issued by


Local registrar

Address of court office 330 University Avenue,
Toronto, Ontario
1 M5G 1R7 UB

TO: SERVICE LIST

APPLICATION

1. Prizm Income Fund ("**Prizm Fund**"), Prizm Inc. ("**Prizm GP**"), Prizm Canadian Operating Trust ("**Prizm Trust**") and Kit Finance Inc. ("**Kit Finance**" and together with Prizm Fund, Prizm GP and Prizm Trust, the "**Applicants**") make application for an Initial Order substantially in the form attached as tab 3 of the Application Record, among other things:

- (a) abridging the time for service of this Notice of Application and dispensing with service on any person other than those served;
- (b) declaring that the Applicants are parties to which the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") applies;
- (c) declaring that Prizm Limited Partnership ("**Prizm LP**" and together with the Applicants, the "**Prizm Entities**") shall enjoy the benefit of the protections provided to the Applicants under the Initial Order;
- (d) appointing FTI Consulting Canada Inc. as an officer of this Court to monitor the assets, businesses and affairs of the Prizm Entities (in such capacity, the "**Monitor**");
- (e) appointing 2279549 Ontario Inc. as Chief Restructuring Officer of the Prizm Entities (the "**CRO**");
- (f) staying all proceedings taken or that might be taken in respect of the Prizm Entities, their directors and officers, the CRO and the Monitor;
- (g) authorizing the Prizm Entities to file with this Court a plan of compromise or arrangement;

- (h) authorizing and empowering the Prizm Entities to obtain and borrow under a credit facility (the “**DIP Facility**”) from Prudential Investment Management Inc. (“**Prudential**”) in the amount not exceeding \$3 million unless permitted by further Court Order;
- (i) declaring certain suppliers of goods and services to the Prizm Entities (the “**Critical Suppliers**”) to be critical suppliers as contemplated by s. 11.4 of the CCAA and requiring them to continue to supply the Prizm Entities on the same terms and conditions as currently exist as amended by the Initial Order;
- (j) granting the following priority charges over the property of the Prizm Entities such charges to rank ahead of all other existing security interests of any persons, except for any person who is a “secured creditor”, as defined in the CCAA, as of the date of the Initial Order and who has not received notice of this Application:
 - (A) a charge in favour of counsel to the Prizm Entities, the proposed Monitor, the proposed Monitor’s counsel and the CRO in the maximum amount of \$1.5 million to secure payment of their fees and disbursements incurred in connection with this proceeding (the “**Administration Charge**”);
 - (B) a charge to secure payment to the Critical Suppliers in the amount of the value of the goods and/or services received by the Prizm Entities after the date of the Initial Order as security for payment less all amounts paid to the Critical Suppliers in respect of such goods and services (the “**Critical Supplier Charge**”);

- (C) a charge in the amount of \$3 million in favour of Prudential to secure the DIP Facility (the “**DIP Charge**”); and
- (D) a charge to protect the directors and officers of the Prizm Entities from certain potential liabilities in the amount of \$9.8 million (the “**Directors’ Charge**”);
- (k) granting such further and other relief as this Honourable Court may deem just.

2. The grounds for the application are:

- (a) Prizm LP is a franchisee of Yum! Restaurants International (Canada) LP (the “**Franchisor**”) and owns and operates 428 KFC, Taco Bell and Pizza Hut restaurants in Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia, Ontario and Quebec;
- (b) the Prizm Entities employ approximately 6,500 employees, all of whom work in Canada;
- (c) the Prizm Entities experienced declining sales and profitability in 2009 and 2010 fiscal years and, as a result, defaulted under their various credit facilities, including under their senior secured indebtedness to Prudential, and the agreement with the Franchisor;
- (d) as a result of declining sales and the inability to secure additional or alternate financing due to the problems in the credit markets, the Prizm Entities are currently insolvent as they cannot meet their liabilities as they come due;
- (e) in September 2010 the Prizm Entities commenced a sales process in order to divest of some of their restaurant assets and ultimately entered into agreement of purchase and sale with Soul Restaurants Canada Inc.

(formerly 7716443 Canada Inc.) for the sale of 231 operating restaurants in Ontario and British Columbia (the “**Soul Sale Transaction**”);

- (f) Kit Finance, Priszm Inc and Prism LP entered into a sales process agreement with Prudential on February 1, 2011 with respect to a sales process for the remaining restaurant assets (the “**Sale Process**”) and retained Canaccord Genuity to act as financial advisor and sales agent in connection with the Sales Process;
- (g) the Applicants are entities to which the CCAA applies;
- (h) Priszm LP carries on operations integral and closely related to the businesses of the Applicants and it is therefore appropriate to extend the protections of the Initial Order to Priszm LP;
- (i) the Priszm Entities require a stay of proceedings and the other relief sought in order to close the Soul Sale Transaction and complete the Sales Process and provide going concern outcome for the Priszm Entities’ approximately 6,500 employees, as well as their various suppliers and creditors;
- (j) having the DIP Facility in place is considered prudent by the Priszm Entities and it has only been made available on condition that Prudential be granted the DIP Charge and certain other protections;
- (k) the Critical Suppliers are essential to the continued operation of the Priszm Entities;
- (l) as the trustees and directors have stated their intention to resign their positions either prior to or immediately after the granting of an Initial Order, the appointment of the CRO is needed to ensure ongoing corporate governance;

- (m) the provisions of the CCAA and the inherent and equitable jurisdiction of this Honourable Court;
- (n) Rules 2.03, 3.02, 14.05(2) and 16 of the Ontario *Rules of Civil Procedure*, R.R.O. 1990, Reg. 194, as amended and section 106 of the Ontario *Courts of Justice Act*, R.S.O. 1990, c. C.43 as amended; and
- (o) such further and other grounds as counsel may advise and this Honourable court may permit.

3. The following documentary evidence will be used at the hearing of the application:

- (a) the Affidavit of Deborah Papernick sworn March 31, 2011, and the exhibits attached thereto;
- (b) the Pre-Filing Report of the proposed Monitor dated March 31, 2011 and the appendices attached thereto; and
- (c) such further and other evidence as counsel may advise and this Honourable Court may permit.

March 31, 2011

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Lawyers for the Applicants

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

Court File No: CV-11-9159-000

**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.**

**ONTARIO
SUPERIOR COURT OF JUSTICE
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Proceeding commenced at Toronto

NOTICE OF APPLICATION

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