Prime Restaurants
Royalty Income Fund

Tastes change.
Our brands lead the way

Annual Report 2008

Financial highlights

	2008	2007
($000's, except number of restaurants, SSSG% and Trust Units)		
Royalty Income Fund		
Number of restaurants in pool	**155**	156
Interest income	**$ 7,050**	$ 7,036
Net earnings	**$ 6,831**	$ 8,707
Trust Units	**6,110,000**	6,110,000
PRC TradeMarks Inc.		
Gross revenue reported by royalty pooled restaurants	**$ 340,554**	$ 339,281
Royalty income	**11,068**	11,026
Same store sales growth	**(0.47%)**	0.61%

At Prime, our focus on treating every visitor as though they were a guest in our home has been delivering value for more than twenty years.

2008 highlights

- Pubs business outpaces industry with 2.8% SSSG
- New look Casey's generates 0.2% SSSG
- East Side Mario's benefiting from new format
- Continued to deliver annual cash distributions of $1.128 per trust unit
- Well positioned to meet challenging consumer market

Prime Restaurants Royalty Income Fund (the "Fund"), through PRC TradeMarks Inc. ("TradeMarkCo"), is entitled to receive top-line royalties of 3.25% of the gross food and beverage revenue from pooled restaurants under the terms of a 99-year licence agreement between TradeMarkCo and Prime Restaurants of Canada Inc. ("PRC"). PRC owns, operates and franchises a diversified portfolio of Canada's leading brands of casual dining restaurants and premium pubs – East Side Mario's, Casey's and Fionn MacCool's.

Report to Unitholders

Despite the economic slowdown, we posted generally solid results in 2008. Looking ahead, we believe our multi-brand approach covering all price points of the casual dining sector will continue to attract and retain guests and help us build our business over the long term.

John A. Rothschild
Chief Executive Officer of
Prime Restaurants of Canada Inc.

Douglas J. Black, Q.C.
Chairman and Trustee of
Prime Restaurants Royalty Income Fund

Solid Performance

While the challenging economic climate had a significant impact on the consumer through the last half of the year, overall our results for 2008 were solid. Total revenues and royalty income for the Royalty Pooled Restaurants were both up over the prior year despite having one fewer location in 2008. Of key importance to our Unitholders, distributable cash for the year remained consistent with prior years.

Same store sales in 2008 were slightly negative at 0.47% as, following a positive first six months, we began to experience the negative affect of the economic slowdown through the third and fourth quarters of the year. Our growth in 2008 was also dampened by unseasonably cold and inclement weather in a number of regions, significant new competition in certain markets, and labour constraints in Western Canada. Despite these factors, we believe our performance in 2008 was positive, and that our ongoing strategies and programs will help us work through the current economic challenges and achieve our annual goal of 3% SSSG over the long term.

Casey's Delivers Strong Results

The refocusing of our Casey's brand begun in 2005 contributed to another year of strong performance in 2008. Same store sales were positive, a testament to the sophisticated new look and improved guest experience generated by our new branding initiatives. We applied our new look and feel to two locations in 2008, and opened three new Casey's restaurants, one in Québec and two in Ontario.

Over the last three years we have completely revamped the Casey's experience with new interior and exterior designs and signage, as well as enhanced guest touch points such as attractive new glassware, larger and thicker napkins, and other innovations. This exciting new environment was complemented by extensive new menus and promotions introduced throughout 2008, including our successful *Fajitas Tuesdays*, *Burger Thursdays*, *Discover New Flavours*, *Drinkable Desserts*, *Order up Some Summer* and *Grillicious* programs. A number of our specialized and promotional menus were paired with selected beers and wines to enhance our guests' overall experience.

Another key initiative in 2008 was Casey's partnership with the Ontario Association of Food Banks and the Association Québécoise des Banques Alimentaires et des Moissons. Casey's donated $1.00 to these organizations for each guest ordering from our *Feed the Soul* menu, highlighting our commitment to "our people, our guests and our community."

Looking ahead, early in 2009 we introduced a new *Food First* internal marketing strategy that reinforces and communicates our commitment to operational excellence. As a component

We know what it takes to keep our business, and our franchisees, on a solid footing. Our strong presence and our proven value proposition will help us mitigate the economic challenges being faced in our markets.

of this strategy, a new core menu will be introduced during the second quarter focused on fresh ingredients and in-house preparation designed to reduce execution complexity and enhance quality. We also believe that our new Internet-based training programs and staff awareness initiatives will help to differentiate Casey's from its competitors and meet our goal of delivering a value proposition that is based on quality rather than price.

Pubs Continue to Shine

Our pubs posted another year of strong performance in 2008 as same store sales rose 2.8%, very solid growth considering overall results for the Canadian pub sector were negative for the year. Despite the slowdown in the fourth quarter, same store sales for our pubs remained positive in the quarter, a significant accomplishment.

Our success is largely the result of innovative new menus, festival and seasonal promotions, and numerous staff training programs that continue to attract and retain guests. Our *Keith's Wednesdays* and *Two Pint Fridays* have become a destination of choice for consumers looking for a friendly and fun atmosphere, while our focus on culinary excellence has significantly differentiated the Prime pub family from its competitive landscape.

We opened three new locations during 2008, all in Ontario. A second Bier Markt was opened in downtown Toronto in August 2008, providing a premium and contemporary take on the Belgian brasserie experience. In addition, we launched the first of our innovative "Pint-Sized" formats in Toronto, a smaller pub of approximately 2,500 square feet that offers franchisees the opportunity to own a Prime pub at a lower cost of entry while leveraging unique real estate and market opportunities.

Going forward, we will continue to build on the solid momentum demonstrated in 2008. A new marketing program inviting our guests to enjoy a pub experience that is *Tastefully Irish* will positively differentiate us within the sector, and new seasonal *Plat du Jour* menus will build on our reputation for providing some of the best food in the business.

East Side Mario's Gaining Momentum

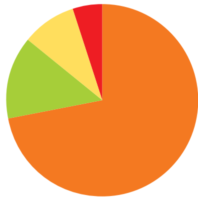
With 111 locations, East Side Mario's is the largest concept within the Prime family of brands. During 2008 five new restaurants were opened, while eight were renovated to our new standards and concept.

With a heritage of providing fun and value, East Side Mario's has a well established identity. During 2008 we celebrated the brand's twentieth anniversary in Canada with the launch of a new, fresh and high-energy concept that takes East Side Mario's back to its roots to provide an authentic taste of Little Italy. Through the year guests enjoyed an enhanced experience with new touch points such as glassware, napkins and other items, as well as new menus, uniforms and restaurant décor.

Same store sales were modestly negative for the year, with the majority of the decline coming in the fourth quarter. Nevertheless, we believe we are on the right path in rejuvenating the East Side Mario's brand, and are confident we will see stable and steadily improving performance over the longer term as we continue to roll out our new format and concept.

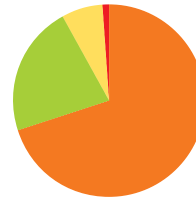
During 2008 a number of new menus and promotions were launched that featured the East Side Mario's Little Italy tradition. Focused primarily on pasta and pizza specials that build on the brand's key culinary strengths, the updated menu offerings are targeted at attracting more value-oriented guests to our locations. An enhanced lunch menu was also introduced with franchisees who wanted to build this aspect of their business. The new menus were supported by a highly

Sales by region



72%	Ontario
14%	Western Canada
9%	Québec
5%	Atlantic Canada

Percentage of stores by concept



70%	East Side Mario's
22%	Casey's
7%	Pubs
1%	Other

successful return to television advertising featuring strong visuals of our freshly prepared signature dishes and guests enjoying the genuine hospitality of our Little Italy concept.

During 2009 we will be highlighting one of our "Brand Pillars" in each quarter of the year. The transformation of the brand is centred around "*Great Italian Cooking*", "*Passion for the Guest*", "*Welcoming Atmosphere*", and "*Part of the Neighbourhood*". Regional meetings, staff training activities and incentive programs will ensure our Pillars translate into an enhanced experience for our guests. Supporting this initiative, our promotional calendar will focus on quality offerings with an emphasis on price to ensure consumers impacted by the economic downturn will be attracted to the East Side Mario's value proposition.

Looking Ahead

As we look ahead, we are very mindful of the effect the current economic crisis will have on consumers. However, we believe we have a number of key strengths that will help us work through the current challenges and emerge strong with the capacity to capitalize on growth opportunities over the longer term.

First, our multi-brand approach covers the complete spectrum of the casual dining sector, allowing us to build relationships with a broad range of guests from all demographic groups. Should consumers decide to "trade down" in their dining choices, we are ready with a number of value propositions tailored to meet their needs at all of our brands. By offering a range of price points and targeting different customer groups, we believe we will generate stable performance through this economic downturn.

Our solid network of franchisees is another real positive for Unitholders. They provide the stability to expand with no significant capital outlay and a low risk profile, and allow Prime management to focus their attention exclusively on building the business. We also receive some of our best ideas from our franchisees, entrepreneurs who are on the restaurant floor each and every day. In addition, our franchisees have been in business for many years and we are confident they possess the financial strength to work through the current economic challenges. Importantly, Prime Restaurants of Canada, the Fund's underlying operating company, has minimal bank debt, a key advantage in these challenging times.

Finally, the Prime Family of brands collectively have more than 28 years of of experience in the casual dining business. Our management team has lived through difficult times in the past, and we know what it takes to keep our business, and that of our franchisees, on a solid footing. We believe our strong presence in key markets, combined with our ongoing proven programs and promotions to attract and retain guests, will help us mitigate the issues being faced in our markets. We will also continue to assess growth opportunities to expand our brands in current and new markets over the long term.

Douglas J. Black, Q.C.
Chairman and Trustee of
Prime Restaurants
Royalty Income Fund

John A. Rothschild
Chief Executive Officer of
Prime Restaurants
of Canada Inc.

Prime Restaurants at-a-glance

Our growing network of franchisees allows us to focus on growing our sales and ensuring every customer is treated as a guest in our home.

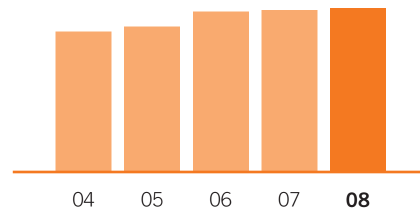
East Side Mario's

A Taste of Little Italy

At East Side Mario's, we deliver a high-energy, fun and family-friendly dining experience with a Taste of Little Italy in every bite. From our authentic Italian pizzas to our signature pasta dishes, at East Side Mario's, you will discover the heart, soul and Taste of Little Italy.

Growth revenue
(in thousands of dollars)

225,752



Casey's

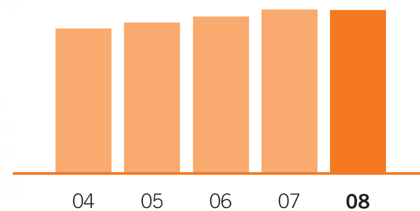
Dine and Discover

At Casey's, we encourage you to try something new, something unexpected that you normally wouldn't make at home. Discover new flavours and share new experiences as you connect with friends and family over great food and drink.

Experience unmatched service and the perfect balance of comfort, style and energy that creates a socially-charged atmosphere.

Growth revenue
(in thousands of dollars)

76,979



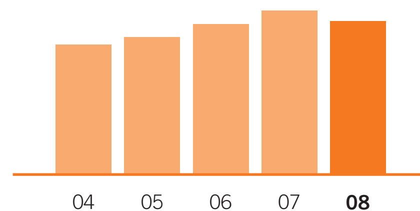
Prime Pubs

Get Your Irish On

A Prime Pub offers the best of food and drink served with warm hospitality in an inviting and vibrant atmosphere. We balance traditional favourites with fresh new tastes and a unique selection of perfectly poured pints, fine whiskeys, scotches, wines and refreshing cocktails. It's more than what you would expect from a typical pub.

Growth revenue
(in thousands of dollars)

27,943



Management's discussion & analysis and financial statements

Prime Restaurants Royalty Income Fund

(For the years ended December 31, 2008 and 2007)

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Prime Restaurants of Canada Inc.

(For the years ended January 6, 2009 and January 7, 2008)

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Glossary of terms

CRFA: Canadian Restaurant and Foodservices Association

Fiscal Year End: When applied to the Fund, January 1 to December 31st. When applied to PRC, Monday following the first Sunday in January of the year to the first Sunday of January of the next year

Fund: Prime Restaurants Royalty Income Fund

GAAP: Canadian generally accepted accounting principles

Gross Revenue: Revenue generated by Royalty Pooled Restaurants

PRC: Prime Restaurants of Canada Inc.

Prime Marks: Trade-marks – East Side Mario's, Casey's, Fionn MacCool's, Pat & Mario's, D'Arcy McGee's, Paddy Flaherty's, Tir nan Óg, Sláinte, Bier Markt

Royalty Pooled Restaurants: Restaurants from which 3.25% of gross revenue is paid to TradeMarkCo by PRC

SSSG: Same store sales growth – increase in gross revenue of restaurants that have been open for a minimum of 24 months

System Sales: Sales generated by all of PRC's restaurants

TradeMarkCo: PRC Trademarks Inc. – a variable interest entity of PRC

Management's discussion & analysis

The following is a discussion of the results of operations and financial condition of Prime Restaurants Royalty Income Fund (the "Fund") for the three months ended December 31, 2008 and December 31, 2007, and the years ended December 31, 2008, December 31, 2007 and December 31, 2006, and was prepared based on information available as of March 11, 2009. Selected information on TradeMarkCo is also included with the Fund's discussion. The financial statements of the Fund have been prepared by management, and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare the financial statements in accordance with Canadian generally accepted accounting principles, ("GAAP"). The financial statements are presented in Canadian dollars and should be read in conjunction with this report. Additional information relating to the Fund can be found at www.sedar.com and on the Fund's website www.primeincomefund.ca.

Caution regarding forward-looking statements

The public communications of the Fund often include written or oral forward-looking statements. Statements of this type are included in this Management's Discussion and Analysis ("MD&A"), and may be included in filings with Canadian securities regulators, or in other communications. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives for 2009 and beyond, our strategies or planned future actions, and our targets or expectations for our financial performance and condition. All statements, other than statements of historical fact, contained in this MD&A are forward-looking statements, including, without limitation, statements regarding the future financial position and operations (including estimated revenue from Royalty Pooled Restaurants and the estimated administrative and other operating expenses of the Fund), business strategy, distributions, plans and objectives of or involving the Fund. Readers can identify many of these statements by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" and similar words or the negative thereof. Although management of the Fund and Prime Restaurants of Canada Inc. ("PRC") believe that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties including those discussed in this MD&A and the Fund's annual information form dated March 11, 2009 under "Narrative Description of the Business – Risk Factors" which is incorporated herein. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this MD&A not to place undue reliance on our forward-looking statements because a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

Assumptions and analysis about the performance of the Fund and PRC and the markets in which they compete are considered in forecasting the Fund's expected financial results and the Fund's ability to pay distributions and in making related forward-looking statements. The key assumption in respect of the Fund's level of distributions is that the cumulative distributable cash will be able to support the Fund's current level of distributions. The Fund receives distributable cash from the cash flow from operating activities of the Fund. In respect of the ability to maintain and grow the royalty pooled revenue, key assumptions include those relating to the demand for the goods and services under the Prime Marks and in respect of the Canadian markets in which the Royalty Pooled Restaurants operate. Should any of these factors or assumptions vary, actual results may differ materially from the forward-looking statements.

The information set forth under "Risks and Uncertainties" herein and in the Fund's annual information form dated March 11, 2009 under "Narrative Description of the Business – Risk Factors" identifies factors that could affect the operating results and performance of the Fund and the Royalty Pooled Restaurants. In making forward-looking statements, the Fund makes assumptions about the risk factors that are relevant. We caution that the list of factors discussed under "Risks and Uncertainties" and the Fund's annual information form dated March 11, 2009 under "Narrative Description of the Business – Risk Factors" herein is not exhaustive, and that, when relying on forward-looking statements to make decisions with respect to the Fund, investors and others should carefully consider the factors discussed, as well as other uncertainties and potential events, and the inherent risks and uncertainties of forward-looking statements.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this MD&A are made as of the date of this MD&A. Except as required by applicable securities laws, the Fund does not undertake to update any forward-looking statement, whether written or oral, that it may make or that may be made, from time to time, on its behalf.

Financial highlights of the Fund

($000's, except unit and per unit data) (unaudited)	**Year ended December 31, 2008**	Year ended December 31, 2007	Year ended December 31, 2006
Interest and dividend income	**7,049**	7,036	7,128
Net earnings	**6,931**	8,707	7,268
Total assets	**57,009**	56,970	61,684
Distributions to Unitholders	**6,892**	6,892	6,892
Trust Units – outstanding	**6,110,000**	6,110,000	6,110,000
Trust Units – diluted[1]	**9,321,620**	9,321,620	9,266,867
Basic earnings per Trust Unit	**$ 1.13**	$ 1.42	$ 1.19
Diluted earnings per Trust Unit	**$ 1.13**	$ 1.32	$ 1.17
Distributions paid per Trust Unit	**$ 1.13**	$ 1.13	$ 1.13

1 See "Summary of Fund Quarterly Results" for historical diluted units.

Overview and business of the Fund

The Fund is a limited purpose trust and was established on May 28, 2002. On July 22, 2002, through TradeMarkCo, the Fund acquired the Prime Marks from PRC, which operates and franchises a portfolio of leading brands of casual dining restaurants and premium pubs. PRC franchises and operates three core brands under the trade-marks "East Side Mario's" and "Casey's" restaurants, as well as pubs identified under names such as "Fionn MacCool's" and "D'Arcy McGee's". PRC's MD&A and consolidated financial statements have been filed concurrently with the MD&A and financial statements of the Fund and are available at www.sedar.com.

The Fund earns interest income on the monies loaned to TradeMarkCo evidenced by a debt instrument (the "TradeMarkCo Note"), the proceeds from which were used to acquire the Prime Marks. The TradeMarkCo Note, in the amount of $61,099,000, bears interest at 11.25% per annum and matures on July 22, 2034. Interest only payments on the TradeMarkCo Note are paid monthly to the Fund. The Fund also receives dividend income from its 65.55% ownership of the common shares of TradeMarkCo as at December 31, 2008. The interest payable by TradeMarkCo on the TradeMarkCo Note ranks ahead of TradeMarkCo's dividends on the class A and class B shares held by PRC and any common share dividends.

The Fund carries on no active business of its own and has no employees. The distributions of the Fund are dependent on the interest payments of the TradeMarkCo Note from TradeMarkCo, which, in turn, are dependent on the "top line" royalty fee of 3.25% that TradeMarkCo receives from PRC for its use of the Prime Marks.

The Fund is currently not taxable on any income that is distributed to Unitholders. Income tax obligations pertaining to the distributions by the Fund are currently the responsibility of Unitholders. New rules were enacted in 2007 to tax distributions made by certain publicly traded income trusts. For income trusts that were publicly traded before November 1, 2006, the government has implemented a four-year transition period.

The stated purpose of the new tax is to make the tax treatment of income trusts more like that of corporations, and their investors will be treated similarly to shareholders and the distributions to unitholders will no longer be an allowable deduction from taxable income once the new rule comes into effect. By virtue of these changes, it is expected that cash available for distributions to Unitholders will be reduced beginning in 2011 by the amount of income tax paid or payable by the Fund. The Fund and its Unitholders are not expected to be subject to the new measures until the 2011 taxation year. Based on information released to date, the income tax rate applicable to the Fund in 2011 would be 28%.

The units of the Fund are publicly traded on the Toronto Stock Exchange under the symbol *EAT.UN*. The Fund's fiscal year ends on December 31.

Objectives of the Fund

The Fund's objective is to provide Unitholders with stable cash distributions payable monthly. Distributions are currently paid to Unitholders at a rate of $0.094 per unit monthly or $1.128 per unit on an annual basis. The Fund generates cash to pay distributions from the interest portion on the principal amount of the TradeMarkCo Note bearing interest of 11.25% per annum, less administrative expenses of the Fund, plus any dividends on common shares received from TradeMarkCo.

Calculation of distributable cash

Distributable cash does not have any standardized meaning as prescribed by GAAP, and therefore may not be comparable to similar measures presented by other issuers. The Fund reports distributable cash as the Fund's cash flow from operating activities as shown on its statements of cash flow. Management believes that distributable cash is a useful supplemental measure of operating performance that provides investors with an indication of cash available for distribution. The distributable cash measure identifies the amount of actual cash available to pay distributions to Unitholders.

The following table shows distributable cash for the years ended December 31, 2008, December 31, 2007 and December 31, 2006:

($000's except per unit data) (unaudited)	**Twelve months ended December 31, 2008**	Twelve months ended December 31, 2007	Twelve months ended December 31, 2006
Fund's cash flow from operating activities*	**6,892**	6,892	7,060
Total Distributable Cash available	**6,892**	6,892	7,060
Cumulative shortfall - beginning of year	**–**	–	(167)
Distributed cash to Unitholders	**(6,892)**	(6,892)	(6,892)
Distributions paid per unit (6,110,000 units)	**$ 1.13**	$ 1.13	$ 1.13

* Cash flow from operating activities before change in non-cash working capital items.

The Fund earns interest on the TradeMarkCo Note at 11.25% per annum and receives dividends from TradeMarkCo, and currently distributes cash at a rate of $1.128 per annum per unit.

Distributions to unitholders

The Fund declared and paid the following distributions for the year ended December 31, 2008. The Fund has paid consistent monthly cash distribution at a rate of $1.128 per annum since its inception in July 2002.

Period	Payment date	Amount per unit
December 1 – December 31, 2008	January 15, 2009*	$ 0.094
November 1 – November 30, 2008	December 15, 2008	$ 0.094
October 1 – October 31, 2008	November 17, 2008	$ 0.094
September 1 – September 30, 2008	October 15, 2008	$ 0.094
August 1 – August 31, 2008	September 15, 2008	$ 0.094
July 1 – July 31, 2008	August 15, 2008	$ 0.094
June 1 – June 30, 2008	July 15, 2008	$ 0.094
May 1 – May 31, 2008	June 16, 2008	$ 0.094
April 1 – April 30, 2008	May 15, 2008	$ 0.094
March 1 – March 31, 2008	April 15, 2008	$ 0.094
February 1 – February 29, 2008	March 17, 2008	$ 0.094
January 1 – January 31, 2008	February 15, 2008	$ 0.094

* Paid subsequent to December 31, 2008

Tax treatment of distributions

Of the $1.128 per unit of distributions declared for the twelve months ended December 31, 2008, $1.109 per unit (98.29%) will be taxable to Unitholders as "investment income" and $0.019 per unit (1.71%) will be designated as "non-eligible dividend".

Fourth quarter review

For the fourth quarter ended December 31, 2008, interest income was $1.7 million, consistent with the prior year. In the fourth quarter of 2008, the Fund recognized an additional $9,704 (2007 – $8,613) of revenue using the effective interest rate method for recognizing and recording deferred revenue on financing fees.

In the fourth quarter of 2008, administrative expenses of $30,449 (2007 – $27,583) include trustees' fees, audit fees, securities commission fees and agency fees. The costs are in line with the same reporting period last year.

Distributable cash was $1.7 million for the fourth quarter of 2008. Cash distributions of $1.7 million or $0.28 per unit were declared during this period, the same as in the previous year.

Year review

2008 compared to 2007

For the year ended December 31, 2008, interest income was consistent with the prior year at $6.9 million. Common share dividends of $117,783 were received from TradeMarkCo for the year ended December 31, 2008. These dividends were used to eliminate the amounts owing to TradeMarkCo as a result of TradeMarkCo paying for expenses on the Fund's behalf. The Fund recognized $38,815 (2007 – $34,454) of revenue from non-cash interest on deferred financing fees in the year ended December 31, 2008. The year-over-year increase is due to using the effective interest rate method for recognizing and recording deferred revenue on the financing fees.

Fund administrative expenses of $118,172 (2007 – $109,844) for the year ended December 31, 2008 include trustees' fees, audit fees, securities commission fees and agency fees. The increase over prior year administrative expenses is a result of higher audit and security participation fees in 2008.

Distributable cash was $6.9 million for the year ended December 31, 2008. Cash distributions of $6.9 million or $1.128 per unit were declared during this period, the same as in the previous year.

Total assets at December 31, 2008 were $57.0 million, consistent with prior year and consist of interest receivable, the investment in TradeMarkCo and a future income tax asset.

2007 compared to 2006

For the year ended December 31, 2007, interest income on the TradeMarkCo Note was consistent with the prior year at $6.9 million. Common share dividends of $128,286 were declared, and paid, by TradeMarkCo, as of December 31, 2007. These dividends were used to eliminate the amounts owing to TradeMarkCo as a result of TradeMarkCo paying for expenses on the Fund's behalf. Using the effective interest rate method for recognizing and recording deferred revenue, the Fund recognized an additional $34,454 of revenue from non-cash interest on deferred financing fees in the year ended December 31, 2007. In the prior year, financing fees were amortized on a straight-line basis over the term of the debt and, as a result, $208,000 of deferred revenue was recognized.

Fund administrative expenses of $109,844 (2006 – $68,202) for the year ended December 31, 2007 included trustees' fees, audit fees, securities commission fees and agency fees. The increase resulted from higher audit fees in 2007.

Distributable cash was $6.9 million for the year ended December 31, 2007. Cash distributions of $6.9 million or $1.128 per unit were declared during this period, the same as in the previous year.

Total assets for the year ended December 31, 2007 were $57.0 million and consisted of interest receivable, investment in TradeMarkCo and a future income tax asset. Comparatively, as at December 31, 2006 the total assets (after netting deferred financing fees against the Investment in PRC Trademarks Inc. line) were $56.0 million.

The Fund recorded a future income tax asset of $1.78 million during 2007 and a corresponding future income tax recovery. The future income tax asset arose as a result of the Fund accounting for the deferred financing fees at amortized cost, which were netted against the PRC TradeMarkco Note, and amortized using the effective interest rate method. This future income tax asset was a non-cash item that did not affect cash flow.

Summary of fund quarterly results

The following is a table with the eight most recent quarters reported by the Fund:

($000's, except per unit data) (unaudited)	4th Quarter ended December 31, 2008	3rd Quarter ended September 30, 2008	2nd Quarter ended June 30, 2008	1st Quarter ended March 31, 2008
Revenue[1]	**1,779**	**1,785**	**1,725**	**1,760**
Fund administrative expenses	**(30)**	**(29)**	**(31)**	**(28)**
Future income taxes	–	–	–	–
Net earnings	**1,749**	**1,756**	**1,694**	**1,732**
Distributions declared	**1,723**	**1,723**	**1,723**	**1,723**
Basic earnings per Trust Unit	**$ 0.28**	**$ 0.29**	**$ 0.28**	**$ 0.28**
Diluted earnings per Trust Unit[2]	**$ 0.28**	**$ 0.29**	**$ 0.28**	**$ 0.28**

($000's, except per unit data) (unaudited)	4th Quarter ended December 31, 2007	3rd Quarter ended September 30, 2007	2nd Quarter ended June 30, 2007	1st Quarter ended March 31, 2007
Revenue[1]	1,773	1,773	1,754	1,736
Fund administrative expenses	(28)	(27)	(27)	(27)
Future income taxes	1,780	–	–	–
Net earnings	3,525	1,746	1,727	1,709
Distributions declared	1,723	1,723	1,723	1,723
Basic earnings per Trust Unit (6,110,000 units)	$ 0.57	$ 0.29	$ 0.28	$ 0.28
Diluted earnings per Trust Unit[2]	$ 0.48	$ 0.28	$ 0.28	$ 0.28

1 Represents TradeMarkCo Note bearing interest of 11.25% per annum, common share dividend and amortization of deferred financing fees.

2 The Diluted earnings per Trust Units were calculated based on the following diluted number of units: on March 31, 2007, June 30, 2007 and September 30, 2007, 9,298,546 units; and on December 31, 2007, March 31, 2008, June 30, 2008, September 30, 2008 and December 31, 2008, 9,321,620 units.

Subsequent events

On January 1, 2009, 428,174 Limited Voting Units of the Fund valued at $2,103,630 were issued to PRC, in connection with TradeMarkCo's settlement of its obligation to PRC under the Amended and Restated Licence and Royalty Agreement for new restaurants added to the Royalty Pool in 2008 and the estimated new restaurants to be added to the Royalty Pool in 2009. The transaction results in an increase in the Fund's investment in TradeMarkCo of $2,103,630. A final adjustment to the Limited Voting Units in respect of the estimate of new restaurants to be added to the Royalty Pool in 2009 will be made on January 1, 2010 based upon the actual annual sales reported by these new restaurants in the Royalty Pool for 2009. Until that date, 78,937 of such Limited Voting Units will be held in escrow.

Concurrently with the issuance of these Limited Voting Units, TradeMarkCo issued a $2,103,630 TradeMarkCo Note to the Fund which bears interest at 11.25% per annum.

Liquidity and capital resources

The primary source of cash to fund distributions to the Fund's Unitholders is provided through the payment received from TradeMarkCo on the $61.1 million TradeMarkCo Note which bears interest at 11.25% per annum. While the interest on the TradeMarkCo Note is funded directly from the operations of TradeMarkCo, TradeMarkCo is a variable interest entity of PRC and is consolidated by PRC. PRC makes royalty payments to TradeMarkCo sufficient to fund its obligations on the TradeMarkCo Note.

In order for the Fund to continue making distributions at the current level, it is essential that PRC generate operating cash flow at least sufficient to cover the interest cost on the TradeMarkCo Note. PRC had income from operations before income taxes, interest expense, amortization expense, loss on disposal of assets and asset write-down of approximately $8.7 million for the year ended January 4, 2009 compared to $7.7 million for the same period ended January 6, 2008. The increase over the prior year is the result of higher supplier contributions to fund promotional expenses, PRC head office restructuring costs recorded in the prior year that did not reoccur and increased royalties generated by new franchised restaurants during the current year versus the same period last year.

For the year ended January 4, 2009, PRC's cash used in operating activities was $0.3 million (after the payment of interest on the TradeMarkCo Note) which includes the use of $1.2 million for non-cash working capital, resulting in cash provided by operating activities before changes in non-cash working capital items of $0.9 million. For the year ended January 6, 2008, PRC's cash generated by operating activities was $3.3 million (after the payment of interest on the TradeMarkCo) which includes a source of $2.0 million for non-cash working capital, resulting in cash provided by operating activities before changes in non-cash working capital items of $1.3 million. For a complete review of PRC's performance, readers are advised to review the MD&A and financial statements of PRC for the year ended January 4, 2009, which are filed on www.sedar.com.

The Board of Directors and the Trustees closely monitor the cash position of TradeMarkCo and PRC along with the level of distributions of the Fund. The Fund does not have any capital expenditures, and its operating and administrative expenses have been stable, reasonably predictable and are considered to be in the ordinary course of business. The Fund, through interest payments and borrowings from TradeMarkCo, is expected to have sufficient financial resources to pay future distributions.

The Fund currently distributes cash at a rate of $1.128 per annum per unit that is funded by interest income and common share dividend declared by TradeMarkCo.

As the gross revenue from the Royalty Pooled Restaurants increases, any excess royalties received by TradeMarkCo after the payment of its expenses, the interest income on the TradeMarkCo Note held by the Fund and the cumulative dividends on the class A and class B shares held by PRC, will be paid by TradeMarkCo to the Fund and PRC pro rata based on their respective percentage ownership of common shares. In 2008, TradeMarkCo earned royalties totaling $11,067,927 (2007 – $11,026,638).

Risks and uncertainties

The distributions of the Fund are dependent on the interest payments it receives from TradeMarkCo, which in turn are dependent on royalty payments TradeMarkCo receives from PRC.

TradeMarkCo's only source of revenue is the 'top-line' royalty fee of 3.25% it receives from PRC of the food and beverage revenue of the Royalty Pooled Restaurants. The royalty pooled revenue is affected by the risks associated with the operations and financial condition of PRC, economic conditions, and the restaurant industry in general.

The amount of the royalty payable to TradeMarkCo by PRC is dependent, for its stability, on the number of Royalty Pooled Restaurants. There is no assurance that PRC will be able to obtain sufficient new Royalty Pooled Restaurants to replace the gross revenue of the Royalty Pooled Restaurants that have closed, or will have the financial resources to make any make-whole payments that might be owed by PRC to TradeMarkCo in respect of closed restaurants.

The following risks and uncertainties could cause or contribute to actual results of the Fund which are materially different from those expressed or implied by statements of the Fund made herein or in the Fund's other public disclosure:

- Changes in government regulations concerning health and the food industry, taxes, anti-smoking laws and other regulatory developments.
- General economic conditions, including consumer confidence and consumer ability to afford to dine-out.
- Competition in the restaurant industry and in particular, the casual dining sector with respect to price, service, location and food quality.
- PRC's ability to obtain qualified franchisees which could adversely affect its business development.
- The ability to negotiate / obtain acceptable lease or purchase terms for new locations, permits and government regulatory compliance, and the ability to meet construction schedules.
- Complaints from guests alleging food-related illnesses, injuries suffered on the premises or other food quality, health or operational concerns, as adverse publicity from such allegations may materially affect the Gross Revenue of PRC restaurants.
- Changes in demographics and life style trends.
- Factors affecting discretionary consumer spending, including economic conditions, disposable consumer income, consumer confidence and the levels of tourism.
- Publicity about any food-borne or highly infectious illnesses.
- The availability of experienced management and hourly employees.
- Increased food, labour and benefit costs.
- Increased administrative and other operating expenses of the Fund.
- Maintenance of intellectual property.

The growth of the royalty pooled revenue, and thus the royalties earned, is ultimately dependent upon PRC's ability to improve SSSG and to increase the Royalty Pooled Restaurants. The interest payment to the Fund on the TradeMarkCo Note ranks ahead of the dividends paid to PRC on TradeMarkCo's class A and class B shares.

The foregoing is not an exhaustive list of risks or uncertainties that may affect the Fund. A more detailed description of the risks to the Fund is included in the Fund's annual information form dated March 11, 2009 under "Narrative Description of the Business – Risk Factors."

Contingency

The Fund's management has determined that there are no known issues that would require recording a provision for contingencies in the financial statements for the year ended December 31, 2008.

Off-balance sheet arrangements

The Fund has no off-balance sheet arrangements.

Related party transactions

The Fund has an administration agreement with TradeMarkCo whereby TradeMarkCo provides administrative and advisory services to the Fund, pays all of the Fund's administrative expenses and is reimbursed by the Fund. This agreement has a 10-year term and is currently in its seventh year. TradeMarkCo in turn, sub-delegates certain administrative and advisory services to PRC under a sub-delegation agreement. No management fees were charged by PRC during 2008, however, PRC intends to charge TradeMarkCo a fixed fee of $100,000 for administration and advisory services for subsequent years, contingent on meeting budget.

Critical accounting policies and estimates

Management of capital

Capital disclosures

On January 1, 2008 the Fund adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, *Capital Disclosures*, which requires an entity to disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of noncompliance. This standard has been adopted prospectively and the related disclosures are described below.

Unitholders' equity is considered to be the source of capital for the Fund. The Fund's objectives in managing capital are to safeguard the Fund's ability to continue as a going concern while maximizing the distributions to Unitholders. Historically, the Fund has made distributions only to the extent that revenue exceeded expenses during the period. Since both the revenue and expenses of the Fund have been reasonably predictable and stable and since the Fund does not have any externally imposed capital requirements, the Trustees believe that the current level of distributions, capital and capital structure is sustainable. The Trustees actively monitor the cash position and financial performance of the Fund, TradeMarkCo, and PRC to ensure there are adequate resources to meet current distribution levels.

Financial instruments

Financial assets and financial liabilities held for trading are measured at fair value with changes in those fair values recognized in earnings. Financial assets that are held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method. Investments in equity instruments and other assets classified as available-for-sale are measured at fair value with changes in those fair values recognized in other comprehensive income, except for available-for-sale investments that do not have a quoted market price in an active market, which are measured at cost.

The Fund uses the effective interest method of amortization for any transaction costs or fees, earned or incurred for financial instruments measured at amortized cost. Adjustments arising from the remeasurement of financial assets classified as loans and receivables at amortized cost were recognized in the opening unitholder's equity as at January 1, 2007. The opening unitholder's equity for 2007 was decreased by $813,802 as a result of applying the effective interest rate method of amortization for deferred financing fees which were previously being amortized on a straight-line basis over the term of the note.

Classification of financial instruments

The Fund classifies its financial instruments as follows:

- Interest receivable on the Investment in PRC Trademarks Inc. and the Investment in PRC Trademarks Inc. as loans and receivables, which are initially measured at fair value and subsequently at amortized cost.
- Distributions payable to Fund Unitholders as other financial liabilities, which are measured at amortized cost.

Management estimates that the fair market values of these financial instruments, except for the TradeMarkCo Note, approximate their carrying values due to the short term of these maturities. The TradeMarkCo Note is recorded at its amortized cost of $54,645,467. Using the market unit price, as at December 31, 2008, the fair market value of the TradeMarkCo Note was calculated at approximately $31.5 million.

Financial instruments – disclosure and presentation

On January 1, 2008 the Fund adopted the new CICA Handbook Sections 3862 and 3863 that replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place greater emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. These standards have been adopted prospectively and the related disclosures are described below.

The Trustees have oversight responsibilities for risk management policies. The Board of Directors and the Trustees closely monitor the cash position and internal controls related to TradeMarkCo and PRC, along with the level of distributions of the Fund. The Fund does not have any capital expenditures, and its operating and administrative expenses have been stable, reasonably predictable and are considered to be in the ordinary course of business. The Fund, through interest payments and borrowings from TradeMarkCo, is expected to have sufficient financial resources to pay future distributions. The major risk categories that the Fund is exposed to are credit risk and liquidity risk.

- **Credit risk**
  The Fund's financial instruments that are exposed to credit risk are interest receivable and the TradeMarkCo note, and, accordingly, this is the Fund's primary source of cash to fund distributions to Unitholders. The Fund's income is derived from interest income on the TradeMarkCo Note from TradeMarkCo. TradeMarkCo is dependent on the royalty fee of 3.25% on the food and beverage revenue of the PRC's Royalty Pooled Restaurant as its main source of revenue. Accordingly, the Fund is economically dependent upon PRC. PRC's credit risk exposure consists primarily of cash and cash equivalents, restricted cash and accounts receivable which are closely monitored by PRC's management, the Directors of TradeMarkCo and the Trustees.
- **Liquidity risk**
  The monthly cash distribution requirement to Unitholders is the primary source of liquidity risk pertaining to the Fund. This risk is assessed as low due to the stable nature of income the Fund receives from the investment in TradeMarkCo. The Fund's investment in TradeMarkCo earns interest at 11.25% per annum. Additionally, the Fund manages liquidity risk by actively monitoring forecasted and actual cash flows. The Trustees believe that the current level of capital and capital structure is sufficient to sustain ongoing operations.
- **Interest rate risk**
  The Fund is not exposed to interest rate risk as it does not have borrowings that are influenced by changes in market interest rates.

Recently issued changes in accounting policies

International Financial Reporting Standards

The CICA in collaboration with the Accounting Standards Board ("AcSB") has determined that International Financial Reporting Standards ("IFRS") will be adopted as GAAP for publicly accountable profit-oriented enterprises commencing on January 1, 2011. The new reporting standards will require all publicly accountable enterprises to prepare their financial statements in accordance with IFRS. The transition date of January 1, 2011 may require the restatement for comparative purposes of amounts reported by the Fund for the year ended December 31, 2010. While the Fund has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Income taxes

The Fund is a unit trust for income tax purposes. As such, the Fund is currently only taxable on income not distributed to Unitholders. As substantially all taxable income is allocated to Unitholders, no provision for current income taxes has been made for earnings of the Fund.

The Fund accounts for income taxes using the asset and liability method whereby future income tax assets are recognized for deductible temporary differences and future income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. Future income tax assets are recognized only to the extent that management determines that it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO"), the acting Chief Financial Officer ("CFO") of the Fund and PRC senior management, on a timely basis so that the appropriate decisions can be made regarding public disclosure.

Based on an evaluation of the effectiveness of disclosure controls and procedures of the Fund and TradeMarkCo, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2008 to provide reasonable assurance that material information relating to the Fund and TradeMarkCo would be made known to them by others within those entities.

There has been no change in the Fund's internal controls over financial reporting related to the Fund that occurred during the year ended December 31, 2008 that materially affected, or is reasonably likely to materially affect the Fund's internal control over financial reporting.

Internal controls over financial reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management has used the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission ("COSO"), to design and assess the effectiveness of internal controls over financial reporting as of December 31, 2008. Based on this assessment, the CEO and the CFO concluded that the design and operation of these internal controls over financial reporting for the Fund are effective to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of financial statements for external purpose in accordance with the issuers' GAAP as of December 31, 2008.

There has been no change in the internal controls over financial reporting related to the Fund that occurred during the year ended December 31, 2008 that materially affected, or is reasonably likely to materially affect the Fund's internal control over financial reporting.

The following is a brief discussion of the investment in TradeMarkCo and the business environment in which TradeMarkCo and PRC operate.

PRC Trademarks Inc.

Investment

As of December 31, 2008, the Fund owned 65.55% (December 31, 2007 – 65.55%) of the outstanding common shares of TradeMarkCo. The Fund primarily derives its income from interest earned on the TradeMarkCo Note and TradeMarkCo derives all of its income from the 3.25% royalty from revenue of the Royalty Pooled Restaurants received from PRC. Although the Fund currently owns 65.55% of the common shares of TradeMarkCo and there exist common trustees and directors for both the Fund and TradeMarkCo, the Fund has determined that it does not exercise significant influence over the activities associated with the generation of the royalty pooled revenue. As a result, the Fund accounts for its investment in TradeMarkCo using the cost method.

The investment is shown on the balance sheet as "Investment in PRC Trademarks Inc." which is comprised of the following:

	December 31, 2008	December 31, 2007
6,110,000 common shares	**$ 1,000**	$ 1,000
TradeMarkCo Note[1]	**54,644,467**	54,605,652
	54,645,467	54,606,652

1 The carrying value of the TradeMarkCo Note is net of the unamortized financing fees $6,454,533 (2007 – $6,493,348).

The TradeMarkCo Note is recorded at its amortized cost of $54,644,467. Using the market unit price, as at December 31, 2008, the fair market value of the TradeMarkCo Note was calculated at approximately $31.5 million. It is management's opinion that the Fund is not exposed to significant credit risk arising from these financial instruments, except for the investment in TradeMarkCo where the Fund is exposed to credit risk arising from the concentration of its investment in one entity. The Fund is not exposed to significant interest rate risk as all of the Fund's financial instruments are non-interest bearing, except for the TradeMarkCo Note which bears interest at a fixed rate of 11.25% per annum and is payable monthly.

Restaurant Business Environment

The CRFA[1] announced that 2008 preliminary revenue growth in full-service restaurants was 4.0%, including menu inflation of 2.4%, while business levels at pubs and taverns saw a decline of 0.6% in 2008 including menu inflation.

According to the CRFA, Canadian foodservice operators are now facing the most challenging business environment since 1991. With the Canadian economy caught in the grips of a global recession, stagnant income growth and rising unemployment will lead consumers to cut back on discretionary spending. In addition, the CRFA has indicated that economists are forecasting Canada's economy will contract by 1.4% in 2009 following a relatively minor 0.7% expansion in 2008 and, as a result, disposable income is expected to grow by just 0.7% and the unemployment rate in Canada is expected to increase from an annual average of 6.1% in 2008 to 8.2% by the fourth quarter of 2009.

Based on this economic outlook, the CRFA is forecasting for 2009 a 3.1% decline in total full-service restaurant revenue, including menu inflation which is expected to be 3.2%. Business levels at pubs and taverns in Canada are forecasted by CRFA to decline by 2.6% in 2009, including menu inflation.

Seasonality

The full service restaurant sector of the Canadian foodservice industry, in which PRC operates, experiences seasonal fluctuations in revenues. PRC's second and third fiscal quarters are typically moderately stronger than the first and fourth fiscal quarters due to seasonal factors. During the warmer months, restaurant patios are open, patrons have more time for dining out, and tourism is at its peak.

General overview

Fourth Quarter

There were 155 (2007 – 156) Royalty Pooled Restaurants which generated $82.1 million in gross revenue (inclusive of make-whole revenue) at PRC in the fourth quarter of 2008 and $83.4 million in gross revenue (inclusive of make-whole revenue) at PRC for the fourth quarter of 2007. The decrease in gross revenue compared to last year's fourth quarter is primarily the result of one less restaurant and the negative impact of the economy on consumers discretionary spending and the casual dining industry.

The cumulative SSSG in the fourth quarter for the Royalty Pooled Restaurants was -2.95%. SSSG results varied regionally with the best performance coming from restaurants in Atlantic Canada with positive growth for the quarter of 9.2%. Western Canada, Ontario and Québec posted SSSG declines for the quarter of 9.0%, 2.4 and 5.7%, respectively. By concept, the pubs posted positive SSSG of 0.9% while SSSG at East Side Mario's and Casey's were both down 3.3% for the quarter.

During the fourth quarter three restaurants were opened and there were no closures. The restaurants opened were one pub, one Casey's and one East Side Mario's, all located in Ontario. The three new restaurants were added to the Royalty Pool on January 1, 2009. Additionally, two East Side Mario's restaurants were renovated during the fourth quarter of 2008.

Year

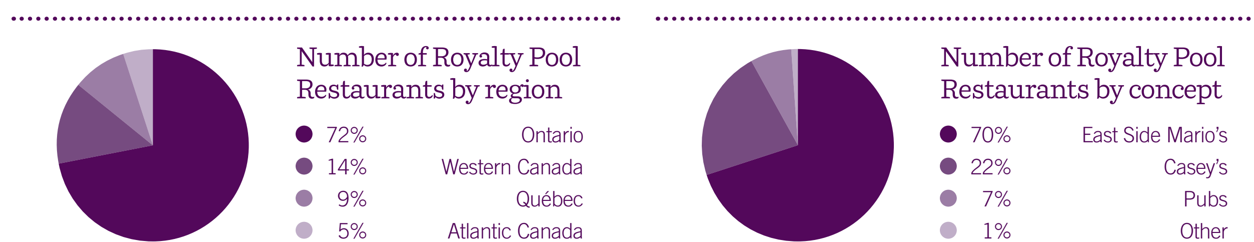
There were 155 Royalty Pooled Restaurants (2007 – 156) which generated $340.6 million in gross revenue (inclusive of make-whole revenue) at PRC in the year ended December 31, 2008 and $339.3 million in gross revenue (inclusive of make-whole revenue) at PRC for the year ended December 31, 2007. The 0.4% increase in gross revenue in 2008 compared to the prior year is a result of higher sales levels at the new restaurants that entered into the Royalty Pool this year compared to the lower sales levels for the restaurants that were closed.

1 Canadian Restaurant and Foodservices Association – Foodservice Sales Forecast

Twelve restaurants were opened while six restaurants were permanently closed during the reporting period ended December 31, 2008. The restaurants opened include three Casey's (two in Ontario and one in Québec), five East Side Mario's (one located in British Columbia, one in New Brunswick and three in Ontario), and four pubs located in Ontario. The six permanently closed restaurants include one Fionn MacCool's pub, two Casey's and three East Side Mario's restaurants. Five of the six closed locations were located in Ontario and one was located in Nova Scotia. Ten Royalty Pooled Restaurants underwent renovations during the year ended December 31, 2008, two Casey's restaurants and eight East Side Mario's restaurants. A total of six net restaurants (12 new restaurants less six closed restaurants) were added to the Royalty Pool on January 1, 2009.

SSSG for the year ended December 31, 2008 for Royalty Pooled Restaurants was marginally down by 0.47%. Atlantic Canada posted positive annual SSSG of 6.6%. Western Canada, Ontario and Québec had negative annual SSSG of 4.0%, 0.1% and 2.3% respectively, impacted by adverse weather, specifically in March and April, reduced operating hours in Western Canada due to the tight labour market, and the negative impact of the economy on consumers discretionary spending and the casual dining industry during the last half of the year. By concept, Casey's and the pubs posted positive SSSG of 0.2% and 2.8% respectively, while SSSG at East Side Mario's was down 1.1% for the year.

The composition of the Royalty Pool on January 1, 2008 was as follows:



Please refer to PRC's consolidated MD&A for the year ended January 4, 2009 for further discussion on the performance of the restaurants.

Class A and Class B shares

The class A and class B shares of TradeMarkCo are owned by PRC and comprise (all activity is at cost):

	Shares	**December 31, 2008**	Shares	December 31, 2007
Class A	**1,527,475**	**$ 15,274,750**	1,527,475	$ 15,274,750
Class B				
Jan 1, 2003	**230,005**	**2,300,015**	230,005	2,300,015
Jan 1, 2004	**449,496**	**4,494,891**	449,496	4,494,891
Jan 1, 2005	**938,500**	**9,384,840**	938,500	9,384,840
Jan 1, 2006	**11,391**	**113,913**	11,391	113,913
Jan 1, 2007	**54,753**	**547,517**	54,753	547,517
Total Class B	**1,684,145**	**16,841,176**	1,684,145	16,841,176
Total Class A and Class B	**3,211,620**	**32,115,926**	3,211,620	32,115,926

The Declaration of Trust provides that an unlimited number of Units and Limited Voting Units may be issued. Both types of Trust Units are transferable, and represent an equal undivided beneficial interest in any distribution of the Fund and in the net assets of the Fund.

All Units have equal rights and privileges. Each Unit entitles the holder thereof to participate equally in allocations and distributions and to one vote at all meetings of Unitholders for each whole Unit held. The Units are not subject to future calls or assessments. Trust Units are redeemable at any time at the option of the Unitholder at amounts related to market prices at the time, subject to a maximum of $50,000 in cash redemptions by the Fund in any one month. The limitation may be waived at the discretion of the Trustees of the Fund.

Redemption in excess of these amounts, assuming no waiving of the limitation, shall be paid by way of distribution in precise form of a pro rata number of securities of TradeMarkCo held by the Fund.

PRC has the right to exchange class A and B shares of TradeMarkCo for an equivalent number of TradeMarkCo Notes. The TradeMarkCo Notes are issued at $10 each, bear interest at a rate of 11.25% per annum, and mature on July 22, 2034, being 32 years after the closing of the original offering.

One TradeMarkCo Note, together with one common share of TradeMarkCo, can be exchanged for one Limited Voting Unit of the Fund, which would entitle PRC to 3,211,620 Limited Voting Units upon such exchange as at the date hereof. However, PRC may not exchange any of its common shares and TradeMarkCo Notes for Limited Voting Units unless, immediately after such exchange, PRC would hold, in the aggregate, at least 25% of the issued and outstanding common shares or no TradeMarkCo securities.

The Limited Voting Units may only be converted into Units under certain circumstances. The holders of Limited Voting Units are not entitled in the aggregate to cast more than 40% of votes with respect to the appointment or removal of Trustees of the Fund, and are not entitled to cast votes with respect to certain other matters. No Limited Voting Units have been issued as of December 31, 2008.

Pursuant to the Declaration of Trust and the Governance Agreement, PRC, as the holder of common, class A and class B shares of TradeMarkCo is entitled to participate in the votes of the Unitholders as if it were the holder of the number of Limited Voting Units into which such securities may be exchanged.

During the fourth quarter, TradeMarkCo declared dividends on its class A and class B shares in the amount of $903,268 representing the accrued dividends to September 30, 2008. The total dividends on class A and class B shares declared by TradeMarkCo for the year ended December 31, 2008 was $3,645,245, of which $2,709,805 representing accrued dividends to September 30, 2008 and $935,440 for the year ended December 31, 2007.

Outlook

The Fund's objective is to provide Unitholders with stable cash distributions payable monthly on the interest income earned on the TradeMarkCo Note, bearing interest of 11.25% per annum. The Fund expects to continue to earn interest income and distribute all of these monies less expenses to Unitholders. For further discussion on TradeMarkCo please refer to PRC's MD&A.

Additional information relating to the Fund, including the Fund's December 31, 2008 audited financial statements, the Annual Information Form and PRC's MD&A and consolidated financial statements can be found at www.sedar.com.

Auditors' report

February 20, 2009

To the Trustees of Prime Restaurants Royalty Income Fund

We have audited the balance sheets of **Prime Restaurants Royalty Income Fund** as at December 31, 2008 and 2007 and the statements of earnings and comprehensive income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants

Balance sheets

As at December 31, 2008 and 2007	2008	2007
ASSETS		
Current assets		
Interest receivable (note 4)	**$ 583,788**	$ 583,788
Investment in PRC Trademarks Inc. (notes 1, 2 and 3)	**54,645,467**	54,606,652
Future income tax asset (note 5)	**1,780,000**	1,780,000
	57,009,255	56,970,440
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Distributions payable (note 7)	**574,340**	574,340
Unitholders' equity (note 6)	**56,434,915**	56,396,100
	57,009,255	56,970,440

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

Approved by the Trustees

Douglas J. Black

Kirsten Matthews

Douglas J. Queen

Statements of earnings and comprehensive income

Years ended December 31, 2008 and 2007	2008	2007
Investment income		
Interest	**$ 6,931,284**	$ 6,908,092
Dividends	**117,783**	128,286
	7,049,067	7,036,378
Administrative expenses	**118,172**	109,844
Earnings before income taxes	**6,930,895**	6,926,534
Future income tax recovery (note 5)	**–**	(1,780,000)
Net earnings and comprehensive income for the year	**6,930,895**	8,706,534
Basic earnings per Trust Unit (note 8)	**$ 1.13**	$ 1.42
Diluted earnings per Trust Unit (note 8)	**$ 1.13**	$ 1.32

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

Statements of unitholders' equity

Years ended December 31, 2008 and 2007	**2008**	2007
Balance – Beginning of year	**$ 56,396,100**	$ 55,395,448
Impact of adoption of new accounting standards (note 2)	**–**	(813,802)
Net earnings	**6,930,895**	8,706,534
Distributions (note 7)	**(6,892,080)**	(6,892,080)
Balance – End of year	**$ 56,434,915**	$ 56,396,100

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

Statements of cash flows

Years ended December 31, 2008 and 2007	**2008**	2007
CASH PROVIDED BY (USED IN)		
Operating activities		
Net earnings for the year	**$ 6,930,895**	$ 8,706,534
Items not affecting cash		
Non-cash interest income	**(38,815)**	(34,454)
Future income tax recovery	**–**	(1,780,000)
	6,892,080	6,892,080
Financing activities		
Distributions to unitholders	**(6,892,080)**	(6,892,080)
Change in cash during the year	**–**	–
Cash – Beginning of year	**–**	–
Cash – End of year	**$ –**	$ –
Supplementary information		
Interest received	**6,892,469**	6,873,638

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

Notes to financial statements

December 31, 2008 and 2007

1. Organization and nature of business

Prime Restaurants Royalty Income Fund (the Fund) is a limited purpose trust, with an unlimited number of Trust Units (Units), established under the laws of the Province of Ontario, and pursuant to a Declaration of Trust dated May 28, 2002. Unitholders participate pro rata in any distributions from the Fund.

The Fund used the proceeds from the public offering on July 22, 2002 to invest in securities of PRC Trademarks Inc. ("TradeMarkCo"), which consisted of a $61,099,000 note receivable ("TradeMarkCo Note") and 1,000 Common shares. On July 22, 2002, TradeMarkCo acquired from Prime Restaurants of Canada Inc. ("PRC"), the trademarks and associated rights (Prime Marks) used by PRC in Canada in connection with its casual dining and pub operations for cash, Common and Class A shares. TradeMarkCo granted PRC a 99-year non-exclusive licence under the Licence and Royalty Agreement (Agreement) to use the Prime Marks for a royalty equal to 3.25% of the gross revenue reported from certain identified PRC restaurants (Royalty Pooled Restaurants). The Royalty Pool is adjusted in January of each year to include new restaurant openings, less any restaurants that permanently closed, during the year. Until January 1, 2007, TradeMarkCo paid PRC for the additional royalty stream generated from the net new restaurants by issuing additional Common shares and Class B preferred shares. For subsequent years, TradeMarkCo will pay PRC for any additional royalty stream generated from the net new restaurants by issuing additional Common shares and TradeMarkCo Notes or cash. As a result, the Fund's equity interest in TradeMarkCo may be diluted as annual adjustments to the Royalty Pool take place.

2. Summary of significant accounting policies

Basis of presentation

The Fund prepares its financial statements in accordance with Canadian generally accepted accounting principles.

Revenue recognition

The Fund receives interest on the TradeMarkCo Note on a monthly basis, in arrears, calculated based on the number of days in the month and accounts for the interest on an accrual basis.

Earnings per Trust Unit

The earnings per Unit are based on the weighted average number of Units outstanding during the year. Diluted earnings per Unit are calculated to reflect the dilutive effect of PRC exercising its right to exchange its convertible securities of TradeMarkCo into Units of the Fund at the beginning of the year.

Investment in PRC Trademarks Inc.

The Fund has a significant variable interest in TradeMarkCo, but is not the primary beneficial interest holder. Accordingly, TradeMarkCo has not been consolidated and is accounted for using the cost method. The Fund derives its income from interest earned on the TradeMarkCo Note; TradeMarkCo derives all of its income from the 3.25% royalty from revenue of the Royalty Pooled Restaurants received from PRC. In 2008, TradeMarkCo earned royalties totalling $11,067,927 (2007 – $11,026,638) from 155 (2007 – 156) Royalty Pooled Restaurants.

Should events or circumstances indicate that the carrying value of the investment may not be recoverable, the investment will be written down to its fair value. Any impairment in value would be recorded in the statement of earnings. As of December 31, 2008, it was determined that the investment is not impaired.

Use of estimates

Preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires the Trustees to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Notes to financial statements

Income taxes

The Fund is a unit trust for income tax purposes. As such, the Fund is currently only taxable on income not distributed to Unitholders. As substantially all taxable income is allocated to Unitholders, no provision for current income taxes has been made for earnings of the Fund.

The Fund accounts for income taxes using the asset and liability method whereby future income tax assets are recognized for deductible temporary differences and future income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. Future income tax assets are recognized only to the extent that management determines that it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

Financial instruments

Financial assets and financial liabilities held for trading are measured at fair value with changes in those fair values recognized in earnings. Financial assets that are held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method. Investments in equity instruments and other assets classified as available-for-sale are measured at fair value with changes in those fair values recognized in other comprehensive income, except for available-for-sale investments that do not have a quoted market price in an active market, which are measured at cost.

The Fund uses the effective interest method of amortization for any transaction costs or fees, earned or incurred for financial instruments measured at amortized cost. Adjustments arising from the remeasurement of financial assets classified as loans and receivables at amortized cost were recognized in the opening unitholder's equity as at January 1, 2007. The opening unitholder's equity for 2007 was decreased by $813,802 as a result of applying the effective interest rate method of amortization for deferred financing fees which were previously being amortized on a straight-line basis over the term of the note.

Classification of financial instruments

The Fund classifies its financial instruments as follows:

- Interest receivable on the Investment in PRC Trademarks Inc. and the Investment in PRC Trademarks Inc. as loans and receivables, which are initially measured at fair value and subsequently at amortized cost.
- Distributions payable to Fund Unitholders as other financial liabilities, which are measured at amortized cost.

Management estimates that the fair market values of these financial instruments, except for the TradeMarkCo Note, approximate their carrying values due to the short term of these maturities. The TradeMarkCo Note is recorded at its amortized cost of $54,644,467. Using the market unit price, as at December 31, 2008, the fair market value of the TradeMarkCo Note was calculated at approximately $31.5 million.

Adoption of new accounting standards

a) On January 1, 2008 the Fund adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, *Capital Disclosures*, which requires an entity to disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. This standard has been adopted prospectively and the related disclosures are included in note 10.

b) On January 1, 2008 the Fund adopted the new CICA Handbook Sections 3862 and 3863 that replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place greater emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. These standards have been adopted prospectively and the related disclosures are included in note 11.

Recently issued accounting pronouncements

The CICA in collaboration with the Accounting Standards Board ("AcSB") is planning to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The new reporting standards will require all publicly accountable enterprises to prepare their financial statements in accordance with IFRS. The transition date of January 1, 2011 may require the restatement for comparative purposes of amounts reported by the Fund for the year ended December 31, 2010. While the Fund has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. Investment in PRC Trademarks Inc.

As of December 31, 2008, the Fund owns 65.55% (2007 – 65.55%) of the outstanding common shares of TradeMarkCo. The investment is comprised of the following:

	2008	2007
6,110,000 common shares	$ 1,000	$ 1,000
TradeMarkCo note	61,099,000	61,099,000
Deferred revenue – financing fees	(6,454,533)	(6,493,348)
	$ 54,645,467	$ 54,606,652

The TradeMarkCo note bears interest at the rate of 11.25% per annum and matures on July 21, 2034.

4. Related party transactions and balances

The Fund has an administration agreement with TradeMarkCo whereby TradeMarkCo provides, or arranges for, the provision of services required in the administration of the Fund. The Fund reimburses TradeMarkCo for all of the administrative expenses paid by TradeMarkCo on its behalf. Total charges for the year, included in administrative expenses, and reimbursed by the Fund to TradeMarkCo amounted to $118,172 (2007 – $109,844).

Interest income and dividends earned from TradeMarkCo amount to $6,892,469 (2007 – $6,873,638) and $117,783 (2007 – $128,286) respectively, of which $583,788 (2007 – $583,788) in interest is receivable at December 31, 2008.

5. Income taxes

On July 12, 2007, a new tax on distributions made by certain publicly traded income trusts became law. For income trusts that were publicly traded before November 1, 2006, the government has implemented a four-year transition period. The stated purpose of the new tax is to make the tax treatment of income trusts more like that of corporations, and their investors will be treated similar to shareholders. By virtue of these changes, cash available for distributions to Unitholders will be reduced beginning in 2011 by the amount of income tax paid or payable by the Fund. The Fund and its Unitholders are not expected to be subject to the new measures until the 2011 taxation year. Based on information released to date, the applicable income tax rate in 2011 would be 28%.

Income trusts and specified investment flow-through entities ("SIFTs") are required to recognize future income taxes based on any temporary differences that are expected to reverse after 2011. The Fund accounts for the TradeMarkCo Note on an effective interest rate method and as such, amortizes the financing fees over the term of the TradeMarkCo Note. The unamortized balance of these fees resulted in the Fund recording a future income tax asset of $1,780,000 in the prior year. This future income tax asset is a non-cash item that will not affect cash flow.

The reconciliation to statutory income tax rate is as follows:

	2008	2007
Earnings before income taxes	**$ 6,930,895**	$ 6,926,534
Combined Canadian federal and provincial income tax rates	**29.5%**	32.12%
Computed expected tax expense	**2,044,614**	2,224,803
Reduced by:		
Current year's earnings not taxable	**(2,044,614)**	(2,224,803)
Recognition of future tax asset for enacted changes in tax laws and rates	**–**	(1,780,000)
Total income tax recovery per statement of earnings and comprehensive income	**$ –**	$ (1,780,000)

The tax effect of the temporary differences that give rise to the future tax asset is as follows:

	2008	2007
Future tax asset		
Deferred revenue – financing fees	**$ 1,780,000**	$ 1,780,000
Net future tax asset	**1,780,000**	1,780,000

6. Unitholders' equity

The Declaration of Trust provides that an unlimited number of Units and Limited Voting Units may be issued. Both types of Trust Units are transferable, and represent an equal undivided beneficial interest in any distribution of the Fund and in the net assets of the Fund.

All Units have equal rights and privileges. Each Unit entitles the holder thereof to participate equally in allocations and distributions and to one vote at all meetings of Unitholders for each whole Unit held. The Units are not subject to future calls or assessments. Trust Units are redeemable at any time at the option of the Unitholder at amounts related to market prices at the time, subject to a maximum of $50,000 in cash redemptions by the Fund in any one month. The limitation may be waived at the discretion of the Trustees of the Fund.

Redemption in excess of these amounts, assuming no waiving of the limitation, shall be paid by way of distribution in precise form of a pro rata number of securities of TradeMarkCo held by the Fund.

PRC has the right to exchange Class A and B shares of TradeMarkCo for an equivalent number of TradeMarkCo Notes. The TradeMarkCo Notes are issued at $10 each, bear interest at a rate of 11.25% per annum, and mature 32 years after the closing of the original offering on July 22, 2034.

One TradeMarkCo Note, together with one Common share of TradeMarkCo, can be exchanged for one Limited Voting Unit of the Fund. However, PRC may not exchange any of its Common shares and TradeMarkCo Notes for Limited Voting Units unless, immediately after such exchange, PRC would hold, in the aggregate, at least 25% of the issued and outstanding Common shares or no TradeMarkCo securities.

The Limited Voting Units may only be converted into Units under certain circumstances. The holders of these Units are not entitled in the aggregate to cast more than 40% of votes with respect to the appointment or removal of Trustee of the Fund, and are not entitled to cast votes with respect to certain other matters. No Limited Voting Units have been issued.

Pursuant to the Declaration of Trust and the Governance Agreement, PRC the holder of Class A and B shares of TradeMarkCo is entitled to participate in the votes of the Unitholders as if they were holders of the number of Limited Voting Units.

Unitholders' equity consists of:

	Trust units	Capital contribution	Accumulated earnings	Distributions	Total unitholders' equity
End of year, December 31, 2006	6,110,000	54,450,000	31,579,765	(30,634,317)	55,395,448
Impact of the adoption of new accounting standards	–	–	(813,802)	–	(813,802)
Net earnings for the year	–	–	8,706,534	–	8,706,534
Distributions paid during the year	–	–	–	(6,892,080)	(6,892,080)
End of year, December 31, 2007	**6,110,000**	**54,450,000**	**39,472,497**	**(37,526,397)**	**56,396,100**
Net earnings for the year	**–**	**–**	**6,930,895**	**–**	**6,930,895**
Distributions paid during the year	**–**	**–**	**–**	**(6,892,080)**	**(6,892,080)**
End of year, December 31, 2008	**6,110,000**	**54,450,000**	**46,403,392**	**(44,418,477)**	**56,434,915**

7. Distributions

Distributions to Unitholders are based on the Fund's net earnings and are intended to be made monthly in arrears. During the year ended December 31, 2008, the Fund declared distributions to its Unitholders of $6,892,080, or $1.128 per Unit respectively. At December 31, 2008, distributions payable to Unitholders was $574,340 (2007 – $574,340). The distributions payable as at December 31, 2008 were paid to Unitholders on January 15, 2009.

Income tax obligations, as it pertains to the distributions by the Fund, are currently the responsibility of the Unitholders.

8. Basic and diluted earnings per Trust Unit

If PRC were to exercise its rights to convert its TradeMarkCo Class A and B shares into trust units, an additional 3,211,620 (2007 – 3,211,620) units would be issued. The basic and diluted earnings per trust unit are determined as follows:

	2008	2007
Net earnings for the year – Fund	**$ 6,930,895**	$ 8,706,534
Interest on note if Class A and B shares of TradeMarkCo are converted	**3,622,971**	3,613,073
	10,553,866	12,319,607
Trust units – outstanding	**6,110,000**	6,110,000
Converted units	**3,211,620**	3,211,620
Trust units – if converted	**9,321,620**	9,321,620
Basic earnings per Trust Unit	**$ 1.13**	$ 1.42
Diluted earnings per Trust Unit	**$ 1.13**	$ 1.32

9. Economic dependence

The Fund's income is derived from interest and dividend income from TradeMarkCo. TradeMarkCo is dependant on the royalty fee of 3.25% it receives, as its main source of revenue from PRC, of the food and beverage revenue of the Royalty Pooled Restaurants. Accordingly, the Fund is economically dependant upon PRC.

10. Management of capital

Unitholders' equity is considered to be the source of capital for the Fund. The Fund's objectives in managing capital are to safeguard the Fund's ability to continue as a going concern while maximizing the distributions to Unitholders.

Historically, the Fund has made distributions only to the extent that revenue exceeded expenses during the period. Since both the revenue and expenses of the Fund have been reasonably predictable and stable and since the Fund does not have any externally imposed capital requirements, the Trustees believe that the current level of distributions, capital and capital structure is sustainable. The Trustees actively monitor the cash position and financial performance of the Fund, TradeMarkCo, and PRC to ensure there are resources to meet current distribution levels.

11. Financial instruments and financial risk management

The Fund Trustees have oversight responsibilities for risk management policies. The Board of Directors and the Trustees closely monitor the cash position and internal controls related to TradeMarkCo and PRC, along with the level of distributions of the Fund. The Fund does not have any capital expenditures, and its operating and administrative expenses have been stable, reasonably predictable and are considered to be in the ordinary course of business. The Fund, through interest payments and borrowings from TradeMarkCo, is expected to have sufficient financial resources to pay future distributions. The major risk categories that the Fund is exposed to are credit risk and liquidity risk.

Credit risk

The Fund's financial instruments that are exposed to credit risk are interest receivable and the TradeMarkCo note. This is the Fund's primary source of cash to fund distributions to Unitholders. The Fund's income is derived from interest income from TradeMarkCo. TradeMarkCo is dependent on the royalty fee of 3.25% it receives, as its main source of revenue from PRC, of the food and beverage revenue of the Royalty Pooled Restaurants. Accordingly, the Fund is economically dependent upon PRC. PRC's credit risk exposure consists primarily of cash and cash equivalents, restricted cash and accounts receivable which are closely monitored by PRC's management, the directors of TradeMarkCo and the Trustees of the Fund.

Liquidity risk

Monthly cash distribution requirement to Unitholders is the primary source of liquidity risk pertaining to the Fund. This risk is assessed as low due to the stable nature of income the Fund receives from the investment in TradeMarkCo. The Fund's investment in TradeMarkCo earns interest at 11.25% per annum. Additionally, the Fund manages liquidity risk by actively monitoring forecasted and actual cash flows. The Fund's Trustees believe that the current level of capital and capital structure is sufficient to sustain ongoing operations.

Interest rate risk

The Fund is not exposed to interest rate risk as it does not have borrowings that are influenced by interest rates.

12. Subsequent event

On January 1, 2009, 428,174 Limited Voting Units of the Fund totalling $2,103,630 were issued to PRC, in connection with TradeMarkCo's settlement of its obligation with PRC for new restaurants added to the Royalty Pool. The transaction will result in an increase in the Fund's Investment in TradeMarkCo of $2,103,630. A final adjustment to the Limited Voting Units will be made on January 1, 2010 based upon the actual annual sales reported by the new restaurants in the Royalty Pool for 2009. Until that date, 78,937 Limited Voting Units will be held in escrow.

Mission

"We treat every Customer as a Guest in our Home"

Commitment

Continual brand relevance
Engaging & developing our people
Delivering exceptional guest experience
Sustainable franchisee & enterprise profitability
Responsible growth

The following is a discussion of the results of operations and financial condition of Prime Restaurants of Canada Inc., ("PRC" or the "Company") for the quarterly periods ended January 4, 2009 and January 6, 2008 and the fiscal years ended January 4, 2009, January 6, 2008 and January 7, 2007 and was prepared based on information available as of March 11, 2009. Selected information on TradeMarkCo is also included with the Company's discussion. The financial statements of the Company have been prepared by management, and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare the financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The financial statements are presented in Canadian dollars and should be read in conjunction with this report. Additional information relating to PRC can be found at www.sedar.com and on the Company's website www.primerestaurants.com.

Forward-looking information

The public communications of PRC often include written or oral forward-looking statements. Statements of this type are included in this Management's Discussion and Analysis ("MD&A"), and may be included in filings with Canadian securities regulators, or in other communications. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives for 2009 and beyond, our strategies or planned future actions, and our targets or expectations for our financial performance and condition. All statements, other than statements of historical fact, contained in this MD&A are forward-looking statements, including, without limitation, statements regarding the future financial position and operations (including estimated revenue from Royalty Pooled Restaurants), business strategy, distributions, plans and objectives of or involving PRC. Readers can identify many of these statements by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" and similar words or the negative thereof. Although management of PRC believes that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties including those discussed in this MD&A and the Fund's annual information form dated March 11, 2009 under "Narrative Description of the Business – Risk Factors" which is incorporated herein. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this MD&A not to place undue reliance on our forward-looking statements because a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The information set forth under "Risks and Uncertainties" and the Fund's annual information form dated March 11, 2009 under "Narrative Description of the Business – Risk Factors" herein identifies factors that could affect the operating results and performance of PRC and the Royalty Pooled Restaurants. In making forward-looking statements, PRC makes assumptions about the risk factors that are relevant. We caution that the list of factors discussed under "Risks and Uncertainties" and the Fund's annual information form dated March 11, 2009 under "Narrative Description of the Business – Risk Factors" herein is not exhaustive, and that, when relying on forward-looking statements to make decisions with respect to PRC, investors and others should carefully consider the factors discussed, as well as other uncertainties and potential events, and the inherent risks and uncertainties of forward-looking statements.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this MD&A are made as of the date of this MD&A. Except as required by applicable securities laws, PRC does not undertake to update any forward-looking statement, whether written or oral, that it may make or that may be made, from time to time, on its behalf.

Financial highlights

The following table sets out selected consolidated financial information of PRC for the 52 week years ended January 4, 2009 and January 6, 2008 and the 53 week year ended January 7, 2007. The consolidated financial statements of PRC are prepared in accordance with GAAP, are presented in Canadian dollars and include results of TradeMarkCo. This document should be read in conjunction with PRC's consolidated financial statements for the year ended January 4, 2009, and Prime Restaurants Royalty Income Fund's (the "Fund") MD&A and financial statements for the year ended December 31, 2008.

($000's, except System Restaurants)	**Fifty-two weeks ended January 4, 2009**	Fifty-two weeks ended January 6, 2008	Fifty-three weeks ended January 7, 2007
System Sales – PRC restaurants	**345,686**	336,484	343,695
Total revenue	**45,275**	40,219	46,418
Operating costs & administrative expenses	**36,454**	32,384	39,591
Interest and amortization expenses	**8,193**	8,168	8,741
Loss on disposal of assets and write-down – corporate restaurants	**407**	301	56
	221	(634)	(1,970)
Income taxes	**1,028**	34	1,118
Income/(Loss) for the period	**(807)**	(668)	(3,088)
Total assets	**23,203**	21,776	25,774
Total long-term liabilities	**61,368**	58,247	64,487
System Restaurants	**161**	155	156

Overview and business of PRC

PRC franchises, owns and operates a portfolio of casual dining restaurants and premium pubs in Canada. The Company franchises and operates three core brands under the trade-marks "East Side Mario's" restaurants and "Casey's" restaurants, and "Fionn MacCool's" pubs. These trade-marks are collectively called the "Prime Marks". At January 4, 2009, there were 149 franchised and 12 corporate-owned restaurants, compared to 145 franchised and 10 corporate-owned restaurants at January 6, 2008. The Prime Marks were acquired on July 22, 2002 by TradeMarkCo; in exchange for the use of the Prime Marks, PRC pays a royalty of 3.25% of the gross revenue of Royalty Pooled Restaurants to TradeMarkCo.

PRC plans to achieve further growth through partnering with new and existing franchisees, while maximizing profitability of the corporate-owned restaurants. Increased market penetration outside of Ontario, primarily in Western Canada and Québec, will continue to be an objective. PRC also strives to achieve positive SSSG annually through initiatives designed to stimulate guest traffic and increase the frequency of guest visits. It will continue to support the value and quality message of PRC's brands through focused television and radio advertisements, continued focus on service standards, menu innovations, and renovations that evolve the brands and maintain their market competitiveness.

Overview of TradeMarkCo

TradeMarkCo acquired from PRC the Prime Marks and associated rights used by PRC in Canada in connection with its casual dining and pub operations on July 22, 2002. Simultaneously with the purchase of the Prime Marks, TradeMarkCo granted PRC the non-exclusive licence to use the Prime Marks for a term of 99 years. In return, PRC pays TradeMarkCo a royalty of 3.25% of the gross revenue of the Royalty Pooled Restaurants. TradeMarkCo's year-end is December 31st.

The number of Royalty Pooled Restaurants from which royalties are paid to TradeMarkCo is adjusted annually on January 1. For the determination made January 1, 2009, 12 new restaurants opened between January 1, 2008 and December 31, 2008 were added to the Royalty Pool. TradeMarkCo pays PRC for any additional royalty revenue, after adjusting for the six Royalty Pooled Restaurants that permanently closed during that period, according to a formula specified in the Amended and Restated Licence and Royalty Agreement. As of January 4, 2009 there were 161 Royalty Pooled Restaurants, an increase of six restaurants from January 6, 2008.

On January 1, 2009, 428,174 Limited Voting Units of the Prime Restaurants Royalty Income Fund (the "Fund") valued at $2,103,630 were issued to PRC, in connection with TradeMarkCo's settlement of its obligations with PRC under the Amended and Restated Licence and Royalty Agreement for new restaurants added to the Royalty Pool in 2008 and the estimated new restaurants to be added to the Royalty Pool in 2009. A final adjustment to the Limited Voting Units in respect of the estimate of new restaurants to be added to the Royalty Pool in 2009 will be made on January 1, 2010 based upon the actual annual sales reported by these new restaurants in the Royalty Pool for 2009. Until that date, 78,937 of such Limited Voting Units will be held in escrow.

TradeMarkCo pays the Fund interest expense on the monies borrowed by TradeMarkCo to acquire the Prime Marks pursuant to notes issued by TradeMarkCo (the "TradeMarkCo Notes"). The TradeMarkCo Notes, in the amount of $61,099,000 as of December 31, 2008 and $63,202,630 as of January 1, 2009, bear interest at 11.25% per annum. Interest payments on the TradeMarkCo Notes are paid monthly to the Fund. The Fund also receives dividend income from its current 65.55% ownership of the common shares of TradeMarkCo when declared by the Board of Directors of TradeMarkCo.

Selective year TradeMarkCo results

($000's, except # of Royalty Pooled Restaurants)	**December 31, 2008**	December 31, 2007
# of Royalty Pooled Restaurants	**155**	156
Gross Revenue from Royalty Pooled Restaurants	**340,552**	339,281
Royalty Income	**11,068**	11,026
Operating Expenses	**585**	440
Dividends accrued on Class A and Class B shares	**3,613**	3,613
Interest Expense	**6,892**	6,875

TradeMarkCo ownership

The common share ownership of TradeMarkCo is as follows:

	December 31, 2008	**%**	December 31, 2007	%
Common shares held by the Fund	**6,110,000**	**65.55**	6,110,000	65.55
Common shares held by PRC	**3,211,645**	**34.45**	3,211,645	34.45
Total common shares of TradeMarkCo	**9,321,645**	**100.0**	9,321,645	100.0

Significant developments during 2009 fiscal year

During the year ended January 4, 2009, 12 restaurants were opened while six restaurants were permanently closed. The restaurants opened include three Casey's (two in Ontario and one in Québec), five East Side Mario's (one located in British Columbia, one in New Brunswick and three in Ontario), and four pubs located in Ontario. The six permanently closed restaurants include one Fionn MacCool's pub, two Casey's and three East Side Mario's restaurants. Five of the six closed locations were located in Ontario and one was located in Nova Scotia. Ten Royalty Pooled Restaurants underwent renovations during the year ended January 4, 2009, two Casey's restaurants and eight East Side Mario's restaurants.

Management's discussion & analysis

During fiscal 2009, PRC management continued to implement programs and initiatives designed to stimulate revenue growth. These programs included:

East Side Mario's

- A "Pass Da Pasta" promotion was launched in mid January 2008 to drive value-oriented guests into the restaurants. The program featured three main course items at reduced prices. It was supported by four weeks of radio advertising as well as two direct mail drops.
- During the quarter ended April 6, 2008, East Side Mario's targeted local store marketing activity on Valentine's Day and March Break which are both very strong occasions for the brand.
- Brand evolution work that started last year continued during fiscal 2009. Some key strategies include educating corporate staff on key consumer insights that are driving the change and conducting extensive review of research as well as the key initiatives in culinary and service areas to bring the brand to life over the short and long term.
- A new employee communication program was launched to highlight and reinforce specific aspects of cultural and process change within the brand. Staff incentives were used to reward employees for successfully implementing the new changes.
- A new menu was launched early in quarter two and several new items were added to provide more authentic Italian choices, including linguini with clams and gnocchi in the pasta section. Several new pizza recipes were also added to build on the success of the pizza segment experienced in the prior year. More focus was placed on the brand's new lunch menu, including the addition of five new sandwiches and new calzones to provide more selection and enhanced service levels during the lunch period.
- The new menu launch was supported by a return to television advertising after an 18-month hiatus for East Side Mario's. The new television spot featured strong visuals of freshly prepared food, finished signature dishes, and guests enjoying the genuine hospitality of the brand's "Little Italy" concept.
- New training programs were rolled out to ensure that the new menu additions, revised service standards and brand expression were well understood.
- Building on the success of last year's "Grill Fantastico" program, East Side Mario's promoted a revised menu offering under this banner. The simplification of last year's program provided better execution across the brand.
- A second television campaign was launched in late July and August focusing on freshness through the promotion of our "New Tuscan Chicken Salad" and our revised freshly prepared "Chicken Parmigiana" dish from our "Taste of Little Italy" menu.
- During the third quarter two new promotional programs were introduced. The first was a "Pasta Speciale" value dinner program highlighting special price points on a selected list of our pasta offerings. The second was "Pranzo" (Italian for lunch), made available to franchisees who felt that building business during the lunchtime period was a strategic direction for their market.
- During the fourth quarter, East Side Mario's launched a "Value Add" program to cover the holiday season. With the purchase of a select set of menu items guests would receive a 350ml bottle of East Side Mario's signature house salad dressing. This offer was also applied to the purchase of a $30 gift card to promote the holiday peak sales season. A "Group Bookings" toolkit was sent out in mid October to capture office and social clubs holiday "get together". These national programs were supported by radio advertising across the system and various point of purchase materials.

Casey's

- Casey's continued its successful "Fajitas Tuesday" program offering a competitive price on an all-you-can-eat fajita meal accompanied by specials on Mexican-inspired beverages.
- An additional 1% contribution to the Casey's advertising fund by corporate and franchised locations was introduced at the beginning of 2008 which served to increase the frequency and reach of Casey's advertising support and allowed for the expansion of advertising mediums in support of promotional programs throughout the year.
- During the quarter ended April 6, 2008, Casey's launched the first articulation of its "Discover New Flavours" campaign which anchored the year's communication platform.
- "Grillicious" marketing campaign, featuring a selection of classic grilled items topped with trend inspired flavour profiles was launched in the first quarter, accompanied by a selection of red wines specifically chosen to pair with our selections from the grill. This promotion was supported by radio, print and outdoor advertising and continued to solidify Casey's brand offering.
- "Burger Thursdays" was also introduced in quarter one. This promotion capitalized both on Casey's grill heritage, and consumers' demand for new twists on classic menu items. To complete the burger experience, feature pricing was available to guests who paired their burgers selection with a pint of draught beer. "Burger Thursdays" was supported by radio and direct mail.

- During the second quarter Casey's launched a charity program in support of the Ontario Association of Food Banks and the Association Québécoise des Banques Alimentaires et des Moissons. Casey's donated $1.00 to these organizations for each guest ordering from the "Feed the Soul" menu. This initiative provides a meaningful connection to the communities in which we operate and articulates our commitment to our people, our guests and our community.
- Casey's launched the "Bar University", a three day comprehensive training program for select Casey's bartenders focused on providing guests with a segment-leading experience as a means of brand differentiation.
- Casey's summer promotional program "Order Up Some Summer" was introduced late in the second quarter and ran to the end of the third quarter. This program featured items inspired by the season's ingredients and was complemented by a selection of innovative and refreshing cocktails.
- Casey's launched its fall promotion in quarter four that featured seasonal ingredients paired with a selection of Ontario wines, supporting Casey's "Dine and Discover" proposition. The fall promotion was supported by radio, outdoor and print advertising.
- A holiday gift card promotion was introduced in quarter four. Guests that purchased a $30.00 gift card received a $5.00 gift card and guests that purchased a $50.00 gift card received a $10.00 gift card valid for use during the first quarter of fiscal 2010. This program was supported by a sales incentive program.
- During fiscal 2009, management continued to renovate Casey's locations to maintain the positive trend being experienced with the rejuvenated brand. During fiscal 2009, two restaurants were renovated, one in located in Québec and one in Ontario.
- Casey's opened three locations in fiscal 2009, one in Québec, that opened in January, 2008, and two in Ontario.

Pubs

- In the pubs business a new core menu, with an approximate 4% price increase, was introduced in the first quarter of 2008, with a continued focus on differentiating the Prime Pub experience from its competition while offering casual dining consumers an alternative dining experience.
- Numerous promotions such as "Keith's® Wednesdays" and "Two Pint Fridays", a re-invigorated take on our successful "Guinness® Fridays" promotion, were introduced, with the latter proving exceptionally popular with both regular and new guests.
- During the second quarter the Pubs division launched the "Liquid Academy of Publicans", a three day comprehensive training program for select pubs bartenders focused on providing guests with a segment-leading experience as a means of brand differentiation.
- Prime Pubs launched its summer campaign late in quarter two. This program featured the German lager, "St. Pauli Girl", exclusive to the Pub brand, and was complemented by a menu that featured fresh, seasonal ingredients, serving to underscore the brand's superior culinary offering. This program was supported by print advertising, and ran until the end of quarter three.
- The Pubs fall and winter "Plat du Jour" menu promotions were launched in quarter four. These promotions featured seasonal ingredients and hearty fall and winter dishes paired with a selection of beers that supports the brand's premium position.
- A holiday gift card promotion was introduced in quarter four. Guests that purchased a $30.00 gift card received a $5.00 gift card and guests that purchased a $50.00 gift card received a $10.00 gift card valid for use during the first quarter of fiscal 2010. This program was supported by a sales incentive program.
- The Pub division grew its restaurant count during the year by three new locations, two D'Arcy McGee's pubs located in Ottawa and one Fionn MacCool's located in Toronto. The new Fionn MacCool's in Toronto is our first "Pint-sized" format that is approximately 2,500 square feet in size. It offers potential franchisees the opportunity to own a Prime Pub at a lower entry cost, while the smaller footprint also affords operators the opportunity to leverage unique real estate and market opportunities.
- Management continues to look for opportunities to further develop the Bier Markt brand. The Bier Markt offers consumers a premium and contemporary take on the Belgian brasserie experience. A second Bier Markt location in downtown Toronto opened in August 2008 and has been enthusiastically received by guests.

Seasonality

The full service restaurant sector of the Canadian foodservice industry, in which PRC operates, experiences seasonal fluctuations in revenues. PRC's second and third fiscal quarters are typically moderately stronger than the first and fourth fiscal quarters due to seasonal factors. During the warmer months, restaurant patios are open, patrons have more time for dining out, and tourism is at its peak.

Summary of quarterly results

The following is a table showing the consolidated results for PRC and TradeMarkCo for the last eight quarters:

($000's) (unaudited) # Weeks in quarter		4th Quarter ended January 4, 2009 13 weeks	3rd Quarter ended October 5, 2008 13 weeks	2nd Quarter ended July 6, 2008 13 weeks	1st Quarter ended April 6, 2008 13 weeks
System gross revenue reported by restaurants		**84,088**	**91,045**	**88,504**	**82,049**
Revenue items					
Corporate restaurants		**7,537**	**8,962**	**8,536**	**6,736**
Royalties and other franchise related income		**3,100**	**3,341**	**3,767**	**3,185**
Share of income (loss) from investments		**(18)**	**(22)**	**(7)**	**28**
Interest income		**41**	**21**	**31**	**37**
Total revenue		**10,660**	**12,302**	**12,327**	**9,986**
Operating costs and administrative expenses		**8,042**	**10,004**	**9,869**	**8,539**
Interest expense		**1,817**	**1,765**	**1,843**	**1,798**
Other items		**654**	**262**	**203**	**258**
Income tax (recovery) / expense	– Current	**(18)**	**0**	**0**	**0**
	– Future	**1,254**	**87**	**(3)**	**(292)**
Income / (loss) for the period		**(1,089)**	**184**	**415**	**(317)**

($000's) (Unaudited) # Weeks in quarter		4th Quarter ended January 6, 2008 13 weeks	3rd Quarter ended October 7, 2007 13 weeks	2nd Quarter ended July 8, 2007 13 weeks	1st Quarter ended April 8, 2007 13 weeks
System gross revenue reported by restaurants		82,470	87,033	86,579	80,432
Revenue items					
Corporate restaurants		6,325	7,333	7,302	5,799
Royalties and other franchise related income		3,303	3,306	3,483	3,228
Share of income from investments		35	(51)	(8)	59
Interest income		8	48	21	28
Total revenue		9,671	10,636	10,798	9,114
Operating costs and administrative expenses		7,857	8,228	8,664	7,635
Interest expense		1,767	1,765	1,893	1,673
Other items		444	233	400	294
Income tax (recovery) / expense	– Current	0	(9)	7	2
	– Future	(170)	159	192	(147)
Income / (loss) for the period		(227)	260	(358)	(343)

Performance overview

Year – Fiscal 2009 Review – Consolidated Results

Fiscal 2009 compared to Fiscal 2008

System gross revenue

System sales reported by PRC for the year ended January 4, 2009 were $345.7 million compared with $336.5 million for the year ended January 6, 2008. For the year ended January 4, 2009, East Side Mario's represented 69.0% of total restaurants (111 locations), Casey's 21.7% (35 locations) and pubs and Pat & Mario's represented 9.3% (15 locations). By region, Ontario locations generated approximately 73.1% of total system sales reported for the year ended January 4, 2009. The increase in system sales compared to the prior year is due to having more restaurants in the current year compared to the same period last year. PRC system-wide gross revenue figures include both the sales reported by corporate restaurants and the sales reported to PRC by franchisees under franchise agreements, including restaurants that are not part of the Royalty Pool.

Same store sales growth

SSSG for the year ended December 31, 2008 for Royalty Pooled Restaurants was marginally down by 0.47%. Overall sales were affected by adverse weather, specifically in March and April, reduced operating hours in Western Canada due to the tight labour market, intense competition and the negative impact of the economy on consumers discretionary spending and the casual dining industry. SSSG results varied regionally with the best performance coming from restaurants in Atlantic Canada with positive growth for the year of 6.6%. Western Canada, Ontario and Québec posted SSSG declines for the year of 4.0%, 0.1 and 2.3% respectively. By concept, Casey's and the pubs posted positive SSSG of 0.2% and 2.8% respectively, while SSSG at East Side Mario's was down 1.1% for the year.

Revenue

Revenue reported by PRC for the year ended January 4, 2009 was $45.3 million compared to $40.2 million for the year ended January 6, 2008. PRC revenues include royalties and franchise-related income, sales from corporate-owned restaurants, and income from its ownership interest in The Ricmar Limited Partnership ("Ricmar") which owns one Casey's restaurant. For the year ended January 4, 2009, approximately $5.2 million of the revenue increase is due to having more restaurants in the current year compared to the same period last year.

Interest income earned during the year ended January 4, 2009 was $130,000 and represents revenue earned on cash balances maintained during this period. Interest income was $105,000 for the year ended January 6, 2008.

Operating costs and administrative expenses

Operating costs and administrative expenses for the year ended January 4, 2009 were $36.5 million compared to $32.4 million for the year ended January 6, 2008. The increase was due to more corporate locations in 2008. Additionally, the incremental cost from having more corporate locations was partially offset by higher supplier contributions to fund promotional expenses and the PRC head office restructuring costs recorded in the prior year did not reoccur.

Interest expense

Interest expense primarily represents the 11.25% interest TradeMarkCo pays to the Fund on the TradeMarkCo Note. Interest expense for the year ended January 4, 2009 was $7.2 million compared to $7.1 million for the year ended January 6, 2008. The current year amount includes interest expense arising from a new loan agreement between PRC and GE Capital Equipment Financing. The proceeds from the loan were used to finance the construction and opening of our second Bier Markt location in downtown Toronto. The GE loan bears interest at the banker's acceptance rate plus 3.25% per annum and will mature in September 2015.

Amortization expense

Amortization expense is comprised of the amortization on: 1) property, plant and equipment; 2) deferred pre-opening costs; and 3) deferred development costs. The amortization expense for the year ended January 4, 2009 was approximately $1.0 million. For the year ended January 6, 2008, the amortization expense was approximately $1.1 million. The reduction in fiscal 2009 is a result of fixed asset write-offs during the second quarter of 2007 that did not occur in the current year.

Loss on disposal and write-down of corporate restaurant assets

PRC incurred write-downs of $407,000 related to three corporate restaurant held for resale during the year ended January 4, 2009. In comparison, PRC incurred a loss of $47,000 on the sale of one corporate location and $254,000 in write-downs from renovations performed at two corporate locations during the year ended January 6, 2008.

Income taxes

PRC accounts for income taxes using the liability method of tax allocation. PRC recorded a non-cash, future income tax expense of approximately $1.0 million for the year ended January 4, 2009, reflecting the reversal of timing differences. For the year ended January 6, 2008, PRC recorded a non-cash, future income tax expense of approximately $34,000.

Fiscal 2008 compared to Fiscal 2007

Total assets

Total assets decreased from $25.8 million on January 7, 2007 to $21.8 million on January 6, 2008. The decrease was primarily a result of the reclassification of $5.9 million in deferred financing costs, previously reported as an intangible asset, to long-term liability offset against the TradeMarkCo Note. The reclassification resulted from implementing the new accounting policy for financial instruments that required accounting for the TradeMarkCo Note on an amortized cost basis.

The Company's cash balance increased by $1.4 million to $3.0 million on January 6, 2008 versus $1.6 million on January 7, 2007.

Total long-term liabilities

The decrease in long-term liabilities from $71.6 million on January 7, 2007 to $67.7 million on January 6, 2008, was largely the result of the reclassification of deferred financing costs, net of amortization, against the TradeMarkCo Note. The reclassification resulted from implementing the new accounting policy for financial instruments.

Deferred contract payments of $1.2 million were received in the year ended January 6, 2008. This increase was offset by amortization of deferred contract payments of $555,000 in the year ended January 6, 2008.

Fourth Quarter Fiscal 2009 Review – Consolidated Results

System gross revenue

System sales reported by PRC for the 13 weeks ended January 4, 2009 were $84.1 million compared with $82.5 million for the 13 weeks ended January 6, 2008. For the 13 weeks ended January 4, 2009, East Side Mario's represented 69.0% of total restaurants (111 locations), Casey's 21.7% (35 locations) and pubs and Pat & Mario's represented 9.3% (15 locations). By region, Ontario locations generated approximately 74.0% of total system sales reported for the 13 weeks ended January 4, 2009. The 1.9% increase in system sales, compared to the prior year, is due to having more restaurants in the current year compared to the same period last year. PRC system-wide gross revenue figures include both the sales reported by corporate restaurants and the sales reported to PRC by franchisees under franchise agreements including restaurants that are not part of the Royalty Pool.

Same store sales growth

Overall, sales were moderated by adverse weather, intense competition and the negative impact of the economy on consumers discretionary spending and the casual dining industry. The cumulative SSSG in the fourth quarter for the Royalty Pooled Restaurants was -2.95%. SSSG results varied regionally with the best performance coming from restaurants in Atlantic Canada with positive growth for the quarter of 9.2%. Western Canada, Ontario and Québec posted SSSG declines for the quarter of 9.0%, 2.4 and 5.7%, respectively. By concept, pubs posted positive SSSG of 0.9% while SSSG at East Side Mario's and Casey's were both down 3.3% for the quarter.

Revenue

Revenue reported by PRC for the 13 weeks ended January 4, 2009 was $10.7 million compared to $9.7 million for the 13 weeks ended January 6, 2008. The 10.3% increase in revenue, compared to the prior year, is mainly due to having more corporate restaurants in the current year compared to the same period last year. PRC revenues include royalties and franchise-related income, sales from corporate-owned restaurants, and income from its ownership interest in Ricmar which owns one Casey's restaurant.

Interest income earned during the 13 weeks ended January 4, 2009 was $41,000 and represents revenue earned on cash balances maintained during this period. Interest income was $8,000 for the 13 weeks ended January 6, 2008.

Operating costs and administrative expenses

Operating costs and administrative expenses for the 13 weeks ended January 4, 2009 were $8.0 million compared to $7.9 million during the 13 weeks ended January 6, 2008. The increase is primarily due to PRC having more corporate locations in 2008 than the prior year. Additionally, the incremental cost from having more corporate locations was partially offset by higher supplier contributions to fund promotional expenses and the non reoccurrence of PRC head office restructuring costs recorded in the prior year.

Interest expense

Substantially all of the interest expense represents the 11.25% interest TradeMarkCo pays to the Fund on the TradeMarkCo Note. Interest expense for the 13 weeks ended January 4, 2009 was $1.8 million compared to $1.8 million for the 13 weeks ended January 6, 2008. The current year amount also includes interest expense arising from a new loan agreement between PRC and GE Capital Equipment Financing. The proceeds from the loan were used to finance the construction and opening of the second Bier Markt location in downtown Toronto. The GE loan bears interest at the banker's acceptance rate plus 3.25% per annum and will mature in September 2015.

Amortization expense

Amortization expense is comprised of the amortization on: 1) property, plant and equipment; 2) deferred pre-opening costs; and 3) deferred development costs. The amortization expense for the 13 weeks ended January 4, 2009 was approximately $248,000. For the 13 weeks ended January 6, 2008, the amortization expense was approximately $157,000. The year-over-year change is driven by a net increase in fixed assets from adding two restaurants to the asset pool.

Loss on disposal and write-down of corporate restaurant assets

PRC incurred write-downs of $407,000 related to three corporate restaurant held for resale during the 13 weeks ended January 4, 2009. In comparison, PRC incurred $143,000 in write-downs from renovations performed at one corporate location during the 13 weeks ended January 6, 2008.

Income taxes

PRC accounts for income taxes using the liability method of tax allocation. PRC recorded a non-cash, future income tax expense of $1.3 million during the 13 weeks ended January 4, 2009, reflecting the reversal of timing difference. For the 13 weeks ended January 6, 2008, PRC recorded a non-cash, future income tax recovery of $170,000.

Liquidity and capital resources

PRC's restaurants are primarily franchised. On January 4, 2009, there were 149 franchised and 12 corporate-owned restaurants, compared to 145 franchised and 10 corporate-owned restaurants on January 6, 2008. PRC plans to continue to expand its operations largely through franchising opportunities, and also through selling its non-strategic corporate-owned locations.

PRC had income from operations before income taxes, interest expense, amortization expense, loss on disposal of assets and asset write-down of approximately $8.7 million for the year ended January 4, 2009 compared to $7.7 million for the same period ended January 6, 2008. The increase over the prior year is the result of higher supplier contributions to fund promotional expenses, non reoccurrence of PRC head office restructuring costs recorded in the prior year and increased royalties generated by new franchised restaurants during the current year versus the same period last year.

For the year ended January 4, 2009, PRC's cash used in operating activities was $0.3 million (after the payment of interest on the TradeMarkCo Note) which includes the use of $1.2 million for non-cash working capital, resulting in cash provided by operating activities before changes in non-cash working capital items of $0.9 million. For the year ended January 6, 2008, PRC's cash generated by operating activities was $3.3 million (after the payment of interest on the TradeMarkCo) which includes a source of $2.0 million for non-cash working capital, resulting in cash provided by operating activities before changes in non-cash working capital items of $1.3 million. *For a complete review of PRC's performance, readers are advised to review the MD&A and financial statements of PRC for the year ended January 4, 2009, which are filed on www.sedar.com.*

As of January 4, 2009, PRC had current assets of $6.3 million, of which $2.2 million was in unrestricted cash and cash equivalents, and current liabilities of $8.5 million, resulting in a working capital deficit of $2.2 million. The current liabilities include a non-cash portion of working capital of $506,000 from the current portion of deferred lease inducements, deferred rental payments and deferred contract payments.

The TradeMarkCo Note, issued by TradeMarkCo to the Fund, amounts to $61,099,000 as of December 31, 2008, bears interest at 11.25% per annum and matures on July 21, 2034. Interest only payments are made monthly in arrears. TradeMarkCo has no other contractual obligation (excluding services from suppliers in the normal course of business and its contractual obligation to the Fund as its administrator) and does not have any capital expenditures.

PRC's Board of Directors monitors closely the cash position of PRC. PRC's operating and administrative expenses have been reasonably predictable, and are considered to be in the ordinary course of business. PRC believes it has sufficient financial resources to meet future obligations. In the event that PRC does not have adequate funds to meet its obligations, it has the ability to postpone the repayment of the amount owing to the parent company, Prime Restaurant Holdings Inc., and may seek additional funds from the majority shareholder of the parent company.

Risks and uncertainties

These statements are subject to known and unknown risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied.

The Company's ability to continue operating is dependent on its ability to generate sufficient cash flow to sustain its operations and settle its obligations. In the event that insufficient cash flow is generated from its operating activities due to targets not being met, the Company has considered various alternatives to financing its operations. Such alternatives may include the injection of additional funds by its shareholder, Prime Restaurant Holdings Inc., postponing repayment of the remaining $1.350 million shareholder loan, and/or entering into discussions with the Fund to seek alternatives if PRC has insufficient funds to finance the interest payments on the TradeMarkCo Note through its royalty payments on the use of the Prime Marks.

The success of PRC is particularly dependent upon its ability to improve SSSG, maintain and grow its system of franchisees, locate new restaurant sites in advantageous locations, and obtain qualified franchise operators. System sales, and accordingly royalty income, are affected by various external factors that can affect the restaurant industry. Such risks and uncertainties may include, but are not limited to, the following:

- Changes in government regulations concerning health and the food industry, taxes, anti-smoking laws and other regulatory developments.
- General economic conditions, including consumer confidence and consumer ability to afford to dine-out.
- The highly competitive nature of the industry and in particular the casual dining sector with respect to price, service, location and food quality. Competitors include national and regional chains as well as independently owned restaurants.
- New competition from food retailers such as supermarkets, convenience stores, club stores and specialty retailers offering consumers alternatives to their dining-out dollars.
- PRC's ability to successfully obtain qualified franchisees which could adversely affect its business development.
- The ability to negotiate / obtain acceptable lease or purchase terms for new locations, permits and government regulatory compliance, and the ability to meet construction schedules.
- Complaints from guests alleging food-related illnesses, injuries suffered on the premises or other food quality, health or operational concerns, as adverse publicity from such allegations may materially affect the gross revenue of PRC restaurants.
- Changes in demographics and life style trends.
- Factors affecting discretionary consumer spending, including economic conditions, disposable consumer income, consumer confidence and the level of tourism.
- Publicity about any food-borne or highly infectious illnesses.
- The availability of experienced management and hourly employees.
- Increased food, labour and benefit costs.
- Maintenance of intellectual property.

The foregoing is not an exhaustive list of risks or uncertainties that may affect PRC. A more detailed description of the risks to the Company is included in the Fund's annual information form dated March 11, 2009 under "Narrative Description of the Business – Risk Factors."

Related party transactions

For the fiscal year ended January 4, 2009, PRC's shareholder loan balance was $1.350 million. PRC pays an annual 8% interest on the loan to Prime Restaurant Holdings Inc. For the year ended January 6, 2008 this loan was reclassified as long term as the parent company has extended the repayment of the loan in order to fund specific corporate initiatives in fiscal 2009.

In addition, PRC loaned Ricmar $250,000 during fiscal 2008 to fund the renovations and conversion to a Casey's restaurant from a Pat and Mario's restaurant. This loan accrues interest at 8% per annum and for the fiscal year ended January 4, 2009, the outstanding balance was $121,796.

Off–balance sheet arrangements

PRC does not have any off-balance sheet arrangements.

Critical accounting policies and estimates

PRC prepares its financial statements in accordance with generally accepted accounting principles.

Adoption of new accounting standards

Effective January 7, 2008, the Company adopted the following new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"):

1. Handbook Section 1400, *General Standards on Financial Statement Presentation*, requires the Company to assess and disclose its ability to continue as a going concern. The Company's adoption of this standard did not have a material impact on disclosure in the Company's consolidated financial statements.
2. Handbook Section 1535, *Capital Disclosures*, requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The Company's objectives in managing its liquidity and capital are:
   - To safeguard the Company's ability to continue as a going concern;
   - To provide financial capacity and flexibility to meet its strategic objectives;
   - To provide adequate return to its shareholder commensurate with the level of risk; and
   - Return excess cash through dividends.

($000's)	**2009**	2008
Liquidity		
Cash and cash equivalents	**$ 2,182**	$ 3,021
Capitalization		
Unsecured notes	**250**	250
Long-term debt, including current portion	**1,971**	353
Due to related parties, including current portion	**2,009**	2,031
Due to Prime Restaurants Royalty Income Fund	**56,520**	54,369
Total debt	**60,750**	57,003
Shareholders' deficiency	**(46,668)**	(45,969)

The Company maintains financial policies and manages its liquidity and capital structure and makes adjustments to it in light of changes to economic conditions, the underlying risks inherent in its operations and capital requirements to maintain and grow its operations.

The Company's loan with GE Capital Equipment Financing is subject to a Fixed Charge Coverage Ratio ("FCCR") covenant that is measured on an annual basis. The Company is required to maintain a minimum FCCR of 1.30 before owner's compensation and draws and 1.10 after owner's compensation and draws. As at January 4, 2009 the Company was in compliance with the covenant.

The Company is not subject to any statutory capital requirements and has no commitments to sell or otherwise issue shares.

3. Handbook Sections 3862 and 3863, *Financial Instruments – Disclosures* and *Financial Instruments – Presentation*, replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revised and enhance its disclosures requirements and carries forward its presentation requirements. These new sections increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

   The Company is primarily exposed to credit risk, liquidity risk, interest rate and foreign exchange risk as they relate to the Company's identified financial instruments. The Company's management is responsible for the ongoing monitoring for the oversight of the risk management framework and reviews the policies of such on an ongoing basis.

a) Credit risk

Credit risk is defined as the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents, restricted cash, amounts receivable from franchisees related to franchised operations and notes receivable from franchisees. The cash and cash equivalents are held at a major financial institution that has a high credit rating assigned to it by international credit-rating agencies minimizing any potential exposure to credit risk. The effective monitoring and controlling of credit risk is a core competency of the Company, each potential franchisee must complete a thorough interview process and pass mandatory credit evaluations. In addition the Company performs periodic credit evaluations of its existing franchisee's financial condition to further mitigate this risk. The Company's maximum exposure to credit risk is the value of its amounts receivable of $3,939,599, as well as the notes receivable of $22,011. The amount of past-due accounts is $1,939,205. A provision for impaired amounts receivable of $1,434,855 has been recorded. The Company continues to make every effort to collect all past due amounts.

b) Liquidity risk

Liquidity risk results from the Company's potential inability to meet its obligations associated with the financial liabilities as they become due. The Company monitors its operations and cash flows to ensure that current and future obligations will be met. The Company believes that its current sources of liquidity are sufficient to cover its currently known short and long-term cash obligations.

The Company's capital resources are comprised of cash and cash equivalents and cash flow from operating activities. The maturities of the Company's financial liabilities are as follows:

($000's)	Value	Maturity
Accounts payable and accrued liabilities	6,569	Less than 1 year
Current portion of due to related parties	659	Less than 1 year
Current portion of long-term debt	301	Less than 1 year
Due to related parties	1,350	No specific terms
Long-term debt	1,920	2011 – 2015
Note payable to the Fund	56,520	2034

c) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to interest rate risk is minimal. Most obligations, such as the interest-bearing note payable to the Fund, have a fixed interest rate and therefore the Company does not perform interest rate risk management to minimize the overall financial interest rate risk. The Company currently has $1,970,891 in floating rate debt. The annual impact of a 0.5% increase/decrease in the banker's acceptance rate would have resulted in an increase/decrease in income from operations by approximately $10,000 for the year ended January 4, 2009, which is not considered a significant impact to the consolidated financial statements.

d) Foreign exchange risk

Foreign currency risk is the risk that future cash flows arising from amounts receivable and/or payable in a foreign currency will fluctuate because of changes in foreign exchange rates. In the normal course of business, the Company does not have significant

foreign exchange transactions and, accordingly, the amounts of foreign exchange risk are not expected to have an adverse material impact on the operations of the Company.

4. Handbook Section 3031, *Inventories*, replaces Handbook Section 3030, *Inventories*, and provides more guidance on the measurement and disclosure requirements for inventories. The Company's adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Recently issued changes in accounting policies

The CICA in collaboration with the Accounting Standards Board ("AcSB") has determined that International Financial Reporting Standards ("IFRS") will be adopted as GAAP for publicly accountable profit-oriented enterprises over a transition period expected to end in 2011. The new reporting standards will require the Company to prepare their consolidated financial statements in accordance with IFRS. The transition date of January 2, 2011 may require the restatement for comparative purposes of amounts reported by PRC for the year ended January 3, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Significant accounting policies

1. Revenue recognition

Revenue from corporate restaurant operations is recognized when services are rendered.

Franchisees are required to pay the Company an initial franchise fee as well as royalties based on a percentage of gross revenue earned by the restaurant. Initial franchise fees are recognized as revenue when the Company performs substantially all initial services required by the franchise agreement, which is generally upon restaurant opening. Initial franchise fees amounted to $481,000 (2008 – $425,000). Royalties and other service fees are recognized as income when the services are rendered and collection is reasonably assured.

Net revenue from the construction of franchised restaurants is recognized when the Company performs substantially all initial services required by the franchise agreement, which is generally on restaurant opening, and when collection is reasonably assured. Net costs from the construction of franchised restaurants amounted to $271,038 (2008 – $219,365).

Interest income is recognized when earned and is recorded on an accrual basis.

2. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and short-term investments with maturities of less than three months. Interest earned on cash and cash equivalents is recorded on an accrual basis and is included in the consolidated statements of operations and comprehensive loss and deficit.

3. Inventories

Food and beverage inventories at corporate restaurants are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. Corporate restaurants cost of sales relating to food and beverage inventories amounted to $10,036,788 (2008 – $8,268,160).

4. Financial instruments

The Company's financial assets and liabilities are initially recognized at fair value. Subsequently, measurement is dependent upon the classification of the financial instrument as designated by the Company.

The Company's financial instruments are classified into the following categories:

- Cash and cash equivalents as held-for-trading, which are measured at fair value.
- Amounts receivable, notes receivable and due from related parties as loans and receivables, which are initially measured at fair value and subsequently at amortized cost.
- Investment in Prime Restaurants Royalty Income Fund as available-for-sale, which is measured at fair value.
- Accounts payable and accrued liabilities, due to related parties, due to the Fund and long-term debt as other financial liabilities, which are measured at amortized cost.

The Company uses the effective interest rate method of amortization for any transaction costs or fee, earned or incurred for financial instruments measured at amortized cost. Adjustments arising from the remeasurement of financial liabilities at amortized cost were recognized in the opening deficit at January 8, 2007. The opening deficit for 2008 was increased by $657,878, net of future income tax of $155,924, as a result of applying the effective interest rate method of amortization for deferred financing costs that were previously being amortized on a straight-line basis over the term of the note.

The fair values of amounts receivable, notes receivable, accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments.

The fair value of the investment in Prime Restaurants Royalty Income Fund is calculated based on quoted market prices. The change in the fair value of the investment is recognized in accumulated other comprehensive income. The Company recorded an unrealized gain on the investment of $226,000 in other comprehensive income, net of tax for the year ended January 4, 2009.

The fair value of the amount due to the Fund approximates $31.5 million using the market unit price as at period-end. The fair value of amounts due from and to related parties are not readily determinable and are not subject to terms and conditions that would otherwise be available from arm's length parties.

The fair value of long-term debt approximates fair market value based on prevailing interest rates.

5. Corporate restaurant assets held for sale

Corporate restaurant assets held for sale are recorded at the lower of cost and fair value and represent the net assets of corporate restaurants that are expected to be disposed of over the next fiscal period. In 2009 all assets held for sale were written down to nil.

6. Investment

The Company exercises significant influence over its investment in The Ricmar Limited Partnership and accounts for this investment using the equity method. Under the equity method, the original cost of the investment is adjusted for PRC's share of post-acquisition earnings or losses and is reduced for distributions received or receivable.

On August 4, 2008 the Company opened Bier Markt King West as a partnership investment of which the Company is entitled to 95% of the profits. An unrelated outside party holds the remaining 5% investment for which it contributed $50,000 and is reflected as a minority interest payable on the balance sheet.

On January 1, 2009, 428,174 Limited Voting Units of the Prime Restaurants Royalty Income Fund (the "Fund") valued at $2,103,630 were issued to PRC, in connection with TradeMarkCo's settlement of its obligations with PRC for net new restaurants added to the Royalty Pool. The investment in the Fund has been classified as available-for-sale. The fair market value of the Limited Voting Units of the Fund at January 4, 2009 was $2,393,490. The Company recorded an unrealized gain on the investment of $226,000 in other comprehensive income, net of tax for the year ended Jan 4, 2009.

7. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated amortization. The Company assesses all long-lived assets including property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset exceeds its estimated fair value. Amortization is provided on a straight-line basis as follows:

Leasehold improvements	lesser of the expected lease term and the useful life of the asset
Kitchen equipment, furniture, fixtures and office equipment	10 years
Computer hardware and software	5 years

The initial cost of utensils is capitalized with no amortization. Replacement utensils are expensed as incurred.

8. Pre-opening and concept development costs

Pre-opening costs represent the direct costs related to the opening of a new restaurant and primarily include training, advertising and occupancy costs. These costs are amortized over a two-year period commencing with the opening of the restaurant. Concept development costs consist of direct costs associated with the development of new, or the modification of existing, restaurant concepts and the related development of design prototypes. These costs are amortized over a five-year period.

Management evaluates the unamortized costs on an annual basis to ensure that a future benefit still exists.

9. Goodwill and intangible assets

Goodwill represents the price paid for the acquisition of a business in excess of the fair market value of the net tangible assets and identifiable intangible assets acquired. The Company reviews goodwill and intangible assets on an annual basis for impairment or at any other time when events or changes have occurred that would suggest an impairment of the carrying values. Impairment would be recognized when the estimated fair value of the goodwill and intangible assets is lower than the carrying value.

10. Deferred lease inducements and rent

Deferred lease inducements and rent on the Company's various leases are amortized on a straight-line basis over the expected lease term. The annual amortization has been netted against operating expenses.

11. Deferred contract payments

Deferred contract payments represent monies received in conjunction with product contracts. The amounts are amortized over the length of the contracts and the annual amortization has been netted against operating costs.

12. Future income taxes

The Company accounts for income taxes using the liability method of tax allocation. Under the liability method, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be realized or settled. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

Contingency

The Company is party to several legal claims and litigation that have arisen in the ordinary course of business. In certain instances, provisions have been made in the accounts, which should be sufficient to cover potential liabilities related to these claims. Management will continue to vigorously defend each of these actions.

The Company also has taken legal action against third parties for collection of various amounts relating to franchised operations. The defendants have issued counterclaims alleging that the Company did not meet certain obligations. At this time, the outcome of these actions is not determinable and adjustments for additional losses or gains will be accounted for in the period of settlement.

Outlook

The CRFA[1] announced that 2008 preliminary revenue growth in full-service restaurants was 4.0%, including menu inflation of 2.4%, while business levels at pubs and taverns saw a decline of 0.6% in 2008 including menu inflation.

According to the CRFA, Canadian foodservice operators are now facing the most challenging business environment since 1991. With the Canadian economy caught in the grips of a global recession, stagnant income growth and rising unemployment will lead consumers to cut back on discretionary spending. In addition, the CRFA has indicated that economists are forecasting Canada's economy will contract by 1.4% in 2009 following a relatively minor 0.7% expansion in 2008 and, as result, disposable income is expected to grow by just 0.7% and the unemployment rate in Canada is expected to increase from an annual average of 6.1% in 2008 to 8.2% by the fourth quarter of 2009.

Based on this economic outlook, the CRFA is forecasting for 2009 a 3.1% decline in total full-service restaurant revenue, including menu inflation, which is expected to be 3.2%. Business levels at pubs and taverns in Canada are forecasted by CRFA to decline by 2.6% in 2009, including menu inflation.

Historically, PRC's performance has proven to be fairly resilient during challenging economic times due, in part, to our quality product offering at reasonable prices and our strategy to cover all price points within the casual dining sector. However, management does not believe that PRC will be immune to recessionary pressures in Canada, and expects continued volatility in our performance and in the restaurant sector in general. This challenging environment may result in fewer customer visits in 2009.

PRC, like most other businesses, expects the current economic downturn to negatively affect its sales and profit prospects in the near future. In anticipation of a continuing economic downturn, PRC is reviewing its opportunities for cost savings and its marketing tactics. We also continue to look for efficiencies in our operations and opportunities to help our franchisees at the restaurant level.

PRC will maintain its focus on improving SSSG and system-wide gross revenue over the long term. PRC continues to support the value and quality message of its brands through its focus on service levels, and ongoing enhancement of the brands through menu development and restaurant renovations that evolve its brands.

Specific programs for each brand have been designed to grow sales and cash flow while improving operating performance.

East Side Mario's:

- Western Canada will receive particular attention in the area of menu offerings and promotional activity. This is the newest area of expansion for East Side Mario's and management will review and adapt (where necessary) to ensure the brand continues to respond to the needs of our guests.

1 Canadian Restaurant and Foodservices Association – Foodservice Sales Forecast

- East Side Mario's will bring greater focus to its brand evolution process by highlighting one of its brand pillars in each quarter. The basis of this transformation centres around "Great Italian Cooking", "Passion for the Guest", "Welcoming Atmosphere", and "Part of my Neighbourhood". Each quarter will see a series of regional meetings, training activities, and operational follow up to ensure the messages are being received and translated into tangible guest experiences.
- The promotional calendar will contain a mix of food quality focused programs and an eye on value for the money in this economic climate. In terms of seasonality, East Side Mario's will ensure its promotional programs are evident throughout the year. Summer will remain a key area for sales growth as the casual dining segment of the food service industry typically peaks at this time of year.
- The new advertising campaign from last year will evolve to broaden the message to include food and experience cues. The quality and freshness of our food will continue to lead our brand positioning in advertising.
- In 2009, local store marketing will take a larger role than in prior years. Resources are being developed and made available to our franchise partners to better integrate the brand on a regional basis.

Casey's:

- At Casey's, we put the "Food First". "Food First" articulates the marketing and operational strategy of the Casey's brand; a commitment to operational excellence in all disciplines that will create a credible point of difference for the brand amongst its competitors.
- The introduction of the Casey's "Brand Excellence Awards" demonstrates our commitment to food, beverage, service, and operational excellence. Each restaurant's performance will be measured throughout the year (daily and quarterly) against these disciplines both from an external and internal perspective. Performance gaps will be corrected to ensure that we deliver a superior guest experience at each dining occasion thereby positioning the brand for sustainable growth built on the foundation of industry leading guest satisfaction.
- The uncertain economic climate has led many competitors to introduce aggressive discount programs supported by significant media expenditures during the first quarter of 2009. Our focus will continue to remain on delivering guest satisfaction, and in turn, a value proposition that is predicated on quality rather than price.
- Casey's will introduce a new core menu during the second quarter of fiscal 2010. The new core menu will be designed to reduce execution complexity and enhance quality of execution. In keeping with the brand's "Food First" position, the new core menu will continue to accentuate our commitment to fresh ingredients and dishes prepared in-house.

Pubs:

- At Prime Pubs, we invite our guests to enjoy a pub experience that is "Tastefully Irish". "Tastefully Irish" articulates the marketing and operational strategy of the Prime Pubs brand; a commitment to operational excellence in all disciplines that will create a credible point of difference for the brand amongst its competitors.
- Similar to the Casey's program, the introduction of the Prime Pubs "Brand Excellence Awards" demonstrates our commitment to food, beverage, service, and operational excellence. Each restaurant's performance will be measured throughout the year (daily and quarterly) against these disciplines both from an external and internal perspective. Performance gaps will be corrected to ensure that we deliver a superior guest experience at each dining occasion thereby positioning the brand for sustainable growth built on the foundation of industry leading guest satisfaction.
- Prime Pubs will continue to offer its guests a seasonal "Plat du Jour" menu designed to underscore the brand's segment leading culinary program, broadening the appeal of a Prime Pub beyond the typical pub consumer.
- Various promotional campaigns will be launched in 2009 to promote a Prime Pub as the place to be. These campaigns will be supported by newspaper and outdoor advertising.

Looking ahead, management believes that over the near-term the economic slowdown in Canada will negatively impact restaurant sales across all sectors of the industry. However, management also believes that its multi-brand approach covering all spectrums of the Canadian casual dining and pub business will help to mitigate some of this impact as certain consumers may trend toward the Company's lower-priced offerings from higher-priced brands. In addition, management believes that its ongoing renovation programs, new restaurant openings, new menus and other sales initiatives, combined with its rigorous focus on customer service, will continue to attract new and repeat guests to all of its brands and contribute to future long-term growth. Assuming current economic and market conditions, management continues to believe that, over the long term, SSSG will increase and remains committed to its long-term target of 3%.

Additional information relating to PRC, including PRC's January 4, 2009 audited financial statements, the Fund's MD&A and financial statements for the year ended December 31, 2008 and the Fund's Annual Information Form can be found at www.sedar.com and the Fund's website at www.primeincomefund.ca.

Auditor's Report

March 4, 2009

To the Shareholders of Prime Restaurants of Canada Inc.

We have audited the consolidated balance sheets of Prime Restaurants of Canada Inc. as at January 4, 2009 and January 6, 2008 and the consolidated statements of operations and deficit, comprehensive loss and accumulated other comprehensive income and cash flows for the 52-week period ended January 4, 2009 and 52-week period ended January 6, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 4, 2009 and January 6, 2008 and the results of its operations and its cash flows for the 52-week period ended January 4, 2009 and 52-week period ended January 6, 2008 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants

Consolidated balance sheets

($000's)		January 4, 2009		January 6, 2008
ASSETS				
Current assets				
Cash and cash equivalents	$	**2,182**	$	3,021
Restricted cash (note 17)		**19**		19
Amounts receivable		**2,505**		2,754
Inventories		**471**		431
Construction in progress		**529**		33
Prepaid expenses and sundry assets		**444**		427
Notes receivable (note 5)		**22**		36
Current portion of due from related parties (note 6)		**122**		250
		6,294		6,971
Corporate restaurant assets held for sale (note 4)		**–**		100
Investments (note 7)		**2,409**		35
Due from related parties (note 6)		**936**		417
Property, plant and equipment (note 8)		**3,626**		3,179
Other assets (note 9)		**2,508**		2,534
Future income taxes (note 12)		**7,430**		8,540
		23,203		21,776
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		**6,569**		5,858
Franchisee deposits		**468**		2,097
Current portion of due to related parties (note 6)		**659**		681
Current portion of deferred lease inducements and rent		**212**		263
Current portion of deferred contract payments		**294**		500
Current portion of long-term debt (note 10)		**301**		99
		8,503		9,498
Due to Prime Restaurants Royalty Income Fund (note 11)		**56,520**		54,369
Due to related parties (note 6)		**1,350**		1,350
Minority interest (note 3)		**50**		–
Deferred lease inducements and rent		**511**		712
Deferred contract payments		**1,017**		1,312
Long-term debt (note 10)		**1,920**		504
		69,871		67,745
SHAREHOLDERS' DEFICIENCY				
Accumulated other comprehensive income		**226**		–
Deficit		**(46,894)**		(45,969)
		(46,668)		(45,969)
		23,203		21,776

Commitments and contingencies (note 17)

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

Approved by the Board of Directors

John A. Rothschild, Director

Nicholas M. Perpick, Director

Consolidated statements of operations and deficit

($000's)	Period ended January 4, 2009	Period ended January 6, 2008
Gross revenue reported by Prime Restaurant outlets	$ 345,686	$ 336,484
Revenue		
Corporate restaurants	31,771	26,759
Royalties and other franchise related income (note 3)	13,393	13,320
Interest income	130	105
Share of income (loss) from investment (note 7)	(19)	35
	45,275	40,219
Expenses		
Operating costs and administrative	36,454	32,384
Interest	7,223	7,109
Amortization	970	1,059
Loss on disposal of corporate restaurant assets	–	47
Writedown of corporate restaurants and other equipment (note 3)	407	254
	45,054	40,853
Income (loss) from operations before income taxes	221	(634)
Income taxes (note 12)		
Current	(18)	–
Future	1,046	34
	1,028	34
Net loss for the period	(807)	(668)
Deficit – Beginning of period	(45,969)	(45,831)
Impact of adoption of new accounting standards (note 15)	–	658
Dividends paid	(118)	(128)
Deficit – End of period	(46,894)	(45,969)

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

Consolidated statements of comprehensive loss and accumulated other comprehensive income

($000's)	Period ended January 4, 2009	Period ended January 6, 2008
COMPREHENSIVE LOSS		
Net loss for the period	$ (807)	$ (668)
Net increase in unrealized gains on available-for-sale assets, net of income taxes of $64 (note 15)	226	–
Comprehensive loss for the period	(581)	(668)
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Accumulated other comprehensive income – Beginning of period	–	–
Net unrealized gains on available-for-sales assets	226	–
Accumulated other comprehensive income – End of period	226	–

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

Consolidated statements of cash flows

($000's)		Period ended January 4, 2009		Period ended January 6, 2008
CASH PROVIDED BY (USED IN)				
Operating activities				
Net loss for the period	**$**	**(807)**	$	(668)
Items not affecting cash				
Share of (income) loss from investment		**19**		(35)
Non-cash interest finance costs		**48**		44
Amortization (note 18)		**970**		1,059
Loss on disposal of corporate restaurants held for sale		**–**		47
Writedown of corporate restaurants and other equipment		**407**		254
Amortization of deferred lease inducements, rent and contract payments (note 18)		**(753)**		(802)
Future income taxes		**1,046**		34
Leasehold inducements and contract payments received		**–**		1,446
Change in non-cash working capital items (note 18)		**(1,208)**		1,951
		(278)		3,330
Financing activities				
Repayment of long-term debt		**(166)**		(63)
Increase in long-term debt financing		**1,784**		–
Amounts due to and from related parties		**(413)**		(599)
Dividends paid		**(118)**		(128)
		1,087		(790)
Investing activities				
Additions to deferred costs		**–**		(20)
Purchases of property, plant and equipment		**(1,698)**		(1,051)
Purchases of assets held for sale		**–**		(100)
Proceeds on sale of corporate restaurants and assets held for sale		**–**		54
Minority interest investment		**50**		–
		(1,648)		(1,117)
Change in cash and cash equivalents during the period		**(839)**		1,423
Cash and cash equivalents – Beginning of period		**3,021**		1,598
Cash and cash equivalents – End of period		**2,182**		3,021
Non-cash transactions (note 18)				
Supplementary information				
Interest paid		**7,178**		6,385

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

Notes to consolidated financial statements

1. Nature of operations

Prime Restaurants of Canada Inc. ("PRC" or the "Company") franchises, owns and operates a portfolio of leading brands of casual dining restaurants and premium pubs in Canada. The Company franchises and operates three core brands under the trademarks "East Side Mario's" and "Casey's" restaurants and "Fionn MacCool's" Irish pubs. PRC also operates Belgian brasseries under the trademark "Bier Markt".

At the end of the period, the Company had 161 restaurants (2008 – 155), represented by 12 corporate restaurants (2008 – ten) and 149 franchised restaurants (2008 – 145). During the period, one corporate restaurant was opened (2008 – nil), 11 franchised restaurants were opened (2008 – five), six franchised restaurants were closed (2008 – six), one corporate location was franchised (2008 – one) and the Company began operating two franchised locations (2008 – two).

2. Basis of presentation

These consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and PRC Trademarks Inc. ("TradeMarkCo"), an entity in which the Company is the primary beneficial interest holder. All intercompany accounts and transactions have been eliminated in these consolidated financial statements.

The Company's fiscal period-end date is the first Sunday in January. The 2009 fiscal period-end date is January 4, 2009 and represents 52 weeks of operations and the period ended January 6, 2008 represents 52 weeks of operations. For comparative purposes, January 4, 2009 is referred to as 2009 and January 6, 2008 is referred to as 2008.

3. Summary of significant accounting policies

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles.

Revenue recognition

Revenue from corporate restaurant operations is recognized when services are rendered.

Franchisees are required to pay the Company an initial franchise fee as well as royalties based on a percentage of gross revenue earned by the restaurant. Initial franchise fees are recognized as revenue when the Company performs substantially all initial services required by the franchise agreement, which is generally upon restaurant opening. Initial franchise fees amounted to $481,000 (2008 – $425,000). Royalties and other service fees are recognized as income when the services are rendered and collection is reasonably assured.

Net revenue from the construction of franchised restaurants is recognized when the Company performs substantially all initial services required by the franchise agreement, which is generally on restaurant opening, and when collection is reasonably assured. Net revenue includes amounts received from franchisees and other parties of $8,890,808 (2008 – $5,274,173) less construction costs of $9,161,846 (2008 – $5,493,538).

Interest income is recognized when earned and is recorded on an accrual basis.

Gross revenue reported by Prime Restaurant outlets includes both the revenue earned by corporate restaurants and the revenue reported to PRC by franchisees under franchise agreements.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and short-term investments with maturities of less than three months. Interest earned on cash and cash equivalents is recorded on an accrual basis and is included in the consolidated statements of operations and deficit.

Inventories

Food and beverage inventories at corporate restaurants are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. Corporate restaurants cost of sales relating to food and beverage inventories amounted to $10,036,788 (2008 – $8,268,160).

Construction in progress

In the normal course of business, the Company enters into contracts for the sale and construction of franchise locations. Amounts are recorded at the lower of cost and fair value and represents costs of construction and related professional expenses, net of franchisee deposits.

Corporate restaurant assets held for sale

Corporate restaurant assets held for sale are recorded at the lower of cost and fair value and represent the net assets of corporate restaurants that are expected to be disposed of over the next fiscal period. In 2009 all remaining assets held for sale were written down to nil.

Investment

The Company exercises significant influence over its investment in The Ricmar Limited Partnership and accounts for this investment using the equity method. Under the equity method, the original cost of the investment is adjusted for PRC's share of post-acquisition earnings or losses and is reduced for distributions received or receivable.

On August 4, 2008 the Company opened another Bier Markt on King Street West in Toronto as a partnership investment of which the Company is entitled to 95% of the profits. An unrelated outside party holds the remaining 5% investment for which it contributed $50,000 and is reflected as a minority interest payable on the balance sheet.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated amortization. The Company assesses all long-lived assets including property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset exceeds its estimated fair value. Property, plant and equipment totalling $307,442 was determined to be impaired in 2009 (2008 – $254,315) and written down to its fair value. Amortization is provided on a straight-line basis as follows:

Leasehold improvements	lesser of the expected lease term and the useful life of the asset
Kitchen equipment, furniture, fixtures and office equipment	10 years
Computer hardware and software	5 years

The initial cost of utensils is capitalized with no amortization. Replacement utensils are expensed as incurred.

Pre-opening and concept development costs

Pre-opening costs represent the direct costs related to the opening of a new restaurant. These costs are amortized over a two-year period commencing with the opening of the restaurant. Concept development costs consist of direct costs associated with the development of new, or the modification of existing, restaurant concepts and the related development of design prototypes. These costs are amortized over a five-year period.

Management evaluates the unamortized costs on an annual basis to ensure that a future benefit still exists.

Goodwill and intangible assets

Goodwill represents the price paid for the acquisition of a business in excess of the fair market value of the net tangible assets and identifiable intangible assets acquired. The Company reviews goodwill and intangible assets on an annual basis for impairment or at any other time when events or changes have occurred that would suggest an impairment of the carrying values. Impairment would be recognized when the estimated fair value of the goodwill and intangible assets is lower than the carrying value.

Deferred lease inducements and rent

Deferred lease inducements and rent on the Company's various leases are amortized on a straight-line basis over the expected lease term. The annual amortization has been netted against operating expenses.

Deferred contract payments

Deferred contract payments represent monies received in conjunction with product contracts. The amounts are amortized over the length of the contracts and the annual amortization has been netted against related operating costs.

Future income taxes

The Company accounts for income taxes using the liability method of tax allocation. Under the liability method, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be realized or settled. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

Financial instruments

Financial assets and liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose of which the financial instruments were acquired and their characteristics. Subsequent to the initial recognition, financial instruments are measured at fair value, amortized cost or cost depending on the financial instrument classification.

Amortized cost related to financial assets classified as held-to-maturity or loan and receivables and other financial liabilities are calculated using the effective interest rate method with changes recognized as income or expenses in the consolidated statement of operations.

Financial assets that are purchased and incurred with the intention of generating income in the near term are classified as held-for-trading. These instruments are accounted for at fair value with the change in fair value recognized in the consolidated statement of operations.

Financial assets that are classified as available-for-sale, account for the unrealized gain or loss in accumulated other comprehensive income and is recognized in earnings upon sale or other-than-temporary impairment. The Company assesses whether a financial asset is other-than-temporarily impaired by assessing whether there is a significant prolonged decline in fair value and objective evidence of impairment exists.

Transaction costs

Transaction costs directly attributable to financial assets and liabilities that are not classified as held-for-trading are included in the amortized cost of the related asset or liability and recognized in the consolidated statement of operations through the effective interest rate method. Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the consolidated financial statements and revenues and expenses for the reporting period. Actual results could differ from those estimates.

Adoption of new accounting standards

Effective January 7, 2008, the Company adopted the following new accounting standards that were issued by the Canadian Institute of Chartered Accountants (“CICA”):

a) Handbook Section 1400, *General Standards on Financial Statement Presentation*, requires the Company to assess and disclose its ability to continue as a going concern. The Company’s adoption of this standard did not have a material impact on disclosure in the Company’s consolidated financial statements.

b) Handbook Section 1535, *Capital Disclosures*, requires that an entity disclose information that enables users of its financial statements to evaluate an entity’s objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance (note 14).

c) Handbook Sections 3862 and 3863, *Financial Instruments – Disclosures* and *Financial Instruments – Presentation*, replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revised and enhance its disclosures requirements and carries forward its presentation requirements. These new sections increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks (notes 15 and 16).

d) Handbook Section 3031, *Inventories*, replaces Handbook Section 3030, *Inventories*, and provides more guidance on the measurement and disclosure requirements for inventories. The Company's adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Recently issued accounting pronouncements

The CICA in collaboration with the Accounting Standards Board ("AcSB") is planning to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The new reporting standards will require the Company to prepare their consolidated financial statements in accordance with IFRS. The transition date of January 2, 2011 may require the restatement for comparative purposes of amounts report by the Company for the year ended January 3, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. Corporate restaurant assets held for sale

During 2007, the Company identified two corporate restaurants to be sold. During 2008, one restaurant was reassessed as it no longer met the criteria of an asset held for sale under CICA Handbook Section 3875, *Disposal of Long-lived Assets and Discontinued Operations*. As a result, the assets of the restaurant were reclassified as held and used. Accordingly, opening property, plant and equipment for 2008 increased by $401,852 and deferred lease inducements and rent increased by $174,884. In 2009, the carrying value of the assets related to the remaining restaurant identified as held for sale was reduced to nil.

5. Notes receivable

The notes receivable are generally due from franchisees in connection with the sales of franchised restaurants. These notes are co-signed personally by individuals and include collateralization agreements with respect to all of the assets of the applicable restaurants. The notes bear interest at rates between 6.00% and 9.25% per annum and are repayable over a period of up to five years. Notes receivable are stated at their net realizable value.

6. Related party transactions

DUE FROM RELATED PARTIES

	2009	2008
The Ricmar Limited Partnership	**$ 122**	$ 250
Prime Restaurants Holdings Inc., parent company of PRC	**732**	281
Prime Restaurants of America, Inc.	**203**	135
Stylcorp Development Inc.	**1**	1
	1,058	667
Less: Current portion	**122**	250
	936	417

DUE TO RELATED PARTIES

	2009	2008
Prime Restaurants Royalty Income Fund	**$ 659**	$ 681
Prime Restaurant Holdings Inc., parent company of PRC	**1,350**	1,350
	2,009	2,031
Less: Current portion	**659**	681
	1,350	1,350

The loan to The Ricmar Limited Partnership bears interest at 8% per annum, due on demand and is unsecured. The remaining amounts receivable from related parties are non-interest bearing, unsecured and have varying terms of repayment.

The amount due to the Fund represents interest accrued on the note payable to the Fund (note 11).

The amount payable to Prime Restaurant Holdings Inc. (PRHI) of $1,350,000, bears interest at a rate of 8% per annum.

Transactions

Prime Restaurants Advertising Fund (Advertising Fund) manages the advertising programs of Prime Restaurant outlets and the Company participates, together with the PRC franchisees, through its ownership of 12 corporate restaurants. Included in operating costs and administrative expenses is $706,113 (2008 – $553,250) representing fees the corporate restaurants contributed to the Advertising Fund. Included in accounts payable and accrued liabilities is $19,094 (2008 – $10,662) related thereto.

Also included as a reimbursement of operating costs and administrative expenses are amounts totalling $282,419 (2008 – $209,644), incurred by PRC on behalf of the Advertising Fund, which have been charged back to the Advertising Fund. These chargebacks are primarily for administrative personnel support and the use of office space, computers and telecommunications equipment. Included in amounts receivable is $52,898 (2008 – $9,043) related thereto.

Related party transactions have been recorded at their exchange amounts, representing fair value, as agreed among the related parties. The related companies and PRC are under common control.

7. Investments

	2009	2008
Investment in The Ricmar Limited Partnership	$ 16	$ 35
Investment in Prime Restaurants Royalty Income Fund	2,393	–
	2,409	35

THE RICMAR LIMITED PARTNERSHIP

	2009	2008
Investment – Beginning of period	$ 35	$ –
Net distributions	–	–
Share of income (loss)	(19)	35
Investment – End of period	16	35

On June 17, 2002, PRC acquired 50% of the partnership units of The Ricmar Limited Partnership, for which it is the general partner. PRC receives 50% of the entitled cash flow (entitled cash flow is defined as the amount by which gross revenues exceed all expenses, excluding amortization and all other non-cash items) as defined in the partnership agreement.

PRC provides administrative personnel support to the partnership. Included as a reimbursement of operating costs and administrative expenses are amounts totalling $78,966 (2008 – $79,093). Included in amounts receivable is $7,973 (2008 – nil) related thereto. Related party transactions have been recorded at their exchange amount, representing fair value, as agreed among the related parties.

Investment in Prime Restaurants Royalty Income Fund

On January 1, 2009, 428,174 Limited Voting Units of the Prime Restaurants Royalty Income Fund (the “Fund”) totalling $2,103,630 were issued to PRC, in connection with TradeMarkCo’s settlement of its obligations with PRC for net new restaurants added to the Royalty Pool. This transaction resulted in an increase in PRC’s note payable due to the Fund of $2,103,630. The investment in the Fund has been classified as available-for-sale. The fair market value of the Limited Voting Units of the Fund at January 4, 2009 is $2,393,490. The unrealized gain of $289,860 has been recorded in accumulated other comprehensive income, net of tax.

8. Property, plant and equipment

2009	Cost	Accumulated amortization	Net
Leasehold improvements	$ 7,746	$ 5,491	$ 2,255
Kitchen equipment	1,272	918	354
Furniture, fixtures and office equipment	2,382	1,732	650
Computer hardware and Software	1,845	1,675	170
Utensils	197	–	197
	13,442	9,816	3,626

2008	Cost	Accumulated amortization	Net
Leasehold improvements	$ 6,899	$ 4,821	$ 2,078
Kitchen equipment	1,100	842	258
Furniture, fixtures and office equipment	2,111	1,608	503
Computer hardware and Software	3,600	3,430	170
Utensils	170	–	170
	13,880	10,701	3,179

9. Other assets

			2009	2008
	Cost	Accumulated amortization	Net	Net
Pre-opening costs	$ 55	$ 50	$ 5	$ 15
Concept development costs	790	751	39	55
Trademarks	1,404	–	1,404	1,404
Goodwill	1,789	729	1,060	1,060
	4,038	1,530	2,508	2,534

10. Long-term debt

	2009	2008
Due to landlord, unsecured, bearing interest at 7% per annum, interest only repayable periodically and maturing January 2013	$ 250	$ 250
Due to GE Capital Equipment Financing, secured, principal plus interest due in monthly payments of $8,509, bearing interest at the banker's acceptance rate plus 3.75% per annum and maturing October 2011	256	353
Due to GE Capital Equipment Financing, secured, principal plus interest due in monthly payments of $26,318, bearing interest at the banker's acceptance rate plus 3.25% per annum and maturing September 2015	1,715	–
	2,221	603
Less: Current portion	301	99
	1,920	504

Interest expense on long-term debt amounted to $72,156 (2008 – $39,485) during the period.

The following principal repayments are required on long-term debt:

	$
2010	301
2011	320
2012	317
2013	258
2014	273
Thereafter	752
	2,221

11. Due to Prime Restaurants Royalty Income Fund

PRC, through TradeMarkCo, has a note payable to the Fund. The proceeds of the note were used to purchase trademarks from PRC on July 22, 2002. The note matures on July 22, 2034 and bears interest payable monthly at 11.25% per annum.

	2009	2008
TrademarkCo note	**$ 63,203**	$ 61,100
Deferred financing costs	**(6,683)**	(6,731)
	56,520	54,369

Included in interest expense is interest on the note payable in the amount of $6,870,947 (2008 – $6,857,496).

12. Income taxes

The components of income tax expense are as follows:

	2009	2008
Income (loss) from operations	**$ 221**	$ (634)
Canadian statutory income tax rate	**30.53%**	32.34%
Income tax expense (recovery) based on statutory rate	**67**	(205)
Permanent differences	**4**	3
Temporary differences subject to non-current rates	**554**	(527)
Future income tax expense resulting from change in tax rate	**478**	737
Non-taxable portion of capital gain	**–**	(37)
Other	**(75)**	63
Income tax expense	**1,028**	34

The tax effects of the significant components of temporary differences giving rise to the Company's future income tax assets and liabilities are as follows:

	2009	2008
Non-capital losses	$ 8,231	$ 8,942
Non-deductible accruals	621	901
Deferred amounts	131	460
Property, plant and equipment	30	–
Other	77	67
Total future income tax assets	9,090	10,370
Property, plant and equipment	–	(131)
Deferred financing cost	(1,232)	(1,246)
Trademarks	(428)	(453)
Total future income tax liabilities	(1,660)	(1,830)
Net future income tax assets	7,430	8,540

As at January 4, 2009, the following entities have non-capital losses available for income tax purposes, which expire as follows:

	PRC	TradeMarkCo	Total
2009	$ –	$ 532	$ 532
2010	–	2,249	2,249
2011	5,677	1,962	7,639
2012	599	1,188	1,787
2026	8,534	794	9,328
2027	5,294	–	5,294
2028	2,777	–	2,777
2029	2,874	–	2,874
	25,755	6,725	32,480

13. Capital stock

Authorized

Unlimited number of common shares.

Unlimited number of Class C, preference shares, non-voting, may be issued from time to time in series with the designation rights, privileges, restrictions and conditions attaching to each series as and in the manner set out in the Company's articles, redeemable based on a nominal fraction of the fair market value of the purchased property, as defined in the articles.

Issued

	2009	2008
4,170,299 common shares	–	–
1,000 first series, Class C, preference shares	–	–
1,000 second series, Class C, preference shares	–	–
	–	–

The shares were issued at a nominal value.

The holders of Class C, preference shares are entitled to receive non-cumulative dividends before any dividends may be paid on any class of common shares. Dividends on the Class C shares are determined by the Board of Directors.

14. Capital disclosures

The Company's objectives in managing its liquidity and capital are:

- To safeguard the Company's ability to continue as a going concern;
- To provide financial capacity and flexibility to meet its strategic objectives;
- To provide adequate return to its shareholder commensurate with the level of risk; and
- Return excess cash through dividends.

	2009	2008
Liquidity		
Cash and cash equivalents	**$ 2,182**	$ 3,021
Capitalization		
Unsecured notes	**250**	250
Long-term debt, including current portion	**1,971**	353
Due to related parties, including current portion	**2,009**	2,031
Due to Prime Restaurants Royalty Income Fund	**56,520**	54,369
Total debt	**60,750**	57,003
Shareholders' deficiency	**(46,668)**	(45,969)

The Company maintains financial policies and manages its liquidity and capital structure and makes adjustments to it in light of changes to economic conditions, the underlying risks inherent in its operations and capital requirements to maintain and grow its operations.

The Company's loan with GE Capital Equipment Financing is subject to a Fixed Charge Coverage Ratio ("FCCR") covenant that is measured on an annual basis. The Company is required to maintain a minimum FCCR of 1.30 before owner's compensation and draws and 1.10 after owner's compensation and draws. As at January 4, 2009 the Company was in compliance with the covenant.

The Company is not subject to any statutory capital requirements and has no commitments to sell or otherwise issue shares.

15. Financial instruments

The Company's financial assets and liabilities are initially recognized at fair value. Subsequently, measurement is dependent upon the classification of the financial instrument as designated by the Company.

The Company's financial instruments are classified into the following categories:

- Cash and cash equivalents as held-for-trading, which are measured at fair value.
- Investment in Prime Restaurants Royalty Income Fund as available-for-sale, which is measured at fair value.
- Amounts receivable, notes receivable and due from related parties as loans and receivables, which are initially measured at fair value and subsequently at amortized cost.
- Accounts payable and accrued liabilities, due to related parties, due to the Fund and long-term debt as other financial liabilities, which are measured at amortized cost.

The Company uses the effective interest rate method of amortization for any transaction costs or fee, earned or incurred for financial instruments measured at amortized cost. Adjustments arising from the remeasurement of financial liabilities at amortized cost were recognized in the opening deficit at January 8, 2007. The opening deficit for 2008 was increased by $657,878, net of future income tax of $155,924, as a result of applying the effective interest rate method of amortization for deferred financing costs that were previously being amortized on a straight-line basis over the term of the note.

The fair values of amounts receivable, notes receivable, accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments.

The fair value of the investment in Prime Restaurants Royalty Income Fund is calculated based on quoted market prices. The change in the fair value of the investment is recognized in accumulated other comprehensive income. The Company recorded an unrealized gain on the investment of $289,860 in other comprehensive income, net of tax for the year ended January 4, 2009.

The fair value of the amount due to the Fund approximates $31.5 million using the market unit price as at period-end. The fair value of amounts due from and to related parties are not readily determinable and are not subject to terms and conditions that would otherwise be available from arm's length parties.

The fair value of long-term debt approximates fair market value based on prevailing interest rates.

16. Financial risk management

The Company is primarily exposed to credit risk, liquidity risk, interest rate and foreign exchange risk as they relate to the Company's identified financial instruments. The Company's management is responsible for the ongoing monitoring for the oversight of the risk management framework and reviews the policies of such on an ongoing basis.

a) Credit risk

Credit risk is defined as the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents, restricted cash, amounts receivable from franchisees related to franchised operations and notes receivable from franchisees. The cash and cash equivalents are held at a major financial institution that has a high credit rating assigned to it by international credit-rating agencies minimizing any potential exposure to credit risk. The effective monitoring and controlling of credit risk is a core competency of the Company, each potential franchisee must complete a thorough interview process and pass mandatory credit evaluations. In addition the Company performs periodic credit evaluations of its existing franchisee's financial condition to further mitigate this risk. The Company's maximum exposure to credit risk is the value of its amounts receivable of $3,939,599, as well as the notes receivable of $22,011. The amount of past-due accounts is $1,939,205. A provision for impaired amounts receivable of $1,434,855 has been recorded. The Company continues to make every effort to collect all past due amounts.

b) Liquidity risk

Liquidity risk results from the Company's potential inability to meet its obligations associated with the financial liabilities as they become due. The Company monitors its operations and cash flows to ensure that current and future obligations will be met. The Company believes that its current sources of liquidity are sufficient to cover its currently known short and long-term cash obligations.

The Company's capital resources are comprised of cash and cash equivalents and cash flow from operating activities. The maturities of the Company's financial liabilities are as follows:

		Value	Maturity
Accounts payable and accrued liabilities	$	6,569	Less than 1 year
Current portion of due to related parties		659	Less than 1 year
Current portion of long-term debt		301	Less than 1 year
Due to related parties		1,350	No specific terms
Long-term debt		1,920	2011 – 2015
Note payable to the Fund		56,520	2034

c) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to interest rate risk is minimal. Most obligations, such as the interest-bearing note payable to the Fund, have a fixed interest rate and therefore the Company does not perform interest rate risk management to minimize the overall financial interest rate risk. The Company currently has $1,970,891 in floating rate debt. The annual impact of a 0.5% increase/decrease in the banker's acceptance rate would have resulted in an increase/decrease in income from operations by approximately $10,000 for the year ended January 4, 2009, which is not considered a significant impact to the consolidated financial statements.

d) Foreign exchange risk

Foreign currency risk is the risk that future cash flows arising from amounts receivable and/or payable in a foreign currency will fluctuate because of changes in foreign exchange rates. In the normal course of business, the Company does not have significant foreign exchange transactions and, accordingly, the amounts of foreign exchange risk are not expected to have an adverse material impact on the operations of the Company.

17. Commitments and contingencies

Commitments

The Company has entered into various operating leases with minimum annual payments as follows:

	Lease payment obligations	Sublease payments recoverable	Net
2010	$ 17,188	$ 14,960	$ 2,228
2011	16,040	14,018	2,022
2012	14,199	12,351	1,848
2013	12,170	10,517	1,653
2014	8,615	7,403	1,212
Thereafter	15,267	12,523	2,744
	83,479	71,772	11,707

Sublease payments recoverable relate to the Company's franchise operations whereby some of the properties are leased by the Company and sublet to the franchisees.

Contingencies

The Company is party to several legal claims and litigation that have arisen in the ordinary course of business. In certain instances, provisions have been made in the accounts, which should be sufficient to cover potential liabilities related to these claims. Management will continue to vigorously defend each of these actions.

The Company also has taken legal action against third parties for collection of various amounts relating to franchised operations. The defendants have issued counterclaims alleging that the Company did not meet certain obligations. At this time, the outcome of these actions is not determinable and adjustments for additional losses or gains will be accounted for in the period of settlement.

Restricted cash

The Company has issued letters of credit in the normal course of business totalling $19,000 (2008 – $19,000). These letters of credit are supported by term deposits of $19,000 (2008 – $19,000), which are restricted for use because they are required as collateral for various credit facilities.

18. Supplementary cash flow information

Change in non-cash working capital items comprises:

	2009	2008
Amounts receivable	$ 249	$ (616)
Inventories	(40)	5
Construction in progress	(496)	78
Prepaid expenses and sundry assets	(17)	(147)
Notes receivable	14	224
Accounts payable and accrued liabilities	711	1,006
Franchisee deposits	(1,629)	1,401
	(1,208)	1,951
Amortization comprises:		
Amortization of property, plant and equipment	944	1,036
Amortization of deferred pre-opening costs	10	5
Amortization of deferred concept developments costs	16	18
	970	1,059
Amortization of deferred lease inducements and rent	(252)	(247)
Amortization of deferred contract payments	(501)	(555)
	(753)	(802)
Non-cash transactions:		
Investment in Prime Restaurants Royalty Income Fund	290	–
Increase in due to Prime Restaurants Royalty Income Fund	(290)	–
Corporate restaurant assets reclassified from held-for-sale to held and used (note 4)	–	402
Reclassification of deferred lease inducements and rent (note 4)	–	175
Impact of adoption of new accounting standards on future income taxes (note 15)	–	(156)
	–	421

Prime Restaurants Royalty Income Fund

Board of trustees

Douglas J. Black, Chairman
Kirsten Matthews
Douglas J. Queen

PRC Trademarks Inc. board of directors

Douglas J. Black
Kirsten Matthews
Douglas J. Queen
John A. Rothschild
Kenneth W. Purdy
Sidney M. Horn

Registrar and transfer agent

Inquiries regarding change of address, registered holdings, transfers and duplicate mailings should be directed to the following:

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100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1
Phone: 1-800-564-6253
E-mail: service@computershare.com

Auditors

PricewaterhouseCoopers LLP, Toronto, Ontario

Legal counsel

Fraser Milner Casgrain LLP, Calgary, Alberta

Stock exchange listing

Toronto Stock Exchange (TSX)
Trading Symbol: EAT.UN

Investor inquiries

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Douglas J. Black, Chairman of the Board of Trustees
Prime Restaurants Royalty Income Fund
doug.black@fmc-law.com
Phone: 403-268-6879

Annual meeting

The annual meeting of Unitholders is to be held
at 10:00 a.m. May 13, 2009 at Bier Markt
58 The Esplanade, Toronto, ON M5E 1A7

Website

Prime Restaurants Royalty Income Fund
www.primeincomefund.ca

Prime Restaurants of Canada Inc.

Corporate head office

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Board of directors

John A. Rothschild, Chairman
Nicholas M. Perpick
H. Ross R. Bain

Officers

John A. Rothschild, Director, Chairman and Chief Executive Officer
Nicholas M. Perpick, Director, President and Chief Operating Officer
H. Ross R. Bain, Director, Executive Vice President, Legal Counsel and Secretary
Andrew Berzins, Vice President – Construction
Rob Carmichael, Vice-President, Casey's, Pub Division Operations
Grant Cobb, Senior Vice President – Casey's and Pubs Division
Bernard Dyer, Senior Vice President – East Side Mario's Division
Brian Elliot, Vice President – Accounting Services
Jack Gardner, Vice President Sales and Marketing – Casey's & Pubs Division
William Grady, Vice President – Purchasing
Sidney M. Horn, Assistant Secretary
Richard Jodoin, Vice President – East Side Mario's Marketing
Chris Sonnen, Vice President Operations – East Side Mario's
Ralf Strub, Vice-President Western Canada Operations – East Side Mario's
Rick Villalpando, Vice President Development – East Side Mario's

Websites

Prime Restaurants of Canada Inc.
www.primerestaurants.com

East Side Mario's
www.eastsidemarios.com

Casey's
www.caseysbarandgrill.com

Fionn MacCool's
www.fionnmaccools.com

Vision:

To be a world class multi-brand restaurant company

Mission:

Prime Restaurants is committed to:

- Continual brand relevance
- Engaging and developing our people
- Delivering an exceptional guest experience
- Sustainable franchisee and enterprise profitability
- Responsible growth

Prime Restaurants
Royalty Income Fund

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