

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements have been prepared by management and approved by the Trustees of Cinram International Income Fund (the Fund). Management is responsible for the information and representations contained in these consolidated financial statements.

We maintain appropriate processes to ensure that we produce relevant and reliable financial information. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies, which management believes are appropriate for the Fund, are described in note 2 to the consolidated financial statements.

The Trustees are responsible for reviewing and approving the consolidated financial statements and overseeing management's performance of its financial reporting responsibilities. The Trustees appoint an Audit Committee of three non-management Trustees to review the consolidated financial statements, as well

as the adequacy of its internal controls, audit process and financial reporting with management and with the external auditors. The Audit Committee reports to the Trustees prior to the approval of the audited consolidated financial statements for publication.

KPMG LLP, our independent auditors appointed by trust unitholders at the last annual meeting, have audited the consolidated financial statements. Their report is presented below.



Steven G. Brown
Chief Executive Officer



John H. Bell
Chief Financial Officer

March 25, 2010

Auditors' Report

To the Unitholders of Cinram International Income Fund

We have audited the consolidated balance sheets of Cinram International Income Fund (the Fund) as at December 31, 2009 and 2008 and the consolidated statements of earnings, comprehensive loss, unitholders' equity (deficiency) 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 consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants, Licensed Public Accountants

Toronto, Canada
March 2, 2010, except
as to note 25 which is
as of March 25, 2010.

Consolidated Balance Sheets

(In thousands of U.S. dollars)
December 31

'09 '08

ASSETS

Current assets:

Cash and cash equivalents	\$ 122,072	\$ 73,349
Accounts receivable, net of an allowance for doubtful accounts of \$4,149 (2008 - \$7,339)	273,243	495,604
Inventories (note 4)	31,985	48,987
Income taxes receivable	5,005	4,035
Prepaid expenses	15,915	21,913
Assets held for sale (notes 5 and 23)	6,047	-
Future income taxes (note 15)	6,007	1,827
	460,274	645,715
Property, plant and equipment (note 5)	234,684	361,804
Intangible assets (note 6)	27,537	94,423
Goodwill (note 6)	40,634	64,737
Other assets	21,571	24,557
	\$ 784,700	\$ 1,191,236

LIABILITIES AND UNITHOLDERS' EQUITY (DEFICIENCY)

Current liabilities:

Accounts payable	\$ 90,282	\$ 188,352
Accrued liabilities	226,856	263,235
Income taxes payable	20,277	11,581
Current portion of long-term debt (note 8)	28,624	6,750
Current portion of obligations under capital leases (note 9)	1,728	3,094
	367,767	473,012
Long-term debt (note 8)	363,396	636,299
Obligations under capital leases (note 9)	2,337	3,926
Other long-term liabilities	43,637	43,625
Derivative instruments (note 8)	25,225	26,586
Future income taxes (note 15)	6,638	5,208
Unitholders' equity (deficiency) (note 10)	(24,300)	2,580
	\$ 784,700	\$ 1,191,236

Lease commitments (note 9)
Contingent liabilities and guarantees (note 16)
Subsequent events (notes 20 and 23)
See accompanying notes to consolidated financial statements.

On behalf of the Board of Trustees:



William Anderson
Trustee



James S.A. MacDonald
Trustee

Consolidated Statements of Earnings

(In thousands of U.S. dollars, except per unit/exchangeable limited partnership unit amounts)
Years ended December 31

	'09	'08
REVENUE	\$ 1,463,565	\$ 1,728,537
Cost of goods sold (note 16)	1,199,086	1,410,194
Gross profit	264,479	318,343
Selling, general and administrative expenses	167,249	162,603
Amortization of intangible assets (note 6)	41,465	42,127
Impairment of long-lived assets and goodwill (notes 5 and 6)	82,234	22,252
Other charges (income), net (note 13)	2,483	(2,148)
Earnings (loss) before the undernoted	(28,952)	93,509
Interest on long-term debt	37,584	45,925
Other interest and financing charges (note 14)	6,127	3,371
Gain on repurchase of debt (note 8)	(38,440)	-
Foreign exchange loss (gain)	(15,179)	12,312
Investment income	(622)	(1,729)
Earnings (loss) from continuing operations before income taxes	(18,422)	33,630
Income taxes (recovery) (note 15):		
Current	(9,985)	7,221
Future	(2,669)	4,992
	(12,654)	12,213
Earnings (loss) from continuing operations	(5,768)	21,417
Loss from discontinued operations (note 24)	(16,260)	(52,946)
Loss for the year	\$ (22,028)	\$ (31,529)
Earnings (loss) per unit from continuing operations (note 11):		
Basic	\$ (0.11)	\$ 0.38
Diluted	(0.11)	0.38
Loss per unit (note 11):		
Basic	\$ (0.40)	\$ (0.56)
Diluted	(0.40)	(0.56)
Weighted average number of units and exchangeable limited partnership units outstanding (in thousands) (note 11):		
Basic	54,785	56,445
Diluted	54,785	56,510

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Loss

(In thousands of U.S. dollars)
Years ended December 31

'09 '08

Loss for the year	\$ (22,028)	\$ (31,529)
Other comprehensive income, net of tax (note 12):		
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	(43,402)	42,041
Unrealized gain (loss) on hedges of net investment in self-sustaining foreign operations	35,135	(53,594)
Partial release of cumulative translation adjustment (notes 14 and 24(b))	-	1,203
Unrealized foreign exchange translation loss, net of hedging activities	(8,267)	(10,350)
Net unrealized gain (loss) on derivatives designated as cash flow hedges	1,067	(2,501)
Release of other comprehensive income due to de-designation of hedge (note 14(a))	3,840	-
	(3,360)	(12,851)
Comprehensive loss, net of tax	\$ (25,388)	\$ (44,380)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Unitholders' Equity (Deficiency)

	Fund units		Exchangeable limited partnership units		Employee unit purchase loan	Contributed surplus	Accumulated other comprehensive income (loss) Deficit	Total unitholders' equity (deficiency)	
	Amount	Number (000s)	Amount	Number (000s)					
Balance, January 1, 2008, as previously reported	\$ 181,660	57,021	\$ 298	98	\$ -	\$ -	\$(223,854)	\$ 111,966	\$ 70,070
Restatement of opening deficit (note 25)	-	-	-	-	-	-	(14,200)	-	(14,200)
Balance, January 1, 2008 (note 25)	181,660	57,021	298	98	-	-	(238,054)	111,966	55,870
Loss for the year	-	-	-	-	-	-	(31,529)	-	(31,529)
Deferred units issued (note 10(d))	-	-	-	-	-	175	-	-	175
Repurchase of units (note 10(b))	(6,021)	(1,891)	-	-	-	(22)	(3,042)	-	(9,085)
Limited partnership units exchanged for Fund units	198	65	(198)	(65)	-	-	-	-	-
Deferred units exchanged for Fund units (note 10(d))	153	28	-	-	-	(153)	-	-	-
Other comprehensive loss (note 12)	-	-	-	-	-	-	-	(12,851)	(12,851)
Balance, December 31, 2008	175,990	55,223	100	33	-	-	(272,625)	99,115	2,580
Loss for the year	-	-	-	-	-	-	(22,028)	-	(22,028)
Deferred units issued (note 10(d))	-	-	-	-	-	816	-	-	816
Limited partnership units exchanged for Fund units	12	4	(12)	(4)	-	-	-	-	-
Issuance of employee unit purchase loans (note 10(a))	-	-	-	-	(2,315)	7	-	-	(2,308)
Other comprehensive loss (note 12)	-	-	-	-	-	-	-	(3,360)	(3,360)
Balance, December 31, 2009	\$ 176,002	55,227	\$ 88	29	\$ (2,315)	\$ 823	\$(294,653)	\$ 95,755	\$ (24,300)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands of U.S. dollars)
Years ended December 31

'09

'08

Cash provided by (used in):

Operations:

Earnings (loss) from continuing operations	\$ (5,768)	\$ 21,417
Items not involving cash:		
Amortization of property, plant and equipment	86,641	101,420
Amortization of intangible assets	41,465	42,127
Future income taxes	(2,750)	2,660
Gain on repurchase of debt	(38,440)	-
Partial release of cumulative translation adjustment (note 14)	-	536
Impairment of long-lived assets and goodwill (notes 5 and 6)	82,234	22,252
Non-cash interest expense related to hedging and derivative liability (note 14)	3,545	1,590
Non-cash interest expense (note 8)	2,466	1,776
Gain on disposition of property, plant and equipment	(859)	(2,687)
Other	827	175
Change in non-cash operating working capital (note 19)	133,223	(45,042)
	302,584	146,224

Financing:

Repayment/repurchase of long-term debt and bank indebtedness	(213,320)	(44,419)
Transaction costs and loan fees (note 8)	(1,525)	-
Decrease in obligations under capital leases	(2,956)	(1,628)
Financing of employee unit purchase loan (note 10(a))	(2,315)	-
Repurchase of units (note 10(b))	-	(9,085)
Distributions paid	-	(9,247)
	(220,116)	(64,379)

Investments:

Purchase of property, plant and equipment	(42,179)	(68,141)
Acquisitions, net of cash (note 3)	-	(5,386)
Acquisition expense (note 3(a))	-	1,003
Payment of acquisition earn-out amount (note 6(a)(i))	(16,131)	(13,449)
Proceeds on disposition of property, plant and equipment	29,483	12,487
Decrease in other assets	2,987	2,453
Decrease in other long-term liabilities	(6,433)	(1,791)
	(32,273)	(72,824)

Cash used in discontinued operating activities (note 24)	(17,233)	(16,657)
Cash provided by discontinued investing activities (note 24)	11,211	6,822
Foreign currency translation gain on cash held in foreign currencies	4,550	5,757
Increase in cash and cash equivalents	48,723	4,943
Cash and cash equivalents, beginning of year	73,349	68,406
Cash and cash equivalents, end of year	\$ 122,072	\$ 73,349
Cash and cash equivalents are comprised of:		
Cash	\$ 88,846	\$ 42,093
Cash equivalents	33,226	31,256
	\$ 122,072	\$ 73,349

Supplemental cash flow information:

Interest paid	\$ 38,109	\$ 46,349
Income taxes paid (recovered)	(17,012)	(11,082)

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

(In thousands of U.S. dollars, except units, per unit information and where otherwise stated)
Years ended December 31, 2009 and 2008

1. DESCRIPTION OF THE FUND:

On April 28, 2006, the shareholders of Cinram International Inc. (the Company or Cinram) approved a Plan of Arrangement (the Arrangement) filed by the Company under Section 192 of the Canada Business Corporations Act, which provided for the capitalization of the Cinram International Income Fund (the Fund) as a publicly traded income trust. The Arrangement resulted in the Company's shareholders transferring their shares to the Fund in consideration for Fund units or, in the case of electing shareholders, transferring all or a portion of their shares to Cinram International Limited Partnership (the LP) in consideration for Class B exchangeable limited partnership units (exchangeable LP units) of the LP on the basis of one share for one unit or exchangeable LP unit.

The Fund is an unincorporated, open-ended, limited purpose trust, established under the laws of the Province of Ontario by Declaration of Trust dated March 21, 2006, as amended and restated on May 5, 2006. The Fund was established to acquire, invest in, hold, transfer, dispose of and otherwise deal with securities and/or assets of the Cinram International Income Trust, Cinram International General Partner Inc., and other corporations, partnerships or persons engaged, directly or indirectly, in the business of the manufacture, packaging, distribution, sale and provision of multimedia products and related logistics services, as well as activities related or ancillary thereto, and such other investments as the Trustees may determine, and the borrowing of funds for that purpose.

2. SIGNIFICANT ACCOUNTING POLICIES:

(A) BASIS OF PRESENTATION:

These consolidated financial statements include the accounts of the Fund and its subsidiaries, and have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The results of subsidiaries acquired are consolidated from the date of acquisition. All intercompany balances and transactions have been eliminated on consolidation.

As disclosed in note 24(a), on April 9, 2009, the Fund completed the sale of substantially all of the assets and liabilities of Ivy Hill Corporation (Ivy Hill). As a result, Ivy Hill's results of operations have been excluded from the Fund's continuing operations for the years ended December 31, 2009 and 2008.

Certain of the prior year comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

The functional currency of the Fund is the Canadian dollar. The Fund's operations in the U.S., the United Kingdom, France, Germany, Spain and Mexico are considered to be self sustaining. Assets and liabilities are translated using year-end exchange rates and revenue and expenses are translated at weighted average exchange rates. Exchange gains and losses arising from the translation of the financial statements of self-sustaining foreign operations are deferred in the "foreign currency translation adjustment" account included as a component of accumulated other comprehensive income. When there is a reduction in the Fund's net investment in its self-sustaining foreign operations, the proportionate amount of the cumulative translation adjustment is recognized in earnings.

The Fund's reporting currency is the U.S. dollar. The Fund uses the current rate method to translate the consolidated Canadian dollar results into U.S. dollars for both the current and prior years. Under the current rate method, the assets and liabilities are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date; revenue and expenses, as well as cash flow items, are translated at weighted average exchange rates for the year. Any resulting exchange gain or loss is charged or credited to the "foreign currency translation adjustment" account included as a separate component of accumulated other comprehensive income.

(B) REVENUE RECOGNITION:

Revenue is comprised of product sales and service revenue earned from fulfillment and logistics services.

Revenue from product sales is recognized upon shipment since title to the product is transferred to the customers, persuasive evidence of an arrangement exists, the selling price is fixed and determinable, and collectibility is reasonably assured. The Fund's customers cannot return any previously purchased inventory, with the exception of defective product, which occurs very rarely, nor do customers have a right of refusal on purchases made.

Volume rebates are recorded as a reduction of revenue at the time of shipment. Contractual payments to acquire sales contracts are amortized against revenue over the term of the contract.

Service revenue is recognized as services are performed.

The Fund offers certain products and services as part of multiple deliverable arrangements. The Fund divides multiple deliverable arrangements into separate units of accounting. Components of multiple deliverable arrangements are separately accounted for provided the delivered elements have stand-alone value to the customer and the fair value of the undelivered elements can be objectively and reliably determined. Consideration for these units is then measured and allocated amongst the separate units based upon their relative fair values, and then the Fund's relevant revenue recognition policies are applied to them.

(C) INVENTORIES:

Inventories are valued at the lower of cost and net realizable value, with cost determined on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories include the cost of materials purchased, the cost of conversion, as well as other costs required to bring the inventories to their present location and condition. Inventory costs, including the allocation of fixed production overhead, are based on normal production capacity of the manufacturing facilities.

(D) PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are recorded at cost and are amortized over their estimated useful lives. Cost represents acquisition or construction costs, including preparation, installation and testing charges incurred with respect to property, plant and equipment until they are ready for commercial production. Major renewals and improvements are capitalized, while maintenance and repairs are charged to operations as incurred. Gains or losses arising from the disposition of property, plant and equipment are reflected in net earnings (loss).

Property, plant and equipment are amortized on a straight-line basis, commencing when the asset is entered into use. Amortization expense for property, plant and equipment is recorded in cost of goods sold. Estimated useful lives for the principal asset categories are as follows:

Buildings	20 – 40 years
Machinery and equipment	4 – 13 years
Computer equipment	3 – 5 years
Furniture	5 years
Leasehold improvements	Over shorter of estimated useful life and lease term

Spare parts, which are classified as property, plant and equipment, are recorded at cost and are amortized on a straight-line basis. The rates of amortization are intended to fully amortize the assets over three years, which approximates their useful lives.

(E) GOODWILL AND INTANGIBLE ASSETS:

(i) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the tangible and intangible assets acquired, less liabilities assumed, based on their fair values. When the Fund enters into a business combination, the purchase method of accounting is used. Goodwill is assigned as of the date of the business combination to reporting units that are expected to benefit from the business combination.

Goodwill is not amortized but instead is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. Absent any triggering factors during the year, the Fund conducts its goodwill assessment in the fourth quarter of the year to correspond with its planning cycle. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit, including goodwill, is compared with its fair value. When the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill is determined in the same manner as the value of goodwill is determined in a business combination, and is compared with its carrying amount to measure the amount of the impairment loss, if any.

(ii) **Intangible assets:**

Intangible assets acquired in a business combination are initially recorded at their fair values and are tested for impairment as described in note 2(f). Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Customer supply agreements	5 – 7 years
Acquired technology	3 years

(F) LONG-LIVED ASSETS:

The Fund reviews tangible and intangible assets subject to amortization (long-lived assets) for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying amount may not be recoverable. Absent any triggering factors during the year, the Fund conducts its long-lived asset assessment in the fourth quarter to correspond with its planning cycle. Recoverability is assessed by comparing the carrying amount to the projected undiscounted future net cash flows that the long-lived assets are expected to generate. If the sum of undiscounted future cash flows expected to result from the use and disposition of a group of assets is less than its carrying amount, then a second step is required. In the second step, a present value technique is used to estimate the fair value and is compared to the carrying value of the assets. An impairment loss is measured as the amount by which the carrying amount of a group of assets exceeds its fair value, the amount of consideration that would be agreed upon in an arms-length transaction between knowledgeable, willing parties.

(G) PENSION BENEFITS:

The Fund accrues its obligations under employee defined benefit plans and the related costs, net of plan assets. The cost of pensions earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimates of expected plan investment performance, salary escalation, compensation levels at time of retirement, and retirement ages of employees. Changes in these assumptions could impact future pension expense. For the purpose of calculating the expected return on plan assets, assets are valued at fair value. Actuarial gains or losses are amortized over the average remaining service period of active employees. Pension assets are recorded as other assets while pension liabilities are recorded as accrued pension benefits within accrued liabilities and other long-term liabilities.

The Fund recognizes curtailment losses in income when it is probable that a curtailment will occur and the net effects can be reasonably estimated. Curtailment gains are recognized in income when an event giving rise to a curtailment has occurred. The Fund recognizes settlement gains or losses in income in the period in which a settlement occurs.

For all other pension and non-pension employment benefit plans, expenses are recorded as the Fund's contributions become payable.

(H) ASSET RETIREMENT OBLIGATIONS:

Asset retirement obligations are legal obligations associated with the retirement of tangible long-lived assets that result from their acquisition, lease, construction, development or normal operation. The Fund records the present value of the estimated fair value of a liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The fair value of a liability for an asset retirement obligation is the amount at which that liability could be settled in a current transaction between willing parties, that is, other than in a forced liquidation transaction. The fair value is estimated using a credit-adjusted risk-free rate as at the date when the liability is incurred. The Fund subsequently allocates the asset retirement cost to expense using a systematic and rational method over the asset's useful life, and records the accretion of the liability as a charge to the consolidated statements of earnings.

The adjustment to leasehold improvements in respect of asset retirement costs is amortized into income on a straight-line basis over the remaining life of the leases.

(I) UNIT-BASED COMPENSATION:

The Fund determines the fair value of unit options granted to employees using the Black-Scholes option pricing model, and records unit-based compensation expense over the vesting period with a corresponding increase in contributed surplus. No options have been granted since 2003, and the related unit-based compensation expense was nil in 2009 and 2008.

(J) INCOME TAXES:

The Fund follows the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in earnings in the year

that includes the enactment or substantive enactment date. Future income tax assets are recognized, and if realization is not considered “more likely than not,” a valuation allowance is provided. Income tax expense is the sum of the Fund’s provision for current income taxes and the difference between opening and ending balances of future income tax assets and liabilities.

The Fund is a mutual fund trust for income tax purposes, and is taxable in any given year on any amount not distributed to unitholders.

On June 22, 2007, the Canadian federal government enacted legislation to significantly modify the income tax rules applicable to publicly traded income trusts and partnerships. Under the legislation, income earned by these entities will be taxed in a manner similar to income earned and distributed by a taxable corporation. Although the legislation was effective for the 2007 taxation year, application of the tax rules is postponed until the 2011 taxation year with respect to trusts that were publicly traded prior to November 1, 2006 if certain guidelines are respected.

As currently drafted, and based on the current organizational structure of the Fund and its subsidiaries, the Fund believes that the new legislation will not have an impact on current or future earnings.

On March 12, 2009, the Canadian federal government enacted legislation to facilitate the conversion of mutual fund income trusts into corporations on a tax-deferred basis in advance of their 2011 taxation year.

Management is reviewing these conversion rules to assess their implications to the Fund.

(K) EARNINGS (LOSS) PER UNIT:

Basic earnings (loss) per unit is calculated by dividing net earnings (loss) available to unitholders by the weighted average number of units outstanding during the year. Diluted earnings (loss) per unit is calculated using the treasury stock method, which assumes that all options with exercise prices below the market prices are exercised, with the proceeds used to purchase units of Cinram at the average market price during the year and all deferred units will be redeemed for units of the Fund.

(L) USE OF ESTIMATES:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

Significant estimates are used in determining, but not limited to, revenue recognition, including the identification of separate units of accounting under multiple deliverable arrangements, provisions for volume rebates, royalty accruals, including judgement required in determining royalty obligations related to certain patents, the allowance for doubtful accounts, inventory valuation, income tax valuation allowances, restructuring costs, contingencies and other provisions, assets and obligations related to employee future benefits, withdrawal liabilities for pension funds, estimation of credit spreads for determination of the fair value of derivative instruments, the useful lives of all depreciable assets, the recoverability of property, plant and equipment and long-lived assets and the valuation of goodwill that require estimates of future cash flows and discount rates. For business combinations, the key area of estimation and judgment is the allocation of the purchase price.

Royalty charges are incurred as a result of the use of third-party replication technologies. The royalty charge is recorded as cost of goods sold at the time of shipment. The royalty rates are on a per unit basis and based on contractual terms and conditions or management’s best estimates in situations where formal license agreements are not in place. These estimates are reviewed periodically and, as adjustments become necessary, they are made in the period in which they become known. A significant change in the royalty rates used could have a material impact on the cost of goods sold and the provision for royalties.

Significant changes in the assumptions, including those with respect to future business plans and cash flows, could materially change the recorded carrying amounts.

(M) CASH AND CASH EQUIVALENTS:

The Fund considers all highly liquid investment instruments with original maturities of three months or less to be cash equivalents.

(N) FINANCIAL AND DERIVATIVE INSTRUMENTS:

(i) Adoption of new financial instruments standards:

Effective December 31, 2009, the Fund adopted The Canadian Institute of Chartered Accountants (CICA) amended Section 3862, Financial Instruments – Disclosures (Section 3862), to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require disclosure of the three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of financial assets and financial liabilities included in

Notes to the Consolidated Financial Statements

Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Financial assets and financial liabilities in Level 2 include valuations using inputs based on observable market data, either directly or indirectly other than quoted prices. Level 3 valuations are based on inputs that are not based on observable market data. The adoption of these standards did not have any impact on the classification and measurement of the Fund's financial instruments or the liquidity risk disclosures. The new disclosures pursuant to this amended Handbook Section are included in note 21.

On January 1, 2008, the Fund adopted Section 3862 and CICA Handbook Section 3863, Financial Instruments – Presentation (Section 3863).

Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the year and at the balance sheet date, and how the entity manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, gains and losses, and circumstances in which financial assets and financial liabilities are offset.

The adoption of these standards did not have any impact on the classification and measurement of the Fund's financial instruments. The disclosures pursuant to these Handbook Sections are included in note 21.

(ii) Financial instruments:

Cash and cash equivalents are classified as held-for-trading. Held-for-trading financial assets are recorded at fair value on the consolidated balance sheets with changes in fair value recorded in the consolidated statements of earnings.

The Fund's other financial assets are classified as available-for-sale or loans and receivables. Available-for-sale investments are carried at fair value on the balance sheet, with changes in fair value recorded in other comprehensive income, until such time as the investments are disposed of or an other-than-temporary impairment has occurred, in which case, the impairment is recorded in income. Loans and receivables and all financial liabilities are carried at amortized cost using the effective interest method. The Fund determined that none of its non-derivative financial assets are classified as held-to-maturity and none of its non-derivative financial liabilities are classified as held-for-trading.

Transaction costs paid to a lending institution relating to the bank credit facility are deferred and amortized over the term of the facility.

Derivative financial instruments are utilized to reduce interest rate risk on the Fund's debt. The Fund does not enter into financial instruments for trading or speculative purposes. The Fund's policy is to formally designate each derivative financial instrument as a hedge of a specifically identified debt instrument.

All derivatives, including embedded derivatives that must be separately accounted for, are measured at fair value with changes in fair value recorded in the consolidated statements of earnings unless they are effective cash flow hedging instruments.

When hedge accounting is applied, the Fund formally documents the relationship between derivative instruments and the hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. At the instrument's inception, the Fund also formally assesses whether the derivatives are highly effective at reducing or modifying interest rate or foreign exchange risk related to the future anticipated interest and other cash outflows associated with the hedged item. Effectiveness requires a high correlation of changes in fair values or cash flows between the hedged item and the hedging item. On a quarterly basis, the Fund confirms that the derivative instruments continue to be highly effective at reducing or modifying interest rate or foreign exchange risk associated with the hedged items. The changes in fair value of cash flow hedging derivatives are recorded in other comprehensive income, to the extent effective, until the hedged asset or liability is recognized in the consolidated statements of earnings. The Fund has an interest rate swap and has established net investment hedges.

For those instruments that do not meet the above criteria, changes in their fair values are recorded in the consolidated statements of earnings.

Interest rate swap:

The Fund previously entered into an interest rate swap to hedge interest rate risk. The fair value of the Fund's interest rate swaps is determined using an estimated credit-adjusted mark-to-market valuation which takes into consideration the Fund and the counterparty credit risk.

The Fund also assesses the interest rate swap accounted for as hedges for ineffectiveness on a quarterly basis. The measurement of ineffectiveness is recorded directly in the consolidated statements of earnings.

The interest rate swap agreement is used as part of the Fund's program to manage the fixed and floating interest rate mix of the Fund's total debt portfolio and related overall cost of borrowing. The interest rate swap agreement involves the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and is recorded as an adjustment of interest expense on the hedged debt instrument. The related amount payable to or receivable from the counterparties is included as an adjustment to accrued interest.

In the event of early extinguishment of the debt obligation, any realized or unrealized gain or loss from the swap would be recognized in the consolidated statements of earnings at the time of extinguishment. For those instruments that did not meet the effectiveness criteria, variations in their fair values were marked to market on a current basis, with the resulting gains or losses recorded in or charged against earnings.

Net investment hedges:

The Fund designated its U.S. dollar-denominated long-term debt in Canada as a hedge of the foreign currency risk related to the principal amount of its net investment in U.S. subsidiaries. The U.S. subsidiaries are considered self-sustaining for accounting purposes and, as a result, gains or losses on translating the third party debt in Canada from U.S. to Canadian dollars are recorded in the consolidated statements of other comprehensive income (loss) to the extent the debt is considered an effective hedge. As at December 31, 2009 and 2008, the hedge is effective and both the U.S. dollar-denominated long-term debt in Canada and the investment in the U.S. subsidiaries are remeasured at spot rates at each year end.

(O) CAPITAL DISCLOSURES:

Effective January 1, 2008, the Fund adopted the new recommendations of CICA Handbook Section 1535, Capital Disclosures (Section 1535). Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. It requires the disclosure of information about the Fund's objectives, policies and processes for managing capital. These disclosures are included in note 22 to the consolidated financial statements.

(P) CHANGES IN AND RECENT CANADIAN ACCOUNTING PRONOUNCEMENTS:**(i) Goodwill and intangible assets:**

Effective January 1, 2009, the Fund adopted the new recommendations of CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs. This revised standard establishes guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets.

The adoption of this standard did not have a significant impact on the Fund's accounting for goodwill and intangible assets.

(ii) Business combinations:

In October of 2008, the CICA issued Handbook Section 1582, Business Combinations (Section 1582), concurrently with Handbook Section 1601, Consolidated Financial Statements (Section 1601), and Handbook Section 1602, Non-controlling Interests (Section 1602). Section 1582, which replaces CICA Handbook Section 1581, Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaces CICA Handbook Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Fund's interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Fund will assess the impact of the new standards on its consolidated financial statements when it completes a business combination.

Notes to the Consolidated Financial Statements

(iii) Multiple deliverable revenue arrangements:

In December 2009, the CICA issued EIC-175, Multiple Deliverable Revenue Arrangements (EIC-175). EIC-175, which replaces EIC-142, Revenue Arrangements with Multiple Deliverables, addresses some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. This new standard is effective for the Fund's interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Fund is assessing the impact of the new standard on its consolidated financial statements.

(iv) International Financial Reporting Standards (IFRS):

In 2008, the Canadian Accounting Standards Board confirmed that Canadian profit-oriented publicly accountable entities will be required to adopt IFRS for fiscal periods beginning on or after January 1, 2011. The Fund's first IFRS financial statements will be for the year ending December 31, 2011 and will include the comparative period for 2010. Starting in the first quarter of 2011, the Fund will provide unaudited consolidated financial statements in accordance with IFRS. These consolidated financial statements will include restated 2010 annual and interim financial statement information to be consistent with the new IFRS basis, as well as reconciliations of equity and net earnings for the previously reported Canadian GAAP amounts.

The Fund is evaluating accounting policy differences between Canadian GAAP and IFRS based on management's current understanding of IFRS. However, the financial reporting impact of the transition to IFRS has not yet been determined.

3. ACQUISITIONS:

(a) In June 2008, Cinram acquired 100% of the shares of companies in Spain and France from ODS Business Services (ODS), a European replicator and distributor of DVDs, for cash consideration of \$1,620. This acquisition expanded Cinram's distribution capacity in Spain and France to service a long-term DVD replication and distribution agreement with Universal Europe and to service Cinram's other European customers. The acquisition was accounted for using the purchase method, whereby the results of operations have been included in the consolidated statements of earnings and cash flows from the date of acquisition and are included in the Fund's Home Video reporting segment.

The fair values of the net assets acquired were as follows:

Net assets:	
Current assets, including cash of \$537	\$ 11,355
Plant and equipment	4,738
Other assets	553
Liabilities assumed	(15,026)
Cash consideration	\$ 1,620

The fair market value of the net assets acquired in the above acquisition was in excess of cash consideration by \$3,074. The excess has been eliminated by allocating it as a reduction to the value assigned to plant and equipment. The liabilities assumed include \$4,565 of transition costs accrued on acquisition. At December 31, 2009, \$1,043 remained unpaid. This amount is recorded in accrued liabilities and is expected to be paid by the end of 2010.

Also in June 2008, Cinram acquired substantially all of the U.K. assets of ODS for cash consideration of \$911. This acquisition expanded Cinram's distribution capacity in the U.K. to service the replication and distribution agreement with Universal Europe. The acquisition was accounted for using the purchase method, whereby the results of operations have been included in the consolidated statements of earnings and cash flows from the date of acquisition and are included in the Fund's Home Video reporting segment.

The fair values of the net assets acquired were as follows:

Net assets:	
Current assets	\$ 57
Plant and equipment	495
Liabilities assumed	(644)
Acquisition-related costs	1,003
Cash consideration	\$ 911

The cash consideration was in excess of the fair market value of the net assets by \$1,003. The excess has been included in selling, general and administrative expenses. Also, in relation to this acquisition, \$934 of costs were incurred to fund the operation of the business prior to the acquisition. The costs are included in selling, general and administrative expenses.

The liabilities assumed include \$644 of transition costs accrued on acquisition. At December 31, 2009, the amount has been paid.

(b) In September 2008, Cinram completed the acquisition of substantially all of the assets of the warehouse management, distribution, processing and value-added service operations of Jack of All Games, Inc. (JOAG), for cash consideration of \$3,392. JOAG, which was a wholly owned subsidiary of Take-Two Interactive Software, Inc. (Take-Two), is engaged in the business of distributing products of Take-Two and other third party software, hardware and accessories to retail outlets in North America. The acquisition was accounted for using the purchase method, whereby the results of the business have been included in the consolidated statements of earnings and cash flows from the date of acquisition and are included in the Fund's Video Game reporting segment.

The fair values of the net assets acquired were as follows:

Net assets:	
Current assets	\$ 137
Property, plant and equipment	3,255
Cash consideration	\$ 3,392

The fair market value of the net assets acquired in the above acquisition was in excess of cash consideration by \$999. The excess was eliminated by allocating it as a reduction to the value assigned to plant and equipment.

4. INVENTORIES:

	'09	'08
Raw materials	\$ 17,714	\$ 32,145
Work in process	14,154	15,640
Finished goods	117	1,202
	\$ 31,985	\$ 48,987

Inventory costs included in cost of goods sold for the year ended December 31, 2009, were \$670,249 (2008 – \$788,723).

During the year ended December 31, 2009, the Fund recorded inventory write-downs in cost of goods sold of \$8,081 (2008 – \$12,486), and reversals of previously written-down amounts of \$3,719 (2008 – \$3,553). Work in process and finished goods produced without customer orders are written down to a net realizable value of nil and subsequently written up when a valid customer order is received.

5. PROPERTY, PLANT AND EQUIPMENT:

'09	Cost	Accumulated amortization	Net book value
Land	\$ 13,768	\$ -	\$ 13,768
Buildings	130,728	49,322	81,406
Machinery and equipment	954,714	827,249	127,465
Computer equipment	48,194	41,058	7,136
Furniture	27,352	22,475	4,877
Leasehold improvements	52,330	46,514	5,816
Construction in progress	263	-	263
Assets held for sale (a)	(11,825)	(5,778)	(6,047)
	\$ 1,215,524	\$ 980,840	\$ 234,684

'08	Cost	Accumulated amortization	Net book value
Land	\$ 18,904	\$ -	\$ 18,904
Buildings	142,543	49,010	93,533
Machinery and equipment	946,852	738,450	208,402
Computer equipment	46,302	34,572	11,730
Furniture	27,352	20,650	6,702
Leasehold improvements	51,046	42,970	8,076
Construction in progress	14,457	-	14,457
	\$ 1,247,456	\$ 885,652	\$ 361,804

(a) In December 2009, the Fund finalized an agreement to dispose of the distribution facility located in Simi Valley, California. At December 31, 2009, the criteria have been met for these assets to be classified as held for sale and, accordingly, these assets have been reclassified on the consolidated balance sheet. The sale closed on January 20, 2010 (note 23).

(b) Included in the above are assets under capital lease with a cost of \$20,473 and a net book value of \$4,588 (2008 - \$19,808 and \$6,860), respectively, which are being amortized on a straight-line basis over their anticipated economic life, which is 20 years for buildings and 4 years for machinery and equipment.

(c) Amortization of property, plant and equipment for the year ended December 31, 2009 amounted to \$86,641 (2008 - \$101,420).

(d) Based on future cash flow projections in the Fund's 2010 budget and multi-year projections for 2011 through 2014, during the fourth quarter of 2009, the Fund determined that the carrying value of certain property, plant and equipment was in excess of the associated estimated undiscounted cash flows. As a result, property, plant and equipment was written down by \$34,081 to estimated fair value based on a combination of a market approach and discounted cash flows. In 2008, an impairment charge of \$57,203 was recorded, of which \$19,746 is included in continuing operations and \$37,457 related to Ivy Hill is recorded in discontinued operations.

The impairment of property, plant and equipment related to the following segments:

	'09	'08
Reportable business segments:		
Home Video	\$ 34,081	\$ 16,196
CD	-	3,550
	\$ 34,081	\$ 19,746
Reportable geographic segments:		
Canada	\$ -	\$ 18,529
U.S.	29,097	-
Europe	4,984	603
Other	-	614
	\$ 34,081	\$ 19,746

6. GOODWILL AND INTANGIBLE ASSETS:

(A) GOODWILL:

Goodwill primarily relates to the 2007 acquisition of the assets of Ditan Corporation (Ditan) in the U.S. In addition, goodwill arising from the 2003 acquisition of the assets of Time Warner Inc.'s DVD and CD manufacturing and physical distribution businesses and the 2007 acquisition of substantially all of the assets of Vision Worldwide Management LLC (Vision) are also included in the balance.

Goodwill, January 1, 2008	\$ 55,326
Effect of foreign exchange	(4,022)
Acquisition earn-out amount (i)	19,000
Adjustment related to earn-out (i)	(2,020)
Impairment charge	(3,547)
<hr/>	
Goodwill, December 31, 2008	64,737
Effect of foreign exchange	532
Adjustment related to earn-out (i)	(2,869)
Impairment charge (iii)	(22,455)
Other (ii)	689
<hr/>	
Goodwill, December 31, 2009	\$ 40,634

(i) At December 31, 2008, a preliminary estimate of \$19,000 was recorded in goodwill and accrued liabilities relating to the 2008 earn-out for the acquisition of Ditan.

In 2009, the Fund agreed to pay \$16,131 to the former shareholders of Ditan relating to the 2008 earn-out based on the achievement of certain performance metrics. This resulted in an adjustment to reduce goodwill and accrued liabilities by \$2,869 during 2009. A similar adjustment of \$2,020 was made in 2008 relating to the 2007 earn-out.

(ii) In 2009, goodwill was increased by \$689 to correct a misclassification between goodwill and current liabilities as of the acquisition date of Ditan. The balance sheet misclassification had no effect on net earnings (loss) in the current and prior periods.

(iii) The Fund tests impairment using the two-step method, at the reporting unit level, by comparing the reporting unit's carrying amount to its fair value (step one). To the extent a reporting unit's carrying amount exceeds its fair value, the Fund may have an impairment of goodwill. The Fund measures impairment by comparing the implied fair value of goodwill, determined in a manner similar to a purchase price allocation, to its carrying amount (step two).

The Fund completed its step one analysis using a discounted cash flow model. The discounted cash flow model includes projections covering the 2010 through 2014 periods to determine fair value. The projections used for 2010 were based on site submissions on an entity by entity basis. For 2011 through 2014, the Fund utilized industry data combined with management estimates to complete the projections, including estimates of revenue and costs. The terminal values of the reporting units were determined by applying terminal growth rates of -5% for Germany and + 2% for Vision and Ditan. The five year projections were discounted using a rate of 14% for Germany and 17% for Vision and Ditan. These discount rates take into consideration the economic environment, the ability to forecast future demand and the risk and uncertainty in the markets.

The results of the step one analysis indicated an impairment in Germany and Vision and step two was required for these two reporting units. The process of determining fair value was subjective and required management to exercise a significant amount of judgment in determining future growth/decline rates, discount rates and tax rates, among other factors. Management performed the second step of the goodwill impairment assessment to determine and quantify the amount of impairment, if required. This included the calculation of implied fair value of goodwill, determined in a manner similar to a purchase price allocation, and comparing the residual amount to the carrying amount of goodwill. Based on the analysis, management concluded that the goodwill balance was impaired by a combined \$22,455 for Germany and Vision resulting in a balance of \$40,634 as of December 31, 2009. In 2008 an impairment charge of \$3,547 was recorded, of which \$2,506 is included in continuing operations and \$1,041 related to Ivy Hill is recorded in discontinued operations.

Notes to the Consolidated Financial Statements

The impairment related to the following segments:

	'09	'08
Reportable business segments:		
Home Video	\$ 13,897	\$ 2,506
CD	2,968	-
Other	5,590	-
	\$ 22,455	\$ 2,506
Reportable geographic segments:		
Canada	\$ -	\$ 2,506
U.S.	4,260	-
Europe	18,195	-
	\$ 22,455	\$ 2,506

(B) INTANGIBLE ASSETS:

Customer supply agreements were acquired as part of the 2003 acquisition of certain of the assets of Time Warner Inc. Customer supply agreements were being amortized on a straight-line basis over a period of six years, which represented the exclusive term in which the Fund would manufacture, print, package and physically distribute DVDs and CDs for Warner Home Video (WHV) and Warner Music Group in North America and Europe, and for New Line Home Entertainment Inc. in North America. The amortization period was extended by an additional year in the fourth quarter of 2007 due to a contract extension.

Customer supply agreements were also acquired as part of the acquisition of the assets of Ditan and Vision. Customer supply agreements are being amortized on a straight-line basis over a period of five to six years.

As part of the acquisition of Vision, the Fund acquired the rights to the internally developed technology/software owned by Vision. This asset is being amortized on a straight-line basis over three years.

'09	Cost	Accumulated amortization	Effect of foreign exchange	Impairment	Net book value
Customer supply agreements (a)	\$ 416,100	\$ 366,815	\$ 3,851	\$ (25,698)	\$ 27,438
Acquired technology	400	301	-	-	99
	\$ 416,500	\$ 367,116	\$ 3,851	\$ (25,698)	\$ 27,537

'08	Cost	Accumulated amortization	Effect of foreign exchange	Net book value
Customer supply agreements	\$ 416,100	\$ 325,484	\$ 3,574	\$ 94,190
Acquired technology	400	167	-	233
	\$ 416,500	\$ 325,651	\$ 3,574	\$ 94,423

(a) An impairment loss of \$25,698 relating to customer supply agreements in the U.S. Home Video segment was recorded as described in note 5(d).

(b) Amortization of intangible assets for the year ended December 31, 2009 amounted to \$41,465 (2008 - \$42,127).

7. ASSET RETIREMENT OBLIGATIONS:

The Fund records deferred asset retirement costs and an offsetting accrued liability for the estimated present value of the costs of retiring leasehold improvements at the maturity of the facility leases. The following table details the changes in the leasehold retirement liability:

January 1, 2008	\$	4,938
Additions		1,130
Retirement		(661)
Accretion charges during 2008		338
Foreign exchange		(534)
December 31, 2008		5,211
Additions		212
Retirement		(1,193)
Accretion charges during 2009		274
Foreign exchange		212
December 31, 2009	\$	4,716

The accretion charges are recorded in cost of goods sold.

The undiscounted amount of the obligations is \$5,828 (2008 – \$5,841) and is expected to be paid out in one to seven years.

For the year ended December 31, 2009, the Fund recorded amortization expense of \$441 (2008 – \$365) in cost of goods sold.

8. LONG-TERM DEBT AND BANK INDEBTEDNESS:

Amounts outstanding under the credit facilities are shown in the table below:

	'09	'08
Credit agreement:		
Term loan	\$ 395,364	\$ 647,125
Unamortized transaction costs	(3,344)	(4,076)
	392,020	643,049
Less current portion	28,624	6,750
	\$ 363,396	\$ 636,299

On May 5, 2006, in connection with the conversion to an income trust, a five-year term senior secured credit facility (credit facility) of \$825,000 was executed, maturing on May 6, 2011. The credit facility consisted of a \$675,000 term loan, a \$100,000 U.S. revolving credit facility and a \$50,000 Canadian revolving credit facility that bore interest at LIBOR plus 175 basis points subject to, in the case of revolving credit borrowings, financial ratios. The term loan under the credit facility required principal repayments at the rate of 1% per annum, on a quarterly basis. In addition, the Fund may, at its option, prepay principal amounts outstanding without incurring penalties. The amounts outstanding under the facilities are secured by substantially all of the assets of the Fund. At December 31, 2009, the Fund has unamortized transaction costs relating to this loan of \$1,552 (2008 – \$2,720).

During 2007, the Fund amended certain provisions under the credit facility, primarily to provide for a buyback of a specified number of units with an aggregate acquisition cost of up to \$100,000 and to increase flexibility under certain financial covenants. Concurrently, the associated interest rate on borrowings increased from LIBOR plus 175 basis points to LIBOR plus 200 basis points. At December 31, 2009, the Fund has unamortized transaction costs of \$775 (2008 – \$1,356) in connection with this amendment.

Notes to the Consolidated Financial Statements

On March 30, 2009, the Fund amended certain provisions under the credit facility, primarily to permit the Fund to use cash on hand of up to \$150,000 to repurchase term advances outstanding under the credit facility at prices below par through one or more “modified Dutch” auctions during a one-year period ending March 29, 2010 subject to total debt repurchases not exceeding 25% of total credit commitments. Concurrently, the Fund agreed to the following conditions:

- (a) term loan repayment of \$35,000 to be made on March 30, 2009 upon amendment effectiveness;
- (b) increase in the quarterly term loan principal repayments to \$10,000 commencing with the June 30, 2009 payment;
- (c) suspension of all unit distributions and unit buybacks until the May 5, 2011, scheduled maturity of the credit facility; and
- (d) reduction in the revolving credit commitment by \$50,000 to \$100,000. The reduction is allocated ratably to both the U.S. and Canadian revolving credit facilities.

There were no amendments to the financial covenants nor changes to the interest rate spread on borrowings. At December 31, 2009, the Fund has unamortized transaction costs of \$1,017 (2008 – nil) in connection with this amendment.

During the year ended December 31, 2009, the Fund repurchased \$169,660 of term advances through several “modified Dutch” auctions for cash proceeds of \$131,220. The difference of \$38,440 has been recorded as a gain on repurchase of debt. On January 6, 2010, upon reaching the maximum 25% repurchase threshold, the Fund announced that it completed its debt repurchase program.

Future minimum repayments of long-term debt, net of debt repurchased, for the fiscal years ending December 31 are as follows:

2010	\$ 28,624
2011	366,740
	<u>\$ 395,364</u>

As of December 31, 2009, the revolving credit facilities were undrawn, except for issued letters of credit totalling approximately \$14,450.

The terms of the credit agreement require the Fund to comply with certain financial and other covenants over the term of the facility.

The credit agreement and related amendments have the following significant covenants:

- (a) leverage not to exceed 3.00 x EBITA (defined as earnings before interest expense, foreign exchange translation gains/losses, investment income, gain on repurchase of debt, impairment charges, amortization, other charges and income taxes);
- (b) minimum interest coverage ratio of 4.00:1.00;
- (c) annual capital expenditures not to exceed \$150,000;
- (d) suspension of distributions and unit buyback until maturity of credit agreement;
- (e) minimum liquidity condition consisting of: (i) cash on hand and revolver availability of \$37,500 at all times, and (ii) cash on hand and revolver availability of \$100,000 prior to offering to repurchase debt at an amount below par; and
- (f) restricted payment covenants.

As at December 31, 2009 and 2008, the Fund was in compliance with all the terms of its credit agreement. Based on current internal forecasts, the Fund anticipates remaining compliant with its debt covenants for the remaining term of the debt.

Under the terms of the credit agreement, the Fund is obliged to make a mandatory offer to prepay the credit facilities from the following, subject to certain customary exceptions:

- (a) 75% of net cash proceeds of non-ordinary course asset sales subject to certain reinvestment rights;
- (b) 50% of net proceeds of debt issuances;
- (c) 75% of certain insurance proceeds in excess of \$5,000 subject to exceptions including replacement and repair of affected assets; and
- (d) 50% of net proceeds of equity issuances.

The weighted average interest rate for the year ended December 31, 2009, was 6.1% (2008 – 6.5%).

Derivative financial instruments:

The Fund previously entered into a five-year, \$400,000 swap agreement fixing the interest rate on the term loan at 5.55% plus 200 basis points, resulting in a rate of 7.55%. This hedge provided protection against interest rate volatility. On December 15, 2009, the Fund ceased hedge accounting and as a result, \$3,840 has been recognized in other interest and financing charges (note 14(a)). The credit adjusted fair value of the interest rate swap liability as at December 31, 2009 was \$25,225 (2008 – \$26,586).

Transaction costs and loan fees:

Balance, January 1, 2008	\$ 6,347
Amortization	(1,776)
Foreign exchange	(495)
Balance, December 31, 2008	4,076
Increase in transaction fees	1,525
Amortization	(2,466)
Foreign exchange	209
Balance, December 31, 2009	\$ 3,344

9. LEASE COMMITMENTS:

Future minimum rental commitments for all non-cancellable operating and capital leases as at December 31, 2009 are as follows:

	Capital	Operating	Total
2010	\$ 1,930	\$ 42,469	\$ 44,399
2011	1,274	31,773	33,047
2012	674	23,299	23,973
2013	546	13,153	13,699
2014	–	7,403	7,403
2015 and thereafter	–	20,944	20,944
	4,424	\$ 139,041	\$ 143,465
Less interest	359		
	4,065		
Less current portion	1,728		
	\$ 2,337		

Operating lease expense for the year ended December 31, 2009 amounted to \$47,969 (2008 – \$39,379).

10. UNITHOLDERS' EQUITY (DEFICIENCY):

The Fund is authorized to issue an unlimited number of units.

(A) EMPLOYEE UNIT PURCHASE LOANS:

During the year ended December 31, 2009, the Fund entered into two separate agreements to advance up to Cdn. \$3,250 to named officers for the purpose of buying units of the Fund on the open market. At December 31, 2009, Cdn. \$2,419 (U.S. \$2,240) has been advanced for the purchase of 1,268,400 units. In accordance with EIC 132, Share Purchase Financing, for accounting purposes, the employee unit purchase loans are included as a reduction of unitholders' equity. Interest is calculated at the rate prescribed for purposes of the Income Tax Act (Canada), which for 2009 was 1%. The balances outstanding are secured by the units purchased or any proceeds realized upon sale of the units. At December 31, 2009, the market value of the units held as collateral was Cdn. \$3,488. The loans are repayable in four equal annual installments commencing in the second quarter of 2011, or earlier under certain specified conditions.

Notes to the Consolidated Financial Statements

Interest of Cdn. \$8 (U.S. \$7) is recorded as a capital transaction which increases contributed surplus by the same amount.

Balance, December 31, 2008	\$	-
Issuance of unitholder loans		2,240
Interest		7
Foreign currency adjustment		68
Balance, December 31, 2009	\$	2,315

(B) NORMAL COURSE ISSUER BID (NCIB):

(i) In 2009, the Fund did not repurchase or cancel any units.

(ii) In March 2007, the Fund's Trustees authorized a unit repurchase program through an NCIB. Pursuant to the NCIB, the Fund was able to repurchase up to a total of 5,000,000 units for cancellation through the facilities of the Toronto Stock Exchange during the 12 month period starting March 30, 2007.

(iii) During the three-month period ended March 31, 2008, the Fund repurchased and cancelled 130,000 units for a total consideration of \$729, of which \$414 was recorded as a reduction to the carrying value of the Fund units. The remaining \$315 of the excess of the repurchase price over the Fund's average value of the units was charged to deficit. The NCIB expired on March 31, 2008, and over the term of the NCIB, a total of 1,444,900 units were repurchased and cancelled.

(iv) In May 2008, the Fund's Trustees authorized a unit repurchase program through the NCIB. Pursuant to the NCIB, the Fund was able to repurchase up to a total of 4,385,654 units for cancellation through the facilities of the Toronto Stock Exchange during the 12 month period from May 23, 2008, at prevailing market prices.

(v) During the year ended December 31, 2008, the Fund repurchased and cancelled 1,760,840 units under this program for a total consideration of \$8,356, of which \$5,607 was recorded as a reduction to the carrying value of the Fund units and \$22 was charged to contributed surplus. The remaining \$2,727 was charged to deficit.

(C) LONG-TERM INCENTIVE PLAN:

The officers and certain other employees of the Fund are eligible to participate in the Fund's Long Term Incentive Plan (the LTIP) as recommended by the Compensation Committee of the Fund and approved by the Trustees of the Fund.

The aggregate number of units that may be issued from treasury under the LTIP is limited to 4,000,000, subject to certain adjustments.

The LTIP provides that the aggregate number of units reserved for issuance from treasury under the LTIP and any other unit compensation arrangement of the Fund:

- (i) shall not exceed 10% of the aggregate number of units outstanding on the date of grant; and
- (ii) to any participant, shall not exceed 5% of the aggregate number of units outstanding on the date of grant.

At the date that participation units are granted, one-third vest immediately, another third vests on the first anniversary of the grant and the final third vests on the second anniversary.

As of December 31, 2009, no participation units were outstanding from the 69,829 participation units that were issued under the LTIP (2008 - 16,503). The value of one participation unit under the LTIP is equal to the value of one unit of the Fund.

(D) DEFERRED UNIT PLAN:

In 2006, the Fund implemented a deferred unit compensation plan (the Deferred Unit Plan) for the grant of deferred trust units (Deferred Units) to non-management Trustees of the Fund and non-management directors of Cinram.

Pursuant to the Deferred Unit Plan, non-management Trustees and non-management directors of Cinram are required to have all of their fees paid in deferred units. A number of Deferred Units will be allocated to the eligible participant in lieu of cash payment of remuneration based on the market value of the units at the time of the allocation.

Additional Deferred Units are granted to eligible participants holding Deferred Units based on cash distributions paid by the Fund on the Units (and calculated using the market price of a unit on the date the distribution is paid).

The Deferred Unit Plan provides that once an eligible participant ceases to be a trustee of the Fund and/or a director, officer or employee of Cinram (and of their respective subsidiaries), they will be entitled to receive the number of units equal to the fair market value of the number of Deferred Units held at the time of retirement (net of any applicable withholding taxes).

The aggregate number of units that may be issued from treasury under the Deferred Unit Plan is limited to a floating maximum equal to 2% of the total number of units outstanding from time to time.

During the year ended December 31, 2009, the Fund recorded net compensation expense of \$816 (2008 – \$175), with an offsetting credit to contributed surplus when 268,846 (2008 – 115,119) Deferred Units were issued under the Deferred Unit Plan.

During the year ended December 31, 2009, no Deferred Units were redeemed for units of the Fund under the terms of the Plan (2008 – 28,000 Deferred Units at a value of \$153).

11. BASIC AND DILUTED EARNINGS (LOSS) PER UNIT/LIMITED PARTNERSHIP UNIT:

Basic and diluted loss per unit have been calculated using the weighted average and maximum dilutive number of units outstanding during the year.

The following table sets forth the computation of basic and diluted loss per unit/limited partnership unit:

	'09	'08
Numerator:		
Earnings (loss) from continuing operations	\$ (5,768)	\$ 21,417
Loss from discontinued operations	(16,260)	(52,946)
Loss for the year	\$ (22,028)	\$ (31,529)
Denominator (in thousands):		
Weighted average units outstanding – basic	54,785	56,445
Effect of dilutive securities:		
Weighted average Deferred Units	-	65
Weighted average units outstanding – diluted	54,785	56,510
'09		
Earnings (loss) per unit from continuing operations:		
Basic	\$ (0.11)	\$ 0.38
Diluted	(0.11)	0.38
Loss per unit from discontinued operations:		
Basic	\$ (0.30)	\$ (0.94)
Diluted	(0.30)	(0.94)
Loss per unit:		
Basic	\$ (0.40)	\$ (0.56)
Diluted	(0.40)	(0.56)

During the year ended December 31, 2009, there were 807,682 (2008 – 64,613) weighted average outstanding Deferred Units and units associated with outstanding employee unit purchase loans excluded from the computation of diluted loss per unit as they were anti-dilutive.

12. ACCUMULATED OTHER COMPREHENSIVE INCOME:

	'09	'08
Foreign currency translation adjustment account:		
Balance, beginning of year	\$ 123,670	\$ 134,020
Change in foreign currency translation account	(8,267)	(11,553)
Partial release of foreign currency account to net earnings (notes 14(b) and 24(b))	-	1,203
Balance, end of year	115,403	123,670
Unrealized net loss of cash flow hedges:		
Balance, beginning of year	(24,555)	(22,054)
Net unrealized gain (loss) on derivatives designed as cash flow hedges	1,067	(2,501)
Release of other comprehensive income due to de-designated hedge (note 14)	3,840	-
Balance, end of year	(19,648)	(24,555)
Accumulated other comprehensive income	\$ 95,755	\$ 99,115

The net tax effect on the items in accumulated other comprehensive income is nil (2008 – nil) because the net future income tax asset was reduced by a valuation allowance.

It is estimated that, over the next 12 month period, \$14,306 will be released from accumulated other comprehensive income to the consolidated statements of earnings related to the settlement of the interest rate swap.

13. OTHER CHARGES (INCOME), NET:

	'09	'08
Facility restructuring (a)	\$ 4,229	\$ -
Gain on sale of property, plant and equipment (b)	(1,746)	(2,148)
	\$ 2,483	\$ (2,148)

(a) Facility restructuring charges:

In March 2009, the Fund finalized a plan to close its CD replication facility in Richmond, Indiana and relocate part of the operations to the Olyphant, Pennsylvania facility. Also in March 2009, the Fund finalized a plan to close its Simi Valley, California distribution facility and relocate the operations to Nashville, Tennessee and Aurora, Illinois. During the year, costs of \$3,713, related to severance, facility decommissioning and lease termination, were recorded as other charges. At December 31, 2009, \$286 remained unpaid. This amount was recorded in accrued liabilities and is expected to be paid out in 2010.

In March 2009, the Fund finalized its plans to close the Swindon, U.K., distribution facility that was acquired as part of the acquisition of the U.K. assets of ODS Business Services in June 2008. During the year, costs of \$516 related to severance were recorded as other charges. At December 31, 2009, \$54 remained unpaid. This amount was recorded in accrued liabilities and is expected to be paid out in 2010.

During 2006, management shut down the CD operations at its manufacturing facility located in Louviers, France, resulting in contractual severance, employee-related costs and other costs totalling \$7,275. At December 31, 2009, \$297 remained unpaid. This amount was recorded in accrued liabilities and is expected to be paid out in 2010.

(b) Gain on sale of property, plant and equipment:

In January 2009, the Fund completed a sale-leaseback transaction of its facility in Aurora, Illinois for net cash proceeds of \$22,957. An immediate gain of \$1,746 was recorded to other charges on the transaction. A further gain of \$9,548 has been deferred and will be amortized over the minimum lease term of five years. For the year ended December 31, 2009, \$1,751 (2008 – nil) of the deferred gain has been amortized with the credit recorded to cost of goods sold.

In November 2008, the Fund completed a sale-leaseback transaction of one of its facilities in Toronto, Canada, for net cash proceeds of \$10,486. An immediate gain of \$2,148 was recorded to other charges on the transaction. A further gain of \$4,200 has been deferred and will be amortized over the minimum lease term of five years. For the year ended December 31, 2009, \$911 (2008 – \$138) of the deferred gain has been amortized with the credit recorded to cost of goods sold.

14. OTHER INTEREST AND FINANCING CHARGES:

	'09		'08	
Capital lease interest	\$	359	\$	662
Partial release of cumulative translation adjustment		-		536
Release of other comprehensive income due to de-designation of hedge (a)		3,840		-
Hedge ineffectiveness of U.S. dollar-denominated debt		124		1,590
Mark-to-market adjustment of derivative liability (b)		(419)		-
Other		2,223		583
	\$	6,127	\$	3,371

(a) On December 15, 2009, the Fund ceased to account for the interest rate swap as a hedge, as a result of the significant repurchases and repayments of debt during 2009 and the anticipated repayments until maturity. As a result of the discontinuation of hedge accounting, a release of accumulated other comprehensive income of \$3,840 was recorded. The balance of accumulated other comprehensive income at December 31, 2009 of \$19,648 will be amortized on a straight-line basis to interest expense from January 1, 2010 to the maturity of the related debt in May 2011.

(b) As a result of ceasing to account for the interest rate swap as an effective hedge on December 15, 2009, the Fund is required to record the derivative liability at its fair value through the consolidated statement of earnings. Therefore, a mark-to-market gain of \$419 was recorded in 2009.

15. INCOME TAXES:

Income tax expense varies from the amounts that would be computed by applying the statutory income tax rate to earnings (loss) from continuing operations before income taxes as follows:

	'09		'08		
Basic rate applied to pre-tax loss from continuing operations	\$	(6,079)	33.0 %	\$ 11,266	33.5 %
Increase (decrease) in taxes resulting from:					
Changes in valuation allowance		7,016	(38.1)%	48,270	143.5 %
Tax rates in other jurisdictions		(41,220)	223.8 %	(40,438)	(120.2)%
Change in Canadian tax rate		5,604	(30.4)%	-	-
Other items		12,575	(68.3)%	11,056	32.9 %
Permanent differences due to cumulative translation adjustments		9,450	(51.3)%	(17,941)	(53.4)%
	\$	(12,654)	68.7 %	\$ 12,213	36.3 %

Notes to the Consolidated Financial Statements

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2009 and 2008 are presented below:

	'09	'08
Future tax assets:		
Non-capital income tax loss carryforwards	\$ 112,229	\$ 82,757
Accruals not deductible in the current period	17,973	19,214
Property, plant and equipment – difference in net book value and undepreciated capital costs	11,921	2,674
Goodwill and intangible assets	141,910	129,873
Other	4,026	12,972
	288,059	247,490
Less valuation allowance	266,968	239,319
	21,091	8,171
Future tax liabilities:		
Property, plant and equipment – difference in net book value and undepreciated capital costs	-	(60)
Goodwill and intangible assets	(3,352)	(6,541)
Deferred gain on debt repurchase	(12,642)	-
Other	(5,728)	(4,951)
	(21,722)	(11,552)
Net future tax liabilities	\$ (631)	\$ (3,381)
Reconciliation of future income taxes:		
Current future income tax assets	\$ 6,007	\$ 1,827
Long-term future income tax liabilities	(6,638)	(5,208)
Net future tax liabilities	\$ (631)	\$ (3,381)

In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the years in which the temporary differences are deductible. Management considers the scheduled reversals of future income tax liabilities, the character of the income tax assets and the tax planning strategies in place in making this assessment. To the extent that management believes that the realization of future income tax assets does not meet the more likely than not realization criterion, a valuation allowance is recorded against the future tax assets.

The Fund believes that it has adequately provided for income taxes based on all of the information that is currently available. The calculation of income taxes in many cases, however, requires significant judgment in interpreting tax rules and regulations. The Fund's tax filings are subject to audits which could materially change the amount of current and future income tax assets and liabilities, and could, in certain circumstances, result in the assessment of interest and penalties.

At December 31, 2009, the Fund has non-capital loss carryforwards of \$93,182 in Europe. A valuation allowance has been established in relation to these losses as it is not more likely than not that the Fund will be able to utilize these losses in the future.

The non-capital losses in Europe expiring in the years ending December 31 are as follows:

2011	\$ 211
2012	1,604
2013	2,843
2014	5,033
2015	2,731
2016 and thereafter	80,760
	\$ 93,182

At December 31, 2009, the Fund has non-capital loss carryforwards of \$166,551 in the U.S., which will expire in 2028. A valuation allowance has been established in relation to these losses as it is not more likely than not that the Fund will be able to utilize these losses in the future.

The Fund has non-capital loss carryforwards in Canada of \$77,594, of which \$15,938 will expire in 2015 and \$61,656 will expire in and after 2026. A valuation allowance has been recorded in respect of these losses as it is not more likely than not that the Fund will be able to utilize these losses in the future.

At December 31, 2009, the Fund has non-capital loss carryforwards of \$631 in Mexico, which will expire in 2016. A valuation allowance has been established in relation to these losses as it is not more likely than not that the Fund will be able to utilize these losses in the future.

16. CONTINGENT LIABILITIES AND GUARANTEES:

In the normal course of operations, the Fund becomes involved in various legal actions and other claims mostly related to labour issues, potential royalty obligations and contractual disputes. While the final outcome with respect to actions outstanding or pending as at December 31, 2009 cannot be predicted with certainty, it is management's opinion that their resolution will not have a material adverse effect on the Fund's financial position, results of operations or cash flows.

Royalty charges are incurred as a result of the use of third party replication technologies. The royalty charge is recorded as cost of goods sold at the time of shipment. The royalty rates are specified on a per unit basis and based on contractual terms and conditions or management's best estimates in situations where formal license agreements are not in place. These estimates are reviewed periodically and, as adjustments become necessary, they are made in the period in which they become known. A significant change in the royalty rates used could have a material impact on cost of goods sold, the provision for royalties and net earnings (loss). During 2008, the Fund recorded a credit of \$65,713 in cost of goods sold, of which \$15,156 related to a patent settlement reached in August 2008, and \$50,557 related to a change in estimate during the fourth quarter of 2008 as a result of invalid patent claims. No such credits were recorded in 2009.

In the normal course of business, the Fund has entered into agreements that contain features that meet the definition of a guarantee under GAAP. These include business sale and business combination agreements, sales of products and services, purchases and development of property, plant and equipment, and indemnifications.

The Fund is unable to make a reasonable estimate of the maximum potential amount it would be required to pay counterparties. The amount also depends on the outcome of future events and conditions, which cannot be predicted. No amount has been accrued in the consolidated balance sheets relating to these types of indemnifications or guarantees at December 31, 2009 or 2008. Historically, the Fund has not made any significant payments under these indemnifications or guarantees.

17. RELATED PARTY TRANSACTIONS:

The Fund entered into the following related party transactions:

In 2009, a total of \$1,065 (2008 – \$1,489) was paid to a law firm in which the Senior Vice President and General Counsel of the Fund was a former partner. The Senior Vice President and General Counsel of the Fund remained a partner in this law firm until January 31, 2008 and is currently of counsel to the firm. The Fund has been advised that the Senior Vice President and General Counsel received no credit or compensation with respect to the amounts paid by the Fund to the firm since the Senior Vice President and General Counsel's commencement date.

These transactions were recorded at the exchange amount, being the amount agreed to by the related parties.

18. PENSION AND NON-PENSION EMPLOYMENT BENEFIT PLANS:**(A) DEFINED BENEFIT PLANS:****U.S.:****(i) Cinram Music Union Pension Plan:**

Certain union employees of the Fund participate in the Cinram Music Union Pension Plan (the Music Union Plan). Pension benefits under the Music Union Plan are based on formulas that reflect the employee's years of service multiplied by a specified dollar amount negotiated in collective bargaining.

The Fund's Music Union Plan pension expense amounted to \$207 for the year ended December 31, 2009 (2008 – \$1,651).

(a) Investment strategy and policy:

The Fund has adopted a balanced growth objective, which balances risk and return. Under this investment strategy, the Fund's long-term allocation for equity and debt securities is 65% and 35%, respectively.

(b) Asset allocation:

Pension fund assets consist of fixed income and equity mutual funds, valued at market value. The percentages of the fair value of total plan assets by each major type of plan asset as of the December 31 measurement date are as follows:

Asset category	Percentage of plan assets	
	'09	'08
Debt securities	59.5%	59.5%
Equity securities	40.5%	40.5%
	100.0%	100.0%

Equity securities do not include any of the Fund's units as at December 31, 2009 and 2008, respectively.

Long-term historical returns for indexed equity and debt securities are used as the basis to determine the overall expected long-term rate of return on assets assumption for the mutual fund investments held in the Music Union Plan. The weighted average historical return on equity and debt securities is 8%.

Cash contributions of \$181 are expected to be made in fiscal 2010.

(c) Estimated future benefit payments:

The benefits expected to be paid in each year from 2010 to 2014 are \$60, \$61, \$77, \$82 and \$91, respectively. The aggregate benefits expected to be paid in the five years from 2015 to 2019 are \$810. The expected benefits to be paid are based on the same assumptions used to measure the Fund's benefit obligation at December 31, 2009 and include estimated future employee service.

The most recent actuarial valuation was completed in December 2009 and the next valuation will be completed before the end of 2010.

GERMANY:**(i) Cinram GmbH, Alsdorf defined benefit plan:**

The Fund's defined benefit pension plan covers certain existing and former employees who have signed specific agreements related to pension benefits, including members of senior and middle management. The pension contributions are based on German tax law requirements and, therefore, the plan remains unfunded.

(a) Estimated future benefit payments:

The benefits expected to be paid in each year from 2010 to 2014 are \$1,224, \$1,201, \$1,179, \$1,155 and \$1,138, respectively. The aggregate benefits expected to be paid in the five years from 2015 to 2019 are \$5,799.

The most recent actuarial valuation was completed in December 2009, and the next valuation will be completed before the end of 2010.

FUNDED STATUS:

A reconciliation of the funded status of the defined benefit plans to the amounts recorded in the consolidated financial statements follows:

	U.S.		Germany		Total	
	'09	'08	'09	'08	'09	'08
Plan assets, at fair value	\$ 3,143	\$ 82	\$ -	\$ -	\$ 3,143	\$ 82
Accrued benefit obligations	(3,774)	(3,887)	(19,049)	(17,397)	(22,823)	(21,284)
Deficiency of plan assets over benefit obligation	(631)	(3,805)	(19,049)	(17,397)	(19,680)	(21,202)
Unamortized past service cost	88	100	543	601	631	701
Unamortized actuarial loss (gain)	1,354	2,214	(254)	(1,383)	1,100	831
Accrued benefit asset (liability)	\$ 811	\$ (1,491)	\$ (18,760)	\$ (18,179)	\$ (17,949)	\$ (19,670)

The assets and liabilities are included in the Fund's consolidated balance sheets as follows:

	U.S.		Germany		Total	
	'09	'08	'09	'08	'09	'08
Prepaid expenses	\$ 811	\$ -	\$ -	\$ -	\$ 811	\$ -
Accrued liability	-	(1,491)	(1,231)	(690)	(1,231)	(2,181)
Other long-term liabilities	-	-	(17,529)	(17,489)	(17,529)	(17,489)

The following information is provided on pension fund assets:

	U.S.		Germany		Total	
	'09	'08	'09	'08	'09	'08
Fair value of plan assets, beginning of year	\$ 82	\$ 1,463	\$ -	\$ -	\$ 82	\$ 1,463
Actual return on plan assets	644	(633)	-	-	644	(633)
Employer contributions	2,508	1,521	-	-	2,508	1,521
Settlements	-	(2,224)	-	-	-	(2,224)
Actual benefits paid	(91)	(45)	-	-	(91)	(45)
Fair value of plan assets, end of year	\$ 3,143	\$ 82	\$ -	\$ -	\$ 3,143	\$ 82

Benefit obligations are outlined below:

	U.S.		Germany		Total	
	'09	'08	'09	'08	'09	'08
Benefit obligations, beginning of year	\$ 3,887	\$ 4,334	\$ 17,397	\$ 19,390	\$ 21,284	\$ 23,724
Current service cost	-	-	261	236	261	236
Interest cost	232	307	989	936	1,221	1,243
Actual benefits paid	(91)	(45)	(1,200)	(1,224)	(1,291)	(1,269)
Actuarial loss (gain)	(254)	1,515	1,134	(1,001)	880	514
Impact of foreign exchange	-	-	468	(940)	468	(940)
Settlements	-	(2,224)	-	-	-	(2,224)
Benefit obligations, end of year	\$ 3,774	\$ 3,887	\$ 19,049	\$ 17,397	\$ 22,823	\$ 21,284

Notes to the Consolidated Financial Statements

Elements of defined benefit costs recognized in the year:

	U.S.		Germany		Total	
	'09	'08	'09	'08	'09	'08
Components of net periodic benefit cost:						
Current service cost	\$ -	\$ -	\$ 261	\$ 236	\$ 261	\$ 236
Interest cost	232	307	989	936	1,221	1,243
Actual return on plan assets	(644)	633	-	-	(644)	633
Actuarial loss (gain)	(254)	1,515	1,134	(1,001)	880	514
Amortization of past service costs	-	-	71	71	71	71
Curtailement loss	-	95	-	-	-	95
Settlement loss	-	1,267	-	-	-	1,267
Costs	(666)	3,817	2,455	242	1,789	4,059
Adjustments to recognize the long-term nature of employee future benefit costs:						
Difference between expected return and actual return on plan assets for year	448	(788)	-	-	448	(788)
Difference between actuarial loss (gain) recognized for the year and actual actuarial loss (gain) on accrued benefit obligation for the year	413	(1,400)	(1,134)	1,001	(721)	(399)
Amortization of past service cost	12	22	-	-	12	22
Defined benefit costs recognized	\$ 207	\$ 1,651	\$ 1,321	\$ 1,243	\$ 1,528	\$ 2,894

Actuarial assumptions for the years ended December 31:

	U.S.		Germany	
	'09	'08	'09	'08
Weighted average actuarial assumptions used to determine benefit costs:				
Discount rate	5.95%	6.38%	5.00%	5.90%
Rate of compensation increase	-	-	3.00%	3.00%
Expected return on plan assets	8.00%	8.00%	-	-
Weighted average actuarial assumptions used to determine benefit obligation:				
Discount rate	6.04%	5.95%	5.00%	5.90%

(B) MULTI-EMPLOYER PLANS:

U.S.:

Responsibility for the multi-employer plans was transferred as part of the sale of the assets and liabilities of Ivy Hill in 2009 (note 24).

(i) Graphic Communication Industry Union (GCIU) Pension:

The GCIU Retirement Fund is a multi-employer plan covering direct labour employees in certain printing facilities of the Fund. The rate of contribution expense for this plan is 6% of the straight-time wages. In 2008, the Fund incurred a withdrawal liability of \$1,400 due to the closure of the Ivy Hill Vernon facility. This balance is recorded in accrued liabilities at December 31, 2009.

The Fund's GCIU pension expense, included in loss from discontinued operations, amounted to \$316 for the year ended December 31, 2009 (2008 - \$2,061).

(ii) PACE U.S. Pension:

The PACE (Paper, Allied-Industrial, Chemical and Energy Workers International Union) U.S. Pension (PACE plan) is a multi-employer plan covering a portion of the direct labour in one of the Fund's printing plant facilities. The rate of contribution was \$1.167/hour based on total hours worked, including vacation and holiday for fiscal 2009 (2008 – \$1.167/hour).

The Fund's PACE pension expense, included in loss from discontinued operations, amounted to \$105 for the year ended December 31, 2009 (2008 – \$413).

(C) DEFINED CONTRIBUTION AND OTHER PLANS:**CANADA:****Registered Savings Plan (RSP):**

Certain employees participate in the defined pre-tax contribution plan (the RSP). The Fund's contributions under the RSP are based upon a percentage of the employee's elected contributions. In 2009, the Fund suspended the RSP matching benefit. The Fund's RSP expense amounted to \$205 for the year ended December 31, 2009 (2008 – \$1,378).

U.S.:**401(k) Plan:**

Certain non-union employees participate in a defined pre-tax contribution plan (the 401(k) Plan). The Fund's contributions under the 401(k) Plan are based upon a percentage of the employee's elected contributions. In 2009, the Fund suspended the 401(k) matching benefit. The Fund's 401(k) Plan expense amounted to \$260 for the year ended December 31, 2009 (2008 – \$2,249).

UNITED KINGDOM:**Defined contribution plans:**

Certain employees participate in several defined pre-tax contribution plans through the Fund's facilities in the United Kingdom. The Fund's contributions are based on a percentage of the employee's elected contributions. The Fund's expense amounted to \$1,082 for the year ended December 31, 2009 (2008 – \$1,149).

GERMANY:**(i) Early retirement plan:**

The Fund has an early retirement agreement with its employee works council as part of a labour contract, whereby eligible employees are able to receive certain benefits during a period of reduced work prior to attaining standard retirement age and German state pension benefits. A liability of approximately \$3,543 has been recorded as at December 31, 2009 (2008 – \$3,113).

The Fund's early retirement pension expense amounted to \$686 for the year ended December 31, 2009 (2008 – \$981).

(ii) Jubilee plan:

The Fund also has an agreement with its employee works council as part of a labour contract, whereby employees receive years of service awards upon reaching their 10 and 25 year service anniversaries. Employment and income taxes associated with this award are paid by the Fund and a total liability of approximately \$421 has been recorded as at December 31, 2009 (2008 – \$372).

The Fund's Jubilee pension expense amounted to \$70 for the year ended December 31, 2009 (2008 – \$8).

The most recent actuarial valuation was completed in December 2009, and the next valuation will be completed before the end of 2010.

FRANCE:**Retirement benefit plan:**

The Fund has a retirement benefit plan, whereby eligible employees are able to receive a certain lump sum benefit if they attain the statutory retirement age while still employed by the Fund. A liability of approximately \$1,400 has been recorded as at December 31, 2009 (2008 – \$1,696).

The Fund's retirement benefit expense amounted to \$66 for the year ended December 31, 2009 (2008 – \$123).

The most recent valuation was completed in December 2009, and the next valuation will be completed before the end of 2010.

19. CHANGE IN NON-CASH OPERATING WORKING CAPITAL:

	'09	'08
Decrease in accounts receivable	\$ 222,373	\$ 66,162
Decrease (increase) in income taxes receivable	(937)	17,891
Decrease (increase) in inventories	17,036	(9,597)
Decrease in prepaid expenses	6,084	9,945
Decrease in accounts payable and accrued liabilities	(119,950)	(131,581)
Increase in income taxes payable	8,617	2,138
	\$ 133,223	\$ (45,042)

20. SEGMENTED INFORMATION:

The Fund's reportable business segments are Home Video, CD, Video Games and Other.

The Home Video segment manufactures and distributes DVDs and high-definition discs. The CD segment manufactures and distributes CDs and CD ROMs. The Video Games segment includes results from Ditan. The Other segment includes the wireless division, vendor-managed inventory services provided by Vision, as well as other non-core activities.

The accounting policies of the segments are the same as those described in the significant accounting policies. The Fund evaluates segment performance based on earnings (loss) before interest expense, foreign exchange translation gains/losses, investment income, gain on repurchase of debt, impairment charges, amortization, other charges and income taxes (EBITA).

(A) INDUSTRY SEGMENTS:

'09	Home Video	CD*	Video Games	Other	Total
Revenue from external customers	\$ 1,133,596	\$ 166,074	\$ 91,608	\$ 72,287	\$ 1,463,565
EBITA	168,016	(8,202)	10,104	13,953	183,871
Goodwill	-	-	40,634	-	40,634
Total assets	566,623	80,294	84,524	53,259	784,700
Amortization of property, plant and equipment	73,675	2,288	5,462	5,216	86,641
Amortization of intangible assets	36,304	-	4,369	792	41,465
Capital expenditures	40,732	-	215	1,232	42,179

'08	Home Video	CD	Video Games	Other	Total
Revenue from external customers	\$ 1,271,146	\$ 221,656	\$ 126,561	\$ 109,174	\$ 1,728,537
EBITA	224,810	4,702	18,237	9,411	257,160
Goodwill	13,485	2,968	42,813	5,471	64,737
Total assets	822,110	123,824	79,865	165,437	1,191,236
Amortization of property, plant and equipment	87,906	4,569	4,725	4,220	101,420
Amortization of intangible assets	36,908	-	4,426	793	42,127
Capital expenditures	50,031	487	1,321	16,302	68,141

*Negative EBITA in 2009 includes severance charges associated with certain executive employees and costs arising from the closure of a facility in Richmond, Indiana.

(B) GEOGRAPHIC SEGMENTS:**'09**

	U.S.	Canada	Europe	Other	Total
Revenue from external customers	\$ 728,813	\$ 96,902	\$ 627,316	\$ 10,534	\$ 1,463,565
Property, plant and equipment, goodwill and intangible assets	176,500	8,468	117,856	31	302,855

'08

	U.S.	Canada	Europe	Other	Total
Revenue from external customers	\$ 923,642	\$ 106,738	\$ 683,973	\$ 14,184	\$ 1,728,537
Property, plant and equipment, goodwill and intangible assets	348,420	7,366	165,178	–	520,964

(C) CUSTOMER CONCENTRATION:

In 2009, the Fund was dependent on three customers that accounted for approximately 32%, 23% and 11%, respectively, of consolidated revenue. At December 31, 2009, these customers represented approximately 23%, 25% and 10%, respectively, of consolidated accounts receivable. In 2008, the Fund was dependent on two customers that accounted for approximately 30% and 18%, respectively, of consolidated revenue. At December 31, 2008, these customers represented approximately 30% and 27%, respectively, of consolidated accounts receivable.

On January 29, 2010, WHV exercised its option to terminate various replication, distribution and print service agreements effective July 31, 2010.

21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS:**(A) OVERVIEW:**

The Fund is exposed to credit risk, liquidity risk and market risk. The Fund's primary risk management objective is to protect earnings, cash flows and unitholder value. Risk management strategies, as discussed below, are designed and implemented to ensure that the Fund's risks and the related exposures are consistent with its business objectives and risk tolerance.

The Board of Trustees has primary accountability for the establishment and oversight of the Fund's financial risk management framework, and the Trustees delegate senior management with the responsibility for appropriate execution of related strategies. Within the Fund's risk management framework and debt covenant requirements, senior management evaluates a variety of alternatives and financial products to augment the risk management process. The Board of Trustees reviews and approves all material transactions.

The Fund's risk management and treasury policies are intended to: establish acceptable risk boundaries and observe covenants; analyze and identify the risks and opportunities encountered by the Fund; monitor and manage the risk exposures due to market changes; and, maintain adherence to controls. These policies are reviewed periodically and adjusted accordingly based on the Fund's activities and market conditions.

Senior management's risk and covenant compliance is monitored by the Fund's Audit Committee which, with the assistance of the internal audit department, oversees the appropriateness and adequacy of the risk management framework as it relates to the risks faced by the Fund.

(B) CREDIT RISK:

Credit risk is a risk of financial loss arising from an unfulfilled contractual obligation due to the Fund by a customer or counterparty to a financial instrument. The carrying amount of financial assets represents the maximum credit exposure.

Notes to the Consolidated Financial Statements

(i) Accounts receivable:

The Fund's exposure to credit risk is subject to the concentration of its key customers. The Fund's three largest receivable balances due from its customers represent 58% of consolidated accounts receivable at December 31, 2009. For 2008, the two largest customers represented 57% of consolidated accounts receivable. These customers have been transacting with the Fund for many years without any significant occurrence of losses to the Fund. The Fund believes that the credit risk is limited due to the financial stability of its larger customers and the long-standing relationships the Fund has with these customers.

The maximum exposure to credit risk for accounts receivable from the three largest customers is as follows:

	'09	'08
Customer A	\$ 69,482	\$ 147,087
Customer B	63,588	131,651
Customer C	27,178	43,701

The maximum exposure to credit risk for accounts receivable by geographic region is as follows:

	'09	'08
Canada	\$ 22,363	\$ 29,749
U.S.	97,695	239,344
Europe	149,521	222,111
Other	3,664	4,400

The Fund does not require collateral in respect of accounts receivable given the long-term relationship with these customers.

The Fund records an allowance for doubtful accounts related to accounts receivable that are considered to be non-collectible. The allowance is based on the Fund's knowledge of the financial condition of its customers, the aging of the receivables, current business environment, customer and industry concentrations, and historical experience.

The Fund has established various internal controls, such as credit checks, designed to mitigate credit risk and has also established procedures to suspend services when customers have fully utilized credit limits or have violated established payment terms. While management believes that the Fund's credit controls and processes have been effective in mitigating credit risk, these controls cannot eliminate credit risk and there can be no assurance that these controls will continue to be effective or that the Fund's current credit loss experience will continue.

Total accounts receivable as at December 31, 2009 amounted to \$273,243 (2008 - \$495,604), net of an allowance for doubtful accounts totalling \$4,149 (2008 - \$7,339), which management believes adequately reflects the Fund's credit risk. Of the reported accounts receivable, 11% (2008 - 17%) is determined to be past due, which is defined as amounts outstanding beyond normal credit terms and conditions for the respective customers.

The aging of trade receivable balance as at December 31, 2009 was as follows:

	Accounts receivable	Allowance for doubtful accounts
Current	\$ 243,073	\$ -
Past due 0 – 30 days	24,083	-
Past due 30 – 60 days	4,087	-
Past due 60 – 90 days	2,377	(377)
Past due 90 – 120 days	1,208	(1,208)
Past due 120 – 180 days	-	-
Past due over 180 days	2,564	(2,564)
	277,392	(4,149)
Less allowance for doubtful accounts	4,149	-
	\$ 273,243	\$ (4,149)

The aging of trade receivable balance as at December 31, 2008 was as follows:

	Accounts receivable	Allowance for doubtful accounts
Current	\$ 412,847	\$ -
Past due 0 – 30 days	55,919	-
Past due 30 – 60 days	12,148	-
Past due 60 – 90 days	6,460	-
Past due 90 – 120 days	4,311	-
Past due 120 – 180 days	5,751	(1,832)
Past due over 180 days	5,507	(5,507)
	502,943	(7,339)
Less allowance for doubtful accounts	7,339	-
	\$ 495,604	\$ (7,339)

The change in the allowance for doubtful accounts receivable during the year ended December 31, 2009 was a decrease of \$3,190 (2008 – \$4,611).

(ii) Derivatives:

The Fund limits its exposure to credit risk related to derivatives by transacting with counterparties that are stable and of high credit quality.

(C) LIQUIDITY RISK:

Liquidity risk is the risk that the Fund will be unable to meet its financial obligations as they come due. The Fund manages its liquidity risk by managing its capital structure, as outlined in note 22 below, including forecasting cash flows and closely monitoring covenant levels and compliance. These are complemented with regular reviews of operations, business conditions and seasonality to ensure that adequate future liquidity needs are met with a level of certainty, and within acceptable risk exposure.

The Fund's objective is to ensure that it has sufficient available cash on hand to meet normalized operating expenses. In addition, the Fund maintains revolving lines of credit of \$100,000 (2008 – \$150,000) that provide additional flexibility and liquidity during the Fund's seasonal periods. At December 31, 2009, no amounts had been drawn on these revolving credit facilities, except for letters of credit issued for a total of \$14,450.

Notes to the Consolidated Financial Statements

The following are the contractual maturities of financial liabilities, including interest payments as at December 31, 2009:

	Carrying amount	Contractual cash flows	< 1 year	1 – 2 years	2 – 5 years
Non-derivative financial liabilities:					
Accounts payable and accrued liabilities	\$ 317,138	\$ (317,138)	\$ (317,138)	\$ –	\$ –
Obligations under capital leases	4,065	(4,424)	(1,930)	(1,274)	(1,220)
Long-term debt (note 8)	395,364	(395,364)	(28,624)	(366,740)	–
Interest on long-term debt	1,775	(16,310)	(9,982)	(6,328)	–
Derivative financial liabilities:					
Derivative instruments and related accrued interest of \$3,369 (net)	25,225	(32,102)	(20,510)	(11,592)	–
	\$ 743,567	\$ (765,338)	\$ (378,184)	\$ (385,934)	\$ (1,220)

The following are the contractual maturities of financial liabilities, including interest payments as at December 31, 2008:

	Carrying amount	Contractual cash flows	< 1 year	1 – 2 years	2 – 5 years
Non-derivative financial liabilities:					
Accounts payable and accrued liabilities	\$ 451,587	\$ (451,587)	\$ (451,587)	\$ –	\$ –
Obligations under capital leases	7,020	(7,694)	(3,421)	(1,834)	(2,439)
Long-term debt (note 8)	647,125	(647,125)	(6,750)	(6,750)	(633,625)
Interest on long-term debt	4,827	(66,209)	(23,179)	(23,116)	(19,914)
Derivative financial liabilities:					
Derivative instruments and related accrued interest of \$1,656 (net)	26,586	(42,405)	(15,937)	(16,148)	(10,320)
	\$ 1,137,145	\$ (1,215,020)	\$ (500,874)	\$ (47,848)	\$ (666,298)

Other long-term liabilities, as reported on the December 31, 2009 balance sheet, mainly consist of pension liabilities and are, therefore, excluded.

(D) MARKET RISK:

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices, such as foreign exchange rates and interest rates, and it will affect the Fund's income or the value of its holdings in financial instruments. The Fund's primary objective when committing to any financial instrument is to manage and control market risk within stipulated constraints. Derivative financial instruments are utilized to reduce the interest rate risk on the Fund's debt. The Fund does not enter into financial instruments for trading or speculative purposes.

(i) Currency risk:

The functional currency of the Fund is the Canadian dollar. The Fund's operations in the U.S., the United Kingdom, France, Germany, Spain and Mexico are considered to be self-sustaining. The Fund's operations in foreign markets expose it to the risk of foreign currency fluctuations. Potential exposure relates to currency risk on sales, purchases and term loans that are denominated in a currency other than the respective functional currency of the Fund's foreign and domestic operations. Currencies in which the Fund's foreign operations mainly transact include the Canadian dollar, U.S. dollar, Euro, British pound and Mexican peso.

Since the Fund's operations predominantly transact their sales and purchases in their respective domestic currencies, the exposure is reduced and, therefore, the Fund typically does not hedge accounts receivable and accounts payable that may be denominated in a foreign currency.

(ii) Exposure to currency risk:

The following is the Fund's exposure to foreign currency risk:

	Currency of exposure (in U.S. dollars)		
	U.S. dollar	Euro	Sterling pound
'09			
Cash and cash equivalents	3,876	6,492	31,589
Accounts receivable	6,768	309	11,822
Accounts payable and accrued liabilities	30,044	5,041	2,039
Long-term debt	141,051	-	-
Gross balance sheet exposure, excluding financial derivatives	181,739	11,842	45,450
Derivative instruments and related accrued interest of \$3,369	31,923	-	-
Net exposure	213,662	11,842	45,450
'08			
Cash and cash equivalents	1,349	2,188	246
Accounts receivable	11,055	691	34,756
Accounts payable and accrued liabilities	43,773	11,929	2,822
Long-term debt	251,275	-	-
Gross balance sheet exposure, excluding financial derivatives	307,452	14,808	37,824
Derivative instruments and related accrued interest of \$1,656	41,623	-	-
Net exposure	349,075	14,808	37,824

(iii) Sensitivity analysis:

A 10% increase in the U.S. currency at December 31, 2009 and 2008 would increase the loss and increase other comprehensive loss.

Alternatively, a 10% increase in the Euro decreased the loss in 2009 and increased the loss in 2008. A 10% increase in the Sterling pound would decrease the loss.

	(Increase) decrease in other comprehensive loss	(Increase) decrease in loss
	'09	
U.S. dollar	\$ (18,879)	\$ (2,495)
Euro	-	196
Sterling pound	-	4,597
'08		
U.S. dollar	\$ (29,988)	\$ (4,554)
Euro	-	(1,005)
Sterling pound	-	3,576

The above analysis assumes that all other variables, i.e., interest rates, remain constant.

An assumed 10% depreciation in the currency of exposure would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Notes to the Consolidated Financial Statements

(iv) Interest rate risk:

The amounts outstanding under the Fund's credit facility bear interest at variable rates with fixed interest rate spreads. To comply with the governing credit facility, the Fund hedged approximately 60% of the exposure to fluctuations in interest rates by entering into a \$400,000, pay-fix, receive-floating interest rate swap. While the initial transaction hedged approximately 60% of the initial amount borrowed under the credit facility, future increases in interest rates will not affect the amount of cash required to service the indebtedness associated with the swap.

Up to December 15, 2009, the Fund designated derivatives (interest rate swaps) as hedging instruments under the cash flow hedge accounting model. As at December 31, 2009, long-term debt outstanding totalled \$395,364 (2008 – \$647,125); therefore, leaving a nil balance (2008 – \$247,125) without a corresponding hedge and exposed to cash flow risk due to fluctuations in interest rates. An increase of 50 basis points in interest rates during the year ended December 31, 2009 would have decreased the reported net earnings by \$807. A decrease of 50 basis points in interest rates at the reporting date would have had an equal but opposite effect.

A change in interest rate will also affect the fair value of the swap. An increase of 50 basis points in interest rates as at the reporting date would have decreased the fair value of the swap liability by approximately \$3,666 and as a result of hedge de-designation it would increase net earnings by the same amount. A decrease of 50 basis points in interest rates as at the reporting date would have increased the fair value of the swap liability by approximately \$3,229 and decrease net earnings by an equal amount.

(v) Fair values versus carrying amounts:

At December 31, 2009 and 2008, the fair values of financial assets and liabilities, along with the carrying amounts presented in the balance sheet are as follows:

'09	Carrying amount	Fair value
Held for trading:		
Cash and cash equivalents	\$ 122,072	\$ 122,072
Loans and receivables:		
Accounts receivable	273,243	273,243
Derivative instruments, including accrued interest of \$3,369		
	(25,225)	(25,225)
Other financial liabilities:		
Capital lease obligations	(4,065)	(4,248)
Accounts payable and accrued liabilities	(317,138)	(317,138)
Long-term debt*	(395,364)	(347,919)
	\$ (346,477)	\$ (299,215)
<hr/>		
'08	Carrying amount	Fair value
Held for trading:		
Cash and cash equivalents	\$ 73,349	\$ 73,349
Loans and receivables:		
Accounts receivable	495,604	495,604
Derivative instruments, including accrued interest of \$1,656		
	(26,586)	(26,586)
Other financial liabilities:		
Capital lease obligations	(7,020)	(7,263)
Accounts payable and accrued liabilities	(451,587)	(451,587)
Long-term debt*	(647,125)	(368,861)
	\$ (563,365)	\$ (285,344)

*Long-term debt quoted at approximately 88% (2008 – 57%) per \$100 as at December 31, 2009.

(vi) Basis for determining fair value:

The Fund has determined the fair value of its financial instruments as follows:

(a) Current assets and liabilities:

The carrying amounts in the consolidated balance sheets of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair values because of the short-term nature of these financial instruments.

(b) Long-term debt and obligations under capital leases:

The fair values of each of the Fund's debt instruments are based on the period-end trading values.

The fair values of the Fund's obligations under capital leases are based on the amount of future cash flows associated with each instrument discounted using current year weighted average borrowing rates.

(c) Derivative instruments:

The fair value of the Fund's interest rate exchange agreement is based on the value quoted by the counterparty to the agreement and adjusted for respective credit spreads.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The table below presents the Level in the fair value hierarchy into which the fair values of financial instruments that are carried at fair value on the consolidated balance sheets are categorized:

	'09		'08	
	Level 1	Level 2	Level 1	Level 2
	Quoted market price	Valuation technique using observable market inputs	Quoted market price	Valuation technique using observable market inputs
Financial assets:				
Cash and cash equivalents	\$ 122,072	\$ -	\$ 73,349	\$ -
Financial liabilities:				
Derivatives	\$ -	\$ 25,225	\$ -	\$ 26,586

There were no financial instruments categorized in Level 3 (valuation technique using non-observable market inputs) as at December 31, 2009 and 2008.

There were no changes in categorization of financial assets and liabilities into the three Levels in the fair value hierarchy during the year.

22. CAPITAL RISK MANAGEMENT:

The Fund's objectives in managing capital are to optimize its weighted average cost of capital, and hence, maximize unitholders' value while balancing the interests of debt and unitholders.

Management's strategy of concentrating on the Fund's core business, while simultaneously diversifying into other businesses in which the Fund can leverage synergies and its core competencies, is considered concurrently with the use of capital. The Fund includes unitholders' equity, long-term debt (including any associated hedging activities), other interest bearing debt, such as the revolving line of credit, and cash and equivalents in its capital definition.

Continuous oversight and control of the capital structure is maintained by senior management and the Board of Trustees. Adjustments are made as a result of economic changes, opportunities and financial conditions by means of distributions paid to unitholders, repurchase of units for cancellation pursuant to NCIBs, accelerated repayment of long-term debt, and the issuance of new units and/or debt. The Board of Trustees reviews and approves any material transactions, including proposals on acquisitions or dispositions, as well as capital and operating budgets. As disclosed in note 8 to the consolidated financial statements, the Fund has repurchased debt under the amended credit facility, which was established during the first quarter of 2009.

The Fund uses several metrics to monitor capital, including: leverage, interest coverage and liquidity. All of the metrics are also components used to determine compliance with external debt covenants, which management monitors closely to assess current and future compliance. Leverage is defined under the credit agreement, which is described in note 8 to the consolidated financial statements, as total debt to EBITA, interest coverage is defined as EBITA to cash interest, and liquidity is determined based on cash on hand along with availability under the revolving credit agreement.

Notes to the Consolidated Financial Statements

The consequences of not meeting the credit agreement's covenants could result in default of the credit facility.

The Fund's capital structure changed significantly during 2009 as a result of debt reduction efforts. As disclosed in note 8 to the consolidated financial statements, the Fund repurchased a total of \$169,660 of debt under the amended credit facility during the year ended December 31, 2009 using cash and cash equivalents on hand. The Fund also made mandatory and voluntary debt repayments of \$82,100 during 2009. The Fund did not declare any amounts to unitholders during 2009, nor does it plan to make any distributions to its unitholders in the foreseeable future. The Fund's strategy for capital risk management has not changed during the year ended December 31, 2009. The Fund is not subject to any externally imposed capital requirements, other than as outlined in its credit agreement, which includes covenant compliance and required interest rate hedging arrangements.

23. SUBSEQUENT EVENTS:

(a) Sale of Simi Valley:

On January 20, 2010, the Fund completed the sale of its owned distribution centre in Simi Valley, California for proceeds of \$14,000 less transaction costs, resulting in a gain of \$7,497. This gain will be recorded during the first quarter of 2010.

(b) WHV termination notice:

On February 1, 2010, the Fund announced that it received written notice from WHV that WHV was exercising its option to terminate its service agreements on July 31, 2010, five months prior to the scheduled termination date of the contract. The notice covers all Cinram entities globally and will directly impact operations in North America, Mexico, U.K., France, Germany and Spain. WHV revenue for 2009 represented approximately 32% of the total consolidated revenue of the Fund.

24. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE:

(A) IVY HILL CORPORATION:

On April 9, 2009, the Fund completed the sale of substantially all of the assets and liabilities of Ivy Hill, to Multi Packaging Solutions, Inc. (MPS) for net cash proceeds of \$14,001, subject to working capital adjustments pursuant to the Asset Purchase Agreement. During the 2009 third quarter, the Fund recorded a working capital adjustment of \$2,779, which resulted in a reduction in net cash proceeds from the sale to \$11,222. Ivy Hill's results, which comprised all of the North American printing business, were excluded from Cinram's continuing operations for the years ended December 31, 2009 and 2008.

The Fund recorded a net loss on the sale of \$4,685, which includes a continuing obligation to fund a withdrawal liability relating to the multi-employer pension plans. The present value is estimated to be approximately \$2,659 as at the date of the sale and is being accreted to the estimated settlement date. This net withdrawal liability obligation is partially offset by preferred shares of MPS which Cinram received as part of the proceeds of sale. These preferred shares have been placed in escrow to fund the withdrawal liability. During the third and fourth quarters of 2009, accretion charges of \$110 were recorded. Furthermore, a mark-to-market gain of \$844 was recorded in the fourth quarter of 2009, resulting in a net present value of the withdrawal liability obligation, net of the preferred shares, of \$1,925 as at December 31, 2009. This obligation will be settled no later than the second quarter of 2013.

The results of the Ivy Hill discontinued operations are as follows:

	'09	'08
Revenue	\$ 26,253	\$ 171,572
Loss from discontinued operations, net of income taxes	\$ (11,042)	\$ (55,225)
Loss on sale of discontinued operations	(4,685)	-
Total loss from discontinued operations, net of income taxes	\$ (15,727)	\$ (55,225)

The balance sheet information related to the Ivy Hill discontinued operations as at December 31, 2009 was \$7,319 related to current liabilities.

These amounts have not been separately disclosed on the consolidated balance sheet at December 31, 2009 as they are not considered material.

The cash flow from the Ivy Hill discontinued operations for the year ended December 31 is as follows:

	'09	'08
Loss from discontinued operations	\$ (15,727)	\$ (55,225)
Loss on sale of discontinued operations	4,685	-
Amortization	-	8,536
Impairment of goodwill and long-lived assets	-	38,498
Other	-	(778)
Change in non-cash working capital	(6,089)	403
Cash used in discontinued operating activities	(17,131)	(8,566)
Other investing activities	(11)	(2,426)
Proceeds on disposition	11,222	3,023
Cash provided by discontinued investing activities	11,211	597
Total cash used in discontinued operations	\$ (5,920)	\$ (7,969)

(B) GIANT MERCHANDISING:

On May 2, 2008, the Fund completed the sale of Giant Merchandising's (Giant) assets connected with its retail license business to a division of Li & Fung for cash proceeds of \$5,961. Giant's remaining U.S. operations were liquidated during the second quarter of 2008 for proceeds of \$264 and on June 30, 2008, the Fund completed a share sale of Giant's subsidiary in Mexico to subsidiaries of Mias Fashion Manufacturing Company, Inc. for a nominal amount plus the assumption of certain liabilities and obligations in Mexico. Accordingly, effective June 30, 2008, the results of operations of Giant have been segregated and presented separately as discontinued operations in the consolidated financial statements.

The results of the discontinued operations are as follows:

	'09	'08
Revenue	\$ -	\$ 40,625
Loss from discontinued operations, net of income taxes	\$ (533)	\$ (1,350)
Gain on sale of discontinued operations	-	4,296
Release of cumulative translation adjustment	-	(667)
Total earnings (loss) from discontinued operations, net of income taxes	\$ (533)	\$ 2,279

The cash flow from discontinued operations is as follows:

	'09	'08
Earnings (loss) from discontinued operations	\$ (533)	\$ 2,279
Gain on sale of discontinued business	-	(4,296)
Change in non-cash working capital	431	(6,074)
Cash used in discontinued operating activities	(102)	(8,091)
Proceeds on business disposition	-	6,225
Cash provided by discontinued investing activities	-	6,225
Total cash flow used in discontinued operations	\$ (102)	\$ (1,866)

25. CORRECTION OF PRIOR PERIOD ERROR:

The Fund completed a review of its subsidiaries' previously filed income tax returns and identified a net overstatement of income taxes receivable of \$2,700, which has been reflected in these consolidated financial statements. The impact on the amounts previously reported for the year ended December 31, 2008 was as follows:

- *Income statement* – an increase in current income tax expense of \$14,200 with an offsetting decrease in future income tax expense of \$14,200 resulting in no net impact on the reported results for the year.
- *Balance sheet* – an increase in opening deficit balance of \$14,200 (relating to an understatement of income tax expense in the year ended December 31, 2007) with an offsetting decrease in income tax receivable.

There was no impact on amounts reported for cash flows from operations.

Financial Highlights

(stated in thousands of U.S. dollars, except per share/unit data)
10 years ending December 31

	'09	'08	'07	'06
STATEMENT OF EARNINGS				
Revenue	1,463,565	1,728,537	1,678,398	1,604,898
Revenue growth in %	-15%	3%	5%	-7%
Cost of sales	1,199,086	1,410,194	1,352,244	1,198,610
Gross Profit before amortization	351,120	419,763	448,706	549,316
Gross Profit % before amortization	24%	24%	27%	34%
Amortization of capital assets	86,641	101,420	122,552	143,028
Gross profit	264,479	318,343	326,154	406,288
Gross profit as a % of sales	18%	18%	19%	25%
Selling, general and administrative expenses	167,249	162,603	148,541	139,722
Selling, general and administrative expenses as a % of revenue	11%	9%	9%	9%
Amortization of intangible assets and transaction costs & loan fees (includes write-off of transaction costs & loan fees)	41,465	42,127	54,968	75,236
Impairment of long-lived assets and goodwill	82,234	22,252	339,947	-
Goodwill amortization	-	-	-	-
Research and development expenses	-	-	-	-
Other charges, net ¹	2,483	(2,148)	2,918	53,216
EBITA (earnings before interest expense/income, foreign exchange gains/losses, investment income, impairment charges, amortization and income taxes)	181,388	259,308	297,247	356,378
EBITA %	12%	15%	18%	22%
EBIT (earnings before interest expense/income, foreign exchange gains/losses, investment income and income taxes)	(28,952)	93,509	(220,220)	138,114
EBIT %	-2%	5%	-13%	9%
Interest expense	43,711	49,296	53,742	48,832
Gain on repurchase of debt	38,440	-	-	-
Foreign exchange gain (loss)	15,179	(12,312)	8,585	10,564
Investment income	622	1,729	3,862	4,211
Write-down of marketable securities	-	-	-	-
Income tax expense (recovery)	(12,654)	12,213	(13,054)	46,543
Earnings (loss) from continuing operations	(5,768)	21,417	(248,461)	57,514
Earnings (loss) from discontinued operations	(16,260)	(52,946)	(66,798)	(5,761)
Net earnings (loss)	(22,028)	(31,529)	(315,259)	51,753
Earnings (loss) per unit from continuing operations				
Basic	(0.11)	0.38	(4.29)	0.99
Diluted	(0.11)	0.38	(4.29)	0.99
Earnings (loss) per unit:				
Basic	(0.40)	(0.56)	(5.44)	0.89
Diluted	(0.40)	(0.56)	(5.44)	0.89

¹ excluding write-off of transaction costs and loan fees in 2006

Certain prior period figures have been reclassified for discontinued operations. In addition, certain figures have been reclassified to conform with the financial statement presentation adopted in the current year or adjusted to correct a prior period error.

	'05	'04	'03	'02	'01	'00
	1,731,841	1,657,880	759,948	559,287	535,607	438,756
	4%	118%	36%	4%	22%	1%
	1,377,990	1,303,568	598,648	457,322	459,210	371,387
	489,855	483,217	222,044	149,731	119,450	106,221
	28%	29%	29%	27%	22%	24%
	136,004	128,905	60,744	47,766	43,053	38,852
	353,851	354,312	161,300	101,965	76,397	67,369
	20%	21%	21%	18%	14%	15%
	126,725	129,782	59,717	51,537	50,744	51,761
	7%	8%	8%	9%	9%	12%
	61,255	64,295	9,936	-	-	-
	-	-	-	-	-	-
	-	-	-	-	1,336	3,406
	-	-	-	-	64	1,144
	2,636	(1,713)	2,726	1,449	(2,563)	34,760
	360,494	355,148	159,601	96,745	69,869	15,150
	21%	21%	21%	17%	13%	3%
	163,235	161,948	88,921	48,979	26,816	(23,702)
	9%	10%	12%	9%	5%	-5%
	51,148	53,102	13,743	3,305	6,209	12,237
	-	-	-	-	-	-
	-	-	-	-	-	-
	932	2,436	3,583	2,888	2,836	11,214
	-	-	-	-	-	-
	32,401	35,371	25,534	13,891	8,172	(5,816)
	80,618	75,911	53,227	34,671	15,271	(18,909)
	1,808	(87)	(207)	-	-	-
	82,426	75,824	53,020	34,671	15,271	(18,909)
	1.41	1.34	0.96	0.63	0.28	(0.34)
	1.40	1.32	0.95	0.63	0.28	(0.34)
	1.44	1.34	0.95	0.63	0.28	(0.34)
	1.43	1.32	0.94	0.63	0.28	(0.34)

Comparative Balance Sheets

10 years ending December 31	'09	'08	'07	'06	'05	'04	'03	'02	'01	'00
BALANCE SHEET										
Current ratio	1.25	1.37	1.16	1.56	1.23	1.02	1.05	1.65	1.45	1.30
Debt to equity ratio¹	n/m*	460.72	24.59	2.22	2.69	3.31	4.34	0.80	0.84	1.11
Debt to assets ratio¹	1.03	1.00	0.96	0.69	0.73	0.77	0.81	0.45	0.46	0.53
Equity to assets ratio	n/m*	0.00	0.04	0.31	0.27	0.23	0.19	0.55	0.54	0.47
Accounts receivable turnover²	4	3	3	3	3	4	3	4	4	3
Days sales in										
accounts receivable²	96	114	122	128	117	98	123	97	103	107
Inventory turnover³	30	31	29	25	27	26	14	14	17	13
Days sales in inventory³	12	12	13	15	14	14	26	26	21	27
Asset turnover⁴	2.04	1.67	1.36	1.22	1.20	1.14	0.54	1.07	1.13	0.87
Return on equity⁵										
(after other charges, net)	n/m*	73%	-80%	10%	16%	17%	16%	13%	6%	n/a
Return on total assets⁶										
(after other charges, net)	-1%	2%	-15%	3%	4%	4%	4%	7%	3%	n/a

¹ consists of current and long-term liabilities including future income taxes

² two year average accounts receivable

³ two year average inventory

⁴ total assets excluding intangible assets and goodwill

⁵ two year average equity and earnings from continuing operations

⁶ two year average total assets and earnings from continuing operations

* not meaningful due to negative equity

Trading of units: CRW.UN

(in Canadian dollars)
Years ended December 31

	Quarter	High	Low	Closing	Volume ('000)
'09	First	\$ 1.75	\$ 0.61	\$ 0.88	6,306
	Second	\$ 2.21	\$ 0.83	\$ 1.94	3,678
	Third	\$ 2.23	\$ 1.51	\$ 2.15	2,623
	Fourth	\$ 2.99	\$ 1.80	\$ 2.75	9,288
	Year	\$ 2.99	\$ 0.61	\$ 2.75	21,895
'08	First	\$ 6.45	\$ 5.11	\$ 5.77	14,813
	Second	\$ 7.00	\$ 5.61	\$ 5.81	8,419
	Third	\$ 5.99	\$ 3.50	\$ 4.02	7,357
	Fourth	\$ 4.01	\$ 1.23	\$ 1.52	8,492
	Year	\$ 7.00	\$ 1.23	\$ 1.52	39,081
'07	First	\$ 24.55	\$ 21.80	\$ 24.25	11,569
	Second	\$ 27.24	\$ 23.80	\$ 27.00	14,239
	Third	\$ 30.00	\$ 17.50	\$ 18.64	11,723
	Fourth	\$ 19.09	\$ 4.90	\$ 5.74	57,052
	Year	\$ 30.00	\$ 4.90	\$ 5.74	94,583

Fund units outstanding at December 31, 2009: 55,226,791

LP units outstanding at December 31, 2009: 29,004

Weighted average number of units for 2009

Basic: 54,785,472

Diluted: 54,785,472