

Management's Discussion and Analysis

of financial condition and results of operations (in U.S. dollars unless otherwise stated)
March 25, 2010

This management's discussion and analysis (MD&A) for the year ended December 31, 2009 should be read in conjunction with Cinram International Income Fund's audited consolidated financial statements as at and for the years ended December 31, 2009, and 2008, and with the notes contained therein. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP). Where reference is made to "we," "us," "Cinram" or the "Fund," it refers to Cinram International Income Fund and its subsidiaries. External economic factors remain substantially unchanged, unless otherwise stated.

FORWARD-LOOKING STATEMENTS

Certain statements included in this management's discussion and analysis (MD&A) and elsewhere in this annual report, contain words such as "could," "expects," "expectations," "may," "anticipates," "believes," "intends," "estimates" and "plans" (and similar expressions) and constitute "forward-looking statements" within the meaning of applicable securities law. These statements are based on Cinram's current expectations, estimates, forecasts and projections about the operating environment, economies and markets in which it operates. Such forward-looking statements, and other forward looking statements specifically identified, involve known and unknown risks, uncertainties and other factors which are difficult to predict and may cause the actual results, performance or achievements of the Fund to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions that will, among other things, impact the demand for the Fund's products and services (including risks related to international operations and foreign exchange risks); the Fund's ability to retain major customers; multimedia replication industry conditions and capacity (including, among other things, competitive and pricing pressures, increases in raw material costs, increasingly compressed production cycle and seasonality of the business, the need for capital expenditures or maintenance of Blu-ray and standard DVD capacity, and variability in quarterly earnings); the ability of the Fund to implement its business strategy; a shortage of product due to labor disruptions; the Fund's ability to invest successfully in new technologies; and other factors. All of the foregoing factors are described in detail in the Fund's filings with Canadian securities commissions (reference is made in particular, but without limitation, to the section entitled "Risks and Uncertainties" in this 2009 annual report and to prior quarterly financial reports). For a complete list of risks and uncertainties, please consult Cinram's annual information form filed with Canadian securities commissions, available on www.sedar.com.

The Fund disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. You should read this MD&A and annual report with the understanding that the Fund's actual future results may be materially different from what we expect. These cautionary statements expressly qualify all forward-looking statements attributable to the Fund.

NON-GAAP FINANCIAL MEASURES

EBITA is defined in this report as earnings (loss) from continuing operations before impairment charges, interest expense and financing charges, gain on repurchase of debt, foreign exchange translation gains/losses, investment income, income taxes, and amortization and is a standard measure that is commonly reported and widely used in the Fund's industry to assist in understanding and comparing operating results. EBITA is not a defined term under GAAP. Accordingly, this measure should not be considered as a substitute or alternative for net earnings or cash flow, in each case as determined in accordance with GAAP. See reconciliation of EBITA to net earnings under GAAP as found in the table below.

EBIT is defined in this report as earnings (loss) from continuing operations before interest expense and financing charges, gain on repurchase of debt, foreign exchange translation gains/losses, investment income and income taxes, and is a standard measure that is commonly reported and widely used in the Fund's industry to assist in understanding and comparing operating results. EBIT is not a defined term under GAAP. Accordingly, this measure should not be considered as a substitute or alternative for net earnings or cash flow, in each case as determined in accordance with GAAP. See reconciliation of EBIT to net earnings under GAAP as found in the table below.

We use EBIT and EBITA, as defined above, as benchmarks for measuring operating performance and for our lending arrangements.

Note that certain comparative figures have been reclassified throughout the MD&A to conform with the financial statement presentation adopted in the current year.

Reconciliation of EBITA and EBIT to net earnings

Years ended December 31 (unaudited, in thousands of U.S. dollars)	'09	'08
EBITA excluding other charges (income)	\$ 183,871	\$ 257,160
Other charges (income), net	2,483	(2,148)
EBITA	\$ 181,388	\$ 259,308
Impairment charges	82,234	22,252
Amortization of property, plant and equipment	86,641	101,420
Amortization of intangible assets	41,465	42,127
EBIT	\$ (28,952)	\$ 93,509
Interest expense and financing charges	37,584	45,925
Other interest and financing charges	6,127	3,371
Gain on repurchase of debt	(38,440)	–
Foreign exchange loss (gain)	(15,179)	12,312
Investment income	(622)	(1,729)
Income taxes (recovery)	(12,654)	12,213
Net income (loss) from continuing operations	\$ (5,768)	\$ 21,417

1. ABOUT OUR BUSINESS

CORPORATE OVERVIEW

Cinram International Inc. (CII), an indirect wholly-owned subsidiary of Cinram International Income Fund, is one of the world's largest providers of pre-recorded multimedia products and related logistics services. With facilities in North America and Europe, we manufacture DVDs, Blu-ray discs and CDs, and we provide distribution services for motion picture studios, music labels, video game publishers, computer software companies, telecommunication companies and retailers around the world.

Cinram operates 21 major facilities that span nearly 14 million square feet. As of December 31, 2009, we employed approximately 13,700 people worldwide including full-time equivalents and temporary workers. We currently have the capacity to manufacture approximately 2.1 billion DVDs, 55 million Blu-ray discs and about 500 million CDs per year to service seasonal peaks in demand, which typically occur around the U.S. Thanksgiving and Christmas holiday shopping seasons. We primarily manufacture on firm orders from our customers, generally pursuant to multi-year contracts ranging from two to six years. We do not bear the risk of unsold products as customers cannot return any previously purchased inventory, with the exception of defective product (which occurs rarely). We do not have title to the products we distribute. Our major contracts are, to a large extent, exclusive for particular territories, and many of our manufacturing agreements contain periodic market price tests and most-favored-nations clauses that may require us to lower our selling prices. The products we manufacture generally experience price declines on an annual basis, and these declines have historically been steeper in the early stages of the products' life cycles.

On February 1, 2010, the Fund announced that it received written notice from Warner Home Video Inc. (WHV) that WHV was exercising its option to terminate its service agreements on July 31, 2010. The notice covers all Cinram entities globally and will directly impact operations in North America, Mexico, UK, France, Germany and Spain. WHV revenues for 2009 represented approximately 32% of the total consolidated revenues of the Fund.

During September 2009, the Fund extended its exclusive replication agreement with Lions Gate Entertainment in the United States for an additional three years. The extension includes additional options for Lions Gate to extend the agreement into 2017. The agreement contains certain market test rights and certain competitive price guarantee provisions in favour of Lions Gate.

On April 9, 2009, the Fund completed the sale of substantially all of Ivy Hill's assets and liabilities. Accordingly, Ivy Hill's results, which comprised the North American printing business, were excluded from Cinram's continuing operations for the years ended December 31, 2009 and 2008. With the classification of the U.S. printing business as discontinued operations effective in the first quarter of 2009, the Fund is no longer reporting a separate Printing segment. Consequently, the Fund has combined the results of the European printing activities for Home Video and CD with the respective segments.

On March 30, 2009, the Fund announced that its lenders approved an amendment to its subsidiaries' senior secured credit facility to, among other things, permit Cinram to use up to \$150.0 million to repurchase term advances outstanding under the senior secured credit facility at prices below par through one or more "modified Dutch" auctions during a one-year period commencing on March 31, 2009. The amendment also restricted debt repurchases to 25% of total credit commitments. The amendment did not obligate Cinram to make any such repurchases. In addition, Cinram agreed (i) to make a \$35.0 million prepayment at par of term advances on the effective date of the amendment; (ii) to make quarterly prepayments at par of \$10.0 million commencing with the second quarter of 2009;

(iii) to reduce the revolving credit commitment under the senior credit facility by \$50.0 million on the date of the amendment; and (iv) not to pay any unitholder distributions for the balance of the term of the facility, subject to certain limited exceptions. During 2009, the Fund repurchased \$169.7 million of term advances for cash consideration of \$131.2 million, resulting in a net gain of \$38.4 million.

On February 13, 2009 the Fund announced that David Rubenstein, its Chief Executive Officer, decided to resign as a trustee and officer of the Fund effective March 31, 2009. On June 9, 2009, the Board of Trustees announced that Steve Brown had been appointed President and Chief Executive Officer of the Fund effective June 15, 2009. On January 14, 2010, Steve Brown was appointed to the Board of Trustees. The Board also announced that it accepted the resignation of Mr. George Armoyan who stepped down from the Board of Trustees to attend to personal family matters.

In December 2008, Motorola Europe announced its intention to cease local distribution for its mobile device business in the European market. Accordingly, Cinram and Motorola Europe entered into a settlement agreement setting forth the terms under which Cinram's distribution services for mobile devices were phased out during the first six months of 2009. In addition, in February 2009, Cinram notified Motorola of Cinram's election to terminate the remaining services being provided to Motorola in Europe, consisting primarily of distribution of walkie-talkies, radios and other non-mobile device items. Accordingly, Cinram and Motorola Europe entered into a settlement agreement setting forth the terms under which these distribution services would be transitioned to Motorola. The transition was finalized on July 6, 2009.

With respect to Cinram's contract with Motorola covering the U.S., Cinram completed transitioning the picking, packing, programming, packaging and reverse logistics functions into a new facility in Ft. Worth, Texas, during the second quarter of 2009.

During the second quarter of 2008, Cinram acquired certain European businesses from ODS Business Services (ODS), a replicator and distributor of DVDs in Europe, for \$2.5 million. This acquisition expanded Cinram's distribution capacity in Europe primarily to service the long-term DVD replication and distribution agreement with Universal Europe entered into in 2008.

We operate four business segments: Home Video, CD, Video Game and Other. Our Home Video segment consists of the replication, packaging and distribution of DVDs and Blu-ray discs, including new releases and catalog titles, for the home entertainment divisions of motion picture studios. Our CD segment consists primarily of the replication, packaging and distribution of audio CDs and CD-ROMs for record labels, publishers and software companies. Our Video Game segment includes revenues from the distribution of video games. Our Other segment includes revenue from logistics services for our telecommunications customer (Motorola) as well as revenue from Vision and other non-core activities. Revenue from Ivy Hill, our U.S. printing business, was classified as discontinued operations during the first quarter of 2009, and revenue from Giant Merchandising, our non-core screen printing entertainment and merchandising business was classified as discontinued operations during the second quarter of 2008. Accordingly, prior periods have been reclassified on this basis.

1.1 RECENT ACQUISITIONS AND DISPOSITIONS

1.1.1 Disposition of the assets and business of Ivy Hill

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 \$14.0 million, subject to working capital adjustments. During the 2009 third quarter, the Fund recorded a working capital adjustment of \$2.8 million, which resulted in a reduction in net cash proceeds from the sale to \$11.2 million.

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.

At the time of the sale in April 2009, the Fund recorded a net loss on the sale of \$4.7 million, which included a continuing obligation to fund a withdrawal liability relating to the multi-employer pension plans estimated to be approximately \$2.7 million as at the date of the sale. This net withdrawal liability obligation is partially offset by preferred shares of MPS that have been placed in escrow to fund the withdrawal liability. During the year, accretion charges and a mark to market gain of \$0.8 million were recognized. The net present value of the withdrawal liability obligation net of the preferred shares is estimated to be approximately \$1.9 million as of December 31, 2009. This obligation will be settled no later than the second quarter of 2013.

1.1.2 Ditan acquisition

At December 31, 2008, a preliminary estimate of \$19.0 million 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 \$16.1 million 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 \$2.9 million during 2009. A similar adjustment of \$2.0 million was made in 2008 relating to the 2007 earn-out.

1.1.3 Jack of All Games acquisition

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 \$3.4 million. JOAG distributes products of Take-Two Interactive Software, Inc. 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 our Video Game reporting segment.

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In December 2009, Cinram was notified by Take-Two Interactive, a distribution customer, that it had sold its Jack of All Games (JOAG) subsidiary to a third party, effective the first quarter of 2010. Given the loss of this business, Cinram anticipates that this transaction will have a negative impact on 2010 video game revenues. Cinram has initiated appropriate steps to reduce direct and indirect costs associated with this business.

1.1.4 ODS acquisition

In June 2008, Cinram acquired 100% of the shares of Spanish and French subsidiaries of ODS Business Services (ODS), a European replicator and distributor of DVDs, for cash consideration of \$1.6 million. This acquisition expanded Cinram's distribution capacity in Spain and France to service its 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 our Home Video reporting segment.

Also in June 2008, Cinram acquired substantially all of the U.K. assets of ODS for cash consideration of \$0.9 million. 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 our Home Video reporting segment.

1.1.5 Disposition of Giant Merchandising

On May 2, 2008, Cinram completed the sale of Giant Merchandising's assets connected with its retail license business to a division of Li and Fung for cash proceeds of \$6.0 million. Giant's remaining assets were liquidated for proceeds of \$0.3 million and, on June 30, 2008, Cinram completed a share sale of Giant's subsidiary in Mexico to Mias Fashion Manufacturing Company Inc. for a nominal amount plus the assumption of certain liabilities and obligations in Mexico. Accordingly, the results of operations of Giant have been segregated and presented separately as discontinued operations in the consolidated financial statements.

1.2 CAPITAL STRUCTURE

In May 2006, CII converted from a corporate structure to an income trust structure through a plan of arrangement that was approved by shareholders on April 28, 2006. As a result of the recapitalization, shareholders exchanged their shares of CII for units of Cinram International Income Fund (or in the case of electing shareholders, into units of the Cinram International Limited Partnership) on a one-for-one basis. The Fund's units are listed on the Toronto Stock Exchange under the symbol CRW.UN.

1.3 OUR STRATEGY

In 2009, the new management team set a new strategy for the Company, which was presented to and approved by the Board of Trustees. The following is a summary of that strategy:

- maintain a culture of operation excellence within the business – promoting world class practices and an attitude of continuous improvement.
- grow our client base amongst the major and mid-sized entertainment studios by providing global, cost effective services
- expand our service offerings to our clients and thereby maximizing value in the supply chain to our mutual benefit
- provide innovative products and solutions to our clients, responding to the changes in how entertainment is delivered to the ultimate consumer.

1.4 OPERATING AND FINANCIAL PERFORMANCE

Over the past year, the Fund has taken the following steps to strengthen its operational and financial position.

- **Debt reduction** – During 2009, the Fund retired \$252 million of debt, reducing the outstanding term debt balance to \$395 million at December 31, 2009, through combined debt repurchases below par, mandatory debt repayments and voluntary debt repayments at par. The Fund will continue to seek further opportunities to reduce debt.
- **Cost reduction** – In 2009, we intensified the focus on reducing our cost of goods sold as witnessed by the direct cost and fixed factory overhead efficiencies achieved during 2009. This focus will continue in 2010.
- **Reduced capital expenditures** – Capital will be primarily deployed for the Blu-ray format and maintenance capital expenditures. In 2009, capital expenditures decreased to \$42 million from \$68 million in 2008. In 2010, capital expenditures will be allocated primarily towards expanding Blu-ray capacity.
- **Focus on core operations** – We continue to focus on producing standard DVDs, Blu-ray discs and providing related distribution services with the intention of disposing of non-core assets, including owned real estate where appropriate.

Three-year revenue by product

Years ended December 31 (In thousands of U.S. dollars)	'09		'08		'07	
DVD (including distribution)	\$ 1,111,073	76%	\$ 1,254,429	72%	\$ 1,294,036	77%
Blu-ray discs	22,523	2%	16,717	1%	23,653	1%
CD (including distribution)	166,074	11%	221,656	13%	250,735	15%
Video Game	91,608	6%	126,561	7%	65,093	4%
Wireless	61,918	4%	95,420	6%	26,360	2%
Other	10,369	1%	13,754	1%	18,521	1%
	\$ 1,463,565	100%	\$ 1,728,537	100%	\$ 1,678,398	100%

2. 2009 PERFORMANCE

DVDs continued to be the dominant source of revenue and the main driver of operating profit for Cinram in 2009. DVD revenue (including related distribution services) accounted for 76% of consolidated revenue in 2009, compared with 72% in 2008 and 77% in 2007. We replicated 1,165.1 million DVDs in 2009, a decrease of 6% from 1,243.3 million in 2008, as DVD revenue decreased to \$1,111.1 million from \$1,254.4 million in 2008 due to lower unit sales combined with lower pricing. High-definition disc replication revenue increased to \$22.5 million in 2009 compared to \$16.7 million in 2008. The prior year figure includes revenues from both the Blu-ray and HD DVD formats.

CD segment revenue declined to \$166.1 million in 2009 from \$221.7 million in 2008. In the spring of 2009, the Fund ceased production at its CD replication facility in Richmond Indiana, resulting in lower unit shipments. Excluding the closure of the facility, the decline is consistent with industry trends. CD represented 11% of Cinram's consolidated revenue, down from 13% in 2008 and 15% in 2007.

The Fund completed its annual goodwill impairment test for its identified reporting units, taking into consideration the impact associated with the contract termination notice received from WHV. The fair values for the reporting units were estimated using discounted future cash flows. Future cash flow projections were based on the 2010 budget and multi-year projections for 2011 to 2014. The impairment test determined that, for certain reporting units, the carrying value of the goodwill exceeded its fair value and as a result the Fund recorded a goodwill impairment charge of \$22.5 million. In 2008, an impairment charge of \$3.5 million was recorded, of which \$2.5 million was in continuing operations and \$1.0 million related to Ivy Hill is recorded in discontinued operations.

Based on future cash flow projections in the Fund's 2010 budget and multi year projections for 2011-2014, the Fund determined that the carrying value of certain property, plant and equipment and certain customer supply contracts were in excess of the associated estimated undiscounted cash flows. As a result, property, plant and equipment and supply contracts were written down by \$59.8 million to estimated fair values based on a combination of a market approach and discounted cash flows. In 2008, an impairment charge of \$57.2 million was recorded, of which \$19.7 million was included in continuing operations and \$37.5 million related to Ivy Hill was recorded in discontinued operations.

The impairment charge recorded during 2009 reflects the anticipated loss of business associated with WHV and the competitive market for DVDs resulting in declining unit sales and continued pricing pressure from our customers.

Selected annual financial information

Years ended December 31 (In thousands of U.S. dollars, except per unit/share amounts)	'09	'08	'07
Revenue	\$ 1,463,565	\$ 1,728,537	\$ 1,678,398
EBITA excluding other charges*	183,871	257,160	300,165
Other Charges (income)*	2,483	(2,148)	2,918
EBITA*	181,388	259,308	297,247
Impairment charges	82,234	22,252	339,947
EBIT	28,952	93,509	(220,220)
Net (loss) earnings from continuing operations	(5,768)	21,417	(248,461)
Basic earnings (loss) from continuing operations per unit	\$ (0.11)	\$ 0.38	\$ (4.29)
Diluted earnings (loss) from continuing operations per unit	\$ (0.11)	\$ 0.38	\$ (4.29)
Cash flow from continuing operations	302,584	146,224	260,663
Cash distributions and dividends declared per unit/share (basic)	n/a	n/a	\$ 2.84
Cash and cash equivalents	122,072	73,349	68,406
Total assets	784,700	1,191,236	1,429,481
Long term liabilities	441,233	715,644	719,316
Working capital	92,507	172,703	104,807

* see reconciliation of EBITA to net earnings on page 14

For the year ended December 31, 2009, revenue decreased 15% to \$1.46 billion from \$1.73 billion in the year ended December 31, 2008. DVD replication and distribution revenue was down 11% as a result of lower DVD unit sales combined with lower selling prices. Revenue was also impacted by a 25% drop in CD segment revenues in 2009, primarily as a result of the closure of a CD facility in the United States during the spring of 2009. Our video game business and wireless business also experienced revenue declines in 2009, primarily as a result of decreased consumer spending.

EBITA decreased to \$181.4 million from \$259.3 million in 2008, partially due to lower DVD and CD selling prices. The prior year results also include favorable royalty adjustments for a combined \$65.7 million reflecting changes in estimates for certain royalty obligations. Excluding the impact of these adjustments, we recorded adjusted EBITA margins of 12.4% in 2009, compared with 11.2% in 2008.

Summary of quarterly results

Cinram's annual and quarterly operating results vary from period to period as a result of the timing and value of customer orders, fluctuations in materials and other costs, and the relative mix of value-added products and services. Our business is seasonal as a large portion of our revenue and earnings are recorded in the fourth quarter, since most large-scale home video release dates are clustered around the U.S. Thanksgiving and Christmas holiday shopping seasons. The timing of the release schedules as well as the success of a few titles can play an important role in December re-order volumes and, in turn, influence our full-year results. For these reasons, we generate a significant amount of our revenue and the majority of our EBITA in the fourth quarter.

Revenue from continuing operations

Quarter	'09	'08	'07
First	\$ 303,154	\$ 373,762	\$ 376,177
Second	301,034	386,309	299,873
Third	351,238	411,653	393,628
Fourth	508,139	556,813	608,720
Year	\$ 1,463,565	\$ 1,728,537	\$ 1,678,398

Quarter	Net earnings (loss) from continuing operations			Net earnings (loss) from discontinued operations			Net Earnings (loss)		
	'09	'08	'07	'09	'08	'07	'09	'08	'07
First	\$ (17,606)	\$ 7,606	\$ 13,873	\$ (4,694)	\$ (10,993)	\$ (6,701)	\$ (22,300)	\$ (3,387)	\$ 7,172
Second	7,288	(4,098)	(19,905)	(8,025)	(2,982)	(6,645)	(737)	(7,080)	(26,550)
Third	13,941	1,529	38,247	(4,460)	493	(3,356)	9,481	2,022	34,891
Fourth	(9,391)	16,380	(280,676)	919	(39,464)	(50,096)	(8,472)	(23,084)	(330,772)
Year	\$ (5,768)	\$ 21,417	\$ (248,461)	\$ (16,260)	\$ (52,946)	\$ (66,798)	\$ (22,028)	\$ (31,529)	\$ (315,259)

Quarter	Basic/Diluted EPS from continuing operations			Basic/Diluted EPS from discontinued operations			Basic/Diluted EPS		
	'09	'08	'07	'09	'08	'07	'09	'08	'07
First	\$ (0.32)	\$ 0.13	\$ 0.24	\$ (0.08)	\$ (0.19)	\$ (0.12)	\$ (0.40)	\$ (0.06)	\$ 0.12
Second	0.13	(0.07)	(0.34)	(0.14)	(0.05)	(0.11)	(0.01)	(0.12)	(0.45)
Third	0.26	0.03	0.66	(0.08)	0.01	(0.06)	0.17	0.04	0.60
Fourth	(0.17)	0.30	(4.91)	0.02	(0.71)	(0.88)	(0.16)	(0.42)	(5.78)
Year	\$ (0.11)	\$ 0.38	\$ (4.29)	\$ (0.30)	\$ (0.94)	\$ (1.15)	\$ (0.40)	\$ (0.56)	\$ (5.44)

Over the last several years, the release schedule has become increasingly compressed as the peaks in demand have risen while the seasonal troughs have widened. Although we have made significant investments to increase our DVD manufacturing and distribution services capacity to accommodate our growing customer base and handle peak demand, unanticipated changes, such as the rescheduling of a release date or the late arrival of content or assembly components, can disrupt our manufacturing schedule. This typically results in the need to outsource production to a third party to meet customer service levels, resulting in lower margins.

Our results can also be hit-driven, based on the demand for our customers' content. With our high customer concentration, we are dependent on our customers' ability to capture and maintain their market share of consumer spending, especially in home video. In 2009, our three largest customers accounted for approximately 32%, 23% and 11% of consolidated revenue, respectively. In 2008 our two largest customers accounted for 30% and 18%, respectively, of consolidated revenue.

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. The notice covers all Cinram entities globally and will directly impact operations in North America, Mexico, UK, France, Germany and Spain. This contract termination will have a significant impact on customer concentration for 2010 and beyond.

3. SEGMENTED RESULTS

3.1 INDUSTRY SEGMENT REVENUE

Our reportable business segments are Home Video, CD, Video Game and Other.

The Home Video segment manufactures and distributes DVDs and Blu-ray discs. The CD segment manufactures and distributes CDs and CD-ROMs. The Video Game segment includes results from Ditan, and the Other segment primarily includes logistics (handset distribution and Vision).

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

			'09	'08
Home Video	\$ 1,133,596	78%	\$ 1,271,146	74%
CD	166,074	11%	221,656	13%
Video game	91,608	6%	126,561	7%
Other	72,287	5%	109,174	6%
Total	\$ 1,463,565	100%	\$ 1,728,537	100%

3.1.1 Home Video

The home video industry, which today is led by DVD, mainly serves major motion picture studios by providing a medium for the delivery of their content. Since the demand for these products is concentrated within a few large movie studios, each content owner represents a sizeable business opportunity for replicators with the required scale and distribution capabilities.

Major motion picture studios adopted a sell-through philosophy with DVDs, maintaining attractive price points to encourage sales of DVDs rather than rentals, generally making the DVD release of a film the largest component of a film's profitability for the studios. This sell-through philosophy was widely accepted by big-box retailers, such as Wal-Mart, which use DVDs to attract customers into their stores and encourage additional purchases.

The DVD format currently represents the primary source of revenue for the home video industry and for Cinram. The key drivers for the steady demand for the DVD format include strong DVD player penetration due to the low prices of DVD players; aggressive retail pricing of DVDs; and a comprehensive list of titles and genres. Strong consumer adoption of the DVD technology is evident in the household penetration of DVD players. According to industry trade association Digital Entertainment, U.S. consumer home entertainment rental and sell through spending decreased by 5% to \$20.0 billion in 2009 compared to \$21.0 billion in 2008. While DVD spending decreased to \$16.4 billion from \$18.4 billion, high definition spending increased to \$1.5 billion from \$0.9 billion. Furthermore an industry research and consulting firm reported a 14% decrease in North American DVD-video discs sold to 1.2 billion units in 2009 from 1.4 billion units in 2008.

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The average replication prices for DVDs (as measured in the industry by the price of replicating raw DVD-9 discs) are expected to continue declining in coming years as a result of defined contractual commitments, continued pressure from customers and competition. In many instances, renegotiation of the terms of our agreements with our customers typically results in lower pricing. We also lower pricing with certain large customers following an annual market test. We expect that future price declines will be less than recent price declines due to the maturation and cost structure of the format. Price negotiations with customers routinely occur on an annual basis as a result of market tests or contract renewals.

Our strategy has been to secure exclusive, multi-year manufacturing and distribution agreements with industry leaders in North America and Europe. Given the recent contract termination notice received from WHV, we will continue the assessment of the impact on sizing of existing facilities and infrastructure. We will also continue to focus on our core business and seek opportunities to replace lost volume from WHV with volume from other studios.

Although management expects the existing DVD format to remain the home video standard for several years to come, we believe that the replication of Blu-ray discs represents an opportunity to continue participating in this industry. As our home video customers transition to Blu-ray, we hope to leverage our customer relationships in North America and Western Europe, as well as our established manufacturing and distribution infrastructure to service this market.

Our largest home video customers during 2009 included WHV, Twentieth Century Fox Home Entertainment (Fox), Metro-Goldwyn-Mayer Home Entertainment (MGM), Lions Gate Films and Universal Europe.

We currently face effective competition in the home video business from other major replicators that can offer substantially the same products including Technicolor, Berterlsmann AG (Arvato) and Sony (Sony DADC). Sony has a competitive advantage in the production of Blu-ray discs because of its leading role in the development of these discs, which are the standard format for the next generation of packaged media. Cinram has modest capacity to manufacture Blu-ray discs and is working to secure long-term customer agreements for the format.

While we believe that electronic delivery of pre-recorded home video content and the unauthorized copying and distribution of video files is a threat to our DVD business, we still believe the physical manufacturing and distribution of DVDs (both standard and Blu-ray) will exist for many years. Based on the sell-through pricing of DVDs, combined with the time required and quality issues associated with the unauthorized transfer and downloading of video files, management believes that consumers will continue to purchase and rent DVDs for a number of years to come. In addition, high-definition content requires greater bit buckets and new manufacturing technology that we believe makes unauthorized distribution and piracy increasingly cumbersome and more difficult than it is today compared with standard definition DVDs.

Revenue from our Home Video segment, (including DVD and high-definition discs and related distribution services) decreased to \$1.13 billion in 2009 from \$1.27 billion in 2008, reflecting the impact of lower unit sales combined with lower DVD selling prices. DVD replication sales represented 69% of the Home Video segment in 2009, down from 73% in 2008. High-definition disc replication revenue was \$22.5 million or 2% of the Home Video segment in 2009, compared to \$16.7 million or 1% in 2008. Related distribution services decreased to \$329.4 million in 2009 and accounted for 29% of the Home Video segment in 2009, down from \$330.3 million and 26% in 2008.

Distribution and fulfillment services continue to be a major factor in our ability to attract customers. Our studio customers continue to look to Cinram to provide complete manufacturing to retail distribution solutions that allow them to focus their efforts on their own core competencies in creating content. Our capital investments in distribution services allow us to provide our customers with increased frequency of shipments, more customized order sizes and the ability to handle more stock-keeping units.

The Home Video segment represented 78% of our consolidated revenue in 2009, up from 74% in 2008.

3.1.2 CD

In recent years, there has been a major shift in distribution of recorded music from specialty shops towards mass-market and online retailers. Sales of recorded music fell sharply in 2009 and 2008, as consumers continued to migrate away from the CD format, large retailers reduced floor space for music and the recession dampened consumer spending during the critical year-end holiday shopping period.

Total album sales in the United States, including CDs and full-album downloads, were 374 million, a 13% drop from 2008, according to data from Nielsen SoundScan. While CD album sales are on a downward trend, the trend is opposite for digital music, with over a billion songs downloaded, which is an 8% increase from 2008 levels.

Historically, our CD strategy has been to secure exclusive, multi-year manufacturing and distribution agreements with industry leaders in North America and Europe. As CD replication continues to be affected by declining order volumes, price competition, industry overcapacity and lower order run sizes, rationalization and consolidation will continue within the CD manufacturing industry. During the summer of 2009, Cinram closed one of its CD replication facilities in the United States.

Our largest CD customers include Warner Music Group, an independent entity from Warner Home Video, and Universal Music.

Our principal competitors in the CD replication industry include content owner Sony BMG (Arvato and Sony DADC). We also compete with other smaller independent replicators that can offer substantially the same products.

Revenue from our CD segment (including audio CDs, CD-ROMs and related distribution) was down 25% to \$166.1 million from \$221.7 million in 2008, resulting from lower unit sales as a result of the closure of our CD facility in Richmond, Indiana during the summer of 2009 and the concurrent termination of our services agreement with EMI Music Group. CD replication sales represented 84% of the CD segment in 2009, down slightly from 86% in 2008. Related distribution services accounted for 16% of the CD segment in 2009, up from 14% in 2008. Overall, our CD segment continued to show weakness in 2009 on lower unit shipments combined with lower related distribution revenue across all territories.

The CD segment accounted for 11% of consolidated revenue in 2009, down from 13% in 2008.

3.1.3 Video game

Revenue from the Video Game segment was \$91.6 million in 2009 compared to \$126.6 million in 2008 as a result of a constricted economy where consumer spending was cautious, combined with the loss of several video game customers. According to NPD Group, in 2009, overall US video game software sales declined approximately 12% year over year.

Video game consoles have historically had a life cycle of four to six years, which creates cyclical software sales, emphasizing higher unit volumes in the early years of a console's life. Interim console price reductions, in response to competitive pressures and the emerging market for online gaming, provide interim unit growth spurts. The current cycle, where the XBOX, Wii and PS3 had 2005 and 2006 initial releases, benefited by price cuts in 2009.

NPD Group, a respected industry analyst, stated that 2008 sales of games, consoles and accessories grew 19% over 2007 to \$21.3 billion, while 2009 sales experienced an overall decline of approximately 12%. With less than 10% of gaming software downloaded, physical format distribution and rentals of games remain the driving force behind industry sales growth and continues to dominate the game marketplace.

Ditan Distribution specializes in distributing software for console games, home entertainment, and computers, plus DVD and Blu-ray movies, related peripherals in the gaming marketplace, as well as third party logistics, virtual warehousing services, direct channel sales, merchandising, transportation management and retail product lifecycle management services. The peak processing period is from mid-August through early January, with November as the focal point of activity. The customer base is comprised of video game publishers, content providers, studios, major retail chains and distributors, and include many of the industry's leaders, including: Best Buy, Gamestop, Ubisoft, Sega of America, LucasArts Entertainment, Namco, Atari, Square Enix and Koei.

We estimate that 65% of the overall video game distribution market is led by a limited number of major distributors, of which Ditan represents 30%. We consider our main competitors to be Technicolor and JVC. The majority of software publishers utilize third party distribution to control costs and limit expenses in non-core areas, and Ditan has been a preferred partner to those publishers and content providers. Other publishers self-distribute, led by Electronic Arts, a major publisher, who alone represents approximately 22% of total industry volumes. With Cinram's strong retailer relationships and virtual warehouse services, we estimate that we provide servicing to approximately 50% of all new video games distributed within the U.S. Most of our competitors offer substantially similar base services, with the exception of cross-docking and shipment consolidation.

Ditan strategically differentiates itself from competitors by emphasizing expedited order-to-delivery cycles; accurate, on-time shipments; increased visibility, accessibility and management of the supply chain; and superior, real-time customer service. Our online portal, "DitanAccess", provides customers with real-time access to in-depth order and movement information and key reporting and analytical tools. Cinram's strategies for the video game segment are to cross-sell our replication, assembly/kitting, and distribution services to these customers, and create stronger and wider bonds in those customer relationships. We also expect to leverage Cinram's established presence in Europe to expand our geographic footprint in the video game market.

3.1.4 Other

Revenue from other activities, which includes revenue from Motorola and vendor managed inventory revenues associated with Vision, decreased to \$72.3 million from \$109.2 million in 2008. In December 2008, Motorola Europe announced its intention to cease local distribution for its mobile device business in the European market. Accordingly, Cinram and Motorola Europe entered into a settlement agreement setting forth the terms under which Cinram's distribution services for these mobile devices would be phased out during the first half of 2009.

Other revenue also includes activities such as authoring and other pre-production services, information technology, and the sale of components, stampers and digital linear tapes.

Revenue from the Other segment represented 5% of consolidated revenue in 2009, compared to 6% in 2008.

3.2 GEOGRAPHIC SEGMENTS

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

			'09		'08
North America	\$ 836,249	57%	\$ 1,044,564		60%
Europe	627,316	43%	683,973		40%
Total	\$ 1,463,565	100%	\$ 1,728,537		100%

3.2.1 North America

North American revenue decreased 20% to \$836 million from \$1.04 billion in 2008 primarily from lower revenues associated with our DVD and CD business resulting from lower unit sales and lower selling prices. North American Home Video replication revenue decreased 19% to \$424.7 million from \$522.8 million in 2008 as a result of lower DVD unit shipments and lower average selling prices. Home Video distribution revenue decreased 6% to \$160.0 million from \$170.1 million in 2008, and high-definition replication sales increased to \$15.1 million from \$14.6 million in 2008 due to higher unit volume.

North America CD revenue was down 32% to \$78.4 million from \$116.1 million in 2008 as a result of lower unit sales, and to a lesser extent, lower selling prices. CD distribution revenue decreased 22% to \$15.7 million from \$20.0 million in 2008.

North America accounted for 57% of consolidated revenue in 2009, down from 60% in 2008.

3.2.2 Europe

European revenue decreased 8% to \$627.3 million from \$684.0 million in 2008 as a result of lower service revenue associated with Motorola in addition to lower revenue from DVDs and CDs.

European Home Video replication revenue decreased 11% to \$356.9 million from \$401.3 million in 2008 primarily as a result of lower DVD unit sales and lower selling prices. Home Video distribution revenue increased 6% to \$169.4 million in 2009 from \$160.2 million in 2008, and high-definition replication sales increased to \$7.4 million from \$2.1 million in 2008.

European CD segment revenue was down 18% to \$60.4 million from \$73.5 million in 2008, resulting from lower unit sales and lower selling prices.

European Other revenue from non-core activities decreased to \$21.6 million from \$34.8 million in 2008 as a result of the termination of distribution services provided to Motorola Europe effective July 2009.

As a percentage of consolidated sales, European revenue increased to 43% from 40% in 2008.

4. GROSS PROFIT

Gross profit was \$264.5 million compared with \$318.3 million in the prior year period. During the prior year, gross profit was positively impacted by an adjustment of \$65.7 million relating to a change in royalty patent estimates. Excluding these prior year patent settlement adjustments, adjusted gross profit for 2008 was \$252.6 million. As a percentage of consolidated revenue, adjusted gross profit margins were 18% for 2009 compared with 15% for 2008.

One of the components included in cost of goods sold is royalty expense. We record royalty charges for the use of third party replication technologies. These royalty charges are recorded as a cost of goods sold at the time of shipment on a per unit basis according to contractual terms and conditions or our best estimates. In situations where formal license agreements are not in place, we use our best estimates, which are subject to periodic review. As adjustments become necessary, they are made in the period when they become known. During 2008, we recorded royalty expense of \$14.0 million, net of a credit of \$65.7 million in cost of goods sold of which \$15.2 million related to a patent settlement reached during the 2008 third quarter, and \$50.5 million related to a change in estimate during the 2008 fourth quarter as a result of invalid patent claims.

Amortization expense from property, plant and equipment, which is included in cost of goods sold, decreased to \$86.6 million from \$101.4 million in 2008. The decrease resulted from lower DVD depreciation expense combined with a lower net book value of capital assets resulting from the impairment charge at the end of 2008.

Foreign exchange related to operations, which is included in cost of goods sold, was a gain of \$1.1 million in 2009 compared to a loss of \$15.0 million in 2008. During 2008, we experienced foreign exchange losses in several of our European subsidiaries resulting from the decline in the British Pound relative to the Euro as certain customers in Euro-based subsidiaries are billed in Pounds. Simultaneously, our non-U.S.-based subsidiaries incurred foreign exchange losses on foreign denominated accounts payable as the U.S. dollar strengthened during 2008 against most foreign currencies.

5. IMPAIRMENT OF GOODWILL AND LONG-LIVED ASSETS

We review tangible and intangible assets (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, we conduct our long-lived asset assessment in the fourth quarter to correspond with our planning cycle. The impairment testing has taken into consideration the impact of the termination notice received from WHV in early 2010, and the associated anticipated loss of business. Our budgeting process is subject to the risks and factors in the risk factors section and there is no assurance that it is predictive of future performance.

We assess recoverability 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, it is considered impaired. An impairment loss is measured as the amount by which the carrying amount of a group of assets exceeds its fair value.

Based on future cash flow projections in our 2010 budget and multi-year projections for 2011 through 2014, taking into consideration the termination notice received from WHV, we determined that the carrying value of certain plant and equipment and customer supply agreements were in excess of its associated estimated undiscounted future cash flows. Accordingly, we wrote down the assets by \$59.8 million in 2009. In 2008, an impairment charge of \$57.2 million was recorded, of which \$19.7 million was included in continuing operations and \$37.5 million related to Ivy Hill was recorded in discontinued operations.

During the fourth quarter of 2009, we commenced our annual goodwill impairment test for our identified reporting units. We estimated the fair values for the reporting units using discounted cash flows. Future cash flow projections were based on the 2010 budget and multi-year projections for 2011 through 2014, taking into consideration the termination notice received from WHV. These projections include the latest information and estimates on unit growth trends, contractual pricing commitments, non-contractual price expectations and anticipated cost fluctuations based on market costs and efficiencies. The impairment test determined that the carrying value of the goodwill exceeded its fair value in certain subsidiaries, and as a result, we recorded an impairment charge of \$22.5 million in 2009. In 2008, an impairment charge of \$3.5 million was recorded, of which \$2.5 million was in continuing operations and \$1.0 million related to Ivy Hill is recorded in discontinued operations.

The impairment charge recorded during 2009 reflects the competitive market for DVDs, resulting in declining unit sales and continued pricing pressure from our customers. Furthermore, given the investment in equipment over the past few years combined with declining volumes and the loss of the WHV business, the Fund's capacity in all geographies is anticipated to exceed local demand.

6. AMORTIZATION OF INTANGIBLE ASSETS

We recorded intangible asset amortization of \$41.5 million compared to \$42.1 million in 2008. The 2009 and 2008 amortization related to intangible assets associated with the Warner Home Video supply contracts in addition to customer contracts for both Ditan and Vision.

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses, which include sales and marketing expenses, consulting expenses, office expenses and non-manufacturing related salaries and professional fees, increased 3% to \$167.2 million from \$162.6 million in 2008. The total includes \$17.4 million of combined severance charges associated with certain executive employees and consulting fees. Excluding these charges, as a percentage of consolidated revenues, selling, general and administrative expenses were 10% in 2009, in line with 10% in 2008.

8. OTHER CHARGES (INCOME), NET

(In thousands of U.S. dollars)	'09	'08
Facility restructuring	\$ 4,229	\$ -
Gain on sale of property, plant and equipment	(1,746)	(2,148)
	\$ 2,483	\$ (2,148)

8.1 FACILITY RESTRUCTURING

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 2009, costs of \$3.7 million related to severance, facility decommissioning and lease termination, were recorded as other charges. As of December 31, 2009, \$0.3 million remained unpaid. This amount was recorded in accrued liabilities. In January 2010, the Fund sold the Simi Valley, California facility for \$14 million and will record a gain on disposal of \$7.5 million in the first quarter of 2010.

Management's Discussion and Analysis

In March 2009, the Fund finalized its plans to close the Swindon, UK, distribution facility that was acquired as part of the acquisition of the assets of ODS Business Services in June 2008. In 2009, costs of \$0.5 million related to severance, were recorded as other charges. As of December 31, 2009, \$0.1 million remains in accrued liabilities.

8.2 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 \$23.0 million. An immediate gain of \$1.7 million was recorded to other charges on the transaction. A further gain of \$9.5 million has been deferred and is being amortized over the minimum lease term of five years. In 2009, \$1.8 million 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 \$10.5 million. An immediate gain of \$2.1 million was recorded to other charges on the transaction. A further gain of \$4.2 million was deferred and is being amortized over the minimum lease term of five years.

9. INTEREST EXPENSE

Interest expense decreased to \$37.6 million in 2009 from \$45.9 million in 2008, due to a lower average interest rate on our long-term debt combined with lower debt balances in 2009. Interest expense for 2009 included amortization of transaction costs and loan fees of \$2.5 million, compared to \$1.8 million in 2008. The weighted average interest rate on our long term debt in 2009 was 6.1% compared with 6.5% in 2008.

As of December 31, 2009, there were no borrowings outstanding under our revolving credit facility, except for letters of credit issued to various agencies, primarily in the United States, for \$14.5 million.

GAIN ON REPURCHASE OF DEBT

During the 2009 year, pursuant to the credit facility amendment in March 2009, the Fund repurchased \$169.7 million of debt for total cash proceeds of \$131.2 million, including transaction costs, resulting in a net gain of \$38.4 million.

10. INVESTMENT INCOME

We earned interest income of \$0.6 million in 2009 compared with \$1.7 million in 2008 due to lower average cash balances combined with lower rates of return.

11. INCOME TAXES

The Fund records income tax expenses based on projected taxable income in various jurisdictions and taking into account tax deductions available under the existing corporate structure. We recorded an income tax recovery of \$12.7 million for the year ended December 31, 2009 compared to a tax expense of \$12.2 million for the prior year on continuing operations.

Our effective tax rate for the year was 69% and reflects no tax benefits associated with the goodwill and long-lived asset impairment charges during the year. The tax rate does not reflect the recovery of previously unrecognized U.S. tax losses arising from legislative changes in the United States. Furthermore, we recorded valuation allowances in certain territories resulting from pre-tax losses generated in several of our operations.

Legislation enacted by the Canadian federal government on June 22, 2007 (Bill C-52) to implement proposed income tax changes to publicly traded income trusts such as the Fund has no impact on the Fund's current or future year earnings. For a more complete description of Bill C-52 and its impact on the Fund, see section 15.3 – Tax related risks.

The Fund believes 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 carry forwards in Europe, U.S. and Canada totaling \$338.0 million. The Fund recorded a valuation allowance for these losses as there is no assurance that it will be able to use these losses in the future.

12. EARNINGS/LOSS

The Fund generated a net loss from continuing operations of \$5.8 million or \$(0.11) per basic unit compared to net earnings from continuing operations of \$21.4 million or \$0.38 per basic unit in 2008, primarily as a result of the impairment charge recorded during 2009.

13. LIQUIDITY AND CAPITAL RESOURCES

Cinram's principal sources of funds include existing cash balances on hand, cash flow from operating activities and the sale of non-core assets. During 2009, our primary uses of funds included the significant debt reduction including scheduled repayments, voluntary prepayments and debt repurchases at amounts below par and maintenance and growth capital spending.

Sources and uses of cash

(In thousands of U.S. dollars)	'09	'08
Cash flow provided by continuing operating activities	\$ 302,584	\$ 146,224
Cash flow used in continuing financing activities	(220,116)	(64,379)
Cash flow used in continuing investing activities	(32,273)	(72,824)

We ended 2009 with a cash balance of \$122.1 million, up from \$73.3 million in 2008. We generated cash flow from continuing operations of \$302.6 million during 2009, compared with \$146.2 million in 2008, primarily as a result of improved working capital performance related to a reduction in accounts receivable days sales outstanding.

Cash used in continuing financing activities was \$220.1 million in 2009 compared with \$64.4 million in 2008 primarily reflecting \$131.2 million of cash used for the repurchase of long-term debt at a discount combined with \$82.1 million for debt repayments at par.

Cash used in continuing investing activities represented an outflow of \$32.3 million in 2009, compared to an outflow of \$72.8 million in the prior year, primarily reflecting reduced spending on property, plant and equipment. During 2009, we invested \$42.2 million for capital asset additions, compared to \$68.1 million in the prior year.

As of December 31, 2009, our net debt position (long-term debt excluding unamortized transactions costs, less cash and cash equivalents) was \$273.3 million, compared with \$573.8 million at December 31, 2008.

At December 31, 2009, we had total assets of \$0.8 billion compared with \$1.2 billion at December 31, 2008. The reduction in total assets was primarily attributable to lower accounts receivable, inventory, goodwill and long-lived asset balances.

Based on the future cash flow projections, the Fund believes it will have sufficient cash flow from operations and liquidity in the foreseeable future to meet its lending agreement requirements and plans; however, the Fund's expectations are subject to the risk factors described in the risk factor section. Given the focus on our debt reduction efforts, our implemented and forecasted cost control measures and continued business activity, we expect no significant working capital requirements for the foreseeable future. We anticipate utilizing our free cash flow from operations to reduce our debt levels further during 2010 in addition to servicing potential obligations resulting from the loss of the WHV business.

13.1 CAPITAL SPENDING

We paid \$42.2 million for property, plant and equipment in 2009, principally for additional Blu-ray capacity and maintenance capital spending compared with \$68.1 million in 2008. Our capital spending in 2010 will primarily consist of Blu-ray capacity expansion.

We anticipate that all capital spending and debt repayments for the foreseeable future will be financed with cash generated from operations, which will be supplemented by disposals of assets and owned facilities as we consolidate and rationalize our operations. The form of any other financing will vary depending on prevailing market and other conditions. However, there can be no assurance that funds will be available on terms acceptable to Cinram.

13.2 LONG-TERM DEBT

In May 2006, in connection with the income trust conversion, we entered into a credit facility and repaid all balances outstanding under our previous facilities. Our credit facility is a five-year senior secured credit facility for \$825 million that matures on May 6, 2011, and was comprised of a \$675 million term loan and a \$150 million revolving credit facility that initially bore interest at LIBOR plus 175 basis points, subject to financial ratio tests.

Management's Discussion and Analysis

During the first quarter of 2007, the Fund amended certain provisions under the credit facility, primarily allowing for a repurchase of units up to \$100 million and increasing flexibility under certain financial covenants. As part of that amendment, the interest rate on borrowings increased from LIBOR plus 175 basis points to LIBOR plus 200 basis points. The terms of the five-year credit agreement require the Fund to comply with certain financial and other covenants over the term of the facility (see section 13.3).

On March 30, 2009, the Fund amended certain provisions under the credit facility, primarily to permit the Fund to use up to \$150 million to repurchase term advances outstanding under the senior secured credit facility at prices below par through one or more "modified Dutch" auctions during a one-year period ending March 29, 2010. Concurrently, the Fund agreed to the following conditions:

- (i) a loan repayment of \$35 million on March 30, 2009 upon amendment effectiveness;
- (ii) increase in the quarterly principal repayments to \$10 million commencing with the June 30, 2009 payment;
- (iii) suspension of all unit distributions and unit buybacks until the May 5, 2011, scheduled maturity of the credit facility; and,
- (iv) reduction in the revolving credit commitment by \$50 million to \$100 million. The reduction was 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.

As of December 31, 2009, the revolving credit facility of \$100 million remains undrawn except for issued letters of credit totaling \$14.5 million. During 2009, pursuant to the credit facility amendment, we made total debt repayments of \$252 million and, accordingly, the outstanding term loan balance as of December 31, 2009 was \$395.4 million.

In February 2010, as a result of the contract termination notice received from WHV, Moody's Investor Service downgraded Cinram's corporate family rating to Caa1 from B3. The rating has a negative outlook. In February 2010, Standard and Poor's downgraded the rating on the Cinram debt to B- from B with a negative outlook.

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. Ratings for debt instruments range from AAA, in the case of S&P or Aaa in the case of Moody's, which represent the highest quality of securities rated, to D, in the case of S&P and C in the case of Moody's which represent the lowest quality of securities rated. The credit ratings accorded by the rating agencies are not recommendations to purchase, hold or sell the rated securities inasmuch as ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if in its judgment circumstances so warrant.

13.3 DEBT COVENANTS

As of December 31, 2009, our credit agreement has the following significant covenants:

- Leverage not to exceed 3.00x EBITA;
- Minimum interest coverage ratio of 4.00: 1.00;
- Annual capital expenditures not to exceed \$150 million;
- Suspension of distributions and unit buyback until maturity of credit agreement;
- Minimum liquidity consisting of cash on hand and revolver availability of \$37.5 million at all times, and cash on hand and revolver availability of \$100 million prior to offering to repurchase debt at an amount below par; and,
- Restricted payment covenants.

At December 31, 2009 and 2008, we were in compliance with all of the terms and covenants of our credit agreements. Based on our current internal forecasts which are subject to the risks described in risks and uncertainties, we anticipate remaining compliant with our debt covenants for the foreseeable future. There is no assurance that the current forecasts will be accurate. Under the terms of our credit agreement, we are obliged to make a mandatory offer to prepay the credit facilities from the following:

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

The credit agreement is guaranteed by each of CII's existing and future material subsidiaries, and is secured by all of the assets of each guarantor, including but not limited to (a) a first-priority pledge of all the capital stock of each of the subsidiaries of CII's and (b) perfected first-priority security interests in, and mortgages on, substantially all tangible and intangible assets of each guarantor (including but not limited to all material multi-year revenue-generating contracts, accounts receivable, inventory, equipment, leaseholds, investment property, intellectual property, real property, cash and proceeds of the foregoing).

13.4 LONG-TERM OBLIGATIONS

At December 31, 2009, we had contractual obligations that require future payments as follows:

(in millions of U.S. dollars)	Long-term debt	Capital leases	Operating leases	Pension Obligations	Total
2010	\$ 28.6	\$ 1.9	\$ 42.5	\$ 0.2	\$ 73.2
2011	366.7	1.3	31.8	–	399.8
2012	–	0.7	23.3	–	24.0
2013	–	0.5	13.2	–	13.7
2014	–	–	7.4	–	7.4
2015 and after	–	–	20.9	–	20.9
Total	\$ 395.3	\$ 4.4	\$ 139.1	\$ 0.2	\$ 539.0

All of Cinram's debt and future lease commitments are disclosed in Notes 8 and 9 to the consolidated financial statements for the year ended December 31, 2009.

13.5 PENSION OBLIGATIONS

At December 31, 2009, we had a \$0.2 million defined benefit pension obligation relating to 2010, representing the expected contributions to our defined benefit pension plan. Contributions for the year ending December 31, 2011 and beyond cannot be reasonably estimated as they will depend on future economic conditions and may be impacted by future government legislation.

13.6 DERIVATIVE FINANCIAL INSTRUMENTS

During 2006, the Fund entered into interest rate and currency hedges providing protection against both interest rate and currency exchange volatility. In August 2006, the Fund entered into a five-year, \$400-million swap agreement fixing the interest rate on the hedged portion of the term loan at 5.55%, plus 200 basis points, resulting in a rate of 7.55% maturing in August 2011. As at December 31, 2009 the credit-adjusted mark to market liability is \$25.2 million.

As of December 31, 2009, there were no currency options outstanding.

13.7 UNITHOLDERS EQUITY, DIVIDENDS AND DISTRIBUTIONS

At December 31, 2009, there were 55.2 million units issued and outstanding in addition to 0.03 million exchangeable Cinram International Limited Partnership units issued and outstanding (which units are exchangeable for Fund units on a one-for-one basis). The Fund has no unit options outstanding at December 31, 2009.

In March 2007, the Fund's Trustees authorized a Normal Course Issuer Bid (NCIB). Pursuant to the NCIB, the Fund was permitted to purchase up to a total of 5 million units for cancellation through the facilities of the Toronto Stock Exchange during the 12-month period following March 30, 2007. During 2007 and early 2008, the Fund repurchased and cancelled 1.4 million units for total cash of \$27.8 million under this NCIB.

In May 2008, the Fund's trustees authorized a renewed NCIB that expired in May 2009. Pursuant to this NCIB, the Fund was able to purchase up to a total of 4.4 million units for cancellation through the facilities of the Toronto Stock Exchange during the 12-month period following May 2008. During 2008, 1.8 million units were repurchased under this NCIB for total cash of \$8.4 million of which \$5.6 million was recorded as a reduction to the carrying value of the Fund units and \$0.02 million was charged to contributed surplus. The remaining \$2.7 million was charged to unitholders deficit.

On November 5, 2007 the Fund announced its intention to suspend all distribution payments following the distribution for the month of December 2007. A reduced distribution of C\$0.1625 per unit was declared for November and December 2007. The Fund declared and paid distributions of C\$0.2708 per unit from January 2007 to October 2007. In accordance with the distribution policy of both the Fund and the Partnership, unitholders of record at the close of business on the last business day of each calendar month were paid a distribution on or about the 15th day of the following month. There were no per unit cash distributions declared in 2008 or 2009 by Cinram's Trustees.

14. RELATED PARTY TRANSACTIONS

The Fund entered into the following related party transactions:

In 2009, a total of \$1.1 million (2008 – \$1.5 million) was paid to a law firm which a former partner became a Senior Vice President and General Counsel of the Fund in July 2007. 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 from July 2007 forward.

Management's Discussion and Analysis

In 2009, the Fund entered into two separate agreements to advance up to a combined C\$3.3 million to named officers for the purpose of buying units of the Fund on the open market. At December 31, 2009, C\$2.4 million has been advanced for the purchase of 1.3 million units. The balance outstanding is secured by the units purchased or any proceeds realized upon sale of the units. The loans are repayable in four equal installments commencing in the second quarter of 2011, or earlier under specified conditions.

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

15. RISKS AND UNCERTAINTIES

15.1 RISKS RELATING TO THE BUSINESS

Development or proliferation of digital distribution alternatives, including copying and distribution of music and video files

Our core business depends on the continued viability of physical distribution of music, video and games through authorized prerecorded media. Alternative distribution channels and methods, both authorized and unauthorized, for delivering music have eroded our volume of sales and the pricing of our products and services. The growth of these alternatives is driven by advances in technology that allow for the transfer and downloading of music and video files from the Internet and other channels. The proliferation of this copying, use and distribution of such files is supported by the increasing availability and decreasing price of new technologies, such as analog recorders, personal video recorders, CD and DVD burners and portable MP3 (and other file formats) music and video players, widespread access to the Internet and the increasing number of peer-to-peer digital distribution services that facilitate file transfers and downloading. Over the past few years, music files have accounted for most of the transfer and downloading, a substantial amount of which was conducted without authorization from the content owners. While certain industry associations, such as the Recording Industry Association of America (RIAA) and the Canadian Recording Industry Association (CRIA), have launched or attempted to launch legal actions against persons engaged in, or Internet service providers facilitating, frequent unauthorized downloading and sharing of files, there can be no assurance of the ultimate outcome of any such lawsuits or that the efforts of these industry associations will be able to effectively manage these concerns. The RIAA has previously announced that it will cease bringing legal actions against individual downloaders and file sharers, further limiting its ability to stem illegal downloading. During the last few years, music industry labels and other content owners, including some of our customers, have entered into arrangements with Internet music providers that broaden the opportunities for legitimate downloading. We expect that file sharing and downloading, both legitimate and illegal, will continue to exert significant downward pressure on the demand for CDs. As current technologies improve, the digital transfer and downloading of video and game files will become more widespread. Certain of our customers have begun to develop or partner with new services for the authorized digital distribution of their movies, television programs and games. As the speed and quality with which video files can be transferred and downloaded improves, file sharing and downloading may exert significant downward pressure on the demand for DVDs in the future. Demand for our products has also been, and is expected to continue to be, adversely affected by CD and DVD piracy, which is the unauthorized production of music, movies and games for commercial sale. In addition, our business faces pressure from emerging distribution alternatives, like video-on-demand (VOD) and personal digital video recorders. These services may offer more attractive pricing or more convenient delivery and, as a result, could materially reduce demand for pre-recorded CDs and DVDs. File sharing, downloading (both legal and illegal) and piracy have contributed to a significant decrease in volumes, and have put significant pressure on the retail price of CDs. As a significant portion of our revenue is derived from the sale of DVDs, continued file sharing, downloading (both legal and illegal) and piracy or the growth of other alternative distribution channels and methods could materially adversely affect the Fund's business, financial condition and results of operations.

Economic trends and consumer preferences

Our financial performance depends on consumer demand for our customers' products. A significant portion of the purchases of prerecorded media products sold by our customers are discretionary. Accordingly, weak economic conditions or outlook or weak consumer confidence could reduce consumption in any of our customers' major markets, thereby causing declines in our revenue and net earnings. In addition, due to the discretionary nature of their products, our customers must continually compete for the public's leisure time and disposable income with other forms of entertainment, including sporting events, concerts, live theatre and restaurants. They also compete for retail shelf space with other consumer goods. As a result of this competition, demand for our customers' products could be reduced and, accordingly, sales volumes, financial condition and results of operations of the Fund could be adversely affected.

Significant competitive and pricing pressures

We are engaged in an industry that is highly price competitive. Some of our competitors are companies, or divisions or operating units of companies that have greater financial and other resources than the Fund. In addition, competitive pressure is exerted by lower-cost, offshore replicators. We may not be able to compete successfully in our industry, and this could have a material adverse effect on the Fund's business, results of operations and financial condition. Furthermore, as previously disclosed in our prior year public filings, our financial results were adversely impacted and may from time to time be impacted by significant pricing pressure pursuant to our multi-year contracts with our customers that contain a periodic market price test and most favored nations clauses. These contracts, depending on prevailing industry prices, require that we lower the prices we charge our customers to match market prices tested periodically or to meet competitors' terms. There is no assurance that customers will renew or continue their contractual agreements.

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. The notice covers all Cinram entities globally and will directly impact operations in North America, Mexico, UK, France, Germany and Spain. WHV revenues for 2009 represented approximately 32% of the total consolidated revenues of the Fund.

Many of our customers have recently undergone, or may undergo, consolidation. As our customers grow larger and their industries grow more concentrated, the few remaining large entities may develop greater bargaining power and may be able to exert significant pricing pressure on our products, which would adversely affect the Fund's margins. If any one of our customers is acquired by or consolidates with another participant in the industry that has either an existing relationship with one of our competitors or the internal capacity to supply the same products and services that we provide, we may lose that customer and the Fund's results of operations may be materially adversely affected.

Dependence on a limited number of large customers with substantial bargaining power and renewal of contracts

We operate in an industry in which there is a high degree of customer concentration. Our three largest customers in 2009 were WHV, Twentieth Century Fox Home Entertainment and Universal Pictures. Collectively, these three customers accounted for approximately 66% of our consolidated 2009 revenue. WHV, our largest customer, accounted for 32% of our 2009 consolidated revenue. 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. The notice covers all Cinram entities globally and will directly impact operations in North America, Mexico, UK, France, Germany and Spain. We expect that this termination will have a material adverse affect on the Fund's business by reducing future revenues, EBITA and cash flows. In addition, if any one of our other significant customers, individually or collectively, discontinue their relationship with us for any reason (including as a result of our failure to perform under our contracts), the Fund's business would be adversely affected. In addition, our customers face a variety of risks and competitive pressures in the industries in which they operate, and if market and other factors cause them to cancel, reduce or postpone current or expected purchase commitments, the Fund's operating results and financial condition may be materially adversely affected. Similarly, if our significant customers do not own the licensing and distribution rights to the content they produce, there is no assurance that we will be provided with the contract for these products regardless of the exclusive nature of our contracts. The Fund's operating results could also be impacted if one of our largest customers fails or is unable to pay amounts owed to us in a timely manner, or at all, whether due to strategic redirections or adverse changes in their businesses or for other reasons.

Although our customer relationships comprise contractual arrangements of varying terms, in any given year, certain contracts come up for renewal. If we were unable to renew contracts with significant customers, either individually or as a group, under favorable terms, or if our relationship with any of these customers suffered or terminated, the Fund's results of operations may be materially adversely affected.

Dependence on key personnel

Our operations and prospects depend, in large part, on the performance and continued service of our senior and middle management teams. The loss of key employees or the inability to attract and retain skilled employees could adversely affect our ability to effectively pursue our business strategy. Currently, only certain of our key officers and employees are bound by written employment contracts.

Increased costs or shortages of raw materials or energy

Each year we purchase significant quantities of plastics, the key raw materials used in the production of DVDs and CDs. The availability and prices of these materials may be influenced by a number of different factors, many of which are beyond our control, including weather, transportation, supply capacity constraints, delays and the price of oil. Significant shortages and price increases for the plastics we use have occurred in the past. We generally do not hedge against price increases in raw materials, although many of our customer contracts include some ability to adjust pricing based on changes in commodity prices. If we experience raw material price increases and are either unable to pass these increases through to our customers, or if we are contractually restricted as to the timing of any increases in the amount we charge our customers, the Fund's gross margins would be adversely affected. Also, the processes we use in our manufacturing, distribution and printing facilities are energy intensive. Therefore, increases in energy costs would adversely affect the Fund's gross margins and, consequently, our results of operations.

Demand and pricing for mature products

Demand for our products and the prices at which we are able to sell our products generally decline as the products mature. Over the course of its product life-cycle, the CD format has experienced a substantial decline in demand and pricing. As a result, to the extent we are unable to increase our sales volumes or reduce our manufacturing costs, the Fund's profit margin for this format will and can be expected to further decline. We have experienced similar pricing declines in respect of the DVD format and expect to experience similar volume declines given the maturation of the DVD format. We also expect to experience similar pricing and volume declines in any future formats that we manufacture. Therefore, to a certain extent, our success depends on our ability to invest in new technologies and secure contracts with our customers for new formats as they make the transition from mature formats. In particular, we will need to invest in Blu-ray replication capacity as may be required by our customers, and there can be no assurance that we will be able to obtain this additional capacity in the time frames needed or secure contracts with our customers for Blu-ray. In addition, as a result of declines in demand for the CD format, our revenue continues to be dependent on sales of the DVD format.

Management of the production, supply or security of products

We are required to deliver substantial volumes of products to meet the stringent requirements of our customers. Our failure to successfully manage the production or supply of our products, including the failure to meet scheduled production and delivery deadlines, or the failure to meet the quality requirements of customers, could materially adversely affect the Fund's business, operating results and financial condition. In particular, many of our larger customer contracts include penalties for failure to meet production and delivery

Management's Discussion and Analysis

requirements under the agreements, and these penalties could be significant if there was a material failure to perform. In addition, if a person was to make and distribute an unauthorized copy of one of our customers' audio or video files prior to the scheduled release, we could be subject to liability arising from this breach of security, and the Fund's business operations, as well as our reputation, could be adversely affected.

We are exposed to warranty and product liability claims in cases of product performance issues. There can be no assurance that we will not experience material product liability losses arising from such claims in the future and that these will not have a negative impact on our reputation and sales. We generally maintain insurance against many product liability risks, but there can be no assurance that this coverage will be adequate for any liabilities ultimately incurred. In addition, there is no assurance that insurance will continue to be available on terms acceptable to the Fund. A successful claim that exceeds our available insurance coverage or a product recall could have a material adverse impact on the Fund's financial condition and results of operations, as well as our reputation.

Intellectual property infringement

The industry in which we compete has many participants that own, or that claim to own, intellectual property for certain manufacturing processes we employ, the products we produce or the content that is produced by our customers. In situations where formal license agreements are not in place, management's best estimate of the royalty obligation is used. These estimates are reviewed periodically. In 2008, as a result of a review of management's estimates, we recorded a credit of \$65.7 million in cost of goods sold of which \$15.2 million related to a patent settlement reached in August 2008, and \$50.5 million related to a change in estimate during the fourth quarter of 2008 as a result of invalid patent claims. While management currently believes that the revised accruals are adequate, there can be no assurance that, if we are required to obtain licensing in respect of these rights, we could obtain licensing on the terms assumed in these accruals. Furthermore, we cannot determine with certainty whether these or any other existing third party patents or the issuance of any new third party patents would require us to alter, or obtain licenses for their processes or products. There is no assurance that we will be able to obtain any such licenses on terms favorable to us, if at all, and obtaining and paying royalties on new licenses might materially increase our costs. Additionally, the fees we pay for existing licenses could increase materially in the future when these licenses are renewed. New multimedia formats will also likely require that we obtain additional licenses.

From time to time we are audited by patent rights holders to determine our compliance with the relevant patent license agreements, and these audits can indicate errors in our calculation and underpayment of patent royalties. To the extent any such errors or underpayments exist, we may be required to pay royalty rates substantially higher than the rates under the license agreements, as well as penalties and interest. Accordingly, any material errors or underpayments could have a material adverse impact on the Fund's financial condition and results of operations.

There can be no assurance that the content on the multimedia products we manufacture on behalf of our customers does not infringe upon the rights of third parties. Any claims brought against us by third parties with respect to intellectual property rights, with or without merit, could be time consuming, result in costly litigation or cause delays in our operations. Since there can be no assurance of the outcome of such claims, we may be subject to fines or penalties that could be significant. We are involved in various intellectual property-related legal actions that are in the ordinary course of its business. We cannot be certain that these actions, or any future actions, will not have a material adverse effect on the Fund's business, operating results or financial condition.

Conduct of business internationally

A significant portion of our sales are made to customers located outside of North America, primarily in Western Europe. We expect our international operations to continue to account for a significant portion of our revenue in the future, and we may expand into new international markets in the future. The economies of foreign countries are important to our operations could suffer slower or negative economic growth or instability in the future. In addition, our operations and sales in foreign markets could be negatively affected by a variety of risks, including new restrictions and controls on access to markets, unusual or burdensome foreign laws or regulatory requirements or unexpected changes to such laws or requirements, fluctuations in the value of foreign currencies against the Canadian and U.S. dollars, dependence on foreign distributors and their sales channels and the failure to recognize intellectual property rights. We may not be able to insure or hedge against these risks, and we may not be able to ensure compliance with all applicable regulations without incurring significant additional costs.

Exchange rate fluctuations

Our operations in foreign markets expose us to the risk of foreign currency fluctuations. To the extent we incur expenses or invoice customers in currencies other than the entity's functional currency, exchange rate fluctuations could cause our expenses to increase or our revenues to decrease, thereby negatively affecting profitability and cash flows. In addition, we are exposed to currency exchange rate risk on debt denominated in U.S. dollars, as a portion of our consolidated earnings are generated in different currencies.

Changes in interest rates

The Fund's credit facility bears interest at variable rates with a fixed interest rate spread. The weighted average interest rate on the debt outstanding under the senior credit facility for the year ended December 31, 2009 was 6.1%. Cinram has entered into an interest rate hedge of \$400 million, which exceeds the amount of outstanding debt. Therefore, increases in interest rates will have no effect on the amount of cash required to service our indebtedness for the duration of the credit facility which expires in May 2011.

Blu-ray format

Our exclusive contractual arrangements with our major customers generally do not include the replication of Blu-ray discs and accordingly we cannot be assured that any of our existing customers will continue to employ our services with respect to this format (or any future generations of multimedia products). In order for us to manufacture Blu-ray discs, provided that we are able to secure long-term customer agreements for the format, we may be required to extensively upgrade or alter our manufacturing processes and production facilities. If we are unable to materially participate in the Blu-ray format, because we are unable to secure long-term customer commitments, unable to obtain the resources necessary to fund product expansion or unable to secure future financing from lenders to purchase production equipment for any other reason, we may not be able to successfully implement our business strategies and our customer relationships, market share, gross profit margins, and our results of operations could be adversely affected.

Increased compression and seasonality

Our production levels and, in turn, our revenue and cash flows, are largely affected by the schedule according to which our major customers release their products. This in turn is dependent on a variety of factors, such as consumer demand and the availability of marketable content. The Fund's results of operations and cash flows in any period are materially affected by the timing of product releases by its customers, which may result in significant fluctuations from period to period. In addition, in the music and video industries, consumer purchases typically are made in the last three months of the calendar year. Accordingly, an increasing percentage of our annual revenue and earnings is being realized during the fourth quarter, making the fourth quarter results material to the Fund's full-year performance. These fluctuations in our sales may adversely affect the Fund's results from operations and cash flows, as the Fund will be required to employ more capacity to meet the increased compression.

Work stoppages or other labor disruptions affecting key customers

Labor disruptions affecting our key customers, particularly work stoppages and disputes involving those associated with the music recording or film industries, could affect demand for our products. Any prolonged strikes or other forms of labor protests or disputes affecting the businesses of our customers will likely have a material impact on the Fund's financial condition and results of operations.

Environmental and consumer safety laws

Our manufacturing facilities are subject to a range of federal, state, provincial, local and foreign laws and regulations relating to the environment. These include laws and regulations that govern discharges into the air, water and land, the handling and disposal of hazardous substances and wastes, and the remediation of contamination associated with our facilities and off-site disposal locations. In addition, many of our products are covered by the requirements imposed by the recently enacted Consumer Product Safety Improvement Act (CPSIA), which limits the amount of lead and other harmful products in products intended for children 12 and under. While we believe we are in compliance with all the requirements set forth in the CPSIA, including those scheduled to go into effect in 2011, the CPSIA requires independent testing and certification of our products. Compliance with existing and future environmental and product safety laws and regulations and enforcement policies may require that we incur capital and other costs, which may materially adversely affect our future financial condition. In addition, if we are found not to be in compliance with applicable environmental or product safety laws and regulations, we may be subject to fines and penalties that could be significant. Our customers also may require us to meet additional environmental or consumer safety requirements, which may require that we incur capital and other costs or result in our inability to provide the products in the manner required.

Other Services and Products

The Fund also is seeking to expand its service offerings into complementary areas, such as the expansion into distribution of products in the wireless market. In addition, the Fund is looking at additional products that would be consistent with the products currently offered by the Fund, including products that use the Fund's expertise in manufacturing optical discs. These new products and services will likely require additional capital expenditures by the Fund that may not be available when needed or, if available, may not be on terms that are acceptable to the Fund. In addition, there can be no assurance that any of these new services or products will meet with success in the marketplace.

Availability of future financing

We expect that our future principal sources of funds will be cash generated from our operating activities and borrowing capacity under our credit facility. We believe that these sources will provide us with sufficient liquidity and capital resources for the foreseeable future to meet our current and future financial obligations, as well as to provide funds for our financing requirements, capital expenditures and other needs. Despite our expectations, however, we may require additional equity or debt financing to meet our financing requirements and, upon maturity of the existing credit facility in May 2011, will likely need to renew or replace the facility. This financing (including any renewal or replacement of the credit facility upon maturity) may not be available when required or may not be available on commercially favorable terms or on terms that are otherwise satisfactory to the Fund.

Fluctuations in quarterly and annual operating results

A number of factors, many of which are outside our control, may cause or contribute to significant fluctuations in our quarterly and annual revenue and operating results. These fluctuations may make financial planning and forecasting more difficult. In addition, these fluctuations may result in unanticipated decreases in the Fund's available cash, which could negatively impact our business and prospects. As discussed more fully below, these fluctuations could also increase the volatility of the price of the Fund's units.

Management's Discussion and Analysis

Factors that may cause or contribute to fluctuations in our operating results and revenue include:

- The loss of any major customer;
- The impact of current economic conditions;
- Fluctuations in demand for our products;
- Increased competition with the industry;
- Introduction or enhancement of products and technologies by our competitors, and market acceptance of these new or enhanced products and technologies;
- Events and conditions in the motion picture and music industries that affect the number of movies or television shows produced and distributed on home video and the number of CD albums sold, the popularity of motion pictures, and strikes by motion picture and music industry participants;
- Consolidation by participants in the markets in which we compete, which could result in, among other things, pricing pressure;
- The amount and timing of our operating costs and capital expenditures, including those related to the expansion of our business, operations and infrastructure;
- Variations in the time-to-market of our technologies in the entertainment industries in which we operate;
- Seasonal product purchasing patterns by consumers;
- The impact of, and our ability to react to, interruptions in the entertainment distribution chain, including as a result of work stoppages at our facilities, our customers' facilities and other points throughout the entertainment distribution chain;
- The impact of, and our ability to react to, political instability, natural disasters, war and/or events of terrorism;
- Adverse outcomes of litigation or governmental proceedings, including any foreign, federal, state or local tax assessments or audits;
- Claims or adjustments with respect to patent royalties payable with respect to our products; and,
- Costs of litigation.

One or more of the foregoing or other factors may cause the Fund's operating expenses to be disproportionately higher or lower or may cause the Fund's revenue and operating results to fluctuate in any particular quarterly or annual period. Results from prior periods are thus not necessarily indicative of the results of future periods.

Events and conditions in the motion picture industry

Our DVD sales tend to fluctuate based on the underlying trends in the motion picture industry and are driven in part by the release of hit films on DVD. When box office receipts for the motion picture industry increase, we have typically seen sales of related DVDs increase as well. The number of films that are produced can be affected by a number of factors, including strikes and work stoppages within the motion picture industry, as well as by the tax incentive arrangements that many foreign governments provide filmmakers to promote local filmmaking.

A significant competitive advantage currently enjoyed by those who distribute movies via physical pre-recorded media, such as DVDs, over most other movie distribution channels, except theatrical release, is the early timing of the DVD release "window." This window is exclusive against most other forms of non-theatrical movie distribution, such as pay-per-view, video-on-demand, premium television, basic cable, and network and syndicated television. The length of the window for DVDs varies, typically ranging from 30 to 90 days for North American domestic releases and from 120 to 180 days for international releases. Thereafter, movies are made sequentially available to television distribution channels. As some studios have begun to experiment with collapsing this window, we may be materially adversely affected if the length of the DVD release window is shortened or if the DVD release window is no longer as exclusive and newly released movies are made available earlier through other distribution channels. As a result, consumers would no longer need to wait until after the DVD release window to view a newly released movie on other media, which could have a material adverse effect on our financial condition and results of operations.

Failure to maintain internal controls

We have a complex business organization that is international in scope. Ensuring that we have adequate internal financial, accounting and information technology controls and procedures in place to help ensure that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently.

Any failure to maintain adequate internal controls, or consequent inability to produce accurate financial statements on a timely basis, could increase the Fund's operating costs and could materially impair our ability to operate our business. In addition, investors' perceptions that the Fund's internal controls are inadequate or that we are unable to produce accurate financial statements may adversely affect the price of the Fund's units.

Due to our previous participation in multi-employer pension plans, we may have exposure under those plans that extends beyond what our obligations would be with respect to our employees.

Ivy Hill Corporation contributed to several multi-employer pension plans, and we have agreed to indemnify the purchaser of the Ivy Hill assets (which also assumed the obligations under the multi-employer pension plans) with respect to liabilities that may arise from a partial or complete withdrawal by Ivy Hill from any under-funded plan in which it participated at the time of the acquisition. In addition, even if no withdrawal event occurs, on the earlier of a change of control of the acquiring party or May 31, 2013, we will be required to pay the acquiring party an amount equal to the estimated withdrawal liability of Ivy Hill at that time. Based on the limited information available from plan administrators at December 31, 2009, which we cannot independently validate, we believe that the resulting liability

would be material to our financial position and results of operations. Fluctuations in the rates of return of assets and liabilities of these plans could significantly affect our obligation under this indemnity. This liability also could increase if any other contributing employer withdraws from any plan which is under-funded, and such employer (or any member in its controlled group) cannot satisfy its obligations under the plan at the time of withdrawal. Based on this limited information, we have engaged actuaries to estimate our expected obligation under this indemnity and have accrued the present value of this estimated liability at December 31, 2009. However, we cannot assure you that the withdrawal liability will not increase from what was previously estimated, or that no other contributing employer will withdraw from one or more plans.

15.2 RISKS RELATING TO THE FUND'S UNITS

Unpredictability and volatility of unit price

A publicly-traded income trust will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Fund's units will trade cannot be predicted. The market price of the Fund's units could be subject to significant fluctuations in response to variations in quarterly operating results, distributions and other factors. In November 2007, the Fund announced a suspension of its distribution due to numerous factors. Accordingly, the Fund experienced a significant reduction in the unit price. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the units.

Nature of units

The Fund's units are not "deposits" within the meaning of the Canada Deposit Insurance Corporation Act and are not insured under the provisions of that Act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company. In addition, the Fund is not a "mutual fund" as defined by applicable securities legislation.

Securities, like the units, are hybrids in that they share certain attributes common to both equity securities and debt instruments. The units do not represent a direct investment in Cinram ULC or the business of Cinram International Inc. and should not be viewed by investors as shares or interests in Cinram ULC, Cinram International Inc. or any other company or entity. The units do not represent debt instruments and there is no principal amount owing to unitholders under the units. Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. Each unit represents an equal, undivided, beneficial interest in the Fund. The Fund's principal assets are trust units and notes of CII Trust. The price per unit is a function of the Fund's anticipated distributable cash at any time, which is in turn dependent on the distributable cash distributed upstream by its subsidiaries.

Structural subordination of the units

In the event of a bankruptcy, liquidation or reorganization of subsidiaries of the Fund, holders of certain of their indebtedness and certain trade creditors will generally be entitled to payment of their claims from the assets from such entities before any assets are made available for upstream distribution, eventually to the Fund. The units are effectively subordinated to the credit facility and most of the other indebtedness and liabilities of the Fund.

Limitation on non-resident ownership and liquidity

The Fund's Declaration of Trust imposes various restrictions on unitholders. Non-resident Canadian unitholders are prohibited from beneficially owning more than 45% of the outstanding units (on a non-diluted and fully-diluted basis). Certain units are subject to U.S. withholding tax obligations. These restrictions may limit (or inhibit the exercise of) the rights of certain persons to acquire units, to exercise their rights as unitholders and to initiate and complete takeover bids in respect of the units. As a result, these restrictions may limit the demand for units from certain unitholders and thereby adversely affect the liquidity and market value of the units held by the public. In addition, if the Fund determines that there is a risk that non-residents of Canada would beneficially own units in excess of the stipulated maximum set out in the Fund's Declaration of Trust, it is entitled to take a number of actions under the Declaration of Trust, including to require unitholders that it believes are non-residents of Canada to sell their units, which action may have an adverse effect on the market price of the units.

Redemption right

It is anticipated that the redemption right will not be the primary mechanism for unitholders to liquidate their investment. Upon a redemption of units or termination of the Fund, the Fund's Trustees may distribute the trust units and/or the notes of CII Trust owned by it or any other assets of the Fund or of any of its other direct or indirect subsidiaries directly to the unitholders, subject to obtaining any required regulatory approvals and complying with the requisite terms and conditions of such approvals. Assets so distributed may not be qualified investments for trusts governed by tax-exempt plans such as RRSPs, RRIAs and RESPs, depending upon the circumstances at the time.

Additionally, such securities will not be listed on any stock exchange and no established market is expected to develop in such securities, and they may be subject to resale restrictions under applicable securities laws.

Management's Discussion and Analysis

Dilution

The Fund's Declaration of Trust authorizes the Fund to issue an unlimited number of units for consideration and on those terms and conditions as are established by the Trustees without the approval of unitholders. The unitholders have no pre-emptive rights in connection with such further issues. Any further issuance of units will dilute the interests of existing unitholders. In addition, Cinram International Limited Partnership (Cinram LP) is permitted to issue additional exchangeable partnership units for any consideration and on any terms and conditions.

Future sales of units

The sales of a substantial number of units in the public market or otherwise by unitholders could adversely affect the prevailing market price of the units and could impair the Fund's ability to raise additional capital through an offering of its equity securities.

Distribution of CII Trust units and notes on termination of the Fund

Upon termination of the Fund, the Trustees may distribute the trust units and notes of CII Trust owned by it and any other downstream assets owned directly by any of the Fund's subsidiaries (and, therefore, indirectly by the Fund) directly to the unitholders, subject to obtaining all required regulatory and other approvals. There is currently no market for CII Trust units, CII Trust notes or any of the other foregoing assets. In addition, none of the foregoing assets are freely tradable, nor are any of them currently listed on any stock exchange or quotation system or qualified investments for tax-exempt plans, such as RRSPs, RRIFs and RESPs.

Unitholder liability

The Fund's Declaration of Trust provides that no unitholder shall be subject to any liability whatsoever to any person in connection with a holding of units. In December 2004, the Trust Beneficiaries' Liability Act (Ontario) received Royal Assent. That Act provides that unitholders of the Fund are not liable, as beneficiaries of a trust, for any act, default, obligation or liability of the Fund or the Fund's Trustees, arising after its enactment. That Act has not yet been judicially considered and it is possible that reliance on the Act by a unitholder could be successfully challenged on jurisdictional or other grounds.

Holders of exchangeable limited partnership units of Cinram LP may lose their limited liability in certain circumstances, including by taking part in the control or management of the business of Cinram LP. The principles of law in the various jurisdictions of Canada recognizing the limited liability of the limited partners of limited partnerships subsisting under the laws of one province but carrying on business in another province have not been authoritatively established. If limited liability is lost, there is a risk that holders of LP Units may be liable beyond their contribution of capital and share of undistributed net income of Cinram LP in the event of judgment on a claim in an amount exceeding the sum of the net assets of Cinram LP's general partner and the net assets of Cinram LP. Holders of LP Units remain liable to return to Cinram LP for such part of any amount distributed to them as may be necessary to restore the capital of Cinram LP to the amount existing before such distribution if, as a result of any such distribution, the capital of Cinram LP is reduced and Cinram LP is unable to pay its debts as they become due.

Leverage and restrictive covenants in current and future indebtedness

The ability of the Fund and Cinram LP to make distributions or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of subsidiaries of the Fund. The degree to which the Fund is leveraged could have important consequences to the unitholders, including: (i) that the Fund's ability to obtain additional financing in the future for working capital, capital expenditures or acquisitions may be limited; (ii) that a significant portion of the Fund's cash flow from operations may be dedicated to the payment of the principal of, and interest on, its indebtedness, thereby reducing funds available for future distributions and causing taxable income for unitholders to exceed cash distributions; (iii) that certain of the Fund's borrowings will be at variable rates of interest, which exposes the Fund to the risk of increased interest rates; and (iv) that the Fund may be more vulnerable to economic downturns and limited in its ability to withstand competitive pressures.

The Fund's credit facility and the subordinated promissory note (the U.S. Note) issued by a Fund subsidiary, Cinram (U.S.) Holding's Inc. (CUSH), in favour of another subsidiary, Cinram 886 LLC contain numerous restrictive covenants limiting the discretion of management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of the Fund to create liens or other encumbrances, to pay distributions on the units and LP Units or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the credit facility and the U.S. Note contain a number of financial covenants that will require the Fund to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the credit facility or the U.S. Note could permit acceleration of the relevant indebtedness. If the indebtedness under the credit facility or the U.S. Note, including any possible hedge contracts with the lenders, were to be accelerated, there can be no assurance that the assets of the Fund would be sufficient to repay that indebtedness in full.

In the future, the Fund will have to refinance its available credit facilities or other debt, and there can be no assurance that the Fund will be able to do so or be able to do so on terms as favorable as those presently in place. If the Fund is unable to refinance these credit facilities or other debt, or is only able to refinance these credit facilities or other debt on less favorable and/or more restrictive terms, this may have a material adverse effect on the Fund's financial position. In addition, the terms of any new credit facility or debt may be less favorable or more restrictive than the terms of the existing credit facilities or other debt, which may adversely affect the Fund's financial condition.

The Fund's substantial consolidated indebtedness could negatively impact the business

The Fund has a substantial amount of indebtedness totaling approximately \$395.2 million. In addition, the U.S. Note and the credit facility permit future further indebtedness provided that certain restrictive covenants are satisfied.

The degree to which the Fund on a consolidated basis incurs indebtedness could have important consequences to the holders of units, including:

- The Fund's ability in the future to obtain trade credit from vendors, performance bonds from surety companies or additional financing for working capital, capital expenditures or other purposes may be limited;
- The Fund may be unable to refinance indebtedness on terms acceptable to it or at all;
- A significant portion of the Fund's cash flow (on a consolidated basis) is likely to be dedicated to the payment of the principal of and interest on the Fund's indebtedness, thereby reducing funds available for future operations, capital expenditures and/or distributions;
- The Fund may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures;
- The Fund may be limited in its ability to plan for or react to changes in its business or the industry in which it operates; and
- The Fund may be at a competitive disadvantage to its competitors that have less indebtedness.

Changes in the Fund's credit worthiness may affect the value of the units

The perceived credit worthiness of the Fund or its subsidiaries may affect the market price or value and the liquidity of the units.

CUSH may not be able to repurchase the indebtedness under the U.S. Note upon a change of control as required by the U.S. Note

Upon the occurrence of certain specific kinds of change of control events, CUSH will be required to offer to repurchase outstanding indebtedness under the U.S. Note at amounts greater than their principal amount plus accrued and unpaid interest, if any, to the date of repurchase. However, it is possible that CUSH will not have sufficient funds at the time of the change of control to make any of the required repurchases or the restrictions in the credit facility may not allow for such repurchases. Failure to purchase tendered indebtedness under the U.S. Note would constitute a default under the U.S. Note, which, in turn, would constitute a default under the credit facility.

CUSH may not be able to make all principal payments on the U.S. Note

The U.S. Note will mature 10 years after the date of issuance. CUSH may not be able to refinance the principal amount of the U.S. Note in order to repay the principal outstanding or may not have generated enough cash from operations to meet this obligation. There is no guarantee that CUSH will be able to repay the outstanding principal amount upon maturity of the U.S. Note.

As a result of the subordinated nature of the guarantee of the U.S. Note, upon any distribution to creditors of CII in a bankruptcy, liquidation or reorganization or similar proceeding relating to CII or its property or assets, the holders of senior indebtedness will be entitled to be paid in full in cash before any payment may be made with respect to the U.S. Note.

15.3 TAX-RELATED RISKS

Canadian income tax matters

There can be no assurance that the Fund's units will continue to be qualified investments under the Income Tax Act (Canada) (the "Tax Act") for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans, and tax-free savings accounts each as defined in the Tax Act. The Tax Act imposes penalties or other tax consequences for the acquisition or holding of non-qualified investments. In addition, there can be no assurance that Canadian federal income tax laws and administrative policies respecting the treatment of mutual fund trusts will not be changed in a manner that adversely affects unitholders. If the Fund ceases to qualify as a "mutual fund trust" under the Tax Act, the income tax considerations described in the Fund's public disclosures would be materially and adversely different in certain respects.

Currently, a trust will not be considered to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents of Canada unless all or substantially all of its property is property other than taxable Canadian property as defined in the Tax Act. The Fund's Declaration of Trust contains mechanisms to ensure that the Fund is not maintained primarily for the benefit of non-residents of Canada. On September 16, 2004, the Minister of Finance (Canada) released draft amendments to the Tax Act. Under the draft amendments, a trust would lose its status as a mutual fund trust if the aggregate fair market value of all units issued by the trust held by one or more non-resident persons or partnerships that are not "Canadian partnerships" (as defined in the Tax Act) is more than 50% of the aggregate fair market value of all the units issued by the trust where more than 10% (based on fair market value) of the trust's property is "taxable Canadian property" or certain other types of property. If the draft amendments are enacted as proposed, and if, at any time, more than 50% of the aggregate fair market value of units of the Fund were held by non-residents of Canada and partnerships other than Canadian partnerships, the Fund would thereafter cease to be a mutual fund trust. The draft amendments do not currently provide any means of rectifying a loss of mutual fund trust status. On December 6, 2004, the Department of Finance tabled a Notice of Ways and Means Motion that did not include these proposed changes. The issue of ownership of units of mutual fund trusts by non-resident persons and partnerships other than Canadian partnerships has not been addressed in any subsequent Federal Budget or proposed changes to the Tax Act. The Department of Finance indicated that the implementation of the proposed changes would be suspended pending further consultation with interested parties.

Management's Discussion and Analysis

On June 22, 2007, Bill C-52, which modifies the income tax rules applicable to certain publicly traded or listed trusts and partnerships, received Royal Assent. In particular, certain income of (and distributions made by) these entities will be taxed in a manner similar to income earned by (and distributions made by) a corporation. These rules (SIFT rules) will be effective with respect to trusts that commence public trading after October 31, 2006. For trusts that were publicly traded or listed prior to November 1, 2006, the application of the SIFT rules will be delayed to the earlier of (i) the trust's 2011 taxation year, and (ii) a taxation year of the trust in which the trust exceeds normal growth as determined by reference to the normal growth guidelines, as amended from time to time, unless that excess arose as a result of a prescribed transaction.

On December 15, 2006, the Department of Finance released guidance for income trusts and other flow-through entities that qualify for the four-year transitional relief. The guidance, as amended from time to time, establishes objective tests with respect to how much an income trust is permitted to grow without jeopardizing its transitional relief. If the limits described in the normal growth guidelines are exceeded, the Fund may lose its transitional relief and thereby become immediately subject to the SIFT rules.

On March 12, 2009, Bill C-10 – Budget Implementation Act, 2009, which further modifies the rules applicable to certain publicly traded or listed trusts and partnership, received Royal Assent. In particular, Bill C-10 provided new rules intended to exempt from the SIFT rules a subsidiary partnership that is not publicly traded and that is wholly owned by a SIFT trust or partnership, a taxable Canadian corporation, a REIT, an excluded subsidiary entity or a combination of these entities. Although Cinram International Limited Partnership is not publicly traded, the new rules do not appear to exempt a partnership with individual partners (and it is assumed that, as of the date hereof, there are individual partners of Cinram International Limited Partnership). However, the Fund believes that Cinram International Limited Partnership will not be subject to tax under the SIFT rules prior to January 2011, assuming compliance with the normal growth guidelines. Bill C-10 also introduced rules to facilitate the conversion of an income trust into a corporation on a tax-deferred basis (the "Conversion Rules"). The Conversion Rules provide income trusts with tax efficient structuring options to convert to corporate form in advance of their 2011 taxation. Management is reviewing the Conversion Rules to assess their implications to the Fund.

The Fund is considering the possible impact of the legislative changes to the Fund. As currently drafted, taxable dividends received by the Fund are not subject to the new rules. Based on the current structure of the Fund, management believes that the new rules will not have an impact on the distributable cash flow of the Fund or Cinram LP (including, for greater certainty, after the four year transitional period expires) regardless of the level of any distributions being paid. The legislative changes may however, adversely affect the marketability of the Fund's units and the ability of the Fund to undertake financings and acquisitions.

Income fund structures generally involve significant amounts of inter company or similar debt, generating substantial interest expense, which serves to reduce earnings and therefore income tax payable. There can be no assurance that taxation authorities will not seek to challenge the amount of interest expense deducted. If such a challenge were to succeed against the Fund, it would materially adversely affect the amount of cash available to the Fund for distribution to unit holders. The Fund believes that the interest expense inherent in the structure of the Fund is supportable and reasonable. On October 31, 2003, the Department of Finance released, for public comment, proposed amendments to the Tax Act that relate to the deductibility of interest and other expenses for income tax purposes. In general, the proposed amendments may deny the realization of losses in respect of a business if there is no reasonable expectation that the business will produce a cumulative profit over the period that the business can reasonably be expected to be carried on. As part of the release of the February 23, 2005, federal budget, the Minister of Finance (Canada) announced that many commentators had expressed concern with the October 31, 2003, proposals; in particular that a codification of the "reasonable expectation of profit" test might inadvertently limit the deductibility of a wide variety of ordinary commercial expenses. The Department of Finance has sought to respond by developing a more modest legislative initiative that would respond to those concerns while still achieving the Government's objectives. The Department of Finance indicated that it will release an alternative proposal for public comment at its earliest opportunity. The Fund does not believe that the amendments as proposed on October 31, 2003, will have a material effect on its tax position.

Certain United States income tax matters

There can be no assurance that United States federal income tax laws and the U.S. Internal Revenue Service (IRS) administrative policies respecting the United States federal income tax consequences described herein will not be changed or applied in a manner that adversely affects unitholders.

In December 2007 the Fund undertook a series of transactions to transfer Cinram International LLC to Cinram International (Hungary) Rt., (Cinram Hungary). Cinram International LLC subsequently dissolved into Cinram Hungary which acquired the U.S. Note. However, there is a risk that the IRS may take the position that the transfer of Cinram International LLC and the U.S. Note resulted in a taxable gain to U.S. person unitholders. As a part of this internal restructuring to transfer the U.S. Note to Cinram Hungary, Management received advice that the fair market value of the U.S. Note did not exceed its principal amount so that no gain would be recognized by U.S. person unitholders. After transfer of the Note, interest payments on the U.S. Note by CUSH to Cinram Hungary are exempt from withholding tax under the U.S.-Hungary Tax Treaty. There is a risk that the IRS may take the position that the interest payments on the U.S. Note are not eligible for an exemption from withholding tax under the U.S.-Hungary Tax Treaty. In the event that the IRS is successful in asserting that the U.S.-Hungary Tax Treaty is inapplicable interest payments on the U.S. Note during 2009 and 2008 may be subject to withholding tax under the U.S.-Canada Tax Treaty at a rate of 7% and 4% respectively. In December 2009, the Fund undertook transactions to transfer the US note from Cinram Hungary to Cinram 886 LLC.

There is a risk that the U.S. Note could be treated for United States federal income tax purposes as equity rather than debt, in which case the otherwise deductible interest on the U.S. Note would be treated, in effect, as non-deductible distributions. The risk would be increased if any of Cinram International LLC, Cinram Hungary or Cinram 886 LLC fails to exercise its creditor rights under the U.S. Note in a manner consistent with the conduct of an arm's length lender. In addition, even if the U.S. Note is characterized as debt, there is a risk that the interest rate may be found to be in excess of an arm's length rate. In such event, the excess amount of interest over an arm's length amount would be re-characterized as non-deductible distributions. CUSH's inability to deduct all or a portion of the interest on the U.S. Note could materially increase its taxable income and thus, its United States federal income tax liabilities. This would reduce CUSH's after-tax income available for distribution. No IRS ruling has been requested as to whether the U.S. Note should be treated as debt for United States federal income tax purposes.

Various proposals have been considered by the United States Congress to amend the existing "earnings stripping" rules under U.S. Internal Revenue Code (Code) Section 163(j). The Budget of the United States Government, Fiscal Year 2007 included a proposal to amend Code Section 163(j) to further limit the deductibility of interest paid to related persons by lowering the 50% adjusted taxable income threshold. If any of these changes are enacted while the U.S. Note is outstanding, it could affect the deduction of the interest on the U.S. Note under Code Section 163(j). However, as of the date of this MD&A, there is no information as to if and in what form any such proposed amendments would be enacted. In addition, the American Jobs Creation Act of 2004 requires a comprehensive study of the earnings stripping provisions of Code Section 163(j) to be completed by June 30, 2005. As of the date of this MD&A, this study was completed on November 28, 2007 and recommended the creation of a new IRS tax form to obtain additional information from U.S. corporations subject to Code Section 163(j).

16. 2009 FOURTH QUARTER PERFORMANCE

Key performance metrics

Reconciliation of EBITA and EBIT to net earnings

Three months ended December 31 (unaudited, in thousands of U.S. dollars)	'09	'08
EBITA excluding other charges (income)	\$ 88,062	\$ 115,732
Other charges (income), net	(630)	(2,148)
EBITA	\$ 88,692	\$ 117,880
Impairment charges	82,234	22,252
Amortization of property, plant and equipment	20,946	26,440
Amortization of intangible assets	10,515	10,215
EBIT	\$ (25,003)	\$ 58,973
Interest expense	9,221	11,452
Other interest and financing charges	4,942	2,171
Foreign exchange loss (gain)	(1,129)	9,813
Gain on repurchase of debt	(14,965)	–
Investment income	(95)	(218)
Income taxes (recovery)	(13,586)	19,375
Net earnings (loss) from continuing operations	\$ (9,391)	\$ 16,380

* see definition of EBITA and EBIT on the first page of this MD&A under non-GAAP financial measures

Consolidated revenue in the fourth quarter ended December 31, 2009 decreased by 9% to \$508.1 million from \$556.8 million in 2008, primarily due to lower DVD and CD unit sales combined with lower prices. Revenue from our Video Game segment revenue decreased by \$16.1 million during the 2009 fourth quarter compared to the same prior year period, and revenue associated with the wireless division decreased by \$16.6 million over the comparable period.

EBITA excluding other charges (income) for the fourth quarter of 2009 decreased by 24% to \$88.1 million from \$115.7 million in 2008, and EBITA margins as a percentage of consolidated revenue were 17%, down from 21% in 2008. EBITA margins for the fourth quarter of 2009 were adversely impacted by lower DVD selling prices. The prior year figure includes an adjustment to reduce cost of goods sold by \$50.5 million as a result of a change in estimate relating to invalid patent claims.

During the fourth quarter of 2009, we performed our annual long-lived asset and goodwill impairment testing. The long-lived asset impairment test determined that the carrying value of certain property, plant and equipment and certain customer supply agreements were in excess of its associated estimated undiscounted future cash flows and accordingly an impairment charge of \$59.8 million was recorded. With respect to goodwill, the impairment test determined that the carrying value of goodwill exceeded its fair value in certain reporting units and accordingly an impairment charge of \$22.5 million was recorded. During the fourth quarter of 2008, we recorded combined long-lived asset and goodwill impairment charges of \$22.3 million.

Management's Discussion and Analysis

During the 2009 fourth quarter, pursuant to the credit facility amendment in March 2009, the Fund repurchased \$97.7 million of debt at a cost of \$82.7 million, including transaction costs, resulting in a gain of \$15.0 million.

Net loss from continuing operations was \$9.4 million in the 2009 fourth quarter compared to net earnings of \$16.4 million in the prior year period.

16.1 SEGMENTED RESULTS

16.1.1 Revenue by segment

Three months ended December 31 (in thousands of U.S. dollars)	'09		'08	
Home Video	\$ 412,296	81%	\$ 420,903	76%
CD	47,220	9%	52,458	9%
Video Game	33,204	7%	49,272	9%
Other	15,419	3%	34,180	6%
	\$ 508,139	100%	\$ 556,813	100%

Home Video

In the fourth quarter ended December 31, 2009, Home Video revenue (which includes replication and distribution of DVDs and Blu-ray discs) decreased 2% to \$412.3 million from \$420.9 million in 2008 as a result of lower DVD unit shipments combined with lower DVD selling prices. DVD replication revenue decreased 7% to \$292.4 million in the fourth quarter of 2009 from \$313.0 million in 2008, and Blu-ray replication revenue increased to \$7.8 million from \$5.0 million in the prior year. Home video revenue accounted for 81% of consolidated revenue, up from 76% in 2008.

CD

Revenue from the CD segment (which includes replication and distribution of CDs and CD-ROM) decreased 10% in the fourth quarter of 2009 to \$47.2 million from \$52.5 million in 2008 due primarily to lower unit shipments. The CD segment represented 9% of consolidated sales in the fourth quarter ended December 31, 2009, consistent with the prior year period. CD replication revenue, the largest component of the CD segment, was \$38.8 million in 2009, down 12% from \$44.2 million in 2008.

Video Game

Video game revenue was \$33.2 million in the fourth quarter of 2009 compared with \$49.3 million in 2008 due to a general decline in consumer spending. This segment accounted for 7% of consolidated revenue in the fourth quarter of 2009 down from 9% in the prior year period.

Other

Revenue from our wireless division related to logistics services was \$12.0 million during the fourth quarter of 2009, compared to \$28.6 million in the prior year. The 2008 figure includes revenue from the Motorola Europe contract which was terminated effective July 2009.

Revenue from other activities, including revenue associated with Vision, decreased to \$3.4 million for the three month period ending December 31, 2009 compared to \$5.4 million in the comparable 2008 period.

The Other segment represented 3% of consolidated 2009 fourth quarter revenue, down from 6% in 2008.

16.1.2 Geographic segments revenue

Three months ended December 31 (in thousands of U.S. dollars)	'09		'08	
North America	\$ 268,231	53%	\$ 305,682	55%
Europe	239,908	47%	251,131	45%
Total	\$ 508,139	100%	\$ 556,813	100%

North America

North American revenue decreased 12% in the fourth quarter to \$268.2 million from \$305.7 million in 2008, principally due to lower DVD and CD revenues resulting from lower unit sales combined with lower selling prices. Revenues associated with Ditan and wireless revenues were also lower when compared to the prior year.

North American revenue accounted for 53% of consolidated revenue in the fourth quarter of 2009 compared with 55% in 2008.

Europe

European revenue decreased 4% in the fourth quarter of 2009 to \$239.9 million from \$251.1 million in 2008. The decrease in revenue was due to lower DVD unit shipments and distribution revenue related to the DVD replication and distribution agreement with Universal Europe signed during 2008. European DVD revenue (including related distribution) was \$211.2 million in the fourth quarter of 2009 compared to \$211.9 million in 2008.

CD revenue (including related distribution) for the fourth quarter increased 5% to \$22.6 million from \$21.6 million in 2008, principally as a result of higher CD unit shipments and distribution revenues.

As a percentage of consolidated sales, European revenue increased to 47% in the fourth quarter of 2009 from 45% in the prior year.

16.2 GROSS PROFIT

Gross profit for the fourth quarter of 2009 decreased to \$111.9 million from \$132.1 million in the comparable 2008 period. The prior year figure includes the benefit associated with the \$50.5 million credit to cost of goods sold relating to the change in estimate associated with invalid patent claims. Gross profit in the current year was positively impacted by improved efficiencies in our core DVD business as a result of lower direct labour and fixed factory overhead charges. The 2008 fourth quarter results were also negatively impacted by performance in our wireless division, resulting from start up costs and transition expenses, especially in Europe.

Amortization expense from property, plant and equipment, which is included in cost of goods sold, decreased to \$20.9 million in the fourth quarter from \$26.4 million in the comparable 2008 period, as a result of lower net book value of property, plant and equipment.

During the fourth quarter ended December 31, 2009, we recorded a foreign exchange gain of \$1.1 million compared to a loss of \$9.8 million in the prior year period. The prior year loss was recorded primarily in Europe and related to the decline of the British Pound relative to the Euro as certain customers in European subsidiaries are billed in British Pounds.

As a percentage of consolidated revenue, gross profit margins were 22% in the fourth quarter of 2009 compared to 24% in the corresponding 2008 period. Excluding the adjustment for royalties, prior year gross margins were 15%.

16.3 AMORTIZATION OF INTANGIBLE ASSETS

We recorded amortization of intangible assets of \$10.5 million in the fourth quarter of 2009 compared with \$10.2 million in the prior year.

16.4 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased to \$44.8 million in the fourth quarter of 2009 from \$42.8 million in 2008, primarily due to consulting charges incurred in the current year. As a percentage of consolidated revenues, selling, general and administrative expenses were 9% in the fourth quarter of 2009, up from 8% from the corresponding 2008 period.

16.5 OTHER CHARGES

For the fourth quarter ended December 31, 2009, the Fund recorded a gain of \$0.6 million in other charges related to adjustments to restructuring charges previously recorded.

For the fourth quarter ended December 31, 2008, the Fund recorded a gain of \$2.1 million in other charges relating to the gain on the sale leaseback of one of its facilities in Toronto, Canada for net cash proceeds of \$10.5 million.

16.6 INTEREST EXPENSE

Interest expense for the 2009 fourth quarter decreased to \$9.2 million, compared with \$11.5 million in the fourth quarter of 2008 due to lower interest rates and lower loan balances compared to the same period in 2008.

16.7 EARNINGS / (LOSS)

We recorded a net loss from continuing operations of \$9.4 million or \$0.17 per basic unit for the fourth quarter of 2009, compared with net earnings of \$16.4 million or \$0.30 per basic unit in the fourth quarter of 2008, primarily due to the impairment charge recorded in the current year.

17. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our financial statements in accordance with Canadian GAAP. The preparation of financial statements in conformity with GAAP 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 accounting policies and methods used in preparing the financial statements are described in note 2 to the 2009 audited consolidated financial statements.

Management's Discussion and Analysis

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, the allowance for doubtful accounts, inventory valuation, income tax valuation allowances, restructuring costs, assets and obligations related to employee future benefits, 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, which 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.

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

17.1 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.

17.2 LONG-LIVED ASSETS

Intangible assets are comprised of customer supply agreements arising from the 2003 acquisition of the Time Warner businesses and customer contracts associated with the 2007 acquisitions of Ditan and Vision. The Time Warner 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 will manufacture, print, package and physically distribute DVDs and CDs for WHV and Warner Music Group in North America and Europe. The amortization period was extended in the fourth quarter of 2007 due to a contract extension to December 2010. WHV also had the option to terminate the contract early in July 31, 2010, provided it give written notice to the Company no less than six months prior to the early termination date. 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. As a result, commencing in the first quarter of 2010, any unamortized amount related to the WHV supply contracts will be amortized by July 31, 2010. The notice covers all Cinram entities globally and will directly impact operations in North America, Mexico, UK, France, Germany and Spain. WHV revenues for 2009 represented approximately 32% of the total consolidated revenues of the Fund.

The Ditan and Vision intangible assets are being amortized on a straight-line basis over a period of five to six years.

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, it is considered impaired. An impairment loss is measured as the amount by which the carrying amount of a group of assets exceeds its fair value.

During the fourth quarter of 2009, the Fund recorded an impairment charge of \$59.8 million on the long-lived assets. In 2008, an impairment charge of \$57.2 million was recorded of which \$19.8 million was included in continuing operations and \$37.5 million was included in discontinued operations, as described in note 5 to the consolidated financial statements.

17.3 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 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 value, 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.

During the fourth quarter of 2009, the Fund recorded a goodwill impairment charge of \$22.5 million. In 2008, an impairment charge of \$3.5 million was recorded of which \$2.5 million was included in continuing operations and \$1.0 million was included in discontinued operations, as described in note 6 to the consolidated financial statements.

17.4 PROVISIONS FOR VOLUME REBATES

The Fund records provisions for volume rebates offered to certain of its customers. The volume rebates are based on a discount percentage per unit ordered and increase in accordance with contractual sales volume target requirements. The accrual for volume rebates is recorded as a reduction of revenue at the time of shipment based on contractual terms. The process of determining the appropriate provision requires management to exercise judgment in making assumptions about future sales to customers.

A significant change to this assumption could impact revenue recognized and the provision for sales allowances in the Home Video and CD segments.

17.5 ROYALTY ACCRUALS

The Fund records accruals for royalty obligations due to various companies holding patents on the DVD and CD manufacturing processes. The royalty rates are on a per unit basis and based on contractual terms and conditions or management's best estimates. The royalty provision is recorded as a cost of goods sold at the time of shipment. The process of determining the appropriate provision requires management to apply the applicable royalty rates in accordance with the Fund's license agreements and related interpretation as to whether the patents are applicable. In situations where formal license agreements are not in place, management's best estimate of the royalty obligation is used. A significant change in the royalty rates used could impact the cost of goods sold recognized and the provisions for royalties in the Home Video and CD segments. During 2008, we recorded a credit of \$65.7 million in cost of goods sold of which \$15.2 million related to a patent settlement reached in August 2008, and \$50.5 million related to a change in estimate during the fourth quarter of 2008 as a result of invalid patent claims.

17.6 ALLOWANCE FOR DOUBTFUL ACCOUNTS

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. A change to these factors could impact the estimated allowance and the provision for bad debts recorded in selling, general and administrative expenses.

17.7 INVENTORY VALUATION

Effective January 1, 2008, the Fund adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3031, Inventories. The standard provides enhanced guidance on costs that can be capitalized and requires the reversal of previous inventory write downs if economic circumstances have changed to support higher inventory values. The impact of adopting this new standard was immaterial to opening deficit as of January 1, 2008.

Inventories are valued at the lower of cost and net realizable value, with cost determined based on a first in, first out basis. Previously, the Fund valued raw materials based on the lower of cost and replacement cost. Spare parts, which were reclassified to property, plant and equipment from prepaid expenses upon adoption of CICA Handbook Section 3031, are recorded at cost and are depreciated on a straight line basis. The rates of depreciation are intended to fully depreciate the assets over three years, which approximates their useful lives.

The Fund makes estimates as to the future customer demand for our products when establishing the appropriate provisions for inventory. In making these estimates, management considers product life and changes in customer mix. The Fund's customers cannot return any previously purchased inventory with the exception of defective product

17.8 PENSION AND POST RETIREMENT BENEFITS, INCLUDING WITHDRAWAL LIABILITIES

When accounting for defined benefit pension plans, assumptions are made in determining the valuation of benefit obligations and the future performance of plan assets. Delayed recognition of differences between actual results and expected or estimated results is a guiding principle of pension accounting. This principle results in recognition of changes in benefit obligations and plan performance over the working lives of the employees receiving benefits under the plan. The primary assumptions and estimates include the discount rate, the expected return on plan assets, the rate of compensation increase and retirement ages of employees. Changes to these primary assumptions and estimates would impact pension expense and the deferred pension asset or pension liability. The current economic conditions may also have an impact on the pension plan of the Fund as there is no assurance that the plans will be able to earn the assumed rate of return. As well, market driven changes may result in changes in the discount rates and other variables which would result in the Fund being required to make contributions in the future that differ significantly from the current contributions and assumptions incorporated into the actuarial valuation process.

Consulting actuaries assist us in the determination of the underlying assumptions, which are described in Note 18 of the consolidated financial statements.

17.9 CREDIT SPREADS AND THE IMPACT ON THE FAIR VALUE OF DERIVATIVES

The fair value of the interest rate swap is determined using an estimated credit-adjusted mark-to-market valuation which involves increasing the risk-free discount rates used to calculate the risk-free estimated mark-to-market valuation by an estimated credit spread. For swaps in an asset position (i.e., those swaps for which the counterparties owe Cinram on a net basis), the estimated credit spread for the bank counterparty is added to the risk-free discount rate to determine the estimated credit-adjusted value. In the case of swaps in a liability position (i.e., those swaps for which Cinram owes the counterparties on a net basis), Cinram's estimated credit spread is added to the risk-free discount rate. Changes in the estimated credit spreads can have a significant impact on the estimated fair values recorded for derivative instruments.

17.10 USEFUL LIVES OF AMORTIZABLE ASSETS

The Fund amortizes the cost of property, plant and equipment and intangible assets with finite lives over their respective estimated useful lives. These estimates of useful lives involve considerable judgment. In determining the estimates of these useful lives, the Fund takes into consideration industry trends and customer specific factors, including changing technologies. On an annual basis, the Fund re-assesses its existing estimates of useful life to ensure they match the anticipated life of the technology from a cash flow producing perspective. If technological change happens more quickly than anticipated, the Fund might have to reduce the estimated useful life of property, plant and equipment and intangible assets, which could result in higher amortization expense in future periods or an impairment charge to write down the value of property, plant and equipment and intangible assets.

17.11 INCOME TAX VALUATION ALLOWANCE

The Fund records a valuation allowance against future income tax assets when management believes it is more likely than not that some portion or all of the future tax assets will not be realized. Management considers factors such as reversal of future income tax liabilities, projected future taxable income, and the character of the income tax asset. A change to these factors could impact the estimated valuation allowance and income tax expense.

17.12 RESTRUCTURING COSTS

The Fund records restructuring charges relating to facility consolidations and workforce reductions. These charges are recorded based on detailed plans approved and committed to by management. The restructuring charges include employee severance and other employee-related costs, lease cancellation and idle facilities costs, other exit costs, and certain asset write-downs. The recognition of these charges requires management to make certain judgments and estimates regarding the nature, timing and amount associated with these plans. The estimates of future liability may change, requiring additional restructuring charges or a reduction of the liabilities already recorded. At the end of each reporting period, the Fund evaluates the appropriateness of the remaining accrued balances.

17.13 ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

(i) Financial and derivative instruments:

Effective December 31, 2009, the Fund adopted The Canadian Institute of Chartered Accountants (CICA) amended Section 3862, Financial Instruments – Disclosures, 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 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 the 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 to the consolidated financial statements.

On January 1, 2008, the Company adopted CICA Handbook Section 3862, Financial Instruments – Disclosures (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 to the consolidated financial statements.

(ii) 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. The new disclosures are included in note 22 to the consolidated financial statements.

(iii) Goodwill and intangible assets:

In 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets (Section 3064). CICA 3064, which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Fund's interim and annual consolidated financial statements for periods commencing January 1, 2009 and does not have a material impact on the consolidated financial statements.

17.14 RECENT CANADIAN ACCOUNTING PRONOUNCEMENTS:**(i) 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 is assessing the impact of the new standards on its consolidated financial statements.

(ii) 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.

18. DISCLOSURE CONTROLS AND PROCEDURES OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining disclosure controls and procedures as defined under National Instrument 52-109. As of December 31, 2009, we carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation and as of December 31, 2009, the chief executive officer and chief financial officer concluded that the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports the Fund files and submits under applicable securities laws is recorded, processed, summarized and reported as and when required under applicable securities legislation.

19. MANAGEMENT'S REPORT ON OPERATING EFFECTIVENESS OF INTERNAL CONTROLS OVER FINANCIAL REPORTING

At December 31, 2009, an evaluation was carried out of the effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting. These evaluations were conducted in accordance with the standards of COSO, a recognized control model, and the requirements of National Instrument 52-109. Based on this evaluation, the chief executive officer and chief financial officer concluded that internal controls over financial reporting have been appropriately designed and operating effectively to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with Canadian generally accepted accounting principles.

During the financial year ended December 31, 2009, there were no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

20. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In 2008, the Canadian Accounting Standards Board (AcSB) confirmed that IFRS will be mandatory in Canada for profit-oriented publicly accountable entities 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 information in accordance with IFRS, including comparative figures for 2010.

Management's Discussion and Analysis

We have developed a detailed project plan for the conversion to IFRS and we are evaluating accounting policy differences between Canadian GAAP and IFRS based on management's current understanding of what those standards will be for years ending December 31, 2011.

The table below illustrates key elements of our IFRS changeover plan, significant milestones and progress to date. Our conversion plan is organized in phases over time and by area. We have completed all activities to date per our detailed project plan and expect to meet all milestones through to completion of the conversion.

Key activity	Milestones/Deadlines	Effort accomplished by December 31, 2009
PREPARATION: <ul style="list-style-type: none"> Identify differences in Canadian GAAP/ IFRS accounting policies Select the Fund's ongoing IFRS policies Select the Fund's IFRS 1 accounting policy choices Develop financial statement format Quantify effects of IFRS 1 disclosures on 2010 financial statements 	<ul style="list-style-type: none"> Senior management and audit committee sign-off on significant accounting policy decisions, IFRS 1 accounting policy choices and financial statement format during 2009 Quantification of effects of change for IFRS 1 disclosures and 2010 comparative quarterly financial statements including note disclosures by end of Q3 2010 (exclusive of Q4 2010 results) 	<ul style="list-style-type: none"> Selection of all significant accounting policy decisions has been completed Identification of significant differences between IFRS policies and Canadian GAAP has been completed Approval of all IFRS 1 policy choices have been made for optional elections (see below) Analysis and quantification of ongoing IFRS policies is continuing
INFRASTRUCTURE: Define and introduce appropriate level of IFRS expertise for each of the following: <ul style="list-style-type: none"> Operating division accounting staff Head office and consolidation group Senior executives and Board, including Audit Committee 	<ul style="list-style-type: none"> Appropriate level of expertise as needed throughout the conversion project and by Q2 2010 at latest 	<ul style="list-style-type: none"> Leadership in the form of a Steering Committee and project management function has been established Project team has received extensive training Training of operating divisions and head office accounting staff underway Training of senior executives and Board members is ongoing
INFRASTRUCTURE: Make information technology fully IFRS compliant for all of: <ul style="list-style-type: none"> Systematic processing changes Program upgrades/ changes One-off calculations (transition to IFRS, including IFRS 1) Gathering data for disclosures Scope of consolidation package Budget/plan/forecast monitoring process 	<ul style="list-style-type: none"> Ready for parallel processing of 2010 general ledgers 	<ul style="list-style-type: none"> Preliminary identification of issues completed Information Technology resources identified and engaged where required
BUSINESS POLICY ASSESSMENT: Financial Covenants <ul style="list-style-type: none"> Identify impact on financial covenants and business practices Complete any required renegotiations/ changes 	<ul style="list-style-type: none"> Identify necessary covenant implications by June 30, 2010 	<ul style="list-style-type: none"> Identification of GAAP-related covenants completed
BUSINESS POLICY ASSESSMENT: Compensation Arrangements <ul style="list-style-type: none"> Identify impact on compensation arrangements Make any required changes Other Contracts <ul style="list-style-type: none"> Identify impact on contracts and other areas of business 	<ul style="list-style-type: none"> Renegotiate arrangements by end of Q3 2010 	<ul style="list-style-type: none"> Identification of GAAP-related compensation terms in progress Review of other contracts in progress

Key activity	Milestones/Deadlines	Effort accomplished by December 31, 2009
CONTROL ENVIRONMENT: ICFR <ul style="list-style-type: none"> • For all accounting policy changes identified, assess ICFR design and effectiveness implications • Implement appropriate changes 	<ul style="list-style-type: none"> • Conduct implementation audit by Internal Audit during Q4 2010 and first half of 2011 • Update CEO/CFO certification process by end of Q4 2010 	<ul style="list-style-type: none"> • Policy manual and documentation team assembled
CONTROL ENVIRONMENT: New systems/processes <ul style="list-style-type: none"> • Complete documentation of changes to or new systems/processes/controls 	<ul style="list-style-type: none"> • Conduct implementation audit by Internal Audit during Q4 2010 	
CONTROL ENVIRONMENT: DC&P <ul style="list-style-type: none"> • For all accounting policy changes identified, assess DC&P design and effectiveness implications • Implement appropriate changes, in particular: <ul style="list-style-type: none"> - Ensure 2011 investor communications are fully IFRS compliant re: guidance and expected earnings - Revise MD&A communications package - Ensure investor relations process can respond to IFRS-related queries 	See ICFR deadlines above <ul style="list-style-type: none"> • Publish impact of conversion on Key Performance Indicators in Q3 2010 MD&A • Publish revised 2010 results and MD&A by March 31, 2011 	

Our date of transition to IFRS will be January 1, 2010 (Transition Date). Although our most significant IFRS accounting policies and elections have been approved by the Steering Committee and the Audit Committee, such approval is based upon our expectations regarding the IFRS standards that are effective for the Fund at the Transition Date.

In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standard Board (IASB) will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on the Fund's consolidated financial statements will only be measured once all the IFRSs applicable at the conversion date are known.

Initial adoption of IFRS

IFRS 1, First-time Adoption of International Financial Reporting Standards, sets forth that the adoption of IFRS occurs in the first annual financial statements in which the entity adopts IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. IFRS 1 requires that comparative financial information be provided and that the same accounting policies be applied throughout all periods presented. As the IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations that will be applicable at December 31, 2011 are not known with certainty at this time, our 2010 and interim 2011 IFRS financial statements may be adjusted for the impacts of new standards that become effective for us prior to December 31, 2011. The policy choices and elections that we have made and are presented below are also subject to change.

IFRS 1 provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters. The Fund has decided to take the following elections provided by IFRS 1. All other available elections are either considered not applicable or not material to the Fund.

Business combinations:	IFRS 3, Business Combinations, may be applied retrospectively or prospectively. The Fund will be electing not to retrospectively apply IFRS 3 to any business combinations that occurred prior to January 1, 2010 and such business combinations will not be restated.
Cumulative translation differences (CTA):	Retrospective application of IFRS would require us to determine cumulative currency translation differences (CTA) in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, from the date a subsidiary or associate was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at the Transition Date. The Fund will be electing to recognize all CTA of the foreign subsidiaries into opening retained earnings as of January 1, 2010. This will result in elimination of the CTA balance in Accumulated Other Comprehensive Income at January 1, 2010, of \$115.4 million.
Changes to existing decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment:	IFRS 1 allows for either the retrospective or prospective adoption from the date of transition of IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities. The Fund will be electing not to retrospectively recognize changes to liabilities that would have occurred prior to the Transition Date. Instead, an estimate of the decommissioning liabilities under IFRS will be made at January 1, 2010. Any adjustments will include the estimated impact on property, plant and equipment carrying values.
Borrowing costs:	IAS 23, Borrowing Costs, may be applied retrospectively or prospectively for capitalization of borrowing costs directly attributable to the acquisition, construction or production of qualifying assets. The Fund will be electing to apply this standard prospectively from January 1, 2010.
Fair value or revaluation as deemed cost:	IFRS 1 provides a choice between measuring individual items of property, plant and equipment, investment property and intangible assets at their fair value at the date of transition and using those amounts as deemed cost or using the historical valuation under the prior GAAP. The Fund will be electing to use the fair value as deemed cost on all of the land and building classified as property, plant and equipment at January 1, 2010. For all other assets, the Fund will use the historical bases under Canadian GAAP as deemed costs under IFRS at the Transition Date.
Employee benefits:	IAS 19, Employee Benefits, allows actuarial gains and losses to be either deferred and amortized, according to the corridor method, or immediately recognized through equity. The Fund will elect to recognize all cumulative actuarial gains and losses that existed at the Transition Date in opening retained earnings for all of its employee benefit plans. The Fund will also be electing not to provide additional disclosures regarding employee benefits, including certain information in respect of defined benefit plans for the current and four previous periods, to the extent that it relates to a period prior to its date of transition.

The mandatory exemptions that are applicable to the Fund under IFRS 1 include:

1. **Hedge accounting:** As required by IAS 39, Financial Instruments, Recognition and Measurement, at the date of transition to IFRSs, Cinram is prohibited from retrospectively designating hedging relationships prior to the transition date. As a result, only hedging relationships that satisfied the hedge accounting rules at the Transition Date will be reflected in the Fund's results.
2. **Estimates:** Hindsight is not used to create or revise estimates. Estimates previously made under Canadian GAAP cannot be revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Significant changes in accounting policies upon conversion to IFRS

The following are the key differences that we have identified to date that are expected to impact our consolidated financial statements upon the transition to IFRS. Except where specifically indicated, at this stage we are not able to reliably quantify the impact these differences will have on our consolidated financial statements.

Employee benefits:

IAS 19, Employee Benefits, requires an entity to make an accounting policy choice regarding the treatment of actuarial gains and losses. The Fund intends to adopt the option of recording all actuarial gains and losses immediately to Other Comprehensive Income, with no impact on profit or loss. Under Canadian GAAP, the Fund recognizes actuarial gains and losses into profit or loss using the corridor method.

IAS 19 also requires the past service element of defined benefit plans be expensed on a straight-line basis until the benefits become vested. Any past service costs that are already vested are expensed immediately. Under Canadian GAAP, past service costs are amortized over the average remaining service life of the active employees benefiting from the plan.

Leases:

IAS 17, Leases, requires that gains and losses resulting from sale and leaseback transactions are recognized immediately when the resulting lease is accounted for as an operating lease and the sale occurred at market prices. Under Canadian GAAP, a portion of the gains are deferred and amortized over the term of the leases. The resulting credit to retained earnings on transition to IFRS as of January 1, 2010 resulting from this change in policy is estimated to be \$11.6 million with the debit recorded against the deferred gain.

Joint Ventures:

The IASB is currently considering Exposure Draft 9, Joint Arrangements, (ED 9), which is intended to eliminate the option to apply proportionate consolidation and require the use of equity accounting for joint ventures. The final policy is expected to be issued in early 2010 and be effective before the end of 2011. Currently under Canadian GAAP, the Fund uses proportionate consolidation to account for its joint venture in Mexico. The change in policy will require that the Fund use the equity method to account for its interest in the Mexican joint venture arrangement.

Impairment of Assets:

IAS 36, Impairment of Assets, requires that an asset be impaired if the recoverable amount is lower than the asset's carrying amount. The recoverable amount is defined as the higher of the asset's fair value less cost to sell and its value-in-use. The value-in-use calculation involves discounting the expected future cash flows to be generated by the asset to their net present value.

On the other hand, Canadian GAAP applies a two-step approach to measure impairment. In step 1, a recoverability test is performed by comparing the expected undiscounted future cash flows to be derived from the asset with its carrying amount. If the asset fails the recoverability test, step 2 is triggered, and the entity must record an impairment loss calculated as the excess of the asset's carrying amount over its fair value. The net result is that an impairment charge is more likely under IFRS than it is under Canadian GAAP.

However, while Canadian GAAP does not permit the reversal of impairment losses, IFRS requires a reversal of previous impairment charges, other than on goodwill, where conditions have changed.

Property, plant and equipment:

While Canadian GAAP requires that all property, plant and equipment be carried at cost and amortized over their expected useful lives, IFRS provides an option to use the revaluation model where specific classes of assets are revalued annually to fair value. Cinram is electing to continue to apply the cost model with the fair value at the Transition Date as the deemed cost for certain assets (see page 46).

Investment Property:

Under Canadian GAAP, investment properties were included as part of property, plant and equipment measured on the cost basis and depreciated over their remaining useful lives.

IFRS requires that investment property be separately disclosed on the balance sheet. Similar to property, plant and equipment, IFRS provides an option to use the revaluation model or the cost model. However, IFRS requires that the fair value of investment property be disclosed either by revaluing the assets on the balance sheet, through profit or loss (under the revaluation model), or through note disclosure (under the cost model).

The Fund will continue to report investment property using the cost basis, but where fair value is materially different from the carrying value, this difference will be disclosed in the notes to the consolidated financial statements.

Inventory:

Canadian GAAP requires that any fixed costs not absorbed to inventory during the quarters be capitalized to inventory to the extent that management expects these amounts will be absorbed to inventory by the end of the year. No unabsorbed fixed costs are included in inventory at the end of the year. IAS 34, Interim Financial Reporting, on the other hand has a general rule that amounts should only be included as an asset on the balance sheet at the end of any interim periods if it would be appropriate to classify them as an asset at the end of the year. Therefore, under IFRS, all unabsorbed fixed costs at the end of each interim period will be expensed to cost of goods sold in that period.

21. ADDITIONAL INFORMATION

Copies of publicly filed documents of the Fund, including our annual information form, can be found through the SEDAR website at www.sedar.com.