



# **Quarterly Report**

## **Third Quarter 2009**

November 10, 2009

*This interim management's discussion and analysis (MD&A) should be read in conjunction with the MD&A in the annual report of the Cinram International Income Fund (the Fund) for the year ended December 31, 2008, and its quarterly report for the three and nine months ended September 30, 2009. The MD&A is intended to help the reader understand the results of operations and financial condition of the Fund. We report our unaudited consolidated interim financial statements 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 and industry factors remain substantially unchanged, unless otherwise stated.*

### **Forward-looking statements**

Certain statements included in this management's discussion and analysis (MD&A) 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 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, which will, among other things, impact the demand for the Fund's products and services (including risks related to international operations and foreign exchange risks); multimedia replication industry conditions and capacity (including, among other factors, competitive and pricing pressures, increases in raw material costs, increasingly compressed production cycle and seasonality of the business, the need for capital expenditures to increase capacity to manage production cycle compression, 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 retain major customers; 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 the Fund's 2008 annual report and to prior quarterly financial reports).

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 quarterly 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 from continuing operations before other charges, impairment charges, interest expense, 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, and EBITA excluding other charges, are not defined terms under GAAP. Accordingly, these measures may not be comparable with other issuers and should not be considered as a substitute or alternative for net earnings or cash flow, in each case as determined in accordance with GAAP. A reconciliation of EBITA to net earnings from continuing operations under GAAP is presented on the following page.

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

### Reconciliation of EBITA and EBIT to net earnings from continuing operations

(unaudited, in thousands of U.S. dollars)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
<b>EBITA excluding other charges</b>	<b>\$44,402</b>	\$56,908	<b>\$95,809</b>	\$141,428
Other charges, net	<b>1,587</b>	-	<b>3,113</b>	536
<b>EBITA</b>	<b>\$42,815</b>	\$56,908	<b>\$92,696</b>	\$140,892
Amortization of property, plant and equipment	<b>21,215</b>	24,392	<b>65,695</b>	74,980
Amortization of intangible assets	<b>10,451</b>	10,594	<b>30,950</b>	31,912
<b>EBIT</b>	<b>\$11,149</b>	\$21,922	<b>\$(3,949)</b>	\$34,000
Interest expense	<b>10,123</b>	11,555	<b>29,548</b>	35,137
Gain on repurchase of debt	<b>(9,853)</b>	-	<b>(23,475)</b>	-
Foreign exchange (gain) loss	<b>(6,456)</b>	7,577	<b>(14,050)</b>	2,499
Investment income	<b>(194)</b>	(452)	<b>(527)</b>	(1,511)
Income taxes (recovery)	<b>3,588</b>	1,713	<b>932</b>	(7,162)
<b>Net earnings from continuing operations</b>	<b>\$13,941</b>	\$1,529	<b>\$3,623</b>	\$5,037

## 1. ABOUT OUR BUSINESS

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 September 30, 2009, we employed approximately 14,200 employees worldwide including contract and agency workers. We currently have the capacity to manufacture approximately 2.1 billion DVDs, 55 million Blu-ray discs and 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, with declines historically being steeper in the early stages of the products' life cycles.

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 three and nine-month periods ended September 30, 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. The balance of the printing activity is reported in the Other segment. As a result, for the first nine months of 2009, the Fund's reportable business segments are Home Video, CD, Video Game and Other. Comparative figures have been reclassified to reflect this new segment reporting.

The Home Video segment manufactures and distributes DVDs and high-definition discs. The CD segment manufactures and distributes CDs and CD-ROMs. The Video Game segment includes distribution of video games. The Other segment includes revenue from the Wireless division, as well as other non-core activities.

On March 30, 2009, the Fund announced that its lenders had approved an amendment to its subsidiaries' senior secured credit facility to, among other things, permit Cinram to use up to US\$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 does not obligate Cinram to make any such repurchases. In addition, Cinram agreed (i) to make a US\$35.0 million prepayment at par of term advances on the effective date of the amendment; (ii) to make quarterly prepayments at par of US\$10.0 million commencing with the second quarter of 2009; (iii) to reduce the revolving credit commitment under the senior credit facility by US\$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 the third quarter of 2009, the Fund re-purchased \$38.1 million of term advances for cash of \$28.3 million, resulting in a gain of \$9.9 million. For the nine months ended September 30, 2009, the Fund re-purchased \$71.9 million of term advances for cash of \$48.4 million, resulting in a gain of \$23.5 million. Subsequent to the quarter end, the Fund repurchased \$25.0 million of term advances for cash proceeds of \$20.2 million. The difference of \$4.8 million will be recorded as a gain on repurchase of debt in the fourth quarter.

On February 13, 2009, the Fund announced that David Rubenstein, its Chief Executive Officer, resigned 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.

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.

## **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 pursuant to the Asset Purchase Agreement. During the third quarter of 2009, the Fund recorded a working capital adjustment of \$2.8 million, which will result in a reduction in net cash proceeds from the sale to \$11.2 million once Cinram settles this claim. Ivy Hill's results, which comprised all of the North American printing business, were excluded from Cinram's continuing operations for the three and nine-month periods ended September 30, 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, and includes an obligation to settle a withdrawal liability relating to the multi-employer pension plans. This obligation is partially offset, as Cinram received preferred shares of MPS that have been placed in escrow to fund the withdrawal liability. The net present value of the withdrawal liability obligation net of the preferred shares is \$2.7 million. This obligation will be settled no later than the second quarter of 2013.

### **1.1.2**

Ditan acquisition

In 2009, the Fund agreed to pay \$16.9 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 \$2.1 million during 2009. The Fund paid \$16.1 million in the second quarter and \$0.8 million remains in accrued liabilities at September 30, 2009.

## **1.2 Capital structure**

In May 2006, Cinram International Inc. 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 Cinram International Inc. 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**

Our strategy is to maintain our market leadership position in our core pre-recorded media replication and distribution business. We continue to believe that packaged media will be the preferred distribution channel to consumers for home entertainment for the foreseeable future. While the standard DVD format has reached the maturity stage of its life cycle, we believe that the decline in the format will be gradual in the coming years and will be partially offset with the growth in the Blu-ray high definition format. With the acquisition of Ditan, we have also established a position in the video games industry that we plan to leverage by cross-selling replication services to augment our core business. With the addition of Vision's vendor managed inventory software solutions, Cinram is positioned to offer a fully integrated supply chain to its customers.

Our longer term strategy includes operating the business in accordance with the consolidating trends in the packaged media industry and participating in the growth of Blu-ray discs where appropriate along with seeking opportunities to grow our video games distribution and vendor managed inventory segments.

Beyond maintaining our core business and conservatively deploying capital, our strategy also includes a focus on cost control and debt reduction where this is determined to be the best use of capital in the interest of the Fund.

## **1.4 Current market Environment**

Recent market events and the resulting credit conditions have reduced available liquidity and overall economic activity. Governments around the world have taken unprecedented actions to limit the impact of these events. Over the past year, the Fund has taken the following steps to strengthen its operational and financial position, which we believe better positions the Fund to face difficult economic situations:

- **Debt reduction** – including the amendment to the credit facility effective March 30, 2009, the Fund has repaid \$151.9 million of debt to the date of this report and will continue to seek further opportunities to reduce debt.
- **Cost reduction** – In 2009, we intensified the focus on improving our cost structure and with the assistance of outside consultants, are reviewing all areas of the fund.
- **Reduced capital expenditures** – capital will be deployed primarily allowing for the Blu-ray format and maintenance capital expenditures.
- **Focus on core operations** – continue to focus on producing standard DVDs and related distribution services with the intention of disposing of non-core assets, including owned real estate where appropriate.

Since no business is immune to a slowdown in the economy, the Fund closely monitors its exposure to the following potential risks, which could impact future profitability and cash flows, and is ready to proactively respond should

one or more of these risks materialize:

- Lower levels of customer orders, which could require adjustments to production rate and corresponding staffing levels; and
- Credit conditions.

The overall impact of negative earnings over the past few years has impacted our unit price, and accordingly our debt-to-equity ratio has deteriorated. Despite the negative impact from the reduction in equity and net earnings over the past few years, the Fund's plan is for cost control, improved operational performance and continued debt reduction.

## 2. THIRD QUARTER 2009 PERFORMANCE

### Key performance metrics

(in thousands of U.S. dollars, except per unit data)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenue	<b>\$351,238</b>	\$411,653	<b>\$955,426</b>	\$1,171,724
EBITA excluding other charges	<b>44,402</b>	56,908	<b>95,809</b>	141,428
EBITA	<b>42,815</b>	56,908	<b>92,696</b>	140,892
EBIT	<b>11,149</b>	21,922	<b>(3,949)</b>	34,000
Net earnings from continuing operations	<b>13,941</b>	1,529	<b>3,623</b>	5,037
Basic earnings per unit from continuing operations	<b>\$0.26</b>	\$0.03	<b>\$0.07</b>	\$0.09
Diluted earnings per unit from continuing operations	<b>\$0.25</b>	\$0.03	<b>\$0.07</b>	\$0.09

Consolidated revenue for the three months ended September 30, 2009, decreased by 15% to \$351.2 million from \$411.7 million in 2008, primarily due to lower home video and CD revenue as a result of lower unit sales combined with lower DVD selling prices. Our Video Game segment experienced significantly lower revenues as this segment continues to suffer from the general decline in the economy. Revenue from the wireless division also decreased as a result of lower unit sales in North America combined with the loss of business from Motorola in Europe. Revenue was also impacted from foreign exchange associated with the strengthening of the US dollar relative to other currencies between the third quarter of 2008 and the third quarter of 2009. Excluding the effects of foreign exchange, revenue decreased by 12%.

Consolidated revenue was \$955.4 million for the first nine months of 2009 compared with \$1,171.7 million in 2008, down 18%. Excluding the effect of foreign exchange, revenue decreased by 13% primarily due to lower home video and CD revenue as a result of lower unit sales for both formats combined with lower DVD selling prices.

EBITA excluding other charges for the third quarter of 2009 decreased to \$44.4 million from \$56.9 million in 2008, and EBITA margins as a percentage of consolidated revenue decreased to 13% compared with 14% during the third quarter of 2008. The prior year third quarter figure includes a favourable EBITA adjustment of \$15.8 million as a result of a patent settlement.

EBITA excluding other charges for the first nine months of 2009 decreased to \$95.8 million from \$141.4 million and EBITA excluding other charges as a percentage of consolidated revenue decreased to 10% from 12% in 2008. EBITA for the first nine months of 2009 was adversely impacted by \$12.3 million of severance charges associated with general workforce reductions across several facilities in Canada and the United States, including costs related to certain executive employees. Normalizing for the current year severance charges and the impact of the prior

year favorable patent settlement of \$15.8 million, EBITA excluding other charges margins as a percentage of consolidated revenue were 11% in both the current and prior year period.

For the nine months ended September 30, 2009, we also recorded net other charges of \$3.1 million. This includes charges of \$4.8 million for severance and other costs associated with the closure of our CD plant in Richmond, Indiana, the February closure of our distribution facility in Simi Valley, California and the closure of our distribution facility in Swindon, U.K. These charges were partially offset by the \$1.7 million gain resulting from the sale and leaseback of our previously owned CD distribution facility in Aurora, Illinois, during the first quarter of 2009. The prior year balance of \$0.5 million relates to a partial release of cumulative translation adjustment.

### Summary of quarterly results

(in thousands of U.S. dollars, except per unit data)

Quarter	Revenue from continuing operations		
	2009	2008	2007
First	<b>\$303,154</b>	\$373,762	\$376,177
Second	<b>301,034</b>	386,309	299,873
Third	<b>351,238</b>	411,653	393,628
Fourth		556,813	608,720
Year		\$1,728,537	\$1,678,398

Quarter	Net earnings (loss) from continuing operations			Net earnings (loss) from discontinued operations			Net Earnings (loss)		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
First	<b>\$(17,606)</b>	\$7,606	\$13,873	<b>\$(4,694)</b>	\$(10,993)	\$(6,701)	<b>\$(22,300)</b>	\$(3,387)	\$7,172
Second	<b>7,288</b>	(4,098)	(19,905)	<b>(8,025)</b>	(2,982)	(6,645)	<b>(737)</b>	(7,080)	(26,550)
Third	<b>13,941</b>	1,529	38,247	<b>(4,460)</b>	493	(3,356)	<b>9,481</b>	2,022	34,891
Fourth		16,380	(266,476)		(39,464)	(50,096)		(23,084)	(316,572)
Year		\$21,417	\$(234,261)		\$(52,946)	\$(66,798)		\$(31,529)	\$(301,059)

Quarter	Basic/Diluted EPU from continuing operations			Basic/Diluted EPU from discontinued operations			Basic/Diluted EPU		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
First	<b>\$(0.32)</b>	\$0.13	\$0.24	<b>\$(0.08)</b>	\$(0.19)	\$(0.12)	<b>\$(0.40)</b>	\$(0.06)	\$0.12
Second	<b>0.13</b>	(0.07)	(0.34)	<b>(0.14)</b>	(0.05)	(0.11)	<b>(0.01)</b>	(0.12)	(0.45)
Third	<b>0.25*</b>	0.03	0.66	<b>(0.08)</b>	0.01	(0.06)	<b>0.17</b>	0.04	0.60
Fourth		0.29	(4.66)		(0.71)	(0.88)		(0.42)	(5.54)
Year		\$0.38	\$(4.04)		\$(0.94)	\$(1.15)		\$(0.56)	\$(5.19)

\*The \$0.25 EPU noted above is Diluted EPU, Basic EPU is \$0.26.

Cinram's annual and quarterly operating results vary significantly from period to period as a result of the timing and value of customer orders, fluctuations in material 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 third and fourth quarter, since most large-scale home video release dates are clustered around the American Thanksgiving and Christmas holiday shopping seasons. The timing of the release schedule, 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.

Over the last three years, the release schedule has become more compressed as the peaks in demand have risen while the seasonal troughs have widened. Although we made significant investments over the past few years 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 may result in the need to outsource production to a third party to meet customer deliverables. We generate lower margins on units that are offloaded to

third parties. 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.

### 3. SEGMENTED RESULTS

#### 3.1 Revenue by segment

(in thousands of U.S. dollars)	Three months ended September 30				Nine months ended September 30			
	2009		2008		2009		2008	
Home Video	<b>\$276,706</b>	<b>79%</b>	\$298,403	72%	<b>\$721,300</b>	<b>76%</b>	850,243	73%
CD	<b>42,319</b>	<b>12%</b>	57,003	14%	<b>118,854</b>	<b>12%</b>	169,198	14%
Video Game	<b>18,192</b>	<b>5%</b>	26,545	7%	<b>58,404</b>	<b>6%</b>	77,289	7%
Other	<b>14,021</b>	<b>4%</b>	29,702	7%	<b>56,868</b>	<b>6%</b>	74,994	6%
	<b>\$351,238</b>	<b>100%</b>	\$411,653	100%	<b>\$955,426</b>	<b>100%</b>	\$1,171,724	100%

#### 3.1.1. Home Video

In the third quarter ended September 30, 2009, Home Video revenue (which includes replication and distribution of DVDs and high-definition discs) decreased 7% to \$276.7 million from \$298.4 million in 2008, as a result of lower DVD unit sales combined with lower selling prices. DVD replication revenue decreased 9% to \$199.6 million in the third quarter of 2009 from \$219.8 million in 2008, but high-definition revenue increased to \$4.7 million from \$2.3 million in 2008. Distribution related revenue decreased to \$72.4 million from \$76.3 million in the 2008 third quarter as DVD distribution shipments decreased in both North America and Europe. Home video revenue accounted for 79% of consolidated revenue, up from 72% in 2008 primarily due to declines in the CD and Video Game segments and wireless revenues.

Revenue from the Home Video segment was down 15% in the first nine months of 2009 compared with 2008, primarily as a result of lower DVD selling prices and a decrease in unit shipments. DVD replication revenue was down 20% to \$489.2 million from \$611.1 million in the first nine months of 2008, while revenue from the replication of high definition discs increased 26% to \$14.7 million from \$11.7 million. Distribution related revenue decreased to \$217.4 million during the nine months ended September 30, 2009 from \$227.4 million in the 2008 comparable period as DVD distribution shipments decreased in North America.

#### 3.1.2. CD

Revenue from the CD segment (which includes replication and distribution of CDs and CD-ROM) decreased 26% in the third quarter of 2009 to \$42.3 million from \$57.0 million in 2008. Earlier this year, the Fund ceased production at its CD replication facility in Richmond, Indiana, resulting in lower unit shipments. The CD segment represented 12% of consolidated sales in the third quarter ended September 30, 2009, compared with 14% in the prior year period. CD replication revenue was \$35.6 million down 27% from \$48.9 million in 2008, while CD related distribution revenue was \$6.7 million during the 2009 third quarter compared to \$8.1 million in 2008.

Revenue from the CD segment was down 30% in the first nine months of 2009 compared with 2008, due to lower CD shipments. CD replication in the first nine months of 2009 was \$100.0 million, down 31% from

\$145.4 million in 2008. CD related distribution revenue was \$18.8 million during the first nine months of 2009, down 21% from \$23.8 million in 2008, due to lower CD shipments compared to the prior year.

### 3.1.3. Video Game

Video game revenue was \$18.2 million in the third quarter of 2009 compared with \$26.5 million in the comparable 2008 period due to lower unit shipments and slightly lower selling prices. This segment accounted for 5% of consolidated revenue in the third quarter of 2009, down from 7% in the prior year period. Revenue from the video game segment was down 24% to \$58.4 million in the first nine months of 2009 compared with \$77.3 million in 2008, due to lower unit shipments consistent with the general decline in the economy.

### 3.1.4. Other

Revenue from our wireless division related to logistics services was \$11.0 million during the third quarter of 2009, compared to \$26.4 million in 2008. As previously announced, earlier this year 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, earlier this year, 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. The parties reached a settlement that took effect in July 2009.

Revenue from other activities, including revenue associated with Vision, decreased slightly to \$3.0 million for the three month period ending September 30, 2009 compared to \$3.3 million in 2008.

Other segment revenue in the first nine months of 2009 was \$56.9 million, down from \$75.0 million in 2008, and represented 6% of consolidated revenue in the period for both 2009 and 2008.

### 3.1.5. Discontinued Operations

Revenue from discontinued operations at Ivy Hill for the nine months ended September 30, 2009, was \$25.6 million, down from \$130.4 million in 2008 as a result of the sale of the business in April 2009.

Revenue from discontinued operations at Giant Merchandising was nil in the first nine months of 2009, down from \$40.0 million in 2008, as the sale of Giant's business occurred during the second quarter of 2008.

## 3.2. Geographic segments revenue

(in thousands of U.S. dollars)	Three months ended September 30				Nine months ended September 30			
	2009		2008		2009		2008	
North America	<b>\$199,648</b>	<b>57%</b>	\$248,619	60%	<b>\$568,018</b>	<b>59%</b>	\$738,882	63%
Europe	<b>151,590</b>	<b>43%</b>	163,034	40%	<b>387,408</b>	<b>41%</b>	432,842	37%
Total	<b>\$351,238</b>	<b>100%</b>	\$411,653	100%	<b>\$955,426</b>	<b>100%</b>	\$1,171,724	100%

### 3.2.1. North America

North American revenue decreased 20% in the third quarter to \$199.6 million from \$248.6 million in 2008, due to lower DVD and CD revenues resulting from lower unit sales and lower DVD selling prices, combined with lower revenue from video game and wireless distribution. For the first nine months of 2009,

revenue from the North American segment was down 23% compared to the prior year, primarily as a result of the same factors indicated above.

Third quarter North American DVD revenue (including related distribution) was down 13% to \$141.5 million from \$162.1 million in 2008 as a result of lower unit sales combined with lower prices for our two largest home video customers. Our high-definition disc sales increased to \$3.0 million in North America from \$2.2 million in the third quarter of 2008. For the first nine months of 2009, North American DVD revenue decreased 20% to \$391.5 million from \$488.9 million in the prior year while high-definition disc sales were \$10.8 million in 2009 compared to \$11.0 million in 2008 as the prior year figure included revenue from both the Blu-ray and HD-DVD formats.

North American CD sales (including related distribution) fell 32% in the third quarter of 2009, to \$25.5 million from \$37.7 million in 2008. The declines from the third quarter of 2008 were principally caused by lower volume, resulting from the closure of our CD facility in Richmond, Indiana earlier this year. For the first nine months of 2009, North American CD sales fell by 34% compared with 2008 primarily due to lower shipments.

Video Game revenue was \$18.2 million in the third quarter of 2009, compared with \$26.5 million in the prior year period. The decrease was due to lower volumes combined with the loss of a few accounts compared to the prior year as distribution orders are lower for most of our largest customers. For the first nine months of 2009, revenue in this segment was \$58.4 million down 24% from \$77.3 million in 2008. These results are consistent with the general economic conditions and industry trends.

Revenue from our wireless division related to logistics services was \$10.3 million during the third quarter of 2009 compared to \$19.1 million in 2008 due to a decrease in the number of units distributed for Motorola.

North American revenue accounted for 57% of consolidated revenue in the third quarter of 2009 compared with 60% in 2008. For the first nine months of 2009, North American revenue represented 59% of consolidated sales, compared with 63% in the previous year.

Revenue from discontinued operations of Giant Merchandising and Ivy Hill was nil in the third quarter of 2009, down from \$59.7 million in 2008. For the nine months ended September 30, 2009 revenue from discontinued operations was \$25.6 million compared to \$170.4 million in 2008.

### **3.2.2 Europe**

European revenue decreased 7% in the third quarter of 2009 to \$151.6 million from \$163.0 million in 2008. The decrease in revenue was due to lower units replicated in addition to the foreign exchange impact associated with the strengthening of the U.S. dollar relative to the Euro between the third quarter of 2008 and the third quarter of 2009. Excluding the impact of foreign currency translation, European revenue decreased by 2% in the third quarter of 2009 compared to 2008. For the first nine months of 2009, European revenue was down 10% to \$387.4 million compared with \$432.8 million in the previous year. Excluding the impact of foreign currency translation, European revenue increased by 2% in the first nine months of 2009.

European DVD revenue (including HD-DVD and related distribution) decreased 1% in the third quarter of 2009 to \$132.2 million from \$134.1 million in 2008. For the first nine months of 2009, European DVD revenue was down 9% to \$319.0 million compared with \$350.3 million in the previous year. In both cases, the lower revenue was primarily due to the foreign exchange impact associated with the strengthening U.S.

dollar compared to the Euro and British Pound.

CD revenue (including related distribution) for the third quarter of 2009 decreased 13% to \$16.8 million from \$19.3 million in 2008, principally as a result of lower CD unit shipments. For the first nine months of 2009, CD revenue was down 23% to \$49.4 million compared with \$63.9 million during the previous year as a result of lower CD unit shipments and the foreign exchange impact, as previously mentioned.

Our wireless division generated revenue of \$0.7 million during the third quarter of 2009 compared to \$7.3 million in 2008. Other revenue from non-core activities was \$1.9 million compared to \$2.3 million in 2008. For the first nine months of 2009, the wireless division generated revenue of \$14.9 million compared to \$13.3 million in 2008.

As a percentage of consolidated sales, European revenue increased to 43% for the third quarter of 2009, compared with 40% in 2008. For the first nine months of 2009, European revenue represented 41% of consolidated revenue, an increase from 37% in the previous year.

#### **4. GROSS PROFIT**

Gross profit for the third quarter of 2009 decreased to \$62.6 million from \$70.5 million in 2008. During the prior year, gross profit was positively impacted by an adjustment of \$15.8 million relating to a patent settlement. Adjusting for this item, the gross profit increase was principally attributable to higher margins on our core DVD replication business as a result of direct and indirect labour and factory overhead efficiencies combined with reduced property plant and equipment amortization charges. As a percentage of consolidated revenue, gross profit margins were 18% in the third quarter of 2009, up from 17% in 2008 reflecting the benefit of direct labour and overhead cost saving measures implemented in 2009.

For the first nine months of 2009, gross profit was \$152.5 million compared with \$186.2 million in the prior year period. Excluding the prior year patent settlement adjustment mentioned above, combined with \$3.7 million of current year severance charges associated with general workforce reductions across several facilities, adjusted gross profit for the first nine months of 2009 was \$156.2 million compared to \$170.4 million during the prior year period. As a percentage of consolidated revenue, adjusted gross profit margins were 16% for the nine months ended September 30, 2009, up from 15% in the comparable prior year period.

Amortization expense related to property, plant and equipment, which is included in cost of goods sold, decreased to \$21.2 million in the third quarter of 2009 from \$24.4 million in 2008, as a result of lower net book value of property, plant and equipment due to the \$57.2 million impairment charge recorded at the end of 2008. For the first nine months of 2009, property, plant and equipment amortization expense was \$65.7 million compared to \$75.0 million in 2008.

#### **5. AMORTIZATION OF INTANGIBLE ASSETS**

We recorded amortization of intangible assets of \$10.5 million in the third quarter of 2009 compared with \$10.6 million in 2008. For the first nine months of 2009, amortization of intangible assets was \$31.0 million compared with \$31.9 million in the prior period.

#### **6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

Selling, general and administrative expenses increased in the third quarter of 2009 to \$39.4 million from \$38.0

million in 2008, resulting from \$4.0 million of combined severance charges and consulting fees. As a percentage of consolidated revenues, selling, general and administrative expenses were 11% in the third quarter of 2009, compared to 9% in 2008. For the first nine months of 2009, selling, general and administrative expense was \$122.4 million compared with \$119.8 million in the prior period. The total for the first nine months of 2009 includes \$15.5 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 11% in the first nine months of 2009, up from 10% in 2008.

## **7. OTHER CHARGES**

### **Restructuring charges**

In March 2009, the Fund finalized a plan to close its CD replication facility in Richmond, Indiana and relocate part of the operations to the Olyphant, Pennsylvania, facilities. Also in March 2009, the Fund finalized a plan to close its Simi Valley, California, distribution facility and relocate the operations to Nashville, Tennessee and Aurora, Illinois. During the three and nine-month periods ended September 30, 2009, costs of \$1.6 million and \$4.3 million, respectively, related to severance and lease termination, were recorded as other charges. At September 30, 2009, \$0.9 million remained unpaid. This amount was recorded in accrued liabilities and is expected to be paid by the end of the first quarter of 2010.

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. During the three and nine-month periods ended September 30, 2009, costs of nil and \$0.5 million, respectively, related to severance, were recorded as other charges. At September 30, 2009, \$0.1 million was recorded in accrued liabilities and is expected to be paid by the end of 2009.

### **Gain on sale of property**

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 the first nine months of 2009, \$1.3 million of the deferred gain has been amortized with the credit recorded to cost of goods sold.

### **Partial release of cumulative translation account**

For the nine months ended September 30, 2008, the Fund recorded a net loss of \$0.5 million related to the partial release of the cumulative translation adjustment to net earnings (loss).

## **8. INTEREST EXPENSE**

Interest expense for the third quarter decreased to \$10.1 million, compared with \$11.6 million in 2008 due to lower interest rates and lower loan balances compared to the same period in 2008. Interest expense for the third quarter of 2009 included amortization of transaction costs and loan fees of \$0.6 million, compared to \$0.4 million in 2008. The average interest rate on our long-term debt for the third quarter was approximately 5.8%, compared with approximately 6.5% in 2008. For the first nine months of 2009, interest expense was \$29.5 million compared with \$35.1 million in the prior year as a result of lower debt balances combined with lower interest rates.

## **9. FOREIGN EXCHANGE GAIN/LOSS**

During the third quarter ended September 30, 2009, we recorded a foreign exchange gain of \$6.5 million compared to a foreign exchange loss of \$7.6 million in 2008. The current year gain was recorded in Canada and Europe and related to the weakening of the U.S. dollar relative to the Canadian dollar and Euro during the three months ended September 30, 2009 for certain U.S. dollar-denominated liabilities. For the first nine months of 2009, we recorded a foreign exchange gain of \$14.1 million compared with foreign exchange loss of \$2.5 million in the prior year.

## **10. INCOME TAXES**

The Fund records income tax expense based on projected taxable income in various jurisdictions and taking into account tax deductions available under the existing corporate structure. Our effective tax rate for the first nine months of 2009 was approximately 20%. The effective tax rate reflects the fact that income earned in certain of the Fund's foreign operations are subject to lower income tax rates than the expected Canadian statutory tax rate.

## **11. NET EARNINGS**

We recorded net earnings from continuing operations of \$13.9 million for the third quarter of 2009 compared with \$1.5 million in 2008. On a per unit basis, we reported basic net earnings from continuing operations of \$0.26 for the quarter ended September 30, 2009, compared with basic net earnings of \$0.03 per share in 2008. For the first nine months of 2009, we recorded net earnings from continuing operations of \$3.6 million, or \$0.07 per unit, compared with earnings of \$5.0 million or \$0.09 per unit for the nine months ended September 30, 2008.

### **11.1 Earnings/loss from Discontinued Operations**

On April 9, 2009, the Fund completed the sale of certain of Ivy Hill's assets and operations to MPS for 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 will result in a reduction in net cash proceeds from the sale to \$11.2 million once Cinram settles this claim. This adjustment is included in the loss from discontinued operations of \$4.5 million recorded during the quarter. Accordingly, the results of operations of Ivy Hill have been segregated and presented separately as discontinued operations in the consolidated interim financial statements for the three and nine month periods ended September 30, 2009, and 2008.

On May 2, 2008, the Fund completed the sale of Giant Merchandising's (Giant) assets connected with its retail license business to a division of Li & Fung for cash proceeds of \$6.0 million. Giant's remaining U.S. operations were liquidated during the second quarter of 2008, for proceeds of \$0.3 million and on June 30, 2008, the Fund completed a share sale of Giant's subsidiary in Mexico to subsidiaries of Mias Fashion Manufacturing Company,

Inc. for nominal proceeds 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 interim financial statements for the three and nine months ended September 30, 2009, and 2008.

Prior to the classification as a discontinued operation, these results were reported within the Printing and Other segments under the Fund's reportable industry segments, respectively.

The results of the discontinued operations for both Ivy Hill and Giant combined are as follows:

(in thousands of U.S. dollars)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenue	\$-	\$59,662	\$25,634	\$170,373
Earnings (loss) from discontinued operations before taxes	(4,460)	493	(12,494)	(17,111)
Income tax (recovery)	-	-	-	-
Earnings (loss) from discontinued operations	(4,460)	493	(12,494)	(17,111)
Gain (loss) on sale of discontinued operations	-	-	(4,685)	4,296
Release of cumulative translation adjustment	-	-	-	(667)
Total earnings (loss) from discontinued operations, net of income taxes	\$(4,460)	\$493	\$(17,179)	\$(13,482)

## 12. LIQUIDITY AND CAPITAL RESOURCES

### Sources and uses of cash

(in thousands of U.S. dollars)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Cash flow provided by (used in) continuing operating activities	\$61,520	\$(25,334)	\$162,077	\$129,489
Cash flow used in financing activities	(38,495)	(10,912)	(108,435)	(51,888)
Cash flow used in continuing investing activities	(5,501)	(17,555)	(30,180)	(75,579)

We experienced cash inflows from continuing operating activities of \$61.5 million in the third quarter compared with outflows of \$25.3 million in the corresponding 2008 period. The improved performance is due to increased net earnings combined with more efficient working capital management. Cash used in financing activities was \$38.5 million in the third quarter, primarily reflecting \$28.2 million of cash used for the repurchase of long-term debt at a discount combined with \$8.9 million for debt repayments at par. This compares with outflows of \$10.9 million in 2008. Cash used for investing activities was \$5.5 million in the third quarter of 2009, compared to outflows of \$17.6 million in the corresponding period in 2008, primarily reflecting reduced spending on property, plant and equipment.

As of September 30, 2009, our net debt position (long-term debt excluding unamortized transaction costs and loan fees but including bank indebtedness less cash and cash equivalents) improved to \$426.7 million from \$573.8 million at December 31, 2008, as the improved focus on working capital management allowed us to reduce debt

balances during the first nine months of 2009. Our capacity to generate cash is critical to ensuring our ability to meet our financial obligations.

During the three months ended September 30, 2009, the Fund repurchased \$38.1 million of term advances for cash proceeds of \$28.3 million. The difference of \$9.9 million has been recorded as a gain on repurchase of debt. For the nine months ended September 30, 2009, the Fund repurchased \$71.9 million of term advances for cash proceeds of \$48.4 million, resulting in a gain of \$23.5 million.

Subsequent to the quarter end, the Fund repurchased \$25.0 million of term advances for cash proceeds of \$20.2 million. The difference of \$4.8 million will be recorded as a gain on repurchase of debt during the fourth quarter of 2009.

We paid \$8.1 million for property, plant and equipment in the third quarter of 2009, consisting primarily of DVD equipment purchased in the prior year. This compared to \$17.0 million of capital expenditures in 2008.

At September 30, 2009, our cash balance was \$93.6 million, and we had total assets of \$0.9 billion compared with \$73.3 million and \$1.2 billion, respectively, at December 31, 2008. The reduction in total assets was primarily attributable to lower accounts receivable and property, plant and equipment. The corresponding cash inflow from the collection of accounts receivable was used to settle accounts payable and accrued liabilities in addition to reducing long-term debt.

We anticipate that all capital spending and debt repayments for the foreseeable future will be financed with cash generated from operations and certain non-core asset disposals that will be supplemented, if necessary, by borrowing under our existing revolving credit facility.

Our contractual obligations are substantially the same as those disclosed in our 2008 annual report, except for the amendment to the credit facility allowing for the repurchase of our debt, which required us to increase our quarterly debt repayments to \$10 million commencing with the June 30, 2009 payment.

## **12.1 Units and distributions**

At September 30, 2009, we had 55.2 million units issued and outstanding in addition to 0.03 million Exchangeable Limited Partnership Units issued and outstanding. As of September 30, 2009, there were no unit options outstanding.

In May 2008, the Fund's trustees authorized a renewed NCIB which expired in May 2009. Pursuant to this recent 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. In 2008, the Fund repurchased 1.8 million units under this NCIB for total cash of \$8.4 million. No units were repurchased during the three and nine months ended September 30, 2009.

For the nine-month period ended September 30, 2009 and the comparative prior year quarter, the Fund did not declare any distributions to unitholders.

## **13. APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires

management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Significant estimates are used in determining, but not limited to, revenue recognition, including the identification of separate units of accounting under multiple deliverable arrangements, provisions for volume rebates, royalty accruals, including judgement required in determining royalty obligations related to certain patents, the allowance for doubtful accounts, inventory valuation, income tax valuation allowances, restructuring costs, 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 depreciable assets, the recoverability of property, plant and equipment, long lived assets and the valuation of goodwill, which require estimates of future cash flows, and the allocation of the purchase price on acquisitions. In making such estimates and assumptions, management consults with employees and advisors knowledgeable in the area, gathers relevant information; where appropriate, seeks advice from qualified third parties and makes judgments, which in their opinion at that time, represent fair, balanced and appropriate conservative estimates and assumptions.

In our 2008 annual audited consolidated financial statements and notes thereto as well as in our 2008 annual MD&A, we identified the accounting policies and estimates that are critical to the understanding of our business operations and our results of operations. For the three and nine months ended September 30, 2009, there were no changes to the critical accounting policies and estimates from those found in our 2008 annual MD&A.

#### **14. CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Based on a review of the Fund's procedures and documentation of internal controls over financial reporting (ICFR), the Fund's CEO and CFO are satisfied that internal controls have been designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with GAAP.

During the three and nine months ended September 30, 2009, we did not make any significant changes in, nor take any corrective actions regarding, our internal controls or other factors that materially affect, or are reasonably likely to materially affect, the Fund's design of internal controls over financial reporting.

The Fund is committed to providing timely and accurate disclosure of material transactions and events to its Unitholders and the capital markets in general. The Fund has implemented a process whereby management will meet and otherwise communicate on a regular basis to ensure that continuous disclosure obligations are fulfilled on an ongoing basis. The CEO and the CFO, together with management, have designed and evaluated the effectiveness of the Fund's disclosure controls and procedures and have concluded that they are reasonably assured that such disclosure controls and procedures were effective and that material information relating to the Fund was made known to them within the time periods specified under applicable securities legislation.

We review our internal controls and our disclosure controls and procedures each quarter.

#### **15. RISKS AND UNCERTAINTIES**

The risks and uncertainties we face are disclosed in our filings with Canadian Securities Commissions, which are available on [www.sedar.com](http://www.sedar.com), and which are incorporated herein by reference. The risks identified remain substantially unchanged.

## **16. CHANGES IN ACCOUNTING POLICIES:**

### **(a) Goodwill and intangible assets:**

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

The adoption of this standard, did not impact the Fund's accounting for goodwill and intangible assets.

### **(b) Recently Issued Accounting Pronouncements:**

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

In June 2009, the 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 a 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. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The amendments to Section 3862 apply for annual financial statements relating to fiscal years ending after September 30, 2009. The Fund is assessing the impact of these amendments on its consolidated financial statements.

### **(c) International Financial Reporting Standards (IFRS):**

In February 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.

We have developed a detailed project plan for the changeover 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 year ending December 31, 2011.

As we determine significant impacts on our financial reporting, including on our Key Performance Indicators (“KPIs”), systems and processes, and other areas of our business, we intend to disclose these in our future MD&As.

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.

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 September 30, 2009
<p>Preparation:</p> <ul style="list-style-type: none"> <li>• Identify differences in Canadian GAAP/IFRS accounting policies</li> <li>• Select the Fund's ongoing IFRS policies</li> <li>• Select the Fund's IFRS 1 accounting policy choices</li> <li>• Develop financial statement format</li> <li>• Quantify effects of IFRS 1 disclosures on 2010 financial statements</li> </ul>	<ul style="list-style-type: none"> <li>• Senior management and audit committee sign-off on significant accounting policy decisions, IFRS 1 accounting policy choices and financial statement format during 2009.</li> <li>• Quantification of effects of change for IFRS 1 disclosures and comparative 2010 quarterly financial statements including note disclosures by end of Q3 2010 (exclusive of Q4 2010 results).</li> </ul>	<ul style="list-style-type: none"> <li>• Preliminary identification of accounting policy decisions have been completed.</li> <li>• Preliminary IFRS 1 policy choices have been made for most optional elections (see below).</li> <li>• Analysis of ongoing IFRS policies underway.</li> </ul>
<p>Infrastructure:</p> <p>Define and introduce appropriate level of IFRS expertise for each of the following:</p> <ul style="list-style-type: none"> <li>• Operating division accounting staff</li> <li>• Head office and consolidation group</li> <li>• Senior Executives and Board, including Audit Committee</li> </ul>	<ul style="list-style-type: none"> <li>• Appropriate level of expertise as needed throughout the conversion project, and by Q2 2010 at latest.</li> </ul>	<ul style="list-style-type: none"> <li>• Leadership in the form of a Steering Committee and project management function has been established.</li> <li>• Project team has received extensive training.</li> <li>• Training of operating divisions and head office accounting staff underway.</li> </ul>
<p>Infrastructure:</p> <p>Make information technology fully IFRS compliant for all of:</p> <ul style="list-style-type: none"> <li>• Systematic processing changes</li> <li>• Program upgrades/ changes</li> <li>• One-off calculations including IFRS 1 adjustments</li> <li>• Gathering data for disclosures</li> <li>• Scope of consolidation package</li> <li>• Budget/plan/forecast monitoring process</li> </ul>	<ul style="list-style-type: none"> <li>• Ready for parallel processing of 2010 general ledgers.</li> </ul>	<ul style="list-style-type: none"> <li>• Preliminary identification of issues completed.</li> <li>• Information Technology resources identified.</li> </ul>
<p>Business Policy Assessment:</p> <p>Financial Covenants</p> <ul style="list-style-type: none"> <li>• Identify impact on financial covenants and business practices</li> <li>• Complete any required renegotiations/changes</li> </ul>	<ul style="list-style-type: none"> <li>• Complete necessary covenant renegotiations by June 30, 2010.</li> </ul>	<ul style="list-style-type: none"> <li>• Identification of GAAP-related covenants completed.</li> </ul>

<p>Business Policy Assessment: Compensation Arrangements</p> <ul style="list-style-type: none"> <li>• Identify impact on compensation arrangements</li> <li>• Make any required changes</li> </ul> <p>Other Contracts</p> <ul style="list-style-type: none"> <li>• Identify impact on contracts and other areas of business</li> </ul>	<ul style="list-style-type: none"> <li>• Renegotiate arrangements by end of Q3 2010.</li> </ul>	<ul style="list-style-type: none"> <li>• Identification of GAAP-related compensation terms in progress.</li> </ul>
<p>Control Environment: ICFR</p> <ul style="list-style-type: none"> <li>• For all accounting policy changes identified, assess ICFR design and effectiveness implications</li> <li>• Implement appropriate changes</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct implementation audit by Internal Audit during Q4, 2010.</li> <li>• Update CEO/CFO certification process by end of Q4 2010.</li> </ul>	<ul style="list-style-type: none"> <li>• Policy manual and documentation team assembled.</li> </ul>
<p>Control Environment: New systems/processes</p> <ul style="list-style-type: none"> <li>• Complete documentation of changes to or new systems/processes/controls.</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct implementation audit by Internal Audit during Q4 2010.</li> </ul>	
<p>Control Environment: DC&amp;P</p> <ul style="list-style-type: none"> <li>• For all accounting policy changes identified, assess DC&amp;P design and effectiveness implications</li> <li>• Implement appropriate changes, in particular: <ul style="list-style-type: none"> <li>- Ensure 2011 investor communications fully IFRS compliant re: guidance and expected earnings</li> <li>- Revise MD&amp;A communications package</li> <li>- Ensure investor relations process can respond to IFRS-related queries</li> </ul> </li> </ul>	<p>See ICFR deadlines above</p> <ul style="list-style-type: none"> <li>• Publish impact of conversion on Key Performance Indicators in Q3 2010 MD&amp;A</li> <li>• Publish revised 2010 results and MD&amp;A by March 31, 2011.</li> </ul>	

In 2011, the Fund will be required to apply IFRS 1, First-time adoption of International Financial Reporting Standards, which sets out the rules to be followed by first-time adopters of IFRS when preparing their first IFRS financial statements. IFRS 1 generally requires that an entity apply all IFRSs effective at the end of its first IFRS reporting year retrospectively. However, IFRS 1 does include a few mandatory exceptions and certain optional exemptions from this general requirement. The Fund has decided to take the following options elections provided by IFRS 1. All other available elections are either not applicable or not material to the Fund. Note that these elections are subject to change as further work is completed.

Business combinations	The Fund will be electing not to restate any business combinations that occurred prior to January 1, 2010.
Cumulative translation differences (CTA)	The Fund will be electing to recognize all CTA of the foreign subsidiaries into opening retained earnings/ deficit as of January 1, 2010. This will result in elimination of the CTA balance in Accumulated Other Comprehensive Income at January 1, 2010.
Decommissioning liabilities	The Fund will be electing not to retrospectively calculate all changes that would have occurred prior to January 1, 2010. 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	The Fund will be electing to apply IAS 23, Borrowing Costs, prospectively from January 1, 2010.
Fair value or revaluation as deemed cost	The Fund will be electing to use the fair value as deemed cost on a number of its owned buildings at January 1, 2010. The Fund has deferred its decision about whether to revalue other long-lived assets until further analysis is completed.
Employee benefits	<p>The Fund will 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.</p> <p>The Fund has deferred its decision about whether to elect to recognize all actuarial gains/losses at January 1, 2010 to retained earnings/deficit until further analysis is completed.</p>

## INTERIM CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. dollars)

	<b>September 30</b> <b>2009</b> <b>(unaudited)</b>	December 31 2008
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	<b>\$93,622</b>	\$73,349
Accounts receivable	<b>321,757</b>	495,604
Inventories (note 3)	<b>52,242</b>	48,987
Income taxes receivable	<b>284</b>	18,235
Prepaid expenses	<b>18,293</b>	21,913
Future income taxes	<b>1,900</b>	1,827
	<b>488,098</b>	659,915
Property, plant and equipment	<b>296,716</b>	361,804
Goodwill (note 12)	<b>63,530</b>	64,737
Intangible assets	<b>63,971</b>	94,423
Other assets	<b>24,948</b>	24,557
	<b>\$937,263</b>	\$1,205,436
<b>LIABILITIES AND UNITHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current liabilities:</b>		
Accounts payable	<b>\$80,451</b>	\$203,619
Accrued liabilities	<b>246,773</b>	247,968
Income taxes payable	<b>14,609</b>	11,581
Current portion of long-term debt (note 4)	<b>35,245</b>	6,750
Current portion of obligations under capital leases	<b>2,114</b>	3,094
	<b>379,192</b>	473,012
Long-term debt (note 4)	<b>481,097</b>	636,299
Obligations under capital leases	<b>2,701</b>	3,926
Other long-term liabilities	<b>44,859</b>	43,625
Derivative instruments	<b>27,069</b>	26,586
Future income taxes	<b>4,071</b>	5,208
Unitholders' equity (deficiency)	<b>(1,726)</b>	16,780
	<b>\$937,263</b>	\$1,205,436

Subsequent event (note 4)

See accompanying notes to unaudited interim consolidated financial statements

## INTERIM CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(unaudited, in thousands of U.S. dollars, except per unit/exchangeable LP unit amounts)

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenue	<b>\$351,238</b>	\$411,653	<b>\$955,426</b>	\$1,171,724
Cost of goods sold	<b>288,626</b>	341,173	<b>802,883</b>	985,480
Gross profit	<b>62,612</b>	70,480	<b>152,543</b>	186,244
Selling, general and administrative expenses	<b>39,425</b>	37,964	<b>122,429</b>	119,796
Amortization of intangible assets	<b>10,451</b>	10,594	<b>30,950</b>	31,912
Other charges, net (note 7)	<b>1,587</b>	-	<b>3,113</b>	536
Earnings (loss) before the undernoted	<b>11,149</b>	21,922	<b>(3,949)</b>	34,000
Interest on long-term debt	<b>9,147</b>	11,392	<b>28,363</b>	34,473
Other interest expense	<b>976</b>	163	<b>1,185</b>	664
Gain on repurchase of debt (note 4)	<b>(9,853)</b>	-	<b>(23,475)</b>	-
Foreign exchange (gain) loss	<b>(6,456)</b>	7,577	<b>(14,050)</b>	2,499
Investment income	<b>(194)</b>	(452)	<b>(527)</b>	(1,511)
Earnings (loss) from continuing operations before income taxes	<b>17,529</b>	3,242	<b>4,555</b>	(2,125)
Income taxes (recovery)	<b>3,588</b>	1,713	<b>932</b>	(7,162)
Earnings from continuing operations	<b>13,941</b>	1,529	<b>3,623</b>	5,037
Earnings (loss) from discontinued operations (note 13)	<b>(4,460)</b>	493	<b>(17,179)</b>	(13,482)
Net earnings (loss)	<b>\$9,481</b>	\$2,022	<b>\$(13,556)</b>	\$(8,445)
Earnings per unit from continuing operations:				
Basic	<b>\$0.26</b>	\$0.03	<b>\$0.07</b>	\$0.09
Diluted	<b>\$0.25</b>	\$0.03	<b>\$0.07</b>	\$0.09
Earnings (loss) per unit:				
Basic	<b>\$0.17</b>	\$0.04	<b>\$(0.25)</b>	\$(0.15)
Diluted	<b>\$0.17</b>	\$0.04	<b>\$(0.25)</b>	\$(0.15)
Weighted average number of units and exchangeable limited partnership units outstanding, (in thousands) (note 9):				
Basic	<b>54,530</b>	56,481	<b>54,956</b>	56,864
Diluted	<b>55,564</b>	56,550	<b>55,474</b>	56,920

See accompanying notes to unaudited interim consolidated financial statements.

## INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited, in thousands of U.S. dollars)

	Three months ended September 30		Nine months ended September 30	
	<b>2009</b>	2008	<b>2009</b>	2008
Net earnings (loss) for the period	<b>\$9,481</b>	\$2,022	<b>\$(13,556)</b>	\$(8,445)
Other comprehensive income, net of tax (note 6):				
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	<b>(12,445)</b>	(507)	<b>(29,416)</b>	13,345
Unrealized gain (loss) on hedges of net investment in self-sustaining operations	<b>12,627</b>	(7,034)	<b>25,899</b>	(14,447)
Partial release of cumulative translation adjustment	-	-	-	1,203
Unrealized foreign exchange translation gain (loss), net of hedging activities (note 6)	<b>182</b>	(7,541)	<b>(3,517)</b>	101
Net unrealized gain (loss) on derivatives designated as cash flow hedges	<b>(1,897)</b>	(874)	<b>(479)</b>	1,046
Other comprehensive income (loss)	<b>(1,715)</b>	(8,415)	<b>(3,996)</b>	1,147
Comprehensive income (loss), net of tax	<b>\$7,766</b>	\$(6,393)	<b>\$(17,552)</b>	\$(7,298)

See accompanying notes to unaudited interim consolidated financial statements.

## INTERIM CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY (DEFICIENCY)

(unaudited, in thousands of U.S. dollars)

Three and nine months ended September 30, 2008

	Fund Units		Exchangeable Limited Partnership units		Contributed surplus	Employee unit purchase loan	Deficit	Accumulated other comprehensive income (loss)	Total Unitholders' equity (deficiency)
	Amount	Number	Amount	Number					
	(000's)	(000's)							
Balance, January 1, 2008	\$181,660	57,021	\$298	98	\$ -	\$ -	\$(223,854)	\$111,966	\$70,070
Loss for the six months ended June 30, 2008	-	-	-	-	-	-	(10,467)	-	(10,467)
Deferred units issued (note 5(d))	-	-	-	-	157	-	-	-	157
Repurchase of units	(414)	(130)	-	-	-	-	(315)	-	(729)
Limited partnership units exchanged for Fund units	198	65	(198)	(65)	-	-	-	-	-
Deferred units exchanged for Fund units	135	24	-	-	(135)	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	9,562	9,562
Balance, June 30, 2008	\$181,579	56,980	\$100	33	\$22	\$ -	\$(234,636)	\$121,528	\$68,593
Earnings for the quarter	-	-	-	-	-	-	2,022	-	2,022
Deferred units issued (note 5(d))	-	-	-	-	68	-	-	-	68
Repurchase of units (note 5(b))	(5,607)	(1,761)	-	-	(22)	-	(2,727)	-	(8,356)
Other comprehensive loss	-	-	-	-	-	-	-	(8,415)	(8,415)
Balance, September 30, 2008	\$175,972	55,219	\$100	33	\$68	\$ -	\$(235,341)	\$113,113	\$53,912

See accompanying notes to unaudited interim consolidated financial statements.

## INTERIM CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY (DEFICIENCY)

(unaudited, in thousands of U.S. dollars)

Three and nine months ended September 30, 2009

	Fund Units		Exchangeable Limited Partnership units		Contributed surplus	Employee unit purchase loan	Deficit	Accumulated other comprehensive income (loss)	Total Unitholders' equity (deficiency)
	Amount	Number	Amount	Number					
	(000's)		(000's)						
Balance, January 1, 2009	\$175,990	55,223	\$100	33	\$ -	\$ -	\$(258,425)	\$99,115	\$16,780
Loss for the six months ended June 30, 2009	-	-	-	-	-	-	(23,037)	-	(23,037)
Deferred units issued (note 5(d))	-	-	-	-	203	-	-	-	203
Limited partnership units exchanged for Fund units	12	4	(12)	(4)	-	-	-	-	-
Issuance of employee unit purchase loans (note 5 (a))	-	-	-	-	-	(486)	-	-	(486)
Other comprehensive loss	-	-	-	-	-	-	-	(2,281)	(2,281)
Balance, June 30, 2009	\$176,002	55,227	\$88	29	\$203	\$(486)	\$(281,462)	\$96,834	\$(8,821)
Earnings for the quarter	-	-	-	-	-	-	9,481	-	9,481
Deferred units issued (note 5(d))	-	-	-	-	91	-	-	-	91
Issuance of employee unit purchase loans (note 5 (a))	-	-	-	-	-	(762)	-	-	(762)
Other comprehensive loss	-	-	-	-	-	-	-	(1,715)	(1,715)
Balance, September 30, 2009	\$176,002	55,227	\$88	29	\$294	\$(1,248)	\$(271,981)	\$95,119	\$(1,726)

See accompanying notes to unaudited interim consolidated financial statements.

## INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of U.S. dollars)

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Cash provided by (used in):				
<b>Operating Activities:</b>				
Net earnings from continuing operations	\$13,941	\$1,529	\$3,623	\$5,037
Items not involving cash:				
Amortization	31,666	34,986	96,645	106,892
Future income taxes (recovery)	215	(607)	(1,210)	3,016
Gain on repurchase of debt	(9,853)	-	(23,475)	-
Release of cumulative translation adjustment (note 7c)	-	-	-	536
Non-cash interest expense	600	445	1,866	1,333
Hedge ineffectiveness	490	(636)	(4)	(243)
(Gain) loss on disposition of property, plant and equipment	184	(229)	(1,553)	(309)
Other	91	68	294	225
Change in non-cash operating working capital (note 10)	24,186	(60,890)	85,891	13,002
	<b>61,520</b>	<b>(25,334)</b>	<b>162,077</b>	<b>129,489</b>
<b>Financing Activities:</b>				
Transaction costs	-	-	(1,525)	-
Repayment/repurchase of long-term debt and bank indebtedness	(37,075)	(1,688)	(103,457)	(31,732)
Decrease in obligations under capital leases	(658)	(868)	(2,205)	(1,824)
Financing of employee unit purchase loan (note 5(a))	(762)	-	(1,248)	-
Repurchase of units (note 5(b))	-	(8,356)	-	(9,085)
Distributions paid	-	-	-	(9,247)
	<b>(38,495)</b>	<b>(10,912)</b>	<b>(108,435)</b>	<b>(51,888)</b>
<b>Investing Activities:</b>				
Purchase of property, plant and equipment	(8,128)	(17,040)	(37,853)	(54,052)
Acquisitions, net of cash	-	(3,392)	-	(5,386)
Acquisition expense	-	248	-	1,003
Payment of acquisition earnout amount (note 12)	-	-	(16,131)	(13,449)
Proceeds on disposition of property, plant and equipment	2,764	266	29,406	364
Decrease (increase) in other assets	(266)	2,696	(391)	(5,262)
Increase (decrease) in other long-term liabilities	129	(333)	(5,211)	1,203
	<b>(5,501)</b>	<b>(17,555)</b>	<b>(30,180)</b>	<b>(75,579)</b>
Cash provided by (used in) discontinued operating activities (note 13)	(174)	(3,350)	(20,052)	(16,037)
Cash provided by (used in) discontinued investing activities (note 13)	-	1,552	13,990	6,964
Foreign currency translation gain/(loss) on cash held in foreign currencies	(351)	(1,818)	2,873	810
Increase (decrease) in cash and cash equivalents	16,999	(57,417)	20,273	(6,241)
Cash and cash equivalents, beginning of period	76,623	119,582	73,349	68,406
Cash and cash equivalents, end of period	\$93,622	\$62,165	\$93,622	\$62,165
Cash and cash equivalents are comprised of:				
Cash	\$66,086	\$28,616	\$66,086	\$28,616
Cash equivalents	27,536	33,549	27,536	33,549
	<b>\$93,622</b>	<b>\$62,165</b>	<b>\$93,622</b>	<b>\$62,165</b>
Supplemental cash flow information:				
Interest paid	\$8,725	\$10,482	\$29,009	\$34,967
Income taxes received	(19,294)	(16,726)	(17,600)	(7,781)

Cash and cash equivalents are defined as cash and short-term deposits that have an original maturity of less than 90 days. See accompanying notes to unaudited interim consolidated financial statements.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2009 and 2008  
(unaudited, in thousands of U.S. dollars, except per unit/exchangeable LP unit information)

## 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES:

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

These interim unaudited consolidated financial statements include the accounts of the Fund and its subsidiaries.

The interim unaudited consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and are based upon accounting principles consistent with those used and described in note 2 to the December 31, 2008, audited consolidated financial statements of the Fund. Certain new policies have been adopted as described in note 2 to these interim unaudited consolidated financial statements.

These interim unaudited consolidated financial statements do not contain all disclosures required by Canadian GAAP for annual financial statements and, accordingly, these interim unaudited consolidated financial statements should be read in conjunction with the most recently prepared annual audited consolidated financial statements of the Fund, including the notes thereto, for the year ended December 31, 2008.

The interim unaudited consolidated financial statements reflect all adjustments that are necessary, in the opinion of management, to fairly present the financial position of the Fund as of September 30, 2009, and the results of its operations and cash flows for the three and nine month periods then ended.

Certain 2008 comparative figures have been reclassified to conform to the financial statement presentation adopted in 2009.

The Fund's business follows a seasonal pattern, whereby pre-recorded multimedia sales are traditionally higher in the third and fourth quarters than in other quarterly periods due to consumer holiday buying patterns. As a result, a disproportionate share of total revenue is typically generated in the third and fourth quarters.

### **Use of estimates:**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2009 and 2008  
(unaudited, in thousands of U.S. dollars, except per unit/exchangeable LP unit information)

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

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

## 2. CHANGES IN ACCOUNTING POLICIES:

### (a) Goodwill and intangible assets:

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

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

### (b) Recently Issued Accounting Pronouncements:

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, Consolidated Financial Statements, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than noncontrolling 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

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2009 and 2008  
(unaudited, in thousands of U.S. dollars, except per unit/exchangeable LP unit information)

January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Fund will consider the impact of the new standards on its consolidated financial statements if the Fund has a business combination.

In June 2009, the 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 a 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. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The amendments to Section 3862 apply for annual financial statements relating to fiscal years ending after September 30, 2009. The Fund, is assessing the impact of these amendments on its consolidated financial statements.

### (c) International Financial Reporting Standards (IFRS):

In February 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.

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

### 3. INVENTORIES

	<b>September 30 2009</b>	December 31 2008
Raw materials	<b>\$18,241</b>	\$32,145
Work in process	<b>25,738</b>	15,640
Finished goods	<b>8,263</b>	1,202
	<b>\$52,242</b>	\$48,987

Inventory includes the cost of materials purchased, the cost of conversion as well as other costs required to bring the inventory to its present location and condition. Inventory costs including the allocation of fixed production overhead are based on normal production capacity of the manufacturing facilities. In addition, as a result of the seasonality of the Fund's results, the Fund has recorded \$4,155 for the nine-month period ended September 30, 2009, (for the nine-month period ended September 30, 2008 – \$5,062) of unabsorbed fixed overhead costs, in work in process and as a credit to cost of sales. These costs are expected to be absorbed and recorded in cost of goods sold by the end of 2009.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2009 and 2008  
(unaudited, in thousands of U.S. dollars, except per unit/exchangeable LP unit information)

Inventory costs included in cost of goods sold for the three and nine months ended September 30, 2009, were \$164,939 and \$435,193, respectively (three and nine months periods ended September 30, 2008 – \$199,323 and \$557,316, respectively).

During the three and nine month periods ended September 30, 2009, the Fund recorded inventory write-downs in cost of goods sold of \$2,854 and \$8,340, respectively, (three and nine month periods ended September 30, 2008 - \$3,027 and \$5,842, respectively) and reversals of previously written-down amounts of \$747 and \$2,251, respectively (three and nine month periods ended September 30, 2008 – \$1,013 and \$3,059, respectively). Work in process and finished goods inventory produced without customer orders are written down to a net realizable value of nil and subsequently written up when a valid customer order is received.

#### 4. LONG-TERM DEBT AND BANK INDEBTEDNESS:

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

	<b>September 30 2009</b>	December 31 2008
Credit Agreement:		
Term Loan	<b>\$520,254</b>	\$ 647,125
Unamortized transaction costs	<b>(3,912)</b>	(4,076)
	<b>516,342</b>	643,049
Less current portion	<b>35,245</b>	6,750
	<b>\$481,097</b>	\$636,299

On May 5, 2006, in connection with the conversion to an income trust, a five-year term senior secured credit facility for \$825,000 was executed maturing on May 6, 2011. The credit facility consisted of a \$675,000 term loan, a \$100,000 U.S. revolving credit facility and a \$50,000 Canadian revolving credit facility that bore interest at LIBOR plus 175 basis points subject to, in the case of revolving credit borrowings, financial ratios. The term loan under the credit facility required principal repayments at the rate of 1% per annum, on a quarterly basis. In addition, the Fund may at its option prepay principal amounts outstanding without incurring penalties. The amounts outstanding under the facilities are secured by substantially all of the assets of the Fund. At September 30, 2009, the Fund has unamortized transaction costs relating to this loan of \$1,815.

During 2007, the Fund amended certain provisions under the credit facility, primarily to provide for a buyback of a specified number of units with an aggregate acquisition cost of up to \$100,000 and to increase flexibility under certain financial covenants. Concurrently, the associated interest rate on borrowings increased from LIBOR plus 175 basis points to LIBOR plus 200 basis points. At September 30, 2009, the Fund has unamortized transaction costs of \$906 in connection with this amendment.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2009 and 2008  
(unaudited, in thousands of U.S. dollars, except per unit/exchangeable LP unit information)

On March 30, 2009, the Fund amended certain provisions under the credit facility, primarily to permit the Fund to use up to \$150,000 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 \$35,000 to be made on March 30, 2009 upon amendment effectiveness;
- (ii) increase in the quarterly principal repayments to \$10,000 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 \$50,000 to \$100,000. The reduction is allocated ratably to both the U.S. and Canadian revolving credit facilities.

There were no amendments to the financial covenants nor changes to the interest rate spread on borrowings. At September 30, 2009, the Fund has unamortized transaction costs of \$1,191 in connection with this amendment.

During the three months and nine ended September 30, 2009, the Fund repurchased \$38,116 and \$71,925, respectively of term advances for cash proceeds of \$28,263 and \$48,450 respectively. The difference of \$9,853 and \$23,475, respectively has been recorded as a gain on repurchase of debt.

Subsequent to September 30, 2009, the Fund repurchased \$25,000 of term advances for cash proceeds of \$20,202. The difference of \$4,798 will be recorded as a gain on repurchase of debt in the fourth quarter.

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

2009	<b>\$8,811</b>
2010	<b>35,245</b>
2011	<b>476,198</b>
	<b>\$520,254</b>

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.

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

- Leverage not to exceed 3.00 x EBITA;
- Minimum interest coverage ratio of 4.00:1.00;
- Annual capital expenditures not to exceed \$150,000;
- Suspension of distributions and unit buyback until maturity of credit agreement;
- Minimum liquidity condition consisting of (i) cash on hand and revolver availability of \$37,500 at all times, and (ii) cash on hand and revolver availability of \$100,000 prior to offering to repurchase debt at an amount below par; and

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2009 and 2008  
(unaudited, in thousands of U.S. dollars, except per unit/exchangeable LP unit information)

- Restricted payment covenants.

As at September 30, 2009, and December 31, 2008, the Fund was in compliance with all the terms of its credit agreement. Based on current internal forecasts, the Fund anticipates remaining compliant with its debt covenants.

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

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

The weighted average interest rate for the three and nine-month periods ended September 30, 2009, were 5.81% and 5.82%, respectively (three and nine month periods ended September 30, 2008 – 6.46% and 6.61%, respectively).

### 5. UNITHOLDERS' EQUITY:

#### (a) Employee Unit Purchase Loan

During the second quarter of 2009, the Fund entered into an agreement to advance up to \$600 Canadian to one of its named officers for the purpose of buying units of the Fund on the open market. At September 30, 2009, \$600 Canadian has been advanced for the purchase of 410,500 units. In accordance with EIC 132, "Share Purchase Financing", for accounting purposes, the employee unit purchase loan is included as a reduction of unitholders' equity. Interest is calculated at the rate prescribed for purposes of the Income Tax Act (Canada), which for the third quarter of 2009 was 1%. The balance outstanding is secured by the units purchased or any proceeds realized upon sale of the units. At September 30, 2009, the market value of the units held as collateral was \$883 Canadian. The loan is repayable in four equal annual installments commencing in the second quarter of 2011, or earlier under certain specified conditions.

The Fund entered into a separate agreement to advance up to \$2,250 Canadian to another one of its named officers for the purpose of buying units of the Fund on the open market. The terms of this loan are similar to the terms outlined above. At September 30, 2009, \$765 Canadian has been advanced under this second loan for the purchase of 407,900 units. The market value of the units held as collateral was \$877 Canadian.

## **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Three and nine months ended September 30, 2009 and 2008  
(unaudited, in thousands of U.S. dollars, except per unit/exchangeable LP unit information)

### **(b) Normal Course Issuer Bid**

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

During the three months ended September 30, 2008, the Fund repurchased and cancelled 1,760,840 units under this plan for a total consideration of \$8,356, of which \$5,607 was recorded as a reduction to the carrying value of the Fund units and \$22 was charged to contributed surplus. The remaining \$2,727 was charged to deficit in the quarter.

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

### **(c) Long-term Incentive Plan (LTIP)**

As of September 30, 2009, no participation units were outstanding from the 69,829 participation units that were issued under the LTIP. The value of one participation unit under the LTIP is equal to the value of one unit of the Fund.

### **(d) Deferred Unit Plan**

For the three and nine months ended September 30, 2009, the Fund recorded compensation expense of \$91 and \$294, respectively (2008 – \$68 and \$225, respectively) with an offsetting credit to contributed surplus as a result of the issuance of 233,519 (2008 – 44,869) Deferred Units under the Deferred Unit Plan.

During the nine months ended September 30, 2008, 23,575 deferred units were redeemed in exchange for an equal number of units of the Fund. Accordingly, the Fund recorded an increase in Fund units and a corresponding decrease to contributed surplus of \$135.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2009 and 2008  
(unaudited, in thousands of U.S. dollars, except per unit/exchangeable LP unit information)

### 6. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Opening balance of foreign currency translation account	\$119,971	\$141,662	\$123,670	\$134,020
Change in foreign currency translation account	182	(7,541)	(3,517)	(1,102)
Partial release of foreign currency account to net earnings	-	-	-	1,203
Closing balance, September 30	120,153	134,121	120,153	134,121
Opening balance of unrealized net loss of cash flow hedges	(23,137)	(20,134)	(24,555)	(22,054)
Net unrealized gain (loss) on derivatives designated as cash flow hedges	(1,897)	(874)	(479)	1,046
Closing balance, September 30	(25,034)	(21,008)	(25,034)	(21,008)
Accumulated other comprehensive income	\$95,119	\$113,113	\$95,119	\$113,113

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

It is estimated that, over the next twelve-month period, \$13,852 will be released from accumulated other comprehensive income to the consolidated statement of earnings related to the settlement of the interest rate swap.

### 7. OTHER CHARGES, NET

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Facility restructuring (a)	\$1,587	\$-	\$4,859	\$-
Gain on sale of property (b)	-	-	(1,746)	-
Partial release of cumulative translation adjustment (c)	-	-	-	536
	\$1,587	\$-	\$3,113	\$536

#### (a) Restructuring charges

In March 2009, the Fund finalized a plan to close its CD replication facility in Richmond, Indiana and relocate part of the operations to the Olyphant, Pennsylvania facility. Also in March 2009, the Fund finalized a plan to close its Simi Valley, California, distribution facility and relocate the operations to Nashville, Tennessee and Aurora, Illinois. During the three and nine-month periods ended September 30, 2009, costs of \$1,587 and \$4,343, respectively, related to severance, facility decommissioning and lease termination, were recorded as other charges. At September 30, 2009, \$871 remained

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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unpaid. This amount was recorded in accrued liabilities and is expected to be paid by the end of the first quarter of 2010.

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 UK assets of ODS Business Services in June 2008. During the three and nine-month periods ended September 30, 2009, costs of nil and \$516, respectively, related to severance were recorded as other charges. At September 30, 2009, \$131 remains in accrued liabilities and is expected to be paid by the end of the fourth quarter of 2009.

### (b) Gain on sale of property

In January 2009, the Fund completed a sale-leaseback transaction of its facility in Aurora, Illinois, for net cash proceeds of \$22,957. An immediate gain of \$1,746 was recorded to other charges on the transaction. A further gain of \$9,548 has been deferred and will be amortized over the minimum lease term of five years. In the first nine months of 2009, \$1,273 of the deferred gain has been amortized with the credit recorded to cost of goods sold.

### (c) Partial release of cumulative translation adjustment

For the three and nine months ended September 30, 2008, the Fund recorded a net loss of nil and \$536, respectively, related to the partial release of the cumulative translation adjustment to net loss.

## 8. PENSION AND NON-PENSION EMPLOYMENT BENEFIT PLANS:

The pension plan expenses of the Fund were as follows:

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Defined Contribution plans	\$655	\$1,067	\$2,238	\$4,036
Defined benefit plans	390	312	1,260	1,989
Multi-employer pension plans	158	284	421	850

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2009 and 2008  
(unaudited, in thousands of U.S. dollars, except per unit/exchangeable LP unit information)

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

The reconciliation of the numerator and denominator for the calculation of basic and diluted earnings (loss) per unit/limited partnership unit is as follows:

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Numerator:				
Net earnings from continuing operations	\$13,941	\$1,529	\$3,623	\$5,037
Net earnings (loss) from discontinued operations	(4,460)	493	(17,179)	(13,482)
Net earnings (loss)	9,481	2,022	(13,556)	(8,445)
Denominator (in thousands):				
Weighted Average units outstanding – basic	54,530	56,481	54,956	56,864
Effect of dilutive securities:				
Deferred units	309	69	219	56
Weighted Average Units associated with outstanding unit purchase loans	725	-	299	-
Weighted average units outstanding – diluted	55,564	56,550	55,474	56,920
Earnings per unit from continuing operations:				
Basic	\$0.26	\$0.03	\$0.07	\$0.09
Diluted	\$0.25	\$0.03	\$0.07	\$0.09
Earnings (loss) per unit from discontinued operations:				
Basic	\$(0.08)	\$0.01	\$(0.31)	\$(0.24)
Diluted	\$(0.08)	\$0.01	\$(0.31)	\$(0.24)
Earnings (loss) per unit:				
Basic	\$0.17	\$0.04	\$(0.25)	\$(0.15)
Diluted	\$0.17	\$0.04	\$(0.25)	\$(0.15)

Deferred units and units associated with outstanding employee unit purchase loans were excluded from the computation of diluted loss per unit as they were anti-dilutive.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2009 and 2008  
(unaudited, in thousands of U.S. dollars, except per unit/exchangeable LP unit information)

### 10. INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS:

The change in non-cash operating working capital was comprised of the following:

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Decrease (increase) in accounts receivable	<b>\$(30,739)</b>	\$(48,605)	<b>\$173,854</b>	\$164,309
Decrease (increase) in income taxes receivable	<b>17,379</b>	17,972	<b>17,901</b>	(3,083)
Increase in inventories	<b>(12,557)</b>	(26,537)	<b>(3,240)</b>	(36,149)
Decrease (increase) in prepaid expenses	<b>(2,130)</b>	(8,719)	<b>3,680</b>	697
Increase (decrease) in accounts payable and accrued liabilities	<b>49,826</b>	5,416	<b>(109,372)</b>	(112,962)
Increase (decrease) in income taxes payable	<b>2,407</b>	(417)	<b>3,068</b>	190
	<b>\$24,186</b>	\$(60,890)	<b>\$85,891</b>	\$13,002

### 11. SEGMENTED INFORMATION:

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. The balance of the printing activities are reported in the Other segment.

As a result, in 2009, the Fund's reportable business segments are Home Video, CD, Video Game and Other. Comparative figures have been reclassified to reflect this new segment reporting classification.

The Home Video segment manufactures and distributes DVDs and high-definition discs. The CD segment manufactures and distributes CDs and CD-ROMs. The Video Game segment includes distribution of video games. The Other segment includes the business activity from the Wireless division, as well as other non-core activities.

The accounting policies of the segments are the same as those described in the 2008 annual consolidated financial statements and in note 2 to the interim consolidated financial statements. The Fund evaluates segment performance based on earnings (loss) before interest expense, investment income, foreign exchange gain/loss, gain on repurchase of debt, amortization, impairment charges, other charges and income taxes (EBITA).

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2009 and 2008  
(unaudited, in thousands of U.S. dollars, except per unit/exchangeable LP unit information)

<b>Three months ended September 30, 2009</b>					
<b>Industry segments:</b>	<b>Home Video</b>	<b>CD*</b>	<b>Video Game</b>	<b>Other</b>	<b>Total</b>
<b>Revenue from external customers</b>	<b>\$276,706</b>	<b>\$42,319</b>	<b>\$18,192</b>	<b>\$14,021</b>	<b>\$351,238</b>
<b>EBITA</b>	<b>40,876</b>	<b>(1,417)</b>	<b>514</b>	<b>4,429</b>	<b>44,402</b>
<b>Goodwill</b>	<b>14,270</b>	<b>2,968</b>	<b>40,698</b>	<b>5,594</b>	<b>63,530</b>
<b>Total assets</b>	<b>690,275</b>	<b>108,023</b>	<b>79,024</b>	<b>59,941</b>	<b>937,263</b>
<b>Amortization of property, plant and equipment</b>	<b>18,543</b>	<b>577</b>	<b>1,204</b>	<b>891</b>	<b>21,215</b>
<b>Amortization of intangible assets</b>	<b>9,161</b>	<b>-</b>	<b>1,092</b>	<b>198</b>	<b>10,451</b>
<b>Capital expenditures</b>	<b>7,997</b>	<b>-</b>	<b>83</b>	<b>48</b>	<b>8,128</b>

<b>Nine months ended September 30, 2009</b>					
<b>Industry segments:</b>	<b>Home Video</b>	<b>CD*</b>	<b>Video Game</b>	<b>Other</b>	<b>Total</b>
<b>Revenue from external customers</b>	<b>\$721,300</b>	<b>\$118,854</b>	<b>\$58,404</b>	<b>\$56,868</b>	<b>\$955,426</b>
<b>EBITA</b>	<b>91,058</b>	<b>(10,507)</b>	<b>4,407</b>	<b>10,851</b>	<b>95,809</b>
<b>Goodwill</b>	<b>14,270</b>	<b>2,968</b>	<b>40,698</b>	<b>5,594</b>	<b>63,530</b>
<b>Total assets</b>	<b>690,275</b>	<b>108,023</b>	<b>79,024</b>	<b>59,941</b>	<b>937,263</b>
<b>Amortization of property, plant and equipment</b>	<b>55,313</b>	<b>1,807</b>	<b>4,211</b>	<b>4,364</b>	<b>65,695</b>
<b>Amortization of intangible assets</b>	<b>27,080</b>	<b>-</b>	<b>3,276</b>	<b>594</b>	<b>30,950</b>
<b>Capital expenditures</b>	<b>36,561</b>	<b>-</b>	<b>213</b>	<b>1,079</b>	<b>37,853</b>

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

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2009 and 2008  
(unaudited, in thousands of U.S. dollars, except per unit/exchangeable LP unit information)

Three months ended September 30, 2008					
Industry segments:	Home Video	CD	Video Game	Other	Total
Revenue from external customers	298,403	57,003	26,545	29,702	411,653
EBITA	55,479	(848)	4,193	(1,916)	56,908
Goodwill	18,479	2,968	23,813	6,843	52,103
Total assets	844,951	162,994	72,480	223,478	1,303,903
Amortization of property, plant and equipment	20,864	1,152	1,139	1,237	24,392
Amortization of intangible assets	9,288	-	1,108	198	10,594
Capital expenditures	13,298	151	82	3,509	17,040

Nine months ended September 30, 2008					
Industry segments:	Home Video	CD	Video Game	Other	Total
Revenue from external customers	850,243	169,198	77,289	74,994	1,171,724
EBITA	133,265	(3,220)	9,107	2,276	141,428
Goodwill	18,479	2,968	23,813	6,843	52,103
Total assets	844,951	162,994	72,480	223,478	1,303,903
Amortization of property, plant and equipment	65,586	3,603	3,135	2,656	74,980
Amortization of intangible assets	28,001	-	3,317	594	31,912
Capital expenditures	37,507	533	574	15,438	54,052

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2009 and 2008  
(unaudited, in thousands of U.S. dollars, except per unit/exchangeable LP unit information)

## 12. ACQUISITIONS:

At December 31, 2008, a preliminary estimate of \$19,000 was recorded in goodwill and accrued liabilities relating to the 2008 earnout for the acquisition of Ditan.

In 2009, the Fund agreed to pay \$16,885 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 \$2,115 during 2009. During the nine months ended September 30, 2009, \$16,131 was paid to the former shareholders and \$754 remains in accrued liabilities at September 30, 2009.

## 13. DISCONTINUED OPERATIONS

### (a) Giant Merchandising

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

Prior to the classification as a discontinued operation, Giant's results were reported within the Other segment under the Fund's reportable industry segments.

The results of the Giant discontinued operations are as follows:

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenue	\$-	\$4,024	\$-	\$40,018
Earnings (loss) from discontinued operations before taxes	(289)	556	(173)	(3,273)
Income tax expense (recovery)	-	-	-	-
Earnings (loss) from discontinued operations, net of income taxes	(289)	556	(173)	(3,273)
Gain on sale of discontinued operations	-	-	-	4,296
Release of cumulative translation adjustment	-	-	-	(667)
Total earnings (loss) from discontinued operations, net of income taxes	\$(289)	\$556	\$(173)	\$356

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2009 and 2008  
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The balance sheet information related to the Giant discontinued operations is as follows:

	<b>At September 30, 2009</b>	At December 31, 2008
Current liabilities associated with discontinued operations:	<b>\$-</b>	\$1,461

These amounts have not been separately disclosed on the consolidated balance sheet at December 31, 2008, as they are not considered material.

The cash flow from the Giant discontinued operations is as follows:

	Three months ended September 30		Nine months ended September 30	
	<b>2009</b>	2008	<b>2009</b>	2008
Earnings (loss) from discontinued operations	<b>\$(289)</b>	\$556	<b>\$(173)</b>	\$356
Gain on sale of discontinued business	-	-	-	(4,296)
Change in non-cash working capital	<b>291</b>	(605)	<b>75</b>	(3,097)
Cash provided by (used in) discontinued operating activities	<b>2</b>	(49)	<b>(98)</b>	(7,037)
Proceeds on business disposition	-	-	-	6,225
Cash provided by (used in) discontinued investing activities	-	-	-	6,225
Total cash flow provided by (used in) discontinued operations	<b>\$2</b>	\$(49)	<b>\$(98)</b>	\$(812)

### (b) Ivy Hill

On April 9, 2009, the Fund completed the sale of substantially all of the assets and liabilities of Ivy Hill Corporation (Ivy Hill), to Multi Packaging Solutions, Inc. (MPS) for net cash proceeds of \$14,001, subject to working capital adjustments pursuant to the Asset Purchase Agreement. During the 2009 third quarter, the Fund recorded a working capital adjustment of \$2,818 million, which will result in a reduction in net cash proceeds from the sale to \$11,183 once the Fund settles this claim. Ivy Hill's results, which comprised all of the North American printing business, were excluded from Cinram's continuing operations for the three and nine month periods ended September 30, 2009 and 2008.

The Fund recorded a net loss on the sale of \$4,685, which includes a continuing obligation to fund a withdrawal liability relating to the multi-employer pension plans. This obligation is partially offset by preferred shares of MPS which Cinram received as part of the proceeds of sale. These preferred shares have been placed in escrow to fund the withdrawal liability. The net present value of the withdrawal liability obligation net of the preferred shares is \$2,715. This obligation will be settled no later than the second quarter of 2013.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenue	\$-	\$55,638	<b>\$25,634</b>	\$130,355
Loss from discontinued operations before taxes	<b>(4,171)</b>	(63)	<b>(12,321)</b>	(13,838)
Income tax expense (recovery)	-	-	-	-
Loss from discontinued operations, net of income taxes	<b>(4,171)</b>	(63)	<b>(12,321)</b>	(13,838)
Loss on sale of discontinued operations	-	-	<b>(4,685)</b>	-
Total loss from discontinued operations, net of income taxes	<b>\$(4,171)</b>	\$(63)	<b>\$(17,006)</b>	\$(13,838)

The balance sheet information related to the Ivy Hill discontinued operations as at September 30, 2009 is as follows:

	<b>At September 30, 2009</b>
Current liabilities associated with the Ivy Hill discontinued operations:	<b>\$9,776</b>

These amounts have not been separately disclosed on the consolidated balance sheet at September 30, 2009, as they are not considered material.

The cash flow from the Ivy Hill discontinued operations for the three and nine months ended September 30 is as follows:

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Earnings/(loss) from discontinued operations	<b>\$(4,171)</b>	\$(63)	<b>\$(17,006)</b>	\$(13,838)
Loss on sale of discontinued business	-	-	<b>4,685</b>	-
Amortization	-	2,136	-	6,415
Other	-	(728)	-	(726)
Change in non-cash working capital	<b>3,997</b>	(4,646)	<b>(7,633)</b>	(851)
Cash provided by (used in) discontinued operating activities	<b>(174)</b>	(3,301)	<b>(19,954)</b>	(9,000)
Other investing activities	-	1,552	<b>(11)</b>	739
Proceeds on disposition	-	-	<b>14,001</b>	-
Cash provided by (used in) discontinued investing activities	-	1,552	<b>13,990</b>	739
Total cash provided by (used in) discontinued operations	<b>\$(174)</b>	\$(1,749)	<b>\$(5,964)</b>	\$(8,261)

# **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Three and nine months ended September 30, 2009 and 2008  
(unaudited, in thousands of U.S. dollars, except per unit/exchangeable LP unit information)

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