

**CINRAM INTERNATIONAL  
INC., CINRAM  
INTERNATIONAL INCOME  
FUND AND THE COMPANIES  
LISTED ON SCHEDULE "A**

**SECOND REPORT  
OF FTI CONSULTING CANADA INC.,  
IN ITS CAPACITY AS MONITOR OF THE  
APPLICANTS  
August 17, 2012**

Court File No. CV12-9767-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

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

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR  
ARRANGEMENT OF CINRAM INTERNATIONAL INC.,  
CINRAM INTERNATIONAL INCOME FUND AND THE  
COMPANIES LISTED ON SCHEDULE "A"**

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**SECOND REPORT OF FTI CONSULTING CANADA INC.,  
in its capacity as Monitor of the Applicants**

**August 17, 2012**

**INTRODUCTION**

1. By Order of this Court dated June 25, 2012 (the "**Initial Order**"), Cinram International Inc. ("**CII**"), CII Trust, Cinram International Income Fund ("**Cinram Fund**") and the companies listed in **Schedule "A"** attached to this report (together with CII, CII Trust and Cinram Fund, the "**Applicants**") obtained protection from their creditors under the *Companies' Creditors Arrangement Act*, R.S.C. 1985 c. C-36, as amended (the "**CCAA**"). The Initial Order also granted relief in respect of Cinram International Limited Partnership (together with the Applicants, the "**CCAA Parties**") and appointed FTI Consulting Canada Inc. ("**FTI**") as monitor (the "**Monitor**") of the CCAA Parties.

2. Cinram Fund, collectively with its direct and indirect subsidiaries, shall be referred to herein as “**Cinram**” or the “**Cinram Group**”. The proceedings commenced by the Applicants under the CCAA will be referred to herein as the “**CCAA Proceedings**”.
3. Cinram Group is one of the world’s largest producers of pre-recorded multimedia products and related logistics services. Cinram Group has been unable to find an out-of-court solution to its financial difficulties and sought protection from its creditors under the CCAA.
4. The Initial Order granted, *inter alia*, a stay of proceedings until July 25, 2012, or such later date as this Honourable Court may order. By Order dated July 12, 2012, the stay of proceedings was extended until September 14, 2012.
5. On June 26, 2012, Cinram International ULC obtained an order from the United States Bankruptcy Court (District of Delaware) under Chapter 15 of the U.S. Bankruptcy Code recognizing and enforcing the Initial Order on an interim basis and granting an interim stay of any enforcement or actions against the CCAA Parties or their assets.
6. The Applicants’ stated principal objectives of the CCAA Proceedings were: (i) to ensure the ongoing operations of the Cinram Group; (ii) to ensure the Applicants have the necessary availability of working capital funds to maximize the ongoing business of the Cinram Group for the benefit of its stakeholders; and (iii) to

complete the sale and transfer of substantially all of Cinram's core business to Cinram Group, Inc., formerly known as Cinram Acquisition, Inc. (the "**Purchaser**") or one or more of its nominees.

7. On July 12, 2012, this Honourable Court made an order (the "**Approval and Vesting Order**"), *inter alia*: (i) approving the sale of substantially all of the property and assets used in connection with the business carried on by Cinram in North America contemplated by an asset purchase agreement between CII and the Purchaser dated June 22, 2012 (the "**Asset Purchase Agreement**"); (ii) approving the sale of the shares of Cooperatie Cinram Netherlands UA pursuant to the binding purchase offer dated June 22, 2012 (the "**Purchase Offer**") provided by the Purchaser to CII and 1362806 Ontario Limited (together with CII, the "**Share Sellers**"); (iii) authorizing CII to enter into the Asset Purchase Agreement and the Share Sellers to enter into the Purchase Offer; (iv) authorizing CII, Cinram Inc., Cinram Retail Services LLC, One K Studios, LLC, Cinram Distribution LLC and Cinram Manufacturing LLC (collectively, the "**Asset Sellers**") to complete the transactions contemplated by the Asset Purchase Agreement (the "**Asset Sale Transaction**"); and (v) authorizing the Share Sellers to complete the transactions contemplated by the Purchase Offer (the "**Share Sale Transaction**", together with the Asset Sale Transaction, the "**Sale Transaction**").
8. The Asset Purchase Agreement contains a sunset date for closing of September 15, 2012 for the Asset Sale Transaction after which the agreement may be

terminated. The parties are working towards an expected Closing of the Asset Sale Transaction by the end of August 2012.

9. Further background information regarding the CCAA Parties and these proceedings is provided in, *inter alia*, the affidavit of John Bell sworn June 23, 2012 (the “**Bell Affidavit**”) and FTI’s pre-filing report dated June 23, 2012, copies of which have been posted on the Monitor’s website for the CCAA Proceedings at <http://cfcanada.fticonsulting.com/cinram>.

#### **PURPOSE OF THIS REPORT**

10. The purpose of this Second Report is to inform the Court on progress in the Chapter 15 proceedings and to provide the Monitor’s comments on the Applicants’ request for an Order, *inter alia*, assigning the rights and obligations of CII under certain contracts, agreements and leases to the Purchaser and/or one or more of its nominees in accordance with the Asset Purchase Agreement pursuant to section 11.3 of the CCAA.
11. This report should be read in conjunction with the affidavit of John H. Bell sworn in respect of this motion on August 14, 2012 (the “**Second Bell Affidavit**”) as certain information contained in the Second Bell Affidavit has not been included herein in order to avoid unnecessary duplication. A copy of the Second Bell Affidavit is available on the Monitor’s website for the CCAA Proceedings.

12. Capitalized terms not otherwise defined herein have the meaning given to them in the Second Bell Affidavit.

## **TERMS OF REFERENCE**

13. In preparing this report, FTI has relied upon unaudited financial information of the Applicants, the Applicants' books and records, certain financial information prepared by, and discussions with, the Applicants' management. FTI has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information and accordingly expresses no opinion or other form of assurance on the information contained in this report.
14. In preparing this Second Report, the Monitor was guided, *inter alia*, by the Canadian Association of Insolvency and Restructuring Professionals' ("CAIRP") Standard of Practice No. 09-3, Assignment of Agreement approved, ratified and confirmed by CAIRP members on August 21, 2009 (the "**Guidelines**"). A copy of the Guidelines is attached hereto as **Appendix "A"**.
15. Unless otherwise stated, all monetary amounts contained in this report are expressed in United States dollars.

## **CHAPTER 15 PROCEEDINGS**

16. On July 6, 2012, in connection with the U.S. motion for the Sale Recognition Order, a notice identifying the contracts relating to the Purchased Assets and the

cure amounts proposed to be paid to the applicable Contract counterparties in the event that such Contracts are assumed and assigned to the Purchaser (the “**Assignment Notice**”), was filed with the U.S. Court and provided to counterparties in respect of Contracts that may be designated by the Purchaser for assumption by and assignment to the Purchaser. Supplemental notices identifying a small number of additional Contracts were sent to applicable Contract counterparties and filed on July 13, 2012, July 18, 2012, July 19, 2012, July 20, 2012, July 23, 2012, and July 24, 2012.

17. A limited number of Contract counterparties filed objections with the U.S. Court with respect to the Assignment Notice. No objections remain outstanding with respect to the Listed Closing Assigned Contracts.
  
18. On July 25, 2012, the U.S. Court approved and entered the Sale Recognition Order, recognizing the Approval and Vesting Order and authorizing the assumption and assignment of certain executory contracts and unexpired leases. Five counterparties were carved-out for further consensual resolution or re-submission to the Court. In respect of one of these five counterparties, Rodenbury Investments Limited (“**Rodenbury**”), the U.S. Court granted an Order on July 30, 2012, approving a stipulation between it and CII (the “**Stipulation**”), in connection with an Industrial Lease agreement between the two parties. Upon approval of the Stipulation by the U.S. Court, the objection filed by Rodenbury with the U.S. Court with respect to the assignment of the Industrial Lease agreement was deemed to be withdrawn.



19. On July 25, 2012, the U.S. Court approved and entered the Final Recognition Order under Chapter 15 of the Bankruptcy Code, granting recognition of the CCAA proceedings as the “foreign main proceedings” of the CCAA Parties and recognizing the Initial Order.

#### **AGREEMENTS PROPOSED TO BE ASSIGNED**

20. As stated above, the Applicants are currently in the process of selling substantially all of their assets and business to the Purchaser pursuant to the Asset Purchase Agreement. Pursuant to the terms of the Asset Purchase Agreement, the Purchaser, or one or more nominees thereof, will be acquiring the contracts, agreements and leases that the Purchaser designates for assignment and assumption in accordance with the Asset Purchase Agreement up to and after Closing.
21. The Purchaser requires the assignment of substantially all of the contracts, agreements and leases used by Cinram in its business in order to continue to carry out the Cinram business, and the Asset Purchase Agreement requires that those contracts, agreements and leases designated by the Purchaser for assignment be assigned to it and/or a Purchaser Nominee.
22. There are two main categories of contracts that are sought to be assigned pursuant to the Order requested by the Applicants under section 11.3 of the CCAA (the

“Assignment Order”) to the Purchaser and/or a Purchaser Nominee in accordance with the terms of the Asset Purchase Agreement:

- a) Listed Closing Assigned Contracts, being those contracts, agreements and leases designated by the Purchaser for assignment and assumption up to the date of the Assignment Order and listed in a schedule to the Assignment Order, as such schedule may be updated up to the date of the Assignment Order; and
  - b) any Additional Assigned Contracts, comprised of:
    - i. Additional Closing Assigned Contracts, being those contracts, agreements and leases designated by the Purchaser for assignment and assumption after the date of the Assignment Order but prior to the date of Closing, and
    - ii. Any other contracts, agreements and leases designated by the Purchaser for assignment and assumption after the date of Closing.
23. Only contracts, agreements and leases to which CII is a party and in respect of which consent for assignment is required from the counterparty but not obtained constitute Listed Closing Assigned Contracts and Additional Assigned Contracts and are sought to be assigned under the Assignment Order by the Applicants.

24. As described in greater detail in the Second Bell Affidavit, on July 25, 2012, the U.S. Court, as part of the Sale Recognition Order, approved the assignment and assumption of the Contracts of the Asset Sellers that are designated for assumption and assignment by the Purchaser both on Closing and after Closing in accordance with the Asset Purchase Agreement, including the Listed Closing Assigned Contracts and Additional Assigned Contracts.
25. As described in greater detail in the Second Bell Affidavit, the CCAA Parties have made extensive efforts to notify all contract counterparties in respect of all unexpired leases and executory contracts (the “**Contracts**”) related to the Purchased Assets that such Contracts may be designated by the Purchaser for assumption and assignment, including advising them of proposed amounts to cure any monetary defaults thereunder by way of the Assignment Notice, Supplemental Notices, and Notice Letters. Copies of the Assignment Notice and Supplemental Notices were included in the Applicants’ motion record served in connection with this motion. A copy of the Notice Letter is attached hereto as **Appendix “B”**.

*Listed Closing Assigned Contracts*

26. The Monitor has reviewed with the Applicants the Listed Closing Assigned Contracts and the reasons and purpose of the proposed assignments, the benefits and costs to the CCAA Parties resulting from such assignments and the impact of the assignments, or the absence of such assignments on the CCAA Parties (all as

outlined in the Second Bell Affidavit) and agrees that the assignment of the Listed Closing Assigned Contracts is required under the Asset Purchase Agreement and is, therefore, required to allow the CCAA Parties to complete the Sale Transaction for the benefit of their stakeholders.

27. The CCAA requires that all monetary defaults in relation to any agreement proposed to be assigned under section 11.3 of the CCAA be remedied on or before the day fixed by the Court. The draft Order sought by the Applicants provides that, among other things:

- a) CII, and/or any other CCAA Party that is also party to any of the Contracts, are authorized and directed to, and may direct another party to, satisfy all monetary defaults in relation to any of the Contracts, if applicable, as set out in the Assignment Notice, the Supplemental Notices and/or the Designation Notices, as applicable, and in accordance with the Asset Purchase Agreement, other than those arising by reason only of the CCAA Parties' insolvency, commencement of proceedings under the CCAA or failure to perform a non-monetary obligation under any Contract; and
- b) all accruals or unbilled amounts under the Listed Closing Assigned Agreements prior to Closing shall be satisfied by the applicable CCAA Party, or as such CCAA Party may direct, or assumed by the Purchaser and/or a Purchaser Nominee and any accruals asserted after the Closing or

liabilities arising after the Closing shall be assumed by the Purchaser and/or a Purchaser Nominee, all in accordance with the Asset Purchase Agreement.

28. The Monitor has worked with the Applicants to estimate the monetary defaults in existence as at the commencement of the CCAA proceedings in relation to the Listed Closing Assigned Agreements and estimates the aggregate of such monetary defaults to be approximately \$200. For the reasons outlined in the Second Bell Affidavit, the Applicants believe that the Purchaser is an appropriate counterparty to the Listed Closing Assigned Contracts and are not aware of any prejudice that will be caused to the counterparties as a result of the assignment thereof to the Purchaser and/or a Purchaser Nominee.
29. Under the Asset Purchase Agreement, the Purchaser is not liable for any obligations under the Listed Closing Assigned Contracts assumed by any nominee designated by the Purchaser. The Monitor is advised by the Applicants that, to the extent the Purchaser will designate nominees to assume any of the Listed Closing Assigned Contracts, the Purchaser also intends to designate such nominee to take title to the Purchased Assets related to such Listed Closing Assigned Agreements.
30. For the reasons outlined in the Second Bell Affidavit and above, the Monitor concurs with the Applicants that the Purchaser is an appropriate counterparty to the Listed Closing Assigned Contracts.

31. To date, counterparty consents to assignment of the Listed Closing Assigned Contracts have not been received and the Applicants are of the view that it is not practically possible for CII to obtain consensual assignment agreements relating to each of the Listed Closing Assigned Contracts prior to the expected timing of Closing. The Monitor is not aware of any objections to the assignment of the Listed Closing Assigned Contracts.

*Additional Assigned Contracts*

32. Under the Asset Purchase Agreement, the Purchaser may designate additional agreements for assignment up to the date of, and after, Closing.
33. The draft Assignment Order contemplates that counterparties to any Additional Contracts designated after the date of the Assignment Order (including after Closing) will have seven (7) business days from receipt of a Designation Notice to provide notice to the Monitor and the CCAA Parties of any objection such Additional Contract counterparty has to the assignment to and assumption by the Purchaser and/or a Purchaser Nominee of its Additional Contract. If no objections in respect of the assignment and assumption of Additional Contracts are received by the Monitor and the CCAA Parties within the required time period, such Additional Contracts will be assigned to the Purchaser and/or a Purchaser Nominee pursuant to the Assignment Order. If the Monitor and CCAA Parties do receive any objections in respect of the assignment and assumption of any

Additional Contracts, the CCAA Parties will be authorized to schedule a motion with this Honourable Court for the resolution of any such objections.

34. The Monitor intends to review any Additional Assigned Contracts proposed for assignment to the Purchaser pursuant to the Assignment Order and the Applicants will be required to obtain the Monitor's support in respect of the assignment of any such Additional Assigned Contracts pursuant to the Assignment Order prior to any such Additional Assigned Contracts being assigned to the Purchaser under the Assignment Order. Accordingly, the Monitor also supports the Assignment Order as it relates to the process for assignment of Additional Assigned Contracts, including the ability to assign Additional Assigned Contracts where no objection is received without further Order of this Court.

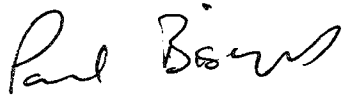
#### **RECOMMENDATION AND CONCLUSIONS**

35. For the reasons set out above, the Monitor supports the assignment of the Listed Closing Assigned Contracts and the process relating to the Additional Assigned Contracts set out in the Assignment Order and will review any Additional Assigned Contracts proposed for assignment to the Purchaser pursuant to the Assignment Order on a contract by contract basis.

All of which is respectfully submitted this 17<sup>th</sup> day of August, 2012.

FTI Consulting Canada Inc.,  
in its capacity as the Monitor of Cinram International Inc., Cinram International Income  
Fund, CII Trust and the other Applicants listed in Schedule "A"

Per

A handwritten signature in black ink, appearing to read "Paul Bishop". The signature is written in a cursive, flowing style.

Paul Bishop  
Senior Managing Director



**Schedule "A"**

**Additional Applicants**

Cinram International ULC

1362806 Ontario Limited

Cinram (U.S.) Holdings' Inc.

Cinram, Inc.

IHC Corporation

Cinram Manufacturing LLC

Cinram Distribution LLC

Cinram Wireless LLC

Cinram Retail Services, LLC

One K Studios, LLC

# APPENDIX "A"

Standards of Professional Practice

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No. 09-3  
ASSIGNMENT OF AGREEMENTS

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*In this Standard, words importing the singular number or the masculine gender only include more persons, parties or things of the same kind than one, and females as well as males and the converse.*

1.00 SCOPE AND PURPOSE

- 1.01 The purpose of this Standard is to provide guidance to a Monitor fulfilling its statutory responsibilities under the **Companies' Creditors Arrangement Act (CCAA) R.S.C. 1985, c. C-36, as amended**, in respect of a Monitor's Report on the assignment by a Company of its rights and obligations under an Agreement to any person pursuant to the **Act**.
- 1.02 The **Act** does not specifically state that the Monitor must file a report in respect of an assignment of an Agreement. Notwithstanding, one of the factors to be considered by the court is whether the Monitor approves of the proposed assignment. The Monitor may therefore be required to file a report to the court in this regard.
- 1.03 The Monitor's duties and obligations in respect of a particular **CCAA** proceeding **shall** be governed by the **Act**, the applicable orders issued by the court, and this Standard where applicable. To the extent that this Standard conflicts with any order issued by the court, the Monitor **shall** be governed by the order.

2.00 DEFINITIONS

2.01 In this Standard:

"**May**" means the Standard is simply intended to be helpful and the Monitor has full discretion to follow it or not.

"**Should**" means it is appropriate to do so in most circumstances. Where a Monitor judges it appropriate to do otherwise, the Monitor should consider the advisability of documenting the reasons for its decision.

"**Shall**" means the Standard is mandatory and the Monitor must follow it.

Standards of Professional Practice

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No. 09-3  
ASSIGNMENT OF AGREEMENTS

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2.02 In this Standard:

"**Act**" means the Companies' Creditors Arrangement Act R.S.C. 1985, c. C-36, as amended;

"**Agreement**" means an agreement in respect of which a Company wishes to effect an assignment in accordance with the **Act**, but excluding, for greater certainty, those agreements set out in Section 11.3(2) of the **Act**;

"**Assignee**" means the party to whom the Agreement is being assigned;

"**Association**" means Canadian Association of Insolvency and Restructuring Professionals/ Association canadienne des professionnels de l'insolvabilité et de la réorganisation;

"**Company**" means a debtor company, as defined in Section 2 of the **Act**, that intends to commence or has commenced, as the case may be, a proceeding under the **Act** or in respect of whom a proceeding under the **Act** has been commenced;

"**Monitor**" in respect of a Company, means the person appointed pursuant to Section 11.7 of the **Act** to monitor the business and financial affairs of the Company; and

"**Monitor's Report**" means a report in respect of the assignment issued by the Monitor in accordance with the requirements of this Standard.

3.00 ASSISTING THE COMPANY

3.01 The Monitor **may** assist the Company in reviewing the Agreements to which the Company is a party for the purpose of determining which Agreements, if any, are to be assigned as a part of the Company's proceedings under the **Act**, and in developing an appropriate approach to assign an Agreement to an Assignee.

3.02 The Monitor **may** assist the Company in negotiating the terms and conditions of the assignment of an Agreement with an Assignee and/or the counterparty to such Agreement.

Standards of Professional Practice

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No. 09-3

ASSIGNMENT OF AGREEMENTS

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- 3.03 The Monitor **should** advise the Company that the responsibility for the assignment of the Agreement and providing appropriate information for the Court's consideration in determining whether to make an order assigning the Agreement to the Assignee rests with the Company.
- 3.04 The Monitor **should** advise the Company that any information given by the Company to the Monitor may be disclosed to the court and the creditors.
- 3.05 The Monitor **should** advise the Company and the Assignee that in considering whether to order the assignment, the court will consider, among other things:
- (a) whether the Monitor approved the proposed assignment;
  - (b) whether the Assignee would be able to perform the obligations under the Agreement;  
and
  - (c) whether it would be appropriate to assign the Agreement to the Assignee.

4.00 DOCUMENTATION

- 4.01 The review performed by the Monitor in accordance with this Standard **shall** be documented.

5.00 MONITOR'S REVIEW

- 5.01 The Monitor **shall** gain an understanding of the reasons/purpose of the proposed assignment, the benefits and costs to the Company resulting from such assignment, and the impact of the assignment, or the absence of such assignment, as the case may be, on the Company and its proceedings under the Act. The Monitor **should** review the Agreement being assigned to the Assignee and the potential impact on the Company and its stakeholders and its proceedings under the Act resulting from the assignment of, or the failure to assign, as the case may be, the Agreement.

Standards of Professional Practice

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No. 09-3  
ASSIGNMENT OF AGREEMENTS

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- 5.02 The Monitor **should** review the basis on which the Company has determined that the Assignee will be able to perform the obligations under the Agreement and that such assignment would be appropriate.
- 5.03 The Monitor **should** perform a review of the terms of the proposed assignment of the Agreement to assess the monetary defaults existing under the Agreement (other than those arising by reason only of the Company's insolvency, the commencement of proceedings under the Act or the Company's failure to perform a non-monetary obligation) and that such defaults will be remedied on or before a date fixed by the court.
- 5.04 The review **shall** be performed by an individual or individuals having, when considered as a whole, adequate technical training and proficiency, with due care and with an objective state of mind.
- 5.05 The review **shall** be adequately planned and properly executed and if assistants are employed, they **shall** be properly supervised.

6.00 MONITOR'S REPORT

- 6.01 Where the Monitor is required to report on a proposed assignment of an Agreement, the Monitor's Report **should** include the following:
- (a) An appropriate disclaimer / notice to reader, summarizing the scope of the Monitor's review, the documents or information on which it relied, and the possible limitations of such information;
  - (b) An overview of the Agreement;
  - (c) The identity of the Assignee;
  - (d) The reasons an assignment of the Agreement is being sought;
  - (e) The potential impact on the Company and its proceedings under the Act resulting from the assignment of, or the failure to assign, as the case may be, the Agreement;

Standards of Professional Practice

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No. 09-3

ASSIGNMENT OF AGREEMENTS

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- (f) The quantification of any monetary defaults in existence as at the commencement of the proceedings and the ability and willingness of the Assignee or other applicable party to remedy all such financial defaults upon completion of the assignment; and
  - (g) The Monitor's comments on the Company's assessment of the Assignee's ability to perform the obligations under the Agreement and that such assignment would be appropriate.
- 6.02 Where any person objects to the proposed assignment of the Agreement to the Assignee, the Monitor **may** include in the Monitor's Report observations with respect to the objection.
- 6.03 The Monitor's Report **should** state the Monitor's position on the proposed assignment and the reasons therefore.

# APPENDIX "B"



Court File No. CV12-9767-00CL

ONTARIO  
SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR  
ARRANGEMENT OF CINRAM INTERNATIONAL INC.,  
CINRAM INTERNATIONAL INCOME FUND, CII TRUST  
AND THE COMPANIES LISTED IN SCHEDULE "A"

August 10, 2012

To Whom It May Concern

**Re: Cinram International Inc. ("CII"), Cinram International Income Fund, CII Trust, and the parties listed in Schedule "A" hereto (collectively, the "Applicants") and Cinram International Limited Partnership (together with the Applicants, the "CCAA Parties")**

**And Re: Motion before the Ontario Superior Court of Justice (the "Canadian Court") for Assignment of Certain Contracts to which CII is a Party scheduled for August 21, 2012**

We are counsel to the CCAA Parties in connection with proceedings that the Applicants have commenced under the *Companies' Creditors Arrangement Act*, as amended (the "CCAA").

*You are receiving this notice because you are a counterparty to one or more Contracts (defined below) that are the subject matter of a motion before the Canadian Court scheduled for August 21, 2012.*

On June 25, 2012, the Applicants obtained an initial order (the "**Initial Order**") under the CCAA, which, among other things, provided a stay of proceedings under the CCAA against the CCAA Parties, appointed FTI Consulting Canada Inc. as the Monitor of the CCAA Parties, and appointed Cinram International ULC as the foreign representative of the CCAA Parties.

On June 26, 2012, Cinram International ULC, as foreign representative of the CCAA Parties in their CCAA proceedings, sought and obtained an order under chapter 15 of title 11 of the United States Bankruptcy Code (the "**U.S. Bankruptcy Code**") from the United States Bankruptcy Court for the District of Delaware (the "**U.S. Court**"), which, among other things, recognized the CCAA proceedings as the "foreign main proceedings" of the CCAA Parties and recognized the Initial Order.



On July 12, 2012, the Canadian Court approved the sale of substantially all of the assets of the CCAA Parties to Cinram Group, Inc. (formerly known as Cinram Acquisition, Inc., the “**Purchaser**”) pursuant to an Asset Purchase Agreement dated June 22, 2012, between CII and the Purchaser (the “**APA**”). On July 25, 2012, the U.S. Court recognized the approval by the Canadian Court of the sale to the Purchaser.

On July 6, 2012, pursuant to requirements of section 365(b)(1) of the U.S. Bankruptcy Code, Cinram International ULC, as foreign representative of the CCAA Parties in their CCAA proceedings, provided a copy of the *Notice of Proposed Potential Assumption and Assignment of Certain Executory Contracts and Unexpired Leases in Connection with the Sale of Substantial Assets of the Debtors* (collectively with the supplemental notices thereto dated July 13, 2012, July 18, 2012, July 19, 2012, July 20, 2012, July 23, 2012, and July 24, 2012, the “**Assignment Notice**”) to counterparties of executory contracts and unexpired leases (the “**Contracts**”) relating to assets being purchased by the Purchaser under the APA. You were identified as a counterparty to one or more of such Contracts and were provided with a copy of the Assignment Notice.

The Assignment Notice was filed with the U.S. Court and was served upon counterparties to the Contracts whether or not the Purchaser had then designated such Contracts for assumption and assignment. The Assignment Notice indicated: (i) that all of the Contracts listed in the schedules to the Assignment Notice were subject to possible designation by the Purchaser for assumption and assignment to the Purchaser in accordance with the APA on closing of the sale transaction thereunder (the “**Closing**”); (ii) proposed amounts to cure any defaults that may be existing under such Contracts; (iii) that July 20, 2012 was the deadline for any objections to the assignment of such Contracts to the Purchaser and the associated cure amounts; and (iv) the right of the Purchaser under the APA to designate additional Contracts from those schedules to be assumed after Closing in accordance with the APA and the procedures available to object to the assumption of any such additional Contracts.

On July 25, 2012, the U.S. Court issued an Order authorizing the assumption and assignment of the Contracts to the Purchaser free and clear of all claims in accordance with the procedures set forth in the Order and the APA.

Please take notice that on August 21, 2012, the Applicants will be bringing a motion pursuant to section 11.3 of the CCAA before the Canadian Court in the CCAA Parties’ CCAA proceedings for an order by the Canadian Court assigning to the Purchaser certain Contracts to which CII is a party and in respect of which counterparty consent is required for assignment thereunder that are designated (both before and after Closing) for assignment and assumption by the Purchaser. **The motion is currently scheduled to be heard at 10:00 a.m. on August 21, 2012, at 8<sup>th</sup> Floor, 330 University Ave, Toronto, Ontario.**

You are being provided with this additional notice as you have been identified as a counterparty to one or more Contracts to which CII is a party that **may be assigned to and assumed by the Purchaser** pursuant to the order being sought from the Canadian Court on August 21, 2012 (the “**Assignment Order**”).



Court materials in connection with this motion, including the Applicants' Motion Record, will be made available on the website of FTI Consulting Canada Inc., the Court-appointed Monitor in the CCAA proceedings of the CCAA Parties: <http://cfcanada.fticonsulting.com/Cinram>. A copy of the Applicants' Motion Record may also be requested from counsel for the CCAA Parties or the Monitor. To request a copy of the Court materials or if you have any questions in connection with the motion, you may contact counsel to the CCAA Parties at the contact information set out below or the Monitor by calling (416) 649-8096 or 1 (855) 718-5255 or by e-mailing [cinram@fticonsulting.com](mailto:cinram@fticonsulting.com).

A list of Contracts designated by the Purchaser for assignment at Closing to which CII is a party and in respect of which counterparty consent is required for assignment thereunder and that are proposed to be assigned to the Purchaser pursuant to section 11.3 of the CCAA will be made available on the Monitor's website once available (the "Assumed Closing Contracts List"). A copy of the Assignment Order once granted by the Canadian Court will be provided to applicable Contract counterparties and will also be made available on the Monitor's website.

Please take notice that pursuant to the terms of the APA, the Purchaser has the right to designate Contracts for assumption and assignment up to and following the Closing in addition to those that may be designated by the Purchaser on the Assumed Closing Contracts List (the "Additional Contracts"). Following the receipt of such designation of any Additional Contracts to which CII is a party by CII for assumption and assumption by the Purchaser, CII will provide notice to the applicable counterparties of such designation and the right to object in connection with the assignment of any such Additional Contracts. If no objection is received by the CCAA Parties and the Monitor in respect of the assignment of any such Additional Contracts by the time period specified in the notice, such Additional Contracts shall be assigned to and assumed by the Purchaser pursuant to the Assignment Order.

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## Additional CCAA Parties

Cinram International General Partner Inc.

Cinram International ULC

1362806 Ontario Limited

Cinram (U.S.) Holding's Inc.

Cinram, Inc.

IHC Corporation

Cinram Manufacturing LLC

Cinram Distribution LLC

Cinram Wireless LLC

Cinram Retail Services, LLC

One K Studios, LLC

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IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36,  
AS AMENDED  
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF CINRAM  
INTERNATIONAL INC., CINRAM INTERNATIONAL INCOME FUND AND THE COMPANIES  
LISTED ON SCHEDULE "A"

Court File No. CV12-9767-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

**Proceeding commenced at Toronto**

**SECOND REPORT OF FTI CONSULTING  
CANADA INC., IN ITS CAPACITY AS MONITOR**

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