



**CINRAM INTERNATIONAL INC., CINRAM INTERNATIONAL
INCOME FUND, CII TRUST AND THE COMPANIES LISTED IN
SCHEDULE "A"**

**REPORT OF FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS PROPOSED MONITOR OF CINRAM
INTERNATIONAL INC., CINRAM INTERNATIONAL INCOME
FUND, CII TRUST AND THE COMPANIES LISTED IN
SCHEDULE "A"**

June 23, 2012

Court File No.

**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"**

**PRE-FILING REPORT OF FTI CONSULTING CANADA INC.,
in its capacity as proposed Monitor of the Applicants**

June 23nd, 2012

INTRODUCTION

1. FTI Consulting Canada Inc. ("**FTI**") understands that Cinram International Inc. ("**CII**"), Cinram International Income Fund ("**Cinram Fund**"), CII Trust and the companies listed in **Schedule "A"** attached to this report (together with CII, Cinram Fund and CII Trust, the "**Applicants**") intend to bring an application before this Honourable Court seeking certain relief under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") granting, *inter alia*, a stay of proceedings until July 25, 2012, seeking to extend such relief to Cinram International Limited Partnership ("**Cinram LP**", together with the Applicants, the CCAA Parties) and appointing FTI as Monitor (the "**Monitor**").

2. This is the pre-filing report of the proposed Monitor in the CCAA Proceedings. The purpose of this report is to provide this Honourable Court with information and/or the proposed Monitor's conclusions on the following:

- FTI's qualification to act as Monitor (if appointed);
- insolvency of the Applicants;
- objectives of the CCAA Proceedings;
- support agreement with certain existing lenders;
- proposed stay of proceedings with respect to the CCAA Parties' Subsidiary Counterparties;
- authorization to carry out the terms of the investment banker's engagement letter;
- funding of the CCAA Proceedings, including overview of the 13-week cash flow forecast and proposed DIP financing;
- the CCAA Parties' cash management system;
- proposed payment of certain pre-filing arrears;

- approval of key employee retention plans;
- proposed trustee, director, and officer protection;
- requested Court-ordered charges;
- financial sale thresholds; and
- proposed creditor notification procedures.

TERMS OF REFERENCE

3. In preparing this report, FTI has relied upon unaudited financial information of the CCAA Parties, the CCAA Parties' books and records, certain financial information prepared by, and discussions with, the CCAA Parties' 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.
4. Capitalized terms not defined in this report are used as defined in the affidavit of John Bell sworn June 23, 2012 (the "**Bell Affidavit**") filed in support of the Applicants' application for relief under the CCAA. This report should be read in conjunction with the Bell Affidavit as certain information contained in the Bell Affidavit has not been included herein in order to avoid unnecessary duplication.

5. Cinram Fund, collectively with its direct and indirect subsidiaries, shall be referred to herein as “**Cinram**” or the “**Cinram Group**”. The proceedings to be commenced by the Applicants under the CCAA will be referred to herein as the “**CCAA Proceedings**”.
6. Unless otherwise stated, all monetary amounts contained in this report are expressed in United States dollars.

FTI'S QUALIFICATION TO ACT AS MONITOR

7. FTI has been retained by CII since February 2010 as Cinram’s financial advisor, initially in North America and subsequently in Europe, to, among other things, assist with liquidity management and reporting (including assisting with the preparation of cash flow forecasts), the development and implementation of a multi-year financial plan and identification of cost reduction and other liquidity enhancement opportunities.
8. The professionals of FTI who have carriage of this matter, and who will have carriage of this matter for FTI as the Monitor (if appointed), have acquired considerable knowledge of the CCAA Parties and their business since the commencement of FTI’s engagement as financial advisor. FTI is therefore in a position to immediately assist the company in the implementation of any restructuring process.

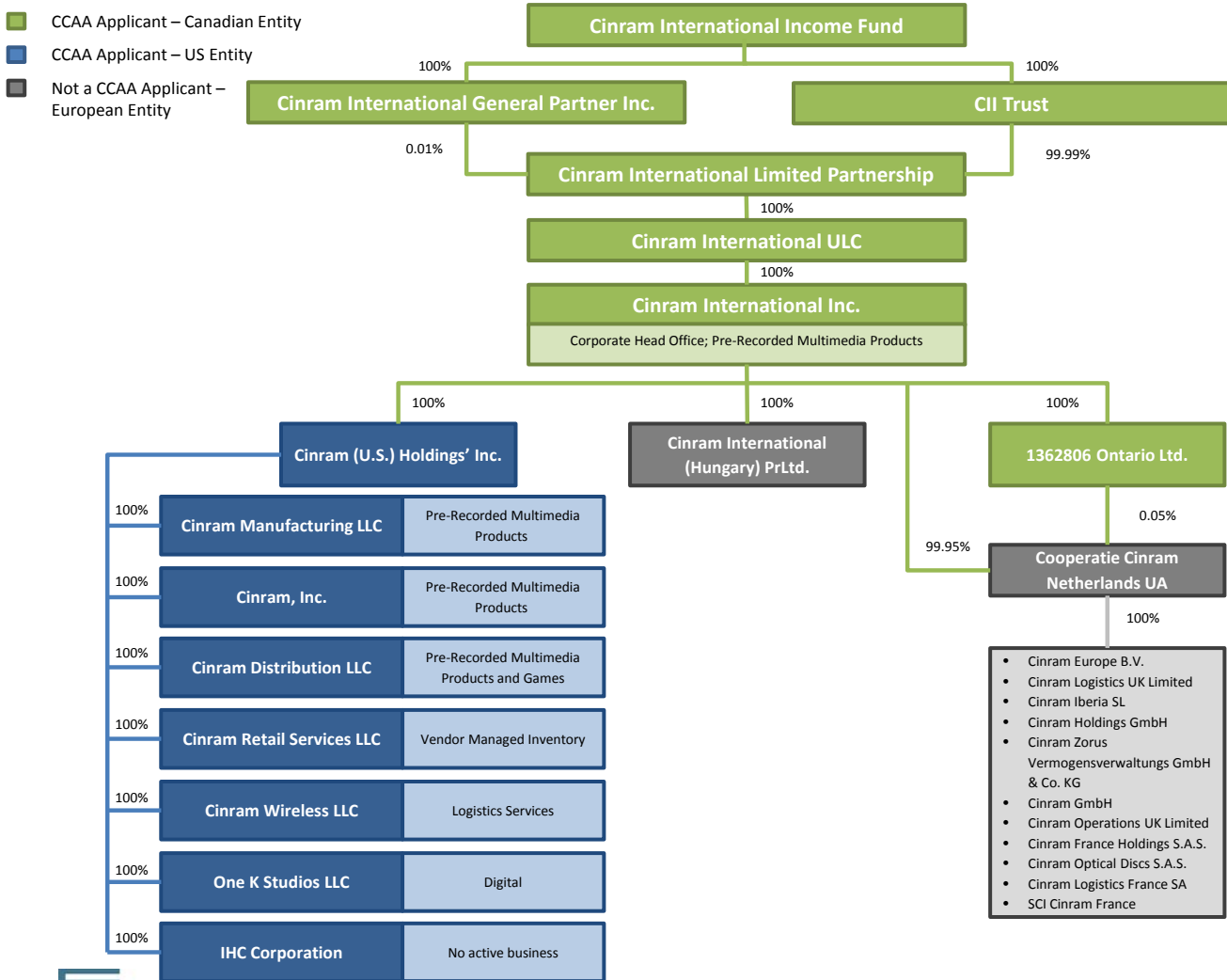
9. Paul Bishop, the individual within FTI with primary carriage of this matter, is a trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada). FTI is not subject to any of the restrictions on who may be appointed as monitor set out in section 11.7(2) of the CCAA.
10. FTI has consented to act as Monitor should this Honourable Court grant the Applicants' request to commence the CCAA Proceedings.

BACKGROUND

11. Cinram Group is one of the world's largest producers of pre-recorded multimedia products and related logistics services. The CCAA Parties are part of an integrated business in Canada, the United States and Europe that is headquartered in Canada and is operationally and functionally integrated in many respects. The Cinram Group's administrative functions and decision making functions are centralized in Canada. All senior level customer contracts for Cinram's major international customers are handled by CII, all strategic decision making is led by CII and all corporate functions, such as financial planning, internal audit, financial reporting, and dealings with Cinram's lenders, are managed in Canada. Additionally, North American cash management, information technology, accounting, accounts receivable, accounts payable, insurance procurement, marketing, treasury, real estate and tax services are provided predominantly by CII.

12. Cinram Fund is the ultimate parent of the Cinram Group and is an Applicant in these proceedings. All of the CCAA Parties, with the exception of Cinram Fund, CII Trust Cinram International General Partner Inc. and Cinram LP (collectively, the “**Fund Entities**”), are either borrowers or guarantors under the Credit Agreements. Cinram Fund’s European subsidiaries are not Applicants in these proceedings.

13. A simplified corporate structure of the Cinram Group showing all of the CCAA Parties, including the designation of the CCAA Parties’ business segments, and certain non-filing entities is set out below:



14. A copy of the Cinram Group's complete corporate organization chart is attached as Exhibit "A" to the Bell Affidavit.
15. The CCAA Parties' business, affairs, financial performance and position, as well as the causes of their insolvency, are detailed extensively in the Bell Affidavit and are therefore not repeated herein. The proposed Monitor has reviewed the Bell Affidavit and discussed the business and affairs of the CCAA Parties and the causes of their insolvency with senior management personnel of the CCAA Parties and is of the view that the Bell Affidavit provides a fair summary thereof.

OBJECTIVES OF CCAA PROCEEDINGS

16. The Applicants' stated principal objectives of the CCAA Proceedings are: (i) to ensure the ongoing operations of the Cinram Group; (ii) to ensure the CCAA Parties 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 (the "**Proposed Transaction**") to Cinram Acquisition, Inc. (the "**Proposed Purchaser**") or one or more of its nominees.
17. Certain of the CCAA Parties have entered into agreements with the Proposed Purchaser in connection with the Proposed Transaction, the details of which are described in the Bell Affidavit.

18. In connection with the Proposed Transaction, the Applicants intend to bring a motion to be heard on a date to be set by this Court to, *inter alia*, approve the Proposed Transaction pursuant to the Purchase Agreement and the Purchase Offer, and, upon the closing of the Proposed Transaction, vest the right, title and interest in and to the Purchased Assets and the Purchased Shares in the Proposed Purchaser, or one or more of its nominees, free and clear of liens and encumbrances, except for permitted encumbrances (the “**Sale Approval Motion**”). The proposed Monitor is not providing any recommendations with respect to the Proposed Transaction at this time and will provide same (if appointed) in advance of the Sale Approval Motion.

SUPPORT AGREEMENT

19. On June 22nd, 2012, Cinram Fund and the Borrowers under the Credit Agreements and lenders forming the Steering Committee (the “**Initial Consenting Lenders**”) entered into a Support Agreement (the “**Support Agreement**”) pursuant to which the Initial Consenting Lenders have agreed to support the Proposed Transaction.
20. The proposed Monitor is advised that as of June 22nd, 2012, lenders representing 40% of the loans under the First Lien Credit Agreement had executed the Support Agreement.
21. Pursuant to the Support Agreement, all lenders under the First Lien Credit Agreement who execute the Support Agreement or a Consent Agreement (as

defined in the Support Agreement) prior to July 10, 2012 (the “**Consent Date**”) are entitled to receive consent consideration equal to 4% of the principal amount of loans under the First Lien Credit Agreement (excluding any letter of credit exposure or amounts outstanding under the first-out revolving credit facility) held by such Consenting Lender as of the Consent Date, payable in cash from the net sale proceeds under the Purchase Agreement received on closing of the Proposed Transaction upon distribution of such proceeds in the CCAA Proceedings. The Applicants are requesting that payment of the consent consideration be secured by the Consent Consideration Charge. The proposed Monitor supports this request.

FOREIGN PROCEEDINGS

22. It is contemplated that these CCAA Proceedings will be the primary Court-supervised restructuring of the CCAA Parties. Although Cinram has operations in the United States and certain of the CCAA Parties are incorporated under the laws of the United States, Canada is the nerve centre of the Cinram Group.

23. The Applicants intend to seek recognition of the CCAA Proceedings as “Foreign Main Proceedings” under Chapter 15 to ensure that the CCAA Parties are protected from creditor actions in the United States and to assist with the global implementation of the Proposed Transaction to be completed pursuant to these CCAA Proceedings. Accordingly, the Applicants are seeking authorization in the proposed Initial Order for Cinram ULC to seek recognition of these proceedings

as “Foreign Main Proceedings”. If appointed Monitor, FTI will review and report on the status of any foreign proceedings.

24. The Applicants are also requesting authority for the Monitor (if appointed) to assist the CCAA Parties with any matters relating to any of the CCAA Parties’ subsidiaries and any foreign proceedings commenced in relation thereto, including retaining independent legal counsel, agents, experts, accountants, or such other persons as the Monitor deems necessary or advisable. The proposed Monitor is of the view that this power will allow the Monitor (if appointed) to assist the CCAA Parties in preserving value of the foreign subsidiaries for the benefit of the CCAA Parties and their stakeholders.

SUBSIDIARY COUNTERPARTIES

25. The CCAA Parties and certain non-Applicants forming part of the Cinram Group are party to a number of complex multi-party agreements. The CCAA Parties are concerned, among other things, about the risk of contract termination by key suppliers and customers. These risks extend to Subsidiary Counterparties which are party to one or more contracts with the CCAA Parties. Actions by third parties against a Subsidiary Counterparty would negatively impact the Cinram Business and the CCAA Parties’ ability to implement the Proposed Transaction.
26. The Applicants are therefore seeking to enjoin the exercise of rights and remedies against the CCAA Parties and the Subsidiary Counterparties with respect to

claims derived from any agreement involving the CCAA Parties. The proposed Monitor supports the Applicants' request.

INVESTMENT BANKER ENGAGEMENT & AGREEMENT

27. As part of its restructuring efforts, pursuant to an engagement letter dated September 23, 2011 (the "**Moelis Engagement Letter**"), Cinram engaged Moelis & Company LLC ("**Moelis**"), an investment bank to assist in a review of strategic alternatives with the goal of maximizing value for Cinram's stakeholders, including a potential investment in the Cinram Group or sale transaction of all or substantially all of the Property (which is described in the Bell Affidavit). It is currently contemplated that Moelis will continue assisting Cinram with the ongoing restructuring transaction process and pursuit of the Proposed Transaction during these CCAA Proceedings.
28. CII is seeking authorization to carry out and perform its obligations under the Moelis Engagement Letter, including payment of the amounts due to be paid pursuant to the terms of the Moelis Engagement Letter. The Company solicited proposals from a number of qualified investment bank and from these candidates selected Moelis. The Steering Committee of Lenders concurred with the company's selection. The proposed Monitor is of the view that the terms of Moelis' engagement are reasonable and commensurate with market rates for such transactions.

FUNDING OF THESE PROCEEDINGS

Cashflow Forecast

29. The CCAA Parties, with the assistance of the proposed Monitor, have prepared consolidated 13-week cash flow forecast of their receipts, disbursements and financing requirements (the “**Cashflow Forecast**”). A copy of the Cashflow Forecast and a report containing the prescribed representations of the Applicants regarding the preparation of the Cashflow Forecast are appended to the Bell Affidavit.
30. As shown in the Cashflow Forecast, it is estimated that for the period of June 18, 2012 to September 14, 2012, the CCAA Parties will have total trade receipts of \$98.1 million, DIP Financing of \$15 million, total operating disbursements (including capital lease payments) of \$106.2 million, financing disbursements of \$1.2 million and total disbursements relating to the restructuring of \$4.5 million for net cash flow inflow of \$1.2 million.
31. Section 23(1) (b) of the CCAA states that the Monitor shall: “*review the company’s cash-flow statement as to its reasonableness and file a report with the court on the monitor’s findings*”.

32. Pursuant to section 23(1)(b) of the CCAA and in accordance with the Canadian Association of Insolvency and Restructuring Professionals Standard of Practice 09-1 (“**CAIRP SOP 09-1**”), the proposed Monitor hereby reports as follows:

- a) The Cashflow Forecast has been prepared by the management of the Applicants for the purpose described in Note 1 on the face of the Cashflow Forecast, using the Probable and Hypothetical Assumptions set out in Notes 1 to 5.
- b) The proposed Monitor’s review consisted of inquiries, analytical procedures and discussion related to information supplied by certain of the management and employees of the CCAA Parties. Since Hypothetical Assumptions need not be supported, the proposed Monitor’s procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cashflow Forecast. The proposed Monitor has also reviewed the support provided by management of the CCAA Parties for the Probable Assumptions, and the preparation and presentation of the Cashflow Forecast.
- c) Based on its review, nothing has come to the attention of the proposed Monitor that causes it to believe that, in all material respects:
 - i. the Hypothetical Assumptions are not consistent with the purpose of the Cashflow Forecast;

- ii. as at the date of this report, the Probable Assumptions developed by management are not suitably supported and consistent with the plans of the CCAA Parties or do not provide a reasonable basis for the Cashflow Forecast, given the Hypothetical Assumptions; or
 - iii. the Cashflow Forecast does not reflect the Probable and Hypothetical Assumptions.
- d) Since the Cashflow Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the Hypothetical Assumptions occur, and the variations may be material. Accordingly, the proposed Monitor expresses no assurance as to whether the Cashflow Forecast will be achieved. The proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by the proposed Monitor in preparing this report.
- e) The Cashflow Forecast has been prepared solely for the purpose described in Note 1 on the face of the Cashflow Forecast, and readers are cautioned that it may not be appropriate for other purposes.
33. As set out in the Cashflow Forecast, the CCAA Parties do not have sufficient funds to satisfy their projected uses of cash during the next 13-week period. The

CCAA Parties will require external funding to maintain their respective minimum cash requirements, as further described below.

DIP Financing

34. The Cashflow Forecast identifies a requirement for external funding to maintain minimum cash balances and the Applicants, therefore, will require DIP Financing to ensure they can implement their restructuring initiatives and continue operations. DIP Financing will also provide assurance to Cinram's suppliers and customers that the Applicants have sufficient available liquidity to maintain their business operations and satisfy their supplier and customer obligations, as well as enhance the prospects of the Applicants' completing a successful restructuring.
35. It is anticipated that the Applicants will require DIP Financing in the amount of \$15 million to allow for payment of financial obligations during the proposed proceedings, including obligations to employees, advisors and trade creditors and to maintain required operating liquidity levels.
36. The Applicants were offered DIP Financing by the lenders forming the Steering Committee (the "**DIP Lenders**") on what the Applicants viewed as commercially reasonable terms. The Applicants also viewed the following aspects of the DIP proposal from the DIP Lenders as advantageous:

- a) it did not require any alteration of Cinram's bank accounts or cash management system; and
 - b) the proposed DIP Lenders are already familiar with Cinram's business and financial profile as well as its restructuring options as a result of their involvement in discussions with Cinram's advisors throughout Cinram's strategic review process.
37. Accordingly, the Applicants are of the opinion that there was no commercial advantage to pursuing other options for DIP Financing and, as a result, the Applicants did not canvas the market for other potential lenders. The terms and conditions of the DIP Financing are described in detail in the Bell Affidavit.
38. Subject to certain terms and conditions (described in the Bell Affidavit), Cinram has negotiated a debtor-in-possession credit agreement (the "**DIP Credit Agreement**") with the DIP Lenders whereby the DIP Lenders agree to provide the DIP Financing in the form of a term loan in the amount of \$15 million.
39. The proposed Monitor has reviewed the terms of the proposed DIP Financing and compared them with publicly available information pertaining to the terms of other recent DIP financings in comparable CCAA proceedings. The proposed Monitor has also consulted with Moelis regarding its views on the proposed terms of the DIP Financing as compared to the US DIP Market. Based on this review and discussions with Moelis, the proposed Monitor is of the view that the

- proposed terms of the DIP Financing appear to be within market range for DIP financings in comparable circumstances.
40. The proposed Monitor has also reviewed the fee letter relating to the DIP Credit Agreement which contains a fee payable to the DIP Lenders (the “**DIP Lender Fee**”) and an agent fee payable to the DIP Agent (the “**DIP Agent Fee**”). The proposed Monitor has compared those fees to equivalent fees charged in other publicly disclosed Canadian interim financing transactions of which the proposed Monitor has knowledge and has also consulted with Moelis regarding their views. It is the view of the proposed Monitor that the DIP Lender Fee and the DIP Agent Fee appear to be within the range of other transactions of this nature.
41. The DIP Financing is proposed to be secured by a Court-ordered super priority security interest, lien and charge (the “**DIP Lenders’ Charge**”) on the assets and property of the CCAA Parties (other than the Fund Entities) (the “Charged Property”) that will secure all post-filing advances. The DIP Lenders’ Charge is proposed to rank behind the Administration Charge of CAD\$3.5 million. The DIP Lenders’ Charge will not secure any obligation that exists before the Initial Order is made.
42. The DIP Credit Agreement will permit the DIP Borrowers to transfer funds drawn on the DIP Financing to other non-borrowing Applicants that are guarantors to satisfy their working capital and other liquidity requirements during these proceedings. Absent the ability to make intercompany transfer of funds, the

Applicants would not be able to finance their operations or pursue their restructuring initiatives.

43. The Applicants propose that the Monitor will provide oversight and assistance and will report to the Court in respect of the Applicants' actual results relative to the Cashflow Forecast during these proceedings. Existing account procedures will provide the Monitor with the ability to track the flow of funds between the Applicants.
44. The proposed Monitor supports the Applicants' request for approval of the proposed DIP Financing to accommodate their anticipated liquidity requirements during these CCAA Proceedings.

CASH MANAGEMENT SYSTEM

45. The CCAA Parties have advised the proposed Monitor that the cash management system, as outlined in the Bell Affidavit, is critical to the orderly management of the CCAA Parties' business affairs. Accordingly, the Applicants are seeking to continue to operate their cash management systems post-filing in substantially the same manner as before the commencement of the CCAA Proceedings. The proposed Monitor supports this request.

PAYMENTS OF PRE-FILING ARREARS

46. Cinram relies on its extensive network of suppliers and service providers, including license providers, to ensure Cinram's ability to provide replication and distribution services to its customers in a timely and flexible manner. Cinram operates in a highly competitive environment where the timely provision of its products and services is essential in order for Cinram to remain a successful player in the industry and to ensure the continuance of the Cinram Business.
47. Cinram intends to continue to rely on the suppliers with which it has contracts or arrangements that were entered into prior to the date of the filing. In order to ensure adequate and timely supply of required products and services, the CCAA Parties require the ability to pay certain pre-filing amounts and post-filing payables to those suppliers they consider essential to the Cinram Business, as approved by the Monitor. Due to Cinram's current financial circumstances, further tightening of credit terms would be detrimental to Cinram's ability to continue its operations. The CCAA Parties must ensure continued good relations with suppliers and service providers and be able to offer them a variety of options related to the terms upon which they will continue to supply to Cinram during these proceedings.
48. Accordingly, the Applicants are seeking Court approval to allow (but not require) them to pay pre-filing amounts to critical suppliers and service providers, but only with the prior approval of the Monitor and the DIP Agent.

49. The proposed Monitor concurs with the CCAA Parties' view that interruption of supply or adverse changes to existing supply terms and conditions could have a significant and immediate detrimental impact on the CCAA Parties' business, operations and cash flow. However, the proposed Monitor also recognizes that the CCAA Parties' funding is limited and will work with the CCAA Parties to ensure that payments to suppliers in respect of pre-filing liabilities are minimized. Accordingly, the proposed Monitor supports the Applicants' request to allow (but not require) them to pay certain pre-filing amounts to critical suppliers and service providers, but only with the prior approval of the Monitor and the DIP Agent.

Shared Services

50. As a result of the operational integration of the Cinram Group's businesses (as described in greater detail in the Bell Affidavit), there is a significant volume of financial transactions between and among the CCAA Parties, including, among others: the allocation of CII corporate-level costs to the US (and European) entities; IT costs which are allocated by either corporate or regional IT teams to North American entities; "off-loading" transactions whereby one DVD/BD replicating facility will manufacture DVDs or BDs for another facility that is capacity constrained (due to either not having the equipment, or not having enough of the equipment during peak season); and centralized payroll in the U.S. whereby Cinram Manufacturing funds payroll on behalf of the U.S.-based entities and is subsequently reimbursed. With the exception of the payroll transactions, the other transactions result in a build-up of intercompany payables/receivables.

Settlement of these intercompany balances is based on cash requirements as opposed to any scheduled payment terms. The CCAA Parties intend to continue these transactions following commencement of these proceedings.

Customer Programs

51. The CCAA Parties have several customer programs in place pursuant to the current contracts or arrangements with certain of their customers. In order to maintain customer relationships as part of the CCAA Parties' going concern business, the Applicants are seeking approval of the Court to continue providing certain existing customer programs in compliance with the contracts and arrangements in place with their customers and to pay certain amounts owing under or allow the customer application of credits in accordance with certain customer programs. The proposed Monitor concurs with the CCAA Parties' view that failure to honour their existing customer programs could have a significant detrimental impact on the CCAA Parties' business and supports their request to continue honouring same.

KEY EMPLOYEE RETENTION PLANS

52. Cinram has developed a key employee retention program (the "**KERP**") with the principal purpose of providing an incentive for 22 eligible employees, including eligible officers, to remain with the CCAA Parties despite the financial difficulties that the Cinram Group is currently facing. The KERP has been reviewed and

approved by the Board of Trustees of Cinram Fund and includes retention payments to eligible employees, including eligible officers, as well as payments to certain eligible officers in connection with a sale transaction or capital transaction (as described in greater detail in the Bell Affidavit).

53. Under the KERP, each Eligible Employee is eligible to receive a certain maximum amount (each a “**KERP Retention Payment**”). The KERP Retention Payments are payable to the Eligible Employees, as defined therein, on two milestone dates as follows, provided that in each case the Eligible Employee remains employed by Cinram at the date of the KERP Retention Payment: (i) 25% of each Eligible Employee’s KERP Retention Payment on June 30, 2012, less any required statutory deductions; and (ii) 75% of each Eligible Employee’s KERP Retention Payment on December 31, 2012, less any required statutory deductions.
54. In addition to the KERP Retention Payments described above, Cinram’s CEO and the CFO (each an “**Eligible Officer**”) shall be eligible to receive a payment upon the completion of a capital transaction and/or a sale transaction (a “**KERP Transaction Payment**”) up to a certain maximum amount as incentive to remain with CII and to oversee such transactions, all with a view to maximizing value for the Cinram Group and its stakeholders. In order to qualify for a KERP Transaction Payment, the Eligible Officer must be employed by CII, or its successor, if applicable, as of the 60th day following the closing of any sale transaction or capital transaction, unless the Eligible Officer has been terminated

without cause or has become employed by the purchaser as a senior officer on the completion of a sale transaction.

55. In addition, Cinram entered into retention agreements (the “**Aurora Retention Agreements**”) with five key employees (the “**Aurora Employees**”) critical for the transition of Cinram Distribution’s Aurora facility to its Nashville facility (as described in the Bell Affidavit) and transition of its distribution business to the Nashville facility. Pursuant to the Aurora Retention Agreements, each Aurora Employee is eligible to obtain a specified retention payment (collectively, the “**Aurora Retention Payments**”) provided that such employee remains employed through the transition period and up through the closure of the Aurora facility, and does not resign or become terminated prior thereto.
56. The maximum aggregate amount of KERP Retention Payments, the KERP Transaction Payments, and the Aurora Retention Payments is approximately CAD\$3 million. The Applicants request a Court-ordered charge in the amount of CAD\$3 million over the Charged Property as security for these payments (the “**KERP Charge**”).
57. The proposed Monitor concurs with the CCAA Parties’ position that the departure of the Eligible Employees, Eligible Officers and/or Aurora Employees could be detrimental to the business and operations of the CCAA Parties and could impair the likelihood of a successful outcome to the CCAA Proceedings and that the

approval of the KERP should provide incentive for the KERP participants to remain in their employment for the duration of the restructuring process.

58. Based on its review of publicly available information on court-approved key employee retention plans the proposed Monitor is satisfied that the KERP is within the market range for retention plans in the context of a CCAA proceeding and that the quantum of the proposed payments under the KERP, both to individuals and in the aggregate, are reasonable in the circumstances. Based on the totality of the foregoing, the proposed Monitor is of the opinion that the KERP is reasonable in the circumstances and its implementation would be beneficial to the CCAA Parties and their stakeholders. Accordingly, the proposed Monitor supports the Applicants' request that the KERP be approved and that this Honourable Court grant a KERP Charge to secure the obligations under the KERP.

TRUSTEE, DIRECTOR AND OFFICER PROTECTIONS

59. The Applicants are requesting a Court-ordered charge in the amount of CAD\$13 million over the Charged Property to indemnify the Directors/Trustees and senior officers of the Applicants in respect of liabilities they may incur in such capacities from and after the commencement of these proceedings (the "**Directors' Charge**").

60. Cinram maintains several Trustee, Director and Officer Insurance policies (as described in the Bell Affidavit) (the “**D&O Policies**”). The D&O Policies contain several exclusions and limitations to the coverage provided by such policies, and there is a potential for there to be insufficient coverage in respect of the potential directors’ liabilities for which the Directors/Trustees and/or officers may be found to be responsible. The proposed Initial Order provides that the Director/Trustees and officers of the Applicants shall only be entitled to the benefit of the D&O Charge to the extent they do not have coverage under any directors’ and officers’ insurance policy or to the extent such coverage is insufficient.
61. The proposed Monitor has reviewed the underlying calculations upon which the Applicants have based the estimate of the potential liability in respect of Directors/Trustees’ and officers’ potential post-filing statutory obligations and is of the view that the D&O Charge is reasonable in relation to the quantum of the estimated potential liability.

ADMINISTRATION CHARGE

62. The proposed Initial Order provides for a charge in the maximum amount of CAD\$3.5 million charging the Charged Property in favour of the Monitor, its legal counsel, the CCAA Parties’ legal counsel, the counsel to the DIP Agent and DIP Lenders and the Pre-Petition Agent and lenders under the Pre-Petition Credit Agreement and the financial advisor of the DIP Lenders and Pre-Petition Lenders in respect of their fees and disbursements incurred at their standard rates and

charges, and in favour of Moelis in respect of the fees and expenses due to be paid to Moelis pursuant to the Moelis Engagement Letter (the “**Administration Charge**”).

SUMMARY OF THE PROPOSED RANKINGS OF CHARGES

63. It is contemplated that the priorities of the charges sought by the Applicants (collectively, the “**Charges**”) will be as follows:
- a) First – the Administration Charge to a maximum of CAD\$3.5 million;
 - b) Second – the DIP Lenders’ Charge;
 - c) Third – the Directors’ Charge to a maximum of CAD\$13 million;
 - d) Fourth - the KERP Charge to a maximum of CAD\$3 million; and
 - e) Fifth – the Consent Consideration Charge.
64. The Initial Order sought by the Applicants provides that the Charges will rank in priority to all security interests and encumbrances, statutory or otherwise, except for any validly perfected security interest in favour of a “secured creditor” as defined existing as at the date hereof other than any validly perfected security interest in favour of the Pre-Petition First Lien Agent, Pre-Petition Second Lien Agent, Pre-Petition First Lien Lenders or Pre-Petition Second Lien Lenders.

65. The proposed Monitor believes that the Charges and rankings are required and reasonable in the circumstances of the CCAA Proceedings in order to preserve going concern operations of the CCAA Parties and maintain their enterprise value and, accordingly, supports the granting and the proposed ranking of the charges.

FINANCIAL THRESHOLDS

66. The proposed Initial Order reviewed by the proposed Monitor permits the CCAA Parties, subject to the requirements of the CCAA, to sell or dispose of property not exceeding CAD\$500,000 in any one transaction or CAD\$1,000,000 in the aggregate. In the proposed Monitor's view these thresholds are reasonable.

CREDITOR NOTIFICATION

67. The draft Initial Order requires the Monitor to:
- a) publish a notice containing the information prescribed under the CCAA without delay; and
- within five days of the issuance of the Initial Order to:
- b) send notice of the Initial Order to every known creditor having a claim in excess of \$5,000;

- c) make the Order publicly available in the manner prescribed under the CCAA; and
 - d) prepare a list showing the names and addresses of those creditors (except those creditors that are individuals) and the estimated amounts of those claims, and make it publicly available in the prescribed manner.
68. Approval of the higher threshold is sought to reduce the burden and cost of such process. If appointed, FTI will also post the Initial Order on its website at <http://cfcanada.fticonsulting.com/cinram>.

PROPOSED MONITOR'S CONCLUSIONS

69. The proposed Monitor is of the view that the relief requested by the Applicants is necessary, reasonable and justified. The proposed Monitor is also of the view that granting the relief requested will provide the CCAA Parties the best opportunity to undertake a restructuring under the CCAA Proceedings thereby preserving value for the benefit of the CCAA Parties' stakeholders.

All of which is respectfully submitted this 23rd day of June, 2012.

FTI Consulting Canada Inc.,
in its capacity as the proposed Monitor of Cinram International Inc., Cinram International
Incomee Fund, CII Trust, Cinram International Limited Partnership and the Additional
Applicants listed in Schedule "A"

Per

A handwritten signature in black ink that reads "Paul Bishop". The signature is written in a cursive style with a large initial "P" and "B".

Paul Bishop
Senior Managing Director

Schedule "A"

Additional Applicants

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

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

Court File No.

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"

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

Proceeding commenced at Toronto

**REPORT OF FTI CONSULTING CANADA INC., IN ITS
CAPACITY AS PROPOSED MONITOR OF CINRAM
INTERNATIONAL INC., CINRAM INTERNATIONAL
INCOME FUND, CII TRUST AND THE COMPANIES
LISTED IN SCHEDULE "A"**

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