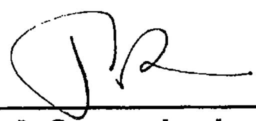
TAB D

This is Exhibit D referred to in the affidavit of
Russell Mills
sworn before me,
this 9th day of March, 2011.



A Commissioner, etc.

125

POSTMEDIA NETWORK

2010
ANNUAL REPORT

126

POSTMEDIA NETWORK

Annual Report - Fiscal 2010

Table of Contents

President's Message .... Page 4

Our Brands .... Page 5

Management's Discussion and Analysis .... Page 6

Consolidated Financial Statements .... Page 42

Canwest LP Financial Statements .... Page 86

Fiscal 2010 - The Transformation Begins

Fiscal 2010 was a tumultuous year for the people and the brands that are now part of Postmedia Network. The predecessor company filed for creditor protection in Q2; went through a sale process in Q3 and at the end of Q4 emerged anew. On July 13, 2010 Postmedia Network became Canada's newest media company.

While this report covers combined results for all of fiscal 2010, Postmedia Network results only account for the second half of Q4 – July 13 to August 31.

Operational Highlights and Financial Performance

In the early days as Postmedia Network we made progress in key areas including our digital revenues which were up 7% in Q4 versus the same quarter in the prior year and we hit a digital audience record of 7.9 million monthly unique visitors in August. We made significant progress in reducing costs and made our first optional principal repayment of US$32.5 million related to our US term loan credit facility.

These three key areas: growing digital, cutting costs and repaying debt continue to be our focus into the next fiscal year.

Looking ahead to F2011

We are part way through our first fiscal year as Postmedia Network and we have seen some exciting advancements in our strategy. We launched iPad apps for 11 daily newspapers and SwarmJam, our group buying website debuted in December. These are only the first of what are sure to be many exciting announcements to come.

We expect that our focus on reducing legacy costs through various restructuring initiatives implemented in the first half of fiscal 2011 will result in permanent annualized cost savings of $30 to $35 million, of which $25 to $30 million is expected to be realized in fiscal 2011. We continue to identify additional opportunities to reduce or eliminate our legacy costs.

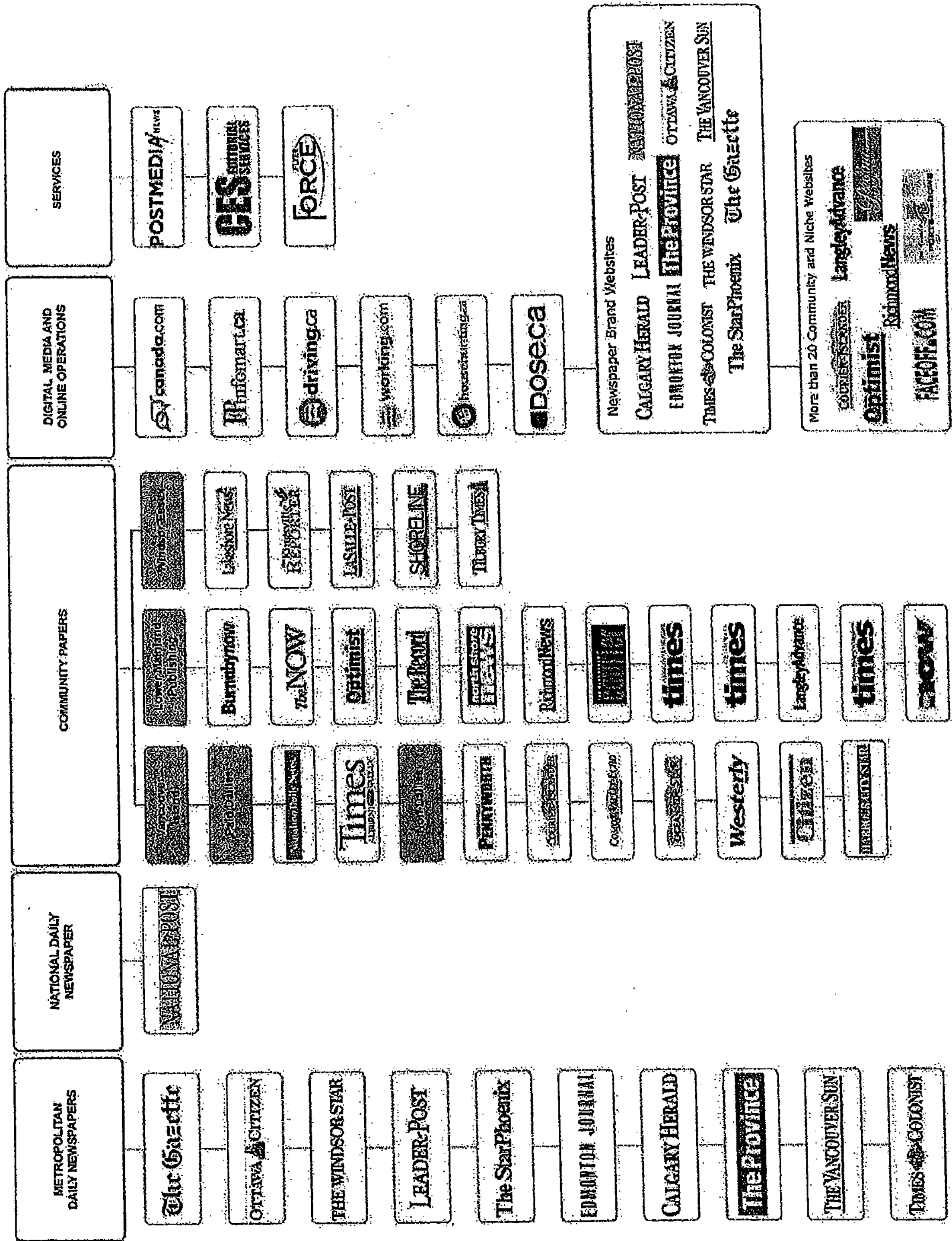
Transformation initiatives are under way across our company and they focus on four strategic imperatives:

- Developing a digital first culture in our newsrooms
- Aligning print and digital sales groups
- Reducing legacy costs
- Transforming and reinvesting

This focus will move our digital first strategy forward as we continue to redefine the Canadian media landscape.

Paul V. Godfrey, C.M.
President and Chief Executive Officer

128



POSTMEDIA NETWORK CANADA CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE PERIOD ENDED AUGUST 31, 2010

NOVEMBER 15, 2010

Important Information
Financial information presented in this Management's discussion and analysis represents results of Canwest Limited Partnership, Postmedia's (as defined below) predecessor company, for periods prior to July 13, 2010 and Postmedia for the period from July 13, 2010 to August 31, 2010. The financial results of the predecessor company are being presented by the Company (as defined below) in accordance with the terms of the Company's 12.5% senior secured notes due 2018. The financial results are (i) in respect of the period during which the predecessor company, and not the Company, owned the assets underlying the business of the Company, and (ii) based solely on the financial statements prepared by, and provided to the Company by, the predecessor company. The combined financial information does not represent and is not purported to represent the results that would have been achieved had Postmedia owned the assets of Canwest Limited Partnership and shares of National Post Inc. for the entire fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's discussion and analysis of financial condition and results of operations of Postmedia Network Canada Corp. ("we", "our", "us", or "Postmedia") should be read in conjunction with the audited consolidated financial statements and related notes of Postmedia for the period ended August 31, 2010 and the audited financial statements and related notes of Canwest Limited Partnership ("Canwest LP" or the "Limited Partnership") for the periods ended May 31, 2010 and July 12, 2010 and for the years ended August 31, 2009 and August 31, 2008.

This discussion contains statements that are not historical facts and are forward-looking statements. These statements are subject to a number of risks described under "Risk factors." Risks and uncertainties may cause actual results to differ materially from those contained in such forward-looking statements. Such statements reflect management's current views and are based on certain assumptions. They are only estimates of future developments, and actual developments may differ materially from these statements due to a number of factors. Investors are cautioned not to place undue reliance on such forward-looking statements. No forward-looking statement is a guarantee of future results. We have included historical consolidated financial statements of Canwest LP in this management's discussion and analysis in accordance with the Company's 12.5% Notes (as explained above) and to provide historical financial data of the operations we acquired. However, Canwest LP's historical consolidated financial statements should not be relied upon in making projections as to the future financial condition, results of operations, cash flows and the future development of our business. The historical information for Canwest LP contained in this management's discussion and analysis will not be comparable to our financial information. In addition, the Limited Partnership adopted the liquidation basis of accounting as of May 31, 2010 and as a result, did not present a statement of earnings or statement of cash flows subsequent to May 31, 2010 or a balance sheet as at May 31, 2010 or subsequent thereto. This management's discussion and analysis has combined the operating results of Canwest LP from September 1, 2009 to May 31, 2010 and from June 1, 2010 to July 12, 2010 as disclosed in note 5 of the audited financial statements of Canwest LP, and the results of Postmedia from July 13, 2010 to August 31, 2010 which results in information presented for the year ended August 31, 2010 ("fiscal 2010"). All references to fiscal 2010 represent the combined operations of Canwest LP from September 1, 2009 to May 31, 2010 and from June 1, 2010 to July 12, 2010 and Postmedia from July 13, 2010 to August 31, 2010. Additionally, Canwest LP's historical consolidated financial data has been reclassified to be consistent with Postmedia's revenue, expense and segment presentation. This Management's discussion and analysis of financial condition and results of operations of Postmedia

All amounts expressed are in Canadian dollars unless otherwise noted. The financial statements of Postmedia and the Limited Partnership have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). In certain aspects US Generally Accepted Accounting Principles as applied in the United States ("US GAAP") differs from Canadian GAAP. See "Differences between Canadian and US GAAP.

This discussion also makes reference to operating profit before amortization, restructuring and other items, which is a non-GAAP financial measure, to assist in assessing our financial performance. Non-GAAP financial measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. See "Reconciliation of Non-GAAP Financial Measures."

This management's discussion and analysis is dated November 15, 2010 and does not reflect changes or information subsequent to this date.

The Acquisition

On July 13, 2010, we acquired (the "Acquisition") substantially all of the assets and assumed certain liabilities of the Limited Partnership, including all of the outstanding shares of National Post Inc., for $1,047.9 million (the "Acquisition Consideration"). The Acquisition Consideration consisted of cash consideration of $927.8 million and non-cash consideration, through the issuance of equity, of $120.1 million. We obtained proceeds to fund the cash portion of the Acquisition Consideration from the issuance of senior secured notes, the issuance of shares, a term loan credit facility and acquired cash. The Acquisition was accounted for using the acquisition method of accounting which required us to fair value the assets acquired and liabilities assumed. Additional information on the Acquisition is available in note 3 to our audited consolidated financial statements.

Overview and Background

We are the largest publisher of English-language paid daily newspapers by circulation in Canada, according to the Canadian Newspaper Association's 2009 Circulation Data Report. We have the largest readership of English-language paid daily newspapers in Canada based on 2009 NADbank survey data. Our business consists of news and information gathering and dissemination operations, with products offered in most of the major markets and a number of regional and local markets in Canada through a variety of daily and community newspapers, online, digital and mobile platforms. The combination of these distribution platforms provide readers with a variety of mediums through which to access and interact with our content. In addition, the breadth of our reach and the diversity of our content enable advertisers to reach their target audiences, through the convenience of a single provider, on local, regional and national scales.

We have one reportable segment for financial reporting purposes, the Newspapers segment. The Newspapers segment is comprised of the Eastern newspapers operating segment and the Western newspapers operating segment which have been aggregated as permitted by GAAP. The Newspapers segment publishes daily and non-daily newspapers and operates the related newspaper websites. Its revenues are primarily from advertising and circulation. We also have other business activities and an operating segment which are not separately reportable and are referred to collectively as the All other category. Revenues in the All other category primarily consist of revenues from *FPinfomart* and *canada.com*.

Key Factors Affecting Operating Results

Revenues are earned primarily from advertising, circulation and digital sources. Print advertising revenues are a function of the volume, or linage, of advertising sold and rates charged. Print circulation revenues are derived from home-delivery subscriptions for newspapers and single-copy sales at retail outlets and vending machines and are a function of the number of newspapers sold and the average price per copy. Digital revenues are comprised of revenues from national display advertising on our newspaper and other websites, including *canada.com*, and subscription and licensing revenues generated through *FPinfomart*.

Combined print advertising revenue was $696.5 million in fiscal 2010, representing 66% of total revenue. Of our fiscal 2010 advertising revenue, national advertising represented 36%, retail advertising represented 27%, classified advertising represented 19%, inserts advertising represented 15% and other advertising represented 3%. Print advertising is influenced by the overall health of the economy. Over the last two years, significant print advertising declines have been driven by the economic downturn. In fiscal 2009, consolidated print advertising revenue decreased 21% compared to the prior year primarily due to a decline in advertising revenue associated with the weakness in the Canadian economy as well as a continuing shift in advertising dollars from newspaper advertising to advertising in other formats, including online and other digital formats. In fiscal 2010 combined print advertising revenues decreased 6% compared to the prior year, with all of the revenue declines occurring in the first half of the fiscal year. In the second half of the fiscal year we experienced modest growth in revenue as the economy started to recover. If the recovery continues we expect to see modest growth in advertising revenue in fiscal 2011. However, economic and industry conditions remain uncertain.

Combined print circulation revenue was $240.8 million in fiscal 2010, representing 23% of total revenue. Modest declines in circulation volume have been experienced over the last few years which have been partially offset by price increases. We expect these trends to continue in fiscal 2011.

Combined digital revenue was $84.2 million in fiscal 2010, representing 8% of total revenue. We believe digital advertising revenue represents a future growth opportunity and expect to see continued growth in this area.

Principal operating expenses are compensation expenses which are comprised of payroll and contractor expenses, newsprint expenses and distribution expenses, which comprised 54%, 8% and 17%, respectively, of total combined operating expenses in fiscal 2010. Compensation expenses declined in fiscal 2010 over the previous year due to cost reduction initiatives we implemented as well as initiatives previously implemented by the Limited Partnership. Going forward, we continue to identify and implement additional strategies to further reduce compensation expenses. Our operating results are particularly sensitive to variations in the cost and availability of newsprint. Newsprint is the principal raw material used in the production of our daily newspapers and other print publications. It is a commodity that is generally subject to considerable price volatility. We take advantage of the purchasing power that comes with the large volume of newsprint that we purchase as well as our proximity to paper mills across Canada to minimize our total newsprint expenses. Changes in newsprint prices can significantly affect our operating results. A $50 per tonne increase or decrease in the price of newsprint would be expected to affect our operating expenses by approximately $6 million on an annualized basis. We don't expect material newsprint price increases in the first half of fiscal 2011 but increases of 5% to 10% are possible in the second half of fiscal 2011. Our distribution is primarily outsourced to third party suppliers. The key drivers of our distribution costs are fuel costs and circulation and flyer volumes. We don't expect significant increases in distribution expenses in fiscal 2011.

In response to current economic and industry conditions, the Limited Partnership implemented a range of cost reduction initiatives, including the consolidation of our classified call centers into a national center in Calgary, the outsourcing of advertising production to lower cost suppliers in the Philippines and India, the implementation of a new enterprise-wide editorial content management system, the implementation of voluntary and involuntary employee buyout programs, reductions in newsprint consumption and aggressive management of controllable expenses such as marketing, travel and use of freelance personnel. We continue to focus on identifying additional strategies to further reduce operating costs.

Other Factors

Seasonality

Revenue has experienced, and is expected to continue to experience, significant seasonality due to seasonal advertising patterns and seasonal influences on people's media consumption habits. Typically, our revenue is lowest during the fourth quarter of our fiscal year, which ends in August, and highest during the first quarter of our fiscal year, which ends in November, primarily as a result of the peak of retail sales advertising. These seasonal variations may lead to increased borrowing needs at certain points within the fiscal year as well as reduced operating profit margins in the fourth quarter of our fiscal year.

Critical accounting estimates

The preparation of financial statements in accordance with GAAP requires our management to make estimates and judgments that affect the reported amounts of our assets, liabilities, revenue and expenses, as well as the disclosure of contingent assets and liabilities. Our management bases its estimates and judgments on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

We have identified below the critical accounting estimates that we believe require significant judgment in the preparation of Postmedia and the Limited Partnership's financial statements. These accounting estimates are considered critical as changes in the assumptions or estimates selected have the potential to materially impact the financial statements. For a summary of our accounting policies, see note 2 to the audited consolidated financial statements of Postmedia and the Limited Partnership.

The Acquisition

Estimates were used in order to fair value the net assets acquired from the Limited Partnership on July 13, 2010, see note 3 to the audited consolidated financial statements for more information.

Intangible assets

Intangible assets as at August 31, 2010 are comprised of newspaper mastheads of $248.6 million, domain names of $37.1 million, customer relationships of $12.2 million, subscriber lists of $148.3 million and software of $37.6 million.

Newspaper mastheads and the related domain names have indefinite lives and are not subject to amortization and are tested for impairment annually or when indicated by events or changes in circumstances. The fair value of our mastheads and the related domain names were estimated using a relief-from-royalty approach using the present value of expected after-tax royalty streams through licensing agreements. The key assumptions under this valuation approach are royalty rates, discount rates and expected future revenue.

Customer relationships, subscriber lists, software, and domain names not related to the newspaper mastheads have definite lives and are subject to amortization over a period of 4 to 5 years for customer relationships and subscriber lists, 2 to 10 years for software and 15 years for domain names. The fair value of the customer relationships and subscriber lists were estimated using the excess earnings approach. The key assumptions under this valuation method are churn rates, discount rates, expected future revenue and operating profit. The fair value of the domain names was estimated using a relief-from-royalty approach which is described above. The fair values attributable to software were estimated using depreciated replacement cost value.

Goodwill

Goodwill of $240.8 million was recognized on the Acquisition and consists of the assembled workforce, non-contractual customer relationships and expected cost savings and is computed as the Acquisition Consideration of $1,047.9 million less the fair value of net assets acquired of $807.1 million.

Goodwill is tested for impairment annually or when indicated by events or changes in circumstances by comparing the fair value of a particular reporting unit to its carrying value. When the carrying value exceeds its fair value, the fair value of the reporting unit's goodwill is compared with its carrying value to measure any impairment loss.

Pension and post-retirement/employment benefits

A pension plan liability, which includes liabilities for our pension plans, post-retirement and post-employment plans, of $148.7 million was assumed on the Acquisition. As a result of fair valuing the pension assets and benefit obligations on the Acquisition date all unamortized gains and losses were eliminated from the balance sheet. The valuation of these pension plans includes significant actuarial assumptions including, discount rates, rate of compensation increase and expected long-term rate of return on pension plan assets for pension benefits. A change in the discount rate used in the valuation of the pension plans could result in a significant increase or decrease in the valuation of pension obligations, affecting the reported funded status of our pension plans as well as the net pension cost in subsequent fiscal years.

A number of defined benefit and defined contribution pension and post-retirement/employment benefit plans are maintained. For defined benefit plans, the cost of pension and other retirement benefits earned by employees is determined using the projected benefit method pro-rated on service and estimates of a number of variables, including expected plan investment performance, salary escalation, retirement age of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Past service costs from plan amendments are amortized on a straight line basis over the average remaining service period of employees. For each plan, the excess of the net actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service period of active employees. Gains or losses arising from the settlement of a pension plan are only recognized when responsibility for the pension obligation has been relieved. The average remaining service period of employees covered by the pension plans is 8 years (2009 - 9 years, 2008 - 11 years).

For post-retirement and post-employment defined benefit plans, costs are expensed as benefits are earned by the employees. The average remaining service period of the employees covered by the post-retirement benefit plans is 11 years (2009 - 12 years; 2008 - 12 years). The average remaining service period of the employees covered by the post-employment benefit plans is 7 years (2009 - 7 years, 2008 - 7 years).

For the defined contribution plans, the pension expense is our contribution to the plan.

Income taxes

We are subject to income taxes in Canada and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. Management uses judgment in interpreting tax laws and determining the appropriate rates and amounts in recording future taxes, giving consideration to timing and probability. Actual income taxes could significantly vary from these estimates as a result of future events, including changes in income tax law or the outcome of reviews by tax authorities and related appeals. To the extent that the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such determination is made.

The asset and liability method is used to account for future income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Future income tax assets and liabilities are measured using substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. Future income tax assets are recognized to the extent that realization is considered more likely than not.

Canwest LP was not a taxable entity. Income and capital taxes were payable only by its incorporated subsidiaries.

Proposed Accounting Policies

International financial reporting standards

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, AcSB confirmed that IFRS will be used for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 with appropriate comparative IFRS financial information for the prior fiscal year. We plan on adopting IFRS in accordance with the AcSB standards, which will result in our interim consolidated statements for the three months ending November 30, 2011 being the first consolidated statements required to be prepared in accordance with IFRS.

In order to prepare for our transition date on September 1, 2011, we have created a plan to converge to IFRS. This plan covers the IFRS implementation impact on our consolidated financial statements including an analysis of the differences between IFRS and our current accounting policies to prioritize key impact areas. We are in the process of analyzing all options permitted under IFRS at the transition date and on an ongoing basis, and concluding on these options. In addition, we will identify all internal procedures and systems that must be updated in order for us to comply with IFRS. The financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. The International Accounting Standards Board ("IASB") will also continue to issue new accounting standards during the conversion period.

Operating Results

Results of operations of Postmedia for the period from July 13, 2010 to August 31, 2010

($ in thousands)	For the period ended August 31, 2010 [1]
Revenue: [1]	
Print advertising	75,624
Print circulation	31,721
Digital	10,751
Other	3,998
	122,094
Expenses: [1]	
Compensation	62,422
Newsprint	8,175
Other Operating	40,771
	111,368
Operating profit before amortization, restructuring and other items [2]	10,726
Restructuring of operations and other items	11,209
Amortization	11,073
Operating loss	(11,556)
Interest expense	12,702
Gain on derivative instruments	(7,550)
Foreign currency exchange losses	9,607
Acquisition costs	18,303
Net loss	(44,618)

Notes:

(1) Because the acquisition closed on July 13, 2010, the results from July 13, 2010 to August 31, 2010 represent a non-standard reporting period and as a result we are unable to discuss trends and comparisons of revenue and expenses for this period as we do not have comparable numbers for the same period in the prior year. The following narrative highlights some significant items in relation to the period. For a year over year comparison of fiscal 2010 to fiscal 2009 revenues and expenses please refer to the next section.

(2) See "Reconciliation of Non-GAAP Financial Measures".

Operating profit before amortization, restructuring and other items

Operating profit before amortization, restructuring and other items for the period ended August 31, 2010 was $10.7 million, reflecting a margin of 9%, which is half of our margin of 18% for the combined period ended August 31, 2010. The lower margin for the period ended August 31, 2010 reflects the seasonality of our business.

Restructuring of operations and other items

Restructuring of operations and other items was $11.2 million for the period ended August 31, 2010, consisting of $10.7 million of employee severance costs and $0.5 million of costs relating to the oversight of the employee restructuring programs and preliminary costs for a proposed stock exchange listing. During the period, we initiated a series of transformation projects that will result in further reductions to compensation expenses in fiscal 2011.

Amortization

Amortization expenses were $11.1 million for the period ended August 31, 2010 and consist of amortization related to both tangible and intangible assets acquired in the Acquisition. As a result of the Acquisition, the carrying value of both tangible and intangible assets increased significantly to reflect fair value which will result in increased amounts of amortization expense over the amounts previously reported by the Limited Partnership.

Operating loss

The operating loss was $11.5 million for the period ended August 31, 2010. Factors contributing to this loss include increased amortization and severance as described above and the seasonality of revenues.

Interest expense

Interest expense is primarily related to amounts outstanding under the Term Loan Facility and the Notes (as defined below). Interest expense was $12.7 million for the period ended August 31, 2010 which includes non-cash interest relating to the original issue discount and financing fees of $1.7 million.

Gain on derivative instruments

In order to manage foreign exchange and interest rate risk, we use derivative financial instruments. These derivative financial instruments fix future principal and interest payments denominated in US dollars in Canadian dollars. For the period ended August 31, 2010 we recorded a gain on derivative instruments of $7.6 million. This amount includes $3.5 million related to a foreign exchange interest rate swap that was not designated as a hedge and a gain of $4.3 million related to a variable prepayment option on our senior secured notes that represents an embedded derivative and is accounted for separately at fair value.

Foreign currency exchange losses

For the period ended August 31, 2010, we recorded a foreign exchange loss of $9.6 million which primarily relates to our US dollar denominated term loan under the Term Loan Credit Facility. At August 31, 2010 US$267.5 million was outstanding under this facility. We have entered into a derivative to hedge a notional amount of US$225.0 million of this facility which acts as an economic hedge; however, we did not designate such instrument as a hedge and as a result will not use hedge accounting for financial reporting purposes.

Acquisition costs

During the period ended August 31, 2010 we incurred acquisition costs of $18.3 million related to the Acquisition of the Limited Partnership. These costs were expensed as they were not directly related to either the issuance of debt or equity.

Net loss

Our net loss for the period ended August 31, 2010 was $44.6 million, or $1.11 per share. Factors contributing to this net loss include acquisition and restructuring costs of $29.5 million, increased amortization as a result of fair valuing tangible and intangible assets as a result of the Acquisition and the seasonality of revenues.

Results of combined operations of Postmedia and the Limited Partnership for the year ended August 31, 2010 compared to the Limited Partnership's operations for the year ended August 31, 2009

The following table summarizes the combined operating results of Postmedia and the Limited Partnership for the fiscal year ended August 31, 2010 and the Limited Partnership's operating results for the fiscal year ended August 31, 2009:

($ in thousands)	For the year ended August 31, 2010 [1]	2009 [2]
Revenue		
Print advertising	696,494	740,058
Print circulation	240,811	246,060
Digital	84,176	79,091
Other	31,022	33,866
	1,052,503	1,099,075
Operating expenses		
Compensation	468,655	480,493
Newsprint	66,487	92,688
Other operating	326,308	354,010
	861,450	927,191
Operating profit before amortization, restructuring and other items [3]	191,053	171,884
Amortization	48,945	40,535
Restructuring of operations and other items	13,351	28,805
Operating profit	128,757	102,544
Interest expense	77,833	98,426
Other income	(1,784)	(2,500)
Gain on disposal of property and equipment	(2)	(2,186)
Loss on disposal of interest rate swap	-	180,202
Ineffective portion of hedging derivative instruments	-	60,112
Impairment loss on masthead	-	28,250
Gain on derivative instruments	(7,550)	-
Foreign currency exchange gain	(44,545)	(154,513)
Acquisition costs	18,303	-
Earnings (loss) before reorganization costs and income taxes	86,502	(105,247)
Reorganization costs	57,692	25,756
Earnings (loss) before income tax recovery	28,810	(131,003)
Income tax recovery [4]	n/a	(8,893)
Net loss [4]	n/a	(122,110)

Notes:

(1) These results represent the combined operating results of Canwest LP from September 1, 2009 to May 31, 2010 and June 1, 2010 to July 12, 2010 and Postmedia from July 13, 2010 to August 31, 2010. The results for the fiscal year ending August 31, 2010 do not represent and are not purported to represent what the results would have been if Postmedia had owned the assets of the Limited Partnership for the full year due to differences in the legal and capital structure of Postmedia. See "Reconciliation of Non-GAAP Financial Measures."

(2) We have included historical consolidated financial statements of Canwest LP, to provide historical financial data of the operations we acquired. However, Canwest LP's historical consolidated financial statements should not be relied upon in making projections as to the future financial condition, results of operations, cash flows and the future development of our business. Additionally, Canwest LP's historical consolidated financial data has been reclassified to be consistent with Postmedia's revenue and expense presentation.

(3) See "Reconciliation of Non-GAAP Financial Measures".

(4) Under the liquidation basis of accounting for the period from June 1, 2010 to July 12, 2010, the supplementary financial information in note 5 of the audited financial statements of Canwest LP did not include a provision for income taxes. Therefore, in these combined statements of Postmedia and the Limited Partnership for the year ended August 31, 2010 no income tax provision is reflected and as a result net earnings has also not been presented.

Revenue

Print advertising

Print advertising revenue decreased $43.6 million, or 6%, to $696.5 million for the year ended August 31, 2010 as compared to $740.1 million for the year ended August 31, 2009. This decrease was primarily due to a decline in advertising revenue associated with the weakness in the Canadian economy as well as a continuing shift in advertising dollars from newspaper advertising to advertising in other platforms, including new media outlets. We experienced lower revenues in all of our print advertising categories compared to the prior year, except for national advertising which increased by 1%. Retail advertising decreased 7%, classified advertising decreased 16%, insert advertising decreased 3% and other advertising decreased 9% compared to the prior year. In the second half of the fiscal year revenue trends began to improve and as such we experienced larger gains in national advertising and modest gains in retail, classified and insert categories.

Print circulation

Print circulation revenue decreased $5.3 million, or 2%, to $240.8 million for the year ended August 31, 2010 as compared to $246.1 million for the year ended August 31, 2009. Net paid circulation decreased 6% from 2009 to 2010 but was partially offset by price increases resulting in only a 2% decrease in circulation revenue from 2009 to 2010.

Digital

Digital revenue increased $5.1 million, or 6%, to $84.2 million for the year ended August 31, 2010 as compared to $79.1 million for the year ended August 31, 2009. The increase was due to increases in both subscription and licensing revenue from *FPinfomart* and online advertising revenues. Online advertising was up 8% in the year ended August 31, 2010 compared to the same period in the prior year.

Other

Other revenue decreased $2.9 million, or 9%, to $31.0 million for the year ended August 31, 2010 as compared to $33.9 million for the year ended August 31, 2009. The decrease was primarily due to lower levels of commercial printing business.

Operating expenses

Compensation

Compensation expenses decreased 3% to $468.7 million for the year ended August 31, 2010 as compared to $480.5 million for the year ended August 31, 2009. Decreased compensation expenses are primarily the result of cost savings initiatives implemented by the Limited Partnership in fiscal 2009 and continued focus on cost containment in the current year.

Newsprint

Newsprint expenses decreased 28% to $66.5 million for the year ended August 31, 2010 as compared to $92.7 million for the year ended August 31, 2009. Newsprint consumption decreased 9% compared to the year ended August 31, 2009 due to usage reduction efforts implemented in fiscal 2009 by the Limited Partnership and lower newspaper circulation. In addition to this reduction in newsprint volume, newsprint pricing decreased 21% during the same period contributing to the majority of the overall decrease in newsprint expense.

Other operating

Other operating expenses decreased 8% to $326.3 million for the year ended August 31, 2010 as compared to $354.0 million for the year ended August 31, 2009. Decreased other operating expenses were primarily the result of cost savings initiatives implemented in fiscal 2009 by the Limited Partnership and continued focus on cost containment in the current year. Reductions were experienced across most categories including distribution, travel, entertainment, marketing and occupancy.

Operating profit before amortization, restructuring and other items

Operating profit before amortization and restructuring and other items increased by $19.2 million, or 11% for the year ended August 31, 2010 to $191.1 million as compared to $171.9 million for the year ended August 31, 2009. The increase relates to the costs savings initiatives discussed above as well as the gradual economic recovery.

Amortization

Amortization increased by $8.4 million, or 21% for the year ended August 31, 2010 to $48.9 million as compared to $40.5 million for the year ended August 31, 2009. Amortization is not comparable on a combined basis as amortization was higher subsequent to the acquisition due to the higher fair values of both intangible and tangible assets as a result of the Acquisition.

Restructuring of operations and other items

Restructuring of operations and other items decreased by $15.4 million for the year ended August 31, 2010 to $13.4 million as compared to $28.8 million for the year ended August 31, 2009. The decrease is the result of a lower level of restructuring activity in fiscal 2010. The majority of restructuring expense in fiscal 2010 was expensed after completion of the acquisition and relates to restructuring initiatives to be implemented in fiscal 2011. We expect restructuring expense to increase in 2011 due to a range of new restructuring initiatives being implemented as part of our business transformation efforts. The fiscal 2009 expenses of $28.8 million do not include expenses related to the Acquisition.

Operating profit

Operating profit increased by $26.3 million, or 26% for the year ended August 31, 2010 to $128.8 million as compared to $102.5 million for the year ended August 31, 2009. The increase in operating profit relates to the cost costs savings initiatives discussed above, the gradual economic recovery and the decrease in restructuring expenses which are slightly offset by an increase in amortization.

Interest expense

Interest expense is not comparable between the fiscal years due to different capital structures of Postmedia and the Limited Partnership.

Other income

Other income represents a charge to Canwest Global Communications Corp. for the use of shared equipment.
Gain on disposal of property and equipment
In the year ended August 31 2009, the Limited Partnership sold a building in Edmonton, Alberta and realized a gain of $2.2 million.

Loss on disposal of interest rate swaps

As a result of the termination of the hedging derivative instruments in fiscal 2009, the Limited Partnership recorded a foreign currency swap loss of $180.2 million for the year ended August 31, 2009.

Ineffective portion of hedging derivative instrument

As a result of the termination of hedging derivative instruments in fiscal 2009, the Limited Partnership reclassified $60.1 million of accumulated other comprehensive losses to the income statement for the year ended August 31, 2009 as a result of the hedge ineffectiveness.

Impairment loss on mastheads

Due to a decline in operating results, and lower expectations for advertising revenue growth the Limited Partnership recorded an impairment charge of $28.3 million for the National Post masthead for the year ended August 31, 2009.

Gain on derivative instruments

In order to manage foreign exchange and interest rate risk, we use derivative financial instruments. These derivative financial instruments fix future principal and interest payments denominated in US dollars in Canadian dollars. For the period from July 13, 2010 to August 31, 2010 we recorded a gain on derivative instruments of $7.6 million. This amount includes $3.5 million related to a foreign exchange interest rate swap that was not designated as a hedge and a gain of $4.3 million related to a variable prepayment option on our senior secured notes that represents an embedded derivative and is accounted for separately at fair value.

Foreign currency exchange gains

Foreign currency exchange gains are not comparable between the fiscal years due to the different capital structures of Postmedia and the Limited Partnership.

Acquisition costs

During the period from July 13, 2010 to August 31, 2010 we incurred acquisition costs of $18.3 million related to the Acquisition of the Limited Partnership. These costs were expensed as they were not directly related to either the issuance of debt or equity.

Reorganization costs

Reorganization costs represent costs that can be directly associated with the reorganization of the Limited Partnership. During the year ended August 31, 2010 the Limited Partnership incurred $57.7 million an increase of $31.9 million from the year ended August 31, 2009 total of $25.8 million. These costs consist of professional fees, advisory fees, management incentive plan and key employee retention plan costs, and foreign exchange losses resulting from translating monetary items that are subject to compromise at the period end compared to the translated amounts at January 8, 2010, the date of the CCAA filing, and amounts related to resolution of legal claims outstanding on the date of the CCAA filing.

Net earnings (loss) before income taxes

Net earnings before income taxes for the year ended August 31, 2010 was $28.8 million compared to a net loss before income taxes of $131.0 million for the year ended August 31, 2009. Due to the different capital structures of Postmedia and the Limited Partnership the amounts are not comparable between the fiscal years.

The following table summarizes the combined segment operating profit of Postmedia and the Limited Partnership for the fiscal year ended August 31, 2010 and the Limited Partnership's segment operating profit for the fiscal year ended August 31, 2009:

($ in thousands)	For the year ended August 31, 2010 [1]	2009 [2]
Revenue		
Newspapers	1,019,565	1,058,227
All other	37,661	45,551
Intersegment elimination	(4,723)	(4,703)
	1,052,503	1,099,075
Operating expenses		
Newspapers	809,986	875,963
All other	27,236	37,528
Corporate	28,951	18,403
Intersegment elimination	(4,723)	(4,703)
	861,450	927,191
Operating profit before amortization, restructuring and other items [3]		
Newspapers	209,579	182,264
All other	10,425	8,023
Corporate	(28,951)	(18,403)
	191,053	171,884

Notes:

(1) These results represent the combined operating profit of Canwest LP from September 1, 2009 to May 31, 2010 and June 1, 2010 to July 12, 2010 and Postmedia from July 13, 2010 to August 31, 2010. The results for the fiscal year ending August 31, 2010 do not represent and are not purported to represent what the results would have been if Postmedia had owned the assets of the Limited Partnership for the full year due to differences in the legal and capital structure of Postmedia. See "Reconciliation of Non-GAAP Financial Measures."

(2) We have included historical segmented information of Canwest LP to provide historical financial data of the operations we acquired. However, Canwest LP's historical segmented information should not be relied upon in making projections as to the future financial condition, results of operations, cash flows and the future development of our business. Additionally, Canwest LP's segmented information has been reclassified to reflect our segmented reporting with the following exception. As of September 1, 2009, we began attributing the portion of national display advertising revenues and expenses associated with our newspaper websites to the Newspapers segment. We have not restated the prior periods because we are not able to generate the data for earlier periods and, as a result, prior period segment information is not comparable. If we had not changed the allocation of revenues and expenses, revenue for the All other category for the year ended August 31, 2010 would have increased by $8.9 million, with a corresponding decrease to the Newspapers segment revenue; operating expenses for the All other category for the year ended August 31, 2010 would have increased $5.0 million, with a corresponding decrease in Newspapers segment operating expenses; and operating profit for the All other category for the year ended August 31, 2010 would have increased by $3.9 million with a corresponding decrease to the Newspapers segment operating profit.

(3) See "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of operating profit before amortization, restructuring and other items to net earnings (loss) before taxes.

Newspapers

Revenue

Revenue for the Newspapers segment decreased $38.6 million, or 4%, to $1,019.6 million for the year ended August 31, 2010 as compared to $1,058.2 million for the year ended August 31, 2009. The decrease in revenue is primarily due to a decline in advertising revenue associated with the weakness in the Canadian economy as well as a continuing shift in advertising dollars from newspaper advertising to advertising in other platforms, including online and other digital outlets.

Total advertising linage decreased 1% relative to the prior year and the average line rate decreased 5% for the same period. National advertising increased 1% during the year ended August 31, 2010 offset by decreases in retail and classified advertising of 7% and 16%, respectively. Insert revenues decreased 3% relative to the prior year due primarily to decreases in volume. A 6% decrease in print circulation volume was partially offset by increases in per copy pricing, resulting in a 2% decrease in print circulation revenue relative to the prior year. Newspaper digital revenue increased 27% for the year ended August 31, 2010 primarily due to the reclassification of national display advertising. The revenues in these periods are not directly comparable as we began, effective September 1, 2009, attributing the portion of national display advertising revenues associated with our newspaper websites to the Newspapers segment. If we had not changed the allocation of revenues and expenses of our segments, revenues for the Newspapers segment would have been $1,010.7 million for the year ended August 31, 2010 as compared to the same period in the prior year.

Operating expenses

Operating expenses for the Newspapers segment decreased $66.0 million, or 8%, to $810.0 million for the year ended August 31, 2010 as compared to $876.0 million for the year ended August 31, 2009. The decrease in expenses was primarily due to the impact of cost reduction initiatives implemented by the Limited Partnership in the prior fiscal year as well as decreases in newsprint volume and prices. In particular, payroll and contractor costs decreased 6% for the year ended August 31, 2010 compared to the prior period. Newsprint consumption decreased 9% for the year ended August 31, 2010 compared to the year ended August 31, 2009 due to usage reduction efforts implemented by the Limited Partnership in fiscal 2009 and lower newspaper circulation. In addition to this reduction in newsprint volume, newsprint pricing decreased 21% during the same period contributing to the overall decrease in newsprint expense of 28%. Operating expenses in these periods are not directly comparable as we began attributing the portion of national display advertising expenses associated with our newspaper websites to the Newspapers segment. If we had not changed the allocation of revenue and expenses of our segments, operating expenses for the Newspapers segment would have been $805.0 million for the year ended August 31, 2010 as compared to the same period in the prior year.

Operating profit before amortization, restructuring and other items

Operating profit before amortization, restructuring and other items, for the Newspapers segment increased $27.3 million, or 15%, to $209.6 million for the year ended August 31, 2010 as compared to $182.3 million for the year ended August 31, 2009. This increase was primarily due to benefits from operating cost reduction initiatives implemented in fiscal 2009 and continued focus on cost containment in the current year. Operating profit in these periods is not directly comparable as we began attributing the portion of national display advertising revenues and operating expenses associated with our newspaper websites to the Newspapers segment. If we had not changed the allocation of revenues and expenses of our segments, operating profit for the Newspapers segment would have been $205.7 million for the year ended August 31, 2010 as compared to the same period in the prior year.

All other

Operating profit before amortization, restructuring and other items

Operating profit before amortization, restructuring and other items for the All other category increased $2.4 million, or 30%, to $10.4 million for the year ended August 31, 2010 as compared to $8.0 million for the year ended August 31, 2009. This increase relates to the discontinuation of the printed directory division and reflects changes in the allocation of costs to the Newspapers segment offset by a reduction in profit due to the change in allocation of national display advertising revenues from the All other category to the Newspapers segment.

Corporate

Operating expenses

Corporate expenses increased $10.5 million to $29.0 million for the year ended August 31, 2010 as compared to $18.5 million for the year ended August 31, 2009. The increase reflects increases to compensation costs, including pension, and incentive programs. Additionally, the expenses for the year ended August 31, 2009 include a reduction of operating expenses of $6.2 million for active employee health and insurance benefits related to prior years.

Results of operations for the Limited Partnership's year ended August 31, 2009 compared to the year ended August 31, 2008

The following table summarizes the Limited Partnership's operating results for the years ended August 31, 2009 and August 31, 2008:

($ in thousands)	For the year ended August 31, 2009 [1]	2008 [1]
Revenue		
Print advertising	740,058	933,027
Print circulation	246,060	250,100
Digital	79,091	75,107
Other	33,866	39,833
	1,099,075	1,298,067
Operating expenses		
Compensation	480,493	509,514
Newsprint	92,688	103,407
Other operating	354,010	392,042
	927,191	1,004,963
Operating profit before amortization and restructuring [2]	171,884	293,104
Restructuring expenses	28,805	10,708
Amortization	40,535	48,765
Operating profit	102,544	233,631
Interest expense	98,426	109,296
Other income	(2,500)	(2,500)
Loss (gain) on disposal of property and equipment	(2,186)	590
Loss on disposal of interest rate swap	180,202	-
Ineffective portion of hedging derivative instruments	60,112	-
Impairment loss on masthead	28,250	-
Gain on disposal of investment	-	(1,218)
Foreign currency exchange gain	(154,513)	(504)
Earnings (loss) before reorganization costs and income taxes	(105,247)	127,967
Reorganization costs	25,756	-
Earnings (loss) before income taxes	(131,003)	127,967
Recovery of income taxes	(8,893)	(414)
Net earnings (loss)	(122,110)	128,381

Notes:

(1) We have included historical consolidated financial statements of Canwest LP to provide historical financial data of the operations we acquired. However, Canwest LP's historical consolidated financial statements should not be relied upon in making projections as to the future financial condition, results of operations, cash flows and the future development of our business Additionally, Canwest LP's historical consolidated financial data has been reclassified to be consistent with Postmedia's revenue and expense presentation.

(2) See "Reconciliation of Non-GAAP Financial Measures".

Revenue

Print advertising

Print advertising revenue decreased $192.9 million, or 21%, to $740.1 million for the year ended August 31, 2009 as compared to $933.0 million for the year ended August 31, 2008. This decrease was primarily due to a decline in advertising revenue associated with the weakness in the Canadian economy as well as a continuing shift in advertising dollars from newspaper advertising to advertising in other platforms, including online and other digital outlets. The Limited Partnership experienced lower revenues in all print advertising categories compared to the prior year. National advertising decreased 20%, retail advertising decreased 17%, classified advertising decreased 33%, insert advertising decreased 7% and other advertising decreased 18% compared to the prior year.

Print circulation

Print circulation revenue decreased $4.0 million, or 2%, to $246.1 million for the year ended August 31, 2009 as compared to $250.1 million for the year ended August 31, 2008. Net paid circulation decreased 7% from 2008 to 2009 but was partially offset by price increases resulting in only a 2% decrease in circulation revenue from 2008 to 2009.

Digital

Digital revenue increased $4.0 million, or 5%, to $79.1 million for the year ended August 31, 2009 as compared to $75.1 million for the year ended August 31, 2008. The increase was primarily due to increases in revenue from *FPinfomart.*

Other

Other revenue decreased $5.9 million, or 15%, to $33.9 million for the year ended August 31, 2009 as compared to $39.8 million for the year ended August 31, 2008. The decrease was primarily due to lower levels of commercial printing business.

Operating expenses

Compensation

Compensation expenses decreased $29.0 million or 6% to $480.5 million for the year ended August 31, 2009 as compared to $509.5 million for the year ended August 31, 2008. Decreased compensation expenses are primarily the result of cost savings as a result of the Limited Partnership's restructuring efforts.

Newsprint

Newsprint expenses decreased $10.7 million or 10% to $92.7 million for the year ended August 31, 2009 as compared to $103.4 million for the year ended August 31, 2008. Newsprint consumption decreased 21% compared to the year ended August 31, 2008 due to usage reduction efforts implemented in fiscal 2009 by the Limited Partnership and lower newspaper circulation. The savings from the reduction in usage and lower newsprint circulation was partially offset by price increases of 13%.

Other operating

Other operating expenses decreased $38.0 million or 10% to $354.0 million for the year ended August 31, 2009 as compared to $392.0 million for the year ended August 31, 2008. Decreased other operating expenses were primarily the result of cost savings initiatives implemented in fiscal 2009 by the Limited Partnership and continued focus on cost containment in the current year. Reductions were experienced across most categories including distribution, travel, entertainment, marketing, and occupancy.

Operating profit before amortization and restructuring

Operating profit before amortization and restructuring decreased by $121.2 million, or 41%, for the year ended August 31, 2009 to $171.9 million as compared to $293.1 million for the year ended August 31, 2008. The decrease was primarily due to the deterioration in the economy and the shift in advertising dollars from newspaper advertising to advertising in other platforms, including online and other digital outlets.

Restructuring expenses

Restructuring expenses were $28.8 million for the year ended August 31, 2009 compared to $10.7 million in the prior year. Restructuring expenses in fiscal 2009 were related to staff reductions resulting from a variety of workflow improvement initiatives, a voluntary buyout program and other involuntary staff reductions. These restructuring efforts and other non-labour related cost reductions contributed to the decrease in overall operating expenses of $77.7 million in the year ended August 31, 2009 relative to the prior year.

Amortization

Amortization expenses were $40.5 million for the year ended August 31, 2009 compared to $48.8 million in the prior year, a reduction of $8.3 million, or 17%.

Operating profit

Operating profit decreased by $131.1 million, or 56%, for the year ended August 31, 2009 to $102.5 million as compared to $233.6 million for the year ended August 31, 2008. This decrease was primarily due to increased restructuring charges, the deterioration in the economy and the shift in advertising dollars discussed above.

Interest expense

Interest expense is primarily related to amounts outstanding under the Secured Credit Facilities, the Senior Subordinated Credit Facility and the principal amount of the Senior Subordinated Notes. Interest expense was $98.4 million for the year ended August 31, 2009 as compared to $109.3 million for the year ended August 31, 2008. The decrease in interest expense is due primarily to lower effective interest rates on the Limited Partnership's variable rate debt in the year ended August 31, 2009 relative to the prior year.

Other income

Other income of $2.5 million represents a charge to the Canwest Global Communications Corp. for the use of shared equipment.

Gain on disposal of property and equipment

In the year ended August 31 2009, the Limited Partnership sold a building in Edmonton, Alberta and realized a gain of $2.2 million.

Loss on disposal of interest rate swaps

As a result of the termination of the hedging derivative instruments in fiscal 2009, the Limited Partnership recorded a foreign currency swap loss of $180.2 million for the year ended August 31, 2009.

Ineffective portion of hedging derivative instrument

As a result of the termination of hedging derivative instruments in fiscal 2009, the Limited Partnership reclassified $60.1 million of accumulated other comprehensive losses to the income statement for the year ended August 31, 2009 as a result of the hedge ineffectiveness.

Impairment loss on mastheads

Due to a decline in operating results, and lower expectations for advertising revenue growth the Limited Partnership recorded an impairment charge of $28.3 million for the National Post masthead for the year ended August 31, 2009.

Gain on disposal of investment

In June 2008, the Limited Partnership divested an investment in Edmonton Investors Group Holdings Ltd. and recorded a gain of $1.2 million on the transaction.

Foreign currency exchange gains

As a result of the termination of hedging derivative instruments in the year ended August 31, 2009, the Limited Partnership recorded a foreign exchange gain on the related long-term debt of $152.1 million for the year ended August 31, 2009.

Reorganization costs

Reorganization costs represent costs that can be directly associated with the reorganization of the Limited Partnership. These costs consist of professional fees, advisory fees, management incentive plan and key employee retention plan costs, and foreign exchange losses resulting from translating monetary items that are subject to compromise at the period end compared to the translated amounts at January 8, 2010, the date of the CCAA filing, and amounts related to resolution of legal claims outstanding on the date of the CCAA filing. Reorganization costs of $7.2 million representing professional fees and $18.5 million representing legal claims were recorded for the year ended August 31, 2009.

Income taxes

The income tax provision was a recovery of $8.9 million for the year ended August 31, 2009 as compared to a recovery of $0.4 million for the year ended August 31, 2008 due to the change in net earnings. Canwest LP was not a taxable entity. Income and capital taxes are payable only by its incorporated subsidiaries.

Net earnings (loss)

Net earnings decreased 195% to a loss of $122.1 million for the year ended August 31, 2009 as compared to earnings of $128.4 million for the year ended August 31, 2008. This decrease was due to the impact of the termination of the hedging derivative instruments in fiscal 2009, the reorganization costs associated with the reorganization of the Limited Partnership, increased restructuring expenses and the decline in newspaper advertising revenue due to weak economic conditions.

The following table summarizes the Limited Partnership's segment operating results for the years ended August 31, 2009 and August 31, 2008:

($ in thousands)	Year ended August 31, 2009 [1]	Year ended August 31, 2008 [1]
Revenue		
Newspapers	1,058,227	1,261,187
All other	45,551	41,132
Inter-segment elimination	(4,703)	(4,252)
	1,099,075	1,298,067
Operating expenses		
Newspapers	875,963	943,042
All other	37,528	35,871
Corporate	18,403	30,302
Inter-segment elimination	(4,703)	(4,252)
	927,191	1,004,963
Operating profit before amortization and restructuring[2]		
Newspapers	182,264	318,145
All other	8,023	5,261
Corporate	(18,403)	(30,302)
Total operating profit [2]	171,884	293,104

Notes:

(1) We have included historical segmented information of Canwest LP to provide historical financial data of the operations we acquired. However, Canwest LP's historical segmented information should not be relied upon in making projections as to the future financial condition, results of operations, cash flows and the future development of our business. Additionally, Canwest LP's segmented information has been reclassified to reflect our segmented reporting.

(2) See "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of operating profit before amortization and restructuring to net earnings (loss).

Newspapers

Revenue

Revenue for the Newspapers segment decreased $203.0 million, or 16%, to $1,058.2 million for the year ended August 31, 2009 as compared to $1,261.2 million for the year ended August 31, 2008. This decrease was primarily due to the deterioration in the economy and the shift in advertising dollars from newspaper advertising to advertising in other platforms, including new media outlets, resulting in lower advertising revenues in this segment.

Total advertising linage decreased 15% relative to the prior year with weakness in all major advertising categories. The average line rate declined 9% for the same period. National, retail, and classified advertising revenues decreased by 20%, 17% and 33%, respectively, compared to the prior year. Newspaper digital revenue decreased 3% compared to the prior year primarily due to lower classified revenues. Insert revenues decreased 8% compared to the prior year driven by declines in volumes. Print circulation revenues were down 2% as compared to the prior period. The decrease in circulation revenues was primarily due to a 7% decrease in circulation volume which was partially offset by increases in per copy pricing. In fiscal 2009, the rate of volume decline also reflected small declines due to the National Post's strategic decision to exit specific markets.

Operating expenses

Operating expenses for the Newspapers segment decreased $67.0 million, or 7%, to $876.0 million for the year ended August 31, 2009 as compared to $943.0 million for the year ended August 31, 2008. Reductions in operating expenses were due to the impact of staffing reductions and various other operating cost reduction initiatives. Compensation costs decreased 6% for the year compared to the prior year as a result of these cost reduction initiatives. Newsprint consumption decreased 20% for the year compared to the prior year due to lower circulation volumes, declines in advertising linage and implementation of a reduction in width of most of our newspapers. This reduction in newsprint volume was partially offset by a 13% increase in newsprint pricing resulting in a 10% decrease in newsprint expense for the year.

Operating profit before amortization and restructuring

Operating profit before amortization and restructuring for the Newspapers segment decreased $135.8 million, or 43%, to $182.3 million for the year ended August 31, 2009 as compared to $318.1 million for the year ended August 31, 2008. This decrease was due to the decline in advertising revenue due to weak economic conditions and was partially offset by decreases in operating expenses.

146

All other

Operating profit before amortization and restructuring

Operating profit before amortization and restructuring for the All other category increased $2.8 million, or 53%, to $8.0 million for the year ended August 31, 2009 as compared to $5.3 million for the year ended August 31, 2008. This increase was due to increases in both *FPinfomart* revenues and national online display revenues on *canada.com* and was partially offset by increases in compensation expense.

Corporate

Operating expenses

Corporate expenses decreased $11.9 million, or 39%, to $18.4 million for the year ended August 31, 2009 as compared to $30.3 million for the year ended August 31, 2008. The decrease in expenses was due to a reduction of operating expenses in the year ended August 31, 2009 of $6.2 million for active employee health and insurance benefits related to prior years and decreases in overhead charges from Canwest Global Communications Corp.

Consolidated quarterly financial results

	Fiscal 2010				Fiscal 2009			
($ in thousands)	Q4 (1)	Q3 (2)	Q2 (2)	Q1(2)	Q4(2)	Q3(2)	Q2(2)	Q1(2)
Revenue	241,323	270,345	254,418	286,417	237,726	268,645	257,728	334,976
Net earnings (loss)(3)	n/a	40,639	(7,613)	61,843	(81,093)	(65,914)	(6,270)	31,167
Cash flow from operating activities(3)...............	n/a	37,913	45,652	5,253	21,754	34,647	14,527	32,481

Notes:

(1) The revenues for the three months ended August 31, 2010 consist of the Limited Partnership's revenues from June 1, 2010 to July 12, 2010 and our revenues from July 13, 2010 to August 31, 2010 and are not necessarily comparable to revenues for the three months ended August 31, 2009.

(2) We have included historical consolidated quarterly financial information of Canwest LP to provide historical financial data of the operations we acquired. However, Canwest LP's historical consolidated financial statements should not be relied upon in making projections as to the future financial condition, results of operations, cash flows and the future development of our business.

(3) Under the liquidation basis of accounting for the period from June 1, 2010 to July 12, 2010, the supplementary financial information in note 5 of the audited financial statements of Canwest LP did not include a provision for income taxes. Therefore, in the combined statements of Postmedia and the Limited Partnership for the year ended August 31, 2010 no income tax provision is reflected and as a result net earnings has not been presented for Q4 in fiscal 2010. Additionally, no cash flow information was prepared under the liquidation basis of accounting for the period from June 1, 2010 to July 12, 2010 and as a result cash flow from operating activities has not been presented for Q4 in fiscal 2010.

Liquidity and capital resources

Our principal uses of funds are for debt servicing and capital expenditures. Based on our current and anticipated levels of operations, we believe that our cash on hand, cash flow from operations and borrowings under the ABL Facility (as defined below) will enable us to meet our working capital, capital expenditures, debt servicing and other funding requirements for the foreseeable future. However, our ability to fund our working capital needs, debt payments and other obligations, and to comply with the financial covenants under our debt agreements, depends on our future operating performance and cash flow. There are a number of factors which may adversely affect our operating performance and our ability to meet these obligations. See "Key factors affecting operating results".

Our cash flows from operating activities may be impacted by, among other things, competition from other newspapers and alternative forms of media and competition from alternative emerging technologies. In addition, in recent years there has been a growing shift in advertising dollars from newspaper advertising to other advertising platforms, including new media outlets. We expect to fund our capital needs with our available cash, cash generated from operations and borrowings under the ABL Facility. See "Risk factors".

For the year ending August 31, 2011, we expect our major non-operating cash requirements to include capital expenditures of approximately $28 to $32 million, principal repayments of long-term debt and capital lease obligations totalling approximately $15.3 million and cash payments of approximately $35 to $40 million related to restructuring the workforce. We expect to meet our cash needs for fiscal 2011 through a combination of operating cash flow, cash on hand and existing credit facilities.

Sources of Cash

Cash flows from operating activities

Our principal sources of liquidity are cash flows from operating activities. For the period ended August 31, 2010, our cash flows from operating activities were $17.5 million. As of August 31, 2010 we had cash of $40.2 million and our ABL facility remained undrawn. Availability under the ABL Facility on August 31, 2010 was $35.1 million. For further information on our ABL facility see note 12 to our consolidated financial statements.

Cash flows from financing activities

Cash flows from financing activities for the period ended August 31, 2010 were an inflow of $863.8 million. For a full discussion of the factors affecting our cash flows from financing activities, please see below.

Issuance of capital stock

Cash proceeds raised from the issuance of capital stock, net of costs to issue, were $251.0 million.

Payments of capital leases

Payments of capital leases were $1.7 million for the period ended August 31, 2010. As of August 31, 2010, we had obligations under capital leases of $2.0 million, including the current portion of $1.8 million.

Indebtedness

On July 13, 2010, we entered into a senior secured term loan credit facility (the "Term Loan Facility"). The Term Loan Facility provides for a six-year US$300 million term loan (the "US Tranche") and a four-and-a-half year $110 million term loan (the "Canadian Tranche"), and up to US$60 million in an asset-based revolving credit facility (the "ABL Facility"). Additionally, on July 13, 2010 we issued US$275.0 million of Senior Secured Notes (the "Notes"). The net proceeds from the issuance of the Term Loan Facility and the Senior Secured Notes was $649.2 million, net of issuance costs of $35.6 million. During the period ended August 31, 2010, we repaid $34.7 million (US$32.5 million) on the US Tranche of the Term Loan Facility. During the period ended August 31, 2010 we were in compliance with all debt covenants and no amounts were drawn under the ABL Facility.

The following table sets out the principal amount of debt outstanding at August 31, 2010. The first column of the table presents our debt at the foreign exchange rates specified in our foreign currency swap agreements, where applicable:

($ in thousands)	Principal translated at swapped rates	Principal translated at period end exchange rates	Financing fees, discounts and other	Carrying value as at August 31, 2010
Term loan – US tranche (swapped) (US$225.0M)	232,875	239,963	17,608	222,355
Term loan – US tranche (non swapped) (US$42.5M)	45,326	45,326	5,949	39,377
Term loan – Canadian tranche	110,000	110,000	8,400	101,600
Senior Secured Notes (swapped) (US$275.0M)	284,625	293,288	10,589	282,699
	672,826	688,577	42,546	646,031

Uses of Cash

Cash flows from investing activities

For the period ended August 31, 2010, our cash flows from investing activities were an outflow of $841.1 million, primarily consisting of the cash paid for the Acquisition.

Acquisition

As discussed previously, on July 13, 2010, we acquired substantially all of the assets and certain liabilities of the Limited Partnership. Cash consideration paid, net of cash acquired, was $839.7 million. For more information see note 3 to our audited consolidated financial statements.

Capital expenditures

As part of our annual budgeting process, management projects capital expenditures for the forthcoming fiscal year. Each project is subject to a detailed review on a case by case basis prior to approval. Investment projects must achieve an acceptable return on investment and generally are expected to demonstrate a payback period of no more than three years. In certain instances where there are strategic considerations, a longer timeframe may be considered. For the period ended August 31, 2010, our total capital expenditures were $1.4 million.

Financial Instruments and Financial Instruments Risk Management

Financial Instrument Risk Management

Our activities expose us to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. We use derivative financial instruments to hedge certain foreign currency and interest rate risk exposures. We have also entered into certain derivative financial instruments to reduce foreign currency risk for which we are unable to utilize hedge accounting.

We are still in process of setting our financial risk management policies. Current risk management techniques utilized include monitoring fair value of derivative instruments, fair value of publicly traded debt, foreign exchange rates and interest rates with respect to interest rates and foreign exchange risk, aging analysis and credit reviews for credit risk and cash flow projections for liquidity risk. Risk management is primarily the responsibility of our corporate finance functions.

Financial Instruments

Derivative Instruments

Following the completion of the Acquisition, we entered into a foreign currency interest rate swap related to the Notes with a notional amount of US$275.0 million, a fixed currency exchange rate of US$1:1.035 and a fixed interest rate of 14.53%. This arrangement terminates on July 15, 2014 and includes a final exchange of the principal amount on that date. We have designated this instrument as a hedge and utilize cash flow hedge accounting in our financial statements. We also entered into a foreign currency interest rate swap with an initial notional amount of US$225 million related to the US Tranche of the Term Loan Facility. This arrangement includes interim quarterly principal exchanges with the final exchange occurring on August 31, 2014. This swap results in a fixed currency exchange rate of US$1.00:$1.035 and converts the interest rate on the notional Canadian principal amount to bankers acceptance rates plus 9.25%. The Company has not designated this swap as a hedge and accordingly will not use hedge accounting in our financial statements for this instrument.

Foreign currency risk

On July 13, 2010, we entered into transactions to reduce foreign currency risk exposure on our US dollar-denominated debt (see discussion above on derivative instruments). As of August 31, 2010, we had mitigated foreign exchange risk on 92% of our US dollar denominated debt, meeting our goal of largely eliminating our exposure to foreign exchange fluctuations on our US debt. We are still exposed to foreign currency risk on the unswapped portion of our US dollar-denominated debt of $42.5 million, representing 8% of our outstanding US dollar denominated indebtedness. As at August 31, 2010, a 10 basis point change in the period end exchange rate of a Canadian dollar per one US dollar, holding all other variables constant, would have resulted in an increase or decrease of $0.1 million to the statement of operations.

Interest rate risk

We have no significant interest bearing assets. Our interest rate risk will arise from long term borrowings issued at variable rates which expose us to cash flow interest rate risk and borrowings issued at fixed rates which expose us to fair value interest rate risk.

We manage our cash flow and fair value interest rate risk by using foreign currency interest rate swaps but we currently do not have a formal interest rate risk policy. Such swaps have the economic effect of converting borrowings from US floating rates to Canadian floating rates or from US fixed rates to Canadian fixed rates.

Under these swaps, we agree with other parties to exchange, at specified intervals, the difference between US and Canadian fixed interest rates or US and Canadian floating interest rates calculated by reference to the agreed upon notional amounts, as well as amounts reflecting the amortization of the principal amount.

As at August 31, 2010, we held $395.4 million of debt subject to cash flow interest rate risk and $293.3 million of debt subject to fair value interest rate risk.

As at August 31, 2010, if interest rates on long-term debt had been 100 basis points higher or lower, with all other variables held constant, interest expense would have been $0.6 million higher or lower for the year ended August 31, 2010.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial asset fails to meet its contractual obligations. On the acquisition date we were required to fair value our assets which resulted in our doubtful receivables being valued at nil and our allowance for doubtful accounts being eliminated. As a result our allowance for doubtful accounts is nominal at August 31, 2010. We are still contractually owed the amounts that have been valued at zero and do anticipate that some of the amounts will be collected.

We continuously monitor the financial condition of our customers, review the credit history of each customer, review the aging of accounts receivable, evaluate significant individual credit risk accounts and utilize each customer's historical experience in order to both grant credit and set up our allowance for doubtful accounts. If such collectability estimates prove inaccurate, adverse adjustments to future operating results could occur and could be material.

Liquidity risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they come due or the risk that those financial obligations have to be met at excessive cost. We manage this exposure by using cash on hand and cash flow forecasts and by deferring or eliminating discretionary spending. We have an ABL Facility of up to US$60 million which is subject to certain restrictions as described in note 12 of our audited consolidated financial statements.

Our obligations under firm contractual arrangements, including commitments for future payments under capital lease arrangements, operating lease arrangements, pension funding agreements and debt agreements as of August 31, 2010 are summarized below:

($ in thousands)	Fiscal year ending August 31,					
	2011	2012	2013	2014	2015	Thereafter
Capital leases	1,924	-	-	-	-	1,560
Operating leases	17,670	14,704	12,841	12,255	10,262	22,562
Estimated pension funding obligations[1]	34,229	29,981	26,170	23,613	22,575	N/A
Long-term debt[2][3]	13,499	26,998	42,995	64,492	113,992	426,601
Interest on long-term debt[2][3]	72,169	69,182	66,432	62,222	53,312	119,004
Cash outflow on derivative financial instruments[4]	111,072	115,026	118,533	105,752	41,352	408,341
Cash inflow on derivative financial instruments[4]	(106,185)	(110,865)	(115,112)	(102,646)	(36,661)	(402,969)
Total	144,378	145,026	151,859	165,688	204,832	575,099

Notes:

(1) Reflects expected contributions to defined benefit pension, post-retirement and post-employment plans. Information for pension funding obligations is based on our most recent actuarial valuation dated December 31, 2009, which does not include calculations of our pension funding obligations beyond Fiscal 2016. Future required payments will be material.

(2) Long-term debt and interest payments do not include mandatory repayments which may be required or any optional prepayments.

(3) US dollar long-term debt payments have been converted to Canadian dollars using the closing exchange rate on August 31, 2010. Interest payments have been calculated based on actual interest and foreign exchange rates as of August 31, 2010.

(4) Cash disbursements and receipts on derivative financial instruments represent an estimate of future cash payments based on current interest and foreign exchange rates.

Guarantees and Off-Balance Sheet Arrangements

We do not have any significant guarantees or off-balance sheet arrangements.

Differences between Canadian and U.S. GAAP

The preceding discussion and analysis has been based upon financial statements prepared in accordance with Canadian GAAP, which differs in certain respects from US GAAP. The significant differences are discussed in detail in note 21 to our audited consolidated financial statements for the period ended August 31, 2010 and in note 29 of the Limited Partnership's financial statements for the years ended August 31, 2008, August 31, 2009 and the periods ended May 31, 2010 and July 12, 1010.

Reconciliation of Non-GAAP Financial Measures

The following tables provides a reconciliation of operating profit before amortization, restructuring and other items to net earnings (loss), the most closely comparable GAAP measure for the following periods.

	Canwest LP				Postmedia	Combined
($ in thousands)	For the year ended August 31, 2008	For the year ended August 31, 2009	For the nine months ended May 31, 2010	For the period from June 1, 2010 to July 12, 2010	For the period from July 13, to August 31, 2010	For the year ended August 31, 2010
Net earnings (loss)[1]	128,381	(122,110)	94,869	n/a	(44,618)	n/a
Recovery of income taxes[1]	(414)	(8,893)	(18,111)	n/a	-	n/a
Net earnings (loss) before income taxes	127,967	(131,003)	76,758	(3,330)	(44,618)	28,810
Acquisition costs	-	-	-	-	18,303	18,303
Reorganization costs	-	25,756	41,192	16,500	-	57,692
Interest expense	109,296	98,426	60,633	4,498	12,702	77,833
Other income	(2,500)	(2,500)	(1,501)	(283)	-	(1,784)
Loss (gain) on disposal of property and equipment	590	(2,186)	(2)	-	-	(2)
Loss on disposal of interest rate swap	-	180,202	-	-	-	-
Ineffective portion of hedging derivative instruments	-	60,112	-	-	-	-
Gain on derivative instruments	-	-	-	-	(7,550)	(7,550)
Impairment loss on masthead	-	28,250	-	-	-	-
Gain on disposal of investment	(1,218)	-	-	-	-	-
Foreign currency exchange loss (gain)	(504)	(154,513)	(49,610)	(4,542)	9,607	(44,545)
Restructuring of operations and other items	10,708	28,805	2,660	(518)	11,209	13,351
Amortization	48,765	40,535	30,736	7,136	11,073	48,945
Operating profit before amortization, restructuring and other items	293,104	171,884	160,866	19,461	10,726	191,053

Notes:

(1) Under the liquidation basis of accounting for the period from June 1, 2010 to July 12, 2010, the supplementary financial information in note 5 of the audited financial statements of Canwest LP did not include a provision for income taxes. Therefore, in the period from June 1, 2010 to July 12, 2010 and in the combined results of Postmedia and the Limited Partnership for the year ended August 31, 2010 no income tax provision is reflected and as a result net earnings has also not been presented.

Risk Factors

Risks Relating to Our Business

Competition from other newspapers and alternative forms of media may impair our ability to generate advertising and circulation revenue.

Participants in the newspaper publishing industry depend primarily upon advertising sales, paid subscriptions and single copy newspaper sales in order to generate revenue. Competition for advertising, subscribers, readers and distribution is intense and comes primarily from television; radio; local, regional and national newspapers; magazines; free publications; direct mail; internet; telephone directories; and other communications and advertising and subscriber-based media that operate in these markets. In addition, in recent years there has been a growing shift in advertising dollars from newspaper advertising to other advertising platforms, including new media outlets, and this shift may be permanent. Participants in the online media industry also depend upon the sale of advertisements and paid subscriptions in order to generate revenue. The online media industry experiences additional competitive challenges because barriers to entry are low and geographic location is less relevant.

The cost of advertising in alternative forms of media such as those described above may decline, and the ease of producing advertising for alternative media might improve. Similarly, participants in alternative media platforms may improve their ability to target specific audiences and therefore become a more attractive media for advertisers. These circumstances could result in our newspaper or online media not being as competitive as they are currently in relation to these alternative forms of media. In order to respond to changing circumstances, our costs of producing or promoting our editorial content may increase, or we may need to reduce our advertising and/or subscription rates, either of which could adversely affect our financial performance. Increased competition could also lead to additional expenditures for editorial content and marketing.

In addition, there is increasing consolidation in the Canadian newspaper publishing and other media industries, and competitors increasingly include market participants with interests in multiple media. These competitors may be more attractive than us to certain advertising agencies because they may be able to bundle advertising sales across newspaper, television and internet platforms. Some of these competitors also have access to greater financial and other resources than we do.

Our ability to continue to compete successfully in the newspaper and online media industries and to attract advertising dollars, subscribers and readers will depend upon a number of factors, including:

- our continued ability to offer high-quality editorial content;
- the variety, quality and attractiveness of our products and services;
- the pricing of our products and services;
- the platform on which our products and services are offered;
- the manner in which we market and promote our products and services;
- the effectiveness of the distribution of our products and services;
- our customer service; and
- the emergence of technologies resulting in further shifts, which may be permanent, from newspaper advertising to advertising in other formats, including new media outlets.

These factors are largely dependent upon on our ability to:

- identify and successfully respond to customer trends and preferences;
- develop new products across our business lines;
- appeal to many demographics; and
- expand into new distribution channels, particularly with respect to digital media and online products.

There can be no assurance provided that existing and future competitors will not pursue or be capable of achieving similar or competitive business strategies. In addition, there can be no assurance provided that we will be able to compete successfully with existing or potential competitors, or that increased competition will not have an adverse effect on our business, financial condition or results of operations.

Advertising revenue is the largest component of our revenues and our advertising revenue is influenced by prevailing economic conditions and the prospects of our advertising customers.

We generate revenue primarily from the sale of advertising. For the fiscal year ended August 31, 2010 advertising revenue represented 66% of our consolidated revenues.

Advertising revenue is affected by prevailing economic conditions. Adverse economic conditions generally, and downturns in the Canadian economy specifically, have a negative impact on the Canadian advertising industry and, consequently, on our financial prospects. Our advertising revenue is also dependent on the prospects of our advertising customers. Certain of our advertising customers operate in industries that may be cyclical or sensitive to general economic conditions, such as the automobile, employment, technology, retail, food and beverage, telecommunications, travel, packaged goods and entertainment industries. Advertising customers could alter their spending priorities and reduce their advertising budgets in the event of a downturn in their business or prospects which would have an adverse effect on the revenue we generate from advertising. In addition, because a substantial portion of our revenue is derived from retail advertisers, our business, financial condition and results of operations are also adversely affected by a downturn in the retail sector.

A further reduction in our advertising revenues could result from:

- a continued decline in economic conditions;
- a decline in the circulation volume of our newspapers, which decline may be permanent;
- a decline in popularity of our editorial content or perceptions about our brands;
- a change in the demographic makeup of the populations to which our newspapers are targeted;
- the activities of our competitors, including increased competition from other forms of advertising-based media (e.g., magazines, radio and television broadcasters, cable television, direct mail and electronic media), and other platforms such as the internet;
- a decline in the amount spent on advertising in general or in particular industries such as those discussed above; and
- the continuing shift from newspaper advertising to advertising in other formats, including new media outlets, which shift may be permanent.

To the extent the current negative economic conditions continue or worsen, our business and advertising revenues will continue to be adversely affected, which would in turn adversely impact our operations and cash flows.

Failure to fulfill our strategy of building our digital media and online businesses would adversely affect our business prospects.

The competitive environment in which we operate demands, and our future growth strategies incorporate, the development of our digital media and online businesses. We believe the consumer preference for digital media and online products will accelerate as younger, more technologically savvy customers make up a greater portion of our potential customer base. In order for our digital media and online businesses to succeed, we must invest time and significant resources in them, to, among other things:

- accelerate the evolution of existing products (such as local newspaper websites and national content channels);
- develop new digital media and online products (such as redesigned classified sites in automotive, employment and real estate categories);
- develop new content channels (such as mobile optimized formats, online video capabilities and content and e-reader devices);
- attract and retain talent for critical positions;
- transform our organization and operating model to grow our digital media and online business;
- continue to develop and upgrade our technologies and supporting processes to distinguish our products and services from those of our competitors;
- sell advertising in significant markets, and be a compelling choice for advertisers online;
- attract and retain a base of frequent, engaged visitors to our websites; and
- continuously advance our digital offerings based on fast-moving trends that may pose opportunities as well as risks (e.g., e-readers and mobile applications).

No assurances can be provided that we will be successful in achieving these and other necessary objectives or that our digital media and online businesses will be profitable or successful. Our failure to adapt to new technology or delivery methods, or our choice of one technological innovation over another, may have an adverse impact on our ability to compete for new customers or to meet the demands of our existing customers. If our digital media and online businesses are not successful, we could lose significant opportunities for new advertising revenue from digital sources while also losing advertising revenue from traditional sources due to the reallocation from print to digital advertising currently taking place. If we are not successful in achieving our digital media and online objectives, our business, financial condition and prospects would be materially adversely affected.

Our failure to maintain our print and online newspaper readership and circulation levels, would limit our ability to generate advertising and circulation revenue.

Our ability to attract advertisers and thereby generate revenue and profits is dependent in large part upon our success in attracting readership of the newspapers and online publications that we publish. Readership and, to a lesser extent, circulation are the key drivers of advertising prices and revenue in the Canadian news and newspaper information industry.

We believe reader acceptance is a function of the editorial and advertising content being offered and is influenced by a number of factors, including:

- reviews of critics, promotions, the quality and acceptance of other competing editorial content in the marketplace;
- the availability of alternative forms of news and other editorial content;
- the availability of alternative forms of media technologies, such as the internet and other new media formats, that are often free for users;
- a growing preference among some customers to receive all or a portion of their news from sources other than from a newspaper;
- increases in subscription and newsstand rates;
- general economic conditions, including the resulting decline in consumer spending on discretionary items such as newspapers;
- public tastes and perceptions generally; and
- other intangible factors.

Circulation volumes of our newspapers have been declining in both the home delivered and single copy distribution channels. The rate of circulation decline could increase due to changing media consumption patterns of our readers or other factors, and these declines may be permanent. If we are unable to stop these declines or if the rate of decline were to accelerate, it will result in lower readership and circulation levels and, consequently, may lead to decreased advertising and other revenues.

Although we make significant investments in the editorial content of our newspapers, there can be no assurance provided that our newspapers will maintain satisfactory readership or circulation levels and any decrease in such levels may be permanent. In addition, factors affecting our readership levels could change rapidly, and many of the changes may be beyond our control and permanent. Loss of readership could have a material adverse effect on our ability to generate advertising and circulation revenue.

Because a high percentage of our operating expenses are fixed, a decrease in advertising revenue could have a negative impact on our results of operations.

Newspaper publishing is both capital and labour intensive and, as a result, newspapers have relatively high fixed costs structures. Advertising revenue, on which we rely for a significant portion of our revenue, may fluctuate due to a variety of factors whereas our expenses do not vary significantly with the increase or decrease in advertising revenue. As a result, a relatively small change in advertising revenue could have a disproportionate effect on our results of operations. For example, during periods of economic contraction, our advertising revenue may decline while most costs remain fixed, resulting in decreased earnings, as has been evident in the current economic environment.

The financial difficulties of certain of our contractors and vendors could have a negative impact on our results of operations.

The financial difficulties that some of our contractors and vendors may face, including as a result of one or more contractor or vendor bankruptcies due to poor economic conditions, may cause them to fail to provide us with products and/or services or may increase the cost of the products and services that they provide us. We may be unable to procure replacement products and/or services from other contractors or vendors in a timely and efficient manner and on acceptable terms, or at all. Any material change in these relationships, such as increased pricing, could have a material adverse effect on our business, financial condition, results of operations, liquidity and cash flow.

We compete with alternative emerging technologies and anticipate that we will be investing a significant amount of capital to address continued technological development.

The media industry is experiencing rapid and significant technological changes that have resulted in the development of alternative means of editorial content distribution. The continued growth of the Internet has presented alternative content distribution options that compete with traditional media for advertising revenue. We may not be able to compete successfully with existing or newly developed alternative distribution technologies, or may be required to acquire, develop or integrate new technologies in order to compete. The cost of the acquisition, development or implementation of any such new technologies could be significant, and our ability to fund such implementation may be limited. In addition, even if we are able to fund such an implementation, we may be unable to implement any such technologies successfully. Any such event could have a material adverse effect on our business, financial condition or results of operations.

In addition, the continuing growth and technological expansion of Internet-based services has increased existing competitive pressure on our businesses. As web-based and digital formats grab an increasingly larger share of consumer readership, we may lose customers or fail to attract new customers if we are not able to transition our publications and other products to these new formats. Furthermore, to the extent that advertisers continue to shift advertising dollars to new media outlets, which shift may be permanent, our advertising revenues will decrease even if we are able to maintain our current share of print media advertising dollars. The increased competition may have a material adverse effect on our business and financial results.

We may not be able to achieve a profitable balance between circulation levels and advertising revenues.

We must balance our circulation levels with our advertising revenue objectives. This balancing necessitates a continuous effort that varies by publication and requires effective management of the circulation rate, the addition of new subscribers through cost-effective marketing methods and effective advertising operations. To maintain our readership and circulation rates, it may be necessary to incur additional costs that we may not be able to recover through circulation and advertising revenues. No assurances can be provided that we will be able to add and retain a sufficient number of newspaper subscribers in an economically efficient manner. Failure to do this could require reductions of our circulation rate or the elimination of certain products, which would negatively affect our advertising revenues and could materially and adversely affect our results of operations and financial condition.

We may not realize our anticipated cost savings from our cost savings initiatives and any failure to manage costs would hamper profitability.

The level of our expenses impacts our profitability. Because of general economic and business conditions and our recent operating results, we have taken steps to lower operating costs by implementing various cost saving initiatives. Certain of these initiatives were started prior to the acquisition of Canwest LP and included workforce reductions, the ongoing consolidation of our classified call centers into a national center in Calgary, Canada, outsourcing advertising production to lower cost suppliers in the Philippines and India, implementing a new enterprise-wide editorial content management system, reducing press web width for most of our newspapers, reducing newsprint consumption and managing controllable expenses such as marketing, travel and use of freelance personnel. Additional initiatives include the continued implementation and expansion of certain of these initiatives and a restructuring program implemented in fiscal 2010 in order to reduce costs which consists of a series of transformation projects that will result in voluntary and involuntary buyout programs.

Estimates of cost savings are inherently uncertain, and we may not be able to achieve cost savings or expense reductions within the period we have projected or at all. Our ability to successfully realize savings and the timing of any realization may be affected by factors such as the need to ensure continuity in our operations, labour and other contracts, regulations and/or statutes governing employee/employer relationships, and other factors. In particular, certain of our collective bargaining agreements limit our ability to achieve operating efficiencies by limiting our ability to implement workforce reductions, centralization and outsourcing initiatives. In addition, our implementation of these initiatives has and is expected to require upfront costs. There can be no assurances provided that we will be able to successfully contain our expenses or that even if our savings are achieved that implementation or other expenses will not offset any such savings. Our restructuring costs, reflecting employee termination costs, were $13.4 million in fiscal 2010, $28.8 million in fiscal 2009 and $10.7 million in fiscal 2008. Our estimates of the future expenditures necessary to achieve the savings we have identified may not prove accurate, and any increase in such expenditures may affect our ability to achieve our anticipated savings. If these cost-control efforts do not reduce costs in line with our expectations, our financial position, results of operations and cash flows will be negatively affected.

Our revenue, which is generated primarily from advertisers, is subject to significant seasonal variations, which may increase our borrowing needs at various points in the year.

Our revenue has experienced, and is expected to continue to experience, significant seasonal variances due to seasonal advertising patterns and seasonal influences on media consumption habits. Typically, our revenue is lowest during the fourth quarter of our fiscal year, which ends in August, and highest during the first quarter of our fiscal year, which ends in November, as a result of a traditionally strong retail sales period leading up to the holiday season. These seasonal variations may lead to increased borrowing needs at certain points within the year.

Our intellectual property rights are valuable, and any inability to protect them or liability for infringing the intellectual property rights of others could reduce the value of our services and our brands.

We rely on the trademark, copyright, internet/domain name, trade secret and other laws of Canada and other countries, as well as nondisclosure and confidentiality agreements, to protect our intellectual property rights. However, we may be unable to prevent third parties from using our intellectual property without our authorization, breaching any nondisclosure agreements with us, acquiring and maintaining domain names that infringe or otherwise decrease the value of our trademarks and other proprietary rights, or independently developing intellectual property that is similar to ours, particularly in those countries that do not protect our proprietary rights as fully as in Canada. The use of our intellectual property by others could reduce or eliminate any competitive advantage we have developed, cause us to lose sales or otherwise harm our businesses. If it became necessary to litigate to protect these rights, any proceedings could be burdensome and costly, and we may not prevail.

We have obtained and applied for several Canadian and foreign service mark and trademark registrations, and will continue to evaluate the registration of additional service marks and trademarks, as appropriate. We cannot guarantee that any of our pending applications will be approved by the applicable governmental authorities. Moreover, even if the applications are approved, third parties may seek to oppose or otherwise challenge these registrations. A failure to obtain trademark registrations in Canada and in other countries could limit our ability to protect our trademarks and impede our marketing efforts in those jurisdictions.

We cannot be certain that our intellectual property does not and will not infringe the intellectual property rights of others. We may be subject to legal proceedings and claims in the ordinary course of our business, including claims of alleged infringement of the trademarks, copyrights and other intellectual property rights of third parties. Any such claims, whether or not meritorious, could result in costly litigation and divert resources and the efforts of our personnel. Moreover, should we be found liable for infringement, we may be required to enter into licensing agreements (if available on acceptable terms or at all) or to pay damages and to cease using certain trademarks or copyrights or making or selling certain products, or need to redesign or rename some of our products or processes to avoid future infringement liability. Any of the foregoing could cause us to incur significant costs.

We maintain many well-known consumer brands and trademarks, damage to the reputation of any of which could have an adverse impact upon our business, financial performance or results of operations.

The brand names and trademarks that we own are well-known to consumers and are important in maintaining existing business and sourcing new business, as our ability to attract and retain customers is in part dependent upon the external perceptions of our company, the quality of our products and services and our integrity. Damage to the reputation of any of these brands or negative publicity or perceptions about the Company could have an adverse impact upon our business, financial performance or results of operations.

We may be adversely affected by variations in the cost and availability of newsprint.

Newsprint is one of our largest raw material expenses, representing approximately 10% of total operating costs in fiscal 2010 and after wages and employee benefit expenses, is our most significant operating cost. Newsprint is a commodity and, as such, price varies considerably from time to time as a result of, among other factors, foreign currency exchange fluctuations and supply shortfalls. In recent years, the price of newsprint has generally increased as a result of various factors, including consolidation in the newsprint industry, which has resulted in a smaller number of suppliers and reduced competition on price among them, and declining newsprint supply as a result of mill closures and conversions to other grades of paper. Changes in newsprint prices can significantly affect our operating results. We would expect a $50 per tonne increase or decrease in the price of newsprint to affect our operating expenses by approximately $6 million. There can be no assurances provided that we will not be exposed to additional increased newsprint costs, which could have a material adverse effect on our business, financial condition or results of operations. In addition, if newspaper suppliers experience labour unrest, transportation difficulties or other supply disruptions, our ability to produce and deliver newspapers could be impaired and the cost of the newsprint could increase, both of which would negatively affect our operating results.

We rely upon information systems and technology and other manufacturing systems, disruptions to which could adversely affect our operations.

Our newspaper and digital media and online operations rely upon information technology systems, and other complex manufacturing systems, in order to produce and distribute their products. Our information technology and manufacturing systems may be vulnerable to unauthorized access, computer viruses, system failures, human error, natural disasters, fire, power loss, communications failure or acts of sabotage or terrorism. If a significant disruption or repeated failure were to occur, our business or revenue could be adversely affected. There may also be significant costs incurred as a result of such disruptions or failures that adversely affect our financial performance or capital expenditure levels.

Our operations could be adversely affected by labour disruptions, and labour agreements limit our ability to achieve operating efficiencies.

Approximately 44% of our employees were employed under 43 separate collective agreements as of August 31, 2010. We are currently in negotiations with 4 bargaining units regarding expired agreements, covering approximately 146 employees. 27 collective agreements are scheduled to expire in fiscal 2011, and the remainder will expire at various times through 2013, with the exception of a small Montreal local of compositors and the Regina Pressroom. There can be no assurances provided that any of these collective agreements will be renewed on satisfactory terms or at all. Certain collective agreements include provisions that could impede restructuring efforts, including force reduction, centralization and outsourcing initiatives. Furthermore, a majority of our collective agreements contain provisions restricting outsourcing.

Labour organizing activities could result in additional employees becoming unionized, which could result in higher ongoing labour costs and reduced flexibility in running our operations. In addition, labour disruptions or grievances could also affect our operations. In addition, certain unions have filed grievances against us alleging violations of one or more provisions of the applicable collective agreements. There can be no assurances provided that we will not experience other labour disruptions, or that a material grievance will not be decided against us, or that we will not experience other forms of labour protest. Any strike, lock out or other form of labour disruption could have a material adverse effect on our business, financial condition or results of our operations.

We are subject to environmental, health and safety laws and regulations, which could subject us to liabilities, increase our costs or restrict our business or operations in the future.

We are subject to a variety of laws and regulations concerning emissions to the air, water and land, sewer discharges, handling, storage and disposal of, or exposure to, hazardous substances and wastes, recycling, remediation and management of contaminated sites, or otherwise relating to protection of the environment and employee health and safety. Environmental laws and regulations and their interpretation have become increasingly more stringent, and we may incur additional expenses to comply with existing or future requirements. If we fail to comply with environmental or health and safety requirements we could incur monetary fines, civil or criminal sanctions, third-party claims or cleanup obligations or other costs. In addition, our compliance with environmental, health and safety requirements could restrict our ability to expand our operations or require us to install costly pollution control equipment, incur other significant expenses or modify our printing processes.

We use and store hazardous substances such as inks and solvents in conjunction with our operations at our printing facilities. Such hazardous substances have in the past been stored in underground storage tanks at some of our properties. Some of our printing and other facilities are located in areas with a history of long-term industrial use, and they may be impacted by past activities onsite or by contamination emanating from nearby industrial sites. In the past, we have had contamination resulting from leaks and spills at some of our locations. We have not conducted environmental site assessments with respect to all of our owned and leased facilities, and where such assessments have been conducted, we may not have identified or be aware of all potential causes of environmental liability. There can be no assurances provided that remediation costs or potential claims for personal

injury or property or natural resource damages resulting from any newly-occurring or newly-discovered contamination will not be material, or that a material environmental condition does not otherwise exist at any of our properties.

Our editorial content may be controversial and may result in litigation.

We have had, in the ordinary course of our business, and expect to continue to have, litigation claims filed against us, most of which are claims for defamation arising from the publication of our editorial content. While we maintain insurance in respect of claims for defamation, some claims made against us may not be insured or may result in costs above our deductibles. In the event that a judgment is rendered against us, there can be no assurance that our insurance coverage will cover that particular loss.

Failure to comply with "Canadian newspaper" status would materially affect our financial results and our business prospects.

Under the Tax Act, generally no deduction is allowed for an outlay or expense for advertising space in an issue of a newspaper for advertisement directed primarily to a market in Canada, unless the issue is a "Canadian issue" of a "Canadian newspaper."

In order to qualify as a "Canadian issue", the issue generally must have its type set in Canada, be edited in Canada by individuals resident in Canada for purposes of the Tax Act and be printed and published in Canada.
The test of whether a newspaper is a "Canadian newspaper" depends on the jurisdiction, governance, factual control and share ownership of the corporation which directly publishes the newspaper. The newspapers acquired pursuant to the Acquisition are directly published by Postmedia. In order to satisfy the requirements of a "Canadian newspaper" (subject to a statutory 12 month grace period from the Acquisition Date), Postmedia must satisfy the following: (i) the corporation must be incorporated under the laws of Canada or a province thereof, (ii) the chairperson or other presiding officer and at least 75% of the directors or other similar officers of the corporation must be Canadian citizens, and (iii) the corporation must not be controlled, in fact, directly or indirectly, by citizens or subjects of a country other than Canada.

In addition, under the share ownership requirements, at least 75% of the voting shares of each of Postmedia Network Inc. and the National Post and shares having a fair market value in total of at least 75% of the fair market value of all issued shares of each corporation, must be beneficially owned, directly or indirectly through holding corporations or partnerships, by either (i) Canadian citizens or (ii) one or more corporations ("Qualifying Public Corporations") incorporated in Canada each of which is a public corporation a class or classes of shares of which are listed on a designated stock exchange in Canada other than a public corporation controlled by citizens or subjects of a country other than Canada. Both Postmedia Network Inc. and the National Post will be, directly or indirectly, wholly-owned subsidiaries of Postmedia Network Canada Corp.; accordingly, either (i) shares representing at least 75% of the votes and value of all shares of the Corporation must be owned, directly or indirectly, by Canadian citizens or Qualifying Public Corporations, or (ii) the Corporation must itself be a Qualifying Public Corporation.

Issues of the newspapers acquired pursuant to the Acquisition qualify as "Canadian issues" of "Canadian newspapers" (or otherwise fall outside of the limitation on deductibility of advertising expenses) and as a result advertisers currently have the right to deduct their advertising expenditures for Canadian tax purposes. However, following the Acquisition and until such time as (i) shares representing at least 75% of the votes and value of all shares of the Corporation are owned, directly or indirectly, by Canadian citizens or Qualifying Public Corporations, or (ii) the Corporation is itself a Qualifying Public Corporation, these newspapers will no longer qualify as "Canadian newspapers" (subject to a statutory 12 month grace period). It is not expected that the 75% votes and value test will be met at closing and it may not be met in the foreseeable future. Accordingly, if the Corporation does not satisfy the requirements of a Qualifying Public Corporation (meaning a class or classes of its shares are listed on the TSX or other designated stock exchange in Canada and it is not controlled by citizens or subjects of a country other than Canada) by the end of the 12th month following the month in which the Acquisition occurs, our newspapers will (absent a change in circumstances) cease to be "Canadian newspapers" for purposes of the Tax Act at that time, and advertisers in our newspapers will cease to be able, under the Tax Act, to deduct their outlays or expenses associated with advertising in our newspapers.

If our newspapers cease to be "Canadian newspapers" for purposes of the Tax Act, it is expected that our advertising revenue will decline significantly, which would have a material adverse effect on our business, financial condition and results of operations.

There can be no assurance that issues of the newspapers published or produced by us will continue to be "Canadian issues" of "Canadian newspapers" under the Tax Act, or that Canadian federal income tax laws respecting the treatment of deductibility of advertising expenses incurred in relation to "Canadian issues" of "Canadian newspapers" will not be changed in a manner which adversely affects us.

The collectability of accounts receivable under current adverse economic conditions could deteriorate to a greater extent than provided for in our financial statements.

Recessionary conditions have increased our exposure to losses resulting from the potential bankruptcy of our advertising customers. These recessionary conditions could also impair the ability of those with whom we do business to satisfy their obligations to us even if they do not file for bankruptcy. As a result, our results of operations may continue to be adversely affected. Our accounts receivable are stated at net estimated realizable value and our allowance for doubtful accounts has been determined based on several factors, including the aging of accounts receivable, evaluation of significant individual credit risk accounts and historical experience. If such collectability estimates prove inaccurate, adverse adjustments to future operating results could occur and could be material.

We may have further goodwill and masthead impairment charges

Pursuant to sections 3063 and 3064 of the Canadian Institute of Chartered Accountant's Handbook (the "**CICA Handbook**"), we evaluate annually (or upon the occurrence of a triggering event) our goodwill and other intangible assets to determine whether all or a portion of their carrying values may no longer be recoverable, in which case a charge to earnings may be necessary. Canwest LP recorded a masthead impairment charge of $28.3 million in fiscal 2009 reflecting an impairment driven by the economic downturn. Should general economic, market or business conditions continue to decline, we may be required to record impairment charges in the future.
As a result of applying the acquisition method of accounting in connection with the Acquisition, goodwill and intangible assets were recorded. The excess of the estimated fair value of the consideration transferred (the purchase price) over the estimated fair value of the identifiable net assets (including intangible assets) acquired is recognized as goodwill. *(Refer to the Audited Consolidated Financial Statements for further information regarding goodwill and the Acquisition).*

Disruptions in the credit markets could adversely affect the availability and cost of short-term funds for liquidity requirements, and could adversely affect our access to capital or our ability to obtain financing at reasonable rates and refinance existing debt at reasonable rates or at all.

If internal funds are not available from our operations, we may be required to rely on the banking and credit markets to meet our financial commitments and short-term liquidity needs. Disruptions in the capital and credit markets could adversely affect our ability to access additional funds in the capital markets or draw on or refinance our new or any future credit facilities. Although we believe that our operating cash flow and access to capital and credit markets, including funds from our ABL Facility will give us the ability to meet our financial needs for the foreseeable future, there can be no assurances provided that continued or increased volatility and disruption in the capital and credit markets will not impair our liquidity. If this should happen, we may not be able to put alternative credit arrangements in place or without a potentially significant increase in our cost of borrowing. As of August 31, 2010, Postmedia had the Canadian equivalent of approximately $688.6 million in total indebtedness, $293.3 million in respect of the Senior Secured Notes and $110.0 million and $285.3 million in respect of the Canadian and US Tranche of the Term Loan Facility and the availability of up to $35.1 million under the ABL Facility, subject to borrowing base and excess availability requirements. The US dollar denominated debt has been converted to Canadian dollars at the closing rate as announced by the Bank of Canada as of August 31, 2010. No assurances can be provided that we will be able to refinance our indebtedness on attractive terms or at all.

We may be adversely affected by changes to our insurance policies.

We carry liability, property and casualty insurance and director and officer liability insurance coverage intended to address all material insurable risks, provide coverage that is similar to that which would be maintained by prudent owners of similar businesses and assets, and are subject to certain deductibles, limits and exclusions which are customary or reasonable given the cost of procuring insurance and current operating conditions. However, there can be no assurance that: (i) such insurance coverage will continue to be offered on economically feasible terms, (ii) all events which could give rise to a loss or liability will be insurable, or (iii) the amounts of insurance coverage will at all times be sufficient to cover each and every material loss or claim which may occur involving our assets or operations.

Our underfunded registered pension plans or our inability to make required cash contributions to our pension plans could have a material adverse effect on us, our business, cash flows, operations and financial condition.

We maintain several defined benefit and defined contribution plans providing pension and other retirement and post employment benefits to our employees. Provincial pension legislation requires that the funded status of registered defined benefit pension plans be determined on both a going concern basis (which essentially assumes the pension plan continues indefinitely) and a solvency basis (which essentially assumes a cessation of a pension plan, and is based on statutory requirements). Based on the most recently filed actuarial valuations as of December 31, 2009 and December 31, 2008 the aggregate going concern unfunded liability was approximately $29.7 million, the aggregate solvency deficiency was approximately $3.7 million and the aggregate wind up deficiency (which essentially assumed that all of the pension plans terminated on their actuarial valuation dates) was approximately $84.6 million. The actual funded status of our pension plans and our contribution requirements are dependent on many factors, including regulatory developments and changes to legislation, changes to the level of benefits provided by the

plans, actuarial assumptions and methods used, changes in plan demographics and experience, and changes in the economic conditions, such as the return on fund assets and changes in interest rates and other factors. Additionally, significant changes in investment performance or in a change in the portfolio mix of invested assets can result in corresponding increases and decreases in the valuation of plan assets, particularly equity securities, or in a change to the excepted rate of return on plan assets. Significant variations in pension performance could produce volatility in our reported results, and significant underfunding in our pension plans could necessitate higher company contributions to those plans.

Significant changes in pension fund investment performance or assumptions relating to pension costs may have a material effect on the valuation of pension obligations, the funded status of pension plans and our pension cost.

Our pension cost is materially affected by the discount rate used to measure pension obligations, the level of plan assets available to fund those obligations at the measurement date and the expected long-term rate of return on plan assets. A change in the discount rate could result in a significant increase or decrease in the valuation of pension obligations, affecting the reported funded status of our pension plans as well as the net pension cost in subsequent fiscal years. Similarly, changes in the expected return on plan assets can result in significant changes to the net pension cost of subsequent fiscal years.
We may be adversely affected by foreign exchange fluctuations.

Many aspects of our operations, including printing, distribution, call centre operations and ad production, are outsourced to third party suppliers. Some of these suppliers are located in foreign countries, including the Dominican Republic, Philippines and India. These suppliers may experience disruptions to their own operations for a variety of reasons beyond our control, and any such disruptions could, in turn, have a material adverse affect on our operations and financial condition.

Our distribution costs could increase due to increases in fuel prices.

Although we do not incur significant fuel related distribution costs directly, our third party distributors are adversely affected by rising fuel costs. Significant increases in fuel prices could result in increased fees paid to our distributors in the form of fuel subsidies or surcharges. Significant increases in fuel prices could result in material increases to our distribution expenses which could result in an adverse affect to our financial condition.

We outsource certain aspects of our business to third party vendors that may fail to reduce costs and may subject us to risks, including disruptions in our business and increased costs.

We continuously seek to make our cost structure more efficient and to focus on our core strengths. These efforts include contracting with other companies to perform functions or operations that, in the past, we have performed ourselves. We currently rely on partners or third party service providers for services such as the provision of advertising production, certain of our printing operations and call center services, and we may outsource additional business functions in the future. Although we believe that outsourcing will result in lower costs and increased efficiencies, this may not be the case. Because these third parties may not be as responsive to our needs as we might be ourselves, outsourcing increases the risk of disruption to our operations. If we are unable to effectively utilize, or integrate with, our outsource providers, or if these partners or third party service providers experience business difficulties or are unable to provide business services as anticipated, we may need to seek alternative service providers or resume providing these business processes internally, which could be costly and time-consuming and have a material adverse effect on our operating and financial results.

Our business may suffer if we are not able to retain and attract sufficient qualified personnel, including key managerial, editorial, technical, marketing and sales personnel.

We operate in an industry where there is intense competition for experienced personnel. We depend on our ability to identify, recruit, hire, train, develop and retain qualified and effective personnel. Our future success depends in large part upon the continued contribution of our senior management and other key employees. A loss of a significant number of skilled managerial, editorial or technical personnel would have a negative effect on the quality of our products. Similarly, a loss of a significant number of experienced and effective marketing and sales personnel would likely result in fewer sales of our products and could materially and adversely affect our results of operations and financial condition. Our ability to identify, recruit, hire, train, develop and retain qualified and effective personnel depends on numerous factors, including factors that we cannot control, such as competition and conditions in the local employment markets in which we operate. The loss of the services of any of our senior management or other key employees could harm our business and materially and adversely affect our ability to compete in our markets. Although Postmedia has employment agreements with certain members of senior management and key employees, those individuals may choose to terminate their respective employment at any time, and any such termination may have a material adverse effect on our business.

Increases in sales, income and other taxes could reduce our revenues and impact profit and cash flows.

In our markets, some or all of our products are subject to local and national sales taxes and other taxes such as value-added taxes. Increases in taxes may have a negative effect on the sales of our products. Effective July 1, 2010, the Harmonized Sales Tax will result in an additional 7% tax on newspapers sold in British Columbia. Higher taxes also may reduce profit margins on our products if we are unable to pass on the increase to our customers.

The occurrence of natural or man-made disasters could disrupt the marketing and promotion and delivery of our products and services, and adversely affect our financial condition and results of operation.

The success of our businesses is largely contingent on the availability of direct access to customers. As a result, any event that disrupts or limits our direct access to customers or disrupts our ability to rely on delivery services would materially and adversely affect our business. We are exposed to various risks arising out of natural disasters, as well as man-made disasters, including acts of terrorism and military actions. The threat of terrorism and ongoing military actions may cause significant volatility in global financial markets, and a natural or man-made disaster could trigger an economic downturn in the areas directly or indirectly affected by the disaster. These consequences could, among other things, result in a decline in business from those areas. Disasters also could disrupt public and private infrastructure, including communications and financial services, which could disrupt our normal business operations. In addition, increased energy costs, strikes and other labour-related supply chain disruptions could adversely affect our business. A natural or man-made disaster also could disrupt the operations of our counterparties or result in increased prices for the products and services they provide to us.

The Limited Partnership in the past identified areas for improvement in internal controls. If we fail to maintain an effective system of internal controls, we may not be able to provide timely and reliable financial reports.

We are responsible for establishing and maintaining adequate internal control over financial reporting, which is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. Although we have taken actions to address areas which we have identified for improvement, additional measures may be necessary and these measures along with other measures we expect to take to improve our internal controls may not be sufficient to address the issues identified by us or ensure that our internal controls are effective. If we fail to maintain the adequacy of our internal controls or are unable to identify and correct deficiencies in internal controls in a timely manner, our ability to record, process, summarize and report reliable financial information will be adversely affected. This failure could materially and adversely impact our business, our financial condition, investor confidence and the market value of our securities.

We will adopt International Financial Reporting Standards.

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has announced that Canadian publicly accountable enterprises are required to adopt International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, effective January 1, 2011. IFRS will require increased financial statement disclosure as compared to GAAP and accounting policy differences between GAAP and IFRS will need to be addressed by the Company. The Company is currently in the process of assessing the impact of the adoption of IFRS. Upon the adoption of IFRS, it is possible that the Company will change certain of its accounting policies, some of which changes may materially impact its consolidated financial statements.

We do not have a history of operating as a stand-alone company, we may encounter difficulties in making the changes necessary to operate as a stand-alone company, and we may be unable to achieve some or all of the benefits that we expect to achieve from our separation from Canwest Global Communications Corp. and incur greater costs as a stand-alone company.

We have not operated as an independent company since fiscal 2002 when our newspaper business was purchased by Canwest Global Communications Corp. ("Canwest Global") Prior to the Acquisition, Canwest Global personnel assisted our personnel with various corporate functions, including corporate planning, capital allocation, financing, risk management, administrative, legal, tax compliance, investor and public relations, corporate development, internal audit and cross promotional services. Following the Acquisition, Canwest Global has no obligation to provide this assistance. After the termination of such agreements, we may encounter obstacles in returning to full independence and may encounter difficulty in replacing certain of these shared services on substantially the same terms and conditions, including cost, as were in place prior to separation from Canwest Global.

In addition, by separating from Canwest Global there is a risk that the Company may be more susceptible to market fluctuations and other adverse events than we would have been were we still a part of Canwest Global. As part of Canwest Global, prior to the Acquisition we were able to enjoy certain benefits from Canwest Global's operating diversity, purchasing and borrowing leverage, available capital for investments and opportunities to pursue integrated strategies and share services with Canwest Global's other businesses. Following the Acquisition, we may not be able to achieve some or all of the benefits that we expect to achieve as an independent newspaper publisher.

Risks Relating to Our Indebtedness

Our substantial indebtedness could adversely affect our financial condition.

As of August 31, 2010, our total indebtedness is approximately $688.6 million, excluding the availability of $35.1 million under our ABL Facility.
Subject to the limits contained in the credit agreements governing the ABL Facility and the Term Loan Facility, the indenture that governs the Notes and our other debt instruments, we may be able to incur substantial additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our high level of debt could intensify. Specifically, our high level of debt could have important consequences, including the following:

- making it more difficult for us to satisfy our obligations with respect to the Notes and our other debt;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- exposing us to the risk of increased interest rates as certain of our borrowings, including borrowings under the ABL Facility and the Term Loan Facility, are at variable rates of interest;
- limiting our flexibility in planning for and reacting to changes in the industry in which we compete;
- placing us at a disadvantage compared to other, less leveraged competitors; and
- increasing our cost of borrowing.

In addition, the indenture that governs the Notes and the credit agreements governing the ABL Facility and the Term Loan Facility contain restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all our debts.

Despite our current level of indebtedness, we may be able to incur substantially more debt. This could further exacerbate the risks to our financial condition described above.

Our operating subsidiaries may be able to incur significant additional indebtedness in the future. Although the indenture that governs the Notes and the credit agreements that govern the ABL Facility and the Term Loan Facility contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and the additional indebtedness incurred in compliance with these exceptions could be substantial. Additionally, the ABL Facility provides commitments of up to $60 million in the aggregate, subject to borrowing base and excess availability requirements and the Term Loan Facility provide us with the ability to incur up to an additional US$50 million in incremental term loan facilities subject to certain conditions. All of those borrowings would be secured indebtedness. If new debt is added to our current debt levels, the related risks that we and our subsidiaries now face could intensify.

The terms of the ABL Facility, the Term Loan Facility and the indenture that governs the Notes, restricts our operating subsidiary's current and future operations, particularly its ability to respond to changes or to take certain actions.

The indenture that governs the Notes and the credit agreements governing the ABL Facility and the Term Loan Facility contain a number of restrictive covenants that impose significant operating and financial restrictions on Postmedia and may limit its ability to engage in acts that may be in our long-term best interests, including, among other things, restrictions on its ability to:

- incur additional indebtedness;
- pay dividends or make other distributions or repurchase or redeem certain indebtedness or capital stock;
- make loans and investments;
- sell assets;
- incur certain liens;
- enter into transactions with affiliates;
- alter the businesses we conduct;
- enter into agreements restricting our subsidiaries' ability to pay dividends; and
- consolidate, merge or sell all or substantially all of our assets.

There are limitations on Postmedia's ability to incur the full $60 million of commitments under the ABL Facility. Availability will be limited to the lesser of a borrowing base and $60 million, in each case subject to reduction for a required excess availability amount of $15 million. The borrowing base is calculated on a monthly (or more frequently under certain circumstances) valuation of its eligible accounts receivable. As a result, access to credit under the ABL Facility is potentially subject to significant fluctuation, depending on the value of the borrowing base eligible assets as of any measurement date. The ABL Facility provides the lenders considerable discretion to impose reserves, which could materially impair the amount of borrowings that would otherwise be available. There can be no assurances provided that the lenders under the ABL Facility will not impose such actions during the term of the ABL Facility and further, were they to do so, the resulting impact of this action could materially and adversely impair our subsidiary's ability to make interest payments on the Notes. The inability to borrow under the ABL Facility may adversely affect our liquidity, financial position and results of operations. As at August 31, 2010, $35.1 million was available under the ABL Facility. Postmedia did not draw on the ABL Facility.

In addition, the restrictive covenants in the credit agreement governing the Term Loan Facility will require Postmedia to maintain specified financial ratios and satisfy other financial condition tests. Postmedia's ability to meet those financial ratios and tests can be affected by events beyond its control, and we cannot assure you that they will meet them. Access to the US$50 million incremental term loan facilities is also subject to certain conditions, and there is no guarantee Postmedia will meet those conditions and have access to such facilities.

A breach of the covenants under the indenture that governs the Notes or under the credit agreements that govern the ABL Facility and the Term Loan Facility could result in an event of default under the applicable indebtedness. Such default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, an event of default under the ABL Facility would permit the lenders under the ABL Facility to terminate all commitments to extend further credit under such facility. Furthermore, if Postmedia Network Inc. were unable to repay the amounts due and payable under the ABL Facility, the Notes or the Term Loan Facility, the applicable lenders could proceed against the collateral granted to such lenders to secure the indebtedness under the applicable facility. As a result of these restrictions, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

These restrictions may affect our ability to grow in accordance with our plans.

Our variable rate indebtedness subjects us to interest rate risk, which could cause its indebtedness service obligations to increase significantly.

Borrowings under the ABL Facility and the Term Loan Facility are at variable rates of interest and expose us to interest rate risk. As at August 31, 2010, we have total principal borrowings of $395.3 million that bear interest at variable rates, representing 57% of the total principal debt of Postmedia Network Inc. at such date. If interest rates increase fluctuate, our subsidiary's debt service costs on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing such indebtedness, would correspondingly decrease.

We may not be able to generate sufficient cash to service all of their indebtedness and may be forced to take other actions to satisfy their obligations under their indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance their debt obligations depends on their financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit them to pay the principal, premium, if any, and interest on their indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance indebtedness. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, such alternative actions may not allow us to meet our scheduled debt service obligations. The credit agreements that govern the ABL Facility and the Term Loan Facility and the indenture that governs the Notes will restrict Postmedia Network Inc.'s ability to dispose of assets and use the proceeds from any such dispositions and may also restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

Our inability to generate sufficient cash flows to satisfy their debt obligations, or to refinance indebtedness on commercially reasonable terms or at all, would materially and adversely affect our business, financial position and results of operations, and our ability to satisfy our obligations under the notes

If we cannot make scheduled payments on our debt, we will be in default and, as a result, holders of the Notes could declare all outstanding principal and interest to be due and payable, the lenders under the ABL Facility could terminate their commitments to loan money and our secured lenders, including under the ABL Facility and the Term Loan Facility, could foreclose on r exercise other remedies against the assets securing such borrowings on a basis senior to the Notes and we could be forced into bankruptcy, liquidation or other insolvency proceedings.

Risks Relating to the Shares

The Shares have no prior public market

There has been no public market for the Shares and an active public market for the Shares may not develop or be sustained after listing of the Shares on the a stock exchange. If an active public market does not develop, the liquidity of an investment in Shares may be limited.

Volatile market price for Shares

The market price for Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Postmedia's control, including the following:

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- changes in estimates of future results of operations by the Comnpany or securities research analysts;
- changes in the economic performance or market valuations of other companies that investors deem comparable to the Company;
- addition or departure of the Company executive officers and other key personnel;
- release or other transfer restrictions on outstanding Shares;
- sales or perceived sales of additional Shares;
- our dual class structure;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; and
- news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in the Companies industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Company's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Shares by those institutions, which could adversely affect the trading price of the Shares. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Shares may be adversely affected.

We have a dual class share structure

Our authorized capital consists of two classes: Voting Shares and Variable Voting Shares. The Voting Shares may only be beneficially owned and controlled, directly and indirectly, by persons that are not non-Canadians. An outstanding Variable Voting Share will be converted into one Voting Share, automatically and without any further act of the Company or the holder, if such Variable Voting Share is not or ceases to be beneficially owned or controlled, directly or indirectly, by one or more non-Canadians. In addition to the automatic conversion feature, a holder of Voting Shares shall have the option at any time to convert some or all of such shares into Variable Voting Shares on a one-for-one basis and to convert those shares back to Voting Shares on a one-for-one basis. Given these conversion features and the fact that the Company will not know whether a purchaser of Variable Voting Shares is not a non-Canadian unless such person completes a declaration provided by the Company's transfer agent from time to time, the transfer agent's records of the amount of Voting Shares and Variable Voting Shares outstanding at any one time may not be accurate. As we believe that the issued and outstanding Variable Voting Shares currently represent more than 90% of the outstanding Shares, if a person who is not a non-Canadian acquires Variable Voting Shares such shares would automatically convert into a larger percentage of the outstanding Voting Shares. In certain circumstances, such an acquisition may constitute an indirect take-over bid under applicable securities laws and require the offeror to make a formal take-over bid for the outstanding Voting Shares or, alternatively, rely on certain exemptions from the formal take-over bid requirements

under applicable securities laws. As a result, persons who are not non-Canadians may purchase fewer Variable Voting Shares then they otherwise would have, which could, in turn, result in the Shares being relatively illiquid and could also adversely affect the prevailing market price of the Shares. Purchasers of our Shares should consider applicable take-over bid laws prior to purchasing Shares that may represent more than 20% of any class. In addition, one class of Shares may be less liquid than the other and the classes of shares may have different trading prices.

The Company is a holding company

Postmedia is a holding company and a substantial portion of its assets are the capital stock of its subsidiaries. As a result, investors in the Company are subject to the risks attributable to its subsidiaries. As a holding company, the Company conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenues. Consequently, the Company's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to the Company. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of the Company's subsidiaries, holders of indebtedness and trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to the Company.

Future sales of Shares by directors and executive officers

Subject to compliance with applicable securities laws, officers and directors and their affiliates may sell some or all of their Shares in the future. No prediction can be made as to the effect, if any, such future sales of Shares will have on the market price of the Shares prevailing from time to time. However, the future sale of a substantial number of Shares by the Company's officers and directors and their affiliates, or the perception that such sales could occur, could adversely affect prevailing market prices for the Shares.

Dilution and future sales of Shares may occur

The Company's articles permit the issuance of an unlimited number of Shares, and shareholders will have no pre-emptive rights in connection with such further issuances. The directors of the Company have the discretion to determine the price and the terms of issue of further issuances of Shares.

165

POSTMEDIA NETWORK CANADA CORP
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED AUGUST 31, 2010

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
One Lombard Place, Suite 2300
Winnipeg, Manitoba
Canada R3B 0X6
Telephone +1 (204) 926 2400
Facsimile +1 (204) 944 1020
www.pwc.com/ca

November 15, 2010

Auditors' Report

To the Directors of
Postmedia Network Canada Corp.

We have audited the consolidated balance sheet of **Postmedia Network Canada Corp.** as at August 31, 2010 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the period from April 26, 2010 to August 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2010 and the results of its operations and its cash flows for the period from April 26, 2010 to August 31, 2010 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.

POSTMEDIA NETWORK CANADA CORP.
CONSOLIDATED STATEMENT OF OPERATIONS

For the period from April 26, 2010 to August 31, 2010 (with operations commencing on July 13, 2010)
(In thousands of Canadian dollars)

		2010
Revenue		
Print advertising		75,624
Print circulation		31,721
Digital		10,751
Other		3,998
		122,094
Expenses		
Compensation		62,422
Newsprint		8,175
Other operating		40,771
Amortization		11,073
Restructuring of operations and other items (note 4)		11,209
Operating loss		(11,556)
Interest expense		12,702
Gain on derivative instruments (note 5)		(7,550)
Foreign currency exchange losses		9,607
Acquisition costs (note 3)		18,303
Loss before income taxes		(44,618)
Recovery of income taxes (note 6)		-
Net loss		(44,618)
Loss per share (note 14):		
Basic	$	(1.11)
Diluted	$	(1.11)

See accompanying notes to consolidated financial statements.

POSTMEDIA NETWORK CANADA CORP.
CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the period from April 26, 2010 to August 31, 2010 (with operations commencing on July 13, 2010)
(in thousands of Canadian dollars)

	2010
Net loss	(44,618)
Other comprehensive loss:	
Loss on valuation of derivative financial instruments (net of tax of nil)	(13,263)
	(13,263)
Comprehensive loss	(57,881)

See accompanying notes to consolidated financial statements.

POSTMEDIA NETWORK CANADA CORP.
CONSOLIDATED BALANCE SHEET

August 31, 2010
(In thousands of Canadian dollars)

	2010
ASSETS	
Current Assets	
Cash	40,201
Accounts receivable	111,722
Inventory (note 7)	6,187
Prepaid expenses	14,873
	172,983
Property and equipment (note 8)	355,194
Derivative financial instruments (note 9)	15,831
Other assets	4,208
Intangible assets (note 10)	477,200
Goodwill (note 3)	240,788
	1,266,204

See accompanying notes to consolidated financial statements.

POSTMEDIA NETWORK CANADA CORP.
CONSOLIDATED BALANCE SHEET (continued)

August 31, 2010
(In thousands of Canadian dollars)

	2010
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities	
Accounts payable	12,705
Accrued liabilities	100,716
Deferred revenue	32,096
Current portion of derivative financial instruments	3,685
Current portion of long-term debt (note 12)	13,499
Current portion of obligation under capital lease (note 11)	1,841
	164,542
Long-term debt (note 12)	632,532
Derivative financial instruments	558
Obligations under capital lease (note 11)	128
Pension, post-retirement, post-employment and other liabilities (note 13)	152,361
Future income taxes (note 6)	681
	950,802
Shareholders' Equity	
Capital stock (note 14)	371,132
Contributed surplus (note 16)	2,151
Deficit	(44,618)
Accumulated other comprehensive loss	(13,263)
	(57,881)
	315,402
	1,266,204

Commitments and contingencies (note 19)

See accompanying notes to consolidated financial statements.

POSTMEDIA NETWORK CANADA CORP.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

For the period from April 26, 2010 to August 31, 2010 (with operations commencing on July 13, 2010)
(In thousands of Canadian dollars)

	Capital stock	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total shareholders' equity
Balance as of April 26, 2010	-	-	-	-	-
Shares issued (note 14)	373,362	-	-	-	373,362
Share issuance costs (note 14)	(2,230)	-	-	-	(2,230)
Net loss	-	-	-	(44,618)	(44,618)
Other comprehensive loss	-	-	(13,263)	-	(13,263)
Stock-based compensation (note 16)	-	2,151	-	-	2,151
Balance as of August 31, 2010	**371,132**	**2,151**	**(13,263)**	**(44,618)**	**315,402**

See accompanying notes to consolidated financial statements.

POSTMEDIA NETWORK CANADA CORP.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period from April 26, 2010 to August 31, 2010 (with operations commencing on July 13, 2010)
(In thousands of Canadian dollars)

	2010
CASH GENERATED (UTILIZED) BY:	
OPERATING ACTIVITIES	
Net loss	(44,618)
Items not affecting cash:	
Amortization	11,073
Gain on derivative instruments (note 5)	(7,774)
Non-cash interest	1,658
Excess of pension and post-retirement/employment expense over employer contributions	(336)
Unrealized loss on foreign exchange	9,591
Stock-based compensation (note 16)	3,600
Net change in non-cash operating accounts (note 17)	44,308
Cash flows from operating activities	17,502
INVESTING ACTIVITIES	
Acquisition, net of cash acquired (note 3)	(839,669)
Additions to property and equipment	(761)
Additions to intangible assets	(679)
Cash flows from investing activities	(841,109)
FINANCING ACTIVITIES	
Proceeds from issuance of long-term debt (note 12)	684,824
Repayment of long-term debt (note 12)	(34,661)
Debt issuance costs (note 12)	(35,624)
Equity issuance costs (note 14)	(2,230)
Issuance of capital stock (notes 3 and 14)	253,225
Payment on capital lease	(1,726)
Cash flows from financing activities	863,808
Net change in cash	40,201
Cash at beginning of period	-
Cash at end of period	**40,201**

See accompanying notes to consolidated financial statements.

POSTMEDIA NETWORK CANADA CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the period from April 26, 2010 to August 31, 2010 (note 1)
(In thousands of Canadian dollars)

1. DESCRIPTION OF BUSINESS

Postmedia Network Canada Corp. ("Postmedia" or the "Company") is a holding company that has a 100% interest in its subsidiary Postmedia Network Inc. ("Postmedia Network"). The Company was incorporated on April 26, 2010, pursuant to the Canada Business Corporations Act, to enable the purchase of the assets and certain liabilities of Canwest Limited Partnership ("Canwest LP") on July 13, 2010 (the "Acquisition date") (note 3). These consolidated financial statements include the operations of Postmedia Network Inc. and its wholly owned subsidiary, National Post Inc. ("National Post"). The consolidated statement of operations, consolidated statement of comprehensive loss and consolidated statement of cash flows have been presented for the period from April 26, 2010 to August 31, 2010, with operations commencing on July 13, 2010.

The Company's operations consist of news and information gathering and dissemination operations, with products offered in a number of markets across Canada through a variety of daily and community newspapers, online, digital and mobile platforms. Additionally, the company operates digital media and online assets including the *canada.com* network, *FPinfomart.ca* and each newspaper's online website. The Company supports these operations through a variety of centralized shared services.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared on a going concern basis in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") and reflect all adjustments which are, in the opinion of management, necessary for fair statement of the results of the period presented. The following is a summary of the significant accounting policies:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances are eliminated on consolidation.

The Company accounts for business combinations using the acquisition method of accounting as it has chosen to early adopt CICA Handbook Section 1582, "Business Combinations" and CICA Handbook Section 1601, "Principles of Consolidation".

(b) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosures of contingent assets and liabilities. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results could differ from those estimates.

(c) Foreign currency translation

At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the foreign currency exchange rate in effect at that date. Revenues and expense items are translated at the foreign currency exchange rate in effect when the transaction occurred. The resulting foreign currency exchange gains and losses are recognized in current year earnings.

(d) Property and equipment

Property and equipment are recorded at cost. Amortization is provided for on a straight line basis over the following useful lives:

Assets	Estimated Useful Life
Buildings	10 - 40 years
Machinery and equipment	2 - 20 years

(e) Impairment of long lived assets

The Company reviews long lived assets with definite useful lives, and recognizes impairments, when an event or change in circumstances causes the assets' carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. An impairment loss is calculated by deducting the fair value of the asset from its carrying value.

(f) Goodwill and intangible assets

Goodwill and intangible assets with indefinite useful lives are not amortized.

The goodwill in these consolidated financial statements as at August 31, 2010, relates solely to the acquisition as described in Note 3 and represents the excess consideration transferred over the fair value of net identifiable assets acquired and the liabilities assumed.

Goodwill is tested for impairment annually or when events or a change in circumstances occurs that more likely than not reduces the fair value of the reporting unit below carrying value. Goodwill is tested for impairment by comparing the fair value of a particular reporting unit to its carrying value. When the carrying value exceeds its fair value, the fair value of the reporting unit's goodwill is compared with its carrying value to measure any impairment loss and the loss is recognized in the consolidated statement of operations.

Intangible assets, including newspaper mastheads and the related domain names have been recorded based on their fair values on the Acquisition date as described in note 3. The mastheads and certain domain names related to the online newspaper websites have indefinite lives, are not subject to amortization and are tested for impairment annually or more frequently if events or changes in circumstances indicate the asset may be impaired. Impairment of an indefinite life intangible asset is recognized in an amount equal to the difference between the carrying value and the fair value of the related indefinite life intangible asset.

Intangible assets with definite useful lives are amortized over their useful life using the straight-line method over the following periods:

Assets	Estimated Useful Life
Software	2 - 10 years
Subscribers	5 years
Customer relationships	4 - 5 years
Domain names	15 years

(g) Revenue recognition

Print advertising revenue is recognized when advertisements are published. Print circulation revenue includes newsstand and subscription revenue. Print circulation revenue is recognized when the newspapers are delivered. Subscription revenues are recognized on a straight-line basis over the term of the subscriptions. Digital revenue is recognized when advertisements are placed on the Company's websites or, with respect to certain online advertising, each time a user clicks on certain ads. Digital revenue also includes subscription revenues for business research and corporate financial information services and is recognized on a straight-line basis over the term of the subscriptions or contracts. Other revenue is recognized when the related service or product has been delivered. Amounts received relating to services to be performed in future periods are recorded as deferred revenue on the balance sheet.

(h) Income taxes

The asset and liability method is used to account for future income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Future income tax assets and liabilities are measured using substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. Future income tax assets are recognized to the extent that realization is considered more likely than not.

(i) Inventory

Inventory, consisting of primarily printing materials, is valued at the lower of cost, using the first-in-first out cost formula, and net realizable value. Inventories are written down to net realizable value if the cost of the inventories exceeds its net realizable value. Reversals of previous write-downs to net realizable value are required when there is a subsequent increase in the value of inventories.

(j) Business combinations

The Company uses the acquisition method of accounting to record business combinations. The acquisition method of accounting requires the Company to recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree measured at the acquisition-date fair values. The consideration transferred shall be measured at fair value calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, the liabilities incurred by the Company and any equity interests issued by the Company. Contingent consideration is recognized as part of the consideration transferred. Goodwill as of the acquisition date is measured as the excess of the consideration transferred and the amount of any non-controlling interest acquired over the net of the acquisition-date amounts of the identifiable

assets acquired and the liabilities assumed, measured at fair value. Acquisitions costs are expensed in the period they are incurred except for those costs to issue equity securities which are offset against the related equity instruments and those costs to issue debt which are offset against the corresponding debt and amortized using the effective interest method. Acquisition related costs include; advisory, legal, accounting, valuation and other professional or consulting fees; and costs of registering and issuing debt and securities.

(k) Financial instruments, derivatives and hedge accounting

Financial instruments are classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities, and measurement in subsequent periods depends on their classification. The Company has classified its financial instruments as follows:

- Cash is classified as held for trading
- Accounts receivable and other long-term receivables included in other assets are considered loans and receivables
- Non-revolving credit facilities, bank indebtedness, accounts payable, accrued liabilities and long-term debt are considered other financial liabilities.

Upon initial recognition all financial instruments are recorded on the consolidated balance sheet at their fair values. After initial recognition, financial instruments are measured at their fair values, except for loans and receivables and other financial liabilities which are measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash flows through the expected life of the financial instrument to its net carrying amount. Changes in the fair value of financial instruments classified as held-for-trading are recognized in income. The Company uses trade date accounting.

Collectability of trade receivables is reviewed on an ongoing basis. An allowance account is used when there is objective evidence that a receivable is impaired and it is probable that the Company will not collect all contractual amounts due. The factors that are considered in determining if a trade receivable is impaired include historical experience, analysis of aging reports and specific factors including, whether a customer is in bankruptcy, under administration or if payments are in dispute. The offsetting expense is recognized in the statement of operations within other operating expenses. When a trade receivable for which an impairment allowance had been recognized becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of operations.

The Company uses derivative financial instruments to manage its exposure to fluctuations in foreign currency rates and interest rates. The Company does not hold or use any derivatives instruments for trading purposes. Under hedge accounting, the Company documents all hedging relationships between hedging items and hedged items, as well as its strategy for using hedges and its risk management objective. The Company assesses the effectiveness of derivative financial instruments when the hedge is put in place and on an ongoing basis.

The Company uses foreign currency interest rate swaps to hedge (i) the foreign currency rate exposure on interest and principal payments on foreign currency denominated debt and/or (ii) the fair value exposure on certain debt resulting from changes in the US and Canadian base rates. The foreign currency interest rate swaps that set all future interest and principal payments on U.S.-denominated debt in fixed Canadian dollars are designated as cash flow hedges.

For derivative financial instruments designated as cash flow hedges, the effective portion of a hedge is reported in other comprehensive income until it is recognized in income during the same period in which the hedged item affects income, while the ineffective portion is immediately recognized in the consolidated statement of operations. When a hedged item ceases to exist or cash flow hedge accounting is terminated, the amounts previously recognized in accumulated other comprehensive income are reclassified to income when the variability in the cash flows of the hedged item affects income. When hedge accounting is discontinued for a hedge of an anticipated transaction and it is probable that such anticipated transaction will not occur then any amounts previously recognized in other comprehensive income as a result of applying hedge accounting are reclassified to income.

Derivative financial instruments that are ineffective or that are not designated as hedges, including derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts, are reported on a mark-to-market basis in the consolidated balance sheet. Any change in the fair value of these derivative financial instruments is recorded in the consolidated statement of operations as gain or loss on derivative financial instruments.

All derivative financial instruments are required to be measured at fair value on the consolidated balance sheet, even when they are part of an effective hedging relationship. An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If certain conditions are met, an embedded derivative is bifurcated from the host contract and accounted for as a derivative in the consolidated balance sheet, and measured at fair value.

(l) Pension plans and post-retirement/employment benefits

The Company maintains a number of defined benefit and defined contribution pension and post-retirement and post-employment benefit plans. For defined benefit plans, the cost of pension and other retirement benefits earned by employees is determined using the projected benefit method pro rated on service and management's estimate of expected plan investment performance, salary escalation, retirement ages of employees, expected health care costs, and other costs, as applicable. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Past service costs from plan amendments are amortized on a straight line basis over the average remaining service period of employees active at the date of the amendment. For each plan, the excess of the net actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service period of active employees. Gains or losses arising from the settlement of a pension plan are only recognized when responsibility for the pension obligation has been relieved. For the post-retirement and post-employment defined benefit plans, the cost is expensed as benefits are earned by the employees. For the defined contribution plans, the pension expense is the Company's contribution to the plan.

(m) Cash and cash equivalents

Cash equivalents are highly liquid investments with an original term to maturity of less than 90 days, are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are designated as held-for-trading as such interests are acquired or incurred principally for the purpose of selling or repurchasing in the near term and are accordingly carried at fair value. Changes in fair value are recorded in net earnings.

(n) Stock-based compensation

The Company has a Stock Option Plan and a Restricted Share Unit Plan that will be settled through the issuance of shares of Postmedia or through cash at the option of the Company, and a Deferred Share Unit Plan that will be settled with cash.

The Company recognizes compensation expense for all stock options granted based on the fair value of the option on the date of grant using an option pricing model. The fair value of the options is recognized as stock-based compensation expense over the vesting period of the options with a corresponding credit to contributed surplus. The contributed surplus balance is reduced as options are exercised through a credit to capital stock. The consideration paid by option holders is credited to capital stock when the options are exercised.

The Company recognizes compensation expense for all restricted share units granted based on the fair value of the Company's shares on the issuance date of each restricted share unit grant. The fair value of the restricted share units is recognized as compensation expense, over the vesting period of each restricted share unit grant, in operating expenses with a corresponding credit to contributed surplus. The contributed surplus balance is reduced as units are exercised through a credit to share capital. Compensation cost is not adjusted for subsequent changes in the fair value of the Company's shares.

The Company recognizes compensation expense for its deferred share unit plan based on the fair value of the Company's shares on the issuance date of each deferred share unit grant. The fair value of the deferred share units is recognized as compensation expense, over the vesting period of each deferred share unit grant, in operating expenses with a corresponding credit to other liabilities. The deferred share units are re-measured at each reporting period until settlement, using the fair value of the shares of the Company.

The Company uses the graded vesting method to calculate compensation expense for all stock-based compensation plans. These stock-based compensation plans are further described in note 16.

3. BUSINESS COMBINATION

The Company was incorporated on April 26, 2010 to enable certain members of the Ad Hoc Committee of noteholders and lenders of Canwest Limited Partnership ("Canwest LP") to purchase substantially all of the assets, including the shares of National Post Inc., and assume certain liabilities of Canwest LP (the "Acquisition). Canwest LP previously operated the newspaper, digital media and online assets now owned by the Company.

An asset purchase agreement was approved on June 18, 2010, and on July 13, 2010, Postmedia Network completed the Acquisition.

In accordance with the asset purchase agreement, on July 13, 2010 (the "Acquisition Date") Postmedia Network made the following payments in order to complete the Acquisition (the "Acquisition Consideration"):

Cash	
Payment of cash consideration	927,771
Non cash payments	
Issuance of shares to Canwest LP [a]	120,137
Acquisition Consideration	1,047,908

[a] Postmedia issued 13 million of shares valued at $9.26 per share based on the estimated fair market value on the Acquisition date.

The Company obtained proceeds to fund the cash portion of the Acquisition Consideration from the issuance of senior secured notes, the issuance of shares, a term loan credit facility and acquired cash.

Canwest LP retained $9.0 million in cash to be held in trust by the court appointed monitor (the "Monitor") to pay certain administrative fees and costs relating to the Canwest LP Consumer Creditors Arrangement Act filing (the "CCAA filing"). Any excess cash not used by the Monitor will be returned to the Company and recorded as contingent returnable consideration. As at August 31, 2010 the Company recognized its best estimate of contingent returnable consideration and determined its value to be nil. The Company expects the CCAA filing to be complete by December 31, 2010 and will record any actual contingent returnable consideration at that time.

The Company incurred acquisition costs of $18.3 million that have been expensed.

The following statement of net assets summarizes the fair value of the major classes of assets acquired and liabilities assumed in the Acquisition:

Assets acquired	
Cash	88,102
Accounts receivable [1]	135,617
Inventory	5,221
Prepaid expenses and other assets	14,880
Property and equipment	359,001
Intangible assets	483,026
	1,085,847
Liabilities assumed	
Accounts payable and accrued liabilities	89,207
Deferred revenue	33,954
Obligations under capital leases	3,696
Pension, post-retirement, post-employment and other liabilities	151,189
Future income taxes	681
	278,727
Net assets acquired at fair value	807,120

[1] The fair value of trade receivables is $135.6 million. The gross contractual amount for trade receivables is $139.8 million of which $4.2 million is expected to be uncollectable.

Goodwill of $240.8 million has been recognized and consists of the assembled workforce, non-contractual customer relationships and expected cost savings and has been determined as follows:

Acquisition Consideration	1,047,908
Net assets acquired at fair value	807,120
Goodwill	240,788

The Company expects goodwill of approximately $100 million to be deductible for tax purposes.

Had the Acquisition occurred on September 1, 2009, the revenue and net loss for the year ended August 31, 2010 would have been:

Revenue	1,052,502
Net loss	(6,432)

4. RESTRUCTURING OF OPERATIONS AND OTHER ITEMS

(a) Restructuring of operations

On the Acquisition Date, the Company assumed restructuring liabilities of $6.6 million. These restructuring liabilities consisted of initiatives that were started by Canwest LP and will be continued by Postmedia Network. These initiatives involve the shut down of certain operations as well as the restructuring of various processes within the newspapers. All amounts pertain to severance of employees and the initiatives are expected to be completed in fiscal 2011.

During the period ended August 31, 2010, the Company implemented a new restructuring program in order to reduce costs and accrued a liability of $10.7 million related to accepted voluntary buyout arrangements and involuntary terminations. This restructuring program will consist of a series of transformation projects that will result in involuntary and voluntary buyouts. The Company expects this restructuring program will take approximately twelve months to complete.

The Company has recorded the restructuring amounts in accrued liabilities with a corresponding expense recorded in restructuring of operations and other items in the statement of operations as follows:

	2010
Restructuring liability, assumed on Acquisition Date	6,560
Accrued during the period	10,727
	17,287
Payments during the period	(488)
Restructuring liability, end of period	16,799

(b) Other items

The Company has incurred expenses relating to preparing for a possible stock exchange listing as well as non-severance costs related to management oversight and consulting services for the various transformation projects attributable to the restructuring of the workforce. These expenses totaled $0.5 million for the period ended August 31, 2010.

5. GAIN ON DERIVATIVE FINANCIAL INSTRUMENTS

	2010
Gain on fair value swap not designated as a hedge	3,487
Cash interest settlement on fair value swap not designated as a hedge	(224)
Gain on embedded derivative	4,287
	7,550

6. INCOME TAXES

The provision for income taxes reflects an effective income tax rate which differs from its combined Canadian federal and provincial statutory income tax rate as follows:

	2010
Income taxes at combined Canadian statutory income tax rate of 29%	(12,948)
Valuation allowance	10,352
Non-deductible portion of capital loss	529
Non-deductible expenses	2,067
Provision for income taxes	-

Significant components of the Company's future tax assets and liabilities are as follows:

	2010
Future tax assets	
Non-capital loss carryforwards	7,899
Net-capital loss carryforwards	214
Unrealized capital loss on foreign exchange	3,346
Book amortization in excess of capital cost allowances	217
Cumulative eligible capital	966
Prepayment penalty	86
Deferred share units	368
Financing Fee	604
Pension and post-retirement benefits	37,145
Less: Valuation allowance	(46,250)
Total future income tax assets	4,595
Future tax liabilities	
Tax base difference on capital lease	4,595
Intangible assets	681
Total future income tax liabilities	5,276
Net future income tax liability	681
Current future income tax asset	-
Long-term future income tax liability	681

As of August 31, 2010, the Company had non-capital loss carry-forwards for income tax purposes of $30.3 million that expire in 2030.

7. INVENTORY

	2010
Newsprint	5,038
Other	1,149
	6,187

No inventories were carried at net realizable value at August 31, 2010.

8. PROPERTY AND EQUIPMENT

	2010		
	Cost	Accumulated amortization	Net
Land	65,760	-	65,760
Buildings	142,959	1,244	141,715
Machinery and equipment	151,043	3,324	147,719
	359,762	4,568	355,194

The Company has a building under capital lease with a cost of $25.3 million and accumulated amortization of $0.2 million.

9. DERIVATIVE FINANCIAL INSTRUMENTS

	2010
Embedded derivative	12,344
Foreign curency interest rate swap	3,487
	15,831

10. INTANGIBLES

	2010		
	Cost	Accumulated amortization	Net
Definite life			
Software	37,575	2,065	35,510
Subscribers	148,300	4,099	144,201
Customer relationships	12,200	276	11,924
Domain names	7,105	65	7,040
	205,180	6,505	198,675
Indefinite life			
Mastheads	248,550	-	248,550
Domain names	29,975	-	29,975
	278,525	-	278,525
	483,705	6,505	477,200

11. OBLIGATION UNDER CAPITAL LEASE

The Company has a capital lease with future minimum lease payments for the years ended August 31 as follows:

2011	1,924
2012 - 2015	-
Thereafter	1,560
Total minimum lease payments	3,484
Amount representing interest at 8.5%	(1,515)
Present value of minimum capital lease payments	1,969
Less: current portion of obligation under capital lease	(1,841)
	128

Interest expense recorded on the obligation under capital lease for the period ended August 31, 2010 was nominal.

12. LONG TERM DEBT

					2010
	Year of Maturity	Effective Interest Rate	Principal translated at period end exchange rates	Financing fees, discounts and other	Carrying value of Debt
Senior Secured Term Loan Credit Facility [1]					
US Tranche (US$267.5M)	2016	10.7%	285,289	23,557	261,732
Canadian Tranche	2015	9.8%	110,000	8,400	101,600
Senior Secured Notes (US$275M) [2]	2018	14.5%	293,288	10,589	282,699
Senior Secured Asset-Based Revolving Facility [3]	2014	-	-	-	-
					646,031
Less portion due within one year					13,499
					632,532

[1] Term Loan Facility

On July 13, 2010, the Company entered into a senior secured term loan credit facility (the "Term Loan Facility"). The proceeds from the Term Loan Facility are comprised of a US$300.0 million (CDN$310.1 million) term loan (the "US Tranche") issued at a discount of 3.0% for net proceeds of US$291.0 million (CDN$300.8 million), before financing fees of $15.2 million; and a $110.0 million term loan (the "Canadian Tranche") issued at a discount of 3.0% for net proceeds of $106.7 million, before financing fees of $5.4 million. The Term Loan Facility also provides for up to US$50 million in incremental term loan facilities. The Company has not drawn on the incremental term loan facilities. The Term Loan Facility is secured on a first priority basis by substantially all the assets of Postmedia Network and the assets of its guarantors, National Post and the Company (the "Guarantors") (the "Term Loan Collateral"), with the exception of those assets comprising the ABL Collateral (defined below) and on a second-priority basis by the ABL Collateral. In addition to the minimum principal repayments in 1(a) and 1(b) below, the Company is subject to a mandatory prepayment of the loans with respect to any net cash proceeds of asset sales or issuance of indebtedness and 75% of excess cash flow for each fiscal year subject to adjustments for prepayments and leverage ratios. Voluntary prepayments are permitted

and reduce the quarterly minimum payments discussed below in 1(a) and 1(b) and permanently reduce the availability under the US and CDN tranches of the Term Loan Facility.

(a) The US Tranche is subject to quarterly minimum principal repayments equal to 0.625% of the initial outstanding principal for the first four installments, 1.25% for the next four installments, 2.5% for the next four installments and 3.75% for the next eleven installments, with any remaining principal due and payable at maturity. The Company made a voluntary principal payment of US$32.5 million (CDN$34.7 million) during the period ending August 31, 2010. The US Tranche currently bears interest at Libor, with a floor of 2%, plus 7%. At August 31, 2010 the Libor rate was less than 2%, so the base rate was the floor of 2%. The Company has entered into a foreign currency interest rate swap of US$225.0 million to hedge the foreign currency risk associated with the US Tranche. This swap fixes the principal payments on a notional amount of US$225.0 million, which reduces with principal payments on the debt, at a fixed currency exchange rate of US$1:$1.035 until July 2014 and converts the interest rate on the notional Canadian principal amount to bankers acceptance rates plus 9.25%. The Company has not designated this swap as a hedge and as a result will not use hedge accounting. As at August 31, 2010, an asset of $3.5 million, representing the fair value of this swap, is recorded on the consolidated balance sheet in derivative financial instruments (note 9).

(b) The Canadian Tranche is subject to quarterly minimum principal repayments equal to 1.25% of the initial outstanding principal for the first four installments, 2.5% for the next eight installments, 3.75% for the next five installments, with any remaining principal due and payable at maturity. The Company did not make any voluntary principal payments during the period ending August 31, 2010. The Canadian Tranche loan currently bears interest at bankers acceptance rates plus 6%. At August 31, 2010, the applicable three month bankers acceptance rate was 1.093%.

The Company is subject to certain financial and non-financial covenants under the Term Loan Facility referred to above. The Term Loan Facility also requires compliance with financial covenants including a consolidated interest coverage ratio test, a consolidated total leverage ratio test and a consolidated first lien indebtedness leverage ratio test.

[2] Senior Secured Notes

On July 13, 2010 Postmedia Network issued US$275.0 million (CDN$284.3 million) of 12.50% Senior Secured Notes (the "Notes"). The Notes were issued at a discount of 2.445% for net proceeds of US $268.3 million (CDN$277.3 million), before financing fees of $11.8 million. The Notes are secured on a second priority basis by the Company and on a third priority basis by the ABL Collateral (defined below). The notes have a variable prepayment option subject to a premium. This prepayment option represents an embedded derivative that is to be accounted for separately at fair value. The initial carrying amount of the long-term debt represents the residual balance after bifurcating the embedded derivative. On July 13, 2010 the embedded derivative asset had a fair value of $8.1 million. During the period ended August 31, 2010 the Company recorded a gain of $4.3 million in gain on derivative instruments in the consolidated statement of operations related to the embedded derivative. As at August 31, 2010 the embedded derivative asset had a fair value of $12.3 million which is recorded on the consolidated balance sheet in derivative financial instruments (note 9). The Company has also entered into a foreign-currency interest rate swap on a notional amount of US$275 million with a fixed currency exchange rate of US$1:$1.035 and a fixed interest rate of 14.53%. This arrangement terminates on July 15, 2014 and includes a final exchange of the principal amount on that date. The Company has designated this hedging arrangement as a cash flow hedge and its fair value, a liability of $4.2 million, is included in the consolidated balance sheet in derivative financial instruments. This cash flow hedge was 100% effective at August 31, 2010.

The Notes are subject to covenants that, among other things, will restrict the ability to incur additional indebtedness, pay dividends or make other distributions or repurchase or redeem certain indebtedness or capital stock, make loans and investments, sell assets; incur certain liens, enter into transactions with affiliates, alter the businesses it conducts, enter into agreements restricting its subsidiaries' ability to pay dividends' and consolidate, merge or sell all or substantially all of its assets.

(3) Asset-Based Revolving Credit Facility

On July 13, 2010, the Company entered into a revolving senior secured asset-based revolving credit facility for an aggregate amount of up to $60 million, including a $10 million letter of credit sub-facility, (the "ABL Facility"). The ABL Facility is secured on a first-priority basis by accounts receivable, cash and inventory of Postmedia Network and any related assets of the Guarantors (the "ABL Collateral") and on a third priority basis by the Term Loan Collateral. The ABL Facility currently bears interest at either bankers acceptance rates plus 3.75% or Canadian prime plus 2.75%. The proceeds of the loans under the ABL Facility are permitted to be used to finance the working capital needs and general corporate purposes of the Company. There are limitations on the Company's ability to incur the full $60 million of commitments under the ABL Facility. Availability is limited to the lesser of a borrowing base and $60 million, in each case subject to reduction for a required excess availability amount of $15 million. As at August 31, 2010 the Company had no amounts drawn on the ABL Facility and had availability of $35.1 million. Included in other assets at August 31, 2010 are transaction costs of $3.2 million with respect to the ABL Facility. Amortization in respect of the transaction costs of $0.1 million for the period ended August 31, 2010 is included in interest expense.

Principal undiscounted minimum payments of long-term debt, based on terms existing at August 31, 2010 are as follows:

2011	13,499
2012	26,998
2013	42,995
2014	64,492
2015	113,992
Thereafter	426,601
	688,577

Interest expense relating to long-term debt for the period from July 13, 2010 to August 31, 2010 was $12.2 million.

13. PENSION, POST-RETIREMENT AND POST-EMPLOYMENT BENEFITS

The Company has a number of funded and unfunded defined benefit plans, as well as defined contribution plans, that provide pension and post retirement and post-employment benefits to its employees. The defined benefit pension plans are based upon years of service and final average salary. The Company has measured its accrued benefit obligation and the fair value of plan assets for accounting purposes as at August 31, 2010.

Information on the Company's pension, post-retirement and post-employment benefit plans are as follows:

	2010	
	Pension benefits (1)	**Post-retirement and post-employment benefits** (2)
Plan Assets		
Fair value of plan assets - at Acquisition Date	294,949	-
Actual returns on plan assets	10,718	-
Employer contributions	2,195	537
Employee contributions	412	-
Benefits paid	(1,244)	(537)
Fair value of plan assets end of period	**307,030**	**-**
Plan Obligations		
Benefit obligations - at Acquisition Date	375,184	68,458
Accrued interest on benefits	2,870	490
Current service costs	1,731	435
Benefits paid	(1,244)	(537)
Actuarial loss	11,889	1,632
Benefit obligations end of period	**390,430**	**70,478**
The Company's net benefit obligations are determined as follows:		
Benefit obligations	390,430	70,478
Fair value of plan assets	307,030	-
Plan deficits	(83,400)	(70,478)
Unamortized net actuarial losses	3,894	1,632
Net Benefit Obligations	**(79,506)**	**(68,846)**

The accrued pension benefit liability of $79.5 million and the accrued post retirement and post employment liability of $68.8 million are included in accrued pension, post-retirement, post-employment and other liabilities on the consolidated balance sheet.

The investment strategy for pension plan assets is to utilize a balanced mix of equity and fixed income portfolios to earn a long term investment return that meets the Company's pension plan obligations. Active management strategies and style diversification strategies are utilized in anticipation of realizing investment returns in excess of market indices.

The pension plans have no investment in debt securities of the Company and have an asset mix as of August 31, 2010 as follows:

	Actual	Target	Fair value hierarchy
Canadian equities	41%	35%	Level 1
Foreign equities	21%	25%	Level 1
Fixed income	37%	40%	Level 2
Cash	1%	0%	Level 1

The average remaining service period of employees covered by the pension plans is 8 years. The average remaining service period of the employees covered by the post-retirement benefit plans is 11 years. The average remaining service period of the employees covered by the post-employment benefit plans is 7 years.

The most recent actuarial funding valuation for the most significant of the pension plans, which make up substantially the entire accrued benefits obligation, was as of December 31, 2009. The valuation indicated that the plan had deficiencies. As a result, the Company is currently required to make special payments for the next twelve months of $19.3 million. The next required valuation will be as at December 31, 2010 and must be complete by September 30, 2011.

The total cash payments for the period ended August 31, 2010, consisting of cash contributed by the Company to its funded pension plans, cash payments to beneficiaries for its post retirement and post employment plans and cash contributed to its defined contribution plans, was $3.6 million.

The Company's pension expense for the period ended August 31, 2010 is determined as follows:

	2010		
	Incurred in year	Matching adjustments [3]	Recognized in year
Current service costs	1,731	-	1,731
Employee contributions	(412)	-	(412)
Accrued interest on benefits	2,870	-	2,870
Return on plan assets	(10,718)	7,995	(2,723)
Net actuarial losses	11,889	(11,889)	-
Benefit expense	5,360	(3,894)	1,466
Employer contributions to defined contribution plans	825	-	825
Total pension expense	**6,185**	**(3,894)**	**2,291**

The Company's post retirement and post employment benefit expense for the period ended August 31, 2010 is determined as follows:

	2010		
	Incurred in year	**Matching adjustments [3]**	**Recognized in year**
Current service costs	435	-	435
Accrued interest on benefits	490	-	490
Net actuarial losses	1,632	(1,632)	-
Total post retirement and post employment benefit expense	**2,557**	**(1,632)**	**925**

Significant actuarial assumptions in measuring the Company's accrued benefit obligations as at August 31, 2010 are as follows:

	2010	
	Pension Benefits	**Post-retirement and post-employment benefits**
Discount rate	5.30%	5.10%
Rate of compensation increase	3.70%	3.60%

Significant actuarial assumptions in measuring the Company's benefit costs as at August 31, 2010 are as follows:

	2010	
	Pension Benefits	**Post-retirement and post-employment benefits**
Discount rate	5.50%	5.35%
Expected long-term rate of return on pension plan assets	6.70%	-
Rate of compensation increase	3.70%	3.60%

The discount rate was estimated by applying Canadian corporate AA zero coupon bonds to the expected future benefit payments under the plans. In fiscal 2011, the Company expects to contribute $30.2 million (including special payments of $19.3 million) to its defined benefit pension plans and $4.1 million to its post retirement and post employment benefit plans.

Benefit payments which are paid out of the plans, reflect expected future service and are expected to be paid as follows for the years ended August 31:

	Pension	Post-retirement and post-employment	Total
2011	15,678	4,068	19,746
2012	17,235	4,377	21,612
2013	18,735	4,630	23,365
2014	20,161	4,945	25,106
2015	21,616	5,221	26,837
2016-2020	133,308	31,221	164,529

(1) As at August 31, 2010, none of the Company's defined benefit pension plans were fully funded.

(2) Post-retirement plans are non-contributory and include health and life insurance benefits. The assumed health care cost trend rates for the next year used to measure the expected cost of benefits covered for the post retirement health and life plans were 8.75% for medical, to an ultimate rate of 4.6% over 19 years to 2029. A one percentage point increase in assumed health care cost trend rates would have increased the service and interest costs and obligation by $0.1 million and $5.5 million, respectively. A one percentage point decrease in assumed health care cost trends would have lowered the service and interest costs and the obligation by $0.1 million and $5.5 million respectively.

(3) Accounting adjustments to allocate costs to different periods to reflect the long term nature of employee future benefits.

14. CAPITAL STOCK

(a) Authorized capital stock

The Company's authorized capital stock consists of two classes; Class C voting shares ("Voting Shares") and Class NC variable voting shares ("Variable Voting Shares"). The Company is authorized to issue an unlimited number of Voting Shares and Variable Voting Shares.

Voting Shares

Holders of the Voting Shares shall be entitled to one vote at all meetings of shareholders of the Company. The Voting Shares and Variable Voting Shares rank equally on a per share basis in respect of dividends and distributions of capital.

A Voting Share shall be converted into one Variable Voting Share automatically if a Voting Share becomes held or beneficially owned or controlled, by a person who is a citizen or subject of a country other than Canada. In addition to the automatic conversion feature, a holder of Voting Shares shall have the option at any time to convert some or all of such shares into Variable Voting Shares on a one-for-one basis and to convert those shares back to Voting Shares on a one-for-one basis.

Variable Voting Shares

The Variable Voting Shares have identical terms as the Voting Shares and rank equally with respect to voting, dividends and distribution of capital, except that Variable Voting Shares shall not carry one vote per Variable Voting Share if:

(a) the number of issued and outstanding Variable Voting Shares exceeds 49.9% of the total number of all issued and outstanding shares; or

(b) the total number of votes that may be cast by or on behalf of holders of Variable Voting Shares present at any meeting of holders of Voting Shares exceeds 49.9% of the total number of votes that may be cast by all holders of shares present and entitled to vote at such meeting.

If either of the above-noted thresholds is surpassed at any time, the vote attached to each Variable Voting Share will decrease automatically to equal the maximum permitted vote per Variable Voting Share.

(b) Issued and outstanding capital stock

	Voting Shares		Variable Voting Shares		Total Shares	
	Number	Amount	Number	Amount	Number	Amount
Shares issued	3,686,779	$ 34,136	36,636,391	$ 339,226	40,323,170	$ 373,362
Costs to issue shares		(205)		(2,025)		(2,230)
Balance as of August 31, 2010	3,686,779	$ 33,931	36,636,391	$ 337,201	40,323,170	$ 371,132

During the period ended August 31, 2010, management purchased 348,300 shares at fair market value ($9.26 per share) for total proceeds to the Company of $3.2 million.

(c) Earnings per share

Basic earnings per share are calculated using the daily weighted average number of shares outstanding during the period.

Diluted earnings per share are calculated using the daily weighted average number of shares that would have been outstanding during the period had all potential common shares been issued at the beginning of the period, or when the underlying options were granted or issued, if later. The treasury stock method is employed to determine the incremental number of shares that would have been outstanding had the Company used proceeds from the exercise of the options to acquire shares provided the shares are not anti-dilutive.

The following table provides a reconciliation of the denominators used in computing basic and diluted earnings per share. No reconciling items in the computation of net loss exist:

	2010
Basic weighted average shares outstanding during the period	40,323,170
Dilutive effect of options	-
Diluted weighted average shares outstanding during the period	40,323,170
Options outstanding that would have been anti-dilutive	400,000

15. CAPITAL MANAGEMENT

The Company's capital management objective is to maintain adequate capital to (a) fulfill all debt repayment obligations and (b) to satisfy the capital and operating requirements of the business. The Company plans to use excess cash flow to repay the Term Loan Facility. The Company is in the process of developing its capital management policies and processes.

The Company is in compliance with all financial covenants as at August 31, 2010 (note 12).

16. STOCK BASED COMPENSATION AND OTHER LONG-TERM INCENTIVE PLANS

Stock option plan

On July 13, 2010, the Company established a stock option plan (the "Option Plan") for its employees and officers to assist the Company in attracting, retaining and motivating officers and employees. The Option Plan will be administered by the Board of Directors (the "Board").

The maximum number of options available for issuance under the Option Plan is 3.0 million and shall not exceed 10% of the Company's issued and outstanding shares. On July 13, 2010, the Company granted 1.4 million options to officers and employees. The options entitle the holder to acquire one common share of the Company at an exercise price no less than the fair market value of a common share at the date of grant or an amount determined by the Board in its sole discretion should the shares not be listed on a stock exchange. Each option may be exercised during a period not exceeding 10 years from the date of grant. Of the issued options, 0.3 million vested immediately on the date of grant with the remaining 1.1 million options vesting evenly over a 4 year period on the anniversary date of the date of grant. There were no options exercised or cancelled during the period ended August 31, 2010.

The Company recognizes stock-based compensation expense for all options issued under the Option Plan based on the fair value of the option on the grant date, which was $2.66. The fair value of the underlying options was estimated using the Black-Scholes option pricing model with the following key assumptions: grant date exercise price of $9.84; expected volatility of 30% based on average volatilities for similar companies; risk-free rate of interest of 2.56%; an expected life of 5 years; a forfeiture rate of 5%, and no dividends. During the period ended August 31, 2010, the Company has recorded stock-based compensation expense relating to the Option Plan of $0.7 million, with an offsetting credit to contributed surplus.

Deferred share unit plan

On July 13, 2010, the Company established a deferred share unit plan (the "DSU Plan") for the benefit of its non-employee directors. The maximum number of deferred share units ("DSUs") available for issuance under the DSU Plan shall not exceed 10% of the Company's issued and outstanding shares. The DSU Plan will be administered by the Board.

Under the DSU Plan, non-employee directors of the Company are required to elect to receive at least 50% (and may irrevocably elect to receive up to 100%) of their annual fees satisfied in the form of DSUs, and may receive additional grants of DSUs under the DSU Plan. The number of DSUs to be credited to a director will be calculated, on the date that fees are payable to such director, by dividing the dollar amount elected by such director in respect of such fees by the value of a share. The value of a share will be the fair market value as listed on a stock exchange and in the event the shares are not listed on a stock exchange the fair market value will be determined by the Board. The vesting conditions (which may include time restrictions, performance conditions or a combination of both) of each DSU granted under the DSU Plan, will be determined by the Board, and on redemption (which would occur after the holder of the DSUs ceases to serve as a director and is not otherwise employed by the Company) will be paid out in cash. The DSUs are generally non-transferable. Whenever cash dividends are paid on the Shares of the Company, additional DSUs will be credited to directors. The Board may discontinue the DSU Plan at any time or, subject to certain exceptions set out in the DSU Plan, may amend the DSU Plan at any time.

Effective July 13, 2010, the Company issued 0.4 million DSUs to directors. Of the issued DSUs, 0.1 million vested immediately, with the remaining DSUs vesting evenly over a two year period on the anniversary date of the date of grant. During the period ended August 31, 2010, the Company has recorded stock-based compensation expense relating to the DSU Plan of $1.5 million, with an offsetting credit to other liabilities.

Restricted share unit plan

On July 13, 2010, the Company established a restricted share unit plan (the "RSU Plan"). The RSU Plan provides for the grant of restricted share units ("RSUs") to participants, being current part-time or full-time officers, employees or consultants of the Company or certain related entities.

The maximum aggregate number of RSUs issuable pursuant to the RSU Plan outstanding at any time shall not exceed 0.6 million voting shares or variable voting shares ("Shares") of the Company. The RSU Plan is administered by the Board.

Each RSU will be settled for one Share, without payment of additional consideration, after such RSU has vested; however, at any time, a participant may request in writing, upon exercising vested RSUs, subject to the consent of the Company, that the Company pay an amount in cash equal to the aggregate current fair market value of the Shares on the date of such exercise in consideration for the surrender by the participant to the Company of the rights to receive Shares under such RSUs. The Board may in its sole discretion accelerate the vesting date for all or any RSUs for any participant at any time and from time to time. RSUs are non-transferable. The terms and conditions of RSUs granted under the RSU Plan will be subject to adjustments in certain circumstances, at the discretion of the Board and contain certain conditions regarding the resignation, cessation and termination of participants.

On July 13, 2010, the Company granted a tandem award. The tandem award provides a choice to either exercise 0.6 million stock options or 0.6 million RSU's. Of the tandem award, 0.1 million RSU's vested immediately on the date of the grant with the remaining 0.5 million vesting evenly over a four year period on the anniversary date of the date of grant. The fair value of the RSU was estimated by

using a grant date fair value per share of $9.26. During the period ended August 31, 2010, the Company has recorded stock-based compensation expense relating to the tandem award of $1.4 million, with an offsetting credit to contributed surplus.

17. STATEMENT OF CASH FLOWS

The following amounts comprise the net change in non-cash operating accounts included in the consolidated statement of cash flows:

	2010
Cash Generated (Utilized) By:	
Accounts receivable	23,895
Inventory	(966)
Prepaid expenses	(1,033)
Accounts payable and accrued liabilities	24,214
Deferred revenue	(1,858)
Other	56
Changes in non-cash operating accounts	**44,308**

	2010
Supplemental Cash Flow Information	
Interest paid	4,549
Income taxes recovered	-

18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company is in the process of developing its financial risk management policies.

As a result of the use of financial instruments, the Company is exposed to credit risk, liquidity risk and market risks relating to foreign exchange and interest rate fluctuations. In order to manage foreign exchange and interest rate risks, the Company uses derivative financial instruments to set in Canadian dollars future payments on debts denominated in U.S. dollars (interest and principal). The Company does not intend to settle the derivative financial instruments prior to their maturity. These instruments are not held or issued for speculative purposes.

(a) Foreign currency interest rate swaps

The following foreign currency interest rate swaps are outstanding at August 31, 2010:

	Period covered	Notional amount	Pay leg - CDN	Receive leg - USD	CDN dollar exchange rate per one US dollar
Derivatives - not designated					
US Tranche	2010 to 2014	USD $225,000	Bankers' acceptance 3 months + 9.25%	Libor +7%, with a floor of 2%	1.035
Derivatives - designated as cash flow hedge					
Senior Secured Notes	2010 to 2014	USD $275,000	14.53%	12.50%	1.035

During the period ended August 31, 2010 a gain of $3.5 million was recorded in gain on derivative instruments in the statement of operations related to the derivatives not designated as a hedge. During the period ended August 31, 2010 a loss of $13.3 million was recorded in the statement of other comprehensive loss related to the derivative designated as a cash flow hedge. The amount expected to be reclassified to the statement of operations over the next twelve months in connection with the derivative designated as cash flow hedges is estimated to be $4.7 million.

(b) Fair value of financial instruments

The carrying value of cash (classified as held for trading), accounts receivable (classified as loans and receivables), accounts payable (classified as other liabilities), and accrued liabilities (classified as other liabilities), approximate their fair value since these items will be realized or paid within one year or are due on demand.

The carrying value and fair value of long-term debt and derivative financial instruments as of August 31, 2010 are as follows:

	2010	
	Carrying value	Fair value
Long-term debt	(646,031)	(691,426)
Derivative financial instruments		
Assets		
Foreign exchange interest rate swap	3,487	3,487
Embedded derivative	12,344	12,344
	15,831	15,831
Liabilities		
Foreign exchange interest rate swap	(4,243)	(4,243)

The fair value of long-term debt is estimated based on quoted market prices when available or on valuation models. When the Company uses valuation models, the fair value is estimated using discounted cash flows using market yields or the market value of similar instruments with similar terms and credit risk.

In accordance with CICA Section, 3862, *Financial Instruments – Disclosures*, the Company has considered the following fair value hierarchy that reflects the significance of the inputs used in measuring its financial instruments accounted for at fair value in the balance sheet:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: inputs that are not based on observable market data (unobservable inputs).

The fair value of cash and cash equivalents classified as held-for-trading and accounted for at their fair value on the balance sheet, is determined using Level 1 inputs.

The fair value of derivative financial instruments recognized on the balance sheet is estimated as per the Company's valuation models. These models project future cash flows and discount the future amounts to a present value using the contractual terms of the derivative instrument and factors observable in external markets data, such as period-end swap rates and foreign exchange rates. An adjustment is also included to reflect non-performance risk impacted by the financial and economic environment prevailing at the date of the valuation in the recognized measure of the fair value of the derivative instruments by applying a credit default premium estimated using a combination of observable and unobservable inputs in the market (Level 3 inputs) to the net exposure of the counterparty or the Company. Accordingly, financial derivative instruments are classified as level 3 under the fair value hierarchy.

The fair value of early settlement options recognized as embedded derivatives is determined by option pricing models using Level 3 market inputs, including credit risk, volatility and discount factors.

The estimated sensitivity on income and other comprehensive income, before income taxes, of a 100 basis-point change in the credit default premium used to calculate the fair value of derivate financial instruments, holding all other variables constant, as per the Company's valuation models, is as follows:

Increase (decrease)	**Income**	**Other comprehensive income**
Increase of 100 basis points	(205)	(219)
Decrease of 100 basis points	215	236

(c) Credit risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial asset fails to meet its contractual obligations.

The maximum credit exposure to credit risk at the reporting date is the carrying value of cash, accounts receivable and derivative financial instruments. No collateral is held for any of the counterparties to the above financial assets.

In the normal course of business, the Company continuously monitors the financial condition of its customers and reviews the credit history of each new customer. The Company's sales are widely distributed and the largest amount due from any single customer is $4.9 million or 5.0% of receivables at August 31, 2010. The Company establishes an allowance for doubtful accounts when collection is determined to be unlikely based on the specific credit risk of its customers and historical trends. The allowance for doubtful accounts amounted to a nominal amount as of August 31, 2010 as a result of fair valuing our accounts receivable as a result of the Acquisition. At August 31, 2010, $48.3 million or 43.2% of accounts receivable is considered past due as per the contractual credit terms and not yet impaired, which is defined as amounts outstanding beyond normal credit terms and conditions for respective customers. The amount past due relates to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables based on original invoice terms is as follows:

30 - 90 days	40,997
Greater than 90 days	7,262
	48,259

The Company does not believe that it is exposed to an unusual level of customer credit risk.

The following table shows changes to the allowance for doubtful accounts for the period ended August 31, 2010:

	2010
Balance as of beginning of period	-
Provision for doubtful accounts	431
Write-offs	(431)
Balance end of period	-

As a result of the use of derivative financial instruments, the Company is exposed to the risk of non-performance by a third-party. When the Company enters into derivative contracts, the counterparties must have an investment grade credit rating of no less than single "A" and are subject to concentration limits.

(d) Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due or the risk that those financial obligations have to be met at excessive cost. The Company manages this exposure risk by using cash on hand and from cash flow forecasts and by deferring or eliminating discretionary spending.

As of August 31, 2010, material contractual obligations related to financial instruments included debt repayments, interest on long-term debt and obligations related to derivative instruments, less estimated future receipts on derivative instruments. These obligations and their maturities are as follows:

	Total	Less than 1 year	1-3 years	3-5 years	5 years or more
Accounts payable	12,705	12,705	-	-	-
Accrued liabilities	100,716	100,716	-	-	-
Capital leases	3,484	1,924	-	-	1,560
Long-term debt [1]	688,577	13,499	69,993	178,485	426,600
Interest payments [2]	442,321	72,169	135,614	115,534	119,004
Derivative financial instruments [3]	-				
Cash outflow	900,075	111,072	233,558	147,104	408,341
Cash inflow	(874,438)	(106,185)	(225,977)	(139,307)	(402,969)
Total	**1,273,440**	**205,900**	**213,188**	**301,816**	**552,536**

[1] Estimate of principal payments on long-term debt is based on actual foreign exchange rates as of August 31, 2010.
[2] Estimate of interest to be paid on long-term debt is based on actual interest rates and foreign exchange rates as of August 31, 2010.
[3] Estimate of future disbursements and future receipts, on derivative financial instruments relates to principal and interest payments on the notional amount of the underlying swap based on interest rates and foreign exchange rates as of August 31, 2010.

(e) Market risk management

Market risk is the risk that changes in market prices due to foreign exchange rates and interest rates will affect the value of the Company's financial instruments. The objective of market risk management is to mitigate and control exposures within acceptable parameters while optimizing the return on risk.

Foreign currency risk
A large portion of the interest and principal payable on the Company's long-term debt is payable in US dollars. The Company has entered into transactions to mitigate the foreign currency risk exposure on 92% of the US dollar denominated long-term debt outstanding as of August 31, 2010. Accordingly, the Company's sensitivity to variations in foreign exchange rates is limited.

The following table summarizes the estimated sensitivity on income and other comprehensive income, before income taxes, of a change of $0.01 in the period-end exchange rate of a Canadian dollar per one US dollar, holding all other variables constant:

Increase (decrease)	Income	Other comprehensive income
Increase of $0.01		
Gain on valuation and translation of financial instruments and derivative financial instruments	(18)	3,929
Decrease of $0.01		
Gain on valuation and translation of financial instruments and derivative financial instruments	18	(3,929)

Interest rate risk
The Company's Term Loan Facility bears interest at floating rates while the Notes bear interest at fixed rates. The Company has entered into foreign exchange interest rate swaps in order to manage cash flow and fair value interest rate risk exposure due to changes in interest rates. As of August 31, 2010 long-term debt was comprised of 43% fixed rate debt and 57% floating rate debt.

The estimated sensitivity on interest expense for floating rate debt, before income taxes, of a 100 basis-point change in the period end interest rates, holding all other variables constant, is $0.6 million.

The estimated sensitivity on income and other comprehensive income, before income tax, of a 100 basis-point change in the discount rate used to calculate the fair value of financial instruments, as per the Company's valuation model holding all other variables constant:

Increase (decrease)	Income	Other comprehensive income
Increase of 100 basis points	(3,899)	(254)
Decrease of 100 basis points	5,707	268

19. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

The Company has entered into various operating leases for property, office equipment and vehicles and has various other commitments. Aggregate future minimum payments under the terms of these commitments are as follows:

2011	17,670
2012	14,704
2013	12,841
2014	12,255
2015	10,262
Thereafter	22,562

CONTINGENCIES

The Company is involved in various legal matters arising in the ordinary course of business. The resolution of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

20. SEGMENT INFORMATION

The Company has one reportable segment for financial reporting purposes, the Newspapers segment. The Newspapers segment is comprised of the Eastern newspapers operating segment and the Western newspapers operating segment which have been aggregated. The Newspapers segment publishes daily and non-daily newspapers and operates the related newspaper websites. Its revenues are primarily from advertising and circulation. Postmedia has other business activities and an operating segment which are not separately reportable and are referred to collectively as the All other category. Revenues in the All other category primarily consist of advertising and subscription revenues from *FPinfomart* and the website *canada.com*

Each operating segment operates as a strategic business unit with separate management. Segment performance is measured primarily upon the basis of segment operating profit. Segmented information and a reconciliation of segment operating profit to loss before income taxes is presented below. The Company accounts for intersegment sales as if the sales were to third parties.

Included within digital revenues on the statement of operations are advertising and subscription revenues of $6.8 million and $3.9 million, respectively. Accordingly, aggregate revenues from advertising were $82.4 million and circulation/subscription $35.6 million, respectively.

	For the period ended August 31, 2010
Revenue	
Newpapers	117,694
All other	5,244
Intersegment revenue [1]	(844)
	122,094
Operating profit	
Newpapers	17,658
All other	(780)
Corporate	(6,152)
	10,726
Reconciliation of segment operating profit to loss before income taxes for the period	
Amortization	11,073
Restructuring of operations and other items [2]	11,209
Operating Loss	(11,556)
Interest expense	12,702
Gain on deriative instruments	(7,550)
Foreign currency exchange losses	9,607
Acquisition costs	18,303
Loss before income taxes	(44,618)

[1] The All other category recorded intercompany revenues of $0.8 milion.
[2] Costs related to various restructuring initiatives as described in note 4.

	Goodwill [1]	Intangible Assets [2]	Total Assets	Capital Expenditures
	As at August 31, 2010	As at August 31, 2010	As at August 31, 2010	For the period ended August 31, 2010
Newspapers	240,788	461,600	1,108,765	708
All other	-	15,600	157,439	53
	240,788	477,200	1,266,204	761

[1] The Goodwill has been provisionally allocated to the Newspapers reportable segment.
[2] Intangible assets of the All other category include $9.6 million of Customer relationships and $6.0 million of Domain names.

21. UNITED STATES ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with Canadian GAAP. In certain aspects GAAP as applied in the United States ("US") differs from Canadian GAAP. The following information complies with the GAAP reconciliations requirements of the Securities Exchange Commission ("SEC") as published in Form 10K. Amounts are in thousands of Canadian dollars, unless otherwise noted.

Principle differences affecting the Company

a) Pension, post-retirement and post-employment liabilities

U.S. GAAP requires employers to recognize in its balance sheet an asset for a plan's over funded status or a liability for a plan's under funded status, and recognize changes in the funded status of a defined benefit pension, post-retirement and post-employment plan in the year in which the changes occur through comprehensive income and a separate component of shareholders' equity. The effect on the US GAAP reconciliation for the period ended August 31, 2010 was to decrease comprehensive loss by $5,526 net of a future income tax recovery of nil. The balance sheet effect at August 31, 2010 was to increase other accrued pension, post-retirement and other liabilities by $5,526 and increase shareholders; equity by $5,526. The amount expected to be reclassified to the statement of operations over the next twelve months in connection with the pension, post-retirement and post-employment liabilities is estimated to be nominal.

b) Enacted tax rates

Under *ASC 740, Income Taxes*, future tax liabilities should be adjusted for the effect of change in tax laws or tax rates in the period in which the changes are enacted. Under Canadian GAAP, the change in tax laws or tax rates are reflected when the change is substantively enacted. For the period ended August 31, 2010, there were no differences in the rates to be used under U.S. and Canadian GAAP.

c) Consolidated Statement of Cash Flows

The Company's consolidated statement of cash flows is prepared in accordance with Canadian GAAP, which is consistent with the principles for cash flow statements in International Accounting Standard No. 7, Cash Flow Statements. Consistent with the accommodation provided by the Securities and Exchange Commission for a GAAP reconciliation, the Company has not provided a reconciliation of cash flows to US GAAP.

d) Debt Issuance Costs

Under Canadian GAAP debt issuance costs recorded in the consolidated financial statements are included in long term debt and recognized in earnings using the effective interest method. Under US GAAP, debt issuance costs are classified as an asset. The effect on the US GAAP reconciliation as at August 31, 2010 would be an increase to other assets of $31,350 with an offsetting increase to long-term debt.

e) Other US GAAP Disclosures

Operating expenses in the statement of operations include $59.7 million of selling, general and administrative expenses and $1.6 million of rent expense. Accounts payable and accrued liabilities on the consolidated balance sheet include $65.5 million of payroll related accruals and $6.8 million of accrued interest payable.

Comparative Reconciliation of Net Earnings

There are no reconciling items in determining net earnings between Canadian and US GAAP.

Consolidated Statement of Comprehensive Loss

The following is a reconciliation of comprehensive loss reflecting the differences between Canadian and US GAAP:

	For the period ended August 31, 2010
Comprehensive loss in accordance with Canadian GAAP	(57,881)
Pension, post-retirement and post-employment liabilities (a)	(5,526)
	(63,407)

Accumulated other comprehensive loss

	Pension, post-retirement, and post-employment liabilities
Accumulated other comprehensive loss - beginning of period	-
Change during the period	(5,526)
Accumulated other comprehensive loss - August 31, 2010	(5,526)

Comparative Reconciliation of Shareholders' Equity

A reconciliation of shareholders' equity reflecting the differences between Canadian and US GAAP is set out below:

	As at August 31, 2010
Shareholders' equity in accordance with Canadian GAAP	315,402
Pension, post-retirement and post-employment liabilities (a)	(5,526)
Shareholders' equity in accordance with US GAAP	309,876

22. CONSOLIDATING FINANCIAL INFORMATION

Postmedia Network has entered into financing arrangements (note 12) which are guaranteed by its parent, Postmedia, and its wholly-owned subsidiary, The National Post. Such guarantees are full, unconditional and joint and several.

The following supplemental financial information sets forth, on an unconsolidated basis, a balance sheet, statement of operations and the statement of cash flow for the Company, Postmedia Network, and the National Post. The supplemental financial information reflects the investments of the Company in Postmedia Network and National Post using the equity method of accounting. The Company's basis of accounting has been applied to Postmedia Network and the National Post subsidiaries.

SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS

For the period from April 26, 2010 to August 31, 2010 (with operations commencing on July 13, 2010)
(In thousands of Canadian dollars)

			2010		
	Postmedia Network Canada Corp.	Postmedia Network Inc.	National Post Inc.	Elimination entries	Consolidated
Revenue					
Print advertising	-	72,144	3,480	-	75,624
Print circulation	-	29,183	2,538	-	31,721
Digital	-	10,010	741	-	10,751
Other	-	3,460	538	-	3,998
	-	114,797	7,297	-	122,094
Expenses					
Compensation	1,451	57,613	3,358	-	62,422
New sprint	-	7,377	798		8,175
Other operating	181	36,037	4,553		40,771
Amortization	-	10,955	118	-	11,073
Restructuring of operations and other items	-	10,737	472	-	11,209
Operating loss	(1,632)	(7,922)	(2,002)	-	(11,556)
Interest expense	-	12,702	-	-	12,702
Gain on derivative instruments	-	(7,550)	-	-	(7,550)
Foreign currency exchange losses	-	9,607	-	-	9,607
Acquisition costs	-	18,303	-	-	18,303
Loss before income taxes	(1,632)	(40,984)	(2,002)	-	(44,618)
Recovery of income taxes	-	-	-	-	-
Loss before the following	(1,632)	(40,984)	(2,002)	-	(44,618)
Interest in loss of equity accounted affiliates	(42,986)	(2,002)	-	44,988	-
Net loss	(44,618)	(42,986)	(2,002)	44,988	(44,618)
Net loss in accordance with US GAAP	(44,618)	(42,986)	(2,002)	44,988	(44,618)

SUPPLEMENTAL CONSOLIDATING STATEMENT OF COMPREHENSIVE LOSS

For the period from April 26, 2010 to August 31, 2010 (with operations commencing on July 13, 2010)
(in thousands of Canadian dollars)

	2010				
	Postmedia Network Canada Corp.	**Postmedia Network Inc.**	**National Post Inc.**	**Elimination entries**	**Consolidated**
Net loss	(44,618)	(42,986)	(2,002)	44,988	(44,618)
Other comprehensive loss:					
Loss on valuation of derivative financial instruments	-	(13,263)	-	-	(13,263)
Interest in comprehensive loss of equity accounted affiliates	(13,263)	-	-	13,263	-
	(13,263)	(13,263)	-	13,263	(13,263)
Comprehensive loss	(57,881)	(56,249)	(2,002)	58,251	(57,881)
Comprehensive loss in accordance with Canadian GAAP	(57,881)	(56,249)	(2,002)	58,251	(57,881)
Pension, post-retirement and post-employment liabilities	-	(5,426)	(100)	-	(5,526)
Interest in comprensive loss of equity accounted affiliates	(5,526)	(100)	-	5,626	-
Comprehensive loss in acordance with US GAAP	(63,407)	(61,775)	(2,102)	63,877	(63,407)

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET

August 31, 2010
(In thousands of Canadian dollars)

	2010				
	Postmedia Network Canada Corp.	Postmedia Network Inc.	National Post Inc.	Elimination entries	Consolidated
ASSETS					
Current Assets					
Cash	125	39,870	206	-	40,201
Accounts receivable	-	109,398	2,324	-	111,722
Inventory	-	6,187	-	-	6,187
Prepaid expenses	202	13,510	1,161	-	14,873
	327	168,965	3,691	-	172,983
Property and equipment	-	354,850	344	-	355,194
Derivative financial instruments	-	15,831	-	-	15,831
Other assets	-	4,208	-	-	4,208
Investment in equity accounted subsidiaries	316,989	3,975	-	(320,964)	-
Due from (to) equity accounted subsidiaries	(389)	(946)	1,335	-	-
Intangible assets	-	469,413	7,787	-	477,200
Goodwill	-	239,414	1,374	-	240,788
	316,927	1,255,710	14,531	(320,964)	1,266,204

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET (continued)

August 31, 2010
(In thousands of Canadian dollars)

	2010				
	Postmedia Network Canada Corp.	Postmedia Network Inc.	National Post Inc.	Elimination entries	Consolidated
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Accounts payable	-	12,676	29	-	12,705
Accrued liabilities	74	97,003	3,639	-	100,716
Deferred revenue	-	29,697	2,399	-	32,096
Current portion of derivative financial instruments	-	3,685	-	-	3,685
Current portion of long-term debt	-	13,499	-	-	13,499
Current portion of obligations under capital leases	-	1,841	-	-	1,841
	74	158,401	6,067	-	164,542
Long-term debt	-	632,532	-	-	632,532
Derivative financial instruments	-	558	-	-	558
Obligations under capital leases	-	128	-	-	128
Pension, post-retirement, post-employment and other liabilitie	1,451	147,102	3,808	-	152,361
Future income taxes	-	-	681	-	681
	1,525	938,721	10,556	-	950,802
Shareholders' Equity					
Capital stock	371,132	373,238	5,977	(379,215)	371,132
Contributed surplus	2,151	-	-	-	2,151
Deficit	(44,618)	(42,986)	(2,002)	44,988	(44,618)
Accumulated other comprehensive loss	(13,263)	(13,263)	-	13,263	(13,263)
	(57,881)	(56,249)	(2,002)	58,251	(57,881)
	315,402	316,989	3,975	(320,964)	315,402
	316,927	1,255,710	14,531	(320,964)	1,266,204
Shareholders' equity in accordance with Canadian GAAP	315,402	316,989	3,975	(320,964)	315,402
Pension, post-retirement and post-employment liabilities	-	(5,426)	(100)	-	(5,526)
Interest in losses of equity accounted affiliates	(5,526)	(100)	-	5,626	-
Shareholders' equity in accordance with US GAAP	309,876	311,463	3,875	(315,338)	309,876

SUPPLEMENTAL CONSOLIDATING STATEMENT OF CASH FLOWS

For the period from April 26, 2010 to August 31, 2010 (with operations commencing on July 13, 2010)
(In thousands of Canadian dollars)

	2010				
	Postmedia Network Canada Corp.	Postmedia Network Inc.	National Post Inc.	Elimination entries	Consolidated
CASH GENERATED (UTILIZED) BY:					
OPERATING ACTIVITIES					
Net loss	(44,618)	(42,986)	(2,002)	44,988	(44,618)
Items not affecting cash:					
Amortization	-	10,955	118	-	11,073
Gain on derivative instruments	-	(7,774)	-	-	(7,774)
Non-cash interest	-	1,658	-	-	1,658
Excess of pension and post-retirement/employment expense over employer contributions	-	(388)	52	-	(336)
Unrealized loss on foreign exchange	-	9,591	-	-	9,591
Interest in loss of equity accounted affiliates	42,986	2,002	-	(44,988)	-
Stock-based compensation	1,449	2,151	-	-	3,600
Net change in non-cash operating accounts	308	41,874	2,126	-	44,308
Cash flows from operating activities	125	17,083	294	-	17,502
INVESTING ACTIVITIES					
Acquisition, net of cash acquired	-	(839,669)	-	-	(839,669)
Additions to property and equipment	-	(678)	(83)	-	(761)
Additions to intangible assets	-	(674)	(5)	-	(679)
Cash flows from investing activities	-	(841,021)	(88)	-	(841,109)
FINANCING ACTIVITIES					
Proceeds from issuance of long-term debt	-	684,824	-	-	684,824
Repayment of long-term debt	-	(34,661)	-	-	(34,661)
Debt issuance costs	-	(35,624)	-	-	(35,624)
Equity issuance costs	-	(2,230)	-	-	(2,230)
Issuance of capital stock	-	253,225	-	-	253,225
Payment on capital lease	-	(1,726)	-	-	(1,726)
Cash flows from financing activities	-	863,808	-	-	863,808
Net change in cash	125	39,870	206	-	40,201
Cash at beginning of period	-	-	-	-	-
Cash at end of period	125	39,870	206	-	40,201

CANWEST LIMITED PARTNERSHIP
FINANCIAL STATEMENTS
FOR THE PERIODS ENDED
JULY 12, 2010,
AUGUST 31, 2009 AND AUGUST 31, 2008

PricewaterhouseCoopers LLP
Chartered Accountants
One Lombard Place, Suite 2300
Winnipeg, Manitoba
Canada R3B 0X6
Telephone +1 (204) 926 2400
Facsimile +1 (204) 944 1020

November 15, 2010

Auditors' Report

To the Directors of
Postmedia Network Canada Corp.

We have audited the statement of net liabilities in liquidation of **Canwest Limited Partnership** as at July 12, 2010 and the statement of changes in net liabilities in liquidation for the period from May 31, 2010 to July 12, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net liabilities in liquidation as at July 12, 2010 and the changes in net liabilities in liquidation from May 31, 2010 to July 12, 2010 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.

211

November 15, 2010

PricewaterhouseCoopers LLP
Chartered Accountants
One Lombard Place, Suite 2300
Winnipeg, Manitoba
Canada R3B 0X6
Telephone +1 (204) 926 2400
Facsimile +1 (204) 944 1020

Auditors' Report

To the Directors of
Postmedia Network Canada Corp.

We have audited the consolidated balance sheet of **Canwest Limited Partnership** as at August 31, 2009 and the consolidated statements of loss and comprehensive loss, partners' deficiency and cash flows for the period from September 1, 2009 to May 31, 2010, and for the years ended August 31, 2009 and 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the partnership as at August 31, 2009 and the results of its operations and its cash flows for the period from September 1, 2009 to May 31, 2010 and for the years ended August 31, 2009 and 2008 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.

CANWEST LIMITED PARTNERSHIP
(Under Creditor Protection as of January 8, 2010 – Notes 1 and 3)
STATEMENT OF NET LIABILITIES IN LIQUIDATION
(In thousands of Canadian dollars)

	As at July 12, 2010 (Note 4)
ASSETS	
Restricted cash	9,000
Cash to be transferred to Purchaser	88,102
Other Assets to be transferred to Purchaser	10,992
Investment in Canwest Publishing Inc.	949,793
TOTAL ASSETS	1,057,887
LIABILITIES	
Accounts payable and accrued liabilities	5,256
Liabilities to be transferred to Purchaser	3,599
Debt not subject to compromise (note 11)	927,495
Liabilities subject to compromise (note 7)	529,966
TOTAL LIABILITIES	1,466,316
NET LIABILITIES IN LIQUIDATION	(408,429)

Effective May 31, 2010, the Limited Partnership changed the basis of presenting its financial statements from going concern to liquidation (Refer to Notes 1, 2 and 4).

The notes constitute an integral part of the consolidated financial statements.

CANWEST LIMITED PARTNERSHIP
(Under Creditor Protection as of January 8, 2010 – Notes 1 and 3)
STATEMENT OF CHANGES IN NET LIABILITIES IN LIQUIDATION
(In thousands of Canadian dollars)

	For the period ended July 12, 2010 (Note 4)
Net liabilities in liquidation as at May 31, 2010	(404,980)
Adjustment of investment in Canwest Publishing Inc. to estimated net realizable value	18,140
Adjustment of debt to present value of amounts paid	(6,106)
Provision for liquidation costs	(509)
Adjustment of accounts payable and accrued liabilities subject to compromise to amounts expected to be paid	4,897
Adjustment of other assets and liabilities to be transferred to the purchaser to amounts expected to be transferred	(176)
Payment of closing costs	(19,695)
Net liabilities in liquidation as at July 12, 2010	(408,429)

Effective May 31, 2010, the Limited Partnership changed the basis of presenting its financial statements from going concern to liquidation (Refer to Notes 1, 2 and 4).

The notes constitute an integral part of the consolidated financial statements.

CANWEST LIMITED PARTNERSHIP
(Under Creditor Protection as of January 8, 2010 – Notes 1 and 3)
CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) (GOING CONCERN BASIS)
(In thousands of Canadian dollars)

	For the nine months ended	For the years ended	
	May 31, 2010	August 31, 2009	August 31, 2008
Revenue	811,180	1,099,075	1,298,067
Operating expenses (note 24)	650,314	927,191	1,004,963
Restructuring expenses	2,660	28,805	10,708
	158,206	143,079	282,396
Amortization of property and equipment	30,592	40,344	48,571
Other amortization	144	191	194
Operating income	127,470	102,544	233,631
Interest expense, net	(60,633)	(98,426)	(109,296)
Other income	1,501	2,500	2,500
Gain (loss) on disposal of property and equipment	2	2,186	(590)
Loss on disposal of interest rate swap (notes 16 and 25)	-	(180,202)	-
Ineffective portion of hedging derivative instrument (note 25)	-	(60,112)	-
Impairment loss on masthead (note 14)	-	(28,250)	-
Gain on disposal of investment	-	-	1,218
Foreign currency exchange gains (note 25)	49,610	154,513	504
Earnings (loss) before reorganization costs and income taxes	117,950	(105,247)	127,967
Reorganization costs (note 6)	(41,192)	(25,756)	-
Earnings (loss) before income taxes	76,758	(131,003)	127,967
Recovery of current income taxes (note 17)	-	-	(516)
Provision for (recovery of) future income taxes (note 17)	(18,111)	(8,893)	102
Net earnings (loss) for the period	94,869	(122,110)	128,381

Effective May 31, 2010, the Limited Partnership changed the basis of presenting its financial statements from going concern to liquidation (Refer to Notes 1, 2 and 4).

The notes constitute an integral part of the consolidated financial statements.

CANWEST LIMITED PARTNERSHIP
(Under Creditor Protection as of January 8, 2010 – Notes 1 and 3)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (GOING CONCERN BASIS)
(In thousands of Canadian dollars)

	For the nine months ended	For the years ended	
	May 31, 2010	August 31, 2009	August 31, 2008
Net earnings (loss) for the period	94,869	(122,110)	128,381
Other comprehensive earnings (loss)			
Change in fair value of hedging derivative instruments designated as cash flow hedges	-	(14,640)	(28,350)
Reclassification of other comprehensive losses on hedging derivative instruments (note 16)	-	60,112	-
Other comprehensive earnings (loss) for the period	-	45,472	(28,350)
Comprehensive income (loss) for the period	94,869	(76,638)	100,031

Effective May 31, 2010, the Limited Partnership changed the basis of presenting its financial statements from going concern to liquidation (Refer to Notes 1, 2 and 4).

The notes constitute an integral part of the consolidated financial statements.

216

CANWEST LIMITED PARTNERSHIP
(Under Creditor Protection as of January 8, 2010 – Notes 1 and 3)
CONSOLIDATED BALANCE SHEET (GOING CONCERN BASIS)
(In thousands of Canadian dollars)

	As at August 31, 2009
ASSETS	
Current Assets	
Cash and cash equivalents	43,427
Restricted cash (note 12)	13,902
Accounts receivable	105,686
Amounts due from related companies (note 24)	1,641
Inventory	6,618
Prepaid expenses	14,020
	185,294
Property and equipment (note 13)	341,628
Other assets (note 15)	26,195
Goodwill	95,034
Mastheads (note 14)	6,750
	654,901
LIABILITIES	
Current Liabilities	
Accounts payable and accrued liabilities	147,706
Amount due on swap settlement (note 1)	68,874
Income taxes payable	12
Amounts due to related companies (note 24)	140,462
Deferred revenue	33,012
Current portion of long term debt (note 16)	1,380,094
Current portion of obligations under capital leases	3,138
	1,773,298
Obligations under capital leases	3,696
Accrued pension, post-retirement and other liabilities (note 21)	79,459
Future income taxes (note 17)	27,478
	1,883,931
PARTNERS DEFICIENCY	
Partners' Capital (note 22)	39,188
Contributed surplus	55,000
Deficit	(1,323,218)
	(1,229,030)
	654,901

Effective May 31, 2010, the Limited Partnership changed the basis of presenting its financial statements from going concern to liquidation (Refer to Notes 1, 2 and 4).

The notes constitute an integral part of the consolidated financial statements.

CANWEST LIMITED PARTNERSHIP
(Under Creditor Protection as of January 8, 2010 – Notes 1 and 3)
CONSOLIDATED STATEMENTS OF PARTNERS' DEFICIENCY (GOING CONCERN BASIS)
(In thousands of Canadian dollars)

For the nine months ended May 31, 2010

	Partners' Capital	Contributed Surplus	Deficit	Total
Balance at September 1, 2009	39,188	55,000	(1,323,218)	(1,229,030)
Net earnings for the period	-	-	94,869	94,869
Contribution from Canwest Media (note 9)	-	1,691	-	1,691
Settlement of National Post Liabilities (note 10)	-	138,629	-	138,629
Balance at May 31, 2010	39,188	195,320	(1,228,349)	(993,841)

For the year ended August 31, 2009

	Partners' Capital	Contributed Surplus	Accumulated other comprehensive income	Deficit	Total
Balance at September 1, 2008	39,188	55,000	(45,472)	(1,156,106)	(1,107,390)
Net loss for the period	-	-	-	(122,110)	(122,110)
Other comprehensive income (note 19)	-	-	45,472	-	45,472
Distributions declared (note 22)	-	-	-	(45,002)	(45,002)
Balance at August 31, 2009	39,188	55,000	-	(1,323,218)	(1,229,030)

For the year ended August 31, 2008

	Partners' Capital	Contributed Surplus	Accumulated other comprehensive income	Deficit	Total
Balance at September 1, 2007	39,188	55,000	-	(1,118,438)	(1,024,250)
Adjustment to opening balance upon adoption of new financial instruments accounting standard			(17,122)	248	(16,874)
Net earnings for the period	-	-	-	128,381	128,381
Purchase of related company (note 24)				(297)	(297)
Other comprehensive loss (note 19)	-	-	(28,350)	-	(28,350)
Distributions declared (note 22)	-	-	-	(166,000)	(166,000)
Balance at August 31, 2008	39,188	55,000	(45,472)	(1,156,106)	(1,107,390)

Effective May 31, 2010, the Limited Partnership changed the basis of presenting its financial statements from going concern to liquidation (Refer to Notes 1, 2 and 4).

The notes constitute an integral part of the consolidated financial statements.

CANWEST LIMITED PARTNERSHIP
(Under Creditor Protection as of January 8, 2010 – Notes 1 and 3)
CONSOLIDATED STATEMENTS OF CASH FLOWS (GOING CONCERN BASIS)
(In thousands of Canadian dollars)

	For the nine months ended May 31, 2010	For the year ended August 31, 2009	For the year ended August 31, 2008
CASH GENERATED (UTILIZED) BY:			
OPERATING ACTIVITIES			
Net earnings (loss) for the period	94,869	(122,110)	128,381
Reorganization costs (note 6)	41,192	25,756	-
Items not affecting cash			
Amortization	30,736	40,535	48,765
Future income taxes (recovery)	(18,111)	(8,893)	102
Gain on disposal of property and equipment	(2)	(2,186)	590
Non-cash interest	15,462	5,026	3,008
Ineffective portion of hedging derivative instrument	-	60,112	-
Gain on disposal of investment	-	-	(1,218)
Loss on disposal of interest rate swap (note 16)	-	180,202	-
Excess (deficiency) of pension and post retirement/employment expense over employer contributions	(10,210)	7,010	1,780
Unrealized gain on foreign exchange	(49,656)	(153,803)	-
Impairment loss on masthead (note 14)	-	28,250	-
	104,280	59,899	181,408
Changes in amounts due from related companies (note 24)	2,869	7,064	12,205
Changes in non-cash operating accounts (note 20)	15,712	42,094	(5,722)
Cash flows from operating activities before reorganization costs	122,861	109,057	187,891
Reorganization costs (note 6)	(34,043)	(5,648)	-
Cash flows from operating activities	88,818	103,409	187,891
INVESTING ACTIVITIES			
Acquisitions	-	(100)	(4,016)
Proceeds from disposal of property and equipment	2	3,659	70
Proceeeds from disposal of investment	-	-	2,213
Purchase of property and equipment	(9,160)	(30,643)	(36,608)
Cash flows from investing activities	(9,158)	(27,084)	(38,341)
FINANCING ACTIVITIES			
Repayment of long term debt (note 16)	-	(2,500)	(5,000)
Transfer of National Post business (note 10)	(2,367)	-	-
Advances of revolving facilities (note 16)	1,889	20,000	11,000
Distributions paid (note 22)	-	(45,002)	(166,000)
Payments of capital leases	(3,139)	(3,093)	(2,535)
Cash flows from financing activities	(3,617)	(30,595)	(162,535)
Net change in cash	76,043	45,730	(12,985)
Cash (bank overdraft) - beginning of period	43,427	(2,303)	10,682
Cash - end of period	119,470	43,427	(2,303)

Effective May 31, 2010, the Limited Partnership changed the basis of presenting its financial statements from going concern to liquidation (Refer to Notes 1, 2 and 4).

The notes constitute an integral part of the consolidated financial statements.

CANWEST LIMITED PARTNERSHIP
(Under Creditor Protection as of January 8, 2010 – Notes 1 and 3)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED
JULY 12, 2010,
AUGUST 31, 2009 AND AUGUST 31, 2008
(In thousands of Canadian dollars, except as otherwise noted)

1. BASIS OF PRESENTATION AND CREDITOR PROTECTION

Description of Partnership

Canwest Limited Partnership ("Canwest LP" or the "Limited Partnership") is the parent company of Canwest Publishing Inc. ("CPI") which owns all of the interests in Canwest Books Inc., National Post Inc. and certain other entities.

The consolidated financial statements include the accounts of the Limited Partnership and its subsidiaries. All intercompany transactions and balances are eliminated on consolidation.

On October 30, 2009, certain assets and liabilities, and the business of The National Post Company were transferred from The National Post Company, a wholly owned subsidiary of Canwest Media Inc. ("Canwest Media"), to National Post Inc. (note 10)

Newspaper operations include daily and non-daily newspapers, including electronic editions, news content productions and editorial operations as well as certain shared service operations. The Limited Partnership also operates the *canada.com* web portal and provides subscription services relating to investing and financial news and other information. In addition, the Limited Partnership provides business services including certain centralized customer and support services to the Canwest Media Entities (defined below), and to Canwest Media and CW Media Inc.'s Canadian broadcasting operations (together being the "Canadian Broadcasting Operations") (note 24).

On July 13, 2010, the Limited Partnership sold substantially all of its assets, including the shares of National Post Inc., and certain liabilities to Postmedia Network Inc. as described below and in note 3. As a result, there are no longer any continuing operations in the Limited Partnership subsequent to July 12, 2010 and the financial statements have only been presented to July 12, 2010 when the Limited Partnership ceased operations.

Liquidation Basis of Presentation

In May 2010, the Limited Partnership entered into an asset purchase agreement to sell substantially all of its assets, and to assume certain liabilities. In June 2010, the Court approved the implementation of the Amended Ad Hoc Committee Plan (described below and in note 3) which resulted in the execution of the asset purchase agreement on July 13, 2010. As a result, the Limited Partnership ceased operations on July 12, 2010. In accordance with CICA Handbook Section 1400, "General Standards of Financial Statement Presentation", effective May 31, 2010, the Limited Partnership changed the basis of preparing its financial statements from going concern to liquidation.

On a liquidation basis, the Limited Partnership has presented a statement of net liabilities in liquidation as at July 12, 2010. A statement of changes in net liabilities in liquidation has been presented for the period from May 31 to July 12, 2010. The statement of net liabilities in liquidation and the statement of changes in net liabilities in liquidation are not comparable to the consolidated financial statements previously prepared on a going concern basis for the periods ending May 31, 2010, August 31, 2009 and August 31, 2008.

Under the liquidation basis of accounting, the financial statements of the Limited Partnership are presented on a non-consolidated basis. The Limited Partnership measured its investment in CPI at its net realizable value which is based on the fair value of the assets less costs to sell. Actual net realizable values, settlement amounts of liabilities and costs incurred up to and during liquidation will differ from current estimates and such differences may be material. Any changes in estimates recognized in future periods will result in a change in the Limited Partnership's net liabilities in liquidation.

See notes 2 and 4 for further information related to the liquidation basis of accounting.

Going Concern Basis of Presentation

The consolidated financial statements for periods prior to May 31, 2010 are prepared in accordance with accounting principles generally accepted in Canada applicable to a going concern for consolidated financial statements and reflect all adjustments which are, in the opinion of management, necessary for fair statement of the results of the periods presented.

The going concern basis of presentation assumes continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business and does not purport to show, reflect or provide for the consequences of the Limited Partnership's intention to liquidate by the sale of substantially all of its assets.

Creditor Protection

On January 8, 2010, Canwest (Canada) Inc., CPI., and Canwest Books Inc. (collectively the "LP Applicants"), applied for and obtained an order (the "Initial Order") from the Ontario Superior Court of Justice (Commercial List) (the "Court") granting creditor protection under the Companies' Creditors Arrangement Act (Canada) (the "CCAA"). The Initial Order applies to the LP Applicants and Canwest LP (collectively, the "LP Entities"). National Post Inc., a wholly owned subsidiary of CPI, which owns and operates the National Post newspaper, was not included in the CCAA filing. The Initial Order, among other things, provides for a general stay of proceedings that has been extended to the earlier of December 31, 2010 or the date which is ten business days following the resolution of all disputed claims under the Amended Ad Hoc Committee Plan (as defined below) and may be further extended by the Court. The Initial Order can be further amended by the Court throughout the CCAA proceedings based on motions from the LP Entities, their creditors and other interested parties. For additional information, see the discussion below and Note 3, "CCAA Proceedings".

The Limited Partnership is owned indirectly by Canwest Media, a wholly owned subsidiary of Canwest Global Communications Corp. ("Canwest Global"). Canwest Global and Canwest Media and certain subsidiaries of Canwest Media (collectively, the "Canwest Media Entities") are also in creditor protection under separate CCAA proceedings commenced on October 6, 2009.

Prior to the implementation of the Amended Ad Hoc Committee Plan (as defined below) and the transactions contemplated by the APA (as defined below), the Limited Partnership was in default under the terms of its senior secured credit facilities ("Secured Credit Facilities"), its senior subordinated unsecured credit facility ("Senior Subordinated Credit Facility") and the indenture governing its senior subordinated unsecured notes ("Senior Subordinated Notes") because it failed to make payments of interest and principal on its Secured Credit Facilities and its related hedging derivative instruments, it failed to make interest payments on its Senior Subordinated Credit Facility and its Senior Subordinated Notes and it failed to satisfy the demand for immediate repayment of its obligations related to the hedging derivative instruments (the "Secured Hedge Obligations").

On August 31, 2009, the LP Entities entered into a forbearance agreement with the Administrative Agent under its Secured Credit Facilities (the "Administrative Agent") under which the lenders under

these facilities agreed not to take any steps with respect to the defaults under the Secured Credit Facilities and to work with management of the Limited Partnership to develop and implement a consensual pre-packaged restructuring, recapitalization, or reorganization. In accordance with the terms of the forbearance agreement the lenders cancelled all undrawn amounts under the revolving credit facility. The Limited Partnership agreed to pay the interest owing and the continuing interest on its Secured Credit Facilities and the interest amounts due in respect of the Secured Hedge Obligations. The forbearance agreement, as extended, expired on November 9, 2009. Canwest LP continued to pay the interest on the Secured Credit Facilities and the Secured Hedge Obligations. The Limited Partnership was also in default under the terms of its Senior Subordinated Credit Facility and the Senior Subordinated Notes and did not enter into any forbearance arrangements with these unsecured lenders or the note holders thereunder.

On October 30, 2009, as part of the Canwest Media Entities CCAA proceedings, the Court approved an agreement on shared services and employees between certain of the LP Entities and the Canwest Media Entities (the "Shared Services Agreement"). This agreement provided for the orderly termination of the shared services agreements (note 24) between the LP Entities and the Canwest Media Entities. The agreement also sets out termination dates for each of the categories of shared services identified therein, which dates range from February 28, 2010 to February 28, 2011. On June 8, 2010, the Court approved the Omnibus Transition and Reorganization Agreement (the "Omnibus Agreement") among Canwest Global, Canwest Media and certain of its subsidiaries, the National Post Company, the Limited Partnership, CPI and National Post Inc. The Omnibus Agreement provides for certain additional steps to be taken to disentangle the LP Entities' publishing business and Canwest Global's broadcasting business as originally contemplated by the Shared Services Agreement. The Omnibus Agreement addressed the transfer, assignment or realignment of certain contracts, trademarks, domain names and information technology hardware between the Limited Partnership and Canwest's broadcasting business; the extension and/or amendment of certain shared services agreements; and the entering into of certain arm's-length arrangements between the Canwest Media Entities and the LP Entities. In addition National Post Inc. assumed the management and carriage of certain insured litigation matters of National Post Inc. related to libel and defamation. National Post Inc. did not assume liability with respect to such matters beyond payment of any insurance deductibles and National Post Inc. is not responsible for any amounts payable by National Post Company with respect to such matters.

On January 8, 2010, the LP Entities entered into a support agreement with the Administrative Agent (the "LP Support Agreement") which was approved by the Court on January 8, 2010. The Administrative Agent acted on behalf of the lenders under the Secured Credit Facilities and the Secured Hedge Obligations (collectively, the "Senior Lenders"). The LP Support Agreement, required the LP Entities among other things, (a) to commence the CCAA proceedings; (b) to implement and make effective a plan of compromise and arrangement under the CCAA (the "Senior Lenders CCAA Plan"); (c) to conduct a sale and investor solicitation process ("SISP") with a view to obtaining proposals from prospective purchasers or investors to acquire all or substantially all of the assets of the LP Entities or to invest in the LP Entities or their business; (d) if the SISP was not successful, to use their best efforts to implement the agreement for a newly established corporation ("Acquireco") capitalized by the Senior Lenders to acquire the operations and substantially all of the assets of the LP Entities and to assume certain liabilities of the LP Entities (the "Credit Acquisition"); and (e) to pay interest on Secured Credit Facilities and Secured Hedge Obligations, expenses of the Administrative Agent and its advisors, certain investment banking fees and consent fees to Senior Lenders committing to the Senior Lenders CCAA Plan. The LP Support Agreement was terminated on July 13, 2010 upon the implementation of the Amended Ad Hoc Committee Plan (as defined below). Further details of the LP Support Agreement, Senior Lenders CCAA Plan and SISP are provided in Note 3.

On January 8, 2010, certain of the Senior Lenders agreed to extend the LP Entities a senior secured super-priority debtor-in-possession revolving credit facility (the "DIP Facility") in the maximum amount of $25 million, including a letter of credit sub-facility of up to $5 million. On January 8, 2010, the Court approved the DIP Facility and authorized the LP Entities to execute definitive agreements related to the DIP Facility. The definitive agreements were executed on February 5, 2010. The DIP Facility was terminated on July 13, 2010 upon the implementation of the Amended Ad Hoc Committee Plan (as defined below). Further details on the DIP Facility are provided in Note 3.

On January 8, 2010, pursuant to the Initial Order, the Court appointed FTI Consulting Canada Inc. as the monitor (the "Monitor"). The Monitor will monitor the activities of the LP Entities, report to the Court from time to time on the LP Entities' financial and operational position and any other matters that may be relevant to the CCAA proceedings, advise the LP Entities on various matters, assist the Chief Restructuring Advisor to the LP Entities (the "CRA"), and supervise the SISP. The Initial Order also approved the appointment of CRS Inc. as the CRA. The CRA is responsible for formulating and implementing the restructuring and/or recapitalization of all or part of the business and/or capital structure of the LP Entities. In the Initial Order, the Court also approved the engagement of RBC Dominion Securities Inc. (the "Financial Advisor") to provide investment banking services to the LP Entities related to the SISP.

On March 1, 2010, all of the then directors and officers of the LP Entities resigned their directorships and offices with the LP Entities. In addition, the then current president and chief executive officer of CPI announced his resignation effective April 30, 2010. However, prior to the implementation of the Amended Ad Hoc Committee Plan (as defined below), the other senior employees of the LP Entities carried on the day to day operations of the LP Entities. For matters requiring approval of the board of directors of an LP Entity, the shareholder of the applicable LP Entity may pass a resolution authorizing named individuals to complete the required action.

On April 12, 2010, the Court granted an Order (the "Claims Procedure Order") which provides for, among other things, the establishment of a claims procedure for the identification and quantification of certain claims against the LP Entities.

On April 30, 2010, in connection with the SISP, several offers were submitted, including an offer (the "Ad Hoc Committee Offer") from the *ad hoc* committee of holders of the Senior Subordinated Notes and lenders under the Senior Subordinated Credit Facility (the "Ad Hoc Committee"). After reviewing the offers submitted, the Monitor, in consultation with the Financial Advisor and the CRA, determined that the Ad Hoc Committee Offer was a superior cash offer as defined in the SISP (note 3) and recommended it to the Special Committee. The Special Committee accepted the Monitors' recommendation.

On May 17, 2010, the court approved the Ad Hoc Committee Offer. The order approving the Ad Hoc Committee Offer (the "Ad Hoc Committee Approval Order"), amended the SISP Procedures to extend the date for required closing of the transactions contemplated by the Ad Hoc Committee Offer (the "Ad Hoc Committee Transaction") to July 29, 2010 and to permit the LP Entities to pursue the Ad Hoc Committee Transaction while preserving the option to pursue the Credit Acquisition should the Ad Hoc Committee Transaction not close. The Ad Hoc Committee Approval Order authorized the LP Entities to enter into an asset purchase agreement (the "APA") with Postmedia Network Canada Corp. ("Postmedia"), and Postmedia Network Inc. ("Opco LP") and approved the execution, delivery and performance of the APA by the LP Entities. Under the terms of the APA, the transactions contemplated thereby would be implemented pursuant to a plan of compromise with the Affected Creditors (as defined below) of the LP Entities (the "Ad Hoc Committee Plan") which is further described in note 3. On the same date, the Court also approved amendments to the Claims Procedure Order (the "Amended Claims Procedure Order") that included a call for certain additional employee claims and certain claims against directors or officers of the LP Entities.

On May 17, 2010, the Court also granted an order (the "Meeting Order") authorizing the LP Entities to call a meeting (the "Meeting") of creditors holding Affected Claims (as defined below) to consider the Ad Hoc Committee Plan and establishing the procedures for the vote in respect of the Ad Hoc Committee Plan.

The Ad Hoc Committee Plan was amended, and is referred to as the "Amended Ad Hoc Committee Plan". Further details on the Ad Hoc Committee Amendments are included in note 3.

The LP Entities, Postmedia, Opco LP and the Purchaser entered into an assignment and amending agreement (the "Assignment and Amending Agreement) effective as of June 10, 2010, which was approved by the Court on June 18, 2010. Under the terms of the Assignment and Amending Agreement, all of the rights and obligations of Opco LP under the APA were assigned to the Purchaser and certain provisions of the APA were amended to reflect the Ad Hoc Committee Amendments.

The Meeting, originally scheduled for June 10, 2010, was adjourned by the Monitor to June 14, 2010 to allow the Affected Creditors (as defined below) to consider the Ad Hoc Committee Amendments. On June 14, 2010, the Amended Ad Hoc Committee Plan was approved by the requisite majority of the Affected Creditors.

On June 18, 2010, the Court granted an order sanctioning and approving the Amended Ad Hoc Committee Plan (the "Sanction Order").

On July 6, 2010, the Court granted an order (the "Administrative Reserve Order") authorizing the establishment of an administrative reserve of $9 million (the "Administrative Reserve"). The administrative reserve was established to satisfy specified categories of administrative costs outstanding on the acquisition date (the "Administrative Reserve Order") and was paid to the Monitor from the LP Entities cash on July 13, 2010. Any cash from the administrative reserve remaining after all costs have been paid out will be transferred to the Purchaser.

On July 13, 2010, the Amended Ad Hoc Committee Plan was implemented and the APA was executed resulting in the transfer of certain assets and liabilities of the Limited Partnership and substantially all of the assets and certain liabilities of CPI, including the shares of National Post Inc., to Postmedia Network Inc. in exchange for cash consideration and shares of Postmedia Network Holdings Inc. The cash was used to settle the debt not subject to compromise and the shares are being used to settle the liabilities subject to compromise.

Canwest Media Entities CCAA Proceedings

Canwest Global, (the ultimate parent company of the Limited Partnership), Canwest Media, and certain of its subsidiaries including The National Post Company (collectively, the "Canwest Media Applicants"), voluntarily applied for and successfully obtained an order from the Court under the CCAA on October 6, 2009 (as amended, the "CMI Initial Order"). The National Post Company, a general partnership, previously operated the business of the National Post newspaper. Under the CMI Initial Order, related party obligations that the Canwest Media Applicants owe to the Limited Partnership both prior and subsequent to their CCAA filing date, will continue to be met.

2. SIGNIFICANT ACCOUNTING POLICIES

Net Liabilities in Liquidation

Under the liquidation basis of accounting:

- The net liabilities in liquidation are presented on a non-consolidated basis. Assets including investments in subsidiaries are measured at their estimated net realizable values. The net realizable value of the investment in CPI is based on the fair value less costs to sell. The financial statements do not include a statement of earnings or losses of the subsidiaries from the effective date of adoption of the liquidation basis of accounting, however, any changes in cash flows of the subsidiaries and related fair value of net assets and changes in the estimates of costs to sell the subsidiary are reflected as such changes occur;
- Financial liabilities are measured at the present value of amounts expected to be paid, except for liabilities subject to compromise which are measured at the amount of estimated claims;
- A provision for liquidation costs is included in accounts payable and accrued liabilities. This provision is only an estimate and may change once the actual liquidation of assets occurs; and
- No income taxes are provided for as the entity is a limited partnership and its income is taxed directly to its owners.

Liabilities subject to compromise (liquidation basis) (going concern)

Liabilities incurred prior to the CCAA filing date that are or may be subject to compromise, or are or may be impaired by the CCAA proceedings, have been classified separately on the consolidated balance sheet from those that are not expected to be subject to compromise and the liabilities incurred after the CCAA filing date. Liabilities that are fully secured or will not be impaired under the CCAA proceedings are not reported as liabilities subject to compromise. Liabilities that may be affected by the CCAA proceedings are recognized on the basis of the expected full amount of the allowed claims in accordance with the Limited Partnership's accounting policies even if they may be settled for lesser amounts.

These costs, gains, losses and provisions are recognized and measured in accordance with the respective accounting policies for such items.

Consolidated financial statements (going concern)

The Limited Partnership has made certain changes in presentation and disclosures have been adopted to reflect the effect of the CCAA proceedings. The Limited Partnership has applied the guidance in section 852 of the Accounting Standard Codification issued by the Financial Accounting Standards Board of the United States, "Reorganizations" ("ASC 852"), where such guidance does not conflict with the requirements of Canadian generally accepted accounting principles.

These consolidated financial statements include condensed combined financial information for the LP Entities that are subject to the CCAA proceedings as certain of the Limited Partnership's subsidiaries are not subject to the CCAA proceedings (note 8).

Interest expense (going concern)

Interest expense on financial liabilities which have been stayed by the Court is recognized only to the extent the amounts will be paid during the CCAA proceedings. Interest expense is not a reorganization item.

Reorganization items (going concern)

Incremental costs directly related to the CCAA proceedings are presented as Reorganization Costs on the consolidated statements of earnings (loss). These costs include professional fees paid to external parties for legal and financial consulting incurred during the period when the LP Entities were developing their financial reorganization plans, and employee related costs for the retention of employees essential to the operations during the CCAA proceedings. Gains and losses realized on the disposal of any assets approved during the CCAA proceedings and any provisions for losses related to restructuring, exit or disposal activities (including repudiation of contracts) will be presented as reorganization costs if those activities have been undertaken as a result of the CCAA proceedings. Foreign exchange gains and losses on liabilities subject to compromise are also included in reorganization costs. Gains and losses on other transactions or events occurring prior to the CCAA proceedings or that would have occurred irrespective of the CCAA proceedings are not classified as reorganization costs (note 6).

Cost allocations (going concern)

Canwest LP, Canwest Media, Canwest Global and the Canadian Broadcasting Operations have entered into various agreements governing the provisions of services and the amount to be charged for these services, as described in note 24.

Foreign currency translation (going concern)

At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the foreign currency exchange rate in effect at that date. Revenues and expense items are translated at the foreign currency exchange rate in effect when the transaction occurred. The resulting foreign currency exchange gains and losses are recognized in current year earnings.

Property and equipment (going concern)

Property and equipment are recorded at cost. Amortization is provided over the assets' estimated useful lives on a straight-line basis at the following annual rates:

Buildings	2.5% - 3.33%
Machinery and equipment	4% - 33.33%
Leasehold improvements	5% - 20%

Impairment of long lived assets (going concern)

Impairment of long lived assets is recognized when an event or change in circumstances causes the assets' carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. An impairment loss is calculated by deducting the fair value of the asset from its carrying value. There were no impairment losses of long lived assets for the nine months ended May 31, 2010 and the years ended August 31, 2009 or 2008.

Intangible assets (going concern)

Newspaper mastheads are recorded at their cost. The mastheads have indefinite lives and are not subject to amortization and are tested for impairment annually or when indicated by events or changes in circumstances. Impairment of an indefinite life intangible asset is recognized in an amount equal to the difference between the carrying value and the fair value of the related indefinite life intangible asset. The fair value of mastheads for each publication is estimated using a relief-from-royalty approach using the present value of expected after-tax royalty streams through licensing agreements. The key assumptions under this valuation approach are royalty rates, expected future revenue and discount rates.

Goodwill (going concern)

Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets acquired. Goodwill is tested for impairment annually or when indicated by events or changes in circumstances by comparing the fair value of a particular reporting unit to its carrying value. When the carrying value exceeds its fair value, the fair value of the reporting unit's goodwill is compared with its carrying value to measure any impairment loss. The goodwill in these consolidated financial statements relates solely to the newspaper segment.

Revenue recognition (going concern)

Circulation revenue is recognized when newspapers are delivered. Subscription revenues for newspapers and the Limited Partnership's news, business research and corporate financial information services are recognized on a straight-line basis over the term of the subscriptions or contracts.
Advertising revenue is recognized over the period in which the related advertising is displayed. Revenue for commercial printing is recognized when delivered. Amounts received relating to services to be performed in future periods are recorded as deferred revenue on the balance sheet. Amounts billed relating to cost recoveries for services provided to related parties are netted against the related expenses. Amounts billed to related parties for cross-promotional activities provided are recorded as revenue.

Income taxes (going concern)

The income related to the activities of Canwest LP will be taxed directly in the hands of the partners. Accordingly, the consolidated financial statements do not include income taxes related to the income generated by Canwest LP. However, income taxes are provided for activities carried out in Canwest Publishing Inc., a wholly owned subsidiary of Canwest LP, Canwest Books Inc., a wholly owned subsidiary of Canwest Publishing Inc., and National Post Inc. Prior to October 30, 2009, the operations of National Post were conducted in a partnership and the related income taxes have not been provided for periods prior to October 30, 2009 as the income was taxed directly in the hands of the partners.

The asset and liability method is used to account for future income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Future income tax assets and liabilities are measured using substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. Future income tax assets are recognized to the extent that realization is considered more likely than not.

Inventory (going concern)

Inventory, consisting of primarily printing materials, is valued at the lower of cost, using the first-in-first out cost formula, and net realizable value. Inventories are written down to net realizable value if the cost of the inventories is not fully recoverable. Reversals of previous write-downs to net realizable value are required when there is a subsequent increase in the value of inventories. The carrying values of inventories carried at cost at August 31, 2009 are $6.6 million. The inventories carried at net realizable value at August 31, 2009 are nil.

During the nine months ended May 31, 2010, the amount of inventories expensed was $54.3 million (2009 - $98.2 million, 2008 - $110.1 million).

Pension plans and post-retirement/employment benefits (going concern)

The Limited Partnership maintains a number of defined benefit and defined contribution pension and post-retirement/employment benefit plans. For defined benefit plans, the cost of pension and other retirement benefits earned by employees is determined using the projected benefit method pro rated on service and management's estimate of expected plan investment performance, salary escalation, retirement ages of employees, expected health care costs, and other costs, as applicable. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Past service costs from plan amendments are amortized on a straight line basis over the average remaining service period of employees active at the date of the amendment. For each plan, the excess of the net actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service period of active employees. Transitional obligations are amortized on a straight line basis over the average remaining service life of the employees expected to receive benefits under the plans as of September 1, 2000. Gains or losses arising from the settlement of a pension plan are only recognized when responsibility for the pension obligation has been relieved. The average remaining service period of employees covered by the pension plans is 8 years (2009 – 9 years, 2008 – 11 years). For the post-retirement/employment defined benefit plans, the cost is expensed as benefits are earned by the employees. The average remaining service period of the employees covered by the post-retirement benefit plans is 12 years (2009 – 12 years, 2008 – 12 years). The average remaining service period of the employees covered by the post-employment benefit plans is 7 years (2009 – 7 years, 2008 – 7 years). For the defined contribution plans, the pension expense is the Limited Partnership's contribution to the plan.

Cash and cash equivalents (going concern)

Cash equivalents are highly liquid investments with an original term to maturity of less than 90 days, are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are designated as held-for-trading as such interests are acquired or incurred principally for the purpose of selling or repurchasing in the near term and are accordingly carried at fair value. Changes in fair value are recorded in net earnings.

Stock option and Restricted Share Unit Plan (going concern)

In November 2007, the Board of Directors ("Board") of Canwest Global, the ultimate parent company of the Limited Partnership, approved a new Stock Option and Restricted Share Unit Plan (the "Plan") that would be settled through the issuance of shares of Canwest Global. The Plan provided for grants of stock options and restricted share units to employees of the Limited Partnership and its affiliates and the issuance of Subordinate Voting Shares and Non-Voting Shares (together being "Shares") of Canwest Global upon the exercise of options or vesting of restricted

share units. The Board had the authority to determine the manner in which the options granted pursuant to the Plan shall vest and other vesting terms applicable to the grant of options. Options vested over a period of time ("Regular Options") and/or vested conditionally upon the attainment of specified market thresholds ("Market Threshold Options") as determined by the Board. The Limited Partnership accounted for this compensation expense based on charges from Canwest Global. In general, the options vested over four years and expired in seven years after the grant date.

Financial Instruments (going concern)

All financial assets are classified as held-for-trading, held-to-maturity, loans and receivables or available-for-sale and all financial liabilities must be classified as held-for-trading or other financial liabilities. In addition, an entity has the option to designate certain financial assets or liabilities as held-for-trading or financial assets as available-for-sale on initial recognition or upon adoption of these standards, even if the financial instrument was not acquired or incurred for the purpose of selling or repurchasing it in the near term.

Financial assets classified as available-for-sale that do not have a quoted market price in an active market are measured at cost. If a financial asset is classified as available-for-sale, the cumulative unrealized gain or loss is recognized in Accumulated Other Comprehensive Loss ("AOCL") and is subsequently recognized in net earnings upon sale of the financial asset or upon an other-than-temporary impairment. The Limited Partnership designates financial assets as available-for-sale if it is not a loan and receivable, or required to be designated as held-for-trading. The Limited Partnership assesses whether a financial asset is other-than-temporarily impaired by assessing whether there is a significant or prolonged decline in fair value and objective evidence of impairment exists such as financial difficulty, breach or default of contracts, probability of bankruptcy or other financial reorganization.

Gains and losses related to financial assets and financial liabilities classified as held-for-trading are recorded in earnings in the period in which they arise. The Limited Partnership designates financial asset and financial liabilities as held for trading if they are acquired or incurred principally for the purpose of selling or repurchasing in the near term.

All financial instruments are measured at fair value on initial recognition, except for certain related party transactions. After initial recognition, financial instruments are measured at their fair values, except for financial assets classified as held-to-maturity or, loans and receivables, and other financial liabilities, which are measured at amortized cost.

Amortized cost related to financial assets classified as held-to-maturity, or loans and receivables and other financial liabilities is recorded in net earnings using the effective interest method. If a financial asset is classified as available-for-sale, the cumulative unrealized gain or loss is recognized in AOCL and is subsequently recognized in net earnings upon the sale of the financial asset or upon an other-than-temporary impairment.

The Limited Partnership's financial assets and financial liabilities are classified as follows:

- Cash and cash equivalents are classified as held-for-trading. Changes in fair value for the period are recorded in net earnings.
- Accounts and other receivables are considered loans and receivables and are initially recorded at fair value and subsequently measured at amortized cost. Amounts due to and from related parties are initially recorded at carrying amount or exchange amount, as appropriate, and are subsequently recorded at amortized cost. Interest income is recorded in net earnings, as applicable.

- Non-revolving credit facilities, bank overdraft, accounts payable and accrued liabilities and long term debt are considered other financial liabilities and are initially recorded at fair value and subsequently measured at amortized cost. Interest expense is recorded in net earnings, as applicable.

These standards require all derivative financial instruments to be measured at fair value on the consolidated balance sheet, even when they are part of an effective hedging relationship. An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If certain conditions are met, an embedded derivative is bifurcated from the host contract and accounted for as a derivative in the consolidated balance sheet, and measured at fair value.

Collectability of trade receivables is reviewed on an ongoing basis. An allowance account is used when there is objective evidence that it is impaired. The factors that are considered in determining if a trade receivable is impaired include whether a customer is in bankruptcy, under administration or if payments are in dispute. The offsetting expense is recognized in the net earnings within operating expenses. When a trade receivable for which an impairment allowance had been recognized becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses in net earnings.

The Limited Partnership applies trade date accounting for its purchases and sales of financial assets.

Derivative Financial Instruments and Hedges (going concern)

All derivative financial instruments including those that are part of an effective hedging relationship are measured at fair value on the consolidated balance sheet. An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If certain conditions are met, an embedded derivative is bifurcated from the host contract and accounted for as a derivative in the consolidated balance sheet, and measured at fair value.

Derivative financial instruments were used to reduce foreign currency and interest rate risk on the Limited Partnership's debt. The Limited Partnership does not enter into derivative financial instruments for trading and speculative purposes. The Limited Partnership's policy is to designate each derivative financial instrument as a cash flow or fair value hedge of a specifically identified debt instrument at the time the Limited Partnership enters into the derivative financial instrument. The Limited Partnership also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transaction are highly effective in offsetting changes in fair values or cash flow of hedged items. As at August 31, 2009 the Limited Partnership had no derivative contracts outstanding.

The fair value of cash flow hedges, in an effective designated relationship are recorded on the balance sheet as part of hedging derivative instruments. Cash flows related to the hedged item are classified in the same categories as the hedged item. In a cash flow hedge, the effective portion of the change in fair value of foreign currency and interest rate swaps is recognized in other comprehensive income ("OCI") and reclassified to net earnings (loss) during the period when the variability of the cash flows of the hedged items affects net earnings (loss). The ineffective portion is recognized in net earnings. When payments are made on the underlying instruments, the realized portions of the amounts previously recognized in AOCL are reclassified to interest expense and foreign exchange gains (losses), as appropriate. When the hedging item ceases as a result of

maturity, termination or cancellation, then the amounts previously recognized in AOCL are reclassified to net earnings (loss) during the periods when the variability in the cash flows of the hedged item affects net earnings. When the hedged transaction is no longer expected to occur then gains and losses previously recognized in AOCL are recognized in net earnings (loss). Gains and losses on the foreign currency and interest rate swaps are reclassified immediately to net earnings when the hedged items are extinguished.

Transaction costs (going concern)

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. For other financial instruments, with the exception of the revolving term loan, transaction costs are included with the related financial instrument on initial recognition and amortized using the effective interest method. In August 2009, transactions costs of $2.0 million relating to the revolving term loan were written off as the Limited Partnership no longer had the ability to draw on the facility.

3. CCAA PROCEEDINGS (GOING CONCERN)

Initial Order for Creditor Protection

As contemplated by the LP Support Agreement (described below), on January 8, 2010, the LP Applicants commenced CCAA proceedings by applying for and obtaining the Initial Order. During the CCAA proceedings, the LP Entities continued to operate their business with the assistance of the Monitor and under the supervision of the Court.

Pursuant to the Initial Order, and subject to the conditions set out therein and the requirements set out in the LP Support Agreement, the LP Entities were (a) required to provide and pay for the shared services between the LP Entities and Canwest Media Entities; (b) permitted to pay outstanding and future employee wages, salaries and employee benefits, employee related obligations and employee incurred expenses; (c) permitted to pay outstanding amounts for goods and services from suppliers considered critical to the ongoing operations of the LP Entities, sales taxes, certain amounts due to governmental bodies and agencies, and amounts due under sales representation agreements; (d) permitted to pay future expenses and capital expenditures reasonably necessary to carry on the operations of the LP Entities; and (e) permitted to make available to National Post Inc. secured revolving loans to a maximum of $12.9 million. The Initial Order also allowed the LP Entities, subject to the provisions of the CCAA, to disclaim any arrangement or agreement. Any reference herein to any such agreements or arrangements and to termination rights or a quantification of the Limited Partnership's obligations under any such agreements or arrangements is qualified by any overriding disclaimer or other rights the LP Entities may have as a result of or in connection with the CCAA proceedings. Claims may be allowed related to damages of counterparties arising as a result of such disclaimers.

The Initial Order created a number of new charges against substantially all of the current and future assets of the LP Entities which in accordance with the Initial Order may rank in priority to certain other security interests, trusts, liens, charges and encumbrances. These charges, in order of priority, include (i) an administration charge to secure amounts owing to the Monitor and certain restructuring and financial advisors, up to a maximum of $3.0 million; (ii) a DIP charge to the extent of any obligations outstanding under the DIP Facility and the existing security interest granted by the LP Entities to secure obligations under the LP Entities' centralized cash management system up to $7.5 million, ranked on *pari passu* basis; (iii) a charge to secure fees payable to the Financial Advisor engaged to conduct the SISP, up to a maximum of $10.0 million; and (iv) a directors' charge to secure the indemnity created under the Initial Order in favour of the directors and officers of the LP Entities and a management incentive plan ("Limited Partnership MIP") charge, each with equal priority, to a maximum of $35.0 million and $3.0 million, respectively (the Limited Partnership

MIP charge was subsequently increased to $4.3 million on March 26, 2010). Upon the implementation of the Amended Ad Hoc Committee Plan on July 13, 2010, the charges were released against the acquired assets, subject to the continuation of certain portions of the administrative charge.

The stay of proceedings provided for in the Initial Order generally precluded parties from taking any action against the LP Entities for breach of contractual or other obligations. The purpose of the stay was to provide the LP Entities with the opportunity to stabilize operations and business relationships with customers, vendors, employees and creditors and to allow the Limited Partnership to implement an orderly restructuring while continuing its day-to-day operations.

LP Support Agreement

On January 8, 2010, the LP Applicants entered into the LP Support Agreement with the Administrative Agent. In addition to the actions described in Note 1, the LP Support Agreement imposed several covenants on the LP Entities, including the covenants (a) to not make any payments of pre-filing obligations without the prior consent of the Monitor, subject to an aggregate limit on payments of pre-filing obligations; (b) to maintain net cash flow within certain limits; and (c) not to enter into any merger, amalgamation, consolidation, reorganization or recapitalization, sale or any other transaction resulting in the change of ownership or control of the Limited Partnership or any other LP Entities, except as provided under the Credit Acquisition or SISP, without the consent of the Administrative Agent.

The LP Support Agreement terminated on July 13, 2010 upon the implementation of the Ad Hoc Committee Plan.

Senior Lender's CCAA Plan and Claims Process

The Initial Order authorized the LP Entities to seek approval of the Senior Lenders CCAA Plan, established the claims process for Senior Lenders and ordered a meeting of Senior Lenders on January 27, 2010 for purposes of voting on the Senior Lenders CCAA Plan. The purpose of the Senior Lenders CCAA Plan was to effect a compromise and arrangement of the claims of the Senior Lenders. The Senior Lenders CCAA Plan did not compromise or affect any claims other than the claims of the Senior Lenders. The Senior Lenders CCAA Plan required repayment in full of all claims related to the DIP Facility on the implementation date of the Senior Lenders CCAA Plan unless consent was received from the DIP Facility lenders for the DIP Facility to be assumed in the Credit Acquisition or a transaction under the SISP. The Senior Lenders CCAA Plan also addressed the manner in which certain priority claims would be dealt with as further described under the Credit Acquisition and SISP below. Under the Senior Lenders CCAA Plan, the claims for the Secured Credit Facility and the Secured Hedge Obligations were subject to a discount of $25 million. Under the Senior Lenders CCAA Plan, the Senior Lenders were entitled to (a) receive debt and equity of Acquireco in exchange for their claims less a discount of $25 million and have unpaid interest either paid on the implementation date or assumed by Acquireco or (b) repayment of their claims less a discount of $25 million if a superior cash offer transaction was completed under the SISP.

The claims process under the Senior Lenders CCAA Plan was completed on January 22, 2010 and confirmed the amount of Secured Claims for voting purposes in the amount of $925.4 million. The Senior Lenders CCAA Plan was approved by the Senior Lenders in a meeting held on January 27, 2010.

On May 17, 2010, the court granted an order conditionally sanctioning the Senior Lenders' CCAA Plan ("the Conditional Credit Acquisition Sanction, Approval and Vesting Order"). This Order would have permitted the implementation of the Senior Lenders' Plan if the transactions contemplated by the APA had not been consummated.

On July 13, 2010 the Amended Ad Hoc Committee Plan was implemented, the Senior Lenders were paid in full for all amounts outstanding, as of July 13, 2010 and, accordingly, the Conditional Credit Acquisition Sanction, Approval and Vesting Order ceased to be of any force or effect.

The Senior Lender's CCAA Plan was terminated on July 13, 2010, the implementation date of the Amended Ad Hoc Committee Plan.

Sales and Investor Solicitation Process

On January 8, 2010, the Court approved the SISP which would determine whether a successful bid could be obtained by the LP Entities to sell substantially all of their assets or to obtain an investment in the LP Entities' business that is superior to the Credit Acquisition. If a successful bid was not obtained, the Credit Acquisition, as described above, would proceed. A successful bid was defined as either (a) a credible, reasonably certain and financially viable offer that would result in a cash distribution to the Senior Lenders in an aggregate amount equal to the amount of their claims less a discount of $25 million ("Superior Cash Offer") or (b) either (i) a credible, reasonably certain and financially viable offer for the purchase of substantially all of the property of the LP Entities (including an offer where the cash component of the offer is less than the discounted amount of Senior Lenders' claims as determined in (a)), or (ii) a reorganization of the LP Entities, in each of (i) and (ii) as approved by a formal vote of the Secured Lenders in which at least 66.7% in value of the secured debt under the Senior Credit Agreement and the Secured Hedge Obligations and at least an absolute majority in number of the Senior Lenders that participate in such vote approve such transaction ("Superior Alternative Offer").

The SISP commenced on January 11, 2010 and was completed in two phases, with the final phase terminating on April 30, 2010, the date on which binding offers were to be submitted by qualified bidders. After reviewing the offers received, the Monitor, in consultation with the Financial Advisor and the CRA, determined that the Ad Hoc Committee Offer constituted a Superior Cash Offer. The Monitor accordingly recommended to the Special Committee that the Ad Hoc Committee Offer constituted a credible, reasonably certain and financially viable offer that would result in a cash distribution to the Senior Lenders of the full amount of their outstanding indebtedness and was therefore a Superior Cash Offer. The Monitor accordingly recommended to the Special Committee that the Ad Hoc Committee Offer be accepted and a definitive agreement be negotiated and settled to carry out the transactions contemplated by the Ad Hoc Committee Offer. The Special Committee accepted the Monitor's recommendation. The Ad Hoc Committee Offer was approved, pursuant to the order of the Court on May 17, 2010. Following the issuance of the Ad Hoc Committee Approval Order the LP Entities executed the APA, dated effective May 10, 2010.

The Ad Hoc Committee Approval Order also amended the terms of the SISP to allow the LP Entities or the Monitor to seek the conditional sanction of the Senior Lenders CCAA Plan discussed above and, if such conditional sanction is granted, to take such commercially reasonable steps as are required for the LP Entities to remain in compliance with the terms of the Support Agreement and the Senior Lenders CCAA Plan pending the closing of the Ad Hoc Committee Transaction.

DIP Financing

On January 8, 2010, the Court approved the DIP Facility. On February 5, 2010, the Senior Secured Super-Priority Debtor-In-Possession Credit Agreement ("DIP Credit Agreement") was executed. The DIP lenders would not be affected by any plan of compromise or arrangement filed by the LP Entities under the CCAA or any other restructuring.

The DIP Credit Agreement provided for a revolving credit facility of up to $25 million, including a letter of credit sub-facility of up to $5 million. Under the DIP Facility, the availability of funds was determined by a borrowing base based on a percentage of each of the accounts receivable of the LP Entities and the fair value of eligible real property less certain reserves. The DIP Facility was only available for working capital, capital expenditures and other ordinary course expenditures of the LP Entities, to pay certain fees and expenses related to the DIP Facility, the Secured Credit Facility and CCAA proceedings, to advance secured intercompany loans to National Post Inc. and to pay interest on the Secured Credit Facility and Secured Hedge Obligations.

The Limited Partnership did not draw on the DIP Facility and the DIP Facility was terminated on July 13, 2010 upon the implementation of the Amended Ad Hoc Committee Plan.

Management Incentive Plans

On January 8, 2010, the Court approved the MIP, the NP MIP, and the employee special arrangements (all as defined in the initial order). The Initial Order also provided for an LP MIP Charge on the LP Property totalling $3 million to secure amounts owing to the employees covered by the LP MIP, the NP MIP and the special arrangements. These MIPs were developed to incentivize employees of the respective entities critical to the success of the restructuring to remain with the respective entities. These programs and arrangements originally approved payments in aggregate of $3.8 million of which $1.9 million was paid in December 2009 (the Limited Partnership MIP charge was subsequently increased to $4.3 million on March 26, 2010).

Ad Hoc Committee Plan and APA

The purpose of the Ad Hoc Committee Plan was to: (i) effect a compromise, settlement and payment of certain Prefiling Claims, Restructuring Claims, Employee Claims and Director/Officer Claims as set forth in the Ad Hoc Committee Plan other than certain unaffected claims (as described in the Ad Hoc Committee Plan (the "Unaffected Claims")) (the "Affected Claims") as finally determined for distribution purposes pursuant to the Amended Claims Procedure Order, the Meeting Order and the Ad Hoc Committee Plan; (ii) implement the closing of the transactions contemplated by the APA; (iii) enable the Purchaser to continue the business of the LP Entities as a going concern from and after the date the Ad Hoc Committee Plan was implemented; and (iv) safeguard substantial employment of the employees of the LP Entities. The claims of the Senior Lenders under the Secured Credit Agreement and the Secured Hedge Obligations were Unaffected Claims and, on closing received a cash distribution equal to the full amount owing to them, including accrued interest and reimbursement of costs and expenses to the extent not previously paid by the LP Entities (the "Senior Secured Claims Amount"). Creditors holding affected claims (the "Affected Creditors") that were proven claims at the time of closing who elected or were deemed to have elected to receive a cash payment equal to the lesser of the amount of their proven claim and $1,000 (the "Cash Election") will receive a cash payment from the LP Entities. The remaining unsecured creditors with proven claims will receive a pro rata share of approximately 13 million common shares of Postmedia with an estimated fair value of $9.26 per share.

Affected creditors with proven claims and disputed claims equal to or less than $1,000 were deemed to vote in favour of the Ad Hoc Committee Plan. Affected creditors with proven claims and disputed claims greater than $1,000 were (i) entitled to vote at the Meeting if a valid Cash Election had not been made or, (ii) deemed to have voted in favour of the Ad Hoc Committee Plan if a valid Cash Election had been made.

On May 17, 2010, the court granted the Meeting Order authorizing the LP Entities to call the Meeting and establishing the procedures for vote in respect of the Ad Hoc Committee Plan. The Meeting Order authorized the LP Entities to call the Meeting on June 10, 2010 (which was adjourned by the Monitor to June 14, 2010). The Meeting Order also established a process for the determination of the pro rata claims of the Subordinated Lenders and procedures for proxies and balloting.

On or around June 7, 2010, the Ad Hoc Committee proposed certain amendments (the "Ad Hoc Committee Amendments") to the Ad Hoc Committee Transaction and the Ad Hoc Committee Plan, which included:

- Opco LP assigning its rights and obligations under the APA to the Purchaser;
- Revising the capital structure of Postmedia, Opco LP and the Purchaser to:
    - replace the previously contemplated $150 million of mezzanine debt of Postmedia with a direct equity investment of the same amount by the Ad Hoc Committee; and
    - revise the number of shares to be issued by Postmedia in connection with the Ad Hoc Committee Transaction (27 million shares will be issued to the Ad Hoc Committee for consideration of $250 million and up to 13 million shares will be issued to unsecured creditors of the LP Entities under the Ad Hoc Committee Plan in satisfaction of their claims).

The LP Entities proposed certain other amendments to the Ad Hoc Committee Plan, including some with regard to the determination of the share distribution. The Ad Hoc Committee Plan, as amended is referred to as the "Amended Ad Hoc Committee Plan".

The Amended Ad Hoc Committee Plan required approval of a majority in number of the Affected Creditors having a proven claim representing not less than 66 2/3% in value of the proven claims. On June 14, 2010 the Amended Ad Hoc Committee Plan was approved by a majority of Affected Creditors, 97.3% in number and 99.5% in value. Additionally, Cash Elections were received totalling $0.3 million.

Ad Hoc Committee Approval Order

On May 17, 2010 the Ad Hoc Committee Approval Order authorized the LP Entities to enter into an APA with Postmedia, Opco LP and the Purchaser and approved the execution, delivery and performance of the APA by the LP Entities.

The APA received from the Ad Hoc Committee contemplates that Postmedia will effect a transaction through which the Purchaser will acquire substantially all of the financial and operating assets of the LP Entities, including the shares of National Post Inc. and assume certain liabilities of the LP Entities. The consideration transferred under the APA was based on the amount owing by the LP Entities to the Senior Lenders under the Senior Credit Agreement and the Secured Hedge Obligation, the Claims of the lenders under the DIP facility, if any, and 13 million common shares to be issued to unsecured creditors of the LP Entities under the Ad hoc Committee Plan in satisfaction

of their claim. The total consideration transferred was $1.05 billion. The APA was executed on July 13, 2010, the implementation date of the Amended Ad Hoc Committee Plan.

Claims Procedure Order

The Claims Procedure Order establishes a claims procedure (the "LP Claims Procedure") for the identification and quantification of certain claims (each a "Claim"), against the LP Entities. The LP Claims Procedure includes a call for: (i) claims against the LP Entities that arose on or before the LP Applicants filed for creditor protection under the CCAA on January 8, 2010 (the "Prefiling Claims"), and (ii) claims that arose after January 8, 2010 as the result of the restructuring, disclaimer, resiliation or termination of any agreement by the LP Entities (the "Restructuring Period Claims"). Certain categories of claims were initially excluded and unaffected for the purposes of the LP Claims Procedure, including, among others, claims against the directors and officers of the LP Entities, intercompany claims, claims of the Senior Lenders against the LP Entities and the majority of employee claims. Creditors wishing to participate in the claims process were to have filed proofs of claim with the Monitor no later than: (i) in the case of a Prefiling Claim, May 7, 2010; or (ii) in the case of a Restructuring Period Claim, June 3, 2010. The LP Entities and the Monitor commenced steps to adjudicate and resolve claims on May 10, 2010.

On May 17, 2010, the Court approved an Amended Claims Procedure Order that included a call for certain employee claims (the "Employee Claims") and claims against the directors and officers of the LP Entities (the "Director/Officer Claims"). The Amended Claims Procedure Order also established a claims bar date of June 3, 2010 for Restructuring Period Claims, Employee Claims and Director/Officer Claims.

Status of the Claims Process

As of October 31, 2010, 1,015 claims totalling $741.9 million (the "Total Claims") were filed with the Monitor in accordance with the terms of the Amended Claims Procedure Order. As at October 31, 2010, 748 claims totalling $558.1 million had been proven and accepted by the Monitor (the "Proven Claims"). The LP Entities are or will be engaging in discussions with the holders of the remaining unresolved claims which total 267 in number and $183.8 million in value.

On July 12, 2010 an amended claim for $150 million was filed with the Monitor. This Amended Claim is currently in dispute and is subject to adjudication and/or resolution by the LP Entities and the claimant and is included in the Total Claims and the remaining unresolved claims.

As part of the LP Entities' claims process, legal claims totalling $533.4 million were filed against the LP Entities for lawsuits which existed as at August 31, 2009. The Court approved claims of $16 million relating to these lawsuits which have been included in the Proven Claims. Furthermore, the Monitor has agreed to a $250.0 million cross-claim, brought against Canwest Publishing Inc. by a co-defendant in one of the aforementioned claims, for a claim value of $2.5 million which, has been included in the proven claims. The Limited Partnership has recorded these claims as at August 31, 2009.

4. NET LIABILITIES IN LIQUIDATION (LIQUIDATION BASIS)

As described in note 1, effective May 31, 2010, the Limited Partnership adopted the liquidation basis of accounting. Effective July 13, 2010, the Amended Ad Hoc Committee Plan was implemented and the APA was executed resulting in the transfer of certain assets and liabilities of the Limited Partnership and substantially all of the assets and certain liabilities of CPI, including the shares of National Post Inc., to Postmedia Network Inc. in exchange for cash consideration and shares of Postmedia Network Holdings Inc. with a fair value of $1.05 billion (the "Consideration"). The cash

was used to settle the debt not subject to compromise and the shares are being used to settle the liabilities subject to compromise.

Restricted Cash

Cash of $9 million represents an Administrative Reserve to be held by the Monitor. This Administrative Reserve was paid by the Limited Partnership to the Monitor on July 13, 2010 and will be used by the Monitor to pay certain administrative costs, including liquidation costs, of the LP Entities. Any cash from the administrative reserve remaining after all costs have been paid out will be transferred to the Purchaser.

Cash to be transferred to Purchaser

Cash of $88.1 million was transferred to the Purchaser on July 13, 2010.

Other Assets to be transferred to Purchaser

Assets of $11.0 million were transferred to the Purchaser on July 13, 2010. These assets consist of prepaid expenses of $2.3 million and property and equipment of $8.7 million.

Investment in Canwest Publishing Inc.

The Limited Partnership owns 100% of the shares of Canwest Publishing Inc. The estimated net realizable value of the investment in CPI has been calculated as follows:

Consideration	1,047,908
Cash of LP to be transferred to Purchaser	(88,102)
Other assets of LP to be transferred to Purchaser	(10,992)
Liabilities of LP to be transferred to Purchaser	3,599
Consideration to be allocated to CPI	952,413
Costs to sell the assets of CPI	(2,620)
Investment in CPI	949,793

Accounts Payable and Accrued Liabilities

The accounts payable and accrued liabilities include a provision for liquidation fees and an estimated amount to sell the assets of the Limited Partnership and have been measured at the present value of amounts expected to be paid. These accounts payable and accrued liabilities are expected to be paid with the cash retained by the Limited Partnership (see above).

Liabilities to be transferred to Purchaser

Liabilities of $3.6 million were transferred to the Purchaser on July 13, 2010. These liabilities consist of accounts payable and accrued liabilities.

Debt not subject to compromise

Debt not subject to compromise of $927.5 million is measured at the present value of amounts paid, and was settled by the Purchaser on behalf of the LP Entities on July 13, 2010.

Liabilities Subject to Compromise

LSTC are liabilities incurred prior to the CCAA filing date that may be dealt with as Affected Claims under the Plan in the LP Entities CCAA Proceedings, contingent liabilities incurred prior to the CCAA filing that are likely to be accepted as claims in the LP Entities CCAA Proceedings, as well as claims arising on or after the CCAA filing date relating to repudiated or disclaimed leases, contracts, and other arrangements. Generally actions to enforce or cause payment of pre-filing liabilities are stayed by the court order. The liabilities subject to compromise of Canwest LP as at July 12, 2010 are described in note 7.

Effect of change to Liquidation Basis of Accounting

The following table outlines the adjustments made to the Limited Partnership's consolidated balance sheet prepared on a going concern basis as at May 31, 2010 to obtain the Limited Partnership's statement of net liabilities in liquidation as at May 31, 2010 (presented in thousands of Canadian dollars):

	Going Concern Basis as at May 31, 2010	Deconsolidation of CPI (a)	Adjustments of net assets to liquidation basis (b)	Reclassification of assets and liabilities (c)	Liquidation Basis as at May 31, 2010
ASSETS					
Current Assets					
Cash	119,470	(1,497)		(89,278)	28,695
Assets to be transferred to Purchaser			-	101,988	101,988
Accounts receivable	133,640	(133,514)		(126)	-
Amounts due from related companies	2,765	(2,103)		(662)	-
Inventory	5,200	(5,200)			-
Investment in Canwest Publishing Inc.	-	346,352	585,301		931,653
Prepaid expenses	13,503	(9,683)	(1,000)	(2,820)	-
Total Current Assets	274,578	194,355	584,301	9,102	1,062,336
Property and equipment	320,186	(311,094)		(9,102)	-
Other assets	38,621	(38,621)			-
Goodwill	94,984	(94,984)			-
Mastheads	6,750	(6,750)			-
Total Assets	735,129	(257,094)	584,301	-	1,062,336
LIABILITIES					
Current Liabilities					
Accounts payable and accrued liabilities	101,760	(94,578)	4,725	(5,888)	6,019
Liabilities to be transferred to Purchaser	-			6,317	6,317
Amount due on swap settlement	68,746	-		(68,746)	-
Income taxes payable	82	(82)			-
Amounts due to related companies	4,369	(3,416)		(953)	-
Deferred revenue	35,337	(34,789)		(548)	-
Debt not subject to compromise	860,856	-	(9,285)	69,818	921,389
Obligations under capital leases	3,567	(3,567)			-
Total Current Liabilities	1,074,717	(136,432)	(4,560)	-	933,725
Liabilities subject to compromise	573,037	(39,446)			533,591
Obligations under capital leases	128	(128)			-
Accrued pension, post-retirement and other liabilities	71,721	(71,721)			-
Future income taxes	9,367	(9,367)			-
Total Liabilities	1,728,970	(257,094)	(4,560)	-	1,467,316
PARTNERS' DEFICIENCY/NET LIABILITIES IN LIQUIDATION	(993,841)	-	588,861	-	(404,980)

(a) The "Deconsolidation of CPI" column reflects the deconsolidation of the assets and liabilities of CPI and its subsidiaries and investments as reflected in the consolidated accounts.
(b) The "Adjustments of net assets to liquidation basis" column reflects the following adjustments:
- Adjusts the carrying value of the investment in CPI to its estimated net realizable value as described in note 2.
- Adjusts prepaid expenses to net realizable value.

- Adjusts the debt not subject to compromise to the net present value of amounts expected to be paid.
- Adjusts accounts payable and accrued liabilities for estimated costs to sell the assets of the Limited Partnership and liquidation costs.

(c) The "Reclassification of assets and liabilities" reflects; a) the reclassification of the aggregate assets and liabilities that will be transferred to the purchaser in conjunction with the implementation of the APA and b) the reclassification of accrued interest and the amount due on swap settlement to debt not subject to compromise to reflect the present value of the debt.

5. SUPPLEMENTARY FINANCIAL INFORMATION (GOING CONCERN BASIS)

The results of operations during the period of liquidation from June 1, 2010 to July 12, 2010 are presented below as supplementary financial information:

Revenue	119,229
Operating expenses	99,768
Restructuring expenses	(518)
	19,979
Amortization of property and equipment	7,115
Other amortization	21
Operating income	12,843
Interest expense	(4,498)
Other income	283
Gain on disposal of property and equipment	-
Foreign currency exchange gains	4,542
Earnings before reorganization costs and income taxes	13,170
Reorganization costs	(16,500)
Loss before income taxes	(3,330)

6. REORGANIZATION COSTS (GOING CONCERN BASIS)

Reorganization costs represent post-filing expenses and gains that can be directly associated with the reorganization and restructuring of the LP Entities. The following schedule details amounts that have been included in the Consolidated Statements of Earnings (Loss) as reorganization costs:

	For the nine months ended May 31, 2010	For the year ended August 31, 2009
Professional fees [a]	29,417	7,237
Foreign exchange losses on compromised debt [b]	3,961	-
Contract repudiations [c]	945	-
Legal [d]	-	18,519
Other [e]	6,869	-
	41,192	25,756

[a] Professional fees for the nine months ended May 31, 2010 and for the year ended August 31, 2009 include amounts paid to advisors in regards to the CCAA proceedings and the recapitalization process.

[b] Foreign exchange losses on compromised debt represent the losses on translating monetary items that are subject to compromise at the period end compared to the translated amounts at January 8, 2010, the date of the CCAA filing.

[c] Contract repudations includes the costs of contracts that have been repudiated by Canwest LP.

[d] As a result of the LP Entities claims process the court approved certain proven claims relating to certain lawsuits totalling $18.5 million.

[e] Other includes the cost of the Limited Partnership MIP and the Canwest KERP.

7. LIABILITIES SUBJECT TO COMPROMISE (LIQUIDATION BASIS)

LSTC are liabilities that have been stayed under the CCAA proceedings which are expected to be compromised under the CCAA proceedings (see notes 1, 3 and 4). LSTC are based on amounts expected to be allowed for known claims or potential claims to be resolved through the LP Entities CCAA Proceedings. Further, under the CCAA proceedings, certain contracts may be repudiated and claims may be recognized for such contracts. The LSTC do not include amounts for contracts repudiated or disclaimed subsequent to July 12, 2010, as such amounts are recognized when the contracts are repudiated or disclaimed, or amounts related to claims for employee benefits which represent actuarial gains or losses which are recognized in accordance with accounting policies for employee benefit plans. It is possible that items currently classified as LSTC will be reclassified out of this category should they be proven to be fully secured. It is also reasonably possible that the amount of LSTC will change in the near term due to negotiated settlements, actions of the Courts, and further developments with respect to disputed claims, repudiation of contracts, other restructuring plans or other events. Such adjustments may be material.

LSTC do not include: (i) liabilities incurred after the date of the CCAA filing by the Limited Partnership, except for liabilities related to repudiated or disclaimed contracts or restructuring provisions incurred after the CCAA filing. As per the terms of the Amended Ad Hoc Committee Plan, the Liabilities Subject to Compromise of Canwest LP, as well as those of CPI, will be settled on a pro rata basis with 13 million common shares of Postmedia, at a fair value of $9.26 per share.

The following chart presents the components of the Limited Partnership's LSTC:

	July 12, 2010
Senior Subordinated Unsecured Notes	413,480
Senior Subordinated Unsecured Credit Facility	75,000
Accounts payable and accrued liabilities	41,460
Repudiated contracts	26
	529,966

8. CONDENSED COMBINED FINANCIAL INFORMATION (GOING CONCERN BASIS)

The condensed combined financial information for the nine-month period ended May 31, 2010 presents the results of operations and cash flows of the LP Entities that are subject to the CCAA proceedings on a going concern basis and excludes the results of operations and financial position of certain subsidiaries which are not subject to the CCAA proceedings.

Condensed Combined Statements of Earnings
Periods ended May 31

	For the nine months ended May 31, 2010
Revenues	753,880
Operating expenses [a]	590,961
Restructuring expenses	2,660
	160,259
Amortization	30,388
Operating income	129,871
Interest expense, net [b]	(60,649)
Other income	1,737
Gain on disposal of property and equipment	2
Foreign currency exchange gains	49,723
Earnings before reorganization costs and income taxes	120,684
Reorganization costs	(40,847)
Earnings before income taxes	79,837
Recovery of future income taxes	(18,792)
Net earnings for the period	98,629

[a] Included in operating expenses for the nine months ended May 31, 2010 are printing and distribution recoveries from National Post Inc. of $8.1 million and advisory, business and administrative charges recovered from National Post Inc. of $4.1 million and a rent recovery from National Post Inc. of $0.9 million.

[b] Included in interest expense, net for the nine months ended May 31, 2010 is interest income from National Post Inc. of $0.08 million.

Condensed Combined Statements of Cash Flows

	For the nine months ended May 31, 2010
CASH GENERATED (UTILIZED) BY:	
Cash flows from operating activites	83,887
INVESTING ACTIVITIES	
Proceeds from sale of property and equipment	2
Purchase of property and equipment	(9,077)
Cash flows from investing activities	(9,075)
FINANCING ACTIVITIES	
Transfer of National Post business	(2,367)
Advances of revolving facilities	1,889
Payments of capital leases	(3,139)
Cash flows from financing activities	(3,617)
Net change in cash	71,195
Cash - beginning of period	46,778
Cash - end of period	117,973

9. CANWEST REIMBURSEMENTS AND TRANSFER OF PENSION OBLIGATIONS (GOING CONCERN BASIS)

The Limited Partnership has agreed to reimburse Canwest Global for a portion of the cost of Canwest Global's key employee retention plan ("Canwest KERP") and Canwest Global has agreed to reimburse the Limited Partnership for a portion of the cost of its MIP. These plans were established in September 2009 and are payable in two instalments, the first instalment as at December 31, 2009 has been made and the second instalment will be made on the completion of the Canwest Media CCAA proceedings for the Canwest KERP or the Limited Partnership CCAA proceedings for the Limited Partnership's MIP. In November 2009 the Limited Partnership deposited $3.9 million with a trustee for the benefits of the employees of the Canwest Media Entities in full satisfaction of its reimbursement obligation. These funds will be disbursed to the participants of the Canwest KERP in accordance with the terms of the Canwest KERP. If the funds exceed the amount required to satisfy its obligations the excess will be returned to the Limited Partnership.

In the second quarter of 2010, Canwest Global determined that the allocation of an accrued pension liability between the Limited Partnership and Canwest Global resulted in an overstatement of this liability in the Limited Partnership's financial statements in prior periods. As such, an immaterial out-of-period adjustment was recorded during the nine months ended May 31, 2010, resulting in a $1.7 million decrease in the accrued pension, post-retirement and other liabilities and a corresponding increase in the contributed surplus of the Limited Partnership as Canwest Global assumed its portion of the obligation.

10. TRANSFER OF NATIONAL POST BUSINESS (GOING CONCERN BASIS)

Effective October 30, 2009 certain assets and liabilities of The National Post Company, a general partnership, were transferred to a National Post Inc., a subsidiary of CPI, for cash consideration of $2.4 million paid to The National Post Company (note 1). This transaction was accounted for as a continuity of interests.

The following is a summary of the net assets transferred as at October 30, 2009:

Assets	
Current Assets	4,790
Property and Equipment	558
Mastheads	6,750
	12,098
Liabilities	
Current Liabilities	3,798
Pension and post-retirement liabilities	3,724
	7,522
Net Assets	4,576

For these financial statements, all of the assets, liabilities, revenues, expenses and cash flows of The National Post Company have been combined with those of the Limited Partnership for all periods prior to the date of the transfer. On the date of the transfer, the cash consideration and elimination of the assets and liabilities excluded from the October 30, 2009 legal transfer have been de-recognized as an adjustment to contributed surplus. The gain on the de-recognition of amounts due to and from other related entities and accounts payable was $140.8 million.

11. DEBT NOT SUBJECT TO COMPROMISE (LIQUIDATION BASIS)

The Amended Ad Hoc Committee Plan was implemented on July 13, 2010 which resulted in the execution of the APA. This resulted in the debt not subject to compromise being settled in full as described below.

	As at July 12, 2010
Debt denominated in Canadian dollars [a]	
Senior secured credit facilities - revolver	118,173
Senior secured credit facilities - credit C	265,639
Secured hedging obligations	66,128
	449,940
Debt denominated in US dollars [b]	
Senior secured credit facilities - credit D (US$460,908)	474,708
Secured hedging obligations (US$2,725)	2,847
	477,555
Total debt not subject to compromise	927,495

[a] This debt was settled by the Purchaser on behalf of the LP Entities in full on July 13, 2010.

[b] The debt denominated in US dollars has been converted to Canadian dollars at the Bank of Canada closing foreign exchange rate of 1.0337 on July 13, 2010. This debt was settled by the Purchaser on behalf of the LP Entities in full on July 13, 2010 in US dollars.

12. RESTRICTED CASH (GOING CONCERN BASIS)

Canwest LP entered into a forbearance agreement with its senior secured lenders on August 31, 2009. In accordance with this agreement, Canwest LP agreed to pay outstanding interest of $13.9 million to its lenders under the senior secured credit facilities. On August 31, 2009 Canwest LP deposited cash of $13.9 million to a restricted bank account. This cash was used to settle the accrued interest amounts outstanding to these lenders in September and October of 2009.

13. PROPERTY AND EQUIPMENT (GOING CONCERN BASIS)

	As at August 31, 2009		
	Cost	Accumulated amortization	Net
Land	29,329	-	29,329
Buildings	196,646	83,225	113,421
Machinery and equipment	663,692	468,734	194,958
Leasehold improvements	12,910	8,990	3,920
	902,577	560,949	341,628

During 2009, the Limited Partnership had no additions related to assets under capital leases. The Limited Partnership has assets under capital leases with an original cost of $15.4 million and accumulated amortization of $2.6 million.

As at August 31, 2009 the Limited Partnership had assets not yet in service of $2.2 million.

During 2009, the Limited Partnership wrote off assets with an original cost of $47.0 million (2008 - $26.4 million) and accumulated amortization of $46.7 million (2008 – $425.8 million), resulting in a write off on property and equipment of $0.3 million (2008 - $0.6 million).

14. INTANGIBLE ASSETS (GOING CONCERN BASIS)

Intangible Asset Impairments

During the year ended August 31, 2009, due to a decline in operating results, and lower expectations for advertising revenue growth the Limited Partnership recorded impairment charges of $28.3 million for its masthead.

The Limited Partnership's assumptions related to future revenues reflected the Limited Partnership's expectations about future expected revenue, particularly advertising revenue and competition in the markets in which it operates. The Limited Partnership has made certain assumptions for the discount and terminal growth rates to reflect possible variations in the cash flows; however, the risk premiums expected by market participants related to uncertainties about the industry, specific reporting units or specific intangible assets may differ or change quickly depending on economic conditions and other events.

There were no impairment charges recorded in the nine months ended May 31, 2010 and the year ended August 31, 2008.

15. OTHER ASSETS (GOING CONCERN BASIS)

	As at August 31, 2009
Pension assets	25,301
Other	894
	26,195

16. LONG-TERM DEBT (GOING CONCERN BASIS)

	As at August 31, 2009
Senior Secured Credit Facilities [1]	876,003
Senior Subordinated Unsecured notes [2]	429,856
Senior Subordinated Unsecured Credit Facility [3]	74,235
	1,380,094
Less portion due within one year	1,380,094
Long term portion	-

(1) On July 13, 2007 the Limited Partnership entered into senior secured credit facilities. The facilities included:

a. A $250 million revolving term loan. As at August 31, 2009, the Limited Partnership had drawn $116.0 million on its revolver and had letters of credit of $2.0 million outstanding and had no further availability on its revolver and was in default on the revolver (note 1). This facility contractually matured in July 2012 and was subject to certain restrictions. This facility bore interest at prime plus a margin or banker's acceptance rates plus a margin, and had an interest rate of 3.75% at August 31, 2009.

b. A $265 million non-revolving term loan which was subject to minimum principal payment reductions of a minimum of 5% beginning in the fourth quarter of 2009 and 10% in each of years beginning in the fourth quarter 2010. The Limited Partnership did not make the principal payment due in the fourth quarter of 2009 and was in default on the loan (note 1). This facility contractually matured in July 2012 is subject to certain restrictions and bore interest at banker's acceptance rates plus a margin. This facility had an interest rate of 3.75% at August 31, 2009.

c. A $502 million (US$458 million) term loan which was subject to principal repayments of $5 million (US$4.8 million) per year. The Limited Partnership did not make the principal payments due on this loan in the third and fourth quarter of 2009 and was in default on the loan (note 1). This facility contractually matured on July 13, 2014 and was subject to certain restrictions and bore interest at floating rates based on US Base rates plus a margin. This facility had an interest rate of 4.75% at August 31, 2009. In 2008 the Limited Partnership had a foreign currency and interest rate swap to fix the interest and principal payment on a notional amount of US$466 million which reduced with principal payments on the debt at a fixed currency exchange of US$1:$1.0725 until July 2014, resulting in a swap adjusted effective interest rate of 7.5%. This swap was designated a cash flow hedge. As at August 31, 2009, the Limited Partnership no longer had a foreign currency and interest rate swap on this debt (note 1).

On July 13, 2010, as a result of the Acquisition, the senior secured credit facilities above were paid in full on behalf of the LP Entities by the Purchaser.

(2) The Limited Partnership had senior subordinated unsecured notes of $438 million (US$400 million) which were due in August 2015 and bore interest at 9.25%. These notes ranked junior to the Limited Partnership's senior secured credit facility and was guaranteed by certain subsidiaries of the Limited Partnership. The Limited Partnership is in default on this debt (note 1). The senior subordinated unsecured notes had a variable prepayment option at a premium. The prepayment option represented an embedded derivative that was accounted for separately at fair value. As at August 31, 2009, the estimated fair value of the prepayment option was nil. In 2008 the Limited Partnership had a US$400 million swap resulting in a fixed currency exchange rate of US$1:$1.0725 until July 2015 and a fixed interest rate of 9.1%. This swap was designated a cash flow hedge and its effective interest rate was 9.1%. As at August 31, 2009, the Limited Partnership no longer has a foreign currency and interest rate swap on this debt (note 1).

(3) The Limited Partnership had a $75 million senior subordinated unsecured credit facility. This unsecured facility ranked junior to the Limited Partnership's senior credit facility and was guaranteed by certain subsidiaries of the Limited Partnership. The Limited Partnership was in default on this debt (note 1). This facility which matured in July 2015 was subject to certain restrictions and bore interest at prime plus a margin. This facility had an effective interest rate of 9.0% as at August 31, 2009.

The Limited Partnership and its subsidiaries were subject to covenants under certain credit facilities described above, including thresholds for leverage and interest coverage, and were also subject to distribution restrictions and other certain restrictions under negative covenants. As noted above, the Limited Partnership was not in compliance with its debt covenants as at August 31, 2009.

The senior secured credit facilities noted above were secured by substantially all of the Limited Partnership's directly held assets including the assets of Canwest LP, Canwest Media (Canada) Inc. and Canwest Publishing Inc.

Interest expense recorded on the long-term debt for the year ended August 31, 2009 was $98.4 million (2008 - $107.8 million). Interest expense recorded on the long-term debt for the period ended May 31, 2010 was $59.0 million.

17. INCOME TAXES (GOING CONCERN BASIS)

The provision for income taxes reflects an effective income tax rate which differs from its combined Canadian federal and provincial statutory income tax rate as follows:

	For the nine months ended	For the years ended	
	May 31, 2010	August 31, 2009	August 31, 2008
Income taxes at combined Canadian statutory income tax rate of 30.70% (August 31, 2009 - 30.14%, August 31, 2008 - 31.59%)	23,565	(39,484)	40,425
Valuation allowance	(29,551)	30,136	(455)
Effect of income tax rates differing from the combined Canadian statutory income tax rate	(2,291)	3,747	(498)
Effect of change in expected future income tax rates	269	349	(3,800)
Partnership net earnings allocated to Limited Partners, and therefore not subject to tax	(5,276)	(9,811)	(37,989)
Timing difference on acquisition of National Post Company	738	-	-
National Post earnings allocated to partners	(65)	-	-
Non-taxable portion of capital gains	(8,255)	(295)	(342)
Non-taxable portion of capital loss	-	7,166	-
Permanent swap deductible difference	-	(2,004)	-
Timing differences not previously recognized	-	-	299
Non-deductible expenses	2,815	1,442	1,210
Other	(60)	(139)	736
Recovery of income taxes	(18,111)	(8,893)	(414)

	As at August 31, 2009
Future tax assets	
Non-capital loss carryforwards	31,254
Net-capital loss carryforwards	386
Accounts payable and other accruals	2,436
Pension and post-retirement benefits	19,138
Asset retirement liability	79
Less: Valuation allowance	(25,177)
Total future income tax assets	28,116
Future tax liabilities	
Capital cost allowances in excess of book amortization	39,338
Pension asset	6,353
Goodwill	9,895
Asset retirement asset	8
Total future income tax liabilities	55,594
Net future income tax liability	27,478
Current future income tax asset	-
Long term future income tax liability	27,478

	For the nine months ended May 31, 2010	For the years ended August 31, 2009	August 31, 2008
Current income taxes	-	-	(516)
Provision for (recovery of) income taxes	(18,111)	(8,893)	102
Recovery of income taxes	(18,111)	(8,893)	(414)

As of August 31, 2009, subsidiaries of Canwest LP had non-capital loss carry-forwards for income tax purposes of $122 million that expire as follows: 2010 - $0.2 million, 2011 - nil, 2012 - nil, 2013 - nil, 2014 – $0.3 million, thereafter $121.5 million and net capital loss carry-forwards in the amount of $1.5 million. The non-capital and net capital loss carry-forwards have been reflected in these financial statements.

Taxable income of the Limited Partnership is taxed in the hands of the unit holders. Therefore only temporary differences relating to corporate subsidiaries have been reflected in the statements. The Limited Partnership has net deductible temporary differences of $96.4 million (2008 - $61.5 million) which are only disclosed in the financial statements.

18. STOCK BASED COMPENSATION (GOING CONCERN BASIS)

Stock option and Restricted Share Unit Plan

On November 6, 2007, the Board granted 339,100 Regular Options and 70,800 Market Threshold Options to employees of the Limited Partnership. These options vested over a four year period, expired on November 6, 2014 and were granted at an average exercise price of $7.50 per option, the market trading value of the shares on that day. The fair value of the options granted was estimated using the binomial option pricing model with the assumptions of no dividend yield, an expected volatility of 28%, risk free interest rates of 4.2% and an expected life of 6 years. The total fair value of the Regular Options issued was $0.9 million, an average of $2.61 per option. The total fair value of the Market Threshold Options was $0.2 million, an average of $2.44 per option.

Eligible participants received grants of Restricted Share Units ("RSU"), under the Plan, which are settled by the issuance of an equivalent number of Canwest Global Shares at the end of a three year term if the attainment of specified performance goals as determined by the Board were met. Additional RSU's were granted if Canwest Global declared dividends prior to the settlement date. On November 6, 2007, the Board granted 171,400 restricted share units to employees of the Limited Partnership. The fair value at the time of issuance was $7.50 per RSU.

The Limited Partnership had recorded compensation expense relating to this plan of $0.3 million with an offsetting credit to amounts due to related companies for the period ended May 31, 2010 (August 31, 2009 - $0.4 million, August 31, 2008 - $0.5 million)

19. ACCUMULATED OTHER COMPREHENSIVE LOSS (GOING CONCERN BASIS)

	Unrealized loss on cash flow hedges		
	For the nine months ended	For the twelve months ended	
	May 31, 2010	August 31, 2009	August 31, 2008
Balance, beginning of period	-	(45,472)	-
Cumulative impact on implementing new accounting standards	-	-	(17,122)
Other comprehensive earnings (loss) for the period	-	45,472	(28,350)
Balance, end of period	-	-	(45,472)

20. STATEMENTS OF CASH FLOWS (GOING CONCERN BASIS)

The following amounts comprise the net change in non-cash operating accounts included in the consolidated statements of cash flows:

	For the nine months ended	For the years ended	
	May 31, 2010	August 31, 2009	August 31, 2008
CASH GENERATED (UTILIZED) BY:			
Accounts receivable	(31,537)	46,891	(7,572)
Inventory	1,418	4,092	(1,802)
Prepaid expenses	1,756	(2,254)	1,369
Other assets	(517)	(42)	254
Restricted cash	9,956	(13,902)	-
Accounts payable and accrued liabilities	29,438	8,724	2,259
Income taxes recoverable (payable)	70	581	19
Deferred revenue	5,128	(1,996)	(249)
	15,712	42,094	(5,722)

	For the nine months ended	For the years ended	
	May 31, 2010	August 31, 2009	August 31, 2008
Interest paid	-	58,392	110,032
Income taxes paid (recovered)	-	518	(575)

21. RETIREMENT ASSETS AND OBLIGATIONS (GOING CONCERN BASIS)

The Limited Partnership has a number of funded and unfunded defined benefit plans, as well as defined contribution plans, that provide pension and post retirement and post employment benefits to its employees. The defined benefit pension plans are based upon years of service and final average salary. The defined benefit plans, defined contribution plans and post retirement and post employment plans that were not classified as liabilities subject to compromise (note 2) have been transferred to the Purchaser on July 13, 2010 and the Limited Partnership no longer has any liabilities or obligations in respect of these plans.

Information on the Limited Partnership's pension and post-retirement and post-employment benefit plans follows:

	Pension benefits[1] For the year ended August 31, 2009
Plan Assets	
Fair value - beginning of period	263,662
Actual returns on plan assets	(9,847)
Employer contributions	22,542
Employee contributions	5,819
Benefits paid	(15,160)
Fair value - end of period	267,016
Plan Obligations	
Accrued benefit obligations - beginning of period	325,417
Accrued interest on benefits	20,114
Current service costs	16,712
Benefits paid	(15,893)
Actuarial gains	(16,303)
Accrued benefit obligations - end of period	330,047

The Limited Partnership's net accrued benefit assets are determined as follows:

Accrued benefit obligations	330,047
Fair value of plan assets	267,016
Plan deficits	(63,031)
Unamortized net actuarial losses	73,345
Unamortized past service costs	3,041
Accrued plan assets	13,355

The accrued pension benefit asset of $25.3 million is included in other assets, the accrued pension liability of $12.0 million and the accrued post-retirement/employment benefit liability is included in accrued pension, post-retirement and other liabilities in the consolidated balance sheet.

The pension plan assets consist primarily of equity securities 63% and debt securities 35%. The pension plans have no investment in Canwest entities.

	Post-retirement/ employment benefits
	For the year ended August 31, 2009
Plan Assets	
Fair value - beginning of period	-
Employer contributions	2,974
Benefits paid	(2,974)
Fair value - end of period	-
Plan Obligations	
Accrued benefit obligations - beginning of period	41,509
Accrued interest on benefits	3,147
Current service costs	4,515
Benefits paid	(2,974)
Actuarial losses [3]	10,767
Accrued benefit obligations - end of period	56,964
Accrued benefit obligation	56,964
Unamortized net actuarial gains	9,763
Accrued post-retirement benefit liability	66,727

Effective August 31, 2009 Canwest LP changed the measurement date of its pension plans from June 30 to August 31 (note 2). As a result, Canwest LP has measured its accrued benefit obligations and the fair value of plan assets for accounting purposes as at August 31, 2009.

The most recent actuarial funding valuation for the most significant of the pension plans, which make up substantially all of the accrued benefits obligations, was as of December 31, 2009. The valuations indicated that the plans had deficiencies and set out the payments that would have been required if the Limited Partnership had not transferred the pension plans to the Purchaser (as described above). The investment strategy for pension plan assets is to utilize a balanced mix of equity and fixed income portfolios to earn a long term investment return that meets the pension plan obligations. Active management strategies and style diversification strategies are utilized in anticipation of realizing investment returns in excess of market indices.

The Limited Partnership's pension benefit expense is determined as follows:

	For the nine months ended May 31, 2010
	Recognized in period
Current service costs	11,973
Employee contributions	(4,473)
Accrued interest on benefits	15,600
Return on plan assets	(13,854)
Past service costs	60
Net actuarial losses	3,645
Benefit expense	12,951
Employer contribution to the defined contribution plan	1,523
Total pension benefit expense	14,474

	For the year ended August 31, 2009			For the year ended August 31, 2008		
	Incurred in year	Matching adjustments (2)	Recognized in year	Incurred in year	Matching adjustments (2)	Recognized in year
Current service costs	16,712	-	16,712	16,959	-	16,959
Employee contributions	(5,819)	-	(5,819)	(5,745)	-	(5,745)
Accrued interest on benefits	20,114	-	20,114	18,826	-	18,826
Return on plan assets	9,847	(28,925)	(19,078)	3,461	(22,238)	(18,777)
Administrative expenses	-	40	40	-	-	-
Past service costs	-	355	355	-	440	440
Net actuarial losses	(16,303)	19,550	3,247	(27,777)	31,963	4,186
Benefit expense	24,551	(8,980)	15,571	5,724	10,165	15,889
Employer contribution to the defined contribution plan	2,050	-	2,050	2,048	-	2,048
Total pension benefit expense	26,601	(8,980)	17,621	7,772	10,165	17,937

On October 30, 2009, the pension plan assumed from The National Post Company had plan assets of $10.4 million, plan obligations of $12.1 million, and unamortized net actuarial gains of $0.3 million, resulting in an accrued plan obligation of $2.0 million.

The Limited Partnership's post-retirement and post-employment expense is determined as follows:

	For the nine months ended May 31, 2010
	Recognized in period
Current service costs	2,934
Accrued interest on benefits	2,727
Net actuarial gains	(231)
Total post-retirement benefit expense	5,430

	For the year ended August 31, 2009			For the year ended August 31, 2008		
	Incurred in year	Matching adjustments [2]	Recognized in year	Incurred in year	Matching adjustments [2]	Recognized in year
Current service costs	4,515	-	4,515	2,174	-	2,174
Accrued interest on benefits	3,147	-	3,147	2,659	-	2,659
Net actuarial losses (gains) [3]	10,767	(814)	9,953	(5,341)	9,457	4,116
Total post-retirement benefit expense	18,429	(814)	17,615	(508)	9,457	8,949

On October 30, 2009, the assumed post-retirement liability from The National Post Company had plan obligations of $1.0 million, and unamortized net actuarial gains of $0.7 million, resulting in an accrued post-retirement obligation of $1.7 million.

As a result of the CCAA proceedings described in notes 1 and 3, payments of $0.1 million on account of the Southam Executive Retirement Plan have been stayed. As a result the total liability of $7.6 million related to this plan was classified as liabilities subject to compromise.

Significant actuarial assumptions in measuring the Limited Partnership's accrued benefit obligations as at August 31, 2009 are as follows:

	Pension benefits	Post-retirement benefits	Post-employment benefits
Discount rate	6.33%	6.40%	6.40%
Rate of compensation increase	3.10%	3.10%	3.10%

Significant actuarial assumptions in measuring the Limited Partnership's benefit costs for the period ended May 31, 2010 are as follows:

	Pension benefits	Post-retirement benefits	Post-employment benefits
Discount rate	6.33%	6.40%	6.40%
Expected long-term rate of return on pension plan asset	6.60%	-	-
Rate of compensation increase	3.10%	3.10%	3.10%

Significant actuarial assumptions in measuring the Limited Partnership's benefit costs for the year ended August 31, 2009 and 2008 are as follows:

	2009		2008	
	Pension benefits	Post-retirement / employment benefits	Pension benefits	Post-retirement / employment benefits
Discount rate	6.15%	6.10%	5.60%	5.60%
Expected long-term rate of return on pension plan asset	7.00%	-	7.15%	-
Rate of compensation increase	3.70%	3.70%	2.90%	3.70%

The discount rate was estimated by applying Canadian corporate AA zero coupon bonds to the expected future benefit payments under the plans.

(1) As at August 31, 2009, none of the Limited Partnership's defined benefit pension plans were fully funded.
(2) Accounting adjustments to allocate costs to different periods to reflect the long term nature of employee future benefits.
(3) Actuarial losses of $6.7 million were recorded in 2009 as a result of a non-pension arrangement not previously recognized as a liability and expense in Canwest LP's financial statements (note 28).

22. PARTNERS' CAPITAL (GOING CONCERN BASIS)

Canwest Limited Partnership has 158,262,703 Limited Partnership units issued and outstanding to Canwest at August 31, 2009.

Canwest (Canada) Inc., the general Partner of the Limited Partnership, holds an undivided interest of 0.001% in Canwest LP, as established by the Partnership Agreement.

Distributions were paid to Canwest based on the units outstanding, at the sole discretion of the General Partner, once the General Partner had received its pro rata share of the distribution (.001%). During the nine months ended May 31, 2010, Canwest LP paid distributions of nil to Canwest (August 31, 2009 - $45.0 million, August 31, 2008 - $166.0 million).

23. RESTRUCTURING (GOING CONCERN BASIS)

In 2008, the Limited Partnership initiated and completed certain changes in its work flow processes which resulted in the centralization of certain functions. The total cost associated with this initiative of $10.7 million was accrued in 2008, with $2.4 million remaining to be paid under the initiative.

During the year ended August 31, 2009, the Limited Partnership initiated certain initiatives in its Publishing segment, which are expected to result in a workforce reduction of 519 positions. During the year ended August 31, 2009, the Limited Partnership accrued costs of $28.8 million related to these initiatives.

The Limited Partnership has recorded the restructuring amounts in accounts payable and accrued liabilities and has expensed the workflow reduction costs in restructuring expenses as follows:

	For the nine months ended May 31, 2010	For the year ended August 31, 2009	For the year ended August 31, 2008
Restructuring liability, beginning of period	9,423	2,376	-
Accrued during the period	2,660	28,806	10,708
	12,083	31,182	10,708
Payments during the period	(5,523)	(21,759)	(8,332)
Restructuring liability, end of period	6,560	9,423	2,376

24. RELATED PARTY BALANCES AND TRANSACTIONS (GOING CONCERN BASIS)

(a) Amounts due to (from) related companies

Amounts due to (from) related companies are related to obligations incurred by Canwest LP on behalf of related companies and disbursements made on behalf of the Canwest Media Entities outside Canwest LP and are accordingly classified as operating cash flows.

Total amounts due to (from) related companies are non-interest bearing and have fixed repayment terms, except for amounts due from The National Post Company to Canwest Media Entities prior to October 30, 2009 which had no fixed repayment terms. On October 30, 2009, with the acquisition of the assets and the business of The National Post Company by Canwest LP all amounts owing from The National Post Company to Canwest Media Entities were transferred to Canwest Media and Canwest Global as they were not part of the liabilities assumed by Canwest LP (note 10).

(b) Related party transactions

As stated in note 1, the agreement on shared services and employees sets out termination dates for each of the categories of shared services identified therein, which dates range from February 28, 2010 to February 28, 2011.

Cross-promotional activities

Canwest LP and certain Canwest Media Entities are involved in cross-promotional activities whereby Canwest LP provides advertising space in its newspaper and online media to certain Canwest Media Entities, and the Limited Partnership may be provided with advertising time or space by the Canadian Broadcasting Operations.

Canwest LP entered into an agreement with the Canadian Broadcasting Operations, whereby these activities will be charged to the various entities.

For the nine months ended May 31, 2010, Canwest LP has recorded revenue of $1.3 million related to these activities (August 31, 2009 - $1.0 million, August 31, 2008 - $1.3 million)

Editorial content

Canwest LP and the Canadian Broadcasting Operations provide each other certain affiliation services related to editorial content. The Canadian Broadcasting Operations contributed editorial content to the Limited Partnership's and online interactive services, and Canadian Broadcasting Operations have access to the Limited Partnership's editorial content, information and editorial services. For editorial content activities, Canwest LP and the Canadian Broadcasting Operations provide such services on a cost-recovery basis. Canwest LP has recorded a cost recovery of $0.2 million for the nine months ended May 31, 2010 (August 31, 2009 – nil, August 31, 2008 – nil)

These cost recoveries have been included in operating expenses.

Advisory, business and administrative services

Canwest LP provides a number of services to Canwest Media and the Canadian Broadcasting Operations entities as follows:

(a) business and administrative support services to the Canadian Broadcasting Operations and Canwest Media including information technology, human resources services, accounting; *and*
(b) website support services and provision of online sales representation to the Canadian Broadcasting Operations.

Canwest LP and certain Canwest Media Entities have entered into various agreements that outline the amount of the charges or the basis on which the charges above are determined.

For the nine months ended May 31, 2010, Canwest LP recorded a recovery of $9.6 million related to services provided to the Canadian Broadcasting Operations and other Canwest Media entities (August 31, 2009 – $14.9 million, August 31, 2008 – $12.7 million).

In addition, Canwest Media provides a number of services to Canwest LP as follows:

(a) executive advisory services related to corporate development, strategic planning, capital allocation, financing, equity and debt holder relations, insurance and risk management, tax planning and certain operational matters; *and*
(b) services related to legal, tax compliance, financial reporting, internal audit, investor and public relations, treasury, human resource management, sales representation and capital asset management.

Canwest LP and Canwest Media have entered into various agreements that outline the amount of the charges or the basis on which the charges above are determined.

For the nine months ended May 31, 2010, the Limited Partnership recorded expenses of $2.2 million related to services received from Canwest Media (August 31, 2009 – $5.2 million, August 31, 2008 – $4.6 million).

In accordance with the new shared services agreement Canwest Media ceased to provide these services to Canwest LP as of May 31, 2010.

The above costs and recoveries have been included in operating expenses.

Sales and marketing services

In fiscal 2008 the sales and marketing division of Canwest provided Canwest LP with national advertising sales representation and charged a commission to Canwest LP for sales made on its behalf as well as an overhead charge. During the year ended August 31, 2008 costs associated with the national advertising sales representation were recorded in the amount of $4.8 million. There were no charges to Canwest LP during the nine months ended May 31, 2010 and the year ended August 31, 2009.

These costs have been included in operating expenses.

Occupancy costs

Canwest LP recovers occupancy costs based upon a proportionate allocation of actual costs based upon the square footage occupied by certain Broadcast operations.

The total recoveries for the nine months ended May 31, 2010 were $0.1 million (August 31, 2009 – $0.4 million, August 31, 2008 – $0.6 million).

These cost recoveries have been included in operating expenses.

All the related party transactions have been recorded at the exchange amounts, which are the amounts agreed to by the related parties.

25. FINANCIAL INSTRUMENTS AND FINANCIAL INSTRUMENTS RISK MANAGEMENT (GOING CONCERN BASIS)

As described in note 1, on July 13, 2010 the Limited Partnership sold substantially all of it's assets and certain liabilities for $1.05 billion and ceased operations. As a result the Limited Partnership is no longer subject to liquidity risk, interest rate risk, credit risk or foreign currency risk.

26. CAPITAL MANAGEMENT (GOING CONCERN BASIS)

As described in note 1, on July 13, 2010 the Limited Partnership sold substantially all of it's assets and certain liabilities for $1.05 billion and ceased operations and no longer manages it's capital.

27. CONTINGENCIES (GOING CONCERN BASIS)

Canwest LP is involved in various legal matters arising in the ordinary course of business. With the exception of insured litigation, which was excluded from the claims process, all legal matters that arose prior to January 8, 2010 will be settled in accordance with the claims process as outlined in note 3.

28. SEGMENTED INFORMATION (GOING CONCERN BASIS)

Canwest LP previously had two operating segments and two reportable segments, both in Canada, being the Newspapers segment and the Digital Media segment. The acquirer, Postmedia, has a different reporting structure from Canwest LP and as a result the segmented information is reported on a basis different from that of Canwest LP. For comparative purposes only, Canwest LP's segmented information has been reclassified to reflect Postmedia's segment reporting. Postmedia has one reportable segment for financial reporting purposes, the Newspapers segment. The Newspapers segment is comprised of the Eastern newspapers operating segment and the Western newspapers operating segment which have been aggregated. The Newspapers segment publishes daily and non-daily newspapers and operates the related newspaper websites. Its revenues are

primarily from advertising and circulation. Postmedia has other business activities and an operating segment which are not separately reportable and are referred to collectively as the All other category. Revenues in the All other category primarily consist of advertising and subscription revenues from *FPinfomart* and the website *canada.com*.

Operating expenses for the year ended August 31, 2009 include a reduction of $6.2 million for active employee health and insurance benefits and an increase of $6.7 million for non-pension benefits related to prior years for the for the Newspaper segment resulting in a net increase to operating expenses of $0.5 million. The Limited Partnership has determined this adjustment is not material to the recorded results and accordingly the adjustment has been included in net earnings (loss).

Each segment operates as a strategic business unit with separate management. Segment performance is measured primarily upon the basis of segment operating profit. Segmented information and a reconciliation from segment operating profit to earnings (loss) before income taxes are presented below. Canwest LP accounts for intersegment sales as if the sales were to third parties.

	Revenue		
	For the nine months ended	For the years ended	
	May 31, 2010 (reclassified) [1]	August 31, 2009 (reclassified) [1]	August 31, 2008 (reclassified) [1]
Newspapers	785,903	1,058,227	1,261,187
All other	28,707	45,551	41,132
Inter-segment revenues	(3,430)	(4,703)	(4,252)
	811,180	1,099,075	1,298,067

[1] Reclassified to conform to Postmedia reporting segments.

	Operating Profit [2]		
	For the nine months ended May 31, 2010 (reclassified) [1]	For the years ended August 31, 2009 (reclassified) [1]	August 31, 2008 (reclassified) [1]
Newspapers	169,621	182,264	318,145
All other	10,957	8,023	5,261
Corporate	(19,712)	(18,403)	(30,302)
	160,866	171,884	293,104
Reconciliation of segment operating profit to earnings (loss) before income taxes for the period			
Operating profit	160,866	171,884	293,104
Restructuring [3]	(2,660)	(28,805)	(10,708)
	158,206	143,079	282,396
Amortization of property and equipment	(30,592)	(40,344)	(48,571)
Other amortization	(144)	(191)	(194)
Interest expense, net	(60,633)	(98,426)	(109,296)
Other income	1,501	2,500	2,500
Gain (loss) on disposal of property and equipment	2	2,186	(590)
Loss on disposal of interest rate swaps	-	(180,202)	-
Ineffective portion of hedging derivative instrument	-	(60,112)	-
Impairment loss on masthead	-	(28,250)	-
Gain on sale of investment	-	-	1,218
Foreign currency exchange gains	49,610	154,513	504
Earnings (losses) before reorganization costs and income taxes	117,950	(105,247)	127,967
Reorganization costs [4]	(41,192)	(25,756)	-
Earnings (losses) before income taxes	76,758	(131,003)	127,967

[1] Reclassified to conform to Postmedia reporting segments.

[2] On September 1, 2009, Canwest LP began recognizing the portion of national display advertising revenues and expenses associated with the newspaper websites in the Newspapers segment. Previously, all national display advertising revenues and expenses were recognized within All other. The prior periods have not been restated as the necessary information is not available. If management had not changed the allocations, revenue for All other for the nine months ended May 31, 2010, would have been increased by $6.7 million, with a corresponding decrease to Newspapers segment revenue; and operating profit for All other for the nine months ended May 31, 2010, would have increased by $2.9 million, with a corresponding decrease to Newspapers segment operating profit.

[3] Costs related to restructuring as described in note 23.

[4] Costs related to the reorganization as described in note 6.

29. UNITED STATES ACCOUNTING PRINCIPLES (GOING CONCERN BASIS)

These consolidated financial statements have been prepared in accordance with Canadian GAAP. In certain aspects GAAP as applied in the United States ("U.S.") differs from Canadian GAAP. The following information complies with the GAAP reconciliations requirements of the Securities Exchange Commission ("SEC") as published in Form 10K, except that these consolidated financial statements do not include push down accounting in accordance with SEC regulations. No U.S. GAAP differences have been identified for the liquidation basis of accounting as at and for the period ended July 12, 2010. Amounts are in thousands of Canadian dollars, unless otherwise noted.

Principle differences affecting the Limited Partnership

c) Accounting for derivative instruments and hedging activities

Under Canadian GAAP, the Limited Partnership records the changes in fair value of cash flow hedging derivatives in other comprehensive income, to the extent effective, until the variability of cash flows relating to the hedged asset or liability is recognized in net earnings. Under US GAAP these instruments are not accounted for as hedges but instead changes in the fair value of the hedging derivative instruments are recognized in the statement of earnings immediately. As of August 31, 2009 the Limited Partnership had no hedging derivative instruments outstanding and as a result this difference does not have an effect on the period ended May 31, 2010. The U.S. GAAP reconciliation reflects the reclassification of gains on foreign currency and interest rate swaps of $45,472 from other comprehensive income for the year ended August 31, 2009 (2008 – losses of $28,350). No tax provision has been recorded as the interest rate swap was held by the Limited Partnership which is not subject to tax.

d) Pension and post-retirement liabilities

US GAAP requires employers to recognize in its balance sheet an asset for a plan's over funded status or a liability for a plan's under funded status, and recognize changes in the funded status of a defined benefit pension, post-retirement plans and post-employment plans in the year in which the changes occur through comprehensive income and a separate component of shareholders' equity. The effect on the US GAAP reconciliation for the period ended May 31, 2010 was to increase comprehensive income by $3,474 (August 31, 2009 – decrease of $9,834, August 31, 2008 – increase of $13,524) net of a future income tax recovery of nil (August 31, 2009 – nil, August 31, 2008 - provision of $4,576). In addition for the year ended August 31, 2009, the Limited Partnership recorded a future income tax provision of $14,287 to reverse future tax assets previously recorded related to pension and other post-retirement plans. In addition for the year ended August 31, 2008, tax rate changes impacted future tax related to pension and post-retirement liabilities by a provision of $3,336. There was no impact on the statement of net liabilities in liquidation as of July 12, 2010. The balance sheet effect at August 31, 2009 was to decrease other assets by $25,301, increase other accrued pension, post-retirement and other liabilities by $41,322 and increase partners' deficiency by $66,623. The pension and post-retirement liabilities for the year ended August 31, 2008 includes an accumulated comprehensive loss adjustment from the prior year of $9,584, net of tax of $3,366, related to the adoption of ASC 715. The Limited Partnership has determined this adjustment is not material to the previously reported results.

During the year ended August 31, 2009 the Limited Partnership changed the measurement date used to measure the accrued benefit obligation and the fair value of plan assets for accounting purposes to August 31. Previously the Limited Partnership used June 30 of each year. For Canadian GAAP purposes, this change in accounting policy was applied retroactively however for US GAAP in accordance with ASC 715 the Limited Partnership adopted the measurement date provisions by remeasuring the plan assets and accrued benefit obligation at August 31, 2008. Other changes in the fair value of plan assets and accrued benefit obligations resulting from the change in measurement date of $2,496 were recorded in opening AOCL. The effect on September 1, 2008 was an increase in partner's deficiency of $2,438 net of tax of $800. The effect on the US GAAP reconciliation for the year ended August 31, 2008 was to increase net earnings by $1,190 net of future income tax provision of $403.

e) Enacted tax rates

Under *ASC 740, Income Taxes*, future tax liabilities should be adjusted for the effect of change in tax laws or tax rates in the period in which the changes are enacted. Under Canadian GAAP, the change in tax laws or tax rates are reflected when the change is substantively enacted. For the periods ended July 12, 2010 and May 31, 2010 and the years ended August 31, 2009 and 2008, there were no differences in the rates to be used under U.S. and Canadian GAAP.

d) Consolidated Statement of Cash Flows

The Limited Partnership's consolidated statement of cash flows is prepared in accordance with Canadian GAAP, which is consistent with the principles for cash flow statements in International Accounting Standard No. 7, Cash Flow Statements. Consistent with the accommodation provided by the Securities and Exchange Commission for a GAAP reconciliation, the Limited Partnership has not provided a reconciliation of cash flows to US GAAP.

e) Debt Issuance Costs

Under Canadian GAAP debt issuance costs recorded in the consolidated financial statements are included in long term debt and recognized in earnings using the effective interest method. Under US GAAP, debt issuance costs are classified as an asset. This difference as at July 12, 2010 had no effect on the US GAAP reconciliation. As at August 31, 2009, the effect on the US GAAP reconciliation would be an increase to other assets of $15,462 with an offsetting increase to the current portion of long-term debt

f) Other US GAAP disclosures

The following amounts are included in operating expenses:

	For the nine months ended May 31, 2010	For the twelve months ended August 31, 2009	August 31, 2008
Selling, general and administrative expenses	319,957	468,438	499,670
Rent	9,578	13,230	11,577

The following amounts are included in accounts payable and accrued liabilities:

	As at August 31, 2009
Accrued interest payable	39,349
Employment related accruals	52,970

Comparative Reconciliation of Net Earnings (Loss) (Going Concern Basis)

The following is a reconciliation of net earnings (loss) reflecting the differences between Canadian and US GAAP:

	For the nine months ended	For the years ended	
	May 31, 2010	August 31, 2009	August 31, 2008
Net earnings (loss) in accordance with Canadian GAAP	94,869	(122,110)	128,381
Gains (losses) on foreign currency and interest rate swaps (a)	-	45,472	(28,350)
Reversal of Canadian GAAP change in measurement date (b)	-	-	1,190
Tax effect of adjustments and tax rate changes (b)	-	(14,287)	(3,336)
Net earnings (loss) for the period in accordance with US GAAP	94,869	(90,925)	97,885

Consolidated Statement of Comprehensive Income (Loss) (Going Concern Basis)

The following is a reconciliation of comprehensive income (loss) reflecting the differences between Canadian and US GAAP:

	For the nine months ended	For the twelve months ended	
	May 31, 2010	August 31, 2009	August 31, 2008
Comprehensive income (loss) in accordance with Canadian GAAP	94,869	(76,638)	100,031
Impact of US GAAP differences on net income	-	31,185	(31,686)
	94,869	(45,453)	68,345
Accounting for derivative instruments and hedging activities (a)	-	(45,472)	28,350
Pension and post-retirement liabilities (b)	3,474	(9,834)	18,100
Reversal of Canadian GAAP change in measurement date (b)	-	-	1,190
Tax effect on adjustments (b)	-	-	(4,576)
	3,474	(55,306)	43,064
	98,343	(100,759)	111,409

262

Accumulated other comprehensive loss (Going Concern Basis):

	Hedging Derivative Instruments	Pension and post-retirement liabilities	Total
Accumulated other comprehensive loss - August 31, 2007	-	(58,020)	(58,020)
Adjustment to adoption of SFAS 158 (b)	-	9,584	9,584
Other comprehensive loss in accordance with Canadian GAAP	(28,350)	-	(28,350)
Change during the period	28,350	13,524	41,874
Accumulated other comprehensive loss - August 31, 2008	-	(34,912)	(34,912)
Other comprehensive loss in accordance with Canadian GAAP	45,472	-	45,472
Change in measurement date per SFAS 158 (b)	-	(2,496)	(2,496)
Change during the period	(45,472)	(9,834)	(55,306)
Accumulated other comprehensive loss - August 31, 2009	-	(47,242)	(47,242)
Change during the period	-	3,474	3,474
Accumulated other comprehensive loss - May 31, 2010	-	(43,768)	(43,768)

Comparative Reconciliation of Partners' Deficiency (Going Concern Basis)

A reconciliation of partners' deficiency reflecting the differences between Canadian and US GAAP is set out below:

	As at May 31, 2010	As at August 31, 2009	As at August 31, 2008
Partners' deficiency in accordance with Canadian GAAP	(993,841)	(1,229,030)	(1,107,390)
Reversal of Canadian GAAP change in measurement date (b)	-	-	2,438
Pension and post-retirement liabilities (b)	(63,149)	(66,623)	(54,293)
Tax effect of adjustments and tax rate changes	-	-	14,287
Partners' deficiency in accordance with US GAAP	(1,056,990)	(1,295,653)	(1,144,958)

263

POSTMEDIA NETWORK

Head Office
1450 Don Mills Road
Toronto, Ontario
Canada M3B 2X7
416-383-2300

www.postmedia.com
(c)2011 Postmedia Network Canada Corp. All rights reserved.

Investor Relations
Doug Lamb
EVP and Chief Financial Officer
dlamb@postmedia.com

General Inquiries
Phyllise Gelfand
Director of Communications
pgelfand@postmedia.com

PN Follow postmedianet on Twitter

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

Court File No. CV-10-8533-00CL

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT of CANWEST PUBLISHING INC./PUBLICATIONS CANWEST INC., CANWEST BOOKS INC., and CANWEST (CANADA) INC.

ONTARIO
SUPERIOR COURT OF JUSTICE
[COMMERCIAL LIST]

Proceeding commenced at Toronto

MOTION RECORD
of the CanWest Salaried Employees and Retirees (CSER) Group

SHIBLEY RIGHTON LLP
Barristers & Solicitors
700-250 University Avenue
Toronto, Ontario
M5H 3E5

Thomas McRae
LSUC No. 32375U
Tel: 416-214-5206
Fax: 416-214-5400

Lawyers for the Canwest Salaried Employees and Retirees Group