

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR  
ARRANGEMENT OF CANWEST PUBLISHING  
INC./PUBLICATIONS CANWEST INC., CANWEST BOOKS  
INC., AND CANWEST (CANADA) INC.

APPLICANTS

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**MOTION RECORD  
(Re AHC Plan Sanction)**

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June 14, 2010

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ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF CANWEST PUBLISHING  
INC./PUBLICATIONS CANWEST INC., CANWEST BOOKS INC. AND CANWEST (CANADA)

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INC., AND CANWEST (CANADA) INC.**

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**WORKERS' COMPENSATION BOARD OF ALBERTA**

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**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR  
ARRANGEMENT OF CANWEST PUBLISHING  
INC./PUBLICATIONS CANWEST INC., CANWEST BOOKS  
INC., AND CANWEST (CANADA) INC.

APPLICANTS

**INDEX**

<b>TAB #</b>	<b>DOCUMENT</b>	<b>PAGE #</b>
1	Notice of Motion, dated June 14, 2010	1 – 8
2	Affidavit of Douglas E.J. Lamb, sworn June 14, 2010	9 - 28
A	Exhibit “A” – Affidavit of Douglas E.J. Lamb, sworn May 10, 2010 (without exhibits)	29 - 65
B	Exhibit “B” – Initial Order (without schedules) dated January 8, 2010	66 - 103
C	Exhibit “C” – Creditors’ Meeting Order, dated May 17, 2010	104 - 120
D	Exhibit “D” – Consolidated Plan of Compromise, dated May 20, 2010 (without Schedule)	121 - 160
E	Exhibit “E” – News Release of Canwest Global Communications Corp. Dated June 10, 2010	161 - 163
F	Exhibit “F” – Amended Consolidated Plan of Compromise, dated May 20, 2010 (with Schedule “A”)	164 – 247
G	Exhibit “G” – Assignment and Amending Agreement, dated June 10, 2010	248 – 261
H	Exhibit “H” – Order Amending the Initial Order and Approving Certain Employee Arrangements, dated March 26, 2010	262 - 266

<b>TAB #</b>	<b>DOCUMENT</b>	<b>PAGE #</b>
I	Exhibit "T" – CRA Retainer Letter, dated November 1, 2009	267 - 286
J	Exhibit "J" – Amending CRA Retainer Letter, dated as of July 1, 2010	287 - 292
3	Draft Plan Sanction Order	293 – 320
4	Draft Vesting Order	321 - 360

# TAB 1

Court File No. CV-10-8533-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR  
ARRANGEMENT OF CANWEST PUBLISHING  
INC./PUBLICATIONS CANWEST INC., CANWEST BOOKS  
INC., AND CANWEST (CANADA) INC.

APPLICANTS

**NOTICE OF MOTION**

The Applicants will make a motion to a judge presiding over the Commercial List on June 18, 2010 at 10:00 a.m., or as soon after that time as the motion can be heard, at 330 University Avenue, Toronto, Ontario.

**PROPOSED METHOD OF HEARING:**

The motion is to be heard orally.

**THE MOTION IS FOR:**

1. an Order, substantially in the form to be attached to the Motion Record (the "**AHC Sanction Order**"):
  - (a) abridging, if necessary, the time for service of this Notice of Motion and the Motion Record and dispensing with service on any person other than those served;
  - (b) declaring that the meeting of affected creditors on June 14, 2010 (the "**Creditors Meeting**") was duly convened and held;
  - (c) sanctioning and approving the consolidated plan of compromise of the LP Entities (as defined below) dated May 20, 2010, as amended (the "**Amended AHC Plan**");



- (d) approving the asset purchase agreement dated May 10, 2010 between the LP Entities, 7535538 Canada Inc. (“**Holdco**”) and CW Limited Partnership (the “**Purchaser**”) as amended by the Assignment and Amending Agreement dated June 10, 2010 between the LP Entities, 7536321 Canada Inc. (“**New Purchaser**”), Holdco and the Purchaser (the “**Amended AHC APA**”);
  - (e) authorizing certain senior employees of the LP Entities to take such additional corporate steps as are necessary or desirable to implement the AHC Plan;
  - (f) compromising, discharging and releasing the claims of Affected Creditors (as defined below);
  - (g) extending the stay of proceedings to the Final Distribution Date (as defined in the Amended AHC Plan) or December 31, 2010, whichever date is earlier;
  - (h) approving the activities of FTI Consulting Canada Inc., as Court-appointed monitor of the LP Entities (the “**Monitor**”), as set out in the Sixth Report of the Monitor dated April 6, 2010, the Seventh Report of the Monitor dated May 10, 2010, the Supplement to the Seventh Report of the Monitor dated May 16, 2010, the Eighth Report of the Monitor dated June 3, 2010, the Supplement to the Eighth Report of the Monitor dated June 10, 2010 and the Ninth Report of the Monitor dated June 3, 2010; and
  - (i) approving the fees and disbursements of the Monitor and its counsel;
2. an Order (the “**Vesting Order**”), substantially in the form to be attached to the Motion Record, vesting in New Purchaser or its nominee the LP Entities’ right, title and interest in the assets to be acquired by New Purchaser pursuant to the Amended AHC APA; and
3. such further and other relief as counsel may request and this Honourable Court may permit.

**THE GROUNDS FOR THIS MOTION ARE:**

4. Each of Canwest Publishing Inc./Publications Canwest Inc., Canwest (Canada) Inc. and Canwest Books Inc. (collectively, the “**Applicants**”) is a company to which the

*Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-26, as amended (the "CCAA") applies;

5. The Applicants were granted protection from their creditors under the CCAA pursuant to an Initial Order of this Honourable Court dated January 8, 2010. The protections of the Initial Order were also extended to Canwest Limited Partnership/Canwest Société en Commandite (the "**Limited Partnership**") and together with the Applicants, the "**LP Entities**";

6. FTI Consulting Canada Inc. was appointed as Monitor of the LP Entities pursuant to the Initial Order;

7. The Initial Order authorized the LP Entities to conduct a sale and investor solicitation process (the "**SISP**") with the objective of soliciting offers for the acquisition or recapitalization of the businesses of the LP Entities that were superior to the terms of a pre-arranged support transaction with the LP Entities' senior lenders;

8. The SISP commenced on January 11, 2010 and was conducted in two phases;

9. At the end of Phase 2 of the SISP, RBC Capital Markets (the "**Financial Advisor**") received three binding offers, one of which was an offer (the "**AHC Bid**") by members of an *ad hoc* committee of holders of 9.25% notes issued by the LP Entities (the "**Ad Hoc Committee**") to acquire substantially all of the financial and operating assets of the LP Entities and the shares of National Post Inc. on a going concern basis for an effective purchase price of \$1.1 billion;

10. In its review of the three offers, the Monitor determined that only the AHC Bid was a credible, certain and financially viable offer and a Superior Offer. The Financial Advisor and the LP CRA agreed with this assessment;

11. The terms of the transaction (the "**AHC Transaction**") contemplated by the AHC Bid are contained in an asset purchase agreement dated as of May 10, 2010 between the LP Entities, 7535538 Canada Inc. ("**Holdco**") and CW Acquisition Limited Partnership (as amended, the "**Amended AHC APA**");

12. The AHC Transaction was approved in an Order dated May 17, 2010;

13. In another Order dated May 17, 2010 (the “**Creditors’ Meeting Order**”), the LP Entities were authorized to file a plan of compromise or arrangement and to call the Creditors’ Meeting for the purpose of considering and, if thought advisable, a vote on such plan;

14. On May 21, 2010, the LP Entities filed a consolidated plan of compromise (the “**AHC Plan**”), the basis of which is the AHC Transaction;

15. On May 20 and May 21, 2010, the Monitor sent or made available to creditors affected by the AHC Plan (the “**Affected Creditors**”) notice of the Creditors’ Meeting to be held on June 10, 2010 and other meeting-related materials;

16. On June 7, 2010, the Ad Hoc Committee requested that certain changes be made to the terms of the AHC Transaction, including changes to the capital and corporate structures of Holdco and the Purchaser;

17. The changes proposed by the Ad Hoc Committee and additional changes proposed by the LP Entities relating to the mechanic for the distribution of shares in Holdco to Affected Creditors require that amendments be made to the AHC Plan and the AHC APA;

18. The LP Entities, Holdco, the Purchaser and New Purchaser have entered into the Assignment and Amending Agreement made as of June 10, 2010 pursuant to which, among other things, the Purchaser has assigned its interest in the AHC APA to New Purchaser. The AHC APA, together with the Assignment and Amending Agreement, is referred to as the “Amended AHC APA”;

19. In order to permit Affected Creditors an opportunity to consider the proposed amendments to the AHC Plan, the Monitor adjourned the Creditors’ Meeting to Monday, June 14, 2010;

20. On June 10, 2010, the Monitor made available or communicated to Affected Creditors the Amended AHC Plan and the Amended AHC APA;

21. The proxy for one or more holders of the 9.25% notes issued by the LP Entities intends to table a resolution to approve the Amended AHC Plan at the Creditors’ Meeting on June 14, 2010;

22. Subject to approval of the Amended AHC Plan at the Creditors' Meeting by the required majorities of Affected Creditors and ratification of the amendments to the Amended AHC Plan and the Amended AHC APA by the Special Committee of Canwest Global Communications Corp., the LP Entities are seeking immediate sanction of the Amended AHC Plan and approval of the amendments to the AHC APA;

23. It is critical that the Amended AHC Plan be sanctioned immediately so that it may be implemented on or before July 14, 2010 because the debt financing commitments of certain of the members of the Ad Hoc Committee will expire on July 15, 2010;

24. The AHC Transaction, as amended, and the Amended AHC Plan are in the best interests of the LP Entities and their stakeholders;

25. The Monitor and the Financial Advisor are of the view that the amendments to the AHC Plan and the AHC APA should be beneficial to the Affected Creditors, including by increasing the implied value of the equity in Holdco;

26. The Amended AHC Plan is fair and reasonable;

27. There has been compliance with all statutory requirements and adherence to the previous orders of the Court. Nothing has been done or purported to be done that is not authorized by the CCAA and in particular, the Amended AHC Plan conforms to the prerequisites for sanction set out in the CCAA;

28. The stay of proceedings (the "Stay Period") granted in the Initial Order and extended by subsequent Orders will expire on June 30, 2010;

29. The AHC Transaction is scheduled to close on July 14, 2010;

30. The stability provided by the Stay Period is critical to the final implementation of the AHC Transaction pursuant to the Amended AHC Plan and the Amended AHC APA;

31. The Monitor will be providing an updated cash flow forecast to September 5, 2010 demonstrating that the LP Entities can continue to fund this proceeding through that date;

32. The LP Entities have acted and are continuing to act in good faith and with due diligence in carrying out the terms of the Initial Order and the other Orders of the Court granted in this proceeding;

33. The Monitor and its counsel have substantially assisted the LP Entities in achieving their restructuring objectives;

34. The fees and disbursements of the Monitor and its counsel appear to be reasonable in the circumstances;

35. This motion is supported by the Monitor and the LP CRA;

36. The provisions of the CCAA and the inherent and equitable jurisdiction of this Honourable Court;

37. Rules 1.04, 1.05, 2.03, 3.02 and 37 of the *Rules of Civil Procedure*, R.R.O. 1990, Reg. 194, as amended; and

38. Such further and other grounds as counsel may advise and this Honourable Court may permit.

**THE FOLLOWING DOCUMENTARY EVIDENCE** will be used at the hearing of the motion:

39. The Affidavit of Douglas E.J. Lamb, to be sworn and filed separately, and the exhibits thereto;

40. The Eight Report of the Monitor, dated June 3, 2010;

41. The Supplement to the Eighth Report of the Monitor, dated June 10, 2010;

42. The Tenth Report of the Monitor, to be filed; and

43. Such further and other materials as counsel may advise and this Honourable Court may permit.

June 11, 2010

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TO: THE SERVICE LIST

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C., 1985, c.C-36,  
AS AMENDED  
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF CANWEST  
PUBLISHING INC./PUBLICATIONS CANWEST INC., CANWEST BOOKS INC. AND  
CANWEST (CANADA) INC.

Court File No: CV-10-8533-00CL

APPLICANTS

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

Proceeding commenced at Toronto

**NOTICE OF MOTION  
(Returnable June 18, 2010)**

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## TAB 2



Court File No. CV-10-8533-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR  
ARRANGEMENT OF CANWEST PUBLISHING  
INC./PUBLICATIONS CANWEST INC., CANWEST BOOKS  
INC., AND CANWEST (CANADA) INC.

APPLICANTS

**AFFIDAVIT OF DOUGLAS E.J. LAMB  
(Sworn June 14, 2010)**

I, Douglas E.J. Lamb, of the City of Toronto, in the Province of Ontario, MAKE  
OATH AND SAY:

1. I am a senior employee of Canwest Publishing Inc./Publications Canwest Inc. (“CPI”). My principal areas of responsibility include the finance and accounting functions within the LP Entities. As such, I have personal knowledge of the matters deposed to herein. Where I have relied upon other sources for information, I have specifically referred to such sources and verily believe them to be true. In preparing this Affidavit, where necessary I have also consulted with other members of the senior management team of Canwest Global Communication Corp. (“**Canwest Global**”) and members of the senior management teams of the Applicants and Canwest Limited Partnership/Canwest Société en Commandite (“**Canwest Limited Partnership**”) and together with the Applicants, the “**LP Entities**”).

2. Capitalized terms not defined in this affidavit are as defined in my affidavit sworn May 10, 2010 (the “**AHC Bid Affidavit**”). A copy of the Ad Hoc Committee Bid Affidavit (without exhibits) is attached as Exhibit “A” to this Affidavit.

3. On May 21, 2010, the LP Entities filed a consolidated plan of compromise (the “**AHC Plan**”), the basis of which is a transaction (the “**AHC Transaction**”) in which an entity sponsored by an *ad hoc* committee of holders of 9.25% notes issued by Canwest Limited

Partnership and members of the syndicate of lenders that are parties to Canwest Limited Partnership's senior subordinated credit agreement (the "**Ad Hoc Committee**") will acquire substantially all of the financial and operating assets of the LP Entities on a going concern basis. A meeting of creditors to consider and vote on the AHC Plan (the "**Creditors' Meeting**") was originally called for Thursday, June 10, 2010.

4. On June 7, 2010, the Ad Hoc Committee approached the LP Entities and the Monitor to request that certain changes be made to the terms of the AHC Transaction, including changes that would require amendment of the AHC Plan. On June 9, 2010, in order to permit the creditors affected by the AHC Plan (the "**Affected Creditors**") an opportunity to consider the proposed amendments in advance of a vote, the Monitor adjourned the Creditors' Meeting to Monday, June 14, 2010.

5. At the Creditors' Meeting on June 14, 2010, the Ad Hoc Committee tabled a resolution to approve the Amended AHC Plan (as defined below). The Amended AHC Plan was overwhelmingly approved by the Affected Creditors.

6. In this motion, the LP Entities are seeking two Orders:

- (a) an Order sanctioning the Amended AHC Plan, authorizing and directing representatives of the LP Entities to take such additional steps as are necessary or desirable to implement the Amended AHC Plan and compromising, discharging and releasing the claims of Affected Creditors (the "**AHC Plan Sanction Order**"); and
- (b) an Order vesting in the Purchaser or its nominee the LP Entities' right, title and interest in the assets described in the AHC APA (as defined below) (the "**Vesting Order**").

7. Sanction of the Amended AHC Plan is a very important step toward a successful going concern restructuring of the LP Entities. Assuming that the Amended AHC Plan is sanctioned and other closing conditions to the AHC Transaction are met, the businesses currently carried on by the LP Entities will continue to operate and the Acquired Assets (as described herein) will be sold to repay the secured debt of the LP Entities in full. Current employees will keep their jobs, collective bargaining agreements and substantially all pension plans and

employee benefit plans will be assumed by the Purchaser and Affected Creditors will receive distributions (including cash payment in full to the smallest creditors of the LP Entities). If the Amended AHC Plan is not sanctioned, the Amended AHC Plan will fail and the LP Entities will pursue the Support Transaction pursuant to which unsecured creditors will realize no recovery.

8. For the reasons set out in this affidavit, I believe that the Amended AHC Plan is fair and reasonable and that there will be no prejudice to any Affected Creditor as a result of the consolidation of the LP Entities' assets and liabilities. This affidavit is sworn in support of the LP Entities' motion.

### **Background, the SISP and the AHC Offer**

9. On January 8, 2010, CPI, Canwest Books Inc. and Canwest (Canada) Inc. were granted protection under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") pursuant to an initial order of this Honourable Court (the "**Initial Order**"). The Initial Order also extended protection to Canwest Limited Partnership and appointed FTI Consulting Canada Inc. as monitor of the LP Entities (the "**Monitor**"). A copy of the Initial Order (without schedules) is attached as Exhibit "B" to this Affidavit.

10. Prior to filing for CCAA protection, the LP Entities and their Senior Lenders negotiated the terms of a pre-packaged restructuring transaction (the "**Support Transaction**") pursuant to which the Senior Lenders would acquire the businesses of the LP Entities in substantial satisfaction of their outstanding secured claims. The terms of certain agreements and arrangements between the LP Entities and the LP Administrative Agent, including with respect to the Support Transaction, are contained in a Support Agreement dated as of January 8, 2010. The Support Agreement provided, among other things, that the LP Entities would: file for protection under the CCAA; take steps to implement the Support Transaction; and conduct a sale and investor solicitation process (the "**SISP**") for the purpose of identifying a superior offer for the acquisition or recapitalization of the businesses of the LP Entities. The LP Entities and the Senior Lenders agreed that if a Superior Offer were identified in the SISP and accepted by the Special Committee of Canwest Global, the LP Entities would pursue the transaction contemplated by the Superior Offer.

11. Among other things, the Initial Order approved the Support Agreement and authorized the LP Entities to proceed with the SISP.

12. The SISP commenced on January 11, 2010 and proceeded in two phases for approximately 15 weeks. I am advised that on April 30, 2010, the Financial Advisor received two bids to acquire substantially all of the assets of the LP Entities and one bid to make an investment in the LP Entities. I am further advised that following its review of the three bids, the Monitor determined that only the offer received from the Ad Hoc Committee (the “**AHC Bid**”) was a credible, reasonably certain and financially viable offer and a Superior Cash Offer. The Financial Advisor and the LP CRA agreed with this assessment.

13. The material terms of the AHC Bid are contained in an asset purchase agreement between 7535538 Canada Inc. (“**Holdco**”), CW Acquisition Limited Partnership (the “**Purchaser**”) and the LP Entities dated as of May 10, 2010 (the “**AHC APA**”). Pursuant to the AHC APA, a corporation sponsored by members of the Ad Hoc Committee will effect a transaction to acquire substantially all of the financial and operating assets of the LP Entities and the shares of National Post Inc. (the “**Acquired Assets**”) on an “as is, where is” basis and assume certain specified liabilities (the “**Assumed Liabilities**”). The effective purchase price under the AHC APA is approximately \$1.1 billion, which includes satisfaction of the entire amount owing to the Senior Lenders. As described in greater detail below, between the date when the AHC Plan was filed and the date of the Creditors’ Meeting, the Ad Hoc Committee requested that certain changes be made to the capital and corporate structures of Holdco and the Purchaser. These changes are reflected in amendments to the AHC Plan and the AHC APA.

14. It is a condition precedent to the closing of the AHC Transaction that the AHC Plan be approved by the Affected Creditors and sanctioned by the Court.

15. The AHC APA contemplates that the Purchaser will:

- (a) continue to operate all of businesses of the LP Entities in substantially the same manner as they are currently operated; and
- (b) offer employment to substantially all of the employees of the LP Entities and assume substantially all of the pension liabilities (except the SERA claims) and other benefits of employees who will be employed by the Purchaser.

16. On May 17, 2010, the LP Entities were granted an order (the “**Order Approving the AHC Transaction**”) approving the AHC Transaction and authorizing the LP Entities to enter into the AHC APA and take whatever additional steps were necessary or desirable to implement the AHC Transaction and effect the transfer of Acquired Assets to the Purchaser.

17. As described in further detail in the AHC Bid Affidavit, the LP Entities intend to pursue the AHC Transaction and the Support Transaction in parallel so that the Support Transaction is available in the event that the AHC Transaction cannot be implemented. On May 17, 2010, the LP Entities also obtained an order (the “**Conditional Credit Acquisition Sanction, Approval and Vesting Order**”) sanctioning the Senior Lenders’ CCAA Plan but providing that the Senior Lenders’ CCAA Plan is not effective until after delivery of a certificate by the Monitor (the “**Monitor’s Credit Bid Sanction Certificate**”). The Monitor’s Credit Bid Sanction Certificate will not be delivered if the AHC Transaction closes.

## **The AHC Plan**

18. The AHC Transaction is to be implemented pursuant to a consolidated plan of compromise, as amended, between the LP Entities and certain of their unsecured creditors. By Order dated May 17, 2010 (the “**Creditors’ Meeting Order**”), the Court authorized the LP Entities to file the AHC Plan and call a meeting of creditors for the purpose of considering and, if thought advisable, voting on the AHC Plan. A copy of the Creditors’ Meeting Order (without schedules) is attached as Exhibit “C” to this Affidavit.

19. In accordance with the terms of the Creditors’ Meeting Order, the LP Entities filed the AHC Plan on May 21, 2010 after receiving a one day filing extension from the Honourable Madam Justice Pepall. A copy of the AHC Plan, without schedules, is attached as Exhibit “D” to this Affidavit.

20. The purposes of the AHC Plan are to:

- (a) effect a compromise, settlement and payment of all Affected Claims;
- (b) implement the AHC Transaction;
- (c) enable the Purchaser to continue to operate the businesses of the LP Entities and National Post Inc. as going concerns; and

(d) safeguard substantial employment.

21. The only creditors whose claims will be affected by the AHC Plan are those creditors whose claims are included and being quantified and determined in the claims process (the “**LP Claims Process**”) that is being conducted pursuant to an order of this court dated April 12, 2010 (as amended by the Order dated May 17, 2010, the “**Amended Claims Procedure Order**”). The Affected Creditors include all creditors with claims against the LP Entities, whether arising before or after January 8, 2010, with the exception of secured claims, insured claims, grievances (or claims arising under collective bargaining agreements), claims of the Senior Lenders and the DIP Lenders, intercompany claims, claims secured by the Charges (as defined in the Initial Order) and claims by The Bank of Nova Scotia in connection with its provision of cash management services to the LP Entities.

22. For the purposes of considering and voting on the AHC Plan and for receiving distributions under the AHC Plan, there is a single class of Affected Creditors. The procedures for determining the validity and quantum of the claims of Affected Creditors are set out in the Amended Claims Procedure Order and the Creditors’ Meeting Order. The AHC Plan does not compromise Unaffected Claims (as defined in the AHC Plan).

23. The only Affected Creditors that are entitled to vote on and receive distributions under the AHC Plan are those whose claims have been proven (each a “**Proven Claim**”) pursuant to the terms of the Amended Claims Procedure Order. The Amended Claims Procedure Order also permits certain Affected Creditors whose claims are provisionally allowed by the LP Entities for voting purposes but not finally determined for distribution purposes to participate in the vote on the AHC Plan.

24. Affected Creditors of the LP Entities may receive up to \$1,000 in full satisfaction of the certain amount of their claims. Affected Creditors with claims in excess of \$1,000 may elect (a “**Cash Election**”) to receive \$1,000 in full satisfaction of their claims. Affected Creditors with claims that are less than or equal to \$1,000 are deemed to have made a Cash Election, and will receive a cash payment equal to the full amount of their claims. The cash amount to be paid to an Affected Creditor with a Proven Claim that has made or is deemed to have made a Cash Election is referred to as the “**Cash Elected Amount**”.

### **Plan Implementation**

25. Subject to Court sanction, the AHC Plan will be implemented on the date on which all conditions precedent to implementation contained in the AHC APA are satisfied or, if permitted, waived (the “**Plan Implementation Date**”). The AHC Plan provides that on the Plan Implementation Date, among other things:

- (a) the Monitor will release from escrow to the LP Administrative Agent the deposit owing to the Senior Lenders;
- (b) the Purchaser will pay to the LP Administrative Agent all amounts owing under the LP Credit Agreement and will pay to the administrative agent under the DIP Facility, on behalf of and for the account of CPI, any amounts owing under the DIP Facility;
- (c) the Purchaser will pay to the Monitor the aggregate of all Cash Elected Amounts;
- (d) Holdco will issue Shares (as defined below) to CPI and the Monitor will administer the distribution of the Shares;
- (e) the Purchaser will assume the Assumed Liabilities;
- (f) all right, title and interest of the LP Entities in the Acquired Assets will vest in the Purchaser; and
- (g) the charges established by the Initial Order will be terminated, discharged and released.

26. In addition, on the Plan Implementation Date a reserve (the “**Administrative Reserve**”) in an amount not to exceed \$25 million to be held by the Monitor in a dedicated account will be established out of the cash and cash equivalents of the LP Entities. The Administrative Reserve is intended to be used to pay specified administrative costs and priority claims and to provide sufficient funding for post-closing activities of the Monitor including but not limited to the resolution of disputed claims, the distribution of Shares (as defined below), the administration of the payment of the Cash Elected Amount and the funding for a bankruptcy of the LP Entities after the closing of the AHC Transaction. Any balance remaining in the reserve after the wind down of the LP Entities’ estate will go to the Purchaser. The LP Entities will

return to Court in advance of the Plan Implementation Date to seek an order establishing the terms for administration of the Administrative Reserve.

27. The AHC Plan also provides that on the Plan Implementation Date, the LP Entities, the Monitor, FTI Consulting Canada Inc., the LP CRA, the Special Committee, the U.S. and Canadian Trustees, the Senior Lenders, the Ad Hoc Committee and all present and former shareholders, officers and directors (including deemed and *de facto* officers and directors) of those parties will receive a global release and discharge. Upon repayment of the full amounts owing under the LP Credit Agreement, the Hedging Agreements, the Collateral Agency Agreement and the DIP Credit Agreement (all as defined in the AHC Plan), the Senior Lenders will also be discharged from any claims that an LP Entity, any secured or unsecured creditor of any of the LP Entities or any other person may be entitled to assert arising out of dealings between the Senior Lenders and the LP Entities or their involvement in the CCAA proceeding, including claims for costs and expenses made by the agent under the senior subordinated credit agreement.

### ***Distributions to Affected Creditors***

28. The AHC Plan provides for two types of distributions to Affected Creditors:

- (a) a cash distribution to those Affected Creditors that have made or are deemed to have made the Cash Election; and
- (b) a distribution of equity shares of Holdco to those Affected Creditors with Proven Claims of more than \$1,000 that have not made a Cash Election.

29. Under the original AHC Plan, approximately \$112.5 million in notional value was to be initially available for distribution to Affected Creditors as part of:

- (a) an unsecured creditors' cash pool, which will be in an amount equal to the aggregate Cash Elected Amount (the "**Unsecured Creditors' Cash Pool**"); and
- (b) an unsecured creditors' equity pool, which will be made up of shares in Holdco to be distributed to those Affected Creditors with Proven Claims that have not made a Cash Election (the "**Unsecured Creditors' Equity Pool**").



Collectively, the Unsecured Creditors' Cash Pool and the Unsecured Creditors' Equity Pool are referred to as the "**Unsecured Creditors' Pool**").

30. The AHC Plan as originally filed provided that on the Plan Implementation Date, the Purchaser would deliver a demand promissory note to the LP Entities (the "**Purchaser Note**"). In turn, the LP Entities would use the Purchaser Note to purchase common shares in Holdco with a per share value of \$13.3333. Under the original AHC Plan, up to 45% of the equity of Holdco was allocated to the Shares to be distributed to the Affected Creditors. As discussed below, under the amendments to the AHC Plan, there will no longer be a Purchaser Note, and the Shares will be issued directly to CPI to be distributed to Affected Creditors pursuant to a direction by CPI to the Monitor.

31. The Unsecured Creditors' Equity Pool will be made up of voting shares ("**Voting Shares**") and variable voting shares ("**Variable Voting Shares**"). Voting Shares will be distributed to Affected Creditors (other than LP Noteholders) that are Canadian and that have delivered declarations as to Canadian citizenship ("**Canadian Creditor Declarations**") in accordance with the AHC Plan; Variable Voting Shares will be distributed to Affected Creditors that are non-Canadian or that have not delivered Canadian Creditor Declarations and initially to the LP Noteholders. Collectively, the Voting Shares and the Variable Voting Shares are referred to as the "**Shares**".

32. The LP Entities propose that the Monitor administer the Unsecured Creditors' Pool.

33. The initial distribution to Affected Creditors is expected to commence on the later of seven days after the Plan Implementation Date or such other date as may be specified in the AHC Plan Sanction Order or the Vesting Order (the "**Initial Distribution Date**"). Because it is expected that a number of claims will still be in dispute on the Initial Distribution Date, a portion of the Unsecured Creditors' Equity Pool will be reserved for subsequent distributions. Interim distributions will take place on the last business day of each month after the Initial Distribution Date, although the Monitor will have discretion to make more frequent distributions if deemed advisable. Affected Creditors will not receive their full allocations of Shares until the earlier of ten days after all disputed claims are resolved and December 31, 2010. Any claim that is not a

Proven Claim on December 31, 2010 will be forever extinguished, barred and released without any compensation.

### **Mailing of the Meeting Notice and Meeting Materials**

34. The Creditors' Meeting Order authorized the LP Entities to conduct a meeting of Affected Creditors on June 10, 2010 at which Affected Creditors would consider and, if thought advisable, vote on a resolution to approve the AHC Plan. I am advised that on May 21 and 25, 2010, pursuant to the terms of the Creditors' Meeting Order, the Monitor published notice of the Creditors' Meeting (the "**Meeting Notice**") in the *National Post*, *The Globe & Mail*, *La Presse* and *The Wall Street Journal*. I am advised that the Monitor also sent or made available to Affected Creditors a copy of the Meeting Notice as well as instructions to Affected Creditors and blank forms of the proxy and Canadian Creditor Declaration.

35. On May 20, 2010, the LP Entities provided to Broadridge Financial Solutions Inc. copies of the AHC Plan, the related management information circular (the "**Information Circular**"), the Creditors' Meeting Order, a Canadian Creditor Declaration and a ballot to be distributed to beneficial owners of the LP Notes (collectively, the "**Solicitation Package**"). On May 21, 2010 the Monitor also posted copies of the AHC Plan, the Information Circular and other materials related to the Creditors' Meeting on the website dedicated to this CCAA proceeding.

### **Amendments to the AHC Plan and the AHC APA**

36. On or around June 7, 2010, the Ad Hoc Committee approached the LP Entities and the Monitor to request that certain modifications be made to the capital and corporate structures of the Purchaser and Holdco.

37. Pursuant to the terms of the original AHC Bid, the members of the Ad Hoc Committee sponsoring Holdco (the "**Sponsors**") were to contribute a total of \$250 million to the purchase price that would consist of \$100 million of equity and \$150 million of mezzanine debt. The terms for commitment of \$250 million in funding by the Sponsors were contained in a letter delivered to the LP Entities in connection with the AHC Bid (the "**Commitment Letter**"). The Ad Hoc Committee now proposes to eliminate the mezzanine debt component of the acquisition financing so that the contribution by the Sponsors will be made up entirely of equity in Holdco.

38. Under the revised capital structure, the notional value of the equity in Holdco will be \$400 million (an increase of \$150 million attributable to the elimination of the mezzanine debt component of the financing). The Sponsors will receive 27 million Shares with a total subscription price of \$250 million (approximately \$9.25926 per share), or approximately 67.5% of the equity of Holdco.

39. The original version of the AHC Plan filed on May 21, 2010 provided that the cash portion of the purchase price would be delivered in the form of the Purchaser Note. Instead, under the Amended AHC Plan, the Ad Hoc Committee has proposed that on the Plan Implementation Date, Holdco will issue to CPI that number of Shares equal to 13 million minus that number of Shares obtained by dividing the aggregate Cash Elected Amount by \$11.54 (the “**Share Consideration**”). This represents up to \$130 million (or 32.5%) of the notional value of the equity available in Holdco at the time of emergence. A Canwest Global press release dated June 10, 2010 announcing the proposed changes to the capital structure of Holdco is attached as Exhibit “E” to this Affidavit.

40. On June 10, 2010, counsel to the Ad Hoc Committee delivered a letter (the “**Second Amended and Restated Commitment Letter**”) revising the commitment contained in the original Commitment Letter, as amended, and describing the proposed changes to the capital structure of Holdco.

41. In connection with the changes to the capital structure of Holdco, the Ad Hoc Committee also requested that the corporate structure of the acquiring entities be changed so that the transaction would be effected through 7536321 Canada Inc. (“**New Purchaser**”), which is the general partner of CW Acquisition Limited Partnership. The Purchaser assigned all of its rights and obligations under the AHC APA to New Purchaser in the Assignment and Amending Agreement (as described below).

### **Changes to the Mechanics of Share Distribution Under the AHC Plan**

42. The LP Entities also propose to make certain changes to the AHC Transaction in respect of the mechanics of share distribution. Under the original AHC Plan, the Affected Creditors were to receive share certificates evidencing their ownership of the Shares. The LP Entities now propose that Computershare Investor Services Inc. (“**Computershare**”) be enlisted as Holdco’s transfer agent and that Affected Creditors receive their Shares through individual

accounts (each a “**DRS Account**”) in Computershare’s Direct Registration System (“**DRS**”). Affected Creditors will not have the option to receive share certificates directly from CPI in connection with the distributions. It is anticipated that on the Initial Distribution Date and each subsequent distribution date thereafter, as applicable, Affected Creditors will receive a record from DRS evidencing the number of Shares held in each Affected Creditor’s DRS Account. There is no fee to participate in DRS, and Affected Creditors holding their Shares in DRS accounts will have all of the same privileges and rights as holders of securities in certificated form.

43. On June 11, 2010, the Monitor delivered to Affected Creditors blank forms of a letter of instruction (the “**Letter of Instruction**”) requesting DRS Account registration details from each Affected Creditor. Any Affected Creditor that does not return its completed Letter of Instruction within the prescribed time will be registered with DRS using the information contained in such Affected Creditor’s LP Proof of Claim.

#### **The Amended AHC Plan and the Amended AHC APA**

44. The changes to the terms of the AHC Transaction as contained in the Second Amended and Restated Commitment Letter and as otherwise proposed by the Ad Hoc Committee and the LP Entities require that corresponding changes be made to the AHC Plan and the AHC APA. In addition, the LP Entities have made a number of other clarifying changes and corrections to the AHC Plan since May 20, 2010. The AHC Plan, as amended (the “**Amended AHC Plan**”), along with a blackline of the Amended AHC Plan to the version filed on May 21, 2010 is attached as Exhibit “F” to this Affidavit.

45. The amendments to the AHC APA are contained in a assignment and amending agreement to be made effective as of June 10, 2010 between the LP Entities, Holdco, the Purchaser (as assignor) and the New Purchaser (as assignee) (the “**Assignment and Amending Agreement**”). The Assignment and Amending Agreement, together with the AHC APA, are referred to as the “**Amended AHC APA**”. A copy of the Assignment and Amending Agreement is attached as Exhibit “G” to this Affidavit.

### ***The Supplement to the Eighth Report and the Adjournment of the Creditors' Meeting***

46. As noted previously, the Creditors' Meeting was originally scheduled to occur on Thursday, June 10, 2010. I am advised that in order to provide Affected Creditors with an opportunity to consider the terms of the Amended AHC Plan in advance of the Creditors' Meeting, by email dated June 9, 2010 the Monitor notified the Service List that the Creditors' Meeting had been adjourned to Monday, June 14, 2010. On June 9, 2010, the Monitor also sent by email and facsimile a notice of the adjournment (the "**Notice of Adjournment**") to Affected Creditors.

47. On June 10, 2010, the Monitor delivered a supplement to its Eighth Report (the "**Supplemental Eighth Report**") providing its recommendations and conclusions in respect of the Amended AHC Plan and the Amended AHC APA. As stated in the Supplemental Eighth Report, the changes to the capital structure of Holdco are expected to have a beneficial impact on the Affected Creditors because of the \$150 million decrease in Holdco's leverage on the Plan Implementation Date caused by the removal of the mezzanine notes. Although the Shares distributed to the Affected Creditors will make up only 32.5% of the equity of Holdco (as opposed to the 45% originally contemplated), the implied value of Holdco equity is increased under the amendments to the capital structure of Holdco. As a result, the value of the percentage of the enterprise value of Holdco that will be held by the Affected Creditors will be higher than under the original AHC Plan.

48. The LP Entities are also advised by the Financial Advisor that the elimination of the mezzanine debt component of the transaction financing is expected to result in an improved credit rating for Holdco, including in respect of the debt to be issued under the Amended AHC Plan. Moreover, holders of Shares will benefit from the elimination of the 10% payment-in-kind interest that would have been annually payable on the mezzanine notes.

49. On June 10, 2010 the Monitor also made copies of the Amended AHC Plan and the Assignment and Amending Agreement available on the website dedicated to this CCAA proceeding.

### ***The Creditors' Meeting***

50. The Creditors' Meeting was held at the Sutton Place Hotel in Toronto, Ontario at 10:00 a.m. on June 14, 2010. In accordance with the terms of the Creditors' Meeting Order, Paul Bishop, an officer of FTI Consulting Canada Inc. ("**FTI**"), acted as the chair (the "**Chair**") of the Creditors' Meeting. Jodi Porepa of FTI acted as scrutineer (the "**Scrutineer**").

51. Pursuant to the terms of the Creditors' Meeting Order, Affected Creditors other than LP Noteholders participated in the Creditors' Meeting in person or by proxy. The LP Noteholders participated in the Creditors' Meeting by voting via master ballots submitted by their nominees or their nominees' agents.

52. I am advised by Paul Bishop that the Chair held 87 proxies from Affected Creditors with Proven Claims or claims that were allowed by the LP Entities for voting purposes pursuant to the terms of the Amended Claims Procedure Order, thereby satisfying the requirement that a quorum of the Affected Creditors be present either in person or by proxy. I am advised that the Chair declared that the Creditors' Meeting was properly constituted.

53. I am also advised that the tabling and voting on resolutions at the Creditors' Meeting occurred in the following order:

- (a) the Chair introduced a resolution (the "**Original Plan Resolution**") to approve the AHC Plan as originally filed;
- (b) the proxy for certain of the LP Noteholders (the "**Noteholder Proxy**") proposed an amendment to the Original Plan Resolution to reference the Amended AHC Plan rather than the AHC Plan;
- (c) the Chair seconded the motion of the Noteholder Proxy;
- (d) The Chair called for a vote on the amendment to the Original Plan Resolution;
- (e) the Affected Creditors attending in person or by proxy voted to approve the amendment to the Original Plan Resolution (as amended by the amendment, the "**Amended Plan Resolution**");

- (f) the Noteholder Proxy introduced a motion to approve the Amended Plan Resolution;
- (g) the Chair seconded the motion to approve the Amended Plan Resolution; and
- (h) the Chair called for a vote on the Amended Plan Resolution.

54. The form of proxy approved by this Honourable Court as part of the Creditors' Meeting Order provides that the nominee pursuant to the proxy may vote at the nominee's discretion and otherwise act for and on behalf of the undersigned Affected Creditor with respect to any amendments or variations to the AHC Plan (as it then was) and to any other matters that may come before the meeting of Affected Creditors of the LP Entities or any adjournment thereof. The Beneficial Owner Ballot contains a similar proxy direction in respect of amendments or variations to the AHC Plan (as it then was), although the Noteholder Proxy is Jay Swartz of Davies, Ward, Phillips & Vineberg LLP, counsel to the Ad Hoc Committee. The Chair and Mr. Swartz were therefore empowered to act in respect of the amendments to the AHC APA on behalf of the respective Affected Creditors that appointed them as proxies.

55. According to the results of the Monitor's tabulation, in total, 97% in number representing 99% in value of the Affected Creditors holding Proven Claims that were present in person or by proxy and voting at the Creditors' Meeting voted to approve the Amended Plan Resolution. Pursuant to the Creditors' Meeting Order, the Amended Plan Resolution had to be approved by a majority in number and two thirds in value of the Affected Creditors holding Proven Claims that were present and voting at the Creditors' Meeting (the "**Required Majority**"). The Required Majority voted in favour of the Amended Plan Resolution and therefore approved the Amended AHC Plan.

56. I am advised that in advance of the return date for this motion, the Monitor is intending to deliver a report (the "**Tenth Report**") detailing the conduct and the outcome of the Creditors' Meeting.

57. By written resolution dated June 14, 2010, after being advised of the results of the vote of the Affected Creditors, the Special Committee of Canwest Global Communications Corp. ratified the Amended AHC Plan and the Amended AHC APA.

## **Extension of the Stay Period to Final Distribution Date**

58. The stay of proceedings granted in the Initial Order (the “**Stay Period**”), as extended by subsequent Orders, expires on June 30, 2010. The LP Entities propose to extend the Stay Period to July 30, 2010, provided that if the Plan Implementation Date occurs on or before July 30, 2010 then the Stay Period will be extended to the Final Distribution Date.

59. This extension of the Stay Period is required because the stability provided by the stay of proceedings is essential to the final implementation of the Amended AHC Plan.

60. Since the granting of the Initial Order the LP Entities have continued to operate their businesses as going concerns. The LP Entities have acted and continue to act in good faith and with due diligence in carrying out the terms of the Initial Order and in seeking to secure a going concern outcome for the businesses of the LP Entities through the conduct of the SISP and the pursuit of the AHC Transaction and the proposed sanction of the Amended AHC Plan.

61. The Monitor will be filing its Tenth Report in connection with this motion. The Tenth Report will provide updated cash flow forecasts to August 15, 2010 demonstrating that the LP Entities are able to continue to fund this CCAA proceeding through that time. I am advised that an updated cash flow forecast will be provided post-closing.

62. The LP Entities have consulted with the Ad Hoc Committee and the Purchaser, and neither of them opposes the request to extend the Stay Period. I have also been advised that the Monitor and the LP CRA also support the request to extend the Stay Period.

## **Plan Sanction and Vesting of Acquired Assets**

63. The Required Majority voted in favour of the Amended AHC Plan, so the LP Entities are now seeking immediate sanction of the Amended AHC Plan and approval of the Amended AHC APA. The LP Entities are also seeking the Vesting Order, which provides for the vesting of the Acquired Assets in New Purchaser or its nominee upon delivery of a Monitor’s certificate (the “**Monitor’s Certificate**”) stating that the Monitor has been advised that all of the conditions to closing have been satisfied. The LP Entities have provided notice of this motion to all creditors whose rights will be affected by the Vesting Order.



64. It is critical that the Amended AHC Plan be sanctioned on June 18, 2010. At present, the commitments of certain of the lenders participating in the debt financing may expire on July 15, 2010. Specifically the financing commitment that was delivered as part of the AHC Bid was predicated on the lenders' ability to rely on the currency of the *pro forma* financial statements issued February 28, 2010. If the debt financing transaction does not close before July 15, 2010, the LP Entities will be required to deliver updated financial statements. This has the potential to cause delay and may affect the terms for financing such that the financing transaction may not be able to close before July 30, 2010.

65. As described in greater detail in the AHC Bid Affidavit, the AHC Transaction, as implemented by the Amended AHC Plan, represents the best available outcome for the LP Entities and their stakeholders. The SISP was a comprehensive and robust test of the value of the Acquired Assets in the market. The AHC Transaction provides a going concern outcome and preserves the jobs and the job benefits of substantially all of the employees of the LP Entities. It also provides realization to many unsecured creditors of the LP Entities and a full cash pay out to the smallest creditors of the LP Entities. If the Amended AHC Plan is not sanctioned, it will fail. No alternative scenario is currently contemplated that would provide any recovery to the unsecured creditors of the LP Entities. As a result, if the Amended AHC Plan fails, the considerable advantages provided by the AHC Transaction will be lost to the LP Entities, their businesses and their stakeholders.

66. The Monitor, the Financial Advisor and the LP CRA have both expressed their support for the AHC Transaction and the Amended AHC Plan, and the Monitor has indicated that it agrees that the Amended AHC Plan is fair and reasonable. No significant stakeholders oppose the sanction of the Amended AHC Plan.

### **Activities and Fees of the Monitor**

67. The LP Entities are also seeking approval of the activities of the Monitor and the fees and disbursements of the Monitor and its counsel in this motion. In the opinion of the LP Entities, the Monitor's activities to date have substantially assisted the LP Entities in achieving their restructuring objectives.

68. I believe, and I am advised that the LP CRA is also of the view, that the fees and disbursements of the Monitor and its counsel are reasonable. As such, the LP Entities and the LP

CRA support the approval of the Monitor's activities and the approval of the fees and disbursements of the Monitor and the Monitor's counsel.

## **Retention Payments to Critical Employees**

69. By Order dated March 26, 2010 (the "**Order Amending the Initial Order and Approving Certain Employee Arrangements**"), the LP Entities were authorized to make certain retention payments (the "**Retention Payments**") to employees whose services were deemed to be critical to the transition or wind-down of an inter-entity arrangement or the relocation of a business unit. The Retention Payments are intended to be incentives for the designated employees to continue their employment with the LP Entities pending the complete wind-down or transition of their respective business units. A copy of the Order Amending the Initial Order and Approving Certain Employee Arrangements is attached as Exhibit "H" to this Affidavit.

70. Pursuant to the Order Amending the Initial Order and Approving Certain Employee Arrangements, the LP Entities were authorized to make payments to employees that had already been designated as well as to employees yet to be identified up to a maximum aggregate payment amount of \$1,000,000. A confidential supplement to the Monitor's Fifth Report dated March 22, 2010 contained information in respect of 67 employees to whom payments totalling approximately \$400,000 were proposed to be made.

71. The Order Amending the Initial Order and Approving Certain Employee Arrangements requires that the LP Entities obtain the prior approval of the Monitor and the LP Administrative Agent before making employee retention payments pursuant to this authority. The Order Amending the Initial Order and Approving Certain Employee Arrangements also provides that the payments are subject to availability under the LP DIP Facility, the LP DIP Definitive Documents and the applicable cash flow forecasts. The LP Entities are not required to return to Court for specific authorization to make subsequent payments up to the aggregate amount of \$1,000,000.

72. The wind down and transition of certain of the business units of the LP Entities has continued throughout the CCAA proceeding. The LP Entities require the continuing services of many of the employees being terminated pending the complete wind down or transition of certain of their operations. On or around May 11, 2010, a number of additional employees

received letters from the LP Entities announcing the termination of their employment and detailing the conditions for eligibility for a Retention Payment. The Retention Payments are scheduled to be made in August and September and will total approximately \$600,000 in the aggregate. In accordance with the terms of the Order Amending the Initial Order and Approving Certain Employee Payments the Monitor will provide the Court with a confidential supplement containing details on the additional Retention Payments once such Retention Payments have been made.

### **Amendment to Agreement with LP CRA**

73. On or around July 1, 2009, Mr. Gary Colter of CRS Inc. (“CRS”) was retained by the Special Committee to serve as the restructuring advisor for the LP Entities. By letter dated November 1, 2009 (the “**CRA Retainer Letter**”), Canwest Global confirmed the terms of Mr. Colter’s retainer, including in respect of position and responsibilities, monthly fees and term. Pursuant to the CRA Retainer Letter, Mr. Colter’s mandate was to expire on the earlier of June 30, 2010 or the date on which the LP Entities emerged from CCAA protection, subject to an option to extend the retainer on a month-by-month basis. A copy of the CRA Retainer Letter is attached as Exhibit “I” to this Affidavit.

74. The Initial Order confirmed the appointment of CRS and Mr. Colter as chief restructuring advisor to the LP Entities (the “**LP CRA**”). As LP CRA, Mr. Colter has assumed significant responsibility for the formulation of the restructuring of the LP Entities. Mr. Colter was closely involved in the conduct of the SISP and substantially assisted the LP Entities in the negotiations over the terms of the AHC Bid and the AHC APA. More generally, numerous restructuring initiatives and decisions of the LP Entities have been subject to consultation with, or the consent of, Mr. Colter as LP CRA.

75. The LP Entities now wish to extend the term of Mr. Colter’s mandate as LP CRA. Pursuant to an amendment letter that will be dated as of July 1, 2010 (the “**Amending CRA Retainer Letter**”), the LP Entities are extending the term of Mr. Colter’s retainer on the following basis:

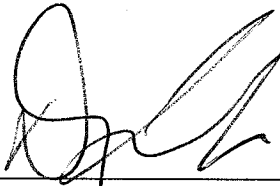
- (a) if the AHC Transaction has closed on or before July 31, 2010, to July 31, 2010;
- (b) if the AHC Transaction closes after July 31, 2010 and on or before August 31, 2010, to August 31, 2010; or

(c) in all other circumstances, to September 30, 2010,

76. The extension of the term of the mandate of the LP CRA is subject to mutually agreed further extensions on a month-by-month basis. The Amending CRA Retainer Letter also confirms the payment terms for the success fee to Mr. Colter and clarifies the indemnity and release to be provided to Mr. Colter and CRS in connection with the LP CRA mandate and makes certain conforming changes relating to Mr. Colter's appointment as "Chief Restructuring Advisor". The LP Entities are seeking approval of, and authorization to enter into, the Amending CRA Retainer Letter substantially in the form as attached as Exhibit "J" to this Affidavit.

77. Mr. Colter has been heavily involved in every stage of the restructuring of the LP Entities and has been instrumental to the restructuring's successes to date. The LP Entities submit that it is appropriate and in the best interest of their businesses and the restructuring that they be authorized to enter into the Amending CRA Retainer Letter.

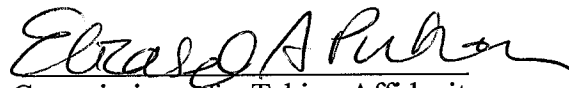
SWORN BEFORE ME at the City of  
Toronto, in the Province of Ontario, on  
June 14, 2010.

  
\_\_\_\_\_  
DOUGLAS E.J. LAMB

  
\_\_\_\_\_  
Commissioner for Taking Affidavits

Elizabeth Allen  
Puhman

This is Exhibit "A" to the  
Affidavit of Douglas E.J. Lamb  
sworn before me this 14th day of June, 2010.

  
Commissioner for Taking Affidavits  
Elizabeth Alien Puman

Court File No. CV-10-8533-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR  
ARRANGEMENT OF CANWEST PUBLISHING  
INC./PUBLICATIONS CANWEST INC., CANWEST BOOKS  
INC., AND CANWEST (CANADA) INC.

APPLICANTS

**AFFIDAVIT OF DOUGLAS E.J. LAMB  
(Sworn May 10, 2010)**

I, Douglas E.J. Lamb, of the City of Toronto, in the Province of Ontario, MAKE  
OATH AND SAY:

1. I am a senior employee of Canwest Publishing Inc./Publications Canwest Inc. ("CPI"). My principal areas of responsibility include the finance and accounting functions within the LP Entities. In that capacity, I have been closely involved in the efforts to restructure the LP Entities, and have been heavily involved with the SISP, including attending management presentations given to prospective bidders and assisting in the preparation of financial information regarding the LP Entities (all as described below). As such, I have personal knowledge of the matters deposed to herein. Where I have relied upon other sources for information, I have specifically referred to such sources and verily believe them to be true. In preparing this Affidavit, where necessary I have also consulted with other members of Canwest Global Communication Corp. ("Canwest Global")'s senior management team and members of the senior management teams of the Applicants and Canwest Limited Partnership/Canwest Societe en Commandite (the "Limited Partnership").

2. Capitalized terms not defined in this affidavit are as defined in the affidavit of Thomas C. Strike sworn January 7, 2010 (the "Initial Order Affidavit"). A copy of the Initial Order Affidavit (without exhibits) is attached as Exhibit "A" to this Affidavit.

- 2 -

3. As described in greater detail in the Initial Order Affidavit, the LP Entities were significantly adversely affected by the economic downturn in Canada in 2008 and 2009. This led, in due course, to the LP Entities defaulting on their senior secured credit facilities and entering into protracted and difficult negotiations to bring about a consensual court-supervised restructuring under the CCAA.

4. On January 8, 2010, CPI, Canwest Books Inc. and Canwest (Canada) Inc. were granted protection under the CCAA pursuant to the Initial Order. The Initial Order also extended relief to the Limited Partnership. A copy of the Initial Order (without schedules) is attached as Exhibit "B" to this Affidavit.

5. The Initial Order contemplated a Support Transaction pursuant to which the LP Entities' senior lenders would acquire substantially all of the assets and certain of the liabilities of the LP Entities. It also required the LP Entities to carry out a robust sales and investor solicitation process (the SISP) to seek Superior Offers as defined in the SISP: that is, broadly, offers for the acquisition or recapitalization of substantially all of their assets that are superior to the Support Transaction.

6. Throughout the months leading up to the Initial Order, and in the period that has followed, the LP Entities have dedicated themselves to securing the best available going concern outcome for the business, in the interests of all of the stakeholders of the LP Entities. Thanks to the unwavering efforts of the LP Entities, the LP CRA, the Monitor and the Financial Advisor in carrying out the SISP, the LP Entities believe they have elicited an offer that represents exactly that.

7. The Financial Advisor received three bids from Qualified Bidders on the Phase 2 Bid Deadline. The Monitor, in consultation with the Financial Advisor and the LP CRA, determined that the bid by the *ad hoc* committee (the "**Ad Hoc Committee**") of holders of 9.25% senior subordinated notes (the "**LP Noteholders**") issued by the Limited Partnership (the "**AHC Bid**") is a Superior Cash Offer. Neither of the other bids was a Superior Offer. Accordingly, in accordance with the terms of the SISP Procedures, the Monitor has recommended that the AHC Bid be selected and a definitive agreement be negotiated and settled to carry out the transactions contemplated by the AHC Bid (the "**AHC Transaction**"). This recommendation is supported by the Financial Advisor and the LP CRA.

- 3 -

8. The AHC Transaction, the material terms of which are contained in an asset purchase agreement (the "AHC APA"), contemplates that 7535538 Canada Inc. ("Holdco") will effect a transaction through a new limited partnership (CW Acquisition Limited Partnership or "Opco LP") in which it will acquire substantially all of the financial and operating assets of the LP Entities and the shares of National Post Inc. and assume certain specified liabilities of the LP Entities for an effective purchase price totalling \$1.1 billion, as described below. At closing, Opco LP will offer employment to substantially all of the employees of the LP Entities and will assume all of the pension liabilities and other benefits for employees of the LP Entities that will be employed by Opco LP, as well as for retirees currently covered by registered pension plans or other benefit plans. The materials submitted with the AHC Bid indicate that Opco LP will continue to operate all of the businesses of the LP Entities in substantially the same manner as they are currently operated, with no immediate plans to discontinue operations, sell material assets or make significant changes to current management. The AHC Bid will also allow for a full pay-out of the debt owed by the LP Entities to the LP Secured Lenders under the LP Credit Agreement and the Hedging Creditors (as defined below) and provides an additional \$150 million in value which will be available to provide realization for the unsecured creditors of the LP Entities and may ultimately include up to 45% of the equity of Holdco.

9. The LP Entities are firmly of the view that the AHC Transaction represents the best available outcome for the business. It will provide stability for employees, retirees, suppliers and other stakeholders. It will also provide significant value for unsecured creditors, which is not available under either the Support Transaction or the other bids received during the SISF, and includes a full recovery for the smallest creditors of the LP Entities; unsecured creditors with proven claims equal to or less than \$1,000 will be paid the amount of their proven claim in cash. For the reasons set out herein, the Special Committee has accepted the Monitor's recommendation. The LP Entities are therefore seeking authorization to enter into the AHC APA and carry out the AHC Transaction, which is (if approved) presently targeted to close on July 15, 2010.

10. At the same time, the LP Entities recognize that it would be helpful if they could continue to benefit from the stability afforded by the Support Agreement, including maintaining the ability to pursue the Support Transaction in the event that the AHC Transaction is unable to close for whatever reason. Accordingly, the LP Entities are also seeking conditional sanction of



the Senior Lenders' CCAA Plan (the basis of which is the Support Transaction) but on terms that will not undermine the ability of the LP Entities to pursue the more desirable AHC Transaction. The LP Entities intend to work diligently to implement the AHC Transaction while concurrently attempting to remain in compliance with the Support Agreement, including pursuing such steps as are required to effect the Support Transaction to the extent that they do not detract from the closing of the AHC Transaction.

11. I am swearing this affidavit in support of the motion brought by the Applicants seeking three Orders:

- (a) the first Order (the "**Order Approving the AHC Bid**") authorizing the LP Entities to enter into the AHC APA and approving and confirming the execution, delivery and performance of the AHC APA by the LP Entities, amending certain provisions the Order of this Honourable Court dated April 12, 2010 (the "**Claims Procedure Order**") relating to claims arising during the restructuring period and claims against the directors and officers of the LP Entities and amending the Procedures for the Sale and Investor Solicitation Process (as amended, the "**SISP Procedures**");
- (b) the second Order (the "**Meeting Order**") establishing procedures relating to a meeting of unsecured creditors convened for the purpose of a vote on the AHC Plan; and
- (c) the third Order (the "**Credit Bid Sanction Order**") conditionally sanctioning the Senior Lenders' CCAA Plan on the terms described below and in the Monitor's Seventh Report.

12. I am advised that the Monitor and the LP CRA support this motion.

### ***Background and the SISP***

#### **The Support Transaction and the CCAA Filing**

13. As described in greater detail in the Initial Order Affidavit, the LP Entities were significantly adversely affected by the economic downturn in Canada in 2008 and 2009. General declines in advertising revenues and increases in certain operating costs led the LP Entities on

- 5 -

May 29, 2009 to fail for the first time to make certain interest and principal reduction payments and related interest and cross-currency swap payments owed to their Senior Lenders (which include the LP Secured Lenders and various counterparties to certain foreign currency and interest rate swap agreements with the LP Entities (the “**Hedging Creditors**”) whose obligations rank *pari passu* to the Claims of the LP Secured Lenders). Subsequent defaults occurred under the LP Credit Agreement as well as under the LP Senior Subordinated Credit Agreement and the LP Note Indenture.

14. On or around August 31, 2009, the Limited Partnership and certain of the LP Secured Lenders entered into the Forbearance Agreement, which was intended to provide the Limited Partnership, the LP Guarantors and the LP Secured Lenders with an opportunity to negotiate a pre-packaged restructuring or reorganization of the affairs of the LP Entities. After months of intensive negotiations, the LP Entities and the Senior Lenders agreed on the terms of the Support Transaction. The terms of the Support Transaction contemplated that, subject to Court approval and a Superior Offer in the SISP, the Senior Lenders would acquire substantially all of the assets the LP Entities in full satisfaction of the outstanding debt owed by the LP Entities to the Senior Lenders. On January 7, 2010, the LP Entities and the LP Administrative Agent entered into the Support Agreement, which set forth the terms of certain agreements and arrangements relating to the Support Transaction. Under the terms of the Support Agreement, the LP Entities agreed to, among other things: (i) commence a CCAA proceeding; (ii) use commercially reasonable efforts to implement the Support Transaction; and (iii) commence the SISP with the objective of obtaining a Superior Offer than the Support Transaction.

15. Subject to Court approval and a Superior Offer in the SISP, the Support Transaction was to be implemented pursuant to the Senior Lenders’ CCAA Plan, whose terms of implementation were contained in the Acquisition and Assumption Agreement. The Support Agreement and the Senior Lenders’ CCAA Plan both contemplate the possibility that a Superior Offer would be obtained in the SISP and pursued by the LP Entities as an alternative to the Support Transaction. As such, the Support Transaction was similar to a “stalking horse” bid.

16. As part of their initial application for protection under the CCAA, the LP Entities sought Court authorization to file the Senior Lenders’ CCAA Plan, the basis for which was the Support Transaction. Pursuant to the Initial Order, the Senior Lenders’ CCAA Plan was accepted

for filing. The Initial Order also authorized the LP Entities to commence the SISP. As noted in the Initial Order Affidavit, implementation of the Support Transaction was subject to the identification of a Superior Offer in the SISP.

### **The Conduct of the SISP**

17. On January 11, 2010, the Financial Advisor and the LP Entities commenced the SISP under the supervision of the Monitor on the terms set out in the SISP Procedures. A copy of the SISP Procedures, as amended by the Order of this Honourable Court dated February 2, 2010, is attached as Exhibit "C" to this Affidavit.

18. The SISP was conducted in two phases. In Phase 1, the Financial Advisor contacted strategic and financial parties about investing in and/or acquiring all or substantially all of the assets of the LP Entities. Prior to the Phase 1 Bid Deadline, a total of 38 strategic and financial parties executed confidentiality agreements and were provided with copies of a confidential information memorandum containing detailed, non-public information about the businesses and financial affairs of the LP Entities and National Post Inc. Confidentiality agreements were also executed by five lenders in connection with a potential single bid. Potential bidders were required to submit Non-Binding Indications of Interest prior to the Phase 1 bid deadline on March 5, 2010 (the "**Phase 1 Bid Deadline**").

19. By March 5, 2010, the Financial Advisor received ten Non-Binding Indications of Interest (as defined in the SISP Procedures). Of the ten, six Non-Binding Indications of Interest contemplated an acquisition of or investment in all of the businesses of the LP Entities, and four Non-Binding Indications of Interest were for individual assets of the LP Entities.

20. Following the Phase 1 Bid Deadline, the Monitor, in consultation with the Financial Advisor, the LP CRA and the LP Administrative Agent, reviewed the Non-Binding Indications of Interest pursuant to the terms of the SISP Procedures. As reported in the Fourth Report of the Monitor dated March 12, 2010, the Monitor then determined that there was a reasonable prospect of obtaining a credible, reasonably certain and financially viable offer that would result in a cash distribution to the LP Secured Lenders on closing of the amount owed to them less a discount of \$25 million (a "**Superior Cash Offer**"). Accordingly, the Monitor recommended to the Special Committee that the SISP continue to Phase 2 for a further seven

- 7 -

weeks. The Special Committee accepted the Monitor's recommendation, and Phase 2 of the SISP commenced on March 12, 2010.

21. During Phase 2 of the SISP, Qualified Bidders (or their authorized representatives) that had not been eliminated from the SISP at the recommendation of the Monitor were granted access to an electronic data room. The LP Entities also prepared and conducted numerous management presentations in which senior management provided Qualified Bidders or their authorized representatives with more extensive insight into the businesses of the LP Entities. During this period, the LP Entities fielded and responded to hundreds of specific due diligence questions and requests from the Qualified Bidders and conducted numerous site visits. In order to facilitate an "apples to apples" comparison with the Support Transaction, those interested in making Qualified Purchase Bids were provided with a form of Purchase Agreement which was based on the Acquisition and Assumption Agreement contemplated by the Support Transaction, and asked to provide a blacklined version along with their bid. Qualified Bidders were required to deliver final, binding proposals to the Financial Advisor on or before April 30, 2010 (the "**Phase 2 Bid Deadline**").

22. Pursuant to the SISP Procedures, subject to the ability of the Monitor to waive strict compliance, a bid received prior to the Phase 2 Bid Deadline had to fulfill certain requirements in order to be considered a Qualified Bid. Specifically, a Qualified Purchase Bid had to, among other things:

- (a) be irrevocable for thirty days following the Phase 2 Bid Deadline;
- (b) include a duly authorized and executed purchase agreement (including exhibits and schedules);
- (c) include evidence of a firm, irrevocable financing commitment;
- (d) not be conditional on financing or further due diligence;
- (e) fully disclose the identity of all participating entities;
- (f) contain an acknowledgment that the bidder has relied solely on its independent review and investigation and did not rely on any oral statements or

- 8 -

representations regarding the assets except as expressly stated in purchase agreements submitted by bidders;

- (g) include evidence of approval from the bidder's board of directors or governing body;
- (h) be accompanied by a refundable deposit in the amount of \$10 million; and
- (i) contain full detail of the proposed number of employees that will be offered employment by the bidder and identify any pension liabilities or assets that the bidder intends to assume.

23. Similarly, in order to be considered a Qualified Investment Bid, a bid was required to, among other things:

- (a) include a duly authorized and executed term sheet;
- (b) be irrevocable for 30 days following the Phase 2 Bid Deadline;
- (c) include evidence of a firm, irrevocable financing commitment;
- (d) not be conditional on financing or further due diligence;
- (e) fully disclose the identity of all participating entities;
- (f) contain and acknowledgment that the bidder has relied solely on its independent review and investigation and not on any oral statements or representations regarding the assets;
- (g) include evidence of approval from the bidder's board of directors or governing body; and
- (h) be accompanied by a refundable deposit in the amount of \$10 million.

### **The Evaluation of the Qualified Bids**

24. The SISP attracted considerable interest at Phase 1, and the selected Qualified Bidders had approximately three and a half months in which to evaluate the opportunity

- 9 -

presented by the SISP. Bidders were advised that their offers should represent their final and best offer with respect to a Qualified Purchase Bid or a Qualified Investment Bid.

25. The Financial Advisor received three bids before the Phase 2 Bid Deadline as well as a letter from a Qualified Bidder indicating an inability to submit a bid in compliance with the terms of the SISP Procedures. Two of the bids contemplated purchase of the businesses of the LP Entities and one of the bids contemplated an investment in the LP Entities. Two of the bids, including the AHC Bid, were Qualified Bids.

26. In the days immediately following the Phase 2 Bid Deadline, the Monitor, in consultation with the Financial Advisor and the LP CRA, conducted an in-depth analysis of the material aspects of each of the Qualified Bids to determine which if any of them were Superior Offers. Particular attention was paid to terms relating to purchase price, financing and structure, excluded assets and excluded liabilities, treatment of employees and pension obligations, tax issues, material representations and warranties, regulatory issues, covenants, conditions, material closing risks and time to closing. Based on this analysis, the Monitor, in consultation with the Financial Advisor, determined that the AHC Bid was a Superior Cash Offer and the only Superior Offer received.

27. On May 10, 2010, the Monitor made a recommendation to the Special Committee that the LP Entities pursue the AHC Transaction (the "**Superior Cash Offer Recommendation**"). The Superior Cash Offer Recommendation was supported by the Financial Advisor and the LP CRA. The Special Committee accepted the Superior Cash Offer Recommendation.

28. Over the course of the past week, the LP Entities and the Ad Hoc Committee have negotiated amendments to the version of the AHC APA that was submitted by the Ad Hoc Committee as part of the AHC Bid. A copy of the AHC APA is attached as Exhibit "D" to this Affidavit.

29. Pursuant to the AHC APA, Opco LP will acquire substantially all of the financial and operating assets of the LP Entities and the shares of National Post Inc. on an as-is-where is basis for a total effective purchase price of approximately \$1.1 billion (the "**Purchase Price**"). The APA also provides that Holdco will issue shares as additional consideration that will be

available for distribution to the unsecured creditors of the LP Entities. The materials submitted with the AHC Bid indicate that Opco LP will continue to operate the businesses of the LP Entities in substantially the same manner as they are currently operated: at present, there are no plans to divest or discontinue operations or to sell assets or change management.

### **Acquiring Entity**

30. Pursuant to the AHC APA, Holdco will effect the acquisition of the financial and operating assets of the LP Entities through Opco LP. Holdco will own all of the limited partnership interests in Opco LP, and a wholly-owned subsidiary of Holdco will be the general partner of Opco LP.

### **Purchase Price and Financing**

31. The Purchase Price will consist of:

- (a) A cash amount equal to the sum of the Senior Secured Claims Amount (as defined in the AHC APA) as at the Acquisition Date (as defined below) and the DIP Claims Amount (as defined in the AHC APA) as at the Acquisition Date;
- (b) A promissory note in the principal amount of \$150 million (less the amount of cash paid out to the unsecured creditors who elect to receive a cash payment as described below), which will be exchanged immediately after closing for up to 45% of the common shares of Holdco (the "**Holdco Common Shares**") (as described in greater detail below); and
- (c) The assumption by Opco LP of certain liabilities of the LP Entities.

32. The Ad Hoc Committee has indicated in its bid materials that Holdco has received commitments for \$950 million of funded debt and equity financing to finance the AHC Bid. This amount will include: (i) \$700 million of new senior funded debt to be raised by Opco LP and secured by the acquired assets and shares and assets of subsidiaries; and (ii) \$250 million of mezzanine debt and equity to be raised, including from the current members of the Ad Hoc Committee. The AHC Bid includes letters from reputable financial institutions indicating firm commitments to raise the \$700 million of senior debt financing within the timeframe contemplated by the AHC Bid.

### **Acquired Assets and Assumed Liabilities**

33. The AHC APA provides that Opco LP will purchase substantially all of the financial and operating assets of the LP Entities as well as the shares of National Post Inc. and the outstanding indebtedness owed by National Post Inc. to the LP Entities. Opco LP will also assume substantially all of the operating liabilities of the LP Entities, including liabilities to substantially all active employees and obligations under pension plans, as well as obligations of the LP Entities under those contracts and leases that are identified in schedules to the AHC APA.

### **Excluded Assets and Liabilities**

34. The AHC APA provides that certain assets and liabilities will not be acquired or assumed by Opco LP and will remain the property of the LP Entities. Although the vast majority of the assets of the LP Entities will be acquired, Opco LP will not be acquiring, among other things, the following assets (the “**Excluded Assets**”): (i) avoidance claims; (ii) corporate records; (iii) certain lease agreements; (iv) the LP Indenture, the LP Credit Agreement, the LP Senior Subordinated Credit Agreement, the LP DIP Facility and the Support Agreement; and (v) agreements that have been disclaimed or resiliated by the LP Entities.

35. The liabilities to be excluded under the AHC APA (the “**Excluded Liabilities**”) include (but are not limited to):

- (a) liabilities relating to the Excluded Assets;
- (b) Restructuring Period Claims as defined in the Claims Procedure Order made in this proceeding dated April 12, 2010 (“**Restructuring Period Claims**”);
- (c) all liabilities incurred by the LP Entities or arising out of events or circumstances that occurred or existed prior to January 8, 2010 except those expressly assumed (the “**Prefiling Liabilities**”);
- (d) existing indebtedness, including under the LP Credit Agreement, the LP Senior Subordinated Credit Agreement and the LP Note Indenture;
- (e) prior ranking secured claims;
- (f) administrative reserve costs;



- 12 -

- (g) liabilities under any of the charges in the Initial Order;
- (h) all liabilities for taxes payable or remittable by the LP Entities, other than transfer taxes payable in relation to the contemplated transaction;
- (i) certain employee-related liabilities, including all liabilities relating to employees other than those that are transferred to Opco LP pursuant to the AHC APA, and liabilities under the Southam Executive Retirement Arrangements (the "SERAs");
- (j) liabilities under material contracts that are not being assumed;
- (k) litigation liabilities;
- (l) encumbrances other than permitted encumbrances; and
- (m) generally, inter-company liabilities between and among the LP Entities and the CMI Entities.

### **Employee and Pension Issues**

36. The AHC APA provides that effective as of the closing date of the transaction (the "Acquisition Date"), Opco LP will offer employment to all substantially all employees of the LP Entities on the following terms:

- (a) in respect of all unionized employees whose collective agreement is in force (or is expired but is in effect by operation of law), on the terms and conditions provided for in the collective agreement or expired collective agreement, as applicable; and
- (b) in respect of all other employees, on substantially similar terms and conditions as their then-existing employment immediately prior to the Acquisition Date, subject to the option, exercisable on or before May 30, 2010, to not offer employment to up to ten percent of the non-unionized part-time or temporary employees employed by the LP Entities.

37. The AHC APA also provides that Opco LP will assume all pension liabilities and other benefits for employees of the LP Entities that will be employed by Opco LP after the Acquisition Date and retirees currently covered by registered pension plans or other benefit plans.

- 13 -

38. Of particular importance to the LP Entities, the AHC APA does not include a provision that would allow Opco LP to elect not to assume pension plans, benefit plans or other employee obligations.

### **Other Material Provisions and Conditions**

39. Pursuant to the AHC APA, the AHC APA may be terminated if the Acquisition Date is not on or before August 15, 2010. The third party debt financing commitments expire on July 15, 2010.

40. The AHC Bid is not conditional on financing or the performance of additional due diligence and is irrevocable until the earlier of: (i) the selection of the Successful Bid; and (ii) 30 days after the Phase 2 Bid Deadline.

41. The AHC Bid contains certain assumptions and conditions, including assumptions relating to the LP Entities' cash on hand at closing and the DIP Claims Amount. I am advised that the LP Entities, the Monitor and the Financial Advisor have reviewed the conditions and assumptions and believe that they are not likely to present any serious impediment to consummation of the AHC APA.

### ***Acceptance of the Superior Cash Offer Recommendation***

42. I understand that the Monitor, in its reasonable business judgement and in consultation with the Financial Advisor and the LP CRA, has determined that the AHC Bid is a Superior Cash Offer, which is defined as a credible, reasonably certain and financially viable bid that would result in a cash distribution to the Senior Lenders on closing of the "Reference Amount" (as defined in the SISP). In fact, the proposed cash distribution to the Senior Lenders under the AHC Bid is greater than the Reference Amount. The Monitor, the Financial Advisor and the LP CRA also determined that neither of the other bids presented by the Phase 2 Bid Deadline was a Superior Cash Offer. On that basis, the Monitor made the Superior Cash Offer Recommendation that the Special Committee pursue the AHC Transaction. The Superior Cash Offer Recommendation was supported by the Financial Advisor and the LP CRA.

43. The AHC Transaction has many of the same key features as the Support Transaction. It will preserve substantially all of the business of the LP Entities to the benefit of the LP Entities' suppliers and the millions of people who rely on LP Entity publications every

- 14 -

day. The AHC Transaction also preserves the employment of substantially all of the LP Entities' current employees, as well as largely protecting the interests of former employees and retirees.

44. The most significant difference between the AHC Transaction and the Support Transaction is that the AHC Transaction will provide for significant recoveries for unsecured creditors of the LP Entities. The AHC Bid contemplates that the AHC Transaction will be implemented through a plan of compromise or arrangement with LP Entities' unsecured creditors (as further described below, the "AHC Plan"). Pursuant to the proposed AHC Plan, if it is approved and sanctioned, unsecured creditors with claims of less than \$1,000 that have been proven ("Proven Claims") in the LP Claims Process (as defined below) will receive the value of their Proven Claims (up to \$1,000) in cash. Unsecured creditors with Proven Claims greater than \$1,000 will have the option of receiving either \$1,000 in cash or an amount of Holdco Common Shares calculated by reference to the value of the Proven Claim. The total amount available for distribution, in cash or shares, is \$150 million.

45. Also, the Support Transaction gives Acquireco, acting commercially reasonably, the option not to assume certain pension or employee benefit obligations. The AHC APA does not contain the same "optionality". Although the LP Administrative Agent has indicated, including in Court on numerous occasions, that it is not likely to exercise this option, the Monitor and the Financial Advisor considered the absence of optionality to be a factor in favour of the AHC Bid.

46. The LP Entities believe that the SISP was successful. It encouraged as many credible potential bidders as possible to come forward, and it gave potential bidders a long period to conduct meaningful due diligence with the full cooperation and assistance of the LP Entities, the Monitor and the Financial Advisor. Bidders were advised to put their best offer forward, and the LP Entities have every reason to believe that they did so.

47. For all of these reasons the LP Entities believe that the AHC Bid represents the best available outcome for the LP Entities. Accordingly, the Special Committee, after consulting with the LP CRA, the Financial Advisor and the Monitor, accepted the Monitor's recommendation. The LP Entities are committed to working to complete the AHC Transaction in an expeditious manner.

**Concurrent Sanction of the Senior Lenders' CCAA Plan**

48. The business carried on by the LP Entities is complicated: as set out in the Initial Order Affidavit, the LP Entities have a complex structure and operations across Canada. Many weeks' worth of very hard work will be required between the approval of the AHC APA (if granted) and closing of the AHC Transaction. The Monitor, the LP CRA and the Financial Advisor considered closing risks associated with the AHC Bid and concluded that the AHC Bid is credible, reasonably certain and financially viable. The LP Entities agree with that assessment.

49. However, the LP Entities also feel that they would continue to benefit from the stability provided by the Support Agreement during the period prior to closing and will benefit in particular from having the Support Transaction available if for some reason the AHC Transaction is unable to close. Although the closing risks associated with the AHC Transaction are not out of the ordinary, the consequences to the LP Entities of a non-closing of the AHC Transaction without a Support Transaction backstop should be avoided if reasonably possible.

50. The Support Agreement provides that it may be terminated if the LP Entities do not obtain an Order sanctioning the Senior Lenders' CCAA Plan before May 15, 2010. Pursuant to the terms of the Support Agreement, this deadline is effectively May 17, 2010 because May 15 is a Saturday. In order to preserve the option to pursue the Support Transaction if the AHC Transaction cannot be implemented, as part of this motion the LP Entities are also seeking conditional sanction of the Senior Lenders' CCAA Plan on the terms set out in the Monitor's letter described below.

51. The LP Entities believe that simultaneously advancing the AHC Transaction and the Support Transaction, on certain conditions, does not cause material prejudice to any of the affected parties, and is the best way to secure a going concern outcome for the businesses of the LP Entities. The Support Agreement and the Senior Lenders' CCAA Plan, as well as the SISF Procedures, contemplate that the LP Entities will pursue a Superior Cash Offer to the extent that one is received. This has always been the agreement and understanding of the LP Entities and the Senior Lenders, and the Senior Lenders will receive a full cash pay-out of all amounts outstanding under the LP Credit Agreement if the AHC Transaction is implemented. It should also be noted that the interest obligations to the Senior Lenders are being paid on a current basis,

- 16 -

as are the professional fees for counsel and a financial advisor to counsel for the LP Administrative Agent. Furthermore, the successful outcome of the SISP and the identification of a Superior Cash Offer with a Purchase Price that materially exceeds the value of the Support Transaction can be credited to a number of factors including the hard work and efforts of management, the Monitor and the Financial Advisor and the performance of the company in the months since filing for CCAA protection. Since January 8, 2010, the financial performance of the LP Entities has improved. On January 8, 2010 the LP Entities' had cash on hand of approximately \$40 million. They currently have cash on hand of approximately \$103.8 million. The improvement in cash is the result of several factors including seasonality, the fact that the filing had less of an impact on sales and supplier credit terms than expected and better than forecast financial results. The recent financial performance of the LP Entities makes it even less likely that the dual track will cause prejudice to the Senior Lenders: if the AHC Transaction closes, the Senior Lenders will be paid in full; if the AHC Transaction is not implemented, the LP Entities will proceed with the Support Transaction immediately. In my view, it is highly unlikely that such a delay would have a material impact on the value of the assets and businesses of the LP Entities.

52. In respect of the Ad Hoc Committee, the LP Entities intend to use good faith commercially reasonable efforts to consummate the AHC Transaction. It is only in the event that the AHC Transaction is not implemented that the LP Entities will proceed with the Support Transaction. The LP Entities are highly motivated to close the AHC Transaction because of its superior terms. However, in the view of the LP Entities, the prudent course is to leave open the prospect of closing the Support Transaction if the AHC Transaction fails to close for any reason. The LP Entities are therefore moving, consistent with the Monitor's recommendation, to obtain an Order conditionally sanctioning the Senior Lenders' CCAA Plan on the terms set out in the Monitor's letter dated May 7, 2010.

53. Going forward, the LP Entities intend to advance the AHC Transaction and the Support Transaction on parallel tracks until either (i) the Acquisition Date (under the AHC APA); (ii) it becomes apparent that the AHC Transaction cannot be implemented. This strategy has the advantage of allowing the LP Entities to pursue the highest value bid while maintaining the option to fall back on the Support Transaction. In either event, the LP Entities will have secured a going concern outcome for their businesses and stakeholders.

- 17 -

54. The implementation of the AHC Transaction and the Support Transaction will be time-consuming and will require significant dedication by the management and employees of the LP Entities and their advisors. Even under the most favourable circumstances, it is the best estimate of the LP Entities that the AHC Transaction will not close before well into July because of all of the steps required to consummate the sale of such a large and complex business. It is the intention of the LP Entities to give priority, in terms of management time and attention, to the closing of the AHC Transaction because it holds more value for the LP Entities and their stakeholders. The LP Entities will, of course, concurrently use reasonable efforts to advance the Support Transaction so that they will be in a position to close the Support Transaction if the AHC Transaction does not close for any reason.

#### **The Senior Lenders' CCAA Plan**

55. As part of the initial application for protection under the CCAA the LP Entities obtained authorization to file the Senior Lenders' CCAA Plan, the basis of which is the Support Transaction. A copy of the Senior Lenders' CCAA Plan, in the form attached as a schedule to the Initial Order, is attached as Exhibit "E" to this Affidavit.

56. Under the Senior Lenders' CCAA Plan, among other things:

- (a) only the claims of the Senior Lenders will be compromised, and the Senior Lenders' CCAA Plan will not affect or compromise any other claims against any of the LP Entities (the "**Unaffected Claims**");
- (b) no holders of Unaffected Claims will be entitled to vote on or receive any distributions in respect of their claims;
- (c) certain Unaffected Claims (including, without limitation, claims relating to the DIP Facility, claims relating to the provision of cash management services to the LP Entities, certain employee and pension related claims and secured claims ranking in priority to the claims of the Senior Lenders) will be paid by the LP Entities, assumed by AcquireCo or paid in full by the Monitor from a cash reserve

- 18 -

established for the purpose of paying specified administrative claims and costs after the closing of the Support Transaction (the “**Cash Reserve**”);<sup>1</sup>

- (d) for the purposes of considering and voting on the Senior Lenders’ CCAA Plan there will be one class of Senior Lenders; and
- (e) subject to approval of the Senior Lenders’ CCAA Plan at the Senior Lenders’ Meeting, the Applicants will apply for the Credit Acquisition Sanction, Approval and Vesting Order.

57. Schedule 1.1(8) to the Senior Lenders’ CCAA Plan is the Acquisition and Assumption Agreement, which contains more of the specific terms of the Support Transaction. The Acquisition and Assumption Agreement addresses, among other things, acquisitions and assumptions, excluded assets, employee matters, tax matters, representations and warranties, covenants and conditions. As discussed in greater detail below, in this motion the LP Entities are also seeking conditional authorization to enter into the Acquisition and Assumption Agreement.

### **The Senior Lenders’ Claims Process**

58. For the purposes of voting on and distribution under the Senior Lenders’ CCAA Plan, the claims of the individual Senior Lenders were established in the Senior Lenders’ Claims Process. The Initial Order contains provisions relating to the Senior Lenders’ Claims Process and also establishes the procedures for a meeting of the Senior Lenders (the “**Senior Lenders’ Meeting**”).

59. The Senior Lenders’ Claims Process commenced immediately after the granting of the Initial Order. On January 12, 2010, the LP Administrative Agent delivered to the LP Entities a notice (the Notice of Claim – Syndicate Claims and Pro Rata Notice) setting out: (i) the aggregate amount owing by each of the LP Entities under the LP Credit Agreement as at January 8, 2010 (the “**Syndicate Claims**”); and (ii) each LP Secured Lenders’ *pro rata* share of that amount. On the same day, the LP Entities delivered to each Hedging Creditor a notice (the Notice of Claim – Hedging Agreements) setting out the termination amounts owed by each of

<sup>1</sup> In the event that the AHC Transaction does not move forward, the LP Entities will be bringing a motion in advance of the Credit Bid Plan Implementation Date seeking to obtain an Order from this Honourable Court substantially in the form as attached as schedule [1.1(29)] to the Senior Lenders’ CCAA Plan that will set out the amount of the Cash Reserve and the process for administering the Cash Reserve.

- 19 -

the LP Entities to each of the Hedging Creditors and the interest amount payable on such amounts.

60. Pursuant to the Initial Order, the LP Entities and the LP Secured Lenders were required to file with the Monitor a Notice of Dispute – Syndicate Claims and Pro Rata Notice within five days after the posting or receipt of the Notice of Claim – Syndicate Claims and Pro Rata Notice if they intended to dispute the information contained in the notice. In both cases, failure to file a Notice of Dispute – Syndicate Claims and Pro Rata Notice within the prescribed time period was deemed confirmation of the amounts set out in the Notice of Claim – Syndicate Claims and Pro Rata Notice. I am advised that the Monitor did not receive any Notices of Dispute – Syndicate Claims and Pro Rata Notice from the LP Entities or any LP Secured Lender, so each LP Secured Lender's *pro rata* share of the Syndicate Claim was deemed to be finally determined and accepted as the proven principal claim (the "**Proven Principal Claim**") of such LP Secured Lender for the purposes of voting and distribution under the Senior Lenders' CCAA Plan ("**Finally Determined**").

61. Similarly, the Initial Order required any Hedging Creditor seeking to dispute an amount set out in the Notice of Claim – Hedging Agreements to file a Notice of Dispute – Hedging Agreements within five business days of receipt of the Notice of Claim – Hedging Agreements. I am advised that the Monitor did not receive any Notices of Dispute – Hedging Agreements, so the principal amounts set out in the Notice of Claim – Hedging Agreements were deemed to be Finally Determined.

62. The Initial Order also established a procedure for the assertion of claims by the Senior Lenders for amounts in addition to claims for principal (each an "**Additional Claim**") within ten business days of January 8, 2010 (the "**Filing Date**"). The Monitor did not receive any Additional Claims within ten business days of the Filing Date. Pursuant to the Initial Order, all Additional Claims by Senior Lenders were deemed to be forever extinguished and barred.

### **The Senior Lenders' Meeting**

63. The Initial Order authorized the LP Entities to conduct a meeting of the Senior Lenders on January 27, 2010 for the purpose of voting on a resolution to approve the Senior Lenders' CCAA Plan. I am advised that on January 12, 2010, pursuant to the terms of the Initial Order, the Monitor delivered to the LP Administrative Agent notice of the Senior Lenders'



- 20 -

Meeting and other Meeting Materials. I am advised by counsel to the LP Administrative Agent that, on the same day, the LP Administrative Agent posted a copy of the Meeting Materials on two of the IntraLinks websites maintained by the LP Administrative Agent for the benefit of the Senior Lenders.

64. The Senior Lenders' Meeting was held at the offices of Stikeman Elliott LLP, counsel to the Monitor, at 12:30 p.m. on January 27, 2010. In accordance with the terms of the Initial Order, Paul Bishop, an officer of FTI Consulting Canada Inc. ("**FTI**"), acted as the chair (the "**Chair**") of the Senior Lenders' Meeting. Jodi Porepa of FTI acted as scrutineer (the "**Scrutineer**"). More extensive information on the conduct and outcome of the Senior Lenders' Meeting is contained in the Second Report of the Monitor dated January 29, 2010.

65. I am advised by Paul Bishop that the Chair held 156 proxies from the Senior Lenders holding Accepted Voting Claims, thereby satisfying the requirement that a quorum of the Senior Lenders be present either in person or by proxy. I am advised that the Chair declared that the Senior Lenders' Meeting was properly constituted.

66. I am also advised that a motion to consider a resolution to approve the Senior Lenders' CCAA Plan (the "**Resolution**") was proposed at the Senior Lenders' Meeting and a vote on the Resolution was called for by the Chair. Pursuant to the terms of the Initial Order and the Senior Lenders' CCAA Plan, the Senior Lenders voted as a single class.

67. In total, 97.5% in number and 88.7% of in value of the Senior Lenders holding Proven Principal Claims that were present and voting at the Senior Lenders' Meeting voted in favour to approve the Senior Lenders' CCAA Plan. Pursuant to the Initial Order, the Resolution had to be approved by a majority in number and two thirds in value of the Senior Lenders holding Accepted Senior Voting Claims (which included both Proven Principal Claims and Accepted Voting Claims, of which there were none) that were present and voting at the Senior Lenders' Meeting (the "**Required Majorities**"). The Required Majorities voted to approve the Senior Lenders' CCAA Plan.

68. As of the date of the Senior Lenders' Meeting there were no unresolved claims by any of the Senior Lenders.

### **Conditional Sanction of the Senior Lenders' CCAA Plan**

69. As noted above, I strongly believe that it is prudent to concurrently obtain conditional sanction of the Senior Lenders' CCAA Plan if possible so that the Support Transaction may be implemented if the AHC Transaction does not close for whatever reason. The Support Agreement does not expressly preclude this dual track, although certain of its provisions may require amendment to accommodate the proposed approach. The advisors to the LP Entities, as well as the Monitor, the LP CRA and the Financial Advisor, have endeavoured to negotiate with both the Ad Hoc Committee and the LP Administrative Agent on the terms set out in the Monitor's letter described below. As of the date of the swearing of this affidavit, efforts are still underway to work out a path forward that includes Ad Hoc Committee and LP Administrative Agent consent to the concurrent approval of the AHC APA and conditional sanction of the Senior Lenders' CCAA Plan.

70. I am advised that on May 7, 2010, after "without prejudice" discussions with the Ad Hoc Committee and the LP Administrative Agent failed, the Monitor's counsel delivered a "with prejudice" proposal (the "**Monitor's Letter**") to counsel to the Ad Hoc Committee and counsel to the LP Administrative Agent with a proposal whereby the LP Entities would advance the AHC Transaction and the Support Transaction on parallel tracks. A copy of the Monitor's Letter is attached as Exhibit "F" to this Affidavit. I am advised that the Monitor supports the conditional sanction of the Senior Lenders' CCAA Plan on the terms set out in the Monitor's Letter but does not support and would oppose conditional sanction of the Senior Lenders' CCAA Plan on a basis that might impair or prejudice the ability of the LP Entities to close the AHC Transaction if it is possible to do so. As noted herein, the procedure proposed in the Monitor's Letter is supported by the Financial Advisor, the LP CRA and counsel to the LP Entities.

71. I am further advised that, after discussions with the Monitor concerning the terms set out the Monitor Letter, the Ad Hoc Committee has accepted the procedure proposed by the Monitor.

72. The LP Entities also accept and support the procedure set out in the Monitor's Letter.

73. To date, the LP Administrative Agent has not consented to the procedure set out in the Monitor's Letter. The LP Administrative Agent delivered a response to the Monitor's

- 22 -

Letter which I understand will be attached to a report filed by the Monitor in connection with this motion.

74. A form of sanction order (the Credit Acquisition Sanction, Approval and Vesting Order) was scheduled to the Support Agreement that was attached as Exhibit "X" to the Initial Order Affidavit and was also part of the Meeting Materials delivered in advance of the Senior Lenders' Meeting. The approval of the Senior Lenders' CCAA Plan included an approval of the form of Order.

75. The LP Entities now seek approval of a conditional sanction order (the "**Credit Bid Sanction Order**") that is identical to the form of Order approved at the Senior Lenders' Meeting but for the addition of certain provisions relating to the conditionality of the sanction and the approval of the Acquisition and Assumption Agreement. Pursuant to the terms of the draft Credit Bid Sanction Order, which incorporates the concepts set out in the Monitor's Letter, the sanction of the Senior Lenders' CCAA Plan will not be effective until after the Monitor delivers to the LP Entities and the LP Administrative Agent and files with the Court a certificate (the "**Monitor's Credit Bid Sanction Certificate**"). The Monitor will not deliver its certificate making the conditional Sanction of the Credit Acquisition operative if the AHC Bid closes and would not deliver it prior to July 29, 2010 unless the Monitor determines in its reasonable business judgment that there is no reasonable chance that the AHC Bid can close, in which case it may apply to Court on 4 business days' notice for authority to deliver the Monitor's certificate in advance of July 29, 2010. In the event that the Monitor's Credit Bid Sanction Certificate has not been delivered by July 30, 2010, the Credit Bid Sanction Order provides that the LP Administrative Agent may apply to the Court to compel delivery of such certificate by the Monitor. In the view of the LP Entities, the amendments to the Order approved at the Senior Lenders' Meeting are procedural and not material because they do not change any of the terms of implementation but rather merely establish the conditions upon which the sanction becomes effective. I understand that a copy of the proposed Credit Bid Sanction Order will be included in the material filed by the LP Entities in support of this motion.

76. Certain schedules to the draft Credit Bid Sanction Order and the Acquisition and Assumption Agreement, including the schedule of permitted encumbrances, have not been completed to date. It is anticipated that such schedules will be completed in the near term in

- 23 -

respect of both the Support Transaction and the AHC Transaction. Upon the completion of such schedules, to the extent that parties' rights may be affected by the vesting language in the Credit Bid Sanction Order, the LP Entities will provide notice and serve such creditors whose rights may be affected and give them an opportunity to appear in Court well in advance of any closing of the Support Transaction.

77. As noted earlier, I understand that the Monitor will not support conditional sanction of the Senior Lenders' CCAA Plan if the Credit Bid Sanction Order contains any terms that would prejudice the ability of the LP Entities to close the AHC Transaction if it is possible to do so. In the Monitor's view, the AHC Bid is a Superior Cash Offer and should be pursued unless intervening events demonstrate that it cannot be implemented. In particular, the Monitor has expressed objection to any hard stop deadline that would compel the LP Entities to proceed with the Support Transaction even if the closing of the Ad Hoc Transaction were imminent. The draft Credit Bid Sanction Order therefore provides that the Monitor may delay the delivery of the Monitor's Credit Bid Sanction Certificate past July 29, 2010 if, in its reasonable business judgement and in consultation with the LP CRA and the Financial Advisor, it believes that the AHC Transaction will close within a reasonably short period of time after July 29, 2010.

78. The Senior Lenders' CCAA Plan contains the general terms for the plan of compromise or arrangement with the Senior Lenders; the Acquisition and Assumption Agreement that was attached as part of Exhibit "X" to the Initial Order Affidavit contains the specific terms for implementation and is attached as Exhibit "G" to this Affidavit. The draft Credit Bid Sanction Order provides that upon delivery of the Monitor's Credit Bid Sanction Certificate: (i) the LP Entities will be authorized to execute the Acquisition and Assumption Agreement; and (ii) the Acquisition and Assumption Agreement and the transactions contemplated thereby will be deemed approved.

### ***Revisions to Claims Procedure Order and the Continuation of the LP Claims Process***

79. Pursuant to terms of the Claims Procedure Order, the LP Entities have commenced a claims process (the "LP Claims Process") in which they are calling for the claims of certain of their creditors. A copy of the Claims Procedure Order (without schedules) is attached as Exhibit "H" to this Affidavit.

- 24 -

80. The AHC Transaction must close on or before August 15, 2010. In order to implement all of the steps required to close the AHC Transaction by that date, the LP Entities have determined that the Meeting of Unsecured Creditors must be convened for the purpose of a vote on the AHC Plan (as defined below) no later than June 10, 2010. In order to permit certain additional creditors to participate in a vote on and eventual distribution under the AHC Plan, and in anticipation of the imminent Meeting of Unsecured Creditors, the LP Entities propose to make a number of amendments to the Claims Procedure Order relating to: (i) restructuring period claims (the "**Restructuring Period Claims**"); (ii) claims against the directors and officers of the LP Entities (the "**Director/Officer Claims**"); and (iii) claims by non-union employees arising after January 8, 2010 (the "**Restructuring Period Employee Claims**"). The LP Entities also propose to add provisions to the Claims Procedure Order relating to the determination of the *pro rata* claims of the individual LP Subordinated Lenders and LP Noteholders. The LP Entities, the Monitor, the Ad Hoc Committee and the LP Administrative Agent are still in the process of finalizing the specific terms of the Amended Claims Procedure Order. An Amended Claims Procedure Order, together with a blackline to the Claims Procedure Order, will be delivered to the Service List as soon as possible after the service of the LP Entities' motion record.

#### A. **Restructuring Period Claims**

81. The Claims Procedure Order currently requires the LP Entities to deliver claims packages (the "**LP Claims Packages**") to creditors with included claims arising after January 8, 2010 (the "**Restructuring Period Claims**") as soon as practicable after the LP Entities have knowledge of such Restructuring Period Claims but in any event no later than 31 calendar days before any meeting of creditors. As a result, under the Claims Procedure Order as it is currently drafted, creditors with Restructuring Period Claims that arise after May 10, 2010 (which is 31 days in advance of the proposed Meeting of Unsecured Creditors) will not be included in or affected by the AHC Plan.

82. In order to enable a greater number of LP Creditors with Restructuring Period Claims to participate in the Meeting of Unsecured Creditors and the AHC Plan, the LP Entities propose to amend paragraph 21 of the Claims Procedure Order so that LP Claims Packages need be to be delivered before on or before May 20, 2010. The LP Entities also propose to amend the LP Restructuring Period Claims Bar Date to June 3, 2010. In the event that a Restructuring

Period Claim is not finally determined before the Meeting of Unsecured Creditors, the Claims Procedure Order permits the LP Entities to accept such LP Creditor's claim as a voting claim and then revisit the determination of the claim for distribution purposes.

#### **B. Director/Officer Claims**

83. The Claims Procedure Order currently excludes all claims against the directors and officers of the LP Entities (the "Director/Officer Claims"). The LP Entities now wish to call for certain Director/Officer Claims (which will include any and all claims against deemed or *de facto* directors and officers), whether part of the LP Claims Process or a separate process. As of the date of the swearing of this affidavit, the LP Entities, the LP CRA and the Monitor are still in discussions as to whether the Director/Officer Claims will either be: (i) Affected Claims and included in the Amended Claims Procedure Order; or (ii) the subject of a separate Order.

#### **C. Non-Union Employee Claims Arising During the Restructuring Period**

84. The LP Entities also propose to amend the Claims Procedure Order so that the LP Claims Process includes the Restructuring Period Claims of non-union employees that were terminated after January 8, 2010. At present, paragraph 2(k) of the Claims Procedure Order states that "Excluded Claims" include, among others:

...(iv) with the exception of SERA Claims and Termination and Severance Claims (as defined herein), all claims by current or former employees of the LP Entities, including both unionized and non-unionized employees, arising out of the employment of such employees or former employees by the LP Entities including, without limitation, Grievance Claims and Pension Claims (as defined herein)...

85. The LP Entities propose to amend paragraph 2(k) so that it provides that:

...(iv) with the exception of SERA Claims, Termination and Severance Claims and Restructuring Period Employee Claims (as defined herein)...

86. "Restructuring Period Employee Claim" will be defined as any claim by a non-unionized employee of the LP Entities arising out of the termination of the employment of such employee by the LP Entities after January 8, 2010.

87. The Monitor will post the Amended Claims Procedure Order on its website immediately after the granting of the Order Approving the AHC Bid.

**D. LP Subordinated Lender Claims Process and LP Noteholder Claims Process**

88. Pursuant to the Claims Procedure Order, the LP Subordinated Agent is authorized to file one or more LP Proofs of Claim on behalf of all of the LP Subordinated Lenders indicating the amount owing under the LP Senior Subordinated Credit Agreement on an aggregate basis. Similarly, the Bank of New York, as U.S. Trustee, and BNY Trust Company of Canada as Canadian Trustee under the LP Note Indenture (collectively, the "Trustees") were authorized to file one or more LP Proofs of Claim on behalf of all of the LP Noteholders indicating the amount owing on an aggregate basis for all of the LP Notes. In advance of the Meeting of Unsecured Creditors, it is necessary to establish claims processes enabling the individual LP Subordinated Lenders and the individual LP Noteholders to establish their claims on a *pro rata* basis.

89. The LP Entities propose that, for the purposes of voting on and distribution under the AHC Plan, the individual claims of the LP Subordinated Lenders will be determined in the following manner (the "LP Subordinated Lenders' Claims Process"):

- (a) Within two business days of the granting of the Order Approving the AHC Bid, the LP Subordinated Agent will send to the LP Entities a notice substantially in the form attached as a schedule to the draft Amended Claims Procedure Order (the "Notice of Subordinated Syndicate Pro Rata Claims") setting out each LP Subordinated Lenders' *pro rata* share of the aggregate amount owed by the LP Entities to the LP Subordinated Lenders (the "Subordinated Syndicate Claims");
- (b) Concurrent with the delivery of the Notice of Subordinated Syndicate Pro Rata Claims, the LP Subordinated Agent will post a copy of the Notice of Subordinated Syndicate Pro Rata Claims to one of the IntraLinks websites (the "Subordinated Lenders' Website") maintained by the LP Subordinated Agent for the benefit of the LP Subordinated Lenders;
- (c) Within five business days of the receipt of the Notice of Subordinated Syndicate Pro Rata Claims the LP Entities will advise the Monitor whether the amounts set out therein are consistent with the books and records of the LP Entities. Failure to

- 27 -

deliver a Notice of Dispute – Subordinated Syndicate Pro Rata Claims substantially in the form attached as a schedule to the draft Amended Claims Procedure Order will be deemed confirmation of the amounts set out in the Notice of Subordinated Syndicate Pro Rata Claims;

- (d) Within five business days of the posting of the Notice of Subordinated Syndicate Pro Rata Claims on the Subordinated Lenders' Website, each of the LP Subordinated Lenders holding claims must advise the Monitor whether such LP Subordinated Lender's *pro rata* share of the Subordinated Syndicate Claims is accurate. Failure to deliver a Notice of Dispute – Subordinated Syndicate Pro Rata Claims will be deemed confirmation of the amount set out in the Notice of Subordinated Syndicate Pro Rata Claims in respect of such LP Subordinated Lender;
- (e) If the amount of the LP Subordinated Lender's Claim is either (i) confirmed by the LP Entities; and (ii) confirmed by the individual LP Subordinated Lender, the amount set out in the Notice of Subordinated Syndicate Pro Rata Claims will be deemed to be finally determined ("**Finally Determined**") and accepted as the Proven Claim for such LP Subordinated Lender for purposes of voting and calculating entitlement to distribution under the AHC Plan;
- (f) In the event that a Notice of Dispute – Subordinated Syndicate Pro Rata Claims is delivered, the LP Entities, the LP Subordinated Agent and the applicable LP Subordinated Lender have three business days to reach an agreement as to the *pro rata* claim of such LP Subordinated Lender. If the LP Entities, the LP Subordinated Agent and the LP Subordinated Lender are unable to resolve their dispute, the claim of such LP Subordinated Lender will be determined by the Court on a motion for advice and directions brought by the Monitor; and
- (g) The LP Entities have discretion to accept an LP Subordinated Lender's *pro rata* claim for voting purposes without prejudice to the LP Entities' right to revisit the determination for distribution purposes.



90. The LP Entities are currently working with counsel to the LP Noteholders to determine an appropriate process for the determination of the *pro rata* claims of the individual LP Noteholders (the “**LP Noteholders’ Claims Process**”). The terms of this procedure will be reflected in the draft Amended Claims Procedure Order that will be served and filed as soon as possible after the date of the swearing of this affidavit.

### **Continuation of LP Claims Process**

91. Pursuant to the Claims Procedure Order, after the initial call for claims, no steps were to be taken to adjudicate or resolve claims until the posting of notice by the Monitor that a determination had been made that such steps were required to close a Successful Bid or, after the closing of a Successful Bid, to facilitate a distribution of proceeds to unsecured creditors.

92. Subject to Court approval, the AHC Bid will be implemented through the AHC Plan. Before conducting a meeting of Unsecured Creditors, it is necessary that additional steps be taken in the LP Claims Process to adjudicate and determine claims. The AHC Transaction cannot close until the AHC Plan is approved at a meeting and sanctioned by the Court. In short, the adjudication and resolution of claims is necessary to close the AHC Bid.

93. The Monitor, the LP CRA, the LP Entities and the LP Administrative Agent have made a determination pursuant to the Claims Procedure Order that additional steps in the LP Claims Process are required for the closing of a Successful Bid. On May 7, 2010 counsel for the LP Entities wrote to counsel for the LP Administrative Agent seeking their consent to the continuation of the LP Claims Process. A copy of the letter is attached hereto as Exhibit “I”. The LP Administrative Agent agreed to the resumption of the LP Claims Process on terms set out in an e-mail from counsel for the LP Administrative Agent, a copy of which is attached hereto as Exhibit “J”.

### **The AHC Plan and the Meeting of Unsecured Creditors**

94. The AHC Bid contemplates that the AHC Transaction will be implemented pursuant to the AHC Plan between the LP Entities and certain unsecured creditors (the “**Affected Creditors**”) including those currently participating in a claims process (the “**LP Claims Process**”) pursuant to the Claims Procedure Order. The Affected Creditors are the only creditors of the LP Entities whose claims will be affected under the AHC Plan. They are also the only creditors that will be eligible to receive distributions under the AHC Plan. The specific terms of

- 29 -

the AHC Plan are currently under negotiation, and the LP Entities intend to file the AHC Plan no later than May 20, 2010. An outline of the terms of the AHC Plan is contained in Schedule "1.1(29)" to the AHC APA.

95. In general terms, the AHC Plan will provide that, subject to Affected Creditor approval and sanction by this Honourable Court, the following will be approved and implemented:

- (a) Pursuant to the terms of the AHC APA, Opco LP will acquire substantially all of the assets of the LP Entities, including the shares and intercompany indebtedness of National Post Inc.;
- (b) The Senior Lenders will be unaffected creditors and will, on closing, receive 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;
- (c) Opco LP will pay to any unsecured creditors with Proven Claims at the time of closing who have elected to receive a cash payment in an amount equal to the lesser of the amount of their Proven Claim and \$1,000 (the "**Cash Election**"), provided that any creditor making such Cash Election shall be deemed to vote in favour of the AHC Plan;
- (d) The balance of the consideration will be satisfied by an unsecured demand note or notes of Opco LP in the amount of \$150 million minus the aggregate cash amount paid pursuant to the previous sub-paragraph (the "**Opco Note**") to be issued in favour of the LP Entities;
- (e) Immediately after receipt of the Opco Note, the LP Entities will purchase from Holdco common shares of Holdco (the "**Holdco Common Shares**") in exchange for the Opco Note. The price per share will be \$13.33;
- (f) The Monitor will satisfy specified categories of administrative costs and claims outstanding on the Acquisition Date from an account established by the Monitor in trust pursuant to a further Order of this Court;

- 30 -

- (g) Affected Creditors with Proven Claims will be required to certify whether they are Canadian for purposes of the *Income Tax Act*;
- (h) There will be two classes of Holdco Common Shares: Voting Common Shares (for Affected Creditors that are Canadian and hold Proven Claims) and Limited Voting Shares (for Affected Creditors that are non-Canadian and hold Proven Claims);
- (i) The Monitor will advise Holdco as to the number of shares distributable to Affected Creditors that are Canadian, and Holdco will proportionately issue Voting Common Shares and Limited Common Shares. The Monitor will then immediately distribute the Holdco Common Shares on a *pro rata* basis, holding back shares in an amount reflecting the value of outstanding disputed claims in the LP Claims Process at the time of distribution;
- (j) Holdco will purchase additional units of Opco LP using the Opco Note and the Opco Note will be cancelled;
- (k) A full release will be provided in favour of the former directors and officers of the LP Entities, the advisors of the LP Entities, the Monitor and its advisors, the LP CRA and its advisors and the members of the Special Committee and its advisors; and
- (l) Following the plan implementation date and completion of the acquisition of the assets, Holdco will take steps to apply for the listing of its common shares on the Toronto Stock Exchange.

96. The AHC Plan also contemplates that, subject to Court approval in a subsequent Order, on or before the plan implementation date, an administrative reserve (the "**Administrative Reserve**") will be established in an amount to be agreed by the Monitor, the LP Entities and Holdco, and not to exceed \$25,000,000, using cash and cash equivalents from the accounts of the LP Entities in a segregated account to be held in trust by the Monitor for the benefit of persons entitled to be paid certain specified costs and Holdco. These costs will include, among others, (i) amounts owing that are secured by the Administration Charge, the LP MIP Charge and the Financial Advisor Charge and the reasonable fees and costs of the Monitor and

- 31 -

its counsel; (ii) amounts secured by the Directors' Charge; (iii) government priority claims; (iv) "Pension Priority Claims" as defined in the AHC APA; (v) fees and costs of any trustee in bankruptcy that may be appointed in respect of any of the LP Entities after the Acquisition Date; and (vi) trade payables incurred by the LP Entities after the filing date and before the Acquisition Date, in the ordinary course of business and in compliance with the Initial Order.

### **Meeting and Voting Procedures**

97. As part of this motion, the LP Entities also seek certain relief in respect of the Meeting of Unsecured Creditors and associated voting procedures. The LP Entities and the Ad Hoc Committee have agreed that, subject to Court approval, the LP Entities intend to call and conduct a meeting of the Affected Creditors on June 10, 2010 for the purpose of voting on a resolution to approve the AHC Plan. Because the LP Entities must close the AHC Transaction no later than August 15, 2010, it is critical that the Meeting of Unsecured Creditors take place as soon as possible so that the LP Entities can seek a sanction Order and take such other steps required prior to the Acquisition Date. A draft Meeting Order is under negotiation and will be served and filed as soon as possible after the swearing of this Affidavit.

98. The Monitor will preside as the chair of the Meeting of Unsecured Creditors (the "Chair"), and the only persons authorized to attend the Meeting of Unsecured Creditors will be the LP Entities, the Financial Advisor, the Monitor, the LP CRA and the Affected Creditors that are entitled to vote at the meeting, as well as their respective legal counsel. The Monitor or the LP Entities will have discretion to allow any other person to be admitted to the Meeting of Unsecured Creditors.

99. The only persons entitled to vote at the Meeting of Unsecured Creditors are those unsecured creditors of the LP Entities whose claims are included and have been proven in the LP Claims Process (the Affected Creditors). Pursuant to the Claims Procedure Order, the LP Entities have discretion in respect of disputed claims to make a determination as to the voting claim of an Affected Creditor without prejudice to review that creditor's claim for distribution purposes.

100. For purposes of classification of creditors and voting on the AHC Plan:

- (a) There will be one class of creditors consisting of Affected Creditors whose claims are included in the LP Claims Process;

- (b) The quorum required at the Meeting of Unsecured Creditors will be one Affected Creditor present at such meeting in person or by proxy;
- (c) The Chair will direct a vote with respect to a resolution to approve the AHC Plan;
- (d) The Chair will be authorized to accept and rely on a proxy submitted in the form attached as Schedule "C" to the draft Meeting Order;
- (e) Any Affected Creditor that accepts the Cash Election in satisfaction of its claim will be deemed to have voted in favour of the AHC Plan;
- (f) After the vote, the Monitor will tally the votes, and the AHC Plan will be deemed to be accepted if it is approved by creditors present in person or represented at the Meeting of Unsecured Creditors holding claims totalling 66 2/3 % in value and a majority in number; and
- (g) Any vote will be binding on all Affected Creditors whether or not such Affected Creditor is present at the Meeting of Unsecured Creditors.

101. The LP Entities propose that, within two business dates of the granting of the Meeting Order, the Monitor will publish notice of the Meeting of Unsecured Creditors (the "**Meeting Notice**") substantially in the form attached as Schedule "A" to the draft Meeting Order for two business days in the *National Post*, *The Globe and Mail* (National Edition), *La Presse* and *The Wall Street Journal*.

102. Within three business days of the granting of the Meeting Order, the Monitor will send a copy of the Meeting Notice to each Affected Creditor together with the following documents and any other materials required by the Court to be delivered in connection with the calling and the conduct of the Meeting of Unsecured Creditors (collectively, the "**Meeting Materials**"):

- (a) a circular prepared by the LP Entities substantially in the form attached as Schedule "A" to the draft Meeting Order (the "**Notice to Affected Creditors**");
- (b) instructions to Affected Creditors substantially in the form attached as Schedule "B" to the draft Meeting Order (the "**Instructions to Affected Creditors**")

- 33 -

- (c) a copy of the Meeting Order;
- (d) a copy of the AHC Plan;
- (e) a form of proxy for use at the Meeting of Unsecured Creditors, substantially in the form attached as Schedule "C" to the draft Meeting Order (the "Proxy"); and
- (f) and any other documents required by this Court to be delivered in connection with the calling and holding of the Meeting of Unsecured Creditors (collectively, the "Meeting Materials").

103. Affected Creditors that have opted for the Cash Election will not receive a Proxy as part of their Meeting Materials.

104. Pursuant to the draft Order Approving the AHC Bid, within two business days of the granting of the requested Order the Monitor will post the Meeting Materials on the Monitor's website at: <http://cfcanada.fticonsulting.com/clp>.

105. The only persons to whom notice is required to be provided in respect of the Meeting of Unsecured Creditors are the Affected Creditors.

106. The LP Entities propose that, in respect of the LP Subordinated Lenders, copies of the Meeting Notice and the Meeting Materials will be provided solely to the LP Subordinated Agent and, in respect of the LP Noteholders, copies of the Meeting Notice and the Meeting Materials will be provided solely to the Trustees.

### ***Amendment to the SISP Procedures***

107. Pursuant to the SISP Procedures, if the Special Committee accepts the Superior Cash Offer Recommendation, the Monitor is directed to take steps toward implementation of the Superior Cash Offer. Specifically, the SISP Procedures provide that:

If the Special Committee accepts the Superior Cash Offer Recommendation, the Monitor, in consultation with the Financial Advisor and the LP CRA, shall negotiate and settle a definitive agreement in accordance with the recommendation but subject to the terms and conditions of the Senior Lenders' CCAA Plan.

108. The LP Entities, in consultation with the Monitor, the Financial Advisor and the LP CRA, have determined that it is prudent and reasonable to seek conditional sanction of the Senior Lenders' CCAA Plan on the terms set out in the Monitor's Letter. The LP Entities wish to clarify and eliminate any concerns that the foregoing provision in the SISP Procedures precludes the concurrent pursuit of the AHC Transaction and the Support Transaction.

109. The SISP Procedures also provide that the Monitor's Superior Cash Offer Recommendation is conditional upon Court Approval and "the Superior Cash Offer closing within 60 days after the Phase 2 Bid Deadline, or such longer period as shall be agreed to by the Monitor, in consultation with the Financial Advisor and the LP CRA, and consented to by the Agent, acting in consultation with the Steering Committee." The LP Entities will endeavour to close the AHC Transaction as expeditiously as possible. However, the businesses of the LP Entities are extremely large and complex and the AHC Transaction – as well as the Support Transaction – contains numerous time-consuming conditions to closing. As a result, in the LP Entities best estimate, it is unlikely that the AHC Transaction will close by June 30, 2010, which is 60 days after the Phase 2 Bid Deadline. Furthermore, the Monitor has indicated that it does not support, and the Ad Hoc Committee will not support, conditional sanction of the Senior Lenders' CCAA Plan where the Order contains a hard stop deadline beyond which the LP Entities would be compelled to implement the Support Transaction. In order to accommodate the real possibility that such closing timeline will not be possible and to build flexibility into the process to accommodate reasonable delays caused by uncontrollable variables, the LP Entities wish to revise the SISP Procedures so that they provide that the 60-day provision may also be extended by further Order of the Court.

110. In order to clarify that the SISP Procedures permit concurrent pursuit of the AHC Transaction and the conditional sanction of the Senior Lenders' CCAA Plan and to introduce the possibility of a further revision of the closing deadline by the Court, the LP Entities therefore propose to revise the section of the SISP Procedures entitled "**Superior Cash Offer is Received**" as follows (with new additions in italics and underlined):

If the Monitor determines in its reasonable business judgment following consultation with the Financial Advisor and the LP CRA, that one or more of the Qualified Bids is a Superior Cash Offer, the Monitor, in consultation with the Financial Advisor and the LP CRA, shall recommend (the "**Superior Cash Offer Recommendation**") to the Special Committee that the most favourable Superior Cash Offer be selected and that a definitive agreement be negotiated

- 35 -

and settled in respect of that Superior Cash Offer, conditional upon Court approval and conditional on the Superior Cash Offer closing within 91 days after the Phase 2 Bid Deadline, or such longer period as shall be agreed to by the Monitor, in consultation with the Financial Advisor and the LP CRA, and consented to by the Agent, acting in consultation with the Steering Committee, or by further Order of the Court.

If the Special Committee accepts the Superior Cash Offer Recommendation, the Monitor, in consultation with the Financial Advisor and the LP CRA, shall negotiate and settle a definitive agreement in accordance with the recommendation but subject to the terms and conditions of the Senior Lenders' CCAA Plan, provided that nothing herein shall prevent the LP Entities or the Monitor from seeking sanction of the Senior Lenders' CCAA Plan which sanction will remain conditional upon delivery of a Monitor's Certificate on such terms as may be agreed to by the LP Entities, the Monitor and the Agent or ordered by the Court and, if such conditional sanction is granted, taking 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 Successful Bid (as defined herein).

111. I am advised that the Monitor and the LP CRA support this amendment to the SISP Procedures.

### **Conclusion**

112. In the view of the LP Entities, the AHC Transaction represents the best value available for their businesses and stakeholders. The AHC Bid offers the highest available purchase price for the assets of the LP Entities and will provide significant recovery to those unsecured creditors participating in the LP Claims Process. In addition, Opco LP intends to offer employment to substantially all full-time employees and the vast majority of part-time employees of the LP Entities effective as of the Acquisition Date, thereby preserving approximately 5,000 jobs. Opco LP will also assume pension and retirement related obligations in respect of those employees who accept employment with Opco LP. The AHC Transaction promises to be a significant success for the CCAA process.

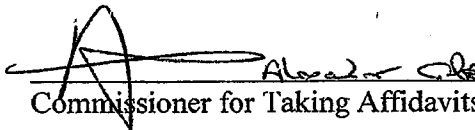
113. At the same time, the course of prudence is for the LP Entities to simultaneously pursue the Support Transaction if possible and, as a first step in that direction, seek the conditional sanction of the Senior Lenders' CCAA Plan. This strategy going forward mitigates the risk, however slight, that the AHC Transaction will not close and the LP Entities will have no available going concern path forward.

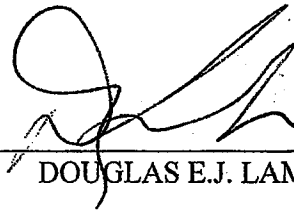
114. For the past four months, employees of the LP Entities have worked diligently to carry on business in the ordinary course while working to ensure that the SISP elicited a



transaction that would secure the best possible outcome for the LP Entities. The LP Entities are delighted that they have identified such a transaction in the AHC Bid and intend, with the benefit of the continuing stability afforded by the Support Agreement, to spare no effort to close it. The relief sought in this motion will set the stage for securing, over the next several weeks, an outcome that is in the best interests of the LP Entities' businesses, employees, retirees, suppliers and the many millions of Canadians that depend on them for their daily news.

SWORN BEFORE ME at the City of  
Toronto, in the Province of Ontario, on  
May 10, 2010.

  
Commissioner for Taking Affidavits

  
DOUGLAS E.J. LAMB