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.

RESPONDING MOTION RECORD
of the CanWest Salaried Employees and Retirees (CSER) Group on the Motion of the Monitor returnable February 28, 2011

Date: February 25, 2011

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TAB 1

Court File No. CV-10-85533-00CL

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

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

Applicants

AFFIDAVIT OF RUSSELL MILLS
sworn February 25, 2011

I, **RUSSELL MILLS,** of the City of Ottawa in the Province of Ontario, MAKE OATH AND SAY:

1. I am the former publisher of the Ottawa Citizen. By order of the Honourable Madam Justice Pepall made March 5, 2010, I (together with four others) was appointed to represent current and former salaried employees of the applicants in this proceeding (collectively, the "Representatives). Attached as Exhibit "A" is a copy of Pepall J.'s order. Where I rely on information and belief provided by others in this affidavit, I believe that to be true.

2. This affidavit is made in response to the Monitor's motion returnable February 28, 2011. In that motion the Monitor seeks approval of its Fourteenth and Fifteenth Reports. The Fifteenth Report makes reference at paragraph 16 to certain withholding arrangements agreed to between the Monitor and Canada Revenue Agency. As a result of these withholding arrangements (the particulars of which are unknown to the Representatives or their counsel), former salaried

employees of the applicants who received shares in Postmedia Network Canada Corp. through the claims process are receiving T4s or T4As which value the shares they received at $11.54 per share. This is occurring notwithstanding that:

(a) according to footnote 3 to paragraph 21 of the Supplement to the Monitor's Eighth Report in these proceedings (a copy of which is attached as Exhibit "B"), the valuation of $11.54 "was not and should not be construed as an estimate of the price at which the Shares may trade in the market, if at all...";

(b) according to footnote 4 to the paragraph 21 of the Supplement to the Monitor's Eighth Report in these proceedings (which remains true), "There is currently no market through which the Shares may be sold and one may never develop.";

(c) according to paragraph 20 of the Supplement to the Monitor's Eight Report in these proceedings, the Sponsors of the plan purchased their shares of Postmedia Network Canada Corp. for $9.25926 per share; and

(d) according to Note 16(b) of the financial statements of Postmedia Network Canada Corp. (a copy of which, retrieved from the company's website on February 23, 2011, is attached as Exhibit "C"), during the period ending August 31, 2010, management of Postmedia Network Canada Corp. purchased shares of the company at fair market value, being $9.26.

3. While each taxpayer's situation is unique, and while the ascription of value of the shares received in the T4s or T4As is not ultimately determinative of the amount of income received by the taxpayer, by valuing the shares received through the claims process by more than $2 over their fair market value at August 31, 2010, the Monitor's actions will require a disproportionate number of former employees to seek professional tax advice, including possibly the preparation of objections and appeals to the Tax Court of Canada.

The Claims Process

4. Pursuant to the claims process established by court order in these proceedings, Nelligan O'Brien Payne and Shibley Righton LLP in their capacity as Representative Counsel filed proof of claims on behalf of former employees of Canwest. The claims filed by the former employees largely fell into the following categories:

(a) claims by seven former executive employees of Canwest and its predecessors who were in receipt of Southam Executive Retirement Plan Agreement ("SERA") payments. The SERA was a supplemental pension plan for senior executives that provided for a top-up of pension benefits. On January 8, 2010 Canwest ceased providing payments under SERA, in breach of its contract with the former executives in receipt of SERA. Each of 7 former executives brought a claim for their lost SERA payments;

(b) claims by former employees of Canwest who were offered and had accepted severance or voluntary retirement packages that included an option that the employees were to receive pay in lieu of notice by way of salary and benefit continuance to the end of their notice period ("Salary Continuance group"). On January 8, 2010 when Canwest sought protection under the CCAA, it stopped paying Salary Continuance Group. It also stopped paying salary and pension contributions immediately, and stopped health and related benefits as of February 28, 2010. Consequently, the Salary Continuance Group filed a claim against Canwest for the failure to continue providing compensation through to the end of the notice period; and

(c) claims by former employees of Canwest who either terminated before or after the commencement of the CCAA proceedings and were not provided with reasonable notice of their termination or pay-in-lieu of notice.

In addition, there were a handful of miscellaneous former employee claims that did not fit in the above three categories (including those with claims for lost bonus, lost vacation pay and another claim for failure on the part of Canwest to comply with a settlement agreement and transfer an agreed upon amount directly into a claimant's RRSP account).

5. Under the claims process, Affected Creditors with Proven Claims over $1,000 were permitted to elect whether or not to receive $1,000 in cash in satisfaction of their claims. If an Affected Creditor did not elect to receive $1,000 in cash, he or she received shares based on his or

her pro rata shares portion of the unsecured creditors pool, after subtracting the cash elections. It was in the context of reporting on this point that the Monitor, in its Supplement to its Eighth Report (Exhibit "B" hereto) noted at p. 8, footnote 3, as follows:

> "Although the share price for purposes of allocating shares between the 'convenience class creditors' and the Affected Creditors is based upon a price per share of $11.54 and an organizational value of $1.1 billion, such valuation was not and should not be construed as an estimate of the price at which the Shares may trade in the market, if at all, and the LP Entities have not attempted to make any such estimate in connection with the development of the AHC Plan. No assurance can be given as to the market price of the Shares that will prevail."

6. Approximately sixty-seven former employees received shares through the claims process. The Monitor sent the distribution letters directly to claimants and did not copy either the Representatives or Representative counsel so precise figures are not known. Speaking for myself, I had a claim of $1.5 million, and I received approximately 23,000 shares in Postmedia Network Canada Corp. The only alternative presented to me was taking $1,000 for my claim.

January 2011

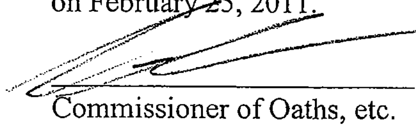
7. In early 2011, I received correspondence from Computershare that shares in Postmedia Network Canada Corp. had been deposited to my account as of December 31, 2010. The number of shares was less than I had anticipated, so I wrote a letter dated January 21, 2011 to Paul Bishop, Senior Managing Partner of the Monitor, a copy of which is attached as Exhibit "D". He responded by letter dated January 28, 2011, a copy of which is attached as Exhibit "E".

8. Neither the Representatives nor Representative Counsel for the former employees were involved in any discussions that occurred between the Monitor and Canada Revenue Agency in any way, and were not kept apprised of any such discussions (apart from two lines in the Thirteenth Monitor's Report). Moreover, neither the Representatives nor Representative Counsel have seen the agreement between the Monitor and Canada Revenue Agency; Representative Counsel were unprepared to sign the nondisclosure agreement demanded before it could be reviewed.

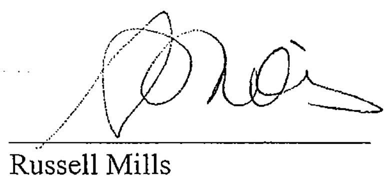
9. Further correspondence and discussion ensued, including a letter from Janice Payne, Representative Counsel dated February 15, 2011 to counsel for the Monitor (a copy of which is attached as Exhibit "F") and the reply of counsel to the Monitor dated February 17, 2011. In summary, it appears as if the Monitor will issue T4s and T4As to former employees with respect to the shares they received through the claims process at the value of $11.54 per share which - as is set out at paragraph 5, above - the Monitor admits is not reflective of the market value of the shares, and which is $2.28 more per share than the fair market value of the shares as calculated by Postmedia Network Canada Corp. as at August 31, 2010.

10. It is the view of the Representatives that the valuation of Postmedia Network Canada Corp. shares used in the T4s or T4As should reflect the fair value of the those shares at the date they were received, namely December 31, 2010.

SWORN BEFORE ME at
the City of Ottawa
in the Province of Ontario,
on February 25, 2011.



Commissioner of Oaths, etc.



Russell Mills

TAB A

This is Exhibit A referred to in the affidavit of
Russell Mills
sworn before me,
this 25th day of February, 2011.

A Commissioner, etc.

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

THE HONOURABLE MADAM	)	FRIDAY, THE 5 th DAY OF
	)	
JUSTICE PEPALL	)	MARCH, 2010

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.

ORDER

THIS MOTION, brought by Russell Mills, Blair MacKenzie, Rejean Saumure and Les Bale for an order appointing them as representatives of certain current and former employees of Canwest Publishing Inc./Publications Canwest Inc., Canwest Books Inc. and Canwest (Canada) Inc. (collectively, the "Applicants") and Canwest Limited Partnership/Canwest Societé en Commandite (the "Limited Partnership") (the Applicants and the Limited Partnership each an "LP Entity" or, collectively, the "LP Entities"), and appointing representative counsel, was heard Monday, February 22nd, 2010 on the Commercial List at the courthouse at 330 University Avenue, Toronto, Ontario.

ON READING the Motion Record of the Representatives and the Third Report of FTI Consulting Canada Inc. in its capacity as Court-appointed monitor of the LP Entities (the "Monitor") and on hearing the submissions of counsel for the Representatives, the LP Entities,

the Monitor and the Bank of Nova Scotia in its capacity as Administrative Agent for the Senior Lenders to Canwest Limited Partnership (the "Administrative Agent") and such other counsel as were present, no one else appearing although duly served,

UPON BEING ADVISED by counsel for the Representatives that a Representative is to be appointed unopposed, namely Juliet O'Neill, and who shall therefore be included as a Representative for all purposes described in this Order;

1. **THIS COURT ORDERS** that further service of the Notice of Motion and Motion Record on any party not already served is hereby dispensed with, such that this motion was properly returnable.

2. **THIS COURT ORDERS** that the Russell Mills, Blair MacKenzie, Rejean Saumure, Les Bale and Juliet O'Neill (collectively, and as such members may be replaced from time to time, the "Representatives") are hereby appointed to represent, in this proceeding under the *Companies' Creditors Arrangement Act* (Canada) (the "CCAA Proceeding"), a related proceeding under the *Bankruptcy and Insolvency Act* (Canada)(the "BIA") or any other related proceeding which has or may be brought before this Honourable Court (collectively, the "Proceedings"), the current and former employees and retirees of the LP Entities who are not represented by a union, or were not represented by a union at the time of their separation from employment including for greater certainty but not limited to publishers, editors and department heads of newspapers (a "Current or Former Salaried Employee"), or any person claiming an interest under or on behalf of a Current or Former Salaried Employee including beneficiaries and surviving spouses but excluding any person who is (a) a current director or officer of any of the

Applicants, or an employee of the LP Entities involved in providing instructions to counsel to the LP Entities with respect to the Proceeding; or (b) who has served a notice pursuant to paragraph 10 of this order; or (c) is otherwise represented in the Proceedings (all of whom, other than the excluded parties, being collectively referred to herein as the "Represented Parties" and individually, a "Represented Party"), including, without limitation, for the purpose of settling or compromising claims of the Represented Parties in the Proceedings.

3. **THIS COURT ORDERS** that, Nelligan O'Brien Payne LLP and Shibley Righton LLP are hereby appointed as co-counsel ("Representative Counsel") for all the Represented Parties in the Proceedings for any issues affecting the Represented Parties in the Proceedings.

4. **THIS COURT ORDERS** that Representative Counsel shall represent the interests of the Represented Parties in all aspects of the Proceedings, without any obligation to consult with or seek instructions from the Represented Parties other than the Representatives, unless otherwise ordered by the Court.

5. **THIS COURT ORDERS** that the LP Entities shall, subject to Representative Counsel executing a confidentiality agreement, provide to Representative Counsel, without charge, the following information to be used only for the purposes of the Proceedings:

a. the names, last known addresses, phone numbers and last known e-mail addresses (if any) of all the Represented Parties;

b. upon the reasonable request of Representative Counsel, and subject to any confidentiality obligations of the LP Entities, such documents and data as are relevant to matters relating to the issues affecting the Represented Parties in the Proceedings, including documents and data relating to the various pension, benefit, supplementary pension and other arrangements for group health and life insurance applicable to the Represented Parties, including up-to-date financial information regarding, if applicable, the funding and investments of any of these arrangements and any associated actuarial valuations and reports.

6. **THIS COURT ORDERS** that any Represented Party whose personal information is provided to the Representative Counsel by the LP Entities pursuant to this Order is deemed to have consented for the purposes of any applicable privacy legislation to the LP Entities providing such information and to the collection, use and disclosure by the Representative Counsel of such information, provided that such information will be used or disclosed by the Representative Counsel solely for the purpose of representing the Represented Parties' interests in these Proceedings.

7. **THIS COURT ORDERS** that, subject to such fee arrangements to be agreed to by the LP Entities, the Representatives, Representative Counsel, and the Administrative Agent, or as have been ordered by this Court, all reasonable legal, actuarial and financial expert and advisory fees and all other incidental fees and disbursements, as may be incurred by the Representatives and Representative Counsel in the CCAA Proceeding from and after the date of this Order shall be paid by the LP Entities on a monthly basis, forthwith upon the rendering of accounts to the LP Entities. In the event of any disagreement regarding such fees, such matters may be remitted to

this Court for determination. For greater certainty, the granting of funding is limited to the CCAA Proceeding, and nothing in this Order is intended to provide for the funding of the legal, actuarial and financial expert and advisory fees or other incidental fees and disbursements of the Representatives or Representative Counsel in a related proceeding under the BIA or any other related proceeding.

8. **THIS COURT ORDERS** that, notwithstanding paragraph 7 of this Order, the LP Entities shall not be required to pay for, and neither the Representatives nor Representative Counsel shall include in their accounts submitted for payment, any amounts incurred in investigating, preparing or pursuing any claims contemplated or asserted by the Represented Parties, or any one or more of them, against the current or former directors, deemed directors or officers of the LP Entities (or their predecessors, as applicable).

9. **THIS COURT ORDERS** that notice of the granting of this Order be provided to the Represented Parties by advertisement in an edition of the national edition of the *National Post* and other such LP Entity newspapers as may be agreed by the Representatives, the LP Entities and the Monitor, in such form and under such terms as shall be agreed upon by the Representatives, the LP Entities and the Monitor, and that a notice substantially in the form attached as Schedule "A" hereto, together with a French translation thereof (the "Notice"), shall also be provided to the Represented Parties by (i) e-mailing an electronic copy of the Notice as soon as practicable after the granting of this Order to Current Salaried Employees; (ii) mailing a copy of the Notice to Former Salaried Employees by ordinary mail to the physical address of the Former Salaried Employees, as last shown in the books and records of the LP Entities; and (iii) posting a copy of the Notice on the Monitor's website.

10. **THIS COURT ORDERS** that the Representatives, or Representative Counsel on their behalf, are authorized to take all steps and to do all acts necessary or desirable to carry out the terms of this Order, including dealing with any Court, regulatory body and other government ministry, department or agency, and to take all such steps as are necessary or incidental thereto.

11. **THIS COURT ORDERS** that any individual Represented Party who does not wish to be represented by the Representatives or Representative Counsel pursuant to the terms of this Order or all other related Orders which may subsequently be made in the Proceedings concerning the Represented Parties or relating to the appointment of the Representatives and/or Representative Counsel shall, no later than April 16, 2010, notify the Monitor, in writing, by facsimile, mail or delivery, and in the form attached as Schedule "B" hereto and shall thereafter not be so represented and shall be represented themselves as an independent individual party to the extent they wish to appear in the Proceedings.

12. **THIS COURT ORDERS** that the Representatives and Representative Counsel shall have no liability as a result of their respective appointment or the fulfilment of their duties in carrying out the provision of this Order save and except for any gross negligence or wilful misconduct on their part and that no action or other proceedings shall be commenced against the Representatives and/or Representative Counsel relating to their acting as such, except with prior leave of this Court, on at least 7 day's notice to the Representatives and Representative Counsel and upon further order in respect of security for costs, to be given by the plaintiff for the costs on a substantial indemnity basis, of the Representatives and Representative Counsel in connection with any such action or proceeding.

13. **THIS COURT ORDERS** that Representative Counsel shall be given notice of all motions to which the Represented Parties are entitled to receive notice in the Proceedings and that it shall be entitled to represent those on whose behalf it is hereby appointed in all such motions.

14. **THIS COURT ORDERS** that the Representatives shall be at liberty and are authorized at any time to apply to this Honourable Court for advice and directions in the discharge or variation of their powers and duties upon notice to the LP Entities and the Monitor and to other interested parties, unless otherwise ordered by the Court.

15. **THIS COURT ORDERS** that any of the Representatives may resign and that, on notice to the LP Entities and the Monitor, the remaining Representatives may appoint any other individual Represented Party as a replacement, which replacement will have all of the rights and obligations of the resigning Representative as though they had been named in this Order. If there is any disagreement concerning the appropriateness of a replacement Representative, it may be remitted to the Court for determination.

16. **THIS COURT ORDERS** that in the event that this Order is later amended by further Order of the Court, the Monitor may post such further Order on the Monitor's website and such posting shall constitute adequate notice to the Represented Parties of such amended Order.

ENTERED AT / INSCRIT A TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

MAR 2 2 2010

PER / PAR:

SCHEDULE "A"

Pursuant to an order of the Ontario Superior Court of Justice dated March 5, 2010 in the CCAA proceeding (the "Proceeding") commenced by Canwest Publishing Inc. and certain other entities (the "LP Entities"), Russell Mills, Blair MacKenzie, Rejean Saumure, Les Bale and Juliet O'Neill have been appointed as representatives of the current and former salaried (i.e. non-unionized) employees of the LP Entities, and persons claiming on their behalf or through them (the "Represented Parties"). Nelligan O'Brien Payne LLP and Shibley Righton LLP were jointly appointed as counsel for the Represented Parties. A copy of the Order is attached.

Subject to fee arrangements that have been agreed to by the LP Entities, the representatives and their counsel, the LP Entities will be responsible for the reasonable legal fees incurred by the court-appointed counsel in carrying out their prescribed mandate. Accordingly, **you are not required to contribute to the fees of counsel for the Represented Parties.**

If you do not wish to be bound by this order, you must notify the court-appointed Monitor, FTI Consulting Canada Inc., in writing, by mail, e-mail or delivery on or before April 16, 2010. Your notice that you do not wish to be bound by this order must be in the form of a fully completed "Opt-Out Letter" substantially in the form attached to this Notice.

Additional information concerning the Proceedings, including previous orders granted in the Proceedings, can be found on the Monitor's website at http://cfcanada.fticonsulting.com/clp.

Represented Parties may contact Nelligan O'Brien Payne in confidence directly at – CSER@nelligan.ca (use your personal email) or by telephone to Ms. Leigh Norton 613-231-8216 or 1-888-565-9912.

SCHEDULE "B"

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.

OPT-OUT LETTER

FTI Consulting Canada Inc.
TD Waterhouse Tower
79 Wellington Street West
Suite 2010, P.O. Box 104
Toronto, Ontario M5K 1G8

Attention: Pamela Luthra
Tel: 1 888- 310-7627
Fax: 416-649-8101
Email: CanwestLP@fticonsulting.com

I, ______________________________, am a current or former employee or retiree of the LP Entities, as defined in the Order of Madam Justice Pepall dated March 5, 2010.

Under Paragraph 8 of that Order, any current or former employee or retiree who does not wish Nelligan O'Brien Payne LLP and Shibley Righton LLP to act as their representative counsel may opt out.

I hereby notify the Monitor that I do not wish to be bound by the Order and will be represented as an independent individual party at my own expense to the extent I wish to appear in these proceedings.

______________________________ ______________________________

Date Signature

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

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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

ORDER

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Alexander Cobb (LSUC#: 45363F)
Tel: (416) 862-5964

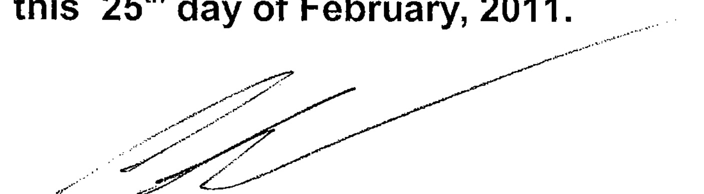
Elizabeth Allen Putnam (LSUC#53194L)
Tel: (416) 862-6835
Fax: (416) 862-6666

Lawyers for the Applicants

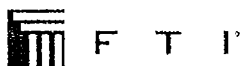
F. 1117119

TAB B

This is Exhibit B referred to in the affidavit of
Russell Mills
sworn before me,
this 25th day of February, 2011.



A Commissioner, etc.



CANWEST PUBLISHING INC. / PUBLICATIONS CANWEST INC., CANWEST BOOKS INC. AND CANWEST (CANADA) INC.

SUPPLEMENT TO THE EIGHTH REPORT OF
FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS MONITOR OF THE APPLICANTS

June 10, 2010

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.

SUPPLEMENT TO THE EIGHTH REPORT OF FTI CONSULTING CANADA INC., in its capacity as Monitor of the Applicants

June 10, 2010

INTRODUCTION

1. By Order of this Court dated January 8, 2010 (the "**Initial Order**") (a copy of which is attached as **Appendix "A"**), Canwest Publishing Inc. / Publications Canwest Inc. ("**CPI**"), Canwest Books Inc. ("**CBI**"), and Canwest (Canada) Inc. ("**CCI**", and together with CPI and CBI, the "**Applicants**") obtained protection from their creditors under the *Companies' Creditors Arrangement Act*, R.S.C. 1985 c. C-36, as amended (the "**CCAA**"). The Initial Order also granted relief in respect of Canwest Limited Partnership / Canwest Societe en Commandite (the "**Limited Partnership**", and together with the Applicants, the "**LP Entities**") and appointed FTI Consulting Canada Inc. ("**FTI**") as monitor (the "**Monitor**") of the LP Entities. The proceedings commenced by the LP Entities under the CCAA will be referred to herein as the "**CCAA Proceedings**".

2. This report is supplementary to (and should be read in conjunction with) the Eighth Report of the Monitor dated June 3, 2010 (the "**Eighth Report**") prepared in accordance with section 23(1)(d.1) of the CCAA in advance of the meeting of creditors referred to in section 4 or 5 of the CCAA.

3. All capitalized terms used but not defined herein shall have the meaning ascribed to them in the Eighth Report.

PURPOSE OF THIS REPORT

4. On May 17, 2010, the LP Entities obtained an Order (the "**Meeting Order**") to call, hold and conduct a meeting of certain of the Affected Creditors to consider and vote on a resolution to approve the AHC Plan (the "**Creditors' Meeting**"). On May 21, 2010, the LP Entities filed a copy of the AHC Plan with the Court and delivered or made it available to the Affected Creditors.

5. The purpose of this supplement to the Eighth Report is to inform the Affected Creditors and the Court on: (a) amendments to the AHC APA and the AHC Plan that have been proposed since the finalization and service of the Eighth Report, and (b) the adjournment of the Creditors' Meeting to June 14, 2010.

TERMS OF REFERENCE

6. In preparing this report, FTI has relied upon unaudited financial information of the LP Entities, the LP Entities' books and records, certain financial information prepared by, and discussions with, the LP Entities' management. FTI has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information and

accordingly expresses no opinion or other form of assurance on the information contained in this report.

7. Unless otherwise stated, all monetary amounts contained in this report are expressed in Canadian dollars.

AHC BID & AHC PLAN

8. As reported in greater detail in the Eighth Report, the AHC Bid is structured as an asset purchase in the context of the AHC Plan. The terms of the AHC Transaction are contained in an asset purchase agreement dated May 10, 2010 (the "**AHC APA**").

9. The AHC APA contemplated that a corporation wholly owned by the Sponsors (as described below) ("**Holdco**") would effect a transaction through CW Acquisition Limited Partnership (the "**Purchaser**") whereby the Purchaser 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 and assume the Assumed Liabilities (as defined in the AHC APA).

10. Under the AHC APA, the purchase price in the approximate amount of $1.1 billion[1] (exclusive of all applicable sale and transfer taxes) was to consist of:

    a) a cash amount equal to the full amount owing to the LP Senior Secured Lenders;

    b) a cash payment to unsecured creditors with proven claims that elect to receive a cash payment equal to the lesser of the amount of their proven claim and $1,000;

[1] The purchase price to be paid by the Purchaser under the AHC APA is $1.075 billion plus the amount of assumed liabilities. The additional $25 million raised by the Purchaser will be used to pay closing costs.

c) an unsecured demand promissory note of $150 million (less the amount payable under (b) above) issued by the Purchaser to the Monitor on behalf of CPI, which would immediately be exchanged for Voting Shares of Holdco pursuant to the AHC Plan; and

d) assumption by the Purchaser of the Assumed Liabilities.

11. The AHC Plan contemplated that Affected Creditors (which includes for greater certainty the holders of beneficial interest in the 9.25% Notes (the "**Beneficial Noteholders**") and the holders of claims under the LP Senior Subordinated Agreement (the "**LP Subordinated Lenders**")) with proven Claims of greater than $1,000 that did not make a valid Cash Election would receive their *pro rata* share of the equity pool, which would be comprised of the Voting Shares purchased by CPI on the Plan Implementation Date pursuant to and in accordance with the AHC Plan and the AHC APA. The number of such Voting Shares available for distribution to eligible Affected Creditors was to be approximately equal to the amount of the unsecured demand promissory note to be issued by the Purchaser to the Monitor on behalf of the LP Entities, namely $150 million, less the aggregate of the Cash Election Amount elected or deemed to have been elected by Affected Creditors and divided by a price per Voting Share of $13.3333[2], rounded down to the nearest whole number.

[2] As stated in the Eighth Report, although the AHC Plan was prepared based upon an organizational value, such valuation was not and should not have been construed as an estimate of the price at which the Shares may have traded in the market, if at all, and the LP Entities did not attempt to make any such estimate in connection with the development of the AHC Plan.

12. Following the distribution of Shares to Affected Creditors, such distributed Shares were expected to account for up to approximately 45% of the issued and outstanding Shares in the capital of Holdco.

13. In connection with the AHC APA, certain Beneficial Noteholders and LP Subordinated Lenders (the "**Sponsors**") also executed a funding commitment letter in favour of Holdco and the Purchaser (the "**Funding Commitment Letter**") pursuant to which the Sponsors committed to purchase, in aggregate, $250 million (the "**Funding Commitment**") in equity and mezzanine notes to be issued by Holdco on the Acquisition Date. The Funding Commitment was to be comprised of $100 million worth of equity shares in Holdco (at an issue price of $10 per share) representing no less than 40% of the equity shares of Holdco on a fully diluted basis and $150 million worth of mezzanine notes issued by Holdco, provided that the Sponsors could accept equity in lieu of all or part of their entitlement to mezzanine notes, if agreed by the requisite majority of the Sponsors, in certain specified circumstances. The Sponsors agreed that in the event that the Sponsors were required to accept equity in lieu of mezzanine notes, such transaction would be effected so that the value of recovery to the Affected Creditors who are not Sponsors would not materially change.

14. On the Acquisition Date, Holdco was obligated to pay the Sponsors a commitment fee representing, in aggregate, approximately 15% of the Shares of Holdco on a fully diluted basis.

PROPOSED AMENDMENTS TO THE AHC BID & AHC PLAN

15. Following finalization and service of the Eighth Report, the Sponsors requested that certain amendments to the AHC APA and the AHC Plan be made to accommodate revised capital structure and corporate structure of the Purchaser and Holdco. As described in greater detail below, the amendments with respect to the capital structure will have an effect on the value of the recovery to the Affected Creditors.

16. In addition, the LP Entities, the Monitor and the Purchaser determined that certain amendments to the AHC Plan with respect to the share distribution mechanics were desirable and were able to agree on the terms of such amendments following service of the Eighth Report.

17. Lastly, the LP Entities, the Monitor and the Purchaser have agreed on certain other amendments which in the LP Entities' opinion concern matters which are of an administrative nature and are required to better give effect to the implementation of the Plan and/or cure any errors, omissions or ambiguities and are not materially adverse to the financial or economic interest of the Affected Creditors.

18. All of the above amendments are contained in the proposed amended AHC Plan (the "**Amended AHC Plan**") a copy of which, together with a blacklined comparison to the AHC Plan, is (or will shortly be) available on the Monitor's website for these proceedings at http://cfcanada.fticonsulting.com/clp/, together with, *inter alia*, the following documents: the AHC Plan, the AHC APA, the Management Proxy Circular with respect to the AHC Plan, the proposed amended AHC APA, and the proposed Amended AHC Plan. An amending and assigning agreement to the AHC APA was

executed by Holdco and the New Purchaser (as defined below) and a form of such amending and assigning agreement will be appended as a Schedule to the Amended AHC Plan. The Monitor expects that the Amended AHC Plan will be tabled at the Creditors' Meeting by a proxy for one or more holders of the 9.25% Notes for a vote by the Affected Creditors.

Amendments Respecting the Capital Structure of the Purchaser and Holdco

19. As permitted under the Funding Commitment, the Sponsors have chosen to accept equity in lieu of all of their entitlement to the mezzanine notes. Accordingly, the Sponsors submitted the Second Amended and Restated Funding Commitment containing the proposed terms of same and requested that the AHC APA and the AHC Plan be amended to reflect the proposed terms and the Amended AHC Plan be tabled for a vote by the Affected Creditors at the Creditors' Meeting.

20. Under the revised structure the Sponsors have committed to purchase 27 million Shares having an aggregate subscription price of $250 million (or approximately $9.25926 per Share). The 27 million Shares will be issued in addition to the Shares that are to be issued and allocated for distribution to the Affected Creditors. Under the Second Amended and Restated Funding Commitment, the Sponsors will not be entitled to receive the commitment fee of approximately 15% of the Shares of Holdco; instead, the Sponsors are purchasing the Shares at $9.25926 (as opposed to the originally contemplated purchase price of $10 per Share) thereby providing them with an effective fee of 5% of the Shares of Holdco.

21. In addition, the purchase price under the Amended AHC APA will no longer be satisfied in part by an unsecured demand promissory note of $150 million; rather, in lieu thereof, on Plan Implementation Date, CPI will be issued a number of Shares equal to 13 million Shares less the number of Shares obtained by dividing the aggregate of the Cash Election Amount elected or deemed to have been elected by Affected Creditors by $11.54[3], rounded down to the nearest whole number[4].

22. Under the revised structure, upon final distribution of the Shares to Affected Creditors, the Sponsors will own approximately 67.5% of the issued and outstanding Shares in the capital of Holdco and Affected Creditors will own 32.5% of the Shares.

23. The LP Entities are advised by the Financial Advisor that the removal of the mezzanine notes decreases Holdco's leverage at emergence, which may result in an improved outlook for Holdco's credit ratings, including the debt to be issued under the AHC Plan. The LP Entities have been further advised by the Financial Advisor that elimination of the mezzanine notes will increase the implied value of Holdco equity under the AHC Plan. This advice is supported by the Monitor's own analysis of the Amended AHC Plan. Accordingly, although under the Amended AHC Plan Affected Creditors will own a smaller percentage of the equity of Holdco (namely, 32.5%), the AHC Plan value of such

[3] Although the share price for purposes of allocating shares between the "convenience class creditors" and the Affected Creditors is based upon a price per share of $11.54 and an organizational value of $1.1 billion, such valuation was not and should not be construed as an estimate of the price at which the Shares may trade in the market, if at all, and the LP Entities have not attempted to make any such estimate in connection with the development of the AHC Plan. No assurance can be given as to the market price of the Shares that will prevail.

[4] There is currently no market through which the Shares may be sold and one may never develop. As such, Affected Creditors that are issued Shares pursuant to the AHC Plan may not be able to resell such Shares. Although Holdco intends to apply to the Toronto Stock Exchange for the listing of its Shares following the acquisition of the Acquired Assets (as defined in the AHC APA), to date, no such application has been made and there can be no assurance that the Toronto Stock Exchange will accept the listing of Holdco's Shares.

percentage is greater, on a *pro forma* basis, than the AHC Plan value, also on a *pro forma* basis, of the 45% of Holdco's equity allocated to the Affected Creditors under the original AHC Plan. It should be noted that the actual value of such equity will be determined by the market when (and if) shares in Holdco are publicly traded.

24. The Financial Advisor has advised the LP Entities that in its view, based on the aforementioned amendment, the Amended AHC Plan at the Plan Implementation Date should produce a more favourable result to the Affected Creditors than the original AHC Plan.

Amendments Respecting the Corporate Structure

25. As a result of the change in the capital structure of Holdco and the Purchaser, the Sponsors also requested that certain amendments to the AHC APA and the AHC Plan be made to accommodate a revised corporate structure of the Purchaser and Holdco. Specifically, the Purchaser will assign all of its rights and obligations under the AHC APA to its general partner, 7536321 Canada Inc. ("**New Purchaser**"), and under the revised corporate structure the New Purchaser will be the purchaser under the AHC APA and as such 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 and assume the Assumed Liabilities.

Amendments Respecting the Share Distribution Mechanics

26. The LP Entities have determined that it is in the best interests of the Affected Creditors to change the share distribution mechanics under the AHC Plan. Accordingly, the Amended

AHC Plan also contains an amendment such that eligible Affected Creditors will receive their Shares through Computershare Investor Service Inc.'s ("**Computershare**") Direct Registration System ("**DRS**") and will not have the option in the Letter of Instruction to elect to receive share certificates. Computershare will be retained as Holdco's transfer agent. Pursuant to the Amended AHC Plan, if the Monitor does not receive a Letter of Instruction from an Affected Creditor, such Affected Creditor's Shares, if any, would be registered in accordance with the information provided in the Affected Creditor's Proof of Claim.

27. It is anticipated that following the Initial Distribution Date and each subsequent Distribution Date, as applicable, an Affected Creditor will receive a DRS Transaction Advice acknowledging the number of Shares that the Affected Creditor holds in "book-entry" form in his, her or its DRS account.

28. There is no fee to participate in DRS. Affected Creditors that hold Shares in DRS will have all the rights and privileges as holders of securities in certificate form, including voting and dividend rights. If the issuer of the Shares becomes a public company, the DRS system will facilitate liquidity for shareholders as it will simplify the procedures for depositing Shares in brokerage accounts. Affected Creditors may request a share certificate for all or a portion of the Shares held in their DRS account by contacting Computershare at any time following receipt of their DRS Transaction Advice. Further information regarding DRS is available on Computershare's website at http://corporate.computershare.com/Canada/OurBusiness/cis/OC/Pages/DirectRegistration(DRS).aspx.

29. In accordance with the Amended AHC Plan, the Monitor, on behalf of the LP Entities, will be delivering blank Letters of Instruction to Affected Creditors together with notice of this Supplement. Completed Letters of Instruction must be submitted by eligible Affected Creditors on or before the Plan Sanction Date (currently scheduled for June 18, 2010) or such other date as the Monitor may agree. As stated above, if the Monitor does not receive a Letter of Instruction from an Affected Creditor, such Affected Creditor's Shares, if any, will be registered in accordance with the information provided in the Affected Creditor's Proof of Claim.

ADJOURNMENT OF THE CREDITORS' MEETING

30. In accordance with the provisions of the Creditors' Meeting Order dated May 17, 2010, the LP Entities scheduled the Creditors' Meeting to be held at the Sheraton Centre Toronto (Simcoe Dufferin Room), 123 Queen Street West, Toronto, Ontario at 10:00 a.m. (Toronto time) on June 10, 2010.

31. It anticipation of the amendments to the AHC APA and the AHC Plan, the Monitor adjourned the Creditors' Meeting to Monday, June 14, 2010 at 10:00 a.m. (Toronto time) to allow Affected Creditors to consider in advance of the Creditors' Meeting the proposed amendments to the AHC Plan and the AHC APA that will be tabled for a vote at the Creditors' Meeting. The Creditors' Meeting will now be held at Sutton Place Hotel (Wellesley Room - Lobby Level), 955 Bay Street, Toronto, Ontario.

32. On June 9, 2010 at or about 10:00 a.m., the Monitor sent approximately 650 notices of the adjournment of the Creditors' Meeting to the Affected Creditors by e-mail, 30 notices

by fax and 15 notices by regular mail. A copy of the notice is attached as **Appendix "A"**.

33. In addition, on June 10, 2010, a representative of counsel for the Monitor attended at the originally designated time and location of the Creditors' Meeting (namely, Sheraton Centre Toronto (Simcoe Dufferin Room), 123 Queen Street West, Toronto, Ontario at 10:00 a.m. (Toronto time)), posted a notice of the adjournment of the Creditors' Meeting and remained at that location until 11:00 a.m. None of the Affected Creditors or their representatives attended at the originally designated time and location of the Creditors' Meeting.

RECOMMENDATION AND CONCLUSIONS

34. As stated in the Eighth Report, the LP Entities, the LP CRA and the Monitor believe that the AHC Plan would produce a more favourable result for the Affected Creditors than the Credit Acquisition or a further sale process or liquidation of the LP Entities' assets under the CCAA or the BIA.

35. The Monitor and the LP CRA are of the view that the implied value of the percentage of Shares to be allocated to the Affected Creditors under the Amended AHC Plan is greater than the implied value of such Shares that were to be allocated to the Affected Creditors under the original AHC Plan and that the Amended AHC Plan should produce a more favourable result to the Affected Creditors than the original AHC Plan.

36. The Monitor also concurs with the LP Entities' view that the proposed amendments to share distribution mechanics are in the best interests of the Affected Creditors.

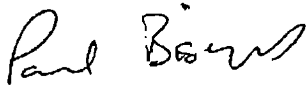
37. The Monitor is also advised that the management of the LP Entities and the LP CRA are supportive of the Amended AHC Plan that will be tabled at the Creditors' Meeting to be voted on, and if desirable, approved by the Affected Creditors at the Creditors' Meeting.

38. Accordingly, the Monitor recommends that Affected Creditors approve the Amended AHC Plan and vote in favour of the resolution approving the Amended AHC Plan.

All of which is respectfully submitted this 10th day of June, 2010.

FTI Consulting Canada Inc.,
in its capacity as the Monitor of Canwest Publishing Inc. / Publications Canwest Inc., Canwest Books Inc., Canwest (Canada) Inc., and Canwest Limited Partnership / Canwest Societe en Commandite

Per



Paul Bishop
Senior Managing Director

APPENDIX "A"

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FTI Consulting
TD Waterhouse Tower
79 Wellington Street West
Suite 2010, P.O. Box 104
Toronto ON M5K 1G8

June 9, 2010

To: AFFECTED CREDITORS OF THE LP ENTITIES

RE: Adjournment of the Creditors' Meeting for the purposes of considering and, if deemed advisable by the Affected Creditors, voting in favour of resolution to approve the LP Entities' Plan of Compromise or Arrangement pursuant to the Companies' Creditors Arrangement Act (Canada) (the "Plan")

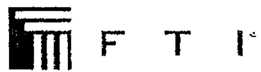
Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Plan.

In accordance with the provisions of the Creditors' Meeting Order dated May 17, 2010, the LP Entities scheduled the Creditors Meeting to be held at the Sheraton Centre Toronto (Simcoe Dufferin Room), 123 Queen Street West, Toronto, Ontario at 10:00 a.m. (Toronto time) on June 10, 2010.

It is anticipated that the Asset Purchase Agreement to be implemented by the Plan and the Plan as filed with the Court on May 21, 2010, delivered to the Affected Creditors in accordance with the Creditors' Meeting Order and described in the Eighth Report of the Monitor, will be amended. As such the Creditors' Meeting is being adjourned to permit Affected Creditors to consider any proposed amendments to the Plan and the Asset Purchase Agreement in advance of the Creditors' Meeting.

Accordingly, pursuant to paragraph 35 of the Creditors' Meeting Order, the Creditors' Meeting is being adjourned to Monday, June 14, 2010 at 10:00 a.m. (Toronto time) and will now be held at Sutton Place Hotel (Wellesley Room - Lobby Level), 955 Bay Street, Toronto, Ontario. PLEASE NOTE THE CHANGE IN THE LOCATION OF THE MEETING.

The amended Plan, including a blacklined comparison to the Plan, will be made available on the Monitor's website at http://cfcanada.fticonsulting.com/clp as soon as possible. In addition, the Monitor will prepare and post on the Monitor's website a Supplement to its Eighth Report describing the proposed amendments and will deliver a notice to Affected Creditors once these documents are posted on the Monitor's website and available for review.



FURTHER INFORMATION

If you have any questions regarding the process, please contact FTI Consulting Canada Inc. at the following address:

FTI Consulting Canada Inc., Court-Appointed Monitor of the LP Entities
79 Wellington Street West
Suite 2010, P.O Box 104
Toronto, Ontario, M5K 1G8
Attention: Jodi Porepa
Tel: (888) 310-7627
Fax: (416) 649-8101
CanwestLP@fticonsulting.com

You may view copies of the documents relating to this process on the Monitor's website at http://cfcanada.fticonsulting.com/clp .

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

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.

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceeding commenced at Toronto

SUPPLEMENT TO THE EIGHTH REPORT OF FTI CONSULTING CANADA INC., IN ITS CAPACITY AS MONITOR OF THE APPLICANTS

STIKEMAN ELLIOTT LLP
Barristers & Solicitors
5300 Commerce Court West
199 Bay Street
Toronto, Canada M5L 1B9

David R. Byers LSUC #: 22992W
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Tel: (416) 869-5236
Maria Konyukhova LSUC#: 52880V
Tel: (416) 869-5230
Fax: (416) 861-0445

Lawyers for the Monitor

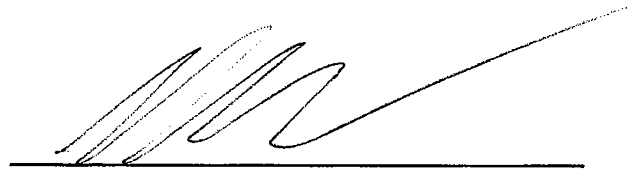
TAB C

This is Exhibit C referred to in the affidavit of

Russell Mills

sworn before me,

this 25th day of February, 2011.



A Commissioner, etc.

POSTMEDIA NETWORK

2010
ANNUAL REPORT

POSTMEDIA NETWORK

Annual Report – Fiscal 2010

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Fiscal 2010 – The Transformation Begins

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

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

Operational Highlights and Financial Performance

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

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

Looking ahead to F2011

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

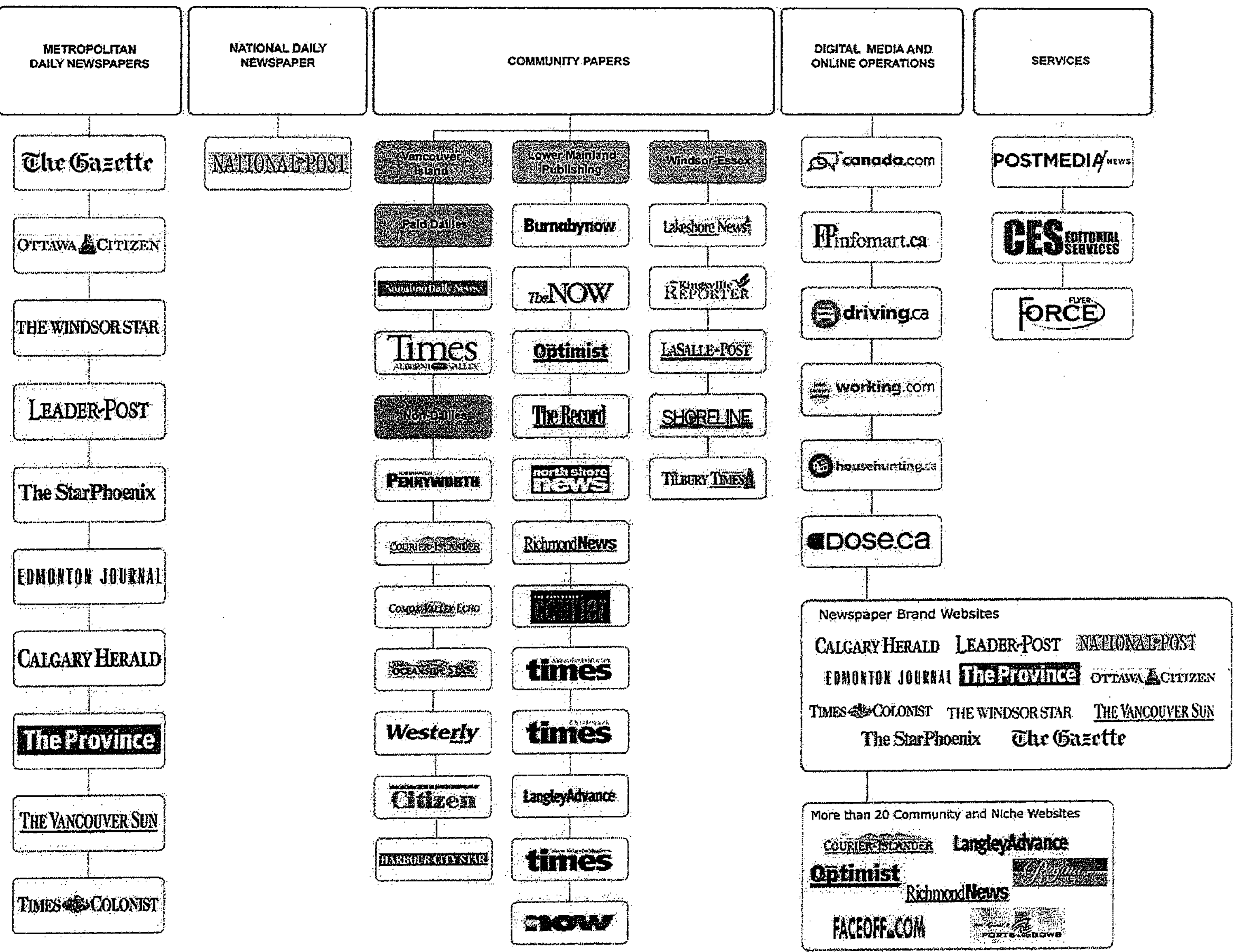
We expect that our focus on reducing legacy costs through various restructuring initiatives implemented in the first half of fiscal 2011 will result in permanent annualized cost savings of $30 to $35 million, of which $25 to $30 million is expected to be realized in fiscal 2011. We continue to identify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

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

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

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

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



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POSTMEDIA NETWORK CANADA CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE PERIOD ENDED AUGUST 31, 2010

NOVEMBER 15, 2010

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

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

The Acquisition

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

Overview and Background

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

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

Key Factors Affecting Operating Results

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

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

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

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

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

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

Other Factors

Seasonality

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

Critical accounting estimates

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

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

The Acquisition

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

Intangible assets

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

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

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

Goodwill

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

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

Pension and post-retirement/employment benefits

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

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

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

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

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

Income taxes

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

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

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

Proposed Accounting Policies

International financial reporting standards

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

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

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

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Operating Results

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

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

Notes:

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

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

Operating profit before amortization, restructuring and other items

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

Restructuring of operations and other items

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

Amortization

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

Operating loss

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

Interest expense

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

Gain on derivative instruments

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

Foreign currency exchange losses

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

Acquisition costs

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

Net loss

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

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

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

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

Notes:

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

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

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

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

Revenue

Print advertising

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

Print circulation

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

Digital

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

Other

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

Operating expenses

Compensation

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

Newsprint

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

Other operating

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

Operating profit before amortization, restructuring and other items

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

Amortization

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

Restructuring of operations and other items

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

Operating profit

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

Interest expense

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

Other income

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

Loss on disposal of interest rate swaps

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

Ineffective portion of hedging derivative instrument

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

Impairment loss on mastheads

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

Gain on derivative instruments

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

Foreign currency exchange gains

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

Acquisition costs

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

Reorganization costs

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

Net earnings (loss) before income taxes

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

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

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

Notes:

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

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

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

Newspapers

Revenue

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

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

Operating expenses

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

Operating profit before amortization, restructuring and other items

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

All other

Operating profit before amortization, restructuring and other items

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

Corporate

Operating expenses

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

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

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

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

Notes:

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

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

Revenue

Print advertising

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

Print circulation

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

Digital

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

Other

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

Operating expenses

Compensation

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

Newsprint

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

Other operating

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

Operating profit before amortization and restructuring

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

Restructuring expenses

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

Amortization

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

Operating profit

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

Interest expense

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

Other income

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

Gain on disposal of property and equipment

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

Loss on disposal of interest rate swaps

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

Ineffective portion of hedging derivative instrument

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

Impairment loss on mastheads

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

Gain on disposal of investment

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

Foreign currency exchange gains

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

Reorganization costs

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

Income taxes

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

Net earnings (loss)

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

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

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

Notes:

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

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

Newspapers

Revenue

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

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

Operating expenses

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

Operating profit before amortization and restructuring

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

All other

Operating profit before amortization and restructuring

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

Corporate

Operating expenses

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

Consolidated quarterly financial results

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

Notes:

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

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

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

Liquidity and capital resources

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

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

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

Sources of Cash

Cash flows from operating activities

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

Cash flows from financing activities

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

Issuance of capital stock

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

Payments of capital leases

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

Indebtedness

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

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

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

Uses of Cash

Cash flows from investing activities

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

Acquisition

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

Capital expenditures

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

Financial Instruments and Financial Instruments Risk Management

Financial Instrument Risk Management

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

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

Financial Instruments

Derivative instruments

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

Foreign currency risk

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

Interest rate risk

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

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

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

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

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

Credit risk

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

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

Liquidity risk

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

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

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

Notes:

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

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

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

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

Guarantees and Off-Balance Sheet Arrangements

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

Differences between Canadian and U.S. GAAP

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

Reconciliation of Non-GAAP Financial Measures

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

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

Notes:

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

Risk Factors

Risks Relating to Our Business

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

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

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

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

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

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

These factors are largely dependent upon on our ability to:

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

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

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

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

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

A further reduction in our advertising revenues could result from:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We may have further goodwill and masthead impairment charges

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

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

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

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

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

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

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

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

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

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

We may be adversely affected by foreign exchange fluctuations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We will adopt International Financial Reporting Standards.

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

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

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

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

Risks Relating to Our Indebtedness

Our substantial indebtedness could adversely affect our financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to the Shares

The Shares have no prior public market

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

Volatile market price for Shares

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

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

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

We have a dual class share structure

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

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

The Company is a holding company

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

Future sales of Shares by directors and executive officers

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

Dilution and future sales of Shares may occur

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

POSTMEDIA NETWORK CANADA CORP
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED AUGUST 31, 2010

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November 15, 2010

Auditors' Report

To the Directors of
Postmedia Network Canada Corp.

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

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

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

PricewaterhouseCoopers LLP

Chartered Accountants

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

POSTMEDIA NETWORK CANADA CORP.
CONSOLIDATED STATEMENT OF OPERATIONS

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

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

See accompanying notes to consolidated financial statements.

POSTMEDIA NETWORK CANADA CORP.
CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

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

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

See accompanying notes to consolidated financial statements.

POSTMEDIA NETWORK CANADA CORP.
CONSOLIDATED BALANCE SHEET

August 31, 2010
(In thousands of Canadian dollars)

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

See accompanying notes to consolidated financial statements.

POSTMEDIA NETWORK CANADA CORP.
CONSOLIDATED BALANCE SHEET (continued)

August 31, 2010
(In thousands of Canadian dollars)

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

Commitments and contingencies (note 19)

See accompanying notes to consolidated financial statements.

POSTMEDIA NETWORK CANADA CORP.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

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

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

See accompanying notes to consolidated financial statements.

POSTMEDIA NETWORK CANADA CORP.

CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

See accompanying notes to consolidated financial statements.

POSTMEDIA NETWORK CANADA CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. DESCRIPTION OF BUSINESS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Principles of consolidation

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

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

(b) Use of estimates

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

(c) Foreign currency translation

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

(d) Property and equipment

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

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

(e) Impairment of long lived assets

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

(f) Goodwill and intangible assets

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

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

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

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

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

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

(g) Revenue recognition

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

(h) Income taxes

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

(i) Inventory

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

(j) Business combinations

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

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

(k) Financial instruments, derivatives and hedge accounting

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

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

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

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

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

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

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

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

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

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

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

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

(m) Cash and cash equivalents

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

(n) Stock-based compensation

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

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

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

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

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

3. BUSINESS COMBINATION

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

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

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

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

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

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

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

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