

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

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

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

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

| | |
|-----------------------------------|----------------|
| Acquisition Consideration | 1,047,908 |
| Net assets acquired at fair value | 807,120 |
| Goodwill | <u>240,788</u> |

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

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

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

4. RESTRUCTURING OF OPERATIONS AND OTHER ITEMS

(a) Restructuring of operations

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

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

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

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

(b) Other items

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

5. GAIN ON DERIVATIVE FINANCIAL INSTRUMENTS

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

6. INCOME TAXES

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

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

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

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

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

7. INVENTORY

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

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

8. PROPERTY AND EQUIPMENT

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

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

9. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2010 |
|-------------------------------------|--------|
| Embedded derivative | 12,344 |
| Foreign currency interest rate swap | 3,487 |
| | 15,831 |

10. INTANGIBLES

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

11. OBLIGATION UNDER CAPITAL LEASE

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

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

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

12. LONG TERM DEBT

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

⁽¹⁾ Term Loan Facility

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

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

- (a) The US Tranche is subject to quarterly minimum principal repayments equal to 0.625% of the initial outstanding principal for the first four installments, 1.25% for the next four installments, 2.5% for the next four installments and 3.75% for the next eleven installments, with any remaining principal due and payable at maturity. The Company made a voluntary principal payment of US\$32.5 million (CDN\$34.7 million) during the period ending August 31, 2010. The US Tranche currently bears interest at Libor, with a floor of 2%, plus 7%. At August 31, 2010 the Libor rate was less than 2%, so the base rate was the floor of 2%. The Company has entered into a foreign currency interest rate swap of US\$225.0 million to hedge the foreign currency risk associated with the US Tranche. This swap fixes the principal payments on a notional amount of US\$225.0 million, which reduces with principal payments on the debt, at a fixed currency exchange rate of US\$1:\$1.035 until July 2014 and converts the interest rate on the notional Canadian principal amount to bankers acceptance rates plus 9.25%. The Company has not designated this swap as a hedge and as a result will not use hedge accounting. As at August 31, 2010, an asset of \$3.5 million, representing the fair value of this swap, is recorded on the consolidated balance sheet in derivative financial instruments (note 9).
- (b) The Canadian Tranche is subject to quarterly minimum principal repayments equal to 1.25% of the initial outstanding principal for the first four installments, 2.5% for the next eight installments, 3.75% for the next five installments, with any remaining principal due and payable at maturity. The Company did not make any voluntary principal payments during the period ending August 31, 2010. The Canadian Tranche loan currently bears interest at bankers acceptance rates plus 6%. At August 31, 2010, the applicable three month bankers acceptance rate was 1.093%.

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

⁽²⁾ Senior Secured Notes

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

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

(3) Asset-Based Revolving Credit Facility

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

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

| | |
|------------|----------------|
| 2011 | 13,499 |
| 2012 | 26,998 |
| 2013 | 42,995 |
| 2014 | 64,492 |
| 2015 | 113,992 |
| Thereafter | 426,601 |
| | <u>688,577</u> |

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

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

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

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

| | 2010 | |
|---|----------------------------|--|
| | Pension benefits (1) | Post- retirement and post- employment benefits (2) |
| Plan Assets | | |
| Fair value of plan assets - at Acquisition Date | 294,949 | - |
| Actual returns on plan assets | 10,718 | - |
| Employer contributions | 2,195 | 537 |
| Employee contributions | 412 | - |
| Benefits paid | (1,244) | (537) |
| Fair value of plan assets end of period | 307,030 | - |
| Plan Obligations | | |
| Benefit obligations - at Acquisition Date | 375,184 | 68,458 |
| Accrued interest on benefits | 2,870 | 490 |
| Current service costs | 1,731 | 435 |
| Benefits paid | (1,244) | (537) |
| Actuarial loss | 11,889 | 1,632 |
| Benefit obligations end of period | 390,430 | 70,478 |

The Company's net benefit obligations are determined as follows:

| | | |
|----------------------------------|-----------------|-----------------|
| Benefit obligations | 390,430 | 70,478 |
| Fair value of plan assets | 307,030 | - |
| Plan deficits | (83,400) | (70,478) |
| Unamortized net actuarial losses | 3,894 | 1,632 |
| Net Benefit Obligations | (79,506) | (68,846) |

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (1) As at August 31, 2010, none of the Company's defined benefit pension plans were fully funded.
- (2) Post-retirement plans are non-contributory and include health and life insurance benefits. The assumed health care cost trend rates for the next year used to measure the expected cost of benefits covered for the post retirement health and life plans were 8.75% for medical, to an ultimate rate of 4.6% over 19 years to 2029. A one percentage point increase in assumed health care cost trend rates would have increased the service and interest costs and obligation by \$0.1 million and \$5.5 million, respectively. A one percentage point decrease in assumed health care cost trends would have lowered the service and interest costs and the obligation by \$0.1 million and \$5.5 million respectively.
- (3) Accounting adjustments to allocate costs to different periods to reflect the long term nature of employee future benefits.

14. CAPITAL STOCK

(a) Authorized capital stock

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

Voting Shares

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

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

Variable Voting Shares

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

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

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

(b) Issued and outstanding capital stock

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

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

(c) Earnings per share

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

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

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

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

15. CAPITAL MANAGEMENT

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

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

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

Stock option plan

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

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

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

Deferred share unit plan

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

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

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

Restricted share unit plan

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

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

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

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

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

17. STATEMENT OF CASH FLOWS

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

| | 2010 |
|---|---------------|
| Cash Generated (Utilized) By: | |
| Accounts receivable | 23,895 |
| Inventory | (966) |
| Prepaid expenses | (1,033) |
| Accounts payable and accrued liabilities | 24,214 |
| Deferred revenue | (1,858) |
| Other | 56 |
| Changes in non-cash operating accounts | 44,308 |
| <hr/> | |
| | 2010 |
| Supplemental Cash Flow Information | |
| Interest paid | 4,549 |
| Income taxes recovered | - |

18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

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

(a) Foreign currency interest rate swaps

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

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

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

(b) Fair value of financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) Credit risk management

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

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

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

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

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

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

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

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

(d) Liquidity risk management

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

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

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

⁽¹⁾ Estimate of principal payments on long-term debt is based on actual foreign exchange rates as of August 31, 2010.

⁽²⁾ Estimate of interest to be paid on long-term debt is based on actual interest rates and foreign exchange rates as of August 31, 2010.

⁽³⁾ Estimate of future disbursements and future receipts, on derivative financial instruments relates to principal and interest payments on the notional amount of the underlying swap based on interest rates and foreign exchange rates as of August 31, 2010.

(e) Market risk management

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

Foreign currency risk

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

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

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

Interest rate risk

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

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

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

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

19. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

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

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

CONTINGENCIES

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

20. SEGMENT INFORMATION

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

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

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

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

⁽¹⁾ The All other category recorded intercompany revenues of \$0.8 million.

⁽²⁾ Costs related to various restructuring initiatives as described in note 4.

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

⁽¹⁾ The Goodwill has been provisionally allocated to the Newspapers reportable segment.

⁽²⁾ Intangible assets of the All other category include \$9.6 million of Customer relationships and \$6.0 million of Domain names.

21. UNITED STATES ACCOUNTING PRINCIPLES

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

Principle differences affecting the Company

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

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

b) Enacted tax rates

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

c) Consolidated Statement of Cash Flows

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

d) Debt Issuance Costs

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

e) Other US GAAP Disclosures

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

Comparative Reconciliation of Net Earnings

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

Consolidated Statement of Comprehensive Loss

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

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

Accumulated other comprehensive loss

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

Comparative Reconciliation of Shareholders' Equity

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

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

22. CONSOLIDATING FINANCIAL INFORMATION

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

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

SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS

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

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

SUPPLEMENTAL CONSOLIDATING STATEMENT OF COMPREHENSIVE LOSS

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

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

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET

August 31, 2010

(In thousands of Canadian dollars)

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

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET (continued)

August 31, 2010

(In thousands of Canadian dollars)

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

SUPPLEMENTAL CONSOLIDATING STATEMENT OF CASH FLOWS

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

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

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

PricewaterhouseCoopers LLP
 Chartered Accountants
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November 15, 2010

Auditors' Report

To the Directors of
 Postmedia Network Canada Corp.

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

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

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

PricewaterhouseCoopers LLP

Chartered Accountants

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



November 15, 2010

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Chartered Accountants
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Auditors' Report

**To the Directors of
 Postmedia Network Canada Corp.**

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

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

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

PricewaterhouseCoopers LLP

Chartered Accountants

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For the nine months ended May 31, 2010

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

For the year ended August 31, 2009

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

For the year ended August 31, 2008

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

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

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

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

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

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

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

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

1. BASIS OF PRESENTATION AND CREDITOR PROTECTION

Description of Partnership

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

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

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

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

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

Liquidation Basis of Presentation

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

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

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

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

Going Concern Basis of Presentation

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

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

Creditor Protection

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Canwest Media Entities CCAA Proceedings

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

2. SIGNIFICANT ACCOUNTING POLICIES

Net Liabilities in Liquidation

Under the liquidation basis of accounting:

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

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

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

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

Consolidated financial statements (going concern)

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

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

Interest expense (going concern)

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

Reorganization items (going concern)

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

Cost allocations (going concern)

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

Foreign currency translation (going concern)

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

Property and equipment (going concern)

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

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

Impairment of long lived assets (going concern)

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

Intangible assets (going concern)

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

Goodwill (going concern)

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

Revenue recognition (going concern)

Circulation revenue is recognized when newspapers are delivered. Subscription revenues for newspapers and the Limited Partnership's news, business research and corporate financial information services are recognized on a straight-line basis over the term of the subscriptions or contracts.

Advertising revenue is recognized over the period in which the related advertising is displayed. Revenue for commercial printing is recognized when delivered. Amounts received relating to services to be performed in future periods are recorded as deferred revenue on the balance sheet. Amounts billed relating to cost recoveries for services provided to related parties are netted against the related expenses. Amounts billed to related parties for cross-promotional activities provided are recorded as revenue.

Income taxes (going concern)

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

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

Inventory (going concern)

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

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

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

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

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

Cash and cash equivalents (going concern)

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

Stock option and Restricted Share Unit Plan (going concern)

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

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

Financial Instruments (going concern)

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

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

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

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

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

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

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

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

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

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

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

Derivative Financial Instruments and Hedges (going concern)

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

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

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

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

Transaction costs (going concern)

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

3. CCAA PROCEEDINGS (GOING CONCERN)

Initial Order for Creditor Protection

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

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

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

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

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

LP Support Agreement

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

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

Senior Lender's CCAA Plan and Claims Process

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

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

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

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

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

Sales and Investor Solicitation Process

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

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

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

DIP Financing

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

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

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

Management Incentive Plans

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

Ad Hoc Committee Plan and APA

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

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

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

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

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

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

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

Ad Hoc Committee Approval Order

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

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

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

Claims Procedure Order

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

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

Status of the Claims Process

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

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

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

4. NET LIABILITIES IN LIQUIDATION (LIQUIDATION BASIS)

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

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

Restricted Cash

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

Cash to be transferred to Purchaser

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

Other Assets to be transferred to Purchaser

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

Investment in Canwest Publishing Inc.

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

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

Accounts Payable and Accrued Liabilities

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

Liabilities to be transferred to Purchaser

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

Debt not subject to compromise

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

Liabilities Subject to Compromise

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

Effect of change to Liquidation Basis of Accounting

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

| | Going Concern Basis as at May 31, 2010 | Deconsolidation of CPI (a) | Adjustments of net assets to liquidation basis (b) | Reclassification of assets and liabilities (c) | Liquidation Basis as at May 31, 2010 |
|--|---|-------------------------------|---|---|---|
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash | 119,470 | (1,497) | | (89,278) | 28,695 |
| Assets to be transferred to Purchaser | | | - | 101,988 | 101,988 |
| Accounts receivable | 133,640 | (133,514) | | (126) | - |
| Amounts due from related companies | 2,765 | (2,103) | | (662) | - |
| Inventory | 5,200 | (5,200) | | | - |
| Investment in Canwest Publishing Inc. | - | 346,352 | 585,301 | | 931,653 |
| Prepaid expenses | 13,503 | (9,683) | (1,000) | (2,820) | - |
| Total Current Assets | 274,578 | 194,355 | 584,301 | 9,102 | 1,062,336 |
| Property and equipment | 320,196 | (311,094) | | (9,102) | - |
| Other assets | 38,621 | (38,621) | | | - |
| Goodwill | 94,984 | (94,984) | | | - |
| Mastheads | 6,750 | (6,750) | | | - |
| Total Assets | 735,129 | (257,094) | 584,301 | - | 1,062,336 |
| LIABILITIES | | | | | |
| Current Liabilities | | | | | |
| Accounts payable and accrued liabilities | 101,760 | (94,578) | 4,725 | (5,888) | 6,019 |
| Liabilities to be transferred to Purchaser | - | | | 6,317 | 6,317 |
| Amount due on swap settlement | 68,746 | - | | (68,746) | - |
| Income taxes payable | 82 | (82) | | | - |
| Amounts due to related companies | 4,369 | (3,416) | | (953) | - |
| Deferred revenue | 35,337 | (34,789) | | (548) | - |
| Debt not subject to compromise | 860,856 | - | (9,285) | 69,818 | 921,389 |
| Obligations under capital leases | 3,567 | (3,567) | | | - |
| Total Current Liabilities | 1,074,717 | (136,432) | (4,560) | - | 933,725 |
| Liabilities subject to compromise | 573,037 | (39,446) | | | 533,591 |
| Obligations under capital leases | 128 | (128) | | | - |
| Accrued pension, post-retirement and other liabilities | 71,721 | (71,721) | | | - |
| Future income taxes | 9,367 | (9,367) | | | - |
| Total Liabilities | 1,728,970 | (257,094) | (4,560) | - | 1,467,316 |
| PARTNERS' DEFICIENCY/NET LIABILITIES IN LIQUIDATION | (993,841) | - | 588,861 | - | (404,980) |

(a) The "Deconsolidation of CPI" column reflects the deconsolidation of the assets and liabilities of CPI and its subsidiaries and investments as reflected in the consolidated accounts.

(b) The "Adjustments of net assets to liquidation basis" column reflects the following adjustments:

- Adjusts the carrying value of the investment in CPI to its estimated net realizable value as described in note 2.
- Adjusts prepaid expenses to net realizable value.

- Adjusts the debt not subject to compromise to the net present value of amounts expected to be paid.
 - Adjusts accounts payable and accrued liabilities for estimated costs to sell the assets of the Limited Partnership and liquidation costs.
- (c) The "Reclassification of assets and liabilities" reflects; a) the reclassification of the aggregate assets and liabilities that will be transferred to the purchaser in conjunction with the implementation of the APA and b) the reclassification of accrued interest and the amount due on swap settlement to debt not subject to compromise to reflect the present value of the debt.

5. SUPPLEMENTARY FINANCIAL INFORMATION (GOING CONCERN BASIS)

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

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

6. REORGANIZATION COSTS (GOING CONCERN BASIS)

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

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

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

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

^(c) Contract repudiations includes the costs of contracts that have been repudiated by Canwest LP.

^(d) As a result of the LP Entities claims process the court approved certain proven claims relating to certain lawsuits totalling \$18.5 million.

^(e) Other includes the cost of the Limited Partnership MIP and the Canwest KERP.

7. LIABILITIES SUBJECT TO COMPROMISE (LIQUIDATION BASIS)

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

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

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

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

8. CONDENSED COMBINED FINANCIAL INFORMATION (GOING CONCERN BASIS)

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

Condensed Combined Statements of Earnings Periods ended May 31

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

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

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

Condensed Combined Statements of Cash Flows

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

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

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

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

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

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

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

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

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

11. DEBT NOT SUBJECT TO COMPROMISE (LIQUIDATION BASIS)

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

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

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

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

12. RESTRICTED CASH (GOING CONCERN BASIS)

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

13. PROPERTY AND EQUIPMENT (GOING CONCERN BASIS)

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

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

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

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

14. INTANGIBLE ASSETS (GOING CONCERN BASIS)

Intangible Asset Impairments

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

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

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

15. OTHER ASSETS (GOING CONCERN BASIS)

| | <u>As at August 31, 2009</u> |
|----------------|----------------------------------|
| Pension assets | 25,301 |
| Other | 894 |
| | <u>26,195</u> |

16. LONG-TERM DEBT (GOING CONCERN BASIS)

| | <u>As at August 31, 2009</u> |
|--|----------------------------------|
| Senior Secured Credit Facilities ⁽¹⁾ | 876,003 |
| Senior Subordinated Unsecured notes ⁽²⁾ | 429,856 |
| Senior Subordinated Unsecured Credit Facility ⁽³⁾ | 74,235 |
| | <u>1,380,094</u> |
| Less portion due within one year | 1,380,094 |
| Long term portion | <u>-</u> |

- (1) On July 13, 2007 the Limited Partnership entered into senior secured credit facilities. The facilities included:
- a. A \$250 million revolving term loan. As at August 31, 2009, the Limited Partnership had drawn \$116.0 million on its revolver and had letters of credit of \$2.0 million outstanding and had no further availability on its revolver and was in default on the revolver (note 1). This facility contractually matured in July 2012 and was subject to certain restrictions. This facility bore interest at prime plus a margin or banker's acceptance rates plus a margin, and had an interest rate of 3.75% at August 31, 2009.
 - b. A \$265 million non-revolving term loan which was subject to minimum principal payment reductions of a minimum of 5% beginning in the fourth quarter of 2009 and 10% in each of years beginning in the fourth quarter 2010. The Limited Partnership did not make the principal payment due in the fourth quarter of 2009 and was in default on the loan (note 1). This facility contractually matured in July 2012 is subject to certain restrictions and bore interest at banker's acceptance rates plus a margin. This facility had an interest rate of 3.75% at August 31, 2009.
 - c. A \$502 million (US\$458 million) term loan which was subject to principal repayments of \$5 million (US\$4.8 million) per year. The Limited Partnership did not make the principal payments due on this loan in the third and fourth quarter of 2009 and was in default on the loan (note 1). This facility contractually matured on July 13, 2014 and was subject to certain restrictions and bore interest at floating rates based on US Base rates plus a margin. This facility had an interest rate of 4.75% at August 31, 2009. In 2008 the Limited Partnership had a foreign currency and interest rate swap to fix the interest and principal payment on a notional amount of US\$466 million which reduced with principal payments on the debt at a fixed currency exchange of US\$1:\$1.0725 until July 2014, resulting in a swap adjusted effective interest rate of 7.5%. This swap was designated a cash flow hedge. As at August 31, 2009, the Limited Partnership no longer had a foreign currency and interest rate swap on this debt (note 1).

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

- (2) The Limited Partnership had senior subordinated unsecured notes of \$438 million (US\$400 million) which were due in August 2015 and bore interest at 9.25%. These notes ranked junior to the Limited Partnership's senior secured credit facility and was guaranteed by certain subsidiaries of the Limited Partnership. The Limited Partnership is in default on this debt (note 1). The senior subordinated unsecured notes had a variable prepayment option at a premium. The prepayment option represented an embedded derivative that was accounted for separately at fair value. As at August 31, 2009, the estimated fair value of the prepayment option was nil. In 2008 the Limited Partnership had a US\$400 million swap resulting in a fixed currency exchange rate of US\$1:\$1.0725 until July 2015 and a fixed interest rate of 9.1%. This swap was designated a cash flow hedge and its effective interest rate was 9.1%. As at August 31, 2009, the Limited Partnership no longer has a foreign currency and interest rate swap on this debt (note 1).
- (3) The Limited Partnership had a \$75 million senior subordinated unsecured credit facility. This unsecured facility ranked junior to the Limited Partnership's senior credit facility and was guaranteed by certain subsidiaries of the Limited Partnership. The Limited Partnership was in default on this debt (note 1). This facility which matured in July 2015 was subject to certain restrictions and bore interest at prime plus a margin. This facility had an effective interest rate of 9.0% as at August 31, 2009.

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

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

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

17. INCOME TAXES (GOING CONCERN BASIS)

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

| | For the nine months ended May 31, 2010 | For the years ended | |
|--|--|------------------------|-----------------|
| | | August 31, 2009 | August 31, 2008 |
| Income taxes at combined Canadian statutory income tax rate of 30.70% (August 31, 2009 - 30.14%, August 31, 2008 - 31.59%) | 23,565 | (39,484) | 40,425 |
| Valuation allowance | (29,551) | 30,136 | (455) |
| Effect of income tax rates differing from the combined Canadian statutory income tax rate | (2,291) | 3,747 | (498) |
| Effect of change in expected future income tax rates | 269 | 349 | (3,800) |
| Partnership net earnings allocated to Limited Partners, and therefore not subject to tax | (5,276) | (9,811) | (37,989) |
| Timing difference on acquisition of National Post Company | 738 | - | - |
| National Post earnings allocated to partners | (65) | - | - |
| Non-taxable portion of capital gains | (8,255) | (295) | (342) |
| Non-taxable portion of capital loss | - | 7,166 | - |
| Permanent swap deductible difference | - | (2,004) | - |
| Timing differences not previously recognized | - | - | 299 |
| Non-deductible expenses | 2,815 | 1,442 | 1,210 |
| Other | (60) | (139) | 736 |
| | <u>(18,111)</u> | <u>(8,893)</u> | <u>(414)</u> |
| Recovery of income taxes | | | |
| | | <u>As at</u> | |
| | | <u>August 31, 2009</u> | |
| Future tax assets | | | |
| Non-capital loss carryforwards | | 31,254 | |
| Net-capital loss carryforwards | | 386 | |
| Accounts payable and other accruals | | 2,436 | |
| Pension and post-retirement benefits | | 19,138 | |
| Asset retirement liability | | 79 | |
| Less: Valuation allowance | | (25,177) | |
| Total future income tax assets | | <u>28,116</u> | |
| Future tax liabilities | | | |
| Capital cost allowances in excess of book amortization | | 39,338 | |
| Pension asset | | 6,353 | |
| Goodwill | | 9,895 | |
| Asset retirement asset | | 8 | |
| Total future income tax liabilities | | <u>55,594</u> | |
| Net future income tax liability | | 27,478 | |
| Current future income tax asset | | - | |
| Long term future income tax liability | | <u>27,478</u> | |

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

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

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

18. STOCK BASED COMPENSATION (GOING CONCERN BASIS)

Stock option and Restricted Share Unit Plan

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

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

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

19. ACCUMULATED OTHER COMPREHENSIVE LOSS (GOING CONCERN BASIS)

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

20. STATEMENTS OF CASH FLOWS (GOING CONCERN BASIS)

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

| | For the nine months ended | For the years ended | |
|--|------------------------------|---------------------|-----------------|
| | May 31, 2010 | August 31, 2009 | August 31, 2008 |
| CASH GENERATED (UTILIZED) BY: | | | |
| Accounts receivable | (31,537) | 46,891 | (7,572) |
| Inventory | 1,418 | 4,092 | (1,802) |
| Prepaid expenses | 1,756 | (2,254) | 1,369 |
| Other assets | (517) | (42) | 254 |
| Restricted cash | 9,956 | (13,902) | - |
| Accounts payable and accrued liabilities | 29,438 | 8,724 | 2,259 |
| Income taxes recoverable (payable) | 70 | 581 | 19 |
| Deferred revenue | 5,128 | (1,996) | (249) |
| | <u>15,712</u> | <u>42,094</u> | <u>(5,722)</u> |
| | | | |
| | For the nine months ended | For the years ended | |
| | May 31, 2010 | August 31, 2009 | August 31, 2008 |
| Interest paid | - | 58,392 | 110,032 |
| Income taxes paid (recovered) | - | 518 | (575) |

21. RETIREMENT ASSETS AND OBLIGATIONS (GOING CONCERN BASIS)

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

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

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

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

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

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

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

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

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

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

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

| | For the nine months ended May 31, 2010 | | | For the year ended August 31, 2009 | | | For the year ended August 31, 2008 | | |
|---|---|--|--|---------------------------------------|-----------------------------|-----------------------|---------------------------------------|-----------------------------|-----------------------|
| | Recognized in period | | | Incurred in year | Matching adjustments (2) | Recognized in year | Incurred in year | Matching adjustments (2) | Recognized in year |
| Current service costs | 11,973 | | | 16,712 | - | 16,712 | 16,959 | - | 16,959 |
| Employee contributions | (4,473) | | | (5,819) | - | (5,819) | (5,745) | - | (5,745) |
| Accrued interest on benefits | 15,600 | | | 20,114 | - | 20,114 | 18,826 | - | 18,826 |
| Return on plan assets | (13,854) | | | 9,847 | (28,925) | (19,078) | 3,461 | (22,238) | (18,777) |
| Past service costs | 60 | | | - | 40 | 40 | - | - | - |
| Net actuarial losses | 3,645 | | | - | 355 | 355 | - | 440 | 440 |
| Benefit expense | 12,951 | | | (16,303) | 19,550 | 3,247 | (27,777) | 31,963 | 4,186 |
| Employer contribution to the defined contribution plan | 1,523 | | | 24,551 | (8,980) | 15,571 | 5,724 | 10,165 | 15,889 |
| Total pension benefit expense | 14,474 | | | 2,050 | - | 2,050 | 2,048 | - | 2,048 |
| | | | | 26,601 | (8,980) | 17,621 | 7,772 | 10,165 | 17,937 |

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

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

| | For the nine months ended May 31, 2010 | | | For the year ended August 31, 2009 | | | For the year ended August 31, 2008 | | |
|--|---|--|--|---------------------------------------|--|-----------------------|---------------------------------------|--|-----------------------|
| | Recognized in period | | | Incurring in year | Matching adjustments ⁽²⁾ | Recognized in year | Incurring in year | Matching adjustments ⁽²⁾ | Recognized in year |
| Current service costs | 2,934 | | | 4,515 | - | 4,515 | 2,174 | - | 2,174 |
| Accrued interest on benefits | 2,727 | | | 3,147 | - | 3,147 | 2,659 | - | 2,659 |
| Net actuarial gains | (231) | | | 10,767 | (814) | 9,953 | (5,341) | 9,457 | 4,116 |
| Total post-retirement benefit expense | 5,430 | | | 18,429 | (814) | 17,615 | (508) | 9,457 | 8,949 |

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

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

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

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

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

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

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

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

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

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

22. PARTNERS' CAPITAL (GOING CONCERN BASIS)

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

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

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

23. RESTRUCTURING (GOING CONCERN BASIS)

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

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

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

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

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

(a) Amounts due to (from) related companies

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

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

(b) Related party transactions

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

Cross-promotional activities

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

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

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

Editorial content

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

These cost recoveries have been included in operating expenses.

Advisory, business and administrative services

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

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

Canwest LP and certain Canwest Media Entities have entered into various agreements that outline the amount of the charges or the basis on which the charges above are determined.

For the nine months ended May 31, 2010, Canwest LP recorded a recovery of \$9.6 million related to services provided to the Canadian Broadcasting Operations and other Canwest Media entities (August 31, 2009 – \$14.9 million, August 31, 2008 – \$12.7 million).

In addition, Canwest Media provides a number of services to Canwest LP as follows:

- (a) executive advisory services related to corporate development, strategic planning, capital allocation, financing, equity and debt holder relations, insurance and risk management, tax planning and certain operational matters; *and*
- (b) services related to legal, tax compliance, financial reporting, internal audit, investor and public relations, treasury, human resource management, sales representation and capital asset management.

Canwest LP and Canwest Media have entered into various agreements that outline the amount of the charges or the basis on which the charges above are determined.

For the nine months ended May 31, 2010, the Limited Partnership recorded expenses of \$2.2 million related to services received from Canwest Media (August 31, 2009 – \$5.2 million, August 31, 2008 – \$4.6 million).

In accordance with the new shared services agreement Canwest Media ceased to provide these services to Canwest LP as of May 31, 2010.

The above costs and recoveries have been included in operating expenses.

Sales and marketing services

In fiscal 2008 the sales and marketing division of Canwest provided Canwest LP with national advertising sales representation and charged a commission to Canwest LP for sales made on its behalf as well as an overhead charge. During the year ended August 31, 2008 costs associated with the national advertising sales representation were recorded in the amount of \$4.8 million. There were no charges to Canwest LP during the nine months ended May 31, 2010 and the year ended August 31, 2009.

These costs have been included in operating expenses.

Occupancy costs

Canwest LP recovers occupancy costs based upon a proportionate allocation of actual costs based upon the square footage occupied by certain Broadcast operations.

The total recoveries for the nine months ended May 31, 2010 were \$0.1 million (August 31, 2009 – \$0.4 million, August 31, 2008 – \$0.6 million).

These cost recoveries have been included in operating expenses.

All the related party transactions have been recorded at the exchange amounts, which are the amounts agreed to by the related parties.

25. FINANCIAL INSTRUMENTS AND FINANCIAL INSTRUMENTS RISK MANAGEMENT (GOING CONCERN BASIS)

As described in note 1, on July 13, 2010 the Limited Partnership sold substantially all of its assets and certain liabilities for \$1.05 billion and ceased operations. As a result the Limited Partnership is no longer subject to liquidity risk, interest rate risk, credit risk or foreign currency risk.

26. CAPITAL MANAGEMENT (GOING CONCERN BASIS)

As described in note 1, on July 13, 2010 the Limited Partnership sold substantially all of its assets and certain liabilities for \$1.05 billion and ceased operations and no longer manages its capital.

27. CONTINGENCIES (GOING CONCERN BASIS)

Canwest LP is involved in various legal matters arising in the ordinary course of business. With the exception of insured litigation, which was excluded from the claims process, all legal matters that arose prior to January 8, 2010 will be settled in accordance with the claims process as outlined in note 3.

28. SEGMENTED INFORMATION (GOING CONCERN BASIS)

Canwest LP previously had two operating segments and two reportable segments, both in Canada, being the Newspapers segment and the Digital Media segment. The acquirer, Postmedia, has a different reporting structure from Canwest LP and as a result the segmented information is reported on a basis different from that of Canwest LP. For comparative purposes only, Canwest LP's segmented information has been reclassified to reflect Postmedia's segment reporting. Postmedia has one reportable segment for financial reporting purposes, the Newspapers segment. The Newspapers segment is comprised of the Eastern newspapers operating segment and the Western newspapers operating segment which have been aggregated. The Newspapers segment publishes daily and non-daily newspapers and operates the related newspaper websites. Its revenues are

primarily from advertising and circulation. Postmedia has other business activities and an operating segment which are not separately reportable and are referred to collectively as the All other category. Revenues in the All other category primarily consist of advertising and subscription revenues from *FPinfomart* and the website *canada.com*.

Operating expenses for the year ended August 31, 2009 include a reduction of \$6.2 million for active employee health and insurance benefits and an increase of \$6.7 million for non-pension benefits related to prior years for the for the Newspaper segment resulting in a net increase to operating expenses of \$0.5 million. The Limited Partnership has determined this adjustment is not material to the recorded results and accordingly the adjustment has been included in net earnings (loss).

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

| | Revenue | | |
|------------------------|---|--|--|
| | For the nine months ended | For the years ended | |
| | May 31, 2010 (reclassified) ⁽¹⁾ | August 31, 2009 (reclassified) ⁽¹⁾ | August 31, 2008 (reclassified) ⁽¹⁾ |
| Newspapers | 785,903 | 1,058,227 | 1,261,187 |
| All other | 28,707 | 45,551 | 41,132 |
| Inter-segment revenues | (3,430) | (4,703) | (4,252) |
| | <u>811,180</u> | <u>1,099,075</u> | <u>1,298,067</u> |

⁽¹⁾ Reclassified to conform to Postmedia reporting segments.

| | Operating Profit ⁽²⁾ | | |
|---|---|--|--|
| | For the nine months ended | For the years ended | |
| | May 31, 2010 (reclassified) ⁽¹⁾ | August 31, 2009 (reclassified) ⁽¹⁾ | August 31, 2008 (reclassified) ⁽¹⁾ |
| Newspapers | 169,621 | 182,264 | 318,145 |
| All other | 10,957 | 8,023 | 5,261 |
| Corporate | (19,712) | (18,403) | (30,302) |
| | <u>160,866</u> | <u>171,884</u> | <u>293,104</u> |
| Reconciliation of segment operating profit to earnings (loss) before income taxes for the period | | | |
| Operating profit | 160,866 | 171,884 | 293,104 |
| Restructuring ⁽³⁾ | (2,660) | (28,805) | (10,708) |
| | <u>158,206</u> | <u>143,079</u> | <u>282,396</u> |
| Amortization of property and equipment | (30,592) | (40,344) | (48,571) |
| Other amortization | (144) | (191) | (194) |
| Interest expense, net | (60,633) | (98,426) | (109,296) |
| Other income | 1,501 | 2,500 | 2,500 |
| Gain (loss) on disposal of property and equipment | 2 | 2,186 | (590) |
| Loss on disposal of interest rate swaps | - | (180,202) | - |
| Ineffective portion of hedging derivative instrument | - | (60,112) | - |
| Impairment loss on masthead | - | (28,250) | - |
| Gain on sale of investment | - | - | 1,218 |
| Foreign currency exchange gains | 49,610 | 154,513 | 504 |
| Earnings (losses) before reorganization costs and income taxes | <u>117,950</u> | <u>(105,247)</u> | <u>127,967</u> |
| Reorganization costs ⁽⁴⁾ | (41,192) | (25,756) | - |
| Earnings (losses) before income taxes | <u>76,758</u> | <u>(131,003)</u> | <u>127,967</u> |

⁽¹⁾ Reclassified to conform to Postmedia reporting segments.

⁽²⁾ On September 1, 2009, Canwest LP began recognizing the portion of national display advertising revenues and expenses associated with the newspaper websites in the Newspapers segment. Previously, all national display advertising revenues and expenses were recognized within All other. The prior periods have not been restated as the necessary information is not available. If management had not changed the allocations, revenue for All other for the nine months ended May 31, 2010, would have been increased by \$6.7 million, with a corresponding decrease to Newspapers segment revenue; and operating profit for All other for the nine months ended May 31, 2010, would have increased by \$2.9 million, with a corresponding decrease to Newspapers segment operating profit.

⁽³⁾ Costs related to restructuring as described in note 23.

⁽⁴⁾ Costs related to the reorganization as described in note 6.

29. UNITED STATES ACCOUNTING PRINCIPLES (GOING CONCERN BASIS)

These consolidated financial statements have been prepared in accordance with Canadian GAAP. In certain aspects GAAP as applied in the United States ("U.S.") differs from Canadian GAAP. The following information complies with the GAAP reconciliations requirements of the Securities Exchange Commission ("SEC") as published in Form 10K, except that these consolidated financial statements do not include push down accounting in accordance with SEC regulations. No U.S. GAAP differences have been identified for the liquidation basis of accounting as at and for the period ended July 12, 2010. Amounts are in thousands of Canadian dollars, unless otherwise noted.

Principle differences affecting the Limited Partnership

c) Accounting for derivative instruments and hedging activities

Under Canadian GAAP, the Limited Partnership records the changes in fair value of cash flow hedging derivatives in other comprehensive income, to the extent effective, until the variability of cash flows relating to the hedged asset or liability is recognized in net earnings. Under US GAAP these instruments are not accounted for as hedges but instead changes in the fair value of the hedging derivative instruments are recognized in the statement of earnings immediately. As of August 31, 2009 the Limited Partnership had no hedging derivative instruments outstanding and as a result this difference does not have an effect on the period ended May 31, 2010. The U.S. GAAP reconciliation reflects the reclassification of gains on foreign currency and interest rate swaps of \$45,472 from other comprehensive income for the year ended August 31, 2009 (2008 – losses of \$28,350). No tax provision has been recorded as the interest rate swap was held by the Limited Partnership which is not subject to tax.

d) Pension and post-retirement liabilities

US GAAP requires employers to recognize in its balance sheet an asset for a plan's over funded status or a liability for a plan's under funded status, and recognize changes in the funded status of a defined benefit pension, post-retirement plans and post-employment plans in the year in which the changes occur through comprehensive income and a separate component of shareholders' equity. The effect on the US GAAP reconciliation for the period ended May 31, 2010 was to increase comprehensive income by \$3,474 (August 31, 2009 – decrease of \$9,834, August 31, 2008 – increase of \$13,524) net of a future income tax recovery of nil (August 31, 2009 – nil, August 31, 2008 - provision of \$4,576). In addition for the year ended August 31, 2009, the Limited Partnership recorded a future income tax provision of \$14,287 to reverse future tax assets previously recorded related to pension and other post-retirement plans. In addition for the year ended August 31, 2008, tax rate changes impacted future tax related to pension and post-retirement liabilities by a provision of \$3,336. There was no impact on the statement of net liabilities in liquidation as of July 12, 2010. The balance sheet effect at August 31, 2009 was to decrease other assets by \$25,301, increase other accrued pension, post-retirement and other liabilities by \$41,322 and increase partners' deficiency by \$66,623. The pension and post-retirement liabilities for the year ended August 31, 2008 includes an accumulated comprehensive loss adjustment from the prior year of \$9,584, net of tax of \$3,366, related to the adoption of ASC 715. The Limited Partnership has determined this adjustment is not material to the previously reported results.

During the year ended August 31, 2009 the Limited Partnership changed the measurement date used to measure the accrued benefit obligation and the fair value of plan assets for accounting purposes to August 31. Previously the Limited Partnership used June 30 of each year. For Canadian GAAP purposes, this change in accounting policy was applied retroactively however for US GAAP in accordance with ASC 715 the Limited Partnership adopted the measurement date provisions by remeasuring the plan assets and accrued benefit obligation at August 31, 2008. Other changes in the fair value of plan assets and accrued benefit obligations resulting from the change in measurement date of \$2,496 were recorded in opening AOCL. The effect on September 1, 2008 was an increase in partner's deficiency of \$2,438 net of tax of \$800. The effect on the US GAAP reconciliation for the year ended August 31, 2008 was to increase net earnings by \$1,190 net of future income tax provision of \$403.

e) Enacted tax rates

Under *ASC 740, Income Taxes*, future tax liabilities should be adjusted for the effect of change in tax laws or tax rates in the period in which the changes are enacted. Under Canadian GAAP, the change in tax laws or tax rates are reflected when the change is substantively enacted. For the periods ended July 12, 2010 and May 31, 2010 and the years ended August 31, 2009 and 2008, there were no differences in the rates to be used under U.S. and Canadian GAAP.

d) Consolidated Statement of Cash Flows

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

e) Debt Issuance Costs

Under Canadian GAAP debt issuance costs recorded in the consolidated financial statements are included in long term debt and recognized in earnings using the effective interest method. Under US GAAP, debt issuance costs are classified as an asset. This difference as at July 12, 2010 had no effect on the US GAAP reconciliation. As at August 31, 2009, the effect on the US GAAP reconciliation would be an increase to other assets of \$15,462 with an offsetting increase to the current portion of long-term debt

f) Other US GAAP disclosures

The following amounts are included in operating expenses:

| | <u>For the nine months ended May 31, 2010</u> | <u>For the twelve months ended August 31, 2009</u> | <u>August 31, 2008</u> |
|--|---|--|----------------------------|
| Selling, general and administrative expenses | 319,957 | 468,438 | 499,670 |
| Rent | 9,578 | 13,230 | 11,577 |

The following amounts are included in accounts payable and accrued liabilities:

| | <u>As at August 31, 2009</u> |
|-----------------------------|--------------------------------------|
| Accrued interest payable | 39,349 |
| Employment related accruals | 52,970 |

Comparative Reconciliation of Net Earnings (Loss) (Going Concern Basis)

The following is a reconciliation of net earnings (loss) reflecting the differences between Canadian and US GAAP:

| | For the nine months ended | For the years ended | |
|--|------------------------------|---------------------|-----------------|
| | May 31, 2010 | August 31, 2009 | August 31, 2008 |
| Net earnings (loss) in accordance with Canadian GAAP | 94,869 | (122,110) | 128,381 |
| Gains (losses) on foreign currency and interest rate swaps (a) | - | 45,472 | (28,350) |
| Reversal of Canadian GAAP change in measurement date (b) | - | - | 1,190 |
| Tax effect of adjustments and tax rate changes (b) | - | (14,287) | (3,336) |
| Net earnings (loss) for the period in accordance with US GAAP | <u>94,869</u> | <u>(90,925)</u> | <u>97,885</u> |

Consolidated Statement of Comprehensive Income (Loss) (Going Concern Basis)

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

| | For the nine months ended | For the twelve months ended | |
|--|---------------------------------|-----------------------------|--------------------|
| | May 31, 2010 | August 31, 2009 | August 31, 2008 |
| Comprehensive income (loss) in accordance with Canadian GAAP | 94,869 | (76,638) | 100,031 |
| Impact of US GAAP differences on net income | - | 31,185 | (31,686) |
| | <u>94,869</u> | <u>(45,453)</u> | <u>68,345</u> |
| Accounting for derivative instruments and hedging activities (a) | - | (45,472) | 28,350 |
| Pension and post-retirement liabilities (b) | 3,474 | (9,834) | 18,100 |
| Reversal of Canadian GAAP change in measurement date (b) | - | - | 1,190 |
| Tax effect on adjustments (b) | - | - | (4,576) |
| | <u>3,474</u> | <u>(55,306)</u> | <u>43,064</u> |
| | <u>98,343</u> | <u>(100,759)</u> | <u>111,409</u> |

Accumulated other comprehensive loss (Going Concern Basis):

| | Hedging Derivative Instruments | Pension and post-retirement liabilities | Total |
|---|---|--|-----------------|
| Accumulated other comprehensive loss - August 31, 2007 | - | (58,020) | (58,020) |
| Adjustment to adoption of SFAS 158 (b) | - | 9,584 | 9,584 |
| Other comprehensive loss in accordance with Canadian GAAP | (28,350) | - | (28,350) |
| Change during the period | <u>28,350</u> | <u>13,524</u> | <u>41,874</u> |
| Accumulated other comprehensive loss - August 31, 2008 | - | (34,912) | (34,912) |
| Other comprehensive loss in accordance with Canadian GAAP | 45,472 | - | 45,472 |
| Change in measurement date per SFAS 158 (b) | - | (2,496) | (2,496) |
| Change during the period | <u>(45,472)</u> | <u>(9,834)</u> | <u>(55,306)</u> |
| Accumulated other comprehensive loss - August 31, 2009 | - | (47,242) | (47,242) |
| Change during the period | - | 3,474 | 3,474 |
| Accumulated other comprehensive loss - May 31, 2010 | <u>-</u> | <u>(43,768)</u> | <u>(43,768)</u> |

Comparative Reconciliation of Partners' Deficiency (Going Concern Basis)

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

| | As at May 31, 2010 | As at August 31, 2009 | As at August 31, 2008 |
|--|-----------------------------------|--------------------------------------|--------------------------------------|
| Partners' deficiency in accordance with Canadian GAAP | (993,841) | (1,229,030) | (1,107,390) |
| Reversal of Canadian GAAP change in measurement date (b) | - | - | 2,438 |
| Pension and post-retirement liabilities (b) | (63,149) | (66,623) | (54,293) |
| Tax effect of adjustments and tax rate changes | - | - | 14,287 |
| Partners' deficiency in accordance with US GAAP | <u>(1,056,990)</u> | <u>(1,295,653)</u> | <u>(1,144,958)</u> |

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POSTMEDIA NETWORK

Head Office
1450 Don Mills Road
Toronto, Ontario
Canada M3B 2X7
416-383-2300

www.postmedia.com
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Investor Relations

Doug Lamb
EVP and Chief Financial Officer
dlamb@postmedia.com

General Inquiries

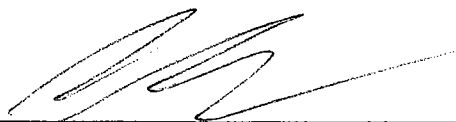
Phyllise Gelfand
Director of Communications
pgelfand@postmedia.com

PN Follow [postmedianet](#) on Twitter

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TAB D

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

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

A Commissioner, etc.

January 21, 2011

Paul Bishop
Senior Managing Partner
FTI Consulting Canada Inc.
TD Canada Trust Tower
79 Wellington Street West
Suite 2010, P.O. Box 104
Toronto, ON · M5K 1G8

Dear Mr. Bishop:

I am contacting you in your capacity as Monitor of Canwest Inc. I am writing on behalf of a group of retired executives of the company whose executive pension plan (SERA) was terminated when Canwest filed for protection from creditors last year. We all filed claims seeking compensation and our claims were recognized by the Monitor.

We were recently informed by a company called Computershare that Class C Voting Shares in Postmedia Network Canada Corp. were deposited in accounts in our names on Dec. 31 last year to satisfy our claims. Unfortunately there were no other details and we would appreciate more information.

In the supplement to FTI's eighth report on June 10, 2010 it was stated that shares would be issued with a price of \$11.54. Our first question is whether this is the price that was used to calculate the number of shares that have been deposited in our Computershare accounts.

We would also like to know how the Monitor calculated the number of shares issued to each of us in compensation for our claims. Multiplying the above share price by the number of shares we have received indicates that we are being compensated for approximately 20 per cent of our claims. We would also like to know the total amount of unsecured debt that is being compensated through the issue of Postmedia shares. We also would like some assurance that our claims are being satisfied at the same rate as those of other unsecured claimants.

The compensation for the loss of our executive pensions is an important aspect of our retirements. We would appreciate your early attention to this request for information and disclosure to us as to how the Monitor calculated the number of shares issued to us as compensation for our claims.

Yours sincerely,



Russell Mills
325 Fairmont Avenue
Ottawa, ON. K1Y 1Y6
613.722.9193

TAB E

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

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

A Commissioner, etc.



FTI Consulting
TD Waterhouse Tower
79 Wellington Street West
Suite 2010, P.O. Box 104
Toronto ON M5K 1G8
Fax 416.649.8101
fticonsulting.com

January 28, 2011

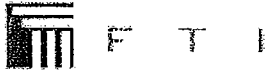
Russell Mills
325 Fairmont Avenue
Ottawa, ON
K1Y 1Y6

Dear Mr. Mills:

Thank you for your letter dated January 21, 2011 regarding distributions of shares in settlement of the Proven Claims of the SERA participants. With respect to the inquiries in your letter, the Monitor reports the following:

Capitalized terms not defined in this letter have the meaning ascribed to them in the Amended Consolidated Plan of Compromise (the "Plan") dated May 20, 2010.

- 1) The amount per share of \$11.54 was used in the Plan to determine the Unsecured Creditors' Equity Pool, or more specifically, the Share Consideration available for distribution to Affected Creditors with Proven Claims in the Claims Process that did not make a Valid Cash Election. Pursuant to the terms of the Plan, the Share Consideration was calculated to equal 13 million shares, less the aggregate of the Cash Election Amount divided by \$11.54. The \$11.54 amount per share 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 neither the LP Entities, nor the Monitor, have attempted to make any such estimate in connection with the development or interpretation of the Plan. To be clear, paragraph 21 of the Supplement to the Eighth Report of the Monitor refers to the \$11.54 per share in respect of the calculation of the Share Consideration, but does not state that this is the price at which shares would be issued.
- 2) Distributions of shares held in the Unsecured Creditors' Equity Pool have been made pursuant to Article 5, section 5.2(b) of the Plan. Specifically, Affected Creditors with Proven Claims that have not made a Valid Cash Election receive a Pro Rata Share of the Unsecured Creditors' Equity Pool. Based on actual cash elections made, and pursuant to the Plan, the Unsecured Creditors' Equity Pool consisted of 12,974,870 shares. As of the date of the last distribution made on December 31, 2010, Proven and Disputed Claims totalled \$599.6



million. This information, along with your Proven Claim amounts will allow you to determine the amount of shares which have been distributed to you (which in your case is 23,361 shares, net of withholding taxes). All Affected Creditors with Proven Claims who have not made a Valid Cash Election have received share distributions following this mechanism as contemplated in the Plan.

- 3) Your distributions are subject to withholding taxes based on rates determined by the Canada Revenue Agency ("CRA"), based on the quantum of your claim. Withholding taxes associated with your distribution were remitted to the CRA on your behalf and you will be issued a T4 or T4A form in due course.

If you have any questions or comments, please don't hesitate to contact one of my colleagues, either Steven Bissell at 416-649-8054 or Pamela Luthra at 416-649-8063.

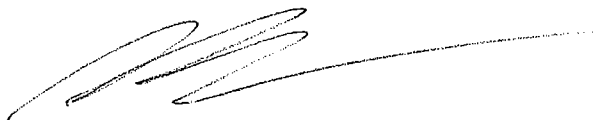
Sincerely,

A handwritten signature in black ink, appearing to read "Paul Bishop".

Paul Bishop, Senior Managing Director
FTI Consulting

TAB F

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

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

A Commissioner, etc.



Nelligan O'Brien Payne

Lawyers/Patent and Trade-Mark Agents
Avocats/Agents de brevets et de marques de commerce

Janice B. Payne, Tel: (613) 231-8245, Fax: (613) 788-3655, janice.payne@nelligan.ca

February 15, 2011

BY E-MAIL: dmackenzie@stikeman.com

Daphne J. MacKenzie
Stikeman Elliott
5300 Commerce Court West
199 Bay Street
Toronto, ON M5L 1B9

Dear Ms. MacKenzie:

**Re: Canwest
Our File No.: 28618-1**

I am writing to you in our capacity as Representative Counsel for the former non-unionized employees of Canwest and further to your conference call yesterday with our co-counsel, Tom McRae, in which tax issues related to the share distributions to our clients were discussed.

We are deeply troubled that the Monitor has not involved us in discussions concerning the tax issues and that we only learned of the issue from direct correspondence and discussions between the Monitor and a Steering Committee member, Russ Mills. As Representative Counsel, we were appointed to represent our clients with respect to all issues that affect former non-unionized employees of Canwest resulting from these proceedings. We ought to have been consulted concerning tax issues as well as the discussions with the Canada Revenue Agency ("CRA"). Without consulting or advising us, the Monitor has apparently reached a confidential agreement with CRA that could have significant adverse tax consequences for our clients. The details of that agreement have not been disclosed.

Based on recent correspondence and yesterday's conference call, we understand that the distributions to our clients (including SERA and former employee claimants) have been reduced by withholding taxes based on the quantum of their claims and that the Monitor has now remitted to CRA cash in the amount equivalent to the applicable withholding tax. In addition, the Monitor has also surrendered to Postmedia's treasury the corresponding shares. As a consequence, you have advised that our clients can

Nelligan O'Brien Payne LLP | www.nelligan.ca | [PLEASE REPLY TO OTTAWA OFFICE]

OTTAWA: 50 O'Connor, Suite 1500, Ottawa, ON K1P 6L2, Tel/Tél: (613) 238 8080, Fax/Télé.: (613) 238 2098
KINGSTON: The Woolen Mill, 4 Cataraqui, Suite 202, Kingston, ON K7K 1Z7, Tel/Tél: (613) 531 7905, Fax/Télé.: (613) 531 0857
VANKLEEK HILL: 86 rue High Street, P.O. Box/C.P. 190, Vankleek Hill, ON K0B 1R0, Tel/Tél: (613) 678 2490, Fax/Télé.: (613) 678 3762
ALEXANDRIA: 139 Main South/sud, Alexandria, ON K0C 1A0, Tel/Tél: (613) 525 2396, Fax/Télé.: (613) 525 2752

now expect to shortly receive a T4 or T4A that will trigger for them tax consequences for shares that have never been properly valued as at December 31, 2010.

We understand that the relevant calculations were based on a value \$11.54 per share. The \$11.54 per share amount was used despite the Monitor advising Mr. Mills that \$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". In other words, the \$11.54 share price does not represent the actual value of the shares today nor the value of the shares when they were issued on December 31, 2010.

We therefore have great difficulty with the Monitor using \$11.54 price per share for tax purposes. By the Monitor's own admission, \$11.54 price per share is not a reflection of the value of the shares. Postmedia has recently issued its 2010 Annual Report and it is clear from the report that its shares as of August 31, 2010 were worth less than \$11.54. While the Postmedia report cannot be used to determine the fair value of the shares as at December 31, 2010, it is indicative that the \$11.54 used by the Monitor is inappropriate. Nothing occurred between August and December 31, 2010 that would suggest that value of the shares had increased and in fact it is far more likely that they decreased in value. The price of \$11.54 cannot properly be used for valuing what our clients have received for tax purposes.

The Monitor by its actions has now triggered significant tax liability for claimants when in reality clients have effectively received nothing of real value for their claims, having already lost a large part of their retirement income and severance payments. We therefore insist that the Monitor immediately conduct a valuation of Postmedia to determine the actual fair market value of the shares as at December 31, 2010. In addition, the Monitor must advise CRA immediately to put on hold the issuance of any T4's or other tax information slips until the valuation is completed. Once a fair value has been determined, that value would be used for tax purposes to both determine the necessary remittances as well as the T4's or T4A's to be issued to our clients.

During the call yesterday, you also advised that CRA is aware that \$11.54 price is a placeholder and that the individual shareholders will have the opportunity to challenge the value in their personal tax returns. This is not acceptable to our clients. Our clients have already lost significant monies as a result of the CCAA proceedings. It would be grossly unfair to now require them to use their own limited resources to challenge an improper valuation of the shares when they may well have received nothing of real value for their claims. The only sensible outcome is for a fair valuation of the shares to be conducted now and to use that valuation to determine the tax issues.

Should the Monitor refuse to conduct a valuation, we will proceed to seek a hearing before the Commercial Court to request an order requiring that a valuation be conducted and that in the interim no T4's are to be issued until such time as true fair value of the shares has been determined.

Should the Monitor not cooperate, our clients will fully pursue their remedies.

May we please hear from you before the end of the day on February 17, 2011.

Yours very truly,

A handwritten signature in black ink, appearing to read "J. Payne", with a long horizontal flourish extending to the right.

Janice B. Payne
JBP/SLV/cp

c.c. The Honourable Keith Ashfield, Minister of National Revenue
Mr. David Byers
Steering Committee

STIKEMAN ELLIOTT

Stikeman Elliott LLP Barristers & Solicitors

5300 Commerce Court West, 199 Bay Street, Toronto, Canada M5L 1B9
Tel: (416) 869-5500 Fax: (416) 947-0866 www.stikeman.com

Direct: (416) 869-5695
E-mail: dmackenzie@stikeman.com

BY EMAIL

February 17, 2011

Ms Janice B. Payne
Nelligan O'Brien Payne
Barristers And Solicitors
50 O'Connor
Suite 1500
Ottawa, Ontario
K1P 6L2

Dear Ms Payne:

**Re: Canwest Publishing Inc.'s and certain of its subsidiaries' (the "LP Entities")
proceedings under the Companies' Creditors Arrangement Act (Canada)**

Thank you for your letter of February 15, 2011.

I am surprised that you only learned of our discussions with the Canada Revenue Agency ("CRA") from your client. The discussions with CRA to which you refer in your letter related to performance of obligations of FTI Consulting Canada Inc. in its capacity as the Court-appointed monitor (the "Monitor") under the Companies' Creditors Arrangement Act (Canada) ("CCAA"), the Income Tax Act (Canada), and various orders granted in the LP Entities' proceedings under the CCAA, including the Administrative Reserve and Transition Order dated July 6, 2010 which provides, in part, as follows:

10. THIS COURT ORDERS that following the Plan Implementation Date, the Monitor shall be and is hereby authorized and directed to withhold from distributions of Shares and cash, to deposit Shares with brokers of its choice, to instruct brokers to sell Shares in one or more trades, to remit payments from the net sale proceeds of withheld Shares or from the Administrative Reserve to the Canada Revenue Agency, the Minister of Finance (Quebec) and other applicable Taxing Authorities, to prepare and file T4, T4A forms, T4 summary documentation and any other forms and to take such other steps, on behalf of the LP Entities, as are necessary to effect the withholding and remittance arrangements ("Withholding Arrangements") that are or that will be agreed by the Monitor

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SYDNEY

and the LP Entities with the Canada Revenue Agency, the Minister of Finance (Quebec) and other applicable Taxing Authorities in connection with Withholding Obligations under the Plan.

14. THIS COURT ORDERS that on and after the Plan Implementation Date, the Monitor is authorized, but not required, in the name of and on behalf of the LP Entities, to prepare and file the LP Entities' tax returns, employee-related remittances, T4 statements and records of employment for the LP Entities' former employees based solely upon information provided by the LP Entities and on the basis that the Monitor shall incur no liability or obligation to any Person with respect to such returns, remittances, statements, records or other documentation.

[Emphasis added]

Notice of the LP Entities' motion for the Administrative Reserve and Transition Order was served upon you and Mr. Tom McRae was present at the hearing of the motion. In addition, in its Thirteenth Report dated July 22, 2010, the Monitor reported on (and subsequently obtained Court approval of) its activities which included "discussions with various government authorities with respect to withholding arrangements relating to distributions to employees under the AHC Plan".

No objections were made during the court hearing or to the Monitor outside of court to the above quoted provisions in the Administrative Reserve and Transition Order or to the Monitor preparing and filing T4 and T4A statements or entering into withholding and remittance arrangements with CRA. Similarly, you did not make any prior requests to be involved in such discussions.

We expect you will receive your own tax advice on these matters but we believe that the value assigned to the shares in the T4 and T4A statements is not determinative of the actual value of the shares and that your clients may assign their own value to the shares received for purposes of reporting income on their personal tax returns.

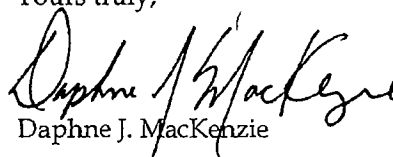
The amount per share of \$11.54 was used in the LP Entities' CCAA plan (the "CCAA Plan") to determine the Unsecured Creditors' Equity Pool, or more specifically, the Share Consideration available for distribution to Affected Creditors with Proven Claims that did not make a valid Cash Election (as such terms are defined in the CCAA Plan). Pursuant to the terms of the CCAA Plan, the Share Consideration was calculated to equal 13 million shares, less the aggregate of the Cash Elected Amounts divided by \$11.54

We would like to correct your statement that "[b]y the Monitor's own admission, \$11.54 price per share is not a reflection of the value of the shares". The Monitor never advised you or your clients that \$11.54 is not the value of the shares. Rather,

the Monitor has repeatedly advised your clients, other creditors of the LP Entities and the Court that \$11.54 should not be construed to be the price at which the shares may trade. This is simply a reflection of the fact that the shares are not currently publicly traded. The actual trading price of the shares may be lower, higher or equal to \$11.54.

The Monitor is obligated to send the T4 and T4A statements to CRA and the relevant employees on or before February 28, 2011. Accordingly, please be advised that the Monitor will send the T4 and T4A statements to CRA and the relevant former employees of the LP Entities on February 28, 2011 unless ordered otherwise by the Court before then.

Yours truly,



Daphne J. MacKenzie

djm/

cc: Paul Bishop, *FTI Consulting Canada Inc.*
David Byers, *Stikeman Elliott LLP*
Diane Winters, *Department of Justice Canada*

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)

Court file No. 10-8533-00CL

ONTARIO

SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceeding commenced at Toronto

AFFIDAVIT OF RUSSELL MILLS
(sworn February 25, 2011)

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and Retirees (CSER) Group

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

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF CANWEST
PUBLISHING INC./PUBLICATIONS CANWEST INC., CANWEST BOOKS INC., and
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SUPERIOR COURT OF JUSTICE
[COMMERCIAL LIST]**

Proceeding commenced at Toronto

**MOTION RECORD
of the Can West Salaried Employees
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