



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

**SEVENTH REPORT OF FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS MONITOR OF THE APPLICANTS**

May 11, 2010

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

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

**AND IN THE MATTER OF A PLAN OF
COMPROMISE OR ARRANGEMENT OF CANWEST
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in its capacity as Monitor of the Applicants

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INTRODUCTION

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

PURPOSE OF THIS REPORT

2. The purpose of this Seventh Report of the Monitor (the “**Seventh Report**”) is to provide information and comments to this Honourable Court with respect to:
 - (a) the results of Phase 2 of the SISP (as these terms are defined below);
 - (b) the LP Entities’ request for Orders:
 - (i) authorizing the LP Entities to enter into the AHC APA (as defined below) and approving and confirming the execution, delivery and performance of the AHC APA by the LP Entities;
 - (ii) amending certain provisions of the Order of this Honourable Court dated April 12, 2010 (the “**Claims Procedure Order**”) (described below);
 - (iii) establishing procedures relating to a meeting of affected creditors convened for the purpose of a vote on the AHC Plan (as defined below) (the “**Meeting Order**”); and
 - (iv) conditionally sanctioning the Senior Lenders’ Plan and revising the SISP Procedures (as these terms are defined below) to allow for same (if necessary); and
 - (c) the Monitor’s conclusions and recommendations with respect to the above.
3. This report should be read in conjunction with the affidavit of Douglas E.J. Lamb sworn May 10, 2010 (the “**Lamb Affidavit**”) as certain information contained in the Lamb Affidavit has not been included herein in order to avoid unnecessary duplication. A copy

of the Lamb Affidavit will be available shortly on the Monitor's website for the CCAA Proceedings.

BACKGROUND

Canwest

4. Canwest Global Communications Corp. ("**Canwest**") carries on business through a number of subsidiaries. Through its ownership of the LP Entities, Canwest is Canada's largest publisher of English-language paid daily and non-daily newspapers and owns and operates substantial digital media and online businesses. Canwest also directly or indirectly owns, operates and/or holds substantial interests in free-to-air television stations, subscription-based specialty television channels, and websites in Canada.
5. Relief in the CCAA Proceedings was obtained on January 8, 2010 by the Canwest entities which carry on, *inter alia*, newspaper and online publishing and digital media businesses. Not included in the CCAA Proceedings is National Post Inc., a wholly-owned subsidiary of the LP Entities which acquired the business and certain assets that comprised the *National Post* newspaper from The National Post Company / La Publication National Post in October 2009.
6. The Canwest entities that own and operate Canwest's free-to-air television broadcast business and certain subscription-based specialty television channels in Canada, including Canwest Media Inc. (collectively, the "**CMI Entities**"), applied for and obtained protection under the CCAA in a separate proceeding on October 6, 2009.

Proposed Restructuring

7. The Initial Order contemplated a plan of arrangement for the LP Entities under the CCAA in a pre-arranged support transaction (the “**Support Transaction**”) for the LP Secured Senior Lenders (as defined in the Pre-filing Report of the Proposed Monitor dated January 7, 2010 (the “**Pre-filing Report**”)) pursuant to which (and subject to a successful Court-approved bid as a result of and in accordance with the terms of the SISP (as defined below)) an entity to be initially capitalized by the LP Senior Secured Lenders as described in the AcquireCo Capitalization Term Sheet (as this term is defined in the Senior Lenders’ Plan (as defined below)) (“**AcquireCo**”) would acquire substantially all of the assets of the LP Entities, assume the liabilities of the LP Entities and offer employment to all or substantially all of the employees of the LP Entities on terms and conditions consistent with their current employment (other than certain specified liabilities and subject to AcquireCo’s right to exclude certain additional liabilities) (the “**Credit Acquisition**”).
8. The Support Transaction contemplated that the LP Entities’ financial advisor, RBC Dominion Securities Inc., a member of RBC Capital Markets (the “**Financial Advisor**”), would conduct a sale and investor solicitation process (the “**SISP**”) under the supervision of the Monitor in an effort to attract a Superior Offer (as defined below).
9. The Support Transaction was to be implemented pursuant to a plan of compromise or arrangement between the LP Senior Secured Lenders, the Limited Partnership, and CPI (the “**Senior Lenders’ Plan**”). On January 27, 2010, an excess of the majority in number and two-thirds in value of the LP Senior Secured Lenders holding Accepted Senior

Voting Claims present and voting at the Senior Lenders' Meeting (as these terms are defined in the Initial Order) voted in favour to approve the Senior Lenders' Plan.

10. Further background information regarding the LP Entities and the CCAA Proceedings is provided in, among other things, the Pre-filing Report and in the affidavit of Thomas Strike sworn January 7, 2010 (the "**Strike Affidavit**"), copies of which (together with other relevant materials, including a copy of the Initial Order) have been posted on the Monitor's website for the CCAA Proceedings at <http://cfcanada.fticonsulting.com/clp>.

TERMS OF REFERENCE

11. In preparing this report, FTI has relied upon unaudited financial information of the LP Entities, the LP Entities' books and records, certain financial information prepared by, and discussions with, the LP Entities' management. FTI has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information and accordingly expresses no opinion or other form of assurance on the information contained in this report.
12. Capitalised terms not defined in this report shall have the meanings assigned to them in the Pre-filing Report. Unless otherwise stated, all monetary amounts contained in this report are expressed in Canadian dollars.

SISP

The SISP Procedures

13. The SISP was designed to allow the LP Entities to test the market and to attract a Superior Offer. A “**Superior Offer**” is defined in the SISP Procedures as either a “Superior Cash Offer” or a “Superior Alternative Offer”. A “**Superior Cash Offer**” is defined as “*a credible, reasonably certain and financially viable offer that would result in a cash distribution to the Senior Lenders on closing of the transaction contemplated by the offer of the Senior Secured Claims Amount less a discount of \$25 million calculated as of the date of such closing (the “**Reference Amount**”)*”¹.
14. The SISP procedures (the “**SISP Procedures**”) were approved by and are attached to the Initial Order and contemplated a two phase bidding process. Phase 1 of the SISP was to last approximately seven weeks during which the Financial Advisor was to solicit expressions of interest from financial and strategic parties to acquire all or substantially all of the assets of the LP Entities and/or invest in the LP Entities. A significant number of interested parties executed confidentiality agreements and were provided with copies of the confidential information memorandum (the “**CIM**”) containing detailed, non-public information about the business and financial affairs of the LP Entities and National Post Inc.

¹ A “Superior Alternative Offer” is defined as “a credible, reasonably certain and financially viable offer for the purchase of all or substantially all of the LP Property (for greater certainty, including any such offer where the cash component available for distribution to the Senior Lenders upon closing, if any, is less than the Reference Amount) or a reorganization of the LP Plan Entities, in each case approved by a CCAA Senior Lender Approval”.

15. Within two weeks following the Phase 1 Bid Deadline (or such later date as agreed by the Monitor, in consultation with the Financial Advisor and the LP CRA, and the LP Administrative Agent), the Monitor, in consultation with the Financial Advisor, the LP CRA and the LP Administrative Agent, was to assess the Qualified Non-Binding Indications of Interest (as defined in and determined pursuant to the SISP Procedures) to determine in its sole discretion whether there is a reasonable prospect of obtaining a Superior Cash Offer. If the Monitor determined that there was such a reasonable prospect, the Monitor had to recommend to the Special Committee (as defined in the Initial Order) that the SISP continue for a further seven weeks in accordance with the SISP Procedures (“**Phase 2**”).
16. In the event the SISP proceeded to Phase 2, qualified parties not eliminated from the SISP in accordance with the SISP Procedures were to be granted due diligence access to such materials and information relating to the property and business of the LP Entities as the Financial Advisor, in its reasonable judgment, in consultation with the Monitor, deemed appropriate, including, if appropriate, meetings with senior management of the LP Entities and facility tours.
17. Following the Phase 2 Deadline (as defined below), the Monitor, in consultation with the Financial Advisor and the LP CRA, was required to determine if any of the submitted Qualified Bids qualified as a Superior Cash Offer.
18. Under the SISP Procedures, if none of the Qualified Bids received by the Financial Advisor following the Phase 2 Deadline constituted Superior Offers, the LP Entities were required to apply for Court sanction of the Senior Lenders’ Plan in accordance with the

Initial Order, including completion of the Credit Acquisition, subject to satisfaction of certain conditions precedent.

19. If the Monitor, however, determines in its reasonable business judgment following consultation with the Financial Advisor and the LP CRA, that one or more of the Qualified Bids is a Superior Cash Offer, the Monitor, in consultation with the Financial Advisor and the LP CRA, must recommend to the Special Committee that the most favourable Superior Cash Offer be selected and that a definitive agreement be negotiated and settled in respect of that Superior Cash Offer, conditional upon Court approval and conditional on the Superior Cash Offer closing within 60 days after the Phase 2 Bid Deadline, or such longer period as shall be agreed to by the Monitor, in consultation with the Financial Advisor and the LP CRA, and consented to by the LP Administrative Agent, acting in consultation with the Steering Committee (as defined in the Initial Order).

20. Although the SISP Procedures were approved in the Initial Order, in her Reasons for Decision dated January 18, 2010 in connection with the Initial Order, Justice Pepall noted that *“the order requested may contain some shortcomings; it may not be perfect”*. The (then Proposed) Monitor stated in its Pre-filing Report and Justice Pepall stated that she took comfort in the fact that the SISP Procedures remained subject to review by the Monitor and the Court:

.... I also take some comfort from the position of the Monitor which is best captured in an excerpt from its preliminary Report:

The terms of the Support Agreement and the SISP were the subject of lengthy and intense arm's length negotiations between the LP

Entities and the LP Administrative Agent. The Proposed Monitor supports the approval of the process contemplated therein and of the approval of those documents, but without in any way fettering the various powers and discretions of the Monitor. The Proposed Monitor (if appointed) will make further recommendations, as contemplated by the SISP, once the results of that process become known.

It goes without saying that the Monitor, being a court appointed officer, may apply to the court for advice and directions and also owes reporting obligations to the court.

21. The Initial Order also contains the standard comeback clause which provides as follows:

102. THIS COURT ORDERS that any interested party (including the LP Entities, the Monitor and the Agent) may apply to this Court to vary or amend this Order on not less than seven (7) days notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order, provided however that the LP DIP Lenders shall be entitled to rely on this Order as issued for all advances made under the Commitment Letter and the LP DIP Definitive Documents up to and including the date this Order may be varied or amended.

22. Justice Pepall commented on the comeback clause in her Reasons for Decision as follows:

*Without being taken as encouraging or discouraging the use of the comeback clause in the order, I disagree with the submission of counsel to the Ad Hoc Committee to the effect that it is very difficult if not impossible to stop a process relying on that provision. **That provision in the order is a meaningful one** as is clear from the decision in Muscletech Research & Development Inc.*

[Emphasis added]

23. The SISP Procedures have already been amended once. On February 2, 2010, the *ad hoc* committee (the “**Ad Hoc Committee**”) of holders of 9.25% senior subordinated notes (the “**9.25% Notes**”) issued by the Limited Partnership brought a motion pursuant to the

comeback clause seeking to amend the SISP Procedures, including the “*aggressive timetable established by the SISP*”². In an affidavit filed in support of the motion (a copy of which, without exhibits, is attached to this report as **Appendix “B”**), Mr. Ted Lodge, a Partner of GoldenTree Asset Management LP (one of the members of the Ad Hoc Committee), stated his view that “*the SISP Process is designed to convey to the Secured Lenders all of the value of the LP Entities, even value in excess of the debt secured under the Credit Facility in a rushed process so that the Secured Lenders can later realize for themselves value belonging to the other stakeholders*”.

24. Prior to the hearing of the motion, the parties were able to agree to certain consent amendments to the SISP Procedures and, by Order dated February 2, 2010, the SISP Procedures were amended to include, among other things, greater flexibility to the process. At the time of the hearing of the Ad Hoc Committee’s motion on February 2, 2010, counsel for the Monitor advised the Court that the Ad Hoc Committee had requested further amendments to the SISP Procedures that would have been supported by the Monitor but were not being pursued at that time. These other requested amendments, including amendments to the targeted closing date of the selected superior transaction, were unacceptable to the LP Senior Secured Lenders, and were not pursued at that time as they dealt with hypothetical future events. A copy of the Order dated February 2, 2010 (including the revised SISP Procedures) is attached hereto as **Appendix “C”**.

² See Affidavit of Ted Lodge sworn January 27, 2010, paragraph 3.

Conduct of the SISP - Phase 1

25. As described in greater detail in the Fourth Report of the Monitor dated March 12, 2010 (the “**Fourth Report**”), on January 11, 2010, the Financial Advisor, under the supervision of the Monitor, commenced Phase 1 of the SISP.
26. On March 5, 2010 (the “**Phase 1 Bid Deadline**”), the Financial Advisor received a number of Non-Binding Indications of Interest from Qualified Bidders. In addition, the Financial Advisor received a number of Non-Binding Indications of Interest from bidders that did not qualify as Qualified Bidders.
27. During Phase 1, confidentiality agreements were negotiated with a significant number of potential bidders, their lenders and representatives. These agreements as contemplated in the SISP were tailored to address the particular circumstances and sensitivities of each bidder, lender and representative to the extent possible while preserving the integrity of the SISP and facilitating a robust bidding process. Many bidders had particular idiosyncrasies which were dealt with in their respective confidentiality agreements. The LP Administrative Agent and the McMillan Financial Advisor (as defined in the Initial Order) were given regular updates on the status of the SISP, which updates included discussions regarding various issues relating to the confidentiality agreements.
28. In contemplation of the SISP, the Ad Hoc Committee’s financial and legal advisors entered into confidentiality agreements and received confidential information to assist the Ad Hoc Committee with the preparation of the Ad Hoc Committee's Non-Binding Indication of Interest at the end of Phase 1. Members of the Ad Hoc Committee did not enter into any confidentiality agreements and did not receive any confidential information

from the LP Entities at that time. The Ad Hoc Committee's advisors are restricted pursuant to their respective confidentiality agreements from disclosing confidential information to any member of the Ad Hoc Committee until such time as the Ad Hoc Committee member signs a confidentiality agreement. The Monitor is advised by the Financial Advisor that it is not uncommon for confidential information to be funneled through advisors in this manner for bidding groups of this nature. All of the signed confidentiality arrangements were "in form and substance satisfactory to the Monitor, the Financial Advisor, the LP CRA and the LP Entities" pursuant to the SISP.

29. In accordance with the SISP Procedures and following a review of the non-binding indications of interest, the Monitor determined that there was a reasonable prospect of obtaining a Superior Cash Offer. Accordingly, on March 12, 2010, the Monitor recommended to the Special Committee that the SISP continue to Phase 2. The Special Committee accepted the Monitor's recommendation and Phase 2 of the SISP commenced on March 12, 2010.

30. Following a review by the Monitor of the Ad Hoc Committee's Non-Binding Indication of Interest in consultation with the Financial Advisor, the LP CRA and the LP Administrative Agent, the Ad Hoc Committee was invited to participate as a Qualified Bidder in Phase 2 provided that the members of the Ad Hoc Committee signed acceptable confidentiality agreements. The Ad Hoc Committee's significant economic interest in the LP Entities was addressed in the form of confidentiality agreements agreed with members of the Ad Hoc Committee. Acceptable confidentiality agreements were provided by holders of approximately 70% of the 9.25% Notes and over 50% of the LP Senior Subordinated Credit Facility (as defined and described in the Pre-filing Report).

Again, as required under the SISP, these confidentiality arrangements were satisfactory to the Monitor, the Financial Advisor, the LP CRA and the LP Entities.

31. There was one non-compliant bid group at the end of Phase 1 in respect of which neither the bid group nor its advisor group had entered into any confidentiality agreements or received any confidential information by the end of the Phase 1. Shortly after Phase 2 began, this bidding group entered into acceptable confidentiality arrangements and the Monitor and the LP Administrative Agent waived the non-compliance with the SISP Procedures. This bid group thereby became a Qualified Bidder in accordance with the terms of the SISP and proceeded to receive confidential information and participate in Phase 2.

Conduct of the SISP - Phase 2

32. Five Qualified Bidders proceeded to Phase 2 of the SISP during which they had seven weeks to perform their due diligence and to prepare a Qualified Bid (defined in the SISP Procedures as either a “Qualified Purchase Bid” or a “Qualified Investment Bid”).
33. Qualified Bidders participating in Phase 2 had access to due diligence materials and information relating to the LP Property and LP Business (as these terms are defined in the SISP Procedures). In particular, Qualified Bidders, their financial and legal advisors, and potential financing parties were provided access to a virtual data room, attended management presentations, visited certain of the main operating facilities, and held conference calls with LP Entities’ senior employees, the LP Entities’ counsel, the Financial Advisor, the Monitor and its counsel to discuss outstanding due diligence requests.

34. During the site visits, local management presentations were given to the Qualified Bidders along with tours of the facilities and production plants.
35. Responses to due diligence questions were addressed on conference calls with LP Entities' senior employees, the LP Entities' counsel, the Financial Advisor, the Monitor and its counsel through emails, and/or posted to the virtual data room to which all Qualified Bidders and their advisors had access.
36. During Phase 2, the LP Entities and their advisors responded to over 800 due diligence requests, coordinated various management meetings and 19 site visits, and held numerous conference calls with Qualified Bidders and/or their advisors.

Results of Phase 2

37. On Friday, April 30, 2010, the Financial Advisor received two bids to acquire all of the LP Property and one bid to make an investment in the LP Entities. Two of the five Qualified Bidders that proceeded to Phase 2 of the SISP did not submit final binding offers.
38. One of the bids did not meet the requirements of a "Qualified Purchase Bid" and did not qualify as a "Superior Cash Offer", as the proposed purchase price contemplated cash consideration of less than the Reference Amount. Accordingly, the Monitor, the Financial Advisor and the LP CRA did not recommend that this bid be pursued further.
39. The bid to make an investment in the LP Entities did not meet the requirements of a "Qualified Investment Bid" under the terms of the SISP and did not constitute either a Superior Cash Offer or a Superior Alternative Offer. Under the terms of the SISP (and

as a result of the receipt of a Superior Cash Offer), the Monitor, the Financial Advisor and the LP CRA were precluded from considering this bid and did not recommend that it be pursued further.

40. Following its review of the received bids and consultation with the Financial Advisor and the LP CRA, the Monitor has determined in its reasonable business judgment that the bid submitted by the Ad Hoc Committee (the “**AHC Bid**”) constitutes a Superior Cash Offer for the reasons described below and has recommended that the AHC Bid be selected and a definitive agreement be negotiated and settled to carry out the transaction contemplated thereby (the “**AHC Transaction**”). The Financial Advisor and LP CRA concurred in the conclusion that the AHC Bid constitutes a Superior Cash Offer and the Monitor’s recommendation to seek its approval.
41. As described in greater detail below, the Monitor recommended to the Special Committee that the AHC Bid be selected as a Superior Cash Offer and a definitive agreement be negotiated and settled in respect thereof which recommendation was accepted.

THE AHC BID

Structure and Terms

42. The AHC Bid is structured as an asset purchase in the context of a plan of compromise or arrangement (the “**AHC Plan**”) under the CCAA. The material terms of the AHC Transaction are contained in an asset purchase agreement dated May 10, 2010 (the “**AHC APA**”) and are summarized in greater detail in the Lamb Affidavit. Therefore, only certain features of the AHC APA are referred to herein.

43. The AHC APA contemplates that a corporation wholly owned by the equity sponsors of the AHC Bid (as described below) (“**Holdco**”) will effect a transaction through CW Acquisition Limited Partnership (the “**Purchaser**”) whereby it will acquire substantially all of the financial and operating assets of the LP Entities and the shares of National Post Inc. on an “as is, where is” basis and assume the Assumed Liabilities³ (as defined in the AHC APA).
44. The purchase price in the approximate amount of \$1.1 billion⁴ (exclusive of all applicable sale and transfer taxes) will consist of:
- i. a cash amount equal to the full amount owing to the LP Senior Secured Lenders (without any discounts), which is \$25 million more than required to constitute a Superior Cash Offer;
 - ii. a cash payment to unsecured creditors with proven claims that elect to receive a cash payment equal to the lesser of the amount of their proven claim and \$1,000;
 - iii. an unsecured demand promissory note of \$150 million (less the amount payable under (ii) above) issued by the Purchaser to the Monitor on behalf of the LP Entities, which will immediately be exchanged for common shares of Holdco pursuant to the AHC Plan, and all other unsecured creditors with proven claims will receive a *pro rata* distribution of such Holdco common shares in satisfaction of such claims. Under the terms of the AHC Bid, such distributions must occur

³ Which includes, among other things, all post-filing liabilities (other than Restructuring Period Claims) and Insured Claims (as these terms are defined in the Claims Procedure Order).

⁴ The purchase price to be paid by the Purchaser under the AHC APA is \$1.075 billion plus the amount of assumed liabilities. The additional \$25 million raised by the Purchaser will be used to pay closing costs.

by December 31, 2010 following which any creditors whose claims remain unresolved will not be able to participate in any distributions; and

iv. the assumption by the Purchaser of the Assumed Liabilities.

45. At closing, the Purchaser will offer employment to substantially all of the employees of the LP Entities (subject to a right to review the status of some part-time employees and terminate up to a maximum of ten percent of the part-time employees) and will assume all of the pension liabilities (except the SERA Claims as defined in the Claims Procedure Order) and other benefits for employees of the LP Entities that will be employed by the Purchaser. The Purchaser will also assume the long term disability plans in favour of employees currently on long term disability. The Purchaser is not obligated to offer employment to such employees, however, must use commercially reasonable efforts to offer employment to any employee on long term disability who is able to return to work within 24 months following the closing date and who notifies the Purchaser of his or her desire to do so. The AHC APA does not provide for assumption of suspended salary continuance for approximately 46 employees. The Purchaser must advise the LP Entities by May 30, 2010 which part-time employees will not be offered employment by the Purchaser. These employees will receive LP Claims Packages (as defined in the Claims Procedure Order) and have their claims compromised in accordance with the Claims Procedure Order (as proposed to be amended).

46. The AHC Bid contemplates that the Purchaser will continue to operate all of the businesses of the LP Entities in substantially the same manner as they are currently

operated, with no plans to discontinue operations, sell material assets or make significant changes to current management.

47. The AHC Bid will be financed in part by committed third party debt financing in the amount of US\$700 million provided by reputable financial institutions. The Monitor is advised by the Financial Advisor that the third party financing commitment is a firm underwritten financing commitment on market standard terms, which is not subject to syndication and does not contain a “market MAC” (an ability for the lenders to not advance the committed financing in the event of a material adverse change due to markets). The Monitor is also advised by the Ad Hoc Committee that the Purchaser's lenders are not being paid any fees unless the financing is used by the Purchaser in connection with the AHC Transaction.
48. The balance of the purchase price will be provided by the equity sponsors, including some of the members of the Ad Hoc Committee who agreed to purchase units of Holdco for an aggregate amount of \$250 million upon the closing of the AHC Transaction. Following consultation with the Financial Advisor and the LP CRA, the Monitor determined in its reasonable business judgment that the equity sponsors of the \$250 million equity commitment have the financial capability to fund their respective portion of the equity commitment.
49. The Purchaser delivered a deposit in the amount of \$10 million (the “**Deposit**”) as required by the SISP Procedures. The Deposit will be surrendered to the LP Entities if (i) the AHC APA is terminated by the LP Entities as a result of a breach of the AHC APA by Holdco or the Purchaser, or (ii) the Purchaser is not able to draw down on the

financing commitments that it has arranged and the Purchaser fails to consummate the AHC Transaction. The Deposit will also be surrendered to the LP Entities if the Purchaser terminates the AHC APA as a result of a material adverse change in a single newspaper. If the Purchaser or Holdco breach the AHC APA, the forfeiture of the Deposit is the LP Entities' sole and exclusive remedy.

50. The AHC Plan contemplates that, subject to Court approval in a subsequent Order, on or before the plan implementation date, an administrative reserve (the “**Administrative Reserve**”) will be established in an amount to be agreed by the Monitor, the LP Entities and Holdco, which amount is not to exceed \$25 million using cash and cash equivalents from the accounts of the LP Entities. The Administrative Reserve will be held in a segregated account in trust by the Monitor for the benefit of persons entitled to be paid certain specified costs and priority payments to the extent such costs and payments are not assumed by the Purchaser.
51. The AHC APA may be terminated by either party if the AHC Transaction is not closed on or before August 15, 2010. The third party debt financing commitments which are integral to this transaction, however, expire on July 15, 2010. Counsel for the Ad Hoc Committee has advised the Monitor that the Ad Hoc Committee is confident that these financing commitments can be extended, if necessary; however, at this stage, it prefers to seek an extension of the financing commitments at a later date and only if necessary.
52. Since April 30, 2010, the LP Entities, the Monitor and the Ad Hoc Committee have negotiated various amendments to the form of asset purchase agreement submitted with the AHC Bid. By the time of completion of this report, the LP Entities and the Ad Hoc

Committee have agreed upon the terms of the AHC APA and the Purchaser has executed same.

Paul Godfrey

53. Prior to the conclusion of Phase 2 of the SISP, the Monitor and Financial Advisor received requests from two separate bidders wishing to speak to Mr. Paul Godfrey, Chief Executive Officer of the National Post Inc., with a view to potentially involving him in a senior management capacity in the event their bid was successful. After consultation with the LP CRA and the Financial Advisor, the Monitor agreed that Mr. Godfrey would be permitted to meet with these two bidders subject to the following conditions:

- i. the meetings would also be attended by representatives of the Financial Advisor and the Monitor;
- ii. no confidential information regarding the LP Entities or the bidders' respective bids would be discussed;
- iii. Mr. Godfrey's involvement with any bidder would remain confidential; and
- iv. if Mr. Godfrey chose to align himself with a bidder, he would immediately take a leave of absence from his position with the National Post Inc.

54. On April 21, 2010, following the aforementioned meetings, Mr. Godfrey advised the Monitor that he had agreed to align himself with the Ad Hoc Committee and, if the AHC Bid were successful, would accept a senior executive position with the entity being formed to acquire the LP Entities' business and operations. Mr. Godfrey commenced a

leave of absence on that date and will remain on such leave of absence until such time as the AHC Bid is successfully completed (or is terminated).

55. Mr. Godfrey has many years of successful experience in the newspaper industry and political and business endeavors. Accordingly, the Monitor, and the LP CRA are of the view that Mr. Godfrey can greatly assist the Ad Hoc Committee in the completion of the AHC Bid and with management of operations thereafter. The Monitor notes in this regard that Mr. Godfrey has already assisted in the resolution of a number of issues that have led to the enhanced treatment of employees in the AHC Bid.

Comparison of the AHC Bid to the Credit Acquisition

56. In evaluating the AHC Bid, the Monitor, among other things, compared the terms of the AHC Bid to the terms of the Credit Acquisition and the Senior Lenders' Plan. The Monitor concluded that the AHC Bid provides a significantly greater return to the LP Entities' stakeholders than the Credit Acquisition for, *inter alia*, the following reasons:
- i. the level of recovery for the LP Senior Secured Lenders is 100 cents on the dollar under the AHC APA (including accrued interest which is being paid currently plus costs) and only approximately 97.5 cents on the dollar under the Credit Acquisition, a difference of approximately \$25 million;
 - ii. the level of recovery for unsecured creditors under the AHC APA in the form of cash and shares totals \$150 million (equivalent of up to 45% of the equity of Holdco) with all creditors owed \$1,000 or less being paid in cash in full as

opposed to the zero recovery available for unsecured creditors under the Credit Acquisition; and

- iii. under the terms of the Credit Acquisition, the LP Senior Secured Lenders, acting commercially reasonably and after consultation with the operational management of CPI, can elect to exclude any specified employment-related liabilities to the extent such election is permitted under applicable laws and, subject to any collective bargaining with unionized employees of the LP Entities, any other employment-related liabilities of the LP Entities. The Monitor takes comfort in assurances it has received that this election right will not be exercised to make any material changes to current employees and employment-related benefits, however, the LP Senior Secured Lenders will not remove this provision from the Acquisition Agreement. The AHC APA does not contain such election right.

Closing Risks Associated with the AHC Bid

57. As with all transactions, there is some risk that the AHC Transaction will not close. Additional closing risk is present as the AHC Bid gives the LP Entities no recourse to the members of the Ad Hoc Committee providing equity commitments should such commitments not be honoured and the AHC Transaction fails to close as a result thereof. The Monitor is advised by its counsel that the lack of recourse to the equity sponsors beyond a deposit or reverse break fee is not uncommon in private equity sponsored transactions. The deposit provided with the AHC Bid is also not unconditionally at risk and will remain, under certain conditions, refundable. Moreover, a significant holder of

unsecured bond debt has purchased a significant position in the LP Senior Secured Lenders' debt thereby partially hedging its position.

58. Notwithstanding the foregoing, there is persuasive evidence that the Ad Hoc Committee is committed to completing the AHC Transaction, including, among other things, the following:

- i. Counsel for the Ad Hoc Committee has advised the LP Entities and the Monitor that the members of the Ad Hoc Committee providing 68% of the equity commitment consider themselves restricted from trading their unsecured 9.25% Notes. Counsel for the Ad Hoc Committee also advised that these parties hold in excess of \$200 million in the 9.25% Notes, much of which, according to counsel for the Ad Hoc Committee, was purchased at a price substantially in excess of current trading prices. Based on these representations, if the AHC Transaction does not close, these members will not receive any distributions with respect to these notes thereby providing strong monetary incentive for them to proceed to complete the AHC Transaction.
- ii. The Monitor is further advised that some of the members of the Ad Hoc Committee have agreed to purchase \$300 million of the first lien credit facility and second lien notes as part of the third party financing commitment required to close the AHC Transaction.
- iii. The funding for advisors to the Ad Hoc Committee previously provided by the LP Entities has been exhausted and the Ad Hoc Committee is now funding its legal and financial advisor costs, which costs will not be insignificant.

- iv. The Ad Hoc Committee has provided a deposit of \$10 million, which will be forfeited if the AHC Transaction does not close as a result of events within the Purchaser's control.
59. The LP Entities, the Monitor, the Financial Advisor and the LP CRA have considered the closing risk associated with the AHC Bid and determined in their reasonable business judgment that the AHC Bid is credible, reasonably certain and financially viable. However, the Monitor is also of the view that maintaining the Credit Acquisition capable of closing (on terms described in greater detail below) until such time as the AHC Transaction is completed (or terminated) would mitigate the risk associated with the AHC Bid and the stability to the LP Entities' business resulting therefrom would be beneficial to all of the LP Entities' stakeholders, including the LP Senior Secured Lenders.

CONDITIONAL SANCTION OF THE SENIOR LENDERS' PLAN

Proposal to Advance the AHC Transaction and the Support Transaction on Parallel Tracks

60. The Support Agreement provides that it may be terminated by the LP Administrative Agent if the LP Entities do not obtain an Order sanctioning the Senior Lenders' Plan on or before May 15, 2010 (which falls on a Saturday and is thereby under the terms of the Support Agreement extended to May 17, 2010). As stated above, the LP Entities, the Monitor, the Financial Advisor and the LP CRA have considered the closing risk associated with the AHC Bid and concluded that the AHC Bid is credible, reasonably certain and financially viable. In the event that the AHC Bid might not close, the LP

Entities would benefit from the Credit Acquisition remaining capable of closing until the AHC Bid is closed (or terminated).

61. As noted above, the Support Agreement does not terminate automatically if an Order sanctioning the Senior Lenders' Plan is not obtained on or before May 17, 2010; rather, failure to obtain the Order entitles the LP Administrative Agent to terminate the Support Agreement upon notice to the LP Entities. As at the date of completion of this report, the LP Administrative Agent has been unable to provide any assurance that such notice of termination will not be given if an Order sanctioning the Senior Lenders' Plan is not obtained on or before May 17, 2010.
62. The LP Entities believe, as does the Monitor, that simultaneously advancing the AHC Transaction and the Support Transaction does not prejudice any of the affected parties (provided that the AHC Bid will have priority to management and advisor time in the event of conflicts or time limitations) and is the best way to secure a going concern outcome for the businesses of the LP Entities if can be accomplished ("**Dual Track Process**").
63. The LP Entities are performing better than forecasts prepared at the time the Credit Acquisition was negotiated and entered into and continue to outperform their most recent financial projections⁵. Therefore, a delay in closing the AHC Transaction (or the Credit Acquisition, if needed) for a period of several weeks is unlikely to materially negatively effect the value of the LP Entities' businesses.

⁵ For example, the total cash as at May 9, 2010 was approximately \$20 million higher than the forecasted cash flows.

64. However, there are several challenges in proceeding with the Dual Track Process, including:

- i. the AHC Bid initially precluded the pursuit of competing bids and proceeding with the Dual Track Process requires the Ad Hoc Committee's agreement;
- ii. the LP Entities' management's time is limited and should be focused primarily on the Superior Cash Offer, being the AHC Bid; and
- iii. active pursuit of the Credit Acquisition could create market confusion and hinder the financing of the AHC Bid.

65. There are also timing issues associated with the Dual Track Process. The SISP presently provides that "*a definitive agreement be negotiated and settled in respect of that Superior Cash Offer, conditional upon Court approval **and conditional on the Superior Cash Offer closing within 60 days after the Phase 2 Bid Deadline, or such longer period as shall be agreed by the Monitor, in consultation with the Financial Advisor and the LP CRA, and consented to by the Agent, acting in consultation with the Steering Committee***". The Ad Hoc Committee's position is that the SISP does not preclude a Superior Offer being implemented through a plan of arrangement or compromise, yet the time period provided for in the SISP to close a Superior Offer is insufficient to implement same. The LP Administrative Agent, however, insists that it can terminate the Support Agreement and is not obligated to proceed with the Credit Acquisition if it not closed by June 30, 2010.

66. The Monitor, LP CRA and the Financial Advisor have been attempting to negotiate a Dual Track Process with the Ad Hoc Committee and the LP Administrative Agent. Without prejudice discussions did not lead to agreement.
67. The Monitor considers the timing of closing of the AHC Bid to be the biggest area of disagreement between the Ad Hoc Committee and the LP Administrative Agent, acting in consultation with the Steering Committee. They each have legitimate concerns on this topic as do the LP Entities, the Monitor, the LP CRA and the Financial Advisor.
68. The Ad Hoc Committee is prepared to move forward on a very aggressive timetable, but will not agree to an inflexible end date for the closing of the AHC Transaction, particularly where there are a number of matters that will affect timing which are out of its control.
69. On the other hand, the LP Administrative Agent (in consultation with the Steering Committee) maintains that it is willing to proceed with the Credit Acquisition on the timelines specified in the SISP. They strongly oppose an open ended timetable.
70. The Monitor in consultation with the LP CRA, the Financial Advisor and counsel for the LP Entities has developed a proposal for a Dual Track Process which it believes represents a very fair balancing of the competing concerns of the Ad Hoc Committee and the LP Administrative Agent. Accordingly, the Monitor put forth a proposal whereby the LP Entities would advance the AHC Transaction and the Support Transaction on parallel tracks.

71. The terms of the proposal were set out in a “with prejudice” letter dated May 7, 2010 (the “**May 7 Letter**”) delivered by counsel for the Monitor to counsel for the Ad Hoc Committee and counsel for the LP Administrative Agent. A copy of the letter is attached as **Appendix “D”** to this report. The proposal set out in the May 7 Letter is supported by the LP CRA, the Financial Advisor, and the LP Entities. The Monitor, the CRA and Financial Advisor believe that the proposal set out in the May 7 Letter fairly addresses the legitimate competing interests in a matter that benefits all the stakeholders of the LP Entities.

72. The proposed Dual Track Process is set out in the May 7 Letter as follows:

1. *We (either Monitor or Canwest) will move on May 17 for approval of the Ad Hoc bid.*
2. *We will also move for a conditional Sanction order on the Senior Lender credit bid.*
3. *The Senior Lenders will agree to extend their bid until July 29th.*
4. *The conditional Sanction Order will have a condition precedent that it becomes operative on delivery of a Monitor’s certificate.*
5. *The Monitor will not deliver the certificate if the Ad Hoc bid closes and, subject to 6 below, it will not be delivered prior to July 29th.*
6. *If prior to July 29th the Monitor determines in its reasonable business judgement that there is no reasonable chance that the Ad Hoc bid can close it may apply to court on 4 business days notice for authority to deliver the Monitor’s certificate in advance of July 29*
7. *The Monitor can delay delivery of the certificate after July 29th if it forms the opinion in its reasonable business judgement, following consultation with RBCCM and the CRA, that the Ad Hoc bid will close within a relatively short period of time.*
8. *The Credit Bid is not extended beyond July 29th unless the Senior Lenders agree to the same;*

9. *If the Senior Lenders feel the Monitor should be delivering the certificate after July 29th, but has not done so, they will have the right to apply to court to have Justice Papp order the Monitor to do so.*
10. *The Ad Hoc bid will have priority to Management and Osler time to close that bid pursuant to a protocol to be negotiated – (I understand there is a draft in the works).*
11. *The Monitor will advise counsel for the Senior Lenders of any request made to it for the approval of the Monitor to a proposed disclaimer or rescission pursuant to s32 of the CCAA of a material contract.*

73. Under this proposal, the LP Entities would move for approval of the AHC Bid and take active steps to close the AHC Transaction. At the same time, the LP Entities would seek an Order conditionally sanctioning the Senior Lenders' Plan, which Order will have a condition precedent that it only becomes operative on delivery of a Monitor's certificate and be subject to the terms and conditions of the May 7 Letter.

74. Under this proposal, completion of the Credit Acquisition will occur only on the delivery of a Monitor's certificate. The Monitor will not deliver its certificate making the conditional sanction of the Credit Acquisition operative if the AHC Bid closes and would not deliver it prior to July 29, 2010 unless the Monitor determines in its reasonable business judgment that there is no reasonable chance that the AHC Bid can close, in which case it may apply to Court on 4 business days' notice for authority to deliver the Monitor's certificate in advance of July 29, 2010.

75. Following July 29, 2010, the Monitor can delay delivery of its certificate if it forms the opinion in its reasonable business judgment, following consultation with the Financial

Advisor and the LP CRA that the AHC Bid will close within a relatively short period of time.

76. The Credit Acquisition will not be extended beyond July 29, 2010 unless the LP Senior Secured Lenders agree to the same. Furthermore, if the LP Senior Secured Lenders are of the view that the Monitor should be delivering its certificate after July 29, 2010, but it has not done so, they will have the right to apply to Court for an Order requiring the Monitor to do so.
77. The Ad Hoc Committee requested certain assurances with respect to the terms of the May 7 Letter. These further assurances, which were provided by the Monitor, through its counsel, by e-mail dated May 9, 2010 (a copy of which is attached as **Appendix “E”**) are as follows:
- i. the Monitor will provide the Ad Hoc Committee 4 business days’ notice prior to delivery of its certificate for any delivery that would take place on or after July 29, 2010;
 - ii. with respect to the phrase “relatively short period of time” in item 7 of the May 7 Letter, the Monitor, in consultation with the Financial Advisor and the LP CRA, will deal with the facts as they exist on and after July 29, 2010, but as at May 9, 2010, the Monitor would expect a “relatively short period of time” to be an extension in closing of the AHC Transaction to no later than August 15, 2010; and

iii. the Ad Hoc Committee will be a party to the negotiation of the protocol regarding priority to management and advisor time referred to in item 10 of the May 7 Letter.

78. On May 9, 2010, the Ad Hoc Committee advised counsel to the Monitor that, based on the further assurances given by the Monitor, it supports the Dual Track Process on the terms set out in the May 7 Letter and agreed to same in the AHC APA.

79. To date the LP Senior Secured Lenders have not accepted the Dual Track Process on the terms set out in the May 7 Letter. In the evening of May 10, 2010, the Monitor and the LP CRA received a counter proposal from the LP Administrative Agent stating, *inter alia*:

...the Steering Committee has authorized the Agent to advise that if the terms of the Credit Acquisition are respected and preserved, it is prepared to agree that the AHC be allowed to pursue the AHC Bid within the originally contemplated timeline. This would mean that the terms of the LP Support Agreement would be complied with; that is, the Credit Acquisition would be approved but would not close until June 29, 2010, and would be cancelled in the event that the Senior Lenders were paid on or before June 29, 2010.

The Monitor has raised the spectre that the June 29, 2010 deadline is too short. If the Monitor and the LP CRA jointly determine on June 15, 2010 that an extension to July 15, 2010 is appropriate given the progress of the AHC Bid, the Steering Committee is prepared to agree to such an extension, subject to the Court sanctioning the Credit Acquisition and senior lenders holding at least 50.1% agreeing to such an extension. We note that the senior lender Steering Committee is prepared to recommend this approach to the Senior Lenders.

80. A dual track process on the terms of the LP Administrative Agent's counter proposal is not acceptable to the Monitor, the LP CRA, the Financial Advisor or the LP Entities for a number of reasons outlined above, including, among other things, because it does not

permit sufficient time to close the AHC Bid or implement the AHC Plan and it cedes the final ability to terminate the AHC Transaction to entities other than the Court or a Court-appointed Officer. Further, counsel for the Ad Hoc Committee has advised that, for these and other reasons, the LP Administrative Agent's counter proposal is not acceptable to the Ad Hoc Committee.

81. As set out more fully below, the Monitor does not support, and would oppose, the granting of an Order conditionally or otherwise sanctioning the Senior Lenders' Plan if such Order contains provisions that, in the view of the Monitor, would prejudice or hinder the ability to close the AHC Transaction. In the view of the Monitor, an Order sanctioning the Senior Lenders' Plan on the terms set out in the LP Administrative Agent's counter-proposal of May 10, 2010 would prejudice and hinder the ability to close the AHC Transaction and such Order, therefore, would be opposed by the Monitor.
82. The Monitor, the LP CRA and the LP Entities remain willing to discuss any reasonable modifications to the May 7 Letter and the Dual Track Process contemplated thereby as may be agreeable to the Ad Hoc Committee and the LP Administrative Agent, acting in consultation with the Steering Committee.

Requirements for Sanctioning the Senior Lenders' Plan Are Satisfied

83. In its First Report dated January 20, 2010 (a copy of which, without Appendices, is attached as **Appendix "F"** to this Report), the Monitor outlined the details of the Senior Lenders' Plan and reported on alternate proceedings under the *Bankruptcy and Insolvency Act* (Canada) ("**BIA**") and whether the CCAA Proceedings was the best course of action. The Monitor remains of the view that the Senior Lenders' Plan is more

beneficial to the LP Entities' creditors than if proceedings under the BIA were taken with respect to the LP Entities.

84. In its Second Report dated January 29, 2010 (a copy of which, without Appendices, is attached as **Appendix "G"** to this Report), the Monitor reported on the results of the LP Senior Secured Lenders' claims process and the results of the Senior Lenders' Meeting (as defined in the Initial Order). As described in greater detail in the Second Report, on January 27, 2010, an excess of the majority in number and two-thirds in value of the LP Senior Secured Lenders holding Accepted Senior Voting Claims present and voting at the Senior Lenders' Meeting (as these terms are defined in the Initial Order) voted in favour to approve the Senior Lenders' Plan.
85. The Monitor is of the view that the Senior Lenders' Plan is fair and reasonable as between the LP Entities' creditors and the LP Entities but only if the AHC Bid does not close and recommends that the Senior Lenders' Plan be sanctioned subject to the conditions and on the terms outlined in the May 7 Letter. If the AHC Transaction can be completed, the Credit Acquisition does not reflect the full market value of the LP Entities and cannot be supported by the Monitor, but, if the AHC Transaction does not close, the results from the other bids obtained from the SISP would support a recommendation in favour of sanctioning the Senior Lenders' Plan.
86. As such, the Monitor supports conditional sanction of the Senior Lenders' Plan, but only on the basis of the Dual Track Process as set out in the May 7 Letter.
87. The Monitor does not support, and would oppose, the granting of an Order conditionally or otherwise sanctioning the Senior Lenders' Plan if such Order contains provisions that,

in the view of the Monitor, would prejudice or hinder the ability to close the AHC Transaction.

Vesting Provisions in the Conditional Sanction Order and Notice to Affected Parties

88. Certain provisions of the proposed conditional sanction Order purport to vest out and otherwise affect the rights of third parties upon such Order being rendered effective following delivery of the Monitor's certificate pursuant to the terms of the May 7 Letter. Not all such third parties received notice of this motion. The Monitor and the LP Entities are in discussions regarding the appropriate method of ensuring that any affected parties who did not receive notice of this motion will have an opportunity and forum to challenge any conditional sanction Order and any provisions thereof affecting their rights at a later date.

Amendment to the SISP Procedures to Allow "Dual Track Process"

89. Pursuant to the SISP Procedures, if the Special Committee accepts the Superior Cash Offer recommendation, the Monitor is directed to take steps toward implementation of the Superior Cash Offer. The SISP Procedures do not expressly contemplate concurrent pursuit of the selected Superior Cash Offer and the Support Transaction. Accordingly, the LP Entities are seeking to amend the SISP Procedures to allow for same. The Monitor supports the proposed amendment.

90. In addition, the LP Entities ask that the SISP Procedures be amended to allow the target closing date to be more than 60 days after the Phase 2 Bid Deadline by further Order of the Court if the LP Administrative Agent withholds its consent. The 60 day period was

insisted upon by the LP Administrative Agent, but remained subject to change once results of the SISP were known and the particulars of any Superior Offers were revealed. The Ad Hoc Committee, as the largest unsecured creditor of the LP Entities and subsequently as a bidder in the SISP, has always maintained that the current targeted closing dated was not workable and may have to be modified to accommodate a transaction that is superior to the Credit Acquisition. The Monitor has consistently asserted the ability to apply to the Court with respect to any aspect of the SISP Procedures if any unfairness became apparent in a context of any specific transaction.

91. The Ad Hoc Committee will not agree to a process that allows the LP Administrative Agent to have a unilateral right to frustrate the closing of the AHC Transaction after a specific date without the ability of the Monitor or the Court to intervene if circumstances require the same. The Monitor believes the Ad Hoc Committee position is supportable in a court-supervised CCAA process. The Monitor and Court must consider the interests of the stakeholders as whole, whereas the Ad Hoc Committee and the LP Administrative Agent (or the Steering Committee and the LP Senior Secured Lenders) are not so constrained and are free to pursue their own individual interests as they may perceive them from time to time, potentially to the prejudice of other stakeholders.

RECOMMENDATION TO THE SPECIAL COMMITTEE

92. For all of the above reasons, the Monitor, in its reasonable business judgment, determined the AHC Bid to be a Superior Cash Offer within the meaning of the SISP. The determination is firmly supported by the LP Entities, the Financial Advisor and the LP CRA. The Monitor is also of the view that in the event that the AHC Bid might not

close, the LP Entities would benefit from the Credit Acquisition remaining capable of closing until the AHC Bid is closed (or terminated).

93. Accordingly, following extensive consultations with the LP Entities, the Financial Advisor and the LP CRA, on May 10, 2010, the Monitor recommended to the Special Committee that the AHC Bid, as the only Superior Cash Offer received in the SISP, be selected and that a definitive agreement be negotiated and settled in respect of the AHC Bid. This recommendation was supported by the LP CRA and the Financial Advisor. In the absence of the Dual Track Process, the Monitor, the LP CRA and the Financial Advisor support the recommendation to select and proceed with the AHC Bid alone.

94. The Monitor also recommended that, subject to reaching an agreement with the Ad Hoc Committee and the LP Senior Secured Lenders, the LP Entities proceed to negotiate documents to advance the AHC Transaction and the Credit Acquisition on parallel tracks as outlined in the May 7 Letter. In the absence of such agreement, the Monitor recommended that the LP Entities seek Court approval of the AHC Bid and seek a conditional Sanction Order of the Senior Lenders' Plan based on the terms set out in the May 7 Letter. Again, the LP CRA and the Financial Advisor supported the recommendation.

95. On May 10, 2010, the Special Committee accepted the Monitor's recommendations.

AMENDMENTS TO THE CLAIMS PROCEDURE ORDER

96. In order to implement all of the steps required to close the AHC Transaction in accordance with the Dual Track Process and the May 7 Letter, the LP Entities have

determined that a meeting of affected creditors to vote on the AHC Plan must be convened no later than June 10, 2010.

97. In order to permit certain additional creditors to participate in a vote on and eventual distribution under the AHC Plan, the LP Entities are seeking to make a number of amendments to the Claims Procedure Order relating to, among other things:
- i. the deadlines applicable to Restructuring Period Claims;
 - ii. claims by non-union employees arising after January 8, 2010 (the “**Restructuring Period Employee Claims**”); and
 - iii. determination of the *pro rata* claims of the individual LP Subordinated Lenders and holders of the 9.25% Notes.
98. The Monitor agrees with the LP Entities that such amendments to the Claims Procedure Order are reasonably necessary to implement the AHC Bid through the AHC Plan and continues to review and discuss the details of the proposed amendments (which are described in greater detail in the Lamb Affidavit) with the LP Entities. The Monitor understands that the LP Entities intend to serve a draft Order amending the Claims Procedure Order once it is finalized in advance of the motion.
99. The LP Entities are also considering implementing a process to call for and adjudicate claims against the officer and directors of the LP Entities. The Monitor is engaged in discussions with the LP Entities and counsel for the directors and officers of the LP Entities regarding the format and timing of such process, including whether claims

against the directors and officers will be attempted to be compromised and released through the AHC Plan.

100. It is contemplated that the LP Entities or the Monitor will return to this Court to seek further instructions in connection with any aspect of the Claims Procedure Order, including the proposed amendments thereto, if and to the extent it becomes necessary to do so.
101. If the Court approves the AHC Bid and the Order amending the Claims Procedure Order, the Monitor will post the amended Claims Procedure Order on its website for the CCAA Proceedings as soon as reasonably possible.

ADJUDICATION AND RESOLUTION OF CLAIMS

102. The LP Claims Bar Date (as defined in the Claims Procedure Order) was 5:00 p.m. on May 7, 2010.
103. The Claims Procedure Order contemplates that there will be no steps taken to review or resolve the claims against the LP Entities unless:
 - i. Phase 2 is completed and the Monitor, the LP CRA, the LP Entities and the LP Administrative Agent agree that the resolution of the claims is reasonably required to close a Superior Offer selected pursuant to the SISP;
 - ii. following the closing of the selected Superior Offer (or such earlier date as may be agreed to by the LP Entities, the Monitor and the LP Administrative Agent), the Monitor, the LP CRA, and the LP Entities determine that the resolution of the

claims is reasonably required to facilitate the distribution of any proceeds of such selected Superior Offer to general unsecured creditors of the LP Entities; or

iii. so directed by further Order of the Court.

104. Subject to Court approval, the AHC Bid will be implemented through the AHC Plan. The adjudication and resolution of claims is necessary to close the AHC Bid. Delay in adjudicating claims may jeopardize closing of the AHC Transaction on the timeline currently contemplated in the May 7 Letter.

105. By letter dated May 7, 2010 (a copy of which is attached as Exhibit "I" to the Lamb Affidavit), the LP Entities requested the LP Administrative Agent's consent to commence resolution of claims as being reasonably required to close a Superior Offer selected pursuant to the SISF.

106. On May 10, 2010, counsel for the LP Administrative Agent advised that the LP Administrative Agent was prepared to consent to the commencement of claims resolution *"on the agreement of all parties that the Claims Process shall terminate if the Court does not approve the AHC Bid or the AHC Bid otherwise terminates, unless the Agent agrees otherwise."* The Ad Hoc Committee, the LP Entities the LP CRA and the Monitor agreed to proceed on this basis. Accordingly, the adjudication of claims commenced on May 10, 2010 and the Monitor will be posting notice of same on the website dedicated to the CCAA Proceedings shortly.

107. The Monitor will provide a further update on the status of the claims process in its next report to the Court.

MEETING ORDER

108. In order to implement all of the steps required to close the AHC Transaction in accordance with the Dual Track Process and the May 7 Letter a meeting of affected creditors to vote on the AHC Plan must be convened no later than June 10, 2010. Accordingly, the LP Entities are seeking an Order authorizing them to call and conduct a meeting of the affected creditors (the “**Creditors’ Meeting**”) on June 10, 2010 for the purpose of voting on a resolution to approve the AHC Plan.
109. The proposed terms relating to the Creditors’ Meeting are described in greater detail in the Lamb Affidavit and include, *inter alia*, the following:
- i. there will be one class of creditors consisting of Affected Creditors⁶;
 - ii. any Affected Creditor that elects to receive a cash payment equal to the lesser of the amount of their proven claim and \$1,000 will be deemed to vote in favour of the AHC Plan;
 - iii. the Monitor will tally the votes and the AHC Plan will be deemed to be accepted by the required majority (the “**Required Majority**”) if it is approved by Affected Creditors present in person or represented at the Creditors’ Meeting holding claims totaling $66\frac{2}{3}\%$ in value and a majority in number; and

⁶ Defined in the AHC Plan essentially as (a) all unsecured creditors with Claims (as defined in the Claims Procedure Order); and (b) certain secured creditors (other than the LP Senior Secured Lenders) to the extent their Claims exceed the realizable value of the property subject to such security; and excluding various statutory priority claim holders, intercompany claims and claims of the Purchaser arising from or relating to the Administrative Reserve.

- iv. any vote will be binding on all affected creditors whether or not such affected creditor is present at the Creditors' Meeting.
- 110. The proposed Meeting Order will also set out the notice procedures for the calling and any adjournment of the Creditors' Meeting.
- 111. The Monitor reviewed and was consulted with respect to the proposed terms of the Meeting Order and agrees with the LP Entities that the proposed terms are fair and reasonable given the overall timeframe of the AHC Transaction.
- 112. The Monitor will be delivering a further report with respect to the AHC Plan in advance of the Creditors' Meeting.

RECOMMENDATION AND CONCLUSIONS

- 113. The Financial Advisor has advised the Monitor that in its view the SISP was a thorough canvassing of the market. The Monitor concurs with this assessment.
- 114. In the reasonable business judgment of the Monitor, the Financial Advisor and the LP CRA, the AHC Bid is a Qualified Bid and a Superior Cash Offer as determined pursuant to the criteria set out in the SISP Procedures.
- 115. Furthermore, (for the reasons outlined above) the Monitor believes that the AHC Bid represents the best value available for the LP Entities' businesses and stakeholders and provides a significantly greater return to the general body of the LP Entities' stakeholders than the Credit Acquisition. The LP Entities, the Financial Advisor and the LP CRA all

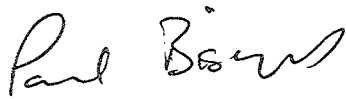
share that view. Accordingly, the Monitor supports the LP Entities' motion to approve the AHC Bid.

116. In light of the circumstances of this proceeding and given the standard transaction risk that the AHC Bid might not close, the Monitor, the LP CRA and the Financial Advisor agree that the LP Entities would benefit from the Credit Acquisition remaining capable of closing until the AHC Bid is closed (or terminated). Therefore, the Monitor supports the LP Entities' motion for an Order conditionally sanctioning the Senior Lenders' Plan subject to the conditions and on the terms outlined in the May 7 Letter.
117. However, the Monitor does not support, and would oppose, the granting of an Order conditionally or otherwise sanctioning the Senior Lenders' Plan if such Order contains provisions that, in the view of the Monitor, would prejudice or hinder the ability to close the AHC Transaction.
118. The Monitor also supports the LP Entities' requests to:
 - i. amend the Claims Procedure Order;
 - ii. amend the SISP Procedure to allow for the Dual Track of the AHC Bid and the Credit Acquisition;
 - iii. approve the procedures for giving notice and conduct of the Creditors' Meeting,all as being reasonable and necessary to implement the AHC Transaction in accordance with and pursuant to the timelines of the AHC APA, and the May 7 Letter.

All of which is respectfully submitted this 11th day of May, 2010.

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

Per



Paul Bishop
Senior Managing Director