

**CANWEST LIMITED PARTNERSHIP  
INTERIM FINANCIAL STATEMENTS  
FOR THE PERIODS ENDED  
MAY 31, 2010 AND MAY 31, 2009  
(UNAUDITED)**

Prepared on July 14, 2010

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

	<u>As at May 31, 2010 (Note 4)</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash	28,695
Assets to be transferred to Purchaser	101,988
Investment in Canwest Publishing Inc.	<u>931,653</u>
<b>TOTAL ASSETS</b>	<u><u>1,062,336</u></u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable and accrued liabilities	6,019
Liabilities to be transferred to Purchaser	6,317
Debt not subject to compromise (note 11)	921,389
Liabilities subject to compromise (note 6)	<u>533,591</u>
<b>TOTAL LIABILITIES</b>	<u><u>1,467,316</u></u>
 <b>NET LIABILITIES IN LIQUIDATION</b>	 <u><u>(404,980)</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 interim 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**  
**(UNAUDITED)**

(In thousands of Canadian dollars)

	<b>For the period ended</b> <b>May 31, 2010</b> <b>(Note 4)</b>
<b>Partners' Deficiency as at May 31, 2010 on a Going Concern Basis</b>	(993,841)
Effects of adopting a liquidation basis of presentation:	
Adjustment of investment in Canwest Publishing Inc. to estimated net realizable value	585,301
Adjustment of debt to present value of estimated amounts to be paid	9,285
Provision for liquidation costs	(3,500)
Adjustment of Canwest LP's net assets to estimated net realizable value	(1,225)
Adjustments of prepaid expenses to net realizable value	(1,000)
Net effect of adopting a liquidation basis of presentation	588,861
<b>Net liabilities in liquidation as at May 31, 2010</b>	(404,980)

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).

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

(In thousands of Canadian dollars)

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>May 31,</u> <u>2010</u>	<u>May 31,</u> <u>2009</u> (restated)	<u>May 31,</u> <u>2010</u>	<u>May 31,</u> <u>2009</u> (restated)
Revenue	270,345	268,645	811,180	861,349
Operating expenses (note 16)	219,481	223,433	650,314	713,932
Restructuring expenses	196	2,549	2,660	25,435
	<u>50,668</u>	<u>42,663</u>	<u>158,206</u>	<u>121,982</u>
Amortization of property and equipment	10,026	10,234	30,592	31,358
Other amortization	48	48	144	144
Operating income	<u>40,594</u>	<u>32,381</u>	<u>127,470</u>	<u>90,480</u>
Interest expense, net	(10,138)	(21,741)	(60,633)	(72,805)
Other income	500	625	1,501	1,875
Gain on disposal of property and equipment	-	35	2	2,233
Loss on disposal of interest rate swap (note 17)	-	(180,202)	-	(180,202)
Ineffective portion of hedging derivative instrument (note 17)	-	(60,112)	-	(60,112)
Foreign currency exchange gains (note 17)	4,169	156,975	49,610	157,129
Earnings (losses) before reorganization costs and income taxes	<u>35,125</u>	<u>(72,039)</u>	<u>117,950</u>	<u>(61,402)</u>
Reorganization costs (note 5)	<u>(9,454)</u>	<u>(806)</u>	<u>(41,192)</u>	<u>(806)</u>
Earnings (losses) before income taxes	<u>25,671</u>	<u>(72,845)</u>	<u>76,758</u>	<u>(62,208)</u>
Recovery of future income taxes (note 12)	<u>(14,968)</u>	<u>(6,931)</u>	<u>(18,111)</u>	<u>(21,191)</u>
<b>Net earnings (loss) for the period</b>	<u><u>40,639</u></u>	<u><u>(65,914)</u></u>	<u><u>94,869</u></u>	<u><u>(41,017)</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 interim 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)**  
**(UNAUDITED)**  
(In thousands of Canadian dollars)

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>May 31,</u> <u>2010</u>	<u>May 31,</u> <u>2009</u> <u>(restated)</u>	<u>May 31,</u> <u>2010</u>	<u>May 31,</u> <u>2009</u> <u>(restated)</u>
Net earnings (loss) for the period	40,639	(65,914)	94,869	(41,017)
Other comprehensive earnings				
Change in fair value of hedging derivative instruments designated as cash flow hedges	-	-	-	(14,640)
Reclassification of other comprehensive losses on hedging derivative instruments (note 13)	-	60,112	-	60,112
Other comprehensive earnings for the period	-	60,112	-	45,472
Comprehensive income (loss) for the period	<u>40,639</u>	<u>(5,802)</u>	<u>94,869</u>	<u>4,455</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).

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

(In thousands of Canadian dollars)

	<u>As at</u> <u>August 31, 2009</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash	43,427
Restricted cash	13,902
Accounts receivable	105,686
Amounts due from related companies (note 16)	1,641
Inventory	6,618
Prepaid expenses	<u>14,020</u>
	185,294
Property and equipment	341,628
Other assets (note 10)	26,195
Goodwill	95,034
Mastheads	<u>6,750</u>
	<u>654,901</u>
 <b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable and accrued liabilities	147,706
Amount due on swap settlement	68,874
Income taxes payable	12
Amounts due to related companies (note 16)	140,462
Deferred revenue	33,012
Current portion of long-term debt	1,380,094
Current portion of obligations under capital leases	<u>3,138</u>
	1,773,298
 Obligations under capital leases	 3,696
Accrued pension, post-retirement and other liabilities	79,459
Future income taxes	<u>27,478</u>
	<u>1,883,931</u>
 <b>PARTNERS' DEFICIENCY</b>	
Partners' capital	39,188
Contributed surplus	55,000
Deficit	<u>(1,323,218)</u>
	<u>(1,229,030)</u>
	<u>654,901</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).

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

(In thousands of Canadian dollars)

**For the three months ended May 31, 2010**

	<u>Partners' Capital</u>	<u>Contributed Surplus</u>	<u>Deficit</u>	<u>Total</u>
Balance as at March 1, 2010	39,188	195,320	(1,268,988)	(1,034,480)
Net earnings for the period	-	-	40,639	40,639
Balance as at May 31, 2010	<u>39,188</u>	<u>195,320</u>	<u>(1,228,349)</u>	<u>(993,841)</u>

**For the three months ended May 31, 2009 (restated)**

	<u>Partners' Capital</u>	<u>Contributed Surplus</u>	<u>Accumulated other comprehensive loss</u>	<u>Deficit</u>	<u>Total</u>
Balance as at March 1, 2009	39,188	55,000	(60,112)	(1,176,209)	(1,142,133)
Net loss for the period	-	-	-	(65,914)	(65,914)
Other comprehensive earnings	-	-	60,112	-	60,112
Balance as at May 31, 2009	<u>39,188</u>	<u>55,000</u>	<u>-</u>	<u>(1,242,123)</u>	<u>(1,147,935)</u>

**For the nine months ended May 31, 2010**

	<u>Partners' Capital</u>	<u>Contributed Surplus</u>	<u>Deficit</u>	<u>Total</u>
Balance as at September 1, 2009 (restated)	39,188	55,000	(1,323,218)	(1,229,030)
Net earnings for the period	-	-	94,869	94,869
Contribution from Canwest Media (note 8)	-	1,691	-	1,691
Settlement of National Post liabilities (note 9)	-	138,629	-	138,629
Balance as at May 31, 2010	<u>39,188</u>	<u>195,320</u>	<u>(1,228,349)</u>	<u>(993,841)</u>

**For the nine months ended May 31, 2009 (restated)**

	<u>Partners' Capital</u>	<u>Contributed Surplus</u>	<u>Accumulated other comprehensive loss</u>	<u>Deficit</u>	<u>Total</u>
Balance as at September 1, 2008	39,188	55,000	(45,472)	(1,156,106)	(1,107,390)
Net loss for the period	-	-	-	(41,017)	(41,017)
Other comprehensive earnings	-	-	45,472	-	45,472
Distributions declared (note 15)	-	-	-	(45,000)	(45,000)
Balance as at May 31, 2009	<u>39,188</u>	<u>55,000</u>	<u>-</u>	<u>(1,242,123)</u>	<u>(1,147,935)</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 interim 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)**  
**(UNAUDITED)**

(In thousands of Canadian dollars)

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>May 31,</u> <u>2010</u>	<u>May 31,</u> <u>2009</u> <u>(restated)</u>	<u>May 31,</u> <u>2010</u>	<u>May 31,</u> <u>2009</u> <u>(restated)</u>
<b>CASH GENERATED (UTILIZED) BY:</b>				
<b>OPERATING ACTIVITIES</b>				
Net earnings (loss) for the period	40,639	(65,914)	94,869	(41,017)
Reorganization costs	9,454	806	41,192	806
Items not affecting cash				
Amortization	10,074	10,282	30,736	31,502
Future income tax recovery	(14,968)	(6,931)	(18,111)	(21,191)
Gain on disposal of property and equipment	-	(35)	(2)	(2,233)
Ineffective portion of hedging derivative instrument (note 17)	-	60,112	-	60,112
Non-cash interest	-	752	15,462	2,256
Loss on disposal of interest rate swap (note 17)	-	180,202	-	180,202
Unrealized gain on foreign exchange	(4,123)	(156,515)	(49,656)	(156,515)
Deficiency of pension expense over employer contributions	(861)	(636)	(10,210)	(5,012)
	<u>40,215</u>	<u>22,123</u>	<u>104,280</u>	<u>48,910</u>
Changes in amounts due from related companies (note 16)	509	3,244	2,869	7,027
Changes in non-cash operating accounts	<u>7,675</u>	<u>10,086</u>	<u>15,712</u>	<u>26,524</u>
Cash flows from operating activities before reorganization costs	<u>48,399</u>	<u>35,453</u>	<u>122,861</u>	<u>82,461</u>
Reorganization costs (note 5)	<u>(10,486)</u>	<u>(806)</u>	<u>(34,043)</u>	<u>(806)</u>
Cash flows from operating activities	<u>37,913</u>	<u>34,647</u>	<u>88,818</u>	<u>81,655</u>
<b>INVESTING ACTIVITIES</b>				
Acquisitions	-	-	-	(100)
Proceeds from sale of property and equipment	-	35	2	3,673
Purchase of property and equipment	<u>(3,727)</u>	<u>(4,818)</u>	<u>(9,160)</u>	<u>(23,672)</u>
Cash flows from investing activities	<u>(3,727)</u>	<u>(4,783)</u>	<u>(9,158)</u>	<u>(20,099)</u>
<b>FINANCING ACTIVITIES</b>				
Repayment of long term debt	-	-	-	(2,500)
Transfer of National Post business (note 9)	-	-	(2,367)	-
Advances of revolving facilities	-	-	1,889	20,000
Distributions paid (note 15)	-	-	-	(45,000)
Payments of capital leases	<u>(1,620)</u>	<u>(1,454)</u>	<u>(3,139)</u>	<u>(2,849)</u>
Cash flows from financing activities	<u>(1,620)</u>	<u>(1,454)</u>	<u>(3,617)</u>	<u>(30,349)</u>
<b>Net change in cash</b>	<u>32,566</u>	<u>28,410</u>	<u>76,043</u>	<u>31,207</u>
<b>Cash (bank overdraft) - beginning of period</b>	<u>86,904</u>	<u>494</u>	<u>43,427</u>	<u>(2,303)</u>
<b>Cash - end of period</b>	<u>119,470</u>	<u>28,904</u>	<u>119,470</u>	<u>28,904</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 interim consolidated financial statements.

**CANWEST LIMITED PARTNERSHIP**  
**(Under Creditor Protection as of January 8, 2010 – Notes 1 and 3)**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIODS ENDED MAY 31, 2010**  
**AND MAY 31, 2009**  
**(UNAUDITED)**

(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.

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 9).

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 Digital Media operations operate the *canada.com* web portal and provide 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 16).

Revenue includes advertising, circulation and subscriptions, all of which are derived from a variety of sources. The Limited Partnership’s advertising revenues are seasonal. Revenues and accounts receivable are highest in the first and third quarters, while expenses are relatively constant throughout the year.

***Change in Basis of Presentation***

In May 2010, the Limited Partnership entered into an asset purchase agreement to sell substantially all of its assets, including the assumption of certain liabilities, as described below and in note 3. In June 2010, the Court approved the implementation of the Amended Ad Hoc Committee Plan (described below and in note 3) which has resulted in the execution of the asset purchase agreement on July 13, 2010. As a result, the Limited Partnership will cease operations and commence liquidation. Accordingly, 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 May 31, 2010. A statement of changes in net liabilities in liquidation has been presented for the period ended May 31, 2010 to reflect the changes from the going concern to liquidation basis of accounting. As a consequence, the Limited Partnership’s statement of net liabilities in liquidation as at May 31, 2010 is not comparable with the Limited Partnership’s consolidated balance sheet for prior periods and the statement of changes in net liabilities in liquidation for the period ended May 31, 2010 is not comparable to the statement of changes in partners’ deficiency on a going concern basis for the three and nine months ended May 31, 2010 and May 31, 2009.

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 estimated 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 interim 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 interim consolidated financial statements and reflect all adjustments which are, in the opinion of management, necessary for fair statement of the results of the interim periods presented. However, these interim consolidated financial statements do not include all of the information and disclosures required for annual consolidated financial statements. The accounting policies used in the preparation of these interim consolidated financial statements are the same as those used in the most recent annual consolidated financial statements except for the change in basis of presentation from the going concern basis to liquidation basis of accounting (explained above and in note 2). These interim consolidated financial statements should be read in conjunction with the restated 2009 annual consolidated financial statements of the Limited Partnership issued on June 28, 2010. All amounts are expressed in Canadian dollars.

The interim consolidated statements of earnings (loss), statements of changes in partners' deficiency, statements of comprehensive income (loss) and statements of cash flows for the three and nine months ended May 31, 2010 and May 31, 2009 remain comparable as they have been prepared on a going concern basis. 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, is 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 provides for the orderly termination of the shared services agreements (note 16) between the LP Entities and the Canwest Media Entities. The agreement also sets out termination dates for each of the categories of shared services identified therein, which dates range from February 28, 2010 to February 28, 2011. On June 8, 2010, the Court approved the Omnibus Transition and Reorganization Agreement (the “Omnibus Agreement”) among Canwest Global, Canwest Media and certain of its subsidiaries, the National Post Company, the Limited Partnership, CPI and National Post Inc. The Omnibus Agreement provides for certain additional steps to be taken to disentangle the LP Entities’ publishing business and Canwest Global’s broadcasting business as originally contemplated by the Shared Services Agreement. The Omnibus Agreement addressed the transfer, assignment or realignment of certain contracts, trademarks, domain names and information technology hardware between the Limited Partnership and Canwest’s broadcasting business; the extension and/or amendment of certain shared services agreements; and the entering into of certain arm’s-length arrangements between the Canwest Media Entities and the LP Entities. In addition National Post Inc. assumed the management and carriage of certain insured litigation matters of National Post Inc. related to libel and defamation. National Post Inc. did not assume liability with respect to such matters beyond payment of any insurance deductibles and National Post Inc. is not responsible for any amounts payable by National Post Company with respect to such matters.

On January 8, 2010, the LP Entities entered into a support agreement with the Administrative Agent (the “LP Support Agreement”) which was approved by the Court on January 8, 2010. The Administrative Agent acted on behalf of the lenders under the Secured Credit Facilities and the Secured Hedge Obligations (collectively, the “Senior Lenders”). The LP Support Agreement, required the LP Entities among other things, (a) to commence the CCAA proceedings; (b) to implement and make effective a plan of compromise and arrangement under the CCAA (the “Senior Lenders CCAA Plan”); (c) to conduct a sale and investor solicitation process (“SISP”) with a view to obtaining proposals from prospective purchasers or investors to acquire all or substantially all of the assets of the LP Entities or to invest in the

LP Entities or their business; (d) if the SISP was not successful, to use their best efforts to implement the agreement for a newly established corporation (“Acquireco”) capitalized by the Senior Lenders to acquire the operations and substantially all of the assets of the LP Entities and to assume certain liabilities of the LP Entities (the “Credit Acquisition”); and (e) to pay interest on Secured Credit Facilities and Secured Hedge Obligations, expenses of the Administrative Agent and its advisors, certain investment banking fees and consent fees to Senior Lenders committing to the Senior Lenders CCAA Plan. The LP Support Agreement was terminated on July 13, 2010 upon the implementation of the Amended Ad Hoc Committee Plan (as defined below). Further details of the LP Support Agreement, Senior Lenders CCAA Plan and SISP are provided in Note 3.

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

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

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

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

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

On May 17, 2010, the court approved the Ad Hoc Committee Offer. The order approving the Ad Hoc Committee Offer (the “Ad Hoc Committee Approval Order”), amended the SISP Procedures to extend the date for required closing of the transactions contemplated by the Ad Hoc Committee Offer (the “Ad Hoc Committee Transaction”) to July 29, 2010 and to permit the LP Entities to pursue the Ad Hoc Committee

Transaction while preserving the option to pursue the Credit Acquisition should the Ad Hoc Committee Transaction not close. The Ad Hoc Committee Approval Order authorized the LP Entities to enter into an asset purchase agreement (the "APA") with Postmedia Network Canada Corp. (under its former name, 7535538 Canada Inc.) ("Holdco"), and CW Acquisition Limited Partnership ("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.

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 Postmedia Network Inc. (formerly 7536321 Canada Inc.), its General Partner, (the "Purchaser").

The Ad Hoc Committee Plan as amended, 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, Holdco, 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 will be 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.

## ***Restatements***

### **National Post Asset Purchase**

Effective as of October 30, 2009, the business of The National Post Company, including substantially all of its assets and certain of its liabilities, was transferred from The National Post Company, a subsidiary of Canwest Media, to National Post Inc., a wholly owned subsidiary of CPI, for cash consideration of \$2.4 million paid to The National Post Company. Pursuant to this transaction, prior to the implementation of the transactions contemplated by the Amended Ad Hoc Committee Plan, Canwest Media continued to indirectly control these assets and liabilities through its ownership of the Limited Partnership. Therefore, the acquisition was accounted for in accordance with EIC 89, “Exchanges of Ownership Interests Between Enterprises Under Common Control – Wholly and Partially-owned Subsidiaries”, which states that the continuity of interests method of accounting must be followed. Consequently, the assets and liabilities of The National Post Company were transferred to the Limited Partnership at their carrying values. The continuity of interests method of accounting requires that the results of operations presented in the consolidated financial statements of the Limited Partnership include the operations of The National Post Company as if the Limited Partnership and the National Post Company had been combined since their inception.

The financial statements for the three and nine months ended May 31, 2009, have been restated to reflect the financial position and results of operations of the National Post Company. Accordingly, the Limited Partnership has combined the assets, liabilities, revenues, expenses and cash flows of The National Post Company for all periods presented in these financial statements.

## **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 an allocation of earnings or losses of the subsidiaries from the effective date of adoption of the liquidation basis of accounting, however, any changes in the estimates of fair value or 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.

### ***Going Concern Basis of Presentation***

As stated in Note 1, effective May 31, 2010, the Limited Partnership changed the basis of preparing its financial statements from going concern to liquidation. The interim consolidated financial statements for periods prior to May 31, 2010, prepared on a going concern basis, are based on the accounting policies consistent with those disclosed in the restated audited annual consolidated financial statements issued on June 28, 2010, except as described below;

### ***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 interim 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 7).

### ***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 5).

### ***Liabilities subject to compromise (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 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.

## **Accounting Changes**

### ***Goodwill and Intangible assets***

The Accounting Standards Board ("AcSB") issued CICA Handbook Section 3064, "*Goodwill and Intangible assets*" ("*CICA 3064*"), which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. CICA 3064 expands on the criteria for recognition of intangible assets. CICA 3064 applies to internally generated intangible assets such as research and development activities and rights under licensing agreements. The section also indicates that expenditures not meeting the recognition criteria of intangible assets are expensed as incurred. The Limited Partnership applied this new standard retrospectively effective September 1, 2009. There was no impact on the Limited Partnership as a result of the application of this standard.

## **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 continue to operate their business with the assistance of the Monitor and under the supervision of the Court.

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

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

SISP, up to a maximum of \$10.0 million; and (iv) a directors' charge to secure the indemnity created under the Initial Order in favour of the directors and officers of the LP Entities and a management incentive plan ("Limited Partnership MIP") charge, each with equal priority, to a maximum of \$35.0 million and \$3.0 million, respectively (the Limited Partnership MIP charge was subsequently increased to \$4.3 million on March 26, 2010). Upon the implementation of the Amended Ad Hoc Committee Plan on July 13, 2010, the charges were released against the acquired assets, subject to the continuation of certain portions of the administrative charge.

The stay of proceedings provided for in the Initial Order generally precludes parties from taking any action against the LP Entities for breach of contractual or other obligations. The purpose of the stay is 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 imposes 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 requires 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 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 Holdco 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 Holdco, Opco LP and the Purchaser to:
  - replace the previously contemplated \$150 million of mezzanine debt of Holdco with a direct equity investment of the same amount by the Ad Hoc Committee; and
  - revise the number of shares to be issued by Holdco 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, 400 Cash Elections were received totalling \$0.2 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 Holdco, 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 Holdco 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 to be transferred under the APA will be 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 expected to be transferred is approximately \$1.05 billion. The APA was executed on July 13, 2010, the implementation date of the Amended Ad Hoc Committee Plan.

### **Claims Procedure Order**

The Claims Procedure Order establishes a claims procedure (the "LP Claims Procedure") for the identification and quantification of certain claims (each a "Claim"), against the LP Entities. The LP

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

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

### **Status of the Claims Process**

As of June 21, 2010, 1,022 claims totalling \$587.3 million (the "Total Claims") were filed with the Monitor in accordance with the terms of the Amended Claims Procedure Order. As at June 21, 2010, 761 claims totalling \$569.0 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 261 in number and \$18.3 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 not included in the Total Claims. This amended claim is the only material change to the Total Claims described above.

As at May 31, 2010, liabilities subject to compromise ("LSTC") amount to \$573.0 million (February 28, 2010 - \$1,508 million). During the three months ended May 31, 2010, the Secured Credit Facilities and Secured Hedging Obligations totalling \$933.7 million have been reclassified from LSTC to debt not subject to compromise as they were fully settled on July 13, 2010 in accordance with the Ad Hoc Committee Plan and APA. Canwest LP is still reconciling the difference between the \$573.0 million of LSTC as at May 31, 2010 and the Total Claims filed of \$587.3 million.

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 has 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. Canwest LP did not record a liability for these lawsuits in the audited consolidated financial statements for the year ended August 31, 2009 as the outcome of the lawsuits was not determinable at the time. As the consolidated financial statements for the year ended August 31, 2009 and February 28, 2010 were reissued on June 28, 2010, the consolidated financial statements have been restated to reflect the resolution of these contingencies.

## **4. NET LIABILITIES IN LIQUIDATION**

As described in note 1, effective May 31, 2010, the Limited Partnership adopted the liquidation basis of accounting. 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. with an estimated fair value of \$1.05 billion (the "Consideration"). The cash was used to settle the debt not subject to compromise and the shares will be used to settle the liabilities subject to compromise.

The statement of net liabilities in liquidation as at May 31, 2010 will change as a result of transactions occurring in the Limited Partnership between May 31, 2010 and July 13, 2010 and these changes may be material.

### **Cash**

Cash of \$28.7 million represents the amount that the Limited Partnership expects to pay on closing for estimated costs to sell the net assets to the Purchaser and includes an amount of \$9 million which will be used to fund 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.

### **Assets to be transferred to Purchaser**

Assets to be transferred to the Purchaser of \$102.0 million consist of the following; cash of \$89.3 million, accounts receivable of \$0.1 million, amounts due from related companies of \$0.7 million, prepaid expenses of \$2.8 million and property and equipment of \$9.1 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	1,050,000
Assets of LP to be transferred to Purchaser	(101,988)
Liabilities of LP to be transferred to Purchaser	6,317
Consideration to be allocated to CPI	<u>954,329</u>
Costs to sell the assets of CPI	<u>(22,676)</u>
Investment in CPI	<u><u>931,653</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**

The liabilities to be transferred to the Purchaser of \$6.3 million consist of the following; accounts payable and accrued liabilities of \$4.8 million, amounts due to related parties of \$1.0 million and deferred revenue of \$0.5 million.

## **Debt not subject to compromise**

Debt not subject to compromise is measured at the present value of amounts expected to be paid, consisting of the principal and interest to be paid on the settlement date of July 13, 2010, under the Senior Secured Credit Facilities and the Secured Hedging Obligations. Debt not subject to compromise is further explained in note 11.

## **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 May 31, 2010 are described in note 6.

## **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
<b>ASSETS</b>					
<b>Current Assets</b>					
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)	-
<b>Total Current Assets</b>	<b>274,578</b>	<b>194,355</b>	<b>584,301</b>	<b>9,102</b>	<b>1,062,336</b>
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)			-
<b>Total Assets</b>	<b>735,129</b>	<b>(257,094)</b>	<b>584,301</b>	<b>-</b>	<b>1,062,336</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
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)			-
<b>Total Current Liabilities</b>	<b>1,074,717</b>	<b>(136,432)</b>	<b>(4,560)</b>	<b>-</b>	<b>933,725</b>
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)			-
<b>Total Liabilities</b>	<b>1,728,970</b>	<b>(257,094)</b>	<b>(4,560)</b>	<b>-</b>	<b>1,467,316</b>
<b>PARTNERS' DEFICIENCY/NET LIABILITIES IN LIQUIDATION</b>	<b>(993,841)</b>	<b>-</b>	<b>588,861</b>	<b>-</b>	<b>(404,980)</b>

- (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. REORGANIZATION COSTS (GOING CONCERN BASIS)

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

	For the three months ended		For the nine months ended	
	May 31, 2010	May 31, 2009	May 31, 2010	May 31, 2009
Professional fees <sup>(a)</sup>	10,125	806	29,417	806
Foreign exchange losses (gains) on compromised debt <sup>(b)</sup>	(3,902)	-	3,961	-
Contract repudiations <sup>(c)</sup>	945	-	945	-
Other <sup>(d)</sup>	2,286	-	6,869	-
	<u>9,454</u>	<u>806</u>	<u>41,192</u>	<u>806</u>

<sup>(a)</sup> Professional fees include amounts paid to advisors in regards to the CCAA proceedings and the recapitalization process.

<sup>(b)</sup> 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. Foreign exchange losses from January 8, 2010 to February 28, 2010 of \$8.3 million resulting from translating the US dollar denominated portions of the Secured Credit Facilities and Secured Hedging Obligation, have been transferred from reorganization costs to foreign exchange gains in the nine months ended May 31, 2010 as the Secured Credit Facilities and Secured Hedging Obligations are no longer classified as liabilities subject to compromise (note 6).

<sup>(c)</sup> Contract repudiations includes the costs of contracts that have been repudiated by Canwest LP.

<sup>(d)</sup> Other includes the cost of the Limited Partnership MIP and the Canwest KERP.

For the three and nine months ended May 31, 2009 restructuring costs of \$0.8 million were reclassified from restructuring costs to reorganization costs. For the nine months ended May 31, 2010 (three months ended May 31, 2010 – nil), restructuring costs of \$9.2 million have been reclassified from restructuring costs to reorganization costs.

## 6. 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 May 31, 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 approximately 13 million common shares of Holdco, at an estimated fair value of \$9.26 per share. The following presents the breakdown of the Limited Partnership's LSTC and does not include any of the Limited Partnership's subsidiaries LSTC;

	<u>May 31, 2010</u>
Senior Subordinated Unsecured Notes	417,400
Senior Subordinated Unsecured Credit Facility	75,000
Accounts payable and accrued liabilities	41,165
Repudiated contracts	26
	<u>533,591</u>

## 7. CONDENSED COMBINED FINANCIAL INFORMATION (GOING CONCERN BASIS)

The Condensed Combined Financial Information for the three and nine-month periods 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 three months ended May 31, 2010</u>	<u>For the nine months ended May 31, 2010</u>
Revenues	253,128	753,880
Operating expenses <sup>(a)</sup>	199,692	590,961
Restructuring expenses	196	2,660
	<u>53,240</u>	<u>160,259</u>
Amortization	9,975	30,388
Operating income	<u>43,265</u>	<u>129,871</u>
Interest expense, net <sup>(b)</sup>	(10,099)	(60,649)
Other income	579	1,737
Gain on disposal of property and equipment	-	2
Foreign currency exchange gains	<u>4,177</u>	<u>49,723</u>
Earnings before reorganization costs and income taxes	37,922	120,684
Reorganization costs	<u>(9,419)</u>	<u>(40,847)</u>
Earnings before income taxes	28,503	79,837
Recovery of future income taxes	<u>(14,968)</u>	<u>(18,792)</u>
<b>Net earnings for the period</b>	<u><u>43,471</u></u>	<u><u>98,629</u></u>

<sup>(a)</sup> Included in operating expenses for the three months ended May 31, 2010 are printing and distribution recoveries from National Post Inc. of \$2.6 million (\$8.1 million for the nine months ended May 31, 2010) and advisory, business and administrative charges recovered from National Post Inc. of \$1.5 million (\$4.1 million for the nine months ended May 31, 2010) and a rent recovery from National Post Inc. of \$0.3 million (\$0.9 million for the nine months ended May 31, 2010).

<sup>(b)</sup> Included in interest expense, net for the three months ended May 31, 2010 is interest income from National Post Inc. of \$0.04 million (\$0.08 million for the nine months ended May 31, 2010)

## Condensed Combined Statements of Cash Flows

	<u>For the three months ended</u> <u>May 31,</u> <u>2010</u>	<u>For the nine months ended</u> <u>May 31,</u> <u>2010</u>
<b>CASH GENERATED (UTILIZED) BY:</b>		
Cash flows from operating activities	38,034	83,887
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of property and equipment	-	2
Purchase of property and equipment	(3,722)	(9,077)
Cash flows from investing activities	<u>(3,722)</u>	<u>(9,075)</u>
<b>FINANCING ACTIVITIES</b>		
Transfer of National Post business	-	(2,367)
Advances of revolving facilities	-	1,889
Payments of capital leases	(1,620)	(3,139)
Cash flows from financing activities	<u>(1,620)</u>	<u>(3,617)</u>
<b>Net change in cash</b>	32,692	71,195
<b>Cash - beginning of period</b>	85,281	46,778
<b>Cash - end of period</b>	<u>117,973</u>	<u>117,973</u>

### 8. 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. The total net reimbursement by the Limited Partnership is \$3.9 million and has been recorded as a prepaid expense as at August 31, 2009. This prepaid expense has been reduced by \$2.9 million to reflect the amount which has been included in restructuring costs for the nine months ended May 31, 2010 (six months ended February 28, 2010 - \$2.3 million). 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 second quarter of 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.

## 9. 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:

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

## 10. OTHER ASSETS (GOING CONCERN BASIS)

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

## 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.

	<b>As at May 31, 2010</b>
Debt denominated in Canadian dollars <sup>(a)</sup>	
Senior secured credit facilities - revolver	118,564
Senior secured credit facilities - credit C	266,517
Secured hedging obligations	66,238
	<u>451,319</u>
Debt denominated in US dollars <sup>(b)</sup>	
Senior secured credit facilities - credit D (US\$460,908)	480,957
Secured hedging obligations (US\$2,725)	2,844
	<u>483,801</u>
Adjustment to present value	(13,731)
Total debt not subject to compromise	<u><u>921,389</u></u>

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

<sup>(b)</sup> The debt denominated in US dollars has been converted to Canadian dollars at the Bank of Canada closing foreign exchange rate of 1.0435 on May 31, 2010. This debt was settled by the Purchaser on behalf of the LP Entities in full on July 13, 2010 in US dollars.

## 12. 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:

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>May 31, 2010</u>	<u>May 31, 2009</u>	<u>May 31, 2010</u>	<u>May 31, 2009</u>
Income taxes at combined Canadian statutory income tax rate of 30.7% (May 31, 2009 - 30.14%)	7,881	(21,955)	23,565	(18,749)
Valuation Allowance	(25,449)	921	(29,551)	894
Effect of income tax rates differing from the combined Canadian statutory income tax rate	(2,304)	1,330	(2,291)	3,241
Effect of change in expected future income tax rates	320	(744)	269	(1,300)
Partnership net earnings allocated to Limited Partners, and therefore not subject to tax	6,344	12,405	(5,276)	(7,759)
Timing difference on acquisition of the National Post Company	-	-	738	-
National Post earnings allocated to partners	-	-	(65)	1,112
Non-taxable portion of capital gains	(2,474)	-	(8,255)	(267)
Non-taxable portion of capital loss	-	2,483	-	2,483
Permanent swap deductible difference	-	(2,022)	-	(2,022)
Non-deductible expenses	801	556	2,815	1,006
Other	(87)	95	(60)	170
Recovery of income taxes	<u>(14,968)</u>	<u>(6,931)</u>	<u>(18,111)</u>	<u>(21,191)</u>

### 13. ACCUMULATED OTHER COMPREHENSIVE LOSS (GOING CONCERN BASIS)

	<u>Unrealized loss on cash flow hedges</u>	
	<u>For the three months ended</u>	
	<u>May 31,</u>	<u>May 31,</u>
	<u>2010</u>	<u>2009</u>
Balance, beginning of period	-	(60,112)
Other comprehensive earnings for the period	-	60,112
Balance, end of period	-	-

  

	<u>Unrealized loss on cash flow hedges</u>	
	<u>For the nine months ended</u>	
	<u>May 31,</u>	<u>May 31,</u>
	<u>2010</u>	<u>2009</u>
Balance, beginning of period	-	(45,472)
Other comprehensive loss for the period	-	45,472
Balance, end of period	-	-

During the nine months ended May 31, 2009, \$180.5 million of foreign exchange gains were reclassified to the statement of earnings from Accumulated Other Comprehensive Loss ("AOCL") representing gains on the notional amounts of the cash flow hedging derivatives. These amounts were offset by foreign exchange losses recognized on the related U.S. dollar denominated long-term debt

During the three months ended May 31, 2009, the Limited Partnership reclassified nil from AOCL to net earnings (loss). During the nine months ended May 31, 2009, \$9.2 million was reclassified from AOCL to net earnings (loss). This amount has been recorded as a charge to interest expense and represents the effect of the hedging derivative instruments on the Limited Partnership's interest expense.

During the three and nine months ended May 31, 2009, the Limited Partnership reclassified \$60.1 million from AOCL to the statement of earnings (loss), representing the amounts deferred on derivatives that no longer qualify as cash flow hedges because the derivatives have been terminated and the anticipated cash flows are no longer expected to occur. (note 17)

### 14. 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 Limited Partnership's pension benefit expense is determined as follows:

	For the three months ended		For the nine months ended	
	May 31, 2010	May 31, 2009 (restated)	May 31, 2010	May 31, 2009 (restated)
Current service costs	3,991	4,188	11,973	12,564
Employee contributions	(1,491)	(1,455)	(4,473)	(4,365)
Accrued interest on benefits	5,200	5,029	15,600	15,087
Return on plan assets	(4,618)	(4,770)	(13,854)	(14,310)
Past service costs	20	89	60	267
Net actuarial losses	1,215	812	3,645	2,436
Benefit expense	4,317	3,893	12,951	11,679
Employer contribution to the defined contribution plan	507	525	1,523	1,570
Total pension benefit expense	4,824	4,418	14,474	13,249

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 three months ended		For the nine months ended	
	May 31, 2010	May 31, 2009 (restated)	May 31, 2010	May 31, 2009 (restated)
Current service costs	978	33	2,934	99
Accrued interest on benefits	909	620	2,727	1,860
Net actuarial gains	(77)	(134)	(231)	(402)
Total post-retirement and post-employment benefit expense	1,810	519	5,430	1,557

On October 30, 2009, the assumed post-retirement liability from The National Post Company had plan obligations of \$1 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 in note 1, payments of \$0.1 million on account of the Southam Executive Retirement Plan have been stayed. As a result, as at May 31, 2010 the total liability of \$7.7 million (February 28, 2010 – \$7.4 million) related to this plan has been reclassified to liabilities subject to compromise in the accounts of CPI.

## 15. DISTRIBUTIONS (GOING CONCERN BASIS)

During the three months ended May 31, 2010, Canwest LP declared distributions of nil to Canwest Global (three months ended May 31, 2009 - nil).

During the nine months ended May 31, 2010, Canwest LP declared distributions of nil to Canwest Global (nine months ended May 31, 2009 - \$45.0 million).

## 16. 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 9).

### (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 (restated)***

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

For the three months ended May 31, 2010, Canwest LP has recorded revenue of \$0.2 million related to these activities (three months ended May 31, 2009 - \$0.1 million (restated)).

For the nine months ended May 31, 2010, Canwest LP has recorded revenue of \$1.3 million related to these activities (nine months ended May 31, 2009 - \$0.9 million (restated)).

#### ***Editorial content (restated)***

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 \$0.06 million for the three months ended May 31, 2010 (three months ended May 31, 2009 - nil (restated)).

Canwest LP has recorded a cost recovery of \$0.17 million for the nine months ended May 31, 2010 (nine months ended May 31, 2009 - nil (restated)).

These cost recoveries have been included in operating expenses.

### ***Advisory, business and administrative services (restated)***

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 three months ended May 31, 2010, Canwest LP recorded a recovery of \$3.0 million related to services provided to the Canadian Broadcasting Operations and other Canwest Media entities (three months ended May 31, 2009 – \$3.8 million (restated)).

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 (nine months ended May 31, 2009 – \$11.1 million (restated)).

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 three months ended May 31, 2010, the Limited Partnership recorded expenses of \$0.3 million related to services received from Canwest Media (three months ended May 31, 2009 - \$1.3 million (restated)).

For the nine months ended May 31, 2010, the Limited Partnership recorded expenses of \$2.2 million related to services received from Canwest Media (nine months ended May 31, 2009 - \$3.9 million (restated)).

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.

### ***Occupancy costs (restated)***

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 three months ended May 31, 2010 were \$0.03 million (three months ended May 31, 2009 - \$0.1 million).

The total recoveries for the nine months ended May 31, 2010 were \$0.11 million (nine months ended May 31, 2009 - \$0.3 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.

## **17. FINANCIAL INSTRUMENTS AND FINANCIAL INSTRUMENTS RISK MANAGEMENT (GOING CONCERN BASIS)**

The financial instruments and financial instruments risk management are the same as disclosed in the August 31, 2009 audited consolidated financial statements other than as disclosed below.

### **Financial Instruments**

#### Hedging Derivative Instruments

As a result of the termination of the hedging derivative instruments in May 2009, the Limited Partnership recorded an interest rate and foreign currency swap loss of \$180.2 million, reclassified \$60.1 million of accumulated other comprehensive losses to the statement of earnings (loss) as a result of hedge ineffectiveness and recorded a foreign exchange gain on the related long term debt of \$155.0 million for the nine months ended May 31, 2009.

The Limited Partnership has no hedging derivative instruments as at May 31, 2010.

During the nine months ended May 31, 2009, \$180.5 million of foreign exchange gains were reclassified to the statement of earnings (loss) from AOCL, representing foreign exchange gains on the notional amounts of the cash flow hedging derivatives. These amounts were offset by foreign exchange losses recognized on the related USD denominated long term debt.

### **Financial Instruments Risk Management**

#### Foreign Currency Risk

Due to the termination of certain hedging derivative instruments in 2009, the Limited Partnership is exposed to foreign currency risk arising from US dollar denominated debt. The Initial Order stayed the US\$400 Senior Subordinated Notes. The corresponding foreign exchange gains and losses arising after January 8, 2010 related to the Senior Subordinated Notes have been presented as reorganization costs. Effective January 8, 2010, the Initial Order stipulated that for voting purposes and distribution under the Senior Lenders CCAA Plan, the US\$458 million Senior Secured Credit D Facility was converted at the Canadian dollar noon exchange rate on January 8, 2010 which resulted in a Canadian dollar amount of \$474 million. For accounting purposes, this facility continues to be translated into Canadian dollars at the period end rate as the settlement amount is only effective if a distribution were to occur to the Senior Lenders. Foreign currency exchange gains for the nine months ended May 31, 2010 include a reclassification of foreign exchange losses from reorganization costs of \$8.3 million, on the Senior Secured Credit D Facility for the period from January 8, 2010 to February 28, 2010, as the Senior Secured Credit D Facility is no longer subject to compromise and will be settled in full as a result of the implementation of the Ad Hoc Committee Plan on July 13, 2010. The Limited Partnership has recorded foreign exchange gains in relation to the US denominated debt as follows:

	For the three months ended May 31, 2010	For the nine months ended May 31, 2010
Foreign currency exchange gains	4,123	49,656
Reorganization recoveries (costs)	3,902	(3,961)
	<u>8,025</u>	<u>45,695</u>

## 18. CONTINGENCIES (GOING CONCERN BASIS)

Canwest LP 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 Limited Partnership's financial position, results of operations or cash flows. 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.

## 19. SEGMENTED INFORMATION (GOING CONCERN BASIS)

Canwest LP has two operating segments, both in Canada, being the Newspapers segment and the Digital Media segment. The Newspapers segment publishes daily and non-daily newspapers. Its revenues are primarily from advertising and circulation. The Digital Media segment operates the *canada.com* web portal and provides subscription services relating to investing and financial news and other information. Its revenues are primarily from subscriptions and advertising. Operating expenses for the nine months ended May 31, 2009 include a reduction of \$6.2 million for active employee health and insurance benefits related to prior years for the Newspaper segment (nil for the three months ended May 31, 2009). 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 (losses) before income taxes are presented below. Canwest LP accounts for intersegment sales as if the sales were to third parties.

	Revenue			
	For the three months ended		For the nine months ended	
	May 31, 2010	May 31, 2009 (restated)	May 31, 2010	May 31, 2009 (restated)
<b>Operating Segments <sup>(1)</sup></b>				
Newspapers	263,029	259,950	788,497	834,944
Digital Media	8,351	9,960	26,327	30,083
Inter-segment revenues	(1,035)	(1,265)	(3,644)	(3,678)
Total operating segments	<u>270,345</u>	<u>268,645</u>	<u>811,180</u>	<u>861,349</u>

	For the three months ended		For the nine months ended	
	May 31, 2010	May 31, 2009 (restated)	May 31, 2010	May 31, 2009 (restated)
<b>Operating Segments <sup>(1)</sup></b>				
Newspapers	48,179	40,789	151,834	137,444
Digital Media	2,685	4,423	9,032	9,973
Total operating segments	<u>50,864</u>	<u>45,212</u>	<u>160,866</u>	<u>147,417</u>
<b>Reconciliation of segment operating profit to earnings (losses) before income taxes for the period</b>				
Total operating segments	50,864	45,212	160,866	147,417
Restructuring	<u>(196)</u>	<u>(2,549)</u>	<u>(2,660)</u>	<u>(25,435)</u>
	50,668	42,663	158,206	121,982
Amortization of property and equipment	(10,026)	(10,234)	(30,592)	(31,358)
Other amortization	(48)	(48)	(144)	(144)
Interest expense, net	(10,138)	(21,741)	(60,633)	(72,805)
Other income	500	625	1,501	1,875
Gain on disposal of property and equipment	-	35	2	2,233
Loss on disposal of interest rate swap	-	(180,202)	-	(180,202)
Ineffective portion of hedging derivative instrument	-	(60,112)	-	(60,112)
Foreign currency exchange gains	<u>4,169</u>	<u>156,975</u>	<u>49,610</u>	<u>157,129</u>
Earnings (losses) before reorganization costs and income taxes	35,125	(72,039)	117,950	(61,402)
Reorganization costs <sup>(2)</sup>	<u>(9,454)</u>	<u>(806)</u>	<u>(41,192)</u>	<u>(806)</u>
Earnings (losses) before income taxes	<u>25,671</u>	<u>(72,845)</u>	<u>76,758</u>	<u>(62,208)</u>

<sup>(1)</sup> On September 1, 2009, Canwest LP began recognizing the portion of national display advertising revenues and expenses associated with the newspaper websites in the Newspaper segment. Previously, all national display advertising revenues and expenses were recognized within the Digital Media segment. The prior periods have not been restated as the necessary information is not available. If management had not changed the allocations, revenue for the Digital Media segment for the three and nine months ended May 31, 2010 would have increased by \$2.1 million and \$6.7 million dollars respectively, with a corresponding decrease to Newspaper segment revenue; and operating profit for the Digital Media segment for the three and nine months ended May 31, 2010 would have increased by \$0.9 million and \$2.9 million respectively, with a corresponding decrease to the Newspaper segment operating profit.

<sup>(2)</sup> Costs related to the reorganization as described in note 5.