

**CANWEST LIMITED PARTNERSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED
MAY 31, 2010 AND MAY 31, 2009**

July 20, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the unaudited interim financial statements of Canwest Limited Partnership ("Limited Partnership," "Canwest LP," "we," "us" or "our") and related notes.

This discussion includes statements that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results, and therefore are, or may be deemed to be, "forward-looking statements." These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms "believes," "estimates," "anticipates," "expects," "seeks," "projects," "intends," "plans," "may," "will" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this discussion and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate.

Although we base these forward-looking statements on assumptions that we believe are reasonable when made, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this discussion. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward-looking statements contained in this discussion, those results or developments may not be indicative of results or developments in subsequent periods.

Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. Any forward-looking statements which we make in this discussion speak only as of the date of such statement, and we do not undertake, and specifically decline, any obligation to update such statements or to publicly announce the results of any revisions to any such statements to reflect future events or developments. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

This discussion also makes reference to EBITDA to assist in assessing our financial performance. Non-GAAP financial measures do not have any standard meaning prescribed by Canadian GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. See "Reconciliation of Non-GAAP Financial Measures."

OVERVIEW

On July 13, 2010, the Amended Ad Hoc Committee Plan (defined below) was implemented and the asset purchase agreement ("APA") was executed resulting in the transfer of certain of assets and liabilities of the Limited Partnership and substantially all of the assets and certain liabilities of CPI, including the 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.

We are the largest publisher of English language daily newspapers in Canada, as measured by paid circulation and revenue. Our publications include ten major daily metropolitan newspapers (nine broadsheets and one tabloid), one national newspaper, 23 community newspapers and a

number of shopping guides and newspaper-related publications. In addition, we provide business services including certain centralized customer and support services to the Canwest Media Entities, and Canwest Media's Canadian Broadcasting Operations (together being "Canadian Broadcasting Operations"). Our digital media operations include the *canada.com* network of websites and subscription services relating to investing, financial news and other information generated through *FPinfomart*.

Change in Basis of Presentation

In May 2010, we entered into the APA to sell substantially all of our assets, including the assumption of certain liabilities (see note 3 of the unaudited interim financial statements). In June 2010, the Court approved the implementation of the Amended Ad Hoc Committee Plan (defined below) which has resulted in the execution of the APA. As a result, we will cease operations and commence liquidation. Accordingly, in accordance with CICA Handbook Section 1400, "General standards of Financial Statement Presentation," effective May 31, 2010, we changed the basis of preparing our financial statements from going concern to liquidation.

On a liquidation basis, we have 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 statement of net liabilities in liquidation as at May 31, 2010 is not comparable with the 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, our financial statements are presented on a non-consolidated basis. We measured our 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 our net liabilities in liquidation.

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

Creditor Protection

On January 8, 2010, Canwest (Canada) Inc., Canwest Publishing 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 the Limited Partnership (collectively, the "LP Entities"). National Post Inc., a wholly owned subsidiary of the Limited Partnership which owns and operates the National Post newspaper is not included in the CCAA filing. The Initial Order, among other provisions, provides for a general stay of proceedings that has been extended to 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 under "Creditor Protection" and note 3 of the unaudited interim financial statements.

The Limited Partnership is owned indirectly by Canwest Media Inc. ("Canwest Media"), a wholly owned subsidiary of Canwest Global Communications Corp. ("Canwest Global"). Canwest Global and Canwest Media and certain other subsidiaries of Canwest Media (collectively, the "Canwest

Media Entities”) are also in creditor protection under separate CCAA proceedings commenced on October 6, 2009.

Description of Partnership

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, we have combined the assets, liabilities, revenues, expenses and cash flows of The National Post Company for all periods presented in these financial statements.

The unaudited interim 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 unaudited interim 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 unaudited interim 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 (see note 2 of the unaudited interim financial statements). The unaudited interim financial statements should be read in conjunction with the restated 2009 annual consolidated financial statements of the Limited Partnership issued on June 28, 2010 (copies of which are available from us upon request). All amounts are expressed in Canadian dollars.

The unaudited interim 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 our intention to liquidate by the sale of substantially all of our assets.

KEY FACTORS AFFECTING OPERATING RESULTS

We earn revenues primarily from advertising and circulation from our newspaper operations. Newspaper advertising revenues are a function of the volume, or lineage, of advertising sold and rates charged. Circulation revenues are derived from home-delivery subscriptions for newspapers and single-copy sales at retail outlets and vending machines and are a function of the number of newspapers sold and the average price per copy. Revenues from digital media are primarily from

national display advertising on *canada.com* and subscription and licensing revenues generated through *FPinfomart*.

As of September 1, 2009, we began attributing the portion of national display advertising revenues and expenses associated with our newspaper websites to the newspaper segment. Previously, all national display advertising revenue and expenses were attributed to the digital media segment. Therefore, revenues, expenses and certain other financial information presented herein relating to our newspaper segment and digital media segment in fiscal 2010 may not be directly comparable to prior periods. We have not restated the prior periods because we are not able to generate the data for earlier periods and, as a result, prior period segment information is not comparable.

For the three and nine months ended May 31, 2010, our revenues increased 1% and decreased 6%, respectively, as compared to the same period in the previous year. Changes in advertising revenue were the primary driver behind these changes in revenue. We have begun to experience some recovery in revenues as a result of the overall economic recovery.

Newspaper segment revenues for the three and nine months ended May 31, 2010, increased 1% and decreased 6%, respectively, compared to the same period in the prior year. The decrease was primarily due to a decline in advertising revenue associated with a weakness in the Canadian economy and the continued shift in advertising dollars to different platforms, which shift may be permanent.

For the three and nine months ended May 31, 2010, digital media segment revenue decreased 16% and 13%, respectively, relative to the same period in the prior year due to national display advertising revenue associated with the newspaper websites being included in the newspapers segment for the current period. Our total online revenues (including those in the newspaper segment) grew 9% and 8%, respectively, for the three and nine months ended May 31, 2010 relative to the same period in the prior year.

Our principal operating expenses are salaries, newsprint and distribution expenses, which comprised 52%, 10% and 17%, respectively, of our operating expenses in fiscal 2009.

Our operating results are particularly sensitive to variations in the cost and availability of newsprint. Newsprint is a commodity, the price of which varies considerably from time to time as a result of supply shortfalls, among other factors. We purchase our newsprint from a number of Canadian suppliers and typically are able to negotiate fixed pricing for intervals from six months to a year. We take advantage of the purchasing power that comes with the large volume of newsprint that we purchase as well as our proximity to paper mills across Canada to minimize our cost of newsprint. Changes in newsprint prices can significantly affect our operating results. A \$50 per tonne increase or decrease in the price of newsprint would be expected to affect our operating expenses by approximately \$6 million on an annualized basis.

On October 30, 2009, net assets totaling \$4.6 million of The National Post Company were transferred to National Post Inc., a subsidiary of CPI, for cash consideration of \$2.4 million paid to The National Post Company, a wholly owned subsidiary of Canwest Media. All of the assets, liabilities, 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.

Seasonality

Our revenue has experienced significant seasonality due to seasonal advertising patterns and seasonal influences on people's media consumption habits. Typically, our revenue is lowest during the fourth quarter of our fiscal year, which ends in August, and highest during the first quarter of our fiscal year, which ends in November, primarily as a result of holiday-related advertising.

Creditor Protection

On January 8, 2010, the LP Applicants, applied for and obtained the Initial Order from the Court granting creditor protection under the CCAA. The Initial Order applies to 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 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 note 3 of the unaudited interim financial statements.

The Limited Partnership is owned indirectly by Canwest Media, a wholly owned subsidiary of Canwest Global. 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 and the transactions contemplated by the APA, we were in default under the terms of our senior secured credit facilities ("Secured Credit Facilities"), our senior subordinated unsecured credit facility ("Senior Subordinated Credit Facility") and the indenture governing our senior subordinated unsecured notes ("Senior Subordinated Notes") because we failed to make payments of interest and principal on our Secured Credit Facilities and the related hedging derivative instruments, we failed to make interest payments on the Senior Subordinated Credit Facility and the Senior Subordinated Notes and we failed to satisfy the demand for immediate repayment of our obligations related to the hedging derivative instruments (the "Secured Hedging Obligations").

On August 31, 2009, we entered into a forbearance agreement with the Administrative Agent under our 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 us 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. We agreed to pay the interest owing and the continuing interest on our Secured Credit Facilities and the interest amounts due in respect of the Secured Hedging Obligations. The forbearance agreement, as extended, expired on November 9, 2009. We continued to pay the interest on the Secured Credit Facilities and the Secured Hedging Obligations. We were also in default under the terms of the 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 January 8, 2010, we 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 Hedging Obligations (collectively, the "Senior Lenders"). The LP Support Agreement, required us 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 the Secured Credit Facilities and Secured Hedging Obligations, expenses of the Administrative Agent and its advisors, and 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. Further details of the LP Support Agreement, Senior Lenders CCAA Plan and SISP are provided in note 3 of the unaudited interim financial statements.

On January 8, 2010, certain of the Senior Lenders agreed to extend us 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 us 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. Further details on the DIP Facility are provided in note 3 of the unaudited interim financial statements.

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 our activities, report to the Court from time to time on our financial and operational position and any other matters that may be relevant to the CCAA proceedings, advise us on various matters, assist our Chief Restructuring Advisor (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 us 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, 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 us.

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 and recommended it to the Special Committee. The Special Committee accepted the Monitor's 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 procedures under the SISP 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 us 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 us to enter into the APA with Postmedia Network Canada Corp. ("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 of the unaudited interim financial statements. 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 us 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 May 17, 2010, the Court also granted an order (the “Meeting Order”) authorizing us to call a meeting (the “Meeting”) of creditors holding Affected Claims 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 Meeting, originally scheduled for June 10, 2010, was adjourned by the Monitor to June 14, 2010 to allow the Affected Creditors 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. 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 of the unaudited interim financial statements.

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.

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 of assets and liabilities of the Limited Partnership and substantially all of the assets and certain liabilities of CPI, including the 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.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian GAAP requires our management to make estimates and judgments that affect the reported amounts of our assets, liabilities, revenue and expenses, as well as the disclosure of contingent assets and liabilities. Our management bases its estimates and judgments on historical experience and other factors that are

believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

There are no significant changes in our accounting policies or estimates since August 31, 2009 and as described in our Management's Discussion and Analysis for the year ended August 31, 2009, except as described below.

SIGNIFICANT ACCOUNTING POLICIES

Net Liabilities in Liquidation

Under the liquidation basis of accounting:

- The net assets 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 unaudited interim 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 payables 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 in directly to its owners.

Going Concern Basis of Presentation

Effective May 31, 2010, we changed the basis of preparing our financial statements from going concern to liquidation. The unaudited interim financial statements for periods prior to May 31, 2010, including the three and nine month periods ended May 31, 2010, are 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)

We have made certain changes in presentation and disclosures have been adopted to reflect the effect of the CCAA proceedings. We have 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.

The unaudited interim financial statements include condensed combined financial information for the LP Entities that are subject to the CCAA proceedings as certain of our subsidiaries are not subject to the CCAA proceedings (see note 7 of the unaudited interim financial statements).

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 we were developing our 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 items (see note 5 of the unaudited interim financial statements).

Liabilities subject to compromise (going concern)

Liabilities incurred prior to the 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 liabilities incurred after the 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 our 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 3064, “*Goodwill and Intangible assets*,” 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. We applied this new standard retrospectively effective September 1, 2009. There was no impact on our results as a result of the application of this standard.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In 2006, the AcSB published a new strategic plan that outlines the convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”) over an expected five year transitional period. In February 2008, AcSB confirmed that IFRS will be used for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

In May 2010, we entered into an asset purchase agreement to sell substantially all of our assets, including the assumption of certain liabilities. In June 2010, the Court approved the implementation of the Amended Ad Hoc Committee Plan which has resulted in the execution of the asset purchase agreement. As a result, we will cease operations and commence liquidation and thus the changeover to IFRS is not currently relevant to us.

CONSOLIDATED OPERATING RESULTS

Results of Operations for the Three Months Ended May 31, 2010 (going concern basis)

The following table summarizes the operating results for the three months ended May 31, 2010 and May 31, 2009.

<i>(unaudited)</i>	Three months ended	
	May 31, 2010	May 31, 2009 <i>(restated)</i>
	\$000	\$000
Segment revenue: ⁽¹⁾		
Newspapers	263,029	259,950
Digital Media	8,351	9,960
Inter-segment revenues	(1,035)	(1,265)
	<u>270,345</u>	<u>268,645</u>
Segment operating expenses: ⁽¹⁾		
Newspapers	214,850	219,161
Digital Media	5,666	5,537
Inter-segment expenses	(1,035)	(1,265)
	<u>219,481</u>	<u>223,433</u>
Segment operating profit: ⁽¹⁾		
Newspapers	48,179	40,789
Digital Media	2,685	4,423
	<u>50,864</u>	<u>45,212</u>
Restructuring expenses	196	2,549
EBITDA ⁽²⁾	<u>50,668</u>	<u>42,663</u>
Amortization of property and equipment	10,026	10,234
Other amortization	48	48
Interest expense, net	10,138	21,741
Other income	(500)	(625)
Gain on disposal of property and equipment	-	(35)
Loss on disposal of interest rate swap	-	180,202
Ineffective portion of hedging derivative	-	60,112
Foreign currency (gains) losses	4,169	(156,975)
Reorganization costs	1,116	806
(Recovery) of future income taxes	(14,968)	(6,931)
Net Earnings	<u>40,639</u>	<u>(65,914)</u>

⁽¹⁾ As of September 1, 2009, we began attributing the portion of national display advertising revenues and expenses associated with our newspaper websites to the newspaper segment. We have not restated the prior periods because we are not able to generate the data for earlier periods and, as a result, prior period segment information is not comparable. If we had not changed the allocation of revenues and expenses between our segments, revenue for the

digital media segment for the three months ended May 31, 2010 would have increased by \$2.1 million dollars, with a corresponding decrease to the newspaper segment revenue; operating expenses for the digital media segment for the three months ended May 31, 2010 would have increased by \$1.2 million, with a corresponding decrease in newspaper segment operating expenses; and operating profit for the digital media segment for the three months ended May 31, 2010 would have increased by \$0.8 million, with a corresponding decrease in newspaper segment operating profit.

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

Revenue. Revenue increased \$1.7 million, or 1%, to \$270.3 million for the three months ended May 31, 2010 as compared to \$268.6 million for the three months ended May 31, 2009. Newspaper revenues increased \$3.1 million, or 1%, and digital media revenues decreased \$1.6 million, or 16%, due in part to the change in allocation between segments as discussed above. The overall increase in revenue was primarily due to increased advertising revenues.

Operating expenses. Operating expenses decreased 2%, to \$219.5 million for the three months ended May 31, 2010 as compared to \$223.4 million for the three months ended May 31, 2009. The decrease in operating expenses was the result of cost reduction initiatives implemented in the last nine months of fiscal 2009 and a continued focus on cost containment. Newspaper expenses decreased \$4.3 million, or 2%, and digital media expenses increased \$0.1 million, or 2%. Operating expenses do not include any cost associated with the reorganization process including management retention payments.

Restructuring expenses. Restructuring expenses were \$0.2 million for the three months ended May 31, 2010 compared to \$2.5 million in the same period in the prior year. Restructuring costs in the prior year related to staff reductions resulting from a variety of strategic initiatives.

EBITDA. EBITDA increased \$8.0 million or 19% for the three months ended May 31, 2010 to \$50.7 million as compared to \$42.7 million for the three months ended May 31, 2009. EBITDA excluding restructuring expenses was \$50.9 million in the current quarter compared to \$45.2 million for the same period in the prior year, an increase of \$5.7 million or 13%. Increases in EBITDA were the result of revenue growth and lower operating expenses.

Amortization. Amortization expenses were \$10.1 million for the three months ended May 31, 2010 compared to \$10.3 million for the same period in the prior year.

Interest expense. Interest expense is primarily related to advances under the Secured Credit Facilities, the Senior Subordinated Credit Facility and the Senior Subordinated Notes. Interest expense was \$10.1 million for the three months ended May 31, 2010 as compared to \$21.7 million for the three months ended May 31, 2009. Effective January 8, 2010, we are no longer accruing interest expense on the Senior Subordinated Credit Facility and the Senior Subordinated Notes.

Foreign currency exchange gains. Effective January 8, 2010, the Initial Order stipulated that for voting purposes and distribution under the Senior Lenders CCAA Plan, the US\$458 million "Credit D" tranche of the Secured Credit Facilities 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 "Credit D" tranche continues to be translated into Canadian dollars at the period end rate as the settlement amount is only effective on the distribution which has not yet been approved. See note 17 of the unaudited interim financial statements for additional information.

Reorganization costs. Reorganization costs represent post-filing expenses and gains that can be directly associated with the reorganization and restructuring of the LP Entities. These costs include professional fees paid to advisors in regards to the CCAA proceedings and recapitalization

process, and retention payments paid to key employees of the LP Entities. Foreign exchange losses on compromised debt are also included in reorganization costs, representing 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 CCAA filing. Foreign exchange losses from January 8, 2010 to May 31, 2010 of \$4.2 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 losses (gains) on May 31, 2010 as the Secured Credit Facilities and Secured Hedging Obligation are no longer classified as liabilities subject to compromise. See note 5 of the unaudited interim financial statements for additional information.

Income taxes. The income tax recovery was \$15.0 million for the three months ended May 31, 2010 as compared to \$6.9 million for the three months ended May 31, 2009. The increased recovery of \$8.1 million was primarily due to the reversal of the valuation allowance relating to future tax assets. The Limited Partnership itself is not a taxable entity. Income and capital taxes are payable only by our corporate subsidiaries.

Net earnings. Net earnings increased 162% to \$40.6 million for the three months ended May 31, 2010 as compared to a loss of \$65.9 million for the three months ended May 31, 2009. This increase was primarily due to the loss on the interest rate swap and the ineffective portion of the hedging derivative incurred in fiscal 2009.

Newspapers

Revenue. Revenue for the newspapers segment increased \$3.0 million, or 1%, to \$263.0 million for the three months ended May 31, 2010 as compared to \$260.0 million for the three months ended May 31, 2009. Revenues in these periods are not directly comparable as we began, beginning September 1, 2009, attributing the portion of national display advertising revenues associated with our newspaper websites to the newspaper segment. If we had not changed the allocation of revenues and expenses of our segments, revenue for the newspapers segment would have been \$261.0 million for the three months ended May 31, 2010.

Total advertising linage increased for the quarter by 5%, offset by a decline in the average line rate of 3%. Classified and retail revenues decreased by 3% and 1%, respectively, and national revenues increased by 7% compared to the prior year. Newspaper online revenue grew 27% in the quarter relative to the same period in the prior year. Insert revenues decreased 2% compared to the prior year driven by declines in insert volumes and price. Circulation revenues decreased 2% from the prior period as declines in circulation volume were offset by increases in per copy pricing.

Operating expenses. Operating expenses for the newspapers segment decreased \$4.3 million, or 2%, to \$214.9 million for the three months ended May 31, 2010 as compared to \$219.2 million for the three months ended May 31, 2009. The decrease in operating expenses was primarily due the impact of strategic initiatives implemented in the prior fiscal year as well as a 24% decrease in newsprint prices. Newsprint consumption decreased 4% for the three months as compared to the same period in the prior year due to lower circulation volumes and other newsprint reduction initiatives. Operating expenses in these periods are not directly comparable as we began, beginning September 1, 2009, attributing the portion of national display advertising operating expenses associated with our newspaper websites to the newspaper segment. If we had not changed the allocation of revenue and expenses of our segments, operating expenses for the newspaper segment would have been \$213.6 million for the three months ended May 31, 2010.

Segment operating profit. As a result of revenue growth and savings in operating expenses, operating profit for the newspapers segment increased \$7.4 million, or 18%, to \$48.2 million for the three months ended May 31, 2010 as compared to \$40.8 million for the three months ended May

31, 2009. Operating profit in these periods are not directly comparable as we began, beginning September 1, 2009, attributing the portion of national display advertising revenue and operating expenses associated with our newspaper websites to the newspaper segment. If we had not changed the allocation of revenues and expenses of our segments, operating profit for the newspaper segment would have been \$47.3 million for the three months ended May 31, 2010.

Digital Media

Revenue. Revenue for the digital media segment decreased \$1.6 million, or 16%, to \$8.4 million for the three months ended May 31, 2010 as compared to \$10.0 million for the three months ended May 31, 2009. This decrease was primarily driven by lower advertising revenue on canada.com, partially offset by a 1% increase in FPInfomart subscription and licensing revenues. Revenues in these periods are not directly comparable because, beginning September 1, 2009, we began attributing the portion of national display advertising revenues associated with our newspaper websites to the newspaper segment. If we had not changed the allocation of revenue and expenses of our segments, revenue for the digital media segment would have been \$10.4 million for the three months ended May 31, 2010.

Operating expenses. Operating expenses of the digital media segment increased \$0.1 million, or 2%, to \$5.7 million for the three months ended May 31, 2010 as compared to \$5.5 million for the three months ended May 31, 2009. Operating expenses in these periods are not directly comparable as we began, beginning September 1, 2009, attributing the portion of national display advertising operating expenses associated with our newspaper websites to the newspaper segment. The increase was driven primarily by increases in payroll costs. If we had not changed the allocation of revenue and expenses of our segments, operating expenses for the digital media segment would have been \$6.9 million for the three months ended May 31, 2010.

Segment operating profit. Operating profit for the digital media segment decreased \$1.7 million to \$2.7 million for the three months ended May 31, 2010 as compared to \$4.4 million for the three months ended May 31, 2009. Operating profit in these periods is not directly comparable as we began, beginning September 1, 2009, attributing the portion of national display advertising revenues and operating expenses associated with our newspaper websites to the newspaper segment. If we had not changed the allocation of revenue and expenses of our segments, operating profit for the digital media segment would have been \$3.5 million for the three months ended May 31, 2010.

Results of Operations for the Nine Months Ended May 31, 2010 (going concern basis)

The following table summarizes the operating results and other financial data for the nine months ended May 31, 2010 and May 31, 2009.

<i>(unaudited)</i>	Nine months ended	
	May 31, 2010	May 31, 2009 (restated)
	\$000	\$000
Segment revenue: ⁽¹⁾		
Newspapers	788,497	834,944
Digital Media	26,327	30,083
Inter-segment revenues	(3,644)	(3,678)
	<u>811,180</u>	<u>861,349</u>
Segment operating expenses: ⁽¹⁾		
Newspapers	636,663	697,500
Digital Media	17,295	20,110
Inter-segment expenses	(3,644)	(3,678)
	<u>650,314</u>	<u>713,932</u>
Segment operating profit: ⁽¹⁾		
Newspapers	151,834	137,444
Digital Media	9,032	9,973
	<u>160,866</u>	<u>147,417</u>
Restructuring expenses	2,660	25,435
EBITDA ⁽²⁾	<u>158,206</u>	<u>121,982</u>
Amortization of property and equipment	30,592	31,358
Other amortization	144	144
Interest expense, net	60,633	72,805
Other income	(1,501)	(1,875)
Gain on disposal of property and equipment	(2)	(2,233)
Loss on disposal of interest rate swap	-	180,202
Ineffective portion of hedging derivative	-	60,112
Foreign currency (gains) losses	(49,610)	(157,129)
Reorganization costs	41,192	806
(Recovery) of future income taxes	(18,111)	(21,191)
Net Earnings	<u>94,869</u>	<u>(41,017)</u>

⁽¹⁾ As of September 1, 2009, we began attributing the portion of national display advertising revenues and expenses associated with our newspaper websites to the newspaper segment. We have not restated the prior periods because we are not able to generate the data for earlier periods and, as a result, prior period segment information is not comparable. If we had not changed the allocation of revenues and expenses between our segments, revenue for the digital media segment for the nine months ended May 31, 2010 would have increased by \$6.7 million dollars, with a corresponding decrease to the newspaper segment revenue; operating

expenses for the digital media segment for the nine months ended May 31, 2010 would have increased by \$3.8 million, with a corresponding decrease in newspaper segment operating expenses; and operating profit for the digital media segment for the nine months ended May 31, 2010 would have increased by \$2.9 million, with a corresponding decrease in newspaper segment operating profit.

⁽²⁾ See “Reconciliation of Non GAAP Financial Measures.”

Revenue. Revenue decreased \$50.1 million, or 6%, to \$811.2 million for the nine months ended May 31, 2010 as compared to \$861.3 million for the nine months ended May 31, 2009. Newspaper revenues decreased \$46.4 million, or 6%, and digital media revenues decreased \$3.7 million, or 13%. The overall decrease in revenues was primarily due to the deterioration in the economy resulting in lower advertising revenues.

Operating expenses. Operating expenses decreased \$63.6 million or 9%, to \$650.3 million for the nine months ended May 31, 2010 as compared to \$713.9 million for the nine months ended May 31, 2009. Newspaper expenses decreased \$60.8 million, or 9%, and digital media expenses decreased \$2.8 million, or 14%. Decreased newspaper expenses are primarily the result of the various cost reduction initiatives implemented in fiscal 2009 and continued focus on cost containment in current year. Operating expenses do not include any cost associated with the reorganization process, including management retention payments.

EBITDA. EBITDA increased \$36.2 million or 30% for the nine months ended May 31, 2010 to \$158.2 million as compared to \$122.0 million for the nine months ended May 31, 2009. EBITDA excluding restructuring expenses was \$160.9 million for the nine months ended May 31, 2010 compared to \$147.4 million for the same period in the prior year, an increase of \$13.5 million or 9%. This increase is primarily due to lower operating expenses.

Amortization. Amortization expenses were \$30.7 million for the nine months ended May 31, 2010 compared to \$31.5 million for the same period in the prior year a reduction of \$0.8 million or 2%.

Interest expense. Interest expense is primarily related to advances under the Secured Credit Facilities, the Senior Subordinated Credit Facility and the Senior Subordinated Notes. Effective January 8, 2010, we are no longer accruing interest expense on the Senior Subordinated Credit Facility and the Senior Subordinated Notes. Interest expense was \$60.6 million for the nine months ended May 31, 2010 as compared to \$72.8 million for the nine months ended May 31, 2009.

Foreign currency exchange gains. Effective January 8, 2010, the Initial Order stipulated that for voting purposes and distribution under the Senior Lenders CCAA Plan, the US\$458 million “Credit D” tranche of the Secured Credit Facilities 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 “Credit D” tranche continues to be translated into Canadian dollars at the period end rate as the settlement amount is only effective on the distribution which has not yet been approved. See note 17 of the unaudited interim financial statements for additional information. Foreign currency exchange gains were \$49.6 million for the nine months ended May 31, 2010 as compared to \$157.1 million for the nine months ended May 31, 2009.

Reorganization costs. Reorganization costs represent post-filing expenses and gains that can be directly associated with the reorganization and restructuring of the LP Entities. These costs include professional fees paid to advisors in regards to the CCAA proceedings and recapitalization process, and retention payments paid to key employees of the LP Entities. Foreign exchange losses on compromised debt are also included in reorganization costs. See note 5 of the unaudited interim financial statements for additional information. Reorganization costs were \$41.2 million for

the nine months ended May 31, 2010 as compared to \$0.8 million for the nine months ended May 31, 2009.

Income taxes. The income tax recovery was \$18.1 million for the nine months ended May 31, 2010 as compared to \$21.2 million for the nine months ended May 31, 2009. The Limited Partnership itself is not a taxable entity. Income and capital taxes are payable only by our corporate subsidiaries.

Net earnings. Net earnings increased 331% to \$94.9 million for the nine months ended May 31, 2010 as compared to a loss of \$41.0 million for the nine months ended May 31, 2009. This increase was due to reduced operating and restructuring expenses in the nine month period ended May 31, 2010, the loss on the interest rate swap and the ineffective portion of the hedging derivative, offset by reorganization costs.

Newspapers

Revenue. Revenue for the newspapers segment decreased \$46.4 million, or 6%, to \$788.5 million for the nine months ended May 31, 2010 as compared to \$834.9 million for the nine months ended May 31, 2009. Revenues in these periods are not directly comparable as we began, beginning September 1, 2009, attributing the portion of national display advertising revenues associated with our newspaper websites to the newspaper segment. If we had not changed the allocation of revenues and expenses of our segments, revenue for the newspapers segment would have been \$781.8 million for the nine months ended May 31, 2010.

Total advertising linage decreased by 3% relative to the prior year and the average line rate decreased 6% for the same period. National category revenue decreased 1% to the prior year, and retail and classified categories showed reduced revenues of 9% and 20%, respectively, compared to the prior year. Newspaper online revenue increased 23% in the nine month period ended May 31, 2010 compared to the prior year. Insert revenues decreased 4% relative to the prior year based on a combination of rate and volumes decreases. A 7% decrease in circulation volume was partially offset by increases in per copy pricing, resulting in a 2% decrease in circulation revenue relative to the prior year.

Operating expenses. Operating expenses for the newspapers segment decreased \$60.8 million, or 9%, to \$636.7 million for the nine months ended May 31, 2010 as compared to \$697.5 million for the nine months ended May 31, 2009. The decrease in expenses was primarily due to the impact of strategic initiatives implemented in the prior fiscal year as well as decreases in newsprint volume and prices. Operating expenses in these periods are not directly comparable as we began, September 1, 2009, attributing the portion of national display advertising operating expenses associated with our newspaper websites to the newspaper segment. If we had not changed the allocation of revenue and expenses of our segments, operating expenses for the newspaper segment would have been \$632.9 million for the nine months ended May 31, 2010.

Segment operating profit. Operating profit for the newspapers segment increased \$14.4 million, or 11%, to \$151.8 million for the nine months ended May 31, 2010 as compared to \$137.4 million for the nine months ended May 31, 2009. Operating profit in these periods is not directly comparable as we began, beginning September 1, 2009, attributing the portion of national display advertising revenues and operating expenses associated with our newspaper websites to the newspaper segment. If we had not changed the allocation of revenues and expenses of our segments, operating profit for the newspaper segment would have been \$149.0 million for the nine months ended May 31, 2010.

Digital Media

Revenue. Revenue for the digital media segment decreased \$3.8 million, or 13%, to \$26.3 million for the nine months ended May 31, 2010 as compared to \$30.1 million for the nine months ended May 31, 2009. The decrease was primarily due to declines in national display revenues on canada.com. Revenues in these periods are not directly comparable because, beginning September 1, 2009, we began attributing the portion of national display advertising revenues associated with our newspaper websites to the newspaper segment. If we had not changed the allocation of revenue and expenses of our segments, revenue for the digital media segment would have been \$33.0 million for the nine months ended May 31, 2010 compared to the prior period.

Operating expenses. Operating expenses of the digital media segment decreased \$2.8 million, or 14%, to \$17.3 million for the nine months ended May 31, 2010 as compared to \$20.1 million for the nine months ended May 31, 2009. Operating expenses in these periods are not directly comparable as we began, beginning September 1, 2009, attributing the portion of national display advertising expenses associated with our newspaper websites to the newspaper segment. This decrease in expenses was primarily due to lower marketing and other discretionary expenses resulting from ongoing cost containment efforts. If we had not changed the allocation of revenue and expenses of our segments, operating expenses for the digital media segment would have been \$21.1 million for the nine months ended May 31, 2010.

Segment operating profit. Operating profit for the digital media segment decreased \$0.9 million, or 9%, to \$9.0 million for the nine months ended May 31, 2010 as compared to \$9.9 million for the nine months ended May 31, 2009. Operating profit in these periods is not directly comparable as we began, beginning September 1, 2009, attributing the portion of national display advertising revenues and operating expenses associated with our newspaper websites to the newspaper segment. If we had not changed the allocation of revenue and expenses of our segments, operating profit for the digital media segment would have been \$11.9 million for the nine months ended May 31, 2010.

NET LIABILITIES IN LIQUIDATION

As discussed in “Overview—Change in Basis of Presentation,” effective May 31, 2010, we 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 we expect to pay on closing for estimated costs to sell the net assets to the Purchaser and liquidation costs and includes an amount of \$9 million which will be used to fund the Administrative Reserve to be held by the Monitor. The Administrative Reserve was paid by us to the Monitor on July 13, 2010 and will be used by the Monitor to pay certain of our administrative costs, including liquidation costs. 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.

We own 100% of the shares of CPI. 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	<u>6,317</u>
Consideration to be allocated to CPI	954,329
Costs to sell the assets and liabilities 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 our assets 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.

Liabilities subject to compromise

Liabilities subject to compromise (“LSTC”) refers to liabilities that have been stayed under the CCAA proceedings and which are expected to be compromised under the CCAA proceedings. 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 Court, 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 liabilities incurred after the date of the CCAA filing by us, 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 LSTC 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 chart presents the breakdown of our LSTC and does not include any of the LSTC of our subsidiaries.

	<u>May 31, 2010</u>
	\$000
Senior Subordinated Unsecured Notes	417,400
Senior Subordinated Unsecured Credit Facility	75,000
Accounts payable and accrued liabilities	41,165
Accrued pension, post-retirement and other liabilities	26
	<u>533,591</u>

Debt not subject to compromise

The Amended Ad Hoc Committee Plan was implemented on July 13, 2010 which resulted in the execution of the APA. 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 Secured Credit Facilities and the Secured Hedging Obligations. The below table describes the debt not subject to compromise being settled in full.

	As at
	May 31, 2010
	<u>\$000</u>
<i>(unaudited)</i>	
Debt denominated in Canadian dollars ⁽¹⁾	
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 ⁽²⁾	
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>

⁽¹⁾ This debt was settled by the Purchaser on behalf of the LP Entities in full on July 13, 2010.

⁽²⁾ 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.

CONSOLIDATED QUARTERLY FINANCIAL RESULTS (going concern basis)

		2010			2009 (restated)			2008
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<i>(unaudited)</i>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Revenue	270,345	254,418	286,417	237,727	268,645	257,728	334,976	298,724
Net earnings	40,639	(7,613)	61,843	(58,698)	(65,915)	(6,270)	31,167	19,305
Cash flow from operating activities	37,913	45,652	5,253	21,754	34,647	14,527	32,481	29,842

HISTORIC LIQUIDITY AND CAPITAL RESOURCES (going concern basis)

Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with our financial liabilities and other contractual obligations. In addition to the following, refer to notes 1 and 3 of the unaudited interim financial statements for the impact on our liquidity risk since August 31, 2009 as a result of the CCAA proceedings, SISP and APA.

Sources of Cash

Our principal source of liquidity is cash flow from operating activities. For the nine months ended May 31, 2010, our cash flows from operating activities were \$88.8 million compared to \$81.7 million for the same period in the prior year.

As at May 31, 2010, we had cash on hand of \$119.5 million (August 31, 2009 – \$43.4 million).

On January 8, 2010, certain of the Senior Lenders agreed to extend us 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 us to execute definitive agreements related to the DIP Facility. The definitive agreements were executed on February 5, 2010. As at May 31, 2010, no draws had been made against the DIP Facility. The DIP Facility was terminated on July 13, 2010 upon the implementation of the Amended Ad Hoc Committee Plan.

Uses of Cash

Transfer of National Post Business

On October 30, 2009, net assets totaling \$4.6 million of The National Post Company were transferred to National Post Inc., a subsidiary of CPI, for cash consideration of \$2.4 million paid to the National Post Company, a wholly owned subsidiary of Canwest Media (see notes 1 and 8 of the unaudited interim financial statements). On the date of the transfer, the cash consolidation and elimination of the assets and liabilities excluded from the October 30, 2009 transaction have been de-recognized with an adjustment to contributed surplus. The gain on the derecognition of amounts due to and from other related entities and accounts payable was \$140.8 million.

Capital Expenditures

For the three months ended May 31, 2010, our capital expenditures were \$3.7 million compared with \$4.8 million for the same period in the prior year. For the nine months ended May 31, 2010 our capital expenditures were \$9.2 million compared to \$23.7 million for the prior period. Capital expenditures decreased in this quarter as the prior year saw significant investment in technology projects. As well, the current period has decreased expenditures based on continuing efforts to contain spending and improve liquidity.

Reorganization Costs

For the nine months ended May 31, 2010, reorganization costs representing professional fees, foreign exchange losses on compromised debt and other costs totaled \$41.2 million (\$1.1 million for the three months ended May 31, 2010). 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 restructuring costs of \$9.2 million have been reclassified from restructuring costs to reorganization costs.

Distributions

Distributions paid to Canwest Media Inc. for the three months ended May 31, 2010 were nil (nil for the same period in the prior year). During the nine months ended May 31, 2010, we declared distributions of nil to Canwest Global (nine months ended May 31, 2009 - \$45.0 million). We suspended our distributions in January 2009 and do not expect to resume distributions.

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, except as disclosed below.

Financial Instruments

Hedging Derivative Instruments

As a result of the termination of the hedging derivative instruments in May 2009, we 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, 2010.

We have 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 fiscal 2009, we are exposed to foreign currency risk arising from US dollar denominated debt. The Initial Order stayed the US\$400 million 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 "Credit D" tranche of the Secured Credit Facilities was converted at the Canadian dollar noon exchange rate on January 8, 2010 which resulted in a Canadian dollar amount of CND\$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 "Credit D" tranche of the Secured Credit Facilities for the period from January 8, 2010 to February 28, 2010, as the "Credit D" tranche 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. For the three and nine months ended May 31, 2010, we recorded net foreign exchange gains of \$4.1 million and of \$49.7 million, respectively, related to this US dollar denominated debt.

GUARANTEES AND OFF BALANCE SHEET ARRANGEMENTS

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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As discussed in "Overview—Change in Basis of Presentation," effective May 31, 2010, we adopted the liquidation basis of accounting. As a result, debt reflected on our statement of net liabilities in liquidation is limited to our Secured Credit Facilities and Secured Hedging Obligations.

RELATED PARTY TRANSACTIONS

We have entered into various transactions with related parties which we believe are on substantially comparable terms as those that we could have obtained with unrelated parties on an arm's length basis. The following discussion relates to our accounts for our related party balances and transactions and provides a description of our related party agreements.

Amounts Due (To)/From Affiliated Companies

Amounts due (to)/from affiliated companies consist of the following:

<i>(unaudited)</i>	May 31, 2010 <i>(liquidation basis)</i>	August 31, 2009 <i>(going concern basis)</i>
	<u>\$000</u>	<u>\$000</u>
Amounts due from related companies	662	1,641
Amounts due to related companies	(953)	(140,462)
Net amount due to related companies	(291)	(138,821)

Amounts due (to)/from related companies are related to obligations incurred by us on behalf of related companies and disbursements made on behalf of other Canwest Media Entities outside the Limited Partnership 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 business of The National Post Company by us, all amounts owing from The National Post Company to Canwest Media Entities were transferred to Canwest Media as they were not part of the liabilities assumed by us (see note 9 of the unaudited interim financial statements).

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 agreement (see note 16 of the unaudited interim financial statements) 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, Canwest Television Limited Partnership, 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 our 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 us 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 The National Post Company with respect to such matters.

We have agreed to reimburse Canwest Global for a portion of the cost of the Canwest Global's key employee retention plan ("Canwest KERP") and Canwest Global has agreed to reimburse us for a portion of the cost of our management incentive plan ("Limited Partnership 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 for our Limited Partnership MIP. The total net reimbursement by us is \$3.9 million and has been recorded as a prepaid expense. 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 we deposited \$3.9 million with a trustee in full satisfaction of our 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 us.

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 our 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 our accrued pension, post-retirement and other liabilities and a corresponding increase in our contributed surplus as Canwest Global assumed its portion of the obligation.

The following table provides details on our related party transactions:

<i>(unaudited)</i>	Three months ended		Nine months ended	
	May 31, 2010	May 31, 2009 <i>(restated)</i>	May 31, 2010	May 31, 2009 <i>(restated)</i>
	(in millions)		(in millions)	
Revenue (expenses) recorded for the following activities:				
Cross-promotional activities ⁽¹⁾				
- revenue earned on advertising services provided to other Canwest entities	0.2	0.1	1.3	0.9
Editorial content ⁽²⁾				
- cost recovery for content provided to other Canwest entities	0.1	-	0.2	-
Advisory, business and administrative services ⁽³⁾				
- Canwest Services	3.0	3.8	9.6	11.1
- Executive Advisory Services and Partnership Services	(0.3)	(1.3)	(2.2)	(3.9)
Occupancy costs ⁽⁴⁾	0.03	0.1	0.1	0.3
	3.0	2.7	9.0	8.4

(1) The Limited Partnership and other Canwest entities are involved in cross-promotional activities whereby we provide advertising space in our newspaper and online media to other Canwest entities and we are provided with advertising time or space by the Canadian Broadcasting Operations. We have entered into an agreement with the Canadian Broadcasting Operations, whereby these activities will be charged to the various entities.

(2) The Limited Partnership and the Canadian Broadcasting Operations provide each other certain affiliation services related to editorial content. The Canadian Broadcasting Operations contribute editorial content to our online digital media services, and Canadian Broadcasting Operations have access to our editorial content, information and editorial services. For editorial content activities, the Limited Partnership and the Canadian Broadcasting Operations agreed to provide such services on a cost recovery basis.

(3) We provide a number of services (the "Canwest Services") to other Canwest entities as follows:

- business and administrative support services to the Canadian Broadcasting Operations and other Canwest entities including information technology, human resources services, and accounting; and
- website support services and provision of online sales representation to the Canadian Broadcasting Operations.

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

- 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
- services related to legal, tax compliance, financial reporting, internal audit, investor and public relations, treasury, human resource management and capital asset management.

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

- (4) We lease space to the Canadian Broadcast operations in our Toronto facility and charge rent in accordance with a related agreement.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

EBITDA is defined as net earnings (loss) before amortization, interest, taxes, gains and losses on disposal of interest rate swap, ineffective portion of hedging derivative instrument, reorganization costs and foreign currency exchange losses. EBITDA is not a recognized measure of financial performance under Canadian or U.S. GAAP. Management utilizes EBITDA in making strategic resource allocations. Investors are cautioned, however, that EBITDA should not be construed as alternatives to operating income or net earnings determined in accordance with Canadian GAAP as indicators of our performance. Our method of calculating EBITDA may differ from that of other companies, and, accordingly, EBITDA may not be comparable to measures used by other companies. A reconciliation of EBITDA to net earnings (loss) is provided below. We further believe that EBITDA is frequently used by securities analysts, investors and other interested parties in their evaluation of companies, many of which present an EBITDA measure when reporting their results.

EBITDA has limitations as an analytical tool, and you should not consider this measure either in isolation or as a substitute for analyzing our results as reported under Canadian GAAP. Some of these limitations are:

- EBITDA does not reflect changes in or cash requirements for our working capital needs;
- EBITDA does not reflect our interest expense or the cash requirements necessary to service interest or principal payments on our debt;
- EBITDA does not reflect our tax expense or the cash requirements to pay our taxes;
- EBITDA does not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments;
- EBITDA does not reflect our significant pension and post-retirement obligations;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and
- other companies in our industry may calculate EBITDA differently, limiting its usefulness as a comparative measure.

Because of these limitations, EBITDA should not be considered as discretionary cash available to us to reinvest in the growth of our business or as a measure of cash that will be available to us to meet our obligations

The following table provides a reconciliation of EBITDA to net earnings (loss), the most closely comparable GAAP measure for the following periods:

<i>(unaudited)</i>	Three months ended		Nine months ended	
	May 31, 2009		May 31, 2009	
	May 31, 2010	<i>(restated)</i>	May 31, 2010	<i>(restated)</i>
	\$000	\$000	\$000	\$000
Net earnings (loss) for the period	40,639	(65,914)	94,869	(41,017)
(Recovery) of income taxes	(14,968)	(6,931)	(18,111)	(21,191)
Reorganization costs	1,116	806	41,192	806
Foreign currency exchange losses (gains)	4,169	(156,975)	(49,610)	(157,129)
Interest expense, net	10,138	21,741	60,633	72,805
Other income	(500)	(625)	(1,501)	(1,875)
(Gain) on disposal of property/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
Other amortization	48	48	144	144
Amortization of property and equipment	10,026	10,234	30,592	31,358
EBITDA	50,668	42,663	158,206	121,982