

**CANWEST GLOBAL COMMUNICATIONS CORP.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2008 AND 2007
(UNAUDITED)**

July 10, 2008

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To the Audit Committee of Canwest Global Communications Corp.

In accordance with our engagement letter dated August 16, 2007, we have reviewed the accompanying interim consolidated balance sheet of **Canwest Global Communications Corp.** (the "Company") as at May 31, 2008 and the related interim consolidated statements of earnings (loss), comprehensive income (loss), retained earnings and cash flows for the three and nine month periods ended May 31, 2008 and 2007. These interim consolidated financial statements are the responsibility of the Company's management.

We performed our review in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor. Such an interim review consists principally of applying analytical procedures to financial data, and making enquiries of, and having discussions with, persons responsible for financial and accounting matters. An interim review is substantially less in scope than an audit, whose objective is the expression of an opinion regarding the interim financial statements; accordingly, we do not express such an opinion. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit.

The accompanying balance sheet as at August 31, 2007 is a reproduction of the balance sheet from the complete financial statements of the Company, as at August 31, 2007 and for the year then ended, on which we expressed an opinion without reservation in our report dated November 2, 2007. The fair reproduction of the complete balance sheet is the responsibility of management. Our responsibility is to report on the balance sheet. In our opinion, the accompanying balance sheet as at August 31, 2007 is appropriately reproduced

Based on our review, we are not aware of any material modification that needs to be made for these interim consolidated financial statements to be in accordance with Canadian generally accepted accounting principles.

This report is solely for the use of the Audit Committee of the Company to assist it in discharging its regulatory obligation to review these interim consolidated financial statements, and should not be used for any other purpose. Any use that a third party makes of this report, or any reliance or decisions made based on it, are the responsibility of such third parties. We accept no responsibility for loss or damages, if any, suffered by any third party as a result of decisions made or actions taken based on this report.

PricewaterhouseCoopers LLP

Chartered Accountants

CANWEST GLOBAL COMMUNICATIONS CORP.
CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
(UNAUDITED)
(In thousands of Canadian dollars except as otherwise noted)

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	May 31, 2008	May 31, 2007	May 31, 2008	May 31, 2007
Revenue	851,796	738,093	2,421,410	2,186,633
Operating expenses	438,581	410,070	1,250,109	1,172,191
Selling, general and administrative expenses	232,019	206,483	659,689	604,418
Restructuring expenses (note 5)	4,018	-	20,274	-
	<u>177,178</u>	<u>121,540</u>	<u>491,338</u>	<u>410,024</u>
Amortization of intangibles	2,191	1,511	6,839	4,034
Amortization of property and equipment	29,297	23,401	82,755	69,312
Other amortization	177	326	809	1,323
Operating income	145,513	96,302	400,935	335,355
Interest expense	(78,722)	(45,333)	(238,926)	(131,049)
Accretion of long term liabilities (note 8)	(26,274)	-	(74,352)	-
Interest income (note 4)	1,149	785	20,938	3,194
Amortization of deferred financing costs	-	(1,503)	-	(5,381)
Interest rate and foreign currency swap losses	(19,842)	(21,931)	(60,772)	(931)
Foreign exchange gains (losses) (note 4)	944	(2,124)	5,219	4,569
Investment gains, losses and write-downs (note 10)	(24,738)	8,938	(22,202)	9,655
	<u>(1,970)</u>	<u>35,134</u>	<u>30,840</u>	<u>215,412</u>
Provision for income taxes (note 6)	17,301	8,251	42,911	68,544
Earnings (loss) before the following	(19,271)	26,883	(12,071)	146,868
Minority interest	(9,242)	(21,663)	(48,088)	(79,100)
Interest in earnings of equity accounted affiliates (note 4)	129	115	39,706	1,436
Realized currency translation adjustments	-	(35)	(1,062)	565
Net earnings (loss) from continuing operations	<u>(28,384)</u>	<u>5,300</u>	<u>(21,515)</u>	<u>69,769</u>
Earnings from discontinued operations (note 9)	-	3,145	-	12,102
Net earnings (loss) for the period	<u><u>(28,384)</u></u>	<u><u>8,445</u></u>	<u><u>(21,515)</u></u>	<u><u>81,871</u></u>
Earnings (loss) per share from continuing operations:				
Basic	(\$0.16)	\$0.03	(\$0.12)	\$0.39
Diluted	(\$0.16)	\$0.03	(\$0.12)	\$0.39
Earnings (loss) per share:				
Basic	(\$0.16)	\$0.05	(\$0.12)	\$0.46
Diluted	(\$0.16)	\$0.05	(\$0.12)	\$0.46

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

CANWEST GLOBAL COMMUNICATIONS CORP.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(In thousands of Canadian dollars)

	As at May 31, 2008	As at August 31, 2007
ASSETS		
Current Assets		
Cash	87,917	126,867
Accounts receivable	664,168	494,236
Inventory	9,847	8,907
Investment in broadcast rights	351,317	169,681
Future income taxes	33,652	16,824
Other current assets	<u>29,131</u>	<u>44,247</u>
	1,176,032	860,762
Other investments (note 4)	34,242	1,542,097
Investment in broadcast rights	232,042	39,001
Property and equipment	716,292	678,901
Future income taxes	342,871	187,933
Other assets	122,625	161,660
Intangible assets (note 3)	2,173,066	1,287,962
Goodwill (note 3)	<u>2,886,173</u>	<u>2,336,735</u>
	<u><u>7,683,343</u></u>	<u><u>7,095,051</u></u>
LIABILITIES		
Current Liabilities		
Accounts payable	196,025	216,988
Accrued liabilities (notes 3 and 5)	323,131	332,728
Income taxes payable	60,772	64,967
Broadcast rights payable	159,945	71,603
Deferred revenue	48,248	42,167
Future income taxes	57,153	38,153
Current portion of long term debt and obligations under capital leases	13,178	15,295
Current portion of hedging derivative instruments	36,365	-
Current portion of derivative instruments	<u>48,416</u>	<u>4,805</u>
	943,233	786,706
Long term debt (note 7)	3,316,042	3,589,947
Hedging derivative instruments	414,080	-
Derivative instruments	132,150	147,131
Obligations under capital leases	7,356	11,381
Other long term liabilities (note 3)	292,916	256,813
Future income taxes	180,036	109,878
Deferred gain (note 6)	174,418	-
Puttable interest in subsidiary (note 8)	553,870	483,568
Minority interest	<u>98,224</u>	<u>45,682</u>
	<u><u>6,112,325</u></u>	<u><u>5,431,106</u></u>
Commitment and contingencies (note 16)		
Subsequent event (note 18)		
SHAREHOLDERS' EQUITY		
Capital stock	852,375	852,375
Contributed surplus (note 12)	13,441	10,884
Retained earnings	784,010	806,471
Accumulated other comprehensive loss (notes 2 and 10)	<u>(78,808)</u>	<u>(5,785)</u>
	<u>705,202</u>	<u>800,686</u>
	<u>1,571,018</u>	<u>1,663,945</u>
	<u><u>7,683,343</u></u>	<u><u>7,095,051</u></u>

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

CANWEST GLOBAL COMMUNICATIONS CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)
(In thousands of Canadian dollars)

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	May 31, 2008	May 31, 2007	May 31, 2008	May 31, 2007
Net earnings (loss) for the period	(28,384)	8,445	(21,515)	81,871
Other comprehensive income				
Unrealized foreign currency translation gains (losses) on net assets of self-sustaining foreign operations	589	(7,110)	(832)	5,215
Realized foreign currency translation losses (gains) on net assets of self-sustaining foreign operations	<u>-</u>	<u>35</u>	<u>1,062</u>	<u>(565)</u>
Foreign currency translation adjustment	589	(7,075)	230	4,650
Change in fair value of hedging derivative instruments designated as cash flow hedges (net of tax of three months - \$4.7 million , nine months -\$20.3 million) (note 2)	(11,902)	-	(47,625)	-
Unrealized loss on available-for-sale investment (net of tax of nil) (note 10)	(8,180)	-	(26,073)	-
Reclassification of impairment loss realized in net loss for the period (net of tax of nil) (note 10)	<u>23,258</u>	<u>-</u>	<u>23,258</u>	<u>-</u>
	<u>15,078</u>	<u>-</u>	<u>(2,815)</u>	<u>-</u>
Comprehensive income (loss) for the period	<u>(24,619)</u>	<u>1,370</u>	<u>(71,725)</u>	<u>86,521</u>

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(UNAUDITED)
(In thousands of Canadian dollars)

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	May 31, 2008	May 31, 2007	May 31, 2008	May 31, 2007
Retained earnings - beginning of period	812,394	600,570	806,471	527,144
Adoption of new accounting policies, net of tax of \$0.5 million (note 2)	<u>-</u>	<u>-</u>	<u>(946)</u>	<u>-</u>
	812,394	600,570	805,525	527,144
Net earnings (loss) for the period	<u>(28,384)</u>	<u>8,445</u>	<u>(21,515)</u>	<u>81,871</u>
Retained earnings - end of period	<u>784,010</u>	<u>609,015</u>	<u>784,010</u>	<u>609,015</u>

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

**CANWEST GLOBAL COMMUNICATIONS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)**

(In thousands of Canadian dollars)

	For the three months ended		For the nine months ended	
	May 31, 2008	May 31, 2007	May 31, 2008	May 31, 2007
CASH GENERATED (UTILIZED) BY:				
OPERATING ACTIVITIES				
Net earnings (loss) for the period	(28,384)	8,445	(21,515)	81,871
Earnings from discontinued operations	-	(3,145)	-	(12,102)
Items not affecting cash				
Amortization	31,665	26,741	90,403	80,050
Non-cash interest expense (income)	7,180	(983)	21,447	(2,886)
Accretion of long term liabilities	26,274	-	74,352	-
Future income taxes	3,928	1,057	12,635	22,999
Realized foreign currency translation adjustments	-	35	1,062	(565)
Interest rate and foreign currency swap losses, net of settlements	18,279	23,096	44,219	3,107
Investment gains, losses and write-downs	24,738	(8,938)	22,202	(9,655)
Pension expense in excess of (less than) employer contributions	(4,932)	3,178	(2,575)	4,435
Minority interest	9,242	21,663	48,088	79,100
Earnings from equity accounted affiliates	(129)	(115)	(39,706)	(1,436)
Foreign exchange (gains) losses	2,299	1,234	(6,965)	(4,568)
Stock based compensation expense (note 12)	1,030	1,303	2,557	3,357
	91,190	73,571	246,204	243,707
Changes in non-cash operating accounts	(66,765)	(39,734)	(203,622)	(132,669)
Cash flows from operating activities of continuing operations	24,425	33,837	42,582	111,038
Cash flows from operating activities of discontinued operations (note 9)	-	5,732	-	29,942
Cash flows from operating activities	24,425	39,569	42,582	140,980
INVESTING ACTIVITIES				
Other investments	(90)	(7,175)	(4,793)	(12,745)
Investment in broadcast licences	(498)	-	(498)	(618)
Acquisitions (note 3)	-	(59)	-	(42,219)
Proceeds from divestitures	-	1,200	-	1,200
Payment of acquisition costs	(8,444)	-	(35,921)	-
Cash from equity accounted affiliates (note 4)	-	-	45,595	-
Proceeds from sales of other investments	-	14,609	-	24,037
Proceeds from sales of property and equipment	76	2,015	104	4,331
Purchase of property and equipment	(38,792)	(22,874)	(94,511)	(70,461)
Investing activities from discontinued operations (note 9)	-	(2,691)	-	(6,448)
	(47,748)	(14,975)	(90,024)	(102,923)
FINANCING ACTIVITIES				
Repayment of long term debt	(2,437)	-	(7,427)	(292)
Advances (repayments) of revolving facilities, net of financing costs	42,570	(9,609)	57,972	(85,641)
Decrease in bank indebtedness	(4,727)	-	-	-
Swap recouping payments	-	-	(5,000)	-
Payments of capital leases	(1,393)	(2,309)	(2,943)	(3,611)
Issuance of share capital	-	50	-	163
Payment of distributions to minority interest	(900)	(13,847)	(37,579)	(73,007)
Financing activities from discontinued operations (note 9)	-	2,634	-	(13,363)
	33,113	(23,081)	5,023	(175,751)
Foreign exchange gain on cash denominated in foreign currencies	1,102	(820)	3,469	1,348
Net change in cash	10,892	693	(38,950)	(136,346)
Cash – beginning of period	77,025	141,156	126,867	278,195
Cash – end of period	87,917	141,849	87,917	141,849

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

CANWEST GLOBAL COMMUNICATIONS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2008 AND MAY 31, 2007
(UNAUDITED)
(In thousands of Canadian dollars except as otherwise noted)

1. SIGNIFICANT ACCOUNTING POLICIES

The Company is an international media company with interests in conventional television, specialty television channels, out-of-home advertising, publications and websites in Canada, Australia, Turkey, the United Kingdom and the United States. The Company's operating segments include television, publishing, radio and out-of-home advertising. The Canadian television segment includes the operation of the Global Television Network, E! Network, TVtropolis and 6 Canadian specialty television channels. The Company holds a 67% voting interest and a 35% equity interest in CW Investments Co. ("CW Investments"), the parent of CW Media Holdings Inc. ("CW Media"), which indirectly holds interests in 18 Canadian specialty television channels and is presented as the CW Media segment. The Company consolidates 100% of CW Investments as the 65% equity interest held by Goldman Sachs Capital Partners ("Goldman Sachs") is classified as a financial liability ("Puttable interest in subsidiary"). Certain operations held by CW Media were held in trust and operated by a trustee until the Canadian Radio-television and Telecommunications Commission ("CRTC") approved the transfer of effective control of the trust assets to CW Investments on December 20, 2007, subject to certain conditions which were subsequently satisfied. Accordingly, the Company has consolidated the results of these operations since December 21, 2007. While in trust, these entities were accounted for using the equity method of accounting whereby the investment is initially recorded at cost and the carrying value is adjusted for post acquisition earnings. The Australian television segment includes Ten Network Holdings Limited's ("Ten Holdings") Ten Television Network ("Network Ten"). The publishing segment includes the publication of a number of newspapers and magazines, including metropolitan daily newspapers, the *National Post* and *The New Republic*, as well as operation of the canada.com web portal and other web-based operations. The Turkey radio segment is comprised of four radio stations: *Super FM*, *Metro FM*, *Joy FM* and *Joy Turk FM*. The United Kingdom radio segment is comprised of a radio station, in each of the Solent, Bristol and Aberdeen regions. The out-of-home advertising segment includes Eye Corp Pty Limited ("Eye Corp"), an out-of-home advertising operation which is indirectly wholly owned by Ten Holdings. The Company holds an approximate 56% equity interest in Ten Holdings.

The Company's television and radio broadcast revenues includes advertising revenue from a customer base that is comprised primarily of large advertising agencies, which place advertisements with the Company on behalf of their customers. In addition, the Company's specialty television revenues include subscription revenues which are derived from a variety of sources. Publishing revenues include advertising, circulation and subscriptions which are derived from a variety of sources. The Company'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.

A summary of the significant accounting policies followed in the preparation of these consolidated financial statements is as follows:

Basis of presentation

The interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada for interim 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 accounting policy changes disclosed in note 2. These interim consolidated financial statements should be read in conjunction with the most recent annual financial statements of the Company. All amounts are expressed in Canadian dollars unless otherwise noted.

2. Accounting Changes

On September 1, 2007, the Company adopted CICA 1530, "*Comprehensive Income*", 3251, "*Equity*", 3855, "*Financial Instruments – Recognition and Measurement*", 3861, "*Financial Instruments – Disclosure and Presentation*" and 3865, "*Hedges*". The adoption of these new standards resulted in changes in accounting for financial instruments as well as the recognition of certain transition adjustments that have been recorded in opening accumulated other comprehensive income ("AOCI"). The Company adopted these standards at the beginning of the year retroactively and in accordance with the transitional provisions, the prior period balances have not been restated except for the presentation of the currency translation account. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

Comprehensive Income

Section 1530 introduces comprehensive income, which represents the change in an entity's net assets that results from transactions, events and circumstances related to sources other than the entity's shareholders. Comprehensive income consists of net earnings and other comprehensive income ("OCI"). OCI comprises revenue, expenses, gains and losses that in accordance with GAAP are recognized in comprehensive income, but excluded from net income such as unrealized gains and losses on available-for-sale investments; unrealized foreign currency gains and losses on self sustaining foreign operations and the effective portion of gains and losses on derivatives designated as cash flow hedges.

Equity

Section 3251 describes the changes in how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530. Upon adoption of these standards, the Company has presented consolidated statements of comprehensive income for changes in these items during the period. Cumulative changes in OCI are included in AOCI which is presented as a new category within the Company's equity on its consolidated balance sheets (note 10).

Financial Instruments – Recognition and Measurement and Financial Instruments – Disclosure and Presentation

These new standards prescribe when a financial instrument is to be recognized and derecognized from the balance sheet and at what amount these financial instruments should be recognized. It also specifies how financial instrument gains and losses are accounted for. Under these new standards, all financial assets are classified as held-for-trading, held-to-maturity, loans and receivables or available-for-sale and all financial liabilities must be classified as held-for-trading or other financial liabilities. In addition, an entity has the option to designate certain financial assets or liabilities as held-for-trading or financial assets as available-for-sale on initial recognition or upon adoption of these standards, even if the financial instrument was not acquired or incurred for the purpose of selling or repurchasing it in the near term.

All financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. After initial recognition, financial instruments should be measured at their fair values, except for financial assets classified as held-to-maturity or loans and receivables and other financial liabilities, which are measured at amortized cost using the effective interest method. Financial assets classified as available-for-sale that do not have a quoted market price in an active market are measured at cost. Amortization related to financial assets classified as held-to-maturity or loans and receivables and other financial liabilities is recorded in net earnings using the effective interest method. Gains and losses related to financial assets and financial liabilities classified as held-for-trading are recorded in net earnings in the period in which they arise. If a financial asset is classified as available-for-sale, the cumulative unrealized gain or loss is recognized in AOCI and recognized in net earnings upon the sale or other-than-temporary impairment.

Upon adoption, the Company's financial assets and financial liabilities were classified as follows:

- Cash is classified as held-for-trading. Changes in fair value for the period are recorded in net earnings.
- Accounts and other receivables are considered loans and receivables and are initially recorded at fair value and subsequently measured at amortized cost. Due from related parties and advances to regulated entities are initially recorded at carrying amount or exchange amount, as appropriate, and are subsequently recorded at amortized cost. Interest income is recorded in net earnings, as applicable.
- Portfolio investments are classified as available-for-sale. Accordingly, as at September 1, 2007, investments were decreased by \$1.8 million and opening AOCI decreased by \$1.8 million, net of future income taxes of nil, to recognize investments at fair value at transition. The Company applies trade date accounting for these investments. Accordingly, portfolio investments are recognized by the Company on the day the Company commits to purchase and derecognized on the day the Company commits to sell. Changes in fair value for the period are recorded in other comprehensive income, unless they are other than temporarily impaired at which time the impairment is reclassified from accumulated other comprehensive income to net earnings.
- Revolving credit facilities, bank indebtedness, accounts payable and accrued liabilities, broadcast rights payable, long term debt and puttable interest in subsidiary are considered other financial liabilities and are initially recorded at fair value and subsequently measured at amortized cost. Interest expense is recorded in net earnings, as applicable.

The fair value of the short term financial assets and liabilities, which include accounts and other receivables, bank indebtedness, accounts payable, accrued liabilities, broadcast rights payable, approximates their carrying value due to the short term nature of these financial assets and liabilities.

The fair values of portfolio investments with a quoted market price and traded in an active market are based on the closing quoted market price. Such investments had a carrying value of \$22.2 million (August 31, 2007 – \$50.1 million) and a fair value of \$22.2 million (August 31, 2007 – \$48.3 million). The carrying value of portfolio investments in private companies is \$6.7 million (August 31, 2007 – \$4.0 million) and a fair value of \$7.9 million (August 31, 2007 – \$4.0 million). The fair values of these investments are based on the most recent purchase transactions or comparable valuations.

The fair value of long term debt is estimated by discounting future cash flows using currently available rates for debt of similar terms and maturity or using market values for publicly traded debt. Long term debt has a carrying value of \$3,325.4 million (August 31, 2007 – \$3,432.0 million) and a fair value of \$3,259.0 million (August 31, 2007 – \$3,372.2 million).

The fair value of other long term liabilities, including broadcast rights payable, approximate their carrying value.

The fair value of derivative instruments are based on the amount at which they could be settled based on estimated current market rates. The derivative instruments had a carrying value of \$621.1 million (August 31, 2007 – \$318.5 million) and a fair value of \$621.1 million (August 31, 2007 – \$417.2 million).

The new standards require all derivative financial instruments to be measured at fair value on the consolidated balance sheet, even when they are part of an effective hedging relationship. An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If certain conditions are met, an embedded derivative is bifurcated from the host contract and accounted for as a derivative in the consolidated balance sheet, and measured at fair value. Upon adoption, entities have the option to recognize as an asset or liability all embedded derivative instruments that are required to be bifurcated from their host contracts or to select the beginning of a fiscal year ending no later than March 31, 2004 as its transition date for embedded derivatives. The Company has selected September 1, 2002 as its transition date for embedded derivatives. As at September 1, 2007, the Company determined that it does not have any material outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. For other financial instruments, transaction costs are included with the related financial instrument on initial recognition and amortized using the effective interest rate method. On September 1, 2007, transaction costs consisted of debt issuance costs of \$57.4 million which have been reclassified as a reduction of the related long term debt. Accordingly, other assets were decreased by \$55.5 million and long-term debt was decreased by \$57.4 million and opening retained earnings was decreased by \$1.3 million, net of future income taxes of \$0.6 million, to account for the measurement difference upon adoption of the effective interest rate method.

Hedges

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 “*Hedging Relationships*”, and the hedging guidance in Section 1651 “*Foreign Currency Translation*” by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

The Company has various derivative contracts outstanding, to manage interest rate and foreign currency risks, where there is corresponding debt outstanding that qualifies for hedge accounting under the provisions of Section 3865. The Company has designated certain of these hedging relationships as cash flow hedges and certain of these hedging relationships as fair value hedges, as appropriate. The Company uses these derivatives to manage the interest rate and foreign exchange risks associated with the related debt instruments.

Cash flow hedges

In a cash flow hedge, the effective portion of the change in fair value of foreign currency and interest rate swaps is recognized in OCI and reclassified to net earnings during the periods when the variability of the cash flows of the hedged items affects net earnings. Cash flow hedges, in an effective designated relationship, are recorded on the balance sheet as Hedging derivative instruments and cash flows are classified in the same categories as the hedged item. The ineffective portion is recognized in net earnings as interest expense. When payments are made on the underlying instruments, the realized portions of the amounts previously recognized in AOCI are reclassified to interest expense. When the hedging item ceases as a result of maturity, termination or cancellation, then the amounts previously recognized in AOCI are reclassified to net earnings during the periods when the variability in the cash flows of the hedged items affects net earnings. Gains and losses on the foreign currency and interest rate swaps are reclassified immediately to net earnings when the hedged items are extinguished. On adoption, as at September 1, 2007, Hedging derivative instruments were increased by \$48.5 million, long term debt was decreased by \$17.6 million, future income taxes were decreased by \$9.9 million and opening AOCI was decreased by \$21.0 million, to measure the foreign currency and interest rate swaps at fair value on the consolidated balance sheet and the effective portion of the hedging relationship in AOCI.

During the three and nine months ended May 31, 2008, \$11.4 million foreign exchange gains and \$82.4 million foreign exchange losses, respectively, were reclassified to the income statement from AOCI, representing foreign exchange gains and losses on the notional amounts of the cash flow hedging derivatives. These amounts were offset by foreign exchange gains and losses recognized on the related U.S. dollar denominated long term debt.

During the three and nine months ended May 31, 2008, the Company reclassified \$4.3 million and \$6.8 million, respectively, from accumulated other comprehensive income to net earnings. This amount has been recorded as a charge to interest expense and represents the effect of the swaps on the Company's interest expense.

Fair value hedges

The changes in fair value of fair value hedging derivatives are recorded in interest rate and foreign currency swap gains (losses) in the statement of net earnings. In addition, the changes in the fair value of the hedged risks ("basis adjustment") of the hedged instrument are also recorded in interest rate and foreign currency swap gains (losses). The Company amortizes the basis adjustment when the hedged item ceases to be subject to a basis adjustment. Fair value hedges, in an effective designated relationship, are recorded on the balance sheet as Hedging derivative instruments and cash flows are classified in the same categories as the hedged item.

As at September 1, 2007, Hedging derivative instruments were increased by \$223.4 million, long term debt was decreased by \$220.1 million related to the basis adjustment, future income taxes were decreased by \$1.0 million and opening retained earnings was decreased by \$2.3 million relating to the cumulative ineffectiveness of the fair value hedges.

As at May 31, 2008, the Company has increased the hedging derivative instruments by \$16.3 million, increased long term debt by \$3.7 million related to the basis adjustment and for the three and nine months ended May 31, 2008 recorded a charge to interest rate and foreign currency swap losses of \$19.6 million and \$20.0 million, respectively.

Impact upon adoption of new accounting standards

The following is a summary of the transition adjustments recorded in opening retained earnings, AOCI and the balance sheet related to the adoption of these new accounting standards as at September 1, 2007.

	Increase (decrease)
Retained Earnings	
Change in accounting policies for hedge accounting, net of income taxes of \$1.1 million	(2,292)
Adjustment related to accounting for debt issuance costs, net of income taxes of \$0.6 million	<u>1,346</u>
	<u><u>(946)</u></u>
Accumulated Other Comprehensive Loss	
Unrealized loss on available-for-sale investments, net of income tax of nil	(1,787)
Effective portion of unrealized loss on derivative instruments designated as cash flow hedges, net of tax of \$9.9 million	<u>(21,026)</u>
	<u><u>(22,813)</u></u>
Balance Sheet	
Other investments	(1,787)
Other assets	<u>(55,492)</u>
	<u><u>(57,279)</u></u>
Long term debt	(295,068)
Hedging derivative instruments	271,891
Future income tax liabilities	<u>(10,343)</u>
	<u><u>(33,520)</u></u>
	<u><u>(23,759)</u></u>

Proposed Accounting Changes

Capital Disclosures

During 2006, the Accounting Standards Board (“AcSB”) issued CICA 1535, “*Capital Disclosures*”. CICA 1535 requires that a company disclose information that enables users of its financial statements to evaluate its objectives, policies and procedures for managing capital including disclosures of any externally imposed capital requirements and the consequences for non-compliance. The Company plans to, and must, apply the new standard effective September 1, 2008. The Company is currently considering the impact of the adoption of such standards.

Inventories

The AcSB issued CICA 3031, “*Inventories*”, which the Company must apply for its fiscal year beginning on September 1, 2008. CICA 3031 prescribes the measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of cost including allocation of overheads and other costs to inventory. Reversals of previous write-downs to net realizable value are permitted when there is a subsequent increase in the value of inventories. The Company plans to, and must, apply the new standard effective September 1, 2008. The Company does not expect the adoption of such standard to have a significant impact.

Financial Instrument Disclosures and Presentation

The AcSB issued CICA 3862, “*Financial Instrument – Disclosures*” and CICA 3863, “*Financial Instruments – Presentation*”, which the Company must apply for its fiscal year beginning on September 1, 2008. CICA 3862 revises and enhances the current disclosure requirement related to financial instruments. The additional disclosures include disclosures relating to the designation of each financial asset, assets held for trading, assets pledged for liabilities or contingent liabilities, allowance for credit losses, where an instrument has both liability and equity components and multiple embedded derivatives, accounting policies and the basis of measurement used in preparing the financial statements and qualitative and quantitative disclosures related to risks arising from financial instruments. CICA 3863 revises the current presentation of financial instruments and non-financial derivatives. CICA 3863 addresses the classification of financial instruments between liabilities and equity, the classification of related interest, dividends, losses and gains and circumstances in which financial assets and liabilities are offset. The Company plans to, and must, apply these new standards effective September 1, 2008. The Company is currently considering the impact of the adoption of such standards.

Goodwill and Intangible assets

The AcSB issued CICA 3064, “*Goodwill and Intangible assets*”, which the Company must apply for its fiscal year beginning on September 1, 2009. CICA 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. CICA 3064 expands on the criteria when intangible assets can be recognized. 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 Company plans to, and must, apply these new standards effective September 1, 2009. The Company is currently considering the impact of the adoption of such standards.

3. ACQUISITIONS AND DIVESTITURES

Acquisitions

- (a) On August 15, 2007, the Company and Goldman Sachs completed the acquisition of Alliance Atlantis. Concurrent with the completion of the acquisition, Alliance Atlantis’ broadcast, entertainment and movie distribution businesses were reorganized. The Company does not have any continuing interest in the entertainment or movie distribution businesses.

As agreed between the Company and Goldman Sachs, the purchase price allocated to the broadcast business was \$1,183 million, including transaction costs of \$55 million. The acquisition was financed through the Company's investment of \$262 million for its 35% equity interest, Goldman Sachs' contribution of \$481 million in exchange for its puttable interest and debt financing of \$767 million, net of debt issuance costs of \$23 million. The Alliance Atlantis long term debt was assumed by the Company and immediately repaid. CW Media, a wholly owned subsidiary of CW Investments, operates the acquired broadcast business which primarily consists of 18 specialty television channels in Canada.

The Company has, subject to regulatory approval, committed to combine its Canadian Television operations with CW Media operations (together being "Combined Operations") prior to August 2011. In 2011, the Company's and Goldman Sachs' economic interest in the Combined Operations will be determined based on a formula which is based on the combined segment operating profit of CW Media and Canwest's Canadian Television operations.

The acquisition was accounted for using the purchase method. As such, the results of operations reflect revenue and expenses of the non-regulated assets since the date of acquisition and the regulated assets from December 21, 2007. The Company's equity earnings include the net earnings of the regulated assets of the acquired operations from the date of acquisition to December 20, 2007. A summary of the preliminary fair value of the assets and liabilities acquired at August 15, 2007 combining in trust and out-of-trust operations is as follows:

Cash	32,906
Current assets	219,945
Property and equipment	39,263
Portfolio investments	46,506
Non-current assets	151,733
Goodwill	551,245
Intangible assets	868,900
Current liabilities	(165,701)
Long term debt	(303,906)
Non-current liabilities	<u>(257,972)</u>
	<u>1,182,919</u>
Funding provided by:	
Cash	262,300
Puttable interest in subsidiary	480,787
Debt, net of debt issuance costs	766,668
Less financing raised in excess of purchase price ⁽¹⁾	<u>(326,836)</u>
	<u>1,182,919</u>

⁽¹⁾ The investors provided funding in excess of the purchase price to repay the assumed long term debt and to fund costs related to acquisition and restructuring.

The Company continues to finalize a plan to provide termination benefits to certain employees of the acquired business and accrued \$17.6 million relating to these termination benefits as part of the purchase price. The Company expects to finalize this plan in the near term. The Company made payments of \$14.6 million in the nine months ending May 31, 2008 and \$2.3 million in the period ended August 31, 2007 which have been applied against the termination benefit accrual. Included in accounts payable and accrued liabilities at May 31, 2008 is \$0.7 million relating to these termination benefits.

The Company has not finalized the purchase price equation allocation and amortization as it relates to the broadcast rights and intangible assets. As a result of the completion of the valuation, the value will be adjusted and such adjustments may be material. Intangible assets are comprised of broadcast licences and brands of \$837.9 million and \$31.0 million, respectively. The goodwill is not deductible for tax purposes.

In connection with the acquisition, the Company is required to spend \$151.2 million on initiatives that will benefit the Canadian broadcasting industry over a period of seven years. This obligation was initially recorded at fair value, being the sum of discounted future cash flows using a discount rate of 8%. As at May 31, 2008, the amortized cost of this obligation in the amount of \$114.6 million has been included in Other long term liabilities of which \$22.4 million has been classified as current. During the three and nine months ended May 31, 2008, the Company has made payments of \$2.8 million which have been applied against this obligation. In addition, interest accretion of \$2.8 and \$4.1 million was recorded in the consolidated statement of earnings during the three and nine month periods ending May 31, 2008, respectively.

- (b) On July 10, 2007, Canwest Limited Partnership (“Limited Partnership”) redeemed its Class A partnership units, representing the 25.8% minority interest, for cash consideration of \$495 million plus acquisition costs of \$2 million. The acquisition was accounted for as a step purchase. The fair value of acquired assets exceeded the cost of the transaction and, accordingly, the excess was allocated on a pro-rata basis as a reduction in the amount of non-monetary assets acquired. As a result of the transaction, property and equipment was decreased by \$7 million, circulation, subscribers and other customer relationships were increased by \$49 million, newspaper mastheads were increased by \$77 million, pension and post retirement liabilities were increased by \$22 million and future tax liabilities were increased by \$18 million.
- (c) During fiscal 2007, the Company acquired the following three enterprises for aggregate cost of \$44.5 million, which was paid primarily in cash:
- Ultimate Media Group, an out-of-home advertising company in Australia, for cash consideration of \$8.9 million (A\$10.4 million) and deferred consideration of \$2.8 million (A\$3.2 million).
 - Foxmark Media Group, an out-of-home advertising company in the United States, for cash consideration of \$24.7 million (US \$20.9 million) and deferred consideration of \$2.2 million (US \$1.9 million) paid in December 2007.
 - The New Republic, a subscription based magazine in the United States, for cash consideration of \$5.9 million (US \$5.0 million) for the 70% not previously acquired.

These acquisitions were accounted for using the purchase method. As such, the results of operations reflect revenue and expenses of the acquired operations since the dates of acquisition. Aggregate goodwill recognized in these transactions amounted to \$33.4 million, of which nil is expected to be deductible for tax purposes. Site licences recognized in these transactions amounted to \$17.3 million and mastheads recognized in one of the transactions amounted to \$2.2 million. Goodwill of \$23.9 million and \$9.5 million was assigned to the Out-of-home and Publishing segments, respectively.

Divestitures

- (d) On June 14, 2007, the Company completed the sale of its New Zealand Television and Radio segments (note 9). The Company recorded disposition of goodwill, broadcast licences, other assets, and long term debt and other liabilities related to the New Zealand Television and Radio segments of \$136.5 million, \$13.9 million, \$88.1 million \$136.7 million and \$53.0 million, respectively.

4. OTHER INVESTMENTS

Certain operations acquired as part of the purchase of CW Media's specialty television operations had been placed into trust, until the CRTC approval of the change of control of the broadcast licences was obtained on December 20, 2007.

The following sets out condensed financial information for the regulated entities held in trust for the period from September 1, 2007 to December 20, 2007.

Summary condensed statements of earnings

	September 1 to December 20
Revenue	108,767
Operating expenses	<u>64,327</u>
Operating income before amortization	44,440
Amortization	(2,083)
Interest expense, net	(20,007)
Foreign exchange gains	16,163
Recovery of income taxes	5,618
Interest in earnings of equity accounted affiliates	163
Minority interest	<u>(4,904)</u>
Net earnings of regulated entities	<u>39,390</u>

Summary condensed statements of cash flows

	September 1 to December 20
Cash flows - operating activities	28,890
Cash flows - investing activities	(1,521)
Cash flows - financing activities	<u>-</u>
Net change in cash	27,369
Cash – beginning of period	<u>18,226</u>
Cash –end of period	<u>45,595</u>

During the trust period from September 1, 2007 to December 20, 2007, the Company recorded interest income of \$19.4 million and a foreign exchange loss of \$15.6 million related to advances to the regulated assets held in trust. Net earnings of the regulated entities include interest expense of \$19.4 million and a foreign exchange gain of \$15.6 million related to the inter-company debt. In addition, the Company recovers corporate costs from the regulated entities held in trust and has recorded cost recoveries in the amount of \$3.5 million. The cost recoveries have reduced selling, general and administrative expenses of the Company and are included in operating expenses of the regulated entities. Net earnings of the regulated entities also include agency fees of \$8.8 million, which have been recorded as revenue by the Company. Since December 21, 2007, these inter-company balances and transactions are eliminated on consolidation.

5. RESTRUCTURING EXPENSES

The Company is centralizing certain functions including developing four state of the art broadcast centres to support the production needs of its local television stations and enable the programming to transition to high definition. This initiative is expected to be conducted in three phases. Over the period from September 2007 to February 2009, the Company expects to have a net reduction in its workforce of 200 jobs relating to these changes. The Company has accrued the costs associated with the first two phases of the initiative. In addition, the Company initiated a change in the work flow for its publishing operations which will result in the centralization of certain functions. The first two phases of the Canadian television initiative and the entire publishing initiative are expected to be completed during the current fiscal year. The total expected costs associated with these initiatives are \$27 million. The combined restructuring expenses accrued to date for these initiatives that consist of employee severance accruals, are \$20 million of which \$11 million relates to the publishing segment and \$9 million relates to the Canadian television segment. During the three and nine months ended May 31, 2008, the Company made payments of \$4 million and \$10 million, respectively of which \$3 million and \$8 million relates to the publishing segment and \$1 million and \$2 million relates to the Canadian television segment. Included in accrued liabilities at May 31, 2008 is \$10 million relating to these restructuring expenses.

6. INCOME TAXES

The Company's provision for income taxes reflects an effective income tax rate which differs from the combined Canadian statutory rate as follows:

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>May 31,</u>	<u>May 31,</u>	<u>May 31,</u>	<u>May 31,</u>
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Income taxes at combined Canadian statutory rate of 32.38% (2007 – 34.14%)	(639)	11,995	9,985	73,542
Non-taxable portion of capital (gains) losses	4,088	(2,569)	2,111	(4,573)
Increase in valuation allowance on future tax assets	4,754	2,248	6,241	5,978
Effect of foreign income tax rates differing from Canadian income tax rates	(1,879)	(2,030)	(6,821)	(8,498)
Change in expected future tax rates	329	1,155	(929)	1,412
Non-deductible accretion expense	7,592	-	22,764	-
Non-deductible expenses	2,754	1,393	6,201	4,622
Partnership net earnings allocated to minority interests	(501)	(5,017)	(1,070)	(14,473)
Effect of uncertain tax positions	(616)	1,525	1,604	9,713
Effect of partnership earnings from equity accounted affiliates	-	-	1,332	-
Other	1,419	(449)	1,493	821
Provision for income taxes	<u>17,301</u>	<u>8,251</u>	<u>42,911</u>	<u>68,544</u>

The recognition and measurement of the current and future tax assets and liabilities involves dealing with uncertainties in the application of complex tax regulations in a number of jurisdictions and in the assessment of the recoverability of future tax assets. Actual income taxes could vary from these estimates as a result of future events, including changes in income tax laws or the outcome of tax reviews by tax authorities and related appeals. To the extent that the final tax outcome is different from the amounts that were initially recorded, such differences, which could be significant, will impact the income tax provision in the period in which the determination is made.

During the period ended May 31, 2008, the minority shareholders in TEN Group Pty Limited exchanged their shares into common shares of Ten Holdings. Under Australian tax legislation, this created a new tax consolidation group that required Ten Holdings, for income tax purposes, to fair value its consolidated assets and liabilities. This resulted in Ten Holdings recording a future tax asset of \$174.4 million. The Company will not recognize the benefit associated with this future tax asset in earnings until it is realized and accordingly, has recorded a deferred gain of \$174.4 million.

7. LONG TERM DEBT

	Due Date	Principal Outstanding (\$millions)	As at May 31, 2008	As at August 31, 2007
<i>Canwest Media Inc.:</i>				
Senior secured revolving credit facility ⁽¹⁾	2011	\$20	20,000	-
Senior subordinated notes (net of debt issuance costs of \$12 million) ⁽²⁾	2012	US\$761	760,632	829,800
<i>Canwest Limited Partnership:</i>				
Senior secured credit facilities- revolver ⁽³⁾	2012	\$87	87,000	85,000
Senior secured credit facilities- credit C (net of debt issuance costs of \$3 million) ⁽³⁾	2012	\$265	261,862	265,000
Senior secured credit facilities-credit D (net of debt issuance costs of \$5 million) ⁽³⁾	2014	US\$462	453,223	491,170
Senior subordinated unsecured credit facility (net of debt issuance costs of \$1 million)	2015	\$75	74,132	75,000
Senior subordinated unsecured notes (net of debt issuance costs of \$9 million) ⁽⁴⁾	2015	US\$400	387,943	422,480
<i>CW Media Holdings:</i>				
Senior secured credit facility (net of debt issuance costs of \$13 million) ⁽⁵⁾	2015	US\$444	428,420	471,518
Senior unsecured notes including accrued interest (net of debt issuance costs of \$9 million) ⁽⁶⁾	2008	US\$328	315,164	315,429
<i>Ten Network Holdings Limited:</i>				
Bank loan ⁽⁷⁾	2011	A\$285	270,608	211,043
Senior unsecured notes ⁽⁸⁾	2013	US\$125	124,012	132,050
Senior notes	2013	A\$150	142,425	129,210
<i>Other</i>			-	4,250
			<u>3,325,421</u>	<u>3,431,950</u>
Effect of foreign currency swaps			-	170,757
Long term debt			<u>3,325,421</u>	<u>3,602,707</u>
Less portion due within one year			<u>(9,379)</u>	<u>(12,760)</u>
Long term portion			<u><u>3,316,042</u></u>	<u><u>3,589,947</u></u>

The terms and conditions of the long term debt are the same as disclosed in the August 31, 2007 consolidated financial statements, except as noted in footnote ⁽⁷⁾ below.

As described in note 2, the Company has included debt issuance costs in the initial fair value of the related long term debt. Accordingly, as at September 1, 2007, long-term debt was decreased by \$57.4 million.

⁽¹⁾ As at May 31, 2008, \$20 million (August 31, 2007 – nil) was drawn on the Canwest Media's Senior Secured Revolving credit facility.

⁽²⁾ Consists of \$756 million (August 31, 2007 - \$804 million) Senior Subordinated notes which bear interest at 8.0%. The book value of this debt was increased by a premium of \$22 million and decreased for a basis adjustment to reflect changes in the fair value of the hedged risks of \$5 million. The Company has entered into a US\$761 million foreign currency and interest rate swap resulting in floating interest rates on these notes at interest rates based on bankers acceptance rates plus a margin and a fixed currency exchange rate of US\$1:\$1.1932 until September 2012. This swap is designated as a fair value hedge and its fair value of \$176 million is recorded on the balance sheet in Hedging derivative instruments.

⁽³⁾ The Limited Partnership Senior Secured credit facility consists of a \$250 million revolving credit facility of which \$87 million was drawn as at May 31, 2008 (August 31, 2007 – \$85 million), a \$265 million term loan (August 31, 2007 – \$265 million) and a \$458 million term loan (August 31, 2007 – \$491 million). The Limited Partnership has entered into a foreign currency and interest rate swap to fix the interest and principal payment on a notional amount of US\$461.5 million, at a fixed currency exchange of US\$1:\$1.0725 until July 2014, resulting in an effective interest rate of 7.5%. This swap was designated a cash flow hedge and its fair value of \$77 million is recorded on the balance sheet in Hedging derivative instruments.

⁽⁴⁾ The Limited Partnership has Senior Subordinated notes of \$397 million (August 31, 2007 – \$423 million). The Limited Partnership has entered into a US\$400 million swap resulting in a fixed currency exchange rate of US\$1:\$1.0725 until July 2015 and a fixed interest rate of 9.09%. This swap was designated a cash flow hedge and its fair value of \$45 million is recorded on the balance sheet in Hedging derivative instruments.

⁽⁵⁾ The CW Media Senior Secured credit facility consists of a \$50 million revolving credit facility and a \$441 million (August 31, 2007 – \$475 million) term loan. As at May 31, 2008, no draws have been made against the revolving credit facility. CW Media has entered into a foreign currency interest rate swap that fixes currency exchange of US\$1:\$1.064 Canadian dollars until February 2015, resulting in an effective interest rate of 8.68%. This swap was designated a cash flow hedge and its fair value of \$73 million is recorded on the balance sheet in Hedging derivative instruments.

⁽⁶⁾ CW Media has Senior Unsecured Interim Loans of \$325 million (August 31, 2007 - \$315 million). During the three and nine months ended May 31, 2008, the Senior Unsecured notes principal increased by \$8.7 million (US\$8.7 million) and \$28.7 million (US\$28.8 million) which represents accrued non cash interest. The senior unsecured credit facility bears interest at LIBOR plus an applicable margin, subject to a cap. Subsequent to May 31, 2008, the Senior Unsecured Interim loans were refinanced (note 18).

⁽⁷⁾ Ten Holdings renewed its Unsecured Credit facility. The Credit facility provides for a maximum of \$598.1 million (AUS\$630.0 million) in advances. The debt bears interest at floating rates and matures in April 2011.

⁽⁸⁾ The \$124 million (August 31, 2007 - \$132 million) Senior Unsecured notes mature in March 2013. Ten Holdings has entered into a US\$125 million foreign currency interest rate swap

resulting in floating rates and a fixed currency exchange rate of US\$1:A\$1.6807 until March 2013. This swap is designated as a fair value hedge and its fair value of \$79 million is recorded on the balance sheet in Hedging derivative instruments.

Under the Canwest Media Inc. senior secured credit facility the Company is required to maintain a fair value of the Canwest Media Inc. interest rate swaps and foreign currency and interest rate swaps below a prescribed threshold of \$500 million. There are also prescribed thresholds for individual counterparties, which have two-way recouping provisions. The Company made net recouping payments of \$19 million during the nine months ended May 31, 2008 (2007 – nil). In addition, under the Limited Partnership senior credit facilities, the Limited Partnership is required to maintain a fair value of its foreign currency and interest rate swaps below a prescribed threshold of \$250 million.

The Company is subject to covenants under certain of the credit facilities referred to above, including thresholds for leverage and interest coverage, and is also subject to certain restrictions under negative covenants.

8. PUTTABLE INTEREST IN A SUBSIDIARY

The Goldman Sachs puttable interest in CW Investments is classified as a financial liability. It was initially recorded based on the \$480.7 million invested by Goldman Sachs on August 15, 2007. The liability will accrete to the estimated amount to settle the liability through charges to net earnings which are recorded as Accretion of long term liabilities. The accretion rate of 19.4% is based on the estimate of the amounts to settle the liability in 2011 and 2013 based on the put options.

9. DISCONTINUED OPERATIONS

During the third quarter of fiscal 2007, the Company reached agreement to sell its 70% interest in CanWest MediaWorks (NZ) Limited as the Company concluded that it was no longer a core operating asset. As a result, the results of these operations were classified as a discontinued operation in the consolidated statements of earnings; the net cash flows were classified as operating, investing and financing activities from discontinued operations in the consolidated statements of cash flows; and the assets and liabilities were classified on the consolidated balance sheets as assets and liabilities of discontinued operations. Prior to classification as a discontinued operation, the results of CanWest MediaWorks (NZ) Limited were reported within the New Zealand television and radio segments. The sale was completed in June 2007 for aggregate proceeds of \$310 million, including a special dividend, and a gain on sale of \$246 million was recorded in the fourth quarter. The classification of CanWest MediaWorks (NZ) Limited as a discontinued operation has decreased earnings from continuing operations by \$3 million and \$12 million for the three and nine months ended May 31, 2007. Cash flows from operating activities of continuing operations have been decreased by \$30 million and \$6 million for the three and nine months ended May 31, 2007.

The earnings from discontinued operations are summarized as follows:

	For the three months ended May 31, 2007	For the nine months ended May 31, 2007
Revenue	<u>53,824</u>	<u>159,324</u>
Earnings from discontinued operations before tax	6,904	24,194
Income tax expense	2,317	8,195
Minority interest	<u>1,442</u>	<u>4,992</u>
Earnings from discontinued operations before gain on sale	3,145	11,007
Gain on sale of discontinued operations, net of tax of nil	-	1,095
Earnings from discontinued operations	<u>3,145</u>	<u>12,102</u>
Earnings from discontinued operations per share (in dollars):		
Basic	\$0.02	\$0.07
Diluted	\$0.02	\$0.07

The carrying value of the assets and liabilities related to the discontinued operations was nil as of May 31, 2008 and August 31, 2007.

10. ACCUMULATED OTHER COMPREHENSIVE LOSS

	Foreign currency translation adjustment	Available for sale assets	Hedging derivative instruments designated as cash flow hedges	Total
Balance, beginning of period	(5,785)	-	-	(5,785)
Cumulative impact on implementing new accounting standards (net of tax of \$9,869)	-	(1,787)	(21,026)	(22,813)
Other comprehensive income (loss)	<u>230</u>	<u>(2,815)</u>	<u>(47,625)</u>	<u>(50,210)</u>
Balance, end of period	<u>(5,555)</u>	<u>(4,602)</u>	<u>(68,651)</u>	<u>(78,808)</u>

The Company has recorded an impairment loss on the available-for-sale investment of \$23.3 million. The Company concluded that the accumulated loss is other than temporary based on the significant decrease in the trading value of the investment from the historical carrying value.

The unrealized loss on foreign currency interest rate swap that will be reclassified to interest expense over the next twelve months is approximately \$21.9 million, net of tax of \$8.8 million.

11. EARNINGS PER SHARE

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

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>May 31,</u> <u>2008</u>	<u>May 31,</u> <u>2007</u>	<u>May 31,</u> <u>2008</u>	<u>May 31,</u> <u>2007</u>
Basic weighted average shares outstanding during the period	177,646,539	177,451,420	177,646,539	177,439,583
Dilutive effect of options and shares	<u>-</u>	<u>366,911</u>	<u>-</u>	<u>331,579</u>
Diluted weighted average shares outstanding during the period	<u>177,646,539</u>	<u>177,818,331</u>	<u>177,646,539</u>	<u>177,771,162</u>
Options outstanding that would have been anti-dilutive	<u>4,441,646</u>	<u>1,592,613</u>	<u>4,441,646</u>	<u>1,819,073</u>

12. STOCK BASED COMPENSATION

The Company utilizes share compensation plans in order to provide employees of the Company and its subsidiaries the opportunity to participate in the growth and development of the Company. At any time the number of shares reserved for issuance to any individual under the share compensation plans, may not exceed 5% of the outstanding share capital of all classes and the total number of shares issued or issuable under the plans may not exceed 10% of outstanding share capital of all classes.

In November 2007, the Board of Directors (“Board”) of the Company approved a new Stock Option Plan (the “Option Plan”) and Restricted Share Unit Plan (the “RSU Plan”) for its eligible non-broadcast employees. These plans replace the Amended and Restated Share Compensation Plan (the “Discontinued Share Compensation Plan”). The stock options issued under the Discontinued Share Compensation Plan have not been modified and remain outstanding.

Stock Option Plan

The Stock Option Plan provides for grants of stock options to employees and consultants of the Company and its affiliates and the issuance of Subordinate Voting Shares and Non-Voting Shares (together being “Shares”) upon the exercise of options or vesting of restricted share units.

The Board has the authority to determine the manner in which the options granted pursuant to the Plan shall vest and other vesting terms applicable to the grant of options. Options may vest over a period of time (“Regular Options”) and/or may vest conditional upon the attainment of specified market thresholds (“Market Threshold Options”) as determined by the Board. In general, the options vest over four years and expire in seven years after the grant date. The Company utilizes the fair value approach to account for stock based compensation.

On November 6, 2007, the Company granted 528,900 Regular Options and 353,300 Market Threshold Options to employees. All of these options vest over a four year period, expire on November 6, 2014 and were granted at an average exercise price of \$7.50 per option, the market trading value of the shares on that day. The fair value of the options granted was estimated using a binomial option pricing model with the assumptions of no dividend yield, an expected volatility of 28%, risk free interest rates of 4.2% and an expected life of six years. The total fair value of the Regular Options issued was \$1.4 million, an average of \$2.61 per option. The total fair value of the Market Threshold Options was \$0.9 million, an average of \$2.44 per option.

Restricted Share Units

Eligible participants receive grants of Restricted Share Units ("RSU"), under the Plan, which are settled by the issuance of an equivalent number of Shares at the end of the three year term if the attainment of specified performance goals as determined by the Board have been met. Additional RSU's would be granted if the Company declared dividends prior to the settlement date. On November 6, 2007, the Company granted 305,200 restricted share units under the Plan. The fair value at the time of issuance was \$7.50 per RSU.

Discontinued Share Compensation Plan

On November 6, 2007, the Company made a final grant under the Discontinued Share Compensation Plan. The options under the Discontinued Share Compensation Plan vest over 5 years and expire in ten years. The fair value of the options granted during the nine months ended May 31, 2008 was estimated using a binomial option pricing model with the assumptions of no dividend yield (2007– nil), an expected volatility of 28% (2007- 27%), risk free interest rates of 4.3% (2007- 4.0%) and an expected life of seven years (2007 – seven years). The total fair value of 629,000 stock options granted by the Company in the nine months ended May 31, 2008 with an average exercise price of \$7.50 per option was \$1.8 million, a weighted average fair value per option of \$2.94. During the nine months ended May 31, 2007, 675,250 stock options with an average exercise price of \$10.18 per option were granted with a total fair value of \$2.6 million, and a weighted average fair value per option of \$3.88. The options granted vest over five years. No additional options will be issued under the Discontinued Share Compensation Plan.

The Company has recorded compensation expense and a credit to contributed surplus for the nine months ended May 31, 2008 of \$2.6 million (2007 - \$1.5 million) related to its stock based compensation plans.

13. OTHER LONG TERM INCENTIVE PLANS

In November 2007, the Board of the Company approved new long term incentive plans for eligible Canadian television employees including a Share Appreciation Rights Plan (the "Broadcast SAR Plan") and a Restricted Share Unit Plan (the "Broadcast RSU Plan"). These plans replace the Discontinued Share Compensation Plan for Canadian broadcast employees.

The Broadcast plans are based on notional shares. The notional share value is determined based on a notional value of the Canadian broadcast operations, which is determined with reference to segment operating profit and long term debt, divided by a notional number of shares outstanding.

Eligible participants receive grants of Broadcast SARs which entitle them to participate in the growth in the notional value of the broadcast operations. The regular SARs vest at a rate of 25% per year. Certain employees receive performance threshold SARs which also vest over four years if certain performance criteria are met. At each grant date the recipients can opt to have the SARs settled at each vesting date or at the end of the four year term. The vested SARs will be settled through a cash payment which is calculated based on the increase in the notional share value at the end of the most recently completed quarter prior to the settlement date over the notional share value at the grant date. The Company has issued 76,000 regular SARs and 17,600 performance threshold SARs. At the time of issuance, the notional share value was \$10.00.

In January 2008, the Company approved a special issuance of 555,952 SARs which will vest only if certain performance thresholds are met. The special issuance vest 50% on March 11, 2011 and 50% on March 31, 2012. The vested SARs will be settled through a cash payment which is calculated based on the increase in the notional share value at the end of the most recently completed quarter prior to the settlement date over the notional share value at the grant date. At the time of issuance, the notional share value was \$10.00.

Eligible participants receive grants of Broadcast RSUs which are settled at the end of a three year term provided that specified performance goals or other factors as determined by the Board have been met. The vested RSUs are settled through a cash payment equal to the notional share value at the end of the most recently completed quarter prior to the settlement date times the number of RSUs held. The Company has issued 46,000 Broadcast RSUs under the Broadcast Plan. The notional share value at the time of issuance was \$10.00 per RSU.

The RSUs will be accounted for as a financial liability and will be accrued and adjusted to fair value over the vesting period. The value of the outstanding SARs will be recorded as a financial liability with changes in the intrinsic value recorded in operating expenses. The Company has recorded a nominal expense and a financial liability related to these plans.

14. RELATED PARTY TRANSACTIONS

A company affiliated with our controlling shareholders owns Canwest Place in Winnipeg, Manitoba, a building in which the Company is a tenant. During the nine months ended May 31, 2008, rent paid to this company amounted to \$0.8 million (2007 - \$0.8 million) and is included in selling, general and administrative expenses. The annual obligations under these operating leases of \$1.2 million continue until August 2010. In addition, during the nine months ended May 31, 2008, the Company has included \$0.3 million (2007 – nil) of building development expenses payable to this company in selling general and administrative expenses.

All related party transactions have been recorded at the exchange amounts, which are representative of market rates.

15. PENSION AND POST RETIREMENT BENEFITS

The Company has a number of funded and unfunded defined benefit plans, as well as defined contribution plans, that provide pension, other retirement and post retirement benefits to its employees. Information regarding the components of net periodic benefit cost for our defined benefit plans is presented below:

	Pension benefits		Post retirement benefits		Pension benefits		Post retirement benefits	
	For the three months ended May 31,		For the three months ended May 31,		For the nine months ended May 31,		For the nine months ended May 31,	
	2008	2007	2008	2007	2008	2007	2008	2007
Current service cost	4,226	4,534	456	420	14,113	13,601	1,367	1,258
Accrued interest on benefits	7,661	7,024	727	680	22,982	21,074	2,180	2,038
Expected return on plan assets	(7,821)	(6,306)	-	-	(22,334)	(18,918)	-	-
Amortization of transitional obligation	108	109	75	75	325	325	227	227
Amortization of past service costs	355	301	34	34	1,064	905	102	102
Amortization of net actuarial loss (gain)	28	1,548	(28)	(44)	1,674	4,642	(84)	(132)
Changes in valuation allowance	(10)	(21)	-	-	(31)	(62)	-	-
Total pension benefit and post retirement benefit expense	<u>4,547</u>	<u>7,189</u>	<u>1,264</u>	<u>1,165</u>	<u>17,793</u>	<u>21,567</u>	<u>3,792</u>	<u>3,493</u>

16. COMMITMENT AND CONTINGENCIES

Commitment

- (a) In May 2008, the Canada television segment entered into commitments by renewing program purchase agreements and entering into new program purchase agreements. Management estimates that these new commitments will result in future annual broadcast rights expenditures of approximately \$318 million for 2009 and a total of \$645 million over the next five years.

Contingencies

- (b) The Company has requested arbitration related to \$78.2 million owed by Hollinger International Inc., Hollinger Inc. and certain related parties (collectively "Hollinger") related to certain unresolved adjustments and claims related to its November 15, 2000 acquisition of certain newspaper assets from Hollinger. Hollinger disputes this claim and claims that it and certain of its affiliates are owed \$113.3 million by the Company. During the course of the recently completed arbitration hearings, the Company and Hollinger reached an agreement on certain items however, the final outcome is not yet determinable as the decision of the arbitrator has not been delivered.

- (c) In March 2001, a statement of claim was filed against the Company and certain of the Company's subsidiaries by Canwest Broadcasting Ltd.'s ("CBL's") former minority shareholders requesting, among other things, that their interests in CBL be purchased without minority discount. In addition, the claim alleges the Company wrongfully terminated certain agreements and acted in an oppressive and prejudicial manner towards the plaintiffs. The action was stayed on the basis that the Ontario courts have no jurisdiction to try the claim. In April 2004, a statement of claim was filed in Manitoba by the same minority shareholders, which was substantially the same as the previous claim, seeking damages of \$425 million. In June 2005, the Company filed a Statement of Defence and Counterclaim. In its defense, the Company denies any liability to the plaintiffs and in its Counterclaim, the Company is seeking a declaration of the fair value of the former minority shareholders' interest in CBL and repayment of the difference between the fair value and the redemption amount paid by the Company to the former shareholders. The Company believes the allegations in the Statement of Claim are substantially without merit and not likely to have a material adverse effect on its business, financial condition or results of operation. The outcome of this claim is not currently determinable and the Company intends to vigorously defend this lawsuit.
- (d) The Company is one of several defendants to a claim by a proposed class of freelance writers instituted in July 2003 in respect of works that they provided to newspapers and other print publications in Canada. The total amount claimed (by all plaintiffs against all defendants) is \$500 million in compensatory damages and \$250 million in exemplary and punitive damages. The outcome of this claim is not currently determinable.
- (e) The Company is involved in various legal matters arising in the ordinary course of business. The resolution of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

17. SEGMENTED INFORMATION

The Company operates primarily within the publishing, television, radio and out-of-home advertising industries in Canada, Australia, Turkey, United States and United Kingdom. Segmented information reflects the Company's current reportable segment structure and accordingly includes the operations of CW Media from the date of acquisition.

Each segment operates as a strategic business unit with separate management. Segment performance is measured primarily upon the basis of segment operating profit. The Company accounts for intersegment revenues as if the revenues were to third parties.

Segmented information and a reconciliation from segment operating profit to earnings before income taxes are presented below:

	Revenue ⁽¹⁾		Segment operating profit		Revenue ⁽¹⁾		Segment operating profit	
	For the three months ended				For the nine months ended			
	May 31, 2008	May 31, 2007	May 31, 2008	May 31, 2007	May 31, 2008	May 31, 2007	May 31, 2008	May 31, 2007
Publishing	334,151	333,609	78,636	71,662	1,002,522	980,040	240,168	211,772
Television								
Canada	182,658	182,045	38,633	30,940	543,946	556,007	63,701	71,429
CW Media	98,542	-	37,488	-	279,439	-	101,491	-
Australia	281,200	182,045	76,121	30,940	823,385	556,007	165,192	71,429
Total television	194,134	179,712	34,747	28,676	575,122	533,109	173,353	152,758
	475,334	361,757	110,868	59,616	1,398,507	1,089,116	338,545	224,187
Radio								
Turkey	3,974	4,429	1,802	1,960	10,884	10,993	4,479	3,858
United Kingdom	503	328	(1,965)	(1,066)	1,349	839	(5,092)	(2,988)
Total radio	4,477	4,757	(163)	894	12,233	11,832	(613)	870
Out-of-home	40,750	38,674	1,124	(1,229)	122,107	109,048	5,972	1,255
Intersegment revenues	(2,916)	(704)			(5,192)	(3,403)		
Corporate and other	-	-	(9,269)	(9,403)	-	-	(28,020)	(28,060)
Restructuring expenses	-	-	(4,018)	-	-	-	(20,274)	-
	851,796	738,093	177,178	121,540	2,530,177	2,186,633	535,778	410,024
Elimination of equity accounted affiliates ⁽²⁾	-	-	-	-	(108,767)	-	(44,440)	-
	851,796	738,093	177,178	121,540	2,421,410	2,186,633	491,338	410,024
Amortization of intangibles			2,191	1,511			6,839	4,034
Amortization of property and equipment			29,297	23,401			82,755	69,312
Other amortization			177	326			809	1,323
Operating income			145,513	96,302			400,935	335,355
Interest expense			(78,722)	(45,333)			(238,926)	(131,049)
Accretion of long term liabilities			(26,274)	-			(74,352)	-
Interest income			1,149	785			20,938	3,194
Amortization of deferred financing costs			-	(1,503)			-	(5,381)
Interest rate and foreign currency swap losses			(19,842)	(21,931)			(60,772)	(931)
Foreign exchange gains (losses)			944	(2,124)			5,219	4,569
Investment gains, losses and write-downs			(24,738)	8,938			(22,202)	9,655
Earnings (loss) before income taxes and other items			(1,970)	35,134			30,840	215,412

(1) Represents revenue from third parties. In addition, the following segments recorded intercompany revenues: Canadian Television – \$4.0 million (2007 – \$1.5 million), Publishing – \$1.2 million (2007 – \$1.9 million).

(2) Elimination of the Company's equity interest in regulated entities of CW Media up to December 20, 2007.

18. SUBSEQUENT EVENT

Subsequent to May 31, 2008, CW Media Holdings Inc. completed a bond offering of US\$ 312 million Senior Unsecured Notes to refinance its interim senior unsecured notes. The new Senior notes bear interest at 13.5% and are due on August 15, 2015. No principal or interest payments are due under the Senior notes until August 15, 2011 at which time semi annual payments of interest only will commence. At May 31, 2008, there was \$9 million of debt issuance costs offsetting the Senior unsecured notes which may result in an adjustment to interest expense in the fourth quarter. The notes are unsecured and guaranteed by CW Media Holdings and its wholly owned subsidiaries.