

CANWEST GLOBAL COMMUNICATIONS CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2007 and 2006

(UNAUDITED)

January 10, 2008

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 November 30, 2007 and the related interim consolidated statements of earnings, comprehensive income, retained earnings and cash flows for the three month periods ended November 30, 2007 and 2006. 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 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.

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
(UNAUDITED)
(In thousands of Canadian dollars except as otherwise noted)

	<u>For the three months ended</u>	
	November 30, 2007	November 30, 2006 (Revised note 9)
Revenue	867,739	804,857
Operating expenses	418,423	396,873
Selling, general and administrative expenses	215,755	199,484
Restructuring expenses (note 5)	11,645	-
	<u>221,916</u>	<u>208,500</u>
Amortization of intangibles	2,431	1,038
Amortization of property and equipment	24,930	22,002
Other amortization	293	571
	<u>194,262</u>	<u>184,889</u>
Operating income	194,262	184,889
Interest expense	(82,435)	(42,219)
Accretion of long term liabilities (note 8)	(23,881)	-
Interest income (note 4)	16,375	1,580
Amortization of deferred financing costs	-	(2,411)
Interest rate and foreign currency swap gains (losses)	(27,759)	8,779
Foreign exchange gains (note 4)	6,081	2,877
Investment gains, losses and write-downs	2,868	10
	<u>85,511</u>	<u>153,505</u>
Provision for income taxes (note 6)	35,923	53,293
	<u>49,588</u>	<u>100,212</u>
Earnings before the following	49,588	100,212
Minority interest	(28,679)	(41,179)
Interest in earnings of equity accounted affiliates (note 4)	19,836	363
Realized currency translation adjustments	-	(425)
	<u>40,745</u>	<u>58,971</u>
Net earnings from continuing operations	40,745	58,971
Earnings from discontinued operations (note 9)	-	7,392
	<u>40,745</u>	<u>66,363</u>
Net earnings for the period	40,745	66,363
Earnings per share from continuing operations (note 11):		
Basic	\$0.23	\$0.33
Diluted	\$0.23	\$0.33
Earnings per share (note 11):		
Basic	\$0.23	\$0.37
Diluted	\$0.23	\$0.37

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

CANWEST GLOBAL COMMUNICATIONS CORP.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(In thousands of Canadian dollars)

	As at November 30, 2007	As at August 31, 2007
ASSETS		
Current Assets		
Cash	95,223	126,867
Accounts receivable	662,653	494,236
Inventory	8,069	8,907
Investment in broadcast rights	186,373	169,681
Future income taxes	24,806	16,824
Other current assets	<u>31,562</u>	<u>44,247</u>
	1,008,686	860,762
Other investments (note 4)	1,554,122	1,542,097
Investment in broadcast rights	58,393	39,001
Property and equipment	683,661	678,901
Future income taxes	192,356	187,933
Other assets	109,432	161,660
Intangible assets	1,294,406	1,287,962
Goodwill	<u>2,342,195</u>	<u>2,336,735</u>
	<u><u>7,243,251</u></u>	<u><u>7,095,051</u></u>
LIABILITIES		
Current Liabilities		
Bank indebtedness	2,077	-
Accounts payable	203,371	216,988
Accrued liabilities	328,476	332,728
Income taxes payable	77,277	64,967
Broadcast rights payable	96,533	71,603
Deferred revenue	42,868	42,167
Future income taxes	37,098	38,153
Current portion of long term debt and obligations under capital leases	12,451	15,295
Current portion of interest rate and foreign currency swap liabilities on hedging activities	24,987	-
Current portion of interest rate and foreign currency swap liabilities	<u>10,471</u>	<u>-</u>
	835,609	781,901
Long term debt (note 7)	3,266,798	3,589,947
Interest rate and foreign currency swap liabilities on hedging activity	361,814	-
Interest rate and foreign currency swap liabilities	157,215	151,936
Obligations under capital leases	9,871	11,381
Other accrued liabilities	264,487	256,813
Future income taxes	110,923	109,878
Puttable interest in subsidiary (note 8)	507,449	483,568
Minority interests	<u>73,644</u>	<u>45,682</u>
	<u>5,587,810</u>	<u>5,431,106</u>
Contingencies (note 16)		
SHAREHOLDERS' EQUITY		
Capital stock	852,375	852,375
Contributed surplus	11,642	10,884
Retained earnings	846,270	806,471
Accumulated other comprehensive loss (notes 2 and 10)	<u>(54,846)</u>	<u>(5,785)</u>
	791,424	800,686
	<u>1,655,441</u>	<u>1,663,945</u>
	<u><u>7,243,251</u></u>	<u><u>7,095,051</u></u>

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

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

	<u>For the three months ended</u>	
	November 30, 2007	November 30, 2006
Net earnings for the period	40,745	66,363
Other comprehensive income		
Unrealized foreign currency translation gains on net assets of self-sustaining foreign operations	457	8,441
Realized foreign currency translation losses on net assets of self-sustaining foreign operations	-	425
Foreign currency translation adjustment	457	8,866
Change in fair value of foreign currency and interest rate swap designated as cash flow hedges (net of tax of \$7,875)	(16,736)	-
Unrealized loss on available-for-sale investment (net of tax of nil)	(9,969)	-
Comprehensive income for the period	<u>14,497</u>	<u>75,229</u>

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

	<u>For the three months ended</u>	
	November 30, 2007	November 30, 2006
Retained earnings - beginning of period as previously stated	806,471	527,144
Adoption of new accounting policies net of taxes of \$0.5 million (note 2)	(946)	-
	<u>805,525</u>	<u>527,144</u>
Net earnings for the period	<u>40,745</u>	<u>66,363</u>
Retained earnings - end of period	<u>846,270</u>	<u>593,507</u>

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

CANWEST GLOBAL COMMUNICATIONS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands of Canadian dollars)

	For the three months ended	
	November 30, 2007	November 30, 2006
		(Revised note 9)
CASH GENERATED (UTILIZED) BY:		
OPERATING ACTIVITIES		
Net earnings for the period	40,745	66,363
Earnings from discontinued operations for the period	-	(7,392)
Items not affecting cash		
Amortization	27,654	26,022
Net non-cash interest expense (income)	5,088	(948)
Accretion expense	23,881	-
Future income taxes	8,659	19,304
Realized currency translation adjustments	-	425
Interest rate and foreign currency swap losses (gains), net of settlements	15,254	(7,396)
Investment gains, losses and write-downs	(2,868)	(10)
Pension expense in excess of employer contributions	1,380	2,387
Minority interests	28,679	41,179
Earnings from equity accounted affiliates	(19,836)	(363)
Foreign exchange gains	(8,243)	(2,525)
Stock based compensation expense (note 12)	758	815
	121,151	137,861
Changes in non-cash operating accounts	(113,744)	(167,152)
Cash flows from operating activities of continuing operations	7,407	(29,291)
Cash flows from operating activities of discontinued operations	-	16,744
Cash flows from operating activities	7,407	(12,547)
INVESTING ACTIVITIES		
Other investments	(4,645)	(1,487)
Investment in broadcast licenses	-	(338)
Acquisitions (note 3)	-	(8,794)
Payment of acquisition costs	(44,286)	-
Advances to subsidiaries in trust	(13,939)	-
Proceeds from sale of property, and equipment	11	876
Purchase of property and equipment	(27,944)	(18,894)
Investing activities of discontinued operations	-	(2,850)
	(90,803)	(31,487)
FINANCING ACTIVITIES		
Repayment of long term debt	(2,553)	-
Advances (repayments) of revolving facilities, net of financing costs	58,105	(162,795)
Increase in bank indebtedness	2,077	24,341
Swap recouping payments	(5,000)	-
Payments of capital leases	(1,344)	(1,161)
Issuance of share capital	-	9
Payment of distributions to minority interest	(790)	(12,886)
Financing activities from discontinued operations	-	(8,725)
	50,495	(161,217)
Foreign exchange gain on cash denominated in foreign currencies	1,257	1,442
Net change in cash	(31,644)	(203,809)
Cash – beginning of period	126,867	278,195
Cash – end of period	95,223	74,386

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

**CANWEST GLOBAL COMMUNICATIONS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED NOVEMBER 30, 2007 AND 2006
(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 cable 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 outdoor advertising. In Canada, the television segment includes the operation of the Global Television Network, TVtropolis, and various other conventional and specialty 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% interest held by Goldman Sachs Capital Partners ("Goldman Sachs") is classified as a financial liability ("Puttable interest in a subsidiary"). Certain operations held by CW Media are held in trust and operated by a trustee pending Canadian Radio-television and Telecommunications Commission ("CRTC") approval of the transaction (note 18). While in trust, these entities are accounted using the equity basis 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 outdoor advertising segment includes Eye Corp Pty Limited ("Eye Corp"), an outdoor advertising operation which is indirectly wholly owned by Ten Holdings. The Company holds an approximate 57% equity interest in Ten Holdings.

The Company's television and radio broadcast customer base is comprised primarily of large advertising agencies, which place advertisements with the Company on behalf of their customers. 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 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 financial statements do not include all of the information and disclosures required for annual financial statements. The accounting policies used in the preparation of these interim financial statements are the same as those used in the most recent annual financial statements except for the accounting policy changes disclosed in note 2. These interim 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 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 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 as foreign exchange gains (losses) in net earnings.
- Accounts and other receivables, due from related parties and advances to regulated entities are considered loans and receivables and are initially recorded at fair value and subsequently measured 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.
- 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 cash, 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 \$38.3 million (August 31, 2007 – \$50.1 million) and a fair value of \$38.3 million (August 31, 2007 – \$48.3 million). The carrying value of portfolio investments in private companies is \$5.7 million (August 31, 2007 – \$4.0 million). The fair values of these investments are not materially different from the carrying value 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 prices for publicly traded debt. Long term debt has a carrying value of \$3,276.5 million (August 31, 2007 – \$3,432.0 million) and a fair value of \$3,273.9 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 foreign currency and interest rate swaps are based on the amount at which they could be settled based on estimated current market rates. The foreign currency and interest rate swaps had a carrying value of \$547.1 million (August 31, 2007 – \$318.5 million) and a fair value of \$547.1 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 deferred financing 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 a 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 interest rate and foreign currency swap liabilities on hedging activity and cash flows are classified in the same categories as the hedged item. The ineffective portion is recognized in net earnings as interest expense. Gains or losses are recognized in OCI and are reclassified into net earnings in the same period in which the hedged item affects net earnings. 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, foreign currency and interest rate swap liabilities 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 swap at fair value on the consolidated balance sheet and the effective portion of the hedging relationship in AOCI.

During the three months ended November 30, 2007, \$72.6 million was reclassified to the income statement from AOCI, representing foreign exchange losses on the notional amounts of the cash flow hedging derivatives. These amounts were offset by foreign exchange gains recognized on the related U.S. dollar denominated long term debt.

During the three months ended November 30, 2007, the Company reclassified \$0.5 million 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 swap 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 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 interest rate and foreign currency swap liabilities on hedging activity and cash flows are classified in the same categories as the hedged item.

As at September 1, 2007, foreign currency and interest rate swap liabilities on hedging activity 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.

During the three months ended November 30, 2007, the Company has increased the interest rate and foreign currency swap liabilities by \$21.0 million, decreased long term debt by \$18.9 million related to the basis adjustment and with a corresponding charge to interest rate and foreign currency swap gains (losses) of \$2.1 million.

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 transactions costs, net of income taxes of \$0.6 million	<u>1,346</u>
	<u>(946)</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 interest rate swap, designated as cash flow hedges, net of tax of \$9.9 million	<u>(21,026)</u>
	<u>(22,813)</u>
Balance Sheet	
Other investments	(1,787)
Other assets	<u>(55,492)</u>
	<u>(57,279)</u>
Long term debt	(295,068)
Interest rate and foreign currency swap liabilities on hedging activity	271,891
Future income tax liabilities	<u>(10,343)</u>
	<u>(33,520)</u>
	<u>(23,759)</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 impacts 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

The AcSB issued CICA 3862, “*Financial Instrument – Disclosures*”, 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. The Company plans to, and must, apply the new standard effective September 1, 2008. The Company is currently considering the impacts 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 \$1,487 million, including transaction costs of \$57 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 financing costs of \$23 million. 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 September 30, 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 and the Company's equity earnings of the net earnings of the regulated assets of the acquired operations since the date of acquisition. The Company will complete the allocation of the purchase price equation subsequent to the operations being released from trust. A summary of the preliminary fair value of the assets and liabilities acquired as at August 15, 2007 is as follows:

Cash	82,744
Current assets	55,706
Property and equipment	20,098
Investment in advances to regulated entities (note 4)	1,470,881
Portfolio investments	42,922
Future tax asset	29,677
Non-current assets	1,219
Goodwill	19,866
Current liabilities	(165,434)
Non-current liabilities	<u>(70,854)</u>
	<u>1,486,825</u>
Consideration:	
Cash	262,300
Puttable interest in subsidiary	480,787
Debt, net of financing costs	766,668
Less financing raised in excess of purchase price ⁽¹⁾	<u>(22,930)</u>
	<u>1,486,825</u>

⁽¹⁾ The investors provided funding in excess of the purchase price to fund costs related to restructuring.

The Company continues to finalize a plan to provide certain termination benefits to employees of the acquired businesses and has accrued \$16.6 million in current liabilities relating to these termination benefits as part cost of the purchase. Any future adjustments resulting from finalization of the plan will be recorded as an adjustment to the purchase price allocation.

- (b) On July 10, 2007, CanWest MediaWorks 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 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 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) payable 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 licenses 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 Outdoor 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 have been placed into trust, pending CRTC approval of the change of control of the broadcast licences (note 18).

Goodwill has been increased by \$10.1 million due to the adjustment of certain income tax accounts.

The following sets out condensed financial information for the regulated entities which are held in trust as at November 30, 2007 and August 31, 2007 and for the three months ended November 30, 2007.

Summary balance sheet

	As at November 30, 2007	As at August 31, 2007
Assets		
Current assets	116,698	73,757
Current and non-current broadcast rights	262,708	238,729
Property and equipment	19,722	20,614
Investments	10,302	10,015
Intangible assets	868,900	868,900
Goodwill	503,185	513,309
	<u>1,781,515</u>	<u>1,725,324</u>
Liabilities and shareholder's equity		
Current liabilities	88,131	63,661
Future income tax liabilities	139,471	139,056
Other liabilities	6,120	931
Minority interest	41,146	37,171
Shareholder's equity and inter-company advances	1,506,647	1,484,505
	<u>1,781,515</u>	<u>1,725,324</u>

Summary statement of earnings

Revenue	89,123
Operating expenses	<u>53,708</u>
Operating income before amortization	35,415
Amortization	(1,418)
Interest expense	(14,551)
Interest income	465
Foreign exchange gains	11,962
Provision for income taxes	(8,165)
Interest in earnings of equity accounted affiliates	129
Minority interest	<u>(3,974)</u>
Net earnings of regulated entities	<u>19,863</u>

Summary statement of cash flows

Cash flows from operating activities	13,622
Cash flows from investing activities	(527)
Cash flows from financing activities	<u>11,114</u>
Net change in cash	24,209
Cash – beginning of period	<u>18,226</u>
Cash –end of period	<u>42,435</u>

Included in the investment in advances to regulated entities held in trust is inter-company interest bearing US and Canadian dollar denominated debt. The Company has recorded interest income of \$14.5 million and a foreign exchange loss of \$11.5 million related to the inter-company debt. Net earnings of the regulated entities include interest expense of \$14.5 million and a foreign exchange gain of \$11.5 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 \$3.0 million. The cost recoveries have reduced selling, general and administrative expenses of the Company and are included in operating expenses of the regulated entities.

5. RESTRUCTURING EXPENSES

The Company is 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 next 18 months, 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 phase 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 phase of the Canadian television initiative and the entire publishing initiative is expected to be completed during the current fiscal year. The total expected costs associated with these initiatives are \$19 million. The combined restructuring expenses accrued to date for these initiatives that consist of employee severance accruals, are \$12 million of which \$8 million relates to the publishing segment and \$4 million relates to the Canadian television segment.

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:

	For the three months ended November 30,	
	2007	2006
Income taxes at combined Canadian statutory rate of 33.17% (2006 – 34.19 %)	28,363	52,483
Non-taxable portion of capital gains	(1,822)	(883)
Increase in valuation allowance on future tax assets	964	523
Effect of foreign income tax rates differing from Canadian income tax rates	(3,929)	(4,396)
Change in expected future tax rates	228	91
Non-deductible accretion expense	7,921	-
Non-deductible expenses	1,631	1,484
Partnership net earnings allocated to minority interests	(245)	(4,803)
Effect of uncertain tax positions	1,200	7,838
Effect of limited partnership earnings from equity accounted affiliates	883	-
Other	<u>729</u>	<u>956</u>
Provision for income taxes	<u><u>35,923</u></u>	<u><u>53,293</u></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.

7. LONG TERM DEBT

	As at November 30, 2007	As at August 31, 2007
<i>CanWest MediaWorks Inc.:</i>		
Senior secured credit facility ⁽¹⁾	89,639	-
Senior subordinated notes ⁽²⁾	743,557	829,800
<i>CanWest MediaWorks Limited Partnership:</i>		
Senior secured credit facilities ⁽³⁾	795,350	841,170
Senior subordinated unsecured credit facility	74,091	75,000
Senior subordinated unsecured notes ⁽⁴⁾	390,617	422,480
<i>CW Media Holdings:</i>		
Senior credit facility ⁽⁵⁾	433,406	471,518
Senior unsecured notes ⁽⁶⁾	301,073	315,429
<i>The Ten Group PTY Limited:</i>		
Bank loan A\$220,000 (Aug. 31, 2007 – A\$245,000)	194,788	211,043
Senior unsecured notes US\$125,000 (Aug. 31, 2007 – US\$125,000) ⁽⁷⁾	121,217	132,050
Senior notes A\$150,000 (Aug. 31, 2007 – A\$150,000)	132,810	129,210
<i>Other:</i>		
Other	-	4,250
	<u>3,276,548</u>	<u>3,431,950</u>
Effect of foreign currency swap	-	170,757
Long term debt	<u>3,276,548</u>	<u>3,602,707</u>
Less portion due within one year	<u>(9,750)</u>	<u>(12,760)</u>
Long term portion	<u><u>3,266,798</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.

As described in note 2, the Company has included debt issuance costs to 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 November 30, 2007, \$89.6 million (August 31, 2007 – nil) was drawn on the CanWest MediaWorks senior secured revolving credit facility.

⁽²⁾ Consist of \$761.6 million (US\$761.1 million) ((August 31, 2007 - \$803.8 million (US\$761.1 million)) Senior Subordinated notes which are due in 2012 and bear interest at 8.0%. Unamortized debt issuance costs related to this debt were \$13 million at November 30, 2007. In addition, the book value of this debt was increased by a fair value premium of \$24 million and decreased for a basis adjustment to reflect changes in the fair value of the hedged risks of \$29 million. The Company has entered into a US\$761.1 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 fixed 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 \$176.3 million is recorded on the balance sheet in Interest rate and foreign currency swap liabilities on hedging activity.

⁽³⁾ The Limited Partnership senior secured credit facility consists of a \$250 million revolving credit facility of which \$75 million was drawn as at November 30, 2007 (August 2007 – \$85 million), a \$265 million term loan (August 31, 2007 – \$265 million) and a \$464.2 million (US\$463.9 million) term loan ((August 31, 2007 – \$491.2 million (US\$465.0 million)). Unamortized debt issuance costs related to this debt were \$8.9 million at November 30, 2007. 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\$463.9 million, at a fixed currency exchange of US\$1:\$1.0725 until July 2014. This swap was designated a cash flow hedge and its fair value of \$61.8 million is recorded on the balance sheet in Interest rate and foreign currency swap liabilities on hedging activity.

⁽⁴⁾ The Limited Partnership has Senior Subordinated notes of \$400.3 million (US\$400 million) ((August 31, 2007 – \$422.5 million (US\$400 million)). Unamortized debt issuance costs related to this debt were \$9.7 million at November 30, 2007. 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. This swap was designated a cash flow hedge and its fair value of \$27.2 million is recorded on the balance sheet in Interest rate and foreign currency swap liabilities on hedging activity.

⁽⁵⁾ CW Media has entered into a Senior Secured Credit facility that includes \$446.8 million (US\$446 million) ((August 31, 2007 – \$475.0 million (US\$446 million)) term loan. Unamortized debt issuance costs related to this debt were \$13.3 million at November 30, 2007. 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. This swap was designated a cash flow hedge and its fair value of \$56.7 million is recorded on the balance sheet in Interest rate and foreign currency swap liabilities on hedging activity.

⁽⁶⁾ CW Media has entered into \$309.8 million (US\$309.7 million) ((August 31, 2007 - \$315.4 million (US\$298.6 million)) Senior Unsecured Interim Loans. Unamortized debt issuance costs related to this debt were \$8.7 million at November 30, 2007. During the quarter the senior unsecured notes principal increased by \$11.2 million (US\$11.1 million) which represents accrued non cash interest.

⁽⁷⁾ The \$125.1 million (US\$125.0 million) (August 31, 2007 - \$132.1 million) Senior Unsecured notes mature in March 2013. TEN Holdings has entered into a US\$125.0 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. The book value of this debt was decreased for a basis adjustment to reflect changes in the fair value of the hedged risks of \$3.9 million. This swap is designated as a fair value hedge and its fair value of \$64.8 million is recorded on the balance sheet in Interest rate and foreign currency swap liabilities on hedging activity.

Under the CanWest MediaWorks Inc. senior secured credit facility the Company is required to maintain a fair value of the CanWest MediaWorks 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 \$18.0 million during the three months ended November 30, 2007 (2006 – 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 expense. During the quarter ended November 30, 2007, the Company finalized its initial estimate of the accretion rate. The resulting 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 \$7 million for the three months ended November 30, 2006. Cash flows from operating activities of continuing operations have been decreased by \$17 million for the three months ended November 30, 2006.

The earnings from discontinued operations are summarized as follows:

	For the three months ended November 30, 2006
Revenue	<u>56,336</u>
Earnings from discontinued operations before tax	13,283
Income tax expense	4,285
Minority interest	<u>2,697</u>
Earnings from discontinued operations before gain on sale ⁽¹⁾	6,301
Gain on sale of discontinued operations, net of tax of nil (2006 - \$40)	<u>1,091</u>
Earnings from discontinued operations	<u><u>7,392</u></u>
Earnings from discontinued operations per share (in dollars):	
Basic	\$0.04
Diluted	\$0.04

The carrying value of the net assets related to the discontinued operations was nil as of November 30, 2007 and August 31, 2007.

10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Foreign currency translation adjustment	Available for sale assets	Derivatives 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 \$9,732)	-	(1,787)	(21,026)	(22,813)
Other comprehensive income	457	(9,969)	(16,736)	(26,248)
Balance, end of period	<u>(5,328)</u>	<u>(11,756)</u>	<u>(37,762)</u>	<u>(54,846)</u>

The loss in the available for sale assets relates to decline in fair value of a certain investment. The Company reviewed the trading value of the investments during the period and noted that it had traded above the historical book value during the period. Therefore, the Company has concluded that the loss in value is not other than temporary.

11. EARNINGS PER SHARE

The following table provides a reconciliation of the numerators and 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:

	For the three months ended November 30,	
	2007	2006
Basic weighted average shares outstanding during the period	177,646,539	177,432,054
Dilutive effect of options and restricted share units	<u>305,200</u>	<u>248,090</u>
Diluted weighted average shares outstanding during the period	<u>177,951,739</u>	<u>177,680,144</u>
Options outstanding that would have been anti-dilutive	<u>4,602,329</u>	<u>3,408,994</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").

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.

Effective November 6, 2007, the Board, subject to the ratification and approval of the Plan by shareholders, 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 4.3% 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 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. Effective November 6, 2007, the Board, subject to the ratification and approval of the Plan by shareholders, 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

The Board approved a final grant under the Discontinued Share Compensation Plan. The fair value of the options granted during the three months ended November 30, 2007 was estimated using a binomial option pricing model with the assumptions of no dividend yield (2006 – nil), an expected volatility of 28% (2006 - 27%), risk free interest rates of 4.3% (2006 - 4.0%) and an expected life of seven years (2006 – seven years). The total fair value of 629,000 stock options granted by the Company in the three months ended November 30, 2007 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 three months ended November 30, 2006, 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. The Board has determined that 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 three months ended November 30, 2007 of \$0.8 million (2006 - \$0.5 million) related to its stock based compensation plans.

13. OTHER LONG TERM INCENTIVE PLANS

In November 2007, the Board of Directors (“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 SAR’s which entitle them to participate in the growth in the notional value of the broadcast operations. The regular SAR’s vest at a rate of 25% per year. Certain employees receive performance threshold SAR’s which also vest over four years if certain performance criteria are met. At each grant date the recipients can opt to have the SAR’s settled at each vesting date or at the end of the four year term. The vested SAR’s 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. Effective November 6, 2007, the Board granted 98,200 regular SAR’s and 17,600 performance threshold SAR’s. At the time of issuance, the notional share value was \$10.00.

Eligible participants receive grants of Broadcast RSU’s 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 RSU’s 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 RSU’s held. Effective November 6, 2007, the Board granted 62,600 Broadcast RSU’s under the Broadcast Plan. The fair value at the time of issuance was \$10.00 per RSU.

The RSU’s 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 SAR’s will be recorded as a financial liability with changes in the intrinsic value recorded in operating expenses.

14. RELATED PARTY TRANSACTIONS

A company affiliated with our controlling shareholders owns CanWest Global Place in Winnipeg, Manitoba, a building in which the Company is a tenant. During the three months ended November 30, 2007, rent paid to this company amounted to \$0.3 million (2006 - \$0.3 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 three months ended November 30, 2007, the Company has included \$0.3 million (2006 – 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. The measurement date for our plans is currently June 30. Information regarding the components of net periodic benefit cost for our defined benefit plans is presented below:

	For the three months ended November 30			
	Pension benefits		Post retirement benefits	
	2007	2006	2007	2006
Current service cost	4,943	4,534	456	419
Accrued interest on benefits	7,661	7,025	726	679
Expected return on plan assets	(7,257)	(6,306)	-	-
Amortization of transitional obligation	108	108	76	76
Amortization of past service costs	355	302	34	34
Amortization of net actuarial loss (gain)	823	1,547	(28)	(44)
Changes in valuation allowance	(11)	(21)	-	-
Total pension and post retirement benefit expense	<u>6,622</u>	<u>7,189</u>	<u>1,264</u>	<u>1,164</u>

16. CONTINGENCIES

- (a) The Company has requested arbitration related to \$84.1 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 \$116.3 million by the Company. The arbitration is scheduled to occur in four hearings, the first of which was held in February 2007 and the remainder of which are scheduled to occur prior to August 31, 2008. The final outcome and recoverability of these amounts is not currently determinable as the arbitration process has not been completed.
- (b) 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.

- (c) 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.
- (d) 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 outdoor advertising industries in Canada, Australia, Turkey, United States and United Kingdom. Segmented information has been retroactively revised to reflect the Company's current reportable segment structure due to the sale in June 2007 of the New Zealand Television and Radio segments.

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:

Operating Segments	For the three months ended November 30,		Segment operating profit	
	2007	2006 (Revised note 9)	2007	2006 (Revised note 9)
Publishing	<u>361,906</u>	<u>343,867</u>	<u>102,165</u>	<u>87,754</u>
Television				
Canada	210,792	207,896	32,250	37,681
CW Media	<u>97,127</u>	<u>-</u>	<u>37,132</u>	<u>-</u>
	307,919	207,896	69,382	37,681
Australia	<u>242,336</u>	<u>215,860</u>	<u>103,505</u>	<u>86,697</u>
	550,255	423,756	172,887	124,378
Radio				
Turkey	3,564	3,385	1,584	1,190
United Kingdom	<u>388</u>	<u>234</u>	<u>(1,290)</u>	<u>(823)</u>
	3,952	3,619	294	367
Outdoor	42,287	35,528	3,142	5,026
Intersegment revenues	(1,538)	(1,913)	-	-
Corporate and other	-	-	(9,512)	(9,025)
Restructuring expenses	<u>-</u>	<u>-</u>	<u>(11,645)</u>	<u>-</u>
	956,862	804,857	257,331	208,500
Elimination of equity accounted affiliates ⁽²⁾	<u>(89,123)</u>	<u>-</u>	<u>(35,415)</u>	<u>-</u>
	<u>867,739</u>	<u>804,857</u>	221,916	208,500
Amortization of intangibles			2,431	1,038
Amortization of property and equipment			24,930	22,002
Other amortization			<u>293</u>	<u>571</u>
Operating income			194,262	184,889
Interest expense			(82,435)	(42,219)
Accretion of long term liabilities			(23,881)	-
Interest income			16,375	1,580
Amortization of deferred financing costs			-	(2,411)
Interest rate and foreign currency swap gains (losses)			(27,759)	8,779
Foreign exchange gains			6,081	2,877
Investment gains, losses and write-downs			<u>2,868</u>	<u>10</u>
Earnings before income taxes and other items			<u>85,511</u>	<u>153,505</u>

(1) Represents revenue from third parties. In addition, the following segments recorded intercompany revenues: Canadian Television – \$0.7 million (2006 – \$0.5 million), Publishing – \$0.8 million (2006 – 1.4 million).

(2) Elimination of the Company's equity interest in CW Media.

18. SUBSEQUENT EVENT

On December 20, 2007, the Company received conditional approval from the CRTC on its acquisition of Alliance Atlantis' broadcast operations, currently being held in trust. The CRTC has increased the required benefit obligation by \$14 million and also have reduced the time in which it must spend the benefits from the 10 years proposed by the Company to 7 years. The company has not determined the impact of the amendment to the benefit obligation on the purchase price equation. The Company has 45 days to submit additional documentation to satisfy the conditions and currently expect these operations to come out of trust during the second quarter.