CANWEST LIMITED PARTNERSHIP
(FORMERLY "CANWEST MEDIAWORKS LIMITED PARTNERSHIP")

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED

AUGUST 31, 2008 AND AUGUST 31, 2007

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the audited consolidated financial statements of Canwest Limited Partnership (formerly CanWest MediaWorks Limited Partnership) (the "Partnership") and related notes.

This discussion contains statements that are not historical facts and are forward-looking statements. Such statements reflect management's current views and are based on certain assumptions. They are, by necessity, only estimates of future developments, and actual developments may differ materially from these statements due to a number of factors. Investors are cautioned not to place undue reliance on such forward-looking statements. No forward-looking statement is a guarantee of future results.

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

OVERVIEW

We are the largest publisher of English language daily newspapers in Canada, as measured by paid circulation and revenue. Our publications include ten daily metropolitan newspapers (nine broadsheets and one tabloid). In addition, we own and operate two other daily newspapers (broadsheets), non-daily community newspapers and a number of shopping guides and newspaper-related publications in British Columbia. In addition, we operate the canada.com network of websites.

FORMATION AND LEGAL ENTITIES

The Partnership is a limited partnership formed on September 7, 2005 to acquire from Canwest Media Inc. (formerly CanWest MediaWorks Inc.), ("Canwest") and operate the business of certain publishing and digital media entities as well as certain shared service operations ("the Publications Group"). On October 13, 2005, the operations comprising the Publications Group and certain intercompany notes were transferred by Canwest to the Partnership in exchange for units of the Partnership, notes payable and convertible notes payable. In November 2005, the convertible notes were converted into additional units of the Partnership. Following the conversion, Canwest held a 74.2% ownership interest in the Partnership. On October 13, 2005 the Partnership issued units to the CanWest MediaWorks Income Fund, (the "Fund") in exchange for proceeds of $550.0 million. The Partnership utilized these proceeds as well as $821.7 million of net advances under its credit facility to pay the Fund issuance costs of $35.1 million and to satisfy the notes payable to Canwest.

In May 2007, the Partnership entered into a privatization agreement with the CWMW Trust (the "Trust"), Canwest (Canada) Inc. (formerly CanWest MediaWorks (Canada) Inc), Canwest Global Communications Corp. (formerly CanWest Global Communications Corp.) and the Fund. The transaction was approved by the unitholders in July 2007. The Partnership purchased for cancellation the 55.0 million Partnership units held indirectly by the Fund for $495.0 million. In addition, the Partnership reimbursed the Fund for its costs in connection with the transaction. See note 5 to the audited consolidated financial statements of the Partnership.

KEY FACTORS AFFECTING OPERATING RESULTS

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

For the year ended August 31, 2008, revenue increased 1% compared to the prior year based on modest growth in both advertising and circulation revenue. For the coming fiscal year, we expect a challenging advertising market as a result of weakening economic conditions. In this environment, we expect it will be difficult to sustain the advertising revenue growth we have experienced in recent years. We expect that circulation revenue will remain stable.

Our principal operating expenses are salaries, newsprint and distribution expenses, which comprised 54%, 10% and 16%, respectively, of our operating expenses in fiscal 2008.

Our operating results are particularly sensitive to variations in the cost and availability of newsprint. Newsprint is a commodity, the price of which varies considerably from time to time as a result of supply shortfalls, among other factors. In recent years, the price of newsprint has declined as a result of lower consumption, particularly in North America. We purchase our newsprint from a number of Canadian suppliers and typically are able to negotiate fixed pricing for intervals from six months to a year. We take advantage of the purchasing power that comes with the large volume of newsprint that we purchase as well as our proximity to paper mills across Canada to minimize our cost of newsprint. Changes in newsprint prices can significantly affect our operating results. A $50 per tonne increase or decrease in the price of newsprint would be expected to affect our operating expenses by approximately $7 million.

We expect our expenses to increase moderately in the coming fiscal year. We expect salary costs to increase due to normal wage escalation and that increases in gasoline prices and higher insert volumes will increase our distribution costs. Newsprint prices decreased in fiscal 2007 and 2008 however we expect this trend to reverse in fiscal 2009 with prices increasing significantly in the first half of the fiscal year.

Seasonality

Our revenue has experienced, and is expected to continue to experience, significant seasonality due to, among other things, seasonal advertising patterns and seasonal influences on people's media consumption habits. Typically, our revenue is lowest during the fourth quarter of our fiscal year, which ends in August, and highest during the first quarter of our fiscal year, which ends in November, primarily as a result of holiday-related advertising. These seasonal variations may lead to increased borrowing needs at certain points within the year. As a result, we may be required to use amounts available under the Senior Secured Credit Facilities to mitigate the impact of short-term fluctuations in cash flow.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian GAAP requires our management to make estimates and judgments that affect the reported amounts of our assets, liabilities, revenue and expenses, as well as the disclosure of contingent assets and liabilities. Our management bases its estimates and judgments on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

We have identified below the critical accounting estimates that we believe require significant judgment in the preparation of our consolidated financial statements. We consider these accounting estimates to be critical because changes in the assumptions or estimates we have selected have the potential of materially impacting our financial statements. For a summary of all of our accounting policies, see note 3 to our consolidated financial statements.

Income Taxes

The income related to the activities of the Partnership is taxed directly in the hands of the partners. The subsidiaries of the Partnership are subject to income taxes in Canada and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate income tax determination is uncertain. Management of the Partnership uses judgment and estimates in determining the appropriate income tax rates and amounts in recording future income taxes, giving consideration to timing and probability. Actual income taxes could vary from these estimates as a result of future events, including changes in income tax law or the outcome of reviews by taxation authorities and related appeals. To the extent that the final income tax outcomes are different from the amounts originally recorded, such differences will impact the income tax provision in the periods in which such determinations are made. The income tax provision for the Partnership was a recovery of $0.01 million for the year ended August 31, 2008. Future tax assets were $1.9 million, while future tax liabilities were $39.1 million at August 31, 2008. See note 11 to the consolidated financial statements of the Partnership.

Accounting for Pension and Other Benefit Plans

The cost of defined benefit pension and other retirement benefits earned by employees is calculated based upon the Partnership's management's estimates of expected plan investment performance, salary escalation, retirement ages of employees, the discount rate used in measuring the liabilities and expected healthcare costs. For fiscal 2008 and 2007, based on the investment mix, current yields and experience, management estimated the long-term rate of return on plan assets to be 7.15% and 7.25% respectively. For the same periods, the discount rate used in estimating the liability was 6.15% and 5.60%, respectively. The discount rates were estimated by applying Canadian corporate AA zero coupon bond yields to the expected future benefit payments under the plans. Management estimated that salaries would increase by 3.7% per year (2007 – 3.4%) for purposes of estimating the pension liability in 2008. As at August 31, 2008 our pension plan assets were $254.6 million, our pension obligations were $309.5 million, resulting in an aggregate plan deficit of $54.9 million. At August 31, 2008 the accrued post-retirement benefit obligation totaled $39.6 million. For accounting purposes the effect of certain items which impact the valuation of the liability are deferred and amortized over the average remaining service life of our employees. This period is 11 years for pension plans and 12 years for post retirement benefit plans. Use of different assumptions would vary the pension expense recorded in these results. See note 15 to the consolidated financial statements of the Partnership.

The fair value of pension assets was based on a measurement date of June 30, 2008. Subsequent to the measurement date, as a result of market conditions, fair values of pension assets have declined significantly. If the asset value does not recover in the near term our future pension expense and funding requirements may increase and this increase may be significant.

Derivative Financial Instruments

At August 31, 2008, we had hedging derivative instruments of $54.5 million. We estimate the fair value of the derivative financial instruments by using market analyses which take into account forward interest rate curves and foreign exchange rates. The value of the derivatives is subject to change based on changes to the underlying interest rates and foreign exchange rates. A 0.25% change in interest rates would change the fair value of the derivatives by $6.4 million and a $0.01 change in foreign exchange rates would change the fair value of the derivatives by $10.3 million.

OPERATING RESULTS

The Publications Group

The Partnership was established on September 7, 2005 under the laws of the Province of Ontario to acquire the Publications Group. The Partnership was inactive from September 7, 2005 to October 12, 2005. For the period from September 1, 2005 to October 12, 2005, we have included in this managements' discussion and analysis the combined consolidated financial statements and financial information of the Publications Group. These combined consolidated financial statements were derived from the accounting records of Canwest based on the historical results of operations and carrying values of the assets and liabilities of the entities comprising the Publications Group. For periods following our acquisition of the entities comprising the Publications Group on October 13, 2005, we have included our consolidated financial statements and financial information of the Partnership.

Comparability of Results

Our revenues and operating expenses (excluding corporate charges) are comparable and prepared on a consistent basis with those of the Publications Group. For the Publications Group, corporate costs were allocated using the methodology required by Canadian GAAP for the preparation of carve-out financial statements. These allocated costs significantly exceed the amounts charged to us by Canwest for corporate services under the Partnership Services Agreement described under "Related Party Transactions"

Our capital and legal structure is significantly different from that of the Publications Group, and, accordingly, financing expenses and income tax expenses are not comparable.

Results of Operations for the Year Ended August 31, 2008

The following table summarizes the operating results for the years ended August 31, 2008 and August 31, 2007.

	For the year ended	
	August 31, 2008	**August 31, 2007**
	$000	**$000**
Revenue:		
Newspapers	**1,171,068**	1,156,878
Digital media	**35,000**	32,647
Inter-segment elimination	**(3,016)**	(3,162)
	1,203,052	1,186,363
Segment operating expenses:		
Newspapers	**872,005**	875,449
Digital media	**26,715**	29,641
Inter-segment elimination	**(3,016)**	(3,162)
	895,704	901,928
Segment operating profit:		
Newspapers	**299,063**	281,429
Digital media	**8,285**	3,006
	307,348	284,435
Corporate expenses[1]	**-**	(6,869)
Restructuring[2]	**(10,708)**	-
EBITDA [3]	**296,640**	277,566
Net earnings	**144,586**	202,228

(1) Corporate expenses represent costs related to privatization of the Fund
(2) Restructuring costs are implementation costs, primarily severance, related to redesign of editorial and production workflow.
(3) See "Reconciliation of Non GAAP Financial Measures".

Consolidated Results

Revenue. Revenue increased $16.7 million, or 1%, to $1,203.1 million for the year ended August 31, 2008 as compared to $1,186.4 million for the year ended August 31, 2007. Newspaper revenues increased $14.2 million, or 1%, and digital media revenues increased $2.4 million, or 7%.

Operating expenses before amortization expenses. Operating expenses before amortization expenses decreased $2.4 million to $906.4 million for year ended August 31, 2008 as compared to $908.8 million for the year ended August 31.2007. Operating costs declined due to lower newsprint pricing, sale of our interest in the Metro free daily partnership in 2007, reduced 3rd party news service costs and other general cost reduction measures all of which were partially offset by inflationary wage increases, higher distribution costs and restructuring costs of $10.7 million. Restructuring costs totaling $10.7 million are related to editorial and production workflow changes that resulted in permanent staff reductions and savings of approximately $10 million on an annualized basis.

EBITDA. EBITDA increased $19.1 million or 7% for the year ended August 31, 2008 to $296.6 million as compared to $277.6 million for the year ended August 31, 2007. EBITDA improvement resulted from modest revenue growth combined with a strong focus on cost containment.

Amortization. Amortization expenses declined 2% to $46.8 million for the year ended August 31, 2008 as compared to $47.7 million for the year ended August 31, 2007.

Interest expense. Interest expense of $109.3 million for the year ended August 31, 2008 was primarily related to advances under the Senior Secured Credit Facility, the Senior Subordinated Unsecured Credit Facility and the Senior Subordinated Unsecured Notes. Interest expense of $51.4 million recorded for the year ended August 31, 2007 was primarily related to advances under the Secured Credit Facility.

Income taxes. The income tax recovery was $0.01 million for the year ended August 31, 2008 as compared to a recovery of $4.0 million for the year ended August 31, 2007. The Partnership itself is not a taxable entity. Income and capital taxes are payable only by our corporate subsidiaries. While a substantial portion of our business is transacted through a corporate entity, the taxable earnings of the corporate entity are expected to be minimal on an annual basis as a consequence of interest payable by the corporate entity to the Partnership on inter-company notes payable.

Net earnings. Net earnings decreased 29% to $144.6 million for the year ended August 31, 2008 as compared to $202.2 million for the year ended August 31, 2007. This decrease was primarily due to increased interest expense in the current year and the gain of $22.5 million recognized on the settlement of interest rate swaps following the privatization of the Fund in the prior year.

Newspaper Segment

Revenue. Revenue for the newspaper segment increased $14.2 million, or 1%, to $1,171.1 million for the year ended August 31, 2008 as compared to $1,156.9 million for the year ended August 31, 2007.

In-paper advertising (“ROP”) revenue declined 1% as linage growth of 2% was more than offset by 3% decline in average advertising rates. Classified advertising revenue declined 2%, national advertising revenue declined 1% and retail advertising revenue increased 1%. Declines in ROP advertising were more than offset by strong growth in online revenue, +15%, and growth in other advertising, +30%. Growth in other advertising was the result of new special sections and other new publications including directories. Insert distribution revenue increased 1% as a result of a 2% increase in rate and a 1% decrease in volume.

Circulation revenue was flat in fiscal 2008 relative to fiscal 2007 as a result of a 4% decline in volume offset by subscription rate increases.

Operating expenses. Operating expenses for the newspapers segment decreased slightly to $872.0 million for the year ended August 31, 2008 as compared to $875.5 million for the year ended August 31, 2007.

Lower newsprint pricing and consumption resulted in a 15% decrease in newsprint expense in fiscal 2008. Editorial and production workflow changes resulted in payroll savings in excess of $5 million in the year ended August 31, 2008 and will yield in excess of $10 million in payroll savings on an annualized basis. Lower news service costs and other general cost containment initiatives also contributed to reduced expenses. These expense reductions were partially offset by inflationary increases in payroll costs, increased distribution costs and higher marketing expenditures.

Segment operating profit. Operating profit for the newspapers segment increased $17.6 million, or 6%, to $299.1 million for the year ended August 31, 2008 as compared to $281.4 million for the year ended August 31, 2007.

Digital Media Segment

Revenue. Revenue for the digital media segment increased $2.4 million, or 7%, to $35.0 million for the year ended August 31, 2008 as compared to $32.6 million for the year ended August 31, 2007. This increase was due to a 6% increase in advertising revenue for *canada.com* and 8% increase in FPInformart subscription revenue.

Operating expenses. Operating expenses of the digital media segment decreased $2.9 million, or 10%, to $26.7 million for the year ended August 31, 2008 as compared to $29.6 million for the year ended August 31, 2007. This decrease was largely due to reduced charges for internal shared services such as finance and information technology, lower marketing expenditures and reduced severance charges. Savings in these items were partially offset by higher payroll costs due to inflationary wage increases and higher staffing levels as well as increased royalty costs due to higher FPInfomart revenue.

Segment operating profit. Operating profit for the digital media segment increased $5.3 million to $8.3 million for the year ended August 31, 2008 as compared to $3.0 million for the year ended August 31, 2007.

Results of Operations for the Year Ended August 31, 2007

The following table summarizes the operating results and other financial data for the year ended August 31, 2007 and for the year ended August 31, 2006.

	Partnership	Partnership	Publications Group	Combined
	For the year ended August 31, 2007	October 13, 2005 to August 31, 2006	September 1, 2005 to October 12, 2005	For the year ended August 31, 2006
	$000	$000	$000	$000
Revenue:				
Newspapers	**1,156,878**	1,003,216	135,835	1,139,051
Digital media	**32,647**	28,430	3,275	31,705
Inter-segment elimination	**(3,162)**	(3,182)	(391)	(3,573)
	1,186,363	1,028,464	138,719	1,167,183
Segment operating expenses:				
Newspapers	**875,449**	775,837	105,174	881,011
Digital media	**29,641**	23,130	2,984	26,114
Inter-segment elimination	**(3,162)**	(3,182)	(391)	(3,573)
	901,928	795,785	107,767	903,552
Segment operating profit:				
Newspapers	**281,429**	227,379	30,661	258,040
Digital media	**3,006**	5,300	291	5,591
	284,435	232,679	30,952	263,631
Corporate expenses[1]	**(6,869)**	-	-	-
EBITDA [2]	**277,566**	232,679	30,952	263,631
Net earnings	**202,228**	164,707	(4,000)	160,707

(1) Corporate Expenses represent costs related to privatization of Income Fund

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

Consolidated Results

Revenue. Revenue increased $19.2 million, or 2%, to $1,186.4 million for the year ended August 31, 2007 as compared to $1,167.2 million for the year ended August 31, 2006. Newspaper revenues increased $17.8 million, or 2%, and digital media revenues increased $0.9 million, or 3%.

Operating expenses before amortization expenses. Operating expenses before amortization expenses increased $5.2 million, or 1%, to $908.8 million for year ended August 31, 2007 as compared to $903.6 million for the year ended August 31, 2006. Operating costs included significant reductions in costs as a result of cost containment initiatives implemented in fiscal 2006 (including the discontinuation of the Dose printed daily magazine) and reduced employee severance costs. These reductions were more than offset by normal inflationary payroll increases, higher distribution expenses and costs associated with the privatization of the Fund.

EBITDA. EBITDA increased $13.9 million or 5% for the year ended August 31, 2007 to $277.6 million as compared to $263.6 million for the year ended August 31, 2006. Reduced severance costs and reduced *Dose* losses contributed significantly to this increase.

Amortization. Including amortization of deferred financing costs, amortization expenses increased 4% to $55.1 million for the year ended August 31, 2007 as compared to $53.0 million for the year ended August 31, 2006. This increase was primarily due to the write-off of $5.4 million in deferred financing costs associated with $825 million in debt that was retired as part of the privatization of the Fund. This write-off was partially offset by the elimination of amortization related to *Dose* in fiscal 2007 as a result of the discontinuation of the printed daily magazine in fiscal 2006.

Interest expense. Interest expense for the period from July 13, 2007 to August 31, 2007 was primarily related to advances under the Senior Secured Credit Facility, the Senior Subordinated Unsecured Credit Facility and the Senior Subordinated Unsecured Notes. The interest expense recorded in the period from October 13, 2005 to July 13, 2007 was primarily related to advances under the Secured Credit Facility. Interest expense for the period from September 1, 2005 to October 12, 2005 was primarily related to interest payable to Canwest on inter-company notes payable. Interest expense was $51.4 million for the year ended August 31, 2007 as compared to $72.8 million for the year ended August 31, 2006. The reduction in interest is due principally to the replacement of the inter-company notes with the Secured Credit Facility. See note 10 to the consolidated financial statements of the Partnership.

Income taxes. The income tax recovery was $4.0 million for the year ended August 31, 2007 as compared to a recovery of $18.9 million for the year ended August 31, 2006. The Partnership itself is not a taxable entity. Income and capital taxes are payable only by our corporate subsidiaries. While a substantial portion of our business is transacted through a corporate entity, the taxable earnings of the corporate entity are expected to be minimal on an annual basis as a consequence of interest payable by the corporate entity to the Partnership on inter-company notes payable.

Net earnings. Net earnings increased 26% to $202.2 million for the year ended August 31, 2007 as compared to $160.7 million for the year ended August 31, 2006. This increase was primarily due to increased gross margins and the gain of $22.5 million recognized on the settlement of interest rate swaps following the privatization of the Fund.

Newspaper Segment

Revenue. Revenue for the newspapers segment increased $17.8 million, or 2%, to $1,156.9 million for the year ended August 31, 2007 as compared to $1,139.1 million for the year ended August 31, 2006.

Linage increased 2% while average advertising rates decreased by 2%. National and retail advertising revenues increased by 2%. Declines in print classified linage were recorded over the first 3 quarters of the year but reversed the trend in the fourth quarter. Overall, the decline in print classified for the year was offset by increased revenue from online classified ads. Insert revenues grew 6% relative to the prior year based on a combination of rate and volumes increases A 2% decrease in circulation volume for fiscal 2007 was more than offset by increases in per copy pricing, resulting in a 3% increase in circulation revenue.

Operating expenses. Operating expenses for the newspapers segment decreased $5.6 million, or 1%, to $875.4 million for the year ended August 31, 2007 as compared to $881.0 million for the year ended August 31, 2006.

The restructuring of Dose in fiscal 2006 reduced operating expenses, including severance costs, by $13.5 million for the year ended August 31, 2007 as compared with the same period in the prior year. Employee severance, excluding costs associated with Dose, decreased $4.6 million for the year ended August 31, 2007 compared with August 31, 2006. Other reductions in costs due to cost containment initiatives implemented in the prior fiscal year partially offset inflationary increases in payroll and higher distribution costs. Newsprint pricing decreased 3% for the year ended August 31, 2007. Newsprint consumption decreased 1% for the year as compared to the prior year.

Segment operating profit. Operating profit for the newspapers segment increased $23.4 million, or 9%, to $281.4 million for the year ended August 31, 2007 as compared to $258.0 million for the year ended August 31, 2006. Excluding the impact of reduced employee severances and reduced *Dose* losses, operating profit for the newspapers segment increased $9.7 million.

Digital Media Segment

Revenue. Revenue for the digital media segment increased $0.9 million, or 3%, to $32.6 million for the year ended August 31, 2007 as compared to $31.7 million for the year ended August 31, 2006. This increase was primarily due to a 10% increase in advertising revenue for *canada.com.* FPInformart revenue was flat relative to the prior year.

Operating expenses. Operating expenses of the digital media segment increased $3.5 million, or 14%, to $29.6 million for the year ended August 31, 2007 as compared to $26.1 million for the year ended August 31, 2006. This increase was primarily due to an increase in severance costs of $1.2 million related to management restructuring combined with increases in marketing, content acquisition and hosting expenses.

Segment operating profit. Operating profit for the digital media segment decreased $2.6 million, or 46%, to $3.0 million for the year ended August 31, 2007 as compared to $5.6 million for the year ended August 31, 2006.

CONSOLIDATED QUARTERLY FINANCIAL RESULTS

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	$000	$000	$000	$000	$000	$000	$000	$000
Revenue	278,648	309,576	283,001	331,827	284,264	307,675	277,973	316,451
Net earnings	25,108	40,435	30,136	48,907	48,376	53,540	39,768	60,544
Cash flow from operating activities	29,842	64,489	49,735	43,371	61,004	79,861	66,033	51,490

LIQUIDITY AND CAPITAL RESOURCES

Our principal uses of funds are debt servicing, capital expenditures and distributions to holders of Partnership units. We believe that our ongoing cash flows from operations and availability under the Senior Secured Credit Facility will be sufficient to allow us to meet our ongoing requirements for capital expenditures, investments in working capital and distributions to Canwest. However, our needs may change and, in such event, our ability to satisfy our obligations will be dependent upon future financial performance, which in turn will be subject to financial, tax, business and other factors, including factors beyond our control.

Our management reviews acquisition and investment opportunities in the normal course of business and may, if a suitable opportunity arises, make selected acquisitions and investments to implement its business strategy. The funding for any such acquisitions or investments would come from cash flows from operations, amounts available under revolving term credit facilities or new debt financing facilities. Similarly, our management reviews opportunities to dispose of non-core assets and may, if suitable opportunities arise, sell certain non-core assets.

For fiscal 2009 we expect our major non-operating cash requirements to include capital expenditures of approximately $48 million and principal repayments of long-term debt and capital lease obligations totaling $8 million. We expect to meet our cash needs for fiscal 2009 through a combination of operating cash flow, cash on hand and existing credit facilities.

Sources of Cash

Cash from Operations

Our principal sources of liquidity are cash flows from operating activities. For the year ended August 31, 2008, our cash flows from operating activities were $187.4 million, a decrease of $71 million compared to prior year cash flows from operating activities of $258.4 million. The decrease in operating cash flows was primarily due to higher interest charges and normal fluctuations in working capital.

Revolving Term Loan

In addition to operating cash flows, as of August 31, 2008 we had unused borrowing capacity under our revolving credit facility of $152 million.

Investing Activities

In June 2008, the Partnership divested 100% of the common shares it held in Edmonton Investors Group Holdings Ltd. The Partnership received net cash proceeds of $2.2 million and recorded a gain of $1.2 million on the transaction.

Uses of Cash

Capital Expenditures

Capital expenditures for the year ended August 31, 2008 were $36.2 million compared to capital expenditures of $18.8 million for the year ended August 31, 2007. The increase in capital expenditures in 2008 and 2009 fiscal years is primarily due to increased investment in technology to replace outdated business systems.

Distributions

Distributions paid to Canwest were $166 million for the year ended August 31, 2008. Distributions paid to the Fund and to Canwest were $304.5 million for the year ended August 31, 2007 and included a $105 million distribution paid to Canwest upon closing of the Privatization transaction. After completion of the privatization transaction, the Fund ceased to exist. To the extent permissible in accordance with limitations under the notes and the Senior Secured Credit Facilities, we intend to distribute a significant portion of our cash flows from operating activities to Canwest.

Investing Activities

On November 17, 2007, the Partnership acquired 100% of the shares of a group of community newspapers in Windsor, Ontario at a cost of $2.7 million. The principal activity of these companies is to print and distribute weekly and monthly community based news.
I
n April 2008, the Partnership acquired certain assets of a community newspaper in British Columbia at a cost of $0.7 million.

Debt

	August 31, 2008	August 31, 2007
	$000	$000
Senior Secured Credit Facilities	842,027	841,170
Senior Subordinated Unsecured Notes	415,766	422,480
Senior Subordinated Unsecured Credit Facility	74,152	75,000
	1,331,945	1,338,650
Effect of foreign currency swap	-	14,100
Long term debt	1,331,945	1,352,750
Less portion due within one year	8,313	5,000
Long-term portion	1,323,632	1,347,750

On October 13, 2005, we entered into Credit Facilities, which were comprised of a term bank loan in the amount of $825.0 million and a revolving bank loan of $175 million, both maturing on October 13, 2010. On July 13, 2007 this debt, with a carrying amount of $825 million, was retired for $825 million cash. Deferred financing costs of $5.4 million relating to this debt were written off. The Partnership received $22.5 million on the settlement of the associated interest rate swap contract and recorded an interest rate swap gain of $22.5 million.

On July 13, 2007, the Partnership entered into a new $1,015 million Senior Secured Credit Facility secured by substantially all of the assets of the Partnership. The Senior Secured Facility, consists of a $250 million revolving 5 year term loan, a $265 million 5 year non-revolving term loan, and a $500 million (US$466 million) 7 year non-revolving term loan. In addition, the Partnership entered into a $75 million Senior Subordinated Unsecured Credit Facility and issued $429 million (US$400 million) in Senior Subordinated Unsecured Notes. The proceeds were used to finance the privatization, pay expenses of the financing, pay costs associated with the termination of the Performance Unit Plan, pay a $105 million distribution to Canwest and repay the existing $825 million term loan, net of a proceeds of approximately $22.5 million on the early termination of the interest rate swap contract. See note 10 to the financial statements of the Partnership.

In fiscal 2008, we made principal repayments related to the $265 million term loan totaling $5 million. At August 31, 2008 the Partnership had drawn $96 million on the revolving term loan compared to $85 million at August 31, 2007.

As of August 31, 2008, we had obligations under capital leases of $9.9 million, including the current portion of $3.1 million (August 31, 2007 - $12.5 million and $2.5 million, respectively).

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Partnership's obligations under firm contractual arrangements, including commitments for future payments under capital lease arrangements, operating lease arrangements, purchase commitments and other long-term liabilities are as summarized below:

		Payments due by period			
(000's)	Total	Less than 1 year	1 - 2 years	2 - 5 years	Thereafter
Long-term debt	1,358,751	8,313	21,563	356,125	972,750
Cash interest obligations on long-term debt (1)	520,344	86,872	86,233	239,155	108,084
Cash payments on hedging derivative instruments (2)	979,966	81,197	80,823	240,219	577,727
Cash receipts on hedging derivative instruments (2)	(926,192)	(68,869)	(71,588)	(223,607)	(562,128)
Obligations under capital leases	12,890	3,868	3,654	3,808	1,560
Operating leases	56,477	10,549	7,806	17,551	20,571
Estimated pension funding obligations (3)	94,695	22,843	22,030	49,822	-
Total	2,096,931	144,773	150,521	683,073	1,118,564

(1) Interest obligations on long-term debt represent an estimate of future cash interest expense based on current interest rates, current debt levels and scheduled debt repayments and their related interest rate and foreign currency interest swaps.

(2) Cash payments and receipts on derivative instruments and hedging derivative instruments represents an estimate of future cash payments based on current expectations regarding interest rate levels and current expectations regarding foreign exchange rates.

(3) Pension funding obligation estimates have only been included for the next five years.

FINANCIAL INSTRUMENTS

In July 2007 the Partnership entered into a 7 year foreign currency interest rate swap contract related to our Senior Secured Credit Facility that fixes the interest rate on an initial notional amount of US$466 million, resulting in an effective interest rate of 7.70% and a fixed currency exchange of US $1: 1.0725. We have also entered into a US$400 million foreign currency interest rate swap with respect to the Senior Subordinated Notes resulting in a fixed interest rate of 9.0936% and a fixed currency exchange rate of US $1: 1.0725 until 2015. Under our Senior Secured Credit Facility, we are required to maintain a fair value of all swap transactions below a prescribed threshold of $250 million. At August 31, 2008 the fair value of hedging transactions was $55 million in favour of the counterparty.

GUARANTEES AND OFF BALANCE SHEET ARRANGEMENTS

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

CHANGES IN ACCOUNTING POLICY

On September 1, 2007, the Partnership 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 deficit and opening AOCL. The Partnership adopted these standards retroactively at the beginning of the year and in accordance with the transitional provisions, the prior period balances have not been restated. 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 partners. Comprehensive income consists of net earnings and 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 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 Partnership has presented a consolidated statement of comprehensive income for changes in these items during the period. Cumulative changes in OCI are included in AOCL which is presented as a new category within the Partnership's equity on its consolidated balance sheet.

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 AOCL and recognized in net earnings upon the sale or other-than-temporary impairment.

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

- Cash and cash equivalents are 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. Amounts due to and from related parties 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.

- Non-revolving credit facilities, bank overdraft, accounts payable and accrued liabilities and long term debt 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 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 Partnership has selected September 1, 2002 as its transition date for embedded derivatives. As at September 1, 2007, the Partnership determined that it did 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 $19.8 million which have been reclassified as a reduction of the related long term debt. Accordingly, other assets were decreased by $19.8 million and long term debt was decreased by $20.0 million and partners' opening deficit was decreased by $0.2 million, to account for the measurement difference upon adoption of the effective interest 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 Partnership has 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 Partnership has designated its hedging relationships as cash flow hedges. The Partnership uses these derivatives to manage the interest rate and foreign exchange risks associated with the related debt instruments.

Cash flow hedges

The fair value of a cash flow hedge, in an effective designated relationship, is recorded on the balance sheet as part of hedging derivative instrument. Cash flows related to the hedged item are classified in the same categories as the hedged item. 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 item affects net earnings. The ineffective portion is recognized in net earnings as interest expense and foreign exchange gains (losses), as appropriate. When payments are made on the underlying instruments, the realized portions of the amounts previously recognized in AOCL are reclassified to interest expense and foreign exchange gains (losses), as appropriate. When the hedging item ceases as a result of maturity, termination or cancellation, then the amounts previously recognized in AOCL 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 $31.2 million, long term debt was decreased by $14.1 million, and opening AOCL was increased by $17.1 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 AOCL.

Impact upon adoption of new accounting standards

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

	Increase/ (Decrease)
Deficit	
Change in accounting policy for transaction costs	(248)
Accumulated Other Comprehensive Loss	
Effective portion of unrealized loss on foreign currency and interest rate swaps	17,122

Capital Disclosures

The Partnership adopted CICA 1535, "*Capital Disclosures*". CICA 1535 requires the Partnership to 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. See note 21 to the audited consolidated financial statements of the Partnership.

Financial Instrument Disclosures and Presentation

The Partnership adopted CICA 3862, "*Financial Instrument –Disclosures*" and CICA 3863, *"Financial Instruments – Presentation"*. CICA 3862 revises and enhances the disclosure requirements 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. See note 20 to the audited consolidated financial statements of the Partnership.

PROPOSED ACCOUNTING POLICIES

Assessing Going Concern

The Accounting Standards Board ("AcSB") amended CICA Handbook Section 1400, "*General Standards of Financial Statement Presentation*", to include requirements for management to assess and disclose any entity's ability to continue as a going concern. The Partnership plans to, and must, apply the new standard effective September 1, 2008. The Partnership is currently assessing the impact of adopting this standard.

Inventories

The AcSB issued *CICA 3031, Inventories*, which 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 required when there is a subsequent increase in the value of inventories. The Partnership plans to, and must, apply the new standard effective September 1, 2008. The Partnership is currently assessing the impact of adopting this standard.

Goodwill and Intangible assets

The AcSB issued *CICA 3064, Goodwill and Intangible assets*, which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. CICA 3064 expands on the criteria 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 Partnership plans to, and must, apply these new standards effective September 1, 2009. The Partnership is currently assessing the impact of adopting this standard.

International Financial Reporting Standards

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008, AcSB announced that IFRS will be used for, interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Partnership's transition date of September 1, 2011, will require the restatement for comparative purposes of amounts reported in its financial statements for the year ended August 31, 2010. While the Partnership has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

DIFFERENCES BETWEEN CANADIAN GAAP AND U.S. GAAP

The preceding discussion and analysis has been based upon financial statements prepared in accordance with Canadian GAAP, which differs in certain respects from United States GAAP. The significant differences are discussed in detail in note 27 to the audited consolidated financial statements for the year ended August 31, 2008.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

The following tables provide reconciliations of EBITDA to net earnings, the most closely comparable GAAP measure for the following periods.

	Partnership	Partnership	Partnership	Publications Group	Combined
	Year ended August 31, 2008	Year ended August 31, 2007	October 13, 2005 to August 31, 2006	September 1, 2005 to October 12, 2005	Year ended August 31, 2006
	$000	$000	$000	$000	$000
Net earnings (loss) for the period	**144,586**	202,228	164,707	(4,000)	160,707
Recovery of income taxes	**(11)**	(3,998)	(14,552)	(4,301)	(18,853)
Foreign currency exchange (gains) losses	**(477)**	80	(284)	217	(67)
Interest expense, net	**109,300**	51,382	38,922	33,858	72,780
Other income	**(2,925)**	(3,050)	(3,540)	-	(3,540)
Loss (gain) on disposal of property and	**544**	(340)	(63)	(328)	(391)
Gain on disposal of interest rate swap	**-**	(22,520)	-	-	-
Gain on disposal of investment	**(1,218)**	(1,318)	-	-	-
Amortization of deferred financing costs	**-**	7,419	1,462	-	1,462
Other amortization	**194**	188	2,541	84	2,625
Amortization of property and equipment	**46,647**	47,495	43,486	5,422	48,908
EBITDA	**296,640**	277,566	232,679	30,952	263,631