

# CW Media Holdings Inc.

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## **INTERIM CONSOLIDATED FINANCIAL STATEMENTS** **For the three and nine months ended May 31, 2009 and 2008** (Unaudited)

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**CW Media Holdings Inc.**  
**Consolidated Balance Sheets**  
**(Unaudited)**

(in thousands of Canadian dollars)

	May 31, 2009	August 31, 2008
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	23,779	15,536
Accounts receivable	80,150	62,831
Broadcast rights	99,419	45,584
Other assets (notes 5 and 13)	74,520	88,126
Future income taxes	14,226	13,726
	<b>292,094</b>	<b>225,803</b>
<b>Investments (note 6)</b>	<b>5,193</b>	<b>19,076</b>
<b>Property and equipment</b>	<b>22,849</b>	<b>30,277</b>
<b>Broadcast rights</b>	<b>140,074</b>	<b>134,166</b>
<b>Other assets (notes 5 and 13)</b>	<b>6,844</b>	<b>8,724</b>
<b>Intangible assets</b>	<b>868,900</b>	<b>868,900</b>
<b>Goodwill (note 7)</b>	<b>595,047</b>	<b>596,409</b>
	<b>1,931,001</b>	<b>1,883,355</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (notes 8 and 13)	71,708	66,045
Broadcast rights payable (note 13)	40,480	37,243
Income taxes payable	44,362	31,084
Deferred revenue	-	174
Current portion of long term debt and obligations under capital leases (note 9)	5,148	13,332
Current portion of hedging derivative instrument	20,269	11,317
	<b>181,967</b>	<b>159,195</b>
<b>Accounts payable and accrued liabilities</b>	<b>88,849</b>	<b>91,526</b>
<b>Broadcast rights payable (note 13)</b>	<b>4,773</b>	<b>4,083</b>
<b>Future income taxes</b>	<b>64,263</b>	<b>72,329</b>
<b>Long term debt and obligations under capital leases (notes 9 and 13)</b>	<b>825,509</b>	<b>783,732</b>
<b>Hedging derivative instrument</b>	<b>30,739</b>	<b>28,955</b>
	<b>1,196,100</b>	<b>1,139,820</b>
<b>Non-controlling interests</b>	<b>50,201</b>	<b>46,811</b>
<b>Shareholders' Equity</b>		
Share capital	743,087	743,087
Contributed surplus	1,603	156
Deficit	(16,011)	(19,439)
Accumulated other comprehensive loss (note 10)	(43,979)	(27,080)
Total deficit and accumulated other comprehensive loss	<b>(59,990)</b>	<b>(46,519)</b>
	<b>684,700</b>	<b>696,724</b>
	<b>1,931,001</b>	<b>1,883,355</b>

The accompanying notes form an integral part of these consolidated financial statements.

**CW Media Holdings Inc.**  
**Consolidated Statements of Earnings (Loss)**  
**(Unaudited)**

(in thousands of Canadian dollars)

	For the three months ended May 31, 2009	For the three months ended May 31, 2008	For the nine months ended May 31, 2009	For the nine months ended May 31, 2008
<b>Revenue</b>				
Subscriber	40,623	36,910	119,527	66,042
Advertising	60,187	61,399	173,886	103,663
Other	334	233	1,289	967
	101,144	98,542	294,702	170,672
Direct operating expenses (note 12)	29,473	38,922	105,334	67,115
<b>Direct profit</b>	71,671	59,620	189,368	103,557
Operating expenses	18,628	22,133	60,212	47,031
Restructuring expenses (note 8)	(201)	-	940	-
<b>Earnings before undernoted</b>	53,244	37,487	128,216	56,526
Interest expense, net	(24,979)	(21,536)	(71,767)	(45,085)
Accretion of long term liabilities	(2,423)	(2,827)	(7,029)	(4,049)
Impairment of investment (note 6)	-	(20,387)	(6,009)	(20,387)
Amortization of property and equipment	(2,596)	(3,296)	(8,763)	(7,774)
Foreign exchange gains (losses)	63,012	(2,289)	(6,210)	6,101
	86,258	(12,848)	28,438	(14,668)
Provision for income taxes (note 14)	6,252	4,060	15,779	6,240
	80,006	(16,908)	12,659	(20,908)
Non-controlling interests	(3,917)	(3,551)	(9,941)	(5,590)
Equity earnings in affiliates (note 6)	337	257	710	39,176
<b>Net earnings (loss) for the period</b>	76,426	(20,202)	3,428	12,678

The accompanying notes form an integral part of these consolidated financial statements.

**CW Media Holdings Inc.**  
**Consolidated Statements of Retained Earnings (Deficit)**  
**(Unaudited)**

*(in thousands of Canadian dollars)*

	For the three months ended May 31, 2009	For the three months ended May 31, 2008	For the nine months ended May 31, 2009	For the nine months ended May 31, 2008
<b>Retained earnings (deficit) – beginning of period</b>	<b>(92,437)</b>	34,552	<b>(19,439)</b>	1,672
Net earnings (loss) for the period	<b>76,426</b>	(20,202)	<b>3,428</b>	12,678
<b>Retained earnings (deficit) – end of period</b>	<b>(16,011)</b>	14,350	<b>(16,011)</b>	14,350

**CW Media Holdings Inc.**  
**Consolidated Statements of Comprehensive Income (Loss)**  
**(Unaudited)**

*(in thousands of Canadian dollars)*

	For the three months ended May 31, 2009	For the three months ended May 31, 2008	For the nine months ended May 31, 2009	For the nine months ended May 31, 2008
<b>Net earnings (loss) for the period</b>	<b>76,426</b>	(20,202)	<b>3,428</b>	12,678
Other comprehensive income (loss)				
Unrealized loss on available-for-sale investment, net of tax of nil (2008 – nil)	-	(6,867)	<b>(6,009)</b>	(21,890)
Reclassification of impairment loss realized in net earnings (loss) for the period	-	20,387	<b>6,009</b>	20,387
	-	13,520	-	(1,503)
Change in fair value of hedging derivative instrument designated as cash flow hedge, net of tax of \$1,047 and \$6,903 for the three and nine months ended May 31, 2009, respectively (2008 - \$982 and \$9,319)	<b>2,563</b>	577	<b>(16,899)</b>	(21,396)
	<b>2,563</b>	14,097	<b>(16,899)</b>	(22,899)
<b>Comprehensive income (loss) for the period</b>	<b>78,989</b>	(6,105)	<b>(13,471)</b>	(10,221)

**CW Media Holdings Inc.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

(in thousands of Canadian dollars)

	For the three months ended May 31, 2009	For the three months ended May 31, 2008	For the nine months ended May 31, 2009	For the nine months ended May 31, 2008
<b>Cash and cash equivalents provided by (used in)</b>				
<b>Operating activities</b>				
Net earnings (loss) for the period	76,426	(20,202)	3,428	12,678
Items not affecting cash				
Amortization of broadcast rights	26,208	34,576	94,736	59,266
Amortization of property and equipment	2,596	3,296	8,763	7,774
Impairment of investment (note 6)	-	20,387	6,009	20,387
Non-controlling interests	3,917	3,551	9,941	5,590
Non-cash interest expense, net	693	11,339	24,355	24,104
Accretion of long term liabilities	2,423	2,827	7,029	4,049
Equity earnings in affiliates	(337)	(257)	(710)	(39,176)
Future income taxes	(697)	(840)	(957)	6,101
Unrealized net foreign exchange (gains) losses	(62,773)	2,289	5,945	(5,265)
Non-cash stock-based compensation (note 11)	190	-	99	-
CRTC benefit obligation payments	(3,740)	(2,794)	(9,855)	(2,794)
Investment in broadcast rights	(23,546)	(35,888)	(154,479)	(73,240)
Net changes in other non-cash balances related to operations	7,743	(20,211)	26,507	(67,547)
	29,103	(1,927)	20,811	(48,073)
<b>Investing activities</b>				
Payment of acquisition costs	(14)	(8,444)	(1,431)	(35,921)
Cash acquired on consolidation of In-Trust Assets (note 6)	-	-	-	45,595
Advances to equity accounted investee (note 6)	-	-	-	(10,762)
Proceeds on sale of investment	8,365	-	8,365	-
Purchases of property and equipment	(326)	(114)	(1,335)	(1,397)
	8,025	(8,558)	5,599	(2,485)
<b>Financing activities</b>				
Repayment of senior secured revolving credit facility	(14,000)	-	(8,000)	-
Repayment of senior secured credit facility	(1,187)	(1,187)	(3,563)	(2,375)
Dividends paid to non-controlling interests	(5,571)	-	(6,551)	-
	(20,758)	(1,187)	(18,114)	(2,375)
Effect of exchange rate changes on cash and cash equivalents	(58)	372	(53)	(1,320)
<b>Net change in cash and cash equivalents</b>	<b>16,312</b>	<b>(11,300)</b>	<b>8,243</b>	<b>(54,253)</b>
<b>Cash and cash equivalents – beginning of period</b>	<b>7,467</b>	<b>43,076</b>	<b>15,536</b>	<b>86,029</b>
<b>Cash and cash equivalents – end of period</b>	<b>23,779</b>	<b>31,776</b>	<b>23,779</b>	<b>31,776</b>

The accompanying notes form an integral part of these consolidated financial statements.

# **CW Media Holdings Inc.**

## **Notes to Consolidated Financial Statements**

### **(Unaudited)**

*(in thousands of Canadian dollars, except per share amounts)*

## **1. Nature of Operations**

CW Media Holdings Inc. (the “Company”) is an indirectly wholly owned subsidiary of CW Investments Co. (“CW Investments”) in which Canwest Media Inc. (“Canwest”) holds a 35% equity interest and 67% voting interest with the remaining interests owned by Goldman Sachs Capital Partners.

The Company is a broadcaster of television entertainment content. The business activities consist of a controlling ownership interest in and operation of 13 Canadian specialty television channels. It also has a 50% interest in two jointly controlled established Canadian French-language specialty television channels and a non-controlling interest in two other English-language Canadian specialty television channels.

The Company’s revenues are primarily earned from subscribers who indirectly through broadcast distribution undertakings pay a fee, typically monthly, to receive the distribution of the Company’s channel signals and from advertisers who place advertisements on the channels. Subscriber revenues are earned relatively evenly throughout the year. Advertising revenue is seasonal; generally highest in the first quarter and lowest in the fourth quarter.

## **2. Significant Accounting Policies**

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

### ***Basis of presentation***

The interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada for interim financial statements and reflect all adjustments which are, in the opinion of management, necessary for fair statement of the results of the interim periods presented. However, these interim consolidated financial statements do not include all of the information and disclosures required for annual consolidated financial statements. The accounting policies used in the preparation of these interim consolidated financial statements are the same as those used in the most recent annual consolidated financial statements except for the accounting change disclosed in note 3. These interim consolidated financial statements should be read in conjunction with the most recent annual financial statements of the Company. All amounts are expressed in Canadian dollars unless otherwise noted.

### ***Broadcast rights***

In accordance with its accounting policy, the Company amortizes the broadcast rights over their anticipated period of use. Effective September 1, 2008, the Company revised the estimated number of showings attributable to its broadcast rights to reflect their planned usage. The effect of this change in estimate for the nine months ended May 31, 2009 is not practical to measure.

## **3. Accounting Changes**

**Credit Risk and the Fair Value of Financial Risks and Financial Liabilities** On January 20, 2009, the Emerging Issues Committee issued EIC 173, “*Credit Risk and the Fair Value of Financial Risks and Financial Liabilities*”. The committee reached a consensus that a company’s credit risk and the credit risk of its counterparties should be considered when determining the fair value of its financial assets and financial liabilities, including derivative instruments, for presentation and disclosure purposes. The accounting treatment for this Abstract should be applied retrospectively without restatement of prior periods to all financial assets and financial liabilities measured at fair value in interim and annual financial statements ending on or after January 20, 2009. The adoption of this Abstract did not significantly impact the unaudited interim consolidated financial statements for the nine months ended May 31, 2009.

### ***Proposed Accounting Changes***

**Goodwill and Intangible Assets** In February 2008, the Accounting Standards Board (“AcSB”) issued CICA Handbook Section 3064, “*Goodwill and Intangible Assets*”, which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. CICA 3064 expands on the criteria for recognition of intangible assets that can be recognized. CICA 3064 applies to internally generated intangible assets such as research and development activities and rights under licencing agreements. The section also indicates that expenditures not meeting the recognition criteria of

# CW Media Holdings Inc.

## Notes to Consolidated Financial Statements

### (Unaudited)

(in thousands of Canadian dollars, except per share amounts)

intangible assets are expensed as incurred. The Company plans to, and must, apply this new standard effective September 1, 2009. The Company is currently assessing the impact of adopting this standard on its consolidated financial statements.

**Business Combinations** In January 2009, the AcSB issued CICA Handbook Section 1582, "Business Combinations". Entities adopting CICA 1582 will also be required to adopt CICA Handbook Sections 1601, "Consolidated Financial Statements" and 1602, "Non-Controlling Interests". These sections replace the former CICA Handbook Sections 1581, "Business Combinations" and 1600, "Consolidated Financial Statements" and establish a new section for accounting for a non-controlling interest in a subsidiary. CICA 1582 will require additional use of fair value measurements, recognition of additional assets and liabilities and increased disclosure. CICA 1601 and 1602 will require a change in the measurement of non-controlling interest and will require the change to be presented as part of shareholders' equity. These standards will become effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011. The Company is currently assessing the impact of adopting these new standards on its consolidated financial statements.

#### 4. Acquisition

On August 15, 2007, the Company acquired Alliance Atlantis Communications Inc. ("Alliance Atlantis") and its broadcasting subsidiaries (the "Acquisition"). Alliance Atlantis' non-broadcasting subsidiaries and operations including its entertainment operations and film and television program distribution operations were transferred to other related entities. Transactions related to Alliance Atlantis' non-broadcasting subsidiaries have been excluded from the Company's financial statements as the transfers occurred concurrently with the Acquisition. The Company does not have any continuing interest in other Alliance Atlantis operations. The Company's consolidated financial statements reflect the acquisition of the broadcasting assets.

The Acquisition was accounted for using the purchase method. Certain of the broadcasting operations held by the Company (the "In-Trust Assets") were held in trust and operated by a trustee pending Canadian Radio-television and Telecommunications Commission ("CRTC") approval of the change of control from Alliance Atlantis to CW Investments. The Company used the equity method of accounting for these operations while in trust. On December 20, 2007, the CRTC approved the transfer of effective control of the In-Trust Assets to CW Investments subject to certain conditions which were subsequently satisfied. Accordingly, the Company has consolidated the results of these operations since December 21, 2007.

#### 5. Other Assets

	May 31, 2009	August 31, 2008
Receivables due from equity accounted investees (note 13e)	6,059	7,939
Tax indemnity receivable <sup>(a)</sup>	30,777	27,343
Tax credits and other receivables (note 13a,g)	10,136	11,472
Program advances	33,567	49,458
Prepaid expenses	825	638
	<b>81,364</b>	96,850
Less: Current portion	<b>74,520</b>	88,126
	<b>6,844</b>	8,724

- (a) As part of the Acquisition, the Company entered into an agreement dated August 15, 2007 (the "Separation Agreement") pursuant to which certain of the related parties to the Separation Agreement agreed to indemnify the Company in respect of specified liabilities, including certain tax liabilities, and in some cases, on a joint and several basis. As at May 31, 2009, the Company has recorded income tax liabilities of \$30,777 (August 31, 2008 - \$27,343) which according to the terms of this agreement will be recoverable from other parties to the Separation Agreement if and when the liabilities are settled.

**CW Media Holdings Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

*(in thousands of Canadian dollars, except per share amounts)*

**6. Investments**

	May 31, 2009	August 31, 2008
Investment in publicly traded company designated as available-for-sale <sup>(a)</sup>	-	14,593
Investment in equity accounted investees	5,193	4,483
	<b>5,193</b>	<b>19,076</b>

(a) During the three months ended May 31, 2009, the Company completed the sale of all 21,460,902 Class A Shares in Score Media Inc. ("SMI") at \$0.40 per share for net proceeds of \$8,365.

During the nine months ended May 31, 2009, the Company has recorded an impairment loss on its investment in SMI of \$6,009 (2008 - \$20,387). The Company concluded that the accumulated losses were other than temporary as a result of the sale of the Class A Shares.

The following sets out a summary statement of earnings and cash flows for the In-Trust Assets which were equity accounted by the Company during the period from September 1, 2007 to December 20, 2007.

<b>Summary Statement of Earnings</b>	September 1 to December 20, 2007
Subscriber revenue	44,559
Advertising revenue	63,293
Other revenue	916
<b>Total revenue</b>	<b>108,768</b>
Direct operating expenses	40,769
<b>Direct profit</b>	<b>67,999</b>
Operating expenses	23,034
<b>Earnings before undernoted</b>	<b>44,965</b>
Interest expense, net	(17,221)
Amortization of property and equipment	(2,083)
Foreign exchange gains	12,071
Recovery of income taxes	5,528
Equity earnings in affiliates	163
Non-controlling interests	(4,718)
<b>Net earnings for the period</b>	<b>38,705</b>

<b>Summary Statement of Cash Flows</b>	September 1 to December 20, 2007
<b>Operating activities</b>	
Cash and cash equivalents provided by (used in)	
Net earnings for the period	38,705
Items not affecting cash	
Amortization of broadcast rights	35,972
Amortization of property and equipment	2,083
Non-cash interest, net	9,069
Future income taxes	(13,644)
Unrealized net foreign exchange gains	(12,397)
Other	4,554
Investment in broadcast rights	(61,910)
Net changes in other non cash balances related to operations	15,484
	<b>17,916</b>
<b>Investing Activities</b>	
Purchases of property and equipment	(1,517)
<b>Financing Activities</b>	
Advances from the Company	10,762
Effect of exchange rate changes on cash and cash equivalents	208
<b>Net change in cash and cash equivalents</b>	<b>27,369</b>
<b>Cash and cash equivalents – beginning of period</b>	<b>18,226</b>
<b>Cash and cash equivalents – end of period</b>	<b>45,595</b>

**CW Media Holdings Inc.**  
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*(in thousands of Canadian dollars, except per share amounts)*

Net earnings of the In-Trust Assets for the period from September 1, 2007 to December 20, 2007 include interest expense of \$16,782 and foreign exchange gains of \$11,845 related to intercompany debt. The Company recorded interest income of \$16,782 and foreign exchange losses of \$11,845 related to the intercompany debt. Net earnings of the In-Trust Assets for the period also include agency fees of \$8,133 which have been recorded as an increase in advertising revenue by the Company and as a reduction to advertising revenue of the In-Trust Assets. In addition, the Company recovers corporate costs from the In-Trust Assets and has recorded cost recoveries in the amount of \$4,561. The cost recoveries reduced operating expenses of the Company and are included in operating expenses of the In-Trust Assets. Since December 21, 2007, these intercompany balances and transactions are eliminated on consolidation.

**7. Goodwill**

Balance, August 31, 2008	<b>596,409</b>
Decrease	<b>(1,362)</b>
Balance, May 31, 2009	<b>595,047</b>

On August 15, 2007, there was a change in control which resulted in certain restrictions on the Company's ability to utilize income tax loss carry forwards of the acquired business. As a result, a valuation allowance of \$26,037 was established against certain of the income tax loss carry forwards that existed at December 31, 2006. During the nine months May 31, 2009, the valuation allowance has been reduced for income tax loss carry forwards that are more likely than not to be realized resulting in a \$1,362 reduction to goodwill.

**8. Restructuring Expenses**

In connection with the Acquisition, the Company accrued \$18,645 relating to termination benefits for certain employees of the acquired business as part of the purchase price. During the nine months ended May 31, 2009, the Company undertook certain initiatives which will result in a workforce reduction of 36 positions. These initiatives are expected to be completed by August 31, 2009 with total costs estimated of \$1,141. During the three and nine months ended May 31, 2009, the Company recorded a recovery of \$201 and an expense of \$940 related to these restructuring activities.

The restructuring liability, which consists of termination benefits, is summarized as follows:

<b>Balance, December 31, 2007</b> <sup>(a)</sup>	<b>7,877</b>
Accrued during the period <sup>(a)</sup>	<b>1,013</b>
Payments made during the period	<b>(7,951)</b>
<b>Balance, August 31, 2008</b>	<b>939</b>
Accrued during the period	<b>940</b>
Payments made during the period	<b>(1,668)</b>
<b>Balance, May 31, 2009</b>	<b>211</b>

(a) The accrual for fiscal 2007 and 2008 was made in connection with the Acquisition and accordingly was recorded in the purchase equation.

**CW Media Holdings Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

(in thousands of Canadian dollars, except per share amounts)

**9. Long Term Debt and Obligations under Capital Leases**

	May 31, 2009	August 31, 2008
Senior secured credit facility, net of debt issuance costs of \$12,095 (August 31, 2008 - \$12,864) <sup>(a)</sup>	467,960	457,688
Senior secured revolving credit facility	-	8,000
Senior unsecured notes including accrued interest, net of debt issuance costs of \$8,113 (August 31, 2008 - \$8,843) <sup>(b)</sup>	361,215	329,630
Obligations under capital lease	528	989
Loan payable (note 13f)	954	757
	<b>830,657</b>	<b>797,064</b>
Less: current portion	5,148	13,332
	<b>825,509</b>	<b>783,732</b>

(a) U.S.\$439,732 (August 31, 2008 – U.S.\$443,081)

(b) U.S.\$338,305 (August 31, 2008 – U.S.\$318,713)

There were no changes to the terms and conditions of the long term debt during the nine months ended May 31, 2009.

The senior secured credit facility and senior unsecured notes are subject to the Company maintaining certain financial and other covenants. The Company is in compliance with such covenants as at May 31, 2009.

The foreign currency interest rate swap related to the senior secured credit facility is secured by substantially all the assets of the Company and CW Investments and, subject to certain limitations, by each of its existing and each subsequently acquired or organized wholly-owned subsidiary. During the nine months ended May 31, 2009, the credit rating of a counterparty to the Company's foreign currency interest rate swap was down graded. The Company does not expect the counterparty to fail to meet its obligations as the counterparty is rated at A.

**10. Accumulated Other Comprehensive Loss**

	For the three months ended May 31, 2009	For the three months ended May 31, 2008	For the nine months ended May 31, 2009	For the nine months ended May 31, 2008
Accumulated other comprehensive loss - beginning of period	(46,542)	(46,303)	(27,080)	(9,307)
Other comprehensive income (loss)	2,563	14,097	(16,899)	(22,899)
Accumulated other comprehensive loss - end of period	(43,979)	(32,206)	(43,979)	(32,206)

As at May 31, 2009 and August 31, 2008, accumulated other comprehensive loss was comprised of an unrealized loss on the hedging derivative instrument designated as a cash flow hedge, net of tax of \$19,209 and \$12,306, respectively.

The unrealized loss on the foreign currency interest rate swap will be reclassified to interest expense over the term of the debt, of which approximately \$14,391, net of tax of \$5,878, will be during the next 12 months.

During the three and nine months ended May 31, 2009, \$79,648 in foreign exchange losses and \$13,067 in foreign exchange gains, respectively, (2008 - \$3,909 gains and \$28,056 losses) were reclassified to the statement of earnings (loss) from accumulated other comprehensive loss, representing foreign exchange gains and losses on the notional amount of the cash flow hedging derivative. These amounts were offset by foreign exchange gains and losses, respectively, recognized on the related U.S. dollar denominated long term debt. During the nine months ended May 31, 2009 and 2008, there was no amount recorded in the statement of earnings (loss) as a result of the hedge ineffectiveness associated with the cash flow hedging instrument.

During the three and nine months ended May 31, 2009, the Company reclassified \$3,277 and \$7,295, respectively, (2008 - \$963 and \$1,697) from accumulated other comprehensive loss to the statement of earnings (loss). This amount has been recorded as a charge to interest expense and represents the effect of the swap on the Company's interest expense.

# **CW Media Holdings Inc.**

## **Notes to Consolidated Financial Statements**

### **(Unaudited)**

*(in thousands of Canadian dollars, except per share amounts)*

## **11. Long Term Incentive Plans**

The Company has long-term incentive plans for eligible employees, the Share Appreciation Rights Plan (“SAR Plan”) and the Restricted Share Unit Plan (“RSU Plan”).

### *SAR Plan*

Eligible participants receive grants of SARs which entitle them to participate in the growth in the notional share value of the Company and the Canadian broadcast operations of Canwest. SARs vest at a rate of 25% per year. At the grant date the recipients can opt to have the SARs settled at each vesting date or at the end of the four year term. Certain employees also received SARs which vest in 2011 and 2012, if certain performance criteria are met (“Special Performance SARs”).

On November 16, 2008 and November 6, 2007, the Company issued 20,600 and 20,000 SARs, respectively. At the time of issuance, the notional share value was \$12.76 (2007 - \$10.00) per SAR.

In January 2008, the Company approved an issuance of 204,282 Special Performance SARs which will vest only if “Combined EBITDA” as defined until the plan reaches a certain level by 2011. The Special Performance SARs issuance vest 50% on March 11, 2011 and 50% on March 31, 2012. The vested Special Performance SARs will be settled through a cash payment which is calculated based on the increase in the notional share value at the end of the most recently completed quarter prior to the settlement date over the notional share value at the grant date. At the time of issuance, the notional share value was \$10.00 per Special Performance SAR.

### *RSU Plan*

Eligible participants receive grants of RSUs which are settled at the end of a three year term provided that specified performance goals or other factors as determined by the Board of Directors have been met. The vested RSUs are settled through a cash payment equal to the notional share value at the end of the most recently completed quarter prior to the settlement date times the number of RSUs held.

On November 16, 2008 and November 6, 2007, the Company issued 13,800 and 13,700 RSUs, respectively. The notional share value at the time of issuance was \$12.76 (2007 - \$10.00) per RSU.

During the three and nine months ended May 31, 2009, total compensation cost related to these plans was \$190 and \$99, respectively (2008 – nil).

## **12. Broadcast Rights**

Included in direct operating expenses for the three and nine months ended May 31, 2009 were impairments of broadcast rights of \$1,857 and \$3,313, respectively (2008 – nil).

## **13. Related Party Transactions**

(a) In the normal course of business, broadcast rights may be acquired jointly for exploitation by both the Company and Canwest. During the three and nine months ended May 31, 2009, the Company acquired broadcast rights of \$2,480 and \$38,636, respectively (2008 – \$1,952), from Canwest. In addition, during the three and nine months ended May 31, 2009, Canwest acquired broadcast rights of \$1,384 and \$4,130, respectively (2008 – nil), from the Company. These purchases were recorded at the exchange amount which was the consideration agreed to by each party.

The Company and Canwest provide services and make payments for certain costs on behalf of each other. During the three and nine months ended May 31, 2009 the Company recorded a net expense of \$707 and \$1,560, respectively (2008 – \$1,031), which has been included in operating expenses in the consolidated statement of earnings (loss). In addition, included in revenue for the three and nine months ended May 31, 2009 is \$137 and \$494, respectively, for services provided by the Company to Canwest. These transactions for services provided by each entity are recorded on a cost recovery basis.

## **CW Media Holdings Inc.**

### **Notes to Consolidated Financial Statements**

#### **(Unaudited)**

*(in thousands of Canadian dollars, except per share amounts)*

As at May 31, 2009, included in other assets and broadcast rights payable is \$2,447 and \$9,083, respectively, related to these transactions (August 31, 2008 - \$1,311 included in accounts payable and accrued liabilities).

During the three and nine months ended May 31, 2009, Canwest made payments of \$731 and \$2,101, respectively (2008 – nil), on behalf of the Company, relating to the Company's CRTC benefit obligation. These payments have been recorded as an increase to contributed surplus, net of income taxes, with a corresponding decrease to accounts payable and accrued liabilities.

(b) In the normal course of business, the Company acquires broadcast rights from certain related parties. These parties are related to the Company as the holders of significant economic interest in the Company's parent company who have representation on the Company's Board of Directors also hold significant economic interests in the related parties. During the three and nine months ended May 31, 2009, these purchases totaled \$404 and \$10,822 respectively (2008 - \$539 and \$14,079), and have been recorded in broadcast rights. The transactions were measured at the exchange amount which was the consideration agreed to by each party. As at May 31, 2009, included in broadcast rights payable is \$2,988 (August 31, 2008 - \$6,113) related to these purchases.

(c) In the normal course of business, the Company acquires broadcast rights from non-controlling interests who exert significant influence over the Company's subsidiaries. During the three and nine months ended May 31, 2009 the Company acquired broadcast rights of \$2,546 and \$6,692, respectively (2008 - \$1,399 and \$6,485), which have been recorded in broadcast rights. The transactions were measured at the exchange amount which was the consideration agreed to by each party. At May 31, 2009, included in broadcast rights payable, are amounts due to these affiliated companies of \$4,244 (August 31, 2008 - \$2,335).

(d) The Company has entered into trademark and franchise payment agreements with non-controlling interests who exert significant influence over certain entities of the Company. The transactions are measured at the exchange amount and recorded in operating expenses on the consolidated statements of earnings (loss). During the three and nine months ended May 31, 2009 the Company paid \$174 and \$1,204, respectively, (2008 - \$1,513 and \$2,465), related to such agreements. At May 31, 2009, the amount due to these affiliated companies was \$2,697 (August 31, 2008 - \$1,094) and has been included in accounts payable and accrued liabilities.

(e) The Company has provided loans to equity accounted investees. The loans bear interest at rates ranging from the Canadian prime rate plus 2.5% to a fixed rate of 7.8% and are repayable on demand. The loans are included in other assets and have been classified as non-current as the Company does not intend to demand repayment in the next 12 months.

(f) The Company has a loan payable owing to a non-controlling interest bearing interest at a rate of 8%. The principal and interest balance is repayable upon demand subject to certain terms and conditions in the Shareholders Agreement. The loan payable is included in long term debt and obligations under capital leases and has been classified as non-current.

(g) Included in other assets at May 31, 2009 is \$785 (August 31, 2008 - \$785) due from the Company's parent which has been classified as non-current.

(h) During the nine months ended May 31, 2008, the Company was committed under an operating lease for premises that was used by certain related parties. These parties are related to the Company as the holders of significant economic interest in the Company's parent company who have representation on the Company's Board of Directors also hold significant economic interests in the related parties. The Company was the lessor and recovered a portion of the costs of the lease premises from related parties, which was recorded as a reduction to operating expenses in the consolidated statement of earnings. In addition, as a result of the Acquisition, the Company also provided certain transitional services to related parties consisting mainly of information technology support. During the three and nine months ended May 31, 2008, these charges totalled \$499 and \$1,497, respectively. As at August 31, 2008, included in other assets is \$179 related to these charges. Commencing September 2008, these transactions no longer occur.

**CW Media Holdings Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

*(in thousands of Canadian dollars, except per share amounts)*

**14. Income Taxes**

The differences between the effective tax rate for the provision for income taxes and the Canadian statutory income tax rate are as follows:

	<b>For the three months ended May 31, 2009</b>	For the three months ended May 31, 2008	<b>For the nine months ended May 31, 2009</b>	For the nine months ended May 31, 2008
Corporate statutory rate of income tax	<b>33.2%</b>	35.0%	<b>33.2%</b>	35.0%
Provision for (recovery of) income taxes at statutory rate	<b>28,638</b>	(4,497)	<b>9,441</b>	(5,134)
Adjusted for the effect of:				
Non-taxable portion of capital (gains) losses	<b>(9,400)</b>	4,085	<b>2,415</b>	2,400
Effect of partnership earnings from equity accounted affiliates	-	-	-	1,332
Non-deductible expenses	<b>40</b>	60	<b>75</b>	118
Change in expected future tax rates	<b>(1,509)</b>	718	<b>622</b>	3,851
Change in valuation allowance	<b>(12,072)</b>	3,061	<b>960</b>	3,376
Effect of uncertain tax positions	<b>318</b>	-	<b>2,653</b>	-
Other	<b>237</b>	633	<b>(387)</b>	297
	<b>6,252</b>	4,060	<b>15,779</b>	6,240

The recognition and measurement of the current and future income tax assets and liabilities involves dealing with uncertainties in the application of complex tax regulations and in the assessment of the recoverability of future tax assets. Actual income tax assets and liabilities 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.

**15. Segmented Information**

The Company operates in Canada and has one operating segment. All of the revenues, broadcasting licences and capital assets are in Canada. The goodwill will be realized in Canada.

For the three and nine months ended May 31, 2009, included in revenue were amounts earned from one distribution undertaking that represented 11.8% and 12.0% of revenues, respectively, (2008 – 11.6% and 12.2%). The balance of revenue was widely distributed among other customers.

**16. Reclassification of Comparative Amounts**

Certain prior period amounts have been reclassified to conform to the presentation adopted in the current period.