

**CANWEST LIMITED PARTNERSHIP**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE THREE AND NINE MONTHS ENDED**

**MAY 31, 2009 AND MAY 31, 2008**

**July 9, 2009**

## **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 interim consolidated financial statements of Canwest Limited Partnership ("Limited 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 twelve major daily metropolitan newspapers (nine broadsheets and three tabloids), 26 non-daily community newspapers and a number of shopping guides and newspaper-related publications. In addition, we operate the canada.com network of websites.

### **KEY FACTORS AFFECTING OPERATING RESULTS**

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

For the three months ended May 31, 2009, newspaper segment revenues decreased 20% as compared to the same period in the previous year primarily due to weakness in the Canadian economy. At present, the outlook for the advertising market remains uncertain and we expect to experience continued advertising revenue declines for the balance of the fiscal year as a result of weak economic conditions. In response to current economic conditions, we have developed and are implementing a number of initiatives to reduce operating costs and close certain operations. We continue to develop additional strategies to further reduce operating costs and improve operating results and cash flows.

For the three months ended May 31, 2009, digital media segment revenue grew 20% relative to the same period in the prior year. We expect revenues for our digital media segment to experience continued growth for the remainder of the fiscal year.

Our principal operating expenses are salaries, newsprint and distribution expenses, which comprised 54%, 14% 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. 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 on an annualized basis.

We expect our operating expenses to decrease for the balance of the fiscal year based on the restructuring and cost reduction efforts completed in the first half of the fiscal year. We expect salary costs to decrease as normal wage escalation will be more than offset by a lower number of employees resulting from strategic initiatives. Lower insert volumes and fuel costs relative to prior year will contribute to decreased distribution costs. We expect newsprint prices to decrease from current levels during the remainder of the fiscal year.

### **Seasonality**

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

### **Going Concern**

These interim consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles ("GAAP") which assumes that the Limited Partnership will continue in operation and be able to realize its assets and discharge its liabilities and commitments in the normal course of business for the foreseeable future. There is significant doubt about the appropriateness of the going concern assumption because of the material uncertainty caused by the current market conditions including our declining advertising revenue and ability to realize cost reductions.

Our operating results and cash flows for the three and nine months ended May 31, 2009 reflect the effects of the deterioration in the economy and reduced advertising revenue in our publishing operations. The outlook for the advertising market remains uncertain and the weakness in the advertising market is likely to continue until the economy improves. Significantly reduced advertising revenues have impacted our liquidity. As at May 31, 2009, current liabilities significantly exceed current assets. We are in default under the terms of our senior credit facilities, our senior subordinated credit facility and our senior subordinated notes indenture because we failed to make payments of interest and principal due in May 2009 on the senior credit facility and its related hedging derivative instruments and we failed to satisfy the demand for immediate repayment of our obligations related to the hedging derivative instruments. As described in note 11 in the unaudited interim consolidated financial statements, we have developed restructuring plans to reduce costs and close underperforming operations. We are continuing to assess other strategies to improve operating results and cash flows, to adjust capital structure and to reduce debt obligations. While we believe that progress is being made in developing and implementing strategies to enhance the profitability of operations as well as to recapitalize the Limited

Partnership, there can be no assurance as to the outcome or success of these strategies. Further, our results for the remainder of 2009 and future periods are subject to numerous uncertainties.

We were not in compliance with our financial covenants as of May 31, 2009 and failed to make payments of interest and principal that were due in May 2009 on our senior credit facility and the associated hedging derivative instruments. These payments were not made in order to preserve liquidity to fund operations while we work to effect a recapitalization transaction. As a consequence, we do not have the ability to make additional draws on our revolving facility and the senior secured creditors could demand the immediate payment of the amounts outstanding under the facilities. The carrying value of the amounts due under the senior secured credit facilities is \$874.2 million. As a result of the payment default the hedging derivative instrument counterparties terminated the hedging arrangements and demanded immediate payment of an aggregate of \$69 million. We have not satisfied this demand and do not have adequate liquidity to satisfy this or any other such demand.

The default under the senior secured credit agreement constitutes an event of default under the senior subordinated credit facility and the lenders thereunder could demand immediate repayment of these debts. The default under the senior credit agreement together with the termination of hedging agreements and the demand for immediate payment of an aggregate of \$69 million thereunder constitutes a default under our 9.25% senior subordinated notes indenture, and if this default is not remedied within the applicable grace period the noteholders could demand immediate repayment of these debts. The aggregate carrying value of amounts outstanding under the senior subordinated credit facility and the senior subordinated notes is \$502.5 million. We would not have adequate liquidity to satisfy a demand for repayment under the senior subordinated credit facility nor the 9.25% senior subordinated notes indenture.

We are in discussions with the holders of the senior secured credit facilities and the senior subordinated credit facility regarding future financing and capital requirements. There can be no assurance as to the success or outcome of these discussions.

The Limited Partnership's parent company, Canwest Media Inc., is in default on certain debt obligations and is currently undergoing discussions with various parties regarding recapitalization (see notes 12 and 15 of the unaudited interim consolidated financial statements).

Our results for fiscal 2009 and future periods are subject to numerous uncertainties. The possibility exists that unforeseen events, such as, higher interest rates, foreign currency changes, prolonged curtailment of advertising spending or other adverse business conditions or a combination of these or other factors may further affect fiscal 2009 and future operating results and cash flows. These circumstances lend significant doubt as to our ability to meet our obligations as they come due and accordingly, the use of accounting principles applicable to a going concern.

The consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these unaudited interim consolidated financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses and the balance sheet classifications used. These adjustments may be material.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in accordance with Canadian GAAP requires us 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. We base our estimates and judgments on historical experience and other factors that are believed to be reasonable under the

circumstances. Actual results may differ from these estimates under different assumptions or conditions.

There are no significant changes in our accounting policies or estimates since August 31, 2008 and as described in our Management's Discussion and Analysis for the year ended August 31, 2008, except as described below:

#### *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 or after January 20, 2009. The adoption of this Abstract did not significantly impact the unaudited interim consolidated financial statements for the three and nine months ended May 31, 2009.

#### *Inventories*

The Accounting Standards Board ("AcSB") issued Canadian Institute of Chartered Accountants ("CICA") Handbook Section 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 adoption of this section did not have a significant impact on the unaudited interim consolidated financial statements for the three and nine months ended May 31, 2009.

Inventory, consisting primarily of printing materials, is valued at the lower of cost, using the first-in first-out cost formula, and net realizable value. The carrying value of the inventories carried at cost at May 31, 2009 are \$7.4 million (August 31, 2008 - \$10.7 million). The inventories carried at net realizable value at May 31, 2009 is nil (August 31, 2008 – nil).

During the three months ended May 31, 2009, the amount of inventories expensed was \$21.6 million (three months ended May 31, 2008 - \$24.2 million). The amount of write-downs or reversals for the three months ended May 31, 2009 is nil (three months ended May 31, 2008 – nil).

During the nine months ended May 31, 2009, the amount of inventories expensed was \$72.8 million (nine months ended May 31, 2008 - \$73.1 million). The amount of write-downs or reversals for the nine months ended May 31, 2009 is nil (nine months ended May 31, 2008 – nil).

#### *Assessing Going Concern*

The AcSB amended CICA Handbook Section 1400, "*General Standards of Financial Statement Presentation*", to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events and conditions that may cast doubt on the entity's ability to continue as a going concern. We adopted the new standard effective September 1, 2008 and have assessed going concern in note 1 of the unaudited interim consolidated financial statements for the three and nine months ended May 31, 2009.

### **Proposed Accounting Changes**

#### *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 for recognition of intangible assets. CICA 3064 applies to internally generated intangible assets such as research and development activities and rights under licensing agreements. The section also indicates that expenditures not meeting the recognition criteria of intangible assets are expensed as incurred. We plan to, and must, apply this new standard effective September 1, 2009. We do not expect the adoption of this standard to have a significant impact.

#### *Business Combinations*

The AcSB issued CICA Handbook Section 1582, "*Business Combinations*" and 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 partner's equity. These standards will become effective for business combinations for which the acquisition date is on or after September 1, 2011. We are currently considering the impacts of the adoption of such standards.

## CONSOLIDATED OPERATING RESULTS

### Results of Operations for the Three Months Ended May 31, 2009

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

<i>(unaudited)</i>	Three months ended	
	May 31, 2009	May 31, 2008
	\$000	\$000
<b>Revenue:</b>		
Newspapers	242,195	301,963
Digital Media	9,960	8,273
Inter-segment elimination	(831)	(660)
	<u>251,324</u>	<u>309,576</u>
<b>Segment operating expenses:</b>		
Newspapers	198,523	221,208
Digital Media	5,539	6,956
Inter-segment elimination	(831)	(660)
	<u>203,231</u>	<u>227,504</u>
<b>Segment operating profit:</b>		
Newspapers	43,672	80,755
Digital Media	4,421	1,317
	<u>48,093</u>	<u>82,072</u>
Restructuring expenses	<u>3,394</u>	673
EBITDA <sup>(1)</sup>	<u>44,699</u>	81,399
Net Earnings (Loss)	<u>(62,863)</u>	40,435

<sup>(1)</sup> See "Reconciliation of Non GAAP Financial Measures".

*Revenue.* Revenue decreased \$58.3 million, or 19%, to \$251.3 million for the three months ended May 31, 2009 as compared to \$309.6 million for the three months ended May 31, 2008. Newspaper revenues decreased \$59.8 million, or 20%, and digital media revenues increased \$1.7 million, or 20%.

*Operating expenses before restructuring expenses and corporate costs.* Operating expenses before restructuring expenses and corporate costs decreased 11%, to \$203.2 million for the three months ended May 31, 2009 as compared to \$227.5 million for the three months ended May 31, 2008. Newspaper expenses decreased \$22.7 million, or 10%, and digital media expenses decreased \$1.4 million, or 20%.

*Restructuring expenses.* Restructuring expenses were \$3.4 million for the three months ended May 31, 2009 compared to \$0.7 million in the same period in the prior year. Restructuring costs were related to staff reductions resulting from a variety of workflow improvement initiatives, a voluntary buy out program and other involuntary staff reductions. We expect total labour-related restructuring expenses to be in the range of \$26 to \$27 million in the current fiscal year. As a result of these restructuring efforts and other non-labour related cost reductions we expect to reduce

operating costs by approximately \$45 to \$50 million in the current fiscal year. Also included in restructuring, are reorganization costs of \$0.8 million relating to future financing and capital requirements.

*EBITDA.* EBITDA decreased \$36.7 million or 45% for the three months ended May 31, 2009 to \$44.7 million as compared to \$81.4 million for the three months ended May 31, 2008. EBITDA excluding restructuring expenses and corporate costs was \$48.1 million in the current quarter compared to \$82.1 million for the same period in the prior year, a decrease of \$34.0 million or 41%.

*Amortization.* Amortization expenses were \$10.2 million for the three months ended May 31, 2009 compared to \$11.6 million for the same period in the prior year, a reduction of \$1.4 million or 12%. This decrease is primarily due to assets becoming fully depreciated and not replaced.

*Interest expense.* Interest expense is primarily related to advances under the senior secured credit facilities, the senior subordinated unsecured credit facility and the senior subordinated unsecured notes. Interest expense was \$81.9 million for the three months ended May 31, 2009 as compared to \$26.8 million for the three months ended May 31, 2008. The increase in interest is due principally to the reclassification of the cumulative other comprehensive loss in the amount of \$60.1 million as a result of the cash flow hedge becoming ineffective.

*Income taxes.* The income tax provision was a recovery of \$6.9 million for the three months ended May 31, 2009 as compared to a provision of \$3.4 million for the three months ended May 31, 2008 due to the change in net earnings. The Limited 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 Limited Partnership on inter-company notes payable.

*Net earnings.* Net earnings decreased 255% to a loss of \$62.9 million for the three months ended May 31, 2009 as compared to earnings of \$40.4 million for the three months ended May 31, 2008. This decrease was primarily driven by a decline in newspaper advertising revenue due to weak economic conditions, increased restructuring expenses, increase interest expense and loss on the disposal of interest rate swap offset by foreign exchange gains.

#### *Newspapers*

*Revenue.* Revenue for the newspapers segment decreased \$59.8 million, or 20%, to \$242.2 million for the three months ended May 31, 2009 as compared to \$302.0 million for the three months ended May 31, 2008.

Total advertising linage decreased 19% relative to the prior year with weakness in all major advertising categories. Average line rate declined 11%. National and classified revenues decreased by 25% and 39% respectively, and retail revenues decreased by 21% compared to the prior year. Newspaper online revenue decreased 5% in the quarter relative to the same period in the prior year primarily due to weakness in online employment advertising. Insert revenues decreased 7% compared to the prior year driven by declines in volumes. Circulation revenues were down 1% to the prior period as a 5% decrease in circulation volume was partially offset by increases in per copy pricing.

*Operating expenses.* Operating expenses for the newspapers segment decreased \$22.7 million, or 10%, to \$198.5 million for the three months ended May 31, 2009 as compared to \$221.2 million for the three months ended May 31, 2008. Reductions in operating expenses were due to the impact of headcount reductions and various other cost reduction initiatives. Newsprint consumption decreased 24% for the three months as compared to the same period in the prior year due to lower

circulation volumes, declines in advertising lineage and other newsprint reduction initiatives. This reduction in newsprint volume was partially offset by a 16% increase in newsprint pricing resulting in a 13% decrease in newsprint expense.

*Segment operating profit.* As a result of advertising revenue declines, operating profit for the newspapers segment decreased \$37.1 million, or 46%, to \$43.7 million for the three months ended May 31, 2009 as compared to \$80.8 million for the three months ended May 31, 2008.

#### *Digital Media*

*Revenue.* Revenue for the digital media segment increased \$1.7 million, or 20%, to \$10.0 million for the three months ended May 31, 2009 as compared to \$8.3 million for the three months ended May 31, 2008. This increase was due to a 14% increase in FPInfomart subscription revenue and a 21% increase in revenue on canada.com.

*Operating expenses.* Operating expenses of the digital media segment decreased \$1.4 million, or 20%, to \$5.5 million for the three months ended May 31, 2009 as compared to \$7.0 million for the three months ended May 31, 2008. The decrease was primarily due to lower marketing costs. .

*Segment operating profit.* Operating profit for the digital media segment increased \$3.1 million to \$4.4 million for the three months ended May 31, 2009 as compared to \$1.3 million for the three months ended May 31, 2008. The increase in operating profit is a combination of the increase in revenue and the lower operating expenses.

## Results of Operations for the Nine Months Ended May 31, 2009

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

<i>(unaudited)</i>	Nine months ended	
	May 31, 2009	May 31, 2008
	<u>\$000</u>	<u>\$000</u>
Revenue:		
Newspapers	770,898	901,122
Digital Media	30,083	25,301
Inter-segment elimination	(2,434)	(2,019)
	<u>798,547</u>	<u>924,404</u>
Segment operating expenses:		
Newspapers	628,241	660,122
Digital Media	20,112	18,623
Inter-segment elimination	(2,434)	(2,019)
	<u>645,919</u>	<u>676,726</u>
Segment operating profit:		
Newspapers	142,657	241,000
Digital Media	9,971	6,678
	<u>152,628</u>	<u>247,678</u>
Restructuring expenses	25,343	10,713
EBITDA <sup>(1)</sup>	<u>127,285</u>	<u>236,965</u>
Net Earnings (Loss)	<u>(34,128)</u>	<u>119,478</u>

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

*Revenue.* Revenue decreased \$125.9 million, or 14%, to \$798.6 million for the nine months ended May 31, 2009 as compared to \$924.4 million for the nine months ended May 31, 2008. Newspaper revenues decreased \$130.2 million, or 14%, and digital revenues increased \$4.8 million, or 19%.

*Operating expenses before restructuring expenses and corporate costs.* Operating expenses before restructuring expenses and corporate costs decreased 5%, to \$645.9 million for the nine months ended May 31, 2009 as compared to \$676.7 million for the nine months ended May 31, 2008. Newspaper expenses decreased \$31.9 million, or 5%, and digital expenses increased \$1.5 million, or 8%. Decreased newspaper expenses are primarily the result of the various cost reduction initiatives implemented this year. These initiatives related to a voluntary buy out program, newspaper workflow changes and other local initiatives.

*EBITDA.* EBITDA decreased \$109.7 million or 46% for the nine months ended May 31, 2009 to \$127.3 million as compared to \$237.0 million for the nine months ended May 31, 2008. EBITDA excluding restructuring expenses and corporate costs was \$152.6 million for the nine months ended May 31, 2009 compared to \$247.7 million for the same period in the prior year, a decrease of \$95.1 million or 38%. This decrease is primarily due to advertising revenue declines due to weak economic conditions.

*Amortization.* Amortization expenses were \$31.1 million for the nine months ended May 31, 2009 compared to \$34.8 million for the same period in the prior year a reduction of \$3.7 million or 11%. This decrease is due to assets that have been fully amortized and not replaced since the prior year.

*Interest expense.* Interest expense is primarily related to advances under the senior secured credit facilities, the senior subordinated unsecured credit facility and the senior subordinated unsecured notes. Interest expense was \$132.9 million for the nine months ended May 31, 2009 as compared to \$81.5 million for the nine months ended May 31, 2008. The increase in interest is due principally to the reclassification of the cumulative other comprehensive loss in the amount of \$60.1 million as a result of the cash flow hedge becoming ineffective.

*Income taxes.* The income tax recovery was \$21.2 million for the nine months ended May 31, 2009 as compared to a provision of \$3.7 million for the nine months ended May 31, 2008 due to the change in net earnings. The Limited 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 Limited Partnership on inter-company notes payable.

*Net earnings.* Net earnings decreased 129% to a loss of \$34.1 million for the nine months ended May 31, 2009 as compared to earnings of \$119.5 million for the nine months ended May 31, 2008. This decrease was primarily due to decreased revenues, and increased interest expense and loss on disposal of interest rate swap offset by foreign exchange gains.

#### *Newspapers*

*Revenue.* Revenue for the newspapers segment decreased \$130.2 million, or 14%, to \$770.9 million for the nine months ended May 31, 2009 as compared to \$901.1 million for the nine months ended May 31, 2008.

Linage decreased by 14% relative to the prior year and the average line rate decreased 8% for the same period. National (-18%), retail (-15%) and classified (-30%) categories all showed reduced revenues compared to the prior year. Newspaper online revenue decreased 3% in the nine month period ended May 31, 2009 compared to the prior year primarily due to weakness in online employment advertising. The 6% decrease in insert revenues relative to the prior year was driven by a volume decrease, with rates remaining flat to the prior year. A 4% decrease in circulation volume was partially offset by increases in per copy pricing, resulting in a 1% decrease in circulation revenue relative to the prior year.

*Operating expenses.* Operating expenses for the newspapers segment decreased \$31.9 million, or 5%, to \$628.2 million for the nine months ended May 31, 2009 as compared to \$660.1 million for the nine months ended May 31, 2008. The decrease in expenses was partially due to a one-time expense recovery of \$6.2 million related to employee benefits received in February 2009. Increases in newsprint costs were offset by decreases in payroll due to the reduction of the number of employees. Newsprint cost per tonne increased 20% for the nine months ended May 31, 2009. This price increase was offset by a 16% decrease in newsprint volume resulting in a 2% decrease in newsprint expense.

*Segment operating profit.* Operating profit for the newspapers segment decreased \$98.3 million, or 41%, to \$142.7 million for the nine months ended May 31, 2009 as compared to \$241.0 million for the nine months ended May 31, 2008.

## *Digital*

*Revenue.* Revenue for the digital media segment increased \$4.8 million, or 19%, to \$30.1 million for the nine months ended May 31, 2009 as compared to \$25.3 million for the nine months ended May 31, 2008. This increase was due to a 23% increase in advertising revenue for *canada.com* and a 12% increase in FPInfomart revenue.

*Operating expenses.* Operating expenses of the digital media segment increased \$1.5 million, or 8%, to \$20.1 million for the nine months ended May 31, 2009 as compared to \$18.6 million for the nine months ended May 31, 2008. This increase in expenses was primarily due to an increase in headcount to support new product initiatives. .

*Segment operating profit.* Operating profit for the digital media segment increased \$3.3 million, or 49%, to \$10.0 million for the nine months ended May 31, 2009 as compared to \$6.7 million for the nine months ended May 31, 2008.

## CONSOLIDATED QUARTERLY FINANCIAL RESULTS

<i>(unaudited)</i>	2009			2008			2007	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Revenue	251,324	239,256	307,967	278,648	309,576	283,001	331,827	284,264
Net earnings (loss)	(62,683)	(2,523)	31,258	25,108	40,435	30,136	48,907	48,376
Cash flow from operating activities	34,639	14,456	32,451	29,842	64,489	49,735	43,371	69,541

## LIQUIDITY AND CAPITAL RESOURCES

We were not in compliance with our financial covenants as of May 31, 2009 and failed to make payments of interest and principal that were due in May 2009 on our senior credit facility and the associated hedging derivative instruments. These payments were not made in order to preserve liquidity to fund operations while we work to effect a recapitalization transaction. As a consequence, we do not have the ability to make additional draws on our revolving facility and the senior secured creditors could demand the immediate payment of the amounts outstanding under the facilities. The carrying value of the amounts due under the senior secured credit facilities is \$874.2 million. As a result of the payment default the hedging derivative instrument counterparties terminated the hedging arrangements and demanded immediate payment of an aggregate of \$69 million. We have not satisfied this demand and do not have adequate liquidity to satisfy this or any other such demand.

The default under the senior secured credit agreement constitutes an event of default under the senior subordinated credit facility and the lenders thereunder could demand immediate repayment of these debts. The default under the senior credit agreement together with the termination of hedging agreements and the demand for immediate payment of an aggregate of \$69 million thereunder constitutes a default under our senior subordinated notes indenture, and if this default is not remedied within the applicable grace period the noteholders could demand immediate repayment of these debts. The aggregate carrying value of amounts outstanding under the senior subordinated credit facility and the senior subordinated notes is \$502.5 million. We would not have adequate liquidity to satisfy a demand for repayment under the senior subordinated credit facility nor the senior subordinated notes indenture.

We are in discussions with the holders of the senior secured credit facilities and the senior subordinated credit facility regarding future financing and capital requirements.

### **Sources of Cash**

Our principal sources of liquidity are cash flows from operating activities. For the three months ended May 31, 2009, our cash flows from operating activities were \$34.6 million compared to \$64.5 million in the same period in the prior year. For the nine months ended May 31, 2009, our cash flows from operating activities were \$81.5 million compared to \$157.6 million for the same period in the prior year. The decline in operating cash flow both in this quarter and year to date was due to the decline in operating results.

In February 2009, a surplus building in Edmonton was sold. We received net cash proceeds of \$3.6 million and recorded a gain of \$2.2 million on the transaction.

As of May 31, 2009, our cash position reflected cash on hand of \$28.9 million (August 31, 2008 – bank overdraft of \$2.3 million).

## Uses of Cash

### Capital Expenditures

For the three months ended May 31, 2009, our capital expenditures were \$4.8 million compared with \$13.0 million for the same period in the prior year. For the nine months ended May 31, 2009 capital expenditures were \$23.6 million compared to \$26.9 for the same period in the prior year. Capital expenditures decreased in this quarter and year to date as there were significant investment projects in online and newspaper technologies in the prior year. We expect capital expenditures in the range of \$30 million for the current fiscal year.

### Distributions

To the extent permissible in accordance with limitations under the senior subordinated unsecured notes and the senior secured credit facilities, our intent has been to distribute a significant portion of our cash flows from operating activities to Canwest Media Inc. Distributions paid to Canwest Media Inc. for the three months ended May 31, 2009 were nil (\$28.8 million for the same period in the prior year). For the nine months ended May 31, 2009, distributions paid to Canwest Media Inc. were \$45.0 million (\$128.0 million for the same period in the prior year). No further distributions will be paid to Canwest Media Inc. during the remainder of the year.

### Debt

<i>(unaudited)</i>	May 31, 2009	August 31, 2008
	\$000	\$000
Senior Secured Credit Facilities	874,157	842,027
Senior Subordinated Unsecured Notes	428,314	415,766
Senior Subordinated Unsecured Credit Facility	74,214	74,152
Long term debt	1,376,685	1,331,945
Less portion due within one year	1,376,685	8,313
Long-term portion	-	1,323,632

As a result of the events of default described under the heading "Going Concern", obligations under the senior secured credit agreement, the senior subordinated credit agreement and the senior subordinated note indenture have been classified as current liabilities. In addition, as a consequence of the default of our senior credit facility, we do not have the ability to make additional draws on our revolving facility. As of July 10, 2009, the senior secured credit facility remains in default.

As of May 31, 2009, we had obligations under capital leases of \$7.1 million, including the current portion of \$3.4 million (August 31, 2008 - \$9.9 million and \$3.1 million, respectively).

The following table sets out the debt outstanding at May 31, 2009, which is translated at May 31, 2009 foreign currency exchange rates and includes debt issuance costs.

<i>(unaudited)</i>	<b>Debt at current foreign exchange rates</b>	<b>Debt Issuance Costs</b>	<b>Carrying value as at May 31, 2009</b>	<b>Carrying value as at August 31, 2008</b>
Senior secured credit - revolver	116,000	-	116,000	96,000
Senior secured credit - credit C	265,000	(2,474)	262,526	262,028
Senior secured credit - credit D	500,044	(4,413)	495,631	483,999
Senior subordinated unsecured credit facility	75,000	(786)	74,214	74,153
Senior subordinated unsecured notes	436,680	(8,366)	428,314	415,765
	<u>1,392,724</u>	<u>(16,039)</u>	<u>1,376,685</u>	<u>1,331,945</u>

## **FINANCIAL INSTRUMENTS AND FINANCIAL INSTRUMENTS RISK MANAGEMENT**

The financial instruments and financial instruments risk management are the same as disclosed in the August 31, 2008 audited consolidated financial statements, except as disclosed below.

### **(a) Financial Instruments**

#### Hedging Derivative Instruments

On May 29, 2009, as a result of the failure to pay amounts due under the hedging derivative instruments, we were in default of the terms of the hedging derivative instruments and the counterparties terminated the hedging arrangements and demanded payment of our net obligations under those arrangements in the aggregate amount of \$68.9 million. We have not satisfied the demand for payment and have classified this obligation and its amortized cost as a current liability accruing interest at the counterparty's cost of funds plus a margin. The liability is secured by substantially all the assets of the Limited Partnership.

As a result of the termination of hedging derivative instruments, we have recorded an interest rate and foreign currency swap loss of \$180.2 million and a foreign exchange gain on the related long term debt of \$155.0 million for the three and nine months ended May 31, 2009.

### **(b) Financial Instruments Risk Management**

#### (i) Foreign Currency Risk

During the three months ended May 31, 2009, due to the termination of certain hedging derivative instruments, we have exposure on US dollar denominated debt of \$858.0 million. As at May 31, 2009, if the Canadian dollar had weakened or strengthened by 1% against the US dollar with all other variables held constant, after tax net earnings (loss) for the period would have been \$9.4 million higher or lower, respectively, as a result of foreign exchange gains (losses) on translation of US dollar denominated debt.

#### (ii) Interest Rate Risk

Our interest rate risk arises from borrowings issued at variable rates which expose us to cash flow interest rate risk. Borrowings issued at fixed rates expose us to fair value

interest rate risk. During the three months ended May 31, 2009 we terminated certain derivative instruments, exposing us to cash flow and fair value interest rate risk. As at May 31, 2009, if interest rates on long-term debt had been 10 basis points higher or lower with all other variables held constant, after tax net earnings (loss) for the period would have been \$0.5 million higher or lower, respectively, for the period ended May 31, 2009, mainly as a result of higher or lower interest expense on long-term debt.

(iii) Liquidity Risk

Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with our financial liabilities and contractual obligations. We manage our liquidity risk using cash on hand and by preparing weekly rolling cash flow forecasts and by deferring or eliminating discretionary spending. We did not make principal and interest payments due in May 2009 to preserve cash (see note 1 of the unaudited interim consolidated financial statements)

As described in the "Liquidity and Capital Resources" section, certain long term debt is in default which results in this debt being due on demand. If the long term debt is demanded, we would not be able to satisfy these obligations. As a result, \$1.4 billion of long term debt is due in less than a year. Also, we have restrictions on the availability of certain of the revolving facilities.

## **GUARANTEES AND OFF BALANCE SHEET ARRANGEMENTS**

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

## **CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

The terms and conditions of the long-term debt are the same as disclosed in the August 31, 2008 audited consolidated financial statements, except as disclosed below.

We were not in compliance with our financial covenants as of May 31, 2009 and failed to make payments of interest and principal that were due in May 2009 on our senior credit facility and the associated hedging derivative instruments. These payments were not made in order to preserve liquidity to fund operations while we work to effect a recapitalization transaction. As a consequence, we do not have the ability to make additional draws on our revolving facility and the senior secured creditors could demand the immediate payment of the amounts outstanding under the facilities. The carrying value of the amounts due under the senior secured credit facilities is \$874.2 million. As a result of the payment default the hedging derivative instrument counterparties terminated the hedging arrangements and demanded immediate payment of an aggregate of \$69 million. We have not satisfied this demand and do not have adequate liquidity to satisfy this or any other such demand.

The default under the senior secured credit agreement constitutes an event of default under the senior subordinated credit facility and the lenders thereunder could demand immediate repayment of these debts. The default under the senior credit agreement together with the termination of hedging agreements and the demand for immediate payment of an aggregate of \$69 million thereunder constitutes a default under our 9.25% senior subordinated notes indenture, and if this default is not remedied within the applicable grace period the noteholders could demand immediate repayment of these debts. We would not have adequate liquidity to satisfy a demand for repayment under the senior subordinated credit facility nor the senior subordinated notes indenture. The senior secured credit facilities, the senior subordinated credit facility and the senior subordinated notes are classified as current liabilities.

All other 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 not materially different from those discussed in our Management's Discussion and Analysis for the year ended August 31, 2008.

## RELATED PARTY TRANSACTIONS

We have entered into various transactions with related parties which we believe are on substantially comparable terms as those that we could have obtained with unrelated parties on an arm's length basis. All agreements between us and the Canwest group of companies have been done and will continue to be done on a cost recovery basis. The following discussion relates to our accounts for our related party transactions and provides a description of our related party agreements.

### *Amounts Due (to)/From Affiliated Companies*

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

<i>(unaudited)</i>	<b>May 31, 2009</b>	<b>August 31, 2008</b>
	<b>\$000</b>	<b>\$000</b>
Amounts due from related companies	<b>6,393</b>	7,026
Amounts due to related companies	<b>(10,981)</b>	(14,968)
Net amount due to related companies	<b>(4,588)</b>	(7,942)

Amounts due to (from) related companies are related to obligations incurred by the Limited Partnership on behalf of related companies and disbursements made on behalf of other Canwest companies outside the Limited Partnership and are accordingly classified as operating cash flows.

The following table provides details on the related party transactions of the Limited Partnership:

<i>(unaudited)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>May 31, 2009</b>	<b>May 31, 2008</b>	<b>May 31, 2009</b>	<b>May 31, 2008</b>
	<b>(in millions)</b>		<b>(in millions)</b>	
Revenue (expenses) recorded for the following activities:				
Cross-promotional activities <sup>(1)</sup>				
- revenue earned on advertising services provided to other Canwest entities	<b>0.1</b>	0.1	<b>0.9</b>	1.2
Editorial content <sup>(2)</sup>				
- cost recovery for content provided to other Canwest entities	<b>0.4</b>	0.3	<b>1.4</b>	1.0
Advisory, business and administrative services <sup>(3)</sup>				
- Canwest Services	<b>5.5</b>	5.3	<b>16.2</b>	14.8
- Executive Advisory Services and Partnership Services	<b>(1.6)</b>	(1.4)	<b>(4.8)</b>	(4.1)
Sales and marketing services <sup>(4)</sup>	<b>-</b>	1.5	<b>-</b>	4.4
Printing and distribution services <sup>(5)</sup>	<b>3.0</b>	3.4	<b>9.6</b>	10.5
Occupancy costs <sup>(6)</sup>	<b>0.4</b>	0.5	<b>1.2</b>	1.3
	<b>7.8</b>	9.7	<b>24.5</b>	29.1

<sup>(1)</sup> The Limited Partnership and other Canwest entities are involved in cross-promotional activities whereby the Limited Partnership provides advertising space in its newspaper and online media to other Canwest entities and the Limited Partnership is provided with advertising time or space by the Canadian

Broadcasting Operations and the *National Post*. The Limited Partnership has entered into an agreement with the Canadian Broadcasting Operations and *National Post*, whereby these activities will be charged to the related entity.

- (2) The Limited Partnership, the *National Post*, and the Canadian Broadcasting Operations provide each other certain affiliation services related to editorial content. The *National Post* and the Canadian Broadcasting Operations contribute editorial content to the Limited Partnership's online digital media services, and the *National Post* and Canadian Broadcasting Operations have access to the Limited Partnership's editorial content, information and editorial services. For editorial content activities, the Limited Partnership, the *National Post*, and the Canadian Broadcasting Operations agreed to provide such services on a cost recovery basis.
- (3) The Limited Partnership provides a number of services (the "Canwest Services") to other Canwest entities as follows:
- advisory services to the *National Post* regarding corporate development, capital expenditures and other operational matters;
  - business and administrative services to the Canadian Broadcasting Operations, *National Post* and other Canwest entities including information technology, human resource services and accounting
  - customer support services to the *National Post*; and
  - website support services and provision of online sales representation to the Canadian Broadcasting Operations and the *National Post*.

In addition, Canwest provides a number of services to the Limited Partnership as follows:

- executive advisory services related to corporate development, strategic planning, capital allocation, financing, equity and debt holder relations, insurance and risk management, tax planning and certain operational matters (the "Executive Advisory Services"); and
- services related to legal, tax compliance, financial reporting, internal audit, investor and public relations, treasury, human resource management and capital asset management, (the "Partnership Services").

The Limited Partnership and Canwest entered into a Partnership Services Agreement, and Executive Advisory Services Agreement and a Canwest Services Agreement that outline the amount of the charges and the basis on which the charges are determined.

- (4) In fiscal 2008 the sales and marketing division of Canwest provided the Limited Partnership with national advertising sales representation and charged a commission to the Limited Partnership for sales made on its behalf as well as an overhead charge.
- (5) The Limited Partnership performs printing and distribution services and provides certain facilities to *National Post*.
- (6) The Limited Partnership leases space to *National Post* and to Canadian Broadcast operations in its Toronto facility and charges rent in accordance with this agreement.

## **RECONCILIATION OF NON-GAAP FINANCIAL MEASURES**

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

<i>(unaudited)</i>	Three months ended		Nine months ended	
	May 31, 2009	May 31, 2008	May 31, 2009	May 31, 2008
	\$000	\$000	\$000	\$000
Net earnings (loss) for the period	(62,863)	40,435	(34,128)	119,478
(Recovery of)/Provision for income taxes	(6,931)	3,386	(21,191)	3,748
Foreign currency exchange gains	(156,987)	(99)	(157,185)	(415)
Interest expense, net	81,852	26,805	132,912	81,530
Other income	(731)	(732)	(2,193)	(2,194)
Gain on disposal of property and equipment	(35)	(1)	(2,231)	(14)
Loss on disposal of interest rate swap	180,202	-	180,202	-
Other amortization	48	48	144	146
Amortization of property and equipment	10,144	11,557	30,955	34,686
EBITDA	44,699	81,399	127,285	236,965