

POSTMEDIA NETWORK CANADA CORP.
INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2010

JANUARY 6, 2011

Important Information

Financial information presented in this interim management's discussion and analysis includes results of Postmedia (as defined below and referred to as the "Company") for the three months ended November 30, 2010 and Canwest Limited Partnership, Postmedia's predecessor company, for the three months ended November 30, 2009. The financial results of the predecessor company are being presented by the Company in accordance with the terms of the Company's 12.5% Senior Secured Notes due 2018 (the "Notes"). The financial results for the three months ended November 30, 2009 are (i) in respect of the period during which the predecessor company, and not the Company, owned the assets underlying the business of the Company, and (ii) based solely on the financial statements prepared by, and provided to the Company by, the predecessor company. The financial information for the three months ended November 30, 2009 is not comparable to our interim unaudited consolidated financial statements and does not represent and is not purported to represent the results that would have been achieved had Postmedia owned the assets of Canwest Limited Partnership and shares of National Post Inc. at that time.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis of financial condition and results of operations of Postmedia Network Canada Corp. ("we", "our", "us", or "Postmedia") should be read in conjunction with the interim unaudited consolidated financial statements and related notes of Postmedia for the three months ended November 30, 2010, the annual consolidated financial statements and related notes of Postmedia for the period ended August 31, 2010 and the interim unaudited consolidated financial statements and related notes of Canwest Limited Partnership ("Canwest LP" or the "Limited Partnership") for the three months ended November 30, 2009. Furthermore, this interim management's discussion and analysis should be read in conjunction with our annual management's discussion and analysis for the period ended August 31, 2010. The audited financial statements and related management's discussion and analysis can be obtained from our website www.postmedia.com/investors/financial-reports. Interim results may not be indicative of results for the full fiscal year.

This discussion contains statements that are not historical facts and are forward-looking statements. These statements are subject to a number of risks described in the section entitled "Risk Factors" contained in our management's discussion and analysis for the period ended August 31, 2010. Risks and uncertainties may cause actual results to differ materially from those contained in such forward-looking statements. Such statements reflect management's current views and are based on certain assumptions. They are 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. We have included information from historical interim unaudited consolidated financial statements of Canwest LP in this interim management's discussion and analysis in accordance with the Company's 12.5% Notes (as explained above) and to provide historical financial data of the operations we acquired. The historical information for Canwest LP contained in this management's discussion and analysis is not comparable to our financial information. Readers are cautioned that Canwest LP's historical financial information is not indicative of the future financial condition, results of operations, cash flows and the future development of our business. Additionally, Canwest LP's historical interim unaudited consolidated financial information included in this management's discussion and analysis has been reclassified to be consistent with Postmedia's revenue, expense and segment presentation.

All amounts expressed are in Canadian dollars unless otherwise noted. The financial statements of Postmedia and the Limited Partnership have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). In certain aspects US Generally Accepted Accounting Principles as applied in the United States ("US GAAP") differs from Canadian GAAP. See "Differences between Canadian and US GAAP".

To assist in assessing our financial performance this discussion also makes reference to operating profit before amortization, restructuring and other items, which is a non-GAAP financial measure. 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 companies. See "Reconciliation of Non-GAAP Financial Measures".

This management's discussion and analysis is dated January 6, 2011 and does not reflect changes or information subsequent to this date.

The Acquisition

On July 13, 2010, we acquired (the “Acquisition”) substantially all of the assets and assumed certain liabilities of the Limited Partnership, including all of the outstanding shares of National Post Inc., for \$1,047.9 million (the “Acquisition Consideration”). The Acquisition Consideration consisted of cash consideration of \$927.8 million and non-cash consideration, through the issuance of equity, of \$120.1 million. We obtained proceeds to fund the cash portion of the Acquisition Consideration from the issuance of Notes, the issuance of shares, a Senior Secured Term Loan Credit Facility (the “Term Loan Facility”) and acquired cash. The Acquisition was accounted for using the acquisition method of accounting which required us to fair value the assets acquired and liabilities assumed. During the three months ended November 30, 2010 we recorded additional acquisition costs of \$1.8 million which were expensed. Additionally, during the three months ended November 30, 2010 we obtained new information which allowed us to estimate the contingent returnable consideration receivable and in accordance with the CICA Handbook, section 1582 “Business Combinations”, we are required to record our estimate of contingent consideration retroactively, and as a result in our interim unaudited consolidated financial statements for the three months ended November 30, 2010 we have adjusted our comparative August 31, 2010 balance sheet to reflect our best estimate of contingent consideration receivable of \$4.7 million. We expect to receive this contingent consideration in the second quarter of fiscal 2011. Additional information on the Acquisition and the contingent returnable consideration receivable is available in note 3 to our interim unaudited consolidated financial statements.

Overview and Background

We are the largest publisher of English-language paid daily newspapers by circulation in Canada, according to the Canadian Newspaper Association’s 2009 Circulation Data Report. We have the largest readership of English-language paid daily newspapers in Canada based on 2009 NADbank survey data. Our business consists of news and information gathering and dissemination operations, with products offered in most of the major markets and a number of regional and local markets in Canada through a variety of daily and community newspapers, online, digital and mobile platforms. The combination of these distribution platforms provides readers with a variety of mediums through which to access and interact with our content. In addition, the breadth of our reach and the diversity of our content enable advertisers to reach their target audiences, through the convenience of a single provider, on local, regional and national scales.

We have one reportable segment for financial reporting purposes, the Newspapers segment. The Newspapers segment is comprised of the Eastern newspapers operating segment and the Western newspapers operating segment which have been aggregated as permitted by GAAP. The Newspapers segment publishes daily and non-daily newspapers and operates the related newspaper websites. Its revenue is primarily from advertising and circulation. We also have other business activities and an operating segment which are not separately reportable and are referred to collectively as the All other category. Revenue in the All other category primarily consists of revenue from *FPinfomart* and *canada.com*.

Key Factors Affecting Operating Results

Revenue is earned primarily from advertising, circulation and digital sources. Print advertising revenue is a function of the volume, or linage, of advertising sold and rates charged. Print circulation revenue is derived from home-delivery subscriptions for newspapers and single-copy sales at retail outlets and vending machines and is a function of the number of newspapers sold and the average price per copy. Digital revenue is comprised of revenue from national display advertising on our newspaper and other websites, including *canada.com*, and subscription and licensing revenue generated through *FPinfomart*.

Print advertising revenue was \$197.3 million for the three months ended November 30, 2010, representing 69% of total revenue. For the three months ended November 30, 2010 print advertising revenue by major category was as follows: national advertising 40%, retail advertising 25%, classified advertising 16%, inserts advertising 15%, and other advertising 4%. Over the last few years, significant print advertising declines have been driven by the economic downturn as well as a continuing shift in advertising dollars from newspaper advertising to advertising in other formats, including online and other digital platforms. During the three months ended November 30, 2010, we continued to experience modest growth in revenue which is consistent with revenue trends in the second half of fiscal 2010. Economic and industry conditions still remain uncertain and no assurance can be given that this growth will continue.

Print circulation revenue was \$59.8 million for the three months ended November 30, 2010, representing 21% of total revenue. Modest declines in circulation volume have been experienced over the last few years and continued in the three months ended November 30, 2010. Circulation volume decreases have been partially offset by price increases. We expect these trends to continue throughout the remainder of fiscal 2011.

Digital revenue was \$23.6 million for the three months ended November 30, 2010, representing 8% of total revenue. We continued to experience growth in digital revenue in the three months ended November 30, 2010, primarily in online advertising, and expect to see continued growth throughout fiscal 2011. We believe digital revenue represents a future growth opportunity for the Company and we continue to focus on many new initiatives in this area.

Other revenue was \$6.4 million for the three months ended November 30, 2010, representing 2% of total revenue. We have experienced and will continue to experience declines in other revenue as compared to the prior year due to the termination of a commercial printing contract as of September 30, 2010. The loss of this commercial printing contract will result in reduced revenue of approximately \$11.0 million in fiscal 2011 as compared to fiscal 2010. We expect the operating income previously earned on this commercial printing contract to be offset with corresponding cost reductions resulting from the closure of our commercial printing facility as well as savings expected to be achieved from outsourcing our internal printing previously done by this facility. Accordingly, we expect the loss of this commercial printing contract to have a nominal impact on our overall operating profit.

Principal operating expenses are compensation expenses, which are comprised of payroll and contractor expenses, newsprint expenses and distribution expenses, which comprised 52%, 8% and 18%, respectively, of total operating expenses for the three months ended November 30, 2010. We experienced a decline in compensation expenses in the three months ended November 30, 2010, due to restructuring initiatives as explained below and reduced defined benefit pension costs partially offset by increases in stock-based compensation. Defined benefit pension cost decreases are a result of increases in service costs being offset by increases in returns on plan assets, reductions in amortization of actuarial losses, and the elimination of pension expense from pension plans not acquired in the Acquisition. We expect these trends to continue throughout fiscal 2011.

Restructuring of operations and other items was \$23.2 million for the three months ended November 30, 2010, which consists of \$22.8 million relating to severance costs, which include both voluntary and involuntary buyouts, and \$0.4 million relating to preparation for a possible stock exchange listing and management oversight of our ongoing restructuring initiatives. The severance costs will result in a permanent reduction to our compensation costs.

Our operating results are particularly sensitive to variations in the cost and availability of newsprint. Newsprint is the principal raw material used in the production of our daily newspapers and other print publications. It is a commodity that is generally subject to considerable price volatility. We take advantage of the purchasing power that comes with the large volume of newsprint we purchase as well as our proximity to paper mills across Canada to minimize our total newsprint expenses. 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 \$6 million on an annualized basis. We don't expect material newsprint price increases in the first half of fiscal 2011 but increases of 5% to 10% are possible in the second half of fiscal 2011. Our distribution is primarily outsourced to third party suppliers. The key drivers of our distribution costs are fuel costs and circulation and flyer volumes. We expect distribution costs to remain flat or increase modestly relative to the prior year throughout the remainder of fiscal 2011.

Other Factors

Seasonality

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 the peak of retail sales advertising. These seasonal variations may lead to increased borrowing needs at certain points within the fiscal year.

Critical accounting estimates

The preparation of financial statements in accordance with GAAP requires our management to make estimates and judgments that affect the reported amounts of our assets, liabilities, revenues 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.

There are no significant changes in our accounting estimates since August 31, 2010 and as described in our management's discussion and analysis for the year ended August 31, 2010, other than the recognition of \$4.7 million of contingent returnable consideration discussed earlier and further described in note 3 of our interim unaudited consolidated financial statements.

International financial reporting standards

In 2006, the Accounting Standards Board ("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, the AcSB confirmed that IFRS will be used for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 with appropriate comparative IFRS financial information for the prior fiscal year. We plan on adopting IFRS in accordance with the AcSB standards, which will result in our interim unaudited consolidated statements for the three months ending November 30, 2011 being the first consolidated statements required to be prepared in accordance with IFRS.

In order to prepare for our transition date on September 1, 2011, we have created a plan to convert to IFRS. This plan covers the IFRS implementation impact on our consolidated financial statements including an analysis of the differences between IFRS and our current accounting policies to prioritize key impact areas. In addition, we will identify all internal controls over financial reporting and disclosure controls and procedures that must be updated in order for us to comply with IFRS.

During the three months ended November 30, 2011 we continued our implementation of IFRS including a preliminary assessment of all optional exemptions and mandatory exceptions under IFRS at the transition date. We are in the process of assessing the financial reporting impact of the transition to IFRS.

Operating Results

Postmedia's operating results for the three months ended November 30, 2010 compared to the Limited Partnership's operating results for the three months ended November 30, 2009

	Postmedia	Canwest LP
	For the three months ended November 30,	
<u>(\$ in thousands of Canadian dollars)</u>	2010	2009 ⁽¹⁾
Revenues		
Print advertising	197,282	194,088
Print circulation	59,789	61,729
Digital	23,554	22,527
Other	6,432	8,073
	<u>287,057</u>	<u>286,417</u>
Operating expenses		
Compensation	111,040	114,306
Newsprint	17,841	18,115
Other operating	83,950	84,777
	<u>212,831</u>	<u>217,198</u>
Operating profit before amortization, restructuring and other items ⁽²⁾	74,226	69,219
Amortization	19,346	10,118
Restructuring of operations and other items	23,165	2,545
Operating income	31,715	56,556
Interest expense	21,574	20,841
Other income	-	(501)
Gain on disposal of property and equipment	-	(2)
Loss on derivative financial instruments	12,950	-
Foreign currency exchange gains	(10,161)	(34,749)
Acquisition costs	1,787	-
Earnings before reorganization costs and income taxes	5,565	70,967
Reorganization costs	-	9,136
Earnings before income taxes	5,565	61,831
Recovery of income taxes	-	(12)
Net earnings	<u>5,565</u>	<u>61,843</u>

Notes:

- (1) We have included historical interim unaudited consolidated financial information of Canwest LP, to provide historical financial data of the operations we acquired. However, Canwest LP's historical interim unaudited consolidated financial information is not comparable to our interim unaudited consolidated financial information and readers are cautioned that such information is not indicative of the future financial condition, results of operations, cash flows and the future development of our business. Additionally, Canwest LP's historical interim unaudited consolidated financial data has been reclassified to be consistent with Postmedia's revenue and expense presentation.
- (2) See "Reconciliation of Non-GAAP Financial Measures".

Revenue

Print advertising

Print advertising revenue increased \$3.2 million, or 2%, to \$197.3 million for the three months ended November 30, 2010 as compared to \$194.1 million for the three months ended November 30, 2009. This increase was comprised of increased revenue from national advertising of 9%, insert advertising of 1% and other advertising of 6% but was partially offset by decreases in retail advertising of 5% and classified advertising of 4%. National advertising has experienced growth due to both volume and rate increases.

Print circulation

Print circulation revenue decreased \$1.9 million, or 3%, to \$59.8 million for the three months ended November 30, 2010 as compared to \$61.7 million for the three months ended November 30, 2009. Net paid circulation decreased 5% for the three months ended November 30, 2010 as compared to the three months ended November 30, 2009, offset partially by price increases, resulting in only a 3% decrease in overall circulation revenue.

Digital

Digital revenue increased \$1.1 million, or 5%, to \$23.6 million for the three months ended November 30, 2010 as compared to \$22.5 million for the three months ended November 30, 2009. The favourable variance was due to increases in online advertising revenue of 9% offset by decreases in subscription and licensing revenue from *FPinfomart* of 5%.

Other

Other revenue decreased \$1.7 million, or 21%, to \$6.4 million for the three months ended November 30, 2010 as compared to \$8.1 million for the three months ended November 30, 2009. The decrease was primarily due to the termination of a commercial printing contract discussed earlier in “Key Factors Affecting Operating Results”.

Operating expenses

Compensation

Compensation expenses, which are comprised of payroll and contractor expenses, decreased \$3.3 million or 3%, to \$111.0 million for the period ended November 30, 2010 as compared to \$114.3 million for the three months ended November 30, 2009. Decreased compensation expenses are a result of previously discussed restructuring initiatives and reductions in defined benefit pension costs, partially offset by increases in stock-based compensation.

Newsprint

Newsprint expenses decreased by 2% to \$17.8 million for the three months ended November 30, 2010 as compared to \$18.1 million for the three months ended November 30, 2009. Newsprint consumption decreased 9% compared to the three months ended November 30, 2009 due to on-going usage reduction efforts and lower newspaper circulation offset by increases in newsprint pricing of 8%, resulting in an overall decrease in newsprint expense.

Other operating

Other operating expenses decreased nominally by 1% to \$84.0 million for the three months ended November 30, 2010 as compared to \$84.8 million for the three months ended November 30, 2009.

Operating profit before amortization, restructuring and other items

Operating profit before amortization and restructuring and other items increased by \$5.0 million, or 7%, to \$74.2 million for the three months ended November 30, 2010 as compared to \$69.2 million for the three months ended November 30, 2009. The increase relates primarily to the net effect of decreased compensation costs discussed above, modest revenue increases and decreases in newsprint and other operating expenses.

Amortization

Amortization increased by \$9.2 million to \$19.3 million for the three months ended November 30, 2010 as compared to \$10.1 million for the three months ended November 30, 2009. Amortization is not comparable between Postmedia and the Limited Partnership as amortization is higher in Postmedia due to the higher carrying values of both tangible and intangible assets subject to amortization as a result of the fair values ascribed on Acquisition.

Restructuring of operations and other items

Restructuring of operations and other items increased by \$20.7 million to \$23.2 million for the three months ended November 30, 2010 as compared to \$2.5 million for the three months ended November 30, 2009. The increase is the result of restructuring initiatives we implemented and expenses relating to preparation for a possible stock exchange listing and management oversight of our ongoing restructuring initiatives.

Operating income

Operating income decreased by \$24.9 million, or 44%, to \$31.7 million for the three months ended November 30, 2010 as compared to \$56.6 million for the three months ended November 30, 2009. The decrease in operating income primarily relates to the increase in amortization of \$9.2 million and restructuring expenses of \$20.7 million discussed above offset by decreases in operating expenses of \$4.4 million.

Interest expense

Interest expense increased by \$0.8 million, or 4%, to \$21.6 million for the three months ended November 30, 2010 as compared to \$20.8 million for the three months ended November 30, 2009. Interest expense is not comparable between Postmedia and the Limited Partnership due to different capital structures.

Other income

Other income for the three months ended November 30, 2009 represents a charge to Canwest Global Communications Corp. for the use of shared equipment.

Gain on disposal of property and equipment

During the three months ended November 30, 2009, the Limited Partnership sold property and equipment and realized a nominal gain.

Loss on derivative financial instruments

For the three months ended November 30, 2010 we recorded a loss on derivative financial instruments of \$13.0 million. This amount included \$9.3 million related to a foreign currency interest rate swap that was not designated as a hedge and a loss of \$2.9 million related to a variable prepayment option on the Notes that represents an embedded derivative.

Foreign currency exchange gains

Foreign currency exchange gains decreased by \$24.5 million for the three months ended November 30, 2010 to \$10.2 million as compared to \$34.7 million for the three months ended November 30, 2009. For the three months ended November 30, 2010 foreign currency exchange gains consist of \$10.4 million of unrealized gains related to US dollar denominated debt that has not been swapped or is not subject to hedge accounting. Foreign currency exchange gains are not comparable between Postmedia and the Limited Partnership due to different capital structures.

Acquisition costs

During the three months ended November 30, 2010 we incurred acquisition costs of \$1.8 million related to the Acquisition of the Limited Partnership. These costs were expensed as they were not directly related to either the issuance of debt or equity.

Reorganization costs

Reorganization costs represent costs that were directly associated with the reorganization of the Limited Partnership. During the three months ended November 30, 2009 the Limited Partnership incurred \$9.1 million of reorganization costs. These costs consisted of professional fees, advisory fees, management incentive plan and key employee retention plan costs.

Earnings before income taxes

Earnings before income taxes for the three months ended November 30, 2010 were \$5.6 million compared to earnings before income taxes of \$61.8 million for the three months ended November 30, 2009. Due to the different capital structures of Postmedia and the Limited Partnership these amounts are not comparable.

Recovery of income taxes

For the three months ended November 30, 2010 we did not record an income tax provision or recovery. Our effective tax rate was different than our statutory tax rate of 28% as a result of adjustments in the income tax expense including a \$2.9 million decrease related to changes in our valuation allowance and a \$1.2 million increase related to non-deductible expenses. The Limited Partnership was not a taxable entity and therefore these amounts are not comparable.

Net earnings

Net earnings for the three months ended November 30, 2010 were \$5.6 million compared to net earnings of \$61.8 million for the three months ended November 30, 2009. Due to the different capital structures of Postmedia and the Limited Partnership these amounts are not comparable.

Results of Postmedia's segment operations for the three months ended November 30, 2010 compared to the Limited Partnership's segment operations for the three months ended November 30, 2009

<u>(\$ in thousands of Canadian dollars)</u>	Postmedia	Canwest LP
	For the three months ended November 30,	
	2010	2009 ⁽¹⁾
Revenue		
Newspapers.....	277,826	277,419
All other.....	10,419	10,438
Intersegment elimination.....	(1,188)	(1,440)
	287,057	286,417
Operating expenses		
Newspapers.....	200,271	206,943
All other.....	5,210	5,779
Corporate.....	8,538	5,916
Intersegment elimination.....	(1,188)	(1,440)
	212,831	217,198
Operating profit before amortization, restructuring and other items ⁽²⁾		
Newspapers.....	77,555	70,476
All other.....	5,209	4,659
Corporate.....	(8,538)	(5,916)
	74,226	69,219

Notes:

- (1) We have included historical interim unaudited segment information of Canwest LP to provide historical interim financial data of the operations we acquired. However, Canwest LP's historical interim unaudited segment information is not comparable to our interim unaudited segment information and readers are cautioned that such information is not indicative of the future financial condition, results of operations, cash flows and the future development of our business. Additionally, Canwest LP's interim unaudited segment information has been reclassified to reflect our segmented reporting.
- (2) See "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of operating profit before amortization, restructuring and other items to net earnings.

Newspapers

Revenue

Revenue for the Newspapers segment increased \$0.4 million to \$277.8 million for the three months ended November 30, 2010 as compared to \$277.4 million for the three months ended November 30, 2009. The increase in revenue is due to increases in print and digital advertising revenue offset by declines in circulation and commercial printing revenue.

Total advertising linage increased 1% with the average line rate remaining the same, relative to the three months ended November 30, 2009. National advertising increased 9% during the three months ended November 30, 2010 offset by decreases in retail and classified advertising of 5% and 4%, respectively. Insert revenue increased 1% relative to the three months ended November 30, 2009 due primarily to increases in volume. A 5% decrease in print circulation volume was partially offset by increases in per copy pricing, resulting in a 3% decrease in print circulation revenue relative to the three months ended November 30, 2009. Newspaper digital revenue increased 10% compared to the three months ended November 30, 2009, due to increased online advertising.

Operating expenses

Operating expenses for the Newspapers segment decreased \$6.6 million or 3%, to \$200.3 million for the three months ended November 30, 2010 as compared to \$206.9 million for the three months ended November 30, 2009. The decrease in expenses was primarily due to the impact of restructuring and cost reduction initiatives implemented by Postmedia since the Acquisition. In particular compensation expense decreased \$3.6 million or 4%, distribution expense decreased \$0.5 million or 1%, promotion expense decreased \$1.6 million or 20% and newsprint expense decreased \$0.3 million or 2% for the three months ended November 30, 2010 compared to the three months ended November 30, 2009. Newsprint consumption decreased 9% for the three months ended November 30, 2010 compared to the three months ended November 30, 2009 due to continued usage reduction efforts and lower newspaper circulation. Offsetting the reduction in newsprint volume was an 8% increase to newsprint pricing, contributing to an overall decrease in newsprint expense of 2% for the three months ended November 30, 2010, compared to the three months ended November 30, 2009.

Operating profit before amortization, restructuring and other items

Operating profit before amortization, restructuring and other items, for the Newspapers segment increased \$7.1 million or 10%, to \$77.6 million for the three months ended November 30, 2010 as compared to \$70.5 million for the three months ended November 30, 2009. This increase was primarily due to decreased operating expenses as described above.

All other

Operating profit before amortization, restructuring and other items

Operating profit before amortization, restructuring and other items for the All other category increased \$0.5 million or 11%, to \$5.2 million for the three months ended November 30, 2010 as compared to \$4.7 million for the three months ended November 30, 2009.

Corporate

Operating expenses

Corporate expenses increased \$2.6 million to \$8.5 million for the three months ended November 30, 2010 as compared to \$5.9 million for the three months ended November 30, 2009. The increase is due to increases in compensation costs, which include an increase of \$1.4 million related to stock-based compensation expense, partially offset by decreases in defined benefit pension costs.

Consolidated quarterly financial results

(\$ in thousands of Canadian dollars)	Postmedia	Combined ⁽¹⁾	Canwest LP ⁽²⁾			Canwest LP ⁽²⁾		
	Fiscal 2011		Fiscal 2010			Fiscal 2009		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	Revenue.....	287,057	241,323	270,345	254,418	286,417	237,726	268,645
Net earnings (loss)....	5,565	n/a ⁽³⁾	40,639	(7,613)	61,843	(81,093)	(65,914)	(6,270)
Cash flows from operating activities....	(4,615)	n/a ⁽³⁾	37,913	45,652	5,253	21,754	34,647	14,527

Notes:

- (1) The revenue for the three months ended August 31, 2010 consists of the Limited Partnership's revenue from June 1, 2010 to July 12, 2010 and our revenue from July 13, 2010 to August 31, 2010 and is not necessarily comparable to revenue for the other periods presented.
- (2) We have included historical consolidated quarterly financial information of Canwest LP to provide quarterly historical financial data of the operations we acquired. However, Canwest LP's historical quarterly unaudited consolidated financial information is not comparable to our interim unaudited quarterly consolidated financial information and readers are cautioned that such information is not indicative of the future financial condition, results of operations, cash flows and the future development of our business.
- (3) As the Limited Partnership was under the liquidation basis of accounting for the period from June 1, 2010 to July 12, 2010, the supplementary financial information in note 5 of the annual audited financial statements of Canwest LP did not include a provision for income taxes. Therefore, in the combined statements of Postmedia and the Limited Partnership for the year ended August 31, 2010 no income tax provision is reflected and as a result net earnings has not been presented for Q4 in fiscal 2010 in the above table. Additionally, no cash flow information was prepared for the Limited Partnership under the liquidation basis of accounting for the period from June 1, 2010 to July 12, 2010 and as a result cash flows from operating activities has not been presented for Q4 in fiscal 2010 in the above table.

Liquidity and capital resources

Our principal use of funds are for debt servicing and capital expenditures. Based on our current and anticipated level of operations, we believe that our cash on hand, cash flows from operations and borrowings under our asset-based revolving credit facility ("ABL facility") will enable us to meet our working capital, capital expenditures, debt servicing and other funding requirements for the foreseeable future. However, our ability to fund our working capital needs, debt payments and other obligations, and to comply with the financial covenants under our debt agreements, depends on our future operating performance and cash flows. There are a number of factors which may adversely affect our operating performance and our ability to meet these obligations. See "Key Factors Affecting Operating Results" in our August 31, 2010 management discussion and analysis.

Our cash flows from operating activities may be impacted by, among other things, competition from other newspapers and alternative forms of media and competition from alternative emerging technologies. In addition, in recent years there has been a growing shift in advertising dollars from newspaper advertising to other advertising formats, including new media outlets. Although we expect to fund our capital needs with our available cash, cash generated from operations and borrowings under the ABL facility, our indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under our debt.

We expect to meet our cash needs for the remainder of fiscal 2011 through a combination of operating cash flows, cash on hand and existing credit facilities.

Sources of Cash

Cash flows from operating activities

Our principal sources of liquidity are cash flows from operating activities. For the three months ended November 30, 2010, our cash flows from operating activities were a usage of \$4.6 million which is primarily due to the seasonality of our business. As of November 30, 2010 we had cash of \$21.7 million and our ABL facility remained undrawn. Availability under the ABL facility as at November 30, 2010 was \$45.0 million.

Uses of Cash

Cash flows from investing activities

For the three months ended November 30, 2010 our cash flows from investing activities were an outflow of \$2.9 million. Total capital expenditures related to property and equipment and intangible assets were \$4.0 million. Additionally, we disposed of commercial printing equipment for proceeds of \$1.1 million.

Cash flows from financing activities

Cash flows from financing activities for the three months ended November 30, 2010 were an outflow of \$11.0 million related to our indebtedness as discussed below.

Indebtedness

As at November 30, 2010 we have amounts outstanding under the Term Loan Facility of US\$258.3 million (the “US Tranche”) and \$108.6 million (the “Canadian Tranche”). Additionally, we have US\$275.0 million of Notes outstanding.

During the three months ended November 30, 2010, we made mandatory principal payments under the Term Loan Facility of \$1.7 million (US\$1.7 million) related to the US Tranche and \$1.4 million related to the Canadian Tranche. Additionally, we made voluntary principal repayments under the US Tranche of the Term Loan Facility of \$7.7 million (US\$7.5 million). During the three months ended November 30, 2010 we were in compliance with all debt covenants and no amounts were drawn under the ABL Facility.

The following table sets out the principal and carrying amount of debt outstanding as at November 30, 2010 compared to the carrying value of debt as at August 31, 2010. The first column of the table translates our US dollar debt to the Canadian equivalent based on foreign exchange rates specified in our foreign currency swap agreements for swapped debt and at the closing foreign exchange rate on November 30, 2010 for our non-swapped debt.

(\$ in thousands of Canadian dollars)	November 30, 2010				August 31, 2010
	Principal translated at swapped rates	Principal translated at period end exchange rates	Financing fees, discounts and other	Carrying value	Carrying value
Term loan – US tranche (swapped) (US\$213.8M).....	221,231	219,436	15,579	203,857	222,355
Term loan – US tranche (non swapped) (US\$44.5M).....	45,764	45,764	5,689	40,075	39,377
Term loan – Canadian tranche	108,625	108,625	7,904	100,721	101,600
Notes (swapped) (US\$275.0M)	284,625	282,315	10,712	271,603	282,699
	660,245	656,140	39,884	616,256	646,031

Financial position as at November 30, 2010 compared to August 31, 2010

<u>(\$ in thousands of Canadian dollars)</u>	<u>November 30, 2010</u>	<u>August 31, 2010</u>
Current assets.....	202,876	177,678
Total assets.....	1,268,221	1,266,204
Current liabilities.....	182,949	164,542
Total liabilities.....	942,378	950,802
Shareholders' equity.....	325,843	315,402

Our current assets are higher at November 30, 2010 due to an increase in accounts receivable as a result of higher revenue in three months ended November 30, 2010 due to the seasonality of our business. Current liabilities have increased primarily due to increased accrued interest payable on the Notes as well as increased restructuring liabilities. The decrease in total liabilities is due to foreign exchange gains and principal payments on long-term debt as well as decreased pension liabilities offset by increases in our derivative financial instruments.

Financial Instrument Risk Management

The financial instruments and financial instruments risk management are the same as disclosed in the August 31, 2010 audited consolidated financial statements except as disclosed below.

Financial instruments

Derivative financial instruments

During the three months ended November 30, 2010 we had a principal exchange of US\$11.3 million on our foreign currency interest rate swap related to our US tranche and as a result have a notional amount of US\$213.8 million outstanding as at November 30, 2010 (August 31, 2010 – US\$225.0 million).

Foreign currency risk

On July 13, 2010, concurrent with entering into our debt arrangements we entered into transactions to reduce foreign currency risk exposure on our US dollar denominated debt. As of November 30, 2010, we had mitigated foreign currency risk on 92% of our US dollar denominated debt, meeting our goal of largely eliminating our exposure to foreign currency fluctuations on our US dollar denominated debt. We are still exposed to foreign currency risk on the unswapped portion of our US dollar denominated debt of \$44.5 million, representing 8% of our outstanding US dollar denominated indebtedness.

Guarantees and Off-Balance Sheet Arrangements

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

Contractual obligations and commitments

Our obligations under firm contractual arrangements, including commitments for future payments under capital lease arrangements, operating lease arrangements, pension funding agreements and debt agreements are not materially different from those discussed in our management's discussion and analysis for the period ended August 31, 2010 other than the effects of foreign exchange on our US dollar denominated debt agreements that have not been swapped and the voluntary prepayment of long-term debt made during the three months ended November 30, 2010.

Differences between Canadian GAAP and US GAAP

The preceding discussion and analysis has been based upon financial statements prepared in accordance with Canadian GAAP, which differs in certain respects from US GAAP. The significant differences are discussed in detail in note 21 of our audited consolidated financial statements for the period ended August 31, 2010 and a reconciliation

between Canadian GAAP and US GAAP is provided in note 13 of the interim unaudited consolidated financial statements for the three months ended November 30, 2010.

Risk Factors

The risks relating to our business are described in the section entitled “Risk Factors” contained in our management’s discussion and analysis for the period ended August 31, 2010.

Reconciliation of Non-GAAP Financial Measures

The following table provides a reconciliation of operating profit before amortization, restructuring and other items to net earnings, the most closely comparable GAAP measure for the following periods.

	Postmedia	Canwest LP
	For the three months ended	
	November 30,	
<u>(\$ in thousands of Canadian dollars)</u>	2010	2009
Net earnings.....	5,565	61,843
Recovery of income taxes.....	-	(12)
Acquisition costs.....	1,787	-
Reorganization costs.....	-	9,136
Interest expense.....	21,574	20,841
Other income.....	-	(501)
Gain on disposal of property and equipment.....	-	(2)
Loss on derivative financial instruments.....	12,950	-
Foreign currency exchange gains.....	(10,161)	(34,749)
Restructuring of operations and other items.....	23,165	2,545
Amortization.....	19,346	10,118
Operating profit before amortization, restructuring and other items	74,226	69,219