

# CW Media Holdings Inc.

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## **INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS**

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three and six months ended February 28, 2009 and February 29, 2008

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April 8, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended February 28, 2009 and February 29, 2008

*This Management Discussion and Analysis ("MD&A") contains certain comments or forward looking statements about our objectives, strategies, financial conditions, results of operations and businesses. Statements that are not historical facts are forward-looking and are subject to important risks, uncertainties and assumptions. These statements are based on our current expectations about our business and the markets we operate in, and on various estimates and assumptions. The results or events predicted in these forward-looking statements may differ materially from actual results or events if known or unknown risks, trends or uncertainties affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, there is no assurance that the circumstances described in any forward-looking statement will materialize. We disclaim any intention or obligation to update any forward-looking statement even if new information becomes available, as a result of future events or for any other reason.*

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## OVERVIEW

CW Media Holdings Inc. (“we, us or our”) owns and operates a leading portfolio of 13 specialty television channels, including Showcase, Slice, History Television, HGTV Canada and Food Network Canada, which feature some of the most popular programming in Canadian specialty television. We also have a 50% ownership interest in two French language specialty television channels and a minority interest in three English language specialty television channels which we do not operate.

We are an indirect wholly owned subsidiary of CW Investments Co. (“CW Investments”) in which Canwest Media Inc. (“Canwest”) holds a 35% equity interest and a 67% voting interest with the remaining interests held by Goldman Sachs Capital Partners (“Goldman Sachs”). On August 15, 2007, through a series of transactions (the “Acquisition”), we acquired Alliance Atlantis Communications Inc. (“Alliance Atlantis”). Alliance Atlantis’ non-broadcasting subsidiaries and operations, including its entertainment operations and film and television program distribution operations, were transferred to other related entities concurrently with the Acquisition. We retained the specialty television operations and do not have any continuing interest in the other Alliance Atlantis operations.

## KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

### **Integration and Combination with Canwest’s Canadian Television Business**

Since receipt of the required regulatory approvals on January 18, 2008, Canwest has managed our business on an integrated basis with its Canadian television business in order to maximize operating synergies and improve profitability. In addition, Canwest has agreed to combine its Canadian television business with our business in 2011, when it is expected to contribute the assets comprising its Global Television Network and other Canadian specialty television channels to our company on a debt free and tax efficient basis and excluding any tax liabilities related to the periods prior to the combination.

Our specialty television business is complementary to Canwest’s conventional television operations in that it combines Canwest’s audience reach with our ability to target specific demographics, and we believe that the integrated management approach and the planned combination will allow both us and Canwest to benefit from significant cost reductions. Management is continuing to eliminate redundant functions, equipment and facilities. Programming may be acquired jointly for exploitation by both Canwest’s conventional and specialty television operations and by our specialty television operations at a lower combined cost than if acquired independently. Finally, we expect to be able to increase revenues as a result of our ability to offer advertisers access to a broader audience as well as targeted demographics and through cross promotion, joint marketing and other promotional initiatives.

Canwest’s consolidated financial statements for the three and six months ended February 28, 2009 have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles which assumes that Canwest will continue in operation and be able to realize its assets and discharge its liabilities and commitments in the normal course of business in the foreseeable future. As at February 28, 2009, Canwest has disclosed that there is significant doubt about the appropriateness of the going concern assumption. If Canwest is not able to continue as a going concern, this could have a disruptive impact to the integrated management of our businesses, which may result in higher programming and administrative costs and reduced advertising revenue.

### **Revenues**

We earn revenue from the sale of advertising airtime and subscriber fees, which accounted for approximately 53.8% and 45.9%, respectively, of our revenues for the three months ended February 28, 2009 and 58.7% and 40.8%, respectively, of our revenues for the six months ended February 28, 2009.

For the remainder of 2009, we expect that our advertising revenue may be negatively affected by weakened economic conditions. In addition, the deterioration of economic conditions could adversely affect the payment patterns of our customers, which could increase our bad debt expense. In general, we expect to sustain or improve the performance of our specialty television channels as it relates to our audience share and expect that our subscriber revenue will remain stable.

### ***Advertising Revenues***

We sell advertising airtime to a diversified customer base through annual agreements as well as short term arrangements. The amount of revenue generated from the sale of advertising airtime varies primarily with the following factors:

- ***Ability to Attract Viewers.*** Our advertising revenues depend on three key factors: (a) our ability to deliver viewers from specific demographic segments to our advertising customers, (b) the demand from advertisers for those demographic segments and their availability in the market place, and (c) the prevailing market prices with

respect to those demographic segments. Therefore, our ability to grow our advertising revenue depends on our ability to increase the audience from demographic segments that are in demand and attract higher audience shares within such segments.

- ***Prevailing Economic Conditions.*** Demand for television advertising is affected by prevailing economic conditions. Changes in economic conditions generally, and in the Canadian economy specifically, can affect demand for our advertising airtime as well as our advertising rates.
- ***Competition.*** The television broadcasting business and the advertising market in Canada are highly competitive. We compete with other television broadcasters as well as other advertising media, such as newspapers, magazines, radio, the Internet and outdoor advertising, for advertising revenues. Competition affects demand for advertising airtime on our specialty television channels and our advertising rates.
- ***Seasonality.*** Our advertising revenues are subject to seasonal patterns. Advertisers typically significantly reduce expenditure on television advertising during the summer months, when audiences tend to decline. Consequently, our advertising revenues tend to be at their lowest during the fourth quarter and highest in the first quarter. As a result of these seasonal trends, our quarterly results of operations fluctuate from period to period.

### ***Subscriber Fees***

We generate subscriber fees under channel carriage agreements with broadcasting distribution undertakings (“BDUs”). Subscriber fees are typically charged on a monthly and per subscriber basis. The amount of revenue generated from subscriber fees varies primarily with the following factors:

- ***Ability to Attract Subscribers.*** Our subscriber fees are based on the number of subscribers to our specialty television channels. The number of subscribers to our specialty television channels substantially depends on our ability to successfully manage our channels and their brands and our ability to anticipate, acquire and broadcast television programming that matches audience tastes and attracts subscribers.
- ***Relationships with BDUs.*** Our subscriber revenues are dependent on our ability to negotiate favorable carriage and packaging agreements with BDUs. In addition, the growth of our subscriber base is partly dependent upon the ability of BDUs to deploy and expand their digital technologies, their marketing efforts and the packaging of their networks’ offerings as well as the willingness of subscribers to pay for their services.
- ***Competition.*** We compete with other television broadcasters for subscribers. This competition primarily affects expenditures for broadcast rights and marketing for our specialty television channels.

### **Acquisition and Amortization of Broadcast Rights**

We purchase and commission content for broadcast on our channels and for our digital media properties (including internet and mobile). Programming expenditures represent our most significant operating expenditures. Our programming expense varies primarily with the following factors:

- ***Competition.*** We compete with other television broadcasters for attractive feature films, movies of the week, television series, documentaries and other made-for-television programs. Competition among television broadcasters primarily affects the availability and price of attractive content.
- ***Conditions Affecting Producers and Distributors of Content.*** Prevailing conditions in the content production and distribution industries, including factors affecting production costs and competition among producers and distributors of television programming, impact our programming expenditure.

### **Canadian Content Expenditure Requirements**

Each year, the conditions of our channel licences require us to spend a certain percentage of our prior year’s revenue on Canadian content programming (“Cancon”) and to air Cancon for a certain percentage of hours broadcast per day and/or year. Our five analog channel licences (each of which enjoy must-carry status with the BDUs) and our two must-carry digital channel licences have the highest Cancon spending requirements. Six of our digital channels do not have any Cancon spending requirements. However, like our other channels, they must air a certain percentage of Cancon per day and/or year. The Cancon conditions of our channel licences are subject to review by the Canadian Radio-television and Telecommunications Commission (“CRTC”) when our licences are renewed.

### **CRTC Benefit Obligation**

Under Canadian broadcasting rules and regulations, transfers of ownership and control of specialty television channel licences require the prior approval of the CRTC. As part of the CRTC approval process, the acquirer of a specialty

television channel licence must demonstrate to the CRTC that transfer of the licence is in the public interest. In order to justify public interest, acquirers of specialty television channel licences are required to provide a “benefit” package to the Canadian broadcasting system and the communities served by the licence holder in the form of a financial contribution to be approved by the CRTC. Such a benefit package normally proposes to allocate the majority of the value to Canadian programming initiatives and must be equivalent to at least 10% of the CRTC-approved value of the transaction.

In connection with the Acquisition, the CRTC approved a benefit package totaling \$151.3 million which is payable over a seven year period. Approximately 10% of the benefits will be directed to social benefits payable by us to third parties, approximately 10% will be funded by Canwest’s conventional television operations related to news and public affairs programming and the remaining 80% will be directed to incremental production of Canadian programming by our company which may be aired on our channels.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal controls over financial reporting during the six months ended February 28, 2009 that have materially affected, or are reasonably likely to materially affect, the entity’s internal control over financial reporting.

## RESULTS OF OPERATIONS

**For the three and six months ended February 28, 2009 as compared to the three and six months ended February 29, 2008**

	Three months ended February 28, 2009	Three months ended February 29, 2008 <sup>(1)</sup>	Six months ended February 28, 2009	Six months ended February 29, 2008 <sup>(1)</sup>
<b>Revenue</b>				
Subscriber	40,170	29,132	78,904	29,132
Advertising	47,039	34,260	113,699	42,264
Other	250	734	955	734
	87,459	64,126	193,558	72,130
Direct operating expenses	36,170	27,920	75,861	28,193
<b>Direct profit <sup>(2)</sup></b>	<b>51,289</b>	36,206	<b>117,697</b>	43,937
Operating expenses	19,459	18,884	41,584	24,898
Restructuring expenses	126	-	1,141	-
<b>Earnings before undernoted (EBITDA) <sup>(2)</sup></b>	<b>31,704</b>	17,322	<b>74,972</b>	19,039
Interest expense, net	(23,429)	(18,325)	(46,788)	(23,549)
Accretion of long term liabilities	(2,275)	(1,222)	(4,606)	(1,222)
Impairment of investment	(6,009)	-	(6,009)	-
Amortization of property and equipment	(3,029)	(3,450)	(6,167)	(4,478)
Foreign exchange gains (losses)	(12,076)	4,586	(69,222)	8,390
	(15,114)	(1,089)	(57,820)	(1,820)
Provision for income taxes	2,753	2,423	9,527	2,180
	(17,867)	(3,512)	(67,347)	(4,000)
Non-controlling interests	(1,974)	(2,039)	(6,024)	(2,039)
Equity earnings in affiliates	119	19,286	373	38,919
<b>Net earnings (loss) for the period</b>	<b>(19,722)</b>	13,735	<b>(72,998)</b>	32,880

(1) Substantially all of our operations were held in trust (the “In-Trust Assets”) from August 16, 2007 to January 18, 2008, pending the receipt of all required regulatory approvals related to the ownership of Alliance Atlantis’ broadcasting assets by our company. We used the equity method of accounting for those operations until December 20, 2007, when we received conditional approval from the CRTC. As a result, the earnings of the regulated entities for the period from September 1, 2007 to December 20, 2007 were accounted for on an equity basis. **Accordingly, the individual revenue and expense captions do not reflect the revenues and expenses of the In-Trust Assets for the period from September 1, 2007 to December 20, 2007.**

(2) See “Reconciliation of Non-GAAP Financial Measures”.

The above results have analytical limitations due to the use of the equity method of accounting for the In-Trust Assets for the three months and six months ended February 29, 2008. Therefore, in order to provide a more meaningful analysis of results of operations management believes that the following analysis that consolidates the statement of operations of the In-Trust assets from the period from September 1, 2007 to December 20, 2007 and eliminates the related equity earnings in affiliates is more appropriate. See “Reconciliation of Pro-forma Comparatives”.

**For the three months ended February 28, 2009 as compared to the pro-forma three months ended February 29, 2008**

	Three months ended February 28, 2009	Pro-forma <sup>(1)</sup> Three months ended February 29, 2008
<b>Revenue</b>		
Subscriber	40,170	37,452
Advertising	47,039	45,278
Other	250	1,041
	<b>87,459</b>	83,771
Direct operating expenses	<b>36,170</b>	34,915
<b>Direct profit<sup>(2)</sup></b>	<b>51,289</b>	48,856
	<b>58.6%</b>	58.3%
Operating expenses	<b>19,459</b>	21,984
Restructuring expenses	<b>126</b>	-
<b>Earnings before undernoted (EBITDA)<sup>(2)</sup></b>	<b>31,704</b>	26,872
	<b>36.3%</b>	32.1%
Interest expense, net	<b>(23,429)</b>	(21,461)
Accretion of long term liabilities	<b>(2,275)</b>	(1,222)
Impairment of investment	<b>(6,009)</b>	-
Amortization of property and equipment	<b>(3,029)</b>	(4,115)
Foreign exchange gains (losses)	<b>(12,076)</b>	5,021
	<b>(15,114)</b>	5,095
Provision for (recovery of) income taxes	<b>2,753</b>	(11,360)
	<b>(17,867)</b>	16,455
Non-controlling interests	<b>(1,974)</b>	(2,968)
Equity earnings in affiliates	<b>119</b>	248
<b>Net earnings (loss) for the period</b>	<b>(19,722)</b>	13,735

(1) We have consolidated the statement of operations of the In-Trust Assets for the period from December 1, 2007 to December 20, 2007 and eliminated the related equity earnings in affiliates. See “Reconciliation of Pro-forma Comparatives”.

(2) See “Reconciliation of Non-GAAP Financial Measures”.

**Revenues**

Revenue increased by \$3.7 million, or 4.4%, to \$87.5 million for the three months ended February 28, 2009 from \$83.8 million for the same period in the prior year. Advertising revenue increased by \$1.7 million, or 3.8%, to \$47.0 million for the three months ended February 28, 2009 from \$45.3 million for the same period in the prior year. This growth in advertising revenue reflects greater audiences, particularly for Food Network Canada, HGTV Canada, History Television, Slice, Showcase Action, Showcase Diva and National Geographic Channel. Subscriber revenue grew by \$2.7 million, or 7.2%, to \$40.2 million for the three months ended February 28, 2009 from \$37.5 million for the same period in the prior year as a result of growth in the subscriber base. The three months ended February 28, 2009 benefited from a retroactive payment of approximately \$0.8 million from one of our distributors. The number of total paid subscribers for all channels in which we hold a controlling interest increased by 5.2 million, or 9.7%, to 58.7 million at February 28, 2009 from 53.5 million at February 29, 2008.

### ***Direct Profit***

Direct profit reflects revenue less direct operating expenses. Direct operating expenses comprise the amortization of broadcast rights and other programming costs including those incurred to satisfy CRTC mandated Canadian content expenditure requirements.

Direct profit increased by \$2.4 million, or 4.9%, to \$51.3 million for the three months ended February 28, 2009 from \$48.9 million for the same period in the prior year. This growth in direct profit was a result of increases in revenues, partially offset by higher program amortization included in direct operating expenses due to increased program spending to support audience growth and Canadian program expenditure requirements arising from the growth in revenue in the prior year.

Direct margin was 58.6% for the three months ended February 28, 2009, as compared to 58.3% for the same period in the prior year.

### ***Operating Expenses***

Operating expenses decreased by \$2.5 million, or 11.4%, to \$19.5 million for the three months ended February 28, 2009 from \$22.0 million for the same period in the prior year. Operating expenses for the three months ended February 29, 2008 included rental income of \$0.4 million for space occupied by former Alliance Atlantis non-broadcasting subsidiaries. Excluding this non-recurring amount, operating expenses decreased by \$2.9 million. This decrease is primarily a result of a decrease in salary and benefit costs of \$1.0 million as a result of a reduction of our workforce due to the integration with Canwest and certain cost saving initiatives we undertook in fiscal 2009 and a decrease in advertising and promotion expenses of \$2.8 million as a result of a decrease in discretionary spending. These decreases were partially offset by an increase in distribution and communication expenses of \$0.8 million and an increase of \$0.7 million in charges from Canwest for services rendered as compared to the same period in the prior year.

### ***Earnings before Undernoted (EBITDA)***

The factors noted above have contributed to an increase in EBITDA of \$4.8 million, or 17.8%, to \$31.7 million for the three months ended February 28, 2009 from \$26.9 million for the same period in the prior year. EBITDA margin was 36.3% for the three months ended February 28, 2009 as compared to 32.1% for the same period in the prior year.

### ***Interest Expense, Net***

Interest expense of \$23.4 million for the three months ended February 28, 2009 includes interest expense related to the Senior Secured Credit facility and the Senior Unsecured Notes. Interest expense for the Senior Secured Credit facility was \$9.8 million based on a rate of 8.7% (effective rate of 9.2%) as a result of an interest rate swap that we entered into to fix the rate of interest payable. The Senior Unsecured Notes resulted in an interest expense of \$13.7 million based on the fixed rate of 13.5% (effective rate of 14.1%). Interest expense of \$21.5 million for three months ended February 29, 2008 reflected the lower interest rate on the interim Senior Unsecured Notes bearing interest at LIBOR plus a margin as compared to the Senior Unsecured Notes bearing interest at a fixed rate. In addition, included in interest expense for the three months ended February 28, 2009 was interest income of \$0.1 million related to overnight investments and loans receivable as compared to \$0.7 million for the same period in the prior year.

### ***Accretion of Long Term Liabilities***

We have an obligation under CRTC policies pertaining to the Acquisition to pay \$151.3 million in CRTC benefits over a seven year period. This obligation has been recorded on a discounted basis. For the three months ended February 28, 2009, we recorded an accretion expense of \$2.2 million related to this obligation as compared to \$1.2 million for the same period in the prior year. Accretion on this obligation commenced in January 2008 when we received final CRTC approval for the Acquisition. The remaining interest accretion of \$0.1 million for the three months ended February 28, 2009 is a result of an unfavorable lease commitment recorded as part of the purchase price allocation in connection to the Acquisition.

### ***Impairment of Investment***

During the three months ended February 28, 2009, we recorded an impairment related to our investment in Score Media Inc. ("SMI") of \$6.0 million. Our investment in SMI is measured at its trading value. Accumulated losses since August 31, 2008 were deferred in accumulated other comprehensive loss. At February 28, 2009, we concluded that the accumulated losses were other than temporary as a result of our participation in the SMI Issuer Bid and the sale of our remaining shares at \$0.40 per share (see "Subsequent Events"). Accordingly, we recognized the impairment charge in earnings.

### ***Amortization of Property and Equipment***

Amortization of property and equipment decreased by \$1.1 million, or 26.8%, to \$3.0 million for three months ended February 28, 2009 from \$4.1 million for the same period in the prior year. The decrease is primarily due to property and equipment becoming fully amortized.

### ***Foreign Exchange Gains (Losses)***

Foreign exchange losses for the three months ended February 28, 2009 were \$12.1 million, as compared to gains of \$5.0 million for the same period in the prior year. The losses in the current period are primarily related to the effect of the weakening Canadian dollar relative to the U.S. dollar from December 1, 2008 to February 28, 2009 on our unhedged U.S. denominated Senior Unsecured Notes. The gains for the three months ended February 29, 2008 primarily related to the effect of the strengthening Canadian dollar relative to the U.S. dollar from December 1, 2007 to February 29, 2008 on our unhedged U.S. denominated interim Senior Unsecured Notes.

### ***Provision for (Recovery of) Income Taxes***

For the three months ended February 28, 2009, we recorded a provision for income taxes of \$2.8 million as compared to a recovery of income taxes of \$5.0 million based on a statutory rate of 33.2%. This difference is primarily a result of a change in valuation allowances, the effect of uncertain tax positions and the non-taxable portion of capital losses. For the three months ended February 29, 2008 we recorded a recovery of income taxes of \$11.4 million, as compared to a provision of income taxes of \$1.8 million based on a statutory rate of 35.0%. This difference is primarily a result of a decrease in the income tax rate for future income taxes.

### ***Non-controlling Interests***

Non-controlling interests reflects the interests of our channel partners in the earnings of four of our channels, HGTV Canada, Fine Living Canada, Food Network Canada and Discovery Health Canada. Non-controlling interests decreased by \$1.0 million, or 33.3%, to \$2.0 million for the three months ended February 28, 2009 from \$3.0 million for the same period in the prior year as a result of a decrease in earnings in HGTV Canada.

### ***Equity Earnings in Affiliates***

Equity earnings in affiliates reflect our proportional share of the earnings and losses from our investments in ONE: The Body, Mind and Spirit and Scream. Equity earnings in affiliates for the three months ended February 28, 2009 is comparable to the same period in the prior year.

### ***Net Earnings (Loss)***

Net earnings decreased by \$33.4 million to a net loss of \$19.7 million for the three months ended February 28, 2009 from net earnings of \$13.7 million for the same period in the prior year. This primarily reflects a \$1.9 million increase in interest expense, a \$6.0 million impairment of an investment, a \$1.1 million increase in interest accretion of long term liabilities and \$12.1 million of foreign exchange losses which resulted from the weakening of the Canadian dollar relative to the U.S. dollar compared to foreign exchange gains of \$5.0 million for the same period in the prior year. In addition, we recorded a provision for income taxes of \$2.8 million for the three months ended February 28, 2009 as compared to a recovery of income taxes of \$11.4 for the same period in the prior year. These effects were partially offset by a \$1.1 million decrease in amortization of property and equipment and a \$4.8 million increase in EBITDA resulting from an improvement in direct profit and a reduction of operating expenses.

**For the six months ended February 28, 2009 as compared to the pro-forma six months ended February 29, 2008**

	Six months ended February 28, 2009	Pro-forma <sup>(1)</sup> Six months ended February 29, 2008
<b>Revenue</b>		
Subscriber	78,904	73,691
Advertising	113,699	105,557
Other	955	1,650
	<b>193,558</b>	<b>180,898</b>
Direct operating expenses	<b>75,861</b>	<b>68,962</b>
<b>Direct profit<sup>(2)</sup></b>	<b>117,697</b>	<b>111,936</b>
	<b>60.8%</b>	<b>61.9%</b>
Operating expenses	<b>41,584</b>	<b>47,932</b>
Restructuring expenses	<b>1,141</b>	<b>-</b>
<b>Earnings before undernoted (EBITDA)<sup>(2)</sup></b>	<b>74,972</b>	<b>64,004</b>
	<b>38.7%</b>	<b>35.4%</b>
Interest expense, net	<b>(46,788)</b>	<b>(40,770)</b>
Accretion of long term liabilities	<b>(4,606)</b>	<b>(1,222)</b>
Impairment of investment	<b>(6,009)</b>	<b>-</b>
Amortization of property and equipment	<b>(6,167)</b>	<b>(6,561)</b>
Foreign exchange gains (losses)	<b>(69,222)</b>	<b>20,461</b>
	<b>(57,820)</b>	<b>35,912</b>
Provision for (recovery of) income taxes	<b>9,527</b>	<b>(3,348)</b>
	<b>(67,347)</b>	<b>39,260</b>
Non-controlling interests	<b>(6,024)</b>	<b>(6,757)</b>
Equity earnings in affiliates	<b>373</b>	<b>377</b>
<b>Net earnings (loss) for the period</b>	<b>(72,998)</b>	<b>32,880</b>

(1) We have consolidated the statement of operations of the In-Trust Assets for the period from September 1, 2007 to December 20, 2007 and eliminated the related equity earnings in affiliates. See “Reconciliation of Pro-forma Comparatives”.

(2) See “Reconciliation of Non-GAAP Financial Measures”.

**Revenues**

Revenue increased by \$12.7 million, or 7.0%, to \$193.6 million for the six months ended February 28, 2009 from \$180.9 million for the same period in the prior year. Advertising revenue increased by \$8.1 million, or 7.7%, to \$113.7 million for the six months ended February 28, 2009 from \$105.6 million for the same period in the prior year. This growth in advertising revenue reflects greater audiences, particularly for Food Network Canada, HGTV Canada, History Television, Slice, Showcase Action, Showcase Diva and National Geographic Channel. Subscriber revenue grew by \$5.2 million, or 7.1%, to \$78.9 million for the six months ended February 28, 2009 from \$73.7 million for the same period in the prior year as a result of growth in the subscriber base. The six months ended February 28, 2009 benefited from a retroactive payment of approximately \$0.8 million from one of our distributors. The number of total paid subscribers for all channels in which we hold a controlling interest increased by 5.2 million, or 9.7%, to 58.7 million at February 28, 2009 from 53.5 million at February 29, 2008.

**Direct Profit**

Direct profit reflects revenue less direct operating expenses. Direct operating expenses comprise the amortization of broadcast rights and other programming costs including those incurred to satisfy CRTC mandated Canadian content expenditure requirements.

Direct profit increased by \$5.8 million, or 5.2%, to \$117.7 million for the six months ended February 28, 2009 from \$111.9 million for the same period in the prior year. This growth in direct profit was a result of increases in revenues, partially offset by higher program amortization included in direct operating expenses due to increased program spending to support audience growth and Canadian program expenditure requirements arising from the growth in revenue in the prior year.

Direct margin was 60.8% for the six months ended February 28, 2009, as compared to 61.9% for the same period in the prior year.

### ***Operating Expenses***

Operating expenses decreased by \$6.3 million, or 13.2%, to \$41.6 million for the six months ended February 28, 2009 from \$47.9 million for the same period in the prior year. Operating expenses for the six months ended February 29, 2008 included \$1.2 million in compensation costs directly related to the sale of Alliance Atlantis and rental income of \$0.8 million for space occupied by former Alliance Atlantis non-broadcasting subsidiaries. Excluding these non-recurring amounts, operating expenses decreased by \$5.9 million. This decrease is primarily a result of a decrease in salary and benefit costs of \$3.1 million as a result of a reduction of our workforce due to the integration with Canwest and certain cost saving initiatives we undertook in fiscal 2009 and a decrease in advertising and promotion expenses of \$3.4 million as a result of a decrease in discretionary spending. These decreases were partially offset by an increase in distribution and communication expenses of \$0.3 million and an increase of \$0.5 million in charges from Canwest for services rendered as compared to the same period in the prior year.

### ***Restructuring Expenses***

During the six months ended February 28, 2009, we undertook certain initiatives which will result in a workforce reduction of 36 positions. These initiatives are expected to be completed by August 31, 2009 with total costs estimated of \$1.1 million. During the six months ended February 28, 2009, the Company accrued for termination benefits of \$1.1 million related to these initiatives.

### ***Earnings before Underrated (EBITDA)***

The factors noted above have contributed to an increase in EBITDA of \$11.0 million, or 17.2%, to \$75.0 million for the six months ended February 28, 2009 from \$64.0 million for the same period in the prior year. Excluding the impact of restructuring expenses, EBITDA increased \$12.1 million, or 18.9%, for the six months ended February 28, 2009 as compared to the same period in the prior year. EBITDA margin was 38.7% for the six months ended February 28, 2009 as compared to 35.4% for the same period in the prior year. Excluding the impact of restructuring expenses, EBITDA margin was 39.3% for the six months ended February 28, 2009.

### ***Interest Expense, Net***

Interest expense of \$46.8 million for the six months ended February 28, 2009 includes interest expense related to the Senior Secured Credit facility and the Senior Unsecured Notes. Interest expense for the Senior Secured Credit facility was \$20.8 million based on a rate of 8.7% (effective rate of 9.2%) as a result of an interest rate swap that we entered into to fix the rate of interest payable. The Senior Unsecured Notes resulted in an interest expense of \$26.2 million based on the fixed rate of 13.5% (effective rate of 14.1%). Interest expense of \$40.8 million for six months ended February 29, 2008 reflected the lower interest rate on the interim Senior Unsecured Notes bearing interest at LIBOR plus a margin as compared to the Senior Unsecured Notes bearing interest at a fixed rate. In addition, included in interest expense for the six months ended February 28, 2009 was interest income of \$0.2 million related to overnight investments and loans receivable as compared to \$2.1 million for the same period in the prior year.

### ***Accretion of Long Term Liabilities***

We have an obligation under CRTC policies pertaining to the Acquisition to pay \$151.3 million in CRTC benefits over a seven year period. This obligation has been recorded on a discounted basis. For the six months ended February 28, 2009, we recorded an accretion expense of \$4.4 million related to this obligation as compared to \$1.2 million for the same period in the prior year. Accretion on this obligation commenced in January 2008 when we received final CRTC approval for the Acquisition. The remaining interest accretion of \$0.2 million for the six months ended February 28, 2009 is a result of an unfavorable lease commitment recorded as part of the purchase price allocation in connection to the Acquisition.

### ***Impairment of Investment***

During the six months ended February 28, 2009, we recorded an impairment related to our investment in Score Media Inc. (“SMI”) of \$6.0 million. Our investment in SMI is measured at its trading value. Accumulated losses since August 31, 2008 were deferred in accumulated other comprehensive loss. At February 28, 2009, we concluded that the accumulated losses were other than temporary as a result of our participation in the SMI Issuer Bid and the sale of our remaining shares at \$0.40 per share (see “Subsequent Events”). Accordingly, we recognized the impairment charge in earnings.

### ***Amortization of Property and Equipment***

Amortization of property and equipment decreased by \$0.4 million, or 6.1%, to \$6.2 million for six months ended February 28, 2009 from \$6.6 million for the same period in the prior year. The decrease is primarily due to property and equipment becoming fully amortized.

### ***Foreign Exchange Gains (Losses)***

Foreign exchange losses for the six months ended February 28, 2009 were \$69.2 million, as compared to gains of \$20.5 million for the same period in the prior year. The losses in the current period are primarily related to the effect of the weakening Canadian dollar relative to the U.S. dollar from September 1, 2008 to February 28, 2009 on our unhedged U.S. denominated Senior Unsecured Notes. The gains for the six months ended February 29, 2008 primarily related to the effect of the strengthening Canadian dollar relative to the U.S. dollar from September 1, 2007 to February 29, 2008 on our unhedged U.S. denominated interim Senior Unsecured Notes.

### ***Provision for (Recovery of) Income Taxes***

For the six months ended February 28, 2009, we recorded a provision for income taxes of \$9.5 million as compared to a recovery of income taxes of \$19.2 million based on a statutory rate of 33.2%. This difference is primarily a result of a change in valuation allowances, the effect of uncertain tax positions, a decrease in the income tax rate for future income taxes and the non-taxable portion of capital losses. For the six months ended February 29, 2008 we recorded a recovery of income taxes of \$3.3 million, as compared to a provision for income taxes of \$12.6 million based on a statutory rate of 35.0%. This difference is primarily a result of a decrease in the income tax rate for future income taxes and the non-taxable portion of capital gains.

### ***Non-controlling Interests***

Non-controlling interests reflects the interests of our channel partners in the earnings of four of our channels, HGTV Canada, Fine Living Canada, Food Network Canada and Discovery Health Canada. Non-controlling interests decreased by \$0.8 million, or 11.8%, to \$6.0 million for the six months ended February 28, 2009 from \$6.8 million for the same period in the prior year as a result of a decrease in earnings in HGTV Canada.

### ***Equity Earnings in Affiliates***

Equity earnings in affiliates reflect our proportional share of the earnings and losses from our investments in ONE: The Body, Mind and Spirit and Scream. Equity earnings in affiliates for the six months ended February 28, 2009 and the same period in the prior year was \$0.4 million.

### ***Net Earnings (Loss)***

Net earnings decreased by \$105.9 million to a net loss of \$73.0 million for the six months ended February 28, 2009 from net earnings of \$32.9 million for the same period in the prior year. This primarily reflects a \$6.0 million increase in interest expense, a \$6.0 million impairment of an investment, a \$3.4 million increase in interest accretion of long term liabilities and \$69.2 million of foreign exchange losses which resulted from the weakening of the Canadian dollar relative to the U.S. dollar compared to foreign exchange gains of \$20.5 million for the same period in the prior year. In addition, we recorded a provision for income taxes of \$9.5 million for the six months ended February 28, 2009 as compared to a recovery of income taxes of \$3.3 for the same period in the prior year. These effects were partially offset by an \$11.0 million increase in EBITDA resulting from an improvement in direct profit and a reduction of operating expenses.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Overview**

On an ongoing basis, our principal uses of funds are for capital expenditures of approximately \$5.0 million to \$7.0 million per year, our CRTC benefit obligation of approximately \$22.1 million per year and debt servicing. We anticipate meeting these requirements by using cash generated from operating activities and through borrowings under our revolving credit facility. We believe that these sources of funds, together with our cash on hand will be adequate to meet our currently anticipated needs.

For the remainder of fiscal 2009, we expect our major cash requirements to include mandatory principal repayments under our Senior Secured Credit facility of \$2.4 million, CRTC benefit obligation expenditures of \$11.5 million and capital expenditures of \$2.3 million. In addition, based on our current projections, we intend to pay the accrued interest of U.S.\$22.8 million under our Senior Unsecured Notes in cash on August 15, 2009, relating to the period from February 16, 2009 to August 15, 2009. Further, we expect to pay approximately \$9.0 million in dividends to non-controlling interests.

### ***Cash Flow from Operating Activities***

Our cash used from operating activities for the six months ended February 28, 2009 was \$8.3 million. This was primarily due to cash generated from operations offset by investments in broadcast rights which exceeded amortization for the six months ended February 28, 2009 by \$62.4 million. In addition, during the six months ended February 28, 2009 we made \$6.1 million in expenditures related to our CRTC benefit obligation.

### ***Cash Flow from Investing Activities***

Our cash used in investing activities for the six months ended February 28, 2009 was \$2.4 million, including the payment of acquisition costs of \$1.4 million and capital expenditures of \$1.0 million. As at February 28, 2009, we have paid all acquisition costs that were accrued as part of the purchase equation.

### ***Cash Flow from Financing Activities***

Our cash provided by financing activities for the six months ended February 28, 2009 was \$2.6 million. During the six months ended February 28, 2009, principal repayments of \$2.4 million were made relating to the Senior Secured Credit facility and \$6.0 million was drawn under the revolving credit facility. In addition, during the six months ended February 28, 2009 a dividend of approximately \$1.0 million was paid to non-controlling interests.

### **Sources of Funds**

Our principal sources of liquidity are cash and cash equivalents on hand and cash flows from operating activities. At February 28, 2009, we had cash on hand of \$7.5 million. In addition, we had unused borrowing capacity under our revolving credit facility of \$36.0 million at February 28, 2009.

The non-controlling interests' share of cash and cash equivalents of our non-wholly owned subsidiaries as at February 28, 2009 is \$5.8 million.

We receive distributions from our 50% interest in two jointly controlled Canadian French-language specialty television channels that are proportionately consolidated. During the six months ended February 28, 2009, we received \$5.8 million in distributions and our share of earnings was \$5.8 million.

### **Uses of Funds**

#### ***Capital Resources***

Management expects our cash flows from operations, combined with borrowings under our senior secured revolving credit facility, to provide sufficient liquidity to fund our current obligations, projected working capital requirements, restructuring obligations and capital spending for a period that includes the next 12 months. Historically, our capital expenditures have been funded primarily with cash from operating activities.

#### ***CRTC Part II Licence Fees***

The Canadian Association of Broadcasters ("CAB"), on behalf of their members, has challenged in Court the validity of the Part II licence fees payable annually to the CRTC by television and radio broadcasters. In December 2006, the Federal Court ruled that the Part II licence fees were an illegal tax. The Federal Government appealed the Federal Court judgment and on April 28, 2008, the Appeal Court ruled that the Federal Court mischaracterized the legal test to be applied to distinguish a tax from a regulatory charge and the fees, in fact, represented administrative costs incurred by the CRTC. On June 27, 2008, CAB filed an application for leave to appeal the Appeal Court decision to the Supreme Court

of Canada. On December 18, 2008 the leave was granted and thus an appeal process with the Supreme Court of Canada will commence. The CRTC has confirmed with CAB that it will not attempt to collect the outstanding Part II licence fees until the earlier of (i) the Appeal Court decision is affirmed by the Supreme Court of Canada or (ii) the matter is settled between the parties. We have been accruing the Part II licence fees using known rates since the beginning of the legal proceeding and will continue to accrue them until a final decision is rendered on the matter. As at February 28, 2009 we had \$5.0 million accrued in current liabilities representing unpaid Part II licence fees.

### **CRTC Benefits**

During fiscal 2008, we received approval from the CRTC related to the Acquisition. We expect to fund the CRTC benefit obligations of \$151.3 million over a seven year period primarily using cash flow from operations. Approximately 10% of the benefits will be directed to social benefits payable by us to third parties, approximately 10% will be funded by Canwest related to news and public affairs programming and the remaining 80% will be directed to incremental production of Canadian programming by us, which may be aired on our channels. For the remainder of fiscal 2009, we expect our expenditures related to the CRTC benefit obligation to be approximately \$13.1 million, of which \$1.6 million will be funded by Canwest.

### **Debt**

On August 15, 2007, we entered into a Senior Secured Credit facility. The facility includes a U.S.\$442.0 million term loan which is subject to principal repayments of U.S.\$4.4 million per year with the balance payable on maturity. The term loan facility may be repaid at any time without penalty, subject to certain conditions. The term loan bears interest at LIBOR plus a margin. We may be required to prepay a portion of the term loan facility based on excess cash flows as defined in the credit agreement. This facility matures on February 15, 2015 and is subject to certain restrictions. In addition, the facility includes a \$50.0 million revolving term loan. As at February 28, 2009, \$14.0 million was drawn under the revolving term loan. The facility matures on August 15, 2013 and is subject to certain restrictions. The facility bears interest at prime plus a margin. Principal amounts outstanding under the revolving credit facility are due and payable in full at maturity.

On July 3, 2008, we entered into U.S.\$312.0 million Senior Unsecured Notes maturing on August 15, 2015. The Senior Unsecured Notes bear interest at a rate equal to 13.5% per annum, compounded semi-annually. Interest accrues from the date of issue to August 15, 2011 (the "Cash Interest Date"), however is not payable until maturity, unless we elect to pay interest in cash with respect to any interest period before the Cash Interest Date. After August 15, 2011, interest will accrue on and be paid in respect of the Senior Unsecured Notes in cash, commencing on February 15, 2012. Interest is payable or compounded, as applicable, on each February 15 and August 15. The Senior Unsecured Notes have a variable prepayment option at a premium.

We are required to maintain certain financial and other covenants under the Senior Secured Credit facility and Senior Unsecured Notes.

The following table sets out the debt outstanding at February 28, 2009, which is translated at February 28, 2009 foreign currency exchange rates and includes debt issuance costs. The first column of the table presents our debt at the foreign exchange rates specified in our foreign currency swap agreements, where applicable.

	Debt at swapped foreign exchange rates	Debt at current foreign exchange rates	Accounting adjustments <sup>(1)</sup>	Carrying value as at February 28, 2009	Carrying value as at August 31, 2008
Senior secured credit facility	469,063	560,891	(12,731)	548,160	457,688
Senior secured revolving credit facility	14,000	14,000	-	14,000	8,000
Senior unsecured notes	430,426	430,426	(8,314)	422,112	329,630
	913,489	1,005,317	(21,045)	984,272	795,318

<sup>(1)</sup> Accounting adjustments include debt issuance costs.

## **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no significant changes to market risks since August 31, 2008 as described in our MD&A dated November 11, 2008.

## **OFF-BALANCE SHEET ARRANGEMENTS, GUARANTEES AND CONTINGENT LIABILITIES**

We entered into an agreement dated August 15, 2007 (the "Separation Agreement") pursuant to which, certain of the parties to the Separation Agreement agreed to indemnify us in respect of specified liabilities, including certain tax liabilities, and in some cases, on a joint and several basis. As at February 28, 2009, we have recorded income tax liabilities of \$30.2 million which according to the terms of this agreement will be recoverable from other parties to the Separation Agreement if and when the liabilities are realized. We have a receivable in this amount recorded in other assets.

Additionally, we are involved, from time to time, in lawsuits, claims, investigations and proceedings that arise in the ordinary course of our business. There are currently no matters pending that our management expects to be material in relation to our business, financial condition or results of operations.

## **CRITICAL ACCOUNTING ESTIMATES**

Except as noted below, there have been no significant changes in our critical accounting estimates since August 31, 2008 as described in our MD&A dated November 11, 2008.

### **Broadcast Rights**

In accordance with our accounting policy, we amortize the broadcast rights over their anticipated period of use. Effective September 1, 2008, we revised the estimated number of showings attributable to our broadcast rights to reflect their planned usage. The effect of this change in estimate for the six months ended February 28, 2009 is not practical to measure.

## **CHANGES IN ACCOUNTING POLICIES**

### **Credit Risk and the Fair Value of Financial Risks and Financial Liabilities**

On January 20, 2009, the Emerging Issues Committee issued EIC 173, "*Credit Risk and the Fair Value of Financial Risks and Financial Liabilities*". The committee reached a consensus that a company's credit risk and the credit risk of its counterparties should be considered when determining the fair value of its financial assets and financial liabilities, including derivative instruments, for presentation and disclosure purposes. The accounting treatment for this Abstract should be applied retrospectively without restatement of prior periods to all financial assets and financial liabilities measured at fair value in interim and annual financial statements ending on or after January 20, 2009. The adoption of this Abstract did not significantly impact the unaudited interim consolidated financial statements for the six months ended February 28, 2009.

## **FORTHCOMING CHANGES IN ACCOUNTING POLICIES**

### **Goodwill and Intangible Assets**

In February 2008, the Accounting Standards Board ("AcSB") issued CICA Handbook Section 3064, "*Goodwill and Intangible Assets*", which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. CICA 3064 expands on the criteria for recognition of intangible assets that can be recognized. CICA 3064 applies to internally generated intangible assets such as research and development activities and rights under licencing agreements. The section also indicates that expenditures not meeting the recognition criteria of intangible assets are expensed as incurred. We plan to, and must, apply this new standard effective September 1, 2009. We are currently assessing the impact of adopting this standard on our consolidated financial statements.

### **Business Combinations**

In January 2009, 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 shareholders' equity. These standards will become effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011. We are currently assessing the impact of adopting these new standards on our 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, AcSB announced that IFRS will be used for, interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Our transition date of September 1, 2011 will require the restatement for comparative purposes of amounts reported in our financial statements for the year ended August 31, 2012. While we have begun assessing the adoption of IFRS for 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

## SUBSEQUENT EVENTS

Subsequent to February 28, 2009, we completed the sale of \$4,900,000 Class A Shares in SMI at \$0.40 per share for net proceeds of \$1,813. In addition, SMI confirmed that it is able to take up all 16,560,902 Class A Shares tendered under the SMI Issuer Bid at \$0.40 per share.

## RECONCILIATION OF PRO-FORMA COMPARATIVES

The following reconciliations represent the consolidation of the statement of operations of the In-Trust Assets for the period from September 1, 2007 to December 20, 2007 and the elimination of related equity earnings in affiliates. During the period from August 16, 2007 to December 20, 2007, our investment in the broadcasting operations was held in trust pending approval of the Acquisition by the CRTC. During this period we accounted for our investment in these operations using the equity method of accounting. Accordingly, the individual revenue and expense captions do not reflect the revenues and expenses of the In-Trust Assets for the periods from September 1, 2007 to November 30, 2007 and December 1, 2007 to December 20, 2007.

### Pro-forma Consolidated Statement of Earnings for the three months ended February 29, 2008

	For the three months ended February 29, 2008	Non-GAAP Adjustments For the period from December 1, 2007 to December 20, 2007	Pro-forma For the three months ended February 29, 2008
<b>Revenue</b>			
Subscriber	29,132	8,320	37,452
Advertising	34,260	11,018	45,278
Other	734	307	1,041
	64,126	19,645	83,771
Direct operating expenses	27,920	6,995	34,915
<b>Direct profit <sup>(1)</sup></b>	36,206	12,650	48,856
	56.5%	64.4%	58.3%
Operating expenses	18,884	3,100	21,984
<b>Earnings before undernoted (EBITDA) <sup>(1)</sup></b>	17,322	9,550	26,872
	27.0%	48.6%	32.1%
Interest expense, net	(18,325)	(3,136)	(21,461)
Accretion of long term liabilities	(1,222)	-	(1,222)
Amortization of property and equipment	(3,450)	(665)	(4,115)
Foreign exchange gains	4,586	435	5,021
	(1,089)	6,184	5,095
Provision for (recovery of) income taxes	2,423	(13,783)	(11,360)
	(3,512)	19,967	16,455
Non-controlling interests	(2,039)	(929)	(2,968)
Equity earnings in affiliates	19,286	(19,038)	248
<b>Net earnings for the period</b>	13,735	-	13,735

(1) See “Reconciliation of Non-GAAP Financial Measures”.

## Pro-forma Consolidated Statement of Earnings for the six months ended February 29, 2008

	For the six months ended February 29, 2008	Non-GAAP Adjustments For the period from September 1, 2007 to December 20, 2007	Pro-forma For the six months ended February 29, 2008
<b>Revenue</b>			
Subscriber	29,132	44,559	73,691
Advertising	42,264	63,293	105,557
Other	734	916	1,650
	72,130	108,768	180,898
Direct operating expenses	28,193	40,769	68,962
<b>Direct profit <sup>(1)</sup></b>	43,937	67,999	111,936
	60.9%	62.5%	61.9%
Operating expenses	24,898	23,034	47,932
<b>Earnings before undernoted (EBITDA) <sup>(1)</sup></b>	19,039	44,965	64,004
	26.4%	41.3%	35.4%
Interest expense, net	(23,549)	(17,221)	(40,770)
Accretion of long term liabilities	(1,222)	-	(1,222)
Amortization of property and equipment	(4,478)	(2,083)	(6,561)
Foreign exchange gains	8,390	12,071	20,461
	(1,820)	37,732	35,912
Provision for (recovery of) income taxes	2,180	(5,528)	(3,348)
	(4,000)	43,260	39,260
Non-controlling interests	(2,039)	(4,718)	(6,757)
Equity earnings in affiliates	38,919	(38,542)	377
<b>Net earnings for the period</b>	32,880	-	32,880

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

### RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

#### Direct Profit and Earnings before Undernoted (EBITDA)

We use direct profit and EBITDA to measure operating performance. Direct profit is defined as revenue less direct operating expenses, which include those expenses that are directly attributable to the cost of the specialty television channel generating revenue. Direct operating expenses include the amortization of broadcast rights and the costs incurred to meet the Canadian content program expenditure requirements mandated by condition of licence by the CRTC. These include costs to create the on-air look and on-air promotion of programs. EBITDA is defined as direct profit less non-direct operating expenses, which include period costs that are not directly attributable to the television program or the specialty television channel. These costs include such costs as salaries and benefits, occupancy, general and administrative expenses, general marketing costs, professional fees and broadcast transponder or signal delivery costs.

The following is a reconciliation of direct profit and EBITDA, non-GAAP measures, to net earnings (loss), its most closely comparable GAAP measure:

	Three months ended February 28, 2009	Three months ended February 29, 2008	Six months ended February 28, 2009	Six months ended February 29, 2008
<b>Net earnings (loss) for the period</b>	<b>(19,722)</b>	13,735	<b>(72,998)</b>	32,880
Equity earnings in affiliates	119	19,286	373	38,919
Non-controlling interests	(1,974)	(2,039)	(6,024)	(2,039)
Provision for income taxes	(2,753)	(2,423)	(9,527)	(2,180)
Foreign exchange gains (losses)	(12,076)	4,586	(69,222)	8,390
Amortization of property and equipment	(3,029)	(3,450)	(6,167)	(4,478)
Impairment of investment	(6,009)	-	(6,009)	-
Accretion of long term liabilities	(2,275)	(1,222)	(4,606)	(1,222)
Interest expense, net	(23,429)	(18,325)	(46,788)	(23,549)
<b>Earnings before undernoted (EBITDA)</b>	<b>31,704</b>	17,322	<b>74,972</b>	19,039
Operating expenses	19,459	18,884	41,584	24,898
Restructuring expenses	126	-	1,141	-
<b>Direct profit</b>	<b>51,289</b>	36,206	<b>117,697</b>	43,937

## SUPPLEMENTAL INFORMATION

	Three months ended February 28, 2009	Three months ended November 30, 2008	Three months ended August 31, 2008	Three months ended May 31, 2008
Revenue	87,459	106,099	80,584	98,542
Direct profit	51,289	66,408	40,693	59,620
Earnings before undernoted (EBITDA)	31,704	43,268	19,081	37,487
Adjusted EBITDA <sup>(2)</sup>	31,830	44,283	19,081	37,487

	Three months ended February 29, 2008 <sup>(1)</sup>	Three months ended November 30, 2007 <sup>(1)</sup>	Three months ended August 31, 2007 <sup>(1)</sup>	Three months ended May 31, 2007 <sup>(1)</sup>
Revenue	83,771	97,127	76,507	84,930
Direct profit	48,856	63,080	34,922	50,563
Earnings before undernoted (EBITDA)	26,872	37,132	(6,108)	19,565
Adjusted EBITDA <sup>(2)</sup>	26,872	38,370	12,222	23,511

- (1) Pro-forma to include results from in-trust operations that were accounted on an equity basis for the period from August 16, 2007 to December 20, 2007. Results prior to August 15, 2007 include the Broadcasting carve-out results of Alliance Atlantis.
- (2) Adjusted EBITDA is defined as EBITDA before non-recurring costs.