

## Postmedia Network Reports Second Quarter Results

*Progress on the digital first strategy delivers 13% audience growth with digital revenue up 8% in the quarter. Operating profit before amortization and restructuring\* is up 2%. Further advancement on cost reduction and debt repayment.*

April 8, 2011 (TORONTO) – Postmedia Network Canada Corp. (“Postmedia” or “the Company”) today released financial information for the second quarter ended February 28, 2011.

### **Important Information**

*On July 13, 2010 Postmedia, through a wholly owned subsidiary, acquired substantially all of the assets, including all of the outstanding shares of National Post Inc. (“National Post”), and assumed certain liabilities of Canwest Limited Partnership (“Canwest LP”). All references to financial results for the three and six months ended February 28, 2010 and any comparisons in this release are references and comparisons to the financial results of Canwest LP, the predecessor company. 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 financial results of the predecessor company for the three and six months ended February 28, 2010 are in respect of a period during which the predecessor company, and not the Company, owned the assets underlying the business of the Company. Also, the financial statements of the predecessor are that of another entity and the Company is not a continuation of the predecessor. The financial information for the three and six months ended February 28, 2010 does not represent and is not purported to represent the results that would have been achieved had Postmedia owned the assets of Canwest LP and shares of National Post at that time. The prior year financial results are not comparable to our financial information. Readers are cautioned that the prior year financial results are not indicative of the future financial condition, results of operations, cash flows and future development our business.*

### **Second Quarter Operating Results**

Revenue for the quarter ended February 28, 2011 totaled \$242.5 million, a decrease of \$11.9 million relative to the same period in the prior year. This decline was primarily due to a decrease in print advertising revenue of \$8.6 million (down 5.1%). Print circulation revenue declined approximately \$1.7 million (down 2.9%) and other revenue declined \$3.2 million due to the loss of a commercial print contract in the first quarter of the current fiscal year. These losses were partially offset by growth in digital revenue which increased 8.3% or \$1.6 million relative to the same period in the prior year.

Operating expenses excluding amortization, restructuring of operations and other items declined \$12.7 million or 6.0% relative to the same period in the prior year. This decrease was largely due to cost savings achieved through various restructuring initiatives implemented since completing the purchase of the Canwest LP assets on July 13, 2010.

For the three months ended February 28, 2011, operating profit before amortization, restructuring and other items (see “Non-GAAP Financial Measures”) increased \$0.9 million, or

2% relative to the same period in the prior year. This increase was the result of reductions in operating expenses partially offset by the 4.7% decline in revenue.

Operating income declined \$20.7 million relative to the prior year due to increases in amortization of \$8.1 million and increases in restructuring of operations and other items of \$13.5 million. The increase in amortization was due to the higher carrying value of assets resulting from the fair values ascribed on the acquisition. The net loss in the quarter was \$12.3 million.

### **Year-to-Date Operating Results**

Revenue for the six months ended February 28, 2011 was \$529.6 million, a decrease of \$11.2 million relative to the same period in the prior year. Print advertising revenue declined \$5.4 million (a decrease of 1.5%), print circulation revenue declined \$3.6 million (down 3%) and other revenue declined \$4.9 million. The decline in other revenue was due to the loss of a commercial print contract in the first quarter of the current fiscal year. These losses were partially offset by growth in digital revenue which increased 6.3% or \$2.7 million relative to the same period in the prior year.

Operating expenses excluding amortization, restructuring of operations and other items declined \$17.1 million or 4% during the first six months of the fiscal year. This reduction more than offset a revenue decline of 2%, resulting in an increase in operating profit before amortization, restructuring and other items of \$5.9 million, or 5.3% relative to the first six months of the prior year.

Operating income declined \$45.6 million relative to the prior year due to increases in amortization of \$17.3 million and increases in restructuring of operations and other items of \$34.1 million. The net loss for the first six months of the fiscal year was \$6.7 million.

### **Restructuring of Operations and Other Items**

For the three months ended February 28, 2011, expenses related to restructuring of operations and other items totaled \$13.4 million (\$36.6 million for the six months ended February 28, 2011). In total, restructuring initiatives implemented to the end of February 2011 are expected to yield net annualized cost savings of \$38 to \$40 million, of which \$30 to \$32 million is expected to be realized in the current fiscal year. See "Forward-Looking Information".

### **Debt Repayment**

Also in the quarter, Postmedia made total debt repayments of \$12.4 million including an optional principal repayment of US\$10 million related to its US term loan credit facility. Debt repayments since completion of the acquisition of Canwest LP assets total approximately \$58 million. After giving effect to this payment, outstanding credit facilities at February 28, 2011 consisted of a \$107 million Canadian term loan, US\$247 million term loan and US\$275 million of 12.5% senior secured notes.

### **Amendment of Term Loan Credit Agreement**

On April 4, 2011 the Company entered into an agreement with its lenders which amends certain terms of the term loan credit agreement entered into on July 13, 2010. The material amendments include the following: the Canadian and US Tranche from the original credit agreement are replaced with a new US Tranche ("Tranche C"). Tranche C totals US\$365.0 million and was issued at a discount of 0.25% for net proceeds of \$364.1 million, before financing fees and prepayment penalties of approximately \$7 million. Tranche C bears interest at LIBOR (with a floor of 1.25%) plus 5% and certain financial maintenance covenants have been favorably modified. As at February 28, 2011 there were unamortized discounts and

financing fees associated with the Canadian and US Tranche from the original credit agreement of \$7.4 million and \$19.0 million, respectively. As a result of the amendments described above non-cash charges of approximately \$10 million relating to the unamortized discounts and financing fees will be expensed during the three months ended May 31, 2011.

In conjunction with the amendments to the term loan credit agreement, the Company has amended the existing foreign currency interest rate swap for the US tranche such that the interest rate on the notional Canadian principal amount has changed from bankers acceptance rates plus 9.25% to bankers acceptance rates plus 7.07%.

### **Management Commentary**

Although this was a challenging quarter from the perspective of print revenue we are very pleased with the progress we have made so far,” said Paul Godfrey, President and Chief Executive Officer. “Our digital first strategy continues to advance throughout our operations, cost reduction efforts have been very successful and we are making consistent progress on debt reduction. We remain committed to the continuing transformation of Postmedia Network, positioning it to embrace the opportunities ahead while delivering value to all of our stakeholders.”

Note: All dollar amounts are expressed in Canadian dollars unless otherwise specified.

\* see Non-GAAP Financial Measures

### **Additional Information**

Additional information, including financial statements and MD&A can be found on the Company’s website at [www.postmedia.com/investors/financial-reports](http://www.postmedia.com/investors/financial-reports).

### **About Postmedia Network Canada Corp.**

Postmedia Network Canada Corp. is the holding company that owns Postmedia Network Inc. Postmedia Network Inc., a wholly-owned subsidiary of Postmedia Network Canada Corp., is the largest publisher by circulation of paid English-language daily newspapers in Canada, representing some of the country’s oldest and [best known] media brands. Reaching millions of Canadians every week, Postmedia Network engages readers and offers advertisers and marketers integrated solutions to effectively reach target audiences through a variety of print, online, digital, and mobile platforms.

### **Non-GAAP Financial Measures**

This press release references “operating profit before amortization, restructuring of operations and other items” which is a non-GAAP financial measure. Postmedia believes such measures are beneficial from the perspective of assessing the Company’s financial performance. However, non-GAAP financial measures do not have any standard definition prescribed under GAAP and as such may not be comparable to similar measures used by other companies. For a reconciliation of these non-GAAP measures to the most closely comparable GAAP measures, see “Reconciliation of Non-GAAP Financial Measures” contained in the MD&A for the quarter ended February 28, 2011 which can be found on the Company’s website at [www.postmedia.com](http://www.postmedia.com).

### **Forward-Looking Information**

This press release may include information that is “forward-looking information” under applicable Canadian securities laws and “forward-looking statements” within the meaning of the

U.S. Private Securities Litigation Reform Act of 1995. By their nature, forward-looking information and statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. These risks and uncertainties include competition from other newspapers and alternative forms of media; the effect of economic conditions on advertising revenue; the ability of the Company to build out its digital media and online businesses; the continuation of current print and online newspaper readership and circulation levels; the realization of anticipated cost savings; possible damage to the reputation of the Company's brands or trademarks; possible labor disruptions; possible environmental liabilities, litigation and pension plan obligations; fluctuations in foreign exchange rates and the prices of newsprint and other commodities; and challenges related to operating as a stand-alone entity. For a complete list of our risk factors please refer to the section entitled "Risk Factors" contained in our management's discussion and analysis for the period ended August 31, 2010. Although the Company bases such information and statements on assumptions believed to be reasonable when made, they are not guarantees of future performance and actual results of operations, financial condition and liquidity, and developments in the industry in which the Company operates may differ materially from any such information and statements in this press release. Given these risks and uncertainties, undue reliance should not be placed on any forward-looking information or forward-looking statements, which speak only as of the date of such information or statements. Other than as required by law, the Company does not undertake, and specifically declines, any obligation to update such information or statements or to publicly announce the results of any revisions to any such information or statements.

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**Postmedia Network Canada Corp. and Canwest Limited Partnership**  
**Operating Results for the Three Months ended February 28, 2011 and February 28, 2010**

In thousands of Canadian dollars	Postmedia Network Canada Corp. Q2 F2011	Canwest Limited Partnership <sup>1</sup> Q2 F2010	Q2 F2011 to Q2 F2010 Variance Favourable/(Unfavourable)
<b>Revenues</b>			
Print advertising	159,612	168,210	(8,598)
Print circulation	57,126	58,821	(1,695)
Digital	21,572	19,926	1,646
Other	4,228	7,461	(3,233)
	<b>242,538</b>	<b>254,418</b>	<b>(11,880)</b>
<b>Expenses</b>			
Compensation	104,492	117,361	12,869
Newsprint	14,495	16,212	1,717
Other operating	81,905	80,062	(1,843)
Operating profit before amortization, restructuring of operations and other items <sup>2</sup>	41,646	40,783	863
Amortization	18,603	10,544	(8,059)
Restructuring of operations and other items	13,441	(81)	(13,522)
<b>Operating income</b>	<b>9,602</b>	<b>30,320</b>	<b>(20,718)</b>
Interest expense	20,968	29,654	8,686
Gain on disposal of property and equipment	(3)	-	3
Other income	-	(500)	(500)
Loss on derivative financial instruments	14,616	-	(14,616)
Foreign currency exchange gains	(13,099)	(10,692)	2,407
Acquisition costs	(570)	-	570
<b>Earnings (loss) before income taxes and reorganization costs</b>	<b>(12,310)</b>	<b>11,858</b>	<b>(24,168)</b>
Reorganization costs	-	22,602	22,602
Loss before income taxes	(12,310)	(10,744)	(1,566)
Recovery of income taxes	-	(3,131)	(3,131)
<b>Net loss</b>	<b>(12,310)</b>	<b>(7,613)</b>	<b>(4,697)</b>

(1) We have included historical interim unaudited consolidated financial information of Canwest LP, to provide historical financial data of the operations acquired by a subsidiary of Postmedia. However, Canwest LP's historical interim unaudited consolidated financial statements are not comparable to our interim unaudited consolidated financial statements 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 the business of Postmedia.

(2) See "Reconciliation of Non-GAAP Financial Measures" contained in the MD&A for the three and six months ended February 28, 2011 which can be found on the Company's website at [www.postmedia.com](http://www.postmedia.com).

**Postmedia Network Canada Corp. and Canwest Limited Partnership**  
**Operating Results for the Six Months ended February 28, 2011 and February 28, 2010**

In thousands of Canadian dollars	Postmedia Network Canada Corp. Q2 F2011	Canwest Limited Partnership <sup>1</sup> Q2 F2010	Q2 F2011 to Q2 F2010 Variance Favourable/(Unfavourable)
<b>Revenues</b>			
Print advertising	356,894	362,298	(5,404)
Print circulation	116,915	120,550	(3,635)
Digital	45,126	42,453	2,673
Other	10,660	15,534	(4,874)
	<b>529,595</b>	<b>540,835</b>	<b>(11,240)</b>
<b>Expenses</b>			
Compensation	215,532	231,667	16,135
Newsprint	32,336	34,327	1,991
Other operating	165,855	164,839	(1,016)
Operating profit before amortization, restructuring of operations and other items <sup>2</sup>	115,872	110,002	5,870
Amortization	37,949	20,662	(17,287)
Restructuring of operations and other items	36,606	2,464	(34,142)
<b>Operating income</b>	<b>41,317</b>	<b>86,876</b>	<b>(45,559)</b>
Interest expense	42,542	50,495	7,953
Gain on disposal of property and equipment	(3)	(2)	1
Other income	-	(1,001)	(1,001)
Loss on derivative financial instruments	27,566	-	(27,566)
Foreign currency exchange gains	(23,260)	(45,441)	(22,181)
Acquisition costs	1,217	-	(1,217)
<b>Earnings (loss) before income taxes and reorganization costs</b>	<b>(6,745)</b>	<b>82,825</b>	<b>(89,570)</b>
Reorganization costs	-	31,738	31,738
Earnings (loss) before income taxes	(6,745)	51,087	(57,832)
Recovery of income taxes	-	(3,143)	(3,143)
<b>Net earnings (loss)</b>	<b>(6,745)</b>	<b>54,230</b>	<b>(60,975)</b>

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