

**POSTMEDIA NETWORK CANADA CORP.**  
**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2013 AND FEBRUARY 29, 2012  
(UNAUDITED)

Issued: April 11, 2013

**POSTMEDIA NETWORK CANADA CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

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

	For the three months ended		For the six months ended	
	February 28,	February 29,	February 28,	February 29,
	2013	2012	2013	2012
<b>Revenues</b>				
Print advertising	105,443	122,385	238,184	271,753
Print circulation	47,863	51,201	97,139	105,470
Digital	21,292	20,933	46,105	43,555
Other	4,220	4,123	9,062	8,954
<b>Total revenues</b>	<b>178,818</b>	<b>198,642</b>	<b>390,490</b>	<b>429,732</b>
<b>Expenses</b>				
Compensation	81,172	90,176	164,120	177,297
Newsprint	9,856	12,633	21,964	27,267
Distribution	26,365	30,493	54,557	63,198
Other operating	36,240	40,052	75,558	82,035
<b>Operating income before depreciation, amortization, and restructuring (note 3)</b>	<b>25,185</b>	<b>25,288</b>	<b>74,291</b>	<b>79,935</b>
Depreciation	6,740	6,517	13,630	12,979
Amortization	10,834	10,836	21,568	21,857
Restructuring and other items (notes 7 and 9)	1,814	4,629	6,611	7,611
<b>Operating income</b>	<b>5,797</b>	<b>3,306</b>	<b>32,482</b>	<b>37,488</b>
Interest expense	15,606	14,799	31,773	31,636
Net financing expense relating to employee benefit plans (note 9)	383	975	766	1,950
(Gain) loss on disposal of property and equipment	(1,055)	35	(787)	35
(Gain) loss on derivative financial instruments (note 4)	1,193	4,616	1,890	(5,424)
Foreign currency exchange (gains) losses	3,832	(6,054)	4,698	6,078
<b>Earnings (loss) before income taxes</b>	<b>(14,162)</b>	<b>(11,065)</b>	<b>(5,858)</b>	<b>3,213</b>
Provision for income taxes	-	-	-	-
<b>Net earnings (loss) from continuing operations</b>	<b>(14,162)</b>	<b>(11,065)</b>	<b>(5,858)</b>	<b>3,213</b>
Net earnings from discontinued operations, net of tax of nil (note 13)	-	-	-	14,053
<b>Net earnings (loss) attributable to equity holders of the Company</b>	<b>(14,162)</b>	<b>(11,065)</b>	<b>(5,858)</b>	<b>17,266</b>
<b>Earnings (loss) per share from continuing operations (note 10):</b>				
Basic	\$ (0.35)	\$ (0.27)	\$ (0.15)	\$ 0.08
Diluted	\$ (0.35)	\$ (0.27)	\$ (0.15)	\$ 0.08
<b>Earnings per share from discontinued operations (note 10):</b>				
Basic	\$ -	\$ -	\$ -	\$ 0.35
Diluted	\$ -	\$ -	\$ -	\$ 0.35
<b>Earnings (loss) per share attributable to equity holders of the Company (note 10):</b>				
Basic	\$ (0.35)	\$ (0.27)	\$ (0.15)	\$ 0.43
Diluted	\$ (0.35)	\$ (0.27)	\$ (0.15)	\$ 0.42

The notes constitute an integral part of the interim condensed consolidated financial statements.

**POSTMEDIA NETWORK CANADA CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(UNAUDITED)**

(In thousands of Canadian dollars)

	For the three months ended		For the six months ended	
	February 28,	February 29,	February 28,	February 29,
	2013	2012	2013	2012
<b>Net earnings (loss) attributable to equity holders of the Company</b>	(14,162)	(11,065)	(5,858)	17,266
<b>Other comprehensive income (loss) from continuing operations</b>				
<b>Amounts subsequently reclassified to the statement of operations</b>				
Gain (loss) on valuation of derivative financial instruments, net of tax of nil	1,036	1,788	(1,097)	3,048
<b>Amounts not subsequently reclassified to the statement of operations</b>				
Net actuarial gains (losses) on employee benefits, net of tax of nil (note 9)	23,780	(20,798)	16,295	(30,188)
<b>Other comprehensive loss from discontinued operations</b>				
<b>Amounts not subsequently reclassified to the statement of operations</b>				
Net actuarial losses on employee benefits, net of tax of nil (note 9)	-	-	-	(906)
Other comprehensive income (loss)	24,816	(19,010)	15,198	(28,046)
<b>Comprehensive income (loss) attributable to equity holders of the Company</b>	10,654	(30,075)	9,340	(10,780)
<b>Total comprehensive income (loss) attributable to equity holders of the Company:</b>				
Continuing operations	10,654	(30,075)	9,340	(23,927)
Discontinued operations	-	-	-	13,147
<b>Comprehensive income (loss) attributable to equity holders of the Company</b>	10,654	(30,075)	9,340	(10,780)

The notes constitute an integral part of the interim condensed consolidated financial statements.

**POSTMEDIA NETWORK CANADA CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**(UNAUDITED)**

(In thousands of Canadian dollars)

	As at February 28, 2013	As at August 31, 2012
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	51,518	22,189
Accounts receivable	88,895	90,923
Inventory	3,747	3,829
Prepaid expenses and other assets	10,060	10,258
<b>Total current assets</b>	<b>154,220</b>	<b>127,199</b>
<b>Non-Current Assets</b>		
Property and equipment	256,471	267,491
Asset held-for-sale	-	23,139
Derivative financial instruments (note 5)	22,218	24,108
Other assets	1,166	1,549
Intangible assets	358,612	377,862
Goodwill	223,500	223,500
<b>Total assets</b>	<b>1,016,187</b>	<b>1,044,848</b>

The notes constitute an integral part of the interim condensed consolidated financial statements.

**POSTMEDIA NETWORK CANADA CORP.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)**  
**(UNAUDITED)**

(In thousands of Canadian dollars)

	As at February 28, 2013	As at August 31, 2012
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (note 6)	73,550	65,268
Provisions (note 7)	21,872	29,888
Deferred revenue	25,466	25,915
Current portion of derivative financial instruments (note 5)	3,209	6,069
Current portion of long-term debt (note 8)	15,103	32,153
<b>Total current liabilities</b>	<b>139,200</b>	<b>159,293</b>
<b>Non-Current Liabilities</b>		
Long-term debt (note 8)	475,178	467,749
Derivative financial instruments (note 5)	766	12,369
Other non-current liabilities (notes 9 and 11)	155,791	169,413
Provisions (note 7)	922	1,588
Deferred income taxes	681	681
<b>Total liabilities</b>	<b>772,538</b>	<b>811,093</b>
<b>Equity</b>		
Capital stock (note 13)	371,132	371,132
Contributed surplus (note 11)	8,442	7,888
Deficit	(128,920)	(139,357)
Accumulated other comprehensive loss	(7,005)	(5,908)
<b>Total equity</b>	<b>243,649</b>	<b>233,755</b>
<b>Total liabilities and equity</b>	<b>1,016,187</b>	<b>1,044,848</b>

The notes constitute an integral part of the interim condensed consolidated financial statements.

**POSTMEDIA NETWORK CANADA CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**(UNAUDITED)**

(In thousands of Canadian dollars)

	For the six months ended February 28, 2013				
	Capital stock	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total Equity
<b>Balance as at August 31, 2012</b>	371,132	7,888	(139,357)	(5,908)	233,755
Net loss attributable to equity holders of the Company	-	-	(5,858)	-	(5,858)
Other comprehensive income (loss)	-	-	16,295	(1,097)	15,198
<b>Comprehensive income (loss) attributable to equity holders of the Company</b>	-	-	10,437	(1,097)	9,340
Share-based compensation plans (note 11)	-	554	-	-	554
<b>Balance as at February 28, 2013</b>	<b>371,132</b>	<b>8,442</b>	<b>(128,920)</b>	<b>(7,005)</b>	<b>243,649</b>

	For the six months ended February 29, 2012				
	Capital stock	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total Equity
<b>Balance as at August 31, 2011</b>	371,132	5,602	(46,618)	(14,836)	315,280
Net earnings attributable to equity holders of the Company	-	-	17,266	-	17,266
Other comprehensive income (loss)	-	-	(31,094)	3,048	(28,046)
<b>Comprehensive income (loss) attributable to equity holders of the Company</b>	-	-	(13,828)	3,048	(10,780)
Share-based compensation plans (note 11)	-	1,294	-	-	1,294
<b>Balance as at February 29, 2012</b>	<b>371,132</b>	<b>6,896</b>	<b>(60,446)</b>	<b>(11,788)</b>	<b>305,794</b>

The notes constitute an integral part of the interim condensed consolidated financial statements.

**POSTMEDIA NETWORK CANADA CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

(In thousands of Canadian dollars)

	For the three months ended		For the six months ended	
	February 28,	February 29,	February 28,	February 29,
	2013	2012	2013	2012
<b>CASH GENERATED (UTILIZED) BY:</b>				
<b>OPERATING ACTIVITIES</b>				
Net earnings (loss) attributable to equity holders of the Company	(14,162)	(11,065)	(5,858)	17,266
Items not affecting cash:				
Depreciation	6,740	6,517	13,630	13,142
Amortization	10,834	10,836	21,568	21,912
(Gain) loss on derivative financial instruments (note 4)	1,193	3,014	1,890	(8,015)
Non-cash interest	1,467	23	2,798	8,711
(Gain) loss on disposal of property and equipment	(1,055)	35	(787)	35
Non-cash foreign currency exchange (gains) losses	3,854	(6,805)	4,678	5,202
Gain on sale of discontinued operations (note 13)	-	-	-	(17,109)
Share-based compensation plans and other long-term incentive plan expense (recovery) (note 11)	57	167	935	(1,083)
Net financing expense relating to employee benefit plans (note 9)	383	975	766	1,957
Non-cash compensation expense of employee benefit plans (note 9)	-	-	1,052	-
Employee benefit funding in excess of compensation expense (note 9)	(857)	(3,407)	-	(12,847)
Settlement of foreign currency interest rate swap designated as a cash flow hedge (note 5)	-	-	(8,976)	-
Net change in non-cash operating accounts	12,252	15,755	2,238	(3,204)
Cash flows from operating activities	20,706	16,045	33,934	25,967
<b>INVESTING ACTIVITIES</b>				
Net proceeds received on the sale of discontinued operations (note 13)	-	-	-	85,890
Net proceeds from the sale of property and equipment and asset held-for-sale	931	-	25,622	-
Additions to property and equipment	(1,670)	(2,441)	(4,306)	(3,940)
Additions to intangible assets	(1,667)	(2,122)	(2,623)	(3,622)
Cash flows from investing activities	(2,406)	(4,563)	18,693	78,328
<b>FINANCING ACTIVITIES</b>				
Repayment of long-term debt (note 8)	-	(9,856)	(23,187)	(100,681)
Debt issuance costs	(15)	-	(111)	(37)
Cash flows from financing activities	(15)	(9,856)	(23,298)	(100,718)
Net change in cash	18,285	1,626	29,329	3,577
Cash at beginning of period	33,233	12,434	22,189	10,483
<b>Cash at end of period</b>	<b>51,518</b>	<b>14,060</b>	<b>51,518</b>	<b>14,060</b>
<b>Supplemental disclosure of operating cash flows</b>				
Interest paid	19,274	25,584	20,496	31,463
Income taxes paid	-	-	-	-

The notes constitute an integral part of the interim condensed consolidated financial statements.

**POSTMEDIA NETWORK CANADA CORP.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2013 AND FEBRUARY 29, 2012**

(In thousands of Canadian dollars, except as otherwise noted)

---

**1. DESCRIPTION OF BUSINESS**

Postmedia Network Canada Corp. ("Postmedia" or the "Company") is a holding company that has a 100% interest in its subsidiary Postmedia Network Inc. ("Postmedia Network"). The Company was incorporated on April 26, 2010, pursuant to the Canada Business Corporations Act, to enable the purchase of the assets and certain liabilities of Canwest Limited Partnership ("Canwest LP") on July 13, 2010. The Company's head office and registered office is 1450 Don Mills Road, Don Mills, Ontario.

The Company's operations consist of news and information gathering and dissemination operations, with products offered in major Canadian markets and a number of regional and local markets in Canada through a variety of print, web, tablet and smartphone platforms. Additionally, the Company operates digital media and online assets including the *canada.com* network, each newspaper's online website and Infomart, the Company's media monitoring website. The Company supports these operations through a variety of centralized shared services. The Company's advertising revenue is seasonal. Historically, advertising revenue and accounts receivable are typically highest in the first and third fiscal quarters, while expenses are typically relatively constant throughout the fiscal year.

**2. BASIS OF PRESENTATION**

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and International Accounting Standard ("IAS") 34 – Interim Financial Reporting. The accounting policies applied in the preparation of these interim condensed consolidated financial statements are the same as those used in the Company's annual audited consolidated financial statements. In addition, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual audited consolidated financial statements and accordingly should be read in conjunction with the Company's audited consolidated financial statements for the years ended August 31, 2012 and 2011.

These interim condensed consolidated financial statements were approved by the Board of Directors (the "Board") on April 11, 2013.

***Accounting standards issued but not yet effective***

Future accounting standards that are issued but not yet effective are the same as described in the audited consolidated financial statements for the years ended August 31, 2012 and 2011, except as disclosed below:



## **IAS 19 – Employee Benefits (Amended)**

IAS 19 amendments include, among other changes, the immediate recognition of the actuarial gains and losses in other comprehensive income, the introduction of a net interest approach that replaces the expected return on plan assets and interest costs on the defined benefit obligation with a single net interest component and all past service costs are to be recognized in profit or loss when the employee benefit plan is amended. This standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2013. As a result, under the amended standard, for the year ending August 31, 2013 the Company anticipates that compensation expense and financing expense related to employee benefit plans will increase \$0.5 million and \$5.9 million, respectively. In addition, the Company anticipates an offsetting increase in other comprehensive income related to actuarial gains on employee benefits of \$6.6 million. The aggregate anticipated impact is an increase to comprehensive income of \$0.2 million.

### **3. OPERATING INCOME BEFORE DEPRECIATION, AMORTIZATION AND RESTRUCTURING**

The Company presents operating income before depreciation, amortization and restructuring, in the condensed consolidated statement of operations, to assist users in assessing financial performance. The Company's management and Board use this measure to evaluate consolidated operating results as well as the results of its segments and to assess the ability of the Company to incur and service debt. In addition, this measure is used to make operating decisions as it is an indicator of how much cash is being generated by the Company and assists in determining the need for additional cost reductions, evaluation of personnel and resource allocation decisions. Operating income before depreciation, amortization and restructuring is referred to as an additional IFRS measure and may not be comparable to similar measures presented by other companies.

#### 4. (GAIN) LOSS ON DERIVATIVE FINANCIAL INSTRUMENTS

The Company's (gain) loss on derivative financial instruments for the three and six months ended February 28, 2013 and February 29, 2012 is comprised of the following:

	For the three months ended		For the six months ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
(Gain) loss on fair value swap not designated as a hedge	-	3,686	-	(4,000)
Realized loss on settlement of cash flow swap designated as a hedge	-	675	-	675
Contractual cash interest settlement on fair value swap not designated as a hedge	-	927	-	1,916
(Gain) loss on embedded derivatives	1,193	(672)	1,890	(4,015)
(Gain) loss on derivative financial instruments	1,193	4,616	1,890	(5,424)

During the three and six months ended February 28, 2013 and February 29, 2012, no ineffectiveness was recognized in the condensed consolidated statements of operations related to the Company's cash flow hedges.

#### 5. DERIVATIVE FINANCIAL INSTRUMENTS

	As at February 28, 2013	As at August 31, 2012
<b>Assets</b>		
Embedded derivatives	22,218	24,108
Portion receivable within one year	-	-
Non-current derivative financial instruments	22,218	24,108
<b>Liabilities</b>		
Foreign currency interest rate swap - designated as a cash flow hedge <sup>(1)</sup>	3,975	18,438
Portion due within one year	(3,209)	(6,069)
Non-current derivative financial instruments	766	12,369

<sup>(1)</sup> The notional principal amount outstanding on the foreign currency interest rate swap designated as a cash flow hedge as at February 28, 2013, was US\$167.5 million (August 31, 2012 - US\$265.0 million). During September 2012, the Company settled a notional amount of US\$97.5 million of the foreign currency interest rate swap designated as a cash flow hedge for a cash payment of \$9.6 million, including \$0.6 million of accrued interest. During the three and six months ended February 28, 2013, foreign currency exchange gains of \$6.3 million and \$7.6 million, respectively (2012 – losses of \$9.5 million and gains of \$3.7 million, respectively), were reclassified to the condensed consolidated statements of operations from accumulated other comprehensive loss, representing foreign currency exchange gains on the notional amount of the cash flow hedging derivatives. These amounts were offset by foreign currency exchange losses recognized on the US dollar denominated 12.50% Senior Secured Notes due 2018 ("Second-Lien Notes") and for the three and six months ended February 29, 2012, the hedged portion of the Senior Secured Term Loan Credit Facility ("Term Loan Facility"). During the three and six months ended February 28, 2013, losses of \$1.7 million and \$3.5 million, respectively (2012 - \$2.0 million and \$4.0 million, respectively), were reclassified from accumulated other comprehensive loss to interest expense in the condensed consolidated statements of operations related to the effect of the derivative financial instruments on the Company's interest expense. The unrealized loss on valuation of derivative financial instruments that will be reclassified from accumulated other comprehensive loss to interest expense in the consolidated statement of operations over the next twelve months is \$6.2 million.

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at February 28, 2013	As at August 31, 2012
Trade accounts payable	9,737	9,973
Accrued liabilities	48,960	49,065
Accrued interest on long-term debt	14,853	6,230
Accounts payable and accrued liabilities	73,550	65,268

## 7. PROVISIONS

	Restructuring <sup>(a)</sup>	Other provisions <sup>(b)</sup>	Total
Provisions as at August 31, 2012	27,753	3,723	31,476
Net charges (recoveries)	4,273	(435)	3,838
Payments	(10,751)	(1,769)	(12,520)
Provisions as at February 28, 2013	21,275	1,519	22,794
Portion due within one year	(21,275)	(597)	(21,872)
Non-current provisions	-	922	922

### (a) Restructuring

During the year ended August 31, 2012, the Company began implementing a three year business transformation project aimed at significantly reducing legacy newspaper infrastructure costs. The restructuring expense consists of a series of involuntary and voluntary terminations and is primarily in the Newspaper segment.

### (b) Other provisions

Other provisions include unfavorable lease contracts, equipment removal costs, as well as provisions for certain claims and grievances which have been asserted against the Company.

## 8. LONG-TERM DEBT

				As at February 28, 2013	As at August 31, 2012
	Maturity	Principal	Financing fees, discounts and other	Carrying value of debt	Carrying value of debt
<b>8.25% Senior Secured Notes</b> <sup>(1)</sup>	August 2017	226,813	5,114	221,699	244,134
<b>12.5% Senior Secured Notes (US\$268.6M)</b> <sup>(**)</sup>	July 2018	277,070	8,488	268,582	255,768
<b>Senior Secured Asset-Based Revolving Credit Facility</b> <sup>(2)</sup>	July 2014	-	-	-	-
Total long-term debt				490,281	499,902
Portion due within one year				(15,103)	(32,153)
Non-current long-term debt				475,178	467,749

(\*\*) - US\$ principal translated at February 28, 2013 exchange rates.

The terms and conditions of long-term debt are the same as disclosed in the audited consolidated financial statements for the years ending August 31, 2012 and 2011, except as disclosed below:

<sup>(1)</sup> On November 12, 2012, the Company redeemed \$23.2 million aggregate principal amount of 8.25% Senior Secured Notes due 2017 ("First-Lien Notes") at par in accordance with the terms and conditions of the First-Lien Notes indenture with the net proceeds from the disposition of the land and building located at 1450 Don Mills Road in Don Mills, Ontario.

<sup>(2)</sup> As at February 28, 2013, the Company had no amounts drawn (August 31, 2012 – nil) and had availability of \$28.5 million (August 31, 2012 – \$23.3 million) under this facility.

## 9. EMPLOYEE BENEFIT PLANS

The Company has a number of funded and unfunded defined benefit plans that include pension benefits, post-retirement benefits, and other long-term employee benefits. The net employee benefit plan costs related to the Company's pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans reported in net earnings from continuing operations in the condensed consolidated statements of operations for the three and six months ended February 28, 2013 and February 29, 2012 are as follows:

For the three months ended February 28, 2013 and February 29, 2012

	Pension benefits		Post-retirement benefits		Other long-term employee benefits		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	Current service cost	3,024	2,526	448	438	582	578	4,054
Past service costs	-	-	62	62	(1,423)	-	(1,361)	62
Net actuarial (gains) losses	-	-	-	-	(213)	211	(213)	211
Interest cost	4,962	5,089	667	761	150	176	5,779	6,026
Expected return on plan assets	(5,396)	(5,051)	-	-	-	-	(5,396)	(5,051)
Net defined benefit plan expense <sup>(1)</sup>	2,590	2,564	1,177	1,261	(904)	965	2,863	4,790

For the six months ended February 28, 2013 and February 29, 2012

	Pension benefits		Post-retirement benefits		Other long-term employee benefits		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	Current service cost	6,048	5,052	896	876	1,164	1,156	8,108
Past service costs	-	-	124	124	-	-	124	124
Net actuarial losses	-	-	-	-	2,126	211	2,126	211
Interest cost	9,924	10,178	1,334	1,522	300	352	11,558	12,052
Expected return on plan assets	(10,792)	(10,102)	-	-	-	-	(10,792)	(10,102)
Net defined benefit plan expense <sup>(1)</sup>	5,180	5,128	2,354	2,522	3,590	1,719	11,124	9,369

<sup>(1)</sup> During the three months ended November 30, 2012, there was an arbitrators ruling against the Company that resulted in a change to benefits provided under an other long-term employee benefit plan. During the three months ended February 28, 2013, the Company received a final arbitrators ruling and accordingly revised the estimate related to this change in benefits by reducing net defined benefit plan expense by \$1.6 million and increasing an expense for cash costs of \$0.1 million, which resulted in a total expense for the six months ended February 28, 2013 of \$2.3 million, which includes actuarial losses of \$1.8 million and cash costs of \$0.5 million. The expense related to this estimate is recorded in restructuring and other items in the condensed consolidated statement of operations while all other current service cost, past service costs and net actuarial losses related to other long-term employee benefits are included in compensation expense in the condensed consolidated statements of operations. Interest cost and expected return on plan assets are included in net financing expense relating to employee benefit plans in the condensed consolidated statements of operations.

Actuarial gains and losses related to the Company's pension benefit plans and post-retirement benefit plans recognized in the condensed consolidated statements of comprehensive income (loss) for the three and six months ended February 28, 2013 and February 29, 2012 are as follows:

For the three months ended February 28, 2013 and February 29, 2012

	Pension benefits		Post-retirement benefits		Total	
	2013	2012	2013	2012	2013	2012
	<b>Other comprehensive income (loss) from continuing operations</b>					
Net actuarial gains (losses) on employee benefits	23,780	(17,877)	-	(2,921)	23,780	(20,798)
Net actuarial gains (losses) recognized in other comprehensive income (loss)	23,780	(17,877)	-	(2,921)	23,780	(20,798)

For the six months ended February 28, 2013 and February 29, 2012

	Pension benefits		Post-retirement benefits		Total	
	2013	2012	2013	2012	2013	2012
	<b>Other comprehensive income (loss) from continuing operations</b>					
Net actuarial gains (losses) on employee benefits	17,114	(27,267)	(819)	(2,921)	16,295	(30,188)
<b>Other comprehensive loss from discontinued operations</b>						
Net actuarial losses on employee benefits	-	(906)	-	-	-	(906)
Net actuarial gains (losses) recognized in other comprehensive income (loss)	17,114	(28,173)	(819)	(2,921)	16,295	(31,094)

The cumulative actuarial losses related to the Company's pension benefit plans and post-retirement benefit plans recognized in the condensed consolidated statement of financial position as at February 28, 2013 are as follows:

	2012
Cumulative actuarial losses recognized directly in deficit, August 31, 2012	(61,715)
Net actuarial gains recognized in other comprehensive income and deficit	16,295
Cumulative actuarial losses recognized directly in deficit, February 28, 2013	(45,420)

Changes to the net defined benefit plan obligations related to the Company's pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans reported in the condensed consolidated statement of financial position for the six months ended February 28, 2013 are as follows:

	Pension benefits	Post-retirement benefits	Other long-term employee benefits	Total <sup>(1)</sup>
Net defined benefit plan obligation as at August 31, 2012	91,243	59,552	17,207	168,002
Amounts recognized in the statement of operations	5,180	2,354	3,590	11,124
Amounts recognized in other comprehensive income	(17,114)	819	-	(16,295)
Contributions to the plans	(7,222)	(1,142)	(942)	(9,306)
Net defined benefit plan obligation as at February 28, 2013	72,087	61,583	19,855	153,525

<sup>(1)</sup> As at August 31, 2012 and February 28, 2013, the net defined benefit plan obligations are recorded in other non-current liabilities on the condensed consolidated statements of financial position.

During the six months ended February 28, 2013, the Company filed an actuarial funding valuation dated December 31, 2011 for the most significant of its pension benefit plans. The Company's most recent valuations for all of the pension benefit plans indicated they had an aggregate going concern unfunded liability of \$18.1 million and a wind up deficiency (which assumes that the pension plans terminate on their actuarial valuation date) of \$130.3 million. After taking into account the December 31, 2011 valuation and solvency relief provided to all Ontario registered pension plans by the Ontario government, the Company expects to contribute \$12.4 million to its defined benefit pension plans for the year ended August 31, 2013.

## 10. EARNINGS (LOSS) PER SHARE

The following table provides a reconciliation of the denominators, which are presented in whole numbers, used in computing basic and diluted earnings (loss) per share for the three and six months ended February 28, 2013 and February 29, 2012. No reconciling items in the computation of net earnings (loss) exist.

	For the three months ended	
	February 28, <b>2013</b>	February 29, <b>2012</b>
Basic weighted average shares outstanding during the period	40,217,189	40,323,170
Dilutive effect of RSUs	-	-
Diluted weighted average shares outstanding during the period	40,217,189	40,323,170
Options and RSUs outstanding which are anti-dilutive	1,152,000	840,000

  

	For the six months ended	
	February 28, <b>2013</b>	February 29, <b>2012</b>
Basic weighted average shares outstanding during the period	40,270,472	40,323,170
Dilutive effect of RSUs	-	404,110
Diluted weighted average shares outstanding during the period	40,270,472	40,727,280
Options and RSUs outstanding which are anti-dilutive	1,152,000	600,000

On December 7, 2012 the Company cancelled, for no consideration, 93,871 Class C voting shares and 19,680 Class NC variable voting shares that were held in trust by the court appointed monitor of the Canwest LP Companies Creditors Arrangement Act filing. As at February 28, 2013, the Company had a total of 40,209,619 Class C voting shares and Class NC variable voting shares outstanding (August 31, 2012 – 40,323,170).

## 11. SHARE-BASED COMPENSATION PLANS AND OTHER LONG-TERM INCENTIVE PLAN

### Share option plan

The Company has a share option plan (the "Option Plan") for its employees and officers to assist in attracting, retaining and motivating officers and employees. The Option Plan is administered by the Board.

The following table provides details on the changes to the issued options, which are presented in whole numbers, for the six months ended February 28, 2013:

	Options	Weighted average exercise price
Balance, August 31, 2012	1,480,000	\$ 8.74
Forfeited	(80,000)	\$ (9.85)
Balance, February 28, 2013	1,400,000	\$ 8.68

During the three and six months ended February 28, 2013, the Company recorded compensation expense relating to the Option Plan of a nominal amount and \$0.2 million, respectively (2012 - \$0.6 million and \$0.7 million, respectively), with an offsetting credit to contributed surplus.

### **Restricted share unit plan**

The Company has a restricted share unit plan (the “RSU Plan”). The RSU Plan provides for the grant of restricted share units (“RSUs”) to participants, being current, part-time or full-time officers, employees or consultants of the Company. The RSU Plan is administered by the Board.

During the three and six months ended February 28, 2013 and February 29, 2012, the Company granted no RSUs under the RSU Plan. During the three and six months ended February 28, 2013, the Company recorded compensation expense relating to the RSU Plan of \$0.1 million and \$0.3 million, respectively (2012 – \$0.3 million and \$0.6 million, respectively), with an offsetting credit to contributed surplus.

### **Deferred share unit plan**

The Company has a deferred share unit plan (the “DSU Plan”) for the benefit of its non-employee directors. The DSU Plan is administered by the Board.

During the three and six months ended February 28, 2013 and February 29, 2012, the Company issued no deferred share units (“DSUs”) under the DSU Plan. During the three and six months ended February 28, 2013, the Company recorded a recovery of \$0.1 million and an expense of \$0.4 million, respectively, to compensation expense relating to the DSU Plan (2012 – recovery of \$0.7 million and \$2.4 million, respectively), with an offset to other non-current liabilities. The expense and recovery are due to the fluctuation in the share price of the Class C voting shares of the Company which are used to compute the fair value of the DSUs. Any changes in the fair value of the DSUs will be reflected in the future through adjustments to compensation expense until such a date as the DSUs are settled in cash. No payments were made related to the DSU Plan during the three and six months ended February 28, 2013 and February 29, 2012.

The aggregate carrying value of the DSU Plan liability was \$0.7 million as at February 28, 2013 (August 31, 2012 - \$0.3 million) and is recorded in other non-current liabilities on the condensed consolidated statement of financial position.



## 12. SEGMENT INFORMATION

The Company has one reportable segment for financial reporting purposes, the Newspaper segment. The Newspaper segment publishes daily and non-daily newspapers and operates the related newspaper websites. Its revenue is primarily from advertising and circulation. The Company has other business activities and an operating segment which is not separately reportable and is referred to as the All other category. Revenue in the All other category primarily consists of subscription revenue from Infomart and advertising revenue from the website *canada.com*.

Each operating segment operates as a strategic business unit with separate management. Segment performance is measured primarily upon the basis of segment operating income. The Company accounts for intersegment sales as if the sales were to third parties.

Included within digital revenue in the condensed consolidated statements of operations during the three and six months ended February 28, 2013 is advertising revenue of \$14.5 million and \$32.1 million, respectively (2012 - \$14.2 million and \$30.2 million, respectively) and circulation/subscription revenue of \$6.8 million and \$14.0 million, respectively (2012 - \$6.7 million and \$13.3 million, respectively). Accordingly, aggregate print and digital revenue from advertising for the three and six months ended February 28, 2013 was \$119.9 million and \$270.3 million, respectively (2012 - \$136.6 million and \$302.0 million, respectively) and aggregate print and digital revenue from circulation/subscription was \$54.7 million and \$111.1 million, respectively (2012 - \$ 57.9 million and \$118.8 million, respectively).

Segmented information and a reconciliation of segment operating income to earnings before income taxes for the three and six months ended February 28, 2013 and February 29, 2012 are as follows:

	For the three months ended		For the six months ended	
	February 28,	February 29,	February 28,	February 29,
	2013	2012	2013	2012
<b>Revenue</b>				
Newspaper	171,712	190,615	375,770	413,690
All other	7,799	8,986	16,720	17,980
Intersegment elimination <sup>(1)</sup>	(693)	(959)	(2,000)	(1,938)
<b>Total revenue</b>	<b>178,818</b>	<b>198,642</b>	<b>390,490</b>	<b>429,732</b>
<b>Operating income before depreciation, amortization and restructuring</b>				
Newspaper	28,950	29,691	81,083	84,484
All other	2,723	2,340	6,501	5,840
Corporate	(6,488)	(6,743)	(13,293)	(10,389)
<b>Total operating income before depreciation, amortization and restructuring</b>	<b>25,185</b>	<b>25,288</b>	<b>74,291</b>	<b>79,935</b>
<b>Reconciliation of segment operating income to earnings (loss) before income taxes</b>				
Depreciation	6,740	6,517	13,630	12,979
Amortization	10,834	10,836	21,568	21,857
Restructuring and other items	1,814	4,629	6,611	7,611
<b>Operating income</b>	<b>5,797</b>	<b>3,306</b>	<b>32,482</b>	<b>37,488</b>
Interest expense	15,606	14,799	31,773	31,636
Net financing expense relating to employee benefit plans	383	975	766	1,950
(Gain) loss on disposal of property and equipment	(1,055)	35	(787)	35
(Gain) loss on derivative financial instruments	1,193	4,616	1,890	(5,424)
Foreign currency exchange (gains) losses	3,832	(6,054)	4,698	6,078
<b>Earnings (loss) before income taxes</b>	<b>(14,162)</b>	<b>(11,065)</b>	<b>(5,858)</b>	<b>3,213</b>

<sup>(1)</sup> The Newspaper segment recorded intersegment revenue for the three and six months ended February 28, 2013 of \$0.6 million and \$1.8 million, respectively (2012 - \$0.9 million and \$1.7 million, respectively) and the All other category recorded intersegment revenue for the three and six months ended February 28, 2013 of \$0.1 million and \$0.2 million, respectively (2012 - \$0.1 million and \$0.2 million, respectively).

### 13. DIVESTITURES AND DISCONTINUED OPERATIONS

On October 18, 2011, the Company entered into an asset purchase agreement with affiliates of Glacier Media Inc. (the "Transaction") to sell substantially all of the assets and liabilities of the Lower Mainland Publishing Group, the Victoria Times Colonist and the Vancouver Island Newspaper Group, collectively herein referred to as the Disposed Properties. The Disposed Properties were all within the Newspaper segment. On November 30, 2011, the Company completed the Transaction. As a result of the Transaction, the Company has presented the results of the Disposed Properties as discontinued operations.

Details of the Transaction and the gain on sale of discontinued operations are as follows:

<b>Consideration</b> <sup>(1)</sup>	
Purchase price	86,500
Working capital adjustment and other items	1,450
Transaction costs	(610)
<b>Net proceeds</b>	<b>87,340</b>
<b>Carrying value of net assets disposed</b>	
<b>Current Assets</b>	
Accounts receivable	17,023
Inventory	568
Prepaid expenses and other assets	428
<b>Non-Current Assets</b>	
Property and equipment	27,333
Other assets	804
Intangible assets	25,231
Goodwill	12,593
<b>Total assets</b>	<b>83,980</b>
<b>Current Liabilities</b>	
Accounts payable and accrued liabilities	9,485
Deferred revenue	2,202
<b>Non-Current Liabilities</b>	
Other non-current liabilities	2,062
<b>Total liabilities</b>	<b>13,749</b>
<b>Carrying value of net assets disposed</b>	<b>70,231</b>
<b>Gain on sale of discontinued operations, net of tax of nil</b>	<b>17,109</b>

<sup>(1)</sup> In accordance with the terms and conditions of the Term Loan Facility on November 30, 2011, the Company was required to repay amounts outstanding with the net proceeds of the Transaction.

Net earnings from discontinued operations for the six months ended February 29, 2012, are summarized as follows:

	<b>2012<sup>(1)</sup></b>
<b>Revenues</b>	
Print advertising	27,090
Print circulation	3,495
Digital	956
Other	535
<b>Total revenues</b>	<b>32,076</b>
<b>Expenses</b>	
Compensation	12,756
Newsprint	1,218
Distribution	5,117
Other operating	7,611
<b>Operating income before depreciation, amortization and restructuring</b>	<b>5,374</b>
Depreciation	163
Amortization	55
Restructuring and other items	57
<b>Operating income</b>	<b>5,099</b>
Interest expense <sup>(2)</sup>	8,148
Net financing expense related to employee benefit plans	7
Gain on sale of discontinued operations	(17,109)
<b>Earnings before income taxes</b>	<b>14,053</b>
Provision for income taxes	-
<b>Net earnings from discontinued operations</b>	<b>14,053</b>

(1) The Transaction was completed on November 30, 2011, as a result net earnings from discontinued operations for the six months ended February 29, 2012 relate only to the three months ended November 30, 2011.

(2) The Company had allocated interest expense to discontinued operations representing the portion of interest expense related to the Term Loan Facility that was repaid as a result of the Transaction. During the six months ended February 29, 2012, the Company allocated interest expense of \$1.8 million to discontinued operations. In addition, during the six months ended February 29, 2012, the repayment of the Term Loan Facility with the proceeds of the Transaction resulted in additional interest expense representing an acceleration of unamortized financing fees and discounts of which \$6.4 million had been allocated to discontinued operations.

Cash flows from discontinued operations for the six months ended February 29, 2012 are summarized as follows:

	<b>2012<sup>(1)</sup></b>
Cash flows from operating activities	2,275
Cash flows from investing activities <sup>(2)</sup>	(2,275)
Cash flows from financing activities	-
Cash flows from discontinued operations	-

(1) The Transaction was completed on November 30, 2011, as a result cash flows from discontinued operations for the six months ended February 29, 2012 relate only to the three months ended November 30, 2011.

(2) The cash flows from discontinued operations were transferred to the Company through a centralized cash management system resulting in cash flows from discontinued operations for the six months ended February 29, 2012 of nil.

## **14. UNITED STATES ACCOUNTING PRINCIPLES**

These interim condensed consolidated financial statements have been prepared in accordance with IFRS. In certain aspects GAAP as applied in the United States ("US GAAP") differs from IFRS. The following information is being presented to comply with the US GAAP reconciliation requirements of the Second-Lien Notes indenture. The reconciliations have been prepared based on the same principle differences explained in the audited consolidated financial statements for the years ending August 31, 2012 and 2011, and as described below. All amounts are expressed in thousands of Canadian dollars unless otherwise noted.

### **Principle differences affecting the Company**

#### **(a) Employee benefits – actuarial gains and losses**

Under IFRS, the Company recognizes actuarial gains and losses related to its defined benefit pension and post-retirement plans in other comprehensive income and deficit. Such actuarial gains and losses are not subsequently recycled to the statement of operations. Under US GAAP, the Company recognizes the funded status of defined benefit pension and post-retirement plans and recognizes changes in the funded status in the year in which the changes occur through other comprehensive income and accumulated other comprehensive income. Actuarial gains and losses previously recognized in other comprehensive income are recycled to the statement of operations using the corridor method of amortization. Under the corridor method the net actuarial gain or loss over 10% of the greater of the defined benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service period of active employees. The effect on US GAAP net loss for the three and six months ended February 28, 2013, was to increase net loss \$0.4 million and \$0.7 million, respectively (2012 – nil and nil, respectively), with a corresponding increase to comprehensive income, net of a deferred income tax provision of nil. During the six months ended February 29, 2012, due to the sale of the Disposed Properties under US GAAP, the cumulative net actuarial loss in equity related to the Disposed Properties was recycled to the statement of operations. The effect on US GAAP net earnings for the three and six months ended February 29, 2012, was to decrease net earnings nil and \$0.4 million, respectively, with a corresponding decrease to comprehensive loss, net of a deferred income tax provision of nil.

#### **(b) Employee benefits – past service costs**

Under IFRS, for defined benefit pension and post-retirement plans the Company is required to recognize on the statement of financial position the difference between the defined benefit obligation and the fair value of plan assets, plus or minus any unrecognized past service costs, if any. Under US GAAP, the Company recognizes the funded status of defined benefit plans and recognizes changes in the funded status in the period in which the changes occur through other comprehensive income and accumulated other comprehensive income. The funded status represents the difference between the fair value of the plans assets and the defined benefit obligation. The effect on US GAAP comprehensive income for the three and six months ended February 28, 2013, was to increase comprehensive income \$0.1 million and \$0.1 million, respectively (2012 –\$0.1 million and \$0.1 million, respectively), net of a deferred income tax provision of nil. The effect on the condensed consolidated statement of financial position as at February 28, 2013, was to increase other non-current liabilities \$1.8 million with a corresponding increase to deficit (August 31, 2012 - \$1.9 million).

### **(c) Employee benefits – curtailment**

Under IFRS, the Company recognizes a curtailment when it is demonstrably committed to make a significant reduction in the number of employees covered by an employee benefit plan. Under US GAAP, a curtailment is recognized at the date of the curtailment. As a result of the termination of employees under the restructuring initiatives implemented during the year ended August 31, 2012, which will be completed in the year ended August 31, 2013, the Company recognized a curtailment under IFRS but not under US GAAP. The effect on the related employee benefit plan expense under US GAAP for the three and six months ended February 28, 2013, was to increase net loss \$0.1 million and \$0.3 million, respectively (2012 – nil and nil, respectively), net of a deferred income tax provision of nil. The effect on the condensed consolidated statement of financial position as at February 28, 2013, was to increase other non-current liabilities \$4.4 million with a corresponding increase to deficit (August 31, 2012 - \$4.1 million).

### **(d) Employee benefits – presentation of expense**

Under IFRS, the Company recognizes the components of the defined benefit expense within different line items in the statement of operations. The current service cost, recognized element of any past service costs and actuarial gains and losses related to other long-term employee benefits are recorded in compensation expense in the statement of operations. The expected return on plan assets and interest cost on the benefit obligations are presented in net financing expense relating to employee benefit plans in the statement of operations. Under US GAAP, the components of the defined benefit expense must be aggregated and presented as a net amount in the statement of operations. During the three and six months ended February 28, 2013, net financing expense relating to employee benefit plans was \$0.4 million and \$0.8 million, respectively (2012 - \$1.0 million and \$2.0 million, respectively).

### **(e) Long-term debt – debt issuance costs**

Under IFRS, transaction costs related to the issuance of debt are deducted from the carrying value of the financial liability and are amortized using the effective interest method. Under US GAAP, debt issuance costs, other than debt discounts or premiums, are deferred as an asset and recognized over the contractual life using the constant interest method. There is no earnings difference related to the amortization of debt issuance costs in the three and six months ended February 28, 2013 and February 29, 2012. The effect on the condensed consolidated statement of financial position as at February 28, 2013, would be to increase other assets \$15.0 million (August 31, 2012 - \$16.4 million) with an offsetting increase to long-term debt.

### **(f) Impairment of indefinite life intangible assets**

Under IFRS, indefinite life intangible assets are tested for impairment as part of a cash-generating unit (“CGU”) because they do not generate cash inflows independently of other assets. A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Under US GAAP, impairments of indefinite life intangible assets are measured on an individual basis by directly comparing the fair value to the carrying amount. During the year ended August 31, 2012, under US GAAP the Company concluded that certain indefinite life intangible assets were impaired. The effect on the condensed consolidated statement of financial position as at February 28, 2013, is to decrease intangible assets \$30.0 million with a corresponding increase to deficit (August 31, 2012 – \$30.0 million).

### Comparative reconciliation of net earnings (loss)

The following is a reconciliation of net earnings (loss) for the three and six months ended February 28, 2013 and February 29, 2012, reflecting the differences between IFRS and US GAAP:

	For the three months ended		For the six months ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Net earnings (loss) in accordance with IFRS	(14,162)	(11,065)	(5,858)	17,266
Employee benefits - actuarial gains and losses (a)	(355)	-	(710)	(397)
Employee benefits - curtailment (c)	(125)	-	(250)	-
Net earnings (loss) in accordance with US GAAP	(14,642)	(11,065)	(6,818)	16,869

### Comparative reconciliation of comprehensive income (loss)

The following is a reconciliation of comprehensive income (loss) for the three and six months ended February 28, 2013 and February 29, 2012, reflecting the differences between IFRS and US GAAP:

	For the three months ended		For the six months ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Comprehensive income (loss) in accordance with IFRS	10,654	(30,075)	9,340	(10,780)
Impact of US GAAP differences on net earnings (loss)	(480)	-	(960)	(397)
	10,174	(30,075)	8,380	(11,177)
Employee benefits - actuarial gains and losses (a)	355	-	710	397
Employee benefits - past service costs (b)	62	62	124	124
Comprehensive income (loss) in accordance with US GAAP	10,591	(30,013)	9,214	(10,656)

### Comparative reconciliation of equity

A reconciliation of equity as at February 28, 2013 and August 31, 2012 reflecting the differences between IFRS and US GAAP is set out below:

	As at February 28, 2013	As at August 31, 2012
Equity in accordance with IFRS	243,649	233,755
Employee benefits - past service costs (b)	(1,799)	(1,923)
Employee benefits - curtailment (c)	(4,358)	(4,108)
Impairment of indefinite life intangible assets (f)	(30,000)	(30,000)
Equity in accordance with US GAAP	207,492	197,724

### Other US GAAP disclosures

Operating expenses in the condensed consolidated statements of operations included:

	For the three months ended		For the six months ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Selling, general and administrative expenses	86,253	93,500	176,512	188,253
Rent expense	3,832	3,006	7,334	6,168

Accounts payable and accrued liabilities and the current portion of provisions on the condensed consolidated statement of financial position as at February 28, 2013 include \$51.0 million of payroll related accruals (August 31, 2012 - \$55.6 million).