

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

FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016  
(UNAUDITED)

**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,
	2017	2016	2017	2016
<b>Revenues</b>				
Print advertising	86,330	111,540	197,327	253,682
Print circulation	58,235	63,758	120,021	131,668
Digital	28,085	25,452	59,496	55,620
Other	8,149	8,334	18,805	19,194
<b>Total revenues</b>	<b>180,799</b>	<b>209,084</b>	<b>395,649</b>	<b>460,164</b>
<b>Expenses</b>				
Compensation	76,745	90,067	162,747	184,806
Newsprint	10,626	11,268	23,760	25,066
Distribution	36,770	40,066	75,959	82,259
Production	17,387	16,627	36,658	34,573
Other operating	33,261	38,371	68,706	78,267
<b>Operating income before depreciation, amortization, impairment and restructuring (note 3)</b>	<b>6,010</b>	<b>12,685</b>	<b>27,819</b>	<b>55,193</b>
Depreciation	5,558	5,492	11,986	11,139
Amortization	3,559	5,509	7,656	11,165
Impairments (note 6)	-	187,000	21,592	187,000
Restructuring and other items (notes 4 and 8)	16,806	11,089	52,789	22,884
<b>Operating loss</b>	<b>(19,913)</b>	<b>(196,405)</b>	<b>(66,204)</b>	<b>(176,995)</b>
Interest expense	7,982	19,053	15,883	37,773
Gain on debt settlement (note 4)	-	-	(78,556)	-
Net financing expense relating to employee benefit plans (note 10)	1,471	1,450	2,942	2,899
(Gain) loss on disposal of property and equipment	(578)	449	(65)	388
(Gain) loss on derivative financial instruments (note 13)	(973)	3,083	(1,156)	1,239
Foreign currency exchange (gains) losses	(1,362)	4,689	3,366	10,066
<b>Loss before income taxes</b>	<b>(26,453)</b>	<b>(225,129)</b>	<b>(8,618)</b>	<b>(229,360)</b>
Provision for income taxes	-	-	-	-
<b>Net loss attributable to equity holders of the Company</b>	<b>(26,453)</b>	<b>(225,129)</b>	<b>(8,618)</b>	<b>(229,360)</b>
<b>Loss per share attributable to equity holders of the Company (note 11):</b>				
Basic	\$ (0.28)	\$ (0.80)	\$ (0.11)	\$ (0.82)
Diluted	\$ (0.28)	\$ (0.80)	\$ (0.11)	\$ (0.82)

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, 2017	February 29, 2016	February 28, 2017	February 29, 2016
<b>Net loss attributable to equity holders of the Company</b>	(26,453)	(225,129)	(8,618)	(229,360)
<b>Amounts not subsequently reclassified to the statement of operations</b>				
Net actuarial gains (losses) on employee benefits, net of tax of nil (note 10)	25,086	(39,083)	65,974	(22,463)
Other comprehensive income (loss)	25,086	(39,083)	65,974	(22,463)
<b>Comprehensive income (loss) attributable to equity holders of the Company</b>	(1,367)	(264,212)	57,356	(251,823)

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, 2017	As at August 31, 2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	25,143	17,139
Restricted cash (note 5)	738	4,804
Accounts receivable	77,231	82,018
Inventory	6,437	7,036
Prepaid expenses and other assets	11,359	12,341
<b>Total current assets</b>	<b>120,908</b>	<b>123,338</b>
<b>Non-Current Assets</b>		
Property and equipment	242,774	261,986
Derivative financial instruments (note 13)	1,454	298
Other assets (note 10)	4,448	4,339
Intangible assets (note 6)	95,267	117,137
<b>Total assets</b>	<b>464,851</b>	<b>507,098</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (note 7)	66,412	89,849
Provisions (note 8)	39,252	16,853
Deferred revenue	35,333	36,600
Current portion of long-term debt (note 9)	11,167	301,045
<b>Total current liabilities</b>	<b>152,164</b>	<b>444,347</b>
<b>Non-Current Liabilities</b>		
Long-term debt (note 9)	332,174	352,103
Employee benefit obligations and other liabilities (notes 10 and 12)	125,773	188,479
Provisions (note 8)	361	611
<b>Total liabilities</b>	<b>610,472</b>	<b>985,540</b>
<b>Deficiency</b>		
Capital stock (note 4)	810,836	535,468
Contributed surplus (note 12)	10,412	10,315
Deficit	(966,869)	(1,024,225)
<b>Total deficiency</b>	<b>(145,621)</b>	<b>(478,442)</b>
<b>Total liabilities and deficiency</b>	<b>464,851</b>	<b>507,098</b>

Subsequent events (note 16)

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

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

(In thousands of Canadian dollars)

<b>For the six months ended February 28, 2017</b>				
	<b>Capital stock</b>	<b>Contributed surplus</b>	<b>Deficit</b>	<b>Total Deficiency</b>
<b>Balance as at August 31, 2016</b>	535,468	10,315	(1,024,225)	(478,442)
Net loss attributable to equity holders of the Company	-	-	(8,618)	(8,618)
Other comprehensive income	-	-	65,974	65,974
<b>Comprehensive income attributable to equity holders of the Company</b>	-	-	57,356	57,356
Share-based compensation plans (note 12)	-	97	-	97
Shares issued (note 4)	275,558	-	-	275,558
Share issuance costs (note 4)	(190)	-	-	(190)
<b>Balance as at February 28, 2017</b>	<b>810,836</b>	<b>10,412</b>	<b>(966,869)</b>	<b>(145,621)</b>

<b>For the six months ended February 29, 2016</b>				
	<b>Capital stock</b>	<b>Contributed surplus</b>	<b>Deficit</b>	<b>Total Deficiency</b>
<b>Balance as at August 31, 2015</b>	535,468	10,169	(634,927)	(89,290)
Net loss attributable to equity holders of the Company	-	-	(229,360)	(229,360)
Other comprehensive loss	-	-	(22,463)	(22,463)
<b>Comprehensive loss attributable to equity holders of the Company</b>	-	-	(251,823)	(251,823)
Share-based compensation plans (note 12)	-	94	-	94
<b>Balance as at February 29, 2016</b>	<b>535,468</b>	<b>10,263</b>	<b>(886,750)</b>	<b>(341,019)</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,
	2017	2016	2017	2016
<b>CASH GENERATED (UTILIZED) BY:</b>				
<b>OPERATING ACTIVITIES</b>				
Net loss attributable to equity holders of the Company	(26,453)	(225,129)	(8,618)	(229,360)
Items not affecting cash:				
Depreciation	5,558	5,492	11,986	11,139
Amortization	3,559	5,509	7,656	11,165
Impairments (note 6)	-	187,000	21,592	187,000
Gain on debt settlement (note 4)	-	-	(78,556)	-
(Gain) loss on derivative financial instruments	(973)	3,083	(1,156)	1,239
Non-cash interest (notes 4 and 9)	3,367	972	5,956	2,018
(Gain) loss on disposal of property and equipment	(578)	449	(65)	388
Non-cash foreign currency exchange (gains) losses	(1,307)	4,791	3,920	10,065
Non-cash backstop commitment fee (note 4)	-	-	5,500	-
Share-based compensation plans and other long-term incentive plan expense (recovery) (note 12)	-	(41)	202	(164)
Net financing expense relating to employee benefit plans (note 10)	1,471	1,450	2,942	2,899
Non-cash compensation expense of employee benefit plans (note 10)	686	-	606	-
Employee benefit funding in excess of compensation expense (note 10)	-	(563)	-	(1,910)
Net change in non-cash operating accounts (note 14)	26,684	11,396	2,130	(2,782)
Cash flows from (used in) operating activities	12,014	(5,591)	(25,905)	(8,303)
<b>INVESTING ACTIVITIES</b>				
Net proceeds from the sale of property and equipment (note 5)	810	1,245	1,942	1,306
Purchases of property and equipment	(372)	(1,193)	(1,251)	(1,898)
Purchases of intangible assets	(404)	(1,186)	(778)	(1,411)
Purchase of warrants (note 13)	-	(1,200)	-	(1,200)
Receipt of working capital adjustment	-	-	-	1,208
Cash flows from (used in) investing activities	34	(2,334)	(87)	(1,995)
<b>FINANCING ACTIVITIES</b>				
Net proceeds from issuance of long-term debt (note 4)	-	-	110,000	-
Repayment of long-term debt	(1,110)	-	(78,894)	(16,263)
Restricted cash (notes 4 and 5)	389	1,878	4,066	9,064
Debt issuance costs (note 4)	(44)	-	(986)	-
Share issuance costs (note 4)	-	-	(190)	-
Cash flows from (used in) financing activities	(765)	1,878	33,996	(7,199)
Net change in cash for the period	11,283	(6,047)	8,004	(17,497)
Cash at beginning of period	13,860	32,363	17,139	43,813
<b>Cash at end of period</b>	<b>25,143</b>	<b>26,316</b>	<b>25,143</b>	<b>26,316</b>
<b>Supplemental disclosure of operating cash flows</b>				
Interest paid	-	23,478	33,984	36,976
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, 2017 AND FEBRUARY 29, 2016**

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

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**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. The Company’s head office and registered office is 365 Bloor Street East, 12<sup>th</sup> Floor, Toronto, Ontario.

The Company’s operations consist of both news and information gathering and dissemination operations, with products offered in local, regional and major metropolitan markets in Canada through a variety of print, web, tablet and smartphone platforms, and digital media and online assets including the *canada.com* and *canoe.com* websites, each newspaper’s online website and Infomart, the Company’s media monitoring service. The Company supports these operations through a variety of centralized shared services.

The Company has one operating segment for financial reporting purposes, the Newsmedia segment. The Newsmedia segment’s revenue is primarily from print and digital advertising and circulation/subscription revenue. 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 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 applicable to the preparation of interim financial statements, including 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 consolidated financial statements. In addition, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and accordingly should be read in conjunction with the Company’s consolidated financial statements for the years ended August 31, 2016 and 2015.

These interim condensed consolidated financial statements were approved by the Board of Directors (the “Board”) on April 6, 2017.

### ***Critical accounting estimates***

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Although these estimates, assumptions and judgements are based upon management's knowledge of the amount, event or actions; actual results could differ from those estimates, assumptions and judgements. The critical accounting estimates are not materially different from those disclosed in the Company's consolidated financial statements for the years ended August 31, 2016 and 2015, except for the estimates relating to the determination of the fair value of shares issued and used in the calculation of the gain on the settlement of debt as described in note 4 and the calculation of impairment, which includes the determination of fair value less costs of disposal ("FVLCD") for the Company's cash-generating units and related assets ("CGU" or CGUs") as described in note 6.

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

The Company presents as an additional IFRS measure, operating income before depreciation, amortization, impairment 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 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, impairment and restructuring is referred to as an additional IFRS measure and may not be comparable to similarly titled measures presented by other companies.

### **4. RECAPITALIZATION**

On April 7, 2016, the Company announced that management, as overseen by an independent special board committee, was reviewing alternatives to improve its operations, capital structure and financial liquidity. On July 7, 2016, the Company announced a proposed recapitalization transaction which was completed on October 5, 2016 (the "Recapitalization Transaction") by way of a corporate plan of arrangement (a "Plan of Arrangement") under the Canada Business Corporations Act as described below.

The Company redeemed \$77.8 million aggregate principal amount of 8.25% Senior Secured Notes due 2017 ("First-Lien Notes") at par, plus accrued interest of \$10.8 million, from proceeds from the Recapitalization Transaction resulting in a total of \$225.0 million First-Lien Notes outstanding. In addition, the First-Lien Notes were amended and restated such that the maturity date was extended to July 15, 2021 and they are subject to semi-annual mandatory principal redemptions equal to 50% of excess cash flow for the six month periods ending February 28 and August 31 each year, with a minimum of \$10.0 million annually. Interest is payable semi-annually on April 30 and October 31 of each year. The First-Lien Notes will continue to be secured on a first priority basis by substantially all of the assets of the Company ("First-Lien Notes Collateral"). During the six months ended February 28, 2017, the Company incurred \$0.7 million of debt issuance costs related to the First-Lien Notes which are included in the carrying value of long-term debt on the consolidated statement of financial position. The First-Lien Notes are being accounted for as a modification of the original financial liability and the effective interest rate which amortizes the aggregate initial financing fees based on the estimated initial cash flows is 8.7%.



The Company's 12.5% Senior Secured Notes due 2018 ("Second-Lien Notes") were exchanged for Class NC variable voting shares of the Company ("Variable Voting Shares") that represented approximately 98% of the outstanding shares. Accrued interest of \$21.9 million (US\$16.8 million) originally due on July 15, 2016 was paid in cash upon completion of the Recapitalization Transaction. In addition, the Company issued US\$88.6 million (\$115.5 million) of 10.25% Second-Lien Secured Notes due 2023 ("New Second-Lien Notes") for net proceeds of US\$84.4 million (\$110.0 million). The Plan of Arrangement included the offering of the New Second-Lien Notes to holders of existing Second-Lien Notes, on a pro-rata basis determined based on their holdings of Second-Lien Notes as at August 5, 2016. The New Second-Lien Notes offering was backstopped by certain individual funds for which Chatham Asset Management LLC acts as investment advisor ("Chatham") pursuant to a backstop commitment letter (the "Backstop Commitment Letter"). In consideration for entering into the Backstop Commitment Letter, Chatham received a fee of US\$4.2 million (\$5.5 million), which was used to acquire additional New Second-Lien Notes included in the US\$88.6 million (\$115.5 million) New Second-Lien Notes described above. The New Second-Lien Notes bear interest at 10.25% cash interest or 11.25% paid-in-kind interest, at the option of the Company subject to the conditions of no cash interest for the first three years unless the aggregate amount of First-Lien Notes, together with any other first-lien debt of the Company, is \$112.5 million or less. Interest is payable in cash or issued as additional Second-Lien Notes semi-annually on January 31 and July 31 of each year. The New Second-Lien Notes are secured on a second priority basis by the First-Lien Notes Collateral. During the six months ended February 28, 2017, the Company incurred debt issuance costs related to the New Second-Lien Notes of \$0.3 million which are included in the carrying value of long-term debt on the consolidated statement of financial position. The effective interest rate which amortizes the initial financing fees based on the estimated initial cash flows is 11.1%.

As part of the Plan of Arrangement, the Class C voting shares and Variable Voting Shares of the Company ("Shares") were consolidated on the basis of one Share for every 150 existing Shares then outstanding (the "Share Consolidation"), all outstanding options, restricted share units and other rights to acquire Shares (except pursuant to the Postmedia Rights Plan) were cancelled and all outstanding deferred share units were settled for \$0.4 million in cash. The share option plan and restricted share unit plan remain in place and the deferred share unit plan was terminated upon completion of the Recapitalization Transaction. As part of the Recapitalization Transaction the Company issued 91,842,855 Variable Voting Shares resulting in a total of 93,717,199 Shares outstanding after the Share Consolidation. During the six months ended February 28, 2017, the Company incurred \$0.2 million of share issuance costs which were included in the carrying value of capital stock on the consolidated statement of financial position.

During the six months ended February 28, 2017, a gain on settlement of debt of \$78.6 million was recorded in the consolidated statements of operations and represents the difference between the carrying value of the Second-Lien Notes that were settled through the issuance of Shares of \$354.1 million and the fair value of Shares issued of \$275.5 million. The fair value of the Shares was determined by the closing price of the Variable Voting Shares prior to the completion of the Recapitalization Transaction.

During the six months ended February 28, 2017, the Company incurred \$12.1 million of costs related to the Recapitalization Transaction, including the fee for the Backstop Commitment Letter, which are included in restructuring and other items in the consolidated statement of operations. Included in the Recapitalization Transaction costs are advisory, legal and other professional or consulting fees, as well as compensation expense associated with a key employment retention program.

The settlement of the Second-Lien Notes resulted in debt forgiveness for tax purposes of \$54.8 million that was offset by previously unused non-capital losses and accordingly did not result in any cash taxes payable.

## 5. RESTRICTED CASH

Pursuant to the amended and restated First-Lien Note indenture, any net proceeds from an asset disposition in excess of \$0.1 million will be held in a collateral account by the First-Lien noteholders. When the aggregate amount of the collateral account exceeds \$1.0 million it will be used to make an offer to redeem an equal amount of First-Lien Notes (note 4).

	<b>Restricted Cash</b>
August 31, 2016	4,804
Release of funds on completion of the Recapitalization Transaction <sup>(1)</sup>	(4,804)
Net proceeds on sale of property and equipment <sup>(2)</sup>	1,865
First-Lien Notes payment <sup>(3)</sup>	(1,127)
February 28, 2017	738

<sup>(1)</sup> Restricted cash of \$4.8 million being held in trust by the Second-Lien Notes noteholders was released to the Company upon completion of the Recapitalization Transaction on October 5, 2016.

<sup>(2)</sup> During the six months ended February 28, 2017, the Company sold assets for net proceeds of \$1.9 million. Subsequent to February 28, 2017, the Company sold additional assets for net proceeds of \$0.5 million, resulting in a balance in the collateral account of \$1.2 million. As a result, the Company provided notice that it will redeem \$1.2 million aggregate principal amount of First-Lien Notes, including accrued interest on April 18, 2017 (note 16).

<sup>(3)</sup> During the three months ended February 28, 2017, a portion of the net proceeds related to the property sales of \$1.1 million were used to redeem an aggregate principal amount of First-Lien Notes, including accrued interest.

## 6. IMPAIRMENT OF GOODWILL AND LONG LIVED ASSETS

	For the three months ended		For the six months ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Goodwill	-	67,600	-	67,600
Intangible assets - mastheads	-	104,800	7,100	104,800
Intangible assets - domain names	-	14,600	610	14,600
Intangible assets - subscriber lists	-	-	7,282	-
Property and equipment - land	-	-	2,000	-
Property and equipment - building	-	-	4,600	-
Impairments	-	187,000	21,592	187,000

As at November 30, 2016 and February 29, 2016, as a result of continued economic and structural factors, including the uncertainty of the print advertising market and the rapidly evolving digital advertising market, the Company performed an interim impairment test. The recoverable amounts are based on FVLCD of the CGUs, which are primarily geographical groups of newspapers by city or region, as applicable. The FVLCD was determined by applying a market multiple range of 4.0 to 4.25 times the adjusted trailing twelve month operating income before depreciation, amortization, impairment and restructuring less disposal costs. Management determined this key assumption based on an average of market multiples for comparable entities.

## Impairment of long lived assets

Based on the interim impairment test as at November 30, 2016 and February 29, 2016, the Company determined that certain of its CGU's recoverable amounts were less than their carrying amount. As a result the Company recorded an impairment charge in the six months ended February 28, 2017 of \$21.6 million which was allocated to its mastheads, domain names, subscriber lists, land and building of \$7.1 million, \$0.6 million, \$7.3 million, \$2.0 million and \$4.6 million, respectively, within the individual CGUs (2016 – mastheads and domain names of \$104.8 million and \$14.6 million, respectively). As the recoverable amount of these CGUs are equal to their carrying value any change in key assumptions, primarily being the market multiple, would impact the impairment recorded. If the market multiple were to decrease or increase by 0.25 times, the impairment would increase or decrease approximately \$4.5 million.

Changes to intangible assets for the six months ended February 28, 2017 are as follows:

	Finite Life				Indefinite Life		Total
	Software	Subscribers	Customer relationships	Domain names	Mastheads	Domain names	
August 31, 2016	27,189	24,049	3,807	1,825	49,721	10,546	117,137
Additions	778	-	-	-	-	-	778
Amortization	(4,066)	(2,778)	(724)	(88)	-	-	(7,656)
Impairment	-	(7,282)	-	-	(7,100)	(610)	(14,992)
February 28, 2017	23,901	13,989	3,083	1,737	42,621	9,936	95,267

## Impairment of goodwill

As a result of the impairment test as at February 29, 2016, the Company determined the Newsmedia operating segment was impaired as the recoverable amount was less than its carrying amount. The Newsmedia operating segment contained goodwill, as goodwill was monitored by management at the level of the Company's single operating segment. As a result, the Company recorded a goodwill impairment charge in the three and six months ended February 29, 2016 of \$67.6 million.

There were no tax impacts as a result of the impairment charges. The FVLCD measurements represent a Level 3 measurement within the fair value hierarchy due to required allocation of corporate costs and the estimated costs of disposal within the individual CGUs.

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at February 28, 2017	As at August 31, 2016
Trade accounts payable	17,905	12,105
Accrued liabilities	41,169	47,396
Accrued interest on long-term debt	7,338	30,348
Accounts payable and accrued liabilities	66,412	89,849

## 8. PROVISIONS

	Restructuring <sup>(a)</sup>	Unoccupied leases <sup>(a)</sup>	Other provisions <sup>(b)</sup>	Total
Provisions as at August 31, 2016	15,830	1,277	357	17,464
Charges (recoveries)	40,666	-	(144)	40,522
Payments	(17,916)	(440)	(17)	(18,373)
Provisions as at February 28, 2017	38,580	837	196	39,613
Portion due within one year	(38,580)	(536)	(136)	(39,252)
Non-current provisions	-	301	60	361

### (a) Restructuring and unoccupied leases

During the year ended August 31, 2015 the Company commenced cost reduction initiatives which included the integration of certain acquired properties, which were completed during the three months ended November 30, 2016. The Company began new initiatives that include a Company-wide voluntary buyout program and incurred restructuring expense of \$16.8 million and \$40.7 million during the three and six months ended February 28, 2017, respectively, which include both involuntary and voluntary buyouts.

### (b) Other provisions

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

## 9. LONG-TERM DEBT

				As at February 28, 2017	As at August 31, 2016
	Maturity	Principal	Financing fees, discounts and other	Carrying value of debt	Carrying value of debt
<b>8.25% Senior Secured Notes</b>	July 2021	223,890	(1,970)	221,920	301,045
<b>10.25% Senior Secured Notes (US\$91.8M) <sup>(1)</sup></b>	July 2023	121,913	(492)	121,421	N/A
<b>12.5% Senior Secured Notes (US\$268.6M) <sup>(1)</sup></b>	July 2018	N/A	N/A	N/A	352,103
<b>Senior Secured Asset-Based Revolving Credit Facility</b>	January 2019	-	-	-	N/A
Total long-term debt				343,341	653,148
Portion due within one year				(11,167)	(301,045)
Non-current long-term debt				332,174	352,103

<sup>(1)</sup> US\$ principal translated to the Canadian equivalent based on the foreign exchange rate on February 28, 2017 of US\$1:\$1.3281 (August 31, 2016 - US\$1:\$1.3116).

The terms and conditions of long-term debt as at August 31, 2016 are the same as disclosed in the consolidated financial statements for the years ended August 31, 2016 and 2015, except for the changes related to the Recapitalization Transaction described in note 4 and the changes described below.

On January 5, 2017, the Company redeemed \$1.1 million aggregate principal amount of First-Lien Notes (note 5).

On January 18, 2017, the Company entered into a senior secured asset-based revolving credit facility (“ABL Facility”) with associated companies of Chatham for an aggregate amount of up to \$15.0 million. The ABL Facility bears interest on amounts drawn at bankers acceptance rate plus 5.0% with a standby fee of 0.5% on the amount of available borrowings and will mature on January 18, 2019. The ABL Facility is secured on a first-priority basis by accounts receivable, cash, inventory and any related assets of the Company and on a third priority basis by the First-Lien Notes collateral. During the three and six months ended February 28, 2017, the Company incurred interest expense of a nominal amount.

On January 31, 2017, the Company issued additional New Second-Lien Notes in the amount of US\$3.2 million (\$4.2 million) related to paid-in-kind interest for the period from October 5, 2016 to January 31, 2016 as per the terms of the New Second-Lien Notes indenture (note 4).

As per the terms of the New Second-Lien Notes indenture, the excess cash flow for the six months ended February 28, 2016 did not meet the minimum threshold and therefore no excess cash flow offer is required.

## 10. 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 the condensed consolidated statements of operations for the three and six months ended February 28, 2017 and February 29, 2016 are as follows:

For the three months ended February 28, 2017 and February 29, 2016

	Pension benefits		Post-retirement benefits		Other long-term employee benefits		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Current service cost	4,678	3,469	314	374	502	446	5,494	4,289
Administration costs	266	227	-	-	-	-	266	227
Net actuarial (gains) losses	-	-	-	-	(14)	196	(14)	196
Net financing expense	891	633	436	653	144	164	1,471	1,450
Net defined benefit plan expense <sup>(1)</sup>	5,835	4,329	750	1,027	632	806	7,217	6,162

For the six months ended February 28, 2017 and February 29, 2016

	Pension benefits		Post-retirement benefits		Other long-term employee benefits		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Current service cost	9,356	6,939	628	748	1,004	892	10,988	8,579
Administration costs	532	454	-	-	-	-	532	454
Net actuarial gains	-	-	-	-	(601)	(139)	(601)	(139)
Net financing expense	1,782	1,265	872	1,306	288	328	2,942	2,899
Net defined benefit plan expense <sup>(1)</sup>	11,670	8,658	1,500	2,054	691	1,081	13,861	11,793

<sup>(1)</sup> All current service costs, administration costs and net actuarial gains (losses) related to other long-term employee benefits are included in compensation expense in the consolidated statements of operations. Net financing expense is included in net financing expense relating to employee benefit plans in the consolidated statements of operations.

Actuarial gains 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, 2017 and February 29, 2016 are as follows:

For the three months ended February 28, 2017 and February 29, 2016

	Pension benefits		Post-retirement benefits		Total	
	2017	2016	2017	2016	2017	2016
	Net actuarial gains (losses) on employee benefits	23,699	(36,027)	1,387	(3,056)	25,086
Net actuarial gains (losses) recognized in other comprehensive income (loss)	23,699	(36,027)	1,387	(3,056)	25,086	(39,083)

For the six months ended February 28, 2017 and February 29, 2016

	Pension benefits		Post-retirement benefits		Total	
	2017	2016	2017	2016	2017	2016
	Net actuarial gains (losses) on employee benefits	60,800	(21,170)	5,174	(1,293)	65,974
Net actuarial gains (losses) recognized in other comprehensive income (loss)	60,800	(21,170)	5,174	(1,293)	65,974	(22,463)

(1) The discount rate used in measuring the Company's benefit obligations as at February 28, 2017 was 3.8% and 3.75% for pension benefits and post-retirement benefits, respectively (August 31, 2016 – 3.1% and 3.05%, respectively).

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 for the six months ended February 28, 2017 are as follows:

	Pension benefits <sup>(1)</sup>	Post-retirement benefits	Other long-term employee benefits	Total <sup>(2)</sup>
Net defined benefit plan obligation as at August 31, 2016	104,667	57,135	23,339	185,141
Amounts recognized in the statement of operations	11,670	1,500	691	13,861
Amounts recognized in other comprehensive income	(60,800)	(5,174)	-	(65,974)
Contributions to the plans	(7,628)	(1,313)	(1,372)	(10,313)
Net defined benefit plan obligation as at February 28, 2017	47,909	52,148	22,658	122,715

(1) Pension benefits include the benefits earned after April 13, 2015 for four pension benefit plans created as part of the acquisition of the English-language newspapers of Sun Media Corporation completed in the year ended August 31, 2015 which provides defined benefit pension benefits to members from April 13, 2015 in accordance with the terms of their former plans. The Company has agreed to assume the defined benefit obligation accrued prior to April 13, 2015 contingent on the completion of an asset transfer from the former pension plans which is subject to the approval of the Financial Services Commission of Ontario ("FSCO"). In addition, the Company agreed to reimburse the seller for half of any special payments made prior to the completion of the asset transfer and accordingly in the three and six months ended February 28, 2017 paid \$0.1 million (2016 – \$0.2 million). The net defined benefit plan asset related to the benefits accrued prior to April 13, 2015 estimated to be \$4.4 million as at February 28, 2017 (August 31, 2016 - \$4.3 million), are excluded from above and are recorded in other assets in the consolidated statement of financial position. During the six months ended February 28, 2017, FSCO approved asset transfers of \$23.6 million related to two of the four plans. The Company expects to receive the asset transfers on or around May 31, 2017 at which time it will assume the additional defined benefit obligations.

(2) As at August 31, 2016 and February 28, 2017, the net defined benefit plan obligations are recorded in employee benefit obligations and other liabilities on the condensed consolidated statements of financial position.

Subsequent to February 28, 2017, the Company announced a number of changes to its employee benefit plans (note 16).

## 11. LOSS PER SHARE

The following table provides a reconciliation of the denominators, which are presented in whole numbers, used in computing basic and diluted loss per share for the three and six months ended February 28, 2017 and February 29, 2016. No reconciling items in the computation of net loss exist.

	For the three months ended	
	February 28, <b>2017</b>	February 29, <b>2016</b>
Basic weighted average shares outstanding during the period	93,717,199	281,181,845
Dilutive effect of RSUs	-	-
Diluted weighted average shares outstanding during the period	93,717,199	281,181,845
Options and RSUs outstanding which are anti-dilutive	-	2,074,000

	For the six months ended	
	February 28, <b>2017</b>	February 29, <b>2016</b>
Basic weighted average shares outstanding during the period	75,957,531	281,181,845
Dilutive effect of RSUs	-	-
Diluted weighted average shares outstanding during the period	75,957,531	281,181,845
Options and RSUs outstanding which are anti-dilutive	-	2,074,000

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

### 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. On October 5, 2016, the Company cancelled all outstanding options as part of the Recapitalization Transaction (note 4).

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, 2017:

	Options	Weighted average exercise price
Balance, August 31, 2016	1,945,000	\$ 5.57
Forfeited	(6,000)	\$ (1.90)
Cancelled	(1,939,000)	\$ (8.62)
Balance, February 28, 2017	-	N/A

During the three and six months ended February 28, 2017, the Company recorded compensation expense related to the Option Plan of nil and \$0.1 million, respectively, with an offsetting credit to contributed surplus which represented the total remaining unrecognized compensation expense (2016 – a nominal amount and \$0.1 million, respectively).

## Deferred share unit plan

The Company had a deferred share unit plan (the “DSU Plan”) for the benefit of its non-employee directors. The DSU Plan was administered by the Board. On October 5, 2016, the Company settled all outstanding deferred shares units (“DSUs”) and terminated the DSU Plan as part of the Recapitalization Transaction (note 4).

During the three and six months ended February 28, 2017, the Company granted nil and 3,629,808 DSUs under the DSU Plan, respectively (2016 – 1,145,055 and 1,814,698 DSUs). During the three and six months ended February 28, 2017, the Company recorded an expense of nil and \$0.1 million, respectively (2016 – recovery of \$0.1 million and \$0.3 million, respectively) to compensation expense, with an offset to employee benefit obligations and other liabilities. All DSUs issued in the six months ended February 28, 2017 vested immediately. Upon completion of the Recapitalization Transaction, 21,849,128 DSUs were settled in cash for \$0.4 million and there were no cancellations (2016 – settled 547,826 DSUs for \$0.1 million in cash and cancelled 27,411 DSUs for no consideration).

The aggregate carrying value of the DSU Plan liability was nil as at February 28, 2017 (August 31, 2016 - \$0.3 million). As at August 31, 2016, the DSU Plan liability was based on 18,219,320 DSUs at a fair value per share of \$0.02.

## 13. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

### Financial instruments measured at fair value

The financial instruments measured at fair value in the consolidated statement of financial position, categorized by level according to the fair value hierarchy that reflects the significance of the inputs used in making the measurements, as at February 28, 2017 are as follows:

	As at February 28, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Financial assets</b>				
Warrants <sup>(1)</sup>	1,454	-	1,454	-

<sup>(1)</sup> On January 25, 2016, the Company entered into a marketing collaboration agreement (“Marketing Agreement”) with Mogo Finance Technology Inc. (“Mogo”). The Marketing Agreement provides the Company with revenue sharing and equity participation through warrants in Mogo in exchange for media promotional commitments over the next three years. As part of the Marketing Agreement, the Company paid \$1.2 million for 1,196,120 five year warrants that entitled the Company to purchase common shares of Mogo at an exercise price of \$2.96. Fifty percent of the warrants vest in equal instalments over three years and the remaining warrants vest in three equal instalments based on Mogo achieving certain quarterly revenue targets. During the three and six months ended February 28, 2017, the Company recognized a gain of \$1.0 million and \$1.2 million, respectively, related to the warrants which is included in gain on derivative financial instruments in the consolidated statements of operations (2016 – \$0.1 million).

The fair value of the warrants are determined by the Black-Scholes option pricing model using Level 2 market inputs, including exercise price, risk-free interest rate, expected life, dividend yield and expected volatility.

The Company’s policy is to recognize transfers in and out of the fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the three and six months ended February 28, 2017 there were no transfers within the fair value hierarchy.



## Financial instruments measured at amortized cost

Financial instruments that are not measured at fair value on the consolidated statement of financial position include cash, restricted cash, accounts receivable and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values due to their short-term nature.

The carrying value and fair value of long-term debt as at February 28, 2017 and August 31, 2016 are as follows:

	As at February 28, 2017		As at August 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
<b>Other financial liabilities</b>				
Long-term debt	343,341	368,002	653,148	566,256

The fair value of long-term debt is estimated based on quoted market prices (Level 1 inputs).

## Foreign currency risk

As at February 28, 2017, approximately 35% of the outstanding principal on the Company's long-term debt is payable in US dollars (August 31, 2016 – 54%). As February 28, 2017, the Company has US\$91.8 million New Second-Lien Notes outstanding (August 31, 2016 - US\$268.6 million Second-Lien Notes outstanding).

## 14. STATEMENT OF CASH FLOWS

The following amounts compose the net change in non-cash operating accounts included in cash flows used in operating activities in the condensed consolidated statement of cash flows for the three and six months ended February 28, 2017 and February 29, 2016:

	For the three months ended		For the six months ended	
	February 29, 2017	February 28, 2016	February 29, 2017	February 28, 2016
Accounts receivable	20,640	26,084	4,787	1,144
Inventory	213	(311)	599	(84)
Prepaid expenses and other assets	1,404	300	873	489
Accounts payable, accrued liabilities and provisions	4,650	(15,252)	(2,265)	(5,792)
Deferred revenue	(123)	941	(1,267)	1,288
Employee benefit obligations and other liabilities and provisions	(100)	(366)	(597)	173
Changes in non-cash operating accounts	26,684	11,396	2,130	(2,782)

## **15. RELATED PARTY TRANSACTIONS**

Upon completion of the Recapitalization Transaction, Chatham owns approximately 61,166,689, or 65%, of the Company's Shares. In October 2016, the Company entered into a consulting agreement with an associated company of Chatham and incurred an expense of \$0.5 million and \$0.8 million during the three and six months ended February 28, 2017, respectively, which is included in other operating expenses in the consolidated statement of operations.

On January 18, 2017, the Company entered into an ABL Facility with associated companies of Chatham for an aggregate amount of up to \$15.0 million (note 9).

## **16. SUBSEQUENT EVENTS**

On March 9, 2017, the Company announced a number of changes to its employee benefit plans which include ceasing pension accruals for non-union employees under all defined benefit pension plans and the discontinuation of retiree benefits for non-union active employees under all post-retirement benefit plans effective September 1, 2017. Employees currently enrolled in defined benefit pension plans will be eligible to enroll in defined contribution pension plans. The Company expects these plan amendments to result in an expense recovery in the statement of operations and a corresponding decrease to its defined benefit obligations of approximately \$10 million to \$14 million (note 10).

On April 18, 2017, the Company provided notice that it will redeem \$1.2 million aggregate principal amount of First-Lien Notes (note 5).