POSTMEDIA NETWORK CANADA CORP. INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2017 AND 2016
Approved for issuance: July 7, 2017
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### **JULY 7, 2017**

#### MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis of financial condition and results of operations of Postmedia Network Canada Corp. and its subsidiary Postmedia Network Inc. (collectively, "we", "our", "us", or "Postmedia") should be read in conjunction with the interim condensed consolidated financial statements and related notes of Postmedia for the three and nine months ended May 31, 2017 and 2016 and the annual audited consolidated financial statements and related notes for the years ended August 31, 2016 and 2015. The interim condensed consolidated financial statements of Postmedia for the three and nine months ended May 31, 2017 and 2016 and the annual audited consolidated financial statements for the years ended August 31, 2016 and 2015 are available on SEDAR at www.sedar.com.

This discussion contains statements that are not historical facts and are forward-looking statements. These statements are subject to a number of risks described in the section entitled "Risk Factors" contained in our annual management's discussion and analysis for the years ended August 31, 2016 and 2015. In addition, we are subject to the risk that the proposed Infomart Transaction as defined in "Recent Developments" will not be completed as described or at all, and the anticipated benefits and consequences will not be achieved. Risks and uncertainties may cause actual results to differ materially from those contained in such forward-looking statements. Such statements reflect management's current views and are based on certain assumptions. They are only estimates of future developments, and actual developments may differ materially from these statements due to a number of factors. Investors are cautioned not to place undue reliance on such forward-looking statements. No forward-looking statement is a guarantee of future results. We have tried, where possible, to identify such statements by using words such as "believe", "expect", "estimate", "anticipate", "will", "could" and similar expressions in connection with any discussion of future operating or financial performance. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements or information, whether written or oral, that may be as a result of new information, future events or otherwise.

All amounts are expressed in Canadian dollars unless otherwise noted. The interim condensed consolidated financial statements of Postmedia for the three and nine months ended May 31, 2017 and 2016 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.

This management's discussion and analysis is dated July 7, 2017 and does not reflect changes or information subsequent to this date. Additional information in respect of Postmedia is available on SEDAR at www.sedar.com.

### **Additional IFRS Measure**

We use operating income before depreciation, amortization, impairment and restructuring, as presented in the interim condensed consolidated statement of operations for the three and nine months ended May 31, 2017 and 2016, to assist in assessing our financial performance. Management and the Board of Directors of Postmedia use this measure to evaluate consolidated operating results and to assess Postmedia's ability 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 Postmedia 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.

## **Overview and Background**

Our business consists of 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. The combination of these distribution platforms provides audiences with a variety of media through which to access and interact with our content. The breadth of our reach and the diversity of our content enable advertisers to reach their target audiences on a local, regional or national scale through the convenience of a single provider. We are the largest publisher by circulation of daily newspapers in Canada, according to Newspapers Canada's 2015 Circulation Data Report and have the highest weekly print readership of newspapers in Canada, based on Vividata 2017 – Q1 survey data.

For financial reporting purposes we have one operating segment, the Newsmedia segment, which publishes daily and non-daily newspapers and operates digital media and online assets including the canada.com and canoe.com websites, each newspaper's online website and Infomart, our media monitoring service. The Newsmedia segment's revenue is primarily from print and digital advertising and circulation/subscription revenue.

### **Recent Developments**

On June 22, 2017, we entered into an asset purchase agreement with Meltwater News Canada Inc. to sell Infomart, our media monitoring division, for gross proceeds of approximately \$38.3 million subject to certain adjustments, including adjustments relating to certain consents (the "Infomart Transaction"). An amount equal to 15% of the purchase price will be paid into escrow to satisfy claims arising under the purchase agreement. The net proceeds of the Infomart Transaction will be used to redeem a portion of the 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. Included in the Infomart Transaction are Infomart's media monitoring business, direct feed business and professional services operations, including clients of such services. The Infomart Transaction is subject to the satisfaction or waiver of certain conditions, including the entering into of certain ancillary agreements, the entering into of certain licenses, the receipt of certain consents, and, if applicable the receipt of regulatory clearance. The Infomart Transaction is expected to close on or about August 15, 2017. The expected gain on sale has not yet been determined. Revenue and operating income before depreciation, amortization, impairment and restructuring of Infomart, net of the expected revenue associated with a transition service agreement, for the nine months ending May 31, 2017 was \$12.3 million and \$5.2 million, respectively.

As at May 31, 2017, we performed our annual impairment testing of goodwill and indefinite life intangible assets. Prior to the annual impairment testing due to indicators of potential impairment, we performed an interim impairment test as at November 30, 2016. Based on the impairment tests, we determined that certain of our cash-generating unit's recoverable amounts were less than their carrying amount. As a result we recognized an impairment charge in the three and nine months ended May 31, 2017 of \$4.2 million and \$25.6 million, respectively. See note 6 of the interim condensed consolidated financial statements for the three and nine months ended May 31, 2017 and 2016 for more information on the impairment tests.

During the nine months ended May 31, 2017, net proceeds related to certain asset sales of \$2.3 million were used to redeem an aggregate principal amount of First-Lien Notes, including accrued interest. Subsequent to May 31, 2017, we redeemed \$1.2 million aggregate principal amount of First-Lien Notes, including accrued interest with the net proceeds of additional asset sales.

On March 9, 2017, we announced a number of changes to our 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. In addition, on April 19, 2017, we reached an agreement with certain union employees to discontinue retiree benefits for active employees effective December 31, 2017. As a result of these plan amendments, during the three and nine months ended May 31, 2017, we recorded a curtailment gain in restructuring and other items in the condensed consolidated statement of operations of \$22.8 million. Employees currently enrolled in defined benefit pension plans will be eligible to enroll in defined contribution pension plans.

On January 18, 2017, we entered into a senior secured asset-based revolving credit facility ("ABL Facility") with associated companies of Chatham, as defined below, 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 commitment fee of 0.5% on the amount of available borrowings and will mature on January 18, 2019. As at May 31, 2017, we have \$5.0 million outstanding on the ABL Facility.

On October 5, 2016, we completed a recapitalization transaction (the "Recapitalization Transaction") by way of a corporate plan of arrangement (a "Plan of Arrangement") under the Canada Business Corporations Act as described below.

We redeemed \$77.8 million aggregate principal amount of First-Lien Notes at par, plus accrued interest of \$10.8 million, from proceeds of 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 of each year, with a minimum of \$10.0 million annually. The First-Lien Notes are and will continue to be secured on a first priority basis by substantially all of our assets ("First-Lien Notes Collateral").

The 12.5% Senior Secured Notes due 2018 ("Second-Lien Notes") were exchanged for Class NC variable voting shares ("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, we 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 our option 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, is \$112.5 million or less. The New Second-Lien Notes are secured on a second priority basis by the First-Lien Notes Collateral.

As part of the Plan of Arrangement, the Class C voting shares and Variable Voting Shares ("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 we issued 91,842,855 Variable Voting Shares resulting in a total of 93,717,199 Shares outstanding after the Share Consolidation.

During the nine months ended May 31, 2017, a gain on debt settlement of \$78.6 million was recognized in the condensed 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 nine months ended May 31, 2017, we 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 condensed consolidated statement of operations. Also 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.

As described in "Liquidity and capital resources" restricted cash of \$4.8 million was released to us upon completion of the Recapitalization Transaction. In addition, 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.

In October 2016, we commenced a third party outsourcing contract for the production of the London Free Press newspaper.

In July 2015, we announced a plan to undertake cost reduction initiatives that are expected to come from a combination of acquisition synergies and further reorganization of our operations which were completed in the three months ended November 30, 2016. In October 2016, we announced that we intend to undertake additional cost reduction initiatives throughout fiscal 2017 including a company-wide voluntary buyout program. During the three months ended May 31, 2017 we implemented initiatives which are expected to result in approximately \$14 million of net annualized cost savings. In total, we implemented net annualized cost savings of approximately \$75 million since these cost reduction initiatives were announced.

In January 2016, we entered into a marketing collaboration agreement ("Marketing Agreement") with Mogo Finance Technology Inc. ("Mogo"). The Marketing Agreement provides us 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, we paid \$1.2 million for 1,196,120 five year warrants that entitled us 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.

## **Key Factors Affecting Operating Results**

Revenue is earned primarily from advertising, circulation and digital sources. Print advertising revenue is a function of the volume, or linage, of advertising sold and rates charged. Print circulation revenue is derived from home-delivery subscriptions for newspapers, including All Access Subscriptions (across the four platforms of print, web, tablet and smartphone), single copy sales at retail outlets and vending machines and is a function of the number of newspapers sold and the price per copy. Digital revenue consists of revenue from national and local display advertising, programmatic and digital media services as well as digital classified advertising on our newspaper and other websites, including *canada.com*, *canoe.com*, revenue from e-Papers and Digital Access subscriptions, as well as subscription revenue generated through Infomart, our media monitoring service.

Print advertising revenue was \$93.4 million and \$290.7 million for the three and nine months ended May 31, 2017, representing 48.1% and 49.3%, of total revenue for such periods, respectively. Our major advertising categories consist of local, national, and inserts. These categories composed 53.4%, 19.7% and 25.3%, respectively, of total print advertising for the three months ended May 31, 2017, and 51.6%, 22.1% and 24.7%, respectively, of total print advertising for the nine months ended May 31, 2017.

Print advertising is influenced by both the overall strength of the economy and significant structural changes in the newspaper industry and media in general. The continuing shift in advertising dollars from print advertising to advertising in other formats, particularly online and other digital platforms including search and social media websites, combined with periods of economic uncertainty have resulted in significant declines in print advertising. We anticipate the print advertising market to remain challenging and expect current trends to continue throughout the remainder of fiscal 2017. During the three and nine months ended May 31, 2017, we experienced print advertising revenue decreases of \$22.0 million and \$78.4 million, respectively, as compared to the same periods in the prior year. These decreases in print advertising revenue in the three and nine months ended May 31, 2017 relates to weakness across all our major advertising categories including local, national and insert advertising.

Print circulation revenue was \$59.3 million and \$179.4 million for the three and nine months ended May 31, 2017, representing 30.6% and 30.4% of total revenue for such periods, respectively. Circulation revenues decreased \$5.5 million and \$17.2 million in the three and nine months ended May 31, 2017, respectively, as compared to the same periods in the prior year. These decreases are the result of declines in circulation volumes that have been experienced over the last few years and this trend continued in the three and nine months ended May 31, 2017. We expect these print circulation revenue trends to continue throughout the remainder of fiscal 2017.

Digital revenue was \$31.9 million and \$91.4 million for the three and nine months ended May 31, 2017, respectively, representing 16.4% and 15.5%, respectively, of total revenue for both periods. Digital revenues increased \$3.9 million and \$7.7 million in the three and nine months ended May 31, 2017, respectively, as compared to the same periods in the prior year as a result of increases in programmatic and digital media services revenue and other digital revenue, partially offset by decreases in local and national digital advertising revenue, Infomart revenue and digital classified revenue. WE expect these digital revenue trends to continue throughout the remainder of fiscal 2017 and continue to believe digital revenue represents a future growth opportunity for Postmedia and as a result we are focused on various new products and initiatives in this area.

Our principal expenses consist of compensation, newsprint, distribution and production. These represented 43.0%, 6.7%, 21.5% and 10.8%, respectively, of total operating expenses excluding depreciation, amortization, impairment and restructuring for the three months ended May 31, 2017 and 43.8%, 6.5%, 20.9% and 10.2%, respectively, of total operating expenses excluding depreciation, amortization, impairment and restructuring for the nine months ended May 31, 2017. We experienced decreases in compensation, newsprint and distribution expenses of \$17.0 million, \$1.2 million and \$3.2 million, respectively, and experienced an increase in production expense of \$0.8 million in the three months ended May 31, 2017 as compared to the same period in the prior year. We experienced decreases in compensation, newsprint and distribution expenses of \$39.1 million, \$2.5 million and \$9.5 million, respectively, and experienced an increase in production expense of \$2.9 million in the nine months ended May 31, 2017 as compared to the same period in the prior year. The decreases in compensation, newsprint and distribution expenses for the three and nine months ended May 31, 2017 are primarily as a result of cost reduction initiatives and decreases in newspaper circulation volumes. The increase in production expenses includes increases in digital advertising production costs as well as the outsourcing of the London Free Press newspaper in October 2016.

As a result of the continuing trends in advertising revenue, we continue to pursue additional cost reduction initiatives as described earlier in "Recent Developments". During the three months ended May 31, 2017, we implemented initiatives which are expected to result in approximately \$14 million of net annualized cost savings. In total, we implemented net annualized cost savings of approximately \$75 million under these cost reduction initiatives.

Our operating results are affected by variations in the cost and availability of newsprint. Newsprint is the principal raw material used in the production of our newspapers and other print publications. It is a commodity that is generally subject to price volatility. We take advantage of the purchasing power that comes with the large volume of newsprint we purchase, as well as our proximity to paper mills across Canada, to minimize our total newsprint expense. Changes in newsprint prices can significantly affect our operating results. A \$50 per tonne increase or decrease in the price of newsprint would be expected to affect our newsprint expense by approximately \$3.7 million on an annualized basis. We experienced a slight decrease in newsprint prices in the first two quarters of fiscal 2017, but we don't expect a material change in newsprint prices throughout the remainder of fiscal 2017.

Our distribution is primarily outsourced to third party suppliers. The key drivers of our distribution expenses are fuel costs and circulation and insert volumes. Our distribution expenses have decreased during the three and nine months ended May 31, 2017 as compared to the same period in the prior year primarily related to cost savings as result of a reduction in newspaper circulation volumes and cost reduction initiatives. We expect these newspaper circulation volume trends to continue throughout the remainder of fiscal 2017.

Our production costs include the costs related to outsourced production of our newspapers, digital advertising production costs and ink and other production supplies. Our production expenses have increased during the three and nine months ended May 31, 2017 as a result of increases in digital advertising production costs and the outsourcing of the London Free Press newspaper in October 2016. We expect digital advertising production cost increases to continue throughout the remainder of fiscal 2017.

### Other Factors

## Seasonality

Revenue has experienced, and is expected to continue to experience, seasonality due to seasonal advertising patterns and seasonal influences on media consumption habits. Typically, our advertising revenue is highest in the first and third fiscal quarters, while expenses are relatively constant throughout the fiscal year.

# 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 used in our interim condensed consolidated financial statements for the three and nine months ended May 31, 2017 and 2016 are not materially different from those disclosed in our annual management's discussion and analysis and annual audited 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 debt settlement and the calculation of impairment, which includes the determination of fair value less costs of disposal for our cash-generating units and related assets, both as described in notes 4 and 6, respectively, in the interim condensed consolidated financial statements for the three and nine months ended May 31, 2017 and 2016.

## **Operating Results**

Postmedia's operating results for the three months ended May 31, 2017 as compared to the three months ended May 31, 2016

<del>-</del>	2017	2016
Revenues		
Print advertising	93,352	115,391
Print circulation	59,349	64,860
Digital	31,894	28,041
Other	9,450	10,026
Total revenues	194,045	218,318
Expenses		
Compensation	74,640	91,673
Newsprint	11,554	12,760
Distribution	37,373	40,552
Production	18,781	17,968
Other operating	31,275	35,578
Operating income before depreciation, amortization, impairment and restructuring	20,422	19,787
Depreciation	5,171	5,280
Amortization	3,538	5,431
Impairments	4,166	20,000
Restructuring and other items	(16,691)	7,373
Operating income (loss)	24,238	(18,297)
Interest expense	8,029	18,231
Net financing expense relating to employee benefit plans	1,471	1,449
(Gain) loss on disposal of property and equipment	184	(147)
Gain on derivative financial instruments	(512)	(2,677)
Foreign currency exchange (gains) losses	2,020	(11,471)
Earnings (loss) before income taxes	13,046	(23,682)
Provision for income taxes	_	
Net earnings (loss) attributable to equity holders of the Company	13,046	(23,682)

## Revenue

## Print advertising

Print advertising revenue decreased \$22.0 million, or 19.1%, to \$93.4 million for the three months ended May 31, 2017 as compared to the same period in prior year, and declines were experienced across all of our major categories including decreases from local advertising of 18.6%, national advertising of 31.1%, and insert advertising of 7.6%. The decreases were due to declines in both volume and rate with the total print advertising linage and average line rate decreasing 1.3% and 21.4%, respectively, during the three months ended May 31, 2017, as compared to the same period in the prior year.

## Print circulation

Print circulation revenue decreased \$5.5 million, or 8.5%, to \$59.3 million for the three months ended May 31, 2017 as compared to the same period in the prior year as a result of decreases in paid circulation volume, partially offset by price increases.

### Digital

Digital revenue increased \$3.9 million, or 13.7%, to \$31.9 million for the three months ended May 31, 2017, as compared to the same period in the prior year as a result of increases in programmatic and digital media services revenue and other digital revenue, partially offset by decreases in local and national digital advertising revenue, digital classified revenue and Infomart revenue.

### Other

Other revenue decreased by \$0.6 million, or 5.7%, to \$9.5 million for the three months ended May 31, 2017, as compared to the same period in the prior year.

### **Expenses**

### Compensation

Compensation expenses decreased \$17.0 million, or 18.6%, to \$74.6 million for the three months ended May 31, 2017, as compared to the same period in the prior year. The decrease in compensation expense is primarily related to cost reduction initiatives, which includes a decline in salary and benefits expense of \$16.9 million, partially offset by an increase in employee benefit plan expense of \$1.0 million.

### Newsprint

Newsprint expenses decreased \$1.2 million, or 9.5%, to \$11.6 million for the three months ended May 31, 2017 as compared to the same period in the prior year primarily as a result of consumption decreases of 9.2% due to lower newspaper circulation volumes as well as continued usage reduction efforts. Newsprint expenses include newsprint purchased for production at both our owned and outsourced production facilities.

### Distribution

Distribution expenses decreased \$3.2 million, or 7.8%, to \$37.4 million for the three months ended May 31, 2017, as compared to the same period in the prior year primarily related to cost savings as a result of the reduction in newspaper circulation volumes and cost reduction initiatives.

### Production

Production expenses increased \$0.8 million, or 4.5%, to \$18.8 million for the three months ended May 31, 2017, as compared to the same period in the prior year. The increase in production expenses is related to increases in digital advertising production costs and the outsourcing of the London Free Press newspaper in October 2016, partially offset by the reduction in newspaper circulation volumes and ongoing cost reduction initiatives.

### Other operating

Other operating expenses decreased \$4.3 million, or 12.1%, to \$31.3 million for the three months ended May 31, 2017, as compared to the same period in the prior year. The decrease in other operating expenses is primarily related to ongoing cost reduction initiatives.

## Operating income before depreciation, amortization, impairment and restructuring

Operating income before depreciation, amortization, impairment and restructuring increased \$0.6 million, to \$20.4 million for the three months ended May 31, 2017, as compared to the same period in the prior year. The increase in operating income before depreciation, amortization, impairment and restructuring was as a result of decreases in compensation, newsprint, distribution and other operating expenses, partially offset by decreases in revenue and increases in production expenses, all as discussed above.

### Depreciation

Depreciation expense decreased \$0.1 million to \$5.2 million for the three months ended May 31, 2017 as compared to the same period in the prior year.

### Amortization

Amortization expense decreased \$1.9 million to \$3.5 million for the three months ended May 31, 2017 as compared to the same period in the prior year. The decrease relates primarily to subscriber lists that were fully amortized in the year ended August 31, 2016.

# *Impairments*

During the three months ended May 31, 2017 and 2016 we performed our annual impairment testing of goodwill and indefinite life intangible assets, and as a result we recognized an impairment charge of \$4.2 million and \$20.0 million related to intangible assets, respectively.

### Restructuring and other items

Restructuring and other items expense decreased \$24.1 million to a recovery of \$16.7 million for the three months ended May 31, 2017 as compared to the same period in the prior year. Restructuring and other items recovery for the three months ended May 31, 2017 consists of a curtailment gain of \$22.8 million related to changes to our employee benefit plans, as discussed previously in "Recent Developments", partially offset by severance costs of \$5.6 million, which include both involuntary and voluntary buyouts and \$0.4 million for onerous leases related to unoccupied property. Restructuring and other items expense for the three months ended May 31, 2016 consisted of severance costs of \$7.4 million, which include both involuntary and voluntary buyouts.

## Operating income (loss)

Operating income was \$24.2 million for the three months ended May 31, 2017, as compared to operating loss of \$18.3 million for the same period in the prior year. Operating income is the result of a curtailment gain recorded in the three months ended May 31, 2017, decreases in impairment, restructuring, depreciation and amortization expenses and an increase in operating income before depreciation, amortization, impairment and restructuring, all as discussed above.

## Interest expense

Interest expense decreased \$10.2 million to \$8.0 million for the three months ended May 31, 2017, as compared to the same period in the prior year. Interest expense primarily relates to interest on our long-term debt that is recognized using the effective interest rate method, which amortizes the initial debt financing costs and includes both cash and non-cash interest. The decrease in interest expense relates to a decrease in cash interest of \$12.6 million, partially offset by an increase in non-cash interest of \$2.4 million. The decrease in cash interest expense is related to interest expense on the Second-Lien Notes as cash interest did not accrue after July 15, 2016, as well as a decrease in the amount of First-Lien Notes outstanding, both as described earlier in "Recent Developments". The increase in non-cash interest is primarily related to paid-in-kind interest on the New Second-Lien Notes also described earlier in "Recent Developments".

Net financing expense relating to employee benefit plans

Net financing expense relating to employee benefit plans was\$1.5 million for both the three months ended May 31, 2017 and 2016.

## (Gain) loss on disposal of property and equipment

During the three months ended May 31, 2017, we disposed of property and equipment and realized a loss of \$0.2 million. During the three months ended May 31, 2016, we disposed of property and equipment and realized a gain of \$0.1 million.

### Gain on derivative financial instruments

Gain on derivative financial instruments for the three months ended May 31, 2017 was \$0.5 million as compared to \$2.7 million during the same period in the prior year. The gain in the three months ended May 31, 2017 relates to a gain on the Mogo warrants as described earlier in "Recent Developments". The gain in the three months ended May 31, 2016 includes a gain of \$3.7 million related to the change in fair value of our variable prepayment option embedded derivatives on the First-Lien Notes and Second-Lien Notes that expired as part of the Recapitalization Transaction and a loss of \$1.0 million related to the Mogo warrants.

### Foreign currency exchange (gains) losses

Foreign currency exchange losses for the three months ended May 31, 2017 were \$2.0 million as compared to gains of \$11.5 million during the same period in the prior year. Foreign currency exchange losses in the three months ended May 31, 2017 consist primarily of unrealized losses of \$2.0 million related to changes in the carrying value of the New Second-Lien Notes. Foreign currency exchange gains in the three months ended May 31, 2016 consisted primarily of unrealized gains of \$11.3 million related to changes in the carrying value of the Second-Lien Notes.

## Earnings (loss) before income taxes

Earnings before income taxes was \$13.0 million for the three months ended May 31, 2017, as compared to a loss before income taxes of \$23.7 million for the same period in the prior year. Earnings before income taxes is the result of operating income and a decrease in interest expense, partially offset by foreign currency exchange losses and a decrease in gain on derivative financial instruments, all as discussed above.

### Provision for income taxes

We have not recorded a current or deferred tax expense or recovery for the three months ended May 31, 2017 and 2016. Current taxes payable or recoverable result in a decrease or increase, respectively, to our tax loss carryforward balances. The cumulative tax loss carryforward balances have not been recognized as a net deferred tax asset on the consolidated statement of financial position.

## Net earnings (loss) attributable to equity holders of the Company

Net earnings for the three months ended May 31, 2017 was \$13.0 million as compared to net loss of \$23.7 million for the same period in the prior year, as a result of the factors described above in earnings (loss) before income taxes.

## **Operating Results**

Postmedia's operating results for the nine months ended May 31, 2017 as compared to the nine months ended May 31, 2016

	2017	2016
Revenues		
Print advertising	290,679	369,073
Print circulation	179,370	196,528
Digital	91,390	83,661
Other	28,255	29,220
Total revenues	589,694	678,482
Expenses		
Compensation	237,387	276,479
Newsprint	35,314	37,826
Distribution	113,332	122,811
Production	55,439	52,541
Other operating	99,981	113,845
Operating income before depreciation, amortization, impairment and restructuring	48,241	74,980
Depreciation	17,157	16,419
Amortization	11,194	16,596
Impairments	25,758	207,000
Restructuring and other items	36,098	30,257
Operating loss	(41,966)	(195,292)
Interest expense	23,912	56,004
Gain on debt settlement	(78,556)	-
Net financing expense relating to employee benefit plans	4,413	4,348
Loss on disposal of property and equipment	119	241
Gain on derivative financial instruments	(1,668)	(1,438)
Foreign currency exchange (gains) losses	5,386	(1,405)
Earnings (loss) before income taxes	4,428	(253,042)
Provision for income taxes	-	
Net earnings (loss) attributable to equity holders of the Company	4,428	(253,042)

### Revenue

### Print advertising

Print advertising revenue decreased \$78.4 million, or 21.2%, to \$290.7 million for the nine months ended May 31, 2017 as compared to the same period in prior year, and declines were experienced across all of our major categories including decreases from local advertising of 21.9%, national advertising of 30.6%, and insert advertising of 7.9%. The decreases were due to declines in both volume and rate with the total print advertising linage and average line rate decreasing 6.5% and 19.5%, respectively, during the nine months ended May 31, 2017, as compared to the same period in the prior year.

### Print circulation

Print circulation revenue decreased \$17.2 million, or 8.7%, to \$179.4 million for the nine months ended May 31, 2017, as compared to the same period in the prior year as a result of decreases in paid circulation volume, partially offset by price increases.

## Digital

Digital revenue increased \$7.7 million, or 9.2%, to \$91.4 million for the nine months ended May 31, 2017, as compared to the same period in the prior year as a result of increases in programmatic revenue and other digital revenue, partially offset by decreases in local and national digital advertising revenue, digital classified revenue and Infomart revenue.

### Other

Other revenue decreased by \$1.0 million, or 3.3%, to \$28.3 million for the nine months ended May 31, 2017, as compared to the same period in the prior year.

### **Expenses**

### Compensation

Compensation expenses decreased \$39.1 million, or 14.1%, to \$237.4 million for the nine months ended May 31, 2017, as compared to the same period in the prior year. The decrease in compensation expense is primarily related to cost reduction initiatives, which includes a decline in salary and benefits expense of \$39.4 million, partially offset by an increase in employee benefit plan expense of \$3.0 million.

# Newsprint

Newsprint expenses decreased \$2.5 million, or 6.6%, to \$35.3 million for the nine months ended May 31, 2017 as compared to the same period in the prior year primarily as a result of consumption decreases of 11.7% due to lower newspaper circulation volumes as well as continued usage reduction efforts. Newsprint expenses include newsprint purchased for production at both our owned and outsourced production facilities.

### Distribution

Distribution expenses decreased \$9.5 million, or 7.7%, to \$113.3 million for the nine months ended May 31, 2017, as compared to the same period in the prior year primarily related to cost savings as a result of the reduction in newspaper circulation volumes and cost reduction initiatives.

### Production

Production expenses increased \$2.9 million, or 5.5%, to \$55.4 million for the nine months ended May 31, 2017, as compared to the same period in the prior year. The increase in production expenses is related to increases in digital advertising production costs and the outsourcing of the London Free Press newspaper in October 2016, partially offset by the reduction in newspaper circulation volumes and ongoing cost reduction initiatives.

### Other operating

Other operating expenses decreased \$13.9 million, or 12.2%, to \$100.0 million for the nine months ended May 31, 2017, as compared to the same period in the prior year. The decrease in other operating expenses is primarily related to ongoing cost reduction initiatives.

## Operating income before depreciation, amortization, impairment and restructuring

Operating income before depreciation, amortization, impairment and restructuring decreased \$26.7 million, to \$48.2 million for the nine months ended May 31, 2017, as compared to the same period in the prior year. The decrease in operating income before depreciation, amortization, impairment and restructuring was as a result of decreases in revenue and increases in production expenses, partially offset by decreases in compensation, newsprint, distribution and other operating expenses, all as discussed above.

### Depreciation

Depreciation expense increased \$0.7 million to \$17.2 million for the nine months ended May 31, 2017 as compared to the same period in the prior year. The increase relates primarily to a change in the estimate of the useful lives of the production assets of our London printing facility due to the outsourcing of production in October 2016.

### **Amortization**

Amortization expense decreased \$5.4 million to \$11.2 million for the nine months ended May 31, 2017 as compared to the same period in the prior year. The decrease relates primarily to subscriber lists that were fully amortized in the year ended August 31, 2016.

## **Impairments**

During the nine months ended May 31, 2017 and 2016 we performed our annual impairment testing of goodwill and indefinite life intangible assets. Prior to the annual impairment testing due to indicators of potential impairment, we performed interim impairment tests as at November 30, 2016 and February 29, 2016. As a result of the impairment tests for the nine months ended May 31, 2017, we recognized an impairment charge of \$25.8 million allocated to intangible assets and property and equipment. As a result of the impairment tests for the nine months ended May 31, 2016, we recognized an impairment charge of \$207.0 million which consisted of \$67.6 million related to goodwill and \$139.4 million related to intangible assets.

# Restructuring and other items

Restructuring and other items expense increased \$5.8 million to \$36.1 million for the nine months ended May 31, 2017 as compared to the same period in the prior year. Restructuring and other items expense for the nine months ended May 31, 2017 consists of severance costs of \$46.3 million, which include both involuntary and voluntary buyouts, \$12.1 million of costs related to the Recapitalization Transaction as described earlier in "Recent Developments", a curtailment gain of \$22.8 million related to changes to our employee benefit plans, as discussed previously in "Recent Developments" and \$0.4 million for onerous leases related to unoccupied property. Restructuring and other items expense for the nine months ended May 31, 2016 consisted of severance costs of \$26.9 million, which include both involuntary and voluntary buyouts, and \$3.3 million for onerous leases related to unoccupied property.

# Operating loss

Operating loss decreased \$153.3 million to \$42.0 million for the nine months ended May 31, 2017, as compared to the same period in the prior year. The decrease in operating loss is the result of decreases in impairment, depreciation and amortization expense, partially offset by an increase in restructuring and other items expense and a decrease in operating income before depreciation, amortization, impairment and restructuring, all as discussed above.

### Interest expense

Interest expense decreased \$32.1 million to \$23.9 million for the nine months ended May 31, 2017, as compared to the same period in the prior year. Interest expense primarily relates to interest on our long-term debt that is recognized using the effective interest rate method, which amortizes the initial debt financing costs and includes both cash and non-cash interest. The decrease in interest expense relates to a decrease in cash interest of \$38.4 million, partially offset by an increase in non-cash interest of \$6.3 million. The decrease in cash interest expense is related to interest expense on the Second-Lien Notes as cash interest did not accrue after July 15, 2016, as well as a decrease in the amount of First-Lien Notes outstanding, both as described earlier in "Recent Developments". The increase in non-cash interest is primarily related to paid-in-kind interest on the New Second-Lien Notes also described earlier in "Recent Developments".

### Gain on debt settlement

During the nine months ended May 31, 2017, we settled our Second-Lien Notes through the issuance of shares and realized a gain on debt settlement of \$78.6 million. The gain on debt settlement is the difference between the carrying value of the Second-Lien Notes of \$354.1 million and the fair value of Shares issued of \$275.5 million on October 5, 2016. During the nine months ended May 31, 2016, no settlement of debt occurred.

Net financing expense relating to employee benefit plans

Net financing expense relating to employee benefit plans increased \$0.1 million to \$4.4 million for the nine months ended May 31, 2017, as compared to the same period in the prior year.

Loss on disposal of property and equipment

During the nine months ended May 31, 2017 and 2016, we disposed of property and equipment and realized a loss of \$0.1 million and \$0.2 million, respectively.

### Gain on derivative financial instruments

Gain on derivative financial instruments for the nine months ended May 31, 2017 was \$1.7 million as compared to \$1.4 million during the same period in the prior year. The gain in the nine months ended May 31, 2017 relates to a gain on the Mogo warrants as described earlier in "Recent Developments". The gain in the nine months ended May 31, 2016 includes a gain of \$2.3 million related to the change in fair value of our variable prepayment option embedded derivatives on the First-Lien Notes and Second-Lien Notes that expired as part of the Recapitalization Transaction and a loss of \$0.9 million related to the Mogo warrants.

# Foreign currency exchange (gains) losses

Foreign currency exchange losses for the nine months ended May 31, 2017 were \$5.4 million as compared to a gain of \$1.4 million during the same period in the prior year. Foreign currency exchange losses in the nine months ended May 31, 2017 consist primarily of unrealized losses of \$4.2 million related to changes in the carrying value of the New Second-Lien Notes and losses of \$1.8 million related to the Second-Lien Notes. Foreign currency exchange losses in the nine months ended May 31, 2016 consisted primarily of unrealized gains of \$1.3 million related to changes in the carrying value of the Second-Lien Notes.

## Earnings (loss) before income taxes

Earnings before income taxes was \$4.4 million for the nine months ended May 31, 2017, as compared to a loss before income taxes of \$253.0 million for the same period in the prior year. Earnings before income taxes is primarily the result of a decrease in operating loss, a gain on debt settlement and a decrease in interest expense, partially offset by foreign exchange losses, all as discussed above.

## Provision for income taxes

We have not recorded a current or deferred tax expense or recovery for the nine months ended May 31, 2017 and 2016. Current taxes payable or recoverable result in a decrease or increase, respectively, to our tax loss carryforward balances. The cumulative tax loss carryforward balances have not been recognized as a net deferred tax asset on the consolidated statement of financial position.

# Net earnings (loss) attributable to equity holders of the Company

Net earnings for the nine months ended May 31, 2017 was \$4.4 million as compared to a loss of \$253.0 million for the same period in the prior year, as a result of the factors described above in earnings (loss) before income taxes.

# Consolidated quarterly financial information

			Fis	cal 2017			Fiscal	2016		Fisc	cal 2015
(\$ in thousands of Canadian dollars, except per share information)	Q	3		Q2	Q1	Q4	Q3	Q2	Q1		Q4
Total revenues	19	94,045		180,799	214,850	198,674	218,318	209,084	251,080		230,232
Net earnings (loss) attributible to equity holders of the Company	1	13,046		(26,453)	17,835	(99,440)	(23,682)	(225,129)	(4,231)		(54,092)
Basic	\$	0.14	\$	(0.28) \$	0.31	\$ (0.35) \$	(80.0)	\$ (0.80) \$	(0.02)	\$	(0.19)
Diluted	\$	0.14	\$	(0.28) \$	0.31	\$ (0.35) \$	(0.08)	\$ (0.80) \$	(0.02)	\$	(0.19)
Cash flows from (used in) operating activities	(1	11,268)		12,014	(37,919)	(4,698)	6,421	(5,591)	(2,712)		(4,394)

## Liquidity and capital resources

Our principal uses of funds are for working capital requirements, debt servicing and capital expenditures. Based on our current and anticipated level of operations, we believe that our cash on hand and cash flows from operations and available borrowings under our ABL Facility will enable us to meet our working capital, debt servicing, capital expenditure and other funding requirements. However, our ability to fund our working capital needs, debt servicing and other funding requirements depends on our future operating performance and cash flows. There are a number of factors which may adversely affect our operating performance and our ability to meet these obligations as described earlier in "Key Factors Affecting Operating Results". Our cash flows from operating activities may be impacted by, among other things, the overall strength of the economy, competition from digital media and other forms of media as well as competition from alternative emerging technologies. In addition, in recent years there has been a growing shift in advertising dollars from newspaper advertising to other advertising formats, particularly online and other digital platforms such as search and social media websites. More recently, we have experienced continued declines in revenues due to ongoing economic and structural factors resulting in an increasingly challenging operating environment. We have significant debt obligations which currently include the First-Lien Notes (\$222.7 million) that mature in July 2021 and New Second-Lien Notes (US\$91.8 million) that mature in July 2023. These economic and structural factors related to our industry have had an impact on liquidity risk which is the risk that we will not be able to meet our financial obligations associated with existing and future financial liabilities that are and will be settled by delivering cash or another financial asset as they come due. We manage this risk by monitoring cash flow forecasts, implementing cost reduction initiatives as described earlier in "Recent Developments", deferring or eliminating discretionary spending monitoring and maintaining compliance with terms of the note indentures, identifying and selling redundant assets including certain real estate assets and utilizing the ABL Facility to provide additional liquidity during season fluctuations of the business.

As at May 31, 2017, we have restricted cash of \$1.8 million (August 31, 2016 - \$4.8 million). During the nine months ended May 31, 2017, we sold assets for net proceeds of \$4.1 million. 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. During the nine months ended May 31, 2017, restricted cash of \$2.3 million was used to redeem an aggregate principal amount of First-Lien Notes, including accrued interest. Subsequent to May 31, 2017, we redeemed an additional \$1.2 million aggregate principal amount of First-Lien Notes, including accrued interest.

## Cash flows from (used in) operating activities

Our principal sources of liquidity are cash flows from operating activities. For the three and nine months ended May 31, 2017, our cash flows from operating activities were outflows of \$11.3 million and \$37.2 million, respectively (2016 – inflows of \$6.4 million and outflows of \$1.9 million, respectively). Cash flows from operating activities decreased \$17.7 million for the three months ended May 31, 2017, as compared to the same period in the prior year due to a decrease in the net change in non-cash working capital as compared to the same period in the prior year, partially offset by a decrease in restructuring and unoccupied lease payments of \$7.1 million. Cash flows from operating activities decreased \$35.3 million for the nine months ended May 31, 2017, as compared to the same period in the prior year due to a decrease in operating income before depreciation, amortization, impairment and restructuring, a decrease in the net change in non-cash working capital as compared to the same period in the prior year and an increase in restructuring and unoccupied lease payments of \$6.1 million.

As at May 31, 2017 we had cash of \$16.1 million (August 31, 2016 – \$17.1 million).

## Cash flows used in investing activities

For the three and nine months ended May 31, 2017, our cash flows from investing activities were outflows of \$0.5 million and \$0.6 million, respectively (2016 – outflows of \$6.4 million and \$8.4 million, respectively). The net cash outflows from investing activities during the three months ended May 31, 2017 include outflows on capital expenditures related to property and equipment of \$1.8 million and intangible assets of \$0.8 million, partially offset by net proceeds received from the sale of property and equipment of \$2.1 million. The net cash outflows from investing activities during the three months ended May 31, 2016 included outflows on capital expenditures related to property and equipment of \$4.5 million and intangible assets of \$2.6 million, partially offset by net proceeds received from the sale of property and equipment of \$0.6 million and an income tax refund received in excess of the estimate related to the identifiable assets acquired in an acquisition completed in the year ended August 31, 2015 of \$0.1 million. The net cash outflows from investing activities during the nine months ended May 31, 2017 include outflows on capital expenditures related to property and equipment of \$3.0 million and intangible assets of \$1.6 million, partially offset by net proceeds received from the sale of property and equipment of \$4.0 million. The net cash outflows from investing activities during the nine months ended May 31, 2016 included outflows on capital expenditures related to property and equipment of \$6.4 million and intangible assets of \$4.0 million, as well as outflows related to a purchase of warrants of \$1.2 million as described earlier in "Recent Developments", partially offset by net proceeds received from the sale of property and equipment of \$1.9 million, the receipt of the working capital receivable of \$1.2 million and an income tax refund received in excess of the estimate related to the identifiable assets acquired of \$0.1 million both related to an acquisition completed in the year ended August 31, 2015.

# Cash flows from (used in) financing activities

For the three and nine months ended May 31, 2017, our cash flows from financing activities were inflows of \$2.7 million and \$36.7 million, respectively (2016 – outflows of \$5.7 million and \$12.9 million, respectively). The net cash inflows from financing activities during the three months ended May 31, 2017 includes advances of \$5.0 million from the ABL Facility, partially offset by an outflow of \$1.2 million related to the repayment of First-Lien Notes and net outflows from restricted cash of \$1.1 million. The net cash outflows from financing activities during the three months ended May 31, 2016 included \$9.7 million related to the repayment of First-Lien Notes, partially offset by a release of restricted cash of \$4.0 million as discussed above. The net cash inflows from financing activities during the nine months ended May 31, 2017 includes net proceeds from the issuance of New Second-Lien Notes of \$110.0 million, advances of \$5.0 million from the ABL Facility and net inflows from restricted cash of \$3.0 million, partially offset by outflows of \$80.1 million related to the repayment of First-Lien Notes, \$1.0 million of debt issuance costs and \$0.2 million of share issuance costs. The net cash outflows from financing activities during the nine months ended May 31, 2016 included \$26.0 million related to the repayment of First-Lien Notes, partially offset by a release of restricted cash of \$13.1 million as discussed above.

### Indebtedness

As of May 31, 2017, we have \$222.7 million First-Lien Notes and US\$91.8 million New Second-Lien Notes outstanding (August 31, 2016 - \$302.8 million First-Lien Notes and US\$268.6 million Second-Lien Notes). On January 31, 2017, we 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. The following tables set out the principal and carrying amount of our long-term debt outstanding as at May 31, 2017 and August 31, 2016. The first column of the table translates, where applicable, our US dollar debt to the Canadian equivalent based on the closing foreign exchange rate on May 31, 2017 of US\$1:\$1.35 (August 31, 2016 – US\$1:\$1.3116).

	As a	nt May 31, 201	7	As at August 31, 2016				
(\$ in thousands of Canadian dollars)		Financing		Financing				
		fees,		fees,				
	Principal	discounts	Carrying	Principal	discounts	Carrying		
	Outstanding	and other	Value	Outstanding	and other	Value		
First-Lien Notes (CDN\$)	222,723	(1,861)	220,862	302,784	(1,739)	301,045		
New Second-Lien Notes (US\$91.8M)	123,923	(649)	123,274	N/A	N/A	N/A		
Second-Lien Notes (US\$268.6M)	N/A	N/A	N/A	352,342	(239)	352,103		
ABL Facility (CDN\$)	5,000	-	5,000	N/A	N/A	N/A		
	351,646	(2,510)	349,136	655,126	(1,978)	653,148		

# Financial Position As at May 31, 2017 and August 31, 2016

(\$ in thousands of Canadian dollars)	As at May 31, 2017	As at August 31, 2016
Current assets	116,712	123,338
Total assets	447,518	507,098
Current liabilities	137,337	444,347
Total liabilities	. 595,593	985,540
Deficiency	. (148,075)	(478,442)

The decrease in our current assets at May 31, 2017 as compared to August 31, 2016 is primarily due to a decrease in cash, restricted cash and accounts receivable. Total assets as at May 31, 2017 decreased as compared to August 31, 2016 as a result of a decrease in the carrying value of property and equipment and intangible assets as a result of depreciation, amortization and impairment during the nine months ended May 31, 2017 and a decrease in current assets as previously described. Current liabilities have decreased due to a decrease in the current portion of long-term debt as a result of the Recapitalization Transaction and a decrease in accounts payable and accrued liabilities which includes a decrease in accrued interest on long-term debt, partially offset by an increase in provisions as a result of our new cost reduction initiatives including the voluntary buyout program. The decrease in total liabilities is due to decreases in the carrying value of long-term debt as a result of the Recapitalization Transaction described earlier in "Recent Developments" and employee benefit plan liabilities as a result of actuarial and curtailment gains in the nine months ended May 31, 2017.

### **Related Party Transaction**

Upon completion of the Recapitalization Transaction, Chatham owns approximately 61,166,689, or 65%, of our Shares. In October 2016, we entered into a consulting agreement with an associated company of Chatham and incurred an expense of \$0.5 million and \$1.3 million during the three and nine months ended May 31, 2017, respectively.

On January 18, 2017, we entered into an ABL Facility with associated companies of Chatham for an aggregate amount of up to \$15.0 million as described earlier in "Recent Developments".

## **Financial Instruments and Financial Instruments Risk Management**

The financial instruments and financial risk management policies and related risks are the same as disclosed in the audited consolidated financial statements for the years ended August 31, 2016 and 2015, except as discussed below.

# Foreign currency risk

As at May 31, 2017, approximately 35% of the outstanding principal on our long-term debt is payable in US dollars (August 31, 2016 – 54%). As at May 31, 2017, we have US\$91.8 million New Second-Lien Notes outstanding (August 31, 2016 – \$268.6 million Second-Lien Notes outstanding).

# **Guarantees and Off-Balance Sheet Arrangements**

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

## **Future Accounting Standards**

We have not early adopted the following new standards and the impacts on the consolidated financial statements have not yet been determined:

## (i) IFRS 9 - Financial Instruments

The standard was issued in July 2014 and addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 – Financial Instruments – Recognition and Measurement for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. The new standard also addresses financial liabilities and they largely carry forward existing requirements in IAS 39, except that fair value changes to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. In addition, the new standard introduces a new hedge accounting model more closely aligned with risk management activities undertaken by entities. This standard is required to be applied for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

## (ii) IFRS 15 - Revenue from Contracts with Customers

The standard was issued in May 2014 and is a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. The standard replaces IAS 11 - Construction Contracts and IAS 18 - Revenue, as well as various IFRIC and SIC interpretations regarding revenue. The standard is required to be applied for annual periods beginning on or after January 1, 2018, with earlier adoption permitted for entities that would also adopt IFRS 15 – Revenue from Contracts with Customers.

# (iii) IFRS 16 - Leases

The standard was issued in January 2016 and replaces IAS 17 – Leases. The new standard provides a single lessee accounting model which eliminates the distinction between operating and finance leases. In particular, lessees will be required to report most leases on the statement of financial position by recognizing right-of-use assets and related financial liabilities. Lessor accounting remains largely unchanged. The standard is required to be applied for annual periods beginning on or after January 1, 2019, with earlier adoption permitted for entities that would also adopt IFRS 15 – Revenue from Contracts with Customers.

### **Risk Factors**

The risks relating to our business are described in the section entitled "Risk Factors" included in our annual management's discussion and analysis for the years ended August 31, 2016 and 2015, which section is incorporated by reference herein.

### **Internal Controls**

Disclosure controls and procedures within Postmedia have been designed to provide reasonable assurance that all relevant information is identified to its management, including the President and Chief Executive Officer ("CEO") and the Senior Vice President, Shared Services ("CFO"), as appropriate, to allow required disclosures to be made in a timely fashion.

Internal controls over financial reporting have been designed by management, under the supervision of and with the participation of the CEO and CFO, to provide reasonable assurance regarding the reliability of Postmedia's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The CEO and CFO have evaluated whether there were changes to Postmedia's internal control over financial reporting during the three months ended May 31, 2017, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting. There were no changes expected to have a material effect on internal control over financial reporting identified during their evaluation.

# **Share Capital**

As at July 3, 2017 we had the following number of shares and options outstanding:

Class C voting shares	82,550
Class NC variable voting shares	93,634,649
Total shares outstanding	93,717,199
•	
Total options and restricted share units	
outstanding	