

POSTMEDIA NETWORK CANADA CORP.
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016

Approved for issuance: October 19, 2017

Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Postmedia Network Canada Corp. (the "Company") and its subsidiaries are the responsibility of management and have been approved by the Board of Directors of Postmedia Network Canada Corp.

Management is responsible for the preparation of these consolidated financial statements in conformity with International Financial Reporting Standards, as issued by the International Accounting Standards Board, the selection of accounting policies and making significant accounting estimates, assumptions and judgements. Management is also responsible for establishing and maintaining adequate internal control over financial reporting which includes those policies and procedures that provide reasonable assurance over the completeness, fairness and accuracy of the consolidated financial statements and other financial items.

The Board of Directors fulfills its responsibility for the consolidated financial statements principally through its Audit Committee, which is composed of independent external directors. The Audit Committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors. The Audit Committee meets with the Company's management and external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, and formulates the appropriate recommendations to the Board of Directors. The auditor appointed by the shareholders has full access to the Audit Committee, with or without management being present.

The external auditors appointed by the Company's shareholders, PricewaterhouseCoopers LLP, conducted an independent audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and express their opinion thereon. Those standards require that the audit is planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

Signed
Paul Godfrey
Chief Executive Officer

Signed
Brian Bidulka
Executive Vice President and
Chief Financial Officer

Toronto, Canada
October 19, 2017



October 19, 2017

Independent Auditor's Report

To the Shareholders of Postmedia Network Canada Corp.

We have audited the accompanying consolidated financial statements of Postmedia Network Canada Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at August 31, 2017 and August 31, 2016 and the consolidated statements of operations, comprehensive income (loss), changes in deficiency and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Postmedia Network Canada Corp and its subsidiaries as at August 31, 2017 and August 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

POSTMEDIA NETWORK CANADA CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016

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

	2017	2016
		(note 5)
Revenues		
Print advertising	373,514	466,573
Print circulation	239,036	260,885
Digital	105,471	93,798
Other	36,243	39,121
Total revenues	754,264	860,377
Expenses		
Compensation	302,668	358,967
Newsprint	45,905	50,591
Distribution	149,930	162,778
Production	75,057	70,787
Other operating	126,106	143,124
Operating income before depreciation, amortization, impairment and restructuring (note 3)	54,598	74,130
Depreciation (note 10)	23,145	22,018
Amortization (note 11)	14,576	21,919
Impairments (notes 7, 10 and 11)	25,758	267,700
Restructuring and other items (notes 4, 13 and 15)	37,814	42,570
Operating loss	(46,695)	(280,077)
Interest expense	32,721	72,649
Gain on debt settlement (note 4)	(78,556)	-
Net financing expense relating to employee benefit plans (note 15)	5,235	5,798
(Gain) loss on disposal of property and equipment (note 10)	(2,110)	294
(Gain) loss on derivative financial instruments (note 8)	(967)	2,995
Foreign currency exchange gains	(3,862)	(1,120)
Earnings (loss) before income taxes	844	(360,693)
Provision for income taxes (note 18)	-	-
Net earnings (loss) from continuing operations	844	(360,693)
Net earnings from discontinued operations, net of tax of nil (note 5)	43,911	8,211
Net earnings (loss) attributable to equity holders of the Company	44,755	(352,482)
Earnings (loss) per share from continuing operations (note 16):		
Basic	\$ 0.01	\$ (1.28)
Diluted	\$ 0.01	\$ (1.28)
Earnings per share from discontinued operations (note 16):		
Basic	\$ 0.39	\$ 0.03
Diluted	\$ 0.39	\$ 0.03
Earnings (loss) per share attributable to equity holders of the Company (note 16):		
Basic	\$ 0.40	\$ (1.25)
Diluted	\$ 0.40	\$ (1.25)

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

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

FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016

(In thousands of Canadian dollars)

	2017	2016
		(note 5)
Net earnings (loss) attributable to equity holders of the Company	44,755	(352,482)
Amounts not subsequently reclassified to the statement of operations from continuing operations		
Net actuarial gains (losses) on employee benefits, net of tax of nil (note 15)	72,104	(36,816)
Other comprehensive income (loss)	72,104	(36,816)
Comprehensive income (loss) attributable to equity holders of the Company	116,859	(389,298)
Total comprehensive income (loss) attributable to equity holders of the Company:		
Continuing operations	72,948	(397,509)
Discontinued operations	43,911	8,211
Comprehensive income (loss) attributable to equity holders of the Company	116,859	(389,298)

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

POSTMEDIA NETWORK CANADA CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT AUGUST 31, 2017 AND 2016

(In thousands of Canadian dollars)

	2017	2016
ASSETS		
Current Assets		
Cash	10,848	17,139
Restricted cash (notes 5 and 6)	67,751	4,804
Accounts receivable	74,180	82,018
Asset held-for-sale (note 10)	8,292	-
Inventory (note 9)	6,001	7,036
Prepaid expenses and other assets	11,502	12,341
Total current assets	178,574	123,338
Non-Current Assets		
Property and equipment (notes 7 and 10)	194,758	261,986
Derivative financial instruments (note 8)	1,265	298
Other assets (note 15)	1,508	4,339
Intangible assets (notes 7 and 11)	85,613	117,137
Total assets	461,718	507,098
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (note 12)	59,778	89,849
Provisions (note 13)	23,400	16,853
Deferred revenue (note 5)	33,268	36,600
Current portion of long-term debt (note 14)	79,502	301,045
Total current liabilities	195,948	444,347
Non-Current Liabilities		
Long-term debt (note 14)	261,761	352,103
Employee benefit obligations and other liabilities (notes 15 and 17)	89,030	188,479
Provisions (note 13)	1,097	611
Total liabilities	547,836	985,540
Deficiency		
Capital stock (note 16)	810,836	535,468
Contributed surplus (note 17)	10,412	10,315
Deficit	(907,366)	(1,024,225)
Total deficiency	(86,118)	(478,442)
Total liabilities and deficiency	461,718	507,098

Commitments (note 21), Subsequent event (note 25)

On October 19, 2017, the Board of Directors (the "Board") approved the consolidated financial statements.

On behalf of the Board,

Signed
Paul Godfrey
 Director

Signed
Rod Phillips
 Chair

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

POSTMEDIA NETWORK CANADA CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIENCY

FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016

(In thousands of Canadian dollars)

	2017			
	Capital stock	Contributed surplus	Deficit	Total Deficiency
Balance as at August 31, 2016	535,468	10,315	(1,024,225)	(478,442)
Net earnings attributable to equity holders of the Company	-	-	44,755	44,755
Other comprehensive income	-	-	72,104	72,104
Comprehensive income attributable to equity holders of the Company	-	-	116,859	116,859
Share-based compensation plans (note 17)	-	97	-	97
Shares issued (note 4)	275,558	-	-	275,558
Share issuance costs (note 4)	(190)	-	-	(190)
Balance as at August 31, 2017	810,836	10,412	(907,366)	(86,118)

	2016			
	Capital stock	Contributed surplus	Deficit	Total Deficiency
Balance as at August 31, 2015	535,468	10,169	(634,927)	(89,290)
Net loss attributable to equity holders of the Company	-	-	(352,482)	(352,482)
Other comprehensive loss	-	-	(36,816)	(36,816)
Comprehensive loss attributable to equity holders of the Company	-	-	(389,298)	(389,298)
Share-based compensation plans (note 17)	-	146	-	146
Balance as at August 31, 2016	535,468	10,315	(1,024,225)	(478,442)

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

POSTMEDIA NETWORK CANADA CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016

(In thousands of Canadian dollars)

	2017	2016
CASH GENERATED (UTILIZED) BY:		
OPERATING ACTIVITIES		
Net earnings (loss) attributable to equity holders of the Company	44,755	(352,482)
Items not affecting cash:		
Depreciation (note 10)	23,145	22,018
Amortization (note 11)	14,576	21,919
Impairments (notes 7, 10 and 11)	25,758	267,700
Gain on debt settlement (note 4)	(78,556)	-
(Gain) loss on derivative financial instruments (note 8)	(967)	2,995
Non-cash interest	13,525	8,016
(Gain) loss on disposal of property and equipment (note 10)	(2,110)	294
Non-cash foreign currency exchange gains	(3,312)	(1,107)
Non-cash backstop commitment fee (note 4)	5,500	-
Gain on sale of discontinued operations (note 5)	(36,387)	-
Share-based compensation plans and other long-term incentive plan expense (recovery) (note 17)	202	(166)
Net financing expense relating to employee benefit plans (note 15)	5,235	5,798
Non-cash curtailment gain relating to employee benefit plans (note 15)	(24,752)	-
Employee benefit funding in excess of compensation expense (note 15)	(3,951)	(1,468)
Net change in non-cash operating accounts (note 23)	(18,991)	19,903
Cash flows used in operating activities	<u>(36,330)</u>	<u>(6,580)</u>
INVESTING ACTIVITIES		
Net proceeds from the sale of discontinued operations (note 5)	36,392	-
Net proceeds from the sale of property and equipment (note 10)	34,884	1,949
Purchases of property and equipment (note 10)	(3,583)	(11,736)
Purchases of intangible assets (note 11)	(2,210)	(3,973)
Purchase of warrants (note 8)	-	(1,200)
Receipt of working capital adjustment	-	1,208
Acquisitions (note 11)	-	(915)
Cash flows from (used in) investing activities	<u>65,483</u>	<u>(14,667)</u>
FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt (notes 4 and 14)	110,000	-
Repayment of long-term debt (note 14)	(81,291)	(25,996)
Restricted cash (note 6)	(62,947)	20,569
Debt issuance costs (notes 4 and 14)	(1,016)	-
Share issuance costs (notes 4 and 16)	(190)	-
Cash flows used in financing activities	<u>(35,444)</u>	<u>(5,427)</u>
Net change in cash	(6,291)	(26,674)
Cash at beginning of year	17,139	43,813
Cash at end of year	<u>10,848</u>	<u>17,139</u>
<hr/>		
	2017	2016
Supplemental disclosure of operating cash flows		
Interest paid	(43,215)	(49,783)
Income taxes received (note 11)	-	3,785

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

POSTMEDIA NETWORK CANADA CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016

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

1. DESCRIPTION OF BUSINESS

Postmedia Network Canada Corp. (“Postmedia” or the “Company”) is a holding company that has a 100% interest in its subsidiary Postmedia Network Inc. (“Postmedia Network”). The Company was incorporated on April 26, 2010, pursuant to the Canada Business Corporations Act. The Company’s head office and registered office is 365 Bloor Street East, 12th 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 and each newspaper’s online website. The Company supports these operations through a variety of centralized shared services. During the year ended August 31, 2017, the Company sold Infomart, its media monitoring division (note 5).

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.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

(a) Basis of presentation

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

(b) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of derivative financial instruments to fair value, certain assets classified as held for sale which were recorded at the lower of the carrying amount and fair value less costs of disposal and the deferred share unit plan which was recorded at fair value.

(c) Principles of consolidation

These consolidated financial statements include the accounts of the Company and Postmedia Network, along with its subsidiaries. Subsidiaries are all entities which the Company controls. For accounting purposes, control is established by an investor when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All intercompany transactions and balances have been eliminated on consolidation.

(d) 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 disclosures of contingent assets and liabilities. Although these estimates, assumptions and judgements are based upon management's best knowledge of the amount, event or actions; actual results could differ from those estimates, assumptions and judgements.

The following significant areas require management to use assumptions and to make estimates:

Impairment of goodwill and long lived assets

The Company tests goodwill and indefinite life intangible assets for impairment annually, or more frequently if there are indicators that an impairment may have arisen. In testing for impairment, assets including indefinite life intangible assets and other long lived assets, are grouped into a cash generating unit ("CGU" or "CGUs") which represents the lowest level for which there are separately identifiable cash inflows. For the purpose of goodwill impairment testing, goodwill was allocated to each CGU (or group of CGUs) based on the level at which management monitored goodwill, however not higher than an operating segment. Accordingly, management allocated its goodwill to its single operating segment, the Newsmedia operating segment for the year ended August 31, 2016. The recoverable amount of each CGU or group of CGUs is based on the higher of value in use and fair value less costs of disposal calculations ("FVLCD"). During the year ended August 31, 2017, the Company computed the FVLCD for each CGU using a market multiple range of 4.0 to 4.25 times the 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.

Additional information on the Company's impairment testing is contained in note 7.

Employee future benefits

The cost of defined benefit pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans and the present value of the defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions including the discount rate and mortality rates, among others to measure the net defined benefit obligation. Due to the complexity of the actuarial valuations and the long-term nature of employee future benefits, the corresponding obligation is highly sensitive to changes in assumptions. Discount rates are reviewed at each reporting date and corresponding adjustments to the net defined benefit obligation are recognized in other comprehensive income and deficit. Additional information on the Company's employee benefit plans is contained in note 15.

Determination of the fair value of shares issued

Estimates were required in determining the fair value of shares issued and used in the calculation of the gain on debt settlement and was determined by the closing price of the Variable Voting Shares as described in note 4.

The following areas require management to use significant judgements apart from those involving estimates:

Determination of useful lives for the depreciation and amortization of assets with finite lives

For each class of assets with finite lives, management has to determine over which period the Company will consume the asset's future economic benefits. The determination of such periods and if necessary, the subsequent revision of such periods, involves judgement and has an impact on the depreciation and amortization recorded in the consolidated statements of operations. The Company takes into account industry trends and Company specific factors, including changing technologies and expectations for the in-service period of assets, when determining their respective useful lives.

Determination of the recoverability of deferred tax assets

Judgement is required in determining whether deferred tax assets are recognised. Deferred tax assets, including those arising from unutilised tax losses require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize deferred tax assets. Deferred tax assets are reviewed at each reporting date based upon the likely timing and the level of the reversal of existing taxable temporary differences, future taxable income and future tax planning strategies. Deferred tax assets are reduced to the extent that in management's judgement it is no longer probable that the related tax benefit will be realized.

Determination of the measurement of government grants and tax credits

Judgement is required in determining when government grants and tax credits are recognized. Government grants and tax credits are recognized when there is reasonable assurance that the Company has complied with the conditions associated with the relevant government program. The determination of reasonable assurance involves judgement due to the complexity of the programs and related claim and review processes.

(e) Disposals of non-current assets and discontinued operations

Non-current assets are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continued use, they are available for sale in their present condition and such sale is considered highly probable. The criteria for a sale to be considered highly probable includes a firm decision by the appropriate level of management or the Board to dispose of a business or a group of assets, such business or group of assets must be actively marketed for a price that is reasonable in relation to their current market value and there must be an expectation that such disposal will be completed within a twelve month period. Assets held for sale are carried at the lower of their carrying amount and FVLCD. Assets held for sale are classified as discontinued operations if the operations and cash flows can be clearly distinguished, both operationally and for financial reporting purposes, from the rest of the Company and they represent a separate major line of business or geographical area of operations, or are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired with the view to resell.

(f) Foreign currency translation

These consolidated financial statements are presented in Canadian dollars, the Company's functional and reporting currency. As at the date of the statement of financial position, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the foreign currency exchange rate in effect at that date. Revenues and expense items are translated at the foreign currency exchange rate in effect when the transaction occurred. The resulting foreign currency exchange gains and losses are recognized in the statement of operations in foreign currency exchange (gains) losses.

(g) Cash

Cash is composed of cash on hand and current balances with banks. Cash not available for immediate use is classified as restricted cash.

(h) Borrowing costs

Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period they are incurred in interest expense in the statement of operations.

(i) Property and equipment

Property and equipment are carried at cost less accumulated depreciation and impairment. Historical cost includes purchase cost, expenditures that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and borrowing costs if applicable.

Depreciation is provided for on a straight line basis over the following useful lives:

Assets	Estimated useful life
Buildings	10 - 40 years
Leaseholds	3 - 20 years
Computer hardware	3 - 5 years
Machinery and equipment	5 - 25 years

The depreciation method, estimates of useful lives and residual values assigned to property and equipment are reviewed at least at each financial year end and if necessary depreciation is adjusted on a prospective basis.

(j) Intangible assets

Finite life intangibles

(i) Software

Costs of internally generated software are composed of all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Internally generated software consists primarily of internal costs in connection with the development of software to be used internally or for providing services to customers. All costs incurred during the research phase are expensed as incurred. Development costs that are attributable to the design and testing are recognized as intangible assets if the asset can be separately identified, it is probable the asset will generate future economic benefits, the development cost can be measured reliably, the project is technically feasible and the project will be completed with a view to use the asset.

Software costs are amortized using the straight line method of amortization over their estimated useful lives, which range from 2 to 10 years. The amortization method and estimates of useful lives ascribed to software are reviewed at least at each financial year end and if necessary amortization is adjusted on a prospective basis.

(ii) Other identifiable intangible assets

Other identifiable intangible assets are recorded at cost and are carried at cost less accumulated amortization and impairment. Other identifiable intangible assets with finite lives are amortized using the straight-line method of amortization over their estimated useful lives, as follows:

Other identifiable intangible assets with finite lives	Estimated useful life
Subscriber lists	5 years
Customer relationships	4-5 years
Domain names	15 years

The amortization method and estimates of useful lives ascribed to other identifiable intangible assets are reviewed at least at each financial year end and if necessary amortization is adjusted on a prospective basis.

Costs associated with purchasing and developing content are expensed as incurred, except for content development on the Company's websites which are capitalized when such costs meet the criteria for capitalization.

Indefinite life intangibles

Intangible assets with indefinite lives are not amortized. These include newspaper mastheads and certain domain names related to the newspaper online websites. The assessment of indefinite life is reviewed each period to determine whether the indefinite life assumption continues to be supportable. If it is deemed unsupported the change in useful life from indefinite to finite life is made and amortization is adjusted on a prospective basis.

(k) Business combinations and goodwill

The Company uses the acquisition method of accounting to record business combinations. The acquisition method of accounting requires the Company to recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree measured at the acquisition-date fair values. The consideration transferred shall be measured at fair value calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, the liabilities assumed by the Company and any equity interests issued by the Company. Contingent consideration is recognized as part of the consideration transferred. Goodwill as of the acquisition date is measured as the excess of the consideration transferred and the amount of any non-controlling interest acquired over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, measured at fair value. Goodwill acquired through a business combination is allocated to the CGU (or group of CGUs) that are expected to benefit from the synergies of the business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment. Acquisition related costs are expensed in the period they are incurred except for those costs to issue equity securities which are offset against the related equity instruments and those costs to issue debt which are offset against the corresponding debt and amortized using the effective interest method. Acquisition related costs include advisory, legal, accounting, valuation and other professional or consulting fees; and costs of registering and issuing debt and securities.

(l) Impairments

Impairments are recorded when the recoverable amount of an asset or CGU is less than its carrying amount. The Company's CGUs are primarily geographical groups of newspapers by city or region, as applicable. The recoverable amount of an asset or CGU is the higher of an asset or CGU's FVLCD or its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses, other than those relating to goodwill, are reviewed for potential reversals when events or changes in circumstances warrant such consideration.

(i) Non-financial assets

The carrying values of non-financial assets with finite lives, except inventories and employee benefit plan net assets are assessed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Additionally, intangible assets with indefinite lives composed of mastheads and newspaper domain names are included in their related CGU, and are tested annually for impairment or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (CGUs). Any corporate assets and cash flows are allocated to the respective CGUs. Non-financial assets other than goodwill that have incurred an impairment in previous periods are reviewed for the potential reversal of the impairment at each reporting date.

(ii) Goodwill

Goodwill is reviewed for impairment annually or more frequently if there are indications that impairment may have occurred. For the purpose of impairment testing, goodwill is allocated to each CGU (or group of CGUs) based on the level at which management monitors goodwill, however not higher than an operating segment. Impairment is determined by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Accordingly, management had allocated its goodwill to its single operating segment, the Newsmedia operating segment. Impairment losses relating to goodwill cannot be reversed in future periods.

(m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable net of any discounts, if applicable. The Company bases any estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the sale of goods is recognized when the following criteria have been met:

- the significant risks and rewards of ownership are transferred to customers, and the Company retains neither managerial involvement nor effective control,
- the amount of revenue can be measured reliably, and
- the receipt of economic benefit is probable and the costs incurred can be measured reliably.

Revenue from the rendering of services is recognized when the following criteria have been met:

- the amount of revenue can be measured reliably,
- the receipt of economic benefit is probable, and
- the stage of completion of the transaction and the costs incurred can be measured reliably.

Print advertising revenue is recognized when advertisements are published. Print circulation revenue includes home-delivery subscriptions and single-copy sales at newsstands and vending machines. Print circulation revenue from subscriptions is recognized on a straight-line basis over the term of the subscriptions. Print circulation revenue from single-copy sales at newsstands and vending machines, net of a provision for estimated returns based on historical rates of returns, is recognized when the newspapers are delivered. Digital revenue is recognized when advertisements are placed on a website or, with respect to certain online advertising, each time a user clicks on certain ads. Digital revenue also includes subscription revenue for digital subscription sales and business research and corporate financial information services and is recognized on a straight-line basis over the term of the subscriptions or contracts. Other revenue is recognized when the related service or product has been delivered.

Amounts received relating to services to be performed in future periods and sale of goods that require future performance are recorded as deferred revenue on the statement of financial position.

(n) Inventory

Inventory, consisting primarily of printing materials, is valued at the lower of cost, using the first-in-first out cost formula, and net realizable value, where net realizable value is determined to be the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale. Reversals of previous write-downs to net realizable value are required when there is a subsequent increase in the value of inventories.

(o) Share-based and other long-term incentive compensation

The Company uses share-based compensation that is settled through the issuance of shares of Postmedia or through cash at the option of the Company and long-term incentive compensation that is settled with cash. The Company uses the graded vesting method to calculate compensation expense for all share-based compensation plans.

(i) Share-based compensation

The Company recognizes compensation expense for all share options granted based on the fair value of the option on the date of grant, net of estimated forfeitures, using the Black-Scholes option pricing model. The fair value of the options is recognized as compensation expense over the vesting period of the options, with a corresponding credit to contributed surplus. The contributed surplus balance is reduced as options are exercised through a credit to capital stock when the options are exercised.

The Company recognizes compensation expense for all restricted share units granted based on the fair value of the Company's shares on the issuance date of each restricted share unit grant net of estimated forfeitures. The fair value of the restricted share units is recognized as compensation expense, over the vesting period of each restricted share unit grant, with a corresponding credit to contributed surplus. Compensation expense is not adjusted for subsequent changes in the fair value of the Company's shares. The contributed surplus balance is reduced as units are exercised through a credit to capital stock.

(ii) Long-term incentive compensation

The Company recognized compensation expense for its former deferred share unit plan based on the fair value of the Company's shares. The deferred share units outstanding were re-measured at each reporting period until settlement, using the fair value of the shares of the Company. The fair value of the deferred share units were recognized as compensation expense, over the vesting period of each deferred share unit grant, with a corresponding credit to employee benefit obligations and other liabilities.

(p) Financial instruments

Financial instruments are classified as fair value through profit or loss, loans and receivables or other financial liabilities.

(i) Fair value through profit or loss

Financial instruments are classified as fair value through profit or loss if acquired principally for the purpose of selling in the short-term, or if so designated by management and it eliminates or significantly reduces a measurement or recognition inconsistency, or is managed and its performance is evaluated on a fair value basis. Assets in this category principally include embedded derivatives and warrants. Financial instruments classified as fair value through profit or loss are carried at fair value with changes recognized in the statement of operations.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category include accounts receivable and cash. Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method, less a provision for impairment. Loans and receivables are included in current assets, except for those with maturities greater than twelve months after the end of the reporting period, which are classified as non-current assets.

(iii) Other financial liabilities

Other financial liabilities include accounts payable and accrued liabilities and long-term debt. Other financial liabilities are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. Other financial liabilities are classified as current liabilities if payment is due within twelve months; otherwise, they are classified as non-current liabilities. Financing fees related to revolving debt arrangements are initially recognized as an other asset and amortized over the term of the arrangement in interest expense.

The effective interest rate is the rate that exactly discounts the estimated future cash flows through the expected life of the financial instrument to its net carrying amount.

(q) Derivative financial instruments and hedging

Periodically, the Company uses derivative financial instruments to manage its exposure to fluctuations in foreign currency rates and interest rates. Derivative financial instruments are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument and the nature of the item being hedged. The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its strategy for using hedges and its risk management objectives. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Non-performance risk, including credit risk, is considered when determining the fair value of derivative financial instruments. The Company does not hold or use any derivatives instruments for trading purposes.

The Company enters into or is a party to the following types of derivative financial instruments:

Embedded derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If certain conditions are met, an embedded derivative is separated from the host contract and measured at fair value in the statement of financial position.

Warrants

A warrant is a derivative financial instrument that grants the owner the right, but not the obligation, to buy or sell a security at a certain price before expiration and is measured at fair value in the statement of financial position.

Changes in the fair value of embedded derivatives and warrants are recorded in the statement of operations as gain or loss on derivative financial instruments.

(r) Provisions

Provisions represent liabilities of the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the current best estimate required to settle the obligation and when necessary the use of estimation techniques are utilized. If the effect of the time value of money is material the provision is measured at the present value of the expected expenditures required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense in the statement of operations.

(s) Employee benefits

(i) Pension and post-retirement obligations

The Company maintains a number of defined contribution and defined benefit pension and defined benefit post-retirement plans. For defined benefit plans, the defined benefit obligation associated with pension and post-retirement benefits earned by employees is actuarially determined on an annual basis by independent actuaries. The determination of benefit expense requires assumptions such as the discount rate to measure the net defined benefit obligations, expected rate of future compensation increases, retirement ages of employees, expected health care cost trend rate and other factors as applicable. The asset or liability recognized in the statement of financial position is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Canadian corporate AA bonds that have terms to maturity which are similar to the terms of the related liability. The estimate of the expected long-term rate of return on plan assets is based on the discount rate of the defined benefit obligation. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized in other comprehensive income and then immediately transferred to deficit. Past service costs from plan amendments are recognized immediately in compensation expense in the statement of operations. The current service cost and past service cost of employee benefits expense is recorded in compensation expense in the statement of operations. The financing expense on the net defined benefit obligations are presented in net financing expense relating to employee benefit plans in the statement of operations. Gains and losses on curtailments or settlements are recognized in the period in which the curtailment or settlement occurs in restructuring and other items in the statement of operations.

The Company's defined benefit pension plans are subject to minimum funding requirements. The liability in respect of minimum funding requirements is determined using the projected minimum funding requirements based on management's best estimates of the actuarially determined funded status of the plan, market discount rates and salary escalation estimates. The liability related to the minimum funding requirement and any subsequent re-measurement of that liability is recognized immediately in other comprehensive income and then immediately transferred to deficit without subsequent reclassification to the statement of operations.

For defined contribution plans, the Company pays contributions to the plan on a contractual basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as an expense in the period when they are earned by the employees.

(ii) Other long-term benefits

The Company maintains a number of other long-term employee benefit plans that are to be settled more than twelve months after the service was provided that entitled the employee to the benefit. These plans are accounted for similarly to the defined benefit pension and post-retirement plans with the exception that actuarial gains and losses are recognized as incurred in the statement of operations.

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary termination in exchange for these benefits. The Company recognises termination benefits when the Company has a detailed formal plan, approved by management, to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary termination, the termination benefits are measured based on the number of employees expected to accept the offer. If the effect of the time value of money is material, benefits falling due more than twelve months after the end of the reporting period are discounted to present value.

(t) Income taxes

Current income taxes are recognized with respect to amounts expected to be paid or recovered for current and prior periods under the tax rates and laws that have been enacted or substantively enacted as at the date of the statement of financial position.

Deferred income taxes are accounted for using the liability method. Under this method, deferred income tax assets and liabilities are recognized for the estimated tax consequences attributable to differences between the carrying amounts in the consolidated financial statements and the tax bases of assets and liabilities. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable income or loss. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates, as at the date of the statement of financial position, in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in income in the period that includes the substantive enactment date. A deferred tax asset is recognized initially when it is probable that future taxable income will be sufficient to use the related tax benefits and may be subsequently reduced, if necessary, to an amount that is probable of being realized. In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Tax expense or recovery is recognized in other comprehensive income or otherwise directly in equity to the extent that it relates to items that are recognized in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are presented as non-current.

(u) Government grants and tax credits

Government grants and refundable tax credits related to digital media development products are recognized when there is reasonable assurance that the Company has complied with the conditions associated with the relevant government program. These programs are recorded as either a reduction to the carrying amount of the related asset or as a recovery in the statement of operations. Government grants and tax credits receivable are recorded as accounts receivable in the statement of financial position.

(v) Leases

Leasing agreements which transfer to the Company substantially all the benefits and risks of ownership of an asset are treated as finance leases, as if the asset had been purchased outright. The assets are included in property and equipment and the related liabilities are recorded in employee benefit obligations and other liabilities. Assets held under finance leases are depreciated on a basis consistent with similar owned assets or the lease term if shorter. The interest element of the obligations under finance leases is included in the statement of operations within interest expense.

All other leases are operating leases and the rental costs are charged to the statement of operations on a straight-line basis over the lease term.

(w) Earnings per share

Basic earnings per share are calculated using the daily weighted average number of shares outstanding during the period.

Diluted earnings per share are calculated using the daily weighted average number of shares that would have been outstanding during the period had all potential common shares been issued at the beginning of the period, or when the underlying options were granted, if later. The treasury stock method is employed to determine the incremental number of shares that would have been outstanding had the Company used proceeds from the exercise of the options to acquire shares provided the shares are not anti-dilutive.

Accounting standards issued but not yet effective

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

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. The standard is required to be applied for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

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.

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.

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 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 performance including 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 of the Recapitalization Transaction resulting in a total of \$225.0 million First-Lien Notes outstanding. In addition, First-Lien Notes were amended and restated such that the maturity date was extended to July 15, 2021.

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.

As part of the Plan of Arrangement, the Class C voting shares ("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 (note 16).

During the year ended August 31, 2017, a gain on debt settlement of \$78.6 million was recognized in the consolidated statements of operations and represents the difference between the carrying value of the Second-Lien Notes of \$354.1 million that were settled through the issuance of Shares 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 year ended August 31, 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 (2016 - \$8.9 million). 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 (note 18).

5. DIVESTITURE AND DISCONTINUED OPERATIONS

On June 22, 2017, the Company entered into an asset purchase agreement with Meltwater News Canada Inc. to sell Infomart, its media monitoring division, for gross proceeds of approximately \$38.3 million subject to closing adjustments, including adjustments related to certain consents (the "Infomart Transaction"). 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 includes the entering into of a transition support agreement for a period of up to 18 months. The Infomart Transaction closed on August 15, 2017.

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

Disposal proceeds	
Sale price	38,250
Deferred revenue on closing	(764)
Transaction costs	(1,094)
Net proceeds ⁽¹⁾	36,392
Estimated closing adjustments (note 13)	769
Estimated proceeds	35,623
Carrying value of current liabilities disposed	
Deferred revenue	764
Gain on sale of discontinued operations, net of tax of nil	36,387

⁽¹⁾ An amount of \$5.7 million, equal to 15% of the purchase price, was paid into escrow to satisfy closing adjustments arising under the purchase agreement for a period of up to 18 months (note 6). The remaining net proceeds of the Infomart Transaction will be used to redeem a portion of the First-Lien notes at par in accordance with the terms and conditions of the amended and restated First-Lien notes indenture. Subsequent to August 31, 2017, the Company used \$30.6 million to redeem \$29.6 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$1.0 million (note 6).

As a result of the Infomart Transaction, the Company has presented the results of Infomart as discontinued operations and as such, the consolidated statement of operations and consolidated statement of comprehensive loss have been revised to reflect this change in presentation. The consolidated statements of financial position as at August 31, 2016 and the consolidated statement of cash flows for the year ended August 31, 2016 have not been revised.

Net earnings from discontinued operations for the years ended August 31, 2017 and 2016 are summarized as follows:

	2017 ⁽¹⁾	2016
Revenues		
Digital	15,500	16,779
Expenses		
Compensation	2,197	2,771
Other operating	5,779	5,797
Operating income before depreciation, amortization, impairment and restructuring (note 3)	7,524	8,211
Gain on sale of discontinued operations	(36,387)	-
Earnings before income taxes	43,911	8,211
Provision for income taxes (note 18)	-	-
Net earnings from discontinued operations	43,911	8,211

⁽¹⁾ The Infomart Transaction was completed on August 15, 2017, as a result net earnings from discontinued operations for the year ended August 31, 2017 relate only to the period from September 1, 2016 to August 15, 2017.

Cash flows from discontinued operations for the years ended August 31, 2017 and 2016 are summarized as follows:

	2017	2016
Cash flows from operating activities	7,524	8,211
Cash flows from investing activities ⁽¹⁾	(7,524)	(8,211)
Cash flows from financing activities	-	-
Cash flows from discontinued operations	-	-

⁽¹⁾ The cash flows from discontinued operations are transferred to the Company through a centralized cash management system resulting in cash flows from discontinued operations for the period ended August 31, 2017 and the year ended August 31, 2016 of nil.

6. RESTRICTED CASH

Pursuant to the amended and restated First-Lien Notes 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.

	Restricted Cash
August 31, 2015 ⁽¹⁾	25,373
First-Lien Notes payment ⁽²⁾	(6,717)
Purchases of property and equipment and intangible assets ⁽²⁾⁽³⁾	(13,916)
Interest earned	64
August 31, 2016	4,804
Release of funds on completion of the Recapitalization Transaction ⁽⁴⁾	(4,804)
Net proceeds on sale of assets ⁽⁵⁾	71,334
First-Lien Notes payment ⁽⁶⁾	(3,583)
August 31, 2017	67,751

⁽¹⁾ Pursuant to the First-Lien Notes indenture, any net proceeds from an asset disposition in excess of \$10.0 million shall be deemed as mandatory offer collateral proceeds and would be used to make an offer to redeem an equal amount of First-Lien Notes, while any net proceeds from an asset disposition of more than \$5.0 million but less than \$10.0 million are restricted to use in that they must be reinvested in the business. As at August 31, 2015, net proceeds of \$17.2 million and \$8.2 million related to the sales of the Vancouver newspapers and the Edmonton Journal production facilities, respectively, were recorded as restricted cash on the consolidated statement of financial position.

⁽²⁾ During the year ended August 31, 2016, \$6.7 million of restricted cash related to the Vancouver newspapers production facility was used to redeem \$6.5 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$0.2 million. In addition, during the year ended August 31, 2016, \$5.7 million was reinvested in the business through the purchase of property and equipment and intangible assets.

⁽³⁾ During the year ended August 31, 2016, \$8.2 million of restricted cash related to the Edmonton Journal production facility was reinvested in the business through the purchase of property and equipment and intangible assets.

⁽⁴⁾ The restricted cash of \$4.8 million was being held in trust by the Second-Lien Notes noteholders and was released to the Company upon completion of the Recapitalization Transaction on October 5, 2016.

⁽⁵⁾ During the year ended August 31, 2017, the Company sold property and equipment for net proceeds of \$35.0 million (note 10). In addition, the Company received \$36.3 million related to the Infomart Transaction of which \$5.7 million was paid into escrow to satisfy closing adjustments arising under the purchase agreement for a period of up to 18 months (note 5).

⁽⁶⁾ During the year ended August 31, 2017, a portion of the net proceeds related to the asset sales of \$3.6 million were used to redeem \$3.5 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$0.1 million. Subsequent to August 31, 2017, the Company used \$62.1 million to redeem \$60.0 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$2.1 million (note 25).

7. IMPAIRMENT OF GOODWILL AND LONG LIVED ASSETS

The Company's impairments for the years ended August 31, 2017 and 2016 consist of the following:

	2017	2016
Goodwill	-	88,389
Intangible assets - mastheads (note 11)	10,100	142,129
Intangible assets - domain names (note 11)	1,776	17,331
Intangible assets - subscriber lists (note 11)	7,282	19,851
Property and equipment - land (note 12)	2,000	-
Property and equipment - building (note 12)	4,600	-
Impairments	25,758	267,700

As at May 31, 2017 and 2016, the Company completed its annual impairment testing of goodwill and indefinite life intangible assets ("Annual Impairment Tests"). In addition to the Annual Impairment Tests, as a result of continued economic and structural factors in the industry, including the uncertainty of the print advertising market and the rapidly evolving digital advertising market, the Company performed interim impairment tests ("Interim Impairment Tests"). The recoverable amounts for all tests 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 Annual Impairment Tests and the Interim Impairment Tests, 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 year ended August 31, 2017 of \$25.8 million which was allocated to its mastheads, domain names, subscriber lists, land and building of \$10.1 million, \$1.8 million, \$7.3 million, \$2.0 million and \$4.6 million, respectively, within the individual CGUs (2016 – mastheads, domain names and subscriber lists of \$142.1 million, \$17.3 million and \$19.9 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 however an individual asset cannot not be reduced below the higher of its recoverable amount and zero. If the market multiple were to decrease or increase by 0.5 times, the impairment would increase or decrease approximately \$8.5 million and nil, respectively.

Impairment of goodwill

As a result of the impairment tests as at February 29, 2016 and August 31, 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 is monitored by management at the level of the Company's single operating segment. As a result the Company recorded a goodwill impairment charge for the year ended August 31, 2016 of \$88.4 million.

Changes to goodwill for the year ended August 31, 2016 are as follows:

	Goodwill
August 31, 2015	88,474
Measurement period adjustment	(85)
Impairment ⁽¹⁾	(88,389)
August 31, 2016	-

⁽¹⁾ During the year ended August 31, 2016, the Company received \$3.8 million related to income taxes receivable, of which \$3.7 million was estimated as part of the identifiable assets acquired resulting in a decrease to the goodwill acquired of \$0.1 million.

There were no tax impacts as a result of the impairment charges. The FVLCD measurements would 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.

8. DERIVATIVE FINANCIAL INSTRUMENTS

	As at August 31, 2017	As at August 31, 2016
Assets		
Warrants ⁽¹⁾ (note 20)	1,265	298
Non-current derivative financial instruments	1,265	298

The Company's (gain) loss on derivative financial instruments for the years ended August 31, 2017 and 2016 consists of the following:

	2017	2016
Loss on embedded derivatives (notes 14 and 20)	-	2,093
(Gain) loss on warrants ⁽¹⁾ (note 20)	(967)	902
(Gain) loss on derivative financial instruments	(967)	2,995

⁽¹⁾ 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. In addition, Mogo paid a set-up fee of \$1.2 million which is being recognized as revenue over the term of the agreement. During the year ended August 31, 2017, the Company recognized a gain of \$1.0 million (2016 – loss of \$0.9 million) related to the warrants which is included in (gain) loss on derivative financial instruments in the consolidated statements of operations.

9. INVENTORY

	As at August 31, 2017	As at August 31, 2016
Newsprint	3,001	3,357
Other	3,000	3,679
Total inventory	6,001	7,036

No inventories were carried at net realizable value at August 31, 2017 and 2016.

10. PROPERTY AND EQUIPMENT

	Buildings and Computer Machinery and leaseholds hardware equipment				Total
Cost	Land	leaseholds	hardware	equipment	Total
August 31, 2015	51,337	162,440	25,645	174,700	414,122
Additions	-	2,880	5,484	3,372	11,736
Disposals	(423)	(2,234)	(753)	(62,732)	(66,142)
August 31, 2016	50,914	163,086	30,376	115,340	359,716
Additions	-	1,779	641	1,163	3,583
Disposals ⁽¹⁾	(8,004)	(29,965)	(617)	(6,220)	(44,806)
Transfer - asset held for sale ⁽²⁾	(2,713)	(6,248)	-	-	(8,961)
August 31, 2017	40,197	128,652	30,400	110,283	309,532
Accumulated depreciation and accumulated impairment losses					
August 31, 2015	-	(34,528)	(13,136)	(91,947)	(139,611)
Depreciation	-	(9,856)	(4,924)	(7,238)	(22,018)
Disposals	-	475	753	62,671	63,899
August 31, 2016	-	(43,909)	(17,307)	(36,514)	(97,730)
Depreciation	-	(9,737)	(5,181)	(8,227)	(23,145)
Disposals ⁽¹⁾	-	5,199	617	6,216	12,032
Impairments (note 7)	(2,000)	(4,600)	-	-	(6,600)
Transfer - asset held for sale ⁽²⁾	-	669	-	-	669
August 31, 2017	(2,000)	(52,378)	(21,871)	(38,525)	(114,774)
Net carrying value					
August 31, 2016	50,914	119,177	13,069	78,826	261,986
August 31, 2017	38,197	76,274	8,529	71,758	194,758

⁽¹⁾ During the year ended August 31, 2017, the Company sold the Islington production facility for gross proceeds of \$30.5 million and realized a gain on sale of property and equipment of \$2.0 million in the consolidated statement of operations. The net proceeds of \$30.3 million from the sale of the land and building is classified as restricted cash on the consolidated statement of financial position (note 6).

⁽²⁾ Subsequent to August 31, 2017, the Company sold an additional property for gross proceeds of \$10.5 million. As a result, the Company has classified the land and building as held for sale in the consolidated statement of financial position as at August 31, 2017. On October 23, 2017, the net proceeds of \$9.9 million from the sale of the land and building will be used to redeem \$9.5 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$0.4 million (note 25).

11. INTANGIBLE ASSETS

	Finite Life			Indefinite Life			Total
	Software	Subscriber lists	Customer relationships	Domain names	Mastheads	Domain names	
Cost							
August 31, 2015	76,453	206,200	17,634	7,687	271,700	31,557	611,231
Additions	3,973	-	-	-	-	-	3,973
Acquisition ⁽¹⁾	1,000	-	-	-	-	-	1,000
Disposals	(350)	-	-	-	-	-	(350)
August 31, 2016	81,076	206,200	17,634	7,687	271,700	31,557	615,854
Additions	2,210	-	-	-	-	-	2,210
Disposals	(2,559)	-	(9,850)	-	-	-	(12,409)
August 31, 2017	80,727	206,200	7,784	7,687	271,700	31,557	605,655
Accumulated amortization and accumulated impairment losses							
August 31, 2015	(46,144)	(150,239)	(12,392)	(2,699)	(79,850)	(6,513)	(297,837)
Amortization	(8,093)	(12,061)	(1,435)	(330)	-	-	(21,919)
Impairments (note 7)	-	(19,851)	-	(2,833)	(142,129)	(14,498)	(179,311)
Disposals	350	-	-	-	-	-	350
August 31, 2016	(53,887)	(182,151)	(13,827)	(5,862)	(221,979)	(21,011)	(498,717)
Amortization	(7,934)	(5,016)	(1,450)	(176)	-	-	(14,576)
Impairments (note 7)	-	(7,282)	-	-	(10,100)	(1,776)	(19,158)
Disposals	2,559	-	9,850	-	-	-	12,409
August 31, 2017	(59,262)	(194,449)	(5,427)	(6,038)	(232,079)	(22,787)	(520,042)
Net carrying value							
August 31, 2016	27,189	24,049	3,807	1,825	49,721	10,546	117,137
August 31, 2017	21,465	11,751	2,357	1,649	39,621	8,770	85,613

⁽¹⁾ On February 29, 2016, the Company acquired the assets of Start23 Inc. for cash consideration of \$1.0 million. The purchase includes the Ampifii software, which allows marketers to spread their content and message across a variety of networks. The purchase price was allocated to intangible assets on the consolidated statement of financial position.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at August 31, 2017	As at August 31, 2016
Trade accounts payable	13,675	12,105
Accrued liabilities	38,771	47,396
Accrued interest on long-term debt	7,332	30,348
Accounts payable and accrued liabilities	59,778	89,849

13. PROVISIONS

	Restructuring ^(a)	Unoccupied leases (a)	Other provisions ^(b)	Total
Provisions as at August 31, 2015	18,392	-	596	18,988
Charges (recoveries)	29,817	3,837	(192)	33,462
Payments	(32,379)	(2,560)	(47)	(34,986)
Provisions as at August 31, 2016	15,830	1,277	357	17,464
Charges (recoveries)	50,009	434	489	50,932
Payments	(43,574)	(308)	(17)	(43,899)
Provisions as at August 31, 2017	22,265	1,403	829	24,497
Portion due within one year	(22,265)	(1,135)	-	(23,400)
Non-current provisions	-	268	829	1,097

(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. During the year ended August 31, 2016, the Company incurred restructuring expense of \$29.8 million which include both involuntary and voluntary buyouts as well as a provision for onerous leases related to unoccupied property of \$3.8 million related to these initiatives.

During the year ended August 31, 2017, the Company began new initiatives that included a Company-wide voluntary buyout program and incurred restructuring expense of \$50.0 million which include both involuntary and voluntary buyouts as well as a provision for onerous leases related to unoccupied property of \$0.4 million.

(b) Other provisions

Other provisions include provisions for certain claims and grievances which have been asserted against the Company and the closing adjustments related to the Infomart Transaction.

14. LONG-TERM DEBT

				As at August 31, 2017	As at August 31, 2016
	Maturity	Principal	Financing fees, discounts and other	Carrying value of debt	Carrying value of debt
8.25% Senior Secured Notes ⁽¹⁾	July 2021	221,493	(966)	220,527	301,045
10.25% Senior Secured Notes (US\$97.0M) ⁽²⁾	July 2023	121,547	(811)	120,736	N/A
12.5% Senior Secured Notes (US\$268.6M) ⁽³⁾	July 2018	N/A	N/A	N/A	352,103
Senior Secured Asset-Based Revolving Credit Facility ⁽⁴⁾	January 2019	-	-	-	N/A
Total long-term debt				341,263	653,148
Portion due within one year				(79,502)	(301,045)
Non-current long-term debt				261,761	352,103

(*) - US\$ principal translated to the Canadian equivalent based on the foreign exchange rate on August 31, 2017 of US\$1:\$1.2536 (August 31, 2016 - US\$1:\$1.3116).

(1) 8.25% Senior Secured Notes due 2017 (“First-Lien Notes”)

As at August 31, 2017, Postmedia Network has \$221.5 million of First-Lien Notes outstanding (August 31, 2016 - \$302.8 million). On October 5, 2016, the Company refinanced the First-Lien Notes as part of the Recapitalization Transaction which included a redemption of \$77.8 million aggregate principal amount of First-Lien Notes at par, plus accrued interest, resulting in a total of \$225.0 million First-Lien Notes outstanding. In addition, the maturity date of the First-Lien Notes were extended to July 15, 2021 and are subject to semi-annual mandatory principal redemptions equal to 50% of excess cash flow, calculated as per the terms of the amended and restated First-Lien Notes indenture, with a minimum of \$10.0 million annually (note 4). During the year ended August 31, 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. In addition, during the year ended August 31, 2017, the Company redeemed \$3.5 million aggregate principal amount of First-Lien Notes with the net proceeds from asset dispositions (note 6). Subsequent to August 31, 2017, the Company used the net proceeds from asset dispositions of \$62.5 million to redeem \$60.0 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$2.5 million (note 6). On October 23, 2017, the net proceeds from an additional asset disposition will be used to redeem \$9.5 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$0.4 million (notes 6 and 10). 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% (2016 – 9.3%). The First-Lien Notes are secured on a first priority basis by substantially all of the assets of Postmedia Network and the assets of the Company (“First-Lien Notes Collateral”). Although the First-Lien Notes were refinanced and the maturity was extended as part of the Recapitalization Transaction, they were classified as current liabilities as at August 31, 2016 based on their original contractual maturity of August 15, 2017.

Prior to the Recapitalization Transaction, the First-Lien Notes were subject to minimum annual principal redemptions equal to 5% of the aggregate original principal amount of \$389.3 million payable in semi-annual instalments of \$9.7 million on April 30 and October 31 of each year. In addition, interest was payable semi-annually in arrears on April 30 and October 31 of each year. After February 28, 2013, and for each subsequent quarter ending February and August, if the consolidated First-Lien Notes leverage ratio exceeded 2:1, the Company was obligated to make a mandatory First-Lien Notes excess cash flow offer, calculated based on 50% of the Company's excess cash flow provided this amount was at least 1% of the original issuance. The Company did not make any excess cash flow offers, however, during the year ended August 31, 2016, the proceeds from the sale of the Vancouver newspapers production facility of \$17.2 million were used to make an offer to redeem an equal amount of First-Lien Notes which resulted in a redemption of \$6.5 million aggregate principal amount of First-Lien Notes (note 6). In addition, the Company had the option to redeem all or part of the First-Lien Notes at a premium of 4.125% for the twelve month period beginning on August 16, 2016. This prepayment option represented an embedded derivative that was accounted for separately at fair value. During the year ended August 31, 2016 the Company recorded a loss of \$2.0 million in loss on derivative instruments in the consolidated statement of operations related to this embedded derivative (note 8).

The First-Lien Notes are also subject to covenants that restrict the Company's ability to incur additional indebtedness, pay dividends or make other distributions or repurchase or redeem certain indebtedness or capital stock, make loans and investments, sell assets, incur certain liens, enter into certain transactions with affiliates, alter the businesses it conducts, enter into agreements restricting its subsidiaries' ability to pay dividends and consolidate, merge or sell all or substantially all of its assets.

(2) 10.25% Senior Secured Notes due 2018 ("New Second-Lien Notes")

As at August 31, 2017, Postmedia Network has US\$97.0 million (\$121.5 million) of New Second-Lien Notes outstanding (August 31, 2016 – nil). On October 5, 2016, the Company issued US\$88.6 million (\$115.5 million) of 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 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 option to pay 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. During the year ended August 31, 2017, the Company issued additional New Second-Lien Notes in the amount of US\$8.4 million (\$10.6 million) related to paid-in-kind interest for the period from October 5, 2016 to July 31, 2017 as per the terms of the New Second-Lien Notes indenture. During the year ended August 31, 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 of the Second-Lien Notes which amortizes the initial financing fees based on the estimated initial cash flows is 11.6%. There were no redemptions of New Second-Lien Notes during the year ended August 31, 2017. The New Second-Lien Notes are secured on a second priority basis by the First-Lien Notes Collateral.

The New Second-Lien Notes are subject to covenants that restrict the Company's ability to incur additional indebtedness, pay dividends or make other distributions or repurchase or redeem certain indebtedness or capital stock, make loans and investments, sell assets, incur certain liens, enter into certain transactions with affiliates, alter the businesses it conducts, enter into agreements restricting its subsidiaries' ability to pay dividends and consolidate, merge or sell all or substantially all of its assets.

(3) 12.50% Senior Secured Notes due 2018 ("Second-Lien Notes")

As at August 31, 2016, Postmedia Network had US\$268.6 million (CDN\$352.3 million) of Second-Lien Notes outstanding. On October 5, 2016, the Company refinanced the Second-Lien Notes as part of the Recapitalization Transaction which included an exchange of the Second-Lien Notes for Variable Voting Shares and the payment of accrued interest originally due on July 15, 2016 of \$21.9 million (US\$16.8 million) in cash. The effective interest rate of the Second-Lien Notes which amortized the aggregate initial financing fees based on the initial estimated future cash flows was 13.3%. The Second-Lien Notes were secured on a second priority basis by the First-Lien Notes Collateral. There were no redemptions of Second-Lien Notes during the year ended August 31, 2016.

The Second-Lien Notes had a variable prepayment option subject to a premium of 3.125% for the period July 15, 2015 to July 14, 2016. The prepayment option represented an embedded derivative that was accounted for separately at fair value. During the year ended August 31, 2016 the Company recorded a loss of \$0.1 million in loss on derivative financial instruments in the consolidated statement of operations related to this embedded derivative (note 8).

The Second-Lien Notes were subject to covenants that restrict the Company's ability to incur additional indebtedness, pay dividends or make other distributions or repurchase or redeem certain indebtedness or capital stock, make loans and investments, sell assets, incur certain liens, enter into certain transactions with affiliates, alter the businesses it conducts, enter into agreements restricting its subsidiaries' ability to pay dividends and consolidate, merge or sell all or substantially all of its assets.

(4) Senior secured asset-based revolving credit facility

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, which may be increased by up to \$10.0 million at the request of the Company and the consent of the lender. On October 19, 2017, the ABL Facility was increased to an aggregate amount of up to \$25.0 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. 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. As at August 31, 2017, the Company has no amounts drawn on the ABL Facility and during the year ended August 31, 2017 incurred \$0.1 million of interest expense.

Principal undiscounted minimum payments of long-term debt, based upon terms and conditions existing at August 31, 2017 are as follows:

2018	79,502
2019	10,000
2020	10,000
2021	121,991
2022	-
2023	121,547
Thereafter	-
	343,040

Aggregate interest expense relating to long-term debt for the year ended August 31, 2017 was \$32.7 million (2016 - \$72.7 million).

15. 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 as well as a defined contribution pension benefit plan. The defined benefit pension plans are registered under the Ontario Pension Benefits Act, 1987 and provide benefits upon retirement, termination or death based upon years of service and final average salary. The post-retirement benefit plans are non-contributory and include health and life insurance benefits available to eligible retired employees. The other long-term benefit plans are non-contributory and include disability, health and life insurance benefits available to eligible active employees. The Company pays contributions to the defined contribution pension benefit plan which provides benefits upon retirement to eligible employees.

The net defined benefit plan obligation related to the Company's pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans recorded in other non-current liabilities on the consolidated financial position as at August 31, 2017 and 2016 are as follows:

	As at August 31, 2017	As at August 31, 2016
Pension benefits	30,504	104,667
Post-retirement benefits	39,548	57,135
Other long-term employee benefits	15,941	23,339
Net defined benefit plan obligation	85,993	185,141

Changes to the Company's pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans benefit obligations and the fair value of plan assets for the years ended August 31, 2017 and 2016 are as follows:

	Pension benefits		Post-retirement benefits		Other long-term employee benefits	
	2017	2016	2017	2016	2017	2016
Change in benefit obligations						
Benefit obligations, beginning of year	580,025	498,035	57,135	65,202	23,339	22,140
Current service cost	18,711	13,880	1,257	1,496	2,009	1,782
Interest cost	18,492	20,541	1,742	2,613	574	656
Employee contributions	2,415	3,240	-	-	-	-
Actuarial losses (gains)	(67,755)	72,250	(4,210)	(9,425)	(5,258)	1,344
Benefits paid	(44,139)	(27,921)	(2,471)	(2,751)	(2,739)	(2,583)
Acquisition ⁽¹⁾	35,307	-	-	-	-	-
Curtailement gains ⁽²⁾	(8,863)	-	(13,905)	-	(1,984)	-
Benefit obligations, end of year	534,193	580,025	39,548	57,135	15,941	23,339
Change in fair value of plan assets						
Fair value of plan assets, beginning of year	475,358	441,382	-	-	-	-
Expected return on plan assets ⁽³⁾	15,573	18,012	-	-	-	-
Actuarial gains (losses)	139	26,009	-	-	-	-
Employer contributions	16,384	15,700	2,471	2,751	2,739	2,583
Employee contributions	2,415	3,240	-	-	-	-
Benefits paid	(44,139)	(27,921)	(2,471)	(2,751)	(2,739)	(2,583)
Administration costs	(924)	(1,064)	-	-	-	-
Acquisition ⁽¹⁾	38,883	-	-	-	-	-
Fair value of plan assets, end of year	503,689	475,358	-	-	-	-
Net defined benefit plan obligations						
Benefit obligations	534,193	580,025	39,548	57,135	15,941	23,339
Fair value of plan assets	503,689	475,358	-	-	-	-
Net defined benefit plan obligations ⁽⁴⁾	30,504	104,667	39,548	57,135	15,941	23,339

⁽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 February and April 2017, FSCO approved asset transfers of \$38.9 million related to three of the four plans, which were completed in the year ended August 31, 2017 and as a result the Company has assumed the related defined benefit obligation of \$35.3 million. In addition, the Company agreed to reimburse the seller for any special payments made prior to the completion of all asset transfers and accordingly in the year ended August 31, 2017 paid \$0.7 million (2016 - \$0.4 million). The net defined benefit plan asset related to the benefits accrued prior to April 13, 2015 for the remaining plan is estimated to be \$1.4 million as at August 31, 2017 (August 31, 2016 - \$4.3 million), are excluded from above and are recorded in other assets in the consolidated statement of financial position.

⁽²⁾ 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. In addition, on April 19, 2017, the Company reached an agreement with certain union employees to discontinue retiree benefits for active employees effective December 31, 2017 and cease compensation increases for employees on the Company's self-insured long-term disability plan. As a result of these plan amendments, during the year ended August 31, 2017, the Company recorded a curtailment gain in restructuring and other items in the consolidated statement of operations of \$24.8 million. Employees currently enrolled in defined benefit pension plans will be eligible to enroll in defined contribution pension plans.

⁽³⁾ The actual return on plan assets for the year ended August 31, 2017 was \$15.7 million (2016 - \$44.0 million).

⁽⁴⁾ As at August 31, 2017 and 2016, none of the Company's seven pension benefit plans were fully funded.

The investment strategy for pension plan assets is to utilize a balanced mix of equity and fixed income portfolios to earn a long-term investment return that meets the Company's pension plan obligations. Active management strategies and style diversification strategies are utilized for the equity portfolios in anticipation of realizing investment returns in excess of market indices. The Compensation and Pension Committee, composed of certain members of the Company's Board oversees and monitors the management and overall governance of the pension and retirement plans sponsored and administered by the Company. The Compensation and Pension Committee, among other things, oversees the investment strategy for the pension plan assets, including adopting the Company's investment policy and monitoring compliance with the policy, appoints the investment fund managers and reviews their performance. The utilization of investment fund managers who adopt different style mandates allows the Company to achieve a diversified portfolio and reduce portfolio risks.

The Company's investment policy addresses the permitted and prohibited investments for the plan assets including restrictions on the fixed income quality, and quantity of investments in various asset classes as follows:

- The fixed income quality restrictions include a minimum rating of "BBB" from the Dominion Bond Rating Services or equivalent for bonds and debentures; a minimum rating of "R1" from the Dominion Bond Rating Services or equivalent for short-term investments; and a minimum rating of "P1" or equivalent for preferred stock.
- The quantity of investments allowed in various asset classes ranges from 0% to 45% and contains restrictions such that no single equity holding shall exceed 10% of the market value of plan assets, no single equity holding shall exceed 15% of the market value of an investment managers equity portfolio, no single equity holding will exceed 30% of the voting shares of any such corporation, no more than 10% of any investment managers bond portfolio may be invested in bonds of any company other than bonds of the federal government or bonds of any provincial governments with a minimum rating of AA and no more than 15% of the market value of any investment managers bond portfolio may be invested in bonds with a rating of BBB or equivalent.
- Investment managers are prohibited from making direct investments in resource properties, mortgages, venture capital financing, bonds of foreign issuers, investing in companies for the purposes of managing them, purchasing securities on margin or making short sales.
- The pension plans are not permitted to directly invest in debt or equity securities of the Company.

The pension benefit plans of the Company have an asset mix as at August 31, 2017 and 2016, as follows:

	As at August 31, 2017	As at August 31, 2016	Target	Fair value hierarchy (note 21)
Canadian equities	30%	29%	30%	Level 2
Foreign equities	33%	32%	30%	Level 2
Fixed income	37%	39%	40%	Level 2
Cash	0%	0%	0%	Level 1

The net employee benefit plan costs related to the Company's pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans reported in net earnings (loss) in the consolidated statements of operations for the years ended August 31, 2017 and 2016 are as follows:

	Pension benefits		Post-retirement benefits		Other long-term employee		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Current service cost	18,711	13,880	1,257	1,496	2,009	1,782	21,977	17,158
Administration costs	924	1,064	-	-	-	-	924	1,064
Net actuarial (gains) losses	-	-	-	-	(5,258)	1,344	(5,258)	1,344
Curtailement gains	(8,863)	-	(13,905)	-	(1,984)	-	(24,752)	-
Net financing expense	2,919	2,529	1,742	2,613	574	656	5,235	5,798
Net defined benefit plan expense (recovery) ⁽¹⁾	13,691	17,473	(10,906)	4,109	(4,659)	3,782	(1,874)	25,364
Employer contributions to defined contribution plans	4,552	5,068	-	-	-	-	4,552	5,068
Total plan expense (recovery)	18,243	22,541	(10,906)	4,109	(4,659)	3,782	2,678	30,432

⁽¹⁾ 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. Curtailement gains are included in restructuring and other items in the consolidated statement of operations.

Actuarial gains (losses) related to the Company's pension benefit plans and post-retirement benefit plans recognized in the consolidated statements of comprehensive income (loss) for the years ended August 31, 2017 and 2016 are as follows:

	Pension benefits		Post-retirement		Total	
	2017	2016	2017	2016	2017	2016
Net actuarial gains (losses) on employee benefits	67,894	(46,241)	4,210	9,425	72,104	(36,816)
Net actuarial gains (losses) recognized in other comprehensive income (loss)	67,894	(46,241)	4,210	9,425	72,104	(36,816)

The cumulative actuarial gains (losses) related to the Company's pension benefit plans and post-retirement benefit plans recognized directly in deficit in the consolidated statement of financial position as at August 31, 2017 are as follows:

	2017
Cumulative actuarial losses recognized directly in deficit as at August 31, 2016	(58,557)
Net actuarial gains recognized in other comprehensive income (loss) and deficit	72,104
Cumulative actuarial gains recognized directly in deficit as at August 31, 2017	13,547

Significant actuarial assumptions used in measuring the Company's benefit obligations as at August 31, 2017 and 2016 and employee benefit plan expense for the years ended August 31, 2017 and 2016 are as follows:

	Pension benefits		Post-retirement benefits ⁽¹⁾		Other long-term employee benefits	
	2017	2016	2017	2016	2017	2016
Benefit obligations ⁽²⁾						
Discount rate ⁽³⁾	3.60%	3.10%	3.65%	3.05%	2.70%	2.40%
Rate of compensation increase	2.65%	2.75%	2.75%	2.75%	N/A	5.00%
	2017	2016	2017	2016	2017	2016
Benefit plan expense						
Discount rate	3.10%	4.05%	3.05%	4.00%	2.40%	2.90%
Rate of compensation increase	2.75%	2.75%	2.75%	2.75%	5.00%	5.00%

⁽¹⁾ The assumed health care cost trend rates for the next year used to measure the expected cost of benefits covered for the post-retirement benefit health and life plans were 6.0% for medical, with an ultimate rate of 4.5% over 7 years to 2024.

⁽²⁾ As at August 31, 2017 and 2016, the duration of the pension, post-retirement and other long term employee benefit obligation was 14, 15 and 5 years, respectively.

⁽³⁾ A change in the discount rate used in the valuation of defined benefit obligations, affects the reported funded status of the Company's plans as well as the net benefit cost in subsequent years. As at August 31, 2017, a 50 basis-point decrease in the discount rate would increase the pension, post-retirement and other long-term employee benefit obligations by \$38.4 million, \$2.5 million and \$0.3 million, respectively, and a 50 basis-point increase in the discount rate would decrease the pension, post-retirement and other long-term employee defined benefit obligations by \$34.5 million, \$2.6 million and \$0.4 million, respectively.

The most recently filed actuarial funding valuations for the most significant pension benefit plans were as of December 31, 2016 and indicated they had an aggregate going concern actuarial surplus of \$68.1 million and a wind up deficiency (which assumes that the pension plans terminate on their actuarial valuation date) of \$50.4 million. The Company expects to contribute \$7.0 million (including special payments of \$3.9 million) to its defined benefit pension plans, \$2.6 million to its post-retirement benefit plans and \$2.8 million to its other long-term employee benefit plans for the year ending August 31, 2018. The Company's next required actuarial funding valuations for its existing defined benefit pension plans will be as at April 13, 2018 and December 31, 2019 and must be complete by January 13, 2019 and September 30, 2020.

16. CAPITAL STOCK

The Company's shares trade on the Toronto Stock Exchange ("TSX") under the symbols PNC.A for its Voting Shares and PNC.B for its Variable Voting Shares. On October 5, 2016, the Company completed a Share Consolidation and issued an additional 91,842,855 of Variable Voting Shares as part of the Recapitalization Transaction (note 4).

Authorized capital stock

The Company's authorized capital stock consists of two classes; Voting Shares and Variable Voting Shares. The Company is authorized to issue an unlimited number of Voting Shares and Variable Voting Shares.

Voting Shares

Holders of the Voting Shares shall be entitled to one vote at all meetings of shareholders of the Company. The Voting Shares and Variable Voting Shares rank equally on a per share basis in respect of dividends and distributions of capital.

A Voting Share shall be converted into one Variable Voting Share automatically if a Voting Share becomes held or beneficially owned or controlled, by a person who is a citizen or subject of a country other than Canada. In addition to the automatic conversion feature, a holder of Voting Shares shall have the option at any time to convert some or all of such shares into Variable Voting Shares on a one-for-one basis and to convert those shares back to Voting Shares on a one-for-one basis.

Variable Voting Shares

The Variable Voting Shares have identical terms as the Voting Shares and rank equally with respect to voting, dividends and distribution of capital, except that Variable Voting Shares shall not carry one vote per Variable Voting Share if:

- (a) the number of issued and outstanding Variable Voting Shares exceeds 49.9% of the total number of all issued and outstanding shares; or
- (b) the total number of votes that may be cast by, or on behalf of, holders of Variable Voting Shares present at any meeting of holders of Shares exceeds 49.9% of the total number of votes that may be cast by all holders of Shares present and entitled to vote at such meeting.

If either of the above-noted thresholds is surpassed at any time, the vote attached to each Variable Voting Share will decrease automatically to equal the maximum permitted vote per Variable Voting Share.

Postmedia Rights Plan

Under the Postmedia Rights Plan, one right has been issued by Postmedia in respect of each Voting Share and Variable Voting Share. A right shall become exercisable upon a person, including any party related to it, acquiring or attempting to acquire beneficial ownership of 20% or more of the outstanding shares of a class without complying with the "Permitted Bid" provisions of the Postmedia Rights Plan. For purposes of determining beneficial ownership under the Postmedia Rights Plan, Variable Voting Shares beneficially owned or controlled by a person or subject of Canada are deemed to also include the Voting Shares into which such Variable Voting Shares could be converted. Should such an acquisition occur or be announced, subject to all other provisions of the Postmedia Rights Plan, each right will entitle the holder to purchase from Postmedia additional shares at a substantial discount to the prevailing market price. This purchase could cause significant dilution to the person or group of persons attempting to acquire control of Postmedia, other than by way of a Permitted Bid. The Board has discretion to waive the application of the Postmedia Rights Plan, and to amend the Postmedia Rights Plan at any time, or redeem the rights for \$0.000001 per right.

The Postmedia Rights Plan will remain in force until the earlier of the Termination Time (the time at which the right to exercise rights will terminate pursuant to the Postmedia Rights Plan) and the date of the next reconfirmation of the Postmedia Rights Plan by shareholders. As part of the Recapitalization Transaction (note 4), amendments were made to the Postmedia Rights Plan which included, among other things, extending the next reconfirmation date to the annual shareholder meeting to be held in 2020.

Issued and outstanding capital stock

	Voting Shares		Variable Voting Shares		Total Shares	
	Number	\$ 000's	Number	\$ 000's	Number	\$ 000's
Balance as of August 31, 2015	1,040,153	9,733	280,141,692	525,735	281,181,845	535,468
Conversions	4,529,435	8,495	(4,529,435)	(8,495)	-	-
Balance as of August 31, 2016	5,569,588	18,228	275,612,257	517,240	281,181,845	535,468
Share consolidation (note 4)	(5,532,457)	-	(273,775,044)	-	(279,307,501)	-
Conversions	41,419	78	(41,419)	(78)	-	-
Shares issued (note 4)	-	-	91,842,855	275,558	91,842,855	275,558
Share issuance costs (note 4)	-	-	-	(190)	-	(190)
Balance as of August 31, 2017	78,550	18,306	93,638,649	792,530	93,717,199	810,836

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 years ended August 31, 2017 and 2016. No reconciling items in the computation of net loss exist.

	2017	2016
Basic weighted average shares outstanding during the period	111,693,261	281,181,845
Dilutive effect of RSUs	-	-
Diluted weighted average shares outstanding during the period	111,693,261	281,181,845
Options and RSUs outstanding which are anti-dilutive	-	2,050,000

17. 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 maximum number of options available for issuance under the Option Plan is 3.7 million and shall not exceed 10% of the Company's issued and outstanding shares. The issued options entitle the holder to acquire one share of the Company at an exercise price no less than the fair value of a share at the date of grant, of which fair value is determined to be the volume-weighted average trading price of the Voting Shares on the TSX for the five trading days immediately preceding the issuance of such options. The issued options vest as follows: 20% immediately with the remainder vesting evenly over 4 years on the anniversary date of the date of grant. Each option may be exercised during a period not exceeding 10 years from the date of grant.

The following table provides details on the changes to the issued options, which are presented in whole numbers, for the years ended August 31, 2017 and 2016:

	2017		2016	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance beginning of year	1,945,000	\$ 5.44	2,229,000	\$ 5.44
Forfeited	(6,000)	\$ (1.94)	(51,000)	\$ (1.94)
Cancelled	(1,939,000)	\$ (5.10)	(233,000)	\$ (5.10)
Balance end of year	-	N/A	1,945,000	\$ 5.57
Vested options at end of year - exercisable	N/A	N/A	1,450,000	\$ 6.82

During the years ended August 31, 2017 and 2016, the Company granted no options under the Option Plan.

During the year ended August 31, 2017, the Company recorded compensation expense relating to the Option Plan of \$0.1 million (2016 - \$0.1 million), with an offsetting credit to contributed surplus which represented the total remaining unrecognized compensation expense.

Restricted share unit plan

The Company has a restricted share unit plan (the "RSU Plan"). The RSU Plan provides for the grant of restricted share units ("RSUs") to participants, being current, part-time or full-time officers, employees or consultants of the Company. The maximum aggregate number of RSUs issuable pursuant to the RSU Plan outstanding at any time shall not exceed 3.7 million Shares of the Company. The RSU Plan is administered by the Board. On October 5, 2016, the Company cancelled all outstanding RSUs as part of the Recapitalization Transaction (note 4).

Each RSU will be settled for one Share, without payment of additional consideration, after such RSU has vested; however, at any time, a participant may request in writing, upon exercising vested RSUs, subject to the consent of the Company, that the Company pay an amount in cash equal to the aggregate current fair market value of the Shares on the date of such exercise in consideration for the surrender by the participant to the Company of the rights to receive Shares under such RSUs. The Board may in its sole discretion accelerate the vesting date for all or any RSUs for any participant at any time and from time to time. RSUs are non-transferable. The terms and conditions of RSUs granted under the RSU Plan will be subject to adjustments in certain circumstances, at the discretion of the Board and contain certain conditions regarding the resignation, cessation and termination of participants.

The Company granted a tandem award in July 2010 that provides a choice to either exercise 0.6 million stock options or 0.6 million RSU's. Of the tandem award, 0.1 million vested immediately on the date of the grant with the remaining 0.5 million vesting evenly over a four year period on the anniversary date of the date of grant. On October 5, 2016, the Company cancelled all outstanding RSUs as part of the Recapitalization Transaction and as a result, no RSUs were outstanding or vested as at August 31, 2017 (2016 - 0.6 million RSUs). The Company granted no RSU's and recorded no compensation expense relating to the tandem award during the years ended August 31, 2017 and 2016.

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).

Under the DSU Plan, non-employee directors of the Company were required to elect to receive at least 50% (and may irrevocably elect to receive up to 100%) of their annual fees satisfied in the form of DSUs, and could receive additional grants of DSUs under the DSU Plan. The number of DSUs to be credited to a director were calculated, on the date that fees were payable to such director, by dividing the dollar amount elected by such director in respect of such fees by the value of a share. The value of a share was the volume-weighted average trading price of the Voting Shares for the five trading days immediately preceding the issuance of such DSU’s. Future changes in the fair value of the DSUs were reflected through adjustments to compensation expense until such a date as the DSUs are settled in cash. The vesting conditions (which may have included time restrictions, performance conditions or a combination of both) of each DSU granted under the DSU Plan, was determined by the Board, and on redemption (which occurred after the holder of the DSUs ceases to serve as a director and was not otherwise employed by the Company) was paid out in cash. The DSUs were generally non-transferable. If cash dividends would be paid on the shares of the Company, additional DSUs were credited to directors. The Board was able to discontinue the DSU Plan at any time or, subject to certain exceptions set out in the DSU Plan, was able to amend the DSU Plan at any time.

During the year ended August 31, 2017, the Company granted 3,629,808 DSUs under the DSU Plan (2016 – 17,543,864). All DSUs issued in the years ended August 31, 2017 and 2016 vested immediately. During the year ended August 31, 2017, the Company recorded an expense of \$0.1 million to compensation expense (2016 – recovery of \$0.3 million), with an offset to employee benefit obligations and other liabilities. Upon completion of the Recapitalization Transaction on October 5, 2016, 21,849,128 DSUs were settled in cash for \$0.4 million and there were no cancellations (2016 – settled 603,777 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 August 31, 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.

During the year ended August 31, 2017, the Company recorded compensation expense of \$0.2 million (2016 – recovery of compensation expense of \$0.2 million) relating to its share-based compensation and other long-term incentive plans.

18. INCOME TAXES

Provision for income taxes

The provision for income taxes differs from the amount that would have resulted from applying the statutory tax rate to earnings (loss) before income taxes for the years ended August 31, 2017 and 2016 as follows:

	2017	2016
		(note 5)
Earnings (loss) before income taxes	844	(360,693)
Statutory income tax rate based on combined federal and provincial rates	26.60%	26.61%
Tax provision (recovery) based on statutory tax rates	225	(95,980)
Effects of:		
Non-taxable portion of net capital gains	(3,261)	(8)
Non-deductible expenses	(203)	84
Non-deductible portion of impairments	266	17,882
Tax rate changes on deferred income taxes	(290)	(105)
Adjustments in respect of prior years	416	(893)
Change in unrecognized deferred income tax assets	1,894	79,009
Other	953	11
Recovery of income taxes	-	-

The Company's applicable tax rate is the Canadian combined rates applicable in the jurisdictions in which the Company operates. The decrease in the Company's effective tax rate is due to the change in allocation of income taxes to the various jurisdictions in which the Company operates.

No taxes have been recorded in other comprehensive income (loss) or net earnings from discontinued operations as the associated deferred tax assets have not been recognized.

Deferred income tax

As at August 31, 2017 deferred income tax assets of \$28.2 million have been recognized to offset other deferred income tax liabilities, primarily related to property and equipment and intangible assets (August 31, 2016 - \$31.7 million).

As at August 31, 2017 and 2016, the Company has not recognized deferred tax assets in respect of the following:

	2017	2016
Total tax loss carryforwards	388,030	354,968
Other deductible temporary differences	309,438	465,938
Total deductible temporary differences	697,468	820,906
Deferred income tax rate	26.66%	26.61%
Deferred income tax assets	185,945	218,443
Deferred income tax liabilities	(28,169)	(31,692)
Net deferred income tax assets not recognized	157,776	186,751

As at August 31, 2017, the total non-capital losses and net-capital losses with expiration dates are as follows:

Year	Tax losses
2031	78,758
2032	86,124
2033	12,946
2034	25,347
2035	21,537
2036	67,935
2037	63,592
Total non-capital losses ⁽¹⁾	356,239
Total net-capital losses (no expiry date)	31,791
Total loss carryforwards	388,030

⁽¹⁾ The settlement of the Second-Lien Notes as a result of the Recapitalization Transaction resulted in debt forgiveness for tax purposes of \$54.8 million that was offset by previously unused non-capital losses (note 4).

19. CAPITAL MANAGEMENT

The Company's capital management objective is to maximize shareholder returns by (a) prioritizing capital expenditures related to the development of digital media products with growth potential, and (b) utilizing the majority of remaining free cash flow for the repayment of debt. During the years ended August 31, 2017 and 2016, the Company's capital management strategy included reviewing alternatives to improve its capital structure and financial liquidity. This review was conducted by management, as overseen by an independent special board committee and resulted in the Recapitalization Transaction which was completed on October 5, 2016 (note 4).

The Company's capital structure is composed of deficiency and long-term debt, less assets related to derivative financial instruments, restricted cash and cash. The capital structure as at August 31, 2017 and 2016 is as follows:

	2017	2016
Long-term debt (note 14)	341,263	653,148
Net assets related to derivative financial instruments (note 8)	(1,265)	(298)
Cash	(10,848)	(17,139)
Restricted cash (note 6)	(67,751)	(4,804)
Net liabilities	261,399	630,907
Deficiency	(86,118)	(478,442)
Total capital	175,281	152,465

The Company's capital structure increased \$22.8 million in the year ended August 31, 2017, primarily as a result of comprehensive income and the increase and decrease in capital stock and long-term debt, respectively, both as a result of the Recapitalization Transaction (note 4).

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company is exposed to credit risk, liquidity risk and market risks relating to foreign exchange and interest rate fluctuations. The enterprise risk management process is managed by a risk oversight committee composed of senior executives of the Company.

(a) Fair value of financial instruments measured at fair value

The Company has considered the following fair value hierarchy that reflects the significance of the inputs used in measuring its financial instruments accounted for at fair value in the statement of financial position:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: inputs that are not based on observable market data (unobservable inputs).

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 August 31, 2017 and 2016 are as follows:

	2017			2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Derivative financial instruments						
Warrants	-	1,265	-	-	298	-

The fair value of the warrants is 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 years ended August 31, 2017 and 2016 there were no transfers within the fair value hierarchy.

The changes to the fair value of derivative financial instruments (Level 3) for the year ended August 31, 2016 are as follows:

Asset as at August 31, 2015	2,093
Loss on derivative financial instruments recognized in the statement of operations (note 8)	(2,093)
Asset as at August 31, 2016	-

(b) 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 financial carrying value and fair value of long-term debt as at as at August 31, 2017 and 2016 are as follows:

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Other financial liabilities				
Long-term debt	341,263	363,156	653,148	566,256

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

(c) Credit risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial asset fails to meet its contractual obligations.

The maximum credit exposure to credit risk at the reporting date is the carrying value of cash, restricted cash and accounts receivable in an asset position. No collateral is held from any of the counterparties to these financial assets.

Accounts receivable

In the normal course of business, the Company continuously monitors the financial condition of its customers and reviews the credit history of each new customer. The Company's sales are widely distributed and the largest amount due from any single customer as at August 31, 2017 is \$2.7 million or 4% of receivables (August 31, 2016 – \$3.5 million or 4%). The Company establishes an allowance for doubtful accounts when collection is determined to be unlikely based on the specific credit risk of its customers and historical trends. The allowance for doubtful accounts amounted to \$4.6 million as at August 31, 2017 (August 31, 2016 - \$3.4 million). As at August 31, 2017, \$36.5 million or 49% (August 31, 2016 - \$38.9 million or 48%) of trade accounts receivable is considered past due as per the contractual credit terms and not yet impaired, which is defined as amounts outstanding beyond normal credit terms and conditions for respective customers. The amount past due relates to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables based on original invoice terms as at August 31, 2017 and 2016 is as follows:

	2017	2016
30 - 90 days	27,625	30,423
Greater than 90 days	8,850	8,512
	36,475	38,935

Changes to the allowance for doubtful accounts for the year ended August 31, 2017 and 2016 are as follows:

	2017	2016
Balance as at beginning of year	3,385	4,778
Provision for (recovery of) doubtful accounts	1,495	(687)
Write-offs	(232)	(706)
Balance as at end of year	4,648	3,385

(d) Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulties in meeting its 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. The Company's financial obligations include long-term debt which requires principal and interest payments (note 14). Economic and structural factors related to the industry impact the Company's ability to generate sufficient operating cash flows to satisfy its existing and future financial liabilities, however, the Company manages this risk by monitoring cash flow forecasts, implementing cost reduction initiatives, deferring or eliminating discretionary spending, monitoring and maintaining compliance with the 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 seasonal fluctuations of the business.

Material contractual obligations related to financial instruments include debt repayments and interest on long-term debt. These contractual undiscounted obligations and their maturities as at August 31, 2017 are as follows:

	Total	Less than 1 year	1-3 years	3-5 years	5 years or more
Accounts payable	13,675	13,675	-	-	-
Accrued liabilities	38,771	38,771	-	-	-
Finance lease	1,560	-	-	-	1,560
Long-term debt ⁽¹⁾⁽²⁾	454,774	79,502	20,000	121,991	233,281
Interest payments ⁽³⁾	45,502	12,110	21,813	11,579	-
Total	554,282	144,058	41,813	133,570	234,841

(1) Contractual principal payments of long-term debt are based on the foreign exchange rate as at August 31, 2017 of US\$1:\$1.2536.

(2) Principal and interest on the New Second-Lien Notes assumes paid-in-kind interest to maturity and cash interest thereafter.

(3) Interest to be paid on long-term debt is based on fixed contractual interest rates and the foreign exchange rate as at August 31, 2017 of US\$1:\$1.2536.

(e) Market risk management

Market risk is the risk that changes in market prices due to foreign exchange rates and interest rates will affect the value of the Company's financial instruments. The objective of market risk management is to mitigate and control exposures within acceptable parameters while optimizing the return on risk.

Foreign currency risk

As at August 31, 2017, approximately 35% of the outstanding principal on the Company's long-term debt is payable in US dollars (August 31, 2016 – 54%). As at August 31, 2017, the Company is exposed to foreign currency risk on the US\$97.0 million of New Second-Lien Notes outstanding (2016 - \$US268.6 million of Second-Lien Notes). Based on the long-term debt outstanding as at August 31, 2017, a \$0.01 change in the period-end exchange rate of a Canadian dollar per one US dollar, holding all other variables constant, would have resulted in a \$1.0 million increase or decrease to foreign currency exchange gains in the statement of operations.

Interest rate risk

The ABL Facility bears interest at floating rates while the First-Lien Notes and Second-Lien Notes bear interest at fixed rates. Therefore, changes in interest rates only exposes the Company to cash flow interest rate risk on the portion of the ABL Facility that is drawn, if any, at the time of the interest rate change.

21. COMMITMENTS

The Company has entered into various operating lease agreements for property, office equipment and vehicles and various other commitments. Aggregate future minimum payments under the terms of these commitments are as follows:

2018	25,916
2019	19,061
2020	15,493
2021	11,933
2022	10,670
Thereafter	38,874

22. RELATED PARTY TRANSACTIONS

Key management personnel include the Company's senior management and all members of the Board. Key management personnel compensation for the years ended August 31, 2017 and 2016 is as follows:

	2017	2016
Salaries and short-term benefits	5,196	4,862
Share-based compensation plans and other long-term incentive plans (note 17)	170	(216)
Termination and other benefits	1,874	-
Total compensation	7,240	4,646

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 \$1.8 million during the year ended August 31, 2017, 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 \$25.0 million (note 14). During the year ended August 31, 2017, the Company incurred interest expense and paid \$0.1 million related to the ABL Facility.

As at August 31, 2016, GoldenTree Asset Management LP or its affiliates ("GoldenTree") owned 146,694,259, or 53%, of the Company's Variable Voting Shares. On October 5, 2016, upon completion of the Recapitalization Transaction and related Shared Consolidation (note 4), GoldenTree owned 977,945, or 1%, of the Company's Shares.

23. STATEMENT OF CASH FLOWS

The following amounts compose the net change in non-cash operating accounts included in cash flows from operating activities in the consolidated statement of cash flows for the years ended August 31, 2017 and 2016:

	2017	2016
Accounts receivable	7,838	16,322
Income taxes receivable (note 7)	-	3,700
Inventory	1,035	(157)
Prepaid expenses and other assets	94	(449)
Accounts payable, accrued liabilities and provisions	(24,684)	1,073
Deferred revenue	(2,568)	(810)
Employee benefit obligations and other liabilities and provisions	(706)	224
Changes in non-cash operating accounts	(18,991)	19,903

24. SEGMENT INFORMATION

The Company has one operating segment for financial reporting purposes, the Newsmedia segment. The Newsmedia segment publishes daily and non-daily newspapers and operates digital media and online assets including the canada.com network and each newspaper's online website. Its revenue is primarily from advertising and circulation/subscription revenue.

Included within digital revenue in the consolidated statements of operations during the year ended August 31, 2017 is advertising revenue of \$88.4 million (2016 - \$75.9 million) and circulation/subscription revenue of \$17.1 million (2016 - \$17.9 million). Accordingly, aggregate print and digital revenue from advertising for the year ended August 31, 2017 was \$461.9 million (2016 - \$542.4 million) and aggregate print and digital revenue from circulation/subscription was \$256.1 million (2016 - \$278.8 million).

25. SUBSEQUENT EVENTS

Subsequent to August 31, 2017, the Company redeemed \$60.0 million aggregate principal amount of First-Lien Notes and paid accrued interest of \$2.1 million (note 6).

Subsequent to August 31, 2017, the Company sold an additional property for gross proceeds of \$10.5 million. On October 23, 2017, the net proceeds from the sale of the land and building will be used to redeem \$9.5 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$0.4 million (notes 6 and 10).