POSTMEDIA NETWORK CANADA CORP.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2017 AND 2016
(UNAUDITED)

Approved for issuance: January 11, 2018

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

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2017 AND 2016

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

	2017	2016
		(note 6)
Revenues		
Print advertising	91,125	110,997
Print circulation	58,013	61,786
Digital	31,289	27,322
Other	8,563	10,656
Total revenues	188,990	210,761
Expenses		
Compensation	66,364	85,421
Newsprint	10,801	13,134
Distribution	35,461	39,189
Production	22,048	19,271
Other operating	30,405	34,022
Operating income before depreciation, amortization, impairment and restructuring (note 3)	23,911	19,724
Depreciation	5,335	6,428
Amortization	3,389	4,097
Impairment (note 8)	-	21,592
Restructuring and other items (notes 4, 5 and 10)	6,924	35,983
Operating income (loss)	8,263	(48,376)
Interest expense	7,552	7,901
Gain on disposal of operations (note 4)	(4,676)	-
Gain on debt settlement (note 5)	-	(78,556)
Net financing expense relating to employee benefit plans (note 12)	735	1,471
(Gain) loss on disposal of property and equipment and asset held-for-sale (note 7)	(1,542)	513
Gain on derivative financial instruments (note 14)	(3,100)	(183)
Foreign currency exchange losses	3,521	4,728
Earnings before income taxes	5,773	15,750
Provision for income taxes	-	-
Net earnings from continuing operations	5,773	15,750
Net earnings from discontinued operations, net of tax of nil (note 6)	-	2,085
Net earnings attributable to equity holders of the Company	5,773	17,835
Earnings per share from continuing operations (note 13):		
Basic	$ 0.06	$ 0.10
Diluted	$ 0.06	$ 0.10
Earnings per share from discontinued operations (note 13):		
Basic	$ -	$ 0.01
Diluted	$ -	$ 0.01
Earnings per share attributable to equity holders of the Company (note 13):		
Basic	$ 0.06	$ 0.11
Diluted	$ 0.06	$ 0.11

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

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

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2017 AND 2016

(In thousands of Canadian dollars)

	2017	2016
		(note 6)
Net earnings attributable to equity holders of the Company	5,773	17,835
Amounts not subsequently reclassified to the statement of operations from continuing operations		
Net actuarial gains on employee benefits, net of tax of nil (note 12)	14,382	40,888
Other comprehensive income	14,382	40,888
Comprehensive income attributable to equity holders of the Company	20,155	58,723

Total comprehensive income attributable to equity holders of the Company:		
Continuing operations	20,155	56,638
Discontinued operations	-	2,085
Comprehensive income attributable to equity holders of the Company	20,155	58,723

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

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

(In thousands of Canadian dollars)

	As at November 30, 2017	As at August 31, 2017
ASSETS		
Current Assets		
Cash	14,433	10,848
Restricted cash (note 7)	5,707	67,751
Accounts receivable	86,913	74,180
Asset held-for-sale (note 7)	-	8,292
Inventory	5,760	6,001
Prepaid expenses and other assets	10,975	11,502
Total current assets	123,788	178,574
Non-Current Assets		
Property and equipment	189,536	194,758
Derivative financial instruments (note 14)	4,365	1,265
Other assets (note 12)	-	1,508
Intangible assets (note 8)	85,415	85,613
Total assets	403,104	461,718
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (note 9)	62,710	59,778
Provisions (note 10)	20,660	23,400
Deferred revenue	30,253	33,268
Current portion of long-term debt (note 11)	10,000	79,502
Total current liabilities	123,623	195,948
Non-Current Liabilities		
Long-term debt (note 11)	269,731	261,761
Employee benefit obligations and other liabilities (note 12)	74,021	89,030
Provisions (note 9)	1,692	1,097
Total liabilities	469,067	547,836
Deficiency		
Capital stock	810,836	810,836
Contributed surplus	10,412	10,412
Deficit	(887,211)	(907,366)
Total deficiency	(65,963)	(86,118)
Total liabilities and deficiency	403,104	461,718

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

POSTMEDIA NETWORK CANADA CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIENCY (UNAUDITED)

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2017 AND 2016

(In thousands of Canadian dollars)

	2017			
	Capital stock	**Contributed surplus**	**Deficit**	**Total Equity**
Balance as at August 31, 2017	810,836	10,412	(907,366)	(86,118)
Net earnings attributable to equity holders of the Company	-	-	5,773	5,773
Other comprehensive income	-	-	14,382	14,382
Comprehensive income attributable to equity holders of the Company	-	-	20,155	20,155
Balance as at November 30, 2017	**810,836**	**10,412**	**(887,211)**	**(65,963)**

	2016			
	Capital stock	**Contributed surplus**	**Deficit**	**Total Equity**
Balance as at August 31, 2016	535,468	10,315	(1,024,225)	(478,442)
Net earnings attributable to equity holders of the Company	-	-	17,835	17,835
Other comprehensive income	-	-	40,888	40,888
Comprehensive income attributable to equity holders of the Company	-	-	58,723	58,723
Share-based compensation plans (note 5)	-	97	-	97
Shares issued (note 5)	275,558	-	-	275,558
Share issuance costs (note 5)	(190)	-	-	(190)
Balance as at November 30, 2016	**810,836**	**10,412**	**(965,502)**	**(144,254)**

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

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

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2017 AND 2016
(In thousands of Canadian dollars)

	2017	2016
CASH GENERATED (UTILIZED) BY:		
OPERATING ACTIVITIES		
Net earnings attributable to equity holders of the Company	5,773	17,835
Items not affecting cash:		
Depreciation	5,335	6,428
Amortization	3,389	4,097
Impairment (note 8)	-	21,592
Gain on disposal of operations (note 4)	(4,676)	-
Gain on debt settlement (note 5)	-	(78,556)
Gain on derivative financial instruments (note 14)	(3,100)	(183)
Non-cash interest	3,822	2,589
(Gain) loss on disposal of property and equipment and asset held-for-sale (note 7)	(1,542)	513
Non-cash foreign currency exchange losses	3,536	5,227
Non-cash backstop commitment fee (note 5)	-	5,500
Share-based compensation plans and other long-term incentive plan expense (note 5)	-	202
Net financing expense relating to employee benefit plans (note 12)	735	1,471
Employee benefit funding in excess of compensation expense (note 12)	(59)	(80)
Net change in non-cash operating accounts (note 15)	(15,671)	(24,554)
Cash flows used in operating activities	(2,458)	(37,919)
INVESTING ACTIVITIES		
Net proceeds from the sale of property and equipment and asset held-for-sale (note 7)	9,829	1,132
Purchases of property and equipment	(149)	(879)
Purchases of intangible assets	(239)	(374)
Cash flows from (used in) investing activities	9,441	(121)
FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt (note 5)	-	110,000
Repayment of long-term debt (notes 5, 7 and 11)	(79,442)	(77,784)
Restricted cash (note 7)	62,044	3,677
Advances from ABL Facility (note 11)	14,000	-
Debt issuance costs (note 5)	-	(942)
Share issuance costs (note 5)	-	(190)
Cash flows from (used in) financing activities	(3,398)	34,761
Net change in cash for the period	3,585	(3,279)
Cash at beginning of period	10,848	17,139
Cash at end of period	**14,433**	**13,860**

	2017	2016
Supplemental disclosure of operating cash flows		
Interest paid	8,816	33,984
Income taxes paid	-	-

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

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. On November 27, 2017, the Company purchased 22 community and two free daily commuter newspapers and in consideration sold 15 community and two free daily commuter newspapers (note 4). On August 15, 2017, the Company sold Infomart, its media monitoring division (note 6).

The Company has one operating segment for financial reporting purposes, the Newsmedia segment. The Newsmedia segment's revenue is primarily from print and digital advertising and circulation/subscription revenue. The Company's advertising revenue is seasonal. Historically, advertising revenue and accounts receivable are typically highest in the first and third fiscal quarters, while expenses are relatively constant throughout the fiscal year.

2. BASIS OF PRESENTATION

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 – Interim Financial Reporting. The accounting policies applied in the preparation of these interim condensed consolidated financial statements are the same as those used in the Company's annual consolidated financial statements. In addition, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and accordingly should be read in conjunction with the Company's consolidated financial statements for the years ended August 31, 2017 and 2016.

These interim condensed consolidated financial statements were approved by the Board of Directors (the "Board") on January 11, 2018.

Critical accounting estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Although these estimates, assumptions and judgements are based upon management's knowledge of the amount, event or actions; actual results could differ from those estimates, assumptions and judgements. The critical accounting estimates are not materially different from those disclosed in the Company's consolidated financial statements for the years ended August 31, 2017 and 2016 except for the estimate of the non-monetary consideration transferred in the business acquisition as described in note 4.

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

The Company presents as an additional IFRS measure, operating income before depreciation, amortization, impairment and restructuring, in the condensed consolidated statement of operations to assist users in assessing financial performance. The Company's management and Board use this measure to evaluate consolidated operating results and to assess the ability of the Company to incur and service debt. In addition, this measure is used to make operating decisions as it is an indicator of 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. BUSINESS ACQUISITION

On November 27, 2017, the Company entered into an asset purchase agreement with Metroland Media Group and Free Daily News Group Inc., both subsidiaries of Torstar Corporation, (collectively, "Torstar") to acquire 22 of Torstar's community newspapers and two free daily commuter newspapers. In consideration, the Company sold 15 of its community newspapers and two free daily commuter newspapers to Torstar (the "Torstar Transaction"). The Company is continuing to operate one of the community newspapers acquired and will close the remaining properties in January 2018 as they are located in areas serviced by multiple publications. The Torstar Transaction is a non-monetary transaction as there was no cash exchanged. The Company accounted for the non-monetary transaction as a business combination with the fair value of the properties transferred representing the acquisition consideration. The estimated fair value of the respective properties of both the Company and Torstar is $3.5 million and the difference between the acquisition consideration and the carrying value of the net liabilities transferred was recognized as a gain on disposal of operations in the consolidated statement of operations. In addition, during the three months ended November 30, 2017, the Company incurred severance costs of $3.1 million, provisions for onerous leases and contracts of $0.8 million and $0.7 million, respectively, and acquisition costs of $0.5 million related to the Torstar Transaction all of which are included in restructuring and other items in the condensed consolidated statement of operations (note 10).

On November 27, 2017, the date of acquisition, the Company transferred the following net liabilities to Torstar and recognized a gain on disposal of operations as follows:

Consideration transferred	
Prepaid expenses and other assets	36
Property and equipment	41
Intangible assets	600
Accounts payable and accrued liabilities	(8)
Deferred revenue	(1,845)
Net liabilities transferred	(1,176)
Acquisition consideration (fair value of net assets acquired)	3,500
Gain on disposal of operations	4,676

The fair value of the identifiable assets acquired and liabilities assumed as at November 27, 2017 were as follows:

Assets acquired	
Prepaid expenses and other assets	60
Intangible assets [1]	3,552
Total assets acquired	3,612
Liabilities assumed	
Accounts payable and accrued liabilities	63
Deferred revenue	49
Total liabilities assumed	112
Net assets acquired at fair value	3,500

(1) The Company has not finalized the allocation of the $3.6 million of intangible assets acquired which may include mastheads, domain names and customer relationships.

5. 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. During the three months ended November 30, 2016, 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 condensed consolidated statement of financial position.

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) described above. During the three months ended November 30, 2016, 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 condensed consolidated statement of financial position.

As part of the Plan of Arrangement, the Class C voting shares and Variable Voting Shares of the Company (“Shares”) were consolidated on the basis of one Share for every 150 existing Shares then outstanding, 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. As part of the Recapitalization Transaction the Company issued 91,842,855 Variable Voting Shares resulting in a total of 93,717,199 Shares outstanding after the Share Consolidation. During the three months ended November 30, 2016, the Company incurred $0.2 million of share issuance costs which were included in the carrying value of capital stock on the condensed consolidated statement of financial position.

During the three months ended November 30, 2016, a gain on debt settlement of $78.6 million was recognized in the condensed consolidated statements of operations and represents the difference between the carrying value of the Second-Lien Notes 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 three months ended November 30, 2016, 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 condensed consolidated statement of operations. Included in these costs are advisory, legal and other professional or consulting fees, as well as compensation expense associated with a key employment retention program.

6. 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"). The Infomart Transaction closed on August 15, 2017 and included Infomart's media monitoring business, direct feed business and professional services operations, including clients of such services. The net proceeds of the Infomart Transaction were 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 (note 7). The Infomart Transaction includes the entering into of a transition support agreement for a period of up to 18 months.

As a result of the Infomart Transaction, the Company has presented the results of Infomart as discontinued operations and as such, the condensed consolidated statement of operations and condensed consolidated statement of comprehensive loss have been revised to reflect this change in presentation. Net earnings from discontinued operations for the three months ended November 30, 2016 are as follows:

	2016
Revenues	
Digital	4,089
Expenses	
Compensation	581
Other operating	1,423
Operating income before depreciation, amortization, impairment and restructuring (note 3)	2,085
Earnings before income taxes	2,085
Provision for income taxes	-
Net earnings from discontinued operations	2,085

Cash flows from discontinued operations for the three months ended November 30, 2016 are as follows:

	2016
Cash flows from operating activities	2,085
Cash flows from investing activities [(1)]	(2,085)
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 three months ended November 30, 2016 of nil.

7. 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, 2017	67,751
Net proceeds on sale of assets (1)	9,911
First-Lien Notes payment (2)	(71,955)
November 30, 2017 (3)	5,707

(1) During the three months ended November 30, 2017, the Company sold property and equipment classified as held-for-sale on the condensed consolidated statement of financial position for net proceeds of $9.9 million and realized a gain on sale of $1.6 million.

(2) During the three months ended November 30, 2017, the Company used $72.0 million to redeem $69.5 million aggregate principal amount of First-Lien Notes and pay accrued interest of $2.5 million.

(3) During the year ended August 31, 2017, the Company received $36.3 million related to the Infomart Transaction of which $5.7 million, equal to 15% of the purchase price, is being held in escrow to satisfy claims arising under the purchase agreement for a period of up to 18 months (note 6).

8. IMPAIRMENT OF LONG LIVED ASSETS

The Company's impairments for the three months ended November 30, 2017 and 2016 are as follows:

	2017	2016
Intangible assets - mastheads	-	7,100
Intangible assets - domain names	-	610
Intangible assets - subscriber lists	-	7,282
Property and equipment - land	-	2,000
Property and equipment - building	-	4,600
Impairments	-	21,592

Impairment of long lived assets

During the three months ended November 30, 2017, no impairments were recorded. During the three months ended November 30, 2016, as a result of continued economic and structural factors, including the uncertainty of the print advertising market and the rapidly evolving digital advertising market, the Company performed an interim impairment test. The recoverable amounts were based on fair value less costs of disposal ("FVLCD") of the cash generating units ("CGUs"), which are primarily geographical groups of newspapers by city or region, as applicable. The FVLCD were 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.

Based on the interim impairment test as at November 30, 2016, the Company determined that certain of its CGU's recoverable amounts were less than their carrying amount. As a result the Company recorded an impairment charge in the three months ended November 30, 2016 of $21.6 million which was allocated to its mastheads, domain names, subscriber lists, land and building of $7.1 million, $0.6 million, $7.3 million, $2.0 million and $4.6 million, respectively, within the individual CGUs.

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

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at November 30, 2017	As at August 31, 2017
Trade accounts payable	14,082	13,675
Accrued liabilities	42,990	38,771
Accrued interest on long-term debt	5,638	7,332
Accounts payable and accrued liabilities	62,710	59,778

10. PROVISIONS

	Restructuring [a]	Unoccupied leases [a]	Other provisions [b]	Total
Provisions as at August 31, 2017	22,265	1,403	829	24,497
Charges	4,904	800	720	6,424
Payments	(8,290)	(219)	(60)	(8,569)
Provisions as at November 30, 2017	18,879	1,984	1,489	22,352
Portion due within one year	(18,879)	(1,121)	(660)	(20,660)
Non-current provisions	-	863	829	1,692

(a) Restructuring and unoccupied leases

During the year ended August 31, 2017, the Company completed cost reduction initiatives that included a Company-wide voluntary buyout program. During the three months ended November 30, 2017, the Company began new initiatives and incurred restructuring expense of $4.9 million which include both involuntary and voluntary buyouts as well as a provision for onerous leases related to unoccupied property of $0.8 million.

(b) Other provisions

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

11. LONG-TERM DEBT

				As at November 30, 2017	As at August 31, 2017
	Maturity	Principal	Financing fees, discounts and other	Carrying value of debt	Carrying value of debt
8.25% Senior Secured Notes	July 2021	142,051	(1,039)	141,012	220,527
10.25% Senior Secured Notes (US$97.0M) [(1)]	July 2023	124,960	(241)	124,719	120,736
Senior Secured Asset-Based Revolving Credit Facility	January 2019	14,000	-	14,000	-
Total long-term debt				279,731	341,263
Portion due within one year				(10,000)	(79,502)
Non-current long-term debt				269,731	261,761

(1) US$ principal translated to the Canadian equivalent based on the foreign exchange rate on November 30, 2017 of US$1:$1.2888 (August 31, 2017 - US$1:$1.2536).

The terms and conditions of long-term debt as at November 30, 2017 are the same as disclosed in the consolidated financial statements for the years ended August 31, 2017 and 2016 except for the changes described below.

During the three months ended November 30, 2017, the Company redeemed $79.4 million aggregate principal amount of First-Lien Notes (note 7).

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 our request 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. As at November 30, 2017, the Company has $14.0 million outstanding and availability of $11.0 million on the ABL Facility and during the three months ended November 30, 2017, incurred and paid $0.1 million of interest expense.

12. EMPLOYEE BENEFIT PLANS

The Company has a number of funded and unfunded defined benefit plans that include pension benefits, post-retirement benefits, and other long-term employee benefits. The net employee benefit plan costs related to the Company's pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans recognized in the condensed consolidated statements of operations for the three months ended November 30, 2017 and 2016 are as follows:

	Pension benefits		Post-retirement benefits		Other long-term employee benefits		Total [(1)]	
	2017	2016	2017	2016	2017	2016	2017	2016
Current service cost	1,199	4,678	279	314	443	502	1,921	5,494
Administration costs	231	266	-	-	-	-	231	266
Net actuarial (gains) losses	-	-	-	-	40	(587)	40	(587)
Net financing expense	266	891	358	436	111	144	735	1,471
Net defined benefit plan expense [(2)]	1,696	5,835	637	750	594	59	2,927	6,644
Employer contributions to defined contribution plans	1,009	1,183	-	-	-	-	1,009	1,183
Total plan expense	2,705	7,018	637	750	594	59	3,936	7,827

(1) 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. Employees currently enrolled in defined benefit pension plans will be eligible to enroll in defined contribution pension plans.

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

Actuarial gains (losses) related to the Company's pension benefit plans and post-retirement benefit plans recognized in the condensed consolidated statements of comprehensive income for the three months ended November 30, 2017 and 2016 are as follows:

	Pension benefits		Post-retirement benefits		Total	
	2017	2016	2017	2016	2017	2016
Net actuarial gains (losses) on employee benefits (1)	15,393	37,101	(1,011)	3,787	14,382	40,888
Net actuarial gains (losses) recognized in other comprehensive income	15,393	37,101	(1,011)	3,787	14,382	40,888

(1) The discount rate used in measuring the Company's benefit obligations as at November 30, 2017 was 3.45% for pension benefits and post-retirement benefits (August 31, 2017 – 3.6% and 3.65%, respectively).

Changes to the net defined benefit plan obligations related to the Company's pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans for the three months ended November 30, 2017 are as follows:

	Pension benefits (1)	Post-retirement benefits	Other long-term employee benefits	Total (2)
Net defined benefit plan obligation as at August 31, 2017	30,504	39,548	15,941	85,993
Amounts recognized in the statement of operations	1,696	637	594	2,927
Amounts recognized in other comprehensive income	(15,393)	1,011	-	(14,382)
Reclassified from other assets	(1,589)	-	-	(1,589)
Employer contributions to the plans	(920)	(639)	(692)	(2,251)
Net defined benefit plan obligation as at November 30, 2017	14,298	40,557	15,843	70,698

(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 November 2017, FSCO approved an asset transfer of $16.5 million for the remaining plan, and as a result the Company has assumed the related defined benefit obligation of $16.2 million in the three months ended November 30, 2017. 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 three months ended November 30, 2017 paid $0.1 million (2016 – $0.1 million).

(2) As at November 30, 2017 and August 31, 2017, the net defined benefit plan obligations are recorded in employee benefit obligations and other liabilities on the condensed consolidated statements of financial position.

13. EARNINGS PER SHARE

The following table provides a reconciliation of the denominators, which are presented in whole numbers, used in computing basic and diluted earnings per share for the three months ended November 30, 2017 and 2016. No reconciling items in the computation of net earnings exist.

	2017	2016
Basic weighted average shares outstanding during the period	93,717,199	165,818,986
Diluted weighted average shares outstanding during the period	93,717,199	165,818,986

14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial instruments measured at fair value

The financial instruments measured at fair value in the condensed 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 November 30, 2017 are as follows:

	As at November 30, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets				
Warrants (1)	4,365	-	4,365	-

(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. During the three months ended November 30, 2017, the Company recognized a gain of $3.1 million related to the warrants which is included in gain on derivative financial instruments in the condensed consolidated statements of operations (2016 - $0.2 million).

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

The Company's policy is to recognize transfers in and out of the fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the three months ended November 30, 2017 and 2016 there were no transfers within the fair value hierarchy.

Financial instruments measured at amortized cost

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

The carrying value and fair value of long-term debt as at November 30, 2017 and August 31, 2017 are as follows:

	As at November 30, 2017		As at August 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Other financial liabilities				
Long-term debt	279,731	286,857	341,263	363,156

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

Liquidity risk

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 repayments and interest payments (note 11). 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.

Foreign currency risk

As at November 30, 2017, approximately 44% of the outstanding principal on the Company's long-term debt is payable in US dollars (August 31, 2017 – 35%). As November 30, 2017, the Company has US$97.0 million New Second-Lien Notes outstanding (August 31, 2017 - US$97.0 million).

15. STATEMENT OF CASH FLOWS

The following amounts compose the net change in non-cash operating accounts included in cash flows used in operating activities in the condensed consolidated statement of cash flows for the three months ended November 30, 2017 and 2016:

	2017	2016
Accounts receivable	(12,733)	(15,853)
Inventory	241	386
Prepaid expenses and other assets	470	(531)
Accounts payable, accrued liabilities and provisions	(3,302)	(6,915)
Deferred revenue	(1,219)	(1,144)
Employee benefit obligations and other liabilities and provisions	872	(497)
Changes in non-cash operating accounts	(15,671)	(24,554)

16. RELATED PARTY TRANSACTIONS

Upon completion of the Recapitalization Transaction, Chatham owns approximately 61,166,689, or 65%, of the Company's Shares. In October 2016, the Company entered into a consulting agreement with an associated company of Chatham and incurred an expense of $0.5 million during the three months ended November 30, 2017 (2016 - $0.3 million) which is included in other operating expenses in the condensed consolidated statement of operations. In addition, the Company has an ABL Facility with associated companies of Chatham (note 11).