

POSTMEDIA NETWORK CANADA CORP.
INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2017 AND 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis of financial condition and results of operations of Postmedia Network Canada Corp. as well as its subsidiary, Postmedia Network Inc. (collectively, "we", "our", "us", or "Postmedia") should be read in conjunction with the interim condensed consolidated financial statements and related notes of Postmedia for the three months ended November 30, 2017 and 2016 and the annual audited consolidated financial statements and related notes for the years ended August 31, 2017 and 2016. The interim condensed consolidated financial statements of Postmedia for the three months ended November 30, 2017 and 2016 and the annual audited consolidated financial statements for the years ended August 31, 2017 and 2016 are available on SEDAR at www.sedar.com.

This discussion contains statements that are not historical facts and are forward-looking statements. These statements are subject to a number of risks described in the section entitled "Risk Factors" contained in our annual management's discussion and analysis for the years ended August 31, 2017 and 2016. Risks and uncertainties may cause actual results to differ materially from those contained in such forward-looking statements. Such statements reflect management's current views and are based on certain assumptions. They are only estimates of future developments, and actual developments may differ materially from these statements due to a number of factors. Investors are cautioned not to place undue reliance on such forward-looking statements. No forward-looking statement is a guarantee of future results. We have tried, where possible, to identify such statements by using words such as "believe", "expect", "estimate", "anticipate", "will", "could" and similar expressions in connection with any discussion of future operating or financial performance. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements or information, whether written or oral, that may be as a result of new information, future events or otherwise.

All amounts are expressed in Canadian dollars unless otherwise noted. The interim condensed consolidated financial statements of Postmedia for the three months ended November 30, 2017 and 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 – Interim Financial Reporting.

This management's discussion and analysis is dated January 11, 2018 and does not reflect changes or information subsequent to this date. Additional information in respect of Postmedia is available on SEDAR at www.sedar.com.

Additional IFRS Measure

We use operating income before depreciation, amortization, impairment and restructuring, as presented in the interim condensed consolidated statement of operations for the three months ended November 30, 2017 and 2016, to assist in assessing our financial performance. Management and the Board of Directors of Postmedia use this measure to evaluate consolidated operating results and to assess Postmedia's ability to incur and service debt. In addition, this measure is used to make operating decisions as it is an indicator of performance including how much cash is being generated by Postmedia and assists in determining the need for additional cost reductions, evaluation of personnel and resource allocation decisions. Operating income before depreciation, amortization, impairment and restructuring is referred to as an additional IFRS measure and may not be comparable to similarly titled measures presented by other companies.

Overview and Background

Our business consists of news and information gathering and dissemination operations, with products offered in local, regional and major metropolitan markets in Canada through a variety of print, web, tablet and smartphone platforms. The combination of these distribution platforms provides audiences with a variety of media through which to access and interact with our content. The breadth of our reach and the diversity of our content enable advertisers to reach their target audiences on a local, regional or national scale through the convenience of a single provider. We have the highest weekly print readership of newspapers in Canada, based on Vividata 2017 – Q2 survey data and represent more than 160 brands across multiple print, online, and mobile platforms.

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

Recent Developments

On November 27, 2017, we 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, we sold 15 of our community newspapers and two free daily commuter newspapers to Torstar (the "Torstar Transaction"). We are 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. We 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 both our properties and Torstar's properties is \$3.5 million. During the three months ended November 30, 2017, we recognized a gain of \$4.7 million on disposal of operations which represents the difference between the acquisition consideration, or the fair value of the properties transferred, and the carrying value of the net liabilities transferred. In addition, during the three months ended November 30, 2017, we incurred severance costs of \$3.1 million, provisions for onerous leases and contracts of \$0.8 million and \$0.7 million, respectively, and acquisition expenses of \$0.5 million related to the Torstar Transaction

On June 22, 2017, we entered into an asset purchase agreement with Meltwater News Canada Inc. to sell Infomart, our media monitoring division, for gross proceeds of approximately \$38.3 million subject to closing adjustments, including adjustments relating 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. During the three months ended November 30, 2017, we used \$30.6 million of the net proceeds from the Infomart Transaction to redeem \$29.6 million aggregate principal amount of 8.25% Senior Secured Notes due 2021 ("First-Lien Notes") and pay accrued interest of \$1.0 million. The remaining net proceeds of \$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. The Infomart Transaction includes the entering into of a transition support agreement for a period of up to 18 months.

During the three months ended November 30, 2017, we sold property and equipment classified as held-for-sale for gross proceeds of \$10.5 million and the net proceeds of \$9.9 million were used to redeem \$9.5 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$0.4 million. During the year ended August 31, 2017, we sold property and equipment for net proceeds of \$35.0 million, which included net proceeds of \$30.3 million from the sale of the Islington production facility. During the three months ended November 30, 2017, a portion of the net proceeds related to these asset sales of \$31.5 million were used to redeem \$30.4 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$1.1 million.

On March 9, 2017, we announced a number of changes to our employee benefit plans which include ceasing pension accruals for non-union employees under all defined benefit pension plans and the discontinuation of retiree benefits for non-union active employees under all post-retirement benefit plans effective September 1, 2017. In addition, on April 19, 2017, we reached an agreement with certain union employees to discontinue retiree benefits for active employees effective December 31, 2017 and ceased compensation increases for employees on our self-insured long-term disability plan. Employees currently enrolled in defined benefit pension plans will be eligible to enroll in defined contribution pension plans.

On January 18, 2017, we entered into a senior secured asset-based revolving credit facility (“ABL Facility”) with associated companies of Chatham, as defined below, for an aggregate amount of up to \$15.0 million, 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. The ABL Facility bears interest on amounts drawn at bankers acceptance rate plus 5.0% with a commitment fee of 0.5% on the amount of available borrowings and will mature on January 18, 2019. As at November 30, 2017, we have \$14.0 million outstanding and availability of \$11.0 million on the ABL Facility.

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

We redeemed \$77.8 million aggregate principal amount of First-Lien Notes at par, plus accrued interest of \$10.8 million, from proceeds of the Recapitalization Transaction resulting in a total of \$225.0 million First-Lien Notes outstanding. In addition, the First-Lien Notes were amended and restated such that the maturity date was extended to July 15, 2021.

The 12.5% Senior Secured Notes due 2018 (“Second-Lien Notes”) were exchanged for Class NC variable voting shares (“Variable Voting Shares”) that represented approximately 98% of the outstanding shares. Accrued interest of \$21.9 million (US\$16.8 million) originally due on July 15, 2016 was paid in cash upon completion of the Recapitalization Transaction. In addition, we issued US\$88.6 million (\$115.5 million) of 10.25% Second-Lien Secured Notes due 2023 (“New Second-Lien Notes”) for net proceeds of US\$84.4 million (\$110.0 million). The Plan of Arrangement included the offering of the New Second-Lien Notes to holders of existing Second-Lien Notes, on a pro-rata basis determined based on their holdings of Second-Lien Notes as at August 5, 2016. The New Second-Lien Notes offering was backstopped by certain individual funds for which Chatham Asset Management LLC acts as investment advisor (“Chatham”) pursuant to a backstop commitment letter (the “Backstop Commitment Letter”). In consideration for entering into the Backstop Commitment Letter, Chatham received a fee of US\$4.2 million (\$5.5 million), which was used to acquire additional New Second-Lien Notes included in the US\$88.6 million (\$115.5 million) New Second-Lien Notes described above. The New Second-Lien Notes bear interest at 10.25% cash interest or 11.25% paid-in-kind interest, at our option subject to the conditions of no 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, is \$112.5 million or less.

During the year ended August 31, 2017, we completed cost reduction initiatives originally announced in October 2016, which included a company-wide voluntary buyout program. In September 2017, we began new cost reduction initiatives and in the three months ended November 30, 2017 implemented cost reduction initiatives which are expected to result in approximately \$14 million of net annualized cost savings.

Key Factors Affecting Operating Results

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

Print advertising revenue was \$91.1 million for the three months ended November 30, 2017, representing 48.2% of total revenue. Our major advertising categories consist of local, national, and inserts. These categories composed 49.4%, 21.8% and 27.2%, respectively, of total print advertising for the three months ended November 30, 2017.

Print advertising is influenced by both the overall strength of the economy and significant structural changes in the newspaper industry and media in general. The continuing shift in advertising dollars from print advertising to advertising in other formats, particularly online and other digital platforms including search and social media websites, combined with periods of economic uncertainty have resulted in significant declines in print advertising. We anticipate the print advertising market to remain challenging and expect current trends to continue throughout the remainder of fiscal 2018. During the three months ended November 30, 2017, we experienced print advertising revenue decreases of \$19.9 million, or 17.9%, as compared to the same period in the prior year. These decreases in print advertising revenue in the three months ended November 30, 2017 relates to weakness across all our major advertising categories including local, national and insert advertising.

Print circulation revenue was \$58.0 million for the three months ended November 30, 2017, representing 30.7% of total revenue. Circulation revenues decreased \$3.8 million, or 6.1%, in the three months ended November 30, 2017, as compared to the same period in the prior year. This decrease is the result of price increases being offset by declines in circulation volumes that have been experienced over the last few years and this trend continued in the three months ended November 30, 2017. We expect these print circulation revenue trends to continue throughout the remainder of fiscal 2018.

Digital revenue was \$31.3 million for the three months ended November 30, 2017, representing 16.6% of total revenue. Digital revenues increased \$4.0 million, or 14.5%, in the three months ended November 30, 2017 as compared to the same period in the prior year as a result of increases in programmatic and digital media services revenue and other digital revenue, partially offset by decreases in local and national digital advertising revenue and digital classified revenue. We expect these digital revenue trends to continue throughout the remainder of fiscal 2018 and we continue to believe digital revenue represents a future growth opportunity for Postmedia and as a result we are focused on various new products and initiatives in this area including digital marketing services and providing customized, full-service solutions to increase a business' overall revenue including website development, search engine optimization (SEO) and search engine marketing (SEM).

Our principal expenses consist of compensation, newsprint, distribution and production. These represented 40.2%, 6.5%, 21.5% and 13.4%, respectively, of total operating expenses excluding depreciation, amortization, impairment and restructuring for the three months ended November 30, 2017. We experienced decreases in compensation, newsprint and distribution expenses of \$19.1 million, \$2.3 million and \$3.7 million, respectively, and experienced an increase in production expense of \$2.8 million in the three months ended November 30, 2017 as compared to the same period in the prior year. The decreases in compensation, newsprint and distribution expenses for the three months ended November 30, 2017 are primarily as a result of cost reduction initiatives and decreases in newspaper circulation volumes. The increase in production expenses includes increases in digital advertising production costs as well as the outsourcing of the London Free Press newspaper in October 2016.

As a result of the continuing trends in advertising revenue, we continue to pursue additional cost reduction initiatives as described earlier in "Recent Developments". During the three months ended November 30, 2017, we implemented initiatives which are expected to result in \$14 million of net annualized cost savings.

Our operating results are affected by variations in the cost and availability of newsprint. Newsprint is the principal raw material used in the production of our newspapers and other print publications. It is a commodity that is generally subject to price volatility. We take advantage of the purchasing power that comes with the large volume of newsprint we purchase, as well as our proximity to paper mills across Canada, to minimize our total newsprint expense. Changes in newsprint prices can significantly affect our operating results. A \$50 per tonne increase or decrease in the price of newsprint would be expected to affect our newsprint expense by approximately \$3.4 million on an annualized basis. We experienced a slight increase in newsprint prices in the first quarter of fiscal 2018, but we don't expect a material change in newsprint prices throughout the remainder of fiscal 2018.

Our distribution is primarily outsourced to third party suppliers. The key drivers of our distribution expenses are fuel costs and circulation and insert volumes. Our distribution expenses have decreased during the three months ended November 30, 2017 as compared to the same period in the prior year primarily related to cost savings as result of a reduction in newspaper circulation volumes and cost reduction initiatives.

Our production expenses include the costs related to outsourced production of our newspapers, digital advertising production costs and ink and other production supplies. Our production expenses have increased during the three months ended November 30, 2017 as a result of increases in digital advertising production costs and the outsourcing of the London Free Press newspaper in October 2016. We expect digital advertising production costs to increase throughout the remainder of fiscal 2018.

Other Factors

Seasonality

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

Critical accounting estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Although these estimates, assumptions and judgements are based upon management's knowledge of the amount, event or actions; actual results could differ from those estimates, assumptions and judgements. The critical accounting estimates used in our interim condensed consolidated financial statements for the three months ended November 30, 2017 and 2016 are not materially different from those disclosed in our annual management's discussion and analysis and annual audited consolidated financial statements for the years ended August 31, 2017 and 2016 except for the estimate of the non-monetary consideration transferred in the business acquisition as described in note 4 in the interim condensed consolidated financial statements for the three months ended November 30, 2017 and 2016.

Operating Results

Postmedia's operating results for the three months ended November 30, 2017 as compared to the three months ended November 30, 2016

	2017	2016 ⁽¹⁾
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	23,911	19,724
Depreciation.....	5,335	6,428
Amortization.....	3,389	4,097
Impairment.....	-	21,592
Restructuring and other items.....	6,924	35,983
Operating income (loss)	8,263	(48,376)
Interest expense.....	7,552	7,901
Gain on disposal of operations.....	(4,676)	-
Gain on debt settlement.....	-	(78,556)
Net financing expense relating to employee benefit plans.....	735	1,471
(Gain) loss on disposal of property and equipment and asset held-for-sale.....	(1,542)	513
Gain on derivative financial instruments.....	(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.....	-	2,085
Net earnings attributable to equity holders of the Company	5,773	17,835

⁽¹⁾ On August 15, 2017, we completed the sale of Infomart, our media monitoring division, and have presented the results of Infomart as discontinued operations. As a result, the statement of operations for the three months ended November 30, 2016 has been revised to reflect this change in presentation.

Revenue

Print advertising

Print advertising revenue decreased \$19.9 million, or 17.9%, to \$91.1 million for the three months ended November 30, 2017 as compared to the same period in prior year, and declines were experienced across all of our major categories including decreases from local advertising of 19.0%, national advertising of 26.5%, and insert advertising of 6.7%. The decreases were due to declines in both volume and rate with the total print advertising linage and average line rate decreasing 7.0% and 15.6%, respectively, during the three months ended November 30, 2017, as compared to the same period in the prior year.

Print circulation

Print circulation revenue decreased \$3.8 million, or 6.1%, to \$58.0 million for the three months ended November 30, 2017 as compared to the same period in the prior year as a result of decreases in circulation volumes partially offset by price increases.

Digital

Digital revenue increased \$4.0 million, or 14.5%, to \$31.3 million for the three months ended November 30, 2017, as compared to the same period in the prior year as a result of increases in programmatic and digital media services revenue and other digital revenue, partially offset by decreases in local and national digital advertising revenue and digital classified revenue.

Other

Other revenue decreased by \$2.1 million, or 19.6%, to \$8.6 million for the three months ended November 30, 2017, as compared to the same period in the prior year, which includes a decrease in commercial printing revenue.

Expenses

Compensation

Compensation expenses decreased \$19.1 million, or 22.3%, to \$66.4 million for the three months ended November 30, 2017, as compared to the same period in the prior year. The decrease in compensation expenses is primarily related to declines in salary and benefits expense of \$15.4 million due to the cost reduction initiatives and a decrease in employee benefit plan expense of \$3.0 million as a result of changes to our employee benefit plans as described earlier in "Recent Developments".

Newsprint

Newsprint expenses decreased \$2.3 million, or 17.8%, to \$10.8 million for the three months ended November 30, 2017 as compared to the same period in the prior year primarily as a result of consumption decreases of 17.4% due to lower newspaper circulation volumes as well as continued usage reduction efforts. Newsprint expenses include newsprint purchased for production at both our owned and outsourced production facilities.

Distribution

Distribution expenses decreased \$3.7 million, or 9.5%, to \$35.5 million for the three months ended November 30, 2017, as compared to the same period in the prior year primarily related to cost savings as a result of the reduction in newspaper circulation volumes and cost reduction initiatives.

Production

Production expenses increased \$2.8 million, or 14.4%, to \$22.0 million for the three months ended November 30, 2017, as compared to the same period in the prior year. The increase in production expenses is related to increases in digital advertising production costs and the outsourcing of the London Free Press newspaper in October 2016, partially offset by the reduction in newspaper circulation volumes and ongoing cost reduction initiatives.

Other operating

Other operating expenses decreased \$3.6 million, or 10.6%, to \$30.4 million for the three months ended November 30, 2017, as compared to the same period in the prior year. The decrease in other operating expenses is primarily related to ongoing cost reduction initiatives.

Operating income before depreciation, amortization, impairment and restructuring

Operating income before depreciation, amortization, impairment and restructuring increased \$4.2 million, or 21.2%, to \$23.9 million for the three months ended November 30, 2017, as compared to the same period in the prior year. The increase in operating income before depreciation, amortization, impairment and restructuring was as a result of decreases in compensation, newsprint, distribution and other operating expenses, partially offset by decreases in revenue and increases in production expenses, all as discussed above.

Depreciation

Depreciation expense decreased \$1.1 million to \$5.3 million for the three months ended November 30, 2017 as compared to the same period in the prior year. The decrease relates to the disposal of properties throughout the year ended August 31, 2017 and a change in the estimate of the useful lives of the production assets of our London printing facility which resulted in an acceleration of depreciation expense in the three months ended November 30, 2016.

Amortization

Amortization expense decreased \$0.7 million to \$3.4 million for the three months ended November 30, 2017 as compared to the same period in the prior year. The decrease relates primarily to subscriber lists that were fully amortized in the year ended August 31, 2017.

Impairment

During the three months ended November 30, 2017, we recorded no impairment. During the three months ended November 30, 2016, due to indicators of potential impairment we performed an interim impairment test. As a result of the impairment test during the three months ended November 30, 2016, we recognized an impairment charge of \$21.6 million which was allocated to our 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.

Restructuring and other items

Restructuring and other items expense decreased \$29.1 million to \$6.9 million for the three months ended November 30, 2017 as compared to the same period in the prior year. Restructuring and other items expense for the three months ended November 30, 2017 consists of severance costs of \$4.9 million, which include both involuntary and voluntary buyouts, provisions for onerous leases related to unoccupied property and onerous contracts of \$0.8 million and \$0.7 million, respectively, and \$0.5 million of acquisition costs related to the Torstar Transaction as described earlier in "Recent Developments". Restructuring and other items expense for the three months ended November 30, 2016 consisted of severance costs of \$23.9 million, which include both involuntary and voluntary buyouts and \$12.1 million of costs related to the Recapitalization Transaction as described earlier in "Recent Developments".

Operating income (loss)

Operating income in the three months ended November 30, 2017 was \$8.3 million as compared to operating loss of \$48.4 million during the same period in the prior year. Operating income is the result of an increase in operating income before depreciation, amortization, impairment and restructuring, no impairments in the three months ended November 30, 2017, and a decrease in restructuring and other items expense.

Interest expense

Interest expense decreased \$0.3 million to \$7.6 million for the three months ended November 30, 2017, as compared to the same period in the prior year. Interest expense primarily relates to interest on our long-term debt that is recognized using the effective interest rate method, which amortizes the initial debt issuance costs and includes both cash and non-cash interest. The decrease in interest expense relates to a decrease in cash interest of \$1.5 million, partially offset by an increase in non-cash interest of \$1.2 million. The decrease in cash interest expense is as a result of a decreases in the amount of First-Lien Notes outstanding as described earlier in “Recent Developments”. The increase in non-cash interest is primarily related to an increase in the paid-in-kind interest on the New Second-Lien Notes that were issued as part of the Recapitalization Transaction as described earlier in “Recent Developments”.

Gain on disposal of operations

During the three months ended November 30, 2017, we completed a non-monetary transaction as described earlier in “Recent Developments” and recognized a gain on disposal of operations of \$4.7 million which represents the difference between the acquisition consideration, or the fair value properties transferred, and the carrying value of the net liabilities transferred.

Gain on debt settlement

During the three months ended November 30, 2017, no settlement of debt occurred. During the three months ended November 30, 2016, we settled our Second-Lien Notes through the issuance of shares and realized a gain on debt settlement of \$78.6 million. The gain on debt settlement is the difference between the carrying value of the Second-Lien Notes of \$354.1 million and the fair value of the Shares issued on October 5, 2016 of \$275.5 million.

Net financing expense relating to employee benefit plans

Net financing expense relating to employee benefit plans decreased \$0.7 million to \$0.7 million for the three months ended November 30, 2017, as compared to the same period in the prior year.

Gain (loss) on disposal of property and equipment and asset held-for-sale

During the three months ended November 30, 2017, we disposed of property and equipment and an asset held-for-sale and realized a gain of \$1.5 million. During the three months ended November 30, 2016, we disposed of property and equipment and realized a loss of \$0.5 million.

Gain on derivative financial instruments

Gain on derivative financial instruments for the three months ended November 30, 2017 was \$3.1 million as compared to \$0.2 million during the same period in the prior year. The gain in the three months ended November 30, 2017 and 2016 relates to gains on warrants acquired in January 2016 as part of a marketing collaboration agreement with Mogo Finance Technology Inc.

Foreign currency exchange losses

Foreign currency exchange losses for the three months ended November 30, 2017 were \$3.5 million as compared to \$4.7 million during the same period in the prior year. Foreign currency exchange losses in the three months ended November 30, 2017 consist primarily of unrealized losses of \$3.4 million related to changes in the carrying value of the New Second-Lien Notes. Foreign currency exchange losses in the three months ended November 30, 2016 consisted primarily of unrealized losses of \$3.5 million related to changes in the carrying value of the New Second-Lien Notes and foreign exchange losses of \$1.8 million related to the Second-Lien Notes.

Earnings before income taxes

Earnings before income taxes was \$5.8 million for the three months ended November 30, 2017, as compared to \$15.8 million for the same period in the prior year. The decrease in earnings before income taxes is primarily the result of a gain on debt settlement in the three months ended November 30, 2016, partially offset by operating income in the three months ended November 30, 2017, all as discussed above.

Provision for income taxes

We have not recorded a current or deferred tax expense or recovery for the three months ended November 30, 2017 or 2016. Current taxes payable or recoverable result in a decrease or increase, respectively, to our tax loss carryforward balances. The cumulative tax loss carryforward balances have not been recognized as a net deferred tax asset on the consolidated statement of financial position.

Net earnings from continuing operations

Net earnings from continuing operations was \$5.8 million for the three months ended November 30, 2017, as compared to \$15.8 million for the same period in the prior year. Net earnings from continuing operations is as a result of the factors described above in earnings before income taxes and provision for income taxes.

Net earnings from discontinued operations

Net earnings from discontinued operations for the three months ended November 30, 2016 was \$2.1 million. Net earnings from discontinued operations for the three months ended November 30, 2016 consists of net earnings from Infomart, which was sold August 15, 2017. Refer to note 6 of our interim condensed consolidated financial statements for the three months ended November 30, 2017 and 2016 for more details on net earnings from discontinued operations.

Net earnings attributable to equity holders of the Company

Net earnings for the three months ended November 30, 2017 was \$5.8 million as compared to \$17.8 million for the same period in the prior year, as a result of the factors described above in net earnings from continuing operations and net earnings from discontinued operations.

Consolidated quarterly financial information

(\$ in thousands of Canadian dollars, except per share information)	Fiscal 2018		Fiscal 2017				Fiscal 2016		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Total revenues.....	188,990	176,813	194,045	180,799	214,850	198,674	218,318	209,084	
Net earnings (loss) from continuing operations.....	5,773	2,417	11,133	(28,456)	15,750	(101,527)	(25,702)	(227,160)	
Net earnings (loss) per share from continuing operations									
Basic.....	\$ 0.06	\$ 0.03	\$ 0.12	\$ (0.30)	\$ 0.10	\$ (0.36)	\$ (0.09)	\$ (0.81)	
Diluted.....	\$ 0.06	\$ 0.03	\$ 0.12	\$ (0.30)	\$ 0.10	\$ (0.36)	\$ (0.09)	\$ (0.81)	
Net earnings (loss) attributable to equity holders of the Company.....	5,773	40,327	13,046	(26,453)	17,835	(99,440)	(23,682)	(225,129)	
Net earnings (loss) per share attributable to equity holders of the Company									
Basic.....	\$ 0.06	\$ 0.43	\$ 0.14	\$ (0.28)	\$ 0.11	\$ (0.35)	\$ (0.08)	\$ (0.80)	
Diluted.....	\$ 0.06	\$ 0.43	\$ 0.14	\$ (0.28)	\$ 0.11	\$ (0.35)	\$ (0.08)	\$ (0.80)	
Cash flows from (used in) operating activities.....	(2,458)	843	(11,268)	12,014	(37,919)	(4,698)	6,421	(5,591)	

Liquidity and capital resources

Our principal uses of funds are for working capital requirements, debt servicing and capital expenditures. Based on our current and anticipated level of operations, we believe that our cash on hand and cash flows from operations and available borrowings under our ABL Facility will enable us to meet our working capital, debt servicing, capital expenditure and other funding requirements for the next twelve months. However, our ability to fund our working capital needs, debt servicing and other funding requirements depends on our future operating performance and cash flows. There are a number of factors which may adversely affect our operating performance and our ability to meet these obligations as described earlier in “Key Factors Affecting Operating Results”. Our cash flows from operating activities may be impacted by, among other things, the overall strength of the economy, competition from digital media and other forms of media as well as competition from alternative emerging technologies. In addition, in recent years there has been a growing shift in advertising dollars from newspaper advertising to other advertising formats, particularly online and other digital platforms such as search and social media websites. More recently, we have experienced continued declines in revenues due to ongoing economic and structural factors resulting in an increasingly challenging operating environment. We have significant debt obligations which currently include the First-Lien Notes (\$142.1 million) that mature in July 2021 and New Second-Lien Notes (US\$97.0 million) that mature in July 2023. These economic and structural factors related to our industry have had an impact on liquidity risk which is the risk that we will not be able to meet our financial obligations associated with existing and future financial liabilities that are and will be settled by delivering cash or another financial asset as they come due. We manage this risk by monitoring cash flow forecasts, implementing cost reduction initiatives as described earlier in “Recent Developments”, deferring or eliminating discretionary spending, monitoring and maintaining compliance with terms of the note indentures, identifying and selling redundant assets including certain real estate assets and utilizing the ABL Facility to provide additional liquidity during season fluctuations of the business.

As at November 30, 2017, we have restricted cash of \$5.7 (August 31, 2017 - \$67.8 million) which represents a portion of the Infomart Transaction proceeds paid into escrow to satisfy claims arising under the purchase agreement for a period of up to 18 months. 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. During the three months ended November 30, 2017, we sold property and equipment classified as held-for-sale for net proceeds of \$9.9 million and used \$72.0 million of restricted cash to redeem \$69.5 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$2.5 million.

Cash flows used in operating activities

Our principal sources of liquidity are cash flows from operating activities. For the three months ended November 30, 2017, our cash flows from operating activities were outflows of \$2.5 million (2016 – \$37.9 million). Cash flows from operating activities increased \$35.4 million for the three months ended November 30, 2017, as compared to the same period in the prior year due to an increase in operating income before depreciation, amortization, impairment and restructuring, a decrease in cash interest payments of \$25.2 million which includes the payment of \$21.9 million of accrued interest related to the Second-Lien Notes in the three months ended November 30, 2016 as described earlier in “Recent Developments” and an increase in the net change in non-cash working capital as compared to the same period in the prior year.

As at November 30, 2017 we had cash of \$14.4 million (August 31, 2017 –\$10.8 million).

Cash flows from (used in) investing activities

For the three months ended November 30, 2017, our cash flows from investing activities were inflows of \$9.4 million (2016 – outflows of \$0.1 million). The net cash inflows from investing activities during the three months ended November 30, 2017 include net proceeds received from the sale of property and equipment and an asset held-for-sale of \$9.8 million, partially offset by outflows for capital expenditures related to property and equipment of \$0.1 million and intangible assets of \$0.2 million. The net cash outflows from investing activities during the three months ended November 30, 2016 included outflows for capital expenditures related to property and equipment of \$0.9 million and intangible assets of \$0.4 million, partially offset by net proceeds received from the sale of property and equipment of \$1.1 million.

Cash flows from (used in) financing activities

For the three months ended November 30, 2017, our cash flows from financing activities were outflows of \$3.4 million (2016 – inflows of \$34.8 million). The net cash inflows from financing activities during the three months ended November 30, 2017 include outflows of \$79.4 million related to the repayment of First-Lien Notes, partially offset by net inflows from restricted cash of \$62.0 million and advances from the ABL Facility of \$14.0 million. The net cash inflows from financing activities during the three months ended November 30, 2016 included net proceeds from the issuance of New Second-Lien Notes of \$110.0 million and net inflows from restricted cash of \$3.7 million, partially offset by outflows of \$77.8 million related to the repayment of First-Lien Notes, \$0.9 million of debt issuance costs and \$0.2 million of share issuance costs.

Indebtedness

As of November 30, 2017, we have \$142.1 million First-Lien Notes outstanding, US\$97.0 million New Second-Lien Notes outstanding and \$14.0 million of advances from the ABL Facility (August 31, 2017 - \$221.5 million First-Lien Notes and US\$97.0 million New Second-Lien Notes). The following tables set out the principal and carrying amount of our long-term debt outstanding as at November 30, 2017 and August 31, 2017. The first column of the table translates, where applicable, our US dollar debt to the Canadian equivalent based on the closing foreign exchange rate on November 30, 2017 of US\$1:\$1.2888 (August 31, 2017 – US\$1:\$1.2536).

	As at November 30, 2017			As at August 31, 2017		
(\$ in thousands of Canadian dollars)	Principal Outstanding	Financing fees, discounts and other	Carrying Value	Principal Outstanding	Financing fees, discounts and other	Carrying Value
First-Lien Notes (CDN\$).....	142,051	(1,039)	141,012	221,493	(966)	220,527
New Second-Lien Notes (US\$97.0M)...	124,960	(241)	124,719	121,547	(811)	120,736
ABL Facility (CDN\$).....	14,000	-	14,000	-	-	-
	281,011	(1,280)	279,731	343,040	(1,777)	341,263

Financial Position As at November 30, 2017 and August 31, 2017

(\$ in thousands of Canadian dollars)	As at November 30, 2017	As at August 31, 2017
Current assets.....	123,788	178,574
Total assets.....	403,104	461,718
Current liabilities.....	123,623	195,948
Total liabilities.....	469,067	547,836
Deficiency.....	(65,963)	(86,118)

The decrease in our current assets is primarily due to a decrease in restricted cash and asset held-for-sale, partially offset by an increase in accounts receivable as a result of the seasonality of our business. Total assets decreased as a result of the decrease in current assets as previously described, a decrease in the carrying value of property and equipment and intangible assets as a result of depreciation and amortization three months ended November 30, 2017 and a decrease in other assets, partially offset by an increase in derivative financial instruments. Current liabilities have decreased due to a decrease in the current portion of long-term debt as a result of repayments of First-Lien Notes. The decrease in total liabilities is as a result of the decrease in current liabilities as previously described and decreases in employee benefit plan liabilities as a result of actuarial gains in the three months ended November 30, 2017 partially offset by an increase in the carrying value of long-term debt.

Related Party Transactions

Upon completion of the Recapitalization Transaction, Chatham owns approximately 61,166,689, or 65%, of our Shares. In October 2016, we entered into a consulting agreement with an associated company of Chatham and incurred an expense of \$0.5 million during the three months ended November 30, 2017 (2016 - \$0.3 million). In addition, we have an ABL Facility with associated companies of Chatham as described earlier in "Recent Developments" and during the three months ended November 30, 2017, incurred and paid \$0.1 million of interest expense.

Financial Instruments and Financial Instruments Risk Management

The financial instruments and financial risk management policies and related risks are the same as disclosed in the audited consolidated financial statements for the years ended August 31, 2017 and 2016, except as discussed below.

Foreign currency risk

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

Guarantees and Off-Balance Sheet Arrangements

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

Future Accounting Standards

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

(i) IFRS 9 – Financial Instruments

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

(ii) IFRS 15 – Revenue from Contracts with Customers

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

(iii) IFRS 16 – Leases

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

Risk Factors

The risks relating to our business are described in the section entitled “Risk Factors” included in our annual management’s discussion and analysis for the years ended August 31, 2017 and 2016, which section is incorporated by reference herein.

Internal Controls

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

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

The CEO and CFO have evaluated whether there were changes to Postmedia's internal control over financial reporting during the three months ended November 30, 2017, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting. There were no changes expected to have a material effect on internal control over financial reporting identified during their evaluation.

Share Capital

As at January 8, 2018 we had the following number of shares and options outstanding:

Class C voting shares.....	64,418
Class NC variable voting shares.....	<u>93,652,781</u>
Total shares outstanding.....	<u>93,717,199</u>
Total options and restricted share units outstanding.....	<u>-</u>