



SECOND QUARTER

2018



Second Quarter – Fiscal 2018

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

FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2018 AND 2017

Approved for issuance: April 11, 2018

APRIL 11, 2018

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 and six months ended February 28, 2018 and 2017 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 and six months ended February 28, 2018 and 2017 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 and six months ended February 28, 2018 and 2017 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 April 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 and six months ended February 28, 2018 and 2017, 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 as well as the 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

In February 2018, we received certification from the Ontario Digital Media Corporation that digital media tax credits totaling a net cash claim of \$19.9 million for the period of September 1, 2012 to April 23, 2015 were eligible to be claimed. We have refiled the applicable tax returns to reflect such claim which will be subject to audit by the Canada Revenue Agency. The claim primarily relates to the recovery of previously recognized compensation expenses and as a result during the three and six months ended February 28, 2018, we recorded an initial recovery of compensation expense of \$17.0 million due to the estimation uncertainty of the claim process.

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 closed the remaining properties between November 2017 and 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 six months ended February 28, 2018, 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. During the three months ended February 28, 2018, we incurred severance costs of \$0.4 million and a provision for onerous contracts of \$0.2 million and during the six months ended February 28, 2018, we incurred severance costs of \$3.5 million, provisions for onerous leases and contracts of \$0.8 million and \$0.9 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 consolidated statement of operations. The Competition Bureau is currently reviewing the Torstar Transaction and we are cooperating with the Competition Bureau in connection with its investigation.

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 six months ended February 28, 2018, 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 for 18 months to satisfy claims arising under the purchase agreement. The Infomart Transaction includes the entering into of a transition services agreement for a period of up to 18 months.

During the six months ended February 28, 2018, we sold property and equipment classified as held-for-sale related to the London production facility 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 six months ended February 28, 2018, 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 enrolled in defined benefit pension plans were 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 February 28, 2018, we have \$12.0 million outstanding and availability of \$13.0 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 February 28, 2018 we implemented cost reduction initiatives which are expected to result in approximately \$5 million of net annualized cost savings. In total, we implemented net annualized cost savings of approximately \$19 million since these cost reduction initiatives were announced.

Key Factors Affecting Operating Results

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

Print advertising revenue was \$70.1 million and \$161.2 million for the three and six months ended February 28, 2018, representing 44.5% and 46.5%, of total revenue for such periods, respectively. Our major advertising categories consist of local, national, and inserts. These categories composed 47.8%, 21.6% and 29.0%, respectively, of total print advertising for the three months ended February 28, 2018, and 48.7%, 21.7% and 28.0%, respectively, of total print advertising for the six months ended February 28, 2018.

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 and six months ended February 28, 2018, we experienced print advertising revenue decreases of \$16.3 million, or 18.8% and \$36.1 million, or 18.3%, respectively, as compared to the same periods in the prior year. These decreases in print advertising revenue in the three and six months ended February 28, 2018 relates to weakness across all our major advertising categories including local, national and insert advertising.

Print circulation revenue was \$53.6 million and \$111.6 million for the three and six months ended February 28, 2018, representing 34.0% and 32.2% of total revenue for such periods, respectively. Circulation revenues decreased \$4.6 million, or 7.9%, and \$8.4 million, or 7.0%, in the three and six months ended February 28, 2018, respectively, as compared to the same periods in the prior year. These decreases are 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 and six months ended February 28, 2018. We expect these print circulation revenue trends to continue throughout the remainder of fiscal 2018.

Digital revenue was \$26.4 million and \$57.7 million for the three and six months ended February 28, 2018, respectively, representing 16.7% and 16.6%, respectively, of total revenue for both periods. Digital revenues increased \$2.4 million, or 10.1%, and \$6.4 million, or 12.5%, in the three and six months ended February 28, 2018, respectively, as compared to the same periods in the prior year as a result of increases in programmatic and digital media services revenue, national digital advertising revenue and other digital revenue, partially offset by decreases in local 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 36.2%, 6.6%, 23.4% and 13.9%, respectively, of total operating expenses excluding depreciation, amortization and restructuring for the three months ended February 28, 2018 and 38.4%, 6.6%, 22.3% and 13.6%, respectively, of total operating expenses excluding depreciation, amortization, impairment and restructuring for the six months ended February 28, 2018. We experienced decreases in compensation, newsprint and distribution expenses of \$26.8 million, \$1.6 million and \$4.9 million, respectively, and experienced an increase in production expense of \$1.6 million in the three months ended February 28, 2018 as compared to the same period in the prior year. We experienced decreases in compensation, newsprint and distribution expenses of \$45.8 million, \$3.9 million and \$8.6 million, respectively, and experienced an increase in production expense of \$4.3 million in the six months ended February 28, 2018 as compared to the same period in the prior year. The decrease in compensation expense during the three and six months ended February 28, 2018 includes the recovery of \$17.0 million related to the Ontario Interactive Digital Media Tax Credit as described earlier in "Recent Developments". In addition, the decreases in compensation, newsprint and distribution expenses for the three and six months ended February 28, 2018 are 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 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 February 28, 2018, we implemented initiatives which are expected to result in \$5 million of net annualized cost savings. In total, we implemented net annualized cost savings of approximately \$19 million under these cost reduction initiatives.

Our operating results are affected by variations in the cost and availability of newsprint. Newsprint is the principal raw material used in the production of our newspapers and other print publications. It is a commodity that is generally subject to price volatility. We take advantage of the purchasing power that comes with the large volume of newsprint we purchase, as well as our proximity to paper mills across Canada, to minimize our total newsprint expense. Changes in newsprint prices can significantly affect our operating results. A \$50 per tonne increase or decrease in the price of newsprint would be expected to affect our newsprint expense by approximately \$3.4 million on an annualized basis. We experienced a slight increase in newsprint prices in the first two quarters of fiscal 2018 and expect another increase in the third quarter 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 and six months ended February 28, 2018 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 and six months ended February 28, 2018 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 and six months ended February 28, 2018 and 2017 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 and the estimate of the Ontario Interactive Digital Media Tax Credit receivable as described in notes 4 and 7, respectively, in the interim condensed consolidated financial statements for the three and six months ended February 28, 2018 and 2017.

Operating Results

Postmedia's operating results for the three months ended February 28, 2018 as compared to the three months ended February 28, 2017

	2018	2017 ⁽¹⁾
Revenues		
Print advertising.....	70,071	86,330
Print circulation.....	53,612	58,235
Digital.....	26,372	23,952
Other.....	7,522	8,149
Total revenues	157,577	176,666
Expenses		
Compensation.....	49,347	76,131
Newsprint.....	9,057	10,626
Distribution.....	31,924	36,770
Production.....	18,952	17,387
Other operating.....	27,184	31,745
Operating income before depreciation, amortization, impairment and restructuring	21,113	4,007
Depreciation.....	5,191	5,558
Amortization.....	4,278	3,559
Restructuring and other items.....	3,570	16,806
Operating income (loss)	8,074	(21,916)
Interest expense.....	6,801	7,982
Net financing expense relating to employee benefit plans.....	736	1,471
Gain on disposal of property and equipment.....	-	(578)
(Gain) loss on derivative financial instruments.....	2,565	(973)
Foreign currency exchange gains.....	(776)	(1,362)
Loss before income taxes	(1,252)	(28,456)
Provision for income taxes.....	-	-
Net loss from continuing operations	(1,252)	(28,456)
Net earnings from discontinued operations, net of tax of nil.....	-	2,003
Net loss attributable to equity holders of the Company	(1,252)	(26,453)

⁽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 February 28, 2017 has been revised to reflect this change in presentation.

Revenue

Print advertising

Print advertising revenue decreased \$16.3 million, or 18.8%, to \$70.1 million for the three months ended February 28, 2018 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 24.9%, national advertising of 19.6%, and insert advertising of 6.1%. The decreases were due to declines in both volume and rate with the total print advertising linage and average line rate decreasing 16.7% and 7.9%, respectively, during the three months ended February 28, 2018, as compared to the same period in the prior year.

Print circulation

Print circulation revenue decreased \$4.6 million, or 7.9%, to \$53.6 million for the three months ended February 28, 2018 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 \$2.4 million, or 10.1%, to \$26.4 million for the three months ended February 28, 2018, as compared to the same period in the prior year as a result of increases in programmatic and digital media services revenue, national digital advertising revenue and other digital revenue, partially offset by decreases in local digital advertising revenue and digital classified revenue.

Other

Other revenue decreased by \$0.6 million, or 7.7%, to \$7.5 million for the three months ended February 28, 2018, as compared to the same period in the prior year.

Expenses

Compensation

Compensation expenses decreased \$26.8 million, or 35.2%, to \$49.3 million for the three months ended February 28, 2018, as compared to the same period in the prior year. The decrease in compensation expenses is partially due to the recovery of \$17.0 million relating to the Ontario Interactive Digital Media Tax Credit as described earlier in "Recent Developments". Excluding this recovery, compensation expenses decreased \$9.8 million, or 12.9%, as compared to the same period in the prior year, as a result declines in salary and benefits expense of \$7.7 million due to the cost reduction initiatives and a decrease in employee benefit plan expense of \$4.0 million as a result of changes to our employee benefit plans as described earlier in "Recent Developments" partially offset by an increase in share-based compensation expense of \$2.5 million as a result of awards granted in the three months ended February 28, 2018.

Newsprint

Newsprint expenses decreased \$1.6 million, or 14.8%, to \$9.1 million for the three months ended February 28, 2018 as compared to the same period in the prior year primarily as a result of consumption decreases of 17.2% due to lower newspaper circulation volumes as well as continued usage reduction efforts. Newsprint expenses include newsprint purchased for production at both our owned and outsourced production facilities.

Distribution

Distribution expenses decreased \$4.8 million, or 13.2%, to \$31.9 million for the three months ended February 28, 2018, 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 \$1.6 million, or 9.0%, to \$19.0 million for the three months ended February 28, 2018, as compared to the same period in the prior year. The increase in production expenses is related to increases in digital advertising production costs partially offset by the reduction in newspaper circulation volumes and ongoing cost reduction initiatives.

Other operating

Other operating expenses decreased \$4.6 million, or 14.4%, to \$27.2 million for the three months ended February 28, 2018, 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 \$17.1 million to \$21.1 million for the three months ended February 28, 2018, as compared to the same period in the prior year. The increase in operating income before depreciation, amortization, impairment and restructuring was as a result of decreases in compensation, newsprint, distribution and other operating expenses, partially offset by decreases in revenue and increases in production expenses, all as discussed above.

Depreciation

Depreciation expense decreased \$0.4 million to \$5.2 million for the three months ended February 28, 2018 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 partially offset by a change in the estimate of the useful lives of the production assets of our Islington printing facility which resulted in an acceleration of depreciation expense in the three months ended February 28, 2018.

Amortization

Amortization expense increased \$0.7 million to \$4.3 million for the three months ended February 28, 2018 as compared to the same period in the prior year. The increase relates to the amortization expense of intangible assets acquired in the Torstar Transaction described earlier in “Recent Developments”.

Restructuring and other items

Restructuring and other items expense decreased \$13.2 million to \$3.6 million for the three months ended February 28, 2018 as compared to the same period in the prior year. Restructuring and other items expense for the three months ended February 28, 2018 consists of severance costs of \$3.4 million, which include both involuntary and voluntary buyouts, and provisions for onerous contracts of \$0.2 million related to the Torstar Transaction as described earlier in “Recent Developments”. Restructuring and other items expense for the three months ended February 28, 2017 consisted of severance costs of \$16.8 million, which included both involuntary and voluntary buyouts.

Operating income (loss)

Operating income in the three months ended February 28, 2018 was \$8.1 million as compared to operating loss of \$21.9 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 and a decrease in restructuring and other items expense.

Interest expense

Interest expense decreased \$1.2 million to \$6.8 million for the three months ended February 28, 2018, 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 \$0.3 million. The decrease in cash interest expense is as a result of 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”.

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 February 28, 2018, as compared to the same period in the prior year.

Gain on disposal of property and equipment

During the three months ended February 28, 2017, we disposed of property and equipment and realized a gain of \$0.6 million.

(Gain) loss on derivative financial instruments

Loss on derivative financial instruments for the three months ended February 28, 2018 was \$2.6 million as compared to a gain on derivative financial instruments of \$1.0 million during the same period in the prior year. The loss and gain in the three months ended February 28, 2018 and 2017 relates to the revaluation of warrants acquired in January 2016 as part of a marketing collaboration agreement with Mogo Finance Technology Inc.

Foreign currency exchange gains

Foreign currency exchange gains for the three months ended February 28, 2018 were \$0.8 million as compared to \$1.4 million during the same period in the prior year. Foreign currency exchange gains in the three months ended February 28, 2018 consist primarily of unrealized gains of \$0.5 million related to changes in the carrying value of the New Second-Lien Notes. Foreign currency exchange gains in the three months ended February 28, 2017 consisted primarily of unrealized gains of \$1.2 million related to changes in the carrying value of the New Second-Lien Notes.

Loss before income taxes

Loss before income taxes was \$1.3 million for the three months ended February 28, 2018, as compared to \$28.5 million for the same period in the prior year. The decrease in loss before income taxes is primarily the result of operating income in the three months ended February 28, 2018 partially offset by a loss on derivative financial instruments in the three months ended February 28, 2018 both as discussed above.

Provision for income taxes

We have not recorded a current or deferred tax expense or recovery for the three months ended February 28, 2018 or 2017. 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 loss from continuing operations

Net loss from continuing operations was \$1.3 million for the three months ended February 28, 2018, as compared to \$28.5 million for the same period in the prior year. Net loss from continuing operations is as a result of the factors described above in loss before income taxes and provision for income taxes.

Net earnings from discontinued operations

Net earnings from discontinued operations for the three months ended February 28, 2017 was \$2.0 million. Net earnings from discontinued operations for the three months ended February 28, 2017 consisted 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 and six months ended February 28, 2018 and 2017 for more details on net earnings from discontinued operations.

Net loss attributable to equity holders of the Company

Net loss for the three months ended February 28, 2018 was \$1.3 million as compared to \$26.5 million for the same period in the prior year, as a result of the factors described above in net loss from continuing operations and net earnings from discontinued operations.

Operating Results

Postmedia's operating results for the six months ended February 28, 2018 as compared to the six months ended February 28, 2017

	2018	2017 ⁽¹⁾
Revenues		
Print advertising.....	161,196	197,327
Print circulation.....	111,625	120,021
Digital.....	57,661	51,274
Other.....	16,085	18,805
Total revenues	346,567	387,427
Expenses		
Compensation	115,711	161,552
Newsprint.....	19,858	23,760
Distribution.....	67,385	75,959
Production.....	41,000	36,658
Other operating.....	57,589	65,767
Operating income before depreciation, amortization, impairment and restructuring	45,024	23,731
Depreciation.....	10,526	11,986
Amortization.....	7,667	7,656
Impairment.....	-	21,592
Restructuring and other items.....	10,494	52,789
Operating income (loss)	16,337	(70,292)
Interest expense.....	14,353	15,883
Gain on disposal of operations.....	(4,676)	-
Gain on debt settlement.....	-	(78,556)
Net financing expense relating to employee benefit plans.....	1,471	2,942
Gain on disposal of property and equipment and asset held-for-sale.....	(1,542)	(65)
Gain on derivative financial instruments.....	(535)	(1,156)
Foreign currency exchange losses	2,745	3,366
Earnings (loss) before income taxes	4,521	(12,706)
Provision for income taxes.....	-	-
Net earnings (loss) from continuing operations	4,521	(12,706)
Net earnings from discontinued operations, net of tax of nil.....	-	4,088
Net earnings (loss) attributable to equity holders of the Company	4,521	(8,618)

⁽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 six months ended February 28, 2017 has been revised to reflect this change in presentation.

Revenue

Print advertising

Print advertising revenue decreased \$36.1 million, or 18.3%, to \$161.2 million for the six months ended February 28, 2018 as compared to the same period in prior year, and declines were experienced across all of our major categories including decreases from local advertising of 21.6%, national advertising of 23.7%, and insert advertising of 6.5%. The decreases were due to declines in both volume and rate with the total print advertising lineage and average line rate decreasing 11.3% and 12.4%, respectively, during the six months ended February 28, 2018, as compared to the same period in the prior year.

Print circulation

Print circulation revenue decreased \$8.4 million, or 7.0%, to \$111.6 million for the six months ended February 28, 2018 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 \$6.4 million, or 12.5%, to \$57.7 million for the six months ended February 28, 2018, as compared to the same period in the prior year as a result of increases in programmatic and digital media services revenue, national digital advertising revenue and other digital revenue, partially offset by decreases in local digital advertising revenue and digital classified revenue.

Other

Other revenue decreased by \$2.7 million, or 14.5%, to \$16.1 million for the six months ended February 28, 2018, as compared to the same period in the prior year, which includes a decrease in commercial printing revenue.

Expenses

Compensation

Compensation expenses decreased \$45.8 million, or 28.4%, to \$115.7 million for the six months ended February 28, 2018, as compared to the same period in the prior year. The decrease in compensation expenses is partially due to the recovery of \$17.0 million relating to the Ontario Interactive Digital Media Tax Credit as described earlier in "Recent Developments". Excluding this recovery, compensation expenses decreased \$28.8 million, or 17.9%, as compared to the same period in the prior year, as a result declines in salary and benefits expense of \$23.2 million due to the cost reduction initiatives and a decrease in employee benefit plan expense of \$7.0 million as a result of changes to our employee benefit plans as described earlier in "Recent Developments" partially offset by an increase in share-based compensation expense of \$2.3 million as a result of awards granted in the three months ended February 28, 2018.

Newsprint

Newsprint expenses decreased \$3.9 million, or 16.4%, to \$19.9 million for the six months ended February 28, 2018 as compared to the same period in the prior year primarily as a result of consumption decreases of 17.3% 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 \$8.6 million, or 11.3%, to \$67.4 million for the six months ended February 28, 2018, 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 \$4.3 million, or 11.8%, to \$41.0 million for the six months ended February 28, 2018, as compared to the same period in the prior year. The increase in production expenses is related to increases in digital advertising production costs partially offset by the reduction in newspaper circulation volumes and ongoing cost reduction initiatives.

Other operating

Other operating expenses decreased \$8.2 million, or 12.4%, to \$57.6 million for the six months ended February 28, 2018, 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 \$21.3 million to \$45.0 million for the six months ended February 28, 2018, 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 \$1.5 million to \$10.5 million for the six months ended February 28, 2018 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 six months ended February 28, 2017 partially offset by a change in the estimate of the useful lives of the production assets of our Islington printing facility which resulted in an acceleration of depreciation expense in the six months ended February 28, 2018.

Amortization

Amortization expense increased a nominal amount to \$7.7 million for the six months ended February 28, 2018 as compared to the same period in the prior year. The increase relates to the amortization expense of intangible assets acquired in the Torstar Transaction described earlier in "Recent Developments" offset by subscriber lists that were fully amortized in the year ended August 31, 2017.

Impairment

During the six months ended February 28, 2018, we recorded no impairment. During the six months ended February 28, 2017, due to indicators of potential impairment we performed an interim impairment test. As a result of the impairment test during the six months ended February 28, 2017, 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 \$42.3 million to \$10.5 million for the six months ended February 28, 2018 as compared to the same period in the prior year. Restructuring and other items expense for the six months ended February 28, 2018 consists of severance costs of \$8.3 million, which include both involuntary and voluntary buyouts, provisions for onerous leases related to unoccupied property and onerous contracts of \$0.8 million and \$0.9 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 six months ended February 28, 2017 consisted of severance costs of \$40.7 million, which included 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 six months ended February 28, 2018 was \$16.3 million as compared to operating loss of \$70.3 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 six months ended February 28, 2018, and a decrease in restructuring and other items expense.

Interest expense

Interest expense decreased \$1.5 million to \$14.3 million for the six months ended February 28, 2018, 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 \$3.0 million, partially offset by an increase in non-cash interest of \$1.5 million. The decrease in cash interest expense is as a result of 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 on October 5, 2016 as part of the Recapitalization Transaction as described earlier in “Recent Developments”.

Gain on disposal of operations

During the six months ended February 28, 2018, 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 six months ended February 28, 2018, no settlement of debt occurred. During the six months ended February 28, 2017, we settled our Second-Lien Notes through the issuance of shares as described earlier in “Recent Developments” 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 \$1.5 million to \$1.5 million for the six months ended February 28, 2018, as compared to the same period in the prior year.

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

During the six months ended February 28, 2018, we disposed of property and equipment and an asset held-for-sale and realized a gain of \$1.5 million. During the six months ended February 28, 2017, we disposed of property and equipment and realized a gain of \$0.1 million.

Gain on derivative financial instruments

Gain on derivative financial instruments for the six months ended February 28, 2018 was \$0.6 million as compared to \$1.2 million during the same period in the prior year. The gains in the six months ended February 28, 2018 and 2017 relates to the revaluation of warrants acquired in January 2016 as part of a marketing collaboration agreement with Mogo Finance Technology Inc.

Foreign currency exchange losses

Foreign currency exchange loss for the six months ended February 28, 2018 were \$2.7 million as compared to \$3.4 million during the same period in the prior year. Foreign currency exchange losses in the six months ended February 28, 2018 consist primarily of unrealized losses of \$2.9 million related to changes in the carrying value of the New Second-Lien Notes. Foreign currency exchange losses in the six months ended February 28, 2017 consisted primarily of unrealized losses of \$2.2 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 (loss) before income taxes

Earnings before income taxes was \$4.5 million for the six months ended February 28, 2018, as compared to loss before income taxes of \$12.7 million for the same period in the prior year. Earnings before income taxes is primarily the result of operating income and the gain on disposal of operations in the six months ended February 28, 2018 and a decrease in interest expense partially offset by the gain on debt settlement in the six months ended February 28, 2017 all as discussed above.

Provision for income taxes

We have not recorded a current or deferred tax expense or recovery for the six months ended February 28, 2018 or 2017. Current taxes payable or recoverable result in a decrease or increase, respectively, to our tax loss carryforward balances. The cumulative tax loss carryforward balances have not been recognized as a net deferred tax asset on the consolidated statement of financial position.

Net earnings (loss) from continuing operations

Net earnings from continuing operations was \$4.5 million for the six months ended February 28, 2018, as compared to net loss from continuing operations of \$12.7 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 (loss) before income taxes and provision for income taxes.

Net earnings from discontinued operations

Net earnings from discontinued operations for the six months ended February 28, 2017 was \$4.1 million. Net earnings from discontinued operations for the six months ended February 28, 2017 consisted 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 and six months ended February 28, 2018 and 2017 for more details on net earnings from discontinued operations.

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

Net earnings for the six months ended February 28, 2018 was \$4.5 million as compared to net loss of \$8.6 million for the same period in the prior year, as a result of the factors described above in net loss 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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenues.....	157,577	188,990	176,813	194,045	180,799	214,850	198,674	218,318
Net earnings (loss) from continuing operations.....	(1,252)	5,773	2,417	11,133	(28,456)	15,750	(101,527)	(25,702)
Net earnings (loss) per share from continuing operations								
Basic.....	\$ (0.01)	\$ 0.06	\$ 0.03	\$ 0.12	\$ (0.30)	\$ 0.10	\$ (0.36)	\$ (0.09)
Diluted.....	\$ (0.01)	\$ 0.06	\$ 0.03	\$ 0.12	\$ (0.30)	\$ 0.10	\$ (0.36)	\$ (0.09)
Net earnings (loss) attributable to equity holders of the Company.....	(1,252)	5,773	40,327	13,046	(26,453)	17,835	(99,440)	(23,682)
Net earnings (loss) per share attributable to equity holders of the Company								
Basic.....	\$ (0.01)	\$ 0.06	\$ 0.43	\$ 0.14	\$ (0.28)	\$ 0.11	\$ (0.35)	\$ (0.08)
Diluted.....	\$ (0.01)	\$ 0.06	\$ 0.43	\$ 0.14	\$ (0.28)	\$ 0.11	\$ (0.35)	\$ (0.08)
Cash flows from (used in) operating activities.....	1,844	(2,458)	843	(11,268)	12,014	(37,919)	(4,698)	6,421

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\$102.4 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.

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. As at February 28, 2018, 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. During the six months ended February 28, 2018, 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 and six months ended February 28, 2018, our cash flows from operating activities were inflows of \$1.8 million and outflows of \$0.6 million, respectively (2017 – inflows of \$12.0 million and outflows of \$25.9 million, respectively). Cash flows from operating activities decreased \$10.2 million for the three months ended February 28, 2018, as compared to the same period in the prior year due to an increase in non-cash working capital as compared to the same period in the prior year which includes the \$17.0 million receivable related to the Ontario Interactive Digital Media Tax Credit as described earlier in “Recent Developments”, partially offset by an increase in operating income before depreciation, amortization, impairment and restructuring and a decrease in cash restructuring payments of \$0.6 million. Cash flows from operating activities increased \$25.3 million for the six months ended February 28, 2018, 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 \$25.1 million which includes the payment of \$21.9 million of accrued interest related to the Second-Lien Notes in the six months ended February 28, 2017 as described earlier in “Recent Developments” partially offset by an increase in non-cash working capital as compared to the same period in the prior year which includes the \$17.0 million receivable related to the Ontario Interactive Digital Media Tax Credit as described earlier in “Recent Developments”.

As at February 28, 2018 we had cash of \$14.0 million (August 31, 2017 –\$10.8 million).

Cash flows from (used in) investing activities

For the three and six months ended February 28, 2018, our cash flows from investing activities were outflows of \$0.3 million and inflows of \$9.1 million, respectively (2017 – nominal inflows and outflows of \$0.1 million, respectively). The cash outflows from investing activities during the three months ended February 28, 2018 include outflows for capital expenditures related to property and equipment of \$0.1 million and intangible assets of \$0.2 million. The net cash inflows from investing activities during the three months ended February 28, 2017 included net proceeds received from the sale of property and equipment of \$0.8 million, partially offset by outflows on capital expenditures related to property and equipment of \$0.4 million and intangible assets of \$0.4 million. The net cash outflows from investing activities during the six months ended February 28, 2018 include the 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 \$0.3 million and intangible assets of \$0.4 million. The net cash outflows from investing activities during the six months ended February 28, 2017 included outflows for capital expenditures related to property and equipment of \$1.2 million and intangible assets of \$0.8 million, partially offset by net proceeds received from the sale of property and equipment of \$1.9 million.

Cash flows from (used in) financing activities

For the three and six months ended February 28, 2018, our cash flows from financing activities were outflows of \$2.0 million and \$5.4 million, respectively (2017 – outflows of \$0.8 million and inflows of \$34.0 million, respectively). The cash outflows from financing activities during the six months ended February 28, 2018 related to the repayment of advances from the ABL Facility of \$2.0 million. The net cash outflows from financing activities during the three months ended February 28, 2017 included \$1.1 million related to the repayment of First-Lien Notes, partially offset by net inflows from restricted cash of \$0.4 million. The net cash inflows from financing activities during the six months ended February 28, 2018 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 \$12.0 million. The net cash inflows from financing activities during the six months ended February 28, 2017 included net proceeds from the issuance of New Second-Lien Notes of \$110.0 million and net inflows from restricted cash of \$4.1 million, partially offset by outflows of \$78.9 million related to the repayment of First-Lien Notes, \$1.0 million of debt issuance costs and \$0.2 million of share issuance costs.

Indebtedness

As of February 28, 2018, we have \$142.1 million First-Lien Notes outstanding, US\$102.4 million New Second-Lien Notes outstanding and \$12.0 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). In addition to the cash transactions discussed above, during the six months ended February 28, 2018, the Company issued additional New Second-Lien Notes in the amount of US\$5.5 million (\$6.7 million) related to paid-in-kind interest for the period from August 1, 2017 to January 31, 2018. The following tables set out the principal and carrying amount of our long-term debt outstanding as at February 28, 2018 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 February 28, 2018 of US\$1:\$1.2809 (August 31, 2017 – US\$1:\$1.2536).

(\$ in thousands of Canadian dollars)	As at February 28, 2018			As at August 31, 2017		
	Principal Outstanding	Financing fees, discounts and other	Carrying Value	Principal Outstanding	Financing fees, discounts and other	Carrying Value
First-Lien Notes.....	142,051	(969)	141,082	221,493	(966)	220,527
New Second-Lien Notes.....	131,180	(237)	130,943	121,547	(811)	120,736
ABL Facility.....	12,000	-	12,000	-	-	-
Total.....	285,231	(1,206)	284,025	343,040	(1,777)	341,263

Financial Position As at February 28, 2018 and August 31, 2017

(\$ in thousands of Canadian dollars)	As at February 28, 2018	As at August 31, 2017
Current assets.....	125,332	178,574
Total assets.....	392,938	461,718
Current liabilities.....	123,492	195,948
Total liabilities.....	454,545	547,836
Deficiency.....	(61,607)	(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 Ontario Interactive Digital Media Tax Credit receivable. 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 in excess of additions in the six months ended February 28, 2018 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 and a decrease in provisions as a result of restructuring payments. 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 six months ended February 28, 2018 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 during the three and six months ended February 28, 2018 incurred an expense of \$0.5 million and \$1.0 million, respectively (2017 - \$0.5 million and \$0.8 million, respectively). In addition, we have an ABL Facility with associated companies of Chatham as described earlier in "Recent Developments" and during the three and six months ended February 28, 2018, incurred interest expense of \$0.2 million and \$0.3 million, respectively, and paid interest of \$0.1 million and \$0.2 million, respectively (2017 – incurred a nominal amount and paid nil).

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 February 28, 2018, approximately 46% of the outstanding principal on our long-term debt is payable in US dollars (August 31, 2017 – 35%). As at February 28, 2018, we have US\$102.4 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.

(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 February 28, 2018, 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 April 9, 2018 we had the following number of shares and options outstanding:

Class C voting shares.....	61,687
Class NC variable voting shares.....	93,655,512
Total shares outstanding.....	<u>93,717,199</u>
Total options and restricted share units outstanding.....	<u>5,518,930</u>

POSTMEDIA NETWORK CANADA CORP.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2018 AND 2017
(UNAUDITED)

Approved for issuance: April 11, 2018

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

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

	For the three months ended		For the six months ended	
	February 28,		February 28,	
	2018	2017	2018	2017
		(note 6)		(note 6)
Revenues				
Print advertising	70,071	86,330	161,196	197,327
Print circulation	53,612	58,235	111,625	120,021
Digital	26,372	23,952	57,661	51,274
Other	7,522	8,149	16,085	18,805
Total revenues	157,577	176,666	346,567	387,427
Expenses				
Compensation (note 7)	49,347	76,131	115,711	161,552
Newsprint	9,057	10,626	19,858	23,760
Distribution	31,924	36,770	67,385	75,959
Production	18,952	17,387	41,000	36,658
Other operating	27,184	31,745	57,589	65,767
Operating income before depreciation, amortization, impairment and restructuring (note 3)	21,113	4,007	45,024	23,731
Depreciation	5,191	5,558	10,526	11,986
Amortization	4,278	3,559	7,667	7,656
Impairment (note 9)	-	-	-	21,592
Restructuring and other items (notes 4, 5 and 11)	3,570	16,806	10,494	52,789
Operating income (loss)	8,074	(21,916)	16,337	(70,292)
Interest expense	6,801	7,982	14,353	15,883
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 13)	736	1,471	1,471	2,942
Gain on disposal of property and equipment and asset held-for-sale (note 8)	-	(578)	(1,542)	(65)
(Gain) loss on derivative financial instruments (note 16)	2,565	(973)	(535)	(1,156)
Foreign currency exchange (gains) losses	(776)	(1,362)	2,745	3,366
Earnings (loss) before income taxes	(1,252)	(28,456)	4,521	(12,706)
Provision for income taxes	-	-	-	-
Net earnings (loss) from continuing operations	(1,252)	(28,456)	4,521	(12,706)
Net earnings from discontinued operations, net of tax of nil (note 6)	-	2,003	-	4,088
Net earnings (loss) attributable to equity holders of the Company	(1,252)	(26,453)	4,521	(8,618)

Earnings (loss) per share attributable to equity holders of the Company (note 14):

Basic	\$	(0.01)	\$	(0.30)	\$	0.05	\$	(0.10)
Diluted	\$	(0.01)	\$	(0.30)	\$	0.05	\$	(0.10)

Earnings per share from discontinued operations (note 14):

Basic	\$	-	\$	0.02	\$	-	\$	0.04
Diluted	\$	-	\$	0.02	\$	-	\$	0.04

Earnings (loss) per share attributable to equity holders of the Company (note 14):

Basic	\$	(0.01)	\$	(0.28)	\$	0.05	\$	(0.06)
Diluted	\$	(0.01)	\$	(0.28)	\$	0.05	\$	(0.06)

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

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

(In thousands of Canadian dollars)

	For the three months ended February 28,		For the six months ended February 28,	
	2018	2017	2018	2017
		(note 6)		(note 6)
Net earnings (loss) attributable to equity holders of the Company	(1,252)	(26,453)	4,521	(8,618)
Amounts not subsequently reclassified to the statement of operations				
Net actuarial gains on employee benefits, net of tax of nil (note 13)	3,078	25,086	17,460	65,974
Other comprehensive income	3,078	25,086	17,460	65,974
Comprehensive income (loss) attributable to equity holders of the Company	1,826	(1,367)	21,981	57,356
Total comprehensive income (loss) attributable to equity holders of the Company:				
Continuing operations	1,826	(3,370)	21,981	53,268
Discontinued operations	-	2,003	-	4,088
Comprehensive income (loss) attributable to equity holders of the Company	1,826	(1,367)	21,981	57,356

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

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

(In thousands of Canadian dollars)

	As at February 28, 2018	As at August 31, 2017
ASSETS		
Current Assets		
Cash	13,951	10,848
Restricted cash (note 8)	5,709	67,751
Accounts receivable (note 7)	88,851	74,180
Asset held-for-sale (note 8)	-	8,292
Inventory	6,043	6,001
Prepaid expenses and other assets	10,778	11,502
Total current assets	125,332	178,574
Non-Current Assets		
Property and equipment	184,479	194,758
Derivative financial instruments (note 16)	1,800	1,265
Other assets (note 13)	-	1,508
Intangible assets (note 4)	81,327	85,613
Total assets	392,938	461,718
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (note 10)	54,938	59,778
Provisions (note 11)	15,991	23,400
Deferred revenue	30,563	33,268
Current portion of long-term debt (note 12)	22,000	79,502
Total current liabilities	123,492	195,948
Non-Current Liabilities		
Long-term debt (note 12)	262,025	261,761
Employee benefit obligations and other liabilities (note 13)	68,238	89,030
Provisions (note 11)	790	1,097
Total liabilities	454,545	547,836
Deficiency		
Capital stock	810,836	810,836
Contributed surplus (note 15)	12,942	10,412
Deficit	(885,385)	(907,366)
Total deficiency	(61,607)	(86,118)
Total liabilities and deficiency	392,938	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)

(In thousands of Canadian dollars)

	For the six months ended February 28, 2018			
	Capital stock	Contributed surplus	Deficit	Total Deficiency
Balance as at August 31, 2017	810,836	10,412	(907,366)	(86,118)
Net earnings attributable to equity holders of the Company	-	-	4,521	4,521
Other comprehensive income	-	-	17,460	17,460
Comprehensive income attributable to equity holders of the Company	-	-	21,981	21,981
Share-based compensation plans (note 15)	-	2,530	-	2,530
Balance as at February 28, 2018	810,836	12,942	(885,385)	(61,607)

	For the six months ended February 28, 2017			
	Capital stock	Contributed surplus	Deficit	Total Deficiency
Balance as at August 31, 2016	535,468	10,315	(1,024,225)	(478,442)
Net loss attributable to equity holders of the Company	-	-	(8,618)	(8,618)
Other comprehensive income	-	-	65,974	65,974
Comprehensive income attributable to equity holders of the Company	-	-	57,356	57,356
Share-based compensation plans (note 15)	-	97	-	97
Shares issued (note 5)	275,558	-	-	275,558
Share issuance costs (note 5)	(190)	-	-	(190)
Balance as at February 28, 2017	810,836	10,412	(966,869)	(145,621)

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

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

(In thousands of Canadian dollars)

	For the three months ended February 28,		For the six months ended February 28,	
	2018	2017	2018	2017
CASH GENERATED (UTILIZED) BY:				
OPERATING ACTIVITIES				
Net earnings (loss) attributable to equity holders of the Company	(1,252)	(26,453)	4,521	(8,618)
Items not affecting cash:				
Depreciation	5,191	5,558	10,526	11,986
Amortization	4,278	3,559	7,667	7,656
Impairment (note 9)	-	-	-	21,592
Gain on disposal of operations (note 4)	-	-	(4,676)	-
Gain on debt settlement (note 5)	-	-	-	(78,556)
(Gain) loss on derivative financial instruments (note 16)	2,565	(973)	(535)	(1,156)
Non-cash interest	3,655	3,367	7,477	5,956
Gain on disposal of property and equipment and asset-held-for-sale (note 8)	-	(578)	(1,542)	(65)
Non-cash foreign currency exchange (gains) losses	(730)	(1,307)	2,806	3,920
Non-cash backstop commitment fee (note 5)	-	-	-	5,500
Share-based compensation plans and other long-term incentive plan expense (notes 5 and 16)	2,530	-	2,530	202
Net financing expense relating to employee benefit plans (note 13)	736	1,471	1,471	2,942
Non-cash compensation expense of employee benefit plans (note 13)	-	686	-	606
Employee benefit plan funding in excess of compensation expense (note 13)	(3,741)	-	(3,800)	-
Net change in non-cash operating accounts (note 17)	(11,388)	26,684	(27,059)	2,130
Cash flows from (used in) operating activities	1,844	12,014	(614)	(25,905)
INVESTING ACTIVITIES				
Net proceeds from the sale of property and equipment and asset held-for-sale (note 8)	-	810	9,829	1,942
Purchases of property and equipment	(134)	(372)	(283)	(1,251)
Purchases of intangible assets	(190)	(404)	(429)	(778)
Cash flows from (used in) investing activities	(324)	34	9,117	(87)
FINANCING ACTIVITIES				
Net proceeds from issuance of long-term debt (note 5)	-	-	-	110,000
Repayment of long-term debt (notes 5, 8 and 12)	-	(1,110)	(79,442)	(78,894)
Advances from (repayments of) ABL Facility (note 12)	(2,000)	-	12,000	-
Restricted cash (note 8)	(2)	389	62,042	4,066
Debt issuance costs (note 5)	-	(44)	-	(986)
Share issuance costs (note 5)	-	-	-	(190)
Cash flows from (used in) financing activities	(2,002)	(765)	(5,400)	33,996
Net change in cash for the period	(482)	11,283	3,103	8,004
Cash at beginning of period	14,433	13,860	10,848	17,139
Cash at end of period	13,951	25,143	13,951	25,143
Supplemental disclosure of operating cash flows				
Interest paid	87	-	8,903	33,984
Income taxes paid	-	-	-	-

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

POSTMEDIA NETWORK CANADA CORP.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2018 AND 2017

(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. 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 April 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 (note 4) and the estimate of the Ontario Interactive Digital Media Tax Credit receivable (note 7).

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 as well as the 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 closed the remaining properties between November 2017 and January 2018 as they were 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. During the three months ended February 28, 2018, the Company incurred severance costs of \$0.4 million and a provision for onerous contracts of \$0.2 million and during the six months ended February 28, 2018, the Company incurred severance costs of \$3.5 million, provisions for onerous leases and contracts of \$0.8 million and \$0.9 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 11). The Competition Bureau is currently reviewing the Torstar Transaction and the Company is cooperating with the Competition Bureau in connection with its investigation.

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 in the six months ended February 28, 2017 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 six months ended February 28, 2017, the Company incurred \$0.7 million of debt issuance costs related to the First-Lien Notes which are included in the carrying value of long-term debt on the 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 six months ended February 28, 2017, the Company incurred debt issuance costs related to the New Second-Lien Notes of \$0.3 million which are included in the carrying value of long-term debt on the 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 (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. As part of the Recapitalization Transaction the Company issued 91,842,855 Variable Voting Shares resulting in a total of 93,717,199 Shares outstanding after the Share Consolidation. During the six months ended February 28, 2017, the Company incurred \$0.2 million of share issuance costs which were included in the carrying value of capital stock on the condensed consolidated statement of financial position.

During the six months ended February 28, 2017, a gain on debt settlement of \$78.6 million was recognized in the condensed consolidated statements of operations and represents the difference between the carrying value of the Second-Lien Notes 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 six months ended February 28, 2017, the Company incurred \$12.1 million of costs related to the Recapitalization Transaction, including the fee for the Backstop Commitment Letter, which are included in restructuring and other items in the 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 8). The Infomart Transaction includes the entering into of a transition services 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 and six months ended February 28, 2017 are as follows:

	For the three months ended February 28, 2017	For the six months ended February 28, 2017
Revenues		
Digital	4,133	8,222
Expenses		
Compensation	614	1,195
Other operating	1,516	2,939
Operating income before depreciation, amortization, impairment and restructuring (note 3)	2,003	4,088
Earnings before income taxes	2,003	4,088
Provision for income taxes	-	-
Net earnings from discontinued operations	2,003	4,088

Cash flows from discontinued operations for the three and six months ended February 28, 2017 are as follows:

	2017	2017
Cash flows from operating activities	2,003	4,088
Cash flows from investing activities ⁽¹⁾	(2,003)	(4,088)
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 and six months ended February 28, 2017 of nil.

7. ONTARIO INTERACTIVE DIGITAL MEDIA TAX CREDIT

During the three and six months ended February 28, 2018, the Company received certification from the Ontario Digital Media Corporation that digital media tax credits totaling a net cash claim of \$19.9 million for the period of September 1, 2012 to April 23, 2015 were eligible to be claimed. The Company has refiled the applicable tax returns to reflect such claim which will be subject to audit by the Canada Revenue Agency. During the three and six months ended February 28, 2018, the Company recorded a recovery of compensation expense of \$17.0 million related to the tax credit as the claim primarily relates to the recovery of previously recognized compensation expenses. The digital media tax credits are subject to estimation uncertainty and have been recorded as accounts receivable on the condensed consolidated statement of financial position as at February 28, 2018.

8. 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)
Interest earned	2
February 28, 2018 ⁽³⁾	5,709

⁽¹⁾ During the six months ended February 28, 2018, the Company sold property and equipment classified as held-for-sale on the condensed consolidated statement of financial position related to the London production facility for net proceeds of \$9.9 million and realized a gain on sale of \$1.6 million.

⁽²⁾ During the six months ended February 28, 2018, 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 for 18 months to satisfy claims arising under the purchase agreement (note 6).

9. IMPAIRMENT OF LONG LIVED ASSETS

The Company's impairments for the three and six months ended February 28, 2018 and 2017 are as follows:

	For the three months ended		For the six months ended	
	February 28,		February 28,	
	2018	2017	2018	2017
Goodwill	-	-	-	-
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

During the three and six months ended February 28, 2018, no impairments were recorded. During the six months ended February 28, 2017, 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 as at November 30, 2016. 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 six months ended February 28, 2017 of \$21.6 million which was allocated to its mastheads, domain names, subscriber lists, land and building of \$7.1 million, \$0.6 million, \$7.3 million, \$2.0 million and \$4.6 million, respectively, within the individual CGUs.

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.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at February 28, 2018	As at August 31, 2017
Trade accounts payable	13,017	13,675
Accrued liabilities	36,547	38,771
Accrued interest on long-term debt	5,374	7,332
Accounts payable and accrued liabilities	54,938	59,778

11. PROVISIONS

	Restructuring ^(a)	Unoccupied leases ^(a)	Other provisions ^(b)	Total
Provisions as at August 31, 2017	22,265	1,403	829	24,497
Charges	8,264	800	930	9,994
Payments	(16,558)	(386)	(766)	(17,710)
Provisions as at February 28, 2018	13,971	1,817	993	16,781
Portion due within one year	(13,971)	(1,087)	(933)	(15,991)
Non-current provisions	-	730	60	790

(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 and six months ended February 28, 2018, the Company began new initiatives and incurred restructuring expense of \$3.4 million and \$8.3 million, respectively, which include both involuntary and voluntary buyouts as well as a provision for onerous leases in the six months ended February 28, 2018 related to unoccupied property of \$0.8 million.

(b) Other provisions

Other provisions include unfavorable contracts related to the Torstar Transaction, as well as provisions for certain claims and grievances which have been asserted against the Company and closing adjustments related to the Infomart Transaction (note 8).

12. LONG-TERM DEBT

				As at February 28, 2018	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	(969)	141,082	220,527
10.25% Senior Secured Notes (US\$102.4M) ⁽¹⁾	July 2023	131,180	(237)	130,943	120,736
Senior Secured Asset-Based Revolving Credit Facility	January 2019	-	-	12,000	-
Total long-term debt				284,025	341,263
Portion due within one year				(22,000)	(79,502)
Non-current long-term debt				262,025	261,761

⁽¹⁾ US\$ principal translated to the Canadian equivalent based on the foreign exchange rate on February 28, 2018 of US\$1:\$1.2809 (August 31, 2017 - US\$1:\$1.2536).

The terms and conditions of long-term debt as at February 28, 2018 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 six months ended February 28, 2018, the Company redeemed \$79.4 million aggregate principal amount of First-Lien Notes (note 8).

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 February 28, 2018, the Company has \$12.0 million outstanding and availability of \$13.0 million on the ABL Facility and during the three and six months ended February 28, 2018, incurred interest expense of \$0.2 million and \$0.3 million, respectively, and paid interest of \$0.1 million and \$0.2 million, respectively, (six months ended February 28, 2017 – incurred a nominal amount and paid nil).

On January 31, 2018, the Company issued additional New Second-Lien Notes in the amount of US\$5.5 million (\$6.7 million) related to paid-in-kind interest for the period from August 1, 2017 to January 31, 2018 as per the terms of the New Second-Lien Notes indenture.

As per the terms of the amended and restated First-Lien Notes indenture, the excess cash flow for the six months ended February 28, 2018 resulted in an excess cash flow offer of \$0.9 million which will be used to redeem a portion of the First-Lien Notes at par.

13. EMPLOYEE BENEFIT PLANS

The Company has a number of funded and unfunded defined benefit plans that include pension benefits, post-retirement benefits, and other long-term employee benefits. The net employee benefit plan costs related to the Company's pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans reported in the condensed consolidated statements of operations for the three and six months ended February 28, 2018 and 2017 are as follows:

For the three months ended February 28, 2018 and 2017

			Post-retirement benefits		Other long-term employee benefits		Total ⁽¹⁾	
	2018	2017	2018	2017	2018	2017	2018	2017
Current service cost	1,197	4,678	279	314	443	502	1,919	5,494
Administration costs	231	266	-	-	-	-	231	266
Net actuarial gains	-	-	-	-	(357)	(14)	(357)	(14)
Net financing expense	267	891	358	436	111	144	736	1,471
Net defined benefit plan expense ⁽²⁾	1,695	5,835	637	750	197	632	2,529	7,217
Employer contributions to defined contribution plans	999	1,209	-	-	-	-	999	1,209
Total plan expense	2,694	7,044	637	750	197	632	3,528	8,426

For the six months ended February 28, 2018 and 2017

	Pension benefits		Post-retirement benefits		Other long-term employee benefits		Total ⁽¹⁾	
	2018	2017	2018	2017	2018	2017	2018	2017
Current service cost	2,396	9,356	558	628	886	1,004	3,840	10,988
Administration costs	462	532	-	-	-	-	462	532
Net actuarial gains	-	-	-	-	(317)	(601)	(317)	(601)
Net financing expense	533	1,782	716	872	222	288	1,471	2,942
Net defined benefit plan expense ⁽²⁾	3,391	11,670	1,274	1,500	791	691	5,456	13,861
Employer contributions to defined contribution plans	2,008	2,392	-	-	-	-	2,008	2,392
Total plan expense	5,399	14,062	1,274	1,500	791	691	7,464	16,253

⁽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 enrolled in defined benefit pension plans were eligible to enroll in defined contribution pension plans.

⁽²⁾ All current service costs, administration costs and net actuarial gains 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 (loss) for the three and six months ended February 28, 2018 and 2017 are as follows:

For the three months ended February 28, 2018 and 2017

	Pension benefits		Post-retirement benefits		Total	
	2018	2017	2018	2017	2018	2017
	Net actuarial gains on employee benefits	2,068	23,699	1,010	1,387	3,078
Net actuarial gains recognized in other comprehensive income (loss)	2,068	23,699	1,010	1,387	3,078	25,086

For the six months ended February 28, 2018 and 2017

	Pension benefits		Post-retirement benefits		Total	
	2018	2017	2018	2017	2018	2017
	Net actuarial gains (losses) on employee benefits	17,461	60,800	(1)	5,174	17,460
Net actuarial gains (losses) recognized in other comprehensive income (loss)	17,461	60,800	(1)	5,174	17,460	65,974

⁽¹⁾ The discount rate used in measuring the Company's benefit obligations as at February 28, 2018 was 3.65% 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 six months ended February 28, 2018 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	3,391	1,274	791	5,456
Amounts recognized in other comprehensive income	(17,461)	1	-	(17,460)
Reclassified from other assets ⁽¹⁾	(1,589)	-	-	(1,589)
Contributions to the plans	(4,837)	(1,578)	(1,370)	(7,785)
Net defined benefit plan obligation as at February 28, 2018	10,008	39,245	15,362	64,615

⁽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 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 assumed the related defined benefit obligation of \$35.3 million. In November 2017, FSCO approved and an asset transfer of \$16.5 million was completed for the remaining plan and as a result the Company assumed the related defined benefit obligation of \$16.2 million in the six months ended February 28, 2018. 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 six months ended February 28, 2018 paid \$0.1 million (2017 – \$0.1 million).

⁽²⁾ As at February 28, 2018 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.

14. EARNINGS (LOSS) PER SHARE

The following table provides a reconciliation of the denominators, which are presented in whole numbers, used in computing basic and diluted earnings (loss) per share for the three and six months ended February 28, 2018 and 2017. No reconciling items in the computation of net earnings (loss) exist.

	For the three months ended February 28,	
	2018	2017
Basic weighted average shares outstanding during the period	93,717,199	93,717,199
Dilutive effect of RSUs	-	-
Diluted weighted average shares outstanding during the period	93,717,199	93,717,199
Options and RSUs outstanding which are anti-dilutive	367,929	-

	For the six months ended February 28,	
	2018	2017
Basic weighted average shares outstanding during the period	93,717,199	129,967,269
Dilutive effect of RSUs	116,774	-
Diluted weighted average shares outstanding during the period	93,833,973	129,967,269
Options and RSUs outstanding which are anti-dilutive	66,174	-

15. SHARE-BASED COMPENSATION 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.

During the three and nine months ended February 28, 2018, the Company granted 2.0 million options. The fair value of the underlying options was estimated using the Black-Scholes option pricing model. The weighted average fair value of the issued options and key assumptions used in applying the Black-Scholes option pricing model were as follows:

	2018
Fair value	\$0.51-\$0.56
Key assumptions	
Exercise Price	\$ 1.03
Risk-free interest rate ⁽¹⁾	1.98%
Dividend yield	-
Volatility factor ⁽²⁾	62.50%
Expected life of options ⁽³⁾	5 years

⁽¹⁾ Based on Bank of Canada five year benchmark bond yield in effect on the date of grant.

⁽²⁾ Based on the volatility of the Company and comparable companies shares due to the low liquidity of the Company's shares.

⁽³⁾ Based on contractual terms and a published academic study.

The following table provides details on the changes to the issued options, which are presented in whole numbers, for the six months ended February 28, 2018:

	Options	Weighted average exercise price
Balance, August 31, 2017	-	\$ -
Issued	1,996,250	\$ 1.03
Balance, February 28, 2018	1,996,250	\$ 1.03

During the three and six months ended February 28, 2018, the Company recorded compensation expense related to the Option Plan of \$0.4 million, with an offsetting credit to contributed surplus (2017 – nil and \$0.1 million, respectively).

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 RSU Plan is administered by the Board.

During the three and nine months ended February 28, 2018, the Company granted 2.4 million RSUs and a tandem award that provides a choice to either exercise 1.2 million stock options or 1.2 million RSUs. The fair value of the RSUs granted was estimated by using a grant date fair value per share of \$1.03. The fair value of \$1.03 per share was based on the volume-weighted average trading price of the Variable Voting Shares for the five trading days immediately preceding the issuance. During the three and nine months ended February 28, 2018, the Company recorded compensation expense related to the RSU Plan of \$2.1 million, with an offsetting credit to contributed surplus (2017 - nil).

16. 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 February 28, 2018 are as follows:

	As at February 28, 2018	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⁾	1,800	-	1,800	-

⁽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 and six months ended February 28, 2018, the Company recognized a loss of \$2.6 million and a gain of \$0.5 million, respectively, related to the warrants which is included in gain (loss) on derivative financial instruments in the condensed consolidated statements of operations (2017 – gains of \$1.0 million and \$1.2 million, respectively).

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 and six months ended February 28, 2018 and 2017 there were no transfers within the fair value hierarchy.

Financial instruments measured at amortized cost

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

The carrying value and fair value of long-term debt as at February 28, 2018 and August 31, 2017 are as follows:

	As at February 28, 2018		As at August 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Other financial liabilities				
Long-term debt	284,025	293,561	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 12). 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 February 28, 2018, approximately 46% of the outstanding principal on the Company's long-term debt is payable in US dollars (August 31, 2017 – 35%). As February 28, 2018, the Company has US\$102.4 million New Second-Lien Notes outstanding (August 31, 2017 - US\$97.0 million).

17. STATEMENT OF CASH FLOWS

The following amounts compose the net change in non-cash operating accounts included in cash flows used in operating activities in the condensed consolidated statement of cash flows for the three and six months ended February 28, 2018 and 2017:

	For the three months ended		For the six months ended	
	February 28,		February 28,	
	2018	2017	2018	2017
Accounts receivable	(1,938)	20,640	(14,671)	4,787
Inventory	(283)	213	(42)	599
Prepaid expenses and other assets	197	1,404	667	873
Accounts payable, accrued liabilities and provisions	(9,072)	4,650	(12,374)	(2,265)
Deferred revenue	310	(123)	(909)	(1,267)
Employee benefit obligations and other liabilities and provisions	(602)	(100)	270	(597)
Changes in non-cash operating accounts	(11,388)	26,684	(27,059)	2,130

18. 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 during the three and six months ended February 28, 2018 incurred an expense of \$0.5 million and \$1.0 million, respectively, (2017 - \$0.5 million and \$0.8 million, respectively) 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 12).

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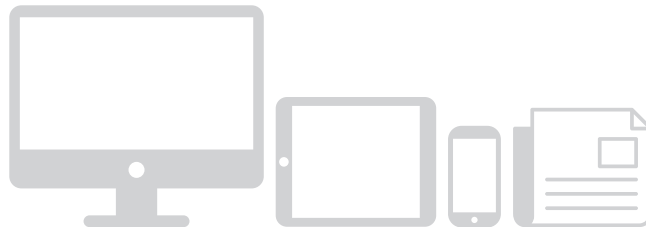
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