

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

FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2018 AND 2017

Approved for issuance: July 11, 2018

JULY 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 nine months ended May 31, 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 nine months ended May 31, 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 nine months ended May 31, 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 July 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 nine months ended May 31, 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 Summer 2018 survey data and represent more than 140 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

We continue to identify and undertake cost reduction initiatives in an effort to address revenue declination in the legacy print business. 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 May 31, 2018 we implemented cost reduction initiatives which are expected to result in approximately \$7 million of net annualized cost savings. In total, we implemented net annualized cost savings of approximately \$26 million since these cost reduction initiatives were announced. Subsequent to May 31, 2018 the Company closed nine community newspapers and began the implementation of a cost saving initiative aimed at further reducing compensation expense by approximately 10% by the end of fiscal 2018 through a combination of voluntary buyouts and involuntary terminations.

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 refiled the applicable tax returns to reflect such claim and on June 1, 2018 received a notice of reassessment from Canada Revenue Agency for the full amount of the claim plus accrued interest of \$0.5 million resulting in an amount receivable of \$20.4 million as at May 31, 2018. During the three and nine months ended May 31, 2018, we recorded the tax credit as a recovery of compensation expense of \$2.9 million and \$19.9 million, respectively, as the claim primarily related to the recovery of previously recognized compensation expenses. Subsequent to May 31, 2018, we received cash for the full amount of the tax credit receivable.

As at May 31, 2018, we determined that certain properties' carrying amounts will be recovered principally through a sales transaction, including a production facility as a result of the outsourcing announced in June 2018, and as a result during the three and nine months ended May 31, 2018, we recorded an impairment charge of \$9.4 million to reduce the carrying amount of these properties to fair value less costs of disposal based on the expected net proceeds. Subsequent to May 31, 2018, we agreed to sell a property classified as held-for-sale for gross proceeds of \$7.2 million of which the net proceeds will be used to will be used to redeem an aggregate amount of 8.25% Senior Secured Notes due 2021 ("First-Lien Notes") at par in accordance with the terms and conditions of the amended and restated First-Lien notes indenture.

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 nine months ended May 31, 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 nine months ended May 31, 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 reviewing the Torstar Transaction under the conspiracy provisions and merger provisions of the *Competition Act* (Canada) and we are cooperating with the Competition Bureau in connection with its investigations.

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 nine months ended May 31, 2018, we used \$30.6 million of the net proceeds from the Infomart Transaction to redeem \$29.6 million aggregate principal amount of 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.

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 was used to redeem \$0.9 million of the First-Lien Notes at par in the three and nine months ended May 31, 2018. During the nine months ended May 31, 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 nine months ended May 31, 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. As a result of these plan amendments, during the three and nine months ended May 31, 2017, we recognized a curtailment gain of \$22.8 million in restructuring and other items in the consolidated statement of operations. 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 May 31, 2018, we have \$9.0 million outstanding and availability of \$16.0 million on the ABL Facility. Subsequent to May 31, 2018 we repaid \$9.0 million of the ABL Facility with the proceeds of the tax credit discussed above.

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 part of the Plan of Arrangement 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 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 also 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.

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 \$78.6 million and \$239.8 million for the three and nine months ended May 31, 2018, representing 45.9% and 46.3%, of total revenue for such periods, respectively. Our major advertising categories consist of local, national, and inserts. These categories composed 53.4%, 19.7% and 25.3%, respectively, of total print advertising for the three months ended May 31, 2018, and 51.6%, 22.1% and 24.7%, respectively, of total print advertising for the nine months ended May 31, 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 nine months ended May 31, 2018, we experienced print advertising revenue decreases of \$14.8 million, or 15.8% and \$50.9 million, or 17.5%, respectively, as compared to the same periods in the prior year. These decreases in print advertising revenue in the three and nine months ended May 31, 2018 relates to weaknesses in local and national print advertising while insert advertising experienced an increase and decrease, respectively, as compared to the same periods in the prior year. Excluding the impact of the Torstar Transaction, print advertising revenue would have decreased 13.6% for the three months ended May 31, 2018 as compared to the same period in the prior year.

Print circulation revenue was \$54.8 million and \$166.4 million for the three and nine months ended May 31, 2018, representing 32.0% and 32.2% of total revenue for such periods, respectively. Circulation revenues decreased \$4.5 million, or 7.6%, and \$12.9 million, or 7.2%, in the three and nine months ended May 31, 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 nine months ended May 31, 2018. We expect these print circulation revenue trends to continue throughout the remainder of fiscal 2018. Excluding the impact of the Torstar Transaction, print circulation revenue would have decreased 4.4% for the three months ended May 31, 2018 as compared to the same period in the prior year.

Digital revenue was \$29.9 million and \$87.6 million for the three and nine months ended May 31, 2018, respectively, representing 17.5% and 16.9%, respectively, of total revenue for both periods. Digital revenues increased \$2.0 million, or 7.2%, and \$8.4 million, or 10.6%, in the three and nine months ended May 31, 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. Digital advertising revenues increased approximately 10% and 13%, respectively in the three and nine months ended May 31, 2018 as compared to the same periods in the prior year. 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). Excluding the impact of the Torstar Transaction, digital revenue would have increased 11.3% for the three months ended May 31, 2018 as compared to the same period in the prior year which includes a digital advertising revenue increase of 14.7%.

Our principal expenses consist of compensation, newsprint, distribution and production. These represented 40.8%, 6.3%, 20.9% and 14.1%, respectively, of total operating expenses excluding depreciation, amortization and restructuring for the three months ended May 31, 2018 and 39.2%, 6.5%, 21.9% and 13.8%, respectively, of total operating expenses excluding depreciation, amortization, impairment and restructuring for the nine months ended May 31, 2018. We experienced decreases in compensation, newsprint and distribution expenses of \$10.5 million, \$1.7 million and \$4.8 million, respectively, and experienced an increase in production expense of \$3.1 million in the three months ended May 31, 2018 as compared to the same period in the prior year. We experienced decreases in compensation, newsprint and distribution expenses of \$56.4 million, \$5.6 million and \$13.4 million, respectively, and experienced an increase in production expense of \$7.5 million in the nine months ended May 31, 2018 as compared to the same period in the prior year. The decrease in compensation expense during the three and nine months ended May 31, 2018 includes the recovery of \$2.9 million and \$17.0 million, respectively, related to the tax credit described earlier in "Recent Developments". In addition, the decreases in compensation, newsprint and distribution expenses for the three and nine months ended May 31, 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 May 31, 2018, we implemented initiatives which are expected to result in \$7 million of net annualized cost savings. In total, we implemented net annualized cost savings of approximately \$26 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 \$3.1 million on an annualized basis. We experienced a slight increase in newsprint prices in each of the first three quarters of fiscal 2018 but don't expect a material change in newsprint prices throughout the remainder of fiscal 2018.

Our distribution is primarily outsourced to third party suppliers. The key drivers of our distribution expenses are fuel costs and circulation and insert volumes. Our distribution expenses have decreased during the three and nine months ended May 31, 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 nine months ended May 31, 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 nine months ended May 31, 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 calculation of impairment, which includes the determination of fair value less costs of disposal for our held-for-sale assets as described in notes 4 and 9, respectively, in the interim condensed consolidated financial statements for the three and nine months ended May 31, 2018 and 2017.

Operating Results

Postmedia's operating results for the three months ended May 31, 2018 as compared to the three months ended May 31, 2017

	2018	2017 ⁽¹⁾
Revenues		
Print advertising.....	78,580	93,352
Print circulation.....	54,816	59,349
Digital.....	29,890	27,873
Other.....	7,763	9,450
Total revenues	171,049	190,024
Expenses		
Compensation.....	63,525	74,049
Newsprint.....	9,880	11,554
Distribution.....	32,540	37,373
Production.....	21,895	18,781
Other operating.....	27,757	29,758
Operating income before depreciation, amortization, impairment and restructuring	15,452	18,509
Depreciation.....	5,490	5,171
Amortization.....	4,259	3,538
Impairment.....	9,400	4,166
Restructuring and other items.....	2,961	(16,691)
Operating income (loss)	(6,658)	22,325
Interest expense.....	6,343	8,029
Net financing expense relating to employee benefit plans.....	735	1,471
Loss on disposal of property and equipment.....	46	184
(Gain) loss on derivative financial instruments.....	331	(512)
Foreign currency exchange losses.....	1,426	2,020
Earnings (loss) before income taxes	(15,539)	11,133
Provision for income taxes.....	-	-
Net earnings (loss) from continuing operations	(15,539)	11,133
Net earnings from discontinued operations, net of tax of nil.....	-	1,913
Net earnings (loss) attributable to equity holders of the Company	(15,539)	13,046

⁽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 May 31, 2017 has been revised to reflect this change in presentation.

Revenue

Print advertising

Print advertising revenue decreased \$14.8 million, or 15.8%, to \$78.6 million for the three months ended May 31, 2018 as compared to the same period in prior year, and declines were experienced in local advertising of 23.5% and national advertising of 19.7% partially offset by an increase in insert advertising of 2.6%. The decreases were due to declines in both volume and rate with the total print advertising linage and average line rate decreasing 20.6% and 3.1%, respectively, during the three months ended May 31, 2018, as compared to the same period in the prior year.

Print circulation

Print circulation revenue decreased \$4.5 million, or 7.6%, to \$54.8 million for the three months ended May 31, 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 \$2.0 million, or 7.2%, to \$29.9 million for the three months ended May 31, 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 \$1.7 million, or 17.9%, to \$7.8 million for the three months ended May 31, 2018, as compared to the same period in the prior year as a result of decreases in commercial printing and rental revenue.

Expenses

Compensation

Compensation expenses decreased \$10.5 million, or 14.2%, to \$63.5 million for the three months ended May 31, 2018, as compared to the same period in the prior year. The decrease in compensation expenses is partially due to the recovery of \$2.9 million relating to the tax credit as described earlier in "Recent Developments". Excluding this recovery, compensation expenses decreased \$7.6 million, or 10.3%, as compared to the same period in the prior year, as a result declines in salary and benefits expense of \$6.3 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 \$0.4 million as a result of awards granted in the nine months ended May 31, 2018.

Newsprint

Newsprint expenses decreased \$1.7 million, or 14.5%, to \$9.9 million for the three months ended May 31, 2018 as compared to the same period in the prior year primarily as a result of consumption decreases of 18.4% due to lower newspaper circulation volumes as well as continued usage reduction efforts. Newsprint expenses include newsprint purchased for production at both our owned and outsourced production facilities.

Distribution

Distribution expenses decreased \$4.8 million, or 12.9%, to \$32.5 million for the three months ended May 31, 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 \$3.1 million, or 16.6%, to \$21.9 million for the three months ended May 31, 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 \$2.0 million, or 6.7%, to \$27.8 million for the three months ended May 31, 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 decreased \$3.1 million to \$15.5 million for the three months ended May 31, 2018, as compared to the same period in the prior year. The decrease in operating income before depreciation, amortization, impairment and restructuring was as a result of decreases in revenue and increases in production expenses partially offset by decreases in compensation, newsprint, distribution and other operating expenses, all as discussed above.

Depreciation

Depreciation expense increased \$0.3 million to \$5.5 million for the three months ended May 31, 2018 as compared to the same period in the prior year. The increase relates to 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 partially offset by the disposal of properties throughout the year ended August 31, 2017.

Amortization

Amortization expense increased \$0.7 million to \$4.3 million for the three months ended May 31, 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”.

Impairment

During the three months ended May 31, 2018, we determined that certain properties carrying amounts will be recovered principally through a sales transaction including a production facility as described earlier in “Recent Developments”, and recorded an impairment charge of \$9.4 million to reduce the carrying amount to the estimated fair value less costs of disposal. During the three months ended May 31, 2017, we performed our annual impairment testing of goodwill and indefinite life intangible assets and as a result we recognized an impairment charge of \$4.2 million which was allocated to our mastheads and domain names of \$3.0 million and \$1.2 million, respectively.

Restructuring and other items

Restructuring and other items expense increased \$19.7 million to \$3.0 million for the three months ended May 31, 2018 as compared to the same period in the prior year. Restructuring and other items expense for the three months ended May 31, 2018 consists of severance costs of \$3.0 million, which include both involuntary terminations and voluntary buyouts. Restructuring and other items expense for the three months ended May 31, 2017 consisted of a curtailment gain of \$22.8 million related to changes to our employee benefit plans as discussed earlier in “Recent Developments”, partially offset by severance costs of \$5.6 million, which included both involuntary terminations and voluntary buyouts and \$0.4 million for onerous leases related to unoccupied property.

Operating income (loss)

Operating loss in the three months ended May 31, 2018 was \$6.7 million as compared to operating income of \$22.3 million during the same period in the prior year. The operating loss is primarily the result of a decrease in operating income before depreciation, amortization, impairment and restructuring and an increase in impairment and restructuring and other items expense all as discussed above.

Interest expense

Interest expense decreased \$1.7 million to \$6.3 million for the three months ended May 31, 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 \$2.1 million, partially offset by an increase in non-cash interest of \$0.4 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 May 31, 2018, as compared to the same period in the prior year.

Loss on disposal of property and equipment

During the three months ended May 31, 2018 and 2017, we disposed of property and equipment and realized losses of a nominal amount and \$0.2 million, respectively.

(Gain) loss on derivative financial instruments

Loss on derivative financial instruments for the three months ended May 31, 2018 was \$0.3 million as compared to a gain on derivative financial instruments of \$0.5 million during the same period in the prior year. The loss and gain in the three months ended May 31, 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 losses for the three months ended May 31, 2018 were \$1.4 million as compared to \$2.0 million during the same period in the prior year. Foreign currency exchange losses in the three months ended May 31, 2018 consist primarily of unrealized losses of \$1.4 million related to changes in the carrying value of the New Second-Lien Notes. Foreign currency exchange losses in the three months ended May 31, 2017 consisted primarily of unrealized losses of \$2.0 million related to changes in the carrying value of the New Second-Lien Notes.

Earnings (loss) before income taxes

Loss before income taxes was \$15.5 million for the three months ended May 31, 2018, as compared to earnings before income taxes of \$11.1 million for the same period in the prior year. The loss before income taxes is primarily the result of a decrease in operating income partially offset by a decrease in interest expense 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 May 31, 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 loss from continuing operations was \$15.5 million for the three months ended May 31, 2018, as compared to net earnings from continuing operations of \$11.1 million for the same period in the prior year. Net loss 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 three months ended May 31, 2017 was \$1.9 million. Net earnings from discontinued operations for the three months ended May 31, 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 nine months ended May 31, 2018 and 2017 for more details on net earnings from discontinued operations.

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

Net loss for the three months ended May 31, 2018 was \$15.5 million as compared to net earnings of \$13.0 million for the same period in the prior year, as a result of the factors described above in net earnings (loss) from continuing operations and net earnings from discontinued operations.

Operating Results

Postmedia's operating results for the nine months ended May 31, 2018 as compared to the nine months ended May 31, 2017

	2018	2017 ⁽¹⁾
Revenues		
Print advertising.....	239,776	290,679
Print circulation.....	166,441	179,370
Digital.....	87,551	79,147
Other.....	23,848	28,255
Total revenues	517,616	577,451
Expenses		
Compensation.....	179,236	235,601
Newsprint.....	29,738	35,314
Distribution.....	99,925	113,332
Production.....	62,895	55,439
Other operating.....	85,346	95,525
Operating income before depreciation, amortization, impairment and restructuring	60,476	42,240
Depreciation.....	16,016	17,157
Amortization.....	11,926	11,194
Impairment.....	9,400	25,758
Restructuring and other items.....	13,455	36,098
Operating income (loss)	9,679	(47,967)
Interest expense.....	20,696	23,912
Gain on disposal of operations.....	(4,676)	-
Gain on debt settlement.....	-	(78,556)
Net financing expense relating to employee benefit plans.....	2,206	4,413
(Gain) loss on disposal of property and equipment and asset held-for-sale.....	(1,496)	119
Gain on derivative financial instruments.....	(204)	(1,668)
Foreign currency exchange losses.....	4,171	5,386
Loss before income taxes	(11,018)	(1,573)
Provision for income taxes.....	-	-
Net loss from continuing operations	(11,018)	(1,573)
Net earnings from discontinued operations, net of tax of nil.....	-	6,001
Net earnings (loss) attributable to equity holders of the Company	(11,018)	4,428

⁽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 nine months ended May 31, 2017 has been revised to reflect this change in presentation.

Revenue

Print advertising

Print advertising revenue decreased \$50.9 million, or 17.5%, to \$239.8 million for the nine months ended May 31, 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 22.2%, national advertising of 23.2%, and insert advertising of 3.5%. The decreases were due to declines in both volume and rate with the total print advertising linage and average line rate decreasing 14.5% and 9.4%, respectively, during the nine months ended May 31, 2018, as compared to the same period in the prior year.

Print circulation

Print circulation revenue decreased \$12.9 million, or 7.2%, to \$166.4 million for the nine months ended May 31, 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 \$8.4 million, or 10.6%, to \$87.6 million for the nine months ended May 31, 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 \$4.4 million, or 15.6%, to \$23.8 million for the nine months ended May 31, 2018, as compared to the same period in the prior year as a result of decreases in commercial printing and rental revenue.

Expenses

Compensation

Compensation expenses decreased \$56.4 million, or 23.9%, to \$179.2 million for the nine months ended May 31, 2018, as compared to the same period in the prior year. The decrease in compensation expenses is partially due to the recovery of \$19.9 million relating to the tax credit as described earlier in "Recent Developments". Excluding this recovery, compensation expenses decreased \$36.5 million, or 15.5%, as compared to the same period in the prior year, as a result declines in salary and benefits expense of \$29.4 million due to the cost reduction initiatives and a decrease in employee benefit plan expense of \$11.0 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 \$2.9 million as a result of awards granted in the nine months ended May 31, 2018.

Newsprint

Newsprint expenses decreased \$5.6 million, or 15.8%, to \$29.7 million for the nine months ended May 31, 2018 as compared to the same period in the prior year primarily as a result of consumption decreases of 17.7% due to lower newspaper circulation volumes as well as continued usage reduction efforts. Newsprint expenses include newsprint purchased for production at both our owned and outsourced production facilities.

Distribution

Distribution expenses decreased \$13.4 million, or 11.8%, to \$99.9 million for the nine months ended May 31, 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 \$7.5 million, or 13.4%, to \$62.9 million for the nine months ended May 31, 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 and the outsourcing of the London Free Press newspaper in October 2016, partially offset by the reduction in newspaper circulation volumes and ongoing cost reduction initiatives.

Other operating

Other operating expenses decreased \$10.2 million, or 10.7%, to \$85.3 million for the nine months ended May 31, 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 \$18.2 million to \$60.5 million for the nine months ended May 31, 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 \$1.1 million to \$16.0 million for the nine months ended May 31, 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 nine months ended May 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 nine months ended May 31, 2018.

Amortization

Amortization expense increased \$0.7 million to \$11.9 million for the nine months ended May 31, 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 three months ended May 31, 2018, we determined that certain properties carrying amounts will be recovered principally through a sales transaction including a production facility as described earlier in "Recent Developments", and recorded an impairment charge of \$9.4 million to reduce the carrying amount to the estimated fair value less costs of disposal. During the three months ended May 31, 2017, we performed our annual impairment testing of goodwill and indefinite life intangible assets and prior to that due to indicators of potential impairment we performed an interim impairment test as at November 30, 2016. As a result of the impairment tests during the nine months ended May 31, 2017, we recognized an impairment charge of \$25.8 million which was allocated to our mastheads, domain names, subscriber lists, land and building of \$10.1 million, \$1.8 million, \$7.3 million, \$2.0 million and \$4.6 million, respectively.

Restructuring and other items

Restructuring and other items expense decreased \$22.6 million to \$13.5 million for the nine months ended May 31, 2018 as compared to the same period in the prior year. Restructuring and other items expense for the nine months ended May 31, 2018 consists of severance costs of \$11.3 million, which include both involuntary terminations 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 nine months ended May 31, 2017 consisted of a curtailment gain of \$22.8 million related to changes to our employee benefit plans as discussed earlier in "Recent Developments", partially offset by severance costs of \$46.3 million, which included both involuntary terminations and voluntary buyouts, \$0.4 million for onerous leases related to unoccupied property and \$12.1 million of costs related to the Recapitalization Transaction as described earlier in "Recent Developments".

Operating income (loss)

Operating income in the nine months ended May 31, 2018 was \$9.7 million as compared to operating loss of \$48.0 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 impairment and restructuring and restructuring and other items expense all as discussed above.

Interest expense

Interest expense decreased \$3.2 million to \$20.7 million for the nine months ended May 31, 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 \$5.1 million, partially offset by an increase in non-cash interest of \$1.9 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 nine months ended May 31, 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 nine months ended May 31, 2018, no settlement of debt occurred. During the nine months ended May 31, 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 \$2.2 million to \$2.2 million for the nine months ended May 31, 2018, as compared to the same period in the prior year.

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

During the nine months ended May 31, 2018, we disposed of property and equipment and an asset held-for-sale and realized a gain of \$1.5 million. During the nine months ended May 31, 2017, we disposed of property and equipment and realized a loss of \$0.1 million.

Gain on derivative financial instruments

Gain on derivative financial instruments for the nine months ended May 31, 2018 was \$0.2 million as compared to \$1.7 million during the same period in the prior year. The gains in the nine months ended May 31, 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 nine months ended May 31, 2018 were \$4.2 million as compared to \$5.4 million during the same period in the prior year. Foreign currency exchange losses in the nine months ended May 31, 2018 consist primarily of unrealized losses of \$4.4 million related to changes in the carrying value of the New Second-Lien Notes. Foreign currency exchange losses in the nine months ended May 31, 2017 consisted primarily of unrealized losses of \$4.2 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.

Loss before income taxes

Loss before income taxes was \$11.0 million for the nine months ended May 31, 2018, as compared to \$1.6 million for the same period in the prior year. The increase in loss before income taxes is primarily the result of the gain on debt settlement in the nine months ended May 31, 2017 partially offset by operating income and the gain on disposal of operations in the nine months ended May 31, 2018 and a decrease in interest expense all as discussed above.

Provision for income taxes

We have not recorded a current or deferred tax expense or recovery for the nine months ended May 31, 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 \$11.0 million for the nine months ended May 31, 2018, as compared to \$1.6 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 nine months ended May 31, 2017 was \$6.0 million. Net earnings from discontinued operations for the nine months ended May 31, 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 nine months ended May 31, 2018 and 2017 for more details on net earnings from discontinued operations.

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

Net loss for the nine months ended May 31, 2018 was \$11.0 million as compared to net earnings of \$4.4 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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenues.....	171,049	157,577	188,990	176,813	194,045	180,799	214,850	198,674
Net earnings (loss) from continuing operations.....	(15,539)	(1,252)	5,773	2,417	11,133	(28,456)	15,750	(101,527)
Net earnings (loss) per share from continuing operations								
Basic.....	\$ (0.17)	\$ (0.01)	\$ 0.06	\$ 0.03	\$ 0.12	\$ (0.30)	\$ 0.10	\$ (0.36)
Diluted.....	\$ (0.17)	\$ (0.01)	\$ 0.06	\$ 0.03	\$ 0.12	\$ (0.30)	\$ 0.10	\$ (0.36)
Net earnings (loss) attributable to equity holders of the Company.....	(15,539)	(1,252)	5,773	40,327	13,046	(26,453)	17,835	(99,440)
Net earnings (loss) per share attributable to equity holders of the Company								
Basic.....	\$ (0.17)	\$ (0.01)	\$ 0.06	\$ 0.43	\$ 0.14	\$ (0.28)	\$ 0.11	\$ (0.35)
Diluted.....	\$ (0.17)	\$ (0.01)	\$ 0.06	\$ 0.43	\$ 0.14	\$ (0.28)	\$ 0.11	\$ (0.35)
Cash flows from (used in) operating activities.....		1,228	1,844	(2,458)	843	(11,268)	12,014	(37,919)
		(4,698)						

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 (\$141.1 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 May 31, 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 nine months ended May 31, 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 nine months ended May 31, 2018, our cash flows from operating activities were inflows of \$1.2 million and \$0.6 million, respectively (2017 – outflows of \$11.3 million and \$37.2 million, respectively). Cash flows from operating activities increased \$12.5 million for the three months ended May 31, 2018, as compared to the same period in the prior year due to a decrease in cash interest payments of \$3.7 million, a decrease in cash restructuring and unoccupied lease payments of \$7.3 million, a decrease in non-cash working capital as compared to the same period in the prior year notwithstanding the impact of the receivable related to the tax credit as described earlier in “Recent Developments” partially offset by a decrease in operating income before depreciation, amortization, impairment and restructuring. Cash flows from operating activities increased \$37.8 million for the nine months ended May 31, 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 \$28.8 million which includes the payment of \$21.9 million of accrued interest related to the Second-Lien Notes in the nine months ended May 31, 2017 as described earlier in “Recent Developments”, a decrease in cash restructuring and unoccupied lease payments of \$8.0 million partially offset by an increase in non-cash working capital as compared to the same period in the prior year which includes the \$19.9 million receivable related to the tax credit as described earlier in “Recent Developments”.

As at May 31, 2018 we had cash of \$10.7 million (August 31, 2017 –\$10.8 million).

Cash flows from (used in) investing activities

For the three and nine months ended May 31, 2018, our cash flows from investing activities were outflows of \$0.5 million and inflows of \$8.6 million, respectively (2017 – outflows of \$0.5 million and \$0.6 million, respectively). The cash outflows from investing activities during the three months ended May 31, 2018 include outflows for capital expenditures related to property and equipment of \$0.3 million and intangible assets of \$0.2 million. The net cash outflows from investing activities during the three months ended May 31, 2017 included outflows on capital expenditures related to property and equipment of \$1.8 million and intangible assets of \$0.8 million partially offset by the net proceeds received from the sale of property and equipment of \$2.1 million. The net cash inflows from investing activities during the nine months ended May 31, 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 \$0.6 million and intangible assets of \$0.6 million. The net cash outflows from investing activities during the nine months ended May 31, 2017 included outflows for capital expenditures related to property and equipment of \$3.0 million and intangible assets of \$1.6 million, partially offset by net proceeds received from the sale of property and equipment of \$4.0 million.

Cash flows from (used in) financing activities

For the three and nine months ended May 31, 2018, our cash flows from financing activities were outflows of \$3.9 million and \$9.3 million, respectively (2017 – inflows of \$2.7 million and \$36.7 million, respectively). The cash outflows from financing activities during the nine months ended May 31, 2018 related to the repayment of advances from the ABL Facility of \$3.0 million. The net cash inflows from financing activities during the three months ended May 31, 2017 included advances from the ABL Facility of \$5.0 million partially offset by the repayment of First-Lien Notes of \$1.2 million and net outflows from restricted cash of \$1.1 million. The net cash inflows from financing activities during the nine months ended May 31, 2018 include outflows of \$80.4 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 \$9.0 million. The net cash inflows from financing activities during the nine months ended May 31, 2017 included net proceeds from the issuance of New Second-Lien Notes of \$110.0 million, advances from the ABL Facility of \$5.0 million and net inflows from restricted cash of \$3.0 million, partially offset by outflows of \$80.1 million related to the repayment of First-Lien Notes, \$1.0 million of debt issuance costs and \$0.2 million of share issuance costs.

Indebtedness

As of May 31, 2018, we have \$141.1 million First-Lien Notes outstanding, US\$102.4 million New Second-Lien Notes outstanding and \$9.0 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 nine months ended May 31, 2018, we 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 May 31, 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 May 31, 2018 of US\$1:\$1.2948 (August 31, 2017 – US\$1:\$1.2536).

(\$ in thousands of Canadian dollars)	As at May 31, 2018			As at August 31, 2017		
	Principal Outstanding	Financing fees, discounts and other		Principal Outstanding	Financing fees, discounts and other	
		Carrying Value	Carrying Value		Carrying Value	Carrying Value
First-Lien Notes.....	141,126	(897)	140,229	221,493	(966)	220,527
New Second-Lien Notes.....	132,604	(232)	132,372	121,547	(811)	120,736
ABL Facility.....	9,000	-	9,000	-	-	-
Total.....	282,730	(1,129)	281,601	343,040	(1,777)	341,263

Financial Position As at May 31, 2018 and August 31, 2017

(\$ in thousands of Canadian dollars)	As at May 31, 2018	As at August 31, 2017
Current assets.....	133,437	178,574
Total assets.....	372,665	461,718
Current liabilities.....	117,357	195,948
Total liabilities.....	452,297	547,836
Deficiency.....	(79,632)	(86,118)

The decrease in our current assets is primarily due to a decrease in restricted cash partially offset by an increase in accounts receivable as a result of the tax credit receivable described earlier in “Recent Developments”. 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 disposals, depreciation and amortization in excess of additions in the nine months ended May 31, 2018 and a decrease in other assets. 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 nine months ended May 31, 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 nine months ended May 31, 2018 incurred an expense of \$0.5 million and \$1.5 million, respectively (2017 - \$0.5 million and \$1.3 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 nine months ended May 31, 2018, incurred interest expense of \$0.2 million and \$0.5 million, respectively, and paid interest of \$0.2 million and \$0.4 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 May 31, 2018, approximately 47% of the outstanding principal on our long-term debt is payable in US dollars (August 31, 2017 – 35%). As at May 31, 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 May 31, 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 July 9, 2018 we had the following number of shares and options outstanding:

Class C voting shares.....	61,687
Class NC variable voting shares.....	<u>93,655,512</u>
Total shares outstanding.....	<u>93,717,199</u>
Total options and restricted share units outstanding ⁽¹⁾	<u>5,518,930</u>

⁽¹⁾ The total options and restricted share units outstanding are convertible into 5,518,930 Class NC variable voting shares. The total options and restricted share units outstanding include 1,842,572 options that are vested and 3,376,358 options that are unvested.