

POSTMEDIA NETWORK CANADA CORP.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2019 AND 2018
(UNAUDITED)

POSTMEDIA NETWORK CANADA CORP.
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,	
	2019	2018	2019	2018
Revenues				
Print advertising	60,096	70,071	137,187	161,196
Print circulation	50,705	53,612	104,156	111,625
Digital	28,185	26,372	60,932	57,661
Other	6,713	7,522	14,697	16,085
Total revenues	145,699	157,577	316,972	346,567
Expenses				
Compensation (note 5)	57,008	49,347	115,332	115,711
Newsprint	8,862	9,057	18,622	19,858
Distribution	29,432	31,924	60,875	67,385
Production	18,433	18,952	39,354	41,000
Other operating	27,292	27,184	56,411	57,589
Operating income before depreciation, amortization, impairment and restructuring (note 3)	4,672	21,113	26,378	45,024
Depreciation	4,288	5,191	9,287	10,526
Amortization	3,329	4,278	7,521	7,667
Impairment (note 7)	6,600	-	6,600	-
Restructuring and other items (notes 4 and 9)	1,095	3,570	3,773	10,494
Operating income (loss)	(10,640)	8,074	(803)	16,337
Interest expense	7,034	6,801	14,219	14,353
Gain on disposal of operations (note 4)	-	-	-	(4,676)
Net financing expense relating to employee benefit plans (note 11)	540	736	1,081	1,471
Gain on disposal of property and equipment and assets held-for-sale (note 6)	(11,671)	-	(11,445)	(1,542)
(Gain) loss on derivative financial instruments (note 14)	869	2,565	1,426	(535)
Foreign currency exchange (gains) losses	(1,542)	(776)	1,205	2,745
Earnings (loss) before income taxes	(5,870)	(1,252)	(7,289)	4,521
Provision for income taxes	-	-	-	-
Net earnings (loss) from continuing operations	(5,870)	(1,252)	(7,289)	4,521
Net earnings from discontinued operations, net of tax of nil (note 9)	791	-	791	-
Net earnings (loss) attributable to equity holders of the Company	(5,079)	(1,252)	(6,498)	4,521

Earnings (loss) per share attributable to equity holders of the Company (note 12):

Basic	\$	(0.06)	\$	(0.01)	\$	(0.08)	\$	0.05
Diluted	\$	(0.06)	\$	(0.01)	\$	(0.08)	\$	0.05

Earnings per share from discontinued operations (note 12):

Basic	\$	0.01	\$	-	\$	0.01	\$	-
Diluted	\$	0.01	\$	-	\$	0.01	\$	-

Earnings (loss) per share attributable to equity holders of the Company (note 12):

Basic	\$	(0.05)	\$	(0.01)	\$	(0.07)	\$	0.05
Diluted	\$	(0.05)	\$	(0.01)	\$	(0.07)	\$	0.05

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		For the six months ended	
	February 28,		February 28,	
	2019	2018	2019	2018
Net earnings (loss) attributable to equity holders of the Company	(5,079)	(1,252)	(6,498)	4,521
Amounts not subsequently reclassified to the statement of operations				
Net actuarial gains (losses) on employee benefits, net of tax of nil (note 11)	(6,701)	3,078	(12,496)	17,460
Other comprehensive income (loss)	(6,701)	3,078	(12,496)	17,460
Comprehensive income (loss) attributable to equity holders of the Company	(11,780)	1,826	(18,994)	21,981
Total comprehensive income (loss) attributable to equity holders of the Company:				
Continuing operations	(12,571)	1,826	(19,785)	21,981
Discontinued operations	791	-	791	-
Comprehensive income (loss) attributable to equity holders of the Company	(11,780)	1,826	(18,994)	21,981

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, 2019	As at August 31, 2018
ASSETS		(revised - note 2)
Current Assets		
Cash	18,471	26,037
Restricted cash (note 6)	5,713	5,711
Accounts receivable	64,620	68,069
Assets held-for-sale (note 7)	24,475	6,827
Inventory	6,137	6,219
Prepaid expenses and other assets	12,074	9,561
Total current assets	131,490	122,424
Non-Current Assets		
Property and equipment (note 7)	113,085	154,465
Derivative financial instruments (note 14)	1,053	2,479
Intangible assets	66,565	73,895
Total assets	312,193	353,263
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (note 8)	52,486	62,833
Provisions (note 9)	12,194	18,666
Deferred revenue	27,673	28,994
Current portion of long-term debt (note 10)	15,522	8,718
Total current liabilities	107,875	119,211
Non-Current Liabilities		
Long-term debt (note 10)	238,334	264,022
Employee benefit obligations and other liabilities (note 11)	77,105	62,703
Provisions (note 9)	339	526
Total liabilities	423,653	446,462
Deficiency		
Capital stock (note 12)	810,861	810,836
Contributed surplus (note 13)	14,297	13,589
Deficit	(936,618)	(917,624)
Total deficiency	(111,460)	(93,199)
Total liabilities and deficiency	312,193	353,263

Subsequent events (note 17)

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, 2019			
	Capital stock	Contributed surplus	Deficit	Total Deficiency
Balance as at August 31, 2018	810,836	13,589	(919,488)	(95,063)
Change in accounting policies (note 2)	-	-	1,864	1,864
Balance as at August 31, 2018 (revised)	810,836	13,589	(917,624)	(93,199)
Net loss attributable to equity holders of the Company	-	-	(6,498)	(6,498)
Other comprehensive loss	-	-	(12,496)	(12,496)
Comprehensive income attributable to equity holders of the Company	-	-	(18,994)	(18,994)
Share-based compensation plans (note 13)	-	708	-	708
Issuance of shares (note 12)	25	-	-	25
Balance as at February 28, 2019	810,861	14,297	(936,618)	(111,460)

	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 13)	-	2,530	-	2,530
Balance as at February 28, 2018	810,836	12,942	(885,385)	(61,607)

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,	
	2019	2018	2019	2018
CASH GENERATED (UTILIZED) BY:				
OPERATING ACTIVITIES				
Net earnings (loss) attributable to equity holders of the Company	(5,079)	(1,252)	(6,498)	4,521
Items not affecting cash:				
Depreciation	4,288	5,191	9,287	10,526
Amortization	3,329	4,278	7,521	7,667
Impairment (note 7)	6,600	-	6,600	-
Gain on disposal of operations (note 4)	-	-	-	(4,676)
(Gain) loss on derivative financial instruments (note 14)	869	2,565	1,426	(535)
Non-cash interest	4,580	3,655	9,120	7,477
Gain on disposal of property and equipment and assets-held-for-sale (note 6)	(11,671)	-	(11,445)	(1,542)
Non-cash foreign currency exchange (gains) losses	(1,525)	(730)	1,236	2,806
Gain on sale of discontinued operations (note 9)	(791)	-	(791)	-
Share-based compensation plans (note 13)	281	2,530	708	2,530
Net financing expense relating to employee benefit plans (note 11)	540	736	1,081	1,471
Non-cash compensation expense of employee benefit plans (note 11)	1,204	-	421	-
Employee benefit plan funding in excess of compensation expense (note 11)	-	(3,741)	-	(3,800)
Net change in non-cash operating accounts (note 15)	4,960	(11,388)	(16,281)	(27,059)
Cash flows from (used in) operating activities	7,585	1,844	2,385	(614)
INVESTING ACTIVITIES				
Net proceeds from the sale of property and equipment and assets held-for-sale (note 6)	20,344	-	20,735	9,829
Purchases of property and equipment	(1,279)	(134)	(1,445)	(283)
Purchases of intangible assets	(22)	(190)	(191)	(429)
Cash flows from (used in) investing activities	19,043	(324)	19,099	9,117
FINANCING ACTIVITIES				
Repayment of long-term debt (note 10)	(20,355)	-	(29,073)	(79,442)
Advances from (repayments of) senior secured asset-based revolving credit facility (note 10)	-	(2,000)	-	12,000
Restricted cash (note 6)	391	(2)	(2)	62,042
Issuance of shares (note 12)	25	-	25	-
Cash flows used in financing activities	(19,939)	(2,002)	(29,050)	(5,400)
Net change in cash for the period	6,689	(482)	(7,566)	3,103
Cash at beginning of period	11,782	14,433	26,037	10,848
Cash at end of period	18,471	13,951	18,471	13,951
Supplemental disclosure of operating cash flows				
Interest paid	380	87	5,890	8,903
Income taxes paid	-	-	-	-

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

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

FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2019 AND 2018

(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).

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 except for the adoption of new accounting standards as described below. 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, 2018 and 2017.

These interim condensed consolidated financial statements were approved by the Board of Directors (the “Board”) on April 11, 2019.

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, 2018 and 2017 except for the estimates of fair value less costs of disposal (“FVLCD”) as described in note 7.

Changes in accounting policies

There are several new accounting standards which were effective for the Company on September 1, 2018. The following new standards and the nature and impact of adoption are described below.

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. The Company adopted the standard on a modified retrospective basis and accordingly has not restated comparative information for financial instruments within the scope of IFRS 9. Therefore the comparative information is reported under IAS 39 and is not comparable to the information presented in accordance with IFRS 9. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings on September 1, 2018.

The measurement categories for financial assets under IAS 39 of fair value through profit and loss (“FVTPL”) and amortized cost have been replaced with the following categories under IFRS 9:

- Debt instruments at amortized cost
- Debt instruments at fair value through other comprehensive income (“FVOCI”)
- Equity instruments at FVOCI
- Financial assets at FVTPL

The classification of debt instruments under IFRS 9 depends on the Company’s business model for managing the financial assets and the contractual terms of the cash flow. The Company assesses the business model and cash flows of debt instruments on the date of initial application. Equity instruments are generally classified as FVTPL, however for those that are not held for trading, the Company can make an irrevocable election on initial recognition to classify the instrument as FVOCI with no recycling of gains or losses to earnings on derecognition.

Debt instruments at amortized cost

Debt instruments at amortized cost, include accounts receivable and cash, and are held in order to collect contractual cash flows and the contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding. Debt instruments at amortized cost are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method, less a provision for impairment.

Financial assets at FVTPL

Financial assets at FVTPL are those not measured at amortised cost or at FVOCI. Assets in this category principally include warrants held by the Company. Financial assets at FVTPL are carried at fair value with changes recognized in the statement of operations.

Other financial liabilities

Other financial liabilities continue to be measured at amortized cost using the effective interest rate method however when a financial liability is modified but not extinguished the modification will be accounted for by discounting revised cash flows at the original effective interest rate. During the year ended August 31, 2017, the Company amended and restated its first-lien debt to extend the maturity and redeemed \$77.8 million aggregate principal amount of notes. In accordance with IAS 39, the modification of the terms was not considered to result in an extinguishment of the initial borrowing and at the date of the modification no gain or loss was recognized in the statement of operations. Under IFRS 9, the cash flows must be discounted at the original effective interest rate resulting in the recognition of a gain of \$4.3 million in the year ended August 31, 2017. The cumulative impact on adoption of IFRS 9 as at September 1, 2018 related to the debt modification includes a reduction in deficit of \$1.9 million with a corresponding decrease in long-term debt. In addition, this will result in an increase in interest expense over the remaining term of the loan.

Impairment

IFRS 9 includes an expected credit loss model for all financial assets measured at amortized cost. Expected credit losses are the present value of cash shortfalls over the remaining expected life of the financial asset using either 12-month expected credit losses or lifetime expected credit loss. For trade receivables, the Company applies the standards simplified approach based on lifetime expected credit losses. There were no significant differences between the ending allowances for trade receivables under IFRS 9 compared to IAS 39.

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 Company adopted the standard in accordance with the modified retrospective transitional approach. There were no transitional adjustments or significant changes to the Company's revenue recognition policies required on adoption of this standard. The Company's contracts with customers are generally for a term of one year or less and as a result the incremental costs of obtaining a contract are expensed when incurred in accordance with the practical expedient of the standard.

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 Ltd. 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 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 9). The Competition Bureau is reviewing the Torstar Transaction under the provisions of the *Competition Act* (Canada) 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, 2018 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 allocated the intangible assets acquired to customer relationships with a useful life of one year and during the three and six months ended February 28, 2019 recognized amortization expense of nil and \$0.9 million, respectively (2018 – \$0.9 million).

5. ONTARIO INTERACTIVE DIGITAL MEDIA TAX CREDIT

In February 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 refiled the applicable tax returns to reflect such claim and during the year ended August 31, 2018 received \$20.4 million, including accrued interest of \$0.5 million, related to this claim. The claim primarily related to the recovery of previously recognized compensation expense and as a result during the year ended August 31, 2018, the Company recorded the tax credit as a recovery of compensation expense including an initial recovery of \$17.0 million in the three and six months ended February 28, 2018 due to the estimation uncertainty associated with the claims process.

6. RESTRICTED CASH

Pursuant to the amended and restated senior secured notes indenture, any net proceeds from an asset disposition in excess of \$0.1 million will be held in a collateral account by the 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 8.25% Senior Secured Notes due 2021 (“First-Lien Notes”) (note 10).

	Restricted Cash
August 31, 2018	5,711
Net proceeds on sale of assets ⁽¹⁾	20,732
First-Lien Notes payment ⁽²⁾	(20,732)
Interest earned	2
February 28, 2019 ⁽³⁾	5,713

⁽¹⁾ During the three and six months ended February 28, 2019, the Company sold property and equipment for net proceeds of \$20.3 million and \$20.7 million, respectively, which included net proceeds of \$20.3 million from the sale of the Ottawa Citizen facility and realized a gain on sale of \$11.7 million and \$11.4 million, respectively.

⁽²⁾ During the three and six months ended February 28, 2019, the Company used \$20.7 million to redeem \$20.4 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$0.3 million (note 10).

⁽³⁾ During the year ended August 31, 2017, the Company received \$36.3 million as part of an asset purchase agreement with Meltwater News Canada Inc. to sell Infomart, its media monitoring division (the “Infomart Transaction”), of which \$5.7 million was held in escrow until February 15, 2019 to satisfy potential claims arising under the purchase agreement. On February 15, 2019 the funds were released as no claims were made and subsequent to February 28, 2019 the net proceeds were used to redeem \$5.5 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$0.2 million (note 17).

7. ASSETS HELD-FOR-SALE

As at February 28, 2019, the Company determined that the carrying amount of the Calgary Herald facility will be recovered principally through a sales transaction and as a result has classified the property as held-for-sale on the condensed consolidated statement of financial position at its estimated FVLCD of \$19.5 million. In addition, the FVLCD of property previously classified as held-for-sale was reduced to \$5.0 million resulting in aggregate assets held-for sale of \$24.5 million as at February 28, 2019 (August 31, 2018 - \$6.8 million). During the three and six months ended February 28, 2019 the Company recognized an impairment charge of \$6.6 million in the consolidated statement of operations (2018 – nil).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at February 28, 2019	As at August 31, 2018
Trade accounts payable	12,973	13,793
Accrued liabilities	35,134	44,027
Accrued interest on long-term debt	4,379	5,013
Accounts payable and accrued liabilities	52,486	62,833

9. PROVISIONS

	Restructuring ^(a)	Unoccupied leases ^(a)	Other provisions ^(b)	Total
Provisions as at August 31, 2018	16,801	1,547	844	19,192
Charges (recoveries)	3,773	-	(769)	3,004
Payments	(9,375)	(273)	(15)	(9,663)
Provisions as at February 28, 2019	11,199	1,274	60	12,533
Portion due within one year	(11,199)	(995)	-	(12,194)
Non-current provisions	-	279	60	339

(a) Restructuring and unoccupied leases

During the year ended August 31, 2018, the Company began initiatives, including the closure of nine community newspapers and during the three and six months ended February 28, 2019, the Company continued these initiatives and incurred restructuring expense of \$1.1 million and \$3.8 million, respectively, which include both involuntary terminations and voluntary buyouts.

(b) Other provisions

Other provisions include claims and grievances which have been asserted against the Company. During the three and six months ended February 28, 2019, a provision for claims related to the Infomart Transaction was reversed from other provisions as no claims were made under the purchase agreement and a gain on sale of discontinued operations of \$0.8 million was recognized in the condensed consolidated statements of operations for the three and six months ended February 28, 2019 (note 6).

10. LONG-TERM DEBT

				As at February 28, 2019	As at August 31, 2018
					(revised - note 2)
	Maturity	Principal	Financing fees, discounts and other	Carrying value of debt	Carrying value of debt
8.25% Senior Secured Notes	July 2021	105,271	(1,666)	103,605	131,747
10.25% Second Lien Secured Notes (US\$114.3M) ⁽¹⁾	July 2023	150,466	(215)	150,251	140,993
Senior Secured Asset-Based Revolving Credit Facility	January 2021	-	-	-	-
Total long-term debt				253,856	272,740
Portion due within one year				(15,522)	(8,718)
Non-current long-term debt				238,334	264,022

⁽¹⁾ US\$ principal translated to the Canadian equivalent based on the foreign exchange rate on February 28, 2019 of US\$1:\$1.3169 (August 31, 2018 - US\$1:\$1.3055).

The terms and conditions of long-term debt as at February 28, 2019 are the same as disclosed in the consolidated financial statements for the years ended August 31, 2018 and 2017 except for the changes described below.

During the three and six months ended February 28, 2019 the Company redeemed \$20.4 million and \$29.1 million, respectively, aggregate principal amount of First-Lien Notes, which includes a redemption of \$8.7 million as a result of the excess cash flow offer related to the six months ended August 31, 2018 and \$20.4 million related to the sale of the Ottawa Citizen facility (note 6) (2018 – nil and \$79.4 million, respectively).

As per the terms of the amended and restated First-Lien Notes indenture, the excess cash flow related to the six months ended February 28, 2019 resulted in an excess cash flow offer of \$5.0 million which will be used to redeem a portion of the First-Lien Notes at par (note 17).

On January 18, 2017, the Company entered into a senior secured asset-based revolving credit facility (“ABL Facility”) for a term of two years with Chatham Asset Management LLC (“Chatham LLC”) and certain investment funds or accounts for which Chatham LLC or its affiliates acts as an investment advisor, sub-advisor or manager (collectively, “Chatham”), for an aggregate availability of up to \$15.0 million, which was increased by \$10.0 million on October 19, 2017 to \$25.0 million. On December 15, 2018, the Company and Chatham entered into an agreement to extend the term of the ABL Facility to January 18, 2021 for an aggregate availability of up to \$15.0 million, which may be increased by up to \$10.0 million at the request of the Company and with the consent of the lender. As at February 28, 2019, the Company has no amount drawn on the ABL Facility and has availability of \$15.0 million (August 31, 2018 - \$12.0 million and \$13.0 million, respectively) and during the three and six months ended February 28, 2019, incurred \$0.1 million of interest expense and paid a nominal amount and \$0.1 million of interest, respectively (2018 – incurred \$0.2 million and \$0.3 million, respectively, and paid \$0.1 million and \$0.2 million, respectively).

11. EMPLOYEE BENEFIT PLANS

The Company has a number of funded and unfunded defined benefit plans that include pension benefits, post-retirement benefits, and other long-term employee benefits as well as a defined contribution pension benefit plan. The net employee benefit plan costs related to the Company's pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans reported in net earnings (loss) in the condensed consolidated statements of operations for the three and six months ended February 28, 2019 and 2018 are as follows:

For the three months ended February 28, 2019 and 2018

			Post-retirement benefits		Other long-term employee benefits		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Current service cost	801	1,197	256	279	88	443	1,145	1,919
Administration costs	252	231	-	-	-	-	252	231
Net actuarial (gains) losses	-	-	-	-	212	(357)	212	(357)
Net financing expense	85	267	347	358	108	111	540	736
Net defined benefit plan expense ⁽¹⁾	1,138	1,695	603	637	408	197	2,149	2,529
Employer contributions to defined contribution plans	890	999	-	-	-	-	890	999
Total plan expense	2,028	2,694	603	637	408	197	3,039	3,528

For the six months ended February 28, 2019 and 2018

	Pension benefits		Post-retirement benefits		Other long-term employee benefits		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Current service cost	1,603	2,396	512	558	176	886	2,291	3,840
Administration costs	503	462	-	-	-	-	503	462
Net actuarial (gains) losses	-	-	-	-	105	(317)	105	(317)
Net financing expense	171	533	693	716	217	222	1,081	1,471
Net defined benefit plan expense ⁽¹⁾	2,277	3,391	1,205	1,274	498	791	3,980	5,456
Employer contributions to defined contribution plans	1,849	2,008	-	-	-	-	1,849	2,008
Total plan expense	4,126	5,399	1,205	1,274	498	791	5,829	7,464

⁽¹⁾ All current service costs, administration costs and net actuarial (gains) losses related to other long-term employee benefits are included in compensation expense in the consolidated statements of operations. Net financing expense is included in net financing expense relating to employee benefit plans in the consolidated statements of operations.

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, 2019 and 2018 are as follows:

For the three months ended February 28, 2019 and 2018						
	Pension benefits		Post-retirement benefits		Total	
	2019	2018	2019	2018	2019	2018
Net actuarial gains (losses) on employee benefits ⁽¹⁾	(5,679)	2,068	(1,022)	1,010	(6,701)	3,078
Net actuarial gains recognized in other comprehensive income (loss)	(5,679)	2,068	(1,022)	1,010	(6,701)	3,078

For the six months ended February 28, 2019 and 2018						
	Pension benefits		Post-retirement benefits		Total	
	2019	2018	2019	2018	2019	2018
Net actuarial gains (losses) on employee benefits ⁽¹⁾	(12,836)	17,461	340	(1)	(12,496)	17,460
Net actuarial gains (losses) recognized in other comprehensive income (loss)	(12,836)	17,461	340	(1)	(12,496)	17,460

⁽¹⁾ The discount rate used in measuring the Company's benefit obligations as at February 28, 2019 was 3.55% for pension benefits and 3.70% for post-retirement benefits (August 31, 2018 – 3.60% 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, 2019 are as follows:

	Pension benefits	Post-retirement benefits	Other long-term employee benefits	Total ⁽¹⁾
Net defined benefit plan obligation as at August 31, 2018	6,541	38,016	14,108	58,665
Amounts recognized in the statement of operations	2,277	1,205	498	3,980
Amounts recognized in other comprehensive income (loss)	12,836	(340)	-	12,496
Employer contributions to the plans	(375)	(1,001)	(1,102)	(2,478)
Net defined benefit plan obligation as at February 28, 2019	21,279	37,880	13,504	72,663

⁽¹⁾ As at February 28, 2019 and August 31, 2018, the net defined benefit plan obligations are recorded in employee benefit obligations and other liabilities on the condensed consolidated statements of financial position.

On January 29, 2019, the Company entered into an agreement with the Colleges of Applied Arts & Technology Pension Plan (the "CAAT Pension Plan") to merge the Company's defined benefit pension plans (the "Postmedia Plans"), with the CAAT Pension Plan effective July 1, 2019. The merger is subject to customary closing conditions including approval from both Postmedia Plan members and the Financial Services Commission of Ontario, or its successor (collectively, "FSCO"). Assuming all approvals are obtained, the Company will become a participating employer under the CAAT Pension Plan and all members of the Postmedia Plans, as well as members of the Company's defined contribution pension plan will become members of the CAAT Pension Plan and begin accruing benefits under the DBplus provisions of the CAAT Pension Plan beginning July 1, 2019. DBplus is a defined benefit pension plan with a fixed contribution rate for members, matched dollar for dollar by employers. The CAAT Pension Plan will assume defined benefit obligations accrued prior to July 1, 2019 contingent on the approval by FSCO of the transfer of assets from the Postmedia Plans. Once this transfer is completed, cash funding obligations related to the transferred Postmedia Plans deficits will be determined and payable to the CAAT Pension Plan over a term of ten years and the Company will recognize a gain or loss on settlement.

12. CAPITAL STOCK AND EARNINGS (LOSS) PER SHARE

During the three and six months ended February 28, 2019 the Company issued 23,100 Class C voting shares for a nominal amount of proceeds. As at February 28, 2019, the Company has 93,740,299 shares outstanding (August 31, 2018 – 93,717,199).

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, 2019 and 2018. No reconciling items in the computation of net earnings (loss) exist.

	For the three months ended February 28,	
	2019	2018
Basic weighted average shares outstanding during the period	93,720,536	93,717,199
Dilutive effect of options and restricted share units	-	-
Diluted weighted average shares outstanding during the period	93,720,536	93,717,199
Options and restricted share units outstanding which are anti-dilutive	-	367,929

	For the six months ended February 28,	
	2019	2018
Basic weighted average shares outstanding during the period	93,718,858	93,717,199
Dilutive effect of options and restricted share units	-	116,774
Diluted weighted average shares outstanding during the period	93,718,858	93,833,973
Options and restricted share units outstanding which are anti-dilutive	-	66,174

13. 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 six months ended February 28, 2019, the Company granted 0.6 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:

	2019
Fair value	\$ 0.54
Key assumptions	
Exercise Price	\$ 0.97
Risk-free interest rate ⁽¹⁾	2.42%
Dividend yield	-
Volatility factor ⁽²⁾	64.14%
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, 2019:

	Options	Weighted average exercise price
Balance, August 31, 2018	1,930,250	\$ 1.03
Issued	645,000	\$ 0.97
Cancelled	(27,750)	\$ 1.03
Balance, February 28, 2019	2,547,500	\$ 1.03

During the three and six months ended February 28, 2019, the Company recorded compensation expense relating to the Option Plan of \$0.1 million and \$0.3 million, respectively, with an offsetting credit to contributed surplus (2018 – \$0.4 million and \$0.4 million, respectively). The total unrecognized compensation expense is \$0.5 million, which is expected to be recognized over the next five years.

Restricted share unit plan

The Company has a restricted share unit plan (the “RSU Plan”). The RSU Plan provides for the grant of restricted share units (“RSUs”) to participants, being current, part-time or full-time officers, employees or consultants of the Company. The maximum aggregate number of RSUs issuable pursuant to the RSU Plan at any time shall not exceed 3.7 million shares of the Company. The RSU Plan is administered by the Board.

During the six months ended February 28, 2019, the Company granted 0.3 million RSUs. The fair value of the RSUs granted was estimated by using a grant date fair value per share of \$0.97. The fair value of \$0.97 per share was based on the volume-weighted average trading price of the Class NC variable voting shares for the five trading days immediately preceding the issuance. As at February 28, 2019, the Company has 2.6 million RSUs and a tandem award that provides a choice to either exercise 1.2 million stock options or 1.2 million RSUs outstanding. During the three and six months ended February 28, 2019, the Company recorded compensation expense related to the RSU Plan of \$0.2 million and \$0.4 million, respectively, with an offsetting credit to contributed surplus (2018 – \$2.1 million and \$2.1 million, respectively). The total unrecognized compensation expense is \$0.8 million, which is expected to be recognized over the next five years.

14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial instruments measured at fair value

The financial instruments measured at fair value in the condensed consolidated statement of financial position, categorized by level according to the fair value hierarchy that reflects the significance of the inputs used in making the measurements, as at February 28, 2019 are as follows:

	As at February 28, 2019	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⁾	1,053	-	1,053	-

⁽¹⁾ On January 25, 2016, the Company entered into a marketing collaboration agreement ("Marketing Agreement") with Mogo Finance Technology Inc. ("Mogo"). The Marketing Agreement provides the Company with revenue sharing and equity participation through warrants in Mogo in exchange for media promotional commitments over the next three years. As part of the Marketing Agreement, the Company paid \$1.2 million for 1,196,120 five year warrants that entitled the Company to purchase common shares of Mogo at an exercise price of \$2.96. Fifty percent of the warrants vest in equal instalments over three years and the remaining warrants vest in three equal instalments based on Mogo achieving certain quarterly revenue targets. In May 2018, the Company and Mogo revised the Marketing Agreement to extend it for an additional two years and amended the vesting terms of the warrants that were previously based on Mogo achieving certain quarterly revenue targets to vest in equal instalments over years four and five. During the three and six months ended February 28, 2019, the Company recognized a loss of \$0.9 million and \$1.4 million, respectively, related to the warrants which is included in (gain) loss on derivative financial instruments in the condensed consolidated statements of operations (2018 – loss of \$2.6 million and gain of \$0.5 million, respectively).

The fair value of the warrants is determined by the Black-Scholes option pricing model using Level 2 market inputs, including exercise price, risk-free interest rate, 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, 2019 and 2018 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, 2019 and August 31, 2018 are as follows:

	As at February 28, 2019		As at August 31, 2018	
	Carrying value	Fair value	Carrying value	Fair value
Other financial liabilities				
Long-term debt	253,856	285,160	272,740	301,570

(revised - note 2)

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 10). 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, 2019, approximately 59% of the outstanding principal on the Company's long-term debt is payable in US dollars (August 31, 2018 – 51%). As at February 28, 2019, the Company is exposed to foreign currency risk on the US\$114.3 million of 10.25% Second Lien Secured Notes due 2023 outstanding (August 31, 2018 - US\$108.2 million).

15. STATEMENT OF CASH FLOWS

The following amounts compose the net change in non-cash operating accounts included in cash flows from (used in) operating activities in the condensed consolidated statements of cash flows for the three and six months ended February 28, 2019 and 2018:

	For the three months ended		For the six months ended	
	February 28,		February 28,	
	2019	2018	2019	2018
Accounts receivable	20,956	(1,938)	3,449	(14,671)
Inventory	(438)	(283)	82	(42)
Prepaid expenses and other assets	(2,771)	197	(2,513)	667
Accounts payable, accrued liabilities and provisions	(12,632)	(9,072)	(16,976)	(12,374)
Deferred revenue	(796)	310	(1,321)	(909)
Employee benefit obligations and other liabilities and provisions	641	(602)	998	270
Changes in non-cash operating accounts	4,960	(11,388)	(16,281)	(27,059)

16. RELATED PARTY TRANSACTIONS

Chatham owns approximately 62,304,249, or 66%, of the Company's shares. The Company has a consulting agreement with Chatham and during the three and six months ended February 28, 2019 recognized an expense of \$0.2 million and \$0.6 million, respectively (2018 - \$0.5 million and \$1.0 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 and as at February 28, 2019, the Company has no amount drawn and availability of \$15.0 million (August 31, 2018 – \$12.0 million and \$13.0 million, respectively) and during the three and six months ended February 28, 2019 incurred \$0.1 million of interest expense, respectively, and paid a nominal amount and \$0.1 million of interest, respectively (2018 – incurred \$0.2 million and \$0.3 million, respectively and paid \$0.1 million and \$0.2 million, respectively).

17. SUBSEQUENT EVENTS

On March 29, 2019, the Company redeemed \$5.5 million aggregate principal amount of First-Lien Notes and paid accrued interest of \$0.2 million (note 6).

The excess cash flow related to the six months ended February 28, 2019 resulted in an excess cash flow offer of \$5.0 million which is expected to be used to redeem a portion of the First-Lien Notes at par on May 14, 2019 (note 10).