

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

FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

Approved for issuance: October 24, 2019

**OCTOBER 24, 2019**

## 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 subsidiaries, which includes Postmedia Network Inc. (collectively, "we", "our", "us", or "Postmedia") should be read in conjunction with the audited consolidated financial statements and related notes of Postmedia for the years ended August 31, 2019 and 2018. The audited consolidated financial statements of Postmedia for the years ended August 31, 2019 and 2018 are available on SEDAR at [www.sedar.com](http://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". 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 audited consolidated financial statements of Postmedia for the years ended August 31, 2019 and 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.*

*This management's discussion and analysis is dated October 24, 2019 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](http://www.sedar.com).*

## **Additional IFRS Measure**

We use operating income before depreciation, amortization, impairment and restructuring, as presented in the audited consolidated financial statements for the years ended August 31, 2019 and 2018 and described in note 3 thereto, 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 of 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 Spring 2019 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**

On September 9, 2019, we completed a refinancing transaction ("Refinancing Transaction") that included the redemption of \$94.8 million aggregate principal amount of Senior Secured Notes due 2021 ("First-Lien Notes") at par, plus accrued interest of \$2.8 million, and terminated the amended and restated senior secured notes indenture ("First-Lien Notes Indenture"). We financed the redemption through the issuance of \$95.2 million aggregate principal amount of 8.25% Senior Secured Notes due 2023 ("New First-Lien Notes") to Canso Investment Counsel Ltd., in its capacity as portfolio manager for and on behalf of certain accounts that it manages (collectively, "Canso") for net proceeds of approximately \$93.7 million, after financing fees of approximately \$1.5 million. The New First-Lien Notes have substantially similar terms to the First-Lien Notes with the exception of a reduction to the minimum annual excess cash flow redemption from \$10.0 million to \$5.0 million. In addition, we extended the maturity of our 10.25% Second Lien Secured Notes due 2023 ("Second-Lien Notes") by six months to January 15, 2024.

On June 21, 2019 the federal budget was approved which contained measures specific to our industry including: a journalism tax credit whereby qualifying news organizations may apply for a refundable labour tax credit applied to the salaries of journalists; adding journalism organizations as qualified donees under the Income Tax Act; and offering a digital subscription tax credit to individuals. During the three months and year ended August 31, 2019 we recognized a recovery of compensation expense of \$7.0 million representing the benefit from the period January 1, 2019 to August 31, 2019 which is included in trade and other receivables as at August 31, 2019. Subsequent to August 31, 2019, the Government of Quebec announced a similar refundable labour tax credit applied to the salaries of journalists in Quebec. Based on our current staffing levels we expect our per annum federal journalism tax credit to be between \$8 million and \$10 million and the Quebec journalism tax credit to be approximately \$1 million.

During the year ended August 31, 2019 we redeemed \$39.6 million 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, \$25.9 million related to the net proceeds from the sale of assets described below, and \$5.0 million as a result of the excess cash flow related to the six months ended February 28, 2019. During the year ended August 31, 2019, we sold property and equipment for net proceeds of \$20.7 million, which included the net proceeds of \$20.3 million from the sale of the Ottawa Citizen facility and realized a gain on sale of \$11.2 million. On February 15, 2019, \$5.7 million of cash held in escrow to satisfy potential claims arising under an asset purchase agreement with Meltwater News Canada Inc. related to the sale of Infomart, our media monitoring division during the year ended August 31, 2017 (the "Infomart Transaction") was released as no claims were made.

During the year ended August 31, 2019, we determined that the carrying amount of the Calgary Herald facility will be recovered principally through a sales transaction and as a result during the year ended August 31, 2019, we recognized an impairment charge of \$6.6 million to reduce the carrying amount of our properties classified as held-for-sale to fair value less costs of disposal.

On January 29, 2019, we entered into an agreement with the Colleges of Applied Arts & Technology Pension Plan (the "CAAT Pension Plan"), a multi-employer defined benefit plan, to merge our defined benefit pension plans (the "Postmedia Plans"), with the CAAT Pension Plan. Effective July 1, 2019, we received approval from Postmedia Plan members and became a participating employer under the CAAT Pension Plan and all members of the Postmedia Plans, as well as members of our defined contribution pension plan began accruing benefits under the DBplus provisions of the CAAT Pension Plan. DBplus is a defined benefit pension plan with a fixed contribution rate for members, matched dollar for dollar by employers. The merger remains subject to consent from the Financial Services Regulatory Authority of Ontario ("FSRA"). Contingent on the consent of FSRA to the transfer of assets, the CAAT Pension Plan will assume defined benefit obligations of the Postmedia Plans accrued prior to July 1, 2019. Once this transfer is completed, an additional cash funding obligation of \$10.1 million related to the transferred Postmedia Plans deficits will be payable to the CAAT Pension Plan over a term of ten years and we will recognize a gain or loss on settlement. During the three months and year ended August 31, 2019 we recognized a curtailment gain of \$9.7 million in restructuring and other items expense (recovery) in the consolidated statement of operations related to the cessation of service accruals for the Postmedia Plans on July 1, 2019 and an agreement with certain union employees to discontinue retiree benefits.

We continue to identify and undertake cost reduction initiatives in an effort to address revenue decline in the legacy print business. During the year ended August 31, 2018, we began cost reduction initiatives, including the closure of nine community newspapers, with the objective of reducing compensation expense by approximately 10% by the end of fiscal 2018 through a combination of voluntary buyouts and involuntary terminations. Cost savings from this program were identified and substantially completed as at August 31, 2018. During the three months ended August 31, 2019 we continued these initiatives and implemented cost reductions which are expected to result in approximately \$3 million of net annualized cost savings. In total, we implemented net annualized cost savings of approximately \$62 million since these cost reduction initiatives commenced.

On December 15, 2018, we entered into an agreement to extend the term of the senior secured asset-based revolving credit facility ("ABL Facility") to January 18, 2021 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 may be increased by up to \$10.0 million at our request and with the consent of the lender. We originally entered into the ABL Facility on January 18, 2017 for a term of two years 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. As at August 31, 2019, we have no amounts outstanding on the ABL Facility.

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 during the year ended August 31, 2018, we 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 expenses and as a result during the year ended August 31, 2018, we recognized the digital media tax credit as a recovery of compensation expense of \$19.9 million.

On November 27, 2017, we 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, 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 was 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 was \$3.5 million and the difference of \$4.7 million between the acquisition consideration and the carrying value of the net liabilities transferred was recognized as a gain on disposal of operations in the year ended August 31, 2018. During the year ended August 31, 2018, we incurred severance costs of \$3.7 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 expense (recovery) in the consolidated statement of operations. The Competition Bureau is currently reviewing the Torstar Transaction under the provisions of the *Competition Act* (Canada) and we are cooperating with the Competition Bureau in connection with its investigation.

### Selected Annual Information

	For the years ended August 31,	
	2019	2018 (revised) <sup>(1)</sup>
Revenues.....	619,638	676,293
Net loss from continuing operations.....	(7,067)	(33,870)
Net loss per share from continuing operations		
Basic.....	\$ (0.08)	\$ (0.36)
Diluted.....	\$ (0.08)	\$ (0.36)
Net loss attributable to equity holders of the Company.....	(6,276)	(33,870)
Net loss per share attributable to equity holders of the Company		
Basic.....	\$ (0.07)	\$ (0.36)
Diluted.....	\$ (0.07)	\$ (0.36)
Total assets.....	299,059	353,263
Total long-term financial liabilities.....	250,011	264,022

<sup>(1)</sup> As described in "Changes in Accounting Policies", the impact on adoption of IFRS 9 as at September 1, 2018, included a reduction in deficit of \$1.9 million with a corresponding decrease in total liabilities.

## Key Factors Affecting Operating Results

Revenue is earned primarily from advertising, circulation and digital sources. Print advertising revenue is a function of the volume, or lineage, of advertising sold and rates charged. Print circulation revenue is derived from home-delivery subscriptions for newspapers, including All Access Subscriptions (across the four platforms of print, web, tablet and smartphone), single copy sales at retail outlets and vending machines and is a function of the number of newspapers sold and the price per copy. Digital revenue consists of revenue from owned and operated digital advertising, digital marketing services, off network programmatic digital advertising and revenue from ePaper and Digital Access subscriptions.

Print advertising revenue was \$57.5 million and \$259.4 million for the three months and year ended August 31, 2019, representing 39.5% and 41.9% of total revenue for such periods, respectively. Our major print advertising categories consist of local, national, and inserts. These categories composed 47.7%, 17.2% and 33.9%, respectively, of total print advertising for the three months ended August 31, 2019, and 47.4%, 18.4% and 32.8%, respectively, of total print advertising for the year ended August 31, 2019.

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 into fiscal 2020. During the three months and year ended August 31, 2019, we experienced print advertising revenue decreases of \$11.3 million or 16.5% and \$49.1 million or 15.9%, respectively, as compared to the same periods in the prior year. These decreases in print advertising revenue for the three months and year ended August 31, 2019 relate to weakness across all our major advertising categories including local, national and insert advertising.

Print circulation revenue was \$51.1 million and \$206.7 million for the three months and year ended August 31, 2019, representing 35.1% and 33.4% of total revenue for such periods, respectively. Circulation revenues decreased \$2.8 million or 5.3% and \$13.7 million or 6.2%, respectively in the three months and year ended August 31, 2019 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 months and year ended August 31, 2019. We expect these print circulation revenue trends to continue into fiscal 2020.

Digital revenue was \$31.2 million and \$125.1 million for the three months and year ended August 31, 2019, respectively, representing 21.4% and 20.2% of total revenue for such periods, respectively. Digital revenues increased \$2.4 million or 8.2% and \$8.6 million or 7.4% in the three months and year ended August 31, 2019, respectively, as compared to the same periods in the prior year as a result of increases in owned and operated digital advertising and digital marketing services. We expect these digital revenue trends to continue into fiscal 2020 and we continue to believe digital revenue represents a future growth opportunity for Postmedia and as a result we are focused on various new products and initiatives in this area including digital marketing services and providing customized, full-service solutions to increase a business' overall revenue including website development, search engine optimization (SEO) and search engine marketing (SEM).

Our principal expenses consist of compensation, newsprint, distribution and production. These represent 37.4%, 6.4%, 22.5% and 14.4%, respectively, of total operating expenses excluding depreciation, amortization, impairment and restructuring for the three months ended August 31, 2019 and 39.3%, 6.3%, 21.2% and 13.7%, respectively, of total operating expenses excluding depreciation, amortization, impairment and restructuring for the year ended August 31, 2019. We experienced decreases in compensation, newsprint, distribution expenses of \$13.1 million, \$1.0 million, \$1.9 million and \$2.1 million, respectively, in the three months ended August 31, 2019 as compared to the same period in the prior year. We experienced decreases in compensation, newsprint, distribution and production expenses of \$17.9 million, \$3.0 million, \$10.8 million and \$5.7 million, respectively, in the year ended August 31, 2019 as compared to the same period in the prior year. The decrease in compensation expense during the year ended August 31, 2019 is the result of cost reduction initiatives and the recovery of \$7.0 million related to the journalism tax credit, partially offset by the recovery of \$19.9 million in the year ended August 31, 2018 related to the digital media tax credit both as described earlier in "Recent Developments". The decreases in newsprint, distribution and production expenses for the three months and year ended August 31, 2019 are as a result of cost reduction initiatives and decreases in newspaper circulation volumes.

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 August 31, 2019 we implemented cost reduction initiatives which are expected to result in approximately \$3 million of net annualized cost savings. In total, we implemented net annualized cost savings of approximately \$62 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 \$2.5 million on an annualized basis. We experienced a net increase in newsprint prices in fiscal 2019, but don't expect a material price change in fiscal 2020.

Our distribution is primarily outsourced to third party suppliers. The key drivers of our distribution expenses are fuel costs and circulation and insert volumes. Our distribution expenses have decreased during the three months and year ended August 31, 2019 as compared to the same periods in the prior year as a result of a reduction in newspaper circulation volumes and cost reduction initiatives. We expect these newspaper circulation volume trends to continue into fiscal 2020.

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 decreased during the three months and year ended August 31, 2019 as a result of a reduction in newspaper circulation volumes and cost reduction initiatives partially offset by increases in digital advertising production costs. We expect digital advertising production costs to continue to increase in fiscal 2020.

## **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.

We have identified the following significant areas that require management to use estimates, assumptions and judgements. These accounting estimates, assumptions and judgements are considered critical as changes in such estimates, assumptions and judgements have the potential to materially impact the audited consolidated financial statements. For a summary of our significant accounting policies refer to note 2 of our audited consolidated financial statements for the years ended August 31, 2019 and 2018.

The following significant areas require management to use assumptions and to make estimates:

#### **Impairment of long lived assets**

We test indefinite life intangible assets for impairment annually, or more frequently if there are indicators that an impairment may have arisen. In testing for impairment, assets including indefinite life intangible assets and other long lived assets, are grouped into a CGU which represents the lowest level for which there are separately identifiable cash inflows. The recoverable amount of each CGU or group of CGUs is based on the higher of value in use and fair value less costs of disposal ("FVLCD") calculations. During the year ended August 31, 2019, we computed the FVLCD for each CGU applying a market multiple range of 3.50 to 4.75 times the adjusted trailing twelve month operating income before depreciation, amortization, impairment and restructuring less disposal costs. Management determined this key assumption based on an average of market multiples for comparable entities. Refer to note 7 of our audited consolidated financial statements for the years ended August 31, 2019 and 2018 for more details about the methods and assumptions used in estimating the recoverable amount. In addition, estimates were required in the determination of FVLCD for our held-for-sale-assets.

#### **Employee future benefits**

The cost of defined benefit pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans and the present value of the defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions including the discount rate and mortality rates, among others to measure the net defined benefit obligation. Due to the complexity of the actuarial valuations and the long-term nature of employee future benefits, the corresponding obligation is highly sensitive to changes in assumptions. Discount rates are reviewed at each reporting date and corresponding adjustments to the net defined benefit obligation are recognized in other comprehensive income and deficit. A change in the discount rate used in the valuation of net defined benefit obligations, affects the reported funded status of our plans as well as the net benefit cost in subsequent fiscal years. As at August 31, 2019 a 50 basis-point decrease in the discount rate would increase our defined benefit obligations by \$42.7 million and a 50 basis-point increase in the discount rate would decrease our defined benefit obligations by \$38.4 million. Refer to note 14 of our audited consolidated financial statements for the years ended August 31, 2019 and 2018 for more details about the methods and assumptions used in estimating the cost of our defined benefit pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans.

#### **Determination of the fair value of non-monetary consideration**

Estimates were required in determining the fair value of the non-monetary consideration transferred in the business acquisition. Refer to note 4 of our audited consolidated financial statements for the years ended August 31, 2019 and 2018.

The following areas require management to use significant judgements apart from those involving estimates:

#### **Determination of useful lives for the depreciation and amortization of assets with finite lives**

For each class of assets with finite lives, management has to determine over which period we will consume the asset's future economic benefits. The determination of such periods and if necessary, the subsequent revision of such periods, involves judgement and has an impact on the depreciation and amortization recorded in the consolidated statements of operations. We take into account industry trends and company specific factors, including changing technologies and expectations for the in-service period of assets, when determining their respective useful lives.

#### **Determination of the measurement of government grants and tax credits**

Judgement is required in determining when government grants and tax credits are recognized. Government grants and tax credits are recognized when there is reasonable assurance that we have complied with the conditions associated with the relevant government program. The determination of reasonable assurance involves judgement due to the complexity of the programs and related claim and review processes.

#### ***Changes in accounting policies***

There are several new accounting standards which were effective 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. We adopted the standard on a modified retrospective basis and accordingly have 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 our business model for managing the financial assets and the contractual terms of the cash flow. We assessed the business model and cash flows of debt instruments on the date of initial application and on and on the date of initial recognition thereafter. Equity instruments are generally classified as FVTPL, however for those that are not held for trading, we 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 amortized cost or at FVOCI. Assets in this category principally include warrants held. 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, we amended and restated our 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, we apply the 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. We adopted the standard in accordance with the modified retrospective transitional approach. There were no transitional adjustments or significant changes to our revenue recognition policies required on adoption of this standard. Our 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.

## Operating Results

Postmedia's operating results for the three months ended August 31, 2019 as compared to the three months ended August 31, 2018

	2019	2018
<b>Revenues</b>		
Print advertising.....	57,466	68,781
Print circulation.....	51,125	53,965
Digital.....	31,232	28,871
Other.....	5,785	7,060
<b>Total revenues</b>	<b>145,608</b>	<b>158,677</b>
<b>Expenses</b>		
Compensation.....	49,452	62,599
Newsprint.....	8,414	9,382
Distribution.....	29,824	31,763
Production.....	19,062	21,155
Other operating.....	25,544	28,873
<b>Operating income before depreciation, amortization, impairment and restructuring</b>	<b>13,312</b>	<b>4,905</b>
Depreciation.....	3,775	5,142
Amortization.....	3,675	5,083
Impairment.....	710	-
Restructuring and other items expense (recovery).....	(9,602)	13,009
<b>Operating income (loss)</b>	<b>14,754</b>	<b>(18,329)</b>
Interest expense.....	7,658	6,831
Net financing expense relating to employee benefit plans.....	493	775
Loss (gain) on disposal of property and equipment and assets held-for-sale.....	761	(3,180)
Loss (gain) on derivative financial instruments.....	660	(1,010)
Foreign currency exchange (gains) losses.....	(2,721)	1,107
<b>Earnings (loss) before income taxes</b>	<b>7,903</b>	<b>(22,852)</b>
Provision for income taxes.....	-	-
<b>Net earnings (loss) attributable to equity holders of the Company</b>	<b>7,903</b>	<b>(22,852)</b>

## Revenue

### *Print advertising*

Print advertising revenue decreased \$11.3 million, or 16.5%, to \$57.5 million for the three months ended August 31, 2019 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 20.0%, national advertising of 20.1%, and insert advertising of 7.4%. The decreases were due to declines in both volume and rate with the total print advertising linage and average line rate decreasing 10.6% and 10.5%, respectively, during the three months ended August 31, 2019, as compared to the same period in the prior year.

### *Print circulation*

Print circulation revenue decreased \$2.8 million, or 5.3%, to \$51.1 million for the three months ended August 31, 2019 as compared to the same period in the prior year as a result of decreases in circulation volume partially offset by price increases.

### *Digital*

Digital revenue increased \$2.4 million, or 8.2%, to \$31.2 million for the three months ended August 31, 2019, as compared to the same period in the prior year as a result of increases in owned and operated digital advertising, both programmatic and direct, off network programmatic digital advertising and digital marketing services.

### *Other*

Other revenue decreased by \$1.3 million, or 18.1%, to \$5.8 million for the three months ended August 31, 2019, as compared to the same period in the prior year, primarily as a result of a decrease in commercial printing revenue and rental revenue.

## **Expenses**

### *Compensation*

Compensation expenses decreased \$13.1 million, or 21.0%, to \$49.5 million for the three months ended August 31, 2019, as compared to the same period in the prior year. The decrease in compensation expense is primarily as a result of declines in salary and benefits expense of \$12.4 million, which includes the impact of the recovery of \$7.0 million related to the journalism tax credit as described earlier in "Recent Developments", and a decrease in short term incentive plan expense of \$0.5 million. Excluding the recovery related to the journalism tax credit, compensation expenses decreased \$6.1 million, or 9.8%, as compared to the same period in the prior year.

### *Newsprint*

Newsprint expenses decreased \$1.0 million, or 10.3%, to \$8.4 million for the three months ended August 31, 2019, as compared to the same period in the prior year primarily as a result of consumption decreases of 15.5% 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 \$1.9 million, or 6.1%, to \$29.8 million for the three months ended August 31, 2019, as compared to the same period in the prior year related to cost savings as a result of the reduction in newspaper circulation volumes and cost reduction initiatives.

### *Production*

Production expenses decreased \$2.1 million, or 9.9%, to \$19.1 million for the three months ended August 31, 2019, as compared to the same period in the prior year. The decrease in production expenses is related to the reduction in newspaper circulation volumes and ongoing cost reduction initiatives, partially offset by increases in digital advertising production costs.

### *Other operating*

Other operating expenses decreased \$3.3 million, or 11.5%, to \$25.5 million for the three months ended August 31, 2019, as compared to the same period in the prior year. This 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 \$8.4 million to \$13.3 million for the three months ended August 31, 2019, 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 compensation, newsprint, distribution, production and other operating expenses, partially offset by decreases in revenue, all as discussed above. Excluding the impact of the recovery related to the journalism tax credit as described earlier in “Recent Developments”, operating income before depreciation, amortization, impairment and restructuring increased \$1.4 million, or 28.7%, as compared to the same period in the prior year.

#### *Depreciation*

Depreciation expense decreased \$1.4 million to \$3.8 million for the three months ended August 31, 2019 as compared to the same period in the prior year. The decrease relates to the disposal of property, including the Ottawa Citizen facility described earlier in “Recent Developments”.

#### *Amortization*

Amortization expense decreased \$1.4 million to \$3.7 million for the three months ended August 31, 2019 as compared to the same period in the prior year. The decrease primarily relates to intangible assets acquired in the Torstar Transaction described earlier in “Recent Developments” that were fully amortized as at November 30, 2018.

#### *Impairment*

During the three months ended August 31, 2019, we performed an interim impairment test of indefinite life intangible assets and determined that one CGU’s recoverable amount was less than its carrying amount and as a result, we recognized an impairment of \$0.7 million related to indefinite life domain names. During the three months ended August 31, 2019, we recorded no impairments.

#### *Restructuring and other items expense (recovery)*

Restructuring and other items was a recovery of \$9.6 million for the three months ended August 31, 2019, as compared to an expense of \$13.0 million for the same period in the prior year. Restructuring and other items for the three months ended August 31, 2019 consists of a \$9.8 million recovery, which includes curtailments gains of \$9.7 million related to changes to our employee benefit plans as described earlier in “Recent Developments” as well as a reversal of a provision for onerous leases related to unoccupied property of \$0.1 million, partially offset by severance costs of \$0.2 million, which include both involuntary terminations and voluntary buyouts. Restructuring and other items expense for the three months ended August 31, 2018 consisted of severance costs of \$13.0 million, which included both involuntary terminations and voluntary buyouts.

### ***Operating income (loss)***

Operating income was \$14.8 million for the three months ended August 31, 2019, as compared to operating loss of \$18.3 million for the same period in the prior year. Operating income is the result of a restructuring and other items recovery and decreases in depreciation and amortization expenses, and an increase in operating income before depreciation, amortization, impairment and restructuring, all as discussed above.

### *Interest expense*

Interest expense increased \$0.8 million to \$7.7 million for the three months ended August 31, 2019, 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 increase in interest expense relates to an increase in non-cash interest of \$1.8 million, partially offset by a decrease in cash interest of \$1.0 million. The increase in non-cash interest is as a result of the acceleration of the amortization of debt issuance costs due to the revised estimate of expected future cash flows related to the Refinancing Transaction as described earlier in “Recent Developments”, an increase in the paid-in-kind interest on the Second-Lien Notes and an increase in the effective interest rate as described earlier in “Other Factors – Changes in accounting policies”. The decrease in cash interest expense is as a result of redemptions of First-Lien Notes outstanding as described earlier in “Recent Developments”.

### *Net financing expense relating to employee benefit plans*

Net financing expense relating to employee benefit plans decreased by \$0.3 million to \$0.5 million during the three months ended August 31, 2019 as compared to the same period in the prior year.

### *Loss (gain) on disposal of property and equipment and assets held-for-sale*

During the three months ended August 31, 2019, we disposed of property and equipment and realized a loss of \$0.8 million. During the three months ended August 31, 2018, we disposed of property and equipment and assets held-for-sale and realized a gain of \$3.2 million, which included a gain on sale of the Regina facility of \$3.2 million.

### *Loss (gain) on derivative financial instruments*

Loss on derivative financial instruments for the three months ended August 31, 2019 was \$0.7 million as compared to a gain of \$1.0 million during the same period in the prior year. The loss and gain in the three months ended August 31, 2019 and 2018, respectively, relate to the revaluation of warrants acquired in January 2016 as part of a marketing collaboration agreement with Mogo Finance Technology Inc.

### *Foreign currency exchange (gains) losses*

Foreign currency exchange gains for the three months ended August 31, 2019 were \$2.7 million as compared to losses of \$1.1 million during the same period in the prior year. Foreign currency exchange gains and losses in the three months ended August 31, 2019 and 2018, respectively, consist primarily of unrealized gains of \$2.6 million and losses of \$1.1 million, respectively, related to the change in the carrying value of the Second-Lien Notes.

### ***Earnings (loss) before income taxes***

Earnings before income taxes was \$7.9 million for the three months ended August 31, 2019, as compared to loss before income taxes of \$22.9 million for the same period in the prior year. Earnings before income taxes is primarily the result of operating income for the three months ended August 31, 2019 and foreign currency exchange gains and a decrease in net financing expense relating to employee benefit plans, partially offset by losses on disposal of property and equipment and derivative financial instruments and an increase 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 three months ended August 31, 2019 and 2018. 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) attributable to equity holders of the Company**

Net earnings was \$7.9 million for the three months ended August 31, 2019, as compared to net loss of \$22.9 million for the same period in the prior year, as a result of the factors described above in earnings (loss) before income taxes and provision for income taxes.

### **Operating Results**

#### **Postmedia's operating results for the year ended August 31, 2019 as compared to the year ended August 31, 2018**

	<b>2019</b>	<b>2018</b>
<b>Revenues</b>		
Print advertising.....	259,409	308,557
Print circulation.....	206,665	220,406
Digital.....	125,066	116,422
Other.....	28,498	30,908
<b>Total revenues</b>	<b>619,638</b>	<b>676,293</b>
<b>Expenses</b>		
Compensation .....	223,965	241,835
Newsprint.....	36,168	39,120
Distribution.....	120,894	131,688
Production.....	78,356	84,050
Other operating.....	110,950	114,219
<b>Operating income before depreciation, amortization, impairment and restructuring</b>	<b>49,305</b>	<b>65,381</b>
Depreciation.....	16,915	21,158
Amortization.....	14,315	17,009
Impairments.....	7,310	9,400
Restructuring and other items expense (recovery).....	(5,347)	26,464
<b>Operating income (loss)</b>	<b>16,112</b>	<b>(8,650)</b>
Interest expense.....	28,485	27,527
Gain on disposal of operations.....	-	(4,676)
Net financing expense relating to employee benefit plans.....	2,115	2,981
Gain on disposal of property and equipment and assets held-for-sale.....	(10,685)	(4,676)
Loss (gain) on derivative financial instruments.....	650	(1,214)
Foreign currency exchange losses.....	2,614	5,278
<b>Loss before income taxes</b>	<b>(7,067)</b>	<b>(33,870)</b>
Provision for income taxes.....	-	-
<b>Net loss from continuing operations</b>	<b>(7,067)</b>	<b>(33,870)</b>
Net earnings from discontinued operations, net of tax of nil.....	791	-
<b>Net loss attributable to equity holders of the Company</b>	<b>(6,276)</b>	<b>(33,870)</b>

### **Revenue**

#### *Print advertising*

Print advertising revenue decreased \$49.1 million, or 15.9%, to \$259.4 million for the year ended August 31, 2019 as compared to the same period in prior year, and declines were experienced across all of our major print advertising categories including decreases from local advertising of 18.5%, national advertising of 22.7%, and insert advertising of 5.9%. The decreases were due to declines in both volume and rate with the total print advertising linage and average line rate decreasing 15.7% and 4.8%, respectively, during the year ended August 31, 2019, as compared to the same period in the prior year.

### *Print circulation*

Print circulation revenue decreased \$13.7 million, or 6.2%, to \$206.7 million for the year ended August 31, 2019, as compared to the same period in the prior year as a result of decreases in paid circulation volume, partially offset by price increases.

### *Digital*

Digital revenue increased \$8.6 million, or 7.4%, to \$125.1 million for the year ended August 31, 2019, as compared to the same period in the prior year as a result of increases in owned and operated digital advertising, both programmatic and direct, and digital marketing services, partially offset by decreases in off network programmatic digital advertising.

### *Other*

Other revenue decreased by \$2.4 million, or 7.8%, to \$28.5 million for the year ended August 31, 2019, as compared to the same period in the prior year, primarily as a result of a decrease in rental revenue, partially offset by an increase in commercial printing revenue.

## **Expenses**

### *Compensation*

Compensation expenses decreased \$17.9 million, or 7.4%, to \$224.0 million for the year ended August 31, 2019, as compared to the same period in the prior year. The decrease in compensation expenses is due to declines in salary and benefits expense of \$14.1 due to cost reduction initiatives, which includes the impact of the recovery of \$7.0 million related to the journalism tax credit in the year ended August 31, 2019 and the recovery of \$19.9 million related to the digital media tax credit in the same period in the prior year both as described earlier in "Recent Developments", a decrease in share-based compensation expense of \$2.0 million primarily as a result of awards granted in the year ended August 31, 2018, a decrease in temporary labour expense of \$0.8 million and a decrease in employee benefit plan expense of \$0.8 million. Excluding the recoveries related to the journalism and digital media tax credits, compensation expenses decreased \$30.7 million, or 11.7%, as compared to the same period in the prior year.

### *Newsprint*

Newsprint expenses decreased \$3.0 million, or 7.5%, to \$36.2 million for the year ended August 31, 2019 as compared to the same period in the prior year primarily as a result of consumption decreases of 17.1% 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 \$10.8 million, or 8.2%, to \$120.9 million for the year ended August 31, 2019, 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 decreased \$5.7 million, or 6.8%, to \$78.4 million for the year ended August 31, 2019, as compared to the same period in the prior year. The decrease in production expenses is related to the reduction in newspaper circulation volumes and ongoing cost reduction initiatives.

### *Other operating*

Other operating expenses decreased \$3.3 million, or 2.9%, to \$111.0 million for the year ended August 31, 2019, 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 \$16.1 million to \$49.3 million for the year ended August 31, 2019, 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, partially offset by decreases in compensation, newsprint, distribution, production and other operating expenses, all as discussed above. Excluding the impact of the recovery related to the journalism and digital media tax credits both as described earlier in “Recent Developments”, operating income before depreciation, amortization, impairment and restructuring decreased \$3.2 million as compared to the same period in the prior year.

### *Depreciation*

Depreciation expense decreased \$4.2 million to \$16.9 million for the year ended August 31, 2019 as compared to the same period in the prior year. The decrease relates to the disposal of property, including the Ottawa Citizen facility described earlier in “Recent Developments”.

### *Amortization*

Amortization expense decreased \$2.7 million to \$14.3 million for the year ended August 31, 2019 as compared to the same period in the prior year. The decrease primarily relates to intangible assets acquired in the Torstar Transaction described earlier in “Recent Developments” that were fully amortized as at November 30, 2018.

### *Impairment*

During the year ended August 31, 2019, the estimated fair value less costs of disposal of properties classified as held-for-sale as described earlier in “Recent Developments” were reduced based on the expected net proceeds resulting in an impairment charge of \$6.6 million. In addition, during the year ended August 31, 2019 we performed an interim impairment test of indefinite life intangible assets and determined that one CGU’s recoverable amount was less than its carrying amount and as a result, we recognized an impairment of \$0.7 million related to indefinite life domain names. During the year ended August 31, 2018, we determined that certain properties carrying amounts will be recovered principally through a sales transaction 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.

### *Restructuring and other items expense (recovery)*

Restructuring and other items was a recovery of \$5.3 million, as compared to an expense of \$26.5 million for the same period in the prior year. Restructuring and other items for the year ended August 31, 2019 consists of a \$9.8 million recovery, which includes curtailment gains of \$9.7 million related to changes to our employee benefit plans as described earlier in “Recent Developments” as well as a reversal of a provision for onerous leases related to unoccupied property of \$0.1 million, partially offset by severance costs of \$4.4 million, which include both involuntary terminations and voluntary buyouts. Restructuring and other items expense for the year ended August 31, 2018 consisted of severance costs of \$24.3 million, which included 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”.

### ***Operating income (loss)***

Operating income was \$16.1 million for the year ended August 31, 2019, as compared to operating loss of \$8.7 million for the same period in the prior year. Operating income is the result of a recovery of restructuring and other items and decreases in depreciation, amortization and impairment expenses, partially offset by a decrease in operating income before depreciation, amortization, impairment and restructuring, all as discussed above.

### ***Interest expense***

Interest expense increased \$1.0 million to \$28.5 million for the year ended August 31, 2019, 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 increase in interest expense relates to an increase in non-cash interest of \$4.2 million, partially offset by a decrease in cash interest of \$3.2 million. The increase in non-cash interest is as a result of the acceleration of the amortization of debt issuance costs due to the revised estimate of expected future cash flows related to the Refinancing Transaction as described earlier in “Recent Developments”, an increase in the paid-in-kind interest on the Second-Lien Notes and an increase in the effective interest rate as described earlier in “Other Factors – Changes in accounting policies”. The decrease in cash interest expense is as a result redemptions of First-Lien Notes as described earlier in “Recent Developments”.

### ***Gain on disposal of operations***

During the year ended August 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.

### ***Net financing expense relating to employee benefit plans***

Net financing expense relating to employee benefit plans decreased \$0.9 million to \$2.1 million for the year ended August 31, 2019, as compared to the same period in the prior year.

### ***Gain on disposal of property and equipment and assets held-for-sale***

During the year ended August 31, 2019, we disposed of property and equipment and assets held-for-sale and realized a gain of \$10.7 million, which includes a gain on sale of the Ottawa Citizen production facility of \$11.2 million. During the year ended August 31, 2018, we disposed of property and equipment and assets held-for-sale and realized a gain of \$4.7 million, which includes a gain on sale of the London production facility and Regina facility of \$1.6 million and \$3.2 million, respectively.

### ***Loss (gain) on derivative financial instruments***

Loss on derivative financial instruments for the year ended August 31, 2019 was \$0.7 million, as compared to a gain of \$1.2 million during the same period in the prior year. The loss and gain in the year ended August 31, 2019 and 2018, respectively, relate 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 year ended August 31, 2019 were \$2.6 million as compared to \$5.3 million during the same period in the prior year. Foreign currency exchange losses in the years ended August 31, 2019 and 2018 consist primarily of unrealized losses of \$2.8 million and \$5.5 million, respectively, related to the change in the carrying value of Second-Lien Notes.

***Loss before income taxes***

Loss before income taxes was \$7.1 million for the year ended August 31, 2019, as compared to \$33.9 million for the same period in the prior year. The decrease in loss before income taxes is primarily the result of operating income for the year ended August 31, 2019, an increase in gain on disposal of property and equipment and assets-held-for-sale, and decreases in foreign currency exchange losses, partially offset by a gain on disposal of operations and a gain on derivative financial instruments in the year ended August 31, 2018, all as discussed above.

***Provision for income taxes***

We have not recorded a current or deferred tax expense or recovery for the year ended August 31, 2019 and 2018. 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 \$7.1 million for the year ended August 31, 2019, as compared to \$33.9 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 year ended August 31, 2019 consists of a gain on sale of Infomart of \$0.8 million a result of the reversal of a provision for claims related to the Infomart Transaction as no claims were made under the purchase agreement as described in "Recent Developments".

***Net loss attributable to equity holders of the Company***

Net loss was \$6.3 million for the year ended August 31, 2019, as compared to \$33.9 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 2019				Fiscal 2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues.....	145,608	157,058	145,699	171,273	158,677	171,049	157,577	188,990
Net earnings (loss) from continuing operations.....	7,903	(7,681)	(5,870)	(1,419)	(22,852)	(15,539)	(1,252)	5,773
Net earnings (loss) per share from continuing operations								
Basic.....	\$ 0.08	\$ (0.08)	\$ (0.06)	\$ (0.02)	\$ (0.24)	\$ (0.17)	\$ (0.01)	\$ 0.06
Diluted.....	\$ 0.08	\$ (0.08)	\$ (0.06)	\$ (0.02)	\$ (0.24)	\$ (0.17)	\$ (0.01)	\$ 0.06
Net earnings (loss) attributable to equity holders of the Company.....	7,903	(7,681)	(5,079)	(1,419)	(22,852)	(15,539)	(1,252)	5,773
Net earnings (loss) per share attributable to equity holders of the Company								
Basic.....	\$ 0.08	\$ (0.08)	\$ (0.05)	\$ (0.02)	\$ (0.24)	\$ (0.17)	\$ (0.01)	\$ 0.06
Diluted.....	\$ 0.08	\$ (0.08)	\$ (0.05)	\$ (0.02)	\$ (0.24)	\$ (0.17)	\$ (0.01)	\$ 0.06
Cash flows from (used in) operating activities.....	4,660	1,568	7,585	(5,200)	26,188	1,228	1,844	(2,458)

## 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 as of August 31, 2019 include the First-Lien Notes (\$94.8 million) that mature in July 2021 and Second-Lien Notes (US\$120.7 million) that mature in July 2023. As at August 31, 2019, we have repaid \$130.2 million, or 58%, of the original \$225.0 million First-Lien Notes issued in October 2016 and subsequent to August 31, 2019 we completed a Refinancing Transaction as described in “Recent Developments” that extended the maturities. After the completion of the Refinancing Transaction our debt obligations include the New First-Lien Notes (\$95.2 million) that mature in July 2023 and Second-Lien Notes (US\$120.7 million) that mature in January 2024. 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, utilizing the ABL Facility to provide additional liquidity during season fluctuations of the business and identifying and selling redundant assets including certain real estate assets. As at August 31, 2019, we have two real estate assets classified as assets held-for-sale with a carrying amount of \$24.5 million. In addition, we have five other real estate assets with a carrying amount of \$3.2 million currently listed for sale, however these properties do not meet the requirements to be classified as held-for-sale as at August 31, 2019.

Pursuant to the 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 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 August 31, 2019, we have a nominal amount of restricted cash (August 31, 2018 - \$5.7 million). During the year ended August 31, 2017, we received \$36.3 million as part of the Infomart Transaction, as described earlier in "Recent Developments", 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. During the year ended August 31, 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. In addition, during the year ended August 31, 2019, we sold property and equipment for net proceeds of \$20.7 million, which included the net proceeds of \$20.4 million from the sale of the Ottawa Citizen facility, and used the net proceeds to redeem \$20.3 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$0.4 million.

### ***Cash flows from operating activities***

Our principal sources of liquidity are cash flows from operating activities. For the three months and year ended August 31, 2019, our cash flows from operating activities were inflows of \$4.7 million and \$8.6 million, respectively (2018 – \$26.2 million and \$26.8 million, respectively). Cash flows from operating activities decreased \$21.5 million for the three months ended August 31, 2019, as compared to the same period in the prior year due to an increase in non-cash working capital as compared to the same period in the prior year, which includes the impact of a \$7.0 million receivable for the journalism tax credit in the three months ended August 31, 2019 and the receipt of \$20.4 million of cash during the three months ended August 31, 2018 relating to the digital media tax credit both as described earlier in "Recent Developments", partially offset by an increase in operating income before depreciation, amortization, impairment and restructuring, a decrease in cash restructuring and unoccupied lease payments of \$0.7 million and a decrease in cash interest payments of \$0.3 million. Cash flows from operating activities decreased \$18.2 million for the year ended August 31, 2019, as compared to the same period in the prior year due to a decrease in operating income before depreciation, amortization, impairment and restructuring and a decrease in non-cash working capital, partially offset by a decrease in cash restructuring and unoccupied lease payments of \$13.4 million and a decrease in cash interest payments of \$4.6 million, as compared to the same period in the prior year.

As at August 31, 2019 we have cash of \$15.5 million (August 31, 2018 – \$26.0 million).

### ***Cash flows from (used in) investing activities***

For the three months and year ended August 31, 2019, our cash flows from investing activities were outflows of \$2.2 million and inflows of \$14.7 million, respectively (2018 – inflows of \$4.9 million and \$13.5 million, respectively). The cash outflows from investing activities during the three months ended August 31, 2019 include outflows on capital expenditures related to property and equipment of \$2.0 million and intangible assets of \$0.2 million. The net cash inflows from investing activities during the three months ended August 31, 2018 included net proceeds received from the sale of property and equipment and assets held-for sale of \$7.0 million, partially offset by outflows on capital expenditures related to property and equipment of \$0.3 million and intangible assets of \$1.7 million. The net cash inflows from investing activities during the year ended August 31, 2019 include net proceeds received from the sale of property and equipment of \$20.7 million, partially offset by outflows on capital expenditures related to property and equipment of \$4.5 million and intangible assets of \$1.5 million. The net cash inflows from investing activities during the year ended August 31, 2018 include net proceeds received from the sale of property and equipment and assets held-for-sale of \$16.8 million, partially offset by outflows on capital expenditures related to property and equipment of \$0.9 million and intangible assets of \$2.3 million.

### **Cash flows used in financing activities**

For the three months and year ended August 31, 2019, our cash flows from financing activities were nil and outflows of \$33.9 million, respectively (2018 – outflows of \$15.8 million and \$25.1 million, respectively). The cash outflows from financing activities during the three months ended August 31, 2018 included outflows of \$6.8 million related to the repayment of First-Lien Notes and the repayment of the ABL Facility of \$9.0 million. The net cash outflows from financing activities during the year ended August 31, 2019 includes outflows \$39.6 million related to the repayment of First-Lien Notes, partially offset by net inflows from restricted cash of \$5.7 million. The net cash outflows from financing activities during the year ended August 31, 2018 included outflows of \$87.1 million related to the repayment of First-Lien Notes and net inflows from restricted cash of \$62.0 million.

### **Indebtedness**

As of August 31, 2019, we have \$94.8 million First-Lien Notes and US\$120.7 million Second-Lien Notes outstanding (August 31, 2018 - \$134.3 million First-Lien Notes and US\$108.2 million Second-Lien Notes). In addition to the cash transactions discussed above, during the year ended August 31, 2019, we issued additional Second-Lien Notes in the amount of US\$12.5 million (\$16.4 million) related to paid-in-kind interest as part of the terms of the second lien secured notes indenture (2018 – US\$11.2 million (\$14.2 million)). The following tables set out the principal and carrying amount of our long-term debt outstanding as at August 31, 2019 and 2018. 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 August 31, 2019 of US\$1:\$3295 (August 31, 2018 – US\$1:\$1.3055).

	As at August 31, 2019			As at August 31, 2018		
(\$ in thousands of Canadian dollars)				(revised) <sup>(1)</sup>		
	Principal Outstanding	Financing fees, discounts and other	Carrying Value	Principal Outstanding	Financing fees, discounts and other	Carrying Value
First-Lien Notes.....	94,761	-	94,761	134,344	(2,597)	131,747
Second-Lien Notes.....	160,451	(201)	160,250	141,220	(227)	140,993
ABL Facility.....	-	-	-	-	-	-
	255,212	(201)	255,011	275,564	(2,824)	272,740

<sup>(1)</sup> As described earlier in “Changes in Accounting Policies”, the impact on adoption of IFRS 9 as at September 1, 2018, included a reduction in deficit of \$1.9 million with a corresponding decrease in long term debt.

## Financial Position as at August 31, 2019 and 2018

(\$ in thousands of Canadian dollars)	As at August 31, 2019	As at August 31, 2018 (revised) <sup>(1)</sup>
Current assets.....	126,003	122,424
Total assets.....	299,059	353,263
Current liabilities.....	90,862	119,211
Total liabilities.....	435,470	446,462
Deficiency.....	(136,411)	(93,199)

<sup>(1)</sup> As described earlier in “Changes in Accounting Policies”, the impact on adoption of IFRS 9 as at September 1, 2018, included a reduction in deficit of \$1.9 million with a corresponding decrease in total liabilities.

The increase in our current assets is primarily due to an increase in assets held-for-sale, accounts receivable and prepaid expense and other assets, partially offset by an decrease in cash, restricted cash and inventory. Total assets decreased as a result of the decrease in the carrying value of property and equipment and intangible assets as a result of disposals, depreciation, amortization and impairment in excess of additions during the year ended August 31, 2019, partially offset by the increase in current assets as previously described. Current liabilities have decreased due to a decrease in provisions as a result of restructuring payments in excess of new provisions, decreases in accounts payable and accrued liabilities, deferred revenue and the current portion of long-term debt. The decrease in total liabilities is as a result of the decrease in current liabilities as previously described and a decrease in the carrying value of long-term debt primarily as a result of the redemptions of First-Lien Notes described earlier in “Recent Developments”, partially offset by increases in employee benefit plan liabilities as a result of actuarial losses in the year ended August 31, 2019.

### Related Party Transactions

As at August 31, 2019 Chatham owns approximately 62,313,749, or 66%, of our shares. We have a consulting agreement with Chatham and during the year ended August 31, 2019 incurred an expense of \$0.2 million (2018 - \$2.0 million), which is included in other operating expenses in the consolidated statement of operations. In addition, we have an ABL Facility with associated companies of Chatham and as at August 31, 2019, we have no amount drawn and availability of \$15.0 million (August 31, 2018 – nil and \$25.0 million, respectively) and during the year ended August 31, 2019 incurred \$0.1 million of interest expense and paid \$0.2 million of interest (2018 – \$0.5 million and \$0.6 million, respectively).

### Financial Instruments and Financial Instruments Risk Management

Our activities expose us to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

Current risk management techniques utilized include monitoring fair value of derivative financial instruments, fair value of publicly traded debt, foreign exchange rates and interest rates with respect to interest rates and foreign currency risk, aging analysis and credit reviews for credit risk and cash flow projections for liquidity risk. Our enterprise risk management process is managed by a risk oversight committee composed of senior executives of Postmedia.

#### *Foreign currency risk*

As at August 31, 2019, approximately 63% of the outstanding principal on our long-term debt is payable in US dollars (August 31, 2018 – 51%). As at August 31, 2019, we have US\$120.7 million Second-Lien Notes outstanding (August 31, 2018 – US\$108.2 million).

### **Interest rate risk**

The ABL Facility bears interest at floating rates while the First-Lien Notes and Second-Lien Notes bear interest at fixed rates. Therefore, changes in interest rates only exposes us to cash flow interest rate risk on the portion of the ABL Facility that is drawn, if any, at the time of the interest rate change.

### **Credit risk**

Credit risk is the risk of financial loss if a customer or counterparty to a financial asset fails to meet its contractual obligations. As at August 31, 2019, no individual balance represented a significant portion of our accounts receivable. We establish an allowance for doubtful accounts based on the specific credit risk of our customers and historical trends. The allowance for doubtful accounts amounted to \$4.5 million as at August 31, 2019 (August 31, 2018 – \$4.4 million).

We continuously monitor the financial condition of our customers, review the credit history of each customer, review the aging of accounts receivable, evaluate significant individual credit risk accounts and utilize each customer's historical experience in order to both grant credit and set up our allowance for doubtful accounts. If such collectability estimates prove inaccurate, adverse adjustments to future operating results could occur and could be material.

### **Liquidity risk**

Liquidity risk is the risk that we will encounter difficulties in meeting 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. Our financial obligations include long-term debt which requires principal and interest payments. Economic and structural factors related to the industry impact our ability to generate sufficient operating cash flows to satisfy our existing and future financial liabilities, however we manage 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. Subsequent to August 31, 2019 we completed a Refinancing Transaction as described in "Recent Developments" that extended the maturities of long-term debt.

Our obligations under firm contractual arrangements, including commitments for future payments under leases, pension funding and long-term debt agreements as at August 31, 2019 are as follows:

	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>Thereafter</b>
Finance lease.....	-	-	-	-	-	1,560
Operating leases and other.....	24,931	20,558	18,592	16,953	14,846	53,770
Estimated employee benefit plan funding obligations <sup>(1)</sup> .....	4,640	4,705	4,809	4,809	4,809	N/A
Long-term debt <sup>(2)</sup> .....	5,000	89,761	-	247,282	-	-
Interest on long-term debt <sup>(3)</sup> .....	7,634	8,366	-	-	-	-
	<b>42,205</b>	<b>123,390</b>	<b>23,401</b>	<b>269,044</b>	<b>19,655</b>	<b>55,330</b>

(1) Reflects expected contributions to our post-retirement benefit plans and other long-term employee benefit plans. As a result of the merger with the CAAT Pension Plan described earlier in "Recent Developments", we expect no additional contributions to our defined benefit pension plans. Upon completion of the transfer of assets to the CAAT Pension Plan a cash funding obligation of \$10.1 million related to the transferred Postmedia Plans deficits will be payable to the CAAT Pension Plan over a term of ten years and is not reflected in the above table. We expect to contribute \$5.2 million to its defined contribution and multi-employer plans during the year ending August 31, 2020.

(2) Principal repayments of long-term debt are based on the mandatory contractual payments and assumes paid-in-kind interest to maturity on the Second-Lien Notes translated to Canadian dollars based on the foreign exchange rate as at August 31, 2019 of US\$1:\$1.3295.

(3) Interest payments on long-term debt relate to the First-Lien Notes and are based on fixed contractual interest rates. Interest payments on the Second-Lien Notes are included in repayments of long-term debt due to the assumption of paid-in-kind interest to maturity.

Subsequent to August 31, 2019 we completed a Refinancing Transaction as described earlier in “Recent Developments”. The revised contractual obligations related to the long-term debt and interest after completion of the Refinancing Transaction are as follows:

	2020	2021	2022	2023	2024	Thereafter
Long-term debt <sup>(1)</sup> .....	5,000	5,000	5,000	80,235	261,421	-
Interest on long-term debt <sup>(1)</sup> .....	7,864	7,444	7,032	7,912	-	-
	12,864	12,444	12,032	88,147	261,421	-

(1) Principal and interest repayments related to long-term debt are based on the mandatory contractual payments and fixed contractual interest rates after the completion of the Refinancing Transaction. Interest payments on the Second-Lien Notes are included in repayments of long-term debt due to the assumption of paid-in-kind interest to maturity and have been translated to Canadian dollars based on the foreign exchange rate as at August 31, 2019 of US\$1:\$1.3295.

### Guarantees and Off-Balance Sheet Arrangements

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

### Future Accounting Standards

There is a new standard and amended standard which will be effective for the year ending August 31, 2020. The following new standard is expected to have a material impact on the consolidated financial statements and disclosures.

#### (i) 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. The right-of-use asset will be depreciated over the term of the lease. The lease liability will be initially measured at the present value of the applicable lease payments payable over the term of the lease and will accrue interest at our incremental borrowing rate of 6.3%. Limited recognition exemptions apply if the underlying asset has a low value or the lease term is 12 months or less. Lessor accounting remains largely unchanged. We will adopt the standard on a modified retrospective basis on September 1, 2019, and the preliminary estimate on the impact of adoption include an increase in right of use assets of \$48.3 million and lease liabilities of \$50.6 million, a decrease in employee benefit obligations and other liabilities of \$4.6 million and a decrease in property and equipment of \$2.3 million. We estimate the adoption of the standard will result in a decrease in other operating expenses of \$9.0 million an increase in depreciation expense of \$7.4 million and interest expense of \$3.0 million during the year ending August 31, 2020.

#### (ii) IAS 19 – Employee Benefits

In February 2018, the IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments apply for employee benefit plan amendments, curtailments or settlements that will occur during annual periods beginning on or after January 1, 2019. The amendments to IAS 19 clarify that for an amendment, curtailment or settlement of a defined benefit plan, a company uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan. We plan to adopt the amendments to IAS 19 for the year ending August 31, 2020 and continue to evaluate the impact on the consolidated financial statements.

## **Risk Factors**

The risks and uncertainties described below are those we currently believe to be material, but should not be considered exhaustive. If any of the following risks, or any other risks and uncertainties that we have not yet identified or that we currently consider not to be material, actually occur or become material risks, our business, financial condition, results of operations and cash flows and consequently the value of our shares, the First-Lien Notes and Second-Lien Notes could be materially and adversely affected.

### **Risks Relating to Our Business**

*Competition from digital and other forms of media may impair our ability to generate advertising and circulation revenue.*

Participants in the newspaper publishing industry depend primarily upon advertising sales, paid subscriptions and single copy newspaper sales in order to generate revenue. Competition for advertising, subscribers, readers and distribution is intense and comes primarily from digital media, as well as, television; radio; local, regional and national newspapers; magazines; free publications; direct mail; telephone directories; and other communications and advertising and subscriber-based media that operate in these markets. In addition, in recent years there has been a growing shift in advertising dollars from newspaper advertising to other advertising platforms, including digital media competitors such as search and social media. Participants in the digital media industry also depend upon the sale of advertisements and paid subscriptions in order to generate revenue. The digital media industry experiences additional competitive challenges because barriers to entry are low and geographic location is less relevant.

Participants in digital media platforms may improve their ability to target specific audiences and therefore become an even more attractive media for advertisers. These circumstances could result in our newspaper online media not being as competitive as they are currently in relation to these other forms of media. In order to respond to changing circumstances, the costs of producing or promoting editorial content may increase, or we may need to reduce our advertising and/or subscription rates, either of which could adversely affect our financial performance. Increased competition could also lead to additional expenditures for editorial content and marketing.

In addition, there is increasing consolidation in the Canadian newspaper publishing and other media industries, and competitors increasingly include market participants with interests in multiple media. These competitors may be more attractive than we are to certain advertisers because they may be able to bundle advertising sales across newspaper, television and internet platforms. Some of these competitors also have access to greater financial and other resources than we do.

*Our ability to continue to compete successfully in the newspaper and online media industries and to attract advertising dollars, subscribers and readers will depend upon a number of factors, including:*

- our continued ability to offer high-quality editorial content;
- the variety, quality and attractiveness of our products and services;
- the pricing of our products and services;
- the platforms on which our products and services are offered;
- the manner in which we market and promote our products and services;
- the effectiveness of the distribution of our products and services;
- our customer service; and

- the emergence of technologies resulting in further shifts from newspaper advertising to advertising in other formats, including new media outlets.

These factors are largely dependent upon on our ability to:

- identify and successfully respond to changes in technology, customer trends and preferences and online digital platforms such as search and social media;
- develop new products across our business lines;
- protect our intellectual property and avoid infringing the intellectual property rights of others;
- avoid damage to our brands or reputation;
- appeal to many demographics; and
- expand into new distribution channels, particularly with respect to digital media and online products.

There can be no assurance that existing and future competitors will not pursue or be capable of achieving similar or competitive business strategies. In addition, there can be no assurance that we will be able to compete successfully with existing or potential competitors, or that increased competition will not have an adverse effect on our business, financial condition or results of operations.

*Advertising revenue is the largest component of our revenues and our advertising revenue is influenced by prevailing economic conditions and the prospects of our advertising customers. Advertising revenue has been declining since 2009.*

We generate revenue primarily from the sale of advertising. Advertising revenue, including both print and digital advertising represented 59.6% of our consolidated revenues in the year ended August 31, 2019 (2018 – 60.4%).

Advertising revenue is affected in part by prevailing economic conditions. Adverse economic conditions generally, and downturns in the Canadian economy specifically, have a negative impact on the Canadian advertising industry and, consequently, on our financial prospects. We have been experiencing a decline in advertising revenue since 2009.

Our advertising revenue is also dependent on the prospects of our advertising customers. Certain of our advertising customers operate in industries that may be cyclical or sensitive to general economic conditions, such as the automobile, financial, employment, technology, retail, food and beverage, telecommunications, travel, packaged goods and entertainment industries. Advertising customers could alter their spending priorities and reduce their advertising budgets in the event of a downturn in their business or prospects which would have an adverse effect on the revenue we generate from advertising. In addition, because a substantial portion of our revenue is derived from retail advertisers, our business, financial condition and results of operations would also be adversely affected by a further downturn in the retail sector.

A further reduction in advertising revenues could result from:

- the continuing shift from newspaper advertising to advertising in other formats, including new media outlets;
- a decline in economic conditions;
- a decline in the circulation volume of our newspapers, which appears to be permanent;

- a decline in popularity of our editorial content or perceptions about our brands;
- a change in the demographic makeup of the populations to which our newspapers are targeted;
- the activities of our competitors, including increased competition from other forms of advertising-based media (e.g., magazines, radio and television broadcasters, cable television, direct mail and electronic media), and online digital platforms such as search and social media; and
- a decline in the amount spent on advertising in general or in particular industries such as those discussed above.

To the extent the economic conditions worsen and the structural shifts in advertising revenue and circulation continue, our business and advertising revenues will continue to be adversely affected, which would in turn adversely impact our operations and cash flows.

*Our failure to maintain our print and online newspaper readership and circulation levels would limit our ability to generate advertising and circulation revenue.*

Our ability to attract advertisers and thereby generate revenue and profits is dependent in large part upon our success in attracting readership of the newspapers and online publications that we publish. Readership and to a lesser extent circulation volume are the key drivers of advertising prices and revenue in the Canadian news and newspaper information industry.

We believe reader acceptance is a function of the editorial and advertising content being offered and is influenced by a number of factors, including:

- the availability of alternative forms of news and other editorial content;
- the availability of alternative forms of media technologies, such as the internet and other new media formats, that are often free for users;
- a growing preference among some customers to receive all or a portion of their news from sources other than from a newspaper;
- increases in subscription and newsstand rates;
- general economic conditions, including the resulting decline in consumer spending on discretionary items such as newspapers;
- reviews of critics, promotions, the quality and acceptance of other competing editorial content in the marketplace;
- public tastes and perceptions generally; and
- other intangible factors.

Circulation volumes of our newspapers have been declining in both the home delivery and single copy distribution channels. The rate of circulation decline could increase due to changing media consumption patterns of our readers or other factors, and these declines appear to be permanent. If we are unable to stop these declines or if the rate of decline were to accelerate, it will result in lower readership and circulation levels and, consequently, may lead to decreased advertising and other revenues.

Although we make significant investments in the editorial content of our newspapers, there can be no assurance provided that our newspapers will maintain satisfactory readership or circulation levels and any decrease in such levels may be permanent. In addition, factors affecting our readership levels could change rapidly, and many of the changes may be beyond our control and permanent. Loss of readership could have a material adverse effect on our ability to generate advertising and circulation revenue.

*We may not be able to achieve a profitable balance between circulation levels and advertising revenues.*

We must balance our circulation levels with our advertising revenue objectives. This balancing necessitates a continuous effort that varies by publication and requires effective management of the circulation rate, the addition of new subscribers through cost-effective marketing methods and effective advertising operations. To maintain our readership and circulation rates, it may be necessary to incur additional costs that we may not be able to recover through circulation and advertising revenues. No assurance can be provided that we will be able to add and retain a sufficient number of newspaper subscribers in an economically efficient manner. Failure to do this could require reductions of our circulation rate or the elimination of certain products, which would negatively affect our advertising revenues and could materially and adversely affect our results of operations and financial condition.

*We may not realize our anticipated cost savings from cost savings initiatives and any failure to manage costs would hamper profitability.*

The level of our expenses impacts our profitability. Because of general economic and business conditions and our operating results, we have taken steps to lower operating costs by implementing cost savings initiatives including various transformation projects. During the year ended August 31, 2018, we began initiatives, including the closure of nine community newspapers, with the objective of reducing compensation expenses by approximately 10% by the end of fiscal 2018 through a combination of involuntary terminations and voluntary buyouts. Cost savings from this program were identified and substantially completed as at August 31, 2018. During the year ended August 31, 2019 we continued these initiatives and implemented cost reductions which are expected to result in approximately \$15 million of net annualized cost savings. In total, we implemented net annualized cost savings of approximately \$62 million since these cost reduction initiatives commenced.

Estimates of cost savings are inherently uncertain, and we may not be able to achieve cost savings or expense reductions within the time frame we have projected or at all. Our ability to successfully realize savings and the timing of any realization may be affected by factors such as the need to ensure continuity in our operations, labour and other contracts, regulations and/or statutes governing employee/employer relationships, and other factors. In particular, certain of our collective bargaining agreements limit our ability to achieve operating efficiencies by limiting our ability to implement strategic initiatives. In addition, our implementation of these initiatives has and is expected to require upfront costs. There can be no assurance that we will be able to successfully contain our expenses or that even if our savings are achieved that implementation or other expenses will not offset any such savings. Our estimates of the future expenditures necessary to achieve the savings we have identified may not prove accurate, and any increase in such expenditures may affect our ability to achieve our anticipated savings. If these cost-control efforts do not reduce costs in line with our expectations, our financial position, results of operations and cash flows will be negatively affected.

*We may be adversely affected by variations in the cost and availability of newsprint.*

Newsprint is our largest raw material expense, representing approximately 6.3% of total operating expenses excluding depreciation, amortization, impairment and restructuring in the year ended August 31, 2019 (2018 – 6.4%). Newsprint is a commodity and, as such, price varies considerably from time to time as a result of, among other factors, foreign currency exchange fluctuations and supply shortfalls. The price of newsprint can increase as a result of various factors, including consolidation in the newsprint industry, which has resulted in a smaller number of suppliers and reduced competition on price among them, and declining newsprint supply as a result of mill closures and conversions to other grades of paper. Changes in newsprint prices can significantly impact our operating results. We would expect a \$50 per tonne increase or decrease in the price of newsprint to affect our operating expenses by approximately \$2.5 million on an annualized basis. There can be no assurance that we will not be exposed to increased newsprint costs, which could have a material adverse effect on our business, financial condition or results of operations. In addition, if newspaper suppliers experience labour unrest, transportation difficulties or other supply disruptions, our ability to produce and deliver newspapers could be impaired and the cost of the newsprint could increase, both of which would negatively affect our operating results.

*Because a high percentage of our operating expenses are fixed, a decrease in advertising revenue could have a negative impact on our results of operations.*

Newspaper publishing is both capital and labour intensive and, as a result, newspapers have relatively high fixed cost structures. Advertising revenue, on which we rely for a majority of our revenue, may fluctuate due to a variety of factors whereas our expenses do not vary significantly with the increase or decrease in advertising revenue. As a result, a relatively small change in advertising revenue could have a disproportionate effect on our results of operations. For example, during periods of economic contraction, our advertising revenue may decline while most costs remain fixed, resulting in decreased earnings, as has been evident in the current economic environment.

*Our distribution costs could increase due to increases in fuel prices.*

Although we do not incur significant fuel related distribution costs directly, our third-party distributors are adversely affected by rising fuel costs. Significant increases in fuel prices could result in increased fees paid to our distributors in the form of fuel subsidies or surcharges. Significant increases in fuel prices could result in material increases to our distribution expenses which could result in an adverse effect to our financial condition and results of operations.

*We compete with alternative emerging technologies and may have to invest a significant amount of capital to address continued technological development.*

The media industry is experiencing rapid and significant technological changes that have resulted in the development of alternative means of editorial content distribution. The continued growth of the internet has presented alternative content distribution options that compete with traditional media for advertising revenue. We may not be able to compete successfully with existing or newly developed alternative distribution technologies, or may be required to acquire, develop or integrate new technologies in order to compete. The cost of the acquisition, development or implementation of any such new technologies could be significant, and our ability to fund such implementation may be limited. In addition, even if we were able to fund such an implementation, we may be unable to implement any such technologies successfully. Any such event could have a material adverse effect on our business, financial condition or results of operations.

In addition, the continuing growth and technological expansion of internet-based services has increased existing competitive pressure on our businesses. As web-based and digital formats grab an increasingly larger share of consumer readership, we may lose customers or fail to attract new customers if we are not able to transition and update our publications and other products to these new and evolving formats. Furthermore, to the extent that advertisers continue to shift advertising dollars to new media outlets, advertising revenues will decrease even if we are able to maintain our current share of print media advertising dollars. The increased competition may have a material adverse effect on our business and financial results.

*Our revenue, which is generated primarily from advertisers, is subject to seasonal variations, which may increase our borrowing needs at various points in the year.*

Our revenue has experienced, and is expected to continue to experience, seasonal variances due to seasonal advertising patterns and seasonal influences on media consumption habits. Historically, our revenue is typically lowest during the fourth quarter of our fiscal year, which ends in August, and highest during the first and third quarters, which end in November and May, respectively, while expenses are relatively constant throughout the fiscal year. These seasonal variations may lead to short-term fluctuations in cash flow, which could consequently leave us in a more constrained liquidity position.

*The collectability of accounts receivable could deteriorate to a greater extent than provided for in our financial statements.*

In the normal course of business, we are exposed to credit risk for accounts receivable from our customers. Our accounts receivable are carried at net realizable value and our allowance for doubtful accounts has been determined based on several factors, including the aging of accounts receivable, evaluation of significant individual credit risk accounts and historical experience. If such collectability estimates prove inaccurate, adverse adjustments to future operating results could occur and could be material.

*Increases in sales and other taxes could reduce our revenues and impact profit and cash flows.*

In the markets in which we operate, some or all of our products are subject to local and national sales taxes and other taxes such as value-added taxes. Increases in taxes may have a negative effect on the sales of our products. Higher taxes may reduce profit margins on our products if we are unable to pass on the increase to our customers.

*Failure to fulfill our strategy of building our digital media and online businesses would adversely affect our business prospects.*

The competitive environment in which we operate demands, and our future growth strategies incorporate, the development of our digital media and online businesses. We believe the consumer preference for digital media and online products will accelerate as younger, more technologically savvy customers make up a greater portion of our potential customer base. In order for our digital media and online businesses to succeed, we must invest time and significant resources in them, to, among other things:

- accelerate the evolution of existing products (such as local newspaper websites and national content channels);
- develop new digital media and online products (such as redesigned classified sites in automotive, employment and real estate categories);
- develop new content channels (such as mobile optimized formats, online video capabilities and content for tablet devices);
- attract and retain talent for critical positions;
- transform our organization and operating model to grow our digital media and online business;

- continue to develop and upgrade our technologies and supporting processes to distinguish our products and services from those of our competitors;
- sell advertising in significant markets, and be a compelling choice for advertisers online;
- attract and retain a base of frequent, engaged visitors to our websites; and
- continuously advance our digital offerings based on fast-moving trends that may pose opportunities as well as risks (such as tablets and mobile applications).

No assurance can be provided that we will be successful in achieving these and other necessary objectives or that our digital media and online businesses will be profitable or successful. Our failure to adapt to new technology or delivery methods, or our choice of one technological innovation over another, may have an adverse impact on our ability to compete for new customers or to meet the demands of our existing customers. If our digital media and online businesses are not successful, we could lose significant opportunities for new advertising revenue from digital sources while also losing advertising revenue from traditional sources due to the reallocation from print to digital advertising currently taking place. If we are not successful in achieving our digital media and online objectives, our business, financial condition and prospects would be materially adversely affected.

*Our business may suffer if we are not able to retain and attract sufficient qualified personnel, including key managerial, editorial, technical, marketing and sales personnel.*

We operate in an industry where there is intense competition for experienced personnel. We depend on our ability to identify, recruit, hire, train, develop and retain qualified and effective personnel. Our future success depends in large part upon the continued contribution of our senior management and other key employees. A loss of a significant number of skilled managerial, editorial or technical personnel would have a negative effect on the quality of our products. Similarly, a loss of a significant number of experienced and effective marketing and sales personnel would likely result in fewer sales of our products and could materially and adversely affect our results of operations and financial condition. Our ability to identify, recruit, hire, train, develop and retain qualified and effective personnel depends on numerous factors, including factors that we cannot control, such as competition and conditions in the local employment markets in which we operate. The loss of the services of any of our senior management or other key employees could harm our business and materially and adversely affect our ability to compete in our markets. Although we have employment agreements with certain members of senior management and key employees, those individuals may choose to terminate their respective employment at any time, and any such termination may have a material adverse effect on our business.

*We rely upon information systems and technology and other manufacturing systems, disruptions to which could adversely affect our operations.*

Our newspaper and digital media and online operations rely upon information technology systems, and other complex manufacturing systems, in order to produce and distribute our products. Our information technology and manufacturing systems may be vulnerable to unauthorized access, computer viruses, system failures, human error, natural disasters, fire, power loss, communications failure or acts of sabotage or terrorism. If a significant disruption or repeated failure were to occur, our business or revenue could be adversely affected. There may also be significant costs incurred as a result of such disruptions or failures that adversely affect our financial performance or capital expenditure levels.

*Equipment failure may have a material adverse effect.*

There is a risk of equipment failure, primarily related to our printing facilities, due to wear and tear, latent defect, design error or operator error, among other things, which could have a material adverse effect on us. Although our printing facilities have generally operated in accordance with expectations, there can be no assurance that they will continue to do so. There may also be significant costs incurred as a result of such disruptions or failures that adversely affect our financial performance or capital expenditure levels.

*Our operations could be adversely affected by labour disruptions, and labour agreements could potentially limit our ability to achieve operating efficiencies.*

Approximately 32% of our staff are employed under 43 separate collective agreements as of August 31, 2019. Some of our collective agreements include provisions that could impede restructuring efforts, including work force reduction, centralization, outsourcing and other initiatives. We are currently in negotiations with 2 bargaining units, covering 87 full-time equivalent employees, regarding expired agreements. We have no additional agreements that expire prior to December 31, 2019 however we have 15 agreements at 10 locations that expire in 2020.

There can be no assurance provided that any of these collective agreements will be renewed on satisfactory terms, or at all. Labour organizing activities could result in additional employees becoming unionized, which could result in higher ongoing labour costs and reduced flexibility in running our operations. In addition, labour disruptions or grievances could also affect our operations and certain unions have filed grievances against us alleging violations of one or more provisions of the applicable collective agreements. There can be no assurance provided that we will not experience other labour disruptions, or that a material grievance will not be decided against us, or that we will not experience other forms of labour protest. Any strike, lock out or other form of labour disruption could have a material adverse effect on our business, financial condition or results of our operations.

*Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.*

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, as well as personally identifiable information of our customers (including credit card information) and employees, on our networks. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disrupt our operations and the services we provide to customers, damage our reputation, and cause a loss of confidence in our products and services, which could adversely affect our business, financial condition, results of operations and cash flows.

*The financial difficulties of certain of our contractors and vendors could have a negative impact on our results of operations.*

The financial difficulties that some of our contractors and vendors may face, including one or more contractor or vendor bankruptcies due to poor economic conditions, may cause them to fail to provide us with products and/or services or may increase the cost of the products and services that they provide us. We may be unable to procure replacement products and/or services from other contractors or vendors in a timely and efficient manner and on acceptable terms, or at all. Any material change in these relationships, such as increased pricing, could have a material adverse effect on our business, financial condition, results of operations, liquidity and cash flow.

*We outsource certain aspects of our business to third-party vendors that may fail to reduce costs and may subject us to risks, including disruptions in our business and increased costs.*

We continuously seek to make our cost structure more efficient and to focus on our core strengths. These efforts include contracting with other companies to perform functions or operations that, in the past, we have performed ourselves. We currently rely on partners or third-party service providers for services such as the provision of advertising production, call centre services, and certain of our printing operations, and we may outsource additional business functions in the future. Although we believe that outsourcing will result in lower costs and increased efficiencies, this may not be the case. Because these third parties may not be as responsive to our needs as we might be ourselves or they experience problems to their own operations beyond our control, outsourcing increases the risk of disruption to our operations. If we are unable to effectively utilize, or integrate with, our outsource providers, or if these partners or third-party service providers experience business difficulties or are unable to provide business services as anticipated, we may need to seek alternative service providers or resume providing these business processes internally, which could be costly and time-consuming and have a material adverse effect on our business and results of operations.

*The occurrence of natural or man-made disasters could disrupt the marketing and promotion and delivery of our products and services, and adversely affect our financial condition and results of operation.*

The success of our businesses is largely contingent on the availability of direct access to customers. As a result, any event that disrupts or limits our direct access to customers or disrupts our ability to rely on delivery services would materially and adversely affect our business. We are exposed to various risks arising out of natural disasters, as well as man-made disasters, including acts of terrorism and military actions. The threat of terrorism and ongoing military actions may cause significant volatility in global financial markets, and a natural or man-made disaster could trigger an economic downturn in the areas directly or indirectly affected by the disaster. These consequences could, among other things, result in a decline in business from those areas. Disasters also could disrupt public and private infrastructure, including communications and financial services, which could disrupt our normal business operations. In addition, increased energy costs, strikes and other labour-related supply chain disruptions could adversely affect our business. A natural or man-made disaster also could disrupt the operations of our counterparties or result in increased prices for the products and services they provide to us.

*Our registered pension plans liabilities or our inability to make required cash contributions to our pension plans could have a material adverse effect on us, our business, cash flows, operations and financial condition.*

We maintain several defined benefit and defined contribution plans providing pension and other retirement and post-employment benefits to our employees. Provincial pension legislation requires that the funded status of registered defined benefit pension plans be determined on both a going concern basis, which essentially assumes the pension plan continues indefinitely, and a solvency basis, which essentially assumes a cessation of a pension plan, and is based on statutory requirements. Based on our most recently filed actuarial valuations as of November 27, 2017 and December 31, 2017, the aggregate going concern actuarial surplus was \$109.5 million and a wind up deficiency (which assumes that the pension plans terminate on their actuarial valuation dates) was \$60.6 million. The actual funded status of our pension plans and our contribution requirements are dependent on many factors, including regulatory developments and changes to legislation, changes to the level of benefits provided by the plans, actuarial assumptions and methods used, changes in plan demographics and experience, and changes in the economic conditions, such as the return on fund assets and changes in interest rates and other factors. Additionally, significant changes in investment performance or in a change in the portfolio mix of invested assets can result in corresponding increases and decreases in the valuation of plan assets, particularly equity securities, or in a change to the expected rate of return on plan assets. Significant variations in pension performance could produce volatility in our reported results and could necessitate higher company contributions to those plans, which could have a material effect on our cash flows, liquidity and financial condition.

As described previously in Recent Developments, on January 29, 2019, we entered into an agreement with the CAAT Pension Plan to merge the Postmedia Plans, with the CAAT Pension Plan. Effective July 1, 2019, we received approval from Postmedia Plan members and became a participating employer under the CAAT Pension Plan and all members of the Postmedia Plans, as well as members of our defined contribution pension plan and most employees hired after this date began accruing benefits under the DBplus provisions of the CAAT Pension Plan. The merger remains subject to consent from FSRA and there can be no assurance that consent will be obtained. Participating in a multiemployer plan such as the CAAT Pension Plan requires us to make periodic contributions and as a participating employer we do not have the ability to reduce these contributions, and a failure to make the required contributions could subject us to penalties including interest on unpaid contributions. A breach of the agreement with the CAAT Pension Plan could also subject us to the risk of termination of participation in the CAAT Pension Plan. In addition, in the event of a distressed wind-up of the CAAT Pension Plan with a deficiency, there is a risk to us of residual liability in respect of our members.

Subject to the consent of FSRA to the transfer of assets, the CAAT Pension Plan will assume defined benefit obligations of the Postmedia Plans accrued prior to July 1, 2019. Once this transfer is completed, an additional cash funding obligation of \$10.1 million related to the transferred Postmedia Plans deficits will be payable to the CAAT Pension Plan over a term of ten years and there is a risk that we may be required to contribute additional funds under certain circumstances, including in the event of a breach of certain representations and covenants pursuant to the agreement between ourselves and the CAAT Pension Plan.

If the consent of FSRA is not obtained, we would retain the liabilities for all past benefits accrued under the Postmedia Plans, and there is a risk of termination of ongoing participation in the CAAT Pension Plan.

*Our editorial content may be controversial and may result in litigation.*

We have had, in the ordinary course of our business, and expect to continue to have, litigation claims filed against us, most of which are claims for defamation arising from the publication of our editorial content. While we maintain insurance in respect of claims for defamation, some claims made against us may not be insured or may result in costs above our coverage limits. In the event that a judgement is rendered against us, there can be no assurance that our insurance coverage will cover that particular loss.

*We are currently involved in unresolved litigation matters.*

We are involved in various legal claims arising in the ordinary course of our newspaper and digital media and online businesses. The majority of these claims are brought pursuant to defamation laws in the province of publication. We maintain a multi-media liability insurance policy in respect of defamation claims. Subject to the terms and conditions of that policy, and the insurer's coverage position in respect of individual claims, the resolution of these matters is not expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

*The Competition Bureau is reviewing the Torstar Transaction*

The Competition Bureau is reviewing the Torstar Transaction under the provisions of the *Competition Act* (Canada) and we are cooperating with the Competition Bureau in connection with its investigation. In the event that the Competition Bureau seeks to initiate proceedings it could impact our business, financial performance or results of operations.

*Disruptions in the credit markets could adversely affect the availability and cost of short-term funds for liquidity requirements, and could adversely affect our access to capital or our ability to obtain financing at reasonable rates and refinance existing debt at reasonable rates or at all.*

If internal funds are not available from our operations, we may be required to rely on the banking and credit markets to meet our financial commitments and short-term liquidity needs. Disruptions in the capital and credit markets could adversely affect our ability to access additional funds in the capital markets or draw on or refinance our existing or any future credit facilities. Although we believe that our operating cash flow and access to capital and credit markets will give us the ability to meet our financial needs for the foreseeable future, there can be no assurance provided that continued or increased volatility and disruption in the capital and credit markets will not impair our liquidity. If this should happen, we may not be able to put alternative credit arrangements in place or without a potentially significant increase in our cost of borrowing. As of August 31, 2019, we have \$94.8 million First-Lien Notes and US\$120.7 million Second-Lien Notes outstanding. Subsequent to August 31, 2019, we completed a Refinancing Transaction as described earlier in “Recent Developments”.

*We may be adversely affected by the availability and terms of our insurance policies.*

We carry liability, property and casualty insurance and director and officer liability insurance coverage subject to certain deductibles, limits and exclusions which we believe are customary or reasonable given the cost of procuring insurance and current operating conditions. However, there can be no assurance that: (i) such insurance coverage will continue to be offered on economically feasible terms, (ii) all events which could give rise to a loss or liability will be insurable, or (iii) the amounts of insurance coverage will at all times be sufficient to cover each and every material loss or claim which may occur involving our assets or operations.

*Our intellectual property rights are valuable, and any inability to protect them or liability for infringing the intellectual property rights of others could reduce the value of our services and our brands.*

We rely on the trademark, copyright, internet/domain name, trade secret and other laws of Canada and other countries, as well as nondisclosure and confidentiality agreements, to protect our intellectual property rights. However, we may be unable to prevent third parties from using our intellectual property without our authorization, breaching any nondisclosure agreements with us, acquiring and maintaining domain names that infringe or otherwise decrease the value of our trademarks and other proprietary rights, or independently developing intellectual property that is similar to ours, particularly in those countries that do not protect our proprietary rights as fully as in Canada. The use of our intellectual property by others could reduce or eliminate any competitive advantage we have developed, cause us to lose sales or otherwise harm our businesses. If it became necessary to litigate to protect these rights, any proceedings could be burdensome and costly, and we may not prevail.

We have obtained and applied for several Canadian and foreign service mark and trademark registrations, and will continue to evaluate the registration of additional service marks and trademarks, as appropriate. We cannot guarantee that any of our pending applications will be approved by the applicable governmental authorities. Moreover, even if the applications are approved, third parties may seek to oppose or otherwise challenge these registrations. A failure to obtain trademark registrations in Canada and in other countries could limit our ability to protect our trademarks and impede our marketing efforts in those jurisdictions.

We cannot be certain that our intellectual property does not and will not infringe the intellectual property rights of others. We may be subject to legal proceedings and claims in the ordinary course of our business, including claims of alleged infringement of the trademarks, copyrights and other intellectual property rights of third parties. Any such claims, whether or not meritorious, could result in costly litigation and divert resources and the efforts of our personnel. Moreover, should we be found liable for infringement, we may be required to enter into licensing agreements (if available on acceptable terms, or at all) or to pay damages and to cease using certain trademarks or copyrights or making or selling certain products, or to redesign or rename some of our products or processes to avoid future infringement liability. Any of the foregoing could cause us to incur significant costs.

*We maintain many well-known mastheads, consumer brands and trademarks, damage to the reputation of any of which could have an adverse impact upon our business, financial performance or results of operations.*

The mastheads, brand names and trademarks that we own are well-known to consumers and are important in maintaining existing business and sourcing new business, as our ability to attract and retain customers is in part dependent upon our external perceptions, the quality of our products and services and our integrity. Damage to the reputation of any of these brands or negative publicity or perceptions about us could have an adverse impact upon the business, financial performance or results of operations.

*We may have additional asset impairments.*

We conduct annual impairment testing to determine if we will be able to recover all or a portion of the carrying value of indefinite life intangible assets. In addition, we are required to review indefinite life intangible assets for impairment more frequently if impairment indicators arise. If the recoverable amount is less than the carrying amount of our indefinite life intangible assets, we may be required to record a non-cash charge to the statement of operations. As disclosed in note 7 of our audited consolidated financial statements for the years ended August 31, 2019 and 2018, we recognized impairment charges of \$6.6 million during the year ended August 31, 2019 (2018 – \$9.4 million). We monitor impairment indicators on a quarterly basis. Significant changes in market conditions and estimates, or a reduction in carrying value, may give rise to impairments in the period that the change becomes known and such impairments could have a material adverse effect on our results of operations.

*We are subject to environmental, health and safety laws and regulations, which could subject us to liabilities, increase our costs or restrict our business or operations in the future.*

We are subject to a variety of laws and regulations concerning emissions to the air, water and land, sewer discharges, handling, storage and disposal of, or exposure to, hazardous substances and wastes, recycling, remediation and management of contaminated sites, or otherwise relating to protection of the environment and employee health and safety. Environmental laws and regulations and their interpretation have become increasingly more stringent, and we may incur additional expenses to comply with existing or future requirements. If we fail to comply with environmental or health and safety requirements we could incur monetary fines, civil or criminal sanctions, third-party claims or cleanup obligations or other costs. In addition, our compliance with environmental and health and safety requirements could restrict our ability to expand our operations or require us to install costly pollution control equipment, incur other significant expenses or modify our printing processes.

We use and store hazardous substances such as inks and solvents in conjunction with our operations at our printing facilities. Such hazardous substances have in the past been stored in underground storage tanks at some of our properties. Some of our printing and other facilities are located in areas with a history of long-term industrial use, and they may be impacted by past activities onsite or by contamination emanating from nearby industrial sites. In the past, we have had contamination resulting from leaks and spills at some of our locations. We have not conducted environmental site assessments with respect to all of our owned and leased facilities, and where such assessments have been conducted, they may not have identified all potential causes of environmental liability. There can be no assurance provided that remediation costs or potential claims for personal injury or property or natural resource damages resulting from any newly-occurring or newly-discovered contamination will not be material, or that a material environmental condition does not otherwise exist at any of our properties.

## **Risks Relating to Regulatory Compliance**

*Failure to comply with “Canadian newspaper” status would materially affect our financial results and our business prospects.*

Under the Tax Act, generally no deduction is allowed for an outlay or expense for advertising space in an issue of a newspaper for an advertisement directed primarily to a market in Canada, unless the issue is a “Canadian issue” of a “Canadian newspaper.”

In order to qualify as a “Canadian issue”, the issue generally must have its type set in Canada, be edited in Canada by individuals resident in Canada for purposes of the Tax Act and be printed and published in Canada. Issues of our newspapers currently meet these criteria.

The test of whether a newspaper is a “Canadian newspaper” depends on the jurisdiction, governance, factual control and share ownership of the corporation which directly publishes the newspaper. We publish our newspapers directly. In order to satisfy the requirements of a “Canadian newspaper” (subject to a statutory 12 month grace period), we must satisfy the following: (i) the corporation must be incorporated under the laws of Canada or a province thereof, (ii) the chairperson or other presiding officer and at least 75% of the directors or other similar officers of the corporation must be Canadian citizens, and (iii) the corporation must not be controlled, in fact, directly or indirectly, by persons or partnerships who could not themselves hold the right to produce and publish issues of a “Canadian newspaper”, including by citizens or subjects of a country other than Canada.

In addition, under the share ownership requirements, at least 75% of a non-public corporation’s voting shares and shares having a fair market value in total of at least 75% of the fair market value of all issued shares of a non-public corporation, must be beneficially owned by either (i) Canadian citizens or (ii) one or more Qualifying Public Corporations. Upon the listing of Postmedia Network Canada Corp’s shares on the Toronto Stock Exchange (“TSX”), it became a Qualifying Public Corporation. As Postmedia Network Inc. is a direct, wholly-owned subsidiary of Postmedia Network Canada Corp., our newspapers qualify as “Canadian newspapers”. For more information regarding risks relating to the listing of our shares on the TSX, see the section below entitled “Risks Relating to Our Shares”.

Issues of our newspapers therefore qualify as “Canadian issues” of “Canadian newspapers” (or otherwise fall outside of the limitation on deductibility of advertising expenses) and as a result advertisers currently have the right to deduct their advertising expenditures for Canadian tax purposes.

There can be no assurance that issues of the newspapers published or produced by us will continue to be “Canadian issues” of “Canadian newspapers” under the Tax Act, or that Canadian federal income tax laws respecting the treatment of deductibility of advertising expenses incurred in relation to “Canadian issues” of “Canadian newspapers” will not be changed in a manner which adversely affect us.

If our newspapers cease to be “Canadian newspapers” for purposes of the Tax Act, it is expected that our advertising revenue will decline significantly, which would have a material adverse effect on our business, financial condition and results of operations.

*We are subject to the requirements of Regulation 52-109 on Certification of Disclosure in Issuers' Annual and Interim Filings and must devote time and resources to maintain compliance.*

Our shares are listed on the TSX and as a result we are subject to the requirements of Regulation 52-109, which requires, among other things, public companies to maintain disclosure controls and procedures to ensure timely disclosure of material information, and, to have management review the effectiveness of those controls on an annual basis. These requirements may place a strain on our systems and resources. Regulation 52-109 also requires public companies to have and maintain internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements and to have management review the effectiveness of those controls on an annual basis following the filing of a company's first annual report. In order to maintain and improve our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight are required. This may divert management's attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

*If we fail to maintain an effective system of internal controls, we may not be able to provide timely and reliable financial reports.*

We are responsible for establishing and maintaining adequate internal control over financial reporting, which is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*Regulatory pressures are increasing resulting in increasing compliance requirements and our business could be adversely affected by additional changes in laws.*

Regulatory pressures are increasing as new and evolving regulations and compliance standards are established in respect of various areas, including without limitation, cyber security, data protection, privacy and advertising. These regulations and standards require expensive and time-consuming compliance measures and we incur increased costs in order to comply with such regulations and standards and we may pay penalties for any failure to comply.

Changes to the laws, regulations and policies governing our operations, the introduction of new laws, regulations or policies and changes to the treatment of the tax deductibility of advertising expenditures could have a material effect on our business, financial condition, prospects and results of operations. In addition, we may incur increased costs in order to comply with existing and newly adopted laws and regulations or pay penalties for any failure to comply. It is difficult to predict in what form laws and regulations will be adopted or how they will be construed by the relevant courts, or the extent to which any changes might adversely affect us.

### **Risks Related to our Indebtedness**

*Our substantial indebtedness could adversely affect our financial condition.*

As of August 31, 2019, total carrying value of amounts outstanding under our respective debt agreements was \$253.8 million (August 31, 2018 - \$272.7 million). Subsequent to August 31, 2019, we completed a Refinancing Transaction as described earlier in "Recent Developments".

Subject to the limits contained in the amended and restated indenture that governs the First-Lien Notes and the indenture that governs the Second-Lien Notes, we may be able to incur substantial additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our high level of debt could intensify. Specifically, our high level of debt could have important consequences, including the following:

- making it more difficult for us to satisfy our obligations with respect to the First-Lien Notes and Second-Lien Notes;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- exposing us to the risk of increased interest rates if of our borrowings are at variable rates of interest;
- limiting the flexibility in planning for and reacting to changes in the industry in which we compete;
- placing us at a disadvantage compared to other, less leveraged competitors; and
- increasing our cost of borrowing.

In addition, the amended and restated indenture that governs the First-Lien Notes and the indenture that governs the Second-Lien Notes contain restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all our debts.

*Despite our current level of indebtedness, we may be able to incur substantially more debt. This could further exacerbate the risks to our financial condition described above.*

Our operating subsidiary may be able to incur significant additional indebtedness in the future. Although the amended and restated indenture that governs the First-Lien Notes and the indenture that governs the Second-Lien Notes contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and the additional indebtedness incurred in compliance with these exceptions could be substantial. We may be able to issue additional First-Lien Notes under the indenture under certain circumstances, and may be able to incur other indebtedness that ranks equally with the First-Lien Notes. These borrowings would be secured indebtedness. If new debt is added to our current debt levels, the related risks that we and our operating subsidiary now face could intensify. Subsequent to August 31, 2019, we completed a Refinancing Transaction as described earlier in “Recent Developments”.

*The terms of the First-Lien Notes and the Second-Lien Notes restrict our current and future operations, particularly our ability to respond to changes or to take certain actions.*

The amended and restated indenture that governs the First-Lien Notes and the indenture that governs the Second-Lien Notes contain a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interests, including, among other things, restrictions on our ability to:

- incur additional indebtedness;
- pay dividends or make other distributions or repurchase or redeem certain indebtedness or capital stock;
- make loans and investments;
- sell assets;
- incur certain liens;
- enter into transactions with affiliates;
- alter the businesses we conduct;
- enter into agreements restricting any subsidiary's ability to pay dividends; and
- consolidate, merge or sell all or substantially all of our assets.

A breach of the covenants under the amended and restated indenture that governs the First-Lien Notes and the indenture that governs the Second-Lien Notes could result in an event of default under the applicable indebtedness. Such default may allow our creditors to accelerate the repayment of the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. Furthermore, if we are unable to repay the amounts due and payable under First-Lien Notes or the Second-Lien Notes, the applicable lenders could proceed against the collateral granted to such lenders to secure the indebtedness under the applicable facility. As a result of these restrictions, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

These restrictions may affect our ability to grow in accordance with our plans.

*We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.*

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the future amounts due on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance indebtedness. We may not be able to affect any such alternative measures, if necessary, on commercially reasonable terms, or at all and, even if successful, such alternative actions may not allow us to meet our scheduled debt service and derivative financial instrument obligations. The amended and restated indenture that governs the First-Lien Notes and the indenture that governs the Second-Lien Notes restrict our ability to dispose of assets and use the proceeds from any such dispositions and may also restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service and derivative financial instrument obligations then due.

Our inability to generate sufficient cash flows to satisfy our debt and derivative financial instrument obligations, or to refinance indebtedness on commercially reasonable terms, or at all, would materially and adversely affect our business, financial position and results of operations, and our ability to satisfy such obligations.

If we cannot make scheduled payments on our debt, we will be in default and, as a result, holders of the First-Lien Notes and Second-Lien Notes could declare all outstanding principal and interest to be due and payable. In addition, our secured lenders could foreclose on or exercise other remedies against the assets securing such borrowings on a basis senior to the First-Lien Notes and we could be forced into bankruptcy, liquidation or other insolvency proceedings.

*We may be adversely affected by foreign exchange fluctuations.*

As of August 31, 2019, approximately 63% of the outstanding principal of our long-term debt is denominated in US dollars and interest and principal on such borrowings must be paid in US dollars (August 31, 2018 – 51%). As at August 31, 2019, we have US\$120.7 million of Second-Lien Notes outstanding (August 31, 2018 – US\$108.2 million). Canadian currency is volatile and may retain the same or higher levels of volatility in the coming years. As a result, we have significant exposure to foreign exchange rate risk.

### **Risks Relating to Our Shares**

*An active trading market for our shares may not exist and the public listing of our shares may not be maintained.*

Our Class C voting shares (“Voting Shares”) and our Class NC variable voting shares (“Variable Voting Shares”) (collectively, the “Shares”) trade on the TSX and there may or may not be an active trading market for the Shares. The TSX has broad discretion regarding delisting. If the TSX determines that we no longer meet the applicable listing requirements, including with respect to the public distribution or liquidity of the Shares, there is a risk that the TSX may delist the Shares. In addition, see the risk factor above related to “Canadian newspaper” status under “Risks Relating to Regulatory Compliance”.

*Volatile market price for the Shares.*

The market price for the Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond our control, including the following:

- the lack of liquidity in the trading of our Shares;
- actual or anticipated fluctuations in our quarterly results of operations;
- changes in estimates of future results of operations by ourselves or securities research analysts;

- changes in the economic performance or market valuations of other companies that investors deem comparable to us;
- addition or departure of our executive officers and other key personnel;
- release or other transfer restrictions on outstanding Shares;
- sales or perceived sales of additional Shares;
- our dual class share structure;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving ourselves or our competitors; and
- news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in our industry or target markets.

Financial markets are susceptible to significant price and volume fluctuations that may affect the market prices of equity securities of companies and may be unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Shares may decline even if our operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of our environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Shares by those institutions, which could adversely affect the trading price of the Shares. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, our operations could be adversely impacted and the trading price of the Shares may be adversely affected.

*We have a dual class share structure.*

Our authorized capital consists of two classes: Voting Shares and Variable Voting Shares. The Voting Shares may only be beneficially owned by persons that are Canadian. If a Canadian acquires Variable Voting Shares, such Shares will be automatically converted into Voting Shares. A holder of Voting Shares, however, has the option at any time to convert some or all of such Shares into Variable Voting Shares and to convert those Shares back to Voting Shares. Given these conversion features and the fact that we will not know whether a purchaser of Variable Voting Shares is a Canadian unless such person completes a declaration provided by our transfer agent, the transfer agent's records of the amount of Voting Shares and Variable Voting Shares outstanding at any one time may not be accurate. As we believe that the issued and outstanding Variable Voting Shares as at August 31, 2019 represent more than 99% of the outstanding Shares, if a Canadian acquires Variable Voting Shares such Shares would automatically convert into a larger percentage of the outstanding Voting Shares and would provide the purchaser with a larger percentage of the votes than such purchaser would have through the ownership of Variable Voting Shares. Depending on the number of Voting Shares acquired, such an acquisition could give rise to the requirement to make certain filings and/or could result in the purchaser being a "control person", in each case under applicable securities laws. In certain circumstances, such an acquisition may constitute an indirect take-over bid under applicable securities laws and require the offeror to make a formal take-over bid for the outstanding Voting Shares or, alternatively, rely on certain exemptions from the formal take-over bid requirements under applicable securities laws. Purchasers of our Shares should consider applicable take-over bid laws as well as the Postmedia Rights Plan prior to purchasing Shares that may represent more than 20% of any class. For purposes of determining beneficial ownership under the Postmedia Rights Plan, Variable Voting Shares beneficially owned or controlled by a person or subject of Canada are deemed to also include the Voting Shares into which such Variable Voting Shares could be converted. In addition, one class of Shares may be less liquid than the other and the classes of Shares may have different trading prices.

*Postmedia Network Canada Corp. is a holding company.*

Postmedia Network Canada Corp. (“PNCC”) is a holding company and a substantial portion of its assets are the capital stock of its subsidiary, Postmedia Network Inc. (“PMNI”). As a result, investors in PNCC are subject to the risks attributable to PMNI. As a holding company, PNCC conducts substantially all of its business through PMNI, which generates substantially all of its revenues. Consequently, PNCC’s cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of PMNI and the distribution of those earnings to PNCC. The ability of PMNI to pay dividends and other distributions will depend on its operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained, and contractual restrictions contained in the instruments governing its debt. In the event of a bankruptcy, liquidation or reorganization of PMNI, holders of indebtedness and trade creditors will generally be entitled to payment of their claims from the assets of the subsidiary before any assets are made available for distribution to PNCC.

*Future sales of Shares by directors and executive officers.*

Subject to compliance with applicable securities laws, officers and directors and their affiliates may sell some or all of their Shares in the future. No prediction can be made as to the effect, if any, such future sales of Shares will have on the market price of the Shares prevailing from time to time. However, the future sale of a substantial number of Shares by our officers and directors and their affiliates, or the perception that such sales could occur, could adversely affect prevailing market prices for the Shares.

*Dilution and future sales of Shares may occur.*

Our articles permit the issuance of an unlimited number of Shares, and shareholders will have no preemptive rights in connection with such further issuances. Our directors have the discretion to determine the price and the terms of issue of further issuances of Shares.

## **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 of Postmedia have evaluated the effectiveness of Postmedia’s internal controls over financial reporting during the year ended August 31, 2019. Based on this evaluation, the CEO and CFO concluded that disclosure controls and procedures and internal controls over financial reporting were effective as at August 31, 2019. The CEO and CFO have evaluated whether there were changes to Postmedia’s internal control over financial reporting during the three months ended August 31, 2019, 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 October 21, 2019 we had the following number of shares and options outstanding:

Class C voting shares.....	61,825
Class NC variable voting shares.....	<u>93,678,474</u>
Total shares outstanding.....	<u>93,740,299</u>
Total options and restricted share units outstanding <sup>(1)</sup> .....	<u>6,271,930</u>

<sup>(1)</sup> The total options and restricted share units outstanding are convertible into 6,271,930 Class NC variable voting shares. The total options and restricted share units outstanding include 3,051,958 that are vested and 3,219,972 that are unvested.