

Postmedia Reports Second Quarter Results

May 8, 2020 (TORONTO) – Postmedia Network Canada Corp. (“Postmedia” or the “Company”) today released financial information for the three and six months ended February 29, 2020.

“The current global pandemic is affecting all businesses and since the close of our second quarter Postmedia has been focused on keeping employees safe, delivering critical information to Canadians and putting our company in the best possible position to emerge from the current crisis and move ahead on our proven strategy,” said Andrew MacLeod, President and Chief Executive Officer, Postmedia. “The economic disruptions emanating from the pandemic challenge our ability to foresee the long term impact on our business but we are committed to preserving liquidity, constraining costs and maximizing revenues.”

Highlights from the Quarter

- Continued digital growth – last twelve months digital advertising growth rate of 10.0%.
- Business Transformation – In the quarter we realized a 7.3% reduction in operating costs¹, which includes the impact of initiatives implemented in the quarter that are expected to result in approximately \$9 million of net annualized cost savings.
- Operating income before depreciation, amortization, impairment and restructuring was \$5.4 million in the quarter, representing an increase of \$0.8 million.

Second Quarter Operating Results

Revenue for the quarter was \$134.2 million as compared to \$145.7 million in the same period in the prior year, representing a decrease of \$11.5 million or 7.9%. The revenue decline was primarily due to decreases in print advertising revenue of \$9.9 million or 16.5% and print circulation revenue of \$2.0 million or 4.0% partially offset by a digital revenue increase of \$1.5 million or 5.4%.

Excluding the impact of the the adoption of *IFRS 16 – Leases* accounting policy in Fiscal 2020, total operating expenses excluding depreciation, amortization, impairment and restructuring decreased \$10.3 million or 7.3% for the quarter, relative to the same period in the prior year. The decrease was a result of lower newspaper circulation volumes as well as the implementation of various cost reduction initiatives and the impact of journalism tax credits. Included in the operating expense decrease is the impact of a compensation expense recovery of \$1.3 million related to journalism tax credits.

Operating income before depreciation, amortization, impairment and restructuring of \$5.4 million in the quarter represents an increase of \$0.8 million relative to the same period in the prior year. The increase is due to decreases in operating expenses along with an increase in digital revenue, partially offset by decreases in print advertising and circulation revenues. Included in operating expense decrease is the impact of the change in accounting policy related to leases and the compensation expense recovery related to the journalism tax credits.

Net loss in the quarter ended February 29, 2020 was \$12.8 million, as compared to \$5.1 million in the same period in the prior year. The change was primarily the result of a gain on disposal of property and equipment and assets held-for-sale in Fiscal 2019, foreign currency exchange losses in Fiscal 2020, and an increase in interest expense, partially offset by the increase in operating income before

¹ Operating expenses excluding depreciation, amortization and restructuring as adjusted for the impact of the adoption of *IFRS 16 - Leases* in Fiscal 2020.

depreciation, amortization, impairment and restructuring and a decrease in losses on derivative financial instruments.

Year-to-Date Operating Results

Revenue for the six months ended February 29, 2020 was \$290.8 million as compared to \$317.0 million in the same period in the prior year, a decrease of \$26.2 million or 8.2%. The revenue decline was primarily due to decreases in print advertising revenue of \$22.9 million or 16.7% and decreases in print circulation revenue of \$5.2 million or 5.0%. Digital revenue increased by \$4.4 million or 7.1% year to date with digital advertising revenue up 8.5%.

Excluding the impact of the the adoption of *IFRS 16 – Leases* accounting policy in Fiscal 2020, total operating expenses excluding depreciation, amortization, impairment and restructuring decreased \$22.4 million or 7.7% for the six months ended February 29, 2020, relative to the same period in the prior year. The decrease was as a result of lower newspaper circulation volumes as well as the implementation of various cost reduction initiatives and the impact of journalism tax credits. Included in the operating expense decrease is the impact of a compensation expense recovery of \$3.7 million related to journalism tax credits.

Operating income before depreciation, amortization, impairment and restructuring of \$26.8 million in the quarter represents an increase of \$0.4 million or 1.7% relative to the same period in the prior year. The increase is due to decreases in operating expenses along with an increase in digital revenue, partially offset by decreases in print advertising and circulation revenues. Included in operating expense decreases is the impact of the change in accounting policy related to leases and the compensation expense recovery of related to the journalism tax credits.

Net loss in the six months ended February 29, 2020 was \$15.8 million, as compared to \$6.5 million in the same period in the prior year. The change was primarily the result of a gain on disposal of property and equipment and assets held-for-sale in Fiscal 2019, increases in foreign currency exchange losses, interest expense and financing expense relating to employee benefit plans, partially offset by decreases in operating income before depreciation, amortization, impairment and restructuring and losses in derivative financial instruments.

COVID-19 Update

The COVID-19 pandemic has resulted in governments worldwide enacting emergency measures to combat the spread of the virus including travel bans, self-imposed quarantine periods and social distancing that have caused disruption to businesses resulting in an economic slowdown. The Company is generally exempt from mandates requiring closures of non-essential businesses and therefore has been able to continue operations however, subsequent to February 29, 2020, advertising revenues have declined as a result of the COVID-19 pandemic and related government measures. The Company is in the process of addressing the current challenges related to the COVID-19 pandemic and on April 6, 2020 received a waiver of certain terms related to its 8.25% first lien notes, maturing July 2023 (the “Notes”) which provided for the cash interest payment of \$3.9 million due on April 30, 2020 to be satisfied through the issuance of additional Notes and the waiver in full of the Company’s obligation to make a mandatory excess cash flow redemption related to the six months ended February 29, 2020. In addition, the Company has been monitoring assistance being offered by the Government of Canada including the Canada Emergency Wage Subsidy (“CEWS”) which was passed on April 11, 2020 to support employers facing financial hardship as measured by certain revenue declines as a result of the COVID-19 pandemic. CEWS provides a reimbursement of compensation expense for the 12 week period from March 15 to June 6, 2020 of 75% of the amount of remuneration paid up to a maximum benefit of \$847 per week, per employee. The Company has applied for CEWS for the period from

March 15 to April 11, 2020 in the amount of \$7.3 million. Additionally, the Company has qualified for CEWS for the periods from April 12 to June 6, 2020 and anticipates the additional amount for such period to be approximately \$13 million to \$15 million. On April 28, 2020, the Company implemented additional cost saving measures including temporary layoffs affecting approximately 50 employees, the closure of 15 community publications in Manitoba and Ontario resulting in approximately 30 permanent layoffs and temporary salary reductions from 5% to 30% for a range of employees with salaries in excess of \$60,000, which reductions will be re-evaluated in three months' time.

Business Transformation Initiatives

During the three months ended February 29, 2020, the Company implemented initiatives including compensation expense reductions, real estate rationalization, production efficiencies and other transformation programs, which are expected to result in approximately \$9 million of net annualized cost savings.

The Company intends to continue to identify and undertake ongoing cost reduction initiatives in an effort to address revenue declination in the legacy print business.

Additional Information

Additional information, including financial statements and management's discussion and analysis can be found on the Company's website at www.postmedia.com/investors/financial-reports or on SEDAR at www.sedar.com.

Note: All dollar amounts are expressed in Canadian dollars unless otherwise specified.

About Postmedia Network Canada Corp.

Postmedia Network Canada Corp. (TSX:PNC.A, PNC.B) is the holding company that owns Postmedia Network Inc., a Canadian newsmedia company representing more than 140 brands across multiple print, online, and mobile platforms. Award-winning journalists and innovative product development teams bring engaging content to millions of people every week whenever and wherever they want it. This exceptional content, reach and scope offers advertisers and marketers compelling solutions to effectively reach target audiences. For more information, visit www.postmedia.com.

Forward-Looking Information

This news release may include information that is "forward-looking information" under applicable Canadian securities laws. The Company has tried, where possible, to identify such information and statements by using words such as "believe," "expect," "intend," "estimate," "anticipate," "may," "will," "could," "would," "should" and similar expressions and derivations thereof in connection with any discussion of future events, trends or prospects or future operating or financial performance. Forward-looking statements in this news release include statements with respect to the impact of the COVID-19 pandemic on the Company's business, the implementation and results of the Company's transformation initiatives, continued benefits of historical results into future periods, and the realization of anticipated cost savings and the identification and undertaking of ongoing cost savings initiatives. By their nature, forward-looking information and statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. These risks and uncertainties include, among others: competition from digital and other forms of media; the effect of economic conditions on advertising revenue; the ability of the Company to build out its digital media and online businesses; the failure to maintain current print and online newspaper readership and circulation levels; the realization of anticipated cost savings; possible damage to the reputation of the Company's brands or trademarks; possible labour disruptions; possible environmental liabilities, litigation and pension plan obligations; fluctuations in foreign exchange rates and the prices of newsprint and other commodities.

In addition, we are subject to the risk and uncertainties related to the COVID-19 pandemic. The pandemic has resulted in governments worldwide enacting emergency measures to combat the spread of the virus including travel bans, self-imposed quarantine periods and social distancing that have caused disruption to businesses resulting in an economic slowdown. We are generally exempt from mandates requiring closures of non-essential businesses and therefore have been able to continue operations however, advertising revenues have declined as a result of COVID-19 pandemic and related government measures. The outbreak of contagious illness such as this can impact our operations in a number of ways including quarantined employees, travel restrictions, temporary closure of our facilities, a decrease in demand for advertising, as well as interruptions to our supply chain, including temporary closure of supplier facilities. Given the high level of uncertainty surrounding the duration of the COVID-19 pandemic it is difficult to reliably estimate its potential impact on the financial condition and results of our business. We are in the process of addressing the current challenges related to the COVID-19 pandemic and monitoring these challenges as they evolve so as to minimize this risk however it could have a material adverse effect on our business, financial condition, results of operations, liquidity and cash flow. For a complete list of our risk factors please refer to the section entitled "Risk Factors" contained in our annual management's discussion and analysis for the years ended August 31, 2019 and 2018. Although the Company bases such information and statements on assumptions believed to be reasonable when made, they are not guarantees of future performance and actual results of operations, financial condition and liquidity, and developments in the industry in which the Company operates, may differ materially from any such information and statements in this press release. Given these risks and uncertainties, undue reliance should not be placed on any forward-looking information or forward-looking statements, which speak only as of the date of such information or statements. Other than as required by law, the Company does not undertake, and specifically declines, any obligation to update such information or statements or to publicly announce the results of any revisions to any such information or statements.

For more information:

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Postmedia Network Canada Corp.
Consolidated Statements of Operations
(UNAUDITED)

(In thousands of Canadian dollars, except per share amounts)	For the three months ended		For the six months ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Revenues				
Print advertising	50,172	60,096	114,315	137,187
Print circulation	48,670	50,705	98,997	104,156
Digital	29,701	28,185	65,287	60,932
Other	5,624	6,713	12,223	14,697
Total revenues	134,167	145,699	290,822	316,972
Expenses				
Compensation	51,145	57,008	103,428	115,332
Newsprint	6,661	8,862	14,138	18,622
Distribution	27,334	29,432	56,240	60,875
Production	17,920	18,433	38,859	39,354
Other operating	25,671	27,292	51,343	56,411
Operating income before depreciation, amortization, impairment and restructuring	5,436	4,672	26,814	26,378
Depreciation	2,926	4,288	5,937	9,287
Amortization	4,045	3,329	8,293	7,521
Impairment	-	6,600	-	6,600
Restructuring and other items	1,136	1,095	9,705	3,773
Operating income (loss)	(2,671)	(10,640)	2,879	(803)
Interest expense	7,445	7,034	14,823	14,219
Net financing expense related to employee benefit plans	609	540	1,219	1,081
Gain on disposal of property and equipment and assets held-for-sale	(13)	(11,671)	(16)	(11,445)
Loss on derivative financial instruments	398	869	917	1,426
Foreign currency exchange (gains) losses	1,710	(1,542)	1,756	1,205
Loss before income taxes	(12,820)	(5,870)	(15,820)	(7,289)
Provision for income taxes	-	-	-	-
Net loss from continuing operations	(12,820)	(5,870)	(15,820)	(7,289)
Net earnings from discontinued operations, net of tax of nil	-	791	-	791
Net loss attributable to equity holders of the Company	(12,820)	(5,079)	(15,820)	(6,498)
Loss per share from continuing operations				
Basic	\$(0.14)	\$(0.06)	\$(0.17)	\$(0.08)
Diluted	\$(0.14)	\$(0.06)	\$(0.17)	\$(0.08)
Earnings per share attributable from discontinued operations				
Basic	-	\$0.01	-	\$0.01
Diluted	-	\$0.01	-	\$0.01
Loss per share attributable to equity holders of the Company				
Basic	\$(0.14)	\$(0.05)	\$(0.17)	\$(0.07)
Diluted	\$(0.14)	\$(0.05)	\$(0.17)	\$(0.07)

Postmedia Network Canada Corp.
Consolidated Statements of Financial Position
(UNAUDITED)

(In thousands of Canadian dollars)	As at February 29, 2020	As at August 31, 2019
Assets		
Current Assets		
Cash	15,467	15,464
Restricted cash	-	13
Trade and other receivables	74,592	72,228
Assets held-for-sale	29,029	24,475
Inventory	3,409	3,554
Prepaid expenses and other assets	10,900	10,269
Total current assets	133,397	126,003
Non-Current Assets		
Property and equipment	98,879	109,860
Right of use assets	45,053	-
Derivative financial instruments and other assets	2,799	2,829
Intangible assets	56,025	60,367
Total assets	336,153	299,059
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued liabilities	49,178	54,122
Provisions	9,581	5,893
Deferred revenue	25,161	25,907
Current portion of lease obligations	8,522	-
Current portion of long-term debt	5,000	5,000
Total current liabilities	97,442	90,922
Non-Current Liabilities		
Long-term debt	259,716	250,011
Employee benefit obligations and other liabilities	106,838	94,537
Lease obligations	40,815	-
Total liabilities	504,811	435,470
Deficiency		
Capital stock	810,861	810,861
Contributed surplus	15,141	14,770
Deficit	(994,660)	(962,042)
Total deficiency	(168,658)	(136,411)
Total liabilities and deficiency	336,153	299,059

Postmedia Network Canada Corp.
Consolidated Statements of Cash Flows
(UNAUDITED)

(In thousands of Canadian dollars)

	For the three months ended		For the six months ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Cash Generated (Utilized) by:				
Operating Activities				
Net loss attributable to equity holders of the Company	(12,820)	(5,079)	(15,820)	(6,498)
Items not affecting cash:				
Depreciation	2,926	4,288	5,937	9,287
Amortization	4,045	3,329	8,293	7,521
Impairment	-	6,600	-	6,600
Loss on derivative financial instruments	398	869	917	1,426
Non-cash interest	5,437	4,580	10,795	9,120
Gain on disposal of property and equipment and assets held-for-sale	(13)	(11,671)	(16)	(11,445)
Non-cash foreign currency exchange (gains) losses	1,838	(1,525)	1,787	1,236
Gain on sale of discontinued operations	-	(791)	-	(791)
Share-based compensation plans	149	281	371	708
Net financing expense relating to employee benefit plans	609	540	1,219	1,081
Non-cash compensation expense of employee benefit plans	-	1,204	-	421
Employee benefit plan funding in excess of compensation expense	(663)	-	(1,115)	-
Net change in non-cash operating accounts	(1,874)	4,960	(5,840)	(16,281)
Cash flows from operating activities	3,780	7,585	6,528	2,385
Investing Activities				
Net proceeds from the sale of property and equipment and assets held-for-sale	63	20,344	96	20,735
Purchases of property and equipment	(794)	(1,279)	(1,916)	(1,445)
Purchases of intangible assets	(104)	(22)	(300)	(191)
Cash flows from (used in) investing activities	(835)	19,043	(2,120)	19,099
Financing activities				
Net proceeds from issuance of long-term debt	-	-	95,235	-
Repayment of long-term debt	-	(20,355)	(94,761)	(29,073)
Restricted cash	-	391	13	(2)
Debt issuance costs	-	-	(1,710)	-
Issuance of shares	-	25	-	25
Lease payments	(1,024)	-	(3,182)	-
Cash flow used in financing activities	(1,024)	(19,939)	(4,405)	(29,050)
Net change in cash for the period	1,921	6,689	3	(7,566)
Cash at beginning of period	13,546	11,782	15,464	26,037
Cash at end of period	15,467	18,471	15,467	18,471
Supplemental disclosure of operating cash flows				
Interest paid	17	380	3,965	5,890
Income taxes paid	-	-	-	-