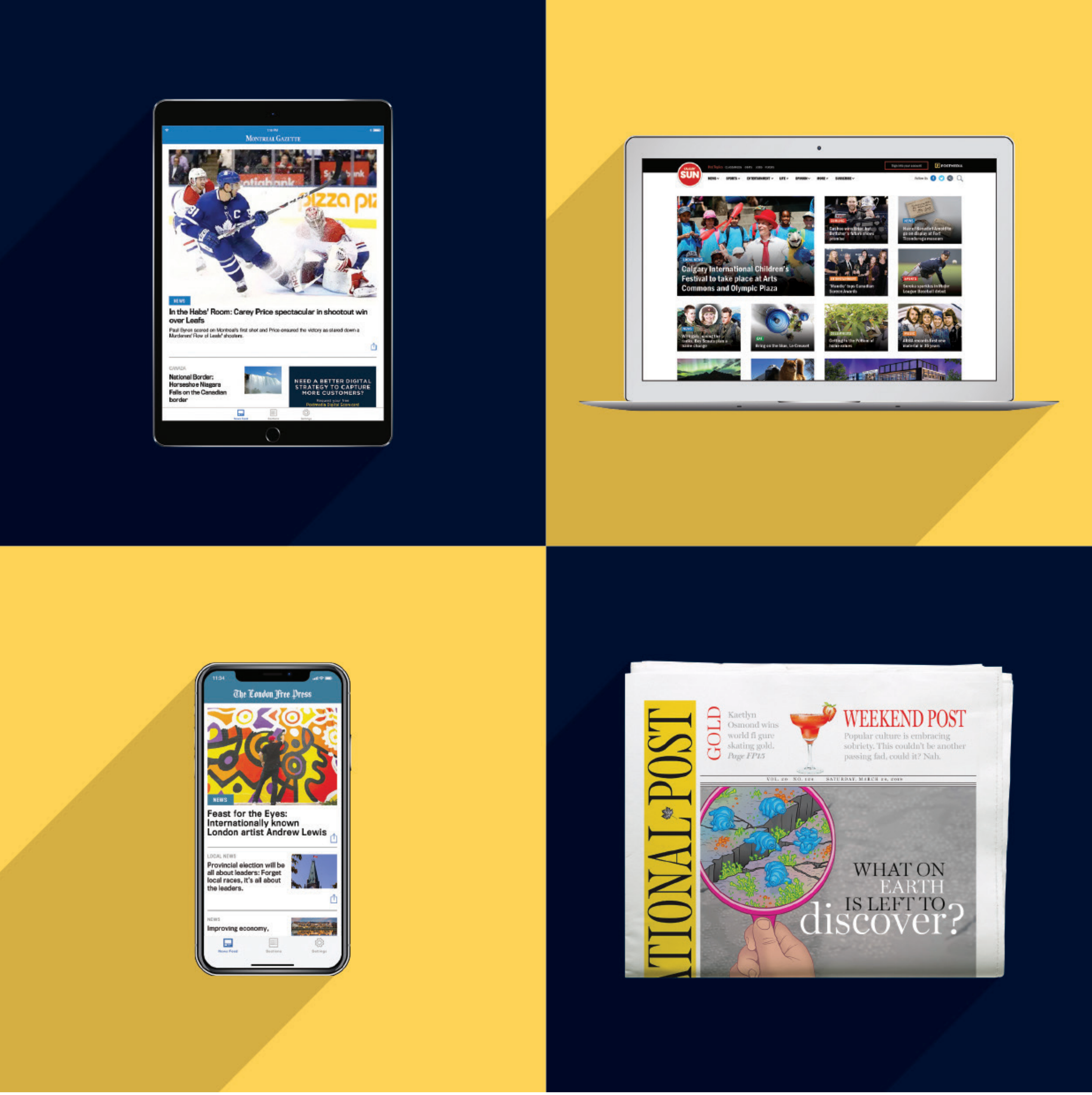

2020 FIRST QUARTER

POSTMEDIA

POSTMEDIA

First Quarter – Fiscal 2020

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POSTMEDIA NETWORK CANADA CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2019 AND 2018

Approved for issuance: January 9, 2020

JANUARY 9, 2020

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 interim condensed consolidated financial statements and related notes of Postmedia for the three months ended November 30, 2019 and 2018. The interim condensed consolidated financial statements of Postmedia for the three months ended November 30, 2019 and 2018 and the annual audited consolidated financial statements for the years ended August 31, 2019 and 2018 are available on SEDAR at **www.sedar.com**.*

This discussion contains statements that are not historical facts and are forward-looking statements. These statements are subject to a number of risks described in the section entitled "Risk Factors" contained in our annual management's discussion and analysis for the years ended August 31, 2019 and 2018. Risks and uncertainties may cause actual results to differ materially from those contained in such forward-looking statements. Such statements reflect management's current views and are based on certain assumptions. They are only estimates of future developments, and actual developments may differ materially from these statements due to a number of factors. Investors are cautioned not to place undue reliance on such forward-looking statements. No forward-looking statement is a guarantee of future results. We have tried, where possible, to identify such statements by using words such as "believe", "expect", "estimate", "anticipate", "will", "could" and similar expressions in connection with any discussion of future operating or financial performance. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements or information, whether written or oral, that may be as a result of new information, future events or otherwise.

All amounts are expressed in Canadian dollars unless otherwise noted. The interim condensed consolidated financial statements of Postmedia for the three months ended November 30, 2019 and 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 – Interim Financial Reporting.

*This management's discussion and analysis is dated January 9, 2020 and does not reflect changes or information subsequent to this date. Additional information in respect of Postmedia is available on SEDAR at **www.sedar.com**.*

Additional IFRS Measure

We use operating income before depreciation, amortization and restructuring, as presented in the interim condensed consolidated financial statements for the three months ended November 30, 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 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 Fall 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

Due to an outsourcing agreement announced in November 2019, we determined that the Edmonton press facility's carrying amount will be recovered principally through a sales transaction and as a result we have classified this property as held-for-sale at its carrying amount of $4.5 million which is less than its estimated fair value less costs of disposal.

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. 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 $93.5 million, after financing fees of $1.7 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. Upon close of the Refinancing Transaction, a nominal amount of restricted cash was released.

On June 21, 2019 the federal budget was approved which contained measures specific to our industry including: a journalism tax credit whereby qualifying Canadian 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. On October 2, 2019, the Government of Quebec announced a similar refundable labour tax credit to be applied to the salaries of journalists in Quebec provided an entity receives an eligibility certificate issued by Investissement Québec. In December 2019, the Canada Revenue Agency ("CRA") issued the Application for Qualified Canadian Journalism Organization Designation. In addition, CRA issued preliminary guidance related to the eligibility, qualifications and determination of the refundable labour tax credit and is currently accepting feedback on the guidance. During the three months ended November 30, 2019, we recognized a recovery of compensation expense of $2.4 million related to the journalism tax credits. As at November 30, 2019, the aggregate journalism tax credit receivable of $9.4 million is included in trade and other receivables on the condensed consolidated statement of financial position. The recognition of the journalism tax credits receivable is based on our interpretation of the federal budget and the related legislation. Actual amounts received may differ from the amounts currently recorded based on future CRA and/or Revenue Québec interpretations of eligibility, qualifications and determination of the tax credits. Based on our current staffing levels we expect the 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.

We continue to identify and undertake cost reduction initiatives in an effort to address revenue declination in the legacy print business. During the three months ended November 30, 2019, we began new cost reduction initiatives with the objective of reducing operating expenses by the end of fiscal 2020 through a combination of operational efficiencies and restructuring. During the three months ended November 30, 2019 we implemented cost reductions which are expected to result in approximately $10 million of net annualized cost savings.

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.

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. As at November 30, 2019, we have no amounts outstanding on the ABL Facility and availability of $15.0 million.

Key Factors Affecting Operating Results

Revenue is earned primarily from advertising, circulation and digital sources. Print advertising revenue is a function of the volume, or linage, of advertising sold and rates charged. Print circulation revenue is derived from home-delivery subscriptions for newspapers, including All Access Subscriptions (across the four platforms of print, web, tablet and smartphone), single copy sales at retail outlets and vending machines and is a function of the number of newspapers sold and the price per copy. Digital revenue consists of revenue from 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 $64.1 million for the three months ended November 30, 2019, representing 40.9% of total revenue. Our major print advertising categories consist of local, national, and inserts. These categories composed 43.9%, 18.4% and 36.0%, respectively, of total print advertising for the three months ended November 30, 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 throughout the remainder of fiscal 2020. During the three months ended November 30, 2019, we experienced print advertising revenue decreases of $12.9 million or 16.8%, as compared to the same period in the prior year. These decreases in print advertising revenue for the three months ended November 30, 2019 relate to weakness across all our major advertising categories including local, national and insert advertising categories.

Print circulation revenue was $50.3 million for the three months ended November 30, 2019, representing 32.1% of total revenue. Circulation revenues decreased $3.1 million, or 5.8%, in the three months ended November 30, 2019 as compared to the same period in the prior year. This decrease is 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 ended November 30, 2019. We expect these print circulation revenue trends to continue throughout the remainder of fiscal 2020.

Digital revenue was $35.6 million for the three months ended November 30, 2019, representing 22.7% of total revenue. Digital revenues increased $2.8 million, or 8.7%, in the three months ended November 30, 2019, as compared to the same period in the prior year as a result of increases in owned and operated digital advertising and digital marketing services partially offset by decreases in off network programmatic digital advertising. We expect these digital revenue trends to continue throughout the remainder of 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 that provide customized, full-service solutions to increase a business' overall revenue including website development, search engine optimization (SEO) and search engine marketing (SEM).

Our principal expenses consist of compensation, newsprint, distribution and production. These represented 38.6%, 5.5%, 21.4% and 15.5%, respectively, of total operating expenses excluding depreciation, amortization and restructuring for the three months ended November 30, 2019. We experienced decreases in compensation, newsprint and distribution expenses of $6.0 million, $2.3 million and $2.5 million, respectively, and an increase in production expense of a nominal amount in the three months ended November 30, 2019 as compared to the same period in the prior year. The decreases in compensation, newsprint and distribution expenses for the three months ended November 30, 2019 are primarily as a result of cost reduction initiatives and decreases in newspaper circulation volumes. In addition, compensation expenses decreased $2.4 million as a result of the journalism tax credits as described earlier in "Recent Developments".

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 $10 million of net annualized cost savings.

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 $2.1 million on an annualized basis. We experienced a slight decrease in newsprint prices in the first quarter of fiscal 2020 but don’t expect a material price change in the remainder of 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 ended November 30, 2019 as compared to the same period in the prior year primarily related to cost savings as result of a reduction in newspaper circulation volumes and cost reduction initiatives. We expect these newspaper circulation volume trends to continue throughout the remainder of 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 increased by a nominal amount during the three months ended November, 2019 as a result of increases in digital advertising production costs partially offset by a reduction in newspaper circulation volumes and cost reduction initiatives. We expect these trends to continue throughout the remainder of 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. The critical accounting estimates used in our interim condensed consolidated financial statements for the three months ended November 30, 2019 and 2018 are not materially different from those disclosed in our annual management’s discussion and analysis and annual audited consolidated financial statements for the years ended August 31, 2019 and 2018 except for the estimates of certain lease terms as described below.

Changes in accounting policies

There are new accounting standards which were effective on September 1, 2019. The following new standards and the nature and impact of adoption are described below.

IFRS 16 – Leases

The standard was issued in January 2016 and replaces IAS 17 – Leases. We adopted the standard on a modified retrospective basis on September 1, 2019 and accordingly have not restated comparative financial information. We mainly have lease contracts related to real estate which were primarily accounted for as operating leases. The new standard provides a single lessee accounting model which eliminates the distinction between operating and finance leases. In particular, lessees are required to report most leases on the statement of financial position by recognizing right-of-use assets and related lease liabilities. The right-of-use asset is depreciated over the term of the lease. The lease liability is initially measured at the present value of the applicable lease payments payable over the term of the lease and bears interest. Limited recognition exemptions apply if the underlying asset has a low value or the lease term is 12 months or less. We have also elected not to reassess whether a contract is, or contains a lease on the date of initial application. The impact of adoption includes an increase in right of use assets of $48.8 million and lease obligations of $51.1 million, a decrease in other long-term liabilities of $4.6 million and a decrease in property and equipment of $2.3 million. Lease obligations were measured using our estimated incremental borrowing rate of 6.3% as at September 1, 2019 and the right of use assets were measured at an amount equal to the lease obligation adjusted for amounts previously recognized in the statement of financial position as at August 31, 2019. During the three months ended November 30, 2019, the adoption of IFRS 16 has resulted in a reduction of other operating expenses of $2.2 million, an increase in amortization expense of $1.8 million and an increase in interest expense of $0.8 million.

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 have adopted the amendments to IAS 19 for the year ending August 31, 2020 and have determined no significant impact on the consolidated financial statements upon adoption.

Operating Results

Postmedia's operating results for the three months ended November 30, 2019 as compared to the three months ended November 30, 2018

	2019	2018
Revenues		
Print advertising	64,143	77,091
Print circulation	50,327	53,451
Digital	35,586	32,747
Other	6,599	7,984
Total revenues	156,655	171,273
Expenses		
Compensation	52,283	58,324
Newsprint	7,477	9,760
Distribution	28,906	31,443
Production	20,939	20,921
Other operating	25,672	29,119
Operating income before depreciation, amortization and restructuring	21,378	21,706
Depreciation	3,011	4,999
Amortization	4,248	4,192
Restructuring and other items	8,569	2,678
Operating income	5,550	9,837
Interest expense	7,378	7,185
Net financing expense relating to employee benefit plans	610	541
(Gain) loss on disposal of property and equipment	(3)	226
Loss on derivative financial instruments	519	557
Foreign currency exchange losses	46	2,747
Loss before income taxes	(3,000)	(1,419)
Provision for income taxes	-	-
Net loss attributable to equity holders of the Company	(3,000)	(1,419)

Revenue

Print advertising

Print advertising revenue decreased $12.9 million, or 16.8%, to $64.1 million for the three months ended November 30, 2019 as compared to the same period in prior year, and declines were experienced across all our major categories including decreases from local advertising of 19.7%, national advertising of 24.3% and insert advertising of 8.3%. The decreases were due to declines in both volume and rate with the total print advertising linage and average line rate decreasing 8.5% and 13.8%, respectively, during the three months ended November 30, 2019, as compared to the same period in the prior year.

Print circulation

Print circulation revenue decreased $3.1 million, or 5.8%, to $50.3 million for the three months ended November 30, 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 $2.8 million, or 8.7%, to $35.6 million for the three months ended November 30, 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 $1.4 million, or 17.3%, to $6.6 million for the three months ended November 30, 2019, as compared to the same period in the prior year primarily as a result of a decrease in commercial printing revenue.

Expenses

Compensation

Compensation expenses decreased $6.0 million, or 10.4%, to $52.3 million for the three months ended November 30, 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 $4.2 million, which includes the impact of the recovery of the $2.4 million related to the journalism tax credits as described earlier in “Recent Developments”, a decrease in short-term incentive plan expense of $0.8 million, a decrease in employee benefit plan expense of $0.4 million, a decrease in temporary labour expense of $0.3 million and a decrease in share-based compensation expense of $0.2 million. Excluding the recovery related to the journalism tax credits, compensation expenses decreased $3.6 million, or 6.2%, as compared to the same period in the prior year.

Newsprint

Newsprint expenses decreased $2.3 million, or 23.4%, to $7.5 million for the three months ended November 30, 2019, as compared to the same period in the prior year primarily as a result of consumption decreases of 19.7% due to lower newspaper circulation volumes as well as continued usage reduction efforts and decreases in newsprint prices. Newsprint expenses include newsprint purchased for production at both our owned and outsourced production facilities.

Distribution

Distribution expenses decreased $2.5 million, or 8.1%, to $28.9 million for the three months ended November 30, 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 increased by a nominal amount to $20.9 million for the three months ended November 30, 2019, as compared to the same period in the prior year. The increase in production expenses is related to increases in digital advertising production costs, partially offset by cost savings as a result of the reduction in newspaper circulation volumes and ongoing cost reduction initiatives.

Other operating

Other operating expenses decreased $3.4 million, or 11.8%, to $25.7 million for the three months ended November 30, 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 and the reduction of lease expenses of $2.2 million related to the adoption of IFRS 16 as described earlier in “Other Factors – Changes in Accounting Policies”.

Operating income before depreciation, amortization and restructuring

Operating income before depreciation, amortization and restructuring decreased $0.3 million to $21.4 million for the three months ended November 30, 2019, as compared to the same period in the prior year. The decrease was as a result of decreases in revenue, partially offset by decreases in compensation, newsprint, distribution, and other operating expenses, all as discussed above. Included in the compensation and other operating expense decreases is the impact of the compensation expense recovery of $2.4 million related to journalism tax credits and the reduction of other operating expenses of $2.2 million related to the adoption of IFRS 16 both as described earlier in “Recent Developments”.

Depreciation

Depreciation expense decreased $2.0 million to $3.0 million for the three months ended November 30, 2019 as compared to the same period in the prior year. The decrease relates to the disposal of properties throughout the year ended August 31, 2019.

Amortization

Amortization expense increased $0.1 million to $4.2 million for the three months ended November 30, 2019 as compared to the same period in the prior year. The increase primarily relates to the amortization expense of right of use assets of $1.8 million related to the adoption of IFRS 16 as described earlier in “Other Factors – Changes in Accounting Policies”, partially offset by a decrease in amortization expense related to intangible assets that were fully amortized as at November 30, 2018.

Restructuring and other items

Restructuring and other items expense increased $5.9 million to $8.6 million for the three months ended November 30, 2019 as compared to the same period in the prior year. Restructuring and other items expense for the three months ended November 30, 2019 consists of severance costs of $8.6 million, which include both involuntary terminations and voluntary buyouts. Restructuring and other items expense for the three months ended November 30, 2018 consisted of severance costs of $2.7 million, which include both involuntary terminations and voluntary buyouts.

Operating income

Operating income decreased $4.3 million to $5.6 million for the three months ended November 30, 2019, as compared to the same period in the prior year. The decrease in operating income is the result of an increase in restructuring and other items and amortization expenses, and a decrease in operating income before depreciation, amortization and restructuring, partially offset by a decrease in depreciation expense, all as discussed above.

Interest expense

Interest expense increased $0.2 million to $7.4 million for the three months ended November 30, 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 $0.8 million, partially offset by a decrease in cash interest of $0.6 million. The increase in non-cash interest includes interest related to the adoption of IFRS 16 as described earlier in “Other Factors – Changes in Accounting Policies”, an increase in the paid-in-kind interest on the Second-Lien Notes, partially offset by a decrease in the effective interest rate as a result of the Refinancing Transaction as described earlier in Recent Developments. The decrease in cash interest expense is as a result of redemptions of First-Lien Notes throughout the year ended August 31, 2019.

Net financing expense relating to employee benefit plans

Net financing expense relating to employee benefit plans increased by $0.1 million to $0.6 million from the three months ended November 30, 2019 as compared to the same period in the prior year.

(Gain) loss on disposal of property and equipment

During the three months ended November 30, 2019, we disposed of property and equipment and realized a gain of a nominal amount. During the three months ended November 30, 2018, we disposed of property and equipment and realized a loss of $0.2 million.

Loss on derivative financial instruments

Loss on derivative financial instruments for the three months ended November 30, 2019 was $0.5 million as compared to $0.6 million during the same period in the prior year. The losses in the three months ended November 30, 2019 and 2018 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 three months ended November 30, 2019 and 2018 were a nominal amount and $2.7 million, respectively. Foreign currency exchange losses in the three months ended November 30, 2018 primarily relate to changes in the carrying value of our Second-Lien Notes $2.7 million.

Loss before income taxes

Loss before income taxes was $3.0 million for the three months ended November 30, 2019, as compared to $1.4 million for the same period in the prior year. Loss before income taxes is primarily the result of decreases in operating income, increases in interest expense and net financing expense relating to employee benefit plans, partially offset by decreases in foreign exchange currency losses and losses on derivative financial instruments, and a gain disposal of property and equipment in the three months ended November 30, 2019, 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 November 30, 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 attributable to equity holders of the Company

Net loss was $3.0 million for the three months ended November 30, 2019, as compared to $1.4 million for the same period in the prior year, as a result of the factors described above in loss before income taxes and provision for income taxes.

Consolidated quarterly financial information

($ in thousands of Canadian dollars, except per share information)	Fiscal 2020	Fiscal 2019 [1]				Fiscal 2018 [1]		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenues	156,655	145,608	157,058	145,699	171,273	158,677	171,049	157,577
Net earnings (loss) from continuing operations	(3,000)	7,903	(7,681)	(5,870)	(1,419)	(22,852)	(15,539)	(1,252)
Net earnings (loss) per share from continuing operations								
Basic	$ (0.03)	$ 0.08	$ (0.08)	$ (0.06)	$ (0.02)	$ (0.24)	$ (0.17)	$ (0.01)
Diluted	$ (0.03)	$ 0.08	$ (0.08)	$ (0.06)	$ (0.02)	$ (0.24)	$ (0.17)	$ (0.01)
Net earnings (loss) attributable to equity holders of the Company	(3,000)	7,903	(7,681)	(5,079)	(1,419)	(22,852)	(15,539)	(1,252)
Net earnings (loss) per share attributable to equity holders of the Company								
Basic	$ (0.03)	$ 0.08	$ (0.08)	$ (0.05)	$ (0.02)	$ (0.24)	$ (0.17)	$ (0.01)
Diluted	$ (0.03)	$ 0.08	$ (0.08)	$ (0.05)	$ (0.02)	$ (0.24)	$ (0.17)	$ (0.01)
Cash flows from (used in) operating activities	2,748	4,660	1,568	7,585	(5,200)	26,188	1,228	1,844

(1) The consolidated quarterly financial information for the years ended August 31, 2019 and 2018 has not been restated to reflect the adoption of IFRS 16 as described earlier in “Other Factors – Changes in Accounting Policies”.

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 print advertising to other advertising formats, particularly online and other digital platforms such as search and social media websites. More recently, we have experienced continued declines in revenues due to ongoing economic and structural factors resulting in an increasingly challenging operating environment. We have significant debt obligations which currently include the 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. During the three months ended November 30, 2019, we completed a Refinancing Transaction as described earlier in “Recent Developments” that extended these maturities. 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 seasonal fluctuations of the business and identifying and selling redundant assets including certain real estate assets. As at November 30, 2019, we have three real estate assets classified as assets held-for-sale with a carrying amount of $29.0 million (August 31, 2019 – two with a carrying amount of $24.5 million). In addition, we have three other real estate assets with a carrying amount of $2.9 million currently listed for sale, however these properties do not meet the requirements to be classified as held-for-sale as at November 30, 2019.

Cash flows from (used in) operating activities

Our principal sources of liquidity are cash flows from (used in) operating activities. For the three months ended November 30, 2019, our cash flows from (used in) operating activities were inflows of $2.7 million (2018 – outflows of $5.2 million). The net cash inflows from operating activities during the three months ended November 30, 2019 are due to a decrease in the impact of non-cash working capital increases as compared to the same period in the prior year, notwithstanding the impact of a $2.4 million receivable for the journalism tax credit in the three months ended November 30, 2019 as described earlier in "Recent Developments", and decreases in restructuring and cash interest payments, partially offset by a decrease in operating income before depreciation, amortization and restructuring.

As at November 30, 2019 we have cash of $13.5 million (August 31, 2019 – $15.5 million).

Cash flows from (used in) investing activities

For the three months ended November 30, 2019, our cash flows from (used in) investing activities were outflows of $1.3 million (2018 – inflows of $0.1 million). The net cash outflows from investing activities during the three months ended November 30, 2019 includes capital expenditures related to property and equipment of $1.1 million and intangible assets of $0.2 million, partially offset by net proceeds received from the sale of property and equipment of a nominal amount. The net cash inflows from investing activities during the three months ended November 30, 2018 included the net proceeds received from the sale of property and equipment of $0.4 million, partially offset by capital expenditures related to property and equipment of $0.2 million and intangible assets of $0.2 million.

Cash flows used in financing activities

For the three months ended November 30, 2019, our cash flows used in financing activities were $3.4 million (2018 – $9.1 million). The net cash flows used in financing activities during the three months ended November 30, 2019 includes outflows of $94.8 million related to the repayment of First-Lien Notes and debt issuance costs of $1.7 million, both related to the Refinancing Transaction as described earlier in "Recent Developments" and lease payments of $2.2 million related to the adoption of IFRS 16 as described earlier in "Other Factors – Changes in Accounting Policies", partially offset by net proceeds from the issuance of New First-Lien Notes and the receipt of restricted cash of a nominal amount both related to the Refinancing Transaction as described earlier in "Recent Developments". The cash outflows from financing activities during the three months ended November 30, 2018 included outflows of $8.7 million related to the repayment of First-Lien Notes and net outflows from restricted cash of $0.4 million.

Indebtedness

As of November 30, 2019, we have $95.2 million New First-Lien Notes and US$120.7 million Second-Lien Notes outstanding (August 31, 2019 - $94.8 million First-Lien Notes and US$120.7 million Second-Lien Notes). The following tables set out the principal and carrying amount of our long-term debt outstanding as at November 30, 2019 and August 31, 2019. 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 November 30, 2019 of US$1:$1.3289 (August 31, 2019 – US$1:$1.3295).

	As at November 30, 2019			**As at August 31, 2019**		
($ in thousands of Canadian dollars)	**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
New First-Lien Notes…………………………	95,235	(1,613)	93,622	-	-	-
Second-Lien Notes……………………………	160,378	(205)	160,173	160,451	(201)	160,250
ABL Facility……………………………………	-	-	-	-	-	-
	255,613	(1,818)	253,795	255,212	(201)	255,011

Financial Position as at November 30, 2019 and August 31, 2019

($ in thousands of Canadian dollars)	As at November 30, 2019	As at August 31, 2019
Current assets……………………………………………….	146,144	126,003
Total assets………………………………………………….	354,613	299,059
Current liabilities…………………………………………….	112,557	90,922
Total liabilities……………………………………………….	469,955	435,470
Deficiency…………………………………………………….	(115,342)	(136,411)

The increase in our current assets is primarily due to an increase in assets held-for-sale and accounts receivable as a result of the seasonality of our business, partially offset by a decrease in cash. Total assets increased as a result of right of use assets related to the adoption of IFRS 16 as described earlier in "Other Factors – Changes in Accounting Policies", partially offset by a decrease in the carrying value of property and equipment and intangible assets as a result of disposals, depreciation and amortization in excess of additions during the three months ended November 30, 2019. Current liabilities have increased due to an increase in accounts payable and accrued liabilities and provisions as a result of restructuring charges recognized in the three months ended November 30, 2019, partially offset by a decrease in deferred revenue. The increase in total liabilities is as a result of lease obligations related to the adoption of IFRS 16 as described earlier in "Other Factors – Changes in Accounting Policies", partially offset by a decrease in employee benefit plan liabilities as a result of gains on employee benefit plans of $23.8 million recognized in other comprehensive income in the three months ended November 30, 2019 and the decrease in the carrying value of long-term debt as a result of the Refinancing Transaction as described earlier in "Recent Developments".

Related Party Transactions

As at November 30, 2019, Chatham owns 62,313,749, or 66%, of our shares. We have a consulting agreement with Chatham and during the three months ended November 30, 2019 incurred an expense of $0.1 million (2018 - $0.2 million). In addition, we have an ABL Facility with associated companies of Chatham and as at November 30, 2019, we have no amount drawn and availability of $15.0 million (August 31, 2019 – nil and $15.0 million, respectively) and during the three months ended November 30, 2019 and 2018 incurred and paid a nominal amount of interest.

Financial Instruments and Financial Instruments Risk Management

The financial instruments and financial risk management policies and related risks are the same as disclosed in the audited consolidated financial statements for the years ended August 31, 2019 and 2018, except as discussed below.

Foreign currency risk

As at November 30, 2019, approximately 63% of the outstanding principal on our long-term debt is payable in US dollars (August 31, 2019 – 63%). As at November 30, 2019 and August 31, 2019, we are exposed to foreign currency risk on the US$120.7 million Second-Lien Notes outstanding.

Guarantees and Off-Balance Sheet Arrangements

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

Risk Factors

The risks relating to our business are described in the section entitled “Risk Factors” included in our annual management’s discussion and analysis for the years ended August 31, 2019 and 2018, which section is incorporated by reference herein.

Internal Controls

Disclosure controls and procedures within Postmedia have been designed to provide reasonable assurance that all relevant information is identified to its management, including the Chief Executive Officer (“CEO”) and the Executive Vice President and Chief Financial Officer (“CFO”), as appropriate, to allow required disclosures to be made in a timely fashion.

Internal controls over financial reporting have been designed by management, under the supervision of and with the participation of the CEO and CFO, to provide reasonable assurance regarding the reliability of Postmedia’s financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The CEO and CFO have evaluated whether there were changes to Postmedia's internal control over financial reporting during the three months ended November 30, 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 January 7, 2020 we had the following number of shares and options outstanding:

Class C voting shares	57,475
Class NC variable voting shares	93,682,824
Total shares outstanding	93,740,299
Total options and restricted share units outstanding [1]	6,325,411

[1] The total options and restricted share units outstanding are convertible into 6,325,411 Class NC variable voting shares. The total options and restricted share units outstanding include 3,712,040 that are vested and 2,613,371 that are unvested.

POSTMEDIA NETWORK CANADA CORP.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2019 AND 2018
(UNAUDITED)

Approved for issuance: January 9, 2020

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

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2019 AND 2018
(In thousands of Canadian dollars, except per share amounts)

	2019	2018
Revenues		
Print advertising	64,143	77,091
Print circulation	50,327	53,451
Digital	35,586	32,747
Other	6,599	7,984
Total revenues	156,655	171,273
Expenses		
Compensation (note 4)	52,283	58,324
Newsprint	7,477	9,760
Distribution	28,906	31,443
Production	20,939	20,921
Other operating	25,672	29,119
Operating income before depreciation, amortization and restructuring (note 3)	21,378	21,706
Depreciation	3,011	4,999
Amortization	4,248	4,192
Restructuring and other items (note 7)	8,569	2,678
Operating income	5,550	9,837
Interest expense	7,378	7,185
Net financing expense relating to employee benefit plans (note 9)	610	541
(Gain) loss on disposal of property and equipment	(3)	226
Loss on derivative financial instruments (note 12)	519	557
Foreign currency exchange losses	46	2,747
Loss before income taxes	(3,000)	(1,419)
Provision for income taxes	-	-
Net loss attributable to equity holders of the Company	(3,000)	(1,419)
Loss per share attributable to equity holders of the Company (note 10):		
Basic	$ (0.03)	$ (0.02)
Diluted	$ (0.03)	$ (0.02)

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

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

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2019 AND 2018
(In thousands of Canadian dollars)

	2019	2018
Net loss attributable to equity holders of the Company	(3,000)	(1,419)
Amounts not subsequently reclassified to the statement of operations		
Gains (losses) on employee benefit plans, net of tax of nil (note 9)	23,847	(5,795)
Other comprehensive income (loss)	23,847	(5,795)
Comprehensive income (loss) attributable to equity holders of the Company	20,847	(7,214)

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

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

(In thousands of Canadian dollars)

	As at November 30, 2019	As at August 31, 2019
ASSETS		
Current Assets		
Cash	13,546	15,464
Restricted cash (note 8)	-	13
Trade and other receivables	88,969	72,228
Assets held-for-sale (note 5)	29,029	24,475
Inventory	3,582	3,554
Prepaid expenses and other assets	11,018	10,269
Total current assets	146,144	126,003
Non-Current Assets		
Property and equipment (note 5)	101,061	109,860
Right of use assets (note 2)	46,958	-
Derivative financial instruments and other assets (note 12)	2,310	2,829
Intangible assets	58,140	60,367
Total assets	354,613	299,059
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (note 6)	63,400	54,122
Provisions (note 7)	11,651	5,893
Deferred revenue	25,185	25,907
Current portion of lease obligations (note 2)	7,321	-
Current portion of long-term debt (note 8)	5,000	5,000
Total current liabilities	112,557	90,922
Non-Current Liabilities		
Long-term debt (note 8)	248,795	250,011
Employee benefit obligations and other liabilities (note 9)	66,247	94,537
Lease obligations (note 2)	42,356	-
Total liabilities	469,955	435,470
Deficiency		
Capital stock	810,861	810,861
Contributed surplus (note 11)	14,992	14,770
Deficit	(941,195)	(962,042)
Total deficiency	(115,342)	(136,411)
Total liabilities and deficiency	354,613	299,059

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

POSTMEDIA NETWORK CANADA CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIENCY (UNAUDITED)

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2019 AND 2018
(In thousands of Canadian dollars)

	2019			
	Capital stock	Contributed surplus	Deficit	Total Deficiency
Balance as at August 31, 2019	810,861	14,770	(962,042)	(136,411)
Net loss attributable to equity holders of the Company	-	-	(3,000)	(3,000)
Other comprehensive income	-	-	23,847	23,847
Comprehensive income attributable to equity holders of the Company	-	-	20,847	20,847
Share-based compensation plans (note 11)	-	222	-	222
Balance as at November 30, 2019	**810,861**	**14,992**	**(941,195)**	**(115,342)**

	2018			
	Capital stock	Contributed surplus	Deficit	Total Deficiency
Balance as at August 31, 2018	810,836	13,589	(919,488)	(95,063)
Change in accounting policies	-	-	1,864	1,864
Balance as at August 31, 2018 (revised)	810,836	13,589	(917,624)	(93,199)
Net loss attributable to equity holders of the Company	-	-	(1,419)	(1,419)
Other comprehensive loss	-	-	(5,795)	(5,795)
Comprehensive loss attributable to equity holders of the Company	-	-	(7,214)	(7,214)
Share-based compensation plans (note 11)	-	427	-	427
Balance as at November 30, 2018	**810,836**	**14,016**	**(924,838)**	**(99,986)**

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

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

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2019 AND 2018
(In thousands of Canadian dollars)

	2019	2018
CASH GENERATED (UTILIZED) BY:		
OPERATING ACTIVITIES		
Net loss attributable to equity holders of the Company	(3,000)	(1,419)
Items not affecting cash:		
Depreciation	3,011	4,999
Amortization	4,248	4,192
Loss on derivative financial instruments (note 12)	519	557
Non-cash interest	5,358	4,540
(Gain) loss on disposal of property and equipment	(3)	226
Non-cash foreign currency exchange gains (losses)	(51)	2,761
Share-based compensation plans expense (note 11)	222	427
Net financing expense relating to employee benefit plans (note 9)	610	541
Employee benefit plan funding in excess of compensation expense (note 9)	(452)	(783)
Net change in non-cash operating accounts (note 13)	(7,714)	(21,241)
Cash flows from (used in) operating activities	2,748	(5,200)
INVESTING ACTIVITIES		
Net proceeds from the sale of property and equipment	33	391
Purchases of property and equipment	(1,122)	(166)
Purchases of intangible assets	(196)	(169)
Cash flows from (used in) investing activities	(1,285)	56
FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt (note 8)	95,235	-
Repayment of long-term debt (note 8)	(94,761)	(8,718)
Restricted cash	13	(393)
Debt issuance costs (note 8)	(1,710)	-
Lease payments (note 2)	(2,158)	-
Cash flows used in financing activities	(3,381)	(9,111)
Net change in cash for the period	(1,918)	(14,255)
Cash at beginning of period	15,464	26,037
Cash at end of period	**13,546**	**11,782**

	2019	2018
Supplemental disclosure of operating cash flows		
Interest paid	3,948	5,510
Income taxes paid	-	-

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

1. DESCRIPTION OF BUSINESS

Postmedia Network Canada Corp. ("Postmedia" or the "Company") is a holding company that has a 100% interest in its subsidiary Postmedia Network Inc. ("Postmedia Network"). The Company was incorporated on April 26, 2010, pursuant to the Canada Business Corporations Act. The Company's head office and registered office is 365 Bloor Street East, 12th Floor, Toronto, Ontario.

The Company's operations consist of both news and information gathering and dissemination operations, with products offered in local, regional and major metropolitan markets in Canada through a variety of print, web, tablet and smartphone platforms, and digital media and online assets including the *canada.com* and *canoe.com* websites and each newspaper's online website. The Company supports these operations through a variety of centralized shared services.

The Company has one operating segment for financial reporting purposes, the Newsmedia segment. The Newsmedia segment's revenue is primarily from print and digital advertising and circulation/subscription revenue. The Company's advertising revenue is seasonal. Historically, advertising revenue and accounts receivable are typically highest in the first and third fiscal quarters, while expenses are relatively constant throughout the fiscal year.

2. BASIS OF PRESENTATION

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 – Interim Financial Reporting. The accounting policies applied in the preparation of these interim condensed consolidated financial statements are the same as those used in the Company's annual consolidated financial statements except for the adoption of new accounting standards as described below. In addition, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and accordingly should be read in conjunction with the Company's consolidated financial statements for the years ended August 31, 2019 and 2018.

These interim condensed consolidated financial statements were approved by the Board of Directors (the "Board") on January 9, 2020.

Critical accounting estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Although these estimates, assumptions and judgements are based upon management's knowledge of the amount, event or actions; actual results could differ from those estimates, assumptions and judgements. The critical accounting estimates are not materially different from those disclosed in the Company's consolidated financial statements for the years ended August 31, 2019 and 2018, except for the estimate of certain lease terms as described below.

Changes in accounting policies

There are new accounting standards which were effective for the Company on September 1, 2019. The following new standards and the nature and impact of adoption are described below.

IFRS 16 – Leases

The standard was issued in January 2016 and replaces IAS 17 – Leases. The Company adopted the standard on a modified retrospective basis on September 1, 2019 and accordingly has not restated comparative financial information. The Company mainly has lease contracts related to real estate which were primarily accounted for as operating leases. The new standard provides a single lessee accounting model which eliminates the distinction between operating and finance leases. In particular, lessees are required to report most leases on the statement of financial position by recognizing right-of-use assets and related lease liabilities. The right-of-use asset is depreciated over the term of the lease. The lease liability is initially measured at the present value of the applicable lease payments payable over the term of the lease and bears interest. Limited recognition exemptions apply if the underlying asset has a low value or the lease term is 12 months or less. The Company has also elected not to reassess whether a contract is, or contains a lease on the date of initial application. The impact of adoption includes an increase in right of use assets of $48.8 million and lease obligations of $51.1 million, a decrease in other long-term liabilities of $4.6 million and a decrease in property and equipment of $2.3 million. Lease obligations were measured using the Company's estimated incremental borrowing rate of 6.3% as at September 1, 2019 and the right of use assets were measured at an amount equal to the lease obligation adjusted for amounts previously recognized in the statement of financial position as at August 31, 2019. During the three months ended November 30, 2019, the adoption of IFRS 16 has resulted in a reduction of other operating expenses of $2.2 million, an increase in amortization expense of $1.8 million and an increase in interest expense of $0.8 million.

Leases accounting policy applicable from September 1, 2019

The Company assesses at the inception of a contract whether a contract is or contains a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration. Leases are recognized as a right of use asset and a corresponding lease obligation at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease obligations include the net present value of fixed payments, amounts expected to be paid and the exercise price of purchase options if reasonably certain to exercise that option, and payments of penalties for terminating the lease, less any lease incentives receivable. These payments are discounted using the Company's incremental borrowing rate when the rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Lease payments are allocated between the liability and finance costs. The finance cost is charged to interest expense over the lease term.

The lease obligation is measured at amortized cost using the effective interest method. It is remeasured if there is a change in the assessment of whether the Company will exercise a purchase, extension or termination option that is within the control of the Company or if there is a change in the amount expected to be payable under a residual value guarantee. The lease obligation is also remeasured when the underlying lease contract is amended. When there is a decrease in contract scope, the lease liability and right of use asset will decrease relative to this change with the difference recorded in net earnings prior to the remeasurement of the lease liability. The remeasurement will use the applicable discount rate at the effective date of the lease modification.

The right of use asset is initially measured at cost, which is comprised of the initial amount of the lease obligation, any initial direct costs and an estimate of costs to restore the asset less any lease payments made at or before the commencement date. The right of use asset is amortized, on a straight-line basis, over the estimated useful life of the asset or the lease term. The right of use asset may be adjusted for certain remeasurements of the lease obligation and impairments. Leases that have terms of less than twelve months or leases where the underlying asset is of low value are recognized as an other operating expense in the consolidated statement of operations on a straight-line basis over the lease term.

Certain leases require the Company to make payments that relate to property taxes, maintenance and other operating costs which are typically variable and are not included in the calculation of the right-of-use asset or lease obligation. At August 31, 2019, the Company disclosed contractual obligations related to leases of $134.2 million which included $68.6 million of non-lease components such as operating costs as well as immaterial leases which are not capitalized as part of IFRS 16. In addition, existing capital leases of $0.3 million were reclassified from other long-term liabilities and the lease obligations were then discounted by $14.8 million resulting in a lease obligation of $51.1 million as at September 1, 2019.

Changes to the Company's right of use assets and lease obligations for the three months ended November 30, 2019 are as follows:

	Right of use assets	**Lease Liabilities**
Balance as at September 1, 2019	48,783	51,058
Amortization	(1,825)	-
Payments	-	(2,158)
Interest	-	777
Balance as at November 30, 2019	46,958	49,677
Lease obligations due within one year		(7,321)
Non-current lease obligations		42,356

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. The Company has adopted the amendments to IAS 19 for the year ending August 31, 2020 and have determined no significant impact on the consolidated financial statements upon adoption.

3. OPERATING INCOME BEFORE DEPRECIATION, AMORTIZATION AND RESTRUCTURING

The Company presents as an additional IFRS measure, operating income before depreciation, amortization and restructuring, in the condensed consolidated statement of operations, to assist users in assessing financial performance. The Company's management and Board use this measure to evaluate consolidated operating results and to assess the ability of the Company to incur and service debt. In addition, this measure is used to make operating decisions as it is an indicator of performance including how much cash is being generated by the Company and assists in determining the need for additional cost reductions as well as the evaluation of personnel and resource allocation decisions. Operating income before depreciation, amortization and restructuring is referred to as an additional IFRS measure and may not be comparable to similarly titled measures presented by other companies.

4. JOURNALISM TAX CREDITS

On June 21, 2019 the federal budget was approved which contained measures specific to the news media industry including a journalism tax credit whereby qualifying Canadian news organizations may apply for a refundable labour tax credit applied to the salaries of journalists. In December 2019, the Canada Revenue Agency ("CRA") issued the Application for Qualified Canadian Journalism Organization Designation. In addition, CRA issued preliminary guidance related to the eligibility, qualifications and determination of the refundable labour tax credit and is currently accepting feedback on such guidance.

On October 2, 2019, the Government of Quebec announced a similar refundable labour tax credit to be applied to the salaries of journalists in Quebec provided an entity receives an eligibility certificate issued by Investissement Québec.

During the three months ended November 30, 2019, the Company recognized a recovery of compensation expense of $2.4 million related to the journalism tax credits (2018 – nil). As at November 30, 2019, the aggregate journalism tax credit receivable of $9.4 million is included in trade and other receivables on the condensed consolidated statement of financial position (August 31, 2019 - $7.0 million). The recognition of the journalism tax credits receivable is based on the Company's interpretation of the federal budget and the related legislation. Actual amounts received may differ from the amounts currently recorded based on future CRA and/or Revenue Québec interpretations of eligibility, qualifications and determination of the tax credits.

5. ASSETS HELD-FOR-SALE

Due to an outsourcing agreement announced in November 2019, the Company determined that the Edmonton press facility's carrying amount will be recovered principally through a sales transaction and as a result the Company has classified this property as held-for-sale on the consolidated statement of financial position. The Company reclassified the property as held-for-sale at its carrying amount of $4.5 million which is less than its estimated fair value less costs of disposal resulting in aggregate assets held-for sale as at November 30, 2019 of $29.0 million (August 31, 2019 - $24.5 million).

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at November 30, 2019	**As at August 31, 2019**
Trade accounts payable	11,405	11,219
Accrued liabilities	45,279	38,768
Accrued interest on long-term debt	6,716	4,135
Accounts payable and accrued liabilities	63,400	54,122

7. PROVISIONS

	Restructuring [a]	Unoccupied leases	Other provisions	Total
Provisions as at August 31, 2019	5,331	502	60	5,893
Charges	8,569	-	-	8,569
Payments	(2,680)	(131)	-	(2,811)
Provisions as at November 30, 2019	11,220	371	60	11,651
Portion due within one year	(11,220)	(371)	(60)	(11,651)
Non-current provisions	-	-	-	-

(a) Restructuring

During the three months ended November 30, 2019, the Company began new initiatives and incurred restructuring expense of $8.6 million which include both involuntary terminations and voluntary buyouts.

8. LONG-TERM DEBT

				As at November 30, 2019	As at August 31, 2019
	Maturity	Principal	Financing fees, discounts and other	Carrying value of debt	Carrying value of debt
8.25% Senior Secured Notes	July 2021	-	-	-	94,761
8.25% Senior Secured Notes	July 2023	95,235	(1,613)	93,622	-
10.25% Second Lien Secured Notes (US$120.7M) [1]	January 2024	160,378	(205)	160,173	160,250
Senior Secured Asset-Based Revolving Credit Facility	January 2020	-	-	-	-
Total long-term debt				253,795	255,011
Portion due within one year				(5,000)	(5,000)
Non-current long-term debt				248,795	250,011

(1) US$ principal translated to the Canadian equivalent based on the foreign exchange rate on November 30, 2019 of US$1:$1.3289 (August 31, 2019 - US$1:$1.3295).

The terms and conditions of long-term debt as at November 30, 2019 are the same as disclosed in the consolidated financial statements for the years ended August 31, 2019 and 2018 except as described below.

On September 9, 2019, the Company completed a refinancing transaction ("Refinancing Transaction") that included the redemption of $94.8 million aggregate principal amount of 8.25% Senior Secured Notes due 2021 ("First-Lien Notes") at par, plus accrued interest of $2.8 million, and terminated the First-Lien Notes indenture. The Company 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 $93.5 million, after financing fees of $1.7 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, the Company extended the maturity of its 10.25% Second Lien Secured Notes due 2023 ("Second-Lien Notes") by six months to January 15, 2024. The Company determined that the refinancing of the First-Lien Notes was an extinguishment and the refinancing of the Second-Lien Notes was a modification. The resulting effective interest rate of the New First-Lien Notes which amortizes the aggregate initial financing fees based on the estimated initial cash flows is 9.1%. Upon close of the Refinancing Transaction, a nominal amount of restricted cash was released to the Company.

On December 15, 2018, the Company 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 the Company’s request and with the consent of the lender. As at November 30, 2019, the Company has no amount drawn on the ABL Facility and has availability of $15.0 million (August 31, 2019 – nil and $15.0 million, respectively) and during the three months ended November 30, 2019 and 2018, incurred and paid a nominal amount of interest.

9. EMPLOYEE BENEFIT PLANS

The Company has a number of funded and unfunded defined benefit plans that include pension benefits, post-retirement benefits, and other long-term employee benefits as well as a defined contribution pension benefit plan and participates in a multi-employer defined benefit plan. The net employee benefit plan costs related to the Company’s pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans reported in net loss in the condensed consolidated statements of operations for the three months ended November 30, 2019 and 2018 are as follows:

	Pension benefits		Post-retirement benefits		Other long-term employee benefits		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Current service cost	-	802	103	256	95	88	198	1,146
Administration costs	251	251	-	-	-	-	251	251
Net actuarial gains	-	-	-	-	(119)	(107)	(119)	(107)
Net financing expense	339	86	197	346	74	109	610	541
Net defined benefit plan expense (1)	590	1,139	300	602	50	90	940	1,831
Employer contributions to the multi-employer plan and defined contribution plans	1,268	959	-	-	-	-	1,268	959
Total plan expense	1,858	2,098	300	602	50	90	2,208	2,790

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

Gains (losses) related to the Company’s pension benefit plans and post-retirement benefit plans recognized in the condensed consolidated statements of comprehensive income (loss) for the three months ended November 30, 2019 and 2018 are as follows:

	Pension benefits		Post-retirement benefits		Total	
	2019	2018	2019	2018	2019	2018
Net actuarial gains (losses) on employee benefits (1)	25,014	(7,157)	359	1,362	25,373	(5,795)
Impact of asset ceiling	(1,526)	-	-	-	(1,526)	-
Net actuarial gains (losses) recognized in other comprehensive income (loss)	23,488	(7,157)	359	1,362	23,847	(5,795)

(1) The discount rate used in measuring the Company’s benefit obligations as at November 30, 2019 was 2.95% for pension and post-retirement benefits (August 31, 2019 – 2.80% and 2.85%, respectively).

Changes to the net defined benefit plan obligations related to the Company's pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans for the three months ended November 30, 2019 are as follows:

	Pension benefits	Post-retirement benefits	Other long-term employee benefits	Total [1]
Net defined benefit plan obligation as at August 31, 2019	48,113	28,536	13,287	89,936
Amounts recognized in the statement of operations	590	300	50	940
Amounts recognized in other comprehensive income	(23,488)	(359)	-	(23,847)
Employer contributions to the plans	-	(245)	(537)	(782)
Net defined benefit plan obligation as at November 30, 2019	25,215	28,232	12,800	66,247

(1) As at November 30, 2019 and August 31, 2019, the net defined benefit plan obligations are recorded in employee benefit obligations and other liabilities on the condensed consolidated statements of financial position.

On January 29, 2019, the Company entered into an agreement with the Colleges of Applied Arts & Technology Pension Plan (the "CAAT Pension Plan"), a multi-employer defined benefit plan, to merge the Company's defined benefit pension plans (the "Postmedia Plans"), with the CAAT Pension Plan. Effective July 1, 2019, the Company received approval from Postmedia Plan members and the Company became a participating employer under the CAAT Pension Plan and all members of the Postmedia Plans, as well as members of the Company's defined contribution pension plan 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 from the Postmedia Plans, the CAAT Pension Plan will assume defined benefit obligations 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 the Company will recognize a gain or loss on settlement.

10. LOSS PER SHARE

The following table provides a reconciliation of the denominators, which are presented in whole numbers, used in computing basic and diluted loss per share for the three months ended November 30, 2019 and 2018. No reconciling items in the computation of net loss exist.

	2019	2018
Basic weighted average shares outstanding during the period	93,740,299	93,717,199
Dilutive effect of options and restricted share units	-	-
Diluted weighted average shares outstanding during the period	93,740,299	93,717,199
Options and restricted share units outstanding which are anti-dilutive [1]	-	-

(1) All outstanding options and restricted share units are anti-dilutive due to a net loss in the three months ended November 30, 2019 and 2018.

11. SHARE-BASED COMPENSATION PLANS

Share option plan

The Company has a share option plan (the "Option Plan") for its employees and officers to assist in attracting, retaining and motivating officers and employees. The Option Plan is administered by the Board.

During the three months ended November 30, 2019, the Company granted a nominal amount of options. The fair value of the underlying options was estimated using the Black-Scholes option pricing model. The weighted average fair value of the issued options and key assumptions used in applying the Black-Scholes option pricing model were as follows:

		2019
Fair value	$	1.06
Key assumptions		
Exercise Price	$	1.77
Risk-free interest rate [(1)]		1.51%
Dividend yield		-
Volatility factor [(2)]		72.34%
Expected life of options [(3)]		5 years

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

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

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

The following table provides details on the changes to the issued options, which are presented in whole numbers, for the three months ended November 30, 2019:

	Options	Weighted average exercise price	
August 31, 2019	2,547,500	$	1.01
Issued	29,223	$	1.77
November 30, 2019	2,576,723	$	1.02

During the three months ended November 30, 2019, the Company recorded compensation expense relating to the Option Plan of $0.1 million, with an offsetting credit to contributed surplus (2018 - $0.2 million). The total unrecognized compensation expense is $0.3 million, which is expected to be recognized over the next five years.

Restricted share unit plan

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

During the three months ended November 30, 2019, the Company granted a nominal amount of RSUs. The fair value of the RSUs granted was estimated by using a grant date fair value per share of $1.77. The fair value of $1.77 per share was based on the volume-weighted average trading price of the Class NC variable voting shares for the five trading days immediately preceding the issuance. As at November 30, 2019 and August 31, 2019, the Company has 2.6 million RSUs and a tandem award that provides a choice to either exercise 1.2 million stock options or 1.2 million RSUs outstanding. During the three months ended November 30, 2019, the Company recorded compensation expense related to the RSU Plan of $0.1 million with an offsetting credit to contributed surplus (2018 – $0.2 million). The total unrecognized compensation expense is $0.4 million, which is expected to be recognized over the next five years.

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial instruments measured at fair value

The financial instruments measured at fair value in the condensed consolidated statement of financial position, categorized by level according to the fair value hierarchy that reflects the significance of the inputs used in making the measurements, as at November 30, 2019 are as follows:

	As at November 30, 2019	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets				
Warrants [1]	1,310	-	1,310	-

(1) On January 25, 2016, the Company entered into a marketing collaboration agreement ("Marketing Agreement") with Mogo Finance Technology Inc. ("Mogo"). The Marketing Agreement provides the Company with revenue sharing and equity participation through warrants in Mogo in exchange for media promotional commitments over three years. As part of the Marketing Agreement, the Company paid $1.2 million for 1,196,120 five year warrants that entitled the Company to purchase common shares of Mogo at an exercise price of $2.96. Fifty percent of the warrants vest in equal instalments over three years and the remaining warrants vest in three equal instalments based on Mogo achieving certain quarterly revenue targets. In May 2018, the Company and Mogo revised the Marketing Agreement to extend it for an additional two years and amended the vesting terms of the warrants that were previously based on Mogo achieving certain quarterly revenue targets to vest in equal instalments over years four and five. During the three months ended November 30, 2019, the Company recognized a loss of $0.5 million related to the warrants which is included in loss on derivative financial instruments in the condensed consolidated statements of operations (2018 – $0.6 million).

The fair value of the warrants is determined by the Black-Scholes option pricing model using Level 2 market inputs, including exercise price, risk-free interest rate, life, dividend yield and volatility.

The Company's policy is to recognize transfers in and out of the fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the three months ended November 30, 2019 and 2018 there were no transfers within the fair value hierarchy.

Financial instruments measured at amortized cost

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

The carrying value and fair value of long-term debt as at November 30, 2019 and August 31, 2019 are as follows:

	As at November 30, 2019		As at August 31, 2019	
	Carrying value	Fair value	Carrying value	Fair value
Other financial liabilities				
Long-term debt	253,795	269,124	255,011	261,926

The fair value of long-term debt is estimated based on quoted market prices (Level 1 inputs).

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial obligations associated with existing and future financial liabilities that are and will be settled by delivering cash or another financial asset as they come due. The Company's financial obligations include long-term debt which requires principal repayments and interest payments (note 8). Economic and structural factors related to the industry impact the Company's ability to generate sufficient operating cash flows to satisfy its existing and future financial liabilities, however, the Company manages this risk by monitoring cash flow forecasts, implementing cost reduction initiatives, deferring or eliminating discretionary spending, monitoring and maintaining compliance with the terms of the note indentures, identifying and selling redundant assets including certain real estate assets and utilizing the ABL Facility to provide additional liquidity during seasonal fluctuations of the business. During the three months ended November 30, 2019, the Company completed a Refinancing Transaction which extended the maturities of long-term debt (note 8).

Foreign currency risk

As at November 30, 2019, approximately 63% of the outstanding principal on the Company's long-term debt is payable in US dollars (August 31, 2019 – 63%). As at November 30, 2019 and August 31, 2019, the Company is exposed to foreign currency risk on the US$120.7 million of Second-Lien Notes outstanding.

13. STATEMENT OF CASH FLOWS

The following amounts compose the net change in non-cash operating accounts included in cash flows from (used in) operating activities in the condensed consolidated statement of cash flows for the three months ended November 30, 2019 and 2018:

	2019	2018
Trade and other receivables	(16,741)	(17,507)
Inventory	(28)	520
Prepaid expenses and other assets	(749)	258
Accounts payable, accrued liabilities and provisions	10,526	(4,344)
Deferred revenue	(722)	(525)
Other liabilities and provisions	-	357
Changes in non-cash operating accounts	(7,714)	(21,241)

14. RELATED PARTY TRANSACTIONS

As at November 30, 2019, Chatham owns 62,313,749, or 66%, of the Company's shares. The Company has a consulting agreement with Chatham and during the three months ended November 30, 2019 incurred an expense of $0.1 million (2018 - $0.2 million), which is included in other operating expenses in the condensed consolidated statement of operations. In addition, the Company has an ABL Facility with associated companies of Chatham and as at November 30, 2019, the Company has no amount drawn and availability of $15.0 million (August 31, 2019 – nil and $15.0 million, respectively) and during the three months ended November 30, 2019 and 2018 incurred and paid a nominal amount of interest.

HEAD OFFICE

12th Floor – 365 Bloor Street East
Toronto, ON Canada, M4W 3L4
416.383.2300

INVESTOR RELATIONS

BRIAN BIDULKA
EVP and Chief Financial Officer
corporateinquiries@postmedia.com

GENERAL INQUIRIES

PHYLLISE GELFAND
Vice President, Communications
inquiries@postmedia.com

POSTMEDIA.COM

@PostmediaNet

POSTMEDIA