



THIRD QUARTER 2019





Third Quarter – Fiscal 2019

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

FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2019 AND 2018

Approved for issuance: July 10, 2019

JULY 10, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis of financial condition and results of operations of Postmedia Network Canada Corp. as well as its subsidiary, Postmedia Network Inc. (collectively, "we", "our", "us", or "Postmedia") should be read in conjunction with the interim condensed consolidated financial statements and related notes of Postmedia for the three and nine months ended May 31, 2019 and 2018 and the annual audited consolidated financial statements and related notes for the years ended August 31, 2018 and 2017. The interim condensed consolidated financial statements of Postmedia for the three and nine months ended May 31, 2019 and 2018 and the annual audited consolidated financial statements for the years ended August 31, 2018 and 2017 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, 2018 and 2017. In addition, we are subject to the risk that the pension merger described in "Recent Developments" will not be completed on the terms described or at all and the anticipated benefits may not be achieved. Risks and uncertainties may cause actual results to differ materially from those contained in such forward-looking statements. Such statements reflect management's current views and are based on certain assumptions. They are only estimates of future developments, and actual developments may differ materially from these statements due to a number of factors. Investors are cautioned not to place undue reliance on such forward-looking statements. No forward-looking statement is a guarantee of future results. We have tried, where possible, to identify such statements by using words such as "believe", "expect", "estimate", "anticipate", "will", "could" and similar expressions in connection with any discussion of future operating or financial performance. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements or information, whether written or oral, that may be as a result of new information, future events or otherwise.

All amounts are expressed in Canadian dollars unless otherwise noted. The interim condensed consolidated financial statements of Postmedia for the three and nine months ended May 31, 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 July 10, 2019 and does not reflect changes or information subsequent to this date. Additional information in respect of Postmedia is available on SEDAR at www.sedar.com.

Additional IFRS Measure

We use operating income before depreciation, amortization, impairment and restructuring, as presented in the interim condensed consolidated statement of operations for the three and nine months ended May 31, 2019 and 2018, to assist in assessing our financial performance. Management and the Board of Directors of Postmedia use this measure to evaluate consolidated operating results and to assess Postmedia's ability to incur and service debt. In addition, this measure is used to make operating decisions as it is an indicator of performance including how much cash is being generated by Postmedia and assists in determining the need for additional cost reductions as well as the evaluation of personnel and resource allocation decisions. Operating income before depreciation, amortization, impairment and restructuring is referred to as an additional IFRS measure and may not be comparable to similarly titled measures presented by other companies.

Overview and Background

Our business consists of news and information gathering and dissemination operations, with products offered in local, regional and major metropolitan markets in Canada through a variety of print, web, tablet and smartphone platforms. The combination of these distribution platforms provides audiences with a variety of media through which to access and interact with our content. The breadth of our reach and the diversity of our content enable advertisers to reach their target audiences on a local, regional or national scale through the convenience of a single provider. We have the highest weekly print readership of newspapers in Canada, based on Vividata Spring 2019 survey data and represent more than 140 brands across multiple print, online, and mobile platforms.

For financial reporting purposes we have one operating segment, the Newsmedia segment, which publishes daily and non-daily newspapers and operates digital media and online assets including the *canada.com* and *canoe.com* websites and each newspaper's online website. The Newsmedia segment's revenue is primarily from print and digital advertising and circulation/subscription revenue.

Recent Developments

On June 21, 2019 the federal budget was approved which contained measures specific to our industry including: a journalism tax credit whereby qualifying news organizations may apply for a refundable labour tax credit applied to the salaries of journalists; adding journalism organizations as qualified donees under the Income Tax Act; and offering a digital subscription tax credit to individuals. A panel tasked with determining the criteria for a qualifying news organization (and other clarifications) has been created and we are continuing to monitor our eligibility. Based on our current staffing levels we expect the per annum journalism tax credit to be between \$8 million and \$10 million and anticipate being able to recognize the benefit for the period January 1, 2019 to August 31, 2019 in our fourth quarter.

During the three and nine months ended May 31, 2019 we redeemed \$10.5 million and \$39.6 million, respectively, aggregate principal amount of 8.25% Senior Secured Notes due 2021 ("First-Lien Notes"), which includes a redemption of \$8.7 million as a result of the excess cash flow offer related to the six months ended August 31, 2018, \$25.9 million related to the net proceeds from the sale of assets described below, and \$5.0 million as a result of the excess cash flow related to the six months ended February 28, 2019. During the nine months ended May 31, 2019, we sold property and equipment for net proceeds of \$20.7 million, which included the net proceeds of \$20.3 million from the sale of the Ottawa Citizen facility and realized a gain on sale of \$11.4 million. On February 15, 2019, \$5.7 million of cash held in escrow to satisfy potential claims arising under an asset purchase agreement with Meltwater News Canada Inc. related to the sale of Infomart, our media monitoring division during the year ended August 31, 2017 (the "Infomart Transaction") was released as no claims were made.

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

On January 29, 2019, we entered into an agreement with the Colleges of Applied Arts & Technology Pension Plan (the "CAAT Pension Plan") to merge our defined benefit pension plans (the "Postmedia Plans"), with the CAAT Pension Plan. Subsequent to May 31, 2019, we received approval from Postmedia Plan members and effective July 1, 2019, we 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 Chief Executive Officer of the Financial Services Regulatory Authority of Ontario ("FSRA"). Subject to the consent of FSRA to the transfer of assets, the CAAT Pension Plan will assume defined benefit obligations of the Postmedia Plans accrued prior to July 1, 2019. Once this transfer is completed, an additional cash funding obligation of \$10.1 million related to the transferred Postmedia Plans deficits will be payable to the CAAT Pension Plan over a term of ten years and we will recognize a gain or loss on settlement.

We continue to identify and undertake cost reduction initiatives in an effort to address revenue declination in the legacy print business. During the year ended August 31, 2018, we began cost reduction initiatives, including the closure of nine community newspapers, with the objective of reducing compensation expense by approximately 10% by the end of fiscal 2018 through a combination of voluntary buyouts and involuntary terminations. Cost savings from this program were identified and substantially completed as at August 31, 2018. During the three months ended May 31, 2019 we continued these initiatives and implemented cost reductions which are expected to result in approximately \$2 million of net annualized cost savings. In total, we implemented net annualized cost savings of approximately \$59 million since these cost reduction initiatives commenced.

On December 15, 2018, we entered into an agreement to extend the term of the senior secured asset-based revolving credit facility ("ABL Facility") to January 18, 2021 with Chatham Asset Management LLC ("Chatham LLC") and certain investment funds or accounts for which Chatham LLC or its affiliates acts as an investment advisor, sub-advisor or manager (collectively, "Chatham"), for an aggregate availability of up to \$15.0 million, which may be increased by up to \$10.0 million at our request and with the consent of the lender. We originally entered into the ABL Facility on January 18, 2017 for a term of two years for an aggregate availability of up to \$15.0 million, which was increased by \$10.0 million on October 19, 2017 to \$25.0 million. As at May 31, 2019, we have no amounts outstanding on the ABL Facility.

In February 2018, we received certification from the Ontario Digital Media Corporation that digital media tax credits totaling a net cash claim of \$19.9 million for the period of September 1, 2012 to April 23, 2015 were eligible to be claimed. We refiled the applicable tax returns to reflect such claim and during the year ended August 31, 2018, we received \$20.4 million including accrued interest of \$0.5 million, related to this claim. The claim primarily related to the recovery of previously recognized compensation expenses and as a result during the three and nine months ended May 31, 2018, we recorded the digital media tax credit as a recovery of compensation expense of \$2.9 million and \$19.9 million, respectively, due to the estimation uncertainty associated with the claims process.

On November 27, 2017, we entered into an asset purchase agreement with Metroland Media Group Ltd. and Free Daily News Group Inc., both subsidiaries of Torstar Corporation, (collectively, "Torstar") to acquire 22 of Torstar's community newspapers and two free daily commuter newspapers. In consideration, we sold 15 of our community newspapers and two free daily commuter newspapers to Torstar (the "Torstar Transaction"). We are continuing to operate one of the community newspapers acquired and closed the remaining properties between November 2017 and January 2018 as they are located in areas serviced by multiple publications. The Torstar Transaction is a non-monetary transaction as there was no cash exchanged. We accounted for the non-monetary transaction as a business combination with the fair value of the properties transferred representing the acquisition consideration. The estimated fair value of both our properties and Torstar's properties is \$3.5 million and the difference of \$4.7 million between the acquisition consideration and the carrying value of the net liabilities transferred was recognized as a gain on disposal of operations in the nine months ended May 31, 2018. During the nine months ended May 31, 2018, we incurred severance costs of \$3.5 million, provisions for onerous leases and contracts of \$0.8 million and \$0.9 million, respectively, and acquisition costs of \$0.5 million related to the Torstar Transaction all of which are included in restructuring and other items in the consolidated statement of operations. The Competition Bureau is currently reviewing the Torstar Transaction under the provisions of the *Competition Act* (Canada) and we are cooperating with the Competition Bureau in connection with its investigation.

Key Factors Affecting Operating Results

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

Print advertising revenue was \$64.8 million and \$201.9 million for the three and nine months ended May 31, 2019, representing 41.2% and 42.6% of total revenue for such periods, respectively. Our major advertising categories consist of local, national, and inserts. These categories composed 49.2%, 17.1% and 31.9%, respectively, of total print advertising for the three months ended May 31, 2019, and 47.3%, 18.7% and 32.5%, respectively, of total print advertising for the nine months ended May 31, 2019.

Print advertising is influenced by both the overall strength of the economy and significant structural changes in the newspaper industry and media in general. The continuing shift in advertising dollars from print advertising to advertising in other formats, particularly online and other digital platforms including search and social media websites, combined with periods of economic uncertainty have resulted in significant declines in print advertising. We anticipate the print advertising market to remain challenging and expect current trends to continue throughout the remainder of fiscal 2019. During the three and nine months ended May 31, 2019, we experienced print advertising revenue decreases of \$13.8 million, or 17.6% and \$37.8 million, or 15.8%, respectively, as compared to the same periods in the prior year. These decreases in print advertising revenue in the three and nine months ended May 31, 2019 relates to weakness across all our major advertising categories including local, national and insert advertising.

Print circulation revenue was \$51.4 million and \$155.5 million for the three and nine months ended May 31, 2019, representing 32.7% and 32.8% of total revenue for such periods, respectively. Circulation revenues decreased \$3.4 million, or 6.3%, and \$10.9 million, or 6.5%, in the three and nine months ended May 31, 2019, respectively, as compared to the same periods in the prior year. These decreases are the result of price increases being offset by declines in circulation volumes that have been experienced over the last few years and this trend continued in the three and nine months ended May 31, 2019. We expect these print circulation revenue trends to continue throughout the remainder of fiscal 2019.

Digital revenue was \$32.9 million and \$93.8 million for the three and nine months ended May 31, 2019, respectively, representing 20.9% and 19.8%, respectively, of total revenue for such periods. Digital revenues increased \$3.0 million, or 10.1%, and \$6.3 million, or 7.2%, in the three and nine months ended May 31, 2019, respectively, as compared to the same periods in the prior year as a result of increases in owned and operated digital advertising and digital marketing services. We expect these digital revenue trends to continue throughout the remainder of fiscal 2019 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 40.1%, 6.2%, 20.5% and 13.5%, respectively, of total operating expenses excluding depreciation, amortization, impairment and restructuring for the three months ended May 31, 2019 and 39.8%, 6.3%, 20.8% and 13.5%, respectively, of total operating expenses excluding depreciation, amortization, impairment and restructuring for the nine months ended May 31, 2019. We experienced decreases in compensation, newsprint, distribution and production expenses of \$4.3 million, \$0.7 million, \$2.3 million and \$2.0 million, respectively, in the three months ended May 31, 2019 as compared to the same period in the prior year. We experienced decreases in compensation, newsprint, distribution and production expenses of \$4.7 million, \$2.0 million, \$8.9 million and \$3.6 million, respectively, in the nine months ended May 31, 2019 as compared to the same period in the prior year. The decrease in compensation expense for the three and nine months ended May 31, 2019, is the result of cost reduction initiatives, partially offset by the recovery of \$2.9 million and \$19.9 million in the three and nine months ended May 31, 2018, respectively, related to the digital media tax credit described earlier in "Recent Developments". The decreases in newsprint, distribution and production expenses for the three and nine months ended May 31, 2019 are as a result of cost reduction initiatives and decreases in newspaper circulation volumes.

As a result of the continuing trends in advertising revenue, we continue to pursue additional cost reduction initiatives as described earlier in "Recent Developments". During the three months ended May 31, 2019 we implemented cost reduction initiatives which are expected to result in approximately \$2 million of net annualized cost savings. In total, we implemented net annualized cost savings of approximately \$59 million under these cost reduction initiatives.

Our operating results are affected by variations in the cost and availability of newsprint. Newsprint is the principal raw material used in the production of our newspapers and other print publications. It is a commodity that is generally subject to price volatility. We take advantage of the purchasing power that comes with the large volume of newsprint we purchase, as well as our proximity to paper mills across Canada, to minimize our total newsprint expense. Changes in newsprint prices can significantly affect our operating results. A \$50 per tonne increase or decrease in the price of newsprint would be expected to affect our newsprint expense by approximately \$2.5 million on an annualized basis. We experienced a slight increase in the first quarter followed by a slight decrease in the second quarter of fiscal 2019 related to newsprint prices, and expect a slight decrease in newsprint prices in the fourth quarter of fiscal 2019.

Our distribution is primarily outsourced to third party suppliers. The key drivers of our distribution expenses are fuel costs and circulation and insert volumes. Our distribution expenses have decreased during the three and nine months ended May 31, 2019 as compared to the same period in the prior year primarily related to cost savings as a 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 2019.

Our production expenses include the costs related to outsourced production of our newspapers, digital advertising production costs and ink and other production supplies. Our production expenses have decreased during the three and nine months ended May 31, 2019 as a result of a reduction in newspaper circulation volumes and cost reduction initiatives partially offset by increases in digital advertising production costs. We expect digital advertising production costs to continue to increase throughout the remainder of fiscal 2019.

Other Factors

Seasonality

Revenue has experienced, and is expected to continue to experience, seasonality due to seasonal advertising patterns and seasonal influences on media consumption habits. Historically, our advertising revenue and accounts receivable is typically highest in the first and third fiscal quarters, while expenses are relatively constant throughout the fiscal year.

Critical accounting estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Although these estimates, assumptions and judgements are based upon management's knowledge of the amount, event or actions; actual results could differ from those estimates, assumptions and judgements. The critical accounting estimates used in our interim condensed consolidated financial statements for the three and nine months ended May 31, 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, 2018 and 2017 except for the estimates of fair value less costs of disposal as described in "Recent Developments".

Changes in accounting policies

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

IFRS 9 – Financial Instruments

The standard was issued in July 2014 and addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 – Financial Instruments – Recognition and Measurement. We adopted the standard on a modified retrospective basis and accordingly have not restated comparative information for financial instruments within the scope of IFRS 9. Therefore the comparative information is reported under IAS 39 and is not comparable to the information presented in accordance with IFRS 9. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings on September 1, 2018.

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

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

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

Debt instruments at amortized cost

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

Financial assets at FVTPL

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

Other financial liabilities

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

Impairment

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

IFRS 15 – Revenue from Contracts with Customers

The standard was issued in May 2014 and is a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. The standard replaces IAS 11 - Construction Contracts and IAS 18 - Revenue, as well as various IFRIC and SIC interpretations regarding revenue. We adopted the standard in accordance with the modified retrospective transitional approach. There were no transitional adjustments or significant changes to our revenue recognition policies required on adoption of this standard. Our contracts with customers are generally for a term of one year or less and as a result the incremental costs of obtaining a contract are expensed when incurred in accordance with the practical expedient of the standard.

Operating Results

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

	2019	2018
Revenues		
Print advertising.....	64,756	78,580
Print circulation.....	51,384	54,816
Digital.....	32,902	29,890
Other.....	8,016	7,763
Total revenues	157,058	171,049
Expenses		
Compensation	59,181	63,525
Newsprint.....	9,132	9,880
Distribution.....	30,195	32,540
Production.....	19,940	21,895
Other operating.....	28,995	27,757
Operating income before depreciation, amortization, impairment and restructuring	9,615	15,452
Depreciation.....	3,853	5,490
Amortization.....	3,119	4,259
Impairment.....	-	9,400
Restructuring and other items.....	482	2,961
Operating income (loss)	2,161	(6,658)
Interest expense.....	6,608	6,343
Net financing expense relating to employee benefit plans.....	541	735
(Gain) loss on disposal of property and equipment.....	(1)	46
(Gain) loss on derivative financial instruments.....	(1,436)	331
Foreign currency exchange losses.....	4,130	1,426
Loss before income taxes	(7,681)	(15,539)
Provision for income taxes.....	-	-
Net loss from continuing operations	(7,681)	(15,539)
Net earnings from discontinued operations, net of tax of nil.....	-	-
Net loss attributable to equity holders of the Company	(7,681)	(15,539)

Revenue

Print advertising

Print advertising revenue decreased \$13.8 million, or 17.6%, to \$64.8 million for the three months ended May 31, 2019 as compared to the same period in prior year, and declines were experienced across all of our major categories including decreases from local advertising of 16.5%, national advertising of 22.5%, and insert advertising of 14.8%. The decreases were due to declines in both volume and rate with the total print advertising lineage and average line rate decreasing 14.7% and 4.1%, respectively, during the three months ended May 31, 2019, as compared to the same period in the prior year.

Print circulation

Print circulation revenue decreased \$3.4 million, or 6.3%, to \$51.4 million for the three months ended May 31, 2019 as compared to the same period in the prior year as a result of decreases in circulation volumes partially offset by price increases.

Digital

Digital revenue increased \$3.0 million, or 10.1%, to \$32.9 million for the three months ended May 31, 2019, as compared to the same period in the prior year as a result of increases in owned and operated digital advertising, both programmatic and direct, and digital marketing services, partially offset by decreases in off network programmatic digital advertising.

Other

Other revenue increased by \$0.3 million, or 3.3%, to \$8.0 million for the three months ended May 31, 2019, as compared to the same period in the prior year as a result of an increase in commercial printing, partially offset by a decrease in rental revenue.

Expenses

Compensation

Compensation expenses decreased \$4.3 million, or 6.8%, to \$59.2 million for the three months ended May 31, 2019, as compared to the same period in the prior year. The decrease in compensation expenses is due to declines in salary and benefits expense of \$2.8 million due to cost reduction initiatives, which includes the impact of the recovery of \$2.9 million relating to the digital media tax credit recognized in the prior year as described earlier in "Recent Developments", a decrease in short-term incentive plan expense of \$1.3 million. Excluding the recovery related to the digital media tax credit, compensation expenses decreased \$7.2 million, or 10.9%, as compared to the same period in the prior year.

Newsprint

Newsprint expenses decreased \$0.7 million, or 7.6%, to \$9.1million for the three months ended May 31, 2019 as compared to the same period in the prior year primarily as a result of consumption decreases of 16.6% due to lower newspaper circulation volumes as well as continued usage reduction efforts, partially offset by increases in newsprint prices. Newsprint expenses include newsprint purchased for production at both our owned and outsourced production facilities.

Distribution

Distribution expenses decreased \$2.3 million, or 7.2%, to \$30.2 million for the three months ended May 31, 2019, as compared to the same period in the prior year primarily related to cost savings as a result of the reduction in newspaper circulation volumes and cost reduction initiatives.

Production

Production expenses decreased \$2.0 million, or 8.9%, to \$19.9 million for the three months ended May 31, 2019, as compared to the same period in the prior year. The decrease in production expenses is related to cost savings as a result of the reduction in newspaper circulation volumes and ongoing cost reduction initiatives, partially offset by increases in digital advertising production costs.

Other operating

Other operating expenses increased \$1.2 million, or 4.5%, to \$29.0 million for the three months ended May 31, 2019, as compared to the same period in the prior year. The increase in other operating expenses is primarily related to an increase in occupancy costs, partially offset by ongoing cost reduction initiatives.

Operating income before depreciation, amortization, impairment and restructuring

Operating income before depreciation, amortization, impairment and restructuring decreased \$5.8 million to \$9.6 million for the three months ended May 31, 2019, as compared to the same period in the prior year. The decrease in operating income before depreciation, amortization, impairment and restructuring was as a result of decreases in revenue and an increase in other operating expense, partially offset by decreases in compensation, newsprint, distribution and production expenses, all as discussed above. Excluding the impact for the recovery of compensation expense related to the digital media tax credit recognized in the prior year as described earlier in “Recent Developments”, operating income before depreciation, amortization, impairment and restructuring of \$9.6 million represents a decrease of \$3.0 million or 23.6% relative to the same period in the prior year.

Depreciation

Depreciation expense decreased \$1.6 million to \$3.9 million for the three months ended May 31, 2019 as compared to the same period in the prior year. The decrease relates to the disposal of properties.

Amortization

Amortization expense decreased \$1.1 million to \$3.1 million for the three months ended May 31, 2019 as compared to the same period in the prior year. The decrease primarily relates to intangible assets acquired in the Torstar Transaction described earlier in “Recent Developments” that were fully amortized as at November 30, 2018.

Impairment

During the three months ended May 31, 2019, no impairment charges were recorded. During the three months ended May 31, 2018, we determined that certain properties carrying amounts will be recovered principally through a sales transaction and recognized an impairment charge of \$9.4 million to reduce the carrying amount to the estimated fair value less costs of disposal.

Restructuring and other items

Restructuring and other items expense decreased \$2.5 million to \$0.5 million for the three months ended May 31, 2019 as compared to the same period in the prior year. Restructuring and other items expense for the three months ended May 31, 2019 and 2018 consists of severance costs of \$0.5 million and \$3.0 million, respectively, which include both involuntary terminations and voluntary buyouts.

Operating income (loss)

Operating income in the three months ended May 31, 2019 was \$2.2 million as compared to operating loss of \$6.7 million during the same period in the prior year. Operating income is the result of an impairment charge recognized during the three months ended May 31, 2018 and decreases in depreciation, amortization and restructuring and other items expenses, partially offset by a decrease in operating income before depreciation, amortization, impairment and restructuring, all as discussed above.

Interest expense

Interest expense increased \$0.3 million to \$6.6 million for the three months ended May 31, 2019, as compared to the same period in the prior year. Interest expense primarily relates to interest on our long-term debt that is recognized using the effective interest rate method, which amortizes the initial debt issuance costs and includes both cash and non-cash interest. The increase in interest expense relates to an increase in non-cash interest of \$0.8 million, partially offset by a decrease in cash interest of \$0.5 million. The increase in non-cash interest is as a result of an increase in paid-in-kind interest on the 10.25% Second Lien Secured Notes due 2023 (“Second-Lien Notes”) and an increase in the effective interest rate as described earlier in “Other Factors – Changes in accounting policies”. The decrease in cash interest expense is as a result of redemptions of First-Lien Notes as described earlier in “Recent Developments”.

Net financing expense relating to employee benefit plans

Net financing expense relating to employee benefit plans decreased \$0.2 million to \$0.5 million for the three months ended May 31, 2019, as compared to the same period in the prior year.

(Gain) loss on disposal of property and equipment

During the three months ended May 31, 2019 and 2018, we disposed of property and equipment and realized gains and losses, respectively, of a nominal amount.

(Gain) loss on derivative financial instruments

Gain on derivative financial instruments for the three months ended May 31, 2019 was \$1.4 million as compared to a loss of \$0.3 million for the same period in the prior year. The gain and loss in the three months ended May 31, 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 May 31, 2019 and 2018 were \$4.1 million and \$1.4 million, respectively. Foreign currency exchange losses in the three months ended May 31, 2019 and 2018 primarily relate to changes in the carrying value of our Second-Lien Notes of \$4.1 million and \$1.4 million, respectively.

Loss before income taxes

Loss before income taxes was \$7.7 million for the three months ended May 31, 2019, as compared to \$15.5 million for the same period in the prior year. The decrease in loss before income taxes is primarily the result of operating income and a gain on derivative financial instruments in the three months ended May 31, 2019, partially offset by an increase in foreign currency exchange losses, 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 May 31, 2019 or 2018. Current taxes payable or recoverable result in a decrease or increase, respectively, to our tax loss carryforward balances. The cumulative tax loss carryforward balances have not been recognized as a net deferred tax asset on the consolidated statement of financial position.

Net loss from continuing operations

Net loss from continuing operations was \$7.7 million for the three months ended May 31, 2019, as compared to \$15.5 million for the same period in the prior year. The decrease in net loss from continuing operations is as a result of the factors described above in loss before income taxes and provision for income taxes.

Net loss attributable to equity holders of the Company

Net loss for the three months ended May 31, 2019 was \$7.7 million as compared to \$15.5 million for the same period in the prior year. The decrease in net loss is as a result of the factors described above in net loss from continuing operations.

Operating Results

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

	2019	2018
Revenues		
Print advertising.....	201,943	239,776
Print circulation.....	155,540	166,441
Digital.....	93,834	87,551
Other.....	22,713	23,848
Total revenues	474,030	517,616
Expenses		
Compensation	174,513	179,236
Newsprint.....	27,754	29,738
Distribution.....	91,070	99,925
Production.....	59,294	62,895
Other operating.....	85,406	85,346
Operating income before depreciation, amortization, impairment and restructuring	35,993	60,476
Depreciation.....	13,140	16,016
Amortization.....	10,640	11,926
Impairment.....	6,600	9,400
Restructuring and other items.....	4,255	13,455
Operating income	1,358	9,679
Interest expense.....	20,827	20,696
Gain on disposal of operations.....	-	(4,676)
Net financing expense relating to employee benefit plans.....	1,622	2,206
Gain on disposal of property and equipment and assets held-for-sale.....	(11,446)	(1,496)
Gain on derivative financial instruments.....	(10)	(204)
Foreign currency exchange losses	5,335	4,171
Loss before income taxes	(14,970)	(11,018)
Provision for income taxes.....	-	-
Net loss from continuing operations	(14,970)	(11,018)
Net earnings from discontinued operations, net of tax of nil.....	791	-
Net loss attributable to equity holders of the Company	(14,179)	(11,018)

Revenue

Print advertising

Print advertising revenue decreased \$37.8 million, or 15.8%, to \$201.9 million for the nine months ended May 31, 2019 as compared to the same period in prior year, and declines were experienced across all of our major categories including decreases from local advertising of 18.1%, national advertising of 23.4%, and insert advertising of 5.4%. The decreases were due to declines in both volume and rate with the total print advertising linage and average line rate decreasing 17.3% and 2.9%, respectively, during the nine months ended May 31, 2019, as compared to the same period in the prior year.

Print circulation

Print circulation revenue decreased \$10.9 million, or 6.5%, to \$155.5 million for the nine months ended May 31, 2019 as compared to the same period in the prior year as a result of decreases in circulation volumes partially offset by price increases.

Digital

Digital revenue increased \$6.3 million, or 7.2%, to \$93.8 million for the nine months ended May 31, 2019, as compared to the same period in the prior year as a result of increases in owned and operated digital advertising, both programmatic and direct, and digital marketing services, partially offset by decreases in off network programmatic digital advertising.

Other

Other revenue decreased by \$1.1 million, or 4.8%, to \$22.7 million for the nine months ended May 31, 2019, as compared to the same period in the prior year as a result of an increase in commercial printing, partially offset by a decrease in rental revenue.

Expenses

Compensation

Compensation expenses decreased \$4.7 million, or 2.6%, to \$174.5 million for the nine months ended May 31, 2019, as compared to the same period in the prior year. The decrease in compensation expenses is due to declines in salary and benefits expense of \$1.7 million due to the cost reduction initiatives, which includes the impact of the recovery of \$19.9 million relating to the digital media tax credit recognized in the prior year as described earlier in "Recent Developments", a decrease in share-based compensation expense of \$1.9 million as a result of awards granted in the year ended August 31, 2018, a decrease in temporary labour expense of \$0.8 million and a decrease in employee benefit plan expense of \$0.7 million. Excluding the recovery related to the digital media tax credit, compensation expenses decreased \$24.6 million, or 12.3%, as compared to the same period in the prior year

Newsprint

Newsprint expenses decreased \$2.0 million, or 6.7%, to \$27.8 million for the nine months ended May 31, 2019 as compared to the same period in the prior year primarily as a result of consumption decreases of 17.6% due to lower newspaper circulation volumes as well as continued usage reduction efforts, partially offset by increases in newsprint prices. Newsprint expenses include newsprint purchased for production at both our owned and outsourced production facilities.

Distribution

Distribution expenses decreased \$8.9 million, or 8.9%, to \$91.1 million for the nine months ended May 31, 2019, as compared to the same period in the prior year primarily related to cost savings as a result of the reduction in newspaper circulation volumes and cost reduction initiatives.

Production

Production expenses decreased \$3.6 million, or 5.7%, to \$59.3 million for the nine months ended May 31, 2019, as compared to the same period in the prior year. The decrease in production expenses is related to the reduction in newspaper circulation volumes and ongoing cost reduction initiatives, partially offset by increases in digital advertising production costs.

Other operating

Other operating expenses increased \$0.1 million, or 0.1%, to \$85.4 million for the nine months ended May 31, 2019, as compared to the same period in the prior year. The increase in other operating expenses is primarily related to an increase in occupancy costs partially offset by ongoing cost reduction initiatives.

Operating income before depreciation, amortization, impairment and restructuring

Operating income before depreciation, amortization, impairment and restructuring decreased \$24.5 million to \$36.0 million for the nine months ended May 31, 2019, as compared to the same period in the prior year. The decrease in operating income before depreciation, amortization, impairment and restructuring was as a result of decreases in revenue, partially offset by decreases in compensation expense, newsprint, distribution, production and other operating expenses, all as discussed above. Excluding the impact for the recovery of compensation expense related to the digital media tax credit recognized in the prior year as described earlier in “Recent Developments”, operating income before depreciation, amortization, impairment and restructuring of \$36.0 million represents a decrease of \$4.6 million or 11.4% relative to the same period in the prior year.

Depreciation

Depreciation expense decreased \$2.9 million to \$13.1 million for the nine months ended May 31, 2019 as compared to the same period in the prior year. The decrease relates to the disposal of property.

Amortization

Amortization expense decreased \$1.3 million to \$10.6 million for the nine months ended May 31, 2019 as compared to the same period in the prior year. The decrease primarily relates to intangible assets acquired in the Torstar Transaction described earlier in “Recent Developments” that were fully amortized as at November 30, 2018.

Impairment

During the nine months ended May 31, 2019, the estimated fair value less costs of disposal of properties classified as held-for-sale as described earlier in “Recent Developments” were reduced based on the expected net proceeds resulting in an impairment charge of \$6.6 million. During the nine months ended May 31, 2018, we determined that certain properties carrying amounts will be recovered principally through a sales transaction and recognized an impairment charge of \$9.4 million to reduce the carrying amount to the estimated fair value less costs of disposal.

Restructuring and other items

Restructuring and other items expense decreased \$9.2 million to \$4.3 million for the nine months ended May 31, 2019 as compared to the same period in the prior year. Restructuring and other items expense for the nine months ended May 31, 2019 consists of severance costs of \$4.3 million, which include both involuntary terminations and voluntary buyouts. Restructuring and other items expense for the nine months ended May 31, 2018 consisted of severance costs of \$11.3 million, which included both involuntary terminations and voluntary buyouts, provisions for onerous leases related to unoccupied property and onerous contracts of \$0.8 million and \$0.9 million, respectively, and \$0.5 million of acquisition costs related to the Torstar Transaction as described earlier in “Recent Developments”.

Operating income

Operating income in the nine months ended May 31, 2019 was \$1.4 million as compared to \$9.7 million during the same period in the prior year. Operating income decreased as a result of a decrease in operating income before depreciation, amortization, impairment and restructuring, partially offset by decreases in depreciation, amortization, impairment and restructuring and other items expense.

Interest expense

Interest expense increased \$0.1 million to \$20.8 million for the nine months ended May 31, 2019, as compared to the same period in the prior year. Interest expense primarily relates to interest on our long-term debt that is recognized using the effective interest rate method, which amortizes the initial debt issuance costs and includes both cash and non-cash interest. The increase in interest expense relates to an increase in non-cash interest of \$2.4 million, partially offset by a decrease in cash interest of \$2.3 million. The decrease in non-cash interest expense is as a result of an increase in paid-in-kind interest on the Second-Lien Notes and an increase in the effective interest rate as described earlier in "Other Factors – Changes in accounting policies". The increase in cash interest is as a result of redemptions of First-Lien Notes as described earlier in "Recent Developments".

Gain on disposal of operations

During the nine months ended May 31, 2018, we completed a non-monetary transaction as described earlier in "Recent Developments" and recognized a gain on disposal of operations of \$4.7 million which represents the difference between the acquisition consideration, or the fair value properties transferred, and the carrying value of the net liabilities transferred.

Net financing expense relating to employee benefit plans

Net financing expense relating to employee benefit plans decreased \$0.6 million to \$1.6 million for the nine months ended May 31, 2019, as compared to the same period in the prior year.

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

During the nine months ended May 31, 2019 and 2018, we disposed of property and equipment and assets held-for-sale and realized a gain of \$11.4 million and \$1.5 million, respectively.

Gain on derivative financial instruments

Gain on derivative financial instruments for the nine months ended May 31, 2019 was a nominal amount as compared to \$0.2 million during the same period in the prior year. The gain in the nine months ended May 31, 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 nine months ended May 31, 2019 were \$5.3 million as compared to \$4.2 million during the same period in the prior year. Foreign currency exchange losses in the nine months ended May 31, 2019 and 2018 primarily relate to changes in the carrying value of our Second-Lien Notes of \$5.3 million and \$4.4 million, respectively.

Loss before income taxes

Loss before income taxes was \$15.0 million for the nine months ended May 31, 2019, as compared to \$11.0 million for the same period in the prior year. Loss before income taxes is primarily the result of decreases in operating income, a gain on disposal of operations in the nine months ended May 31, 2018, and increases in foreign currency exchange losses, partially offset by an increase in gain on disposal of property and equipment and assets held-for-sale, all as discussed above.

Provision for income taxes

We have not recorded a current or deferred tax expense or recovery for the nine months ended May 31, 2019 or 2018. Current taxes payable or recoverable result in a decrease or increase, respectively, to our tax loss carryforward balances. The cumulative tax loss carryforward balances have not been recognized as a net deferred tax asset on the consolidated statement of financial position.

Net loss from continuing operations

Net loss from continuing operations was \$15.0 million for the nine months ended May 31, 2019, as compared to \$11.0 million for the same period in the prior year. Net loss from continuing operations is as a result of the factors described above in loss before income taxes and provision for income taxes.

Net earnings from discontinued operations

Net earnings from discontinued operations for the nine months ended May 31, 2019 consists of a gain on sale of Infomart of \$0.8 million a result of the reversal of a provision for claims related to the Infomart Transaction as no claims were made under the purchase agreement as described in "Recent Developments".

Net loss attributable to equity holders of the Company

Net loss for the nine months ended May 31, 2019 was \$14.2 million as compared to \$11.0 million for the same period in the prior year, as a result of the factors described above in net loss from continuing operations and net earnings from discontinued operations.

Consolidated quarterly financial information

(\$ in thousands of Canadian dollars, except per share information)	Fiscal 2019			Fiscal 2018				Fiscal 2017
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenues.....	157,058	145,699	171,273	158,677	171,049	157,577	188,990	176,813
Net earnings (loss) from continuing operations.....	(7,681)	(5,870)	(1,419)	(22,852)	(15,539)	(1,252)	5,773	2,417
Net earnings (loss) per share from continuing operations								
Basic.....	\$ (0.08)	\$ (0.06)	\$ (0.02)	\$ (0.24)	\$ (0.17)	\$ (0.01)	\$ 0.06	\$ 0.03
Diluted.....	\$ (0.08)	\$ (0.06)	\$ (0.02)	\$ (0.24)	\$ (0.17)	\$ (0.01)	\$ 0.06	\$ 0.03
Net earnings (loss) attributable to equity holders of the Company.....	(7,681)	(5,079)	(1,419)	(22,852)	(15,539)	(1,252)	5,773	40,327
Net earnings (loss) per share attributable to equity holders of the Company								
Basic.....	\$ (0.08)	\$ (0.05)	\$ (0.02)	\$ (0.24)	\$ (0.17)	\$ (0.01)	\$ 0.06	\$ 0.43
Diluted.....	\$ (0.08)	\$ (0.05)	\$ (0.02)	\$ (0.24)	\$ (0.17)	\$ (0.01)	\$ 0.06	\$ 0.43
Cash flows from (used in) operating activities.....	1,568	7,585	(5,200)	26,188	1,228	1,844	(2,458)	843

Liquidity and capital resources

Our principal uses of funds are for working capital requirements, debt servicing and capital expenditures. Based on our current and anticipated level of operations, we believe that our cash on hand and cash flows from operations and available borrowings under our ABL Facility will enable us to meet our working capital, debt servicing, capital expenditure and other funding requirements for the next twelve months. However, our ability to fund our working capital needs, debt servicing and other funding requirements depends on our future operating performance and cash flows. There are a number of factors which may adversely affect our operating performance and our ability to meet these obligations as described earlier in “Key Factors Affecting Operating Results”. Our cash flows from operating activities may be impacted by, among other things, the overall strength of the economy, competition from digital media and other forms of media as well as competition from alternative emerging technologies. In addition, in recent years there has been a growing shift in advertising dollars from newspaper advertising to other advertising formats, particularly online and other digital platforms such as search and social media websites. More recently, we have experienced continued declines in revenues due to ongoing economic and structural factors resulting in an increasingly challenging operating environment. We have significant debt obligations which currently include the First-Lien Notes (\$94.8 million) that mature in July 2021 and Second-Lien Notes (US\$114.3 million) that mature in July 2023. As at July 10, 2019, we have repaid \$130.2 million, or 58%, of the original \$225.0 million First-Lien Notes issued in October 2016 and continue to explore alternatives for efficiently managing these outstanding debt obligations. These economic and structural factors related to our industry have had an impact on liquidity risk which is the risk that we will not be able to meet our financial obligations associated with existing and future financial liabilities that are and will be settled by delivering cash or another financial asset as they come due. We manage this risk by monitoring cash flow forecasts, implementing cost reduction initiatives as described earlier in “Recent Developments”, deferring or eliminating discretionary spending, monitoring and maintaining compliance with terms of the note indentures, utilizing the ABL Facility to provide additional liquidity during season fluctuations of the business and identifying and selling redundant assets including certain real estate assets. As at May 31, 2019, we have two real estate assets classified as assets held-for-sale with a carrying amount of \$24.5 million. In addition, we have five other real estate assets with a carrying amount of \$3.3 million currently listed for sale, however these properties do not meet the requirements to be classified as held-for-sale as at May 31, 2019.

Pursuant to the amended and restated First-Lien Notes indenture, any net proceeds from an asset disposition in excess of \$0.1 million will be held in a collateral account by the noteholders. When the aggregate amount of the collateral account exceeds \$1.0 million it will be used to make an offer to redeem an equal amount of First-Lien Notes. As at May 31, 2019, we have a nominal amount of restricted cash (August 31, 2018 - \$5.7 million). During the year ended August 31, 2017, the Company received \$36.3 million as part of the Infomart Transaction, as described earlier in "Recent Developments", of which \$5.7 million was held in escrow until February 15, 2019 to satisfy potential claims arising under the purchase agreement. On February 15, 2019 the funds were released as no claims were made. During the three and nine months ended May 31, 2019 the net proceeds were used to redeem \$5.5 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$0.2 million. In addition, during nine months ended May 31, 2019, we sold property and equipment for net proceeds of \$20.7 million, which included the net proceeds of \$20.4 million from the sale of the Ottawa Citizen facility, and used the net proceeds to redeem \$20.3 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$0.4 million.

Cash flows from operating activities

Our principal sources of liquidity are cash flows from operating activities. For the three and nine months ended May 31, 2019, our cash flows from operating activities were inflows of \$1.6 million and \$4.0 million, respectively (2018 – inflows of \$1.2 million and \$0.6 million, respectively). Cash flows from operating activities increased \$0.3 million for the three months ended May 31, 2019, as compared to the same period in the prior year due to a decrease in cash interest payments of \$1.2 million, a decrease in cash restructuring and unoccupied lease payments of \$4.7 million and a decrease in non-cash working capital as compared to the same period in the prior year, partially offset by a decrease in operating income before depreciation, amortization, impairment and restructuring. Cash flows from operating activities increased \$3.3 million for the nine months ended May 31, 2019, as compared to the same period in the prior year due to a decrease in non-cash working capital as compared to the same period in the prior year which included the \$19.9 million receivable related to the digital media tax credit as described earlier in "Recent Developments", a decrease in cash restructuring and unoccupied lease payments of \$12.8 million and a decrease in cash interest payments of \$4.2 million, partially offset by a decrease in operating income before depreciation, amortization, impairment and restructuring.

As at May 31, 2019 we had cash of \$13.0 million (August 31, 2018 – \$26.0 million).

Cash flows from (used in) investing activities

For the three and nine months ended May 31, 2019, our cash flows from investing activities were outflows of \$2.2 million and inflows of \$16.9 million, respectively (2018 – outflows of \$0.5 million and inflows of \$8.6 million, respectively). The net cash outflows from investing activities during the three months ended May 31, 2019 included outflows for capital expenditures related to property and equipment of \$1.0 million and \$1.2 million for intangible assets. The cash outflows from investing activities during the three months ended May 31, 2018 include outflows for capital expenditures related to property and equipment of \$0.3 million and intangible assets of \$0.2 million. The net cash inflows from investing activities during the nine months ended May 31, 2019 include the net proceeds received from the sale of property and equipment and assets held-for-sale of \$20.7 million, partially offset by outflows for capital expenditures related to property and equipment of \$2.5 million and intangible assets of \$1.3 million. The net cash inflows from investing activities during the nine months ended May 31, 2018 included the net proceeds received from the sale of property and equipment and assets held-for-sale of \$9.8 million, partially offset by outflows for capital expenditures related to property and equipment of \$0.6 million and intangible assets of \$0.6 million.

Cash flows used in financing activities

For the three and nine months ended May 31, 2019, our cash flows used in financing activities were outflows of \$4.8 million and \$33.9 million, respectively (2018 – \$3.9 million and \$9.3 million, respectively). The net cash outflows from financing activities during the three months ended May 31, 2019 include the repayment of First-Lien Notes of \$10.5 million, partially offset by net inflows from restricted cash of \$5.7 million. The cash outflows from financing activities during the three months ended May 31, 2018 included the repayment of the ABL Facility of \$3.0 million and the repayment of First-Lien Notes of \$0.9 million. The net cash outflows from financing activities during the nine months ended May 31, 2019 include the repayment of First-Lien Notes of \$39.6 million, partially offset by net cash inflows from restricted cash of \$5.7 million. The net cash inflows from financing activities during the nine months ended May 31, 2018 included outflows of \$80.4 million related to the repayment of First-Lien Notes, partially offset by net inflows from restricted cash of \$62.0 million and advances from the ABL Facility of \$9.0 million.

Indebtedness

As of May 31, 2019, we have \$94.8 million First-Lien Notes outstanding, US\$114.3 million Second-Lien Notes outstanding (August 31, 2018 - \$134.3 million First-Lien Notes and US\$108.2 million Second-Lien Notes). In addition to the cash transactions discussed above, during the nine months ended May 31, 2019, we issued additional Second-Lien Notes in the amount of US\$6.1 million (\$8.0 million) related to paid-in-kind interest as part of the terms of the Second-Lien Notes indenture (2018 - US\$5.5 million (\$6.7 million)). The following tables set out the principal and carrying amount of our long-term debt outstanding as at May 31, 2019 and August 31, 2018. The first column of the table translates, where applicable, our US dollar debt to the Canadian equivalent based on the closing foreign exchange rate on May 31, 2019 of US\$1:\$1.3527 (August 31, 2018 – US\$1:\$1.3055).

	As at May 31, 2019			As at August 31, 2018		
(\$ in thousands of Canadian dollars)				(revised)		
	Principal Outstanding	Financing fees, discounts and other	Carrying Value	Principal Outstanding	Financing fees, discounts and other	Carrying Value
First-Lien Notes.....	94,761	(1,400)	93,361	134,344	(2,597)	131,747
Second-Lien Notes.....	154,557	(208)	154,349	141,220	(227)	140,993
ABL Facility.....	-	-	-	-	-	-
Total.....	249,318	(1,608)	247,710	275,564	(2,824)	272,740

Financial Position As at May 31, 2019 and August 31, 2018

(\$ in thousands of Canadian dollars)	As at May 31, 2019	As at August 31, 2018 ⁽¹⁾ (revised)
Current assets.....	120,893	122,424
Total assets.....	299,845	353,263
Current liabilities.....	97,894	119,211
Total liabilities.....	448,859	446,462
Deficiency.....	(149,014)	(93,199)

⁽¹⁾ The impact on adoption of IFRS 9 as at September 1, 2018, as described earlier in "Changes in Accounting Policies", includes a reduction in deficit of \$1.9 million with a corresponding decrease in total liabilities.

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

Related Party Transactions

As at May 31, 2019, Chatham owns approximately 62,304,249, or 66%, of our shares. We have a consulting agreement with Chatham and during the three and nine months ended May 31, 2019 recognized a recovery of \$0.4 million and an expense of \$0.2 million, respectively (2018 – expense of \$0.5 million and \$1.5 million, respectively). In addition, we have an ABL Facility with associated companies of Chatham as described earlier in "Recent Developments" and as at May 31, 2019, we have no amount drawn and availability of \$15.0 million (August 31, 2018 – \$12.0 million and \$13.0 million, respectively) and during the three and nine months ended May 31, 2019, incurred a nominal amount and \$0.1 million of interest expense, respectively, and paid a nominal amount and \$0.1 million of interest, respectively (2018 – incurred \$0.2 million and \$0.5 million, respectively and paid \$0.2 million and \$0.4 million, respectively).

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, 2018 and 2017, except as discussed below.

Foreign currency risk

As at May 31, 2019, approximately 62% of the outstanding principal on our long-term debt is payable in US dollars (August 31, 2018 – 51%). As at May 31, 2019, we are exposed to foreign currency risk on the US\$114.3 million Second-Lien Notes outstanding (August 31, 2018 – US\$108.2 million).

Guarantees and Off-Balance Sheet Arrangements

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

Future Accounting Standards

There is a new standard which will be effective for our year ending August 31, 2020. We do not intend to early adopt this standard and the impacts on the consolidated financial statement have not yet been determined

IFRS 16 – Leases

The standard was issued in January 2016 and replaces IAS 17 – Leases. The new standard provides a single lessee accounting model which eliminates the distinction between operating and finance leases. In particular, lessees will be required to report most leases on the statement of financial position by recognizing right-of-use assets and related financial liabilities. Lessor accounting remains largely unchanged. The standard is required to be applied for annual periods beginning on or after January 1, 2019, with earlier adoption permitted.

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, 2018 and 2017, which section is incorporated by reference herein. In addition, we are subject to the risk that the pension merger described in “Recent Developments” will not be completed on the terms described or at all and the anticipated benefits may not be achieved.

Internal Controls

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

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

The CEO and CFO have evaluated whether there were changes to Postmedia’s internal control over financial reporting during the three months ended May 31, 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 July 8, 2019 we had the following number of shares and options outstanding:

Class C voting shares.....	68,324
Class NC variable voting shares.....	93,671,975
Total shares outstanding.....	<u>93,740,299</u>
Total options and restricted share units outstanding.....	<u>6,271,930</u>

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

POSTMEDIA NETWORK CANADA CORP.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2019 AND 2018
(UNAUDITED)

Approved for issuance: July 10, 2019

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

(In thousands of Canadian dollars, except per share amounts)

	For the three months ended May 31,		For the nine months ended May 31,	
	2019	2018	2019	2018
Revenues				
Print advertising	64,756	78,580	201,943	239,776
Print circulation	51,384	54,816	155,540	166,441
Digital	32,902	29,890	93,834	87,551
Other	8,016	7,763	22,713	23,848
Total revenues	157,058	171,049	474,030	517,616
Expenses				
Compensation (note 5)	59,181	63,525	174,513	179,236
Newsprint	9,132	9,880	27,754	29,738
Distribution	30,195	32,540	91,070	99,925
Production	19,940	21,895	59,294	62,895
Other operating	28,995	27,757	85,406	85,346
Operating income before depreciation, amortization, impairment and restructuring (note 3)	9,615	15,452	35,993	60,476
Depreciation	3,853	5,490	13,140	16,016
Amortization	3,119	4,259	10,640	11,926
Impairment (note 7)	-	9,400	6,600	9,400
Restructuring and other items (notes 4 and 9)	482	2,961	4,255	13,455
Operating income (loss)	2,161	(6,658)	1,358	9,679
Interest expense	6,608	6,343	20,827	20,696
Gain on disposal of operations (note 4)	-	-	-	(4,676)
Net financing expense relating to employee benefit plans (note 11)	541	735	1,622	2,206
(Gain) loss on disposal of property and equipment and assets held-for-sale (note 6)	(1)	46	(11,446)	(1,496)
(Gain) loss on derivative financial instruments (note 14)	(1,436)	331	(10)	(204)
Foreign currency exchange losses	4,130	1,426	5,335	4,171
Loss before income taxes	(7,681)	(15,539)	(14,970)	(11,018)
Provision for income taxes	-	-	-	-
Net loss from continuing operations	(7,681)	(15,539)	(14,970)	(11,018)
Net earnings from discontinued operations, net of tax of nil (note 9)	-	-	791	-
Net loss attributable to equity holders of the Company	(7,681)	(15,539)	(14,179)	(11,018)
Loss per share attributable to equity holders of the Company (note 12):				
Basic	\$ (0.08)	\$ (0.17)	\$ (0.16)	\$ (0.12)
Diluted	\$ (0.08)	\$ (0.17)	\$ (0.16)	\$ (0.12)
Earnings per share from discontinued operations (note 12):				
Basic	\$ -	\$ -	\$ 0.01	\$ -
Diluted	\$ -	\$ -	\$ 0.01	\$ -
Loss per share attributable to equity holders of the Company (note 12):				
Basic	\$ (0.08)	\$ (0.17)	\$ (0.15)	\$ (0.12)
Diluted	\$ (0.08)	\$ (0.17)	\$ (0.15)	\$ (0.12)

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

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

(In thousands of Canadian dollars)

	For the three months ended May 31,		For the nine months ended May 31,	
	2019	2018	2019	2018
Net loss attributable to equity holders of the Company	(7,681)	(15,539)	(14,179)	(11,018)
Amounts not subsequently reclassified to the statement of operations				
Net actuarial gains (losses) on employee benefits, net of tax of nil (note 11)	(30,116)	(2,838)	(42,612)	14,622
Other comprehensive income (loss)	(30,116)	(2,838)	(42,612)	14,622
Comprehensive income (loss) attributable to equity holders of the Company	(37,797)	(18,377)	(56,791)	3,604
Total comprehensive income (loss) attributable to equity holders of the Company:				
Continuing operations	(38,588)	(18,377)	(57,582)	3,604
Discontinued operations (note 9)	791	-	791	-
Comprehensive income (loss) attributable to equity holders of the Company	(37,797)	(18,377)	(56,791)	3,604

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 May 31, 2019	As at August 31, 2018
ASSETS		(revised - note 2)
Current Assets		
Cash	13,046	26,037
Restricted cash (note 6)	13	5,711
Accounts receivable	68,410	68,069
Assets held-for-sale (note 7)	24,475	6,827
Inventory	4,032	6,219
Prepaid expenses and other assets	10,917	9,561
Total current assets	120,893	122,424
Non-Current Assets		
Property and equipment (note 7)	111,867	154,465
Derivative financial instruments (note 14)	2,489	2,479
Intangible assets	64,596	73,895
Total assets	299,845	353,263
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (note 8)	57,472	62,833
Provisions (note 9)	8,967	18,666
Deferred revenue	26,459	28,994
Current portion of long-term debt (note 10)	4,996	8,718
Total current liabilities	97,894	119,211
Non-Current Liabilities		
Long-term debt (note 10)	242,714	264,022
Employee benefit obligations and other liabilities (note 11)	108,055	62,703
Provisions (note 9)	196	526
Total liabilities	448,859	446,462
Deficiency		
Capital stock (note 12)	810,861	810,836
Contributed surplus (note 13)	14,540	13,589
Deficit	(974,415)	(917,624)
Total deficiency	(149,014)	(93,199)
Total liabilities and deficiency	299,845	353,263

Subsequent event (note 17)

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

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

(In thousands of Canadian dollars)

For the nine months ended May 31, 2019				
	Capital stock	Contributed surplus	Deficit	Total Deficiency
Balance as at August 31, 2018	810,836	13,589	(919,488)	(95,063)
Change in accounting policies (note 2)	-	-	1,864	1,864
Balance as at August 31, 2018 (revised)	810,836	13,589	(917,624)	(93,199)
Net loss attributable to equity holders of the Company	-	-	(14,179)	(14,179)
Other comprehensive loss	-	-	(42,612)	(42,612)
Comprehensive loss attributable to equity holders of the Company	-	-	(56,791)	(56,791)
Share-based compensation plans (note 13)	-	951	-	951
Issuance of shares (note 12)	25	-	-	25
Balance as at May 31, 2019	810,861	14,540	(974,415)	(149,014)

For the nine months ended May 31, 2018				
	Capital stock	Contributed surplus	Deficit	Total Deficiency
Balance as at August 31, 2017	810,836	10,412	(907,366)	(86,118)
Net loss attributable to equity holders of the Company	-	-	(11,018)	(11,018)
Other comprehensive income	-	-	14,622	14,622
Comprehensive income attributable to equity holders of the Company	-	-	3,604	3,604
Share-based compensation plans (note 13)	-	2,882	-	2,882
Balance as at May 31, 2018	810,836	13,294	(903,762)	(79,632)

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

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

(In thousands of Canadian dollars)

	For the three months ended May 31,		For the nine months ended May 31,	
	2019	2018	2019	2018
CASH GENERATED (UTILIZED) BY:				
OPERATING ACTIVITIES				
Net loss attributable to equity holders of the Company	(7,681)	(15,539)	(14,179)	(11,018)
Items not affecting cash:				
Depreciation	3,853	5,490	13,140	16,016
Amortization	3,119	4,259	10,640	11,926
Impairment (note 7)	-	9,400	6,600	9,400
Gain on disposal of operations (note 4)	-	-	-	(4,676)
(Gain) loss on derivative financial instruments (note 14)	(1,436)	331	(10)	(204)
Non-cash interest	4,590	3,786	13,710	11,263
Gain (loss) on disposal of property and equipment and assets-held-for-sale (note 6)	(1)	46	(11,446)	(1,496)
Non-cash foreign currency exchange losses	4,169	1,466	5,405	4,272
Gain on sale of discontinued operations (note 9)	-	-	(791)	-
Share-based compensation plans expense (note 13)	243	352	951	2,882
Net financing expense relating to employee benefit plans (note 11)	541	735	1,622	2,206
Non-cash compensation expense of employee benefit plans (note 11)	218	-	639	-
Employee benefit plan funding in excess of compensation expense (note 11)	-	(1,452)	-	(5,252)
Net change in non-cash operating accounts (note 15)	(6,047)	(7,646)	(22,328)	(34,705)
Cash flows from operating activities	1,568	1,228	3,953	614
INVESTING ACTIVITIES				
Net proceeds from the sale of property and equipment and assets held-for-sale (note 6)	1	(45)	20,736	9,784
Purchases of property and equipment	(1,034)	(336)	(2,479)	(619)
Purchases of intangible assets	(1,150)	(167)	(1,341)	(596)
Cash flows from (used in) investing activities	(2,183)	(548)	16,916	8,569
FINANCING ACTIVITIES				
Repayment of long-term debt (note 10)	(10,510)	(925)	(39,583)	(80,367)
Advances from (repayments of) senior secured asset-based revolving credit facility (note 10)	-	(3,000)	-	9,000
Restricted cash (note 6)	5,700	(2)	5,698	62,040
Issuance of shares (note 12)	-	-	25	-
Cash flows used in financing activities	(4,810)	(3,927)	(33,860)	(9,327)
Net change in cash for the period	(5,425)	(3,247)	(12,991)	(144)
Cash at beginning of period	18,471	13,951	26,037	10,848
Cash at end of period	13,046	10,704	13,046	10,704
Supplemental disclosure of operating cash flows				
Interest paid	4,310	5,533	10,200	14,436
Income taxes paid	-	-	-	-

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

POSTMEDIA NETWORK CANADA CORP.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2019 AND 2018

(In thousands of Canadian dollars, except as otherwise noted)

1. DESCRIPTION OF BUSINESS

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

The Company's operations consist of both news and information gathering and dissemination operations, with products offered in local, regional and major metropolitan markets in Canada through a variety of print, web, tablet and smartphone platforms, and digital media and online assets including the *canada.com* and *canoe.com* websites and each newspaper's online website. The Company supports these operations through a variety of centralized shared services. On November 27, 2017, the Company purchased 22 community and two free daily commuter newspapers and in consideration sold 15 community and two free daily commuter newspapers (note 4).

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

2. BASIS OF PRESENTATION

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 – Interim Financial Reporting. The accounting policies applied in the preparation of these interim condensed consolidated financial statements are the same as those used in the Company's annual consolidated financial statements except for the adoption of new accounting standards as described below. In addition, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and accordingly should be read in conjunction with the Company's consolidated financial statements for the years ended August 31, 2018 and 2017.

These interim condensed consolidated financial statements were approved by the Board of Directors (the "Board") on July 10, 2019.

Critical accounting estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Although these estimates, assumptions and judgements are based upon management's knowledge of the amount, event or actions; actual results could differ from those estimates, assumptions and judgements. The critical accounting estimates are not materially different from those disclosed in the Company's consolidated financial statements for the years ended August 31, 2018 and 2017 except for the estimates of fair value less costs of disposal ("FVLCD") as described in note 7.

Changes in accounting policies

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

IFRS 9 – Financial Instruments

The standard was issued in July 2014 and addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 – Financial Instruments – Recognition and Measurement. The Company adopted the standard on a modified retrospective basis and accordingly has not restated comparative information for financial instruments within the scope of IFRS 9. Therefore the comparative information is reported under IAS 39 and is not comparable to the information presented in accordance with IFRS 9. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings on September 1, 2018.

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

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

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

Debt instruments at amortized cost

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

Financial assets at FVTPL

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

Other financial liabilities

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

Impairment

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

IFRS 15 – Revenue from Contracts with Customers

The standard was issued in May 2014 and is a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. The standard replaces IAS 11 - Construction Contracts and IAS 18 - Revenue, as well as various IFRIC and SIC interpretations regarding revenue. The Company adopted the standard in accordance with the modified retrospective transitional approach. There were no transitional adjustments or significant changes to the Company's revenue recognition policies required on adoption of this standard. The Company's contracts with customers are generally for a term of one year or less and as a result the incremental costs of obtaining a contract are expensed when incurred in accordance with the practical expedient of the standard.

3. OPERATING INCOME BEFORE DEPRECIATION, AMORTIZATION, IMPAIRMENT AND RESTRUCTURING

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

4. BUSINESS ACQUISITION

On November 27, 2017, the Company entered into an asset purchase agreement with Metroland Media Group Ltd. and Free Daily News Group Inc., both subsidiaries of Torstar Corporation, (collectively, "Torstar") to acquire 22 of Torstar's community newspapers and two free daily commuter newspapers. In consideration, the Company sold 15 of its community newspapers and two free daily commuter newspapers to Torstar (the "Torstar Transaction"). The Company is continuing to operate one of the community newspapers acquired and closed the remaining properties between November 2017 and January 2018 as they were located in areas serviced by multiple publications. The Torstar Transaction is a non-monetary transaction as there was no cash exchanged. The Company accounted for the non-monetary transaction as a business combination with the fair value of the properties transferred representing the acquisition consideration. The estimated fair value of the respective properties of the Company and Torstar is \$3.5 million and the difference between the acquisition consideration and the carrying value of the net liabilities transferred was recognized as a gain on disposal of operations in the consolidated statement of operations. During the nine months ended May 31, 2018, the Company incurred severance costs of \$3.5 million, provisions for onerous leases and contracts of \$0.8 million and \$0.9 million, respectively, and acquisition costs of \$0.5 million related to the Torstar Transaction all of which are included in restructuring and other items in the condensed consolidated statement of operations (note 9). The Competition Bureau is reviewing the Torstar Transaction under the provisions of the *Competition Act* (Canada) and the Company is cooperating with the Competition Bureau in connection with its investigation.

On November 27, 2017, the date of acquisition, the Company transferred the following net liabilities to Torstar and recognized a gain on disposal of operations in the nine months ended May 31, 2018 as follows:

Consideration transferred	
Prepaid expenses and other assets	36
Property and equipment	41
Intangible assets	600
Accounts payable and accrued liabilities	(8)
Deferred revenue	(1,845)
Net liabilities transferred	(1,176)
Acquisition consideration (fair value of net assets acquired)	3,500
Gain on disposal of operations	4,676

The fair value of the identifiable assets acquired and liabilities assumed as at November 27, 2017 were as follows:

Assets acquired	
Prepaid expenses and other assets	60
Intangible assets ⁽¹⁾	3,552
Total assets acquired	3,612
Liabilities assumed	
Accounts payable and accrued liabilities	63
Deferred revenue	49
Total liabilities assumed	112
Net assets acquired at fair value	3,500

⁽¹⁾ The Company has allocated the intangible assets acquired to customer relationships with a useful life of one year and during the three and nine months ended May 31, 2019 recognized amortization expense of nil and \$0.9 million, respectively (2018 – \$0.9 million and \$1.8 million, respectively).

5. ONTARIO INTERACTIVE DIGITAL MEDIA TAX CREDIT

In February 2018, the Company received certification from the Ontario Digital Media Corporation that digital media tax credits totaling a net cash claim of \$19.9 million for the period of September 1, 2012 to April 23, 2015 were eligible to be claimed. The Company refiled the applicable tax returns to reflect such claim and during the year ended August 31, 2018 received \$20.4 million, including accrued interest of \$0.5 million, related to this claim. The claim primarily related to the recovery of previously recognized compensation expense and as a result during the three and nine months ended May 31, 2018, the Company recorded the tax credit as a recovery of compensation expense of \$2.9 million and \$19.9 million, respectively, due to the estimation uncertainty associated with the claims process.

6. RESTRICTED CASH

Pursuant to the amended and restated senior secured notes indenture, any net proceeds from an asset disposition in excess of \$0.1 million will be held in a collateral account by the noteholders. When the aggregate amount of the collateral account exceeds \$1.0 million it will be used to make an offer to redeem an equal amount of 8.25% Senior Secured Notes due 2021 ("First-Lien Notes") (note 10).

	Restricted Cash
August 31, 2018 ⁽¹⁾	5,711
Net proceeds on sale of assets ⁽²⁾	20,732
First-Lien Notes payment ⁽³⁾	(26,442)
Interest earned	12
May 31, 2019	13

- (1) During the year ended August 31, 2017, the Company received \$36.3 million as part of an asset purchase agreement with Meltwater News Canada Inc. to sell Infomart, its media monitoring division (the "Infomart Transaction"), of which \$5.7 million was held in escrow until February 15, 2019 to satisfy potential claims arising under the purchase agreement. On February 15, 2019, the funds were released as no claims were made.
- (2) During the nine months ended May 31, 2019, the Company sold property and equipment for net proceeds of \$20.7 million, which included net proceeds of \$20.3 million from the sale of the Ottawa Citizen facility and realized a gain on sale of \$11.4 million.
- (3) During the three and nine months ended May 31, 2019, the Company used \$26.4 million to redeem \$25.9 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$0.5 million (note 10).

7. IMPAIRMENT OF LONG LIVED ASSETS

Annual impairment testing

As at May 31, 2019 and 2018, the Company completed its annual impairment testing of goodwill and indefinite life intangible assets. The recoverable amounts for all tests were based on FVLCD of the cash-generating units ("CGUs"), which are primarily geographical groups of newspapers by city or region, as applicable. The FVLCD was determined by applying a market multiple range of 4.0 to 4.25 times the adjusted trailing twelve month operating income before depreciation, amortization, impairment and restructuring less disposal costs. Management determined this key assumption based on an average of market multiples for comparable entities. The FVLCD measurements represent a Level 3 measurement within the fair value hierarchy due to required allocation of corporate costs and digital revenues and the estimated costs of disposal within the individual CGUs. During the three and nine months ended May 31, 2019 and 2018, no impairments were recorded related to the annual impairment testing.

Other impairments

During the nine months ended May 31, 2019, the Company determined that the carrying amount of the Calgary Herald facility will be recovered principally through a sales transaction and as a result has classified the property as held-for-sale on the condensed consolidated statement of financial position at its estimated FVLCD of \$19.5 million. In addition, the FVLCD of a property previously classified as held-for-sale was reduced to \$5.0 million resulting in aggregate assets held-for sale of \$24.5 million as at May 31, 2019 (August 31, 2018 - \$6.8 million). During the nine months ended May 31, 2019 the Company recognized an impairment charge of \$6.6 million in the consolidated statement of operations (2018 – \$9.4 million).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at May 31, 2019	As at August 31, 2018
Trade accounts payable	12,961	13,793
Accrued liabilities	38,039	44,027
Accrued interest on long-term debt	6,472	5,013
Accounts payable and accrued liabilities	57,472	62,833

9. PROVISIONS

	Restructuring ^(a)	Unoccupied leases ^(a)	Other provisions ^(b)	Total
Provisions as at August 31, 2018	16,801	1,547	844	19,192
Charges	4,255	-	(769)	3,486
Payments	(13,100)	(400)	(15)	(13,515)
Provisions as at May 31, 2019	7,956	1,147	60	9,163
Portion due within one year	(7,956)	(1,011)	-	(8,967)
Non-current provisions	-	136	60	196

(a) Restructuring and unoccupied leases

During the year ended August 31, 2018, the Company began initiatives, including the closure of nine community newspapers and during the three and nine months ended May 31, 2019, the Company continued these initiatives and incurred restructuring expense of \$0.5 million and \$4.3 million, respectively, which include both involuntary terminations and voluntary buyouts.

(b) Other provisions

Other provisions include claims and grievances which have been asserted against the Company. During the nine months ended May 31, 2019, a provision for claims related to the Infomart Transaction was reversed from other provisions as no claims were made under the purchase agreement and a gain on sale of discontinued operations of \$0.8 million was recognized in the condensed consolidated statements of operations for the nine months ended May 31, 2019 (note 6).

10. LONG-TERM DEBT

				As at May 31, 2019	As at August 31, 2018
					(revised - note 2)
	Maturity	Principal	Financing fees, discounts and other	Carrying value of debt	Carrying value of debt
8.25% Senior Secured Notes	July 2021	94,761	(1,400)	93,361	131,747
10.25% Second Lien Secured Notes (US\$114.3M) ⁽¹⁾	July 2023	154,557	(208)	154,349	140,993
Senior Secured Asset-Based Revolving Credit Facility	January 2021	-	-	-	-
Total long-term debt				247,710	272,740
Portion due within one year				(4,996)	(8,718)
Non-current long-term debt				242,714	264,022

⁽¹⁾ US\$ principal translated to the Canadian equivalent based on the foreign exchange rate on May 31, 2019 of US\$1:\$1.3527 (August 31, 2018 - US\$1:\$1.3055).

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

During the three and nine months ended May 31, 2019 the Company redeemed \$10.5 million and \$39.6 million, respectively, aggregate principal amount of First-Lien Notes, which includes a redemption of \$8.7 million as a result of the excess cash flow offer related to the six months ended August 31, 2018, \$25.9 million related to the sale of assets (note 6), and \$5.0 million as a result of the excess cash flow offer related to the six months ended February 28, 2019 (2018 - \$1.0 million and \$80.4 million, respectively).

On January 18, 2017, the Company entered into a senior secured asset-based revolving credit facility ("ABL Facility") for a term of two years with Chatham Asset Management LLC ("Chatham LLC") and certain investment funds or accounts for which Chatham LLC or its affiliates acts as an investment advisor, sub-advisor or manager (collectively, "Chatham"), for an aggregate availability of up to \$15.0 million, which was increased by \$10.0 million on October 19, 2017 to \$25.0 million. On December 15, 2018, the Company and Chatham entered into an agreement to extend the term of the ABL Facility to January 18, 2021 for an aggregate availability of up to \$15.0 million, which may be increased by up to \$10.0 million at the request of the Company and with the consent of the lender. As at May 31, 2019, the Company has no amount drawn on the ABL Facility and has availability of \$15.0 million (August 31, 2018 - \$12.0 million and \$13.0 million, respectively) and during the three and nine months ended May 31, 2019, incurred a nominal amount and \$0.1 million of interest expense, respectively, and paid a nominal amount and \$0.1 million of interest, respectively (2018 - incurred \$0.2 million and \$0.5 million, respectively, and paid \$0.2 million and \$0.4 million, respectively).

11. EMPLOYEE BENEFIT PLANS

The Company has a number of funded and unfunded defined benefit plans that include pension benefits, post-retirement benefits, and other long-term employee benefits as well as a defined contribution pension benefit plan. The net employee benefit plan costs related to the Company's pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans reported in net loss in the condensed consolidated statements of operations for the three and nine months ended May 31, 2019 and 2018 are as follows:

For the three months ended May 31, 2019 and 2018								
	Pension benefits		Post-retirement benefits		Other long-term employee benefits		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Current service cost	802	1,198	256	279	88	443	1,146	1,920
Administration costs	252	231	-	-	-	-	252	231
Net actuarial (gains) losses	-	-	-	-	392	(75)	392	(75)
Net financing expense	85	266	347	358	108	111	540	735
Net defined benefit plan expense ⁽¹⁾	1,140	1,695	603	637	588	479	2,331	2,811
Employer contributions to defined contribution plans	1,007	955	-	-	-	-	1,007	955
Total plan expense	2,147	2,650	603	637	588	479	3,338	3,766

For the nine months ended May 31, 2019 and 2018								
	Pension benefits		Post-retirement benefits		Other long-term employee benefits		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Current service cost	2,405	3,594	768	837	264	1,329	3,437	5,760
Administration costs	755	693	-	-	-	-	755	693
Net actuarial (gains) losses	-	-	-	-	497	(392)	497	(392)
Net financing expense	257	799	1,040	1,074	325	333	1,622	2,206
Net defined benefit plan expense ⁽¹⁾	3,417	5,086	1,808	1,911	1,086	1,270	6,311	8,267
Employer contributions to defined contribution plans	2,856	2,963	-	-	-	-	2,856	2,963
Total plan expense	6,273	8,049	1,808	1,911	1,086	1,270	9,167	11,230

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

Actuarial (gains) losses related to the Company's pension benefit plans and post-retirement benefit plans recognized in the condensed consolidated statements of comprehensive income (loss) for the three and nine months ended May 31, 2019 and 2018 are as follows:

For the three months ended May 31, 2019 and 2018						
	Pension benefits		Post-retirement benefits		Total	
	2019	2018	2019	2018	2019	2018
Net actuarial gains (losses) on employee benefits ⁽¹⁾	(25,688)	(3,114)	(4,428)	276	(30,116)	(2,838)
Net actuarial gains (losses) recognized in other comprehensive income (loss)	(25,688)	(3,114)	(4,428)	276	(30,116)	(2,838)

For the nine months ended May 31, 2019 and 2018						
	Pension benefits		Post-retirement benefits		Total	
	2019	2018	2019	2018	2019	2018
Net actuarial gains (losses) on employee benefits ⁽¹⁾	(38,524)	14,347	(4,088)	275	(42,612)	14,622
Net actuarial gains (losses) recognized in other comprehensive income (loss)	(38,524)	14,347	(4,088)	275	(42,612)	14,622

⁽¹⁾ The discount rate used in measuring the Company's benefit obligations as at May 31, 2019 was 3.05% for pension benefits and 3.10% for post-retirement benefits (August 31, 2018 – 3.60% and 3.65%, respectively).

Changes to the net defined benefit plan obligations related to the Company's pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans for the nine months ended May 31, 2019 are as follows:

	Pension benefits	Post-retirement benefits	Other long-term employee benefits	Total ⁽¹⁾
Net defined benefit plan obligation as at August 31, 2018	6,541	38,016	14,108	58,665
Amounts recognized in the statement of operations	3,417	1,808	1,086	6,311
Amounts recognized in other comprehensive income (loss)	38,524	4,088	-	42,612
Employer contributions to the plans	(906)	(1,497)	(1,647)	(4,050)
Net defined benefit plan obligation as at May 31, 2019	47,576	42,415	13,547	103,538

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

On January 29, 2019, the Company entered into an agreement with the Colleges of Applied Arts & Technology Pension Plan (the "CAAT Pension Plan") to merge the Company's defined benefit pension plans (the "Postmedia Plans"), with the CAAT Pension Plan. Subsequent to May 31, 2019, the Company received approval from Postmedia Plan members and effective July 1, 2019, 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 (note 17). The merger remains subject to consent from the Chief Executive Officer of 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.

12. CAPITAL STOCK AND LOSS PER SHARE

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

The following table provides a reconciliation of the denominators, which are presented in whole numbers, used in computing basic and diluted loss per share for the three and nine months ended May 31, 2019 and 2018. No reconciling items in the computation of net loss exist.

	For the three months ended May 31,	
	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	-	5,518,930

	For the nine months ended May 31,	
	2019	2018
Basic weighted average shares outstanding during the period	93,726,084	93,717,199
Dilutive effect of options and restricted share units	-	-
Diluted weighted average shares outstanding during the period	93,726,084	93,717,199
Options and restricted share units outstanding which are anti-dilutive	-	1,981,154

13. SHARE-BASED COMPENSATION PLANS

Share option plan

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

During the nine months ended May 31, 2019, the Company granted 0.6 million options. The fair value of the underlying options was estimated using the Black-Scholes option pricing model. The weighted average fair value of the issued options and key assumptions used in applying the Black-Scholes option pricing model were as follows:

	2019
Fair value	\$ 0.54
Key assumptions	
Exercise Price	\$ 0.97
Risk-free interest rate ⁽¹⁾	2.42%
Dividend yield	-
Volatility factor ⁽²⁾	64.14%
Expected life of options ⁽³⁾	5 years

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

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

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

The following table provides details on the changes to the issued options, which are presented in whole numbers, for the nine months ended May 31, 2019:

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

During the three and nine months ended May 31, 2019, the Company recorded compensation expense relating to the Option Plan of \$0.1 million and \$0.4 million, respectively, with an offsetting credit to contributed surplus (2018 – \$0.1 million and \$0.5 million, respectively). The total unrecognized compensation expense is \$0.5 million, which is expected to be recognized over the next four 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 nine months ended May 31, 2019, the Company granted 0.3 million RSUs. The fair value of the RSUs granted was estimated by using a grant date fair value per share of \$0.97. The fair value of \$0.97 per share was based on the volume-weighted average trading price of the Class NC variable voting shares for the five trading days immediately preceding the issuance. As at May 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 and nine months ended May 31, 2019, the Company recorded compensation expense related to the RSU Plan of \$0.2 million and \$0.6 million, respectively, with an offsetting credit to contributed surplus (2018 – \$0.3 million and \$2.4 million, respectively). The total unrecognized compensation expense is \$0.7 million, which is expected to be recognized over the next four years.

14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial instruments measured at fair value

The financial instruments measured at fair value in the condensed consolidated statement of financial position, categorized by level according to the fair value hierarchy that reflects the significance of the inputs used in making the measurements, as at May 31, 2019 are as follows:

	As at May 31, 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⁾	2,489	-	2,489	-

⁽¹⁾ On January 25, 2016, the Company entered into a marketing collaboration agreement ("Marketing Agreement") with Mogo Finance Technology Inc. ("Mogo"). The Marketing Agreement provides the Company with revenue sharing and equity participation through warrants in Mogo in exchange for media promotional commitments over the next three years. As part of the Marketing Agreement, the Company paid \$1.2 million for 1,196,120 five year warrants that entitled the Company to purchase common shares of Mogo at an exercise price of \$2.96. Fifty percent of the warrants vest in equal instalments over three years and the remaining warrants vest in three equal instalments based on Mogo achieving certain quarterly revenue targets. In May 2018, the Company and Mogo revised the Marketing Agreement to extend it for an additional two years and amended the vesting terms of the warrants that were previously based on Mogo achieving certain quarterly revenue targets to vest in equal instalments over years four and five. During the three and nine months ended May 31, 2019, the Company recognized a gain of \$1.4 million and a nominal amount, respectively, related to the warrants which is included in (gain) loss on derivative financial instruments in the condensed consolidated statements of operations (2018 – loss of \$0.3 million and gain of \$0.2 million, respectively).

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

The Company's policy is to recognize transfers in and out of the fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the three and nine months ended May 31, 2019 and 2018 there were no transfers within the fair value hierarchy.

Financial instruments measured at amortized cost

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

The carrying value and fair value of long-term debt as at May 31, 2019 and August 31, 2018 are as follows:

	As at May 31, 2019		As at August 31, 2018	
	Carrying value	Fair value	Carrying value	Fair value
			(revised - note 2)	
Other financial liabilities				
Long-term debt	247,710	262,401	272,740	301,570

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

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial obligations associated with existing and future financial liabilities that are and will be settled by delivering cash or another financial asset as they come due. The Company's financial obligations include long-term debt which requires principal repayments and interest payments (note 10). Economic and structural factors related to the industry impact the Company's ability to generate sufficient operating cash flows to satisfy its existing and future financial liabilities, however, the Company manages this risk by monitoring cash flow forecasts, implementing cost reduction initiatives, deferring or eliminating discretionary spending, monitoring and maintaining compliance with the terms of the note indentures, identifying and selling redundant assets including certain real estate assets and utilizing the ABL Facility to provide additional liquidity during seasonal fluctuations of the business.

Foreign currency risk

As at May 31, 2019, approximately 62% of the outstanding principal on the Company's long-term debt is payable in US dollars (August 31, 2018 – 51%). As at May 31, 2019, the Company is exposed to foreign currency risk on the US\$114.3 million of 10.25% Second Lien Secured Notes due 2023 outstanding (August 31, 2018 - US\$108.2 million).

15. STATEMENT OF CASH FLOWS

The following amounts compose the net change in non-cash operating accounts included in cash flows from operating activities in the condensed consolidated statements of cash flows for the three and nine months ended May 31, 2019 and 2018:

	For the three months ended		For the nine months ended	
	May 31,		May 31,	
	2019	2018	2019	2018
Accounts receivable	(3,790)	(5,177)	(341)	(19,848)
Inventory	504	157	586	115
Prepaid expenses and other assets	1,157	3,070	(1,356)	3,818
Accounts payable, accrued liabilities and provisions	(2,626)	(4,639)	(19,602)	(17,013)
Deferred revenue	(1,214)	(1,308)	(2,535)	(2,217)
Employee benefit obligations and other liabilities and provisions	(78)	251	920	440
Changes in non-cash operating accounts	(6,047)	(7,646)	(22,328)	(34,705)

16. RELATED PARTY TRANSACTIONS

As at May 31, 2019, Chatham owns approximately 62,304,249, or 66%, of the Company's shares. The Company has a consulting agreement with Chatham and during the three and nine months ended May 31, 2019 recognized a recovery of \$0.4 million and an expense of \$0.2 million, respectively (2018 - expense of \$0.5 million and \$1.5 million, respectively), which is included in other operating expenses in the condensed consolidated statement of operations. In addition, the Company has an ABL Facility with associated companies of Chatham and as at May 31, 2019, the Company has no amount drawn and availability of \$15.0 million (August 31, 2018 – \$12.0 million and \$13.0 million, respectively) and during the three and nine months ended May 31, 2019 incurred a nominal amount and \$0.1 million of interest expense, respectively, and paid a nominal amount and \$0.1 million of interest, respectively (2018 – incurred \$0.2 million and \$0.5 million, respectively, and paid \$0.2 million and \$0.4 million, respectively).

17. SUBSEQUENT EVENT

On July 2, 2019, the Company received approval from Postmedia Plan members to merge the Company's defined benefit pension plans with the CAAT Pension Plan (note 11).

HEAD OFFICE

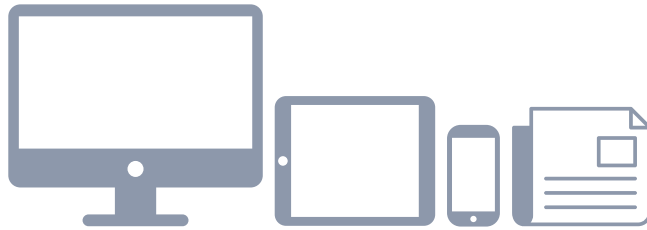
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