SECOND QUARTER

2019

POSTMEDIA

POSTMEDIA

Second Quarter – Fiscal 2019

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

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

Approved for issuance: April 11, 2019

APRIL 11, 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 six months ended February 28, 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 six months ended February 28, 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 six months ended February 28, 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 April 11, 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 six months ended February 28, 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 Winter 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

During the three and six months ended February 28, 2019 we redeemed $20.4 million and $29.1 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 and $20.4 million related to the net proceeds from the sale of property. During the three and six months ended February 28, 2019, we sold the Ottawa Citizen facility for net proceeds of $20.3 and realized a gain on sale of $11.7 million. The excess cash flow related to the six months ended February 28, 2019 resulted in an excess cash flow offer of $5.0 million which is expected be used to redeem a portion of the First-Lien Notes at par on May 14, 2019.

As at February 28, 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 three and six months ended February 28, 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 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. Subsequent to February 28, 2019 the net proceeds were used to redeem $5.5 million aggregate principal amount of First-Lien Notes and pay accrued interest of $0.2 million to satisfy claims arising under the purchase agreement.

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 effective July 1, 2019. The merger is subject to customary closing conditions including approval from both Postmedia Plan members and the Financial Services Commission of Ontario, or its successor (collectively, “FSCO”). Assuming all approvals are obtained, we will become a participating employer under the CAAT Pension Plan and all members of the Postmedia Plans, as well as members of the defined contribution pension plan will become members of the CAAT Pension Plan and begin accruing benefits under the DBplus provisions of the CAAT Pension Plan beginning July 1, 2019. DBplus is a defined benefit pension plan with a fixed contribution rate for members, matched dollar for dollar by employers. The CAAT Pension Plan will assume defined benefit obligations accrued prior to July 1, 2019 contingent on the approval by FSCO of the transfer of assets from the Postmedia Plans. Once this transfer is completed, cash funding obligations related to the transferred Postmedia Plans deficits will be determined and payable to the CAAT Pension Plan over a term of ten years and 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 February 28, 2019 we continued these initiatives and implemented cost reductions which are expected to result in approximately $6 million of net annualized cost savings. In total, we implemented net annualized cost savings of approximately $57 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 February 28, 2019, we have no amounts outstanding on the ABL Facility.

In February 2018, we received certification from the Ontario Digital Media Corporation that digital media tax credits totaling a net cash claim of $19.9 million for the period of September 1, 2012 to April 23, 2015 were eligible to be claimed. We refiled the applicable tax returns to reflect such claim and during the year ended August 31, 2018, we received $20.4 million including accrued interest of $0.5 million, related to this claim. The claim primarily related to the recovery of previously recognized compensation expenses and as a result during the year ended August 31, 2018 we recorded the tax credit as a recovery of compensation expense including an initial recovery of $17.0 million in the three and six months ended February 28, 2018 due to the estimation uncertainty associated with the claims process.

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 six months ended February 28, 2018. During the three months ended February 28, 2018, we incurred severance costs of $0.4 million and a provision for onerous contracts of $0.2 million and during the six months ended February 28, 2018, 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 linage, of advertising sold and rates charged. Print circulation revenue is derived from home-delivery subscriptions for newspapers, including All Access Subscriptions (across the four platforms of print, web, tablet and smartphone), single copy sales at retail outlets and vending machines and is a function of the number of newspapers sold and the price per copy. Digital revenue consists of revenue from owned and operated digital advertising, digital marketing services, off network programmatic digital advertising and revenue from ePaper and Digital Access subscriptions.

Print advertising revenue was $60.1 million and $137.2 million for the three and six months ended February 28, 2019, representing 41.2% and 43.3% of total revenue for such periods, respectively. Our major advertising categories consist of local, national, and inserts. These categories composed 47.5%, 18.6% and 32.9%, respectively, of total print advertising for the three months ended February 28, 2019, and 46.4%, 19.5% and 32.8%, respectively, of total print advertising for the six months ended February 28, 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 six months ended February 28, 2019, we experienced print advertising revenue decreases of $10.0 million, or 14.2% and $24.0 million, or 14.9%, respectively, as compared to the same periods in the prior year. These decreases in print advertising revenue in the three and six months ended February 28, 2019 relates to weakness across all our major advertising categories including local, national and insert advertising.

Print circulation revenue was $50.7 million and $104.2 million for the three and six months ended February 28, 2019, representing 34.8% and 32.9% of total revenue for such periods, respectively. Circulation revenues decreased $2.9 million, or 5.4%, and $7.5 million, or 6.7%, in the three and six months ended February 28, 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 six months ended February 28, 2019. We expect these print circulation revenue trends to continue throughout the remainder of fiscal 2019.

Digital revenue was $28.2 million and $60.9 million for the three and six months ended February 28, 2019, respectively, representing 19.3% and 19.2%, respectively, of total revenue for such periods. Digital revenues increased $1.8 million, or 6.9%, and $3.3 million, or 5.7%, in the three and six months ended February 28, 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 40.4%, 6.3%, 20.9% and 13.1%, respectively, of total operating expenses excluding depreciation, amortization, impairment and restructuring for the three months ended February 28, 2019 and 39.7%, 6.4%, 20.9% and 13.5%, respectively, of total operating expenses excluding depreciation, amortization, impairment and restructuring for the six months ended February 28, 2019. We experienced decreases in newsprint, distribution and production expenses of $0.2 million, $2.5 million and $0.5 million, respectively, and experienced an increase in compensation expense of $7.7 million in the three months ended February 28, 2019 as compared to the same period in the prior year. We experienced decreases in compensation, newsprint, distribution and production expenses of $0.4 million, $1.2 million, $6.5 million and $1.6 million, respectively, in the six months ended February 28, 2019 as compared to the same period in the prior year. The increase and nominal decrease in compensation expense for the three and six months ended February 28, 2019, respectively, is the result of the recovery of $17.0 million related to the tax credit in the three and six months ended February 28, 2018 as described earlier in "Recent Developments", partially offset by the impact of cost reduction initiatives. The decreases in newsprint, distribution and production expenses for the three and six months ended February 28, 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 February 28, 2019 we implemented cost reduction initiatives which are expected to result in approximately $6 million of net annualized cost savings. In total, we implemented net annualized cost savings of approximately $57 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, but do not expect a material change in newsprint prices throughout the remainder 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 six months ended February 28, 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 six months ended February 28, 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 six months ended February 28, 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 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, 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 February 28, 2019 as compared to the three months ended February 28, 2018

	2019	2018
Revenues		
Print advertising	60,096	70,071
Print circulation	50,705	53,612
Digital	28,185	26,372
Other	6,713	7,522
Total revenues	145,699	157,577
Expenses		
Compensation	57,008	49,347
Newsprint	8,862	9,057
Distribution	29,432	31,924
Production	18,433	18,952
Other operating	27,292	27,184
Operating income before depreciation, amortization, impairment and restructuring	4,672	21,113
Depreciation	4,288	5,191
Amortization	3,329	4,278
Impairment	6,600	-
Restructuring and other items	1,095	3,570
Operating income (loss)	(10,640)	8,074
Interest expense	7,034	6,801
Net financing expense relating to employee benefit plans	540	736
Gain on disposal of assets held-for-sale	(11,671)	-
Loss on derivative financial instruments	869	2,565
Foreign currency exchange gains	(1,542)	(776)
Loss before income taxes	(5,870)	(1,252)
Provision for income taxes	-	-
Net loss from continuing operations	(5,870)	(1,252)
Net earnings from discontinued operations, net of tax of nil	791	-
Net loss attributable to equity holders of the Company	(5,079)	(1,252)

Revenue

Print advertising

Print advertising revenue decreased $10.0 million, or 14.2%, to $60.1 million for the three months ended February 28, 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 14.8%, national advertising of 26.4%, and insert advertising of 2.9%. The decreases were due to declines in both volume and rate with the total print advertising linage and average line rate decreasing 13.6% and 5.6%, respectively, during the three months ended February 28, 2019, as compared to the same period in the prior year.

Print circulation

Print circulation revenue decreased $2.9 million, or 5.4%, to $50.7 million for the three months ended February 28, 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 $1.8 million, or 6.9%, to $28.2 million for the three months ended February 28, 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 $0.8 million, or 10.8%, to $6.7 million for the three months ended February 28, 2019, as compared to the same period in the prior year, which includes decreases in commercial printing and rental revenue.

Expenses

Compensation

Compensation expenses increased $7.7 million, or 15.5%, to $57.0 million for the three months ended February 28, 2019, as compared to the same period in the prior year. The increase in compensation expenses is due to the recovery of $17.0 million relating to the tax credit recognized in the prior period as described earlier in "Recent Developments". Excluding this recovery, compensation expenses decreased $9.3 million, or 14.1%, as compared to the same period in the prior year, as a result declines in salary and benefits expense of $7.3 million due to the cost reduction initiatives and a decrease in share-based compensation expense of $2.3 million as a result of awards granted in the three months ended February 28, 2018, partially offset by an increase in short-term incentive plan expense of $0.3 million.

Newsprint

Newsprint expenses decreased $0.2 million, or 2.2%, to $8.9 million for the three months ended February 28, 2019 as compared to the same period in the prior year primarily as a result of consumption decreases of 14.3% 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 $2.5 million, or 7.8%, to $29.4 million for the three months ended February 28, 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 $0.5 million, or 2.7%, to $18.4 million for the three months ended February 28, 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 $0.1 million, or 0.4%, to $27.3 million for the three months ended February 28, 2019, as compared to the same period in the prior year.

Operating income before depreciation, amortization, impairment and restructuring

Operating income before depreciation, amortization, impairment and restructuring decreased $16.4 million to $4.7 million for the three months ended February 28, 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 increases in compensation expense, which includes the tax credit recognized in the prior period as described earlier in “Recent Developments”, and other operating expense, partially offset by decreases in newsprint, distribution and production expenses, all as discussed above.

Depreciation

Depreciation expense decreased $0.9 million to $4.3 million for the three months ended February 28, 2019 as compared to the same period in the prior year. The decrease relates to the disposal of properties throughout the year ended August 31, 2018.

Amortization

Amortization expense decreased $0.9 million to $3.3 million for the three months ended February 28, 2019 as compared to the same period in the prior year. The decrease 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 February 28, 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 three months ended February 28, 2018, there were no impairments.

Restructuring and other items

Restructuring and other items expense decreased $2.5 million to $1.1 million for the three months ended February 28, 2019 as compared to the same period in the prior year. Restructuring and other items expense for the three months ended February 28, 2019 consists of severance costs of $1.1 million, which include both involuntary terminations and voluntary buyouts. Restructuring and other items expense for the three months ended February 28, 2018 consisted of severance costs of $3.4 million, which included both involuntary terminations and voluntary buyouts, and provisions for onerous contracts of $0.2 million related to the Torstar Transaction as described earlier in “Recent Developments”.

Operating income (loss)

Operating loss in the three months ended February 28, 2019 was $10.6 million as compared to operating income of $8.1 million during the same period in the prior year. Operating loss is the result of an decrease in operating income before depreciation, amortization, impairment and restructuring and an impairment charge recognized during the three months ended February 28, 2019, partially offset by decreases in depreciation, amortization and restructuring and other items expense, all as discussed above.

Interest expense

Interest expense increased $0.2 million to $7.0 million for the three months ended February 28, 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 $0.9 million, partially offset by an decrease in cash interest of $0.7 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 February 28, 2019, as compared to the same period in the prior year.

Gain on disposal of assets held-for-sale

During the three months ended February 28, 2019, we disposed the Ottawa Citizen facility and realized a gain of $11.7 million as described earlier in "Recent Developments".

Loss on derivative financial instruments

Losses on derivative financial instruments for the three months ended February 28, 2019 and 2018 were $0.9 million and $2.6 million, respectively. The losses in the three months ended February 28, 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 gains

Foreign currency exchange gains for the three months ended February 28, 2019 and 2018 were $1.5 million and $0.8 million, respectively. Foreign currency exchange gains in the three months ended February 28, 2019 and 2018 primarily relate to changes in the carrying value of our Second-Lien Notes of $1.4 million and $0.5 million, respectively.

Loss before income taxes

Loss before income taxes was $5.9 million for the three months ended February 28, 2019, as compared to $1.3 million for the same period in the prior year. The increase in loss before income taxes is primarily the result of operating loss in the three months ended February 28, 2019 and an increase in interest expense, partially offset by a gain on disposal of assets held-for-sale, an increase in foreign currency exchange gains, decreases in net financing expense relating to employee benefit plans and losses on derivative financial instruments, 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 February 28, 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 $5.9 million for the three months ended February 28, 2019, as compared to $1.3 million for the same period in the prior year. The increase 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 earnings from discontinued operations

Net earnings from discontinued operations for the three months ended February 28, 2019 consists of a gain on sale of Infomart of $0.8 million as 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 three months ended February 28, 2019 was $5.1 million as compared to $1.3 million for the same period in the prior year. The increase in net loss is as a result of the factors described above in net loss from continuing operations and net earnings from discontinued operations.

Operating Results

Postmedia's operating results for the six months ended February 28, 2019 as compared to the six months ended February 28, 2018

	2019	2018
Revenues		
Print advertising	137,187	161,196
Print circulation	104,156	111,625
Digital	60,932	57,661
Other	14,697	16,085
Total revenues	316,972	346,567
Expenses		
Compensation	115,332	115,711
Newsprint	18,622	19,858
Distribution	60,875	67,385
Production	39,354	41,000
Other operating	56,411	57,589
Operating income before depreciation, amortization, impairment and restructuring	26,378	45,024
Depreciation	9,287	10,526
Amortization	7,521	7,667
Impairment	6,600	-
Restructuring and other items	3,773	10,494
Operating income (loss)	(803)	16,337
Interest expense	14,219	14,353
Gain on disposal of operations	-	(4,676)
Net financing expense relating to employee benefit plans	1,081	1,471
Gain on disposal of property and equipment and assets held-for-sale	(11,445)	(1,542)
(Gain) loss on derivative financial instruments	1,426	(535)
Foreign currency exchange losses	1,205	2,745
Earnings (loss) before income taxes	(7,289)	4,521
Provision for income taxes	-	-
Net earnings (loss) from continuing operations	(7,289)	4,521
Net earnings from discontinued operations, net of tax of nil	791	-
Net earnings (loss) attributable to equity holders of the Company	(6,498)	4,521

Revenue

Print advertising

Print advertising revenue decreased $24.0 million, or 14.9%, to $137.2 million for the six months ended February 28, 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 18.9%, national advertising of 23.7%, and insert advertising of 0.3%. The decreases were due to declines in both volume and rate with the total print advertising linage and average line rate decreasing 18.5% and 2.3%, respectively, during the six months ended February 28, 2019, as compared to the same period in the prior year.

Print circulation

Print circulation revenue decreased $7.5 million, or 6.7%, to $104.2 million for the six months ended February 28, 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 $3.3 million, or 5.7%, to $60.9 million for the six months ended February 28, 2019, as compared to the same period in the prior year as a result of increases in owned and operated digital advertising, both programmatic and direct, and digital marketing services, partially offset by decreases in off network programmatic digital advertising.

Other

Other revenue decreased by $1.4 million, or 8.6%, to $14.7 million for the six months ended February 28, 2019, as compared to the same period in the prior year, which includes decreases in commercial printing and rental revenue.

Expenses

Compensation

Compensation expenses decreased $0.4 million, or 0.3%, to $115.3 million for the six months ended February 28, 2019, as compared to the same period in the prior year. The decrease in compensation expenses is partially due to the recovery of $17.0 million relating to the tax credit recognized in the prior period as described earlier in “Recent Developments”. Excluding this recovery, compensation expenses decreased $17.4 million, or 13.1%, as compared to the same period in the prior year, as a result declines in salary and benefits expense of $15.9 million due to the cost reduction initiatives, a decrease in share-based compensation expense of $1.8 million as a result of awards granted in the six months ended February 28, 2018,a decrease in employee benefit plan expense of $0.7 million and a decrease in temporary labour expense of $0.5 million, partially offset by an increase in short-term incentive plan expense of $1.4 million.

Newsprint

Newsprint expenses decreased $1.2 million, or 6.2%, to $18.6 million for the six months ended February 28, 2019 as compared to the same period in the prior year primarily as a result of consumption decreases of 18.1% 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 $6.5 million, or 9.7.%, to $60.9 million for the six months ended February 28, 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 $1.6 million, or 4.0%, to $39.4 million for the six months ended February28, 2019, as compared to the same period in the prior year. The decrease in production expenses is related to the reduction in newspaper circulation volumes and ongoing cost reduction initiatives, partially offset by increases in digital advertising production costs.

Other operating

Other operating expenses decreased $1.2 million, or 2.0%, to $56.4 million for the six months ended February 28, 2019, as compared to the same period in the prior year. The decrease in other operating expenses is primarily related to ongoing cost reduction initiatives.

Operating income before depreciation, amortization, impairment and restructuring

Operating income before depreciation, amortization, impairment and restructuring decreased $18.6 million to $26.4 million for the six months ended February 28, 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, which includes the tax credit recognized in the prior period as described earlier in “Recent Developments”, newsprint, distribution production and other operating expenses, all as discussed above.

Depreciation

Depreciation expense decreased $1.2 million to $9.3 million for the six months ended February 28, 2019 as compared to the same period in the prior year. The decrease relates to the disposal of property and equipment throughout the year ended August 31, 2018.

Amortization

Amortization expense decreased $0.1 million to $7.5 million for the six months ended February 28, 2019 as compared to the same period in the prior year.

Impairment

During the six months ended February 28, 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 six months ended February 28, 2018, there were no impairments.

Restructuring and other items

Restructuring and other items expense decreased $6.7 million to $3.8 million for the six months ended February 28, 2019 as compared to the same period in the prior year. Restructuring and other items expense for the six months ended February 28, 2019 consists of severance costs of $3.8 million, which include both involuntary terminations and voluntary buyouts. Restructuring and other items expense for the six months ended February 28, 2018 consisted of severance costs of $8.3 million, which included both involuntary terminations and voluntary buyouts, provisions for onerous leases related to unoccupied property and onerous contracts of $0.8 million and $0.9 million, respectively, and $0.5 million of acquisition costs related to the Torstar Transaction as described earlier in “Recent Developments”.

Operating income (loss)

Operating loss in the six months ended February 28, 2019 was $0.8 million as compared to operating income of $16.3 million during the same period in the prior year. Operating loss is the result of a decrease in operating income before depreciation, amortization, impairment and restructuring and an impairment charge recognized during the six months ended February 28, 2019, partially offset by decreases in depreciation, amortization and restructuring and other items expense.

Interest expense

Interest expense decreased $0.1 million to $14.2 million for the six months ended February 28, 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 decrease in interest expense relates to a decrease in cash interest of $1.8 million, partially offset by an increase in non-cash interest of $1.6 million. The decrease in cash interest expense is as a result of redemptions of First-Lien Notes as described earlier in “Recent Developments”. The increase in non-cash interest 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”.

Gain on disposal of operations

During the six months ended February 28, 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 $0.4 million to $1.1 million for the six months ended February 28, 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 six months ended February 28, 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) loss on derivative financial instruments

Loss on derivative financial instruments for the six months ended February 28, 2019 was $1.4 million as compared to a gain of $0.5 million during the same period in the prior year. The loss and gain in the six months ended February 28, 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 six months ended February 28, 2019 were $1.2 million as compared to $2.7 million during the same period in the prior year. Foreign currency exchange losses in the six months ended February 28, 2019 and 2018 primarily relate to changes in the carrying value of our Second-Lien Notes of $1.2 million and $2.9 million, respectively.

Earnings (loss) before income taxes

Loss before income taxes was $7.3 million for the six months ended February 28, 2019, as compared to earnings before income taxes of $4.5 million for the same period in the prior year. Loss before income taxes is primarily the result of an operating loss, gain on disposal of operations in the six months ended February 28, 2018 and a loss on derivative financial instruments, partially offset by an increase in gain on disposal of property and equipment and assets held-for-sale and decreases in interest expense, net financing expense relating to employee benefit plans and 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 six months ended February 28, 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 earnings (loss) from continuing operations

Net loss from continuing operations was $7.3 million for the six months ended February 28, 2019, as compared to net earnings from continuing operations of $4.5 million for the same period in the prior year. Net earnings from continuing operations is as a result of the factors described above in earnings (loss) before income taxes and provision for income taxes.

Net earnings from discontinued operations

Net earnings from discontinued operations for the six months ended February 28, 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 earnings (loss) attributable to equity holders of the Company

Net loss for the six months ended February 28, 2019 was $6.5 million as compared to net earnings of $4.5 million for the same period in the prior year, as a result of the factors described above in net earnings (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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenues	145,699	171,273	158,677	171,049	157,577	188,990	176,813	194,045
Net earnings (loss) from continuing operations	(5,870)	(1,419)	(22,852)	(15,539)	(1,252)	5,773	2,417	11,133
Net earnings (loss) per share from continuing operations								
Basic	$ (0.06)	$ (0.02)	$ (0.24)	$ (0.17)	$ (0.01)	$ 0.06	$ 0.03	$ 0.12
Diluted	$ (0.06)	$ (0.02)	$ (0.24)	$ (0.17)	$ (0.01)	$ 0.06	$ 0.03	$ 0.12
Net earnings (loss) attributible to equity holders of the Company	(5,079)	(1,419)	(22,852)	(15,539)	(1,252)	5,773	40,327	13,046
Net earnings (loss) per share attributible to equity holders of the Company								
Basic	$ (0.05)	$ (0.02)	$ (0.24)	$ (0.17)	$ (0.01)	$ 0.06	$ 0.43	$ 0.14
Diluted	$ (0.05)	$ (0.02)	$ (0.24)	$ (0.17)	$ (0.01)	$ 0.06	$ 0.43	$ 0.14
Cash flows from (used in) operating activities	7,585	(5,200)	26,188	1,228	1,844	(2,458)	843	(11,268)

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 flo ws 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 ($105.3 million) that mature in July 2021 and Second-Lien Notes (US$114.3 million) that mature in July 2023. As at April 11, 2019, we have repaid $125.3 million, or 56%, 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 February 28, 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 February 28, 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 February 28, 2019, we have restricted cash of $5.7 million (August 31, 2018 - $5.7 million) which represents a portion of the Infomart Transaction proceeds paid into escrow to satisfy claims arising under the purchase agreement as described earlier in “Recent Developments”. On February 15, 2019 the funds were released and subsequent to February 28, 2019 the net proceeds were used to redeem $5.5 million aggregate principal amount of First-Lien Notes and pay accrued interest of $0.2 million. In addition, during six months ended February 28, 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.

On March 19, 2019 the federal budget re-announced the three commitments that were made in the Fall Economic Statement in support of the newspaper industry, and provided additional information on each of the measures. The measures include: 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. We are currently exploring these tax measures and determining our eligibility where applicable.

Cash flows from (used in) operating activities

Our principal sources of liquidity are cash flows from operating activities. For the three and six months ended February 28, 2019, our cash flows from operating activities were inflows of $7.6 million and $2.4 million, respectively (2018 – inflows of $1.8 million and outflows of $0.6 million, respectively). Cash flows from operating activities increased $5.7 million for the three months ended February 28, 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 $17.0 million receivable related to the tax credit as described earlier in “Recent Developments” and a decrease in cash restructuring payments of $4.6 million, partially offset by a decrease in operating income before depreciation, amortization, impairment and restructuring. Cash flows from operating activities increased $3.0 million for the six months ended February 28, 2019, as compared to the same period in the prior year due to due to a decrease in non-cash working capital as compared to the same period in the prior year which included the $17.0 million receivable related to the tax credit as described earlier in “Recent Developments”, a decrease in cash restructuring payments of $8.1 million and a decrease in cash interest payments of $3.0 million, partially offset by a decrease in operating income before depreciation, amortization, impairment and restructuring,

As at February 28, 2019 we had cash of $18.5 million (August 31, 2018 –$26.0 million).

Cash flows from (used in) investing activities

For the three and six months ended February 28, 2019, our cash flows from investing activities were inflows of $19.9 million and $20.0 million, respectively (2018 – outflows of $0.3 million and inflows of $9.1 million, respectively). The net cash inflows from investing activities during the three months ended February 28, 2019 include net proceeds received from the sale of assets held-for-sale of $20.3 million, partially offset by outflows for capital expenditures related to property and equipment of $0.4 million and a nominal amount for intangible assets. The cash outflows from investing activities during the three months ended February 28, 2018 included outflows for capital expenditures related to property and equipment of $0.1 million and intangible assets of $0.2 million. The net cash inflows from investing activities during the six months ended February 28, 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 $0.5 million and intangible assets of $0.2 million. The net cash inflows from investing activities during the six months ended February 28, 2018 included the net proceeds received from the sale of property and equipment and an asset held-for-sale of $9.8 million, partially offset by outflows for capital expenditures related to property and equipment of $0.3 million and intangible assets of $0.4 million.

Cash flows used in financing activities

For the three and six months ended February 28, 2019, our cash flows used in financing activities were outflows of $19.9 million and $29.1 million, respectively (2017 –$2.0 million and $5.4 million, respectively). The net cash outflows from financing activities during the three months ended February 28, 2019 include the repayment of First-Lien Notes of $20.4 million, partially offset by net inflows from restricted cash of $0.4 million. The cash outflows from financing activities during the three months ended February 28, 2018 included the repayment of the ABL Facility of $2.0 million. The cash outflows from financing activities during the six months ended February 28, 2019 include the repayment of First-Lien Notes of $29.1 million. The net cash outflows from financing activities during the six months ended February 28, 2018 included outflows of $79.4 million related to the repayment of First-Lien Notes, partially offset by inflows from restricted cash of $62.0 million and advances from the ABL Facility of $12.0 million.

Indebtedness

As of February 28, 2019, we have $105.3 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 three and six months ended February 28, 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 February 28, 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 February 28, 2019 of US$1:$1.3169 (August 31, 2017 – US$1:$1.3055).

	As at February 28, 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................................	105,271	(1,666)	103,605	134,344	(2,597)	131,747
Second-Lien Notes..........................	150,466	(215)	150,251	141,220	(227)	140,993
ABL Facility......................................	-	-	-	-	-	-
Total..	255,737	(1,881)	253,856	275,564	(2,824)	272,740

Financial Position As at February 28, 2019 and August 31, 2018

($ in thousands of Canadian dollars)	As at February 28, 2019	As at August 31, 2018 (revised)
Current assets	131,490	122,424
Total assets	312,193	353,263
Current liabilities	107,875	119,211
Total liabilities	423,653	446,462
Deficiency	(111,460)	(93,199)

The increase in our current assets is primarily due to an increase in assets held-for-sale and prepaid expenses, partially offset by a decrease in cash. 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 in excess of additions in the six months ended February 28, 2019 and a decrease in derivative financial instruments, partially offset by the increase in current assets as previously described. Current liabilities have decreased due to a decrease in provisions as a result of restructuring payments and decreases in accounts payable and accrued liabilities and deferred revenue, partially offset by an increase in the current portion of long-term debt as a result of the redemption of First-Lien Notes subsequent to February 28, 2019 as described earlier in “Recent Developments”. The decrease in total liabilities is as a result of the decrease in current liabilities as previously described and a decrease in the carrying value of long-term debt as a result of the redemptions of First-Lien Notes as described earlier in “Recent Developments”, partially offset by the increase in employee benefit plan liabilities as a result of actuarial losses in the six months ended February 28, 2019.

Related Party Transactions

Chatham owns approximately 62,304,249, or 66%, of our shares. We have a consulting agreement with Chatham and during the three and six months ended February 28, 2019 recognized an expense of $0.2 million and $0.6 million, respectively (2018 - $0.5 million and $1.0 million, respectively). In addition, we have an ABL Facility with associated companies of Chatham as described earlier in “Recent Developments” and as at February 28, 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 six months ended February 28, 2019, incurred $0.1 million of interest expense and paid a nominal amount and $0.1 million of interest, respectively (2018 – incurred $0.2 million and $0.3 million, respectively and paid $0.1 million and $0.2 million, respectively).

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 February 28, 2019, approximately 59% of the outstanding principal on our long-term debt is payable in US dollars (August 31, 2018 – 51%). As at February 28, 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 February 28, 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 April 9, 2019 we had the following number of shares and options outstanding:

Class C voting shares…………………………….	84,787
Class NC variable voting shares………………...	93,655,512
Total shares outstanding………………………….	93,740,299
Total options and restricted share units outstanding………………………………………….	6,271,930

(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 2,976,958 that are vested and 3,294,972 that are unvested.—

POSTMEDIA NETWORK CANADA CORP.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Approved for issuance: April 11, 2019

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

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

	For the three months ended February 28,		For the six months ended February 28,	
	2019	**2018**	**2019**	**2018**
Revenues				
Print advertising	60,096	70,071	137,187	161,196
Print circulation	50,705	53,612	104,156	111,625
Digital	28,185	26,372	60,932	57,661
Other	6,713	7,522	14,697	16,085
Total revenues	145,699	157,577	316,972	346,567
Expenses				
Compensation (note 5)	57,008	49,347	115,332	115,711
Newsprint	8,862	9,057	18,622	19,858
Distribution	29,432	31,924	60,875	67,385
Production	18,433	18,952	39,354	41,000
Other operating	27,292	27,184	56,411	57,589
Operating income before depreciation, amortization, impairment and restructuring (note 3)	4,672	21,113	26,378	45,024
Depreciation	4,288	5,191	9,287	10,526
Amortization	3,329	4,278	7,521	7,667
Impairment (note 7)	6,600	-	6,600	-
Restructuring and other items (notes 4 and 9)	1,095	3,570	3,773	10,494
Operating income (loss)	(10,640)	8,074	(803)	16,337
Interest expense	7,034	6,801	14,219	14,353
Gain on disposal of operations (note 4)	-	-	-	(4,676)
Net financing expense relating to employee benefit plans (note 11)	540	736	1,081	1,471
Gain on disposal of property and equipment and assets held-for-sale (note 6)	(11,671)	-	(11,445)	(1,542)
(Gain) loss on derivative financial instruments (note 14)	869	2,565	1,426	(535)
Foreign currency exchange (gains) losses	(1,542)	(776)	1,205	2,745
Earnings (loss) before income taxes	(5,870)	(1,252)	(7,289)	4,521
Provision for income taxes	-	-	-	-
Net earnings (loss) from continuing operations	(5,870)	(1,252)	(7,289)	4,521
Net earnings from discontinued operations, net of tax of nil (note 9)	791	-	791	-
Net earnings (loss) attributable to equity holders of the Company	(5,079)	(1,252)	(6,498)	4,521
Earnings (loss) per share attributable to equity holders of the Company (note 12):				
Basic	$ (0.06)	$ (0.01)	$ (0.08)	$ 0.05
Diluted	$ (0.06)	$ (0.01)	$ (0.08)	$ 0.05
Earnings per share from discontinued operations (note 12):				
Basic	$ 0.01	$ -	$ 0.01	$ -
Diluted	$ 0.01	$ -	$ 0.01	$ -
Earnings (loss) per share attributable to equity holders of the Company (note 12):				
Basic	$ (0.05)	$ (0.01)	$ (0.07)	$ 0.05
Diluted	$ (0.05)	$ (0.01)	$ (0.07)	$ 0.05

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

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

(In thousands of Canadian dollars)

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

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

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

(In thousands of Canadian dollars)

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

Subsequent events (note 17)

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

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

(In thousands of Canadian dollars)

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

	For the six months ended February 28, 2018			
	Capital stock	Contributed surplus	Deficit	Total Deficiency
Balance as at August 31, 2017	810,836	10,412	(907,366)	(86,118)
Net earnings attributable to equity holders of the Company	-	-	4,521	4,521
Other comprehensive income	-	-	17,460	17,460
Comprehensive income attributable to equity holders of the Company	-	-	21,981	21,981
Share-based compensation plans (note 13)	-	2,530	-	2,530
Balance as at February 28, 2018	**810,836**	**12,942**	**(885,385)**	**(61,607)**

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

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

(In thousands of Canadian dollars)

	For the three months ended February 28,		For the six months ended February 28,	
	2019	**2018**	**2019**	**2018**
CASH GENERATED (UTILIZED) BY:				
OPERATING ACTIVITIES				
Net earnings (loss) attributable to equity holders of the Company	(5,079)	(1,252)	(6,498)	4,521
Items not affecting cash:				
Depreciation	4,288	5,191	9,287	10,526
Amortization	3,329	4,278	7,521	7,667
Impairment (note 7)	6,600	-	6,600	-
Gain on disposal of operations (note 4)	-	-	-	(4,676)
(Gain) loss on derivative financial instruments (note 14)	869	2,565	1,426	(535)
Non-cash interest	4,580	3,655	9,120	7,477
Gain on disposal of property and equipment and assets-held-for-sale (note 6)	(11,671)	-	(11,445)	(1,542)
Non-cash foreign currency exchange (gains) losses	(1,525)	(730)	1,236	2,806
Gain on sale of discontinued operations (note 9)	(791)	-	(791)	-
Share-based compensation plans (note 13)	281	2,530	708	2,530
Net financing expense relating to employee benefit plans (note 11)	540	736	1,081	1,471
Non-cash compensation expense of employee benefit plans (note 11)	1,204	-	421	-
Employee benefit plan funding in excess of compensation expense (note 11)	-	(3,741)	-	(3,800)
Net change in non-cash operating accounts (note 15)	4,960	(11,388)	(16,281)	(27,059)
Cash flows from (used in) operating activities	7,585	1,844	2,385	(614)
INVESTING ACTIVITIES				
Net proceeds from the sale of property and equipment and assets held-for-sale (note 6)	20,344	-	20,735	9,829
Purchases of property and equipment	(1,279)	(134)	(1,445)	(283)
Purchases of intangible assets	(22)	(190)	(191)	(429)
Cash flows from (used in) investing activities	19,043	(324)	19,099	9,117
FINANCING ACTIVITIES				
Repayment of long-term debt (note 10)	(20,355)	-	(29,073)	(79,442)
Advances from (repayments of) senior secured asset-based revolving credit facility (note 10)	-	(2,000)	-	12,000
Restricted cash (note 6)	391	(2)	(2)	62,042
Issuance of shares (note 12)	25	-	25	-
Cash flows used in financing activities	(19,939)	(2,002)	(29,050)	(5,400)
Net change in cash for the period	6,689	(482)	(7,566)	3,103
Cash at beginning of period	11,782	14,433	26,037	10,848
Cash at end of period	**18,471**	**13,951**	**18,471**	**13,951**

Supplemental disclosure of operating cash flows				
Interest paid	380	87	5,890	8,903
Income taxes paid	-	-	-	-

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

1. DESCRIPTION OF BUSINESS

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

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

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

2. BASIS OF PRESENTATION

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

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

Critical accounting estimates

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

Changes in accounting policies

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

IFRS 9 – Financial Instruments

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

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

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

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

Debt instruments at amortized cost

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

Financial assets at FVTPL

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

Other financial liabilities

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

Impairment

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

IFRS 15 – Revenue from Contracts with Customers

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

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

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

4. BUSINESS ACQUISITION

On November 27, 2017, the Company entered into an asset purchase agreement with Metroland Media Group Ltd. and Free Daily News Group Inc., both subsidiaries of Torstar Corporation, (collectively, "Torstar") to acquire 22 of Torstar's community newspapers and two free daily commuter newspapers. In consideration, the Company sold 15 of its community newspapers and two free daily commuter newspapers to Torstar (the "Torstar Transaction"). The Company is continuing to operate one of the community newspapers acquired and closed the remaining properties between November 2017 and January 2018 as they were located in areas serviced by multiple publications. The Torstar Transaction is a non-monetary transaction as there was no cash exchanged. The Company accounted for the non-monetary transaction as a business combination with the fair value of the properties transferred representing the acquisition consideration. The estimated fair value of the respective properties of the Company and Torstar is $3.5 million and the difference between the acquisition consideration and the carrying value of the net liabilities transferred was recognized as a gain on disposal of operations in the consolidated statement of operations. During the three months ended February 28, 2018, the Company incurred severance costs of $0.4 million and a provision for onerous contracts of $0.2 million and during the six months ended February 28, 2018, the Company incurred severance costs of $3.5 million, provisions for onerous leases and contracts of $0.8 million and $0.9 million, respectively, and acquisition costs of $0.5 million related to the Torstar Transaction all of which are included in restructuring and other items in the condensed consolidated statement of operations (note 9). The Competition Bureau is reviewing the Torstar Transaction under the provisions of the *Competition Act* (Canada) and the Company is cooperating with the Competition Bureau in connection with its investigation.

On November 27, 2017, the date of acquisition, the Company transferred the following net liabilities to Torstar and recognized a gain on disposal of operations in the six months ended February 28, 2018 as follows:

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

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

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

(1) The Company has allocated the intangible assets acquired to customer relationships with a useful life of one year and during the three and six months ended February 28, 2019 recognized amortization expense of nil and \$0.9 million, respectively (2018 – \$0.9 million).

5. ONTARIO INTERACTIVE DIGITAL MEDIA TAX CREDIT

In February 2018, the Company received certification from the Ontario Digital Media Corporation that digital media tax credits totaling a net cash claim of \$19.9 million for the period of September 1, 2012 to April 23, 2015 were eligible to be claimed. The Company refiled the applicable tax returns to reflect such claim and during the year ended August 31, 2018 received \$20.4 million, including accrued interest of \$0.5 million, related to this claim. The claim primarily related to the recovery of previously recognized compensation expense and as a result during the year ended August 31, 2018, the Company recorded the tax credit as a recovery of compensation expense including an initial recovery of \$17.0 million in the three and six months ended February 28, 2018 due to the estimation uncertainty associated with the claims process.

6. RESTRICTED CASH

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

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

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

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

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

7. ASSETS HELD-FOR-SALE

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

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

9. PROVISIONS

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

(a) Restructuring and unoccupied leases

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

(b) Other provisions

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

10. LONG-TERM DEBT

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

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

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

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

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

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

11. EMPLOYEE BENEFIT PLANS

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

For the three months ended February 28, 2019 and 2018

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

For the six months ended February 28, 2019 and 2018

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

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

Actuarial (gains) losses related to the Company's pension benefit plans and post-retirement benefit plans recognized in the condensed consolidated statements of comprehensive income (loss) for the three and six months ended February 28, 2019 and 2018 are as follows:

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

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

(1) The discount rate used in measuring the Company's benefit obligations as at February 28, 2019 was 3.55% for pension benefits and 3.70% for post-retirement benefits (August 31, 2018 – 3.60% and 3.65%, respectively).

Changes to the net defined benefit plan obligations related to the Company's pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans for the six months ended February 28, 2019 are as follows:

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

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

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

12. CAPITAL STOCK AND EARNINGS (LOSS) PER SHARE

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

The following table provides a reconciliation of the denominators, which are presented in whole numbers, used in computing basic and diluted earnings (loss) per share for the three and six months ended February 28, 2019 and 2018. No reconciling items in the computation of net earnings (loss) exist.

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

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

13. SHARE-BASED COMPENSATION PLANS

Share option plan

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

During the six months ended February 28, 2019, the Company granted 0.6 million options. The fair value of the underlying options was estimated using the Black-Scholes option pricing model. The weighted average fair value of the issued options and key assumptions used in applying the Black-Scholes option pricing model were as follows:

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

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

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

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

The following table provides details on the changes to the issued options, which are presented in whole numbers, for the six months ended February 28, 2019:

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

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

Restricted share unit plan

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

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

14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial instruments measured at fair value

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

	As at February 28, 2019	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets				
Warrants [1]	1,053	-	1,053	-

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

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

The Company's policy is to recognize transfers in and out of the fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the three and six months ended February 28, 2019 and 2018 there were no transfers within the fair value hierarchy.

Financial instruments measured at amortized cost

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

The carrying value and fair value of long-term debt as at February 28, 2019 and August 31, 2018 are as follows:

	As at February 28, 2019		As at August 31, 2018	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
			(revised - note 2)	
Other financial liabilities				
Long-term debt	253,856	285,160	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 February 28, 2019, approximately 59% of the outstanding principal on the Company's long-term debt is payable in US dollars (August 31, 2018 – 51%). As at February 28, 2019, the Company is exposed to foreign currency risk on the US$114.3 million of 10.25% Second Lien Secured Notes due 2023 outstanding (August 31, 2018 - US$108.2 million).

15. STATEMENT OF CASH FLOWS

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

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

16. RELATED PARTY TRANSACTIONS

Chatham owns approximately 62,304,249, or 66%, of the Company's shares. The Company has a consulting agreement with Chatham and during the three and six months ended February 28, 2019 recognized an expense of $0.2 million and $0.6 million, respectively (2018 - $0.5 million and $1.0 million, respectively), which is included in other operating expenses in the condensed consolidated statement of operations. In addition, the Company has an ABL Facility with associated companies of Chatham and as at February 28, 2019, the Company has no amount drawn and availability of $15.0 million (August 31, 2018 – $12.0 million and $13.0 million, respectively) and during the three and six months ended February 28, 2019 incurred $0.1 million of interest expense, respectively, and paid a nominal amount and $0.1 million of interest, respectively (2018 – incurred $0.2 million and $0.3 million, respectively and paid $0.1 million and $0.2 million, respectively).

17. SUBSEQUENT EVENTS

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

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

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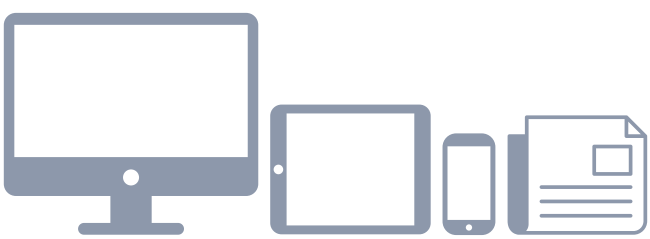

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