POSTMEDIA NETWORK CANADA CORP.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 29, 2020 AND FEBRUARY 28, 2019
(UNAUDITED)

Approved for issuance: May 8, 2020

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

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

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

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

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

(In thousands of Canadian dollars)

	For the three months ended		For the six months ended	
	February 29,	February 28,	February 29,	February 28,
	2020	**2019**	**2020**	**2019**
Net loss attributable to equity holders of the Company	(12,820)	(5,079)	(15,820)	(6,498)
Amounts not subsequently reclassified to the statement of operations				
Losses on employee benefit plans, net of tax of nil (note 9)	(40,645)	(6,701)	(16,798)	(12,496)
Other comprehensive loss	(40,645)	(6,701)	(16,798)	(12,496)
Comprehensive loss attributable to equity holders of the Company	(53,465)	(11,780)	(32,618)	(18,994)
Total comprehensive loss attributable to equity holders of the Company:				
Continuing operations	(53,465)	(12,571)	(32,618)	(19,785)
Discontinued operations	-	791	-	791
Comprehensive loss attributable to equity holders of the Company	(53,465)	(11,780)	(32,618)	(18,994)

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 29, 2020	As at August 31, 2019
ASSETS		
Current Assets		
Cash	15,467	15,464
Restricted cash (note 8)	-	13
Trade and other receivables (note 4)	74,592	72,228
Assets held-for-sale (note 5)	29,029	24,475
Inventory	3,409	3,554
Prepaid expenses and other assets	10,900	10,269
Total current assets	133,397	126,003
Non-Current Assets		
Property and equipment (note 5)	98,879	109,860
Right of use assets (note 2)	45,053	-
Derivative financial instruments and other assets (note 12)	2,799	2,829
Intangible assets	56,025	60,367
Total assets	336,153	299,059
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (note 6)	49,178	54,122
Provisions (note 7)	9,581	5,893
Deferred revenue	25,161	25,907
Current portion of lease obligations (note 2)	8,522	-
Current portion of long-term debt (note 8)	5,000	5,000
Total current liabilities	97,442	90,922
Non-Current Liabilities		
Long-term debt (note 8)	259,716	250,011
Employee benefit obligations and other liabilities (note 9)	106,838	94,537
Lease obligations (note 2)	40,815	-
Total liabilities	504,811	435,470
Deficiency		
Capital stock	810,861	810,861
Contributed surplus (note 11)	15,141	14,770
Deficit	(994,660)	(962,042)
Total deficiency	(168,658)	(136,411)
Total liabilities and deficiency	336,153	299,059

Subsequent event (note 15)

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 29, 2020			
	Capital stock	Contributed surplus	Deficit	Total Deficiency
Balance as at August 31, 2019	810,861	14,770	(962,042)	(136,411)
Net loss attributable to equity holders of the Company	-	-	(15,820)	(15,820)
Other comprehensive loss	-	-	(16,798)	(16,798)
Comprehensive loss attributable to equity holders of the Company	-	-	(32,618)	(32,618)
Share-based compensation plans (note 11)	-	371	-	371
Balance as at February 29, 2020	**810,861**	**15,141**	**(994,660)**	**(168,658)**

	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	-	-	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 loss attributable to equity holders of the Company	-	-	(18,994)	(18,994)
Share-based compensation plans (note 11)	-	708	-	708
Issuance of shares	25	-	-	25
Balance as at February 28, 2019	**810,861**	**14,297**	**(936,618)**	**(111,460)**

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

Supplemental disclosure of operating cash flows				
Interest paid	17	380	3,965	5,890
Income taxes paid	-	-	-	-

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

1. DESCRIPTION OF BUSINESS

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

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

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

2. BASIS OF PRESENTATION

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

These interim condensed consolidated financial statements were approved by the Board of Directors (the "Board") on May 8, 2020.

Critical accounting estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Although these estimates, assumptions and judgements are based upon management's knowledge of the amount, event or actions; actual results could differ from those estimates, assumptions and judgements. The critical accounting estimates are not materially different from those disclosed in the Company's consolidated financial statements for the years ended August 31, 2019 and 2018, except for the estimate of certain lease terms as described below in "Changes in accounting policies" and the estimates and judgements with respect to future cash flow projections. Subsequent to February 29, 2020, the impact of the COVID-19 pandemic has caused a disruption to the economy and as a result the Company must consider its impact on future cash flow projections (note 15). This includes making assumptions and estimates regarding the timing and amounts of future revenues and expenses and the ability to manage liquidity which includes the use of the senior secured asset-based revolving credit facility ("ABL Facility") currently expiring on January 18, 2021.

Changes in accounting policies

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

IFRS 16 – Leases

The standard was issued in January 2016 and replaces IAS 17 – Leases. The Company adopted the standard on a modified retrospective basis on September 1, 2019 and accordingly has not restated comparative financial information. The Company mainly has lease contracts related to real estate which were primarily accounted for as operating leases. The new standard provides a single lessee accounting model which eliminates the distinction between operating and finance leases. In particular, lessees are required to report most leases on the statement of financial position by recognizing right-of-use assets and related lease liabilities. The right-of-use asset is depreciated over the term of the lease. The lease liability is initially measured at the present value of the applicable lease payments payable over the term of the lease and bears interest. Limited recognition exemptions apply if the underlying asset has a low value or the lease term is 12 months or less. The Company has also elected not to reassess whether a contract is, or contains a lease on the date of initial application. The impact of adoption includes an increase in right of use assets of $48.8 million and lease obligations of $51.1 million, a decrease in other long-term liabilities of $4.6 million and a decrease in property and equipment of $2.3 million. Lease obligations were measured using the Company's estimated incremental borrowing rate of 6.3% as at September 1, 2019 and the right of use assets were measured at an amount equal to the lease obligation adjusted for amounts previously recognized in the statement of financial position as at August 31, 2019. During the three and six months ended February 29, 2020, the adoption of IFRS 16 has resulted in a reduction of other operating expenses of $2.0 million and $4.2 million, respectively, an increase in amortization expense of $1.8 million and $3.7 million, respectively, and an increase in interest expense of $0.8 million and $1.5 million, respectively.

Leases accounting policy applicable from September 1, 2019

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

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

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

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

Changes to the Company's right of use assets and lease obligations for the six months ended February 29, 2020 are as follows:

	Right of use assets	Lease Liabilities
Balance as at September 1, 2019	48,783	51,058
Amortization	(3,651)	-
Additions	(79)	(79)
Payments	-	(3,182)
Interest	-	1,540
Balance as at February 29, 2020	45,053	49,337
Lease obligations due within one year		(8,522)
Non-current lease obligations		40,815

IAS 19 – Employee Benefits

In February 2018, the IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments apply for employee benefit plan amendments, curtailments or settlements that will occur during annual periods beginning on or after January 1, 2019. The amendments to IAS 19 clarify that for an amendment, curtailment or settlement of a defined benefit plan, a company uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan. The Company has adopted the amendments to IAS 19 for the year ending August 31, 2020 and have determined no significant impact on the consolidated financial statements upon adoption.

3. OPERATING INCOME BEFORE DEPRECIATION, AMORTIZATION, 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. JOURNALISM TAX CREDITS

On June 21, 2019 the federal budget was approved which contained measures specific to the news media industry including a journalism tax credit whereby qualifying Canadian news organizations may apply for a refundable labour tax credit applied to the salaries of journalists. In December 2019, the Canada Revenue Agency ("CRA") issued the Application for Qualified Canadian Journalism Organization Designation and guidance related to the eligibility, qualifications and determination of the refundable labour tax credit which was further clarified in April 2020.

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

During the three and six months ended February 29, 2020, the Company recognized a recovery of compensation expense of $1.3 million and $3.7 million, respectively, related to the journalism tax credits (2019 – nil). As at February 29, 2020, the aggregate journalism tax credit receivable of $10.7 million is included in trade and other receivables on the condensed consolidated statement of financial position (August 31, 2019 - $7.0 million). The recognition of the journalism tax credits receivable is based on the Company's interpretation of the federal budget and the related legislation. Actual amounts received may differ from the amounts currently recorded based on future CRA and/or Revenue Québec interpretations of eligibility, qualifications and determination of the tax credits.

5. ASSETS HELD-FOR-SALE

Due to an outsourcing agreement announced in November 2019, the Company determined that the Edmonton press facility's carrying amount will be recovered principally through a sales transaction and as a result, classified this property as held-for-sale on the consolidated statement of financial position. The Company reclassified the property as held-for-sale at its carrying amount of $4.5 million which is less than its estimated fair value less costs of disposal resulting in aggregate assets held-for sale as at February 29, 2020 of $29.0 million (August 31, 2019 - $24.5 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 related to assets held-for-sale.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at February 29, 2020	As at August 31, 2019
Trade accounts payable	10,228	11,219
Accrued liabilities	34,653	38,768
Accrued interest on long-term debt	4,297	4,135
Accounts payable and accrued liabilities	49,178	54,122

7. PROVISIONS

	Restructuring [a]	Unoccupied leases	Other provisions	Total
Provisions as at August 31, 2019	5,331	502	60	5,893
Charges	9,705	-	-	9,705
Payments	(5,771)	(246)	-	(6,017)
Provisions as at February 29, 2020	9,265	256	60	9,581
Portion due within one year	(9,265)	(256)	(60)	(9,581)
Non-current provisions	-	-	-	-

(a) Restructuring

During the six months ended February 29, 2020, the Company began new initiatives and during the three and six months ended February 29, 2020, incurred restructuring expense of $1.1 million and $9.7 million, respectively, which include both involuntary terminations and voluntary buyouts.

8. LONG-TERM DEBT

	Maturity	Principal	Financing fees, discounts and other	As at February 29, 2020 Carrying value of debt	As at August 31, 2019 Carrying value of debt
8.25% Senior Secured Notes	July 2021	-	-	-	94,761
8.25% Senior Secured Notes	July 2023	95,235	(1,505)	93,730	-
10.25% Second Lien Secured Notes (US$127.5M) [(1)]	January 2024	171,184	(198)	170,986	160,250
Senior Secured Asset-Based Revolving Credit Facility	January 2021	-	-	-	-
Total long-term debt				264,716	255,011
Portion due within one year				(5,000)	(5,000)
Non-current long-term debt				259,716	250,011

[(1)] US$ principal translated to the Canadian equivalent based on the foreign exchange rate on February 29, 2020 of US$1:$1.3429 (August 31, 2019 - US$1:$1.3295).

The terms and conditions of long-term debt as at February 29, 2020 are the same as disclosed in the consolidated financial statements for the years ended August 31, 2019 and 2018 except for the changes described below.

On September 9, 2019, the Company completed a refinancing transaction (“Refinancing Transaction”) that included the redemption of $94.8 million aggregate principal amount of 8.25% Senior Secured Notes due 2021 (“First-Lien Notes”) at par, plus accrued interest of $2.8 million, and terminated the First-Lien Notes indenture. The Company financed the redemption through the issuance of $95.2 million aggregate principal amount of 8.25% Senior Secured Notes due 2023 (“New First-Lien Notes”) to Canso Investment Counsel Ltd., in its capacity as portfolio manager for and on behalf of certain accounts that it manages (collectively, “Canso”) for net proceeds of $93.5 million, after financing fees of $1.7 million. The New First-Lien Notes have substantially similar terms to the First-Lien Notes with the exception of a reduction to the minimum annual excess cash flow redemption from $10.0 million to $5.0 million. In addition, the Company extended the maturity of its 10.25% Second Lien Secured Notes due 2023 (“Second-Lien Notes”) by six months to January 15, 2024. The Company determined that the refinancing of the First-Lien Notes was an extinguishment and the refinancing of the Second-Lien Notes was a modification. The resulting effective interest rate of the New First-Lien Notes which amortizes the aggregate initial financing fees based on the estimated initial cash flows is 9.1%. Upon close of the Refinancing Transaction, a nominal amount of restricted cash was released to the Company.

On January 31, 2020, the Company issued additional Second-Lien Notes in the amount of US$6.8 million ($9.0 million) related to paid-in-kind interest as per the terms of the Second-Lien Notes indenture (2019 – US$6.1 million ($8.0 million)).

Subsequent to February 29, 2020, the impact of the COVID-19 pandemic has caused a disruption to the economy and as a result the Company is in the process of addressing these current challenges which includes the receipt of a waiver of certain terms related to the New First-Lien Notes indenture. The cash interest payment of $3.9 million due on April 30, 2020 will be satisfied through the issuance of additional New First-Lien Notes and the mandatory excess cash flow redemption related to the six months ended February 29, 2020 has been waived in full (note 15).

On December 15, 2018, the Company entered into an agreement to extend the term of the ABL Facility to January 18, 2021 with Chatham Asset Management LLC ("Chatham LLC") and certain investment funds or accounts for which Chatham LLC or its affiliates acts as an investment advisor, sub-advisor or manager (collectively, "Chatham"), for an aggregate availability of up to $15.0 million, which may be increased by up to $10.0 million at the Company's request and with the consent of the lender. As at February 29, 2020, the Company has no amount drawn on the ABL Facility and has availability of $15.0 million (August 31, 2019 – nil and $15.0 million, respectively) and during the three and six months ended February 29, 2020, incurred and paid $0.1 million of interest (2019 – incurred $0.1 million and paid a nominal amount and $0.1 million, respectively).

9. EMPLOYEE BENEFIT PLANS

The Company has a number of funded and unfunded defined benefit plans that include pension benefits, post-retirement benefits, and other long-term employee benefits as well as a defined contribution pension benefit plan. The net employee benefit plan costs related to the Company's pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans reported in net loss in the condensed consolidated statements of operations for the three and six months ended February 29, 2020 and February 28, 2019 are as follows:

For the three months ended February 29, 2020 and February 28, 2019

	Pension benefits		Post-retirement benefits		Other long-term employee benefits		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Current service cost	-	801	103	256	95	88	198	1,145
Administration costs	252	252	-	-	-	-	252	252
Net actuarial (gains) losses	-	-	-	-	210	212	210	212
Net financing expense	337	85	197	347	75	108	609	540
Net defined benefit plan expense [(1)]	589	1,138	300	603	380	408	1,269	2,149
Employer contributions to defined contribution plans	1,157	890	-	-	-	-	1,157	890
Total plan expense	1,746	2,028	300	603	380	408	2,426	3,039

For the six months ended February 29, 2020 and February 28, 2019

	Pension benefits		Post-retirement benefits		Other long-term employee benefits		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Current service cost	-	1,603	206	512	190	176	396	2,291
Administration costs	503	503	-	-	-	-	503	503
Net actuarial losses	-	-	-	-	91	105	91	105
Net financing expense	676	171	394	693	149	217	1,219	1,081
Net defined benefit plan expense [(1)]	1,179	2,277	600	1,205	430	498	2,209	3,980
Employer contributions to defined contribution plans	2,425	1,849	-	-	-	-	2,425	1,849
Total plan expense	3,604	4,126	600	1,205	430	498	4,634	5,829

(1) All current service costs, administration costs and net actuarial 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.

Gains (losses) related to the Company's pension benefit plans and post-retirement benefit plans recognized in the condensed consolidated statements of comprehensive loss for the three and six months ended February 29, 2020 and February 28, 2019 are as follows:

For the three months ended February 29, 2020 and February 28, 2019						
	Pension benefits		Post-retirement benefits		Total	
	2020	2019	2020	2019	2020	2019
Net actuarial losses on employee benefits [1]	(41,816)	(5,679)	(1,090)	(1,022)	(42,906)	(6,701)
Impact of asset ceiling	2,261	-	-	-	2,261	-
Net actuarial losses recognized in other comprehensive loss	(39,555)	(5,679)	(1,090)	(1,022)	(40,645)	(6,701)

For the six months ended February 29, 2020 and February 28, 2019						
	Pension benefits		Post-retirement benefits		Total	
	2020	2019	2020	2019	2020	2019
Net actuarial losses on employee benefits [1]	(16,802)	(12,836)	(731)	340	(17,533)	(12,496)
Impact of asset ceiling	735	-		-	735	-
Net actuarial losses recognized in other comprehensive loss	(16,067)	(12,836)	(731)	340	(16,798)	(12,496)

[1] The discount rate used in measuring the Company's benefit obligations as at February 29, 2020 was 2.65% for pension benefits and post-retirement benefits (August 31, 2019 – 2.80% and 2.85%, respectively).

Changes to the net defined benefit plan obligations related to the Company's pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans for the six months ended February 29, 2020 are as follows:

	Pension benefits	Post-retirement benefits	Other long-term employee benefits	Total [1]
Net defined benefit plan obligation as at August 31, 2019	48,113	28,536	13,287	89,936
Amounts recognized in the statement of operations	1,179	600	430	2,209
Amounts recognized in other comprehensive loss	16,067	731	-	16,798
Employer contributions to the plans	-	(1,020)	(1,085)	(2,105)
Net defined benefit plan obligation as at February 29, 2020	65,359	28,847	12,632	106,838

[1] As at February 29, 2020 and August 31, 2019, the net defined benefit plan obligations are recorded in employee benefit obligations and other liabilities on the condensed consolidated statements of financial position.

On January 29, 2019, the Company entered into an agreement with the Colleges of Applied Arts & Technology Pension Plan (the "CAAT Pension Plan"), a multi-employer defined benefit plan, to merge the Company's defined benefit pension plans (the "Postmedia Plans"), with the CAAT Pension Plan. Effective July 1, 2019, the Company received approval from Postmedia Plan members and the Company became a participating employer under the CAAT Pension Plan and all members of the Postmedia Plans, as well as members of the Company's defined contribution pension plan began accruing benefits under the DBplus provisions of the CAAT Pension Plan. DBplus is a defined benefit pension plan with a fixed contribution rate for members, matched dollar for dollar by employers. The merger remains subject to consent from the Financial Services Regulatory Authority of Ontario ("FSRA"). Contingent on the consent of FSRA to the transfer of assets from the Postmedia Plans, the CAAT Pension Plan will assume defined benefit obligations accrued prior to July 1, 2019. Once this transfer is completed, an additional cash funding obligation of $10.1 million related to the transferred Postmedia Plans deficits will be payable to the CAAT Pension Plan over a term of ten years and the Company will recognize a gain or loss on settlement.

10. LOSS PER SHARE

The following table provides a reconciliation of the denominators, which are presented in whole numbers, used in computing basic and diluted loss per share for the three and six months ended February 29, 2020 and February 28, 2019. No reconciling items in the computation of net loss exist.

	For the three months ended	
	February 29,	February 28,
	2020	**2019**
Basic weighted average shares outstanding during the period	93,740,299	93,720,536
Dilutive effect of options and restricted share units	-	-
Diluted weighted average shares outstanding during the period	93,740,299	93,720,536
Options and restricted share units outstanding which are anti-dilutive (1)	-	-

	For the six months ended	
	February 29,	February 28,
	2020	**2019**
Basic weighted average shares outstanding during the period	93,740,299	93,718,858
Dilutive effect of options and restricted share units	-	-
Diluted weighted average shares outstanding during the period	93,740,299	93,718,858
Options and restricted share units outstanding which are anti-dilutive(1)	-	-

(1) All outstanding options and restricted share units are anti-dilutive due to a net loss in the three and six months ended February 29, 2020 and February 28, 2019.

11. SHARE-BASED COMPENSATION PLANS

Share option plan

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

During the six months ended February 29, 2020, the Company granted a nominal amount of options. The fair value of the underlying options was estimated using the Black-Scholes option pricing model. The weighted average fair value of the issued options and key assumptions used in applying the Black-Scholes option pricing model were as follows:

	2020
Fair value	$ 1.06
Key assumptions	
Exercise Price	$ 1.77
Risk-free interest rate (1)	1.51%
Dividend yield	-
Volatility factor (2)	72.34%
Expected life of options (3)	5 years

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

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

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

The following table provides details on the changes to the issued options, which are presented in whole numbers, for the six months ended February 29, 2020:

	Options	Weighted average exercise price
Balance, August 31, 2019	2,547,500	$ 1.01
Issued	29,223	$ 1.77
Balance, February 29, 2020	2,576,723	$ 1.02

During the three and six months ended February 29, 2020, the Company recorded compensation expense relating to the Option Plan of $0.1 million with an offsetting credit to contributed surplus (2019 – $0.1 million and $0.3 million, respectively). The total unrecognized compensation expense is $0.3 million, which is expected to be recognized over the next four years.

Restricted share unit plan

The Company has a restricted share unit plan (the "RSU Plan"). The RSU Plan provides for the grant of restricted share units ("RSUs") to participants, being current, part-time or full-time officers, employees or consultants of the Company. As at February 29, 2020, the maximum aggregate number of RSUs issuable pursuant to the RSU Plan at any time shall not exceed 7.5 million shares of the Company (August 31, 2019 – 3.7 million). The RSU Plan is administered by the Board.

During the six months ended February 29, 2020, the Company granted a nominal amount of RSUs. The fair value of the RSUs granted was estimated by using a grant date fair value per share of $1.77. The fair value of $1.77 per share was based on the volume-weighted average trading price of the Class NC variable voting shares for the five trading days immediately preceding the issuance. As at February 29, 2020, 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 29, 2020, the Company recorded compensation expense related to the RSU Plan of $0.1 million and $0.2 million, respectively, with an offsetting credit to contributed surplus (2019 – $0.2 million and $0.4 million, respectively). The total unrecognized compensation expense is $0.3 million, which is expected to be recognized over the next four years.

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial instruments measured at fair value

The financial instruments measured at fair value in the condensed consolidated statement of financial position, categorized by level according to the fair value hierarchy that reflects the significance of the inputs used in making the measurements, as at February 29, 2020 are as follows:

	As at February 29, 2020	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]	1,599	-	1,599	-

[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 to January 2020 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. In February 2020, the Company and Mogo revised the Marketing Agreement further to extend it for an additional two years to January 2023 and amended the term of all the original warrants to expire on January 25, 2023 increasing the fair value of these warrants by $0.3 million. In addition, the Company received an additional 350,000 five year warrants with a fair value of $0.4 million that entitle the Company to purchase common shares of Mogo at an exercise price of $3.54, which vest in equal instalments over three years. During the three and six months ended February 29, 2020, the Company recognized a loss of $0.4 million and $0.9 million, respectively, related to the warrants which is included in loss on derivative financial instruments in the condensed consolidated statements of operations (2019 – $0.9 million and $1.4 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 29, 2020 and February 28, 2019 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 29, 2020 and August 31, 2019 are as follows:

	As at February 29, 2020		As at August 31, 2019	
	Carrying value	Fair value	Carrying value	Fair value
Other financial liabilities				
Long-term debt	264,716	279,395	255,011	261,926

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

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial obligations associated with existing and future financial liabilities that are and will be settled by delivering cash or another financial asset as they come due. The Company's financial obligations include long-term debt which requires principal repayments and interest payments (note 8). Economic and structural factors related to the industry impact the Company's ability to generate sufficient operating cash flows to satisfy its existing and future financial liabilities, however, the Company manages this risk by monitoring cash flow forecasts, implementing cost reduction initiatives, deferring or eliminating discretionary spending, monitoring and maintaining compliance with the terms of the note indentures, identifying and selling redundant assets including certain real estate assets and utilizing the ABL Facility to provide additional liquidity during seasonal fluctuations of the business. During the six months ended February 29, 2020, the Company completed a Refinancing Transaction which extended the maturities of long-term debt (note 8). Subsequent to February 29, 2020, the impact of the COVID-19 pandemic caused a disruption to the economy which could further impact the Company's liquidity risk (note 15).

Foreign currency risk

As at February 29, 2020, approximately 64% of the outstanding principal on the Company's long-term debt is payable in US dollars (August 31, 2019 – 63%). As at February 29, 2020, the Company is exposed to foreign currency risk on the US$127.5 million of Second-Lien Notes outstanding (August 31, 2019 - US$120.7 million).

13. STATEMENT OF CASH FLOWS

The following amounts compose the net change in non-cash operating accounts included in cash flows from operating activities in the condensed consolidated statements of cash flows for the three and six months ended February 29, 2020 and February 28, 2019:

	For the three months ended		For the six months ended	
	February 29,	February 28,	February 29,	February 28,
	2020	**2019**	**2020**	**2019**
Trade and other receivables	14,377	20,956	(2,364)	3,449
Inventory	173	(438)	145	82
Prepaid expenses and other assets	(82)	(2,771)	(831)	(2,513)
Accounts payable, accrued liabilities and provisions	(11,883)	(12,632)	(1,357)	(16,976)
Deferred revenue	(711)	(796)	(1,433)	(1,321)
Other liabilities and provisions	-	641	-	998
Changes in non-cash operating accounts	1,874	4,960	(5,840)	(16,281)

14. RELATED PARTY TRANSACTIONS

As at February 29, 2020, Chatham owns 62,319,049, or approximately 66% of the Company's shares and 33% of the outstanding voting rights. The Company has a consulting agreement with Chatham and during the three and six months ended February 29, 2020 incurred an expense of $0.1 million (2019 - $0.2 million and $0.6 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 29, 2020, the Company has no amount drawn and availability of $15.0 million (August 31, 2019 – nil and $15.0 million, respectively) and during the three and six months ended February 29, 2020 incurred and paid $0.1 million of interest (2019 – incurred $0.1 million and paid a nominal amount and $0.1 million, respectively).

15. SUBSEQUENT EVENT

The COVID-19 pandemic has resulted in governments worldwide enacting emergency measures to combat the spread of the virus including travel bans, self-imposed quarantine periods and social distancing that have caused disruption to businesses resulting in an economic slowdown. The Company is generally exempt from mandates requiring closures of non-essential businesses and therefore has been able to continue operations however advertising revenues have declined as a result of the COVID-19 pandemic and related government measures. The Company is in the process of addressing the current challenges related to the COVID-19 pandemic and on April 6, 2020 received a waiver of certain terms related to the New First-Lien Notes indenture which included the cash interest payment of $3.9 million due on April 30, 2020 to be satisfied through the issuance of additional New First-Lien Notes and the waiver in full of the Company's obligation to make a mandatory excess cash flow redemption related to the six months ended February 29, 2020 (note 8). In addition, the Company has been monitoring assistance being offered by the Government of Canada including the Canada Emergency Wage Subsidy ("CEWS") which was passed on April 11, 2020 to support employers facing financial hardship as measured by certain revenue declines as a result of the COVID-19 pandemic. CEWS provides a reimbursement of compensation expense for the 12 week period from March 15 to June 6, 2020 of 75% of the amount of remuneration paid up to a maximum benefit of $847 per week, per employee. The Company has applied for CEWS for the period from March 15 to April 11, 2020 in the amount of $7.3 million and have qualified for the periods from April 12 to June 6, 2020. On April 28, 2020 the Company implemented additional cost saving measures including temporary layoffs affecting approximately 50 employees, the closure of 15 community publications in Manitoba and Ontario resulting in approximately 30 permanent layoffs and temporary salary reductions from 5% to 30% for a range of employees with salaries in excess of $60,000, which reductions will be re-evaluated in three months' time. The Company has determined the COVID-19 pandemic to be an event that is indicative of conditions that arose after the reporting period and therefore a non-adjusting subsequent event.

The outbreak of contagious illness such as this can impact the Company's operations in a number of ways including quarantined employees, travel restrictions, temporary closure of our facilities, a decrease in demand for advertising, as well as interruptions to the supply chain, including temporary closure of supplier facilities. The COVID-19 pandemic and its impact on the economy is constantly evolving and impacts many variables and assumptions for financial modeling and as a result it may have material impacts on the Company's anticipated revenue levels and the recoverable amount of the cash-generating units. Given the high level of uncertainty surrounding the duration of the COVID-19 pandemic it is difficult to reliably estimate its potential impact on the Company, however it could have a material adverse effect on the financial condition, results of operations, liquidity and cash flow (note 12).