POSTMEDIA NETWORK CANADA CORP.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2020 AND 2019
(UNAUDITED)

Approved for issuance: January 13, 2021

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

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2020 AND 2019
(In thousands of Canadian dollars, except per share amounts)

	2020	2019
Revenues		
Print advertising	43,532	64,143
Print circulation	44,100	50,327
Digital	24,869	35,586
Other	4,429	6,599
Total revenues	116,930	156,655
Expenses		
Compensation (note 4)	36,812	52,283
Newsprint	4,990	7,477
Distribution	24,686	28,906
Production	14,944	20,939
Other operating	18,320	25,672
Operating income before depreciation, amortization, impairment and restructuring (note 3)	17,178	21,378
Depreciation	2,783	3,011
Amortization	2,555	4,248
Impairment (note 5)	13,464	-
Settlement gain (note 10)	(63,079)	-
Restructuring (note 8)	2,935	8,569
Operating income	58,520	5,550
Interest expense	7,826	7,378
Net financing expense relating to employee benefit plans (note 10)	636	610
Gain on disposal of property and equipment and assets held-for-sale	(6)	(3)
(Gain) loss on derivative financial instruments (note 13)	(1,604)	519
Foreign currency exchange (gains) losses	(1,157)	46
Earnings (loss) before income taxes	52,825	(3,000)
Provision for income taxes	-	-
Net earnings (loss) attributable to equity holders of the Company	52,825	(3,000)
Earnings (loss) per share attributable to equity holders of the Company (note 11):		
Basic	$ 0.56	$ (0.03)
Diluted	$ 0.54	$ (0.03)

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

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

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2020 AND 2019
(In thousands of Canadian dollars)

	2020	2019
Net earnings (loss) attributable to equity holders of the Company	52,825	(3,000)
Amounts not subsequently reclassified to the statement of operations		
Gains (losses) on employee benefit plans, net of tax of nil (note 10)	(11,135)	23,847
Other comprehensive income (loss)	(11,135)	23,847
Comprehensive income (loss) attributable to equity holders of the Company	41,690	20,847

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

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

(In thousands of Canadian dollars)

	As at November 30, 2020	As at August 31, 2020
ASSETS		
Current Assets		
Cash	47,752	49,795
Restricted cash (note 6)	-	3,402
Trade and other receivables (note 4)	67,496	65,548
Assets held-for-sale (notes 5 and 6)	18,427	28,229
Inventory	3,021	3,260
Prepaid expenses and other assets	9,228	10,338
Total current assets	145,924	160,572
Non-Current Assets		
Property and equipment	83,387	90,778
Right of use assets	39,065	40,857
Derivative financial instruments and other assets (note 13)	4,942	3,338
Intangible assets	37,166	41,334
Total assets	310,484	336,879
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (note 7)	51,373	48,041
Provisions (note 8)	6,483	6,856
Deferred revenue	24,196	24,369
Current portion of lease obligations	8,025	9,482
Current portion of long-term debt (note 9)	5,000	20,372
Total current liabilities	95,077	109,120
Non-Current Liabilities		
Long-term debt (note 9)	252,107	252,983
Employee benefit obligations and other liabilities (note 10)	48,962	101,862
Lease obligations	36,597	37,136
Total liabilities	432,743	501,101
Deficiency		
Capital stock	810,861	810,861
Contributed surplus	16,198	15,925
Deficit	(949,318)	(991,008)
Total deficiency	(122,259)	(164,222)
Total liabilities and deficiency	310,484	336,879

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

POSTMEDIA NETWORK CANADA CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIENCY (UNAUDITED)

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2020 AND 2019

(In thousands of Canadian dollars)

	2020			
	Capital stock	**Contributed surplus**	**Deficit**	**Total Deficiency**
Balance as at August 31, 2020	810,861	15,925	(991,008)	(164,222)
Net earnings attributable to equity holders of the Company	-	-	52,825	52,825
Other comprehensive loss	-	-	(11,135)	(11,135)
Comprehensive income attributable to equity holders of the Company	-	-	41,690	41,690
Share-based compensation plans (note 12)	-	273	-	273
Balance as at November 30, 2020	**810,861**	**16,198**	**(949,318)**	**(122,259)**

	2019			
	Capital stock	**Contributed surplus**	**Deficit**	**Total Deficiency**
Balance as at August 31, 2019	810,861	14,770	(962,042)	(136,411)
Net loss attributable to equity holders of the Company	-	-	(3,000)	(3,000)
Other comprehensive income	-	-	23,847	23,847
Comprehensive income attributable to equity holders of the Company	-	-	20,847	20,847
Share-based compensation plans (note 12)	-	222	-	222
Balance as at November 30, 2019	**810,861**	**14,992**	**(941,195)**	**(115,342)**

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

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

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2020 AND 2019
(In thousands of Canadian dollars)

	2020	2019
CASH GENERATED (UTILIZED) BY:		
OPERATING ACTIVITIES		
Net earnings (loss) attributable to equity holders of the Company	52,825	(3,000)
Items not affecting cash:		
Depreciation	2,783	3,011
Amortization	2,555	4,248
Impairment (note 5)	13,464	-
(Gain) loss on derivative financial instruments (note 13)	(1,604)	519
Non-cash interest	5,855	5,358
Gain on disposal of property and equipment and assets held-for-sale	(6)	(3)
Non-cash foreign currency exchange gains	(1,124)	(51)
Share-based compensation plans expense (note 12)	273	222
Net financing expense relating to employee benefit plans (note 10)	636	610
Non-cash settlment gain relating to employee benefit plans (note 10)	(63,079)	-
Employee benefit plan funding in excess of compensation expense (note 10)	(538)	(452)
Net change in non-cash operating accounts (note 14)	(3,767)	(7,714)
Cash flows from operating activities	8,273	2,748
INVESTING ACTIVITIES		
Net proceeds from the sale of property and equipment and assets held-for-sale (note 6)	4,708	33
Purchases of property and equipment	(392)	(1,122)
Purchases of intangible assets	(15)	(196)
Cash flows from (used in) investing activities	4,301	(1,285)
FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt	-	95,235
Repayment of long-term debt (note 9)	(15,372)	(94,761)
Restricted cash (note 6)	3,402	13
Debt issuance costs (note 8)	-	(1,710)
Lease payments	(2,647)	(2,158)
Cash flows used in financing activities	(14,617)	(3,381)
Net change in cash for the period	(2,043)	(1,918)
Cash at beginning of period	49,795	15,464
Cash at end of period	**47,752**	**13,546**

	2020	2019
Supplemental disclosure of operating cash flows		
Interest paid	4,162	3,948
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 consists of news and information gathering and dissemination operations, with products offered in local, regional and major metropolitan markets in Canada through print, online and mobile platforms. 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. 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, 2020 and 2019.

These interim condensed consolidated financial statements were approved by the Board of Directors (the "Board") on January 13, 2021.

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, 2020 and 2019.

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

The Company presents as an additional IFRS measure, operating income before depreciation, amortization, impairment, settlement gain 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, settlement gain and restructuring is referred to as an additional IFRS measure and may not be comparable to similarly titled measures presented by other companies.

4. GOVERNMENT ASSISTANCE

Canada Emergency Wage Subsidy

On April 11, 2020, the Government of Canada passed the Canada Emergency Wage Subsidy ("CEWS") to support employers facing financial hardship as measured by certain revenue declines as a result of the COVID-19 pandemic. CEWS currently provides a reimbursement of compensation expense to June 2021 provided the applicant has met the applicable criteria, which has been established up to March 13, 2021. During the three months ended November 30, 2020 the Company recognized a recovery of compensation expense of $6.6 million related to CEWS. As at November 30, 2020, the Company has an amount receivable related to CEWS of $5.6 million included in trade and other receivables on the condensed consolidated statement of financial position (August 31, 2020 - $13.0 million).

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 November 19, 2020, the Company received its designation as a Qualified Canadian Journalism Organization.

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.

Both the federal and Quebec journalism tax credit legislation include provisions to reduce the qualifying salaries and wages eligible for the credit for other forms of assistance received including CEWS. During the three months ended November 30, 2020, the Company recognized a recovery of compensation expense of $1.5 million related to the journalism tax credits (2019 – $2.4 million). As at November 30, 2020, the aggregate journalism tax credit receivable of $12.3 million is included in trade and other receivables on the condensed consolidated statement of financial position (August 31, 2020 - $10.8 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. IMPAIRMENT OF LONG LIVED ASSETS

Impairment for the three months ended November 30, 2020 and 2019 are as follows:

	2020	2019
Impairment of long-lived assets		
Intangible assets - domain names	314	-
Intangible assets - mastheads	3,050	-
Property and equipment - land	5,000	-
Other impairments		
Assets held-for-sale - land and buildings	5,100	-
Impairment	13,464	-

Impairment of long-lived assets

During the three months ended November 30, 2020, the Company completed interim impairment testing of indefinite life intangible assets. The recoverable amounts for all tests were based on FVLCD of the cash-generating units ("CGUs"), which are primarily geographical groups of newspapers by city or region, as applicable. The FVLCD was determined by applying a market multiple range of 2.5 to 3.5 times the adjusted trailing twelve month operating income before depreciation, amortization, impairment, settlement gain and restructuring less disposal costs. Management determined this key assumption based on an average of market multiples for comparable entities. The FVLCD measurements represent a Level 3 measurement within the fair value hierarchy due to required allocation of corporate costs and digital revenues and the estimated costs of disposal within the individual CGUs. Based on the interim impairment test, the Company determined that certain of its CGUs recoverable amounts were less than their carrying amount and as a result during the three months ended November 30, 2020, the Company recognized an impairment of $8.4 million allocated to land, mastheads and domain names of $5.0 million, $3.1 million and $0.3 million, respectively. For one CGU with $16.0 million of indefinite life intangible assets a reasonably possible reduction in the market multiple assumption of approximately 0.3 or an 8% decrease in the trailing twelve month operating income before depreciation, amortization, impairment, settlement gain and restructuring less disposal costs could result in the recoverable amount being less than its carrying amount, and as a result, certain of the indefinite life intangible assets may be impaired. There were no tax impacts as a result of the impairment.

Other impairments

During the three months ended November 30, 2020 the Company sold the Calgary press facility classified as held-for-sale for net proceeds of $4.7 million (note 6). In addition, during the three months ended November 30, 2020, the fair value less costs of disposal of the Company's remaining assets held-for-sale were reduced based on the estimated net proceeds resulting in an impairment charge of $5.1 million in the condensed consolidated statement of operations and aggregate assets held-for-sale as at November 30, 2020 of $18.4 million (August 31, 2020 - $28.2 million).

6. RESTRICTED CASH

Changes to the Company's restricted cash for the three months ended August 31, 2020 are as follows:

	Restricted Cash
August 31, 2020 [(1)]	3,402
Net proceeds on sale of assets [(2)]	5,172
First-Lien Notes payment [(3)]	(8,574)
November 30, 2020	-

(1) As at August 31, 2020, restricted cash of the Company includes the net proceeds from the sale of property and equipment.

(2) During the three months ended November 30, 2020, proceeds of $5.2 million related to the sale of the Calgary press facility were classified as restricted cash.

(3) On October 1, 2020, the Company used $3.4 million of restricted cash to redeem $3.3 million of first-lien debt and pay accrued interest of $0.1 million and on November 5, 2020 the Company used $5.2 million to redeem $5.2 million of first-lien debt and pay accrued interest of a nominal amount. In aggregate during the three months ended November 30, 2020, the Company used $8.6 million to redeem $8.5 million aggregate principal amount of first-lien debt and pay accrued interest of $0.1 million (note 9).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at November 30, 2020	As at August 31, 2020
Trade accounts payable	12,160	11,574
Accrued liabilities	32,081	32,045
Accrued interest on long-term debt	7,132	4,422
Accounts payable and accrued liabilities	51,373	48,041

8. PROVISIONS

	Restructuring
Provisions as at August 31, 2020	6,856
Charges	2,935
Payments	(3,308)
Provisions as at November 30, 2020	6,483
Portion due within one year	(6,483)
Non-current provisions	-

During the three months ended November 30, 2020, the Company began new initiatives and incurred restructuring expenses of $2.9 million which include both involuntary terminations and voluntary buyouts.

9. LONG-TERM DEBT

	Maturity	Principal	Financing fees, discounts and other	As at November 30, 2020 Carrying value of debt	As at August 31, 2020 Carrying value of debt
8.25% Senior Secured Notes	July 2023	83,791	(1,077)	82,714	97,934
10.25% Second Lien Secured Notes (US$134.6M) (1)	January 2024	174,566	(173)	174,393	175,421
Senior Secured Asset-Based Revolving Credit Facility	October 2022	-	-	-	-
Total long-term debt				257,107	273,355
Portion due within one year				(5,000)	(20,372)
Non-current long-term debt				252,107	252,983

(1) US$ principal translated to the Canadian equivalent based on the foreign exchange rate on November 30, 2020 of US$1:$1.2965 (August 31, 2020 - US$1:$1.3042).

The terms and conditions of long-term debt as at November 30, 2020 are the same as disclosed in the consolidated financial statements for the years ended August 31, 2020 and 2019 except as described below.

During the three months ended November 30, 2020, the Company redeemed $15.4 million aggregate principal amount of First-Lien Notes, which includes aggregate redemptions of $8.5 million as a result of the sale of assets (note 6) and $6.9 million related to the excess cash flow offer for the six months ended August 31, 2020.

On December 15, 2018, the Company entered into an agreement to extend the term of the senior secured asset-based revolving credit facility (“ABL Facility”) to January 18, 2021 with Chatham Asset Management LLC (“Chatham LLC”) and certain investment funds or accounts for which Chatham LLC or its affiliates acts as an investment advisor, sub-advisor or manager (collectively, “Chatham”), for an aggregate availability of up to $15.0 million, which may be increased by up to $10.0 million at the Company’s request and with the consent of the lender. On August 10, 2020, the Company entered into an agreement effective October 1, 2020 to extend the term of the ABL Facility to October 1, 2022. As at November 30, 2020, the Company has no amount drawn on the ABL Facility and has availability of $15.0 million (August 31, 2020 – nil and $15.0 million, respectively) and during the three months ended November 30, 2020 and 2019, incurred and paid a nominal amount of interest.

10. EMPLOYEE BENEFIT PLANS

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. On October 8, 2020, the Company received consent from the Financial Services Regulatory Authority of Ontario to transfer the Postmedia Plans assets to the CAAT Pension Plan which was completed in November 2020. On completion of the asset transfer the CAAT Pension Plan assumed the defined benefit obligations of the Postmedia Plans and the Company commenced an additional cash funding obligation of $11.0 million related to the transferred Postmedia Plans deficits payable over a term of ten years and recognized a non-cash gain on settlement of $63.1 million which is included in settlement gain in the condensed consolidated statement of operations.

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 months ended November 30, 2020 and 2019 are as follows:

	Pension benefits		Post-retirement benefits		Other long-term employee benefits		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Current service cost	-	-	117	103	62	95	179	198
Administration costs	171	251	-	-	-	-	171	251
Net actuarial losses (gains)	-	-	-	-	110	(119)	110	(119)
Settlement gain	(63,079)	-	-	-	-	-	(63,079)	-
Net financing expense	406	339	182	197	48	74	636	610
Net defined benefit plan expense [1]	(62,502)	590	299	300	220	50	(61,983)	940
Employer contributions to the multi-employer plan and defined contribution plans	1,132	1,268	-	-	-	-	1,132	1,268
Total plan expense	(61,370)	1,858	299	300	220	50	(60,851)	2,208

(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. Settlement gains are included in settlement gain in the consolidated statements of operations. Net financing expense is included in net financing expense relating to employee benefit plans in the consolidated statements of operations.

Gains (losses) related to the Company’s pension benefit plans and post-retirement benefit plans recognized in the condensed consolidated statements of comprehensive income (loss) for the three months ended November 30, 2020 and 2019 are as follows:

	Pension benefits		Post-retirement benefits		Total	
	2020	2019	2020	2019	2020	2019
Net actuarial gains (losses) on employee benefits [1]	(12,139)	25,014	177	359	(11,962)	25,373
Impact of asset ceiling	827	(1,526)	-	-	827	(1,526)
Net actuarial gains (losses) recognized in other comprehensive income (loss)	(11,312)	23,488	177	359	(11,135)	23,847

(1) The discount rate used in measuring the Company’s benefit obligations as at November 30, 2020 was 2.65% for pension and 2.70%post-retirement benefits (August 31, 2020 – 2.60% and 2.65%, respectively).

Changes to the employee benefit obligations and other liabilities for the three months ended November 30, 2020 are as follows:

	Pension benefits	Post-retirement benefits	Other long-term employee benefits	Sub-total	Other long-term liabilities	Total
Employee benefit obligations and other liabilities as at August 31, 2020	62,238	28,367	11,257	101,862	-	101,862
Amounts recognized in the statement of operations	(73,550)	299	220	(73,031)	11,048	(61,983)
Amounts recognized in other comprehensive income	11,312	(177)	-	11,135	-	11,135
Employer contributions to the plans	-	(509)	(489)	(998)	-	(998)
Funding to the CAAT Pension Plan		-	-	-	(1,054)	(1,054)
Employee benefit obligations and other liabilities as at November 30, 2020	-	27,980	10,988	38,968	9,994	48,962

11. LOSS PER SHARE

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 months ended November 30, 2020 and 2019. No reconciling items in the computation of net loss exist.

	2020	2019
Basic weighted average shares outstanding during the period	93,740,299	93,740,299
Dilutive effect of options and restricted share units	4,862,520	-
Diluted weighted average shares outstanding during the period	98,602,819	93,740,299
Options and restricted share units outstanding which are anti-dilutive (1)	2,092,211	-

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

12. 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. There was no change to the number of issued and outstanding options during the three months ended November 30, 2020. During the three months ended November 30, 2020, the Company recognized compensation expense relating to the Option Plan of $0.1 million, with an offsetting credit to contributed surplus (2019 - $0.1 million). The total unrecognized compensation expense is $0.1 million, which is expected to be recognized over the next four years.

Restricted share unit plan

The Company has a restricted share unit plan (the “RSU Plan”). The RSU Plan provides for the grant of restricted share units (“RSUs”) to participants, being current, part-time or full-time officers, employees or consultants of the Company. The maximum aggregate number of RSUs issuable pursuant to the RSU Plan at any time shall not exceed 7.5 million shares of the Company. The RSU Plan is administered by the Board. During the three months ended November 30, 2020, a nominal amount of RSUs were forfeited and the Company recognized compensation expense related to the RSU Plan of $0.2 million with an offsetting credit to contributed surplus (2019 – $0.1 million). The total unrecognized compensation expense is $0.7 million, which is expected to be recognized over the next three years.

13. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial instruments measured at fair value

The financial instruments measured at fair value in the condensed consolidated statement of financial position, categorized by level according to the fair value hierarchy that reflects the significance of the inputs used in making the measurements, as at November 30, 2020 are as follows:

	As at November 30, 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)]	3,392	-	3,392	-

(1) The Company owns 1,546,120 warrants that entitle it to purchase common shares of Mogo Finance Technology Inc. at an exercise price of $1.292. The warrants vest over time to February 2023 and expire in August 2023. During the three months ended November 30, 2020, the Company recognized a gain of $1.6 million related to the warrants which is included in (gain) loss on derivative financial instruments in the condensed consolidated statements of operations (2019 – loss of $0.5 million).

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

The Company's policy is to recognize transfers in and out of the fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the three months ended November 30, 2020 and 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, trade and other receivables and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values due to their short-term nature.

The carrying value and fair value of long-term debt as at November 30, 2020 and August 31, 2020 are as follows:

	As at November 30, 2020		As at August 31, 2020	
	Carrying value	Fair value	Carrying value	Fair value
Other financial liabilities				
Long-term debt	257,107	274,630	273,355	287,553

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 9). 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. The impact of the COVID-19 pandemic caused a disruption to the economy which could further impact the Company's liquidity risk and as a result the Company has incorporated its impact on future cash flow projections which includes making assumptions and estimates regarding the timing and amounts of future revenue and expenses and the ability to manage liquidity which includes the use of the ABL Facility. 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.

Foreign currency risk

As at November 30, 2020, approximately 68% of the outstanding principal on the Company's long-term debt is payable in US dollars (August 31, 2020 – 64%). As at November 30, 2020, the Company is exposed to foreign currency risk on the US$134.6 million of Second-Lien Notes outstanding (August 31, 2020 - US$134.6 million).

14. 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 statement of cash flows for the three months ended November 30, 2020 and 2019:

	2020	**2019**
Trade and other receivables	(1,948)	(16,741)
Inventory	239	(28)
Prepaid expenses and other assets	1,110	(749)
Accounts payable, accrued liabilities and provisions	(1,941)	10,526
Deferred revenue	(173)	(722)
Other long-term liabilities	(1,054)	-
Changes in non-cash operating accounts	(3,767)	(7,714)

15. RELATED PARTY TRANSACTIONS

As at November 30, 2020 Chatham owns 62,319,049, or approximately 66%, of the Company's shares and 33% of the outstanding voting rights. The Company had a consulting agreement with Chatham and during the three months ended November 30, 2019 incurred an expense of $0.1 million, which is included in other operating expenses in the condensed consolidated statement of operations. In addition, the Company has an ABL Facility with associated companies of Chatham and as at November 30, 2020, the Company has no amount drawn and availability of $15.0 million (August 31, 2020 – nil and $15.0 million, respectively) and during the three months ended November 30, 2020 and 2019 incurred and paid a nominal amount of interest.