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

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2020 AND 2019

Approved for issuance: January 13, 2021

**JANUARY 13, 2021**

MANAGEMENT'S DISCUSSION AND ANALYSIS

*This management's discussion and analysis of financial condition and results of operations of Postmedia Network Canada Corp. as well as its subsidiaries, which includes Postmedia Network Inc. (collectively, "we", "our", "us", or "Postmedia") should be read in conjunction with the interim condensed consolidated financial statements and related notes of Postmedia for the three months ended November 30, 2020 and 2019 and the annual audited consolidated financial statements and related notes of Postmedia for the years ended August 31, 2020 and 2019. The condensed consolidated financial statements of Postmedia for the three months ended November 30, 2020 and 2019 and the audited consolidated financial statements of Postmedia for the years ended August 31, 2020 and 2019 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, 2020 and 2019. 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 audited consolidated financial statements of Postmedia for the three months ended November 30, 2020 and 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 – Interim Financial Reporting.*

*This management's discussion and analysis is dated January 13, 2021 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, settlement gain and restructuring, as presented in the condensed consolidated financial statements for the three months ended November 30, 2020 and 2019 and described in note 3 thereto, to assist in assessing our financial performance. Management and the Board of Directors of Postmedia use this measure to evaluate consolidated operating results and to assess Postmedia's ability to incur and service debt. In addition, this measure is used to make operating decisions as it is an indicator of performance including of how much cash is being generated by Postmedia and assists in determining the need for additional cost reductions as well as the evaluation of personnel and resource allocation decisions. Operating income before depreciation, amortization, 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.

## 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 print, online and mobile platforms. The combination of these distribution platforms provides audiences with a variety of media through which to access and interact with our content. The breadth of our reach and the diversity of our content enable advertisers to reach their target audiences on a local, regional or national scale through the convenience of a single provider. We have the highest weekly print readership of newspapers in Canada, based on Vividata Fall 2020 survey data and represent more than 120 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 each newspaper's online website. The Newsmedia segment's revenue is primarily from print and digital advertising and circulation/subscription revenue.

## Recent Developments

We are continuing to address the current challenges related to the COVID-19 pandemic and on April 6, 2020 received a waiver of certain terms related to the Senior Secured Notes Indenture which included the cash interest payment of $3.9 million due on April 30, 2020 being satisfied through the issuance of additional 8.25% Senior Secured Notes due 2023 ("First-Lien Notes") and the waiver in full of our obligation to make a mandatory excess cash flow redemption related to the six months ended February 29, 2020. 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 to March 20201. During the three months ended November 30, 2020, we recognized a recovery of compensation expense of $6.6 million and in total have recognized $46.7 million related to CEWS since the program was announced. As at November 30, 2020, we have an amount receivable related to CEWS of $5.6 million included in trade and other receivables on the consolidated statement of financial position (August 31, 2020 - $13.0 million). On April 28, 2020 we 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. On May 27, 2020 we implemented additional permanent layoffs impacting approximately 40 unionized employees.

On October 1, 2020, the net proceeds of the Barrie facility sold during the year ended August 31, 2020 were used to redeem $3.3 million First-Lien Notes and pay accrued interest of $0.1 million. During the three months ended November 30, 2020, we sold the Calgary press facility for net proceeds of $4.7 million which was used as part of a redemption of $5.2 million of First-Lien Notes on November 5, 2020. In addition, the excess cash flow related to the six months ended August 31, 2020 resulted in an excess cash flow offer of $6.9 million which was used to redeem an equal amount of First-Lien Notes on November 13, 2020.

We continue to identify and undertake cost reduction initiatives in an effort to address revenue declination in the legacy print business. During the three months ended November 30, 2020, we began new cost reduction initiatives with the objective of reducing operating expenses by the end of fiscal 2021 through a combination of operational efficiencies and restructuring. During the three months ended November 30, 2020 we implemented cost reductions which are expected to result in approximately $9 million of net annualized cost savings.

On June 21, 2019 the federal budget was approved which contained measures specific to our industry including: a journalism tax credit whereby qualifying Canadian news organizations may apply for a refundable labour tax credit applied to the salaries of journalists; adding journalism organizations as qualified donees under the Income Tax Act; and offering a digital subscription tax credit to individuals. On October 2, 2019, the Government of Quebec announced a similar refundable labour tax credit to be applied to the salaries of journalists in Quebec provided an entity receives an eligibility certificate issued by Investissement Québec. In December 2019, the Canada Revenue Agency ("CRA") issued the Application for Qualified Canadian Journalism Organization Designation 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. 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 described above. During the three months and year ended November 30, 2020, we 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 our interpretation of the federal budget and the related legislation. Actual amounts received may differ from the amounts currently recorded based on future CRA and/or Revenue Québec interpretations of eligibility, qualifications and determination of the tax credits. Based on our current staffing levels and no other forms of assistance being received we expect the per annum gross federal journalism tax credit to be between $8 million and $10 million and the Quebec journalism tax credit to be approximately $1 million.

On January 29, 2019, we entered into an agreement with the Colleges of Applied Arts & Technology Pension Plan (the "CAAT Pension Plan"), a multi-employer defined benefit plan, to merge our defined benefit pension plans (the "Postmedia Plans"), with the CAAT Pension Plan. Effective July 1, 2019, we received approval from Postmedia Plan members and became a participating employer under the CAAT Pension Plan and all members of the Postmedia Plans, as well as members of our defined contribution pension plan, began accruing benefits under the DBplus provisions of the CAAT Pension Plan. DBplus is a defined benefit pension plan with a fixed contribution rate for members, matched dollar for dollar by employers. On October 8, 2020, we 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 we 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.

## 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 $43.5 million for the three months ended November 30, 2020, representing 37.2% of total revenue. Our major advertising categories are run of press (ROP) and inserts. These categories composed 62.1% and 36.8%, respectively, of total print advertising for the three months ended November 30, 2020.

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 including the recent COVID-19 pandemic have resulted in significant declines in print advertising. We anticipate the print advertising market to remain challenging and expect the current quarter trends to continue throughout the remainder of fiscal 2021. During the three months ended November 30, 2020, we experienced print advertising revenue decreases of $20.6 million, or 32.1%, as compared to the same period in the prior year. The decrease in print advertising revenue in the three months ended November 30, 2020 relate to weakness across both of our major advertising categories including decreases of 32.4% and 30.8% in ROP and insert advertising revenue, respectively, as compared to the same period in the prior year.

Print circulation revenue was $44.1 million for the three months ended November 30, 2020, representing 37.7% of total revenue. Circulation revenues decreased $6.2 million, or 12.4%, in the three months ended November 30, 2020, as compared to the same period in the prior year. The decrease is the result of price increases being offset by declines in circulation volumes that have been experienced over the last few years and this trend continued in the three months ended November 30, 2020. In addition, the impact of the COVID-19 pandemic further reduced single copy print circulation revenue in the three months ended November 30, 2020. We expect these print circulation revenue trends to continue throughout the remainder of fiscal 2021.

Digital revenue was $24.9 million for the three months ended November 30, 2020, representing 21.3% and of total revenue. Digital revenues decreased $10.7 million, or 30.1%, in the three months ended November 30, 2020, as compared to the same period in the prior year as a result of decreases in owned and operated digital advertising, digital marketing services and off network programmatic digital advertising in the three months ended November 30, 2020. We expect these digital revenue trends to continue throughout the remainder of fiscal 2021 as the economy recovers from the COVID-19 pandemic however, 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 36.9%, 5.0%, 24.9% and 15.1%, respectively, of total operating expenses excluding depreciation, amortization, impairment and restructuring for the three months ended November 30, 2020. We experienced decreases in compensation, newsprint, distribution and production expenses of $15.5 million, $2.5 million, $4.2 million and $6.0 million, respectively, in the three months ended November 30, 2020 as compared to the same period in the prior year. The decreases in compensation, newsprint and distribution expenses for the three months ended November 30, 2020 are primarily as a result of cost reduction initiatives and decreases in newspaper page counts and circulation volumes. In addition, excluding the impact of CEWS and journalism tax credits both as described earlier in "Recent Developments", compensation expenses decreased $9.8 million, or 17.9%, in the three months and year ended November 30, 2020, as compared to the same periods in the prior year.

As a result of the continuing trends in advertising revenue and the COVID-19 pandemic, we continue to pursue additional cost reduction initiatives as described earlier in "Recent Developments". During the three months ended November 30, 2020 we implemented cost reduction initiatives which are expected to result in approximately $9 million of net annualized cost savings.

Our operating results are affected by variations in the cost and availability of newsprint. Newsprint is the principal raw material used in the production of our newspapers and other print publications. It is a commodity that is generally subject to price volatility. We take advantage of the purchasing power that comes with the large volume of newsprint we purchase, as well as our proximity to paper mills across Canada, to minimize our total newsprint expense. Changes in newsprint prices can significantly affect our operating results. A $50 per tonne increase or decrease in the price of newsprint would be expected to affect our newsprint expense by approximately $1.5 million on an annualized basis. We did not experience any significant changes in newsprint prices in the first quarter of fiscal 2021 but expect a slight increase in the remainder of fiscal 2021.

Our distribution is primarily outsourced to third party suppliers. The key drivers of our distribution expenses are fuel costs and circulation and insert volumes. Our distribution expenses have decreased during the three months and year ended November 30, 2020 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 2021.

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 months and year ended November 30, 2020 as a result of a reduction in newspaper page counts and circulation volumes, decreases in digital advertising revenue and cost reduction initiatives. We expect these trends to continue in the remainder of fiscal 2021.

**Other Factors**

***Seasonality***

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

### *Critical accounting estimates*

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Although these estimates, assumptions and judgements are based upon management's knowledge of the amount, event or actions; actual results could differ from those estimates, assumptions and judgements. The critical accounting estimates used in our interim condensed consolidated financial statements for the three months ended November 30, 2020 and 2019 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, 2020 and 2019.

## Operating Results

**Postmedia's operating results for the three months ended November 30, 2020 as compared to the three months ended November 30, 2019**

| | 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 | 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** | 17,178 | 21,378 |
| Depreciation | 2,783 | 3,011 |
| Amortization | 2,555 | 4,248 |
| Impairment | 13,464 | - |
| Settlement gain | (63,079) | - |
| Restructuring | 2,935 | 8,569 |
| **Operating income** | 58,520 | 5,550 |
| Interest expense | 7,826 | 7,378 |
| Net financing expense relating to employee benefit plans | 636 | 610 |
| Gain on disposal of property and equipment and assets held-for-sale | (6) | (3) |
| (Gain) loss on derivative financial instruments | (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) |

## Revenue

*Print advertising*

Print advertising revenue decreased $20.6 million, or 32.1%, to $43.5 million for the three months ended November 30, 2020 as compared to the same period in prior year, and declines were experienced across both of our major categories including decreases from ROP advertising of 32.4% and insert advertising of 30.8%. The decrease in ROP advertising was due to declines in both volume and rate with the total print advertising linage and average line rate decreasing 28.0% and 6.1%, respectively, during the three months ended November 30, 2020, as compared to the same period in the prior year.

*Print circulation*

Print circulation revenue decreased $6.2 million, or 12.4%, to $44.1 million for the three months ended November 30, 2020 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 decreased $10.7 million, or 30.1%, to $24.9 million for the three months ended November 30, 2020, as compared to the same period in the prior year primarily as a result of decreases in both programmatic and direct owned and operated digital advertising, digital marketing services, and off network programmatic digital advertising.

*Other*

Other revenue decreased by $2.2 million, or 30.9%, to $4.4 million for the three months ended November 30, 2020, as compared to the same period in the prior year, which includes decreases in commercial printing revenue of $1.4 million, or 26.9% as compared to the same period in the prior year.

***Expenses***

*Compensation*

Compensation expenses decreased $15.5 million, or 29.6%, to $36.8 million for the three months ended November 30, 2020, as compared to the same period in the prior year. The decrease in compensation expense is primarily as a result of declines in salary and benefits expense of $15.3 million, which includes ongoing cost reduction initiatives as well as the impact of the recovery of $6.6 related to CEWS, partially offset by a decrease in the compensation recovery as compared to the same period in the prior year related to journalism tax credits of $1.0 million, both as described earlier in “Recent Developments”. In addition, compensation expenses decreased due to decreases in employee benefit plan expense of $0.4 million and temporary labour expense of $0.6 million partially offset by an increase in short-term incentive plan expense of $0.8 million. Excluding the impact of CEWS and journalism tax credits, compensation expenses decreased $9.8 million, or 17.9%, as compared to the same period in the prior year.

*Newsprint*

Newsprint expenses decreased $2.5 million, or 33.3%, to $5.0 million for the three months ended November 30, 2020 as compared to the same period in the prior year primarily as a result of consumption decreases of 33.0% due to lower newspaper page counts and 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 $4.2 million, or 14.6%, to $24.7 million for the three months ended November 30, 2020, as compared to the same period in the prior year as a result of a reduction in newspaper circulation volumes and cost reduction initiatives.

*Production*

Production expenses decreased $6.0 million, or 28.6%, to $14.9 million for the three months ended November 30, 2020, as compared to the same period in the prior year. The decrease in production expenses is as a result of decreases in digital advertising revenue, cost savings as a result of the reduction in newspaper page counts and circulation volumes and ongoing cost reduction initiatives.

*Other operating*

Other operating expenses decreased $7.4 million, or 28.6%, to $18.3 million for the three months ended November 30, 2020, as compared to the same period in the prior year. The decrease in other operating expenses includes the impact of the COVID-19 pandemic on variable costs such as travel and entertainment, as well as ongoing cost reduction initiatives.

***Operating income before depreciation, amortization, impairment, settlement gain and restructuring***

Operating income before depreciation, amortization, impairment, settlement gain and restructuring decreased $4.2 million, or $19.6%, to $17.2 million for the three months ended November 30, 2020, as compared to the same period in the prior year. The decrease was as a result of decreases in revenue partially offset by decreases in compensation, newsprint, distribution, production and other operating expenses, all as discussed above. Included in the compensation expense decrease is the impact of the compensation expense recovery of $6.6 million related to CEWS partially offset by the decrease in the compensation recovery related to journalism tax credits of $1.0 million, both as described earlier in "Recent Developments".

*Depreciation*

Depreciation expense decreased $0.2 million to $2.8 million for the three months ended November 30, 2020 as compared to the same period in the prior year. The decrease relates to the disposal of properties and the classification of certain facilities as assets held-for-sale in the year ended August 31, 2020.

*Amortization*

Amortization expense decreased $1.7 million to $2.6 million for the three months ended November 30, 2020 as compared to the same period in the prior year. The decrease primarily relates to intangible assets that were fully amortized during the year ended August 31, 2020.

*Impairment*

During the three months ended November 30, 2020, we performed an interim impairment test of indefinite life intangible assets and determined that the recoverable amounts of two cash-generating units were less than their carrying amounts and as a result, we recognized an impairment of $8.4 million related to land, mastheads and domain names of $5.0 million, $3.1 million and $0.3 million, respectively. In addition, during the three months ended November 30, 2020, the fair value less costs of disposal of properties classified as held-for-sale were reduced based on the estimated net proceeds resulting in an impairment charge of $5.1 million. The aggregate impairment expense for the three months ended November 30, 2020 was $13.5 million. During the three months ended November 30, 2019 there were no impairments.

*Settlement gain*

Settlement gain for the three months ended November 30, 2020 consists of a non-cash gain on settlement of $63.1 million related to changes to our employee benefit plans as described earlier in "Recent Developments".

*Restructuring*

Restructuring expense was $2.9. million for the three months ended November 30, 2020 as compared to $8.6 million for the same period in the prior year. Restructuring expense for the three months ended November 30, 2020 consists of severance costs of $2.9 million which include both involuntary terminations and voluntary buyouts. Restructuring expense for the three months ended November 30, 2019 consisted of severance costs of $8.6 million, which included both involuntary terminations and voluntary buyouts.

### ***Operating income***

Operating income increased by $53.0 million to $58.5 million for the three months ended November 30, 2020 as compared to the same period in the prior year. The increase is the result of the settlement gain in the three months ended November 30, 2020 and decreases in depreciation, amortization and restructuring expenses partially offset by impairment expense in the three months ended November 30, 2020 and a decrease in operating income before depreciation, amortization, impairment, settlement gain and restructuring, all as discussed above.

*Interest expense*

Interest expense increased $0.4 million to $7.8 million for the three months ended November 30, 2020, 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 $0.5 million partially offset by a decrease in cash interest of $0.1 million. The increase in non-cash interest is due to an increase in the paid-in-kind interest on our 10.25% Second Lien Secured Notes due 2023 ("Second-Lien Notes"). The decrease in cash interest expense is as a result of decreases in the amount of First-Lien Notes outstanding during the three months ended November 30, 2020 as described earlier in "Recent Developments".

*Net financing expense relating to employee benefit plans*

Net financing expense relating to employee benefit plans increased a nominal amount to $0.6 million for the three months ended November 30, 2020, as compared to the same period in the prior year.

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

During the three months ended November 30, 2020, we disposed of the Calgary press facility and realized a gain of a nominal amount as described earlier in "Recent Developments". During the three months ended November 30, 2019, we disposed of property and equipment and realized a gain of a nominal amount.

*(Gain) loss on derivative financial instruments*

The gain on derivative financial instruments for the three months ended November 30, 2020 was $1.6 million as compared to a loss of $0.5 million during the same period in the prior year. The gain and loss in the three months ended November 30, 2020 and 2019, respectively, relate to the revaluation of warrants acquired in January 2016 and February 2020 as part of a marketing collaboration agreement with Mogo Finance Technology Inc.

*Foreign currency exchange (gains) losses*

Foreign currency exchange gains for the three months ended November 30, 2020 and 2019 were $1.2 million as compared to losses of a nominal amount in the same period in the prior year. Foreign currency exchange gains in the three months ended November 30, 2020 consist primarily of decreases in the carrying value of our Second-Lien Notes of $1.0 million.

### ***Earnings (loss) before income taxes***

Earnings before income taxes for the three months ended November 30, 2020 was $52.8 million as compared to a loss before income taxes of $3.0 million in the same period in the prior year. Earnings before income taxes is the result of the increase in operating income and gains on derivative financial instruments and foreign currency exchange during the three months ended November 30, 2020 partially offset by an increase in interest expense, all as described above.

*Provision for income taxes*

We have not recorded a current or deferred tax expense or recovery for the three months ended November 30, 2020 and 2019. 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) attributable to equity holders of the Company***

Net earnings for the three months ended November 30, 2020 was $52.8 million as compared to a net loss of $3.0 million in the same period in the prior year. The increase in net earnings is as a result of the factors described above in earnings (loss) before income taxes.

***Consolidated quarterly financial information***

| ($ in thousands of Canadian dollars, except per share information) | Fiscal 2021 | Fiscal 2020 | | | | Fiscal 2019 (1) | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Total revenues | 116,930 | 105,163 | 112,421 | 134,167 | 156,655 | 145,608 | 157,058 | 145,699 |
| Net earnings (loss) from continuing operations | 52,825 | 13,472 | (13,805) | (12,820) | (3,000) | 7,903 | (7,681) | (5,870) |
| Net earnings (loss) per share from continuing operations | | | | | | | | |
| Basic | $ 0.56 | $ 0.14 | $ (0.15) | $ (0.14) | $ (0.03) | $ 0.08 | $ (0.08) | $ (0.06) |
| Diluted | $ 0.54 | $ 0.14 | $ (0.15) | $ (0.14) | $ (0.03) | $ 0.08 | $ (0.08) | $ (0.06) |
| Net earnings (loss) attributible to equity holders of the Company | 52,825 | 13,472 | (13,805) | (12,820) | (3,000) | 7,903 | (7,681) | (5,079) |
| Net earnings (loss) per share attributible to equity holders of the Company | | | | | | | | |
| Basic | $ 0.56 | $ 0.14 | $ (0.15) | $ (0.14) | $ (0.03) | $ 0.08 | $ (0.08) | $ (0.05) |
| Diluted | $ 0.54 | $ 0.14 | $ (0.15) | $ (0.14) | $ (0.03) | $ 0.08 | $ (0.08) | $ (0.05) |
| Cash flows from (used in) operating activities | 8,273 | 16,692 | 21,611 | 3,780 | 2,748 | 4,660 | 1,568 | 7,585 |

(1) The consolidated quarterly financial information for the year ended August 31, 2019 has not been restated to reflect the adoption of IFRS 16 - Leases.

## Liquidity and capital resources

Our principal uses of funds are for working capital requirements, debt servicing and capital expenditures. Based on our current and anticipated level of operations, we believe that our cash on hand and cash flows from operations, which includes the receipt of CEWS and the journalism tax credits both as described earlier in “Recent Developments”, and available borrowings under our senior secured asset-based revolving credit facility (“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 recent years there has been a growing shift in advertising dollars from print advertising to other advertising formats, particularly online and other digital platforms such as search and social media websites. More recently, we have experienced continued declines in revenues due to ongoing economic and structural factors resulting in an increasingly challenging operating environment. We have significant debt obligations which currently include the First-Lien Notes ($83.8 million) that mature in July 2023 and Second-Lien Notes (US$134.6 million) that mature in January 2024. 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. In addition, as described in “Recent Developments”, the impact of the COVID-19 pandemic has caused a disruption to the economy which could further impact our 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.

As at November 30, 2020, we have two real estate assets classified as assets held-for-sale with a carrying amount of $18.4 million (August 31, 2020 – three with a carrying amount of $28.2 million) and as described in earlier in “Recent Developments”. Pursuant to the 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 November 30, 2020, we have no restricted cash (August 31, 2020 – $3.4 million). During the three months ended November 30, 2020, we 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 and $6.9 million related to the excess cash flow offer for the six months ended August 31, 2020 all as described previously in “Recent Developments”.

### *Cash flows from operating activities*

Our principal sources of liquidity are cash flows from operating activities. For the three months ended November 30, 2020, our cash flows from operating activities were $8.3 million (2019 – $2.7 million). Cash flows from operating activities increased $5.6 million as compared to the same period in the prior year due to an increase in the impact of non-cash working capital decreases as compared to the same period in the prior year partially offset by a decrease in operating income before depreciation, amortization, impairment, settlement gain and restructuring and decreases in cash interest and restructuring payments of $0.2 million and $0.5 million, respectively.

As at November 30, 2020 we have cash of $47.8 million (August 31, 2020 - $49.8 million).

***Cash flows from (used in) investing activities***

For the three months ended November 30, 2020, our cash flows from investing activities were inflows $4.3 million (2019 – outflows of $1.3 million). The net cash inflows from investing activities during the three months ended November 30, 2020 include the net proceeds received from the sale of assets held-for-sale of $4.7 million, partially offset by outflows for capital expenditures related to property and equipment of $0.4 million and intangible assets of a nominal amount. The net cash outflows from investing activities during the three months ended November 30, 2019 included outflows for capital expenditures related to property and equipment of $1.1 million and $0.2 million for intangible assets partially offset by the net proceeds from the sale of property and equipment of a nominal amount.

***Cash flows used in financing activities***

For the three months ended November 30, 2020, our net cash flows used in financing activities were $14.6 million (2019 – $3.4 million). The net cash outflows from financing activities during the three months ended November 30, 2020 consist of $15.4 million related to the repayment of First-Lien Notes as described earlier in “Recent Developments, capital lease payments of $2.6 million partially offset by the receipt of restricted cash of $3.4 million received on the sale of the Barrie facility as described earlier in “Recent Developments”. The net cash outflows from financing activities during the three months ended November 30, 2019 include outflows of $94.8 million related to the repayment of First-Lien Notes and debt issuance costs of $1.7 million, capital lease payments of $2.2 million, partially offset by net proceeds from the issuance of First-Lien Notes of $95.2 million and the receipt of restricted cash of a nominal amount.

*Indebtedness*

As of November 30, 2020, we have $83.8 million First-Lien Notes outstanding and US$134.6 million Second-Lien Notes outstanding (August 31, 2020 – $99.2 million First-Lien Notes and US$134.6 million Second-Lien Notes). The following tables set out the principal and carrying amount of our long-term debt outstanding as at November 30, 2020 and August 31, 2020. The first column of the table translates, where applicable, our US dollar debt to the Canadian equivalent based on the closing foreign exchange rate on November 30, 2020 of US$1:$1.2965 (August 31, 2020 – US$1:$1.3042).

| | **As at November 30, 2020** | | | **As at August 31, 2020** | | |
|---|---|---|---|---|---|---|
| ($ in thousands of Canadian dollars) | **Principal Outstanding** | **Financing fees, discounts and other** | **Carrying Value** | **Principal Outstanding** | **Financing fees, discounts and other** | **Carrying Value** |
| First-Lien Notes……………………………… | 83,791 | (1,077) | 82,714 | 99,163 | (1,229) | 97,934 |
| Second-Lien Notes…………………………… | 174,566 | (173) | 174,393 | 175,602 | (181) | 175,421 |
| ABL Facility…………………………………… | - | - | - | - | - | - |
| Total…………………………………………… | 258,357 | (1,250) | 257,107 | 274,765 | (1,410) | 273,355 |

**Financial Position as at August 31, 2020 and 2019**

| ($ in thousands of Canadian dollars) | As at November 30, 2020 | As at August 31, 2020 |
|---|---|---|
| Current assets…… | 145,924 | 160,572 |
| Total assets…… | 310,484 | 336,879 |
| Current liabilities…… | 95,077 | 109,120 |
| Total liabilities…… | 432,743 | 501,101 |
| Deficiency…… | (122,259) | (164,222) |

The decrease in our current assets is primarily due to decreases in restricted cash and assets held-for-sale as a result of the redemption of First-Lien Notes from related asset sales as described earlier in "Recent Developments" and an impairment recognized on assets held-for-sale during the three months ended November 30, 2020 partially offset by a net increase in trade and other receivables which includes decreases related to CEWS offset by increases related to journalism tax credits and trade receivables as a result of the seasonality of our business. Total assets decreased as a result of a decrease in the carrying value of right of use assets, property and equipment and intangible assets as a result of disposals, depreciation, amortization and impairment in excess of additions during the three months ended November 30, 2020 and the decrease in current assets. Current liabilities have decreased as a result of a decrease in the current portion of long-term debt as a result of the redemption of First-Lien Notes described earlier in "Recent Developments". The decrease in total liabilities is as a result of a decrease in employee benefit plan liabilities due to the completion of the CAAT Pension Plan merger described earlier in "Recent Developments" and the decrease in current liabilities.

**Related Party Transactions**

As at November 30, 2020, 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") owns 62,319,049, or approximately 66%, of our shares and 33% of the outstanding voting rights. We had a consulting agreement with Chatham and during the three months ended November 30, 2019 incurred an expense of $0.1 million. In addition, we have an ABL Facility with associated companies of Chatham and as at November 30, 2020, have 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.

**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, 2020 and 2019, except as discussed below.

***Foreign currency risk***

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

**Guarantees and Off-Balance Sheet Arrangements**

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

## Risk Factors

The risks relating to our business are described in the section entitled "Risk Factors" included in our annual management's discussion and analysis for the years ended August 31, 2020 and 2019, except the risk related to the *Competition Bureau review of a past transaction* which was resolved on January 7, 2021 with the Competition Bureau advising that no further action is warranted and they are discontinuing the inquiry.

## Internal Controls

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

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

The CEO and CFO have evaluated whether there were changes to Postmedia's internal control over financial reporting during the three months ended November 30, 2020, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting. There were no changes expected to have a material effect on internal control over financial reporting identified during their evaluation.

## Share Capital

As at January 11, 2021 we had the following number of shares and options outstanding:

| | |
|---|---|
| Class C voting shares | 54,022 |
| Class NC variable voting shares | 93,686,277 |
| Total shares outstanding | 93,740,299 |
| Total options and restricted share units outstanding [(1)] | 6,954,731 |

[(1)] The total options and restricted share units outstanding are convertible into 6,954,731 Class NC variable voting shares. The total options and restricted share units outstanding include 5,156,090 that are vested and 1,798,641 that are unvested.