POSTMEDIA NETWORK CANADA CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020

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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 audited consolidated financial statements and related notes of Postmedia for the years ended August 31, 2021 and 2020. The audited consolidated financial statements of Postmedia for the years ended August 31, 2021 and 2020 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". 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 years ended August 31, 2021 and 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

*This management's discussion and analysis is dated October 21, 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 audited consolidated financial statements for the years ended August 31, 2021 and 2020 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 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 2021 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

Subsequent to August 31, 2021, pursuant to the semi-annual excess cash flow requirement contained in the 8.25% Senior Secured Notes due 2021 ("First-Lien Notes") indenture, the excess cash flow for the six months ended August 31, 2021 was $[2.4] million which is expected to be used to redeem a portion of the First-Lien Notes and pay accrued interest by [ ], 2021. In addition, during the year ended August 31, 2021, we redeemed $32.3 million, aggregate principal amount of First-Lien Notes which includes redemptions of $18.1 million related to the sale of assets, $6.9 million related to the excess cash flow redemption for the six months ended August 31, 2020 and $7.3 million related to the excess cash flow redemption for the six months ended February 28, 2021. The proceeds from the sale of assets include net proceeds of $8.6 million from the exercise of warrants and subsequent sale of shares of Mogo Inc., $5.2 from the sale of the Calgary press facility and $1.0 million from the net proceeds of various property and equipment sales during the year ended August 31, 2021 as well as $3.4 million from the Barrie facility sold during the year ended August 31, 2020.

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. We are generally exempt from mandates requiring closures of non-essential businesses and therefore have been able to continue operations, however, advertising revenue declines have accelerated as a result of the COVID-19 pandemic and related government measures. 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 October 23, 2021 provided the applicant has met the applicable criteria. During the three months and year ended August 31, 2021, we recognized a recovery of compensation expense of $5.0 million and $23.0 million, respectively, (2020 – $21.0 million and $40.3 million, respectively) and in total have recognized $63.3 million related to CEWS since the program was announced. As at August 31, 2021, we have an amount receivable related to CEWS of $0.6 million included in trade and other receivables on the consolidated statement of financial position (August 31, 2020 - $13.0 million).

We continue to identify and undertake cost reduction initiatives in an effort to address revenue declination in the legacy print business. During the year ended August 31, 2021, 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 August 31, 2021 we implemented cost reductions which are expected to result in approximately $2 million of net annualized cost savings. In total, we implemented net annualized cost savings of approximately $18 million during the year ended August 31, 2021.

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, we received our 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 August 31, 2021, we recognized a recovery of compensation expense of $2.1 million and $6.9 million, respectively, related to the journalism tax credits (2020 – $0.5 million expense and $4.5 million recovery, respectively). As at August 31, 2021, the aggregate journalism tax credit receivable of $5.5 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 funding an 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 in the year ended August 31, 2021 which is the difference between the closing defined benefit obligation of the Postmedia Plans and the obligation to the CAAT Pension Plan.

Selected Annual Information

	For the years ended August 31,	
	2021	**2020**
Revenues	442,343	508,406
Net earnings (loss) attributable to equity holders of the Company	33,726	(16,153)
Net earnings (loss) per share attributable to equity holders of the Company		
Basic	$ 0.36	$ (0.17)
Diluted	$ 0.34	$ (0.17)
Total assets	276,201	336,879
Total long-term financial liabilities	248,262	252,983

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 $34.7 million and $151.5 million for the three months and year ended August 31, 2021, representing 32.2% and 34.2%, respectively, of total revenue for such periods. Our major advertising categories are run of press (ROP) and inserts. These categories composed 65.7% and 33.8%, respectively, of total print advertising for the three months ended August 31, 2021 and 64.7% and 34.3%, respectively, of total print advertising for the year ended August 31, 2021 .

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 but expect the current quarter trends to continue in fiscal 2022 as we emerge from the COVID-19 pandemic. During the three months and year ended August 31, 2021, we experienced print advertising revenue decreases of $0.7 million, or 2.0% and $39.2 million, or 20.6%, respectively, as compared to the same period in the prior year. The decrease in print advertising revenue relate to decreases both of our major advertising categories including decreases in ROP and insert advertising revenue of 2.1% and 1.2%, respectively, in the three months ended August 31, 2021, and 20.4% and 20.6%, respectively, in the year ended August 31, 2021 both as compared to the same period in the prior year.

Print circulation revenue was $41.7 million and $171.8 million for the three months and year ended August 31, 2021, representing 38.7% and 38.8% of total revenue for such periods, respectively. Circulation revenues decreased $4.2 million, or 9.2% and $19.0 million, or 10.0%, in the three months and year ended August 31, 2021, respectively, as compared to the same period in the prior year. These decreases are the result of price increases being offset by declines in circulation volumes that have been experienced over the last few years and this trend continued in the three months and year ended August 31, 2021. In addition, the impact of the COVID-19 pandemic further reduced single copy print circulation revenue in the last 6 months of the year ended August 31, 2020 and the first 6 months of the year ended August 31, 2021. We expect the current quarter print circulation revenue trends to continue in fiscal 2022.

Digital revenue was $27.6 million and $102.9 million for the three months and year ended August 31, 2021, representing 25.6% and 23.3%, respectively, of total revenue for such periods. Digital revenues increased $7.0 million, or 34.2% in the three months ended August 31, 2021 as a result of increases in digital marketing services, both programmatic and direct owned and operated digital advertising and off network programmatic digital advertising. Digital revenues decreased $5.1 million, or 4.7%, in the year ended August 31, 2021 as a result of decreases in both programmatic and direct owned and operated digital advertising partially offset by increases in digital marketing services and an increase in off network programmatic digital advertising. We expect the current quarter digital revenue trends to continue in fiscal 2022 as the economy recovers from the COVID-19 pandemic and we continue to believe digital revenue represents a future growth opportunity for Postmedia and as a result we are focused on various new products and initiatives in this area including digital marketing services that provide customized, full-service solutions to increase a business' overall revenue including website development, search engine optimization (SEO) and search engine marketing (SEM).

Our principal expenses consist of compensation, newsprint, distribution and production. These represented 38.5%, 4.0%, 22.2% and 14.7%, respectively, of total operating expenses excluding depreciation, amortization, impairment and restructuring for the three months ended August 31, 2021 and 38.3%, 4.3%, 23.4% and 14.9%, respectively, of total operating expenses excluding depreciation, amortization, impairment, settlement gain and restructuring for the year ended August 31, 2021. We experienced increases in compensation and production expenses of $18.2 million and $3.6 million, respectively, partially offset by decreases in newsprint and distribution expenses of $0.1 million and $1.0 million, respectively, in the three months ended August 31, 2021. We experienced increases in compensation expense of $4.0 million, partially offset by decreases in newsprint, distribution and production expenses of $5.4 million, $11.9 and $3.3 million, respectively, in the year ended August 31, 2021 as compared to the same period in the prior year. The decreases in newsprint and distribution expenses in the year ended August 31, 2021 are primarily as a result of cost reduction initiatives and decreases in newspaper page counts and circulation volumes. The increase in compensation expense in the three months and year ended August 31, 2021 and production expenses in the three months ended August 31, 2021, is as a result of a decrease in CEWS and an increase in digital advertising revenue, respectively. In addition, excluding the impact of CEWS and journalism tax credits both as described earlier in “Recent Developments”, compensation expenses increased $4.7 million, or 10.8, and decreased $10.9 million, or 5.5%, respectively, in the three months and year ended August 31, 2021, as compared to the same periods in the prior year. The increase in the three months ended August 31, 2021 is as a result of increases in employee benefit plan and short term incentive plan expenses. The decrease in the year ended August 31, 2021 is as a result of on-going cost reduction initiatives which were primarily completed in the first 6 months of the year ended August 31, 2021.

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 August 31, 2021 we implemented cost reduction initiatives which are expected to result in approximately $2 million of net annualized cost savings. In total, we implemented net annualized cost savings of approximately $18 million during the year ended August 31, 2021.

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 experienced a slight increases in newsprint prices in the second and fourth quarters of fiscal 2021 and expect an additional slight increase in fiscal 2022.

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 August 31, 2021 as compared to the same periods 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 in fiscal 2022.

Our production expenses include the costs related to outsourced production of our newspapers, digital advertising production costs and ink and other production supplies. During the three months and year ended August 31, 2021, our production expenses increased and decreased, respectively. The change is the result of increases in digital advertising revenue in the last six months of the year ended August 31, 2021 partially offset by a reduction in newspaper page counts and circulation volumes and cost reduction initiatives. We expect these recent trends to continue in fiscal 2022.

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.

We have identified the following significant areas that require management to use estimates, assumptions and judgements. These accounting estimates, assumptions and judgements are considered critical as changes in such estimates, assumptions and judgements have the potential to materially impact the audited consolidated financial statements. For a summary of our significant accounting policies refer to note 2 of our audited consolidated financial statements for the years ended August 31, 2021 and 2020.

The following significant areas require management to use assumptions and to make estimates:

Impairment of long lived assets

We test indefinite life intangible assets for impairment annually, or more frequently if there are indicators that an impairment may have arisen. In testing for impairment, assets including indefinite life intangible assets and other long lived assets, are grouped into a CGU which represents the lowest level for which there are separately identifiable cash inflows. The recoverable amount of each CGU or group of CGUs is based on the higher of value in use and fair value less costs of disposal ("FVLCD") calculations. During the years ended August 31, 2021 and 2020, we computed the FVLCD for each CGU applying a market multiple range of 2.5 to 3.5 times the adjusted trailing twelve month operating income before depreciation, amortization, impairment and restructuring less disposal costs. Management determined this key assumption based on an average of market multiples for comparable entities. Refer to note 6 of our audited consolidated financial statements for the years ended August 31, 2021 and 2020 for more details about the methods and assumptions used in estimating the recoverable amount. In addition, estimates were required in the determination of FVLCD for our held-for-sale-assets.

Employee future benefits

The cost of defined benefit pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans and the present value of the defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions including the discount rate and mortality rates, among others to measure the net defined benefit obligation. Due to the complexity of the actuarial valuations and the long-term nature of employee future benefits, the corresponding obligation is highly sensitive to changes in assumptions. Discount rates are reviewed at each reporting date and corresponding adjustments to the net defined benefit obligation are recognized in other comprehensive income and deficit. A change in the discount rate used in the valuation of net defined benefit obligations, affects the reported funded status of our plans as well as the net benefit cost in subsequent fiscal years. As at August 31, 2021 a 50 basis-point decrease or increase in the discount rate would increase or decrease our defined benefit obligations by $2.1 million. Refer to note 14 of our audited consolidated financial statements for the years ended August 31, 2021 and 2020 for more details about the methods and assumptions used in estimating the cost of our defined benefit pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans.

Future cash flow projections

The COVID-19 pandemic has caused a disruption to the economy and as a result we have incorporated its impact on future cash flow projections which 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”).

The following areas require management to use significant judgements apart from those involving estimates:

Determination of useful lives for the depreciation and amortization of assets with finite lives

For each class of assets with finite lives, management has to determine over which period we will consume the asset’s future economic benefits. The determination of such periods and if necessary, the subsequent revision of such periods, involves judgement and has an impact on the depreciation and amortization recorded in the consolidated statements of operations. We take into account industry trends and company specific factors, including changing technologies and expectations for the in-service period of assets, when determining their respective useful lives.

Determination of the measurement of government grants and tax credits

Judgement is required in determining when government grants and tax credits are recognized. Government grants and tax credits are recognized when there is reasonable assurance that we have complied with the conditions associated with the relevant government program. The determination of reasonable assurance involves judgement due to the complexity of the programs and related claim and review processes.

Operating Results

Postmedia's operating results for the three months ended August 31, 2021 as compared to the three months ended August 31, 2020

	2021	2020
Revenues		
Print advertising	34,660	35,359
Print circulation	41,674	45,900
Digital	27,555	20,531
Other	3,762	3,373
Total revenues	107,651	105,163
Expenses		
Compensation	41,229	23,018
Newsprint	4,257	4,402
Distribution	23,769	24,760
Production	15,766	12,202
Other operating	22,193	24,056
Operating income before depreciation, amortization, impairment and restructuring	437	16,725
Depreciation	2,773	2,831
Amortization	2,364	2,649
Impairment	5,000	800
Restructuring	1,024	296
Operating income (loss)	(10,724)	10,149
Interest expense	7,280	8,049
Net financing expense relating to employee benefit plans	229	607
Loss (gain) on disposal of property and equipment and right of use assets	9	(912)
Loss (gain) on derivative financial instruments	2,251	(1,140)
Foreign currency exchange losses (gains)	8,065	(9,927)
Earnings (loss) before income taxes	(28,558)	13,472
Provision for income taxes	-	-
Net earnings (loss) attributable to equity holders of the Company	(28,558)	13,472

Revenue

Print advertising

Print advertising revenue decreased $0.7 million, or 2.0%, to $34.7 million for the three months ended August 31, 2021 as compared to the same period in prior year, with declines experienced across both of our major categories including decreases in ROP advertising of 2.1% and insert advertising of 1.2%. The decrease in ROP advertising was due to a decline in volume with total print advertising linage decreasing 2.9% partially offset by an increase in average line rate of 0.7%, during the three months ended August 31, 2021, as compared to the same period in the prior year.

Print circulation

Print circulation revenue decreased $4.2 million, or 9.2%, to $41.7 million for the three months ended August 31, 2021 as compared to the same period in the prior year as a result of decreases in circulation volumes partially offset by price increases.

Digital

Digital revenue increased $7.0 million, or 34.2%, to $27.6 million for the three months ended August 31, 2021, as compared to the same period in the prior year primarily as a result of increases in digital marketing services, in both programmatic and direct owned and operated digital advertising and off network programmatic digital advertising.

Other

Other revenue increased by $0.4 million, or 11.5%, to $3.8 million for the three months ended August 31, 2021, as compared to the same period in the prior year, which includes an increase in commercial printing revenue of $0.5 million, or 18.4% as compared to the same period in the prior year.

Expenses

Compensation

Compensation expenses increased $18.2 million to $41.2 million for the three months ended August 31, 2021, as compared to the same period in the prior year. The increase in compensation expense is primarily as a result of increases in salary and benefits expense of $15.1 million, which includes a $13.5 million decrease in government assistance and a $1.6 million decrease in salary and benefits as a result of on-going cost reduction initiatives described earlier in "Recent Developments". The decrease in government assistance is comprised of a decrease in the recovery related to CEWS of $16.0 million, partially offset by an increase in the compensation expense recovery related to journalism tax credits of $2.5 million, both as described earlier in "Recent Developments". In addition, compensation expenses increased due to an increase in employee benefit plan expenses of $0.6 million and short-term incentive plan expense of $2.9 million. Excluding the impact of CEWS and journalism tax credits, compensation expenses increased $4.7 million, or 10.8%, as compared to the same period in the prior year.

Newsprint

Newsprint expenses decreased $0.1 million, or 3.3%, to $4.3 million for the three months ended August 31, 2021 as compared to the same period in the prior year primarily as a result of consumption decreases of 3.3% 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 $1.0 million, or 4.0%, to $23.8 million for the three months ended August 31, 2021, 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 increased $3.6 million, or 29.2%, to $15.8 million for the three months ended August 31, 2021, as compared to the same period in the prior year. The increase in production expenses is related to the increase in digital advertising revenue.

Other operating

Other operating expenses decreased $1.9 million, or 7.7%, to $22.2 million for the three months ended August 31, 2021, as compared to the same period in the prior year. The decrease in other operating expenses is primarily as a result of ongoing cost reduction initiatives and an increase to the provision for expected credit losses in the three months ended August 31, 2020.

Operating income before depreciation, amortization, impairment and restructuring

Operating income before depreciation, amortization, impairment, and restructuring decreased $16.3 million to $0.4 million for the three months ended August 31, 2021, as compared to the same period in the prior year. The decrease was as a result of increases in compensation and production expenses partially offset by an increase in revenue and decreases in newsprint, distribution and other operating expenses, all as discussed above. Included in the compensation expense increase is the decrease in compensation expense recoveries related to government assistance of $13.5 million which is comprised of a decrease in the recovery related to CEWS of $16.0 million partially offset by an increase in the compensation recovery related to journalism tax credits of $2.5 million, both as described earlier in “Recent Developments”.

Depreciation

Depreciation expense decreased $0.1 million to $2.8 million for the three months ended August 31, 2021 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 $0.3 million to $2.4 million for the three months ended August 31, 2021 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 August 31, 2021, we performed an interim impairment test of indefinite life intangible assets and determined that the recoverable amounts of one cash-generating unit was less than its carrying amount and as a result, we recognized an impairment of $5.0 million related to mastheads, domain names, and other assets of $3.8 million and $0.7 million, and $0.5 million respectively. During the three months ended August 31, 2020, the estimated FVLCD of properties classified as held-for-sale were reduced based on the expected net proceeds resulting in an impairment charge of $0.8 million.

Restructuring

Restructuring expense was $1.0 million for the three months ended August 31, 2021 as compared to $0.3 million for the same period in the prior year. Restructuring expense for the three months ended August 31, 2021 consists of severance costs of $1.0 million. Restructuring expense for the three months ended August 31, 2020 consisted of severance costs of $0.3 million, which included both involuntary terminations and voluntary buyouts.

Operating income (loss)

Operating loss for the three months ended August 31, 2021 was $10.7 million as compared to operating income of $10.1 million in the same period in the prior year. Operating loss is as a result of decreases in operating income before depreciation, amortization, impairment and restructuring and increases in impairment and restructuring expenses partially offset by decreases in depreciation and amortization expenses all as discussed above.

Interest expense

Interest expense decreased $0.8 million to $7.3 million for the three months ended August 31, 2021, as compared to the same period in the prior year. Interest expense primarily relates to interest on our long-term debt that is recognized using the effective interest rate method, which amortizes the initial debt issuance costs and includes both cash and non-cash interest. The decrease in interest expense relates to decreases in cash and non-cash interest of $0.7 million and $0.1, respectively. The decrease in cash interest expense is primarily as a result of decreases in the amount of First-Lien Notes outstanding during the year ended August 31, 2021 as described earlier in “Recent Developments”.

Net financing expense relating to employee benefit plans

Net financing expense relating to employee benefit plans decreased $0.4 million to $0.2 million for the three months ended August 31, 2021, as compared to the same period in the prior year.

Loss (gain) on disposal of property and equipment and right of use assets

During the three months ended August 31, 2021, we disposed of property and equipment and right of use assets and realized a loss of a nominal amount. During the three months ended August 31, 2020, we disposed of the Barrie facility and realized a gain of $0.7 million as described earlier in “Recent Developments” and disposed of a right of use asset and realized a gain of $0.2 million resulting in aggregate gains of $0.9 million.

(Gain) loss on derivative financial instruments

Loss on derivative financial instruments for the three months ended August 31, 2021 was $2.3 million as compared to a gain of $1.1 million during the same period in the prior year. The loss and gain in the three months ended August 31, 2021 and 2020, respectively, relate to the revaluation of shares and warrants of Mogo Inc. described earlier in “Recent Developments”.

Foreign currency exchange (gains) losses

Foreign currency exchange losses for the three months ended August 31, 2021 were $8.1 million as compared to gains of $9.9 million in the same period in the prior year. Foreign currency exchange losses and gains in the three months ended August 31, 2021 and 2020 are due primarily to the impact of US dollar exchange rates on the carrying value of our 10.25% Second-Lien Secured Notes due 2023 (“Second-Lien Notes”) of $7.9 million and $9.8 million, respectively.

Earnings (loss) before income taxes

Loss before income taxes for the three months ended August 31, 2021 was $28.6 million as compared to earnings before income taxes of $13.5 million in the same period in the prior year. Loss before income taxes is primarily the result of operating losses as well as losses on derivative financial instruments and foreign currency exchange in the three months ended August 31, 2021, 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 August 31, 2021 and 2020. 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 loss for the three months ended August 31, 2021 was $28.6 million as compared to net earnings of $13.5 million in the same period in the prior year. Net loss is as a result of the factors described above in earnings (loss) before income taxes.

Postmedia's operating results for the year ended August 31, 2021 as compared to the year ended August 31, 2020

	2021	2020
Revenues		
Print advertising	151,489	190,697
Print circulation	171,824	190,873
Digital	102,919	108,043
Other	16,111	18,793
Total revenues	442,343	508,406
Expenses		
Compensation	155,182	151,180
Newsprint	17,506	22,903
Distribution	94,990	106,893
Production	60,486	63,807
Other operating	77,126	95,892
Operating income before depreciation, amortization, impairment, settlement gain and restructuring	37,053	67,731
Depreciation	11,175	11,647
Amortization	9,778	14,324
Impairment	26,164	13,307
Settlement gain	(63,079)	-
Restructuring	5,920	14,845
Operating income	47,095	13,608
Interest expense	30,407	30,628
Net financing expense relating to employee benefit plans	1,324	2,436
Gain on disposal of property and equipment, assets held-for-sale and right of use assets	(507)	(928)
(Gain) loss on derivative financial instruments	(11,930)	1,224
Foreign currency exchange gains	(5,925)	(3,599)
Earnings (loss) before income taxes	33,726	(16,153)
Provision for income taxes	-	-
Net earnings (loss) attributable to equity holders of the Company	33,726	(16,153)

Revenue

Print advertising

Print advertising revenue decreased $39.2 million, or 20.6%, to $151.5 million for the year ended August 31, 2021 as compared to the same period in prior year, with declines experienced across both of our major categories including decreases from ROP advertising of 20.4% and insert advertising of 20.6%. 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 16.4% and 4.9%, respectively, during the year ended August 31, 2021, as compared to the same period in the prior year.

Print circulation

Print circulation revenue decreased $19.0 million, or 10.0%, to $171.8 million for the year ended August 31, 2021 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 $5.1 million, or 4.7%, to $102.9 million for the year ended August 31, 2021, 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 partially offset by increases in digital marketing services and off network programmatic digital advertising.

Other

Other revenue decreased by $2.7 million, or 14.3%, to $16.1 million for the year ended August 31, 2021, as compared to the same period in the prior year, which includes decreases in commercial printing revenue of $1.2 million, or 8.5% as compared to the same period in the prior year.

Expenses

Compensation

Compensation expenses increased $4.0 million, or 2.6%, to $155.2 million for the year ended August 31, 2021, as compared to the same period in the prior year. The increase in compensation expense is primarily as a result of increases in salary and benefits expense of $3.3 million, or 2.6%, which includes a $14.9 million decrease in government assistance partially offset by an $11.6 million decrease in salary and benefits as a result of on-going cost reduction initiatives described earlier in “Recent Developments”. The decrease in government assistance is comprised of a decrease in the recovery related to CEWS of $17.3 million, partially offset by an increase in the compensation expense recovery related to journalism tax credits of $2.4 million, both as described earlier in “Recent Developments”. In addition, compensation expenses increased due to an increase in short-term incentive plan expense of $3.5 million partially offset by decreases in employee benefit plan expense of $1.0 million and temporary labour expense of $1.0 million. Excluding the impact of CEWS and journalism tax credits, compensation expenses decreased $10.9 million, or 5.5%, as compared to the same period in the prior year.

Newsprint

Newsprint expenses decreased $5.4 million, or 23.6%, to $17.5 million for the year ended August 31, 2021 as compared to the same period in the prior year primarily as a result of consumption decreases of 22.5% 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 $11.9 million, or 11.1%, to $95.0 million for the year ended August 31, 2021, 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 $3.3 million, or 5.2%, to $60.5 million for the year ended August 31, 2021, as compared to the same period in the prior year. The decrease in production expenses is as a result of, cost savings related to the reduction in newspaper page counts and circulation volumes and ongoing cost reduction initiatives.

Other operating

Other operating expenses decreased $18.8 million, or 19.6%, to $77.1 million for the year ended August 31, 2021, 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 and an increase to the provision for expected credit losses in the year ended August 31, 2020.

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

Operating income before depreciation, amortization, impairment, settlement gain and restructuring decreased $30.7 million, or 45.3%, to $37.1 million for the year ended August 31, 2021, as compared to the same period in the prior year. The decrease was as a result of a decrease in revenue and an increase in compensation expense partially offset by decreases in newsprint, distribution, production and other operating expenses, all as discussed above. Included in the compensation expense increase is the decrease in compensation expense recoveries related to government assistance of $14.9 million which is comprised of a decrease in the recovery related to CEWS of $17.3 million partially offset by an increase in the compensation recovery related to journalism tax credits of $2.4 million, both as described earlier in "Recent Developments".

Depreciation

Depreciation expense decreased $0.5 million to $11.2 million for the year ended August 31, 2021 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 $4.5 million to $9.8 million for the year ended August 31, 2021 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 year ended August 31, 2021, we performed interim impairment tests of indefinite life intangible assets and determined that the recoverable amounts of three cash-generating units were less than their carrying amounts and as a result, we recognized an impairment of $20.4 million related to land, mastheads, domain names and other assets of $5.0 million, $12.3 million, $2.6 million and $0.5 million, respectively. In addition, during the year ended August 31, 2021, the estimated FVLCD of properties classified as held-for-sale were reduced based on the estimated net proceeds resulting in an impairment charge of $5.8 million. The aggregate impairment expense for the year ended August 31, 2021 was $26.2 million. During the year ended August 31, 2020, we performed our annual impairment test of indefinite life intangible assets and determined that the recoverable amounts of one cash-generating unit was less than its carrying amount and as a result, we recognized an impairment of $12.5 million related to mastheads and domain names of $11.2 million, and $1.3 million, respectively. In addition, during the year ended August 31, 2020, the estimated FVLCD of properties classified as held-for-sale were reduced based on the expected net proceeds resulting in an impairment charge of $0.8 million. The aggregate impairment expense for the year ended August 31, 2020 was $13.3 million.

Settlement gain

Settlement gain for the year ended August 31, 2021 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 $5.9 million for the year ended August 31, 2021 as compared to $14.8 million for the same period in the prior year. Restructuring expense for the year ended August 31, 2021 consists of severance costs of $5.9 million which include both involuntary terminations and voluntary buyouts. Restructuring expense for the year ended August 31, 2020 consisted of severance costs of $14.8 million, which included both involuntary terminations and voluntary buyouts.

Operating income

Operating income increased by $33.5 million to $47.1 million for the year ended August 31, 2021 as compared to the same period in the prior year. The increase is the result of the settlement gain in the year ended August 31, 2021 and decreases in depreciation, amortization and restructuring expenses partially offset by an increase in impairment expense and a decrease in operating income before depreciation, amortization, impairment, settlement gain and restructuring, all as discussed above.

Interest expense

Interest expense decreased $0.2 million to $30.4 million for the year ended August 31, 2021, as compared to the same period in the prior year. Interest expense primarily relates to interest on our long-term debt that is recognized using the effective interest rate method, which amortizes the initial debt issuance costs and includes both cash and non-cash interest. The decrease in interest expense relates to a decrease in cash interest of $1.0 million partially offset by an increase in non-cash interest of $0.8 million. The decrease in cash interest expense is primarily as a result of decreases in the amount of First-Lien Notes outstanding during the year ended August 31, 2021 as described earlier in “Recent Developments”. The increase in non-cash interest is due to an increase in the paid-in-kind interest on our Second-Lien Notes.

Net financing expense relating to employee benefit plans

Net financing expense relating to employee benefit plans decreased $1.1 million to $1.3 million for the year ended August 31, 2021, as compared to the same period in the prior year.

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

During the year ended August 31, 2021, we disposed of the Calgary press facility, classified as held-for-sale, as well as property equipment and right of use assets and realized a gain of $0.5 million. During the year ended August 31, 2020 we disposed of property and equipment, including the Barrie facility as described earlier in “Recent Developments”, and realized a gain of a $0.7 million and disposed of a right of use asset and realized a gain of $0.2 million resulting in aggregate gains of $0.9 million.

(Gain) loss on derivative financial instruments

The gain on derivative financial instruments for the year ended August 31, 2021 was $11.9 million as compared to a loss of $1.2 million during the same period in the prior year. The gain and loss in the years ended August 31, 2021 and 2020, respectively, relate to the revaluation of shares and warrants of Mogo Inc. described earlier in “Recent Developments”.

Foreign currency exchange gains

Foreign currency exchange gains for the year ended August 31, 2021 were $5.9 million as compared to $3.6 million in the same period in the prior year. Foreign currency exchange gains in the years ended August 31, 2021 and 2020 are due primarily to the impact of US dollar exchange rates on the carrying value of our Second-Lien Notes of $5.7 million and $3.4 million, respectively.

Earnings (loss) before income taxes

Earnings before income taxes for the year ended August 31, 2021 was $33.7 million as compared to a loss before income taxes of $16.2 million in the same period in the prior year. Earnings before income taxes is primarily the result of an increase in operating income, gains on derivative financial instruments during the year ended August 31, 2021 and an increase in foreign currency exchange gains, all as described above.

Provision for income taxes

We have not recorded a current or deferred tax expense or recovery for the years ended August 31, 2021 and 2020. 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 year ended August 31, 2021 was $33.7 million as compared to a net loss of $16.2 million in the same period in the prior year. 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			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues	107,651	111,748	106,014	116,930	105,163	112,421	134,167	156,655
Net earnings (loss) attributible to equity holders of the Company	(28,558)	8,742	717	52,825	13,472	(13,805)	(12,820)	(3,000)
Net earnings (loss) per share attributible to equity holders of the Company								
Basic	$ (0.30)	$ 0.09	$ 0.01	$ 0.56	$ 0.14	$ (0.15)	$ (0.14)	$ (0.03)
Diluted	$ (0.30)	$ 0.09	$ 0.01	$ 0.54	$ 0.14	$ (0.15)	$ (0.14)	$ (0.03)
Cash flows from operating activities	11,910	10,744	8,094	8,273	16,692	21,611	3,780	2,748

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 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 ($66.9 million) that mature in July 2023 and Second-Lien Notes (US$150.2 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 we have 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 August 31, 2021, we have two real estate assets classified as assets held-for-sale with a carrying amount of $17.7 million (August 31, 2020 – three with a carrying amount of $28.2 million) 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 redeem an equal amount of First-Lien Notes. As at August 31, 2021, we have $0.4 million of restricted cash (August 31, 2020 – $3.4 million). During the year ended August 31, 2021, we redeemed $32.3 million aggregate principal amount of First-Lien Notes, which includes aggregate redemptions of $18.1 million as a result of the sale of assets, $6.9 million related to the excess cash flow redemption for the six months ended August 31, 2020 and $7.3 million related to the excess cash flow redemption for the six months ended February 28, 2021 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 and year ended August 31, 2021, our cash flows from operating activities were $11.9 million and $39.0 million, respectively, (2020 – $16.7 million and $44.8 million, respectively). Cash flows from operating activities for the three months ended August 31, 2021 decreased $4.8 million as compared to the same period in the prior year due to a decrease in operating income before depreciation, amortization, impairment and restructuring and a nominal increase in cash interest payments, partially offset by the impact of non-cash working capital increases as compared to the same period in the prior year and a $2.0 million decrease in restructuring payments. Cash flows from operating activities for the year ended August 31, 2021 decreased $5.8 million as compared to the same period in the prior year due to a decrease in operating income before depreciation, amortization, impairment, settlement gain and restructuring and an increase in cash interest payments of $4.0 million, partially offset by the impact of non-cash working capital increases as compared to the same period in the prior year and a decrease in cash restructuring payments of $3.3 million.

As at August 31, 2021 we have cash of $62.0 million (August 31, 2020 - $49.8 million).

Cash flows from (used in) investing activities

For the three months and year ended August 31, 2021, our cash flows from investing activities were outflows of a $1.3 million and inflows of $11.9 million, respectively, (2020 – inflows of $3.1 million and $0.4 million, respectively). The cash outflows from investing activities during the three months ended August 31, 2021 include capital expenditures related to property and equipment of $1.0 million and intangible assets of $0.3 million. The net cash inflows from investing activities during the three months ended August 31, 2020 included the net proceeds received from the sale of property and equipment and right of use assets of $3.4 million, partially offset by outflows for capital expenditures related to property and equipment of $0.2 million and intangible assets of $0.1 million. The net cash inflows from investing activities during the year ended August 31, 2021 include the net proceeds received from the sale of Mogo Inc. shares of $10.7 million as described earlier in “Recent Developments” and property and equipment and assets held-for-sale of $5.9 million, offset by outflows for the purchase of Mogo Inc. shares of $1.7 million and capital expenditures related to property and equipment of $2.5 million and intangible assets of $0.5 million. The net cash inflows from investing activities during year ended August 31, 2020 included the net proceeds received from the sale of property and equipment and right of use assets of $3.5 million, partially offset by outflows for capital expenditures related to property and equipment of $2.5 million and $0.6 million for intangible assets.

Cash flows used in financing activities

For the three months and year ended August 31, 2021, our net cash flows used in financing activities were $2.0 million and $38.8 million, respectively, (2020 – $5.2 million and $10.9 million, respectively). The cash outflows from financing activities during the three months ended August 31, 2021 consist of capital lease payments of $2.0 million. The cash outflows from financing activities during the three months ended August 31, 2020 included restricted cash of $3.4 million received on the sale of the property and equipment and capital lease payments of $1.8 million. The net cash outflows from financing activities during the year ended August 31, 2021 consist of $32.3 million related to the repayment of First-Lien Notes as described earlier in “Recent Developments, capital lease payments of $9.4 million partially offset by the receipt of restricted cash of $3.0 million received on the sale of property and equipment including the Barrie facility as described earlier in “Recent Developments”. The net cash outflows from financing activities during the year ended August 31, 2020 included outflows of $94.8 million related to the repayment of First-Lien Notes and debt issuance costs of $1.7 million, restricted cash of $3.4 million received on the sale of property and equipment, and capital lease payments of $6.3 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 at August 31, 2021, we have $66.9 million First-Lien Notes outstanding and US$150.2 million Second-Lien Notes outstanding (August 31, 2020 – $99.2 million First-Lien Notes and US$134.6 million Second-Lien Notes). In addition to the cash transactions discussed above, during the three months and year ended August 31, 2021, we issued additional Second-Lien Notes in the amount of US$8.0 million ($9.9 million) and US$15.6 million ($19.6 million), respectively, related to paid-in-kind interest as part of the terms of the Second-Lien Notes indenture (2020 – US$7.2 million ($9.6 million) and US$14.0 million ($18.6 million), respectively). The following tables set out the principal and carrying amount of our long-term debt outstanding as at August 31, 2021 and 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 August 31, 2021 of US$1:$1.2617 (August 31, 2020 – US$1:$1.3042).

	As at August 31, 2021			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	66,858	(573)	66,285	99,163	(1,229)	97,934
Second-Lien Notes	189,529	(143)	189,386	175,602	(181)	175,421
ABL Facility	-	-	-	-	-	-
Total	256,387	(716)	255,671	274,765	(1,410)	273,355

Financial Position as at August 31, 2021 and 2020

($ in thousands of Canadian dollars)	As at August 31, 2021	As at August 31, 2020
Current assets	133,460	160,572
Total assets	276,201	336,879
Current liabilities	89,736	109,120
Total liabilities	415,912	501,101
Deficiency	(139,711)	(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”, impairments recognized on assets held-for-sale during the year ended August 31, 2021 and a net decrease in trade and other receivables which includes decreases related to trade receivables, CEWS and journalism tax credits, partially offset by an increase in cash. Total assets decreased as a result of decreases 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 year ended August 31, 2021 as well as the decrease in current assets, partially offset by an increase in derivative financial instruments. Current liabilities have decreased as a result of a decrease in provisions as well as a decrease in the current portion of long-term debt as a result of redemptions of First-Lien Notes partially offset by an increase in accounts payable and accrued liabilities. 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, redemptions of First-Lien Notes both described earlier in “Recent Developments”, a decrease in lease obligations as well as the decrease in current liabilities.

Related Party Transactions

As at August 31, 2021, 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 year ended August 31, 2020 incurred an expense of $0.1 million. In addition, we have an ABL Facility with associated companies of Chatham and as at August 31, 2021, have no amount drawn and availability of $15.0 million (August 31, 2020 – nil and $15.0 million, respectively) and during the year ended August 31, 2021 incurred and paid $0.1 million and $0.1 million of interest, respectively (2020 - incurred and paid $0.2 million and $0.2 million of interest, respectively).

Financial Instruments and Financial Instruments Risk Management

Our activities expose us to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

Current risk management techniques utilized include monitoring fair value of derivative financial instruments, fair value of publicly traded debt, foreign exchange rates and interest rates with respect to interest rates and foreign currency risk, aging analysis and credit reviews for credit risk and cash flow projections for liquidity risk. Our enterprise risk management process is managed by a risk oversight committee composed of senior executives of Postmedia.

Foreign currency risk

As at August 31, 2021, approximately 74% of the outstanding principal on our long-term debt is payable in US dollars (August 31, 2020 – 64%). As at August 31, 2021, we are exposed to foreign currency risk on the US$150.2 million of Second-Lien Notes outstanding (August 31, 2020 – US$134.6 million).

Interest rate risk

The ABL Facility bears interest at floating rates while the First-Lien Notes and Second-Lien Notes bear interest at fixed rates. Therefore, changes in interest rates only exposes us to cash flow interest rate risk on the portion of the ABL Facility that is drawn, if any, at the time of the interest rate change.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial asset fails to meet its contractual obligations. As at August 31, 2021, no individual balance represented a significant portion of our accounts receivable. We establish an allowance for expected credit loss based on the specific credit risk of our customers, historical trends and COVID-19. The allowance for expected credit loss amounted to $11.3 million as at August 31, 2021 (August 31, 2020 – $10.2 million).

The increase in the allowance for expected credit loss is primarily related to the impact of the COVID-19 pandemic on our operations. We continuously monitor the financial condition of our customers, review the credit history of each customer, review the aging of accounts receivable, evaluate significant individual credit risk accounts and utilize each customer's historical experience in order to both grant credit and set up our allowance for expected credit loss. If such collectability estimates prove inaccurate, adverse adjustments to future operating results could occur and could be material.

Liquidity risk

Liquidity risk is the risk that we will encounter difficulties in meeting 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. Our financial obligations include long-term debt which requires principal repayments and interest payments. Economic and structural factors related to the industry impact our ability to generate sufficient operating cash flows to satisfy its existing and future financial liabilities, however, we manage 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. As described earlier in “Recent Developments”, during the year ended August 31, 2020, we completed a Refinancing Transaction which extended the maturities of long-term debt. The impact of the COVID-19 pandemic caused a disruption to the economy which could further impact our liquidity risk. 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. We are 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. We are currently addressing the challenges related to the COVID-19 pandemic as described previously in “Recent Developments”.

Our obligations under firm contractual arrangements, including commitments for future payments under leases and long-term debt agreements as at August 31, 2021 are as follows:

	2022	2023	2024	2025	2026	Thereafter
Lease obligations……………	8,120	7,993	7,856	6,973	6,879	13,199
Operating leases and other……………	5,433	2,026	22	-	-	-
Other long-term liabilities (1)……………	1,449	1,449	22	1,449	1,449	6,619
Long-term debt (2)……………	7,409	59,449	248,090	-	-	-
Interest on long-term debt (3)……………	5,145	6,127	-	-	-	-
	27,556	77,044	255,990	8,422	8,328	19,818

(1) Cash funding obligation to the CAAT Pension Plan as described earlier in “Recent Developments”. In addition, we expect to contribute $4.0 million to our multi-employer pension plans during the year ending August 31, 2021

(2) Principal repayments of long-term debt are based on the mandatory contractual payments and assumes paid-in-kind interest to maturity on the Second-Lien Notes translated to Canadian dollars based on the foreign exchange rate as at August 31, 2021 of US$1:$1.2617.

(3) Interest payments on long-term debt relate to the First-Lien Notes and are based on fixed contractual interest rates. Interest payments on the Second-Lien Notes are included in repayments of long-term debt due to the assumption of paid-in-kind interest to maturity.

Foreign currency risk

Guarantees and Off-Balance Sheet Arrangements

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

Risk Factors

The risks and uncertainties described below are those we currently believe to be material, but should not be considered exhaustive. If any of the following risks, or any other risks and uncertainties that we have not yet identified or that we currently consider not to be material, actually occur or become material risks, our business, financial condition, results of operations and cash flows and consequently the value of our shares, the First-Lien Notes and Second-Lien Notes could be materially and adversely affected.

Risks Relating to Our Business

We are subject to the risk and uncertainties related to the COVID-19 pandemic.

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. We are generally exempt from mandates requiring closures of non-essential businesses and therefore have been able to continue operations however, advertising revenues have declined as a result of COVID-19 pandemic and related government measures. The outbreak of contagious illness such as this can impact our 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 our supply chain, including temporary closure of supplier facilities. 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 financial condition and results of our business. The COVID-19 pandemic and its impact on the economy is constantly evolving and impacts variables and assumptions for financial modeling and as a result, it may have material impacts on our anticipated revenue levels and the recoverable amount of the cash-generating units. As described in “Recent Developments”, we are in receipt of government assistance in the form of CEWS so as to minimize this risk of the COVID-19 pandemic however it could have a material adverse effect on our business, financial condition, results of operations, liquidity and cash flow.

Competition from digital and other forms of media may impair our ability to generate advertising and circulation revenue.

Participants in the newspaper publishing industry depend primarily upon advertising sales, paid subscriptions and single copy newspaper sales in order to generate revenue. Competition for advertising, subscribers, readers and distribution is intense and comes primarily from digital media, as well as, television; radio; local, regional and national newspapers; magazines; free publications; direct mail; telephone directories; and other communications and advertising and subscriber-based media that operate in these markets. In addition, in recent years there has been a growing shift in advertising dollars from newspaper advertising to other advertising platforms, including digital media competitors such as search and social media. Participants in the digital media industry also depend upon the sale of advertisements and paid subscriptions in order to generate revenue. The digital media industry experiences additional competitive challenges because barriers to entry are low and geographic location is less relevant.

Participants in digital media platforms may improve their ability to target specific audiences and therefore become an even more attractive media for advertisers. These circumstances could result in our newspaper online media not being as competitive as they are currently in relation to these other forms of media. In order to respond to changing circumstances, the costs of producing or promoting editorial content may increase, or we may need to reduce our advertising and/or subscription rates, either of which could adversely affect our financial performance. Increased competition could also lead to additional expenditures for editorial content and marketing.

In addition, there is increasing consolidation in the Canadian newspaper publishing and other media industries, and competitors increasingly include market participants with interests in multiple media. These competitors may be more attractive than we are to certain advertisers because they may be able to bundle advertising sales across newspaper, television and internet platforms. Some of these competitors also have access to greater financial and other resources than we do.

Our ability to continue to compete successfully in the newspaper and online media industries and to attract advertising dollars, subscribers and readers will depend upon a number of factors, including:

- our continued ability to offer high-quality editorial content;
- the variety, quality and attractiveness of our products and services;

- the pricing of our products and services;
- the platforms on which our products and services are offered;
- the manner in which we market and promote our products and services;
- the effectiveness of the distribution of our products and services;
- our customer service; and
- the emergence of technologies resulting in further shifts from newspaper advertising to advertising in other formats, including new media outlets.

These factors are largely dependent upon on our ability to:

- identify and successfully respond to changes in technology, customer trends and preferences and online digital platforms such as search and social media;
- develop new products across our business lines;
- protect our intellectual property and avoid infringing the intellectual property rights of others;
- avoid damage to our brands or reputation;
- appeal to many demographics; and
- expand into new distribution channels, particularly with respect to digital media and online products.

There can be no assurance that existing and future competitors will not pursue or be capable of achieving similar or competitive business strategies. In addition, there can be no assurance that we will be able to compete successfully with existing or potential competitors, or that increased competition will not have an adverse effect on our business, financial condition or results of operations.

Advertising revenue is the largest component of our revenues and our advertising revenue is influenced by prevailing economic conditions and the prospects of our advertising customers. Advertising revenue has been declining since 2009.

We generate revenue primarily from the sale of advertising. Advertising revenue, including both print and digital advertising represented 53.4% of our consolidated revenues in the year ended August 31, 2021 (2020 – 55.6%).

Advertising revenue is affected in part by prevailing economic conditions. Adverse economic conditions generally, and downturns in the Canadian economy specifically, have a negative impact on the Canadian advertising industry and, consequently, on our financial prospects. We have been experiencing a decline in advertising revenue since 2009 and the COVID-19 pandemic accelerated these declines.

Our advertising revenue is also dependent on the prospects of our advertising customers. Certain of our advertising customers operate in industries that may be cyclical or sensitive to general economic conditions, such as the automobile, financial, employment, technology, retail, food and beverage, telecommunications, travel, packaged goods and entertainment industries. Advertising customers could alter their spending priorities and reduce their advertising budgets in the event of a downturn in their business or prospects which would have an adverse effect on the revenue we generate from advertising. In addition, because a substantial portion of our revenue is derived from retail advertisers, our business, financial condition and results of operations would also be adversely affected by a further downturn in the retail sector.

A further reduction in advertising revenues could result from:

- the continuing shift from newspaper advertising to advertising in other formats, including new media outlets;
- a decline in economic conditions;
- a decline in the circulation volume of our newspapers, which appears to be permanent;
- a decline in popularity of our editorial content or perceptions about our brands;
- a change in the demographic makeup of the populations to which our newspapers are targeted;
- the activities of our competitors, including increased competition from other forms of advertising-based media (e.g., magazines, radio and television broadcasters, cable television, direct mail and electronic media), and online digital platforms such as search and social media; and
- a decline in the amount spent on advertising in general or in particular industries such as those discussed above.

To the extent the economic conditions worsen and the structural shifts in advertising revenue and circulation continue, our business and advertising revenues will continue to be adversely affected, which would in turn adversely impact our operations and cash flows.

Our failure to maintain our print and online newspaper readership and circulation levels would limit our ability to generate advertising and circulation revenue.

Our ability to attract advertisers and thereby generate revenue and profits is dependent in large part upon our success in attracting readership of the newspapers and online publications that we publish. Readership and to a lesser extent circulation volume are the key drivers of advertising prices and revenue in the Canadian news and newspaper information industry.

We believe reader acceptance is a function of the editorial and advertising content being offered and is influenced by a number of factors, including:

- the availability of alternative forms of news and other editorial content;
- the availability of alternative forms of media technologies, such as the internet and other new media formats, that are often free for users;
- a growing preference among some customers to receive all or a portion of their news from sources other than from a newspaper;

- increases in subscription and newsstand rates;
- general economic conditions, including the resulting decline in consumer spending on discretionary items such as newspapers;
- reviews of critics, promotions, the quality and acceptance of other competing editorial content in the marketplace;
- public tastes and perceptions generally; and
- other intangible factors.

Circulation volumes of our newspapers have been declining in both the home delivery and single copy distribution channels. The rate of circulation decline could increase due to changing media consumption patterns of our readers or other factors, and these declines appear to be permanent. If we are unable to stop these declines or if the rate of decline were to accelerate, it will result in lower readership and circulation levels and, consequently, may lead to decreased advertising and other revenues.

Although we make significant investments in the editorial content of our newspapers, there can be no assurance provided that our newspapers will maintain satisfactory readership or circulation levels and any decrease in such levels may be permanent. In addition, factors affecting our readership levels could change rapidly, and many of the changes may be beyond our control and permanent. Loss of readership could have a material adverse effect on our ability to generate advertising and circulation revenue.

We may not be able to achieve a profitable balance between circulation levels and advertising revenues.

We must balance our circulation levels with our advertising revenue objectives. This balancing necessitates a continuous effort that varies by publication and requires effective management of the circulation rate, the addition of new subscribers through cost-effective marketing methods and effective advertising operations. To maintain our readership and circulation rates, it may be necessary to incur additional costs that we may not be able to recover through circulation and advertising revenues. No assurance can be provided that we will be able to add and retain a sufficient number of newspaper subscribers in an economically efficient manner. Failure to do this could require reductions of our circulation rate or the elimination of certain products, which would negatively affect our advertising revenues and could materially and adversely affect our results of operations and financial condition.

We may not realize our anticipated cost savings from cost savings initiatives and any failure to manage costs would hamper profitability.

The level of our expenses impacts our profitability. Because of general economic and business conditions and our operating results, we have taken steps to lower operating costs by implementing cost savings initiatives including various transformation projects. As described earlier in “Recent Developments”, during the year ended August 31, 2021 we began new cost reduction initiatives which are expected to result in approximately $18 million of net annualized cost savings. During the year ended August 31, 2020 we implemented restructuring initiatives which included additional cost saving measures as a result of the COVID-19 pandemic including the closure of 15 community publications in Manitoba and Ontario and implemented cost reductions which are expected to result in approximately $29 million of net annualized cost savings. In total, we implemented net annualized cost savings of approximately $47 million under these cost reduction initiatives.

Estimates of cost savings are inherently uncertain, and we may not be able to achieve cost savings or expense reductions within the time frame we have projected or at all. Our ability to successfully realize savings and the timing of any realization may be affected by factors such as the need to ensure continuity in our operations, labour and other contracts, regulations and/or statutes governing employee/employer relationships, and other factors. In particular, certain of our collective bargaining agreements limit our ability to achieve operating efficiencies by limiting our ability to implement strategic initiatives. In addition, our implementation of these initiatives has and is expected to require upfront costs. There can be no assurance that we will be able to successfully contain our expenses or that even if our savings are achieved that implementation or other expenses will not offset any such savings. Our estimates of the future expenditures necessary to achieve the savings we have identified may not prove accurate, and any increase in such expenditures may affect our ability to achieve our anticipated savings. If these cost-control efforts do not reduce costs in line with our expectations, our financial position, results of operations and cash flows will be negatively affected.

We may be adversely affected by variations in the cost and availability of newsprint.

Newsprint is our largest raw material expense, representing approximately 4.3% of total operating expenses excluding depreciation, amortization, impairment and restructuring in the year ended August 31, 2021 (2020 – 5.2%). Newsprint is a commodity and, as such, price varies considerably from time to time as a result of, among other factors, foreign currency exchange fluctuations and supply shortfalls. The price of newsprint can increase as a result of various factors, including consolidation in the newsprint industry, which has resulted in a smaller number of suppliers and reduced competition on price among them, and declining newsprint supply as a result of mill closures and conversions to other grades of paper. Changes in newsprint prices can significantly impact our operating results. We would expect a $50 per tonne increase or decrease in the price of newsprint to affect our operating expenses by approximately $1.5 million on an annualized basis. There can be no assurance that we will not be exposed to increased newsprint costs, which could have a material adverse effect on our business, financial condition or results of operations. In addition, if newspaper suppliers experience labour unrest, transportation difficulties or other supply disruptions, our ability to produce and deliver newspapers could be impaired and the cost of the newsprint could increase, both of which would negatively affect our operating results.

Because a high percentage of our operating expenses are fixed, a decrease in advertising revenue could have a negative impact on our results of operations.

Newspaper publishing is both capital and labour intensive and, as a result, newspapers have relatively high fixed cost structures. Advertising revenue, on which we rely for a majority of our revenue, may fluctuate due to a variety of factors whereas our expenses do not vary significantly with the increase or decrease in advertising revenue. As a result, a relatively small change in advertising revenue could have a disproportionate effect on our results of operations. For example, during periods of economic contraction, our advertising revenue may decline while most costs remain fixed, resulting in decreased earnings, as has been evident in the current economic environment.

Our distribution costs could increase due to increases in fuel prices.

Although we do not incur significant fuel related distribution costs directly, our third-party distributors are adversely affected by rising fuel costs. Significant increases in fuel prices could result in increased fees paid to our distributors in the form of fuel subsidies or surcharges. Significant increases in fuel prices could result in material increases to our distribution expenses which could result in an adverse effect to our financial condition and results of operations.

We compete with alternative emerging technologies and may have to invest a significant amount of capital to address continued technological development.

The media industry is experiencing rapid and significant technological changes that have resulted in the development of alternative means of editorial content distribution. The continued growth of the internet has presented alternative content distribution options that compete with traditional media for advertising revenue. We may not be able to compete successfully with existing or newly developed alternative distribution technologies, or may be required to acquire, develop or integrate new technologies in order to compete. The cost of the acquisition, development or implementation of any such new technologies could be significant, and our ability to fund such implementation may be limited. In addition, even if we were able to fund such an implementation, we may be unable to implement any such technologies successfully. Any such event could have a material adverse effect on our business, financial condition or results of operations.

In addition, the continuing growth and technological expansion of internet-based services has increased existing competitive pressure on our businesses. As web-based and digital formats grab an increasingly larger share of consumer readership, we may lose customers or fail to attract new customers if we are not able to transition and update our publications and other products to these new and evolving formats. Furthermore, to the extent that advertisers continue to shift advertising dollars to new media outlets, advertising revenues will decrease even if we are able to maintain our current share of print media advertising dollars. The increased competition may have a material adverse effect on our business and financial results.

Our revenue, which is generated primarily from advertisers, is subject to seasonal variations, which may increase our borrowing needs at various points in the year.

Our revenue has experienced, and is expected to continue to experience, seasonal variances due to seasonal advertising patterns and seasonal influences on media consumption habits. Historically, our revenue is typically lowest during the fourth quarter of our fiscal year, which ends in August, and highest during the first and third quarters, which end in November and May, respectively, while expenses are relatively constant throughout the fiscal year. These seasonal variations may lead to short-term fluctuations in cash flow, which could consequently leave us in a more constrained liquidity position.

The collectability of accounts receivable could deteriorate to a greater extent than provided for in our financial statements.

In the normal course of business, we are exposed to credit risk for accounts receivable from our customers. Our accounts receivable are carried at net realizable value and our allowance for doubtful accounts has been determined based on several factors, including the aging of accounts receivable, evaluation of significant individual credit risk accounts and historical experience. If such collectability estimates prove inaccurate, adverse adjustments to future operating results could occur and could be material.

Increases in sales and other taxes could reduce our revenues and impact profit and cash flows.

In the markets in which we operate, some or all of our products are subject to local and national sales taxes and other taxes such as value-added taxes. Increases in taxes may have a negative effect on the sales of our products. Higher taxes may reduce profit margins on our products if we are unable to pass on the increase to our customers.

Failure to fulfill our strategy of building our digital media and online businesses would adversely affect our business prospects.

The competitive environment in which we operate demands, and our future growth strategies incorporate, the development of our digital media and online businesses. We believe the consumer preference for digital media and online products will accelerate as younger, more technologically savvy customers make up a greater portion of our potential customer base. In order for our digital media and online businesses to succeed, we must invest time and significant resources in them, to, among other things:

- accelerate the evolution of existing products (such as local newspaper websites and national content channels);
- develop new digital media and online products (such as redesigned classified sites in automotive, employment and real estate categories);
- develop new content channels (such as mobile optimized formats, online video capabilities and content for tablet devices);
- attract and retain talent for critical positions;
- transform our organization and operating model to grow our digital media and online business;
- continue to develop and upgrade our technologies and supporting processes to distinguish our products and services from those of our competitors;
- sell advertising in significant markets, and be a compelling choice for advertisers online;
- attract and retain a base of frequent, engaged visitors to our websites; and
- continuously advance our digital offerings based on fast-moving trends that may pose opportunities as well as risks (such as tablets and mobile applications).

No assurance can be provided that we will be successful in achieving these and other necessary objectives or that our digital media and online businesses will be profitable or successful. Our failure to adapt to new technology or delivery methods, or our choice of one technological innovation over another, may have an adverse impact on our ability to compete for new customers or to meet the demands of our existing customers. If our digital media and online businesses are not successful, we could lose significant opportunities for new advertising revenue from digital sources while also losing advertising revenue from traditional sources due to the reallocation from print to digital advertising currently taking place. If we are not successful in achieving our digital media and online objectives, our business, financial condition and prospects would be materially adversely affected.

Our business may suffer if we are not able to retain and attract sufficient qualified personnel, including key managerial, editorial, technical, marketing and sales personnel.

We operate in an industry where there is intense competition for experienced personnel. We depend on our ability to identify, recruit, hire, train, develop and retain qualified and effective personnel. Our future success depends in large part upon the continued contribution of our senior management and other key employees. A loss of a significant number of skilled managerial, editorial or technical personnel would have a negative effect on the quality of our products. Similarly, a loss of a significant number of experienced and effective marketing and sales personnel would likely result in fewer sales of our products and could materially and adversely affect our results of operations and financial condition. Our ability to identify, recruit, hire, train, develop and retain qualified and effective personnel depends on numerous factors, including factors that we cannot control, such as competition and conditions in the local employment markets in which we operate. The loss of the services of any of our senior management or other key employees could harm our business and materially and adversely affect our ability to compete in our markets. Although we have employment agreements with certain members of senior management and key employees, those individuals may choose to terminate their respective employment at any time, and any such termination may have a material adverse effect on our business.

We rely upon information systems and technology and other manufacturing systems, disruptions to which could adversely affect our operations.

Our newspaper and digital media and online operations rely upon information technology systems, and other complex manufacturing systems, in order to produce and distribute our products. Our information technology and manufacturing systems may be vulnerable to unauthorized access, computer viruses, system failures, human error, natural disasters, fire, power loss, communications failure or acts of sabotage or terrorism. If a significant disruption or repeated failure were to occur, our business or revenue could be adversely affected. There may also be significant costs incurred as a result of such disruptions or failures that adversely affect our financial performance or capital expenditure levels.

Equipment failure may have a material adverse effect.

There is a risk of equipment failure, primarily related to our printing facilities, due to wear and tear, latent defect, design error or operator error, among other things, which could have a material adverse effect on us. Although our printing facilities have generally operated in accordance with expectations, there can be no assurance that they will continue to do so. There may also be significant costs incurred as a result of such disruptions or failures that adversely affect our financial performance or capital expenditure levels.

Our operations could be adversely affected by labour disruptions, and labour agreements could potentially limit our ability to achieve operating efficiencies.

As at August 31, 2021 approximately 34% of our staff are employed under one of 46 separate collective agreements some of which include provisions that could impede restructuring efforts, including work force reduction, centralization and outsourcing. There can be no assurance that these collective agreements will be renewed on similar or more satisfactory terms or that we will not experience additional organizing activities, resulting in higher ongoing labour costs and reduced flexibility in running our operations. In addition, labour disruptions, including strikes or lockouts, grievances and complaints may affect our ability to operate efficiently and have an adverse on our business, financial condition or results of our operations.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, as well as personally identifiable information of our customers (including credit card information) and employees, on our networks. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disrupt our operations and the services we provide to customers, damage our reputation, and cause a loss of confidence in our products and services, which could adversely affect our business, financial condition, results of operations and cash flows.

The financial difficulties of certain of our contractors and vendors could have a negative impact on our results of operations.

The financial difficulties that some of our contractors and vendors may face, including one or more contractor or vendor bankruptcies due to poor economic conditions, may cause them to fail to provide us with products and/or services or may increase the cost of the products and services that they provide us. We may be unable to procure replacement products and/or services from other contractors or vendors in a timely and efficient manner and on acceptable terms, or at all. Any material change in these relationships, such as increased pricing, could have a material adverse effect on our business, financial condition, results of operations, liquidity and cash flow.

We outsource certain aspects of our business to third-party vendors that may fail to reduce costs and may subject us to risks, including disruptions in our business and increased costs.

We continuously seek to make our cost structure more efficient and to focus on our core strengths. These efforts include contracting with other companies to perform functions or operations that, in the past, we have performed ourselves. We currently rely on partners or third-party service providers for services such as the provision of advertising production, call centre services, and certain of our printing operations, and we may outsource additional business functions in the future. Although we believe that outsourcing will result in lower costs and increased efficiencies, this may not be the case. Because these third parties may not be as responsive to our needs as we might be ourselves or they experience problems to their own operations beyond our control, outsourcing increases the risk of disruption to our operations. If we are unable to effectively utilize, or integrate with, our outsource providers, or if these partners or third-party service providers experience business difficulties or are unable to provide business services as anticipated, we may need to seek alternative service providers or resume providing these business processes internally, which could be costly and time-consuming and have a material adverse effect on our business and results of operations.

The occurrence of natural or man-made disasters could disrupt the marketing and promotion and delivery of our products and services, and adversely affect our financial condition and results of operation.

The success of our businesses is largely contingent on the availability of direct access to customers. As a result, any event that disrupts or limits our direct access to customers or disrupts our ability to rely on delivery services would materially and adversely affect our business. We are exposed to various risks arising out of natural disasters, as well as man-made disasters, including acts of terrorism and military actions. The threat of terrorism and ongoing military actions may cause significant volatility in global financial markets, and a natural or man-made disaster could trigger an economic downturn in the areas directly or indirectly affected by the disaster. These consequences could, among other things, result in a decline in business from those areas. Disasters also could disrupt public and private infrastructure, including communications and financial services, which could disrupt our normal business operations. In addition, increased energy costs, strikes and other labour-related supply chain disruptions could adversely affect our business. A natural or man-made disaster also could disrupt the operations of our counterparties or result in increased prices for the products and services they provide to us.

Our CAAT Pension Plan liability or our inability to make required cash contributions to our multi-employer pension plans could have a material adverse effect on us, our business, cash flows, operations and financial condition.

As described previously in Recent Developments, on January 29, 2019, we entered into an agreement with the CAAT Pension Plan to merge 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 and most employees hired after this date began accruing benefits under the DBplus provisions of the CAAT Pension Plan. 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 funding an obligation of $11.0 million related to the transferred Postmedia Plans deficits payable over a term of ten years. There is a risk that we may be required to contribute additional funds under certain circumstances, including in the event of a breach of certain representations and covenants pursuant to the agreement between ourselves and the CAAT Pension Plan. In addition, participating in a multiemployer plan such as the CAAT Pension Plan requires us to make periodic contributions and as a participating employer we do not have the ability to reduce these contributions, and a failure to make the required contributions could subject us to penalties including interest on unpaid contributions. A breach of the agreement with the CAAT Pension Plan could also subject us to the risk of termination of participation in the CAAT Pension Plan. In addition, in the event of a distressed wind-up of the CAAT Pension Plan with a deficiency, there is a risk to us of residual liability in respect of our members.

Our editorial content may be controversial and may result in litigation.

We have had, in the ordinary course of our business, and expect to continue to have, litigation claims filed against us, most of which are claims for defamation arising from the publication of our editorial content. While we maintain insurance in respect of claims for defamation, some claims made against us may not be insured or may result in costs above our coverage limits. In the event that a judgement is rendered against us, there can be no assurance that our insurance coverage will cover that particular loss.

We are currently involved in unresolved litigation matters.

We are involved in various legal claims arising in the ordinary course of our newspaper and digital media and online businesses. The majority of these claims are brought pursuant to defamation laws in the province of publication. We maintain a multi-media liability insurance policy in respect of defamation claims. Subject to the terms and conditions of that policy, and the insurer’s coverage position in respect of individual claims, the resolution of these matters is not expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Disruptions in the credit markets could adversely affect the availability and cost of short-term funds for liquidity requirements, and could adversely affect our access to capital or our ability to obtain financing at reasonable rates and refinance existing debt at reasonable rates or at all.

If internal funds are not available from our operations, we may be required to rely on the banking and credit markets to meet our financial commitments and short-term liquidity needs. Disruptions in the capital and credit markets could adversely affect our ability to access additional funds in the capital markets or draw on or refinance our existing or any future credit facilities. Although we believe that our operating cash flow and access to capital and credit markets will give us the ability to meet our financial needs for the foreseeable future, there can be no assurance provided that continued or increased volatility and disruption in the capital and credit markets will not impair our liquidity. If this should happen, we may not be able to put alternative credit arrangements in place or without a potentially significant increase in our cost of borrowing. As of August 31, 2021, we have $66.9 million First-Lien Notes and US$150.26 million Second-Lien Notes outstanding.

We may be adversely affected by the availability and terms of our insurance policies.

We carry liability, property and casualty insurance and director and officer liability insurance coverage subject to certain deductibles, limits and exclusions which we believe are customary or reasonable given the cost of procuring insurance and current operating conditions. However, there can be no assurance that: (i) such insurance coverage will continue to be offered on economically feasible terms, (ii) all events which could give rise to a loss or liability will be insurable, or (iii) the amounts of insurance coverage will at all times be sufficient to cover each and every material loss or claim which may occur involving our assets or operations.

Our intellectual property rights are valuable, and any inability to protect them or liability for infringing the intellectual property rights of others could reduce the value of our services and our brands.

We rely on the trademark, copyright, internet/domain name, trade secret and other laws of Canada and other countries, as well as nondisclosure and confidentiality agreements, to protect our intellectual property rights. However, we may be unable to prevent third parties from using our intellectual property without our authorization, breaching any nondisclosure agreements with us, acquiring and maintaining domain names that infringe or otherwise decrease the value of our trademarks and other proprietary rights, or independently developing intellectual property that is similar to ours, particularly in those countries that do not protect our proprietary rights as fully as in Canada. The use of our intellectual property by others could reduce or eliminate any competitive advantage we have developed, cause us to lose sales or otherwise harm our businesses. If it became necessary to litigate to protect these rights, any proceedings could be burdensome and costly, and we may not prevail.

We have obtained and applied for several Canadian and foreign service mark and trademark registrations, and will continue to evaluate the registration of additional service marks and trademarks, as appropriate. We cannot guarantee that any of our pending applications will be approved by the applicable governmental authorities. Moreover, even if the applications are approved, third parties may seek to oppose or otherwise challenge these registrations. A failure to obtain trademark registrations in Canada and in other countries could limit our ability to protect our trademarks and impede our marketing efforts in those jurisdictions.

We cannot be certain that our intellectual property does not and will not infringe the intellectual property rights of others. We may be subject to legal proceedings and claims in the ordinary course of our business, including claims of alleged infringement of the trademarks, copyrights and other intellectual property rights of third parties. Any such claims, whether or not meritorious, could result in costly litigation and divert resources and the efforts of our personnel. Moreover, should we be found liable for infringement, we may be required to enter into licensing agreements (if available on acceptable terms, or at all) or to pay damages and to cease using certain trademarks or copyrights or making or selling certain products, or to redesign or rename some of our products or processes to avoid future infringement liability. Any of the foregoing could cause us to incur significant costs.

We maintain many well-known mastheads, consumer brands and trademarks, damage to the reputation of any of which could have an adverse impact upon our business, financial performance or results of operations.

The mastheads, brand names and trademarks that we own are well-known to consumers and are important in maintaining existing business and sourcing new business, as our ability to attract and retain customers is in part dependent upon our external perceptions, the quality of our products and services and our integrity. Damage to the reputation of any of these brands or negative publicity or perceptions about us could have an adverse impact upon the business, financial performance or results of operations.

We may have additional asset impairments.

We conduct annual impairment testing to determine if we will be able to recover all or a portion of the carrying value of indefinite life intangible assets. In addition, we are required to review indefinite life intangible assets for impairment more frequently if impairment indicators arise. If the recoverable amount is less than the carrying amount of our indefinite life intangible assets, we may be required to record a non-cash charge to the statement of operations. As disclosed in note 6 of our audited consolidated financial statements for the years ended August 31, 2021 and 2020, we recognized impairment charges of $26.2 million during the year ended August 31, 2021 (2020 – $13.3 million). We monitor impairment indicators on a quarterly basis. Significant changes in market conditions and estimates, or a reduction in carrying value, may give rise to impairments in the period that the change becomes known and such impairments could have a material adverse effect on our results of operations.

We are subject to environmental, health and safety laws and regulations, which could subject us to liabilities, increase our costs or restrict our business or operations in the future.

We are subject to a variety of laws and regulations concerning emissions to the air, water and land, sewer discharges, handling, storage and disposal of, or exposure to, hazardous substances and wastes, recycling, remediation and management of contaminated sites, or otherwise relating to protection of the environment and employee health and safety. Environmental laws and regulations and their interpretation have become increasingly more stringent, and we may incur additional expenses to comply with existing or future requirements. If we fail to comply with environmental or health and safety requirements we could incur monetary fines, civil or criminal sanctions, third-party claims or cleanup obligations or other costs. In addition, our compliance with environmental and health and safety requirements could restrict our ability to expand our operations or require us to install costly pollution control equipment, incur other significant expenses or modify our printing processes.

We use and store hazardous substances such as inks and solvents in conjunction with our operations at our printing facilities. Such hazardous substances have in the past been stored in underground storage tanks at some of our properties. Some of our printing and other facilities are located in areas with a history of long-term industrial use, and they may be impacted by past activities onsite or by contamination emanating from nearby industrial sites. In the past, we have had contamination resulting from leaks and spills at some of our locations. We have not conducted environmental site assessments with respect to all of our owned and leased facilities, and where such assessments have been conducted, they may not have identified all potential causes of environmental liability. There can be no assurance provided that remediation costs or potential claims for personal injury or property or natural resource damages resulting from any newly-occurring or newly-discovered contamination will not be material, or that a material environmental condition does not otherwise exist at any of our properties.

Risks Relating to Regulatory Compliance

Failure to comply with "Canadian newspaper" status would materially affect our financial results and our business prospects.

Under the Tax Act, generally no deduction is allowed for an outlay or expense for advertising space in an issue of a newspaper for an advertisement directed primarily to a market in Canada, unless the issue is a "Canadian issue" of a "Canadian newspaper."

In order to qualify as a "Canadian issue", the issue generally must have its type set in Canada, be edited in Canada by individuals resident in Canada for purposes of the Tax Act and be printed and published in Canada. Issues of our newspapers currently meet these criteria.

The test of whether a newspaper is a "Canadian newspaper" depends on the jurisdiction, governance, factual control and share ownership of the corporation which directly publishes the newspaper. We publish our newspapers directly. In order to satisfy the requirements of a "Canadian newspaper" (subject to a statutory 12 month grace period), we must satisfy the following: (i) the corporation must be incorporated under the laws of Canada or a province thereof, (ii) the chairperson or other presiding officer and at least 75% of the directors or other similar officers of the corporation must be Canadian citizens, and (iii) the corporation must not be controlled, in fact, directly or indirectly, by persons or partnerships who could not themselves hold the right to produce and publish issues of a "Canadian newspaper", including by citizens or subjects of a country other than Canada.

In addition, under the share ownership requirements, at least 75% of a non-public corporation's voting shares and shares having a fair market value in total of at least 75% of the fair market value of all issued shares of a non-public corporation, must be beneficially owned by either (i) Canadian citizens or (ii) one or more Qualifying Public Corporations. Upon the listing of Postmedia Network Canada Corp's shares on the Toronto Stock Exchange ("TSX"), it became a Qualifying Public Corporation. As Postmedia Network Inc. is a direct, wholly-owned subsidiary of Postmedia Network Canada Corp., our newspapers qualify as "Canadian newspapers". For more information regarding risks relating to the listing of our shares on the TSX, see the section below entitled "Risks Relating to Our Shares".

Issues of our newspapers therefore qualify as "Canadian issues" of "Canadian newspapers" (or otherwise fall outside of the limitation on deductibility of advertising expenses) and as a result advertisers currently have the right to deduct their advertising expenditures for Canadian tax purposes.

There can be no assurance that issues of the newspapers published or produced by us will continue to be "Canadian issues" of "Canadian newspapers" under the Tax Act, or that Canadian federal income tax laws respecting the treatment of deductibility of advertising expenses incurred in relation to "Canadian issues" of "Canadian newspapers" will not be changed in a manner which adversely affect us.

If our newspapers cease to be "Canadian newspapers" for purposes of the Tax Act, it is expected that our advertising revenue will decline significantly, which would have a material adverse effect on our business, financial condition and results of operations.

We are subject to the requirements of Regulation 52-109 on Certification of Disclosure in Issuers' Annual and Interim Filings and must devote time and resources to maintain compliance.

Our shares are listed on the TSX and as a result we are subject to the requirements of Regulation 52-109, which requires, among other things, public companies to maintain disclosure controls and procedures to ensure timely disclosure of material information, and, to have management review the effectiveness of those controls on an annual basis. These requirements may place a strain on our systems and resources. Regulation 52-109 also requires public companies to have and maintain internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements and to have management review the effectiveness of those controls on an annual basis following the filing of a company's first annual report. In order to maintain and improve our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight are required. This may divert management's attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

If we fail to maintain an effective system of internal controls, we may not be able to provide timely and reliable financial reports.

We are responsible for establishing and maintaining adequate internal control over financial reporting, which is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Regulatory pressures are increasing resulting in increasing compliance requirements and our business could be adversely affected by additional changes in laws.

Regulatory pressures are increasing as new and evolving regulations and compliance standards are established in respect of various areas, including without limitation, cyber security, data protection, privacy and advertising. These regulations and standards require expensive and time-consuming compliance measures and we incur increased costs in order to comply with such regulations and standards and we may pay penalties for any failure to comply.

Changes to the laws, regulations and policies governing our operations, the introduction of new laws, regulations or policies and changes to the treatment of the tax deductibility of advertising expenditures could have a material effect on our business, financial condition, prospects and results of operations. In addition, we may incur increased costs in order to comply with existing and newly adopted laws and regulations or pay penalties for any failure to comply. It is difficult to predict in what form laws and regulations will be adopted or how they will be construed by the relevant courts, or the extent to which any changes might adversely affect us.

Risks Related to our Indebtedness

Our substantial indebtedness could adversely affect our financial condition.

As of August 31, 2021, total carrying value of amounts outstanding under our respective debt agreements was $255.7 million (August 31, 2020 - $273.3 million).

Subject to the limits contained in the amended and restated indenture that governs the First-Lien Notes and the indenture that governs the Second-Lien Notes, we may be able to incur substantial additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our high level of debt could intensify. Specifically, our high level of debt could have important consequences, including the following:

- making it more difficult for us to satisfy our obligations with respect to the First-Lien Notes and Second-Lien Notes;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- exposing us to the risk of increased interest rates if of our borrowings are at variable rates of interest;
- limiting the flexibility in planning for and reacting to changes in the industry in which we compete;
- placing us at a disadvantage compared to other, less leveraged competitors; and
- increasing our cost of borrowing.

In addition, the amended and restated indenture that governs the First-Lien Notes and the indenture that governs the Second-Lien Notes contain restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all our debts.

Despite our current level of indebtedness, we may be able to incur substantially more debt. This could further exacerbate the risks to our financial condition described above.

Our operating subsidiary may be able to incur significant additional indebtedness in the future. Although the amended and restated indenture that governs the First-Lien Notes and the indenture that governs the Second-Lien Notes contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and the additional indebtedness incurred in compliance with these exceptions could be substantial. We may be able to issue additional First-Lien Notes under the indenture under certain circumstances, and may be able to incur other indebtedness that ranks equally with the First-Lien Notes. These borrowings would be secured indebtedness. If new debt is added to our current debt levels, the related risks that we and our operating subsidiary now face could intensify.

The terms of the First-Lien Notes and the Second-Lien Notes restrict our current and future operations, particularly our ability to respond to changes or to take certain actions.

The amended and restated indenture that governs the First-Lien Notes and the indenture that governs the Second-Lien Notes contain a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interests, including, among other things, restrictions on our ability to:

- incur additional indebtedness;
- pay dividends or make other distributions or repurchase or redeem certain indebtedness or capital stock;
- make loans and investments;
- sell assets;
- incur certain liens;
- enter into transactions with affiliates;
- alter the businesses we conduct;
- enter into agreements restricting any subsidiary's ability to pay dividends; and
- consolidate, merge or sell all or substantially all of our assets.

A breach of the covenants under the amended and restated indenture that governs the First-Lien Notes and the indenture that governs the Second-Lien Notes could result in an event of default under the applicable indebtedness. Such default may allow our creditors to accelerate the repayment of the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. Furthermore, if we are unable to repay the amounts due and payable under First-Lien Notes or the Second-Lien Notes, the applicable lenders could proceed against the collateral granted to such lenders to secure the indebtedness under the applicable facility. As a result of these restrictions, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

These restrictions may affect our ability to grow in accordance with our plans.

We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the future amounts due on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance indebtedness. We may not be able to affect any such alternative measures, if necessary, on commercially reasonable terms, or at all and, even if successful, such alternative actions may not allow us to meet our scheduled debt service and derivative financial instrument obligations. The amended and restated indenture that governs the First-Lien Notes and the indenture that governs the Second-Lien Notes restrict our ability to dispose of assets and use the proceeds from any such dispositions and may also restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service and derivative financial instrument obligations then due.

Our inability to generate sufficient cash flows to satisfy our debt and derivative financial instrument obligations, or to refinance indebtedness on commercially reasonable terms, or at all, would materially and adversely affect our business, financial position and results of operations, and our ability to satisfy such obligations.

If we cannot make scheduled payments on our debt, we will be in default and, as a result, holders of the First-Lien Notes and Second-Lien Notes could declare all outstanding principal and interest to be due and payable. In addition, our secured lenders could foreclose on or exercise other remedies against the assets securing such borrowings on a basis senior to the First-Lien Notes and we could be forced into bankruptcy, liquidation or other insolvency proceedings.

We may be adversely affected by foreign exchange fluctuations.

As of August 31, 2021, approximately 74% of the outstanding principal of our long-term debt is denominated in US dollars and interest and principal on such borrowings must be paid in US dollars (August 31, 2020 – 64%). As at August 31, 2021, we have US$150.2 million of Second-Lien Notes outstanding (August 31, 2020 – US$134.6 million). Canadian currency is volatile and may retain the same or higher levels of volatility in the coming years. As a result, we have significant exposure to foreign exchange rate risk.

Risks Relating to Our Shares

An active trading market for our shares may not exist and the public listing of our shares may not be maintained.

Our Class C voting shares ("Voting Shares") and our Class NC variable voting shares ("Variable Voting Shares") (collectively, the "Shares") trade on the TSX and there may or may not be an active trading market for the Shares. The TSX has broad discretion regarding delisting. If the TSX determines that we no longer meet the applicable listing requirements, including with respect to the public distribution or liquidity of the Shares, there is a risk that the TSX may delist the Shares. In addition, see the risk factor above related to "Canadian newspaper" status under "Risks Relating to Regulatory Compliance".

Volatile market price for the Shares.

The market price for the Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond our control, including the following:

- the lack of liquidity in the trading of our Shares;
- actual or anticipated fluctuations in our quarterly results of operations;
- changes in estimates of future results of operations by ourselves or securities research analysts;

- changes in the economic performance or market valuations of other companies that investors deem comparable to us;
- addition or departure of our executive officers and other key personnel;
- release or other transfer restrictions on outstanding Shares;
- sales or perceived sales of additional Shares;
- our dual class share structure;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving ourselves or our competitors; and
- news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in our industry or target markets.

Financial markets are susceptible to significant price and volume fluctuations that may affect the market prices of equity securities of companies and may be unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Shares may decline even if our operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of our environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Shares by those institutions, which could adversely affect the trading price of the Shares. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, our operations could be adversely impacted and the trading price of the Shares may be adversely affected.

We have a dual class share structure.

Our authorized capital consists of two classes: Voting Shares and Variable Voting Shares. The Voting Shares may only be beneficially owned by persons that are Canadian. If a Canadian acquires Variable Voting Shares, such Shares will be automatically converted into Voting Shares. A holder of Voting Shares, however, has the option at any time to convert some or all of such Shares into Variable Voting Shares and to convert those Shares back to Voting Shares. Given these conversion features and the fact that we will not know whether a purchaser of Variable Voting Shares is a Canadian unless such person completes a declaration provided by our transfer agent, the transfer agent's records of the amount of Voting Shares and Variable Voting Shares outstanding at any one time may not be accurate. As we believe that the issued and outstanding Variable Voting Shares as at August 31, 2021 represent more than 99% of the outstanding Shares, if a Canadian acquires Variable Voting Shares such Shares would automatically convert into a larger percentage of the outstanding Voting Shares and would provide the purchaser with a larger percentage of the votes than such purchaser would have through the ownership of Variable Voting Shares. Depending on the number of Voting Shares acquired, such an acquisition could give rise to the requirement to make certain filings and/or could result in the purchaser being a "control person", in each case under applicable securities laws. In certain circumstances, such an acquisition may constitute an indirect take-over bid under applicable securities laws and require the offeror to make a formal take-over bid for the outstanding Voting Shares or, alternatively, rely on certain exemptions from the formal take-over bid requirements under applicable securities laws. Purchasers of our Shares should consider applicable take-over bid laws as well as the Postmedia Rights Plan prior to purchasing Shares that may represent more than 20% of any class. For purposes of determining beneficial ownership under the Postmedia Rights Plan, Variable Voting Shares beneficially owned or controlled by a person or subject of Canada are deemed to also include the Voting Shares into which such Variable Voting Shares could be converted. In addition, one class of Shares may be less liquid than the other and the classes of Shares may have different trading prices.

Postmedia Network Canada Corp. is a holding company.

Postmedia Network Canada Corp. ("PNCC") is a holding company and a substantial portion of its assets are the capital stock of its subsidiary, Postmedia Network Inc. ("PMNI"). As a result, investors in PNCC are subject to the risks attributable to PMNI. As a holding company, PNCC conducts substantially all of its business through PMNI, which generates substantially all of its revenues. Consequently, PNCC's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of PMNI and the distribution of those earnings to PNCC. The ability of PMNI to pay dividends and other distributions will depend on its operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained, and contractual restrictions contained in the instruments governing its debt. In the event of a bankruptcy, liquidation or reorganization of PMNI, holders of indebtedness and trade creditors will generally be entitled to payment of their claims from the assets of the subsidiary before any assets are made available for distribution to PNCC.

Future sales of Shares by directors and executive officers.

Subject to compliance with applicable securities laws, officers and directors and their affiliates may sell some or all of their Shares in the future. No prediction can be made as to the effect, if any, such future sales of Shares will have on the market price of the Shares prevailing from time to time. However, the future sale of a substantial number of Shares by our officers and directors and their affiliates, or the perception that such sales could occur, could adversely affect prevailing market prices for the Shares.

Dilution and future sales of Shares may occur.

Our articles permit the issuance of an unlimited number of Shares, and shareholders will have no pre-emptive rights in connection with such further issuances. Our directors have the discretion to determine the price and the terms of issue of further issuances of Shares.

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, Chief Operating Officer and Interim 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 of Postmedia have evaluated the effectiveness of Postmedia's internal controls over financial reporting during the year ended August 31, 2021. Based on this evaluation, the CEO and CFO concluded that disclosure controls and procedures and internal controls over financial reporting were effective as at August 31, 2021. The CEO and CFO have evaluated whether there were changes to Postmedia's internal control over financial reporting during the three months ended August 31, 2021, 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 October 18, 2021 we had the following number of shares and options outstanding:

Class C voting shares	64,821
Class NC variable voting shares	93,675,478
Total shares outstanding	93,740,299
Total options and restricted share units outstanding [1]	6,699,469

[1] The total options and restricted share units outstanding are convertible into 6,699,469 Class NC variable voting shares. The total options and restricted share units outstanding include 5,606,856 that are vested and 1,092,613 that are unvested.