



# 2012

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## Our Mission

To be Canadians' go-to destination for information, perspectives and engaging conversations. To be the first choice for advertisers seeking insightful and results-driven programs. To offer the most compelling experiences for audiences and advertisers across our four platforms: print, web, tablet and smartphone.



## President's Message to Shareholders

**P**ostmedia Network is a two year old company benefitting from strong brand history that reaches back more than a century. In our second year we continued to implement initiatives that build a foundation for the future. Print continues to be an important part of our business, and newspaper readership across our operations remains stable, but the traditional print newspaper business model is changed forever. While we work to manage the decline of print revenues and focus on legacy cost reductions, our investments and energies are in the growth areas of our business. We are working toward a model that, over time, will see greater revenue growth from digital than decline from print. It is a marathon, not a sprint.

Across our industry, there is a growing reality and it is led by our audiences. How, where and when people consume news and information has changed dramatically. We are seeing a shift in consumers' consumption habits as they increasingly gravitate to a variety of digital platforms. In fiscal 2012, we took a key step, while continuing to lead the Canadian industry, with the launch of paid online content models at three of our newspapers – The Vancouver Sun, The Province and the Ottawa Citizen – joining The Gazette (Montreal) which launched our first pilot. In addition, the paid content model for international users was introduced at The Gazette and the National Post. This model paves the way for enhanced subscription bundles, new revenue streams and greater opportunity for audience engagement. We believe this path will, in time, lead to growing revenue opportunities as the market for digital content expands in response to the increasing popularity of tablets and sophistication of smartphones.

We remain committed to paying down corporate debt and reducing print related legacy costs as we continue to pursue and implement initiatives necessary for the growth and transformation of the company. During fiscal 2012 we made total debt repayments of \$108.3 million\*. In October 2012, we sold our corporate head office building in Toronto. The net proceeds from the sale, of C\$23.2 million, have been used to redeem an equal amount of senior secured notes due 2017. In our third quarter, we announced the initial phase of a three-year business transformation program that is expected to result in operating cost savings of 15% to 20%, building on the transformation program we began when Postmedia was formed in July 2010.

### Looking Ahead

Our strategy for fiscal 2013 includes aggressive targets and a laser focus on accelerating the transformation necessary to become a more profitable, nimbler and future-focused company. In fiscal 2013 Postmedia's strategic imperatives include:

**Four Platform Product Strategy:** Launch a fully differentiated and a fully integrated targeted set of products and services across four major media platforms – print, web, tablet and smartphone – leveraging deep data-based audience intelligence and a highly engaged user base.

**Audience-Based Selling:** Create a shift of sales focus from the traditional sale of “impressions” to selling audience and results. We will develop a deep audience database with full data analytics to aggressively grow digital through local client penetration and behavioural targeting segments, among other initiatives. We will work to optimize print and aggressively grow digital revenues by creating frictionless selling of audiences to advertisers targeting lucrative niches but reaching mass when necessary.

**Ongoing Reduction of Print-Related Legacy Costs:** Continue cost reduction initiatives focused on print-related infrastructure, operational efficiencies and process improvements. Continue to use free cash flow to aggressively pay down debt.

**Celebrating Exceptional People:** Build a high performance organization by recruiting and developing exceptional people; implementing systems that demand excellence; and creating a winning culture. Focus on hiring, retaining and developing staff that understand and embrace the “digital and audience first” future and encourage them to collaborate with their colleagues throughout the company and at every level.

Our success will be measured by our ability to leverage insights in to our audiences, developing and marketing products that engage audiences and generate profitable revenue and our achievements in consultative, multi-platform sales.



Paul V. Godfrey, C.M.  
President and Chief Executive Officer

\* Including \$6.3 million of second lien notes and approximately \$87 million from the sale of substantially all of the assets and liabilities of the Lower Mainland Publishing Group, the Victoria Times Colonist and the Vancouver Island Newspaper Group to Glacier Media Inc.



# POSTMEDIA NETWORK

## PRINT

NATIONAL POST

THE VANCOUVER SUN

The Province

The StarPhoenix

EDMONTON JOURNAL

CALGARY HERALD

The Gazette  
montrealgazette.com

LEADER-POST

OTTAWA CITIZEN

THE WINDSOR STAR

THE KINGSTOWN REPORTER

THE TILBURY TIMES  
Your community newspaper since 1886

SHORELINE  
At the heart of your community.

LASALLE POST

Lakeshore News  
Serving the community since 1960

WindsorParent  
MAGAZINE

## DIGITAL



canada.com



celebrating.com  
Share the joy. Tell the world.

infomart



driving.ca



househunting.ca



remembering.ca

sprouter

DOSE.ca

## SERVICES



POSTMEDIA EDITORIAL SERVICES

POSTMEDIA NEWS

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

FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011

Issued: October 25, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This management's discussion and analysis of financial condition and results of operations of Postmedia Network Canada Corp. and its subsidiary 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, 2012 and 2011, as well as the audited consolidated financial statements and related notes of Postmedia for the year ended August 31, 2011 and the period ended August 31, 2010. The audited consolidated financial statements of Postmedia for the year ended August 31, 2011 and the period ended August 31, 2010, were prepared in accordance with Canadian generally accepted accounting principles – Part V ("Canadian GAAP") and may not be comparable to the audited consolidated financial statements of Postmedia for the years ended August 31, 2012 and 2011 which are prepared in accordance with Canadian generally accepted accounting principles – Part I, International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. For a detailed explanation of our transition to IFRS please refer to note 25 in the audited consolidated financial statements for the years ended August 31, 2012 and 2011. The audited consolidated financial statements of Postmedia for the years ended August 31, 2012 and 2011 and the audited consolidated financial statements of Postmedia for the year ended August 31, 2011 and the period ended August 31, 2010 are available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the EDGAR system maintained by the U.S. Securities and Exchange Commission ("SEC") at [www.sec.gov](http://www.sec.gov).*

*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 of 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, 2012 and 2011 have been prepared in accordance with IFRS and since these are our first consolidated financial statements prepared under IFRS, they have also been prepared in accordance with IFRS 1 – First-time Adoption of IFRS. In certain aspects US Generally Accepted Accounting Principles as applied in the United States ("US GAAP") differ from IFRS. See "Differences between IFRS and US GAAP".*

*This management's discussion and analysis is dated October 25, 2012 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](http://www.sedar.com) and EDGAR at [www.sec.gov](http://www.sec.gov).*



## Transition to IFRS

Our financial statements are prepared in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants – Part I (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate IFRS, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the audited consolidated financial statements for the years ended August 31, 2012 and 2011 are prepared in accordance with IFRS, and since these are our first consolidated financial statements prepared under IFRS, they have also been prepared in accordance with IFRS 1 – First-time Adoption of IFRS.

The significant accounting policies under IFRS are disclosed in note 2 of our audited consolidated financial statements for the years ended August 31, 2012 and 2011. In addition, note 25 of these audited consolidated financial statements includes an explanation of the transition to IFRS from Canadian GAAP, including reconciliations to IFRS of the results previously reported under Canadian GAAP.

The following table reconciles Canadian GAAP to IFRS and adjusts for the presentation of discontinued operations for our consolidated statement of operations for the three months ended August 31, 2011:

	Canadian GAAP	Discontinued operations	IFRS adjustments	IFRS
<b>Revenues</b>				
Print advertising.....	145,586	(23,303)	-	122,283
Print circulation.....	58,001	(3,584)	-	54,417
Digital.....	22,048	(848)	-	21,200
Other.....	4,703	(452)	-	4,251
<b>Total revenues</b>	<b>230,338</b>	<b>(28,187)</b>	<b>-</b>	<b>202,151</b>
<b>Expenses</b>				
Compensation.....	99,065	(11,915)	(2,405)	84,745
New sprint.....	14,055	(1,170)	-	12,885
Distribution.....	36,002	(5,076)	-	30,926
Other operating.....	47,253	(7,191)	-	40,062
<b>Operating income before depreciation, amortization and restructuring</b>	<b>33,963</b>	<b>(2,835)</b>	<b>2,405</b>	<b>33,533</b>
Depreciation.....	7,176	(505)	-	6,671
Amortization.....	11,399	(172)	-	11,227
Restructuring and other items.....	2,902	69	-	2,971
<b>Operating income</b>	<b>12,486</b>	<b>(2,227)</b>	<b>2,405</b>	<b>12,664</b>
Interest expense.....	18,189	(1,733)	-	16,456
Loss on debt repayment.....	-	-	-	-
Net financing expense relating to employee benefit plans.....	-	(4)	444	440
Loss on disposal of property and equipment.....	63	(2)	-	61
Gain on derivative financial instruments.....	(8,059)	-	-	(8,059)
Foreign currency exchange losses.....	4,605	(1)	-	4,604
<b>Loss before income taxes</b>	<b>(2,312)</b>	<b>(487)</b>	<b>1,961</b>	<b>(838)</b>
Provision for income taxes.....	-	-	-	-
<b>Net loss from continuing operations</b>	<b>(2,312)</b>	<b>(487)</b>	<b>1,961</b>	<b>(838)</b>
Net earnings from discontinued operations, net of tax of nil.....	-	487	-	487
<b>Net loss attributable to equity holders of the Company</b>	<b>(2,312)</b>	<b>-</b>	<b>1,961</b>	<b>(351)</b>

The following table reconciles Canadian GAAP to IFRS and adjusts for the presentation of discontinued operations for our consolidated statement of operations for the year ended August 31, 2011:

	Canadian GAAP	Discontinued operations	IFRS adjustments	IFRS
<b>Revenues</b>				
Print advertising.....	674,451	(100,531)	-	573,920
Print circulation.....	233,984	(14,688)	-	219,296
Digital.....	90,282	(3,232)	-	87,050
Other.....	20,408	(1,786)	-	18,622
<b>Total revenues</b>	<b>1,019,125</b>	<b>(120,237)</b>	<b>-</b>	<b>898,888</b>
<b>Expenses</b>				
Compensation.....	423,512	(50,026)	(4,970)	368,516
New sprint.....	62,125	(4,702)	-	57,423
Distribution.....	147,043	(20,218)	-	126,825
Other operating.....	185,337	(28,415)	-	156,922
<b>Operating income before depreciation, amortization and restructuring</b>	<b>201,108</b>	<b>(16,876)</b>	<b>4,970</b>	<b>189,202</b>
Depreciation.....	29,199	(2,184)	-	27,015
Amortization.....	45,893	(684)	-	45,209
Restructuring and other items.....	42,775	(3,397)	(1,367)	38,011
<b>Operating income</b>	<b>83,241</b>	<b>(10,611)</b>	<b>6,337</b>	<b>78,967</b>
Interest expense.....	80,315	(8,031)	-	72,284
Loss on debt repayment.....	11,018	-	-	11,018
Net financing expense relating to employee benefit plans.....	-	(17)	2,988	2,971
Loss on disposal of property and equipment.....	175	1	-	176
Loss on derivative financial instruments.....	21,414	-	-	21,414
Foreign currency exchange gains.....	(17,960)	1	-	(17,959)
Acquisition costs.....	1,217	-	-	1,217
<b>Loss before income taxes</b>	<b>(12,938)</b>	<b>(2,565)</b>	<b>3,349</b>	<b>(12,154)</b>
Provision for income taxes.....	-	-	-	-
<b>Net loss from continuing operations</b>	<b>(12,938)</b>	<b>(2,565)</b>	<b>3,349</b>	<b>(12,154)</b>
Net earnings from discontinued operations, net of tax of nil.....	-	2,565	-	2,565
<b>Net loss attributable to equity holders of the Company</b>	<b>(12,938)</b>	<b>-</b>	<b>3,349</b>	<b>(9,589)</b>

The following table provides our fiscal 2011 quarterly and full year consolidated statements of operations, adjusted for the presentation of discontinued operations, under IFRS:

	Fiscal 2011				
	Q1	Q2	Q3	Q4	Total
<b>Revenues</b>					
Print advertising.....	169,197	136,839	145,601	122,283	573,920
Print circulation.....	56,030	53,522	55,327	54,417	219,296
Digital.....	22,937	20,836	22,077	21,200	87,050
Other.....	5,935	3,813	4,623	4,251	18,622
<b>Total revenues</b>	<b>254,099</b>	<b>215,010</b>	<b>227,628</b>	<b>202,151</b>	<b>898,888</b>
<b>Expenses</b>					
Compensation.....	96,886	91,084	95,801	84,745	368,516
New sprint.....	16,654	13,391	14,493	12,885	57,423
Distribution.....	32,819	30,495	32,585	30,926	126,825
Other operating.....	38,558	40,133	38,169	40,062	156,922
<b>Operating income before depreciation, amortization and restructuring</b>	<b>69,182</b>	<b>39,907</b>	<b>46,580</b>	<b>33,533</b>	<b>189,202</b>
Depreciation.....	7,140	6,435	6,769	6,671	27,015
Amortization.....	11,464	11,416	11,102	11,227	45,209
Restructuring and other items.....	21,239	12,212	1,589	2,971	38,011
<b>Operating income</b>	<b>29,339</b>	<b>9,844</b>	<b>27,120</b>	<b>12,664</b>	<b>78,967</b>
Interest expense.....	19,341	18,783	17,704	16,456	72,284
Loss on debt repayment.....	-	-	11,018	-	11,018
Net financing expense relating to employee benefit plans.....	844	844	843	440	2,971
Loss on disposal of property and equipment.....	-	-	115	61	176
Loss (gain) on derivative financial instruments.....	12,950	14,616	1,907	(8,059)	21,414
Foreign currency exchange (gains) losses.....	(10,157)	(13,101)	695	4,604	(17,959)
Acquisition costs.....	1,787	(570)	-	-	1,217
<b>Earnings (loss) before income taxes</b>	<b>4,574</b>	<b>(10,728)</b>	<b>(5,162)</b>	<b>(838)</b>	<b>(12,154)</b>
Provision for income taxes.....	-	-	-	-	-
<b>Net earnings (loss) from continuing operations</b>	<b>4,574</b>	<b>(10,728)</b>	<b>(5,162)</b>	<b>(838)</b>	<b>(12,154)</b>
Net earnings (loss) from discontinued operations, net of tax of nil.....	1,431	(1,790)	2,437	487	2,565
<b>Net earnings (loss) attributable to equity holders of the Company</b>	<b>6,005</b>	<b>(12,518)</b>	<b>(2,725)</b>	<b>(351)</b>	<b>(9,589)</b>

## Future Accounting Standards

The following accounting standards are issued but not yet effective. We have not yet assessed the impact of the standards or determined whether we will adopt any of the standards earlier than their current effective date, but it is possible that some of these standards could have a material impact on our consolidated financial statements.

### IFRS 9 - Financial Instruments

IFRS 9 was issued in November 2009 and contains requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple designation and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carry forward existing requirements in IAS 39 - Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. This standard is required to be applied for annual periods beginning on or after January 1, 2015, with earlier adoption permitted.

## *IFRS 10 – Consolidated Financial Statements*

IFRS 10 replaces SIC-12 Consolidation – Special Purposes Entities and parts of IAS 27 – Consolidated and Separate Financial Statements and introduces a new definition of control that is intended to provide more consistent guidance in the determination of whether control exists and whether or not an entity should be included within the consolidated financial statements. This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.

## *IFRS 13 - Fair Value Measurement*

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.

## *IAS 19 – Employee Benefits (Amended)*

IAS 19 amendments include, among other changes, the immediate recognition of the actuarial gains and losses in other comprehensive income, the introduction of a net interest approach that replaces the expected return on plan assets and interest costs on the defined benefit obligation with a single net interest component and all past service costs are to be recognized in profit or loss when the employee benefit plan is amended. This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.

## **Additional IFRS Measures**

We use operating income before depreciation, amortization and restructuring, as presented in the consolidated statements of operations for the years ended August 31, 2012 and 2011 and described in note 5 of the audited consolidated financial statements for the years ended August 31, 2012 and 2011, to assist in assessing our financial performance. Management and the Board of Directors of Postmedia use this measure to evaluate consolidated operating results as well as the results of its segments 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 how much cash is being generated by Postmedia and assists in determining the need for additional cost reductions, evaluation of personnel and resource allocation decisions. Operating income before depreciation, amortization and restructuring is referred to as an additional IFRS measure and may not be comparable to similar measures presented by other companies.

## **Overview and Background**

We are the largest publisher of paid daily newspapers by circulation in Canada, according to the Newspapers Canada 2011 Circulation Data Report. Our English-language paid daily newspapers have, in total, the highest weekly print readership when compared to the total weekly print readership of English-language paid dailies belonging to each of the other media organizations in Canada, based on the NADbank 2011 survey data. Our business consists of news and information gathering and dissemination operations, with products offered in major Canadian markets and a number of regional and local markets in Canada through a variety of print, web, tablet and smartphone platforms. The combination of these distribution platforms provides readers with a variety of mediums 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.

During the year ended August 31, 2012, we amended our operating segments to reflect recent changes to the reporting structure and our management team. The Eastern newspaper operating segment and Western newspaper operating segment have been replaced with one operating segment, the Newspaper operating segment. Changes in reporting segments are to be applied retroactively; however there was no impact on our segment reporting as the Eastern and Western newspaper operating segments were previously aggregated to form one reportable segment for financial reporting purposes, the Newspaper segment. The Newspaper segment publishes daily and non-daily newspapers and operates the related newspaper websites. Its revenue is primarily from advertising and circulation. Postmedia has other business activities and an operating segment which is not separately reportable and are referred to collectively as the All other category. Revenue in the All other category primarily consists of advertising and subscription revenue from Infomart and the website *canada.com*.

On October 18, 2011, we entered into an asset purchase agreement with affiliates of Glacier Media Inc. (the "Transaction") to sell substantially all of the assets and liabilities of the Lower Mainland Publishing Group, the Victoria Times Colonist and the Vancouver Island Newspaper Group, collectively herein referred to as the Disposed Properties, for a purchase price of \$86.5 million. The Disposed Properties were all within the Newspaper segment. On November 30, 2011, we completed the Transaction and recorded a gain on sale of the Disposed Properties of \$17.1 million. In accordance with the terms and conditions of the Senior Secured Term Loan Credit Facility ("Term Loan Facility"), on November 30, 2011 the proceeds from the sale of the Disposed Properties were used to make a principal payment of US\$84.6 million (CDN\$86.5 million) on Tranche C of the Term Loan Facility. As a result of the Transaction we have presented the results of the Disposed Properties as discontinued operations and as such, the consolidated statement of operations and consolidated statement of comprehensive income for the year ended August 31, 2011 have been revised to reflect this change in presentation. The consolidated statements of financial position as at August 31, 2011 and September 1, 2010 and consolidated statement of cash flows for the year ended August 31, 2011 have not been revised. Additional information on the Transaction is available in note 4 of the audited consolidated financial statements for the years ended August 31, 2012 and 2011.

On August 16, 2012, we issued \$250.0 million in aggregate principal amount of 8.25% Senior Secured Notes due 2017 ("First-Lien Notes"). The proceeds from the issuance were used to repay amounts then outstanding on the Term Loan Facility of \$238.3 million (US\$240.0 million), accrued and unpaid interest of \$3.4 million, and transaction fees of \$6.6 million. In conjunction with the refinancing, we settled the foreign currency interest rate swaps associated with the Term Loan Facility for cash consideration of \$9.4 million. During the year ended August 31, 2012, we made total long-term debt repayments related to the Term Loan Facility of \$102.0 million (US\$100.0 million), prior to the repayment of the Term Loan Facility in its entirety. In addition, during the year ended August 31, 2012, we repurchased and retired US\$6.4 million of the 12.5% Senior Secured Notes due 2018 (the "Second-Lien Notes") for total cash consideration of \$6.3 million (US\$6.2 million). Aggregate long-term debt repayments related to the Term Loan Facility and the Second-Lien Notes, excluding repayments made on refinancing, since the completion of the acquisition of Canwest Limited Partnership in July 2010 total approximately \$191 million.

The issuance of the First-Lien Notes and repayment of the Term Loan Facility gave rise to a potential termination event under our existing foreign currency interest rate swap associated with the Second-Lien Notes. As a result, during August 2012, we paid \$0.8 million to amend the terms on a notional amount of US\$167.5 million of the foreign currency interest rate swap and subsequent to August 31, 2012 we settled the remaining notional amount of US\$97.5 million of the foreign currency interest rate swap for cash consideration of \$9.6 million.

On June 26, 2012, we entered into an agreement of purchase and sale to sell the land and building located at 1450 Don Mills Road in Don Mills, Ontario for gross proceeds of \$24 million. The sale closed on October 12, 2012. The net proceeds from the sale will be used for a mandatory redemption of \$23.2 million aggregate principal amount of First-Lien Notes at par in accordance with the terms and conditions of the First-Lien Notes indenture. The purchase and sale agreement includes a lease-back of the property to Postmedia for a period of 18 to 24 months while new accommodations are readied for relocation.



## Selected Annual Information

	Postmedia <sup>(1)</sup>			Canwest Limited Partnership <sup>(1)(2)</sup>	
	For the year ended August 31, 2012	For the year ended August 31, 2011 <sup>(4)</sup>	For the period of July 13, 2010 to August 31, 2010 <sup>(4)</sup>	For the period of June 1, 2010 to July 12, 2010 <sup>(4)</sup>	For the period of September 1, 2009 to May 31, 2010 <sup>(4)</sup>
(\$ in thousands of Canadian dollars, except per share information)					
(basis of presentation)	IFRS	IFRS	Canadian GAAP	Canadian GAAP liquidation	Canadian GAAP
Revenue.....	831,877	898,888	122,094	119,229	811,180
Net earnings (loss) from continuing operations.....	(37,275)	(12,154)	(44,618)	n/a <sup>(3)</sup>	94,869
Net loss per share from continuing operations					
Basic.....	\$ (0.92)	\$ (0.30)	\$ (1.11)	n/a <sup>(5)</sup>	n/a <sup>(5)</sup>
Diluted.....	\$ (0.92)	\$ (0.30)	\$ (1.11)	n/a <sup>(5)</sup>	n/a <sup>(5)</sup>
Net earnings (loss) attributable to equity holders of the Company.....	(23,222)	(9,589)	(44,618)	n/a <sup>(3)</sup>	94,869
Net loss per share attributable to equity holders of the Company					
Basic.....	\$ (0.58)	\$ (0.24)	\$ (1.11)	n/a <sup>(5)</sup>	n/a <sup>(5)</sup>
Diluted.....	\$ (0.58)	\$ (0.24)	\$ (1.11)	n/a <sup>(5)</sup>	n/a <sup>(5)</sup>
Total assets.....	1,044,848	1,180,243	1,266,204	n/a <sup>(3)</sup>	n/a <sup>(3)</sup>
Total long-term financial liabilities.....	480,118	586,529	633,090	n/a <sup>(3)</sup>	n/a <sup>(3)</sup>

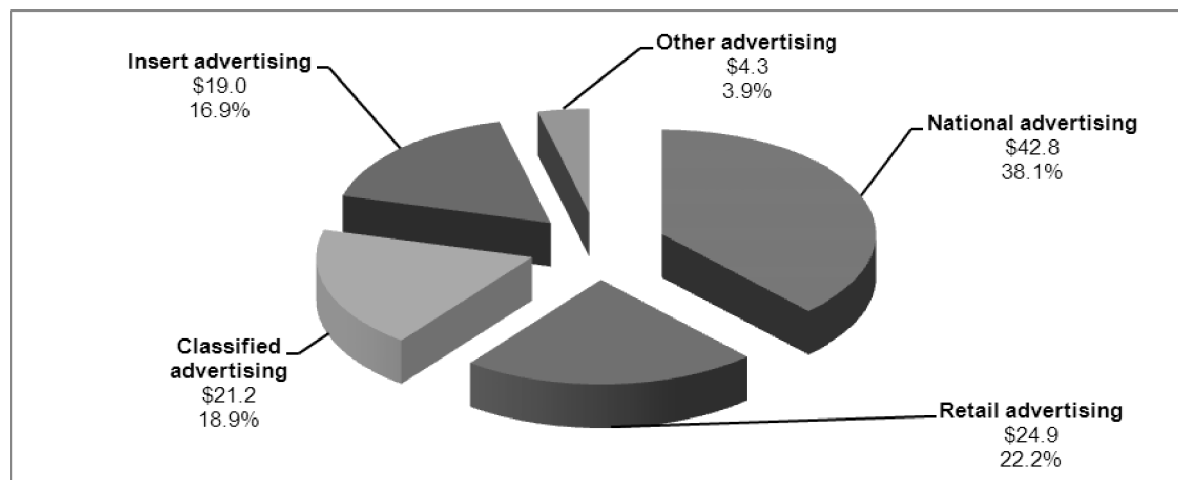
### Notes:

- (1) The financial data of Postmedia as at and for the period ended August 31, 2010 and the financial data of Canwest Limited Partnership have been prepared in accordance with Canadian GAAP and may not be comparable to the financial data of Postmedia as at and for the years ended August 31, 2012 and 2011 which have been prepared in accordance with IFRS. Additionally, the results of Postmedia for the period ended August 31, 2010 and the results of Canwest Limited Partnership for the periods ending May 31, 2010 and July 12, 2010 have not been restated to reflect the presentation of the Disposed Properties as discontinued operations.
- (2) We have included historical consolidated financial information of Canwest Limited Partnership to provide historical financial data of the operations we acquired. However, Canwest Limited Partnership's historical financial information is not comparable to our consolidated financial information and readers are cautioned that such information is not indicative of the future financial condition, results of operations, cash flows and the future development of our business.
- (3) Canwest Limited Partnership adopted the liquidation basis of accounting as of May 31, 2010 and, as a result, a consolidated balance sheet was not presented. Therefore total assets and total long-term financial liabilities as at May 31, 2010 and July 12, 2010 have not been presented in the above table. As Canwest Limited Partnership was under the liquidation basis of accounting for the period from June 1, 2010 to July 12, 2010, the supplementary financial information, which was prepared on a going concern basis, in note 5 of the audited financial statements of Canwest Limited Partnership did not include a provision for income taxes. As a result net loss from continuing operations and net earnings (loss) attributable to equity holders of the Company have not been presented for the period from June 1, 2010 to July 12, 2010 in the above table.
- (4) On November 30, 2011, Postmedia completed the sale of the Disposed Properties. As a result of the sale, Postmedia has presented the results of the Disposed Properties as discontinued operations, and as such the statement of operations for the year ended August 31, 2011 has been revised to reflect this change in presentation. The statement of financial position as at August 31, 2011 and for prior periods has not been revised to reflect this change in presentation. The results of operations presented for Postmedia for the period from July 13, 2010 to August 31, 2010 have not been revised to reflect this change in presentation. Furthermore, the results of operations for Canwest Limited Partnership have not been revised to reflect the change in presentation.
- (5) Net earnings (loss) per share has not been provided for the partnership units of Canwest Limited Partnership.

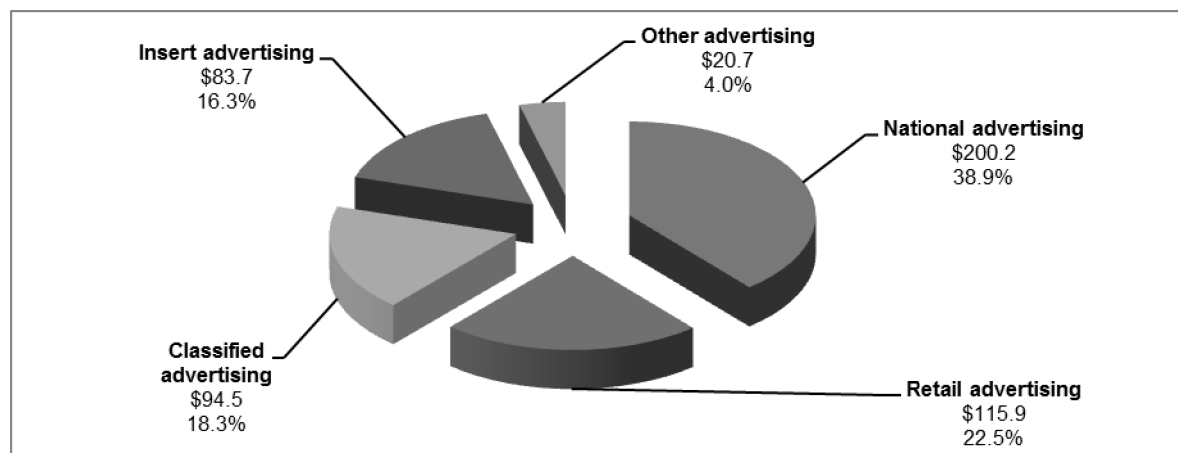
## Key Factors Affecting Operating Results

Revenue is earned primarily from advertising, circulation and digital sources. Print advertising revenue is a function of the volume, or lineage, of advertising sold and rates charged. Print circulation revenue is derived from home-delivery subscriptions for newspapers, 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 is comprised of revenue from national and local display advertising on our newspaper and other websites, including *canada.com*, and advertising and subscription revenue generated through Infomart, our media monitoring website.

Print advertising revenue was \$112.2 million for the three months ended August 31, 2012, representing 59.0% of total revenue. The following chart summarizes our print advertising revenue by category for the three months ended August 31, 2012 (\$ in millions):



Print advertising revenue was \$515.0 million for the year ended August 31, 2012, representing 61.9% of total revenue. The following chart summarizes our print advertising revenue by category for the year ended August 31, 2012 (\$ in millions):



Print advertising is influenced by the overall strength of the economy. In recent years and continuing to date, the economic downturn and structural changes in the industry have driven significant declines in print advertising as well as a continuing shift in advertising dollars from print advertising to advertising in other formats, particularly online and other digital platforms such as search and social media websites. This shift may be permanent. We expect the print advertising market to remain challenging in fiscal 2013. As a result we are in the process of implementing a three year business transformation project that is expected to significantly reduce operating costs and focus on the development of our digital products. During the three months and year ended August 31, 2012, we experienced print advertising revenue declines of 8.3% and 10.3%, respectively, as compared to the three months and year ended August 31, 2011. The decline in print advertising revenue in the three months and year ended August 31, 2012 primarily relates to weakness in the classified and national advertising categories, respectively, which decreased 14.2% and 14.9%, respectively, as compared to the three months and year ended August 31, 2011.

Print circulation revenue was \$51.2 million and \$209.2 million for the three months and year ended August 31, 2012, representing 26.9% and 25.1% of total revenue for such periods, respectively. Declines in circulation volume have been experienced over the last few years and this trend continued in the current quarter. Circulation volume decreases have been partially offset by price increases. We expect these trends to continue in fiscal 2013.

Digital revenue was \$21.9 million and \$89.1 million for the three months and year ended August 31, 2012, representing 11.5% and 10.7% of total revenue for such periods, respectively. Digital revenues increased 3.5% and 2.3%, respectively, in the three months and year ended August 31, 2012 as compared to the three months and year ended August 31, 2011. Increases in digital revenue are primarily a result of increases in local digital advertising revenue, partially offset by declines in national digital advertising revenue. We continue to believe digital revenue represents a future growth opportunity for Postmedia and we continue to focus on various new initiatives in this area.

Our principal expenses consist of compensation, newsprint, and distribution expenses. These comprised 50.2%, 7.2% and 18.0%, respectively, of total expenses for the three months ended August 31, 2012, and 50.6%, 7.7% and 18.0%, respectively, for the year ended August 31, 2012. We experienced declines in compensation expenses of 4.0% and 5.5%, in the three months and year ended August 31, 2012, respectively, as compared to the same periods in the prior year. Newsprint expenses decreased 9.1% and 8.4% for the three months and year ended August 31, 2012, respectively, as compared to same periods in the prior year. Distribution expenses decreased 5.5% and 2.3% for the three months and year ended August 31, 2012, respectively, as compared to same periods in the prior year.

Restructuring and other items expense was \$13.0 million and \$35.4 million for the three months and year ended August 31, 2012, respectively, and consists of \$17.1 million and \$39.5 million, respectively, of severance costs, which include both involuntary terminations and voluntary buyouts and a recovery of \$4.1 million in the three months and year ended August 31, 2012, which represents a curtailment gain in respect of our pension benefit plans related to such involuntary terminations and voluntary buyouts. During the third quarter of fiscal 2012, we began implementing the initial phase of a three year business transformation project aimed at significantly reducing legacy newspaper infrastructure costs. As of August 31, 2012 we have implemented initiatives which will result in net annualized cost savings of \$37 million. Initiatives include the shutdown of Postmedia News, our proprietary breaking news service, the centralization of editorial production services through Postmedia Editorial Services in Hamilton, Ontario, the streamlining of advertiser flyer insert operations, the cancellation of Sunday editions in three markets due to unprofitability, general staff reductions through voluntary and involuntary buyouts and elimination of unprofitable circulation. These total cost savings represent the initial phase of a three year business transformation program that, in total, is expected to result in net operating cost savings of 15% to 20%.

Our operating results are impacted by variations in the cost and availability of newsprint. Newsprint is the principal raw material used in the production of our daily 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 \$4.0 million on an annualized basis. We don't expect a material change in newsprint prices in fiscal 2013.

Our distribution is primarily outsourced to third party suppliers. The key drivers of our distribution costs are fuel costs and circulation and insert volumes. We are working to reduce distribution costs and expect to see the declines which were realized in fiscal 2012 continue into fiscal 2013.

## **Other Factors**

### ***Seasonality***

Revenue has experienced, and is expected to continue to experience, significant seasonality due to seasonal advertising patterns and seasonal influences on media consumption habits. Typically, our advertising revenue is highest in the first and third fiscal quarters, while expenses are relatively constant throughout the fiscal year. These seasonal variations may lead to increased borrowing needs at certain points within the fiscal year.

### ***Critical accounting estimates***

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of our assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Management bases its estimates and judgements on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results could differ from those estimates under different assumptions or conditions.

We have identified below the critical accounting estimates that we believe require significant judgement in the preparation of our consolidated financial statements. These accounting estimates are considered critical as changes in the assumptions or estimates selected have the potential to materially impact the consolidated financial statements. For a summary of our significant accounting policies please refer to note 2 of our audited consolidated financial statements for the years ended August 31, 2012 and 2011.

#### **Impairment of non-financial assets**

We test goodwill and indefinite life intangible assets for impairment annually, or more frequently if there are indicators that an impairment may have arisen. The recoverable amount of goodwill and indefinite life intangible assets are based on the higher of value in use and fair value less cost to sell calculations. We have computed the fair value less cost to sell of each cash-generating unit using a discounted cash flow model that requires market participant assumptions about future cash flows and discount rates. The future cash flows are based on management's best estimate considering historical and expected operating plans, current strategies, economic conditions and the general outlook for the industry and markets in which we operate. The discounted cash flow calculations represent three year projections prepared by management. Cash flows after the three year projections are extrapolated using industry growth rates.

#### **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 to measure obligations and the expected long-term rate of return on plan assets, among others. 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. A change in the discount rate used in the valuation of the employee future benefit plans could result in a significant increase or decrease in the valuation of defined benefit obligations, affecting the reported funded status of our plans as well as the net benefit cost in subsequent fiscal years. As at August 31, 2012 a 50 basis-point decrease in the discount rate would increase our defined benefit obligations by \$38.5 million and a 50 basis-point increase in the discount rate would decrease our defined benefit obligations by \$34.7 million. Discount rates and the expected return on plan assets compared to the actual return on plan assets are reviewed at each reporting date and corresponding adjustments are recognized in other comprehensive income and deficit.

## Operating Results

**Postmedia's operating results for the three months ended August 31, 2012 as compared to the three months ended August 31, 2011**

	2012	2011
<b>Revenues</b>		
Print advertising.....	112,157	122,283
Print circulation.....	51,223	54,417
Digital.....	21,937	21,200
Other.....	4,807	4,251
<b>Total revenues</b>	<b>190,124</b>	<b>202,151</b>
<b>Expenses</b>		
Compensation .....	81,367	84,745
Newsprint.....	11,717	12,885
Distribution.....	29,218	30,926
Other operating.....	39,649	40,062
<b>Operating income before depreciation, amortization, and restructuring</b>	<b>28,173</b>	<b>33,533</b>
Depreciation.....	6,593	6,671
Amortization.....	10,881	11,227
Restructuring and other items.....	13,014	2,971
<b>Operating income (loss)</b>	<b>(2,315)</b>	<b>12,664</b>
Interest expense.....	17,726	16,456
Loss on debt repayment.....	9,178	-
Net financing expense relating to employee benefit plans.....	975	440
Loss on disposal of property and equipment and intangible assets.....	180	61
(Gain) loss on derivative financial instruments.....	6,628	(8,059)
Foreign currency exchange (gains) losses .....	(8,651)	4,604
<b>Loss before income taxes</b>	<b>(28,351)</b>	<b>(838)</b>
Provision for income taxes.....	-	-
<b>Net loss from continuing operations</b>	<b>(28,351)</b>	<b>(838)</b>
Net earnings from discontinued operations, net of tax of nil.....	-	487
<b>Net loss attributable to equity holders of the Company</b>	<b>(28,351)</b>	<b>(351)</b>

## Revenue

### Print advertising

Print advertising revenue decreased \$10.1 million, or 8.3%, to \$112.2 million for the three months ended August 31, 2012, as compared to the three months ended August 31, 2011. This decrease relates to most of our major categories of print advertising revenue, including decreases from national advertising of 6.3%, retail advertising of 7.6%, classified advertising of 14.9%, and insert advertising of 4.3%. The total print advertising lineage and average line rate related to national, retail and classified advertising decreased 8.5% and 0.5% during the three months ended August 31, 2012, respectively, as compared to the three months ended August 31, 2011. Insert revenue decreases are primarily related to volume decreases of 3.2% during the three months ended August 31, 2012 as compared to the three months ended August 31, 2011.

### Print circulation

Print circulation revenue decreased \$3.2 million, or 5.9%, to \$51.2 million for the three months ended August 31, 2012, as compared to the three months ended August 31, 2011. Net paid circulation decreased 8.0% for the three months ended August 31, 2012, as compared to the three months ended August 31, 2011, offset partially by price increases, resulting in a 5.9% decrease in overall circulation revenue.



## *Digital*

Digital revenue increased \$0.7 million, or 3.5%, to \$21.9 million for the three months ended August 31, 2012, as compared to the three months ended August 31, 2011. Growth in digital revenue is primarily a result of increases in local digital advertising revenue of \$1.7 million, partially offset by declines of \$0.4 million in national digital advertising revenue and the loss of \$0.4 million associated with a digital sales representation agreement that ended August 31, 2011.

## *Other*

Other revenue increased \$0.6 million to \$4.8 million for the three months ended August 31, 2012, as compared to the three months ended August 31, 2011.

## **Expenses**

### *Compensation*

Compensation expenses decreased \$3.4 million, or 4.0%, to \$81.4 million for the three months ended August 31, 2012, as compared to the three months ended August 31, 2011. The decrease is the result of lower salary costs as a result of restructuring initiatives, decreases to our short-term incentive plan awards, decreases in share-based compensation expense, partially offset by increases in employee benefit plan expenses.

### *Newsprint*

Newsprint expenses decreased \$1.2 million, or 9.1%, to \$11.7 million for the three months ended August 31, 2012, as compared to the three months ended August 31, 2011. Newsprint expense decreases are primarily a result of consumption decreases of 8.4% due to continued usage reduction efforts and lower newspaper circulation volume, combined with a decrease in newsprint cost per tonne of 0.8%.

### *Distribution*

Distribution expenses decreased \$1.7 million, or 5.5%, to \$29.2 million for the three months ended August 31, 2012, as compared to the three months ended August 31, 2011. Decreases in distribution expenses are primarily a result of a reduction in newspaper circulation volumes, combined with ongoing cost savings initiatives.

### *Other operating*

Other operating expenses decreased \$0.4 million, or 1.0%, for the three months ended August 31, 2012, as compared to the three months ended August 31, 2011.

## **Operating income before depreciation, amortization and restructuring**

Operating income before depreciation, amortization and restructuring decreased \$5.4 million, or 16.0%, to \$28.2 million for the three months ended August 31, 2012, as compared to the three months ended August 31, 2011. The decrease relates primarily to decreases in revenue, partially offset by decreases in compensation, newsprint, distribution and other operating expenses, all as discussed above.

### *Depreciation*

Depreciation decreased \$0.1 million, or 1.2%, to \$6.6 million for the three months ended August 31, 2012, as compared to the three months ended August 31, 2011.

### *Amortization*

Amortization decreased \$0.3 million, or 3.1%, to \$10.9 million for the three months ended August 31, 2012, as compared to the three months ended August 31, 2011.

### *Restructuring and other items*

Restructuring and other items expense for the three months ended August 31, 2012 increased \$10.0 million to \$13.0 million as compared to the three months ended August 31, 2011. Restructuring and other items expense for the three months ended August 31, 2012 consists of \$17.1 million relating to severance costs, which include both involuntary terminations and voluntary buyouts and a recovery of \$4.1 million which represents a curtailment gain in respect of our pension benefit plans related to such involuntary terminations and voluntary buyouts. Restructuring and other items expense for the three months ended August 31, 2011 included \$3.1 million relating to severance costs, which include both involuntary terminations and voluntary buyouts, a recovery of \$1.1 million which represented curtailment gains in respect of our pension and post-retirement benefit plans related to such involuntary terminations and voluntary buyouts, and \$0.9 million of expenses relating to the preparation of a non-offering prospectus and expenses incurred to comply with our contractual obligation to make an exchange offer for the Second-Lien Notes that is registered with the SEC and management oversight expenses of our various restructuring initiatives.

### ***Operating income (loss)***

Operating loss was \$2.3 million for the three months ended August 31, 2012, compared to operating income of \$12.7 million for the three months ended August 31, 2011, as a result of the factors described above.

### *Interest expense*

Interest expense increased \$1.3 million, or 7.7%, to \$17.7 million for the three months ended August 31, 2012, as compared to the three months ended August 31, 2011. The increase primarily relates to an acceleration of non-cash interest expense related to unamortized debt issuance costs due to a revised estimate of the expected future cash flows of the Term Loan Facility.

### *Loss on debt repayment*

During the three months ended August 31, 2012, we recorded a non-cash loss on debt repayment of \$9.2 million representing unamortized discounts and financing fees related to the repayment of Tranche C of the Term Loan Facility.

### *Net financing expense relating to employee benefit plans*

Net financing expense relating to employee benefit plans increased \$0.5 million to \$1.0 million for the three months ended August 31, 2012, as compared to the three months ended August 31, 2011.

### *Loss on disposal of property and equipment and intangible assets*

During the three months ended August 31, 2012, we disposed of property and equipment and intangible assets and realized a loss of \$0.2 million. During the three months ended August 31, 2011, we disposed of property and equipment and realized a loss of \$0.1 million.

#### *(Gain) loss on derivative financial instruments*

Loss on derivative financial instruments for the three months ended August 31, 2012 was \$6.6 million as compared to a gain of \$8.1 million during the three months ended August 31, 2011. The loss for the three months ended August 31, 2012 includes a loss of \$1.3 million related to the settlement of a cash flow swap designated as a hedge for cash consideration of \$0.6 million, a realized loss of \$0.8 million which represents a payment made to amend the terms of cash flow swap designated as a hedge, a realized loss of \$8.8 million related to the settlement of a fair value swap not designated as a hedge, partially offset by a gain of \$2.4 million which occurred prior to the settlement of the fair value swap that was not designated as a hedge and gains of \$1.9 million related to variable prepayment option embedded derivatives on the First-Lien Notes and Second-Lien Notes. The gain for the three months ended August 31, 2011 included a gain of \$3.9 million related to a fair value swap not designated as a hedge, a gain of \$5.4 million related to a variable prepayment option embedded derivative on the Second-Lien Notes, partially offset by net cash outflows of \$1.2 million related to a contractual cash interest settlement on a fair value swap not designated as a hedge.

#### *Foreign currency exchange (gains) losses*

Foreign currency exchange gains for the three months ended August 31, 2012 were \$8.7 million as compared to foreign exchange losses of \$4.6 million during the three months ended August 31, 2011. For the three months ended August 31, 2012 foreign currency exchange gains consist primarily of realized gains of \$8.4 million related to the repayment of Tranche C of the Term Loan Facility on August 16, 2012 and unrealized foreign currency exchange gains of \$0.2 million related to the outstanding principal amount of the Second-Lien Notes which is not subject to hedge accounting. For the three months ended August 31, 2011 foreign currency exchange losses consisted primarily of unrealized losses of \$3.9 million related to the outstanding principal amount on Tranche C of the Term Loan Facility which is not subject to hedge accounting and realized losses of \$0.6 million on a contractual principal settlement on the foreign currency interest rate swap not designated as a hedge.

#### **Loss before income taxes**

Loss before income taxes was \$28.4 million for the three months ended August 31, 2012, as compared to \$0.8 million for the three months ended August 31, 2011. The increase in loss before income taxes is primarily the result of decreased operating income, the loss on debt repayment, increased losses on derivative financial instruments, partially offset by increased foreign currency exchange gains.

#### *Provision for income taxes*

We have not recorded a current or deferred tax expense or recovery for the three months ended August , 2012 and 2011. Current taxes recoverable result in an increase to our tax loss carryforward balances. The cumulative tax loss carryforward balances have not been recognized as a net deferred tax asset on the statement of financial position.

***Net loss from continuing operations***

Net loss from continuing operations was \$28.4 million for the three months ended August 31, 2012, as compared to \$0.8 million for the three months ended August 31, 2011 as a result of the factors described above in loss before income taxes.

***Net earnings from discontinued operations***

Net earnings from discontinued operations for the three months ended August 31, 2011 was \$0.5 million. The Transaction was completed on November 30, 2011 and as a result there were no discontinued operations during the three months ended August 31, 2012.

***Net loss attributable to equity holders of the Company***

Net loss for the three months ended August 31, 2012 was \$28.4 million as compared to \$0.4 million for the three months ended August 31, 2011. The increase is due to an increase in net loss from continuing operations and a decrease in net earnings from discontinued operations, both as discussed above.

**Postmedia's operating results for the year ended August 31, 2012 as compared to the year ended August 31, 2011**

	<b>2012</b>	<b>2011</b>
<b>Revenues</b>		
Print advertising.....	514,987	573,920
Print circulation.....	209,177	219,296
Digital.....	89,076	87,050
Other.....	18,637	18,622
<b>Total revenues</b>	<b>831,877</b>	<b>898,888</b>
<b>Expenses</b>		
Compensation.....	348,133	368,516
Newsprint.....	52,628	57,423
Distribution.....	123,872	126,825
Other operating.....	162,908	156,922
<b>Operating income before depreciation, amortization, and restructuring</b>	<b>144,336</b>	<b>189,202</b>
Depreciation.....	26,157	27,015
Amortization.....	43,566	45,209
Restructuring and other items.....	35,355	38,011
<b>Operating income</b>	<b>39,258</b>	<b>78,967</b>
Interest expense.....	65,446	72,284
Loss on debt repayment.....	9,178	11,018
Net financing expense relating to employee benefit plans.....	3,900	2,971
Loss on disposal of property and equipment and intangible assets.....	258	176
(Gain) loss on derivative financial instruments.....	(8,632)	21,414
Foreign currency exchange (gains) losses.....	6,383	(17,959)
Acquisition costs.....	-	1,217
<b>Loss before income taxes</b>	<b>(37,275)</b>	<b>(12,154)</b>
Provision for income taxes.....	-	-
<b>Net loss from continuing operations</b>	<b>(37,275)</b>	<b>(12,154)</b>
Net earnings from discontinued operations, net of tax of nil.....	14,053	2,565
<b>Net loss attributable to equity holders of the Company</b>	<b>(23,222)</b>	<b>(9,589)</b>

**Revenue**

*Print advertising*

Print advertising revenue decreased \$58.9 million, or 10.3%, to \$515.0 million for the year ended August 31, 2012, as compared to the year ended August 31, 2011. This decrease relates to most of our major categories of print advertising revenue, including decreases from national advertising of 14.2%, retail advertising of 7.7%, classified advertising of 11.7%, and insert advertising of 3.6%. The total advertising lineage and average line rate related to national, retail and classified advertising decreased 8.4% and 3.8% during the year ended August 31, 2012, respectively, as compared to the year ended August 31, 2011. Insert revenue decreases are primarily related to volume decreases of 2.3% during the year ended August 31, 2012 as compared to the year ended August 31, 2011.

*Print circulation*

Print circulation revenue decreased \$10.1 million, or 4.6%, to \$209.2 million for the year ended August 31, 2012, as compared to the year ended August 31, 2011. Net paid circulation decreased 7.2% for the year ended August 31, 2012, as compared to the year ended August 31, 2011, offset partially by price increases, resulting in a 4.6% decrease in overall circulation revenue.



## *Digital*

Digital revenue increased \$2.0 million, or 2.3%, to \$89.1 million for the year ended August 31, 2012, as compared to the year ended August 31, 2011. Growth in digital revenue is primarily a result of increases in revenue associated with Infomart of \$0.5 million and increases in local digital advertising revenue of \$6.5 million, partially offset by declines of \$2.2 million in national digital advertising revenue and the loss of \$2.8 million associated with a digital sales representation agreement that ended August 31, 2011.

## *Other*

Other revenue was \$18.6 million for the years ended August 31, 2012 and 2011.

## **Expenses**

### *Compensation*

Compensation expenses decreased \$20.4 million, or 5.5%, to \$348.1 million for the year ended August 31, 2012, as compared to the year ended August 31, 2011. The decrease is the result of lower salary costs as a result of restructuring initiatives, decreases to our short-term incentive plan awards, decreases in share-based compensation expense, partially offset by increases in employee benefit plan expenses.

### *Newsprint*

Newsprint expenses decreased \$4.8 million, or 8.4%, to \$52.6 million for the year ended August 31, 2012, as compared to the year ended August 31, 2011. Newsprint expense decreases are primarily a result of consumption decreases of 7.2% due to continued usage reduction efforts and lower newspaper circulation volume, combined with a decrease in newsprint cost per tonne of 1.2%.

### *Distribution*

Distribution expenses decreased \$3.0 million, or 2.3%, to \$123.9 million for the year ended August 31, 2012, as compared to the year ended August 31, 2011. Decreases in distribution expenses are primarily a result of a reduction in newspaper circulation and insert volumes, combined with ongoing cost savings initiatives.

### *Other operating*

Other operating expenses increased \$6.0 million, or 3.8%, to \$162.9 million for the year ended August 31, 2012, as compared to the year ended August 31, 2011. Increases in other operating expenses are primarily related to overhead, marketing and promotion, legal and regulatory costs associated with being a public company. In addition during the year ended August 31, 2012, other operating expenses include a provision of \$0.4 million for certain claims asserted against us as compared to a recovery to a previously recorded provision for certain claims asserted against us of \$1.5 million in the year ended August 31, 2011.

## **Operating income before depreciation, amortization and restructuring**

Operating income before depreciation, amortization and restructuring decreased \$44.9 million, or 23.7%, to \$144.3 million for the year ended August 31, 2012, as compared to the year ended August 31, 2011. The decrease relates primarily to decreases in revenue and increases in other operating expenses, partially offset by decreases in compensation, newsprint and distribution expenses, all as discussed above.

### *Depreciation*

Depreciation decreased \$0.9 million, or 3.2%, to \$26.2 million for the year ended August 31, 2012, as compared to the year ended August 31, 2011.

### *Amortization*

Amortization decreased \$1.6 million, or 3.6%, to \$43.6 million for the year ended August 31, 2012, as compared to the year ended August 31, 2011.

### *Restructuring and other items*

Restructuring and other items expense for the year ended August 31, 2012 decreased \$2.7 million to \$35.4 million as compared to the year ended August 31, 2011. Restructuring and other items expense for the year ended August 31, 2012 consists of \$39.5 million relating to severance costs, which include both involuntary terminations and voluntary buyouts and a recovery of \$4.1 million which represents a curtailment gain in respect of our pension benefit plans related to such involuntary terminations and voluntary buyouts. Restructuring and other items expense for the year ended August 31, 2011 included \$38.5 million related to severance costs, which include both involuntary terminations and voluntary buyouts, a recovery of \$3.7 million which represented curtailment gains in respect of our pension and post-retirement benefit plans related to such involuntary terminations and voluntary buyouts, and \$3.2 million of expenses relating to the preparation of a non-offering prospectus and expenses incurred to comply with our contractual obligation to make an exchange offer for the Second-Lien Notes that is registered with the SEC and management oversight expenses of our various restructuring initiatives.

### ***Operating income***

Operating income was \$39.3 million for the year ended August 31, 2012, as compared to \$79.0 million for the year ended August 31, 2011, as a result of the factors described above.

### *Interest expense*

Interest expense decreased \$6.8 million, or 9.5%, to \$65.4 million for the year ended August 31, 2012, as compared to the year ended August 31, 2011. The decrease relates to the lower effective interest rate in the year ended August 31, 2012 as a result of refinancing on April 4, 2011 as well as the overall reduction in the Term Loan Facility due to principal repayments made throughout the year ended August 31, 2011 and the year ended August 31, 2012.

### *Loss on debt repayment*

During the year ended August 31, 2012 we recorded a non-cash loss on debt repayment of \$9.2 million representing unamortized discounts and financing fees related to the repayment of Tranche C of the Term Loan Facility. During the year ended August 31, 2011 we recorded a loss on debt prepayment of \$11.0 million. This included cash costs of \$1.4 million incurred on the repayment of debt and a non-cash loss of \$9.6 million of unamortized discounts and financing fees related to the repayment of the US and Canadian Tranches of the Term Loan Facility.

### *Net financing expense relating to employee benefit plans*

Net financing expense relating to employee benefit plans increased \$0.9 million to \$3.9 million for the year ended August 31, 2012, as compared to the year ended August 31, 2011.

### *Loss on disposal of property and equipment and intangible assets*

During the year ended August 31, 2012, we disposed of property and equipment and intangible assets and realized a loss of \$0.3 million. During the year ended August 31, 2011, we disposed of property and equipment and realized a loss of \$0.2 million.

#### *(Gain) loss on derivative financial instruments*

Gain on derivative financial instruments for the year ended August 31, 2012 was \$8.6 million as compared to a loss of \$21.4 million during the year ended August 31, 2011. The gain for the year ended August 31, 2012 includes a gain of \$13.4 million which occurred prior to the settlement of a fair value swap that was not designated as a hedge, gains of \$9.6 million related to variable prepayment option embedded derivatives on the First-Lien Notes and Second-Lien Notes, partially offset by a loss of \$1.9 million related to the settlement of cash flow swaps designated as a hedge for cash consideration of \$1.3 million, a realized loss of \$0.8 million which represents a payment made to amend the terms of cash flow swap designated as a hedge, a realized loss of \$8.8 million related to the settlement of the fair value swap not designated as a hedge and net cash outflows of \$2.8 million related to contractual cash interest settlements on a fair value swap not designated as a hedge. The loss for the year ended August 31, 2011 included a loss of \$16.9 million related to a fair value swap that was not designated as a hedge, net cash outflows of \$4.2 million related to contractual cash interest settlements on a fair value swap not designated as a hedge, a loss of \$1.8 million which represents a payment made to amend the terms of our fair value swap that was not designated as a hedge, partially offset by a gain of \$1.5 million related to a variable prepayment option embedded derivative on the Second-Lien Notes.

#### *Foreign currency exchange (gains) losses*

Foreign currency exchange losses for the year ended August 31, 2012 were \$6.4 million as compared to gains of \$18.0 million during the year ended August 31, 2011. For the year ended August 31, 2012 foreign currency exchange losses consist primarily of net realized losses of \$6.3 million related to repayments of Tranche C of the Term Loan Facility, realized losses of \$0.8 million on contractual principal settlements on the foreign currency interest rate swap not designated as a hedge, partially offset by unrealized gains of \$0.5 million related to the outstanding principal amount of the Second-Lien Notes which is not subject to hedge accounting. For the year ended August 31, 2011 foreign currency exchange gains consisted primarily of net realized gains of \$26.9 million related to the US Tranche that was repaid on April 4, 2011. Partially offsetting these gains were unrealized losses of \$5.7 million related to the outstanding principal amount on Tranche C which is not subject to hedge accounting and realized losses of \$2.2 million on contractual principal settlements on the foreign currency interest rate swap not designated as a hedge.

#### *Acquisition costs*

During the year ended August 31, 2011, we incurred additional net acquisition costs of \$1.2 million related to the July 13, 2010 acquisition of the Canwest Limited Partnership. These costs were expensed as they were not directly related to either the issuance of debt or equity.

#### **Loss before income taxes**

Loss before income taxes was \$37.3 million for the year ended August 31, 2012, as compared to \$12.2 million for the year ended August 31, 2011. The increase in loss before income taxes is primarily the result of decreased operating income, increased foreign currency exchange losses, decreased interest expense, partially offset by increased gains on derivative financial instruments, all as discussed above.

#### *Provision for income taxes*

We have not recorded a current or deferred tax expense or recovery for the year ended August 31, 2012 and 2011. Current taxes recoverable result in an increase to our tax loss carryforward balances. The cumulative tax loss carryforward balances have not been recognized as a net deferred tax asset on the statement of financial position.

### ***Net loss from continuing operations***

Net loss from continuing operations was \$37.3 million for the year ended August 31, 2012, as compared to \$12.2 million for the year ended August 31, 2011 as a result of the factors described above in loss before income taxes.

### ***Net earnings from discontinued operations***

Net earnings from discontinued operations for the year ended August 31, 2012 was \$14.1 million and includes a \$17.1 million gain on sale of discontinued operations and an allocation of \$6.4 million of interest expense representing an accelerated amortization of debt issuance costs related to the debt repayment of \$86.5 million described earlier. The Transaction was completed on November 30, 2011, as a result there were no discontinued operations for the three months ended February 29, 2012, May 31, 2012 and August 31, 2012, as such the earnings are not comparable to the net earnings from discontinued operations of \$2.6 million for the year ended August 31, 2011.

### ***Net loss attributable to equity holders of the Company***

Net loss for the year ended August 31, 2012 was \$23.2 million as compared to \$9.6 million for the year ended August 31, 2011. The increase in net loss is due to the increase in net loss from continuing operations partially offset by the increase in net earnings from discontinued operations both as discussed above.

### **Postmedia's segment operations for the three months and year ended August 31, 2012 as compared to the three months and year ended August 31, 2011**

	For the three months ended August 31,		For the year ended August 31,	
	2012	2011	2012	2011
<b>Revenues</b>				
Newspaper.....	182,503	193,762	800,186	864,143
All other.....	8,593	9,297	35,672	38,710
Intersegment elimination.....	(972)	(908)	(3,981)	(3,965)
	<u>190,124</u>	<u>202,151</u>	<u>831,877</u>	<u>898,888</u>
<b>Expenses</b>				
Newspaper.....	150,924	152,642	645,542	655,214
All other.....	8,861	7,623	27,543	25,548
Corporate.....	3,138	9,261	18,437	32,889
Intersegment elimination.....	(972)	(908)	(3,981)	(3,965)
	<u>161,951</u>	<u>168,618</u>	<u>687,541</u>	<u>709,686</u>
<b>Operating income (loss) before depreciation, amortization, and restructuring</b>				
Newspaper.....	31,579	41,120	154,644	208,929
All other.....	(268)	1,674	8,129	13,162
Corporate.....	(3,138)	(9,261)	(18,437)	(32,889)
	<u>28,173</u>	<u>33,533</u>	<u>144,336</u>	<u>189,202</u>

## ***Newspaper***

Revenue for the Newspaper segment decreased \$11.3 million and \$64.0 million, or 5.8% and 7.4%, during the three months and year ended August 31, 2012, respectively, as compared to the three months and year ended August 31, 2011. The decreases in revenue are due to decreases in print advertising revenue of \$10.1 million and \$58.9 million for the three months and year ended August 31, 2012 as compared to the three months and year ended August 31, 2011, respectively, and decreases in print circulation revenue of \$3.2 million and \$10.1 million, respectively, both as discussed previously, partially offset by increases in digital revenue which were primarily a result of increased newspaper digital advertising revenue. Newspaper digital advertising revenue increased \$1.7 million and \$5.3 million, or 13.6% and 10.6%, during the three months and year ended August 31, 2012, respectively, as compared to the three months and year ended August 31, 2011 primarily due to increases in local digital advertising revenue as discussed previously.

Expenses for the Newspaper segment decreased \$1.7 million and \$9.7 million, or 1.1% and 1.5%, during the three months and year ended August 31, 2012, respectively, as compared to the three months and year ended August 31, 2011. The \$1.7 million decrease in expenses for the three months ended August 31, 2012 as compared to the three months ended August 31, 2011 is primarily due to a newsprint expense decrease of \$1.2 million, distribution expense decreases of \$1.7 million, partially offset by an increase in centralized service costs of \$1.0 million. The \$9.7 million decrease in expenses for the year ended August 31, 2012 as compared to the year ended August 31, 2011 is primarily due to the impact of restructuring and cost reduction initiatives implemented during the year ended August 31, 2011. In particular compensation expense decreased \$10.1 million, newsprint expense decreased \$4.8 million and distribution expense decreased \$3.0 million. Partially offsetting these decreases were increases in centralized service costs of \$6.7 million.

Operating income before depreciation, amortization and restructuring for the Newspaper segment decreased \$9.5 million and \$54.3 million to \$31.6 million and \$154.6 million for the three months and year ended August 31, 2012, respectively, as compared to the three months and year ended August 31, 2011. The decrease is due to the decrease in revenue, partially offset by reduced expenses, both as described above.

## ***All other***

Operating income before depreciation, amortization and restructuring for the All other category decreased \$1.9 million and \$5.0 million to a loss of \$0.3 million and income of \$8.1 million for the three months and year ended August 31, 2012, respectively, as compared to the three months and year ended August 31, 2011. The decreases are due to decreased digital advertising revenues of \$0.8 million and \$3.9 million in the three months and year ended August 31, 2012, respectively, which were primarily related to decreases in national digital advertising revenue and the loss of a digital sales representation agreement both as discussed previously, combined with increased expenses of \$1.2 million and \$2.0 million for the three months and year ended August 31, 2012, respectively, as compared to the three months and year ended August 31, 2011.

## ***Corporate***

Corporate expenses decreased \$6.1 million and \$14.5 million to \$3.1 million and \$18.4 million for the three months and year ended August 31, 2012, respectively, as compared to the three months and year ended August 31, 2011. The decreases are primarily due to decreased compensation costs of \$5.8 million and \$15.6 million in the three months and year ended August 31, 2012, respectively, primarily as a result of a decrease in share-based compensation expense and an increase in employee benefit plan cost allocations to the Newspaper segment, partially offset by increased legal and regulatory costs associated with being a public company.



## Consolidated quarterly financial information

(\$ in thousands of Canadian dollars, except per share information)	Fiscal 2012				Fiscal 2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue.....	190,124	212,021	198,642	231,090	202,151	227,628	215,010	254,099
Net earnings (loss) from continuing operations.....	(28,351)	(12,137)	(11,065)	14,278	(838)	(5,162)	(10,728)	4,574
Net earnings (loss) per share from continuing operations								
Basic.....	\$ (0.70)	\$ (0.30)	\$ (0.27)	\$ 0.35	\$ (0.02)	\$ (0.13)	\$ (0.27)	\$ 0.11
Diluted.....	\$ (0.70)	\$ (0.30)	\$ (0.27)	\$ 0.35	\$ (0.02)	\$ (0.13)	\$ (0.27)	\$ 0.11
Net earnings (loss) attributable to equity holders of the Company.....	(28,351)	(12,137)	(11,065)	28,331	(351)	(2,725)	(12,518)	6,005
Net earnings (loss) per share attributable to equity holders of the Company								
Basic.....	\$ (0.70)	\$ (0.30)	\$ (0.27)	\$ 0.70	\$ (0.01)	\$ (0.07)	\$ (0.31)	\$ 0.15
Diluted.....	\$ (0.70)	\$ (0.30)	\$ (0.27)	\$ 0.70	\$ (0.01)	\$ (0.07)	\$ (0.31)	\$ 0.15
Cash flows from operating activities.....	(7,472)	24,046	16,045	9,922	(5,187)	39,236	9,185	(4,615)

## 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, cash flows from operations and available borrowings under our asset-based revolving credit facility ("ABL Facility") will enable us to meet our working capital, capital expenditure, debt servicing and other funding requirements for the foreseeable future. However, our ability to fund our working capital needs, debt servicing and other obligations 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. See "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 other newspapers and alternative forms of media and competition from alternative emerging technologies. In addition, in recent years there has been a growing shift in advertising dollars from newspaper advertising to other advertising formats, particularly online and other digital platforms such as search and social media websites. Although we expect to fund our capital needs with our available cash, cash generated from operations and available borrowings under the ABL Facility, our indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under our debt agreements. See "Risk Factors". As at August 31, 2012, no amounts were drawn under the ABL Facility. As discussed in "Overview and Background", on August 16, 2012 we refinanced our Term Loan Facility and as a result have eliminated financial maintenance covenants and reduced our mandatory long-term debt repayments.

As part of our annual budgeting process, management projects capital expenditures for the forthcoming fiscal year. Each project is subject to a detailed review on a case by case basis prior to approval. Investment projects must achieve an acceptable return on investment and generally are expected to demonstrate a payback period of no more than three years. In certain instances where there are strategic considerations, a longer timeframe may be considered. For the year ending August 31, 2013, we expect our major non-operating cash requirements to include discretionary capital expenditures of approximately \$18 million to \$22 million and contractual principal repayments of long-term debt to total approximately \$32 million, which includes \$23.2 million related to the net proceeds from the sale of the land and building located at 1450 Don Mills Road in Don Mills, Ontario as discussed previously.

## **Sources of Cash**

### ***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, 2012, our cash flows from operating activities were outflows of \$7.5 million and inflows of \$42.5 million, respectively (2011 – outflows of \$5.2 million and inflows of \$38.6 million, respectively). Cash flows from operating activities decreased \$2.3 million for the three months ended August 31, 2012, as compared to the three months ended August 31, 2011, due to declines in operating income partially offset by a decrease in non-cash working capital. Cash flows from operating activities increased \$3.9 million for the year ended August 31, 2012, as compared to the year ended August 31, 2011, due to a decrease in non-cash working capital, partially offset by declines in operating income. As at August 31, 2012 we had cash of \$22.2 million (August 31, 2011 - \$10.5 million) and our ABL facility was undrawn. Availability under the ABL facility as at August 31, 2012 was \$23.3 million (August 31, 2011 - \$37.3 million).

### ***Cash flows from investing activities***

For the three months and year ended August 31, 2012, our cash flows from investing activities were outflows of \$4.2 million and inflows of \$72.4 million, respectively (2011 – outflows of \$7.2 million and \$19.2 million, respectively). The cash outflows from investing activities during the three months and year ended August 31, 2012 include capital expenditures related to property and equipment of \$2.6 million and \$8.2 million, respectively (2011 - \$4.7 million and \$11.7 million, respectively) and intangible asset expenditures of \$1.6 million and \$6.7 million, respectively (2011 - \$2.5 million and \$8.7 million, respectively). The cash inflows during the year ended August 31, 2012, include the net proceeds from the sale of discontinued operations of \$87.3 million. In the three months and year ended August 31, 2012, we received nominal proceeds on the sale of property and equipment and intangible assets (2011 - nominal and \$1.2 million, respectively).

## **Uses of Cash**

### ***Cash flows from financing activities***

Cash flows from financing activities for the three months and year ended August 31, 2012, were inflows of \$5.1 million and outflows of \$103.2 million, respectively (2011 – outflows of \$8.2 million and \$49.2 million, respectively), and were related to our indebtedness as discussed below.

### ***Indebtedness***

On August 16, 2012, we issued \$250.0 million in aggregate principal amount of First-Lien Notes, before financing fees of \$6.6 million. The net proceeds from issuance were used to repay amounts then outstanding on the Term Loan Facility of \$238.3 million (US\$240.0 million). In conjunction with the refinancing, we settled the foreign currency interest rate swaps associated with the Term Loan Facility (see “Derivative Financial Instruments”). As of August 31, 2012, we have \$250.0 of First-Lien Notes outstanding and US\$268.6 million of Second-Lien Notes outstanding (August 31, 2011 - US\$275.0 million).

Excluding the repayments related to the refinancing on August 16, 2012 discussed above, during the three months August 31, 2012 no mandatory and optional principal repayments were made on our Term Loan Facility (2011 - \$8.0 million (US\$8.2 million). During the year ended August 31, 2012, we made mandatory and optional principal repayments on the Term Loan Facility of \$102.0 million (US\$100.0 million), which includes the required repayment due to the sale of the Disposed Properties discussed earlier in "Overview and Background" (2011 - \$47.4 million (US\$45.5 million and CDN\$2.8 million). During the year ended August 31, 2012 we repurchased and retired US\$6.4 million of the Second-Lien Notes for total cash consideration of \$6.3 million (US\$6.2 million). We did not retire any of the Second-Lien Notes during the year ended August 31, 2011. On April 4, 2011, we entered into an agreement to amend certain terms of the Term Loan Facility. As a result, amounts then outstanding under Term Loan Facility including the US Tranche of \$238.0 million (US\$247.0 million) and the Canadian Tranche of \$107.3 million were repaid and replaced with Tranche C. Tranche C was issued for US\$365.0 million (CDN\$351.7 million) at a discount of 0.25% for net proceeds of \$350.8 million, before financing fees of \$5.4 million.

During the year ended August 31, 2011 we made a payment on a capital lease of \$1.8 million.

The following tables set out the principal and carrying amount of debt outstanding as at August 31, 2012 and August 31, 2011. The first column of the table translates, where applicable, our US dollar debt to the Canadian equivalent based on foreign exchange rates specified in our foreign currency swap agreements for swapped debt and at the closing foreign exchange rate on August 31, 2012 and August 31, 2011, respectively, for our non-swapped debt.

<b>August 31, 2012</b>				
(\$ in thousands of Canadian dollars)	<b>Principal Outstanding</b> (US\$ Debt translated at swapped or period end rates)	<b>Principal Outstanding</b> (US\$ Debt translated at period end exchange rates)	<b>Financing fees, discounts and other</b>	<b>Carrying Value</b>
First-Lien Notes (CDN\$250.0M).....	250,000	250,000	5,866	244,134
Second-Lien Notes (swapped) (US\$265.0M).....	274,275	261,211	8,904	252,307
Second-Lien Notes (non-swapped) (US\$3.6M).....	3,583	3,583	122	3,461
	<b>527,858</b>	<b>514,794</b>	<b>14,892</b>	<b>499,902</b>
<b>August 31, 2011</b>				
(\$ in thousands of Canadian dollars)	<b>Principal Outstanding</b> (US\$ Debt translated at swapped or period end rates)	<b>Principal Outstanding</b> (US\$ Debt translated at period end exchange rates)	<b>Financing fees, discounts and other</b>	<b>Carrying Value</b>
Term loan - Tranche C (swapped) (US\$228.1M).....	233,679	223,426	13,325	210,101
Term loan - Tranche C (non-swapped) (US\$111.9M).....	109,598	109,598	6,537	103,061
Second-Lien Notes (swapped) (US\$275.0M).....	284,625	269,335	10,199	259,136
	<b>627,902</b>	<b>602,359</b>	<b>30,061</b>	<b>572,298</b>

(\$ in thousands of Canadian dollars)	August 31, 2012	August 31, 2011
Current assets .....	127,199	150,822
Total assets .....	1,044,848	1,180,243
Current liabilities .....	159,293	148,255
Total liabilities .....	811,093	864,963
Shareholders' equity .....	233,755	315,280

The decrease in our current assets at August 31, 2012 as compared to August 31, 2011 is due to a decrease in accounts receivable, prepaid expenses and other assets and the sale of the current assets of the Disposed Properties, partially offset by an increase in cash. Total assets at August 31, 2012 decreased compared to August 31, 2011, due to the decrease in current assets previously described, the sale of the long-term assets of the Disposed Properties, reductions to the carrying amount of property and equipment and intangible assets as a result of depreciation and amortization recorded during the year ended August 31, 2012, partially offset by an increase in the fair value of derivative financial instruments assets primarily related to our embedded derivatives. Current liabilities have increased due to increased restructuring liabilities as a result of our current cost saving initiatives and increased current portion of long term-debt, partially offset by the sale of the current liabilities of the Disposed Properties. The decrease in total liabilities is due to principal repayments on long-term debt, the settlement of and decreases in the fair value of derivative financial instruments liabilities, partially offset by increases in other non-current liabilities due to an increase in the carrying value of our employee benefit plans, combined with the increase in current liabilities previously described.

## Financial Instruments and Financial Instruments Risk Management

### *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. We use derivative financial instruments to hedge certain foreign currency and interest rate risk exposures, all of which qualify for hedge accounting as at August 31, 2012.

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 comprised of senior executives of Postmedia.

## ***Derivative financial instruments***

We have a foreign currency interest rate swap related to the Second-Lien Notes with a notional amount outstanding at August 31, 2012 of US\$265.0 million (2011- US\$275.0 million), a fixed currency exchange rate of US\$1:\$1.035 and a fixed interest rate of 14.78% and a termination date of July 15, 2014, which includes a final exchange of the notional amount. We have designated this instrument as a hedge and utilize cash flow hedge accounting in our consolidated financial statements. On January 20, 2012, in conjunction with the retirement of US\$6.2 million of the Second-Lien Notes as described under "Indebtedness" above, we settled a notional amount US\$10.0 million of this foreign currency interest rate swap for cash consideration of \$0.6 million. On August 16, 2012, the issuance of the First-Lien Notes and the repayment of the Term Loan Facility, as described earlier, gave rise to a potential termination event under the foreign currency interest rate swap agreement. As a result we entered into negotiations to amend the terms of the existing agreement. During August 2012, we amended the agreement on a notional amount of US\$167.5 million for cash consideration of \$0.8 million and in September 2012, we unwound the remaining notional amount of US\$97.5 million, for cash consideration of \$9.6 million. As a result, as at September 30, 2012, we have a foreign currency interest rate swap related to the Second-Lien Notes with a notional amount outstanding of US\$167.5 million, a fixed currency exchange rate of US\$1:\$1.035 and a fixed interest rate of 14.78% and a termination date of July 15, 2014, which includes a final exchange of the notional amount.

On August 16, 2012, in conjunction with the repayment of the Term Loan Facility we settled, for cash consideration of \$8.8 million, the amortizing foreign currency interest rate swap which hedged the principal payments on a notional amount of US\$139.5 million (August 31, 2011 - US\$180.0 million) on Tranche C at a fixed currency exchange rate of US\$1:\$1.035 until July 2014 and converted the interest rate on the notional Canadian principal amount to bankers' acceptance rates plus 7.07%. We had not designated this instrument as a hedge and accordingly did not use hedge accounting for this instrument.

On August 16, 2012, in conjunction with the repayment of the Term Loan Facility we settled, for cash consideration of \$0.6 million, the amortizing foreign currency interest rate swap which hedged the principal payments on a notional amount of US\$40.8 million (August 31, 2011 - US\$48.1 million) on Tranche C, at a fixed currency exchange rate of US\$1:\$0.9845 and a fixed interest rate of 8.66% until May 2015. We had designated this instrument as a hedge and utilized cash flow hedge accounting in our financial statements.

## ***Foreign currency risk***

As discussed above we enter into transactions to reduce foreign currency risk exposure on our US dollar denominated long-term debt in order to meet our goal of largely eliminating our exposure to foreign currency fluctuations. On August 16, 2012 we repaid Tranche C of our Term Loan Facility in its entirety which was denominated in US dollars and replaced it with the First-Lien Notes which are denominated in Canadian dollars, thereby, permanently reducing our exposure to foreign currency risk on approximately half of our long-term debt. As at August 31, 2012, through our foreign currency interest rate swaps described above we had hedged foreign currency risk on 99% of our US dollar denominated debt, (August 31, 2011- 82%). As at August 31, 2012, we were still exposed to foreign currency risk on the non-swapped portion of the Second-Lien Notes of US\$3.6 million, representing 1% of our aggregate outstanding US dollar denominated debt. As at August 31, 2012, a \$0.01 change in the period end exchange rate of a Canadian dollar per one US dollar, holding all other variables constant, would have resulted in a nominal increase or decrease to the statement of operations (2011 - \$0.9 million). As described above, in September 2012, we settled a notional amount of US\$97.5 million of the foreign currency interest rate swap associated with the Second-Lien Notes which resulted in exposure to foreign currency risk on the non-swapped portion of the Second-Lien Notes of US\$101.1 million as at September 30, 2012.

### ***Interest rate risk***

We have no significant interest bearing assets. Our interest rate risk arises from borrowings at fixed rates which expose us to fair value interest rate risk as well as borrowings at variable rates which would expose us to cash flow interest rate risk. On August 16, 2012, as a result of the repayment of the Term Loan Facility and settlement of related foreign currency interest rate swaps we eliminated all cash flow interest rate risk except for any amounts which may be drawn under the ABL Facility in the future. As at August 31, 2012, we held \$515.0 million of debt subject to fair value interest rate risk and no debt subject to cash flow interest rate risk as the ABL Facility is undrawn (August 31, 2011 - \$316.5 million and \$285.9 million, respectively). In order to manage our interest rate risk objective of setting primarily all future payments in fixed Canadian dollars we use foreign currency interest rate swaps.

During the year ended August 31, 2012, if interest rates on long-term debt had been 100 basis points higher or lower, with all other variables held constant, interest expense would have been \$2.2 million higher or lower (2011 - \$3.5 million).

### ***Credit risk***

Credit risk is the risk of financial loss to Postmedia if a customer or counterparty to a financial asset fails to meet its contractual obligations. As at August 31, 2012, no individual balance represented a significant portion of our accounts receivable. We establish an allowance for doubtful accounts based on the specific credit risk of our customers and historical trends. The allowance for doubtful accounts amounted to \$3.2 million as at August 31, 2012 (August 31, 2011 – \$2.7 million).

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 doubtful accounts. 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 not be able to meet our financial obligations as they come due or the risk that those financial obligations have to be met at excessive cost. We manage this exposure by using cash on hand and cash flow forecasts and by deferring or eliminating discretionary spending. We have an ABL Facility with a maximum availability of \$45 million, which is described in note 14 of our audited consolidated financial statements for the years ending August 31, 2012 and 2011, resulting in an availability of \$23.3 million as of August 31, 2012 (August 31, 2011 – \$37.3 million).

Our obligations under firm contractual arrangements, including commitments for future payments under capital lease arrangements, operating lease arrangements, and pension funding agreements and debt and swap agreements as of August 31, 2012 are as follows:

	2013	2014	2015	2016	2017	Thereafter
Finance lease.....	-	-	-	-	-	1,560
Operating leases and other.....	23,894	22,013	17,537	15,447	13,168	31,270
Estimated employee benefit plan funding obligations <sup>(1)</sup> .....	24,240	22,371	22,546	22,740	22,974	N/A
Long-term debt <sup>(2)</sup> .....	32,153	12,500	12,500	12,500	180,347	264,794
Interest on long-term debt <sup>(2)</sup> .....	47,483	51,391	49,785	48,796	51,819	33,099
Cash outflow on derivative financial instruments <sup>(3)</sup> .....	40,645	314,698	-	-	-	-
Cash inflow on derivative financial instruments <sup>(3)</sup> .....	(32,651)	(293,862)	-	-	-	-
	135,764	129,111	102,368	99,483	268,308	330,723

**Notes:**

- (1) Reflects expected contributions to our defined benefit pension plans, post-retirement benefit plans and other long-term employee benefit plans. Information for our pension funding obligations are based upon our unfiled actuarial valuation dated December 31, 2011, assuming no solvency relief and does not include calculations of our pension funding obligations beyond fiscal 2017. Future required payments will be material.
- (2) Long-term debt and interest on long-term debt consist of only the mandatory contractual payments, which includes the \$23.2 million related to the net proceeds from the sale of the land and building located at 1450 Don Mills Road in Don Mills, Ontario as discussed previously. US Dollar long-term debt and the related interest payments have been converted to Canadian dollars using the closing exchange rate as at August 31, 2012 and are calculated at the fixed interest rates underlying the obligation.
- (3) Cash outflows and inflows on derivative financial instruments represent contractual future cash payments based on fixed interest rates and have been converted to Canadian dollars using the closing exchange rate on August 31, 2012. During September 2012, we settled a notional amount of US\$97.5 million of the derivative financial instruments which has not been reflected in 2013 in the above table.

## Guarantees and Off-Balance Sheet Arrangements

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

## Differences between IFRS and US GAAP

The preceding discussion and analysis has been based upon financial statements prepared in accordance with IFRS, which differs in certain respects from US GAAP. The significant differences are discussed in detail in note 26 of our audited consolidated financial statements for the years ending August 31, 2012 and 2011.

## 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 price of our Shares, the First-Lien Notes and Second-Lien Notes could be materially and adversely affected.

### Risks Relating to Our Business

*Competition from other newspapers and alternative 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 television; radio; local, regional and national newspapers; magazines; free publications; direct mail; digital media; 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, and this shift may be permanent. 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.

The cost of advertising in alternative forms of media such as those described above may decline, and the ease of producing advertising for alternative media might improve. Similarly, participants in alternative media platforms may improve their ability to target specific audiences and therefore become a more attractive media for advertisers. These circumstances could result in our newspaper or online media not being as competitive as they are currently in relation to these alternative 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, which may be permanent, 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 69.4% of our consolidated revenues in the year ended August 31, 2012 (August 31, 2011 – 70.6%).

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.

Advertising revenue has also been affected by a structural shift within the industry from print advertising to digital advertising. A March 2012 study from the Pew Research Center in the United States found that, based on thirty-eight U.S. newspapers and interviews with executives from twelve companies, newspapers are losing seven dollars in print advertising for every one dollar they are gaining in new digital revenue. The ratio of print revenue losses to digital revenue gains for us is currently higher than such study, which demonstrates the difficulty in replacing print revenue with digital revenue.

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 our advertising revenues could result from:

- the continuing shift from newspaper advertising to advertising in other formats, including new media outlets, which shift may be permanent;
- a continued decline in economic conditions;
- a decline in the circulation volume of our newspapers, which decline may 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 current negative economic conditions continue or 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.

*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 and e-reader 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 (e.g., e-readers 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 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:

- reviews of critics, promotions, the quality and acceptance of other competing editorial content in the marketplace;
- 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;
- public tastes and perceptions generally; and
- other intangible factors.

Circulation volumes of our newspapers have been declining in both the home delivered 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 may 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.

*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.

*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 compete with alternative emerging technologies and anticipate that we will be investing 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, which shift may be permanent, 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.

*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. We have recently completed a restructuring program designed to reduce costs which consisted of certain transformation projects that resulted in voluntary and involuntary buyout programs. We are currently implementing the initial phase of a three year business transformation program aimed at significantly reducing legacy newspaper infrastructure costs. Initiatives include the shutdown of Postmedia News, our proprietary breaking news service, the centralizing of editorial production services through Postmedia Editorial Services in Hamilton, the streamlining of advertiser flyer insert operations, and the cancellation of Sunday editions in three markets due to unprofitability. We also intend to explore opportunities to reduce product costs by optimizing our distribution footprint, production schedules and shared distribution. We will continue to explore strategic initiatives, including additional transformation projects.

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.

*Our revenue, which is generated primarily from advertisers, is subject to significant 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, significant seasonal variances due to seasonal advertising patterns and seasonal influences on media consumption habits. Typically, our revenue is 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 increased borrowing needs at certain points within the year. As a result, we may use amounts available under our ABL Facility to mitigate the impact of short-term fluctuations in cash flow, which could consequently leave us in a more constrained liquidity position.

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

Newsprint is our largest raw material expense, representing approximately 7.7% of total operating costs in the year ended August 31, 2012 (August 31, 2011 – 8.1%). 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 \$4.0 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.

*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.

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

Approximately 37% of our employees were employed under 25 separate collective agreements as of August 31, 2012. Certain collective agreements include provisions that could impede restructuring efforts, including work force reduction and centralization initiatives. Furthermore, a majority of our collective agreements contain provisions restricting outsourcing and may also contain provisions that will impact future cost savings initiatives. Earlier this year there was a lock out of certain Teamsters bargaining units in Montreal covering approximately 20 full-time equivalent employees ("FTEs"). Operations continued during the lock out with no production issues. The lock out ended on March 4, 2012 after the union and ourselves reached a mutually acceptable new agreement. We are currently not in any negotiations however agreements covering approximately 161 FTEs will expire on December 31, 2012. Our remaining agreements will expire in 2013 and 2014, with the exception of one agreement that will expire in 2017.

There can be no assurance provided that any of these collective agreements will be renewed on satisfactory terms or at all. Labour organizing activities could result in additional employees becoming unionized, which could result in higher ongoing labour costs and reduced flexibility in running our operations. In addition, labour disruptions or grievances could also affect our operations and certain unions have filed grievances against us alleging violations of one or more provisions of the applicable collective agreements. There can be no assurance provided that we will not experience other labour disruptions, or that a material grievance will not be decided against us, or that we will not experience other forms of labour protest. Any strike, lock out or other form of labour disruption could have a material adverse effect on our business, financial condition or results of our operations.

*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.

*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.

*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 judgment 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.*

On May 25, 2011, we were made aware of an application (the “CEP Application”) brought on April 20, 2011 by the Communications, Energy and Paperworkers’ Union of Canada, Local 145 (the “CEP”) against the Minister of Canadian Heritage and official languages (“Minister of Heritage”) under the *Federal Courts Act* seeking an order to quash his decision not to conduct a review of the Acquisition under the *Investment Canada Act* and seeking an order for such a review to be conducted by the Minister of Heritage. In the alternative, the CEP Application seeks an order directing the Minister of Heritage to reconsider his decision not to review the Acquisition, together with directions for the reconsideration. On March 15, 2012, CEP amended its application. The amended application is confined to requesting that the Minister of Heritage (a) determine whether he is satisfied that we are, in fact, a non-Canadian controlled entity; and (b) if he is so satisfied, review the Acquisition for whether it is likely to be of net benefit to Canada based on the factors articulated in section 20 of the *Investment Canada Act*. The application is scheduled for hearing on January 8, 2013. We are of the view that we are a Canadian controlled entity for purposes of the *Investment Canada Act* and, as such, we are not subject to the *Investment Canada Act* and, if necessary, we intend to defend our interests in connection with these proceedings.

If the court were to grant the relief requested by CEP, then, subject to appeal, the Minister of Heritage would be required to determine whether we are, in fact, a non-Canadian controlled entity and, if he so concludes, to review the Acquisition under the *Investment Canada Act* and decide whether he is satisfied that the Acquisition is likely to be of net benefit to Canada based on, among other things, the information contained in an application for review and any written undertakings given by the applicant in connection therewith. If the Minister of Heritage is not satisfied that the Acquisition is likely to be of net benefit to Canada, the relevant non-Canadian investor would be required to divest itself of control of the Canadian business pursuant to Section 24 of the *Investment Canada Act*.

CEP further alleges that newspapers owned by Postmedia do not meet the definition of “Canadian newspapers” for purposes of the Tax Act, but for a grace period that ran until July 31, 2011 and that it is unlikely that Postmedia will be able to meet that requirement by the end of that grace period. However, Postmedia believes that, upon the listing of the Shares on the TSX on June 14, 2011, its newspapers met the definition of “Canadian newspapers” for purposes of the Tax Act. ”

*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, 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”.

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.

*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 estimated 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.

*We may have goodwill and intangible asset impairment charges*

At August 31, 2012, we had goodwill and other intangible assets of \$601.4 million. We conduct annual impairment testing to determine if we will be able to recover all or a portion of the carrying value of goodwill and indefinite-lived intangibles. In addition, we are required to review goodwill and indefinite-lived intangible assets for impairment more frequently if impairment indicators arise. If the fair value is insufficient to recover the carrying value of are goodwill and indefinite-lived intangibles, we may be required to record a material non-cash charge to the statement of operations.

The fair values of our cash-generating units under IFRS and reporting units under US GAAP generally are based on discounted cash flow projections. The discounted cash flow projections are based on management’s best estimates considering historical and expected operating plans, economic conditions, and general outlook for the industry and geographic markets in which we operate. The discount rates used are based on an industry based debt/equity ratio and consider the risk free rate, risk premium and size premium for possible variations from management’s projections. The terminal value used in the discounted cash flow projections is the value attributed to the operations beyond the projected discrete period using a perpetuity growth rate based on industry, revenue and operating income trends and growth prospects.

As disclosed in note 26 to our audited consolidated financial statements for the years ended August 31, 2012 and 2011, we concluded that under US GAAP certain indefinite life intangible assets related to the Newspaper operating segment were impaired. The effect on US GAAP net loss for the year ended August 31, 2012 was to increase net loss by \$30.0 million. The effect on the consolidated statement of financial position as at August 31, 2012 under US GAAP was to decrease intangible assets by \$30.0 million with a corresponding increase to deficit.

We monitor impairment indicators on a quarterly basis. Significant changes in market conditions, and estimates or judgments used to determine expected future cash flows that indicate 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.

*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, including funds from our ABL Facility (which, as of August 31, 2012, was undrawn and had availability of \$23.3 million), 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, 2012, we had the Canadian equivalent of a carrying amount of \$499.9 million outstanding under our respective debt agreements, consisting of \$244.1 million in respect of the First-Lien Notes and \$255.8 million in respect of the Second-Lien Notes. The US dollar denominated Second-Lien Notes have been converted to Canadian dollars at the closing rate as announced by the Bank of Canada as at August 31, 2012. No assurance can be provided that we will be able to refinance our indebtedness on attractive terms or at all.

*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 underfunded registered pension plans or our inability to make required cash contributions to our pension plans could have a material adverse effect on us, our business, cash flows, operations and financial condition.*

We maintain several defined benefit and defined contribution plans providing pension and other retirement and post-employment benefits to our employees. Provincial pension legislation requires that the funded status of registered defined benefit pension plans be determined on both a going concern basis (which essentially assumes the pension plan continues indefinitely) and a solvency basis (which essentially assumes a cessation of a pension plan, and is based on statutory requirements). Based on our most recently filed actuarial valuations as of December 31, 2010, the aggregate going concern unfunded liability was approximately \$32.4 million and the aggregate wind up deficiency (which essentially assumed that all of the pension plans terminated on their actuarial valuation dates) was approximately \$76.6 million. We expect that on the next valuation the aggregate wind up deficiency will be significantly higher, though the going concern unfunded liability will improve. The actual funded status of our pension plans and our contribution requirements are dependent on many factors, including regulatory developments and changes to legislation, changes to the level of benefits provided by the plans, actuarial assumptions and methods used, changes in plan demographics and experience, and changes in the economic conditions, such as the return on fund assets and changes in interest rates and other factors. Additionally, significant changes in investment performance or in a change in the portfolio mix of invested assets can result in corresponding increases and decreases in the valuation of plan assets, particularly equity securities, or in a change to the expected rate of return on plan assets. Significant variations in pension performance could produce volatility in our reported results, and significant underfunding in our pension plans could necessitate higher company contributions to those plans, which could have a material effect on our cash flows, liquidity and financial condition.

The 2012 Ontario Budget announced a proposed extension to the 2009 solvency relief measures to plan sponsors in light of the pension funding challenges that resulted from declines in long-term interest rates and low investment returns. Although the final regulations have not been published, we may implement such solvency relief measures when adopted, which would reduce the amount of funding contributions that we would be required to make in the short term, but could increase aggregate contributions over the long term.

*Significant changes in pension fund investment performance or assumptions relating to pension costs may have a material effect on the valuation of pension obligations, the funded status of pension plans and our pension cost.*

Our pension cost is materially affected by the discount rate used to measure pension obligations, the level of plan assets available to fund those obligations at the measurement date and the expected long-term rate of return on plan assets. A change in the discount rate could result in a significant increase or decrease in the valuation of pension obligations, affecting the reported funded status of our pension plans as well as the net pension cost in subsequent fiscal years. Similarly, changes in the expected return on plan assets can result in significant changes to the net pension cost of subsequent fiscal years.

*We may be adversely affected by foreign exchange fluctuations.*

As of August 31, 2012, approximately 51% of the outstanding principal of our long-term debt is denominated in US dollars and interest, principal and premium, if any, on such borrowings must be paid in US dollars. Through the use of foreign currency interest rate swaps we have hedged foreign exchange rate risk on 99% of our US dollar-denominated debt as at August 31, 2012 (August 31, 2011 – 82%) but no assurance can be given that any such hedging will be successful. We are still exposed to counterparty risk on the hedged portion and to foreign exchange rate risk on the unhedged portion of the Second-Lien Notes of US\$3.6 million as at August 31, 2012 (August 31, 2011 – nil). During September 2012, we settled a notional amount of US\$97.5 million of the foreign currency interest rate swap associated with the US dollar-denominated Second-Lien Notes which resulted in an unhedged portion of the Second-Lien Notes of US\$101.1 million as at September 30, 2012. The remaining outstanding foreign currency interest rate swap of US\$167.5 million terminates on July 15, 2014. The Second-Lien notes have a principal amount outstanding of US\$268.6 million and mature on July 15, 2018. Accordingly we may be exposed to additional foreign exchange risk if we are unable to amend existing swap agreements or enter into new swap agreements when the foreign currency interest rate swap terminates on July 15, 2014. Upon termination of this foreign currency interest rate swap, our exposure to foreign currency risk may increase significantly. 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.

*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 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, certain of our printing operations and call center services, 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 operating and financial results.

*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.

*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. Effective July 1, 2010, the Harmonized Sales Tax resulted in an additional 7% tax on newspapers sold in British Columbia. Higher taxes also may reduce profit margins on our products if we are unable to pass on the increase to our customers.

*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.

*We have become subject to the requirements of Regulation 52-109 on Certification of Disclosure in Issuers' Annual and Interim Filings and the Sarbanes Oxley Act and must devote time and resources to maintain compliance.*

As a result of listing our shares on the TSX and our SEC-registered exchange offer for the Second-Lien Notes in the year ended August 31, 2011 and ongoing reporting requirements in the indenture governing the Second-Lien Notes, we are subject to the requirements of Regulation 52-109 and the Sarbanes Oxley Act, which requires, among other things, public companies to maintain disclosure controls and procedures to ensure timely disclosure of material information, and for foreign private issuers like ourselves, to have management review the effectiveness of those controls on an annual basis. These requirements may place a strain on our systems and resources. Sarbanes-Oxley 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.

*Our business could be adversely affected by a change of laws.*

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, 2012, total carrying value of amounts outstanding under our respective debt agreements was \$499.9 million, and we had availability of \$23.3 million under our ABL Facility.

Subject to the limits contained in the credit agreement governing the ABL Facility, the indenture that governs the First-Lien Notes, the indenture that governs the Second-Lien Notes and our other debt instruments, 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, Second-Lien Notes and other debt;
- 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 as certain of our borrowings, including borrowings under the ABL Facility, 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 indenture that governs the First-Lien Notes, the indenture that governs the Second-Lien Notes and the credit agreement governing the ABL Facility 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 indenture that governs the First-Lien Notes, the indenture that governs the Second-Lien Notes and the credit agreement that governs the ABL Facility 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. Additionally, the ABL Facility provides commitments of up to \$60 million in the aggregate, subject to the Borrowing Base and excess availability requirements. All of those 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 ABL Facility, 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 indenture that governs the First-Lien Notes, the indenture that governs the Second-Lien Notes and the credit agreement governing the ABL Facility 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.

There are limitations on our ability to incur the full \$60 million of commitments under the ABL Facility. Availability will be limited to the lesser of the Borrowing Base and \$60 million, in each case subject to reduction for a required excess availability amount of \$15 million. The Borrowing Base is calculated on a monthly (or more frequently under certain circumstances) valuation of eligible accounts receivable. As a result, access to credit under the ABL Facility is potentially subject to significant fluctuation, depending on the value of the Borrowing Base eligible assets as of any measurement date. The ABL Facility provides the lenders considerable discretion to impose reserves, which could materially impair the amount of borrowings that would otherwise be available. There can be no assurance provided that the lenders under the ABL Facility will not impose such actions during the term of the ABL Facility and further, were they to do so, the resulting impact of this action could materially and adversely impair our ability to make interest payments on indebtedness. The inability to borrow under the ABL Facility may adversely affect our liquidity, financial position and results of operations. As at August 31, 2012, no amounts were drawn under the ABL Facility and we had availability of \$23.3 million.



A breach of the covenants under the indenture that governs the First-Lien Notes, the indenture that governs the Second-Lien Notes or under the credit agreement that governs the ABL Facility could result in an event of default under the applicable indebtedness. Such default may allow our creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, an event of default under the ABL Facility would permit the lenders under the ABL Facility to terminate all commitments to extend further credit under such facility. Furthermore, if we are unable to repay the amounts due and payable under the ABL Facility, the 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.

*The ABL Facility contains restrictions on the ability to amend the First-Lien Notes and Second-Lien Notes.*

The ABL Facility will restrict amendments to the First-Lien Notes and Second-Lien Notes to the extent such amendment, modification or waiver could reasonably be expected to be adverse in any material respect to the lenders under the ABL Facility. These restrictions could impact our ability to amend any provision of the indenture for the First-Lien Notes or the indenture governing the Second-Lien Notes, particularly since it may be difficult to determine whether an amendment is adverse to the lenders under the ABL facility.

*Our variable rate indebtedness subjects us to interest rate risk which could cause our indebtedness service obligations to increase significantly.*

Borrowings under the ABL Facility are at variable rates of interest and will expose us to interest rate risk. If interest rates increase if any amount is owed under the ABL Facility, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net earnings and cash flows, including cash available for servicing our indebtedness, would correspondingly decrease. Further, we may not decide, or be able, to hedge all or any portion of the risk.

*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 and derivative financial instruments 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 and derivative financial instrument 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 effect 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 credit agreement that governs the ABL Facility, the 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, the lenders under the ABL Facility could terminate their commitments to loan money and our secured lenders, including under the ABL Facility, 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.

## **Risks Relating to Our Shares**

*An active public market for the Shares has not yet been developed.*

On June 14, 2011 our Class C voting shares and our Class NC variable voting shares (“Shares”) began trading on the Toronto Stock Exchange. An active public market for the Shares has not yet developed and, if developed, may not be sustained. If an active public market does not develop, the liquidity of an investment in our Shares may be limited.

*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:

- 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 have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have, in many cases, been 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 and controlled, directly and indirectly, by persons that are not Non-Canadians. An outstanding Variable Voting Share will be converted into one Voting Share, automatically and without any further act of ourselves or the holder, if such Variable Voting Share is not or ceases to be beneficially owned or controlled, directly or indirectly, by one or more Non-Canadians. In addition to the automatic conversion feature, a holder of Voting Shares shall have the option at any time to convert some or all of such shares into Variable Voting Shares on a one-for-one basis and to convert those shares back to Voting Shares on a one-for-one basis. Given these conversion features and the fact that we will not know whether a purchaser of Variable Voting Shares is not a Non-Canadian unless such person completes a declaration provided by our transfer agent from time to time, 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, 2012 represent more than 97% of the outstanding Shares, if a person who is not a Non-Canadian acquires Variable Voting Shares such Shares would automatically convert into a larger percentage of the outstanding Voting Shares. 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 the Company have been designed to provide reasonable assurance that all relevant information is identified to its management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow required disclosures to be made in a timely fashion.

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

The CEO and CFO of the Company have evaluated the effectiveness of the Company's internal controls over financial reporting during the year ended August 31, 2012. 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, 2012. The CEO and CFO of the Company have evaluated whether there were changes to the Company's internal control over financial reporting during the three months and year ended August 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. There were no changes identified during their evaluation. Furthermore, the Company has determined that there has been no material change in internal controls over financial reporting as a result of the adoption of IFRS.

## Share Capital

As at October 23, 2012 we had the following number of shares and options outstanding:

Class C voting shares .....	1,302,630
Class NC variable voting shares .....	39,020,540
Total shares outstanding .....	<u>40,323,170</u>
Total options and restricted share units outstanding <sup>(1)</sup> .....	<u>2,080,000</u>

<sup>(1)</sup> The total options and restricted share units outstanding are convertible into 2.0 million Class C voting shares and 0.1 million Class NC variable voting shares. The total options and restricted share units outstanding include 1.1 million options that are vested and 1.0 million options that are unvested.

**POSTMEDIA NETWORK CANADA CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011

Issued: October 25, 2012



October 25, 2012

## **Independent Auditor's Report**

### **To the Shareholders of Postmedia Network Canada Corp.**

We have audited the accompanying consolidated financial statements of Postmedia Network Canada Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at August 31, 2012, August 31, 2011 and September 1, 2010 and the consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for the years ended August 31, 2012 and August 31, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Postmedia Network Canada Corp. and its subsidiaries as at August 31, 2012, August 31, 2011 and September 1, 2010 and its financial performance and its cash flows for the years ended August 31, 2012 and August 31, 2011 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

*PricewaterhouseCoopers LLP*

**Chartered Accountants  
Winnipeg, Canada**

## Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Postmedia Network Canada Corp. and its subsidiary (the "Company") are the responsibility of management and have been approved by the Board of Directors of Postmedia Network Canada Corp.

Management is responsible for the preparation of these consolidated financial statements in conformity with International Financial Reporting Standards, the selection of accounting policies and making significant accounting judgments and estimates. Management is also responsible for establishing and maintaining adequate internal control over financial reporting which includes those policies and procedures that provide reasonable assurance over the completeness, fairness and accuracy of the consolidated financial statements and other financial items.

The Board of Directors fulfills its responsibility for the consolidated financial statements principally through its Audit Committee, which is comprised of independent external directors. The Audit Committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors. The Audit Committee meets with the Company's management and external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, and formulates the appropriate recommendations to the Board of Directors. The auditor appointed by the shareholders has full access to the Audit Committee, with or without management being present.

The external auditors appointed by the Company's shareholders, PricewaterhouseCoopers LLP, conducted an independent audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and express their opinion thereon. Those standards require that the audit is planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.



**Paul Godfrey**  
President and  
Chief Executive Officer



**Doug Lamb**  
Chief Financial Officer and  
Executive Vice President

Toronto, Canada  
October 25, 2012

**POSTMEDIA NETWORK CANADA CORP.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

**FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011**

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

	<b>2012</b>	<b>2011</b>
		(notes 4 and 25)
<b>Revenues</b>		
Print advertising	514,987	573,920
Print circulation	209,177	219,296
Digital	89,076	87,050
Other	18,637	18,622
<b>Total revenues</b>	<b>831,877</b>	<b>898,888</b>
<b>Expenses</b>		
Compensation	348,133	368,516
Newsprint	52,628	57,423
Distribution	123,872	126,825
Other operating	162,908	156,922
<b>Operating income before depreciation, amortization, and restructuring (note 5)</b>	<b>144,336</b>	<b>189,202</b>
Depreciation (note 9)	26,157	27,015
Amortization (note 10)	43,566	45,209
Restructuring and other items (note 13)	35,355	38,011
<b>Operating income</b>	<b>39,258</b>	<b>78,967</b>
Interest expense	65,446	72,284
Loss on debt repayment (note 14)	9,178	11,018
Net financing expense relating to employee benefit plans (note 15)	3,900	2,971
Loss on disposal of property and equipment and intangible assets (notes 9 and 10)	258	176
(Gain) loss on derivative financial instruments (note 6)	(8,632)	21,414
Foreign currency exchange (gains) losses	6,383	(17,959)
Acquisition costs (note 3)	-	1,217
<b>Loss before income taxes</b>	<b>(37,275)</b>	<b>(12,154)</b>
Provision for income taxes (note 18)	-	-
<b>Net loss from continuing operations</b>	<b>(37,275)</b>	<b>(12,154)</b>
Net earnings from discontinued operations, net of tax of nil (note 4)	14,053	2,565
<b>Net loss attributable to equity holders of the Company</b>	<b>(23,222)</b>	<b>(9,589)</b>
<b>Loss per share from continuing operations (note 16):</b>		
Basic	\$ (0.92)	\$ (0.30)
Diluted	\$ (0.92)	\$ (0.30)
<b>Earnings per share from discontinued operations (note 16):</b>		
Basic	\$ 0.35	\$ 0.06
Diluted	\$ 0.35	\$ 0.06
<b>Loss per share attributable to equity holders of the Company (note 16):</b>		
Basic	\$ (0.58)	\$ (0.24)
Diluted	\$ (0.58)	\$ (0.24)

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



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

**FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011**  
(In thousands of Canadian dollars)

	<b>2012</b>	<b>2011</b>
	(notes 4 and 25)	
<b>Net loss attributable to equity holders of the Company</b>	(23,222)	(9,589)
<b>Other comprehensive income (loss) from continuing operations</b>		
Gain (loss) on valuation of derivative financial instruments, net of tax of nil	8,928	(1,573)
Net actuarial gains (losses) on employee benefits, net of tax of nil (note 15)	(72,757)	16,705
Gain (loss) on minimum funding liability of employee benefits, net of tax of nil (note 15)	4,146	(4,146)
<b>Other comprehensive income (loss) from discontinued operations</b>		
Net actuarial gains (losses) on employee benefits, net of tax of nil (note 15)	(906)	556
Other comprehensive income (loss)	(60,589)	11,542
<b>Comprehensive income (loss) attributable to equity holders of the Company</b>	(83,811)	1,953
<b>Total comprehensive income (loss) attributable to equity holders of the Company:</b>		
Continuing operations	(96,958)	(1,168)
Discontinued operations	13,147	3,121
	(83,811)	1,953

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

**POSTMEDIA NETWORK CANADA CORP.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(In thousands of Canadian dollars)

	<b>As at August 31, 2012</b>	<b>As at August 31, 2011</b> (note 25)	<b>As at September 1, 2010</b> (note 25)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	22,189	10,483	40,201
Accounts receivable	90,923	118,577	116,417
Inventory (note 8)	3,829	5,834	6,187
Prepaid expenses and other assets	10,258	15,928	14,873
<b>Total current assets</b>	<b>127,199</b>	<b>150,822</b>	<b>177,678</b>
<b>Non-Current Assets</b>			
Property and equipment (note 9)	267,491	336,268	355,194
Asset held-for-sale (note 9)	23,139	-	-
Derivative financial instruments (note 7)	24,108	13,817	15,831
Other assets	1,549	3,211	4,208
Intangible assets (notes 10 and 11)	377,862	440,032	477,200
Goodwill (notes 4 and 11)	223,500	236,093	236,093
<b>Total assets</b>	<b>1,044,848</b>	<b>1,180,243</b>	<b>1,266,204</b>

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

**POSTMEDIA NETWORK CANADA CORP.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)**

(In thousands of Canadian dollars)

	<b>As at August 31, 2012</b>	<b>As at August 31, 2011</b> (note 25)	<b>As at September 1, 2010</b> (note 25)
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities (note 12)	65,268	77,084	92,023
Provisions (note 13)	29,888	11,508	21,398
Deferred revenue	25,915	30,494	32,096
Current portion of derivative financial instruments (note 7)	6,069	12,307	3,685
Current portion of long-term debt (note 14)	32,153	16,862	13,499
Obligation under finance lease	-	-	1,841
<b>Total current liabilities</b>	<b>159,293</b>	<b>148,255</b>	<b>164,542</b>
<b>Non-Current Liabilities</b>			
Long-term debt (note 14)	467,749	555,436	632,532
Derivative financial instruments (note 7)	12,369	31,093	558
Other non-current liabilities (notes 15 and 17)	169,413	127,999	156,958
Provisions (note 13)	1,588	1,499	1,057
Deferred income taxes (note 18)	681	681	681
<b>Total liabilities</b>	<b>811,093</b>	<b>864,963</b>	<b>956,328</b>
<b>Equity</b>			
Capital stock (note 16)	371,132	371,132	371,132
Contributed surplus (note 17)	7,888	5,602	2,151
Deficit	(139,357)	(46,618)	(50,144)
Accumulated other comprehensive loss	(5,908)	(14,836)	(13,263)
<b>Total equity</b>	<b>233,755</b>	<b>315,280</b>	<b>309,876</b>
<b>Total liabilities and equity</b>	<b>1,044,848</b>	<b>1,180,243</b>	<b>1,266,204</b>

Commitments (note 21)  
Subsequent events (note 27)

On October 25, 2012, the Board of Directors (the "Board") approved the consolidated financial statements for the years ended August 31, 2012 and 2011.

On behalf of the Board,

*Signed*  
**Paul Godfrey**  
Director

*Signed*  
**Ron Osborne**  
Director

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

**POSTMEDIA NETWORK CANADA CORP.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011**  
(In thousands of Canadian dollars)

	2012				
	Capital stock	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total Equity
<b>Balance as at August 31, 2011</b> (note 25)	371,132	5,602	(46,618)	(14,836)	315,280
Net loss attributable to equity holders of the Company	-	-	(23,222)	-	(23,222)
Other comprehensive income (loss)	-	-	(69,517)	8,928	(60,589)
<b>Comprehensive income (loss) attributable to equity holders of the Company</b>	-	-	(92,739)	8,928	(83,811)
Share-based compensation plans (note 17)	-	2,286	-	-	2,286
<b>Balance as at August 31, 2012</b>	<b>371,132</b>	<b>7,888</b>	<b>(139,357)</b>	<b>(5,908)</b>	<b>233,755</b>

	2011				
	Capital stock	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total Equity
<b>Balance as at September 1, 2010</b> (note 25)	371,132	2,151	(50,144)	(13,263)	309,876
Net loss attributable to equity holders of the Company	-	-	(9,589)	-	(9,589)
Other comprehensive income (loss)	-	-	13,115	(1,573)	11,542
<b>Comprehensive income (loss) attributable to equity holders of the Company</b>	-	-	3,526	(1,573)	1,953
Share-based compensation plans (note 17)	-	3,451	-	-	3,451
<b>Balance as at August 31, 2011</b> (note 25)	<b>371,132</b>	<b>5,602</b>	<b>(46,618)</b>	<b>(14,836)</b>	<b>315,280</b>

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

# POSTMEDIA NETWORK CANADA CORP.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011

(In thousands of Canadian dollars)

	2012	2011
<b>CASH GENERATED (UTILIZED) BY:</b>		(note 4)
<b>OPERATING ACTIVITIES</b>		
Net loss attributable to equity holders of the Company	(23,222)	(9,589)
Items not affecting cash:		
Depreciation (note 9)	26,320	29,199
Amortization (note 10)	43,621	45,893
(Gain) loss on derivative financial instruments (note 6)	(22,414)	15,410
Non-cash interest	12,831	9,399
Non-cash loss on debt repayment (note 14)	9,178	9,635
Loss on disposal of property and equipment and intangible assets	258	175
Non-cash foreign currency exchange (gains) losses	5,721	(20,405)
Gain on sale of discontinued operations (note 4)	(17,109)	-
Share-based compensation plans expense (recovery) (note 17)	(2,459)	7,021
Net financing expense relating to employee benefit plans (note 15)	3,907	2,988
Employee benefit funding in excess of compensation expense (note 15)	(24,856)	(22,292)
Net change in non-cash operating accounts (note 23)	30,765	(28,815)
Cash flows from operating activities	42,541	38,619
<b>INVESTING ACTIVITIES</b>		
Net proceeds received on the sale of discontinued operations (note 4)	87,340	-
Proceeds from the sale of property and equipment	4	1,226
Additions to property and equipment (note 9)	(8,227)	(11,663)
Additions to intangible assets (note 10)	(6,732)	(8,736)
Cash flows from investing activities	72,385	(19,173)
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of long-term debt (note 14)	250,000	350,835
Repayment of long-term debt (note 14)	(108,310)	(47,472)
Repayment of long-term debt on refinancing (note 14)	(238,268)	(345,242)
Debt issuance costs (note 14)	(6,642)	(5,444)
Payment on capital lease	-	(1,841)
Cash flows from financing activities	(103,220)	(49,164)
Net change in cash	11,706	(29,718)
Cash at beginning of year	10,483	40,201
<b>Cash at end of year</b>	<b>22,189</b>	<b>10,483</b>
	<b>2012</b>	<b>2011</b>
<b>Supplemental disclosure of operating cash flows</b>		
Interest paid	60,080	71,972
Income taxes paid	-	-

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

**POSTMEDIA NETWORK CANADA CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011**

(In thousands of Canadian dollars, except as otherwise noted)

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**1. DESCRIPTION OF BUSINESS**

Postmedia Network Canada Corp. ("Postmedia" or the "Company") is a holding company that has a 100% interest in its subsidiary Postmedia Network Inc. ("Postmedia Network"). The Company was incorporated on April 26, 2010, pursuant to the Canada Business Corporations Act, to enable the purchase of the assets and certain liabilities of Canwest Limited Partnership ("Canwest LP") on July 13, 2010. The Company's head office and registered office is 1450 Don Mills Road, Don Mills, Ontario.

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

**2. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

**(a) Basis of presentation**

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants – Part I ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these consolidated financial statements of the Company have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP – Part V before the adoption of IFRS. These are the Company's first annual consolidated financial statements prepared under IFRS and IFRS 1 – First-time adoption of IFRS and include an explanation of the transition to IFRS from Canadian GAAP, including reconciliations of the Company's financial position and financial results as previously reported under Canadian GAAP, the effects of which are presented in note 25.

**(b) Basis of measurement**

These consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of derivative financial instruments to fair value and assets held for sale which are recorded at fair value less costs to sell.

### **(c) Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its subsidiary, Postmedia Network. All intercompany transactions and balances have been eliminated on consolidation.

### **(d) Critical accounting estimates**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosures of contingent assets and liabilities. Although these estimates are based upon management's best knowledge of the amount, event or actions, actual results could differ from those estimates. The following significant areas require management to use assumptions and to make estimates:

#### **Impairment of goodwill and indefinite life intangible assets**

The Company tests goodwill and indefinite life intangible assets for impairment annually, or more frequently if there are indicators that an impairment may have arisen. The recoverable amount of goodwill and indefinite life intangible assets are based on the higher of value in use and fair value less cost to sell calculations. The Company has computed the fair value less cost to sell of each cash-generating unit ("CGU" or "CGUs") using a discounted cash flow model that requires market participant assumptions about future cash flows and discount rates. The future cash flows are based on management's best estimate considering historical and expected operating plans, current strategies, economic conditions and the general outlook for the industry and markets in which the Company operates. The discounted cash flow calculations represent three year projections prepared by management. Cash flows after the three year projections are extrapolated using industry growth rates. Refer to note 11 for more details about the methods and assumptions used in estimating the recoverable amount.

#### **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 to measure obligations and the expected long-term rate of return on plan assets, among others. 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 and the expected return on plan assets compared to the actual return on plan assets are reviewed at each reporting date and corresponding adjustments are recognized in other comprehensive income and deficit. Additional information on the Company's employee benefit plans is contained in note 15.

### **(e) Disposals of non-current assets and discontinued operations**

Non-current assets are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continued use, they are available for sale in their present condition and such sale is considered highly probable. The criteria for classification as held for sale include a firm decision by management or the Board to dispose of a business or a group of assets and the expectation that such disposal will be completed within a twelve month period. Assets held for sale are carried at the lower of their carrying amount or fair value less costs to sell. Assets held for sale are classified as discontinued operations if the operations and cash flows can be clearly distinguished, both operationally and for financial reporting purposes, from the rest of the Company and they represent a separate major line of business or geographical area of operations, or are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired with the view to resell.

#### **(f) Foreign currency translation**

These consolidated financial statements are presented in Canadian dollars, the Company's functional and reporting currency. As at the date of the statement of financial position, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the foreign currency exchange rate in effect at that date. Revenues and expense items are translated at the foreign currency exchange rate in effect when the transaction occurred. The resulting foreign currency exchange gains and losses are recognized in the statement of operations in foreign currency exchange (gains) losses.

#### **(g) Cash**

Cash is comprised of cash on hand and current balances with banks.

#### **(h) Borrowing costs**

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are ready for their intended use or sale. Borrowing costs consist of interest and other financing costs which the Company incurs in connection with the borrowing of funds. All other borrowing costs are recognized in interest expense in the statement of operations in the period in which they are incurred.

#### **(i) Property and equipment**

Property and equipment are recorded at historical cost. Historical cost includes purchase cost, expenditures that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and borrowing costs if applicable.

Depreciation is provided for on a straight line basis over the following useful lives:

<b>Assets</b>	<b>Estimated useful life</b>
Buildings	10 - 40 years
Leaseholds	3 - 12 years
Computer hardware	3 - 5 years
Machinery and equipment	2 - 20 years

The depreciation method estimates of useful lives and residual values ascribed to property and equipment are reviewed at least at each financial year end and if necessary depreciation is adjusted for on a prospective basis.



## **(j) Intangible assets**

### **Finite life intangibles**

#### **(i) Software**

Costs of internally generated software comprise all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Internally generated software is primarily comprised of internal costs in connection with the development of software to be used internally or for providing services to customers. All costs incurred during the research phase are expensed as incurred. Development costs that are attributable to the design and testing are recognized as intangible assets if the asset can be separately identified, it is probable the asset will generate future economic benefits, the development cost can be measured reliably, the project is technically feasible and the project will be completed with a view to use the asset.

Software costs are amortized using the straight line method of amortization over their estimated useful lives, which range from 2 to 10 years. The depreciation method and estimates of useful lives ascribed to software are reviewed at least at each financial year end and if necessary amortization is adjusted on a prospective basis.

#### **(ii) Other identifiable intangible assets**

Upon acquisition, other identifiable intangible assets are recorded at cost and are carried at cost less accumulated amortization. Other identifiable intangible assets with finite lives are amortized using the straight-line method of amortization over their estimated useful lives, as follows:

<b>Other identifiable intangible assets with finite lives</b>	<b>Estimated useful life</b>
Subscribers	5 years
Customer relationships	4-5 years
Non-newspaper domain names	15 years

The depreciation method and estimates of useful lives ascribed to other identifiable intangible assets are reviewed at least at each financial year end and if necessary amortization is adjusted for on a prospective basis.

Costs associated with purchasing and developing content are expensed as incurred, except for content development on the Company's website which is capitalized when such costs meet the criteria for capitalization.

### **Indefinite life intangibles**

Intangible assets with indefinite lives are not amortized. These include newspaper mastheads and certain domain names related to the newspaper online websites. The assessment of indefinite life is reviewed each period to determine whether the indefinite life assumption continues to be supportable. If it is deemed unsupported the change in useful life from indefinite to finite life is made and amortization is recognized on a prospective basis.

## **(k) Business combinations and goodwill**

The Company uses the acquisition method of accounting to record business combinations. The acquisition method of accounting requires the Company to recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree measured at the acquisition-date fair values. The consideration transferred shall be measured at fair value calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, the liabilities assumed by the Company and any equity interests issued by the Company. Contingent consideration is recognized as part of the consideration transferred. Goodwill as of the acquisition date is measured as the excess of the consideration transferred and the amount of any non-controlling interest acquired over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, measured at fair value. Goodwill acquired through a business combination is allocated to the CGU (or group of CGUs) that are expected to benefit from the synergies of the business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Acquisition related costs are expensed in the period they are incurred except for those costs to issue equity securities which are offset against the related equity instruments and those costs to issue debt which are offset against the corresponding debt and amortized using the effective interest method. Acquisition related costs include advisory, legal, accounting, valuation and other professional or consulting fees; and costs of registering and issuing debt and securities.

## **(l) Impairments**

Impairments are recorded when the recoverable amount of an asset or CGU is less than its carrying amount. The recoverable amount is the higher of an asset's or CGU's fair value less cost to sell or its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses, other than those relating to goodwill, are evaluated for potential reversals when events or changes in circumstances warrant such consideration.

### **(i) Non-financial assets**

The carrying values of non-financial assets with finite lives, except inventories, deferred tax assets and employee benefits, are assessed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Additionally, intangible assets with indefinite lives, comprised of mastheads and newspaper domain names are included in their related CGU, and are tested annually for impairment or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (CGUs). Non-financial assets other than goodwill that have incurred an impairment in previous periods are reviewed for the possible reversal of the impairment at each reporting date.

### **(ii) Goodwill**

Goodwill is reviewed for impairment annually or more frequently if there are indications that impairment may have occurred. For the purpose of impairment testing, goodwill is allocated to each CGU (or group of CGU) based on the level at which management monitors goodwill, however not higher than an operating segment. Impairment is determined by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Impairment losses relating to goodwill cannot be reversed in future periods.

#### **(m) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable net of any discounts, if applicable. The Company bases any estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the sale of goods is recognized when the following criteria have been met:

- the significant risks and rewards of ownership are transferred to customers, and the Company retains neither managerial involvement nor effective control,
- the amount of revenue can be measured reliably, and
- the receipt of economic benefit is probable and the costs incurred can be measured reliably.

Revenue from the rendering of services is recognized when the following criteria have been met:

- the amount of revenue can be measured reliably,
- the receipt of economic benefit is probable, and
- the stage of completion of the transaction and the costs incurred can be measured reliably.

Print advertising revenue is recognized when advertisements are published. Print circulation revenue includes home-delivery subscriptions and single-copy sales at newsstands and vending machines. Print circulation revenue from subscriptions is recognized on a straight-line basis over the term of the subscriptions. Print circulation revenue from single-copy sales at newsstands and vending machines, net of a provision for estimated returns based on historical rates of returns, is recognized when the newspapers are delivered. Digital revenue is recognized when advertisements are placed on the Company's websites or, with respect to certain online advertising, each time a user clicks on certain ads. Digital revenue also includes subscription revenue for business research and corporate financial information services and is recognized on a straight-line basis over the term of the subscriptions or contracts. Other revenue is recognized when the related service or product has been delivered.

Amounts received relating to services to be performed in future periods and sale of goods that require future performance are recorded as deferred revenue on the statement of financial position.

#### **(n) Inventory**

Inventory, consisting primarily of printing materials, is valued at the lower of cost, using the first-in-first out cost formula, and net realizable value, where net realizable value is determined to be the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale. Inventories are written down to net realizable value if the cost of the inventories exceeds the net realizable value. Reversals of previous write-downs to net realizable value are required when there is a subsequent increase in the value of inventories.

## **(o) Share-based compensation plans**

The Company has a share option plan and a restricted share unit plan that will be settled through the issuance of shares of Postmedia or through cash at the option of the Company, a deferred share unit plan that will be settled with cash and an employee share purchase plan that will be settled through the issuance of shares of the Company.

### **(i) Share option plan**

The Company recognizes compensation expense for all share options granted based on the fair value of the option on the date of grant, net of estimated forfeitures, using the Black-Scholes option pricing model. The fair value of the options is recognized as compensation expense over the vesting period of the options with a corresponding credit to contributed surplus. The contributed surplus balance is reduced as options are exercised through a credit to capital stock when the options are exercised.

### **(ii) Restricted share unit plan**

The Company recognizes compensation expense for all restricted share units granted based on the fair value of the Company's shares on the issuance date of each restricted share unit grant net of estimated forfeitures. The fair value of the restricted share units is recognized as compensation expense, over the vesting period of each restricted share unit grant, with a corresponding credit to contributed surplus. Compensation expense is not adjusted for subsequent changes in the fair value of the Company's shares. The contributed surplus balance is reduced as units are exercised through a credit to capital stock.

### **(iii) Deferred share unit plan**

The Company recognizes compensation expense for its deferred share unit plan based on the fair value of the Company's shares. The deferred share units outstanding are re-measured at each reporting period until settlement, using the fair value of the shares of the Company. The fair value of the deferred share units is recognized as compensation expense, over the vesting period of each deferred share unit grant, in operating expenses with a corresponding credit to other non-current liabilities.

### **(iv) Employee share purchase plan**

The Company will recognize compensation expense based on the fair value of the Company's shares granted under the Employee Share Purchase Plan over the vesting period of each plan issuance with a corresponding credit to contributed surplus. The contributed surplus will be reduced when shares vest through a credit to capital stock.

The Company uses the graded vesting method to calculate compensation expense for all share-based compensation plans.

## **(p) Financial instruments**

Financial instruments are classified as fair value through profit or loss, loans and receivables or other financial liabilities.

### **(i) Fair value through profit or loss**

Financial instruments are classified as fair value through profit or loss if acquired principally for the purpose of selling in the short-term, or if so designated by management and it eliminates or significantly reduces a measurement or recognition inconsistency, or is managed and its performance is evaluated on a fair value basis. Assets in this category principally include embedded derivatives and derivative financial instruments which do not qualify for hedge accounting. Financial instruments classified as fair value through profit or loss are carried at fair value with changes recognized in the statement of operations.

### **(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category include accounts receivable and cash. Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method, less a provision for impairment. Loans and receivables are included in current assets, except for those with maturities greater than twelve months after the end of the reporting period, which are classified as non-current assets.

### **(iii) Other financial liabilities**

Other financial liabilities include accounts payable and accrued liabilities and long-term debt. Other financial liabilities are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. Other financial liabilities are classified as current liabilities if payment is due within twelve months; otherwise, they are classified as non-current liabilities. Financing fees related to revolving debt arrangements are initially recognized as an other asset and amortized over the term of the arrangement in interest expense.

The effective interest rate is the rate that exactly discounts the estimated future cash flows through the expected life of the financial instrument to its net carrying amount.

## **(q) Derivative financial instruments and hedging**

The Company uses derivative financial instruments to manage its exposure to fluctuations in foreign currency rates and interest rates. Derivative financial instruments are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument and the nature of the item being hedged. The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its strategy for using hedges and its risk management objectives. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Non-performance risk, including the Company's own credit risk, is considered when determining the fair value of derivative financial instruments. The Company does not hold or use any derivatives instruments for trading purposes.

The Company enters into the following types of derivative financial instruments:

### **Cash flow hedges**

The Company uses cash flow hedges to hedge (i) the foreign currency rate exposure on interest and principal payments on foreign currency denominated debt and (ii) foreign currency and interest rate exposure on variable interest rates and principal payments on foreign currency denominated debt. The effective portion of a cash flow hedge is reported in other comprehensive income until it is recognized in the statement of operations during the same period in which the hedged item affects income, while the ineffective portion is immediately recognized in the statement of operations. When a hedged item ceases to exist or cash flow hedge accounting is terminated, the amounts previously recognized in accumulated other comprehensive income are reclassified to the statement of operations when the variability in the cash flows of the hedged item affects income. Cash flows associated with derivative contracts accounted for as hedges are classified in the same category in the statement of cash flows as the item being hedged.

### **Derivatives that do not qualify for hedge accounting**

The Company uses derivative financial instruments that hedge the fair value exposure on certain debt resulting from changes in the US and Canadian variable base rates and the foreign currency rate exposure on interest and principal payments on foreign currency denominated debt. These derivative financial instruments, as well as derivatives that are embedded in financial or non-financial contracts, are not designated as hedges for accounting purposes and are measured at fair value in the statement of financial position.

### **Embedded derivatives**

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If certain conditions are met, an embedded derivative is separated from the host contract and measured at fair value.

A change in the fair value of derivative financial instruments that do not qualify for hedge accounting and embedded derivatives are recorded in the statement of operations as gain or loss on derivative financial instruments.

## **(r) Provisions**

Provisions represent liabilities of the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the current best estimate required to settle the obligation and when necessary the use of estimation techniques are utilized. If the effect of the time value of money is material the provision is measured at the present value of the expected expenditures required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense in the statement of operations.

## **(s) Employee benefits**

### **(i) Pension and post-retirement obligations**

The Company maintains a number of defined contribution and defined benefit pension and defined benefit post-retirement plans. For defined benefit plans, the defined benefit obligation associated with pension and post-retirement benefits earned by employees is actuarially determined on an annual basis by independent actuaries using the projected unit credit method. The determination of benefit expense requires assumptions such as the expected return on plan assets, the discount rate to measure obligations, expected rate of future compensation increases, retirement ages of employees, expected health care cost trend rate and other factors as applicable. The asset or liability recognized in the statement of financial position is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Canadian corporate AA bonds that have terms to maturity which are similar to the terms of the related liability. The estimate of the expected long-term rate of return on plan assets is based on the Company's target investment mix and the bond and equity risk premiums, as applicable. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized in other comprehensive income and then immediately transferred to deficit. The vested portion of past service costs from plan amendments are recognized immediately in compensation expense in the statement of operations. The unvested portion is amortized on a straight-line basis over the vesting period. The current service cost and recognized element of any past service cost of employee benefits expense is recorded in compensation expense in the statement of operations. The expected return on plan assets and interest cost on the benefit obligations are presented in net financing expense relating to employee benefit plans in the statement of operations. Gains and losses on curtailments or settlements are recognized in the period in which the curtailment or settlement occurs in restructuring and other items in the statement of operations.

Certain of the Company's defined benefit pension plans are subject to minimum funding requirements. The liability in respect of minimum funding requirements is determined using the projected minimum funding requirements based on management's best estimates of the actuarially determined funded status of the plan, market discount rates and salary escalation estimates. The liability related to the minimum funding requirement and any subsequent re-measurement of that liability is recognized immediately in other comprehensive income and then immediately transferred to deficit without subsequent reclassification to the statement of operations.

For defined contribution plans, the Company pays contributions to the plan on a contractual basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as an expense in the period when they are earned by the employees.

### **(ii) Other long-term benefits**

The Company maintains a number of other long-term employee benefit plans that are to be settled more than twelve months after the service was provided that entitled the employee to the benefit. These plans are accounted for similarly to the defined benefit pension and post-retirement plans with the exception that actuarial gains and losses and past service costs are recognized immediately in the statement of operations.

### **(iii) Termination benefits**

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary termination in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to a termination and the Company has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary termination, the termination benefits are measured based on the number of employees expected to accept the offer. If the effect of the time value of money is material, benefits falling due more than twelve months after the end of the reporting period are discounted to present value.

#### **(t) Income taxes**

Current income taxes are recognized with respect to amounts expected to be paid or recovered for current and prior periods under the tax rates and laws that have been enacted or substantively enacted as at the date of the statement of financial position.

Deferred income taxes are accounted for using the liability method. Under this method, deferred income tax assets and liabilities are recognized for the estimated tax consequences attributable to differences between the carrying amounts in the consolidated financial statements and the tax bases of assets and liabilities. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable income or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates, as at the date of the statement of financial position, in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in income in the period that includes the substantive enactment date. A deferred tax asset is recognized initially when it is probable that future taxable income will be sufficient to use the related tax benefits and may be subsequently reduced, if necessary, to an amount that is probable of being realized.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Tax expense or recovery is recognized in other comprehensive income or otherwise directly in equity to the extent that it relates to items that are recognized in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are presented as non-current.

#### **(u) Leases**

Leasing agreements which transfer to the Company substantially all the benefits and risks of ownership of an asset are treated as finance leases, as if the asset had been purchased outright. The assets are included in property and equipment and the related liabilities are shown as obligations under finance leases. Assets held under finance leases are depreciated on a basis consistent with similar owned assets or the lease term if shorter. The interest element of the obligations under finance leases is included in the statement of operations within interest expense.

All other leases are operating leases and the rental costs are charged to the statement of operations on a straight-line basis over the lease term.

#### **(v) Earnings per share**

Basic earnings per share are calculated using the daily weighted average number of shares outstanding during the period.

Diluted earnings per share are calculated using the daily weighted average number of shares that would have been outstanding during the period had all potential common shares been issued at the beginning of the period, or when the underlying options were granted, if later. The treasury stock method is employed to determine the incremental number of shares that would have been outstanding had the Company used proceeds from the exercise of the options to acquire shares provided the shares are not anti-dilutive.



## ***Accounting standards issued but not yet effective***

The Company has not early adopted the following new standards and adoption impacts on the consolidated financial statements have not yet been determined:

### **IFRS 9 - Financial Instruments**

IFRS 9 was issued in November 2009 and contains requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carry forward existing requirements in IAS 39 - Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

This standard is required to be applied for annual periods beginning on or after January 1, 2015, with earlier adoption permitted.

### **IFRS 10 – Consolidated Financial Statements**

IFRS 10 replaces SIC-12 Consolidation – Special Purposes Entities and parts of IAS 27 – Consolidated and Separate Financial Statements and introduces a new definition of control that is intended to provide more consistent guidance in the determination of whether control exists and whether or not an entity should be included within the consolidated financial statements.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.

### **IFRS 13 - Fair Value Measurement**

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.

### **IAS 19 – Employee Benefits (Amended)**

IAS 19 amendments include, among other changes, the immediate recognition of the actuarial gains and losses in other comprehensive income, the introduction of a net interest approach that replaces the expected return on plan assets and interest costs on the defined benefit obligation with a single net interest component and all past service costs are to be recognized in profit or loss when the employee benefit plan is amended.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.

### 3. BUSINESS ACQUISITIONS

In connection with the July 13, 2010 acquisition of Canwest LP, \$9.0 million in cash was retained and held in trust by the court appointed monitor (the "Monitor") to pay certain administrative fees and costs relating to the Canwest LP Companies Creditors Arrangement Act filing (the "CCAA filing"). Any excess cash not used by the Monitor at the completion of the CCAA filing will be returned to the Company. As at August 31, 2012, the Company has a contingent returnable consideration receivable of \$1.2 million in accounts receivable on the consolidated statement of financial position (August 31, 2011 - \$3.0 million, September 1, 2010 - \$4.7 million).

The Company incurred additional acquisition costs of \$1.2 million during the year ended August 31, 2011, which were charged to acquisition costs in the consolidated statement of operations.

#### 4. DIVESTITURES AND DISCONTINUED OPERATIONS

On October 18, 2011, the Company entered into an asset purchase agreement with affiliates of Glacier Media Inc. (the "Transaction") to sell substantially all of the assets and liabilities of the Lower Mainland Publishing Group, the Victoria Times Colonist and the Vancouver Island Newspaper Group, collectively herein referred to as the Disposed Properties. The Disposed Properties are all within the Newspaper segment. On November 30, 2011, the Company completed the Transaction.

Details of the Transaction and the gain on sale of discontinued operations are as follows:

<b>Consideration <sup>(1)</sup></b>	
Purchase price	86,500
Working capital adjustment and other items	1,450
Transaction costs	(610)
<b>Net proceeds</b>	<b>87,340</b>
<b>Carrying value of net assets disposed</b>	
<b>Current Assets</b>	
Accounts receivable	17,023
Inventory	568
Prepaid expenses and other assets	428
<b>Non-Current Assets</b>	
Property and equipment (note 9)	27,333
Other assets	804
Intangible assets (note 10)	25,231
Goodwill	12,593
<b>Total assets</b>	<b>83,980</b>
<b>Current Liabilities</b>	
Accounts payable and accrued liabilities	9,485
Deferred revenue	2,202
<b>Non-Current Liabilities</b>	
Other non-current liabilities (note 15)	2,062
<b>Total liabilities</b>	<b>13,749</b>
<b>Carrying value of net assets disposed</b>	<b>70,231</b>
<b>Gain on sale of discontinued operations, net of tax of nil</b>	<b>17,109</b>

<sup>(1)</sup> In accordance with the terms and conditions of the Senior Secured Term Loan Credit Facility ("Term Loan Facility"), the Company was required to repay amounts outstanding with the net proceeds of the Transaction (note 14).

As a result of the Transaction, the Company has presented the results of the Disposed Properties as discontinued operations and as such, the consolidated statement of operations and consolidated statement of comprehensive loss for the year ended August 31, 2011 have been revised to reflect this change in presentation. The consolidated statements of financial position as at August 31, 2011 and September 1, 2010 and the consolidated statement of cash flows for the year ended August 31, 2011 have not been revised.

Net earnings from discontinued operations for the years ended August 31, 2012 and 2011 are summarized as follows:

	2012 <sup>(1)</sup>	2011
<b>Revenues</b>		
Print advertising	27,090	100,531
Print circulation	3,495	14,688
Digital	956	3,232
Other	535	1,786
<b>Total revenues</b>	<b>32,076</b>	<b>120,237</b>
<b>Expenses</b>		
Compensation	12,756	50,026
Newsprint	1,218	4,702
Distribution	5,117	20,218
Other operating	7,611	28,415
<b>Operating income before depreciation, amortization and restructuring (note 5)</b>	<b>5,374</b>	<b>16,876</b>
Depreciation (note 9)	163	2,184
Amortization (note 10)	55	684
Restructuring and other items (note 13)	57	3,397
<b>Operating income</b>	<b>5,099</b>	<b>10,611</b>
Interest expense <sup>(2)</sup>	8,148	8,031
Net financing expense related to employee benefit plans (note 15)	7	17
Gain on disposal of property and equipment (note 9)	-	(1)
Foreign currency exchange gains	-	(1)
Gain on sale of discontinued operations	(17,109)	-
<b>Earnings before income taxes</b>	<b>14,053</b>	<b>2,565</b>
Provision for income taxes (note 18)	-	-
<b>Net earnings from discontinued operations</b>	<b>14,053</b>	<b>2,565</b>

<sup>(1)</sup> The Transaction was completed on November 30, 2011, as a result net earnings from discontinued operations for the year ended August 31, 2012 relate only to the three months ended November 30, 2011.

<sup>(2)</sup> The Company has allocated interest expense to discontinued operations representing the portion of interest expense related to the Term Loan Facility that was repaid as a result of the Transaction. During the year ended August 31, 2012, the Company allocated interest expense of \$1.8 million to discontinued operations (2011 - \$8.0 million). In addition, during the year ended August 31, 2012, the repayment of the Term Loan Facility with the proceeds of the Transaction resulted in additional interest expense representing an acceleration of unamortized financing fees and discounts of which \$6.4 million has been allocated to discontinued operations (2011 - nil) (note 14).

Cash flows from discontinued operations for the years ended August 31, 2012 and 2011 are summarized as follows:

	2012	2011
Cash flows from operating activities	2,275	987
Cash flows from investing activities <sup>(1)</sup>	(2,275)	(987)
Cash flows from financing activities	-	-
Cash flows from discontinued operations	-	-

<sup>(1)</sup> The cash flows from discontinued operations are transferred to the Company through a centralized cash management system resulting in cash flows from discontinued operations for the years ended August 31, 2012 and 2011 of nil.

## 5. OPERATING INCOME BEFORE DEPRECIATION, AMORTIZATION AND RESTRUCTURING

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

## 6. (GAIN) LOSS ON DERIVATIVE FINANCIAL INSTRUMENTS

The Company's (gain) loss on derivative financial instruments for the years ended August 31, 2012 and 2011 is comprised of the following:

	2012	2011
(Gain) loss on fair value swap not designated as a hedge (note 14)	(13,396)	16,883
Realized loss on settlement of cash flow swaps designated as hedges <sup>(1)</sup>	2,133	-
Loss on settlement of cash flow swaps designated as hedges <sup>(1)</sup>	607	-
Realized loss on settlement of fair value swap not designated as a hedge <sup>(2)</sup>	8,843	-
Contractual cash interest settlement on fair value swap not designated as a hedge <sup>(3)</sup>	2,806	6,004
Gain on embedded derivatives (note 14)	(9,625)	(1,473)
(Gain) loss on derivative financial instruments	(8,632)	21,414

<sup>(1)</sup> On January 20, 2012 and August 16, 2012, foreign currency interest rate swaps designated as cash flow hedges with notional amounts of outstanding of US\$10.0 million and US\$40.8 million were settled for cash consideration of \$0.7 million and \$0.6 million, respectively, resulting in a loss of \$0.7 million and \$1.3 million, respectively. In addition, on August 16, 2012, the Company paid \$0.8 million related to the amendment of the foreign currency interest rate swap designated as a cash flow hedge (note 14).

<sup>(2)</sup> On August 16, 2012, the foreign currency interest rate swap not designated as a hedge with a notional amount of US\$139.5 million was settled for cash consideration of \$8.8 million (note 14).

<sup>(3)</sup> During the year ended August 31, 2012, the Company made quarterly contractual interest settlements on the foreign currency interest rate swap not designated as a hedge of \$2.8 million until it was settled on August 16, 2012 (2011 - \$4.2 million). In addition, during the year ended August 31, 2011, the Company paid \$1.8 million related to an amendment of the foreign currency interest rate swap not designated as a hedge. (note 14).

During the year ended August 31, 2012, no ineffectiveness was recognized in the consolidated statement of operations related to the Company's cash flow hedges (2011 – nil).

## 7. DERIVATIVE FINANCIAL INSTRUMENTS

	As at August 31, 2012	As at August 31, 2011	As at September 1, 2010
<b>Assets</b>			
Embedded derivatives (notes 14 and 20)	24,108	13,817	12,344
Foreign currency interest rate swap - not designated as a hedge (notes 14 and 20)	-	-	3,487
	24,108	13,817	15,831
Less portion receivable within one year	-	-	-
Non-current derivative financial instruments	24,108	13,817	15,831
<b>Liabilities</b>			
Foreign currency interest rate swaps - designated as cash flow hedges <sup>(1)</sup> (notes 14 and 20)	18,438	30,004	4,243
Foreign currency interest rate swap - not designated as a hedge (notes 14 and 20)	-	13,396	-
	18,438	43,400	4,243
Less portion due within one year	(6,069)	(12,307)	(3,685)
Non-current derivative financial instruments	12,369	31,093	558

<sup>(1)</sup> The notional principal amounts outstanding on the foreign currency interest rate swaps designated as cash flow hedges as at August 31, 2012 were US\$265.0 million (August 31, 2011 - US\$323.1 million, September 1, 2010 - US\$275.0 million). During the year ended August 31, 2012, foreign currency exchange gains of \$3.2 million (2011 - foreign currency exchange losses of \$24.2 million) were reclassified to the consolidated statement of operations from accumulated other comprehensive loss, representing foreign currency exchange gains on the notional amount of the cash flow hedging derivatives. These amounts were offset by foreign currency exchange losses recognized on the US dollar denominated 12.50% Senior Secured Notes due 2018 ("Second-Lien Notes") and the hedged portion of the Term Loan Facility. During the year ended August 31, 2012, a loss of \$8.1 million (2011 - \$8.0 million) was reclassified from accumulated other comprehensive loss to interest expense in the consolidated statement of operations related to the effect of the derivative financial instruments on the Company's interest expense. Based on the notional amount outstanding as at August 31, 2012 of US\$265.0 million, the unrealized loss on valuation of derivative financial instruments that will be reclassified from accumulated other comprehensive loss to interest expense in the consolidated statement of operations, over the next twelve months is \$7.1 million. Subsequent to August 31, 2012, the Company settled a notional amount outstanding of US\$97.5 million of the foreign currency interest rate swap which was designated as a cash flow hedge (note 27).

## 8. INVENTORY

	As at August 31, 2012	As at August 31, 2011	As at September 1, 2010
Newsprint	2,762	4,321	5,038
Other	1,067	1,513	1,149
Total inventory	3,829	5,834	6,187

No inventories were carried at net realizable value at August 31, 2012, August 31, 2011, or September 1, 2010.

## 9. PROPERTY AND EQUIPMENT

	Land	Buildings and leaseholds	Computer hardware	Machinery and equipment	Total
<b>Cost</b>					
September 1, 2010	65,760	148,696	8,711	136,595	359,762
Additions	-	1,911	4,156	5,596	11,663
Disposals	(220)	(76)	(56)	(1,197)	(1,549)
Other adjustments	-	3	131	1	135
August 31, 2011	65,540	150,534	12,942	140,995	370,011
Additions	-	2,046	4,140	2,041	8,227
Disposals	-	(30)	(125)	(136)	(291)
Disposals - discontinued operations (note 4)	(7,251)	(17,359)	(173)	(5,161)	(29,944)
Transfer - asset held for sale	(5,300)	(18,639)	-	-	(23,939)
Other adjustments	-	-	(147)	-	(147)
August 31, 2012	52,989	116,552	16,637	137,739	323,917
<b>Accumulated depreciation</b>					
September 1, 2010	-	(1,348)	(1,120)	(2,100)	(4,568)
Depreciation	-	(9,048)	(4,827)	(15,324)	(29,199)
Disposals	-	47	55	57	159
Other adjustments	-	-	(135)	-	(135)
August 31, 2011	-	(10,349)	(6,027)	(17,367)	(33,743)
Depreciation	-	(8,390)	(3,373)	(14,557)	(26,320)
Disposals	-	6	116	75	197
Disposals - discontinued operations (note 4)	-	1,052	113	1,446	2,611
Transfer - asset held for sale	-	800	-	-	800
Other adjustments	-	-	29	-	29
August 31, 2012	-	(16,881)	(9,142)	(30,403)	(56,426)
<b>Net carrying value</b>					
September 1, 2010	65,760	147,348	7,591	134,495	355,194
August 31, 2011	65,540	140,185	6,915	123,628	336,268
August 31, 2012	52,989	99,671	7,495	107,336	267,491

On June 26, 2012, the Company entered into an agreement of purchase and sale to sell the land and building located at 1450 Don Mills Road in Don Mills, Ontario for gross proceeds of \$24 million. The sale closed on October 12, 2012. As at August 31, 2012, the land and building had a net carrying value of \$23.1 million which has been reclassified from property and equipment to asset held-for-sale on the consolidated statement of financial position. The net proceeds from the sale will be used for a mandatory redemption of \$23.2 million aggregate principal amount of 8.25% Senior Secured Notes due 2017 ("First-Lien Notes") at par in accordance with the terms and conditions of the First-Lien Notes indenture. The purchase and sale agreement includes a lease-back of the property to the Company for a period of 18 to 24 months while new accommodations are readied for relocation.

## 10. INTANGIBLE ASSETS

	Finite Life				Indefinite Life		Total
	Software	Subscribers	Customer relationships	Domain names	Mastheads	Domain names	
<b>Cost</b>							
September 1, 2010	37,575	148,300	12,200	7,105	248,550	29,975	483,705
Additions							
Internally developed	718	-	-	-	-	-	718
Purchased	7,992	-	-	26	-	-	8,018
Disposals	(73)	-	-	-	-	-	(73)
Other adjustments	(135)	-	-	-	-	-	(135)
August 31, 2011	46,077	148,300	12,200	7,131	248,550	29,975	492,233
Additions							
Internally developed	702	-	-	-	-	-	702
Purchased	5,570	-	-	460	-	-	6,030
Disposals	(2,581)	-	-	-	-	-	(2,581)
Disposals - discontinued operations (note 4)	(1,297)	(2,600)	(366)	-	(19,450)	(2,528)	(26,241)
Other Adjustments	147	-	-	-	-	-	147
August 31, 2012	48,618	145,700	11,834	7,591	229,100	27,447	470,290
<b>Accumulated amortization</b>							
September 1, 2010	(2,065)	(4,099)	(276)	(65)	-	-	(6,505)
Amortization	(13,162)	(29,624)	(2,632)	(475)	-	-	(45,893)
Disposals	62	-	-	-	-	-	62
Other adjustments	135	-	-	-	-	-	135
August 31, 2011	(15,030)	(33,723)	(2,908)	(540)	-	-	(52,201)
Amortization	(11,330)	(29,227)	(2,566)	(498)	-	-	(43,621)
Disposals	2,413	-	-	-	-	-	2,413
Disposals - discontinued operations (note 4)	264	634	112	-	-	-	1,010
Other Adjustments	(29)	-	-	-	-	-	(29)
August 31, 2012	(23,712)	(62,316)	(5,362)	(1,038)	-	-	(92,428)
<b>Net carrying value</b>							
September 1, 2010	35,510	144,201	11,924	7,040	248,550	29,975	477,200
August 31, 2011	31,047	114,577	9,292	6,591	248,550	29,975	440,032
August 31, 2012	24,906	83,384	6,472	6,553	229,100	27,447	377,862

Amortization expense for the next five years related to the definite life intangibles is expected to be approximately: 2013 - \$42.1 million, 2014 - \$36.9 million, 2015 - \$30.0 million, 2016 - \$2.8 million, 2017 - \$2.1 million.

## 11. IMPAIRMENT TESTING OF GOODWILL AND INDEFINITE LIFE INTANGIBLE ASSETS

The Company's annual impairment testing for goodwill and indefinite life intangible assets is performed on June 30<sup>th</sup> of each year based on management's best estimates of market participant assumptions including weighted average cost of capital ("WACC"). An impairment is recorded when the recoverable amount of a CGU is less than its carrying amount. For the purpose of goodwill impairment testing, goodwill is allocated to each CGU or group of CGUs (herein referred to as Goodwill CGUs), based on the level at which management internally monitors goodwill, which is the operating segment level. Individual CGU's are primarily individual newspapers.



## **Goodwill impairment analysis**

The annual goodwill impairment testing during the year ended August 31, 2012, was determined by assessing the recoverable amount of each Goodwill CGU. The recoverable amount is the higher of fair value less costs to sell and value in use. Where the recoverable amount of each Goodwill CGU is less than the carrying amount, an impairment loss is recognized. Fair value less costs to sell was determined by utilizing a discounted cash flow approach using cash flow projections which are based upon financial forecasts prepared by management covering a three year period. The future cash flows are based on management's best estimate using market participant assumptions considering historical and expected operating plans, current strategies, economic conditions, and the general outlook for the industry and markets in which the Goodwill CGUs operate. Cash flows beyond the three year period are extrapolated using the estimated growth rates stated below. The Company has concluded that there were no impairments as a result of the testing for the years ended August 31, 2012, August 31, 2011 and as at September 1, 2010. As at August 31, 2012, the reasonable range of recoverable amounts for the Newspaper Goodwill CGU, based on the high end of the range, was greater than its carrying value by an excess of \$100.0 million (or 11.0%). For the Newspaper Goodwill CGU, if the terminal growth rate were to decline by approximately 2.0% or if the discount rate were to increase by approximately 1.0%, assuming a constant cash flow margin, the carrying amount would exceed the reasonable range for the recoverable amount. For the Digital Media Goodwill CGU no reasonably possible change in assumption would cause the recoverable amount to fall below the carrying value. The Company considered the reasonability of the fair value less cost to sell models, calculated using the discounted cash flow approach, by comparing them to trading value and transaction multiples with other companies in the industry and found the results under the discounted cash flow to be reasonable. Management has developed certain cost saving initiatives which have been incorporated in the financial forecasts noted above. If these initiatives are not successful the forecasted operating cash flows may be reduced which may result in an impairment and such impairment, if any, may be material.

## **Indefinite life intangible asset impairment analysis**

The indefinite life intangible assets, including mastheads and newspaper domain names, do not generate independent cash inflows, accordingly such assets are tested at the CGU level. Fair value less costs to sell was determined by utilizing a discounted cash flow approach using cash flow projections which are based upon financial forecasts prepared by management covering a three year period. The future cash flows are based on management's best estimate using market participant assumptions considering historical and expected operating plans, current strategies, economic conditions, and the general outlook for the industry and markets in which the CGUs operate. Cash flows beyond the three year period are extrapolated using the estimated growth rates stated below. The Company has concluded that there were no impairments as a result of the testing for the years ended August 31, 2012, August 31, 2011 and as at September 1, 2010. As at August 31, 2012, the reasonable range of recoverable amounts for all CGU's were significantly in excess of their carrying values except for two individual CGUs. For one CGU the recoverable amount, at the high end of the range, was equal to its carrying value and a change in either the discount rate or terminal growth rate, assuming a constant cash flow margin, would cause the CGU to be impaired. For the other CGU the recoverable amount, at the high end of the range, was in excess of its carrying value by \$1.9 million (or 4.3%) and if the terminal growth rate were to decline by approximately 0.5% or if the discount rate were to increase by approximately 0.5%, assuming a constant cash flow margin, the carrying amount of this CGU would exceed the reasonable range for the recoverable amount. For all other CGUs, no reasonably possible change in assumption would cause the recoverable amount to fall below the carrying value. The Company considered the reasonability of the fair value less cost to sell models, calculated using the discounted cash flow approach, by comparing them to trading value and transaction multiples with other companies in the industry and found the results under the discounted cash flow to be reasonable. Management has developed certain cost saving initiatives which have been incorporated in the financial forecasts noted above. If these initiatives are not successful the forecasted operating cash flows may be reduced resulting in an impairment in certain CGUs and such impairment may be material.

The allocation of goodwill and indefinite life intangible assets as at August 31, 2012, August 31, 2011 and September 1, 2010 by Goodwill CGU and the key assumptions used for the calculations of recoverable amounts for August 31, 2012, August 31, 2011 and September 1, 2010 are as follows:

	Newspaper	Digital Media	Total
<b>Indefinite life intangible assets</b>			
August 31, 2012	256,547	-	256,547
August 31, 2011	278,525	-	278,525
September 1, 2010	278,525	-	278,525
<b>Goodwill</b>			
August 31, 2012	201,500	22,000	223,500
August 31, 2011	214,093	22,000	236,093
September 1, 2010	214,093	22,000	236,093
<b>Key assumptions</b>			
Discount rate <sup>(1)</sup>			
August 31, 2012	13.2%	13.2%	
August 31, 2011	13.4%	13.4%	
September 1, 2010	14.5%	14.5%	
Terminal growth rate <sup>(2)</sup>			
August 31, 2012	0.0%	0.0%	
August 31, 2011	1.0%	1.0%	
September 1, 2010	1.0%	1.0%	

<sup>(1)</sup> The discount rate represents a WACC for comparable companies operating in the Company's industry, based on publicly available information. The WACC is a market participant estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Determination of the WACC requires separate analysis of the cost of equity and debt, and considers a market participant risk premium based on an assessment of risks related to the projected cash flows of the Company's CGUs.

<sup>(2)</sup> The terminal growth rate does not exceed the long-term terminal growth rate for the business in which the CGU or group of CGUs operates.

## 12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at August 31, 2012	As at August 31, 2011	As at September 1, 2010
Trade accounts payable	9,973	8,330	12,705
Accrued liabilities	49,065	63,228	72,474
Accrued interest on long-term debt	6,230	5,526	6,844
Accounts payable and accrued liabilities	65,268	77,084	92,023

### 13. PROVISIONS

	<b>Restructuring <sup>(a)</sup></b>	<b>Other provisions <sup>(b)</sup></b>	<b>Total</b>
Provisions as at September 1, 2010	16,799	5,656	22,455
Net charges	41,895	194	42,089
Payments	(49,486)	(2,051)	(51,537)
Provisions as at August 31, 2011	9,208	3,799	13,007
Less portion due within one year	(9,208)	(2,300)	(11,508)
Non-current provisions	-	1,499	1,499
Provisions as at August 31, 2011	9,208	3,799	13,007
Net charges	39,520	1,211	40,731
Payments	(20,975)	(1,287)	(22,262)
Provisions as at August 31, 2012	27,753	3,723	31,476
Less portion due within one year	(27,753)	(2,135)	(29,888)
Non-current provisions	-	1,588	1,588

#### (a) Restructuring

During the three months ended May 31, 2012, the Company began implementing the initial phase of a three year business transformation project aimed at significantly reducing legacy newspaper infrastructure costs. The restructuring initiatives, consisting of a series of involuntary and voluntary terminations, are primarily in the Newspaper segment.

#### (b) Other provisions

Other provisions include unfavorable lease contracts, equipment removal and facility restoration costs, as well as provisions for certain claims and grievances which have been asserted against the Company.

## 14. LONG-TERM DEBT

				As at August 31, 2012	As at August 31, 2011	As at September 1, 2010
	Maturity	Principal (**)	Financing fees, discounts and other	Carrying value of debt	Carrying value of debt	Carrying value of debt
<b>8.25% Senior Secured Notes</b> <sup>(1)</sup>	August 2017	250,000	5,866	244,134	-	-
<b>12.5% Senior Secured Notes (US\$268.6M)</b> <sup>(2)</sup>	July 2018	264,794	9,026	255,768	259,136	282,699
<b>Senior Secured Term Loan Credit Facility</b> <sup>(3)</sup>						
Tranche C	July 2016	-	-	-	313,162	-
US Tranche	July 2016	-	-	-	-	261,732
Canadian Tranche	January 2015	-	-	-	-	101,600
<b>Senior Secured Asset-Based Revolving Credit Facility</b> <sup>(4)</sup>	July 2014	-	-	-	-	-
Total long-term debt				499,902	572,298	646,031
Less portion due within one year				(32,153)	(16,862)	(13,499)
Long-term debt				467,749	555,436	632,532

(\*\*) - US\$ principal translated at August 31, 2012 exchange rates, as applicable.

### **<sup>(1)</sup> 8.25% Senior Secured Notes due 2017 (“First-Lien Notes”)**

On August 16, 2012, Postmedia Network issued \$250.0 million in aggregate principal amount of First-Lien Notes. The effective interest rate that amortizes the initial First-Lien Notes carrying value of \$244.1 million, which includes a \$0.7 million embedded derivative offset by financing fees of \$6.6 million, based on the estimated future cash flows is 9.4%. The First-Lien Notes are secured on a first priority basis by substantially all of the assets of Postmedia Network and the assets of the Company (“First-Lien Notes Collateral”), with the exception of those assets comprising the ABL Collateral (defined below) and, on a second-priority basis by the ABL Collateral. The First-Lien Notes are subject to minimum annual principal redemptions equal to 5% of the original principal amount. The annual principal redemptions are payable in semi-annual instalments of \$6.25 million on April 30 and October 31 of each year, with the exception of the first instalment which will be \$8.9 million and will be paid on April 30, 2013. Interest will accrue from the date of issuance and is payable semi-annual in arrears on April 30 and October 31 of each year, with the exception of the first instalment which will be paid on April 30, 2013. The Company is also required to redeem an aggregate principal amount of First-Lien Notes equal to the net available cash from the sale of the land and building at 1450 Don Mills Road in Don Mills, Ontario of \$23.2 million (note 9). After February 28, 2013, if the consolidated First-Lien Notes leverage ratio exceeds 2:1, the Company is obligated to make a mandatory First-Lien Notes excess cash flow offer, calculated based on 50% of the Company’s excess cash flow, to redeem a portion of the First-Lien Notes.

Other than as described above, the Company is not required to make any other mandatory payments with respect to the First-Lien Notes. The Company may, at its option, redeem all or part of the First-Lien Notes at any time prior to August 16, 2015 at a make whole price, and at a premium of 6.188% for the twelve month period beginning on August 16, 2015, and a premium of 4.125% for the twelve month period beginning on August 16, 2016. Additionally, under certain circumstances the Company may redeem up to 35% of the aggregate principal amount of the First-Lien Notes at a premium equal to 8.25%. Certain of the prepayment options represent an embedded derivative that is to be accounted for separately at fair value. The initial carrying amount of the long-term debt represents the residual balance after bifurcating the embedded derivative. On August 16, 2012, the embedded derivative asset had a fair value of \$0.7 million. As at August 31, 2012 the embedded derivative asset has a fair value of \$0.8 million which is recorded on the consolidated statement of financial position in derivative financial instruments (note 7). The resulting gain on this embedded derivative of \$0.1 million has been recorded in (gain) loss on derivative instruments in the consolidated statement of operations for the twelve months ended August 31, 2012 (note 6).

Prior to August 16, 2015, the Company has the right to redeem up to 5% annually of the original principal amount of the First-Lien Notes at a premium of 3% (the "Special Call Right"), provided that the total cumulative redemption is no greater than 15% of the original principal amount of the First-Lien Notes.

The First-Lien Notes are also subject to covenants that restrict the 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 certain transactions with affiliates, alter the businesses it conducts, enter into agreements restricting its subsidiaries' ability to pay dividends and consolidate, merge or sell all or substantially all of its assets.

**<sup>(2)</sup> 12.50% Senior Secured Notes due 2018 ("Second-Lien Notes")**

As at August 31, 2012, Postmedia Network has US\$268.6 million (CDN\$264.8 million) of Second-Lien Notes outstanding (August 31, 2011 - US\$275.0 million (CDN\$269.3 million), September 1, 2010 US\$275.0 million (CDN\$293.3 million)). The effective interest rate of the Second-Lien Notes which amortizes the initial financing fees, discounts and other based on the estimated future cash flows is 13.3%. The Second-Lien Notes are secured on a second priority basis by the First-Lien Notes Collateral and on a third priority basis by the ABL Collateral (defined below). On January 20, 2012, the Company repurchased and retired US\$6.4 million of the Second-Lien Notes for total cash consideration of \$6.3 million (US\$6.2 million) and as such the Company has recorded a gain of \$0.1 million which is recorded in interest expense in the consolidated statement of operations during the year ended August 31, 2012 (2011 – nil).

The Second-Lien Notes have a variable prepayment option subject to a premium of 6.25% for the period July 15, 2014 to July 14, 2015, 3.125% for the period July 15, 2015 to July 14, 2016 and nil thereafter. Additionally, under certain conditions the Company can redeem up to 35% of the original principal amount of the Second-Lien Notes prior to July 15, 2014 for a premium of 12.5% or the Company can redeem the Second-Lien Notes upon the payment of a customary make-whole premium. Certain of the prepayment options represent an embedded derivative that is accounted for separately at fair value. As at August 31, 2012, the embedded derivative asset has a fair value of \$23.3 million (August 31, 2011 - \$13.8 million, September 1, 2010 - \$12.3 million), which is recorded on the consolidated statement of financial position in derivative financial instruments (note 7). During the year ended August 31, 2012 the Company recorded a gain of \$9.5 million (2011 - \$1.5 million) in (gain) loss on derivative financial instruments in the consolidated statement of operations related to this embedded derivative (note 6).

The Company has a foreign currency interest rate swap with a notional amount of US\$265.0 million outstanding at August 31, 2012 (August 31, 2011 and September 1, 2010 - US\$275.0 million). The foreign currency interest rate swap has a fixed currency exchange rate of US\$1:\$1.035, a fixed interest rate of 14.78% and terminates on July 15, 2014 and includes a final exchange of the principal amount on that date. The Company has designated this hedging arrangement as a cash flow hedge and its fair value as at August 31, 2012, a liability of \$18.4 million (August 31, 2011 - \$28.4 million, September 1, 2010 - \$4.2 million), is recorded in the consolidated statement of financial position in derivative financial instruments (note 7). This cash flow hedge was 100% effective at August 31, 2012. On January 20, 2012, in conjunction with the retirement of US\$6.2 million of the Second-Lien Notes, the Company settled a notional amount of US\$10.0 million of the foreign currency interest rate swap associated with the Second-Lien Notes for cash consideration of \$0.7 million. As a result of this settlement, during the year ended August 31, 2012 the Company reclassified a loss of \$0.7 million (2011 – nil) from accumulated other comprehensive income to gain (loss) on derivative financial instruments in the consolidated statement of operations (note 6). On August 16, 2012, the issuance of the First-Lien Notes and the repayment of the Term Loan Facility gave rise to a potential termination event under the foreign currency interest rate swap agreement (the "Swap Agreement"). As a result, the Company entered into negotiations to amend the terms of the existing Swap Agreement. During August 2012, the Company amended the Swap Agreement on a notional amount of US\$167.5 million for cash consideration of \$0.8 million and charged it to the consolidated statement of operations in (gain) loss on derivative financial instruments (2011 – nil) (note 6). Subsequent to August 31, 2012, the Company unwound the remaining notional amount of US\$97.5 million of this foreign currency interest rate swap for cash consideration of \$9.6 million (note 27).

The Second-Lien Notes are subject to covenants that restrict the 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 certain transactions with affiliates, alter the businesses it conducts, enter into agreements restricting its subsidiaries' ability to pay dividends and consolidate, merge or sell all or substantially all of its assets.

**<sup>(3)</sup> Senior Secured Term Loan Credit Facility (“Term Loan Facility”)**

On August 16, 2012, the Term Loan Facility was repaid in full in the amount of US\$240.0 million (CDN\$238.3 million), funded from the proceeds of the First-Lien Notes. As a result during the year ended August 31, 2012, the Company charged a total of \$9.2 million to the consolidated statement of operations as a loss on debt repayment which represents unamortized discounts and financing fees related to Tranche C of the Term Loan Facility.

On August 16, 2012, in conjunction with the repayment of the Term Loan Facility, the Company paid \$8.8 million to settle the amortizing foreign currency interest rate swap which hedged the principal payments on a notional amount of US\$139.5 million (August 31, 2011 - US\$180.0 million, September 1, 2010 - US\$225.0 million) on Tranche C, at a fixed currency exchange rate of US\$1:\$1.035 until July 2014 and converted the interest rate on the notional Canadian principal amount to bankers acceptance rates plus 7.07%. As a result of this settlement, during the year ended August 31, 2012, the Company recorded a loss of \$8.8 million (2011 – nil) which is recorded in gain (loss) on derivative financial instruments in the consolidated statement of operations (note 6). During the year ended August 31, 2011, the Company paid \$1.8 million related to an amendment of the foreign currency interest rate swap and charged it to the consolidated statement of operations in (gain) loss on derivative financial instruments (note 6). The Company had not designated this swap as a hedge and as a result changes in fair value were recognized in (gain) loss on derivative financial instruments in the consolidated statement of operations (note 6). As at August 31, 2011, a liability of \$13.4 million (September 1, 2010 – an asset of \$3.5 million), representing the fair value of this swap, was recorded on the consolidated statement of financial position in derivative financial instruments (note 7).

On August 16, 2012, in conjunction with the repayment of the Term Loan Facility, the Company paid \$0.6 million to settle the amortizing foreign currency interest rate swap which hedged the principal payments on a notional amount of US\$40.8 million (August 31, 2011 - US\$48.1 million, September 1, 2010 – nil) on Tranche C, at a fixed currency exchange rate of US\$1:\$0.9845 and a fixed interest rate of 8.66% until May 2015. As a result of this settlement, during the year ended August 31, 2012, the Company reclassified a loss of \$1.2 million (2011 – nil) from accumulated other comprehensive loss to gain (loss) on derivative financial instruments in the consolidated statement of operations (note 6). The Company had designated this hedging arrangement as a cash flow hedge. As at August 31, 2011, a liability of \$1.6 million (September 1, 2010 – nil), representing the fair value of this swap, was recorded on the consolidated statement of financial position in derivative financial instruments (note 7).

In accordance with the terms and conditions of the Term Loan Facility, on November 30, 2011 the proceeds from the sale of the Disposed Properties were used to make a principal payment of US\$84.6 million (CDN\$86.5 million) on Tranche C. The Company accounted for Tranche C at amortized cost using the effective interest rate method and as a result of this repayment the Company recalculated the carrying amount of Tranche C as at November 30, 2011 to reflect the actual and revised estimates of expected future cash flows. As a result of such recalculation during the year ended August 31, 2012, the Company charged a total of \$6.9 million to interest expense in the consolidated statement of operations representing an acceleration of unamortized financing fees and discounts of Tranche C. Of this amount, \$6.4 million was allocated to interest expense of discontinued operations as this portion related to the repayment due to the sale of the Disposed Properties (note 4).

As at August 31, 2011, the Term Loan Facility included Tranche C of US\$340.0 million (CDN\$333.0 million) (September 1, 2010 – nil), a US dollar term loan (the “US Tranche”) of nil (September 1, 2010 – US\$267.5 million (CDN\$285.3 million)), a Canadian dollar term loan (the “Canadian Tranche”) of nil (September 1, 2010 – \$110.0 million), and up to US\$50 million in incremental term loan facilities. As at August 31, 2011, the Company had not drawn on the incremental term loan facilities (September 1, 2010 – nil). The Term Loan Facility was secured on a first priority basis by substantially all the assets of Postmedia Network and the assets of the Company, with the exception of those assets comprising the ABL Collateral (defined below) and on a second-priority basis by the ABL Collateral. In addition to the minimum principal repayments described below, the Company was subject to a mandatory prepayment of the Term Loan Facility with respect to any net cash proceeds of asset sales or issuance of indebtedness and 75% of excess cash flow for each fiscal year subject to adjustments for prepayments and leverage ratios. Such mandatory payments permanently reduced the availability under the Term Loan Facility. Voluntary prepayments were permitted and reduced the quarterly minimum payments and excess cash flow payments for the fiscal year and permanently reduced the availability under the Term Loan Facility. The Company was subject to certain financial and non-financial covenants under the Term Loan Facility. The Term Loan Facility required compliance with financial covenants including a consolidated interest coverage ratio test, a consolidated total leverage ratio test and a consolidated first lien indebtedness leverage ratio test. Among other restrictions the Term Loan Facility restricted dividend payments to an aggregate amount not to exceed \$10.0 million over the life of the agreement, provided that the specified coverage ratios were satisfied and the Company was not in default subject to specified exceptions.

On April 4, 2011, the Company entered into an agreement with its lenders which amended certain terms of the Term Loan Facility. The amounts then outstanding under the original agreement, including the US Tranche of \$238.0 million (US\$247.0 million) and the Canadian Tranche of \$107.3 million were repaid and replaced with Tranche C. Tranche C was issued for US\$365.0 million (CDN\$351.7 million), at a discount of 0.25%, for net proceeds of \$350.8 million, before financing fees of \$5.4 million. At the time of the repayment the Company determined that the refinancing of the US Tranche was partially an extinguishment and partially a modification other than an extinguishment and the refinancing of the Canadian Tranche was an extinguishment. As a result during the year ended August 31, 2011, the Company charged a total of \$11.0 million to the consolidated statement of operations as a loss on debt repayment which included \$1.4 million of costs that occurred on settlement and \$9.6 million of unamortized discounts and financing fees. Tranche C bore interest at Libor, with a floor of 1.25%, plus 5%. The effective interest rate of Tranche C which amortized the initial financing fees and discounts based on the estimated future cash flows, including estimated optional repayments, was 8.4%. As at August 31, 2011 the Libor rate was less than 1.25%, resulting in the base rate being set at the floor of 1.25%. Tranche C was subject to quarterly minimum principal repayments equal to 0.625% of the initial outstanding principal for the first two installments, 1.25% for the next four installments, 2.5% for the next four installments and 3.75% for the next eleven installments, with any remaining principal due and payable at maturity.

#### **(4) Senior secured asset-based revolving credit facility**

The Company has a revolving senior secured asset-based revolving credit facility for an aggregate amount of up to \$60 million, including a \$10 million letter of credit sub-facility, (the “ABL Facility”). The ABL Facility is secured on a first-priority basis by accounts receivable, cash and inventory of Postmedia Network and any related assets of the Company (the “ABL Collateral”) and on a third priority basis by the First-Lien Notes Collateral. The ABL Facility currently bears interest at either bankers acceptance rates plus 3.75% or Canadian prime plus 2.75%. The proceeds of the loans under the ABL Facility are permitted to be used to finance the working capital needs and general corporate purposes of the Company. There are limitations on the Company’s ability to incur the full \$60 million of commitments under the ABL Facility. Availability is limited to the lesser of a borrowing base and \$60 million, less an excess availability amount of \$15 million. As a result, the maximum availability under the ABL Facility is no greater than \$45 million. As at August 31, 2012, the Company had no amounts drawn on the ABL Facility (August 31, 2011 and September 1, 2010 – nil) and had availability of \$23.3 million (August 31, 2011 - \$37.3 million). Included in other assets on the consolidated statement of financial position as at August 31, 2012 are financing fees of \$1.5 million (August 31, 2011 - \$2.3 million, September 1, 2010 - \$3.2 million) with respect to the ABL Facility. Amortization expense in respect of the financing fees of \$0.8 million for the year ended August 31, 2012 (2011 - \$0.8 million) is recorded in interest expense in the consolidated statement of operations.

Principal undiscounted minimum payments of long-term debt, based upon terms and conditions existing at August 31, 2012 are as follows:

2013	32,153
2014	12,500
2015	12,500
2016	12,500
2017	180,347
Thereafter	264,794
	514,794

Aggregate interest expense relating to long-term debt for the year ended August 31, 2012 was \$72.6 million (2011 - \$79.1 million), which includes interest expense allocated to discontinued operations of \$8.1 million (2011 - \$8.0 million) (note 4).

## 15. EMPLOYEE BENEFIT PLANS

The Company has a number of funded and unfunded defined benefit plans that include pension benefits, post-retirement benefits, and other long-term employee benefits as well as a defined contribution pension benefit plan. The defined benefit pension plans are registered under the Ontario Pension Benefits Act, 1987 and provide benefits upon retirement, termination or death based upon years of service and final average salary. The post-retirement benefit plans are non-contributory and include health and life insurance benefits available to eligible retired employees. The other long-term benefit plans are non-contributory and include disability, health and life insurance benefits available to eligible active employees. The Company pays contributions to the defined contribution pension benefit plan which provides benefits upon retirement to eligible employees.

The net benefit obligation related to the Company's pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans recorded in other non-current liabilities on the consolidated financial position as at August 31, 2012, August 31, 2011 and September 1, 2010 are as follows:

	As at August 31, 2012	As at August 31, 2011	As at September 1, 2010
Pension benefits	91,243	51,926	83,400
Post-retirement benefits	59,552	52,953	52,395
Other long-term employee benefits	17,207	16,580	18,083
Net defined benefit plan obligation	168,002	121,459	153,878



Changes to the Company's pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans benefit obligations and the fair value of plan assets for the year ended August 31, 2012 and 2011 are as follows:

	Pension benefits		Post-retirement benefits		Other long-term employee benefits	
	2012	2011	2012	2011	2012	2011
<b>Change in benefit obligations</b>						
Benefit obligations, beginning of year	388,225	390,430	55,124	52,395	16,580	18,083
Current service cost	10,325	12,848	1,752	1,812	2,311	2,046
Interest cost	20,561	21,007	3,041	2,903	705	744
Employee contributions	4,490	5,102	-	-	-	-
Actuarial losses (gains)	63,161	(19,630)	3,812	(676)	(582)	(1,955)
Benefits paid	(20,339)	(19,654)	(2,254)	(1,813)	(1,807)	(2,338)
Disposal of discontinued operations (note 4)	(15,100)	-	-	-	-	-
Past service costs	-	-	-	2,291	-	-
Curtailment gains <sup>(1)</sup>	(4,108)	(1,878)	-	(1,788)	-	-
Benefit obligations, end of year	447,215	388,225	61,475	55,124	17,207	16,580
<b>Change in fair value of plan assets</b>						
Fair value of plan assets, beginning of year	340,445	307,030	-	-	-	-
Expected return on plan assets <sup>(2)</sup>	20,400	21,666	-	-	-	-
Actuarial losses	(6,690)	(3,045)	-	-	-	-
Employer contributions	30,741	29,346	2,254	1,813	1,807	2,338
Employee contributions	4,490	5,102	-	-	-	-
Benefits paid	(20,339)	(19,654)	(2,254)	(1,813)	(1,807)	(2,338)
Disposal of discontinued operations (note 4)	(13,075)	-	-	-	-	-
Fair value of plan assets, end of year	355,972	340,445	-	-	-	-
<b>Net defined benefit plan obligations</b>						
Benefit obligations	447,215	388,225	61,475	55,124	17,207	16,580
Fair value of plan assets	355,972	340,445	-	-	-	-
Net plan deficits <sup>(3)</sup>	91,243	47,780	61,475	55,124	17,207	16,580
Minimum funding liability	-	4,146	-	-	-	-
Unvested past service costs	-	-	(1,923)	(2,171)	-	-
Net defined benefit plan obligations	91,243	51,926	59,552	52,953	17,207	16,580

<sup>(1)</sup> During the years ended August 31, 2012 and 2011, the termination of employees under the restructuring initiatives resulted in the elimination, for a significant number of employees, of the right to earn defined benefits and as a result curtailments occurred.

<sup>(2)</sup> The actual return on plan assets for the year ended August 31, 2012 was \$13.7 million (2011 - \$18.6 million).

<sup>(3)</sup> As at August 31, 2012 and 2011, none of the Company's pension benefit plans were fully funded.

The investment strategy for pension plan assets is to utilize a balanced mix of equity and fixed income portfolios to earn a long-term investment return that meets the Company's pension plan obligations. Active management strategies and style diversification strategies are utilized for the equity portfolios in anticipation of realizing investment returns in excess of market indices. The compensation and pension committee, comprised of certain members of the Company's Board, is appointed by the Board to oversee and monitor the management and overall governance of the pension and retirement plans sponsored and administered by the Company. The compensation and pension committee, among other things, oversees the investment strategy for the pension plan assets, including adopting the Company's investment policy and monitoring compliance with the policy, appoints the investment fund managers and reviews their performance. The utilization of investment fund managers who adopt different style mandates allows the Company to achieve a diversified portfolio and reduce portfolio risks.

The Company's investment policy addresses the permitted and prohibited investments for the plan assets including restrictions on the fixed income quality, and quantity of investments in various asset classes as follows:

- The fixed income quality restrictions include a minimum rating of "BBB" from the Dominion Bond Rating Services or equivalent for bonds and debentures; a minimum rating of "R-1" from the Dominion Bond Rating Services or equivalent for short-term investments; and a minimum rating of "P-1" or equivalent for preferred stock.
- The quantity of investments allowed in various asset classes ranges from 5% to 45% and contains restrictions such that no single equity holding shall exceed 10% of the book value of plan assets, no single equity holding shall exceed 15% of the market value of an investment managers equity portfolio, no single equity holding will exceed 30% of the voting shares of any such corporation, no more than 10% of any investment managers bond portfolio may be invested in bonds of any such company other than bonds of the federal government or bonds of any such provincial government with a minimum rating of AA and no more than 15% of the market value of any investment managers bond portfolio may be invested in bonds with a rating of BBB or equivalent.
- Investment managers are prohibited from making direct investments in resource properties, mortgages, venture capital financing, bonds of foreign issuers, investing in companies for the purposes of managing them, purchasing securities on margin or making short sales.
- The pension plans are not permitted to directly invest in debt or equity securities of the Company.

The pension benefit plans of the Company have an asset mix as at August 31, 2012 and 2011, as follows:

	As at August 31, 2012	As at August 31, 2011	Target	Fair value hierarchy
Canadian equities	30%	37%	30%	Level 2
Foreign equities	30%	19%	30%	Level 2
Fixed income	40%	42%	40%	Level 2
Cash	0%	2%	0%	Level 1

The net employee benefit plan expense related to the Company's pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans reported in net loss from continuing operations in the consolidated statements of operations for the years ended August 31, 2012 and 2011 are as follows:

	Pension benefits		Post-retirement benefits		Other long-term employee benefits		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Current service cost	10,101	11,924	1,752	1,812	2,311	2,046	14,164	15,782
Amortization of past service costs	-	-	248	120	-	-	248	120
Net actuarial gains	-	-	-	-	(582)	(1,955)	(582)	(1,955)
Interest cost	20,357	20,221	3,041	2,903	705	744	24,103	23,868
Expected return on plan assets	(20,203)	(20,897)	-	-	-	-	(20,203)	(20,897)
Curtailment gains	(4,108)	(1,878)	-	(1,788)	-	-	(4,108)	(3,666)
Net defined benefit plan expense <sup>(1)</sup>	6,147	9,370	5,041	3,047	2,434	835	13,622	13,252
Employer contributions to defined contribution plans	4,412	4,675	-	-	-	-	4,412	4,675
Total plan expense	10,559	14,045	5,041	3,047	2,434	835	18,034	17,927

<sup>(1)</sup> Current service cost, amortization of past service costs and net actuarial gains related to other long-term employee benefits are included in compensation expense, curtailment gains are included in restructuring and other items and interest cost and expected return on plan assets is included in net financing expense relating to employee benefit plans in the condensed consolidated statement of operations. In addition, during the year ended August 31, 2012, the Disposed Properties recorded net employee benefit plan costs in earnings from discontinued operations of \$0.2 million (2011 - \$0.9 million).

Actuarial gains (losses) related to the Company's pension benefit plans and post-retirement benefit plans recognized in the consolidated statement of comprehensive income (loss) for the years ended August 31, 2012 and 2011 are as follows:

	Pension benefits		Post-retirement benefits		Total	
	2012	2011	2012	2011	2012	2011
<b>Other comprehensive income (loss) from continuing operations</b>						
Net actuarial gains (losses) on employee benefits	(68,945)	16,029	(3,812)	676	(72,757)	16,705
Gain (loss) on minimum funding liability of employee benefits	4,146	(4,146)	-	-	4,146	(4,146)
<b>Other comprehensive income (loss) from discontinued operations</b>						
Net actuarial gains (losses) on employee benefits	(906)	556	-	-	(906)	556
Net actuarial gains (losses) recognized in other comprehensive income (loss)	(65,705)	12,439	(3,812)	676	(69,517)	13,115

The cumulative actuarial gains (losses) and minimum funding liability related to the Company's pension benefit plans and post-retirement benefit plans recognized in the consolidated statement of financial position as at August 31, 2012 and 2011 are as follows:

	2012
Cumulative actuarial gains and minimum funding liability recognized directly in deficit, August 31, 2011	7,802
Net actuarial losses recognized in other comprehensive loss and deficit	(73,663)
Gain on minimum funding liability recognized in other comprehensive loss and deficit	4,146
Cumulative actuarial losses recognized directly in deficit, August 31, 2012	(61,715)

Significant actuarial assumptions in measuring the Company's benefit obligations and employee benefit plan expense as at and for the years ended August 31, 2012 and 2011 are as follows:

	2012	2011	2012	2011	2012	2011
	Pension benefits		Post-retirement benefits		Other long-term employee benefits	
<b>Benefit obligations</b>						
Discount rate	4.35%	5.45%	4.30%	5.45%	3.35%	4.50%
Rate of compensation increase	2.75%	3.25%	2.75%	3.25%	2.75%	3.10%
<b>Benefit plan expense</b>						
Discount rate	5.45%	5.30%	5.45%	5.40%	4.50%	4.40%
Expected long-term rate of return on pension plan assets	6.00%	6.70%	-	-	-	-
Rate of compensation increase	3.25%	3.70%	3.25%	3.70%	3.10%	3.70%

The assumed health care cost trend rates for the next year used to measure the expected cost of benefits covered for the post-retirement benefit health and life plans were 8.5% for medical, to an ultimate rate of 4.6% over 17 years to 2029. A one percentage point increase in assumed health care cost trend rates would have increased the service and interest costs, and the benefit obligation by \$0.6 million and \$6.0 million, respectively. A one percentage point decrease in assumed health care cost trends would have lowered the service and interest costs, and the benefit obligation by \$0.4 million and \$4.9 million, respectively.

The most recent filed actuarial funding valuation for the most significant of the pension benefit plans, which makes up substantially the entire net defined benefit obligation, was as of December 31, 2010. The Company's most recent valuations for all of the pension benefit plans indicated that they had an aggregate going concern unfunded liability of \$32.4 million and a wind up deficiency (which assumes that the pension plans terminate on their actuarial valuation date) of \$76.6 million. As a result, the Company was required to make special payments for the year ended August 31, 2012 of \$18.1 million. The Company's required valuation as at December 31, 2011 for the most significant pension benefit plan has been completed but has not yet been filed due to a filing extension provided to all Ontario registered pension plans as a result of new solvency relief legislation introduced by the Ontario government. This filing extension has extended the filing deadline from September 30, 2012 to December 31, 2012. After taking into account the unfilled December 31, 2011 valuation and assuming no solvency relief, the Company expects to contribute \$19.7 million (including special payments of \$12.7 million) to its defined benefit pension plans, \$2.4 million to its post-retirement benefit plans and \$2.2 million to its other long-term employee benefit plans for the year ended August 31, 2013.

## 16. CAPITAL STOCK

The Company's shares trade on the Toronto Stock Exchange ("TSX") under the symbols PNC.A for its Class C voting shares ("Voting Shares") and PNC.B for its Class NC variable voting shares ("Variable Voting Shares").

### **Authorized capital stock**

The Company's authorized capital stock consists of two classes; Voting Shares and Variable Voting Shares. The Company is authorized to issue an unlimited number of Voting Shares and Variable Voting Shares.

#### Voting Shares

Holders of the Voting Shares shall be entitled to one vote at all meetings of shareholders of the Company. The Voting Shares and Variable Voting Shares rank equally on a per share basis in respect of dividends and distributions of capital.

A Voting Share shall be converted into one Variable Voting Share automatically if a Voting Share becomes held or beneficially owned or controlled, by a person who is a citizen or subject of a country other than Canada. In addition to the automatic conversion feature, a holder of Voting Shares shall have the option at any time to convert some or all of such shares into Variable Voting Shares on a one-for-one basis and to convert those shares back to Voting Shares on a one-for-one basis.

#### Variable Voting Shares

The Variable Voting Shares have identical terms as the Voting Shares and rank equally with respect to voting, dividends and distribution of capital, except that Variable Voting Shares shall not carry one vote per Variable Voting Share if:

- (a) the number of issued and outstanding Variable Voting Shares exceeds 49.9% of the total number of all issued and outstanding shares; or
- (b) the total number of votes that may be cast by, or on behalf of, holders of Variable Voting Shares present at any meeting of holders of Shares exceeds 49.9% of the total number of votes that may be cast by all holders of Shares present and entitled to vote at such meeting.

If either of the above-noted thresholds is surpassed at any time, the vote attached to each Variable Voting Share will decrease automatically to equal the maximum permitted vote per Variable Voting Share.

## Postmedia Rights Plan

Under the Postmedia Rights Plan, one right has been issued by Postmedia in respect of each Voting Share and Variable Voting Share. A right shall become exercisable upon a person, including any party related to it, acquiring or attempting to acquire beneficial ownership of 20% or more of the outstanding shares of a class without complying with the "Permitted Bid" provisions of the Postmedia Rights Plan. 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. Should such an acquisition occur or be announced, subject to all other provisions of the Postmedia Rights Plan, each right will entitle the holder to purchase from Postmedia additional shares at a 90% discount to the prevailing market price. This purchase could cause substantial dilution to the person or group of persons attempting to acquire control of Postmedia, other than by way of a Permitted Bid. The Board has discretion to waive the application of the Postmedia Rights Plan, and to amend the Postmedia Rights Plan at any time, or redeem the rights for \$0.000001 per right.

The rights expire on the earliest of the Annual Shareholder meeting in the year 2014 and the termination of the rights pursuant to the Postmedia Rights Plan, unless redeemed before such time. If the application of the Postmedia Rights Plan is waived by the Board or a take-over bid is structured as a Permitted Bid, the rights will not become exercisable. Permitted Bids under the Rights Plan must be made to all shareholders for all of their Voting Shares and Variable Voting Shares, must be open for acceptance for a minimum of 60 days, and must otherwise comply with the Permitted Bid provisions of the Postmedia Rights Plan.

### Issued and outstanding capital stock

	Voting Shares		Variable Voting Shares		Total Shares	
	Number	\$ 000's	Number	\$ 000's	Number	\$ 000's
<b>Balance as of September 1, 2010</b>	3,686,779	33,931	36,636,391	337,201	40,323,170	371,132
Conversions	(2,595,664)	(23,889)	2,595,664	23,889	-	-
<b>Balance as of August 31, 2011</b>	1,091,115	10,042	39,232,055	361,090	40,323,170	371,132
Conversions	211,615	1,960	(211,615)	(1,960)	-	-
<b>Balance as of August 31, 2012</b>	1,302,730	12,001	39,020,440	359,130	40,323,170	371,132

### Loss per share

Basic loss per share is calculated using the daily weighted average number of shares outstanding during the year.

Diluted loss per share is calculated using the daily weighted average number of shares that would have been outstanding during the year had all potential shares been issued at the beginning of the year, or when the underlying options were granted or issued, if later. The treasury stock method is employed to determine the incremental number of shares that would have been outstanding had the Company used proceeds from the exercise of the options to acquire shares provided the shares are not anti-dilutive.

The following table provides a reconciliation of the denominators, which are presented in whole numbers, used in computing basic and diluted loss per share. No reconciling items in the computation of net loss exist.

	2012	2011
Basic weighted average shares outstanding during the period	40,323,170	40,323,170
Dilutive effect of Options and RSUs	-	-
Diluted weighted average shares outstanding during the period	40,323,170	40,323,170
Options and RSUs outstanding which are anti-dilutive	1,056,000	800,000

## 17. SHARE-BASED COMPENSATION PLANS AND OTHER LONG-TERM INCENTIVE PLANS

### Share option plan

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

The maximum number of options available for issuance under the Option Plan is 3.0 million and shall not exceed 10% of the Company's issued and outstanding shares. The issued options entitle the holder to acquire one share of the Company at an exercise price no less than the fair value of a share at the date of grant, of which fair value is determined to be the volume-weighted average trading price of the Voting Shares on the TSX for the five trading days immediately preceding the issuance of such options. The issued options vest as follows: 20% immediately with the remainder vesting evenly over 4 years on the anniversary date of the date of grant. Each option may be exercised during a period not exceeding 10 years from the date of grant.

During the year ended August 31, 2012, the Company granted 0.6 million options under the Option Plan (2011 – nil). The fair value of the underlying options granted in the year ended August 31, 2012 was estimated using the Black-Scholes option pricing model. The fair value of the issued options and key assumptions used in applying the Black-Scholes option pricing model were as follows:

	2012
Fair value	\$ 2.92
Key assumptions	
Exercise Price	\$ 6.43
Risk-free interest rate <sup>(1)</sup>	1.33%
Dividend yield	-
Volatility factor <sup>(2)</sup>	54.0%
Expected life of options <sup>(3)</sup>	5 years
<sup>(1)</sup> Based on Bank of Canada five year benchmark bond yield in effect on the date of grant.	
<sup>(2)</sup> Based in part on the volatility of the Company's shares and the volatility of similar companies in the publishing media industries.	
<sup>(3)</sup> Based on contractual terms and a published academic study.	

The following table provides details on changes to the issued options, which are presented in whole numbers, for the years ended August 31, 2012 and 2011.

	2012		2011	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance beginning of year	1,280,000	\$ 9.85	-	-
Granted	600,000	\$ 6.43	1,400,000	\$ 9.85
Cancelled	(184,000)	\$ (9.40)	-	-
Forfeited	(216,000)	\$ (8.33)	(120,000)	\$ (9.85)
Balance end of year	1,480,000	\$ 8.74	1,280,000	\$ 9.85
Vested options at end of year - exercisable	696,000	\$ 9.38	560,000	\$ 9.85

During the year ended August 31, 2012, the Company recorded compensation expense relating to the Option Plan of \$1.2 million (2011 - \$1.3 million), with an offsetting credit to contributed surplus.

The total unrecognized compensation expense is \$0.9 million, which is expected to be recognized over the next four years.

### Restricted share unit plan

The Company has a restricted share unit plan (the "RSU Plan"). The RSU Plan provides for the grant of restricted share units ("RSUs") to participants, being current, part-time or full-time officers, employees or consultants of the Company. The maximum aggregate number of RSUs issuable pursuant to the RSU Plan outstanding at any time shall not exceed 0.6 million Voting Shares or Variable Voting Shares ("Shares") of the Company. The RSU Plan is administered by the Board.

Each RSU will be settled for one Share, without payment of additional consideration, after such RSU has vested; however, at any time, a participant may request in writing, upon exercising vested RSUs, subject to the consent of the Company, that the Company pay an amount in cash equal to the aggregate current fair market value of the Shares on the date of such exercise in consideration for the surrender by the participant to the Company of the rights to receive Shares under such RSUs. The Board may in its sole discretion accelerate the vesting date for all or any RSUs for any participant at any time and from time to time. RSUs are non-transferable. The terms and conditions of RSUs granted under the RSU Plan will be subject to adjustments in certain circumstances, at the discretion of the Board and contain certain conditions regarding the resignation, cessation and termination of participants.

The Company has granted a tandem award that provides a choice to either exercise 0.6 million stock options or 0.6 million RSU's. Of the tandem award, 0.1 million vested immediately on the date of the grant with the remaining 0.5 million vesting evenly over a four year period on the anniversary date of the date of grant. As at August 31, 2012, 0.4 million RSU's had vested (August 31, 2011 – 0.2 million). The fair value of the tandem award was estimated by using a grant date fair value per share of \$9.26. The fair value of \$9.26 per share was based on the per share proceeds received on the initial capitalization of the Company. The Company granted no RSU's during the years ended August 31, 2012 and 2011. During the year ended August 31, 2012, the Company recorded compensation expense relating to the tandem award of \$1.1 million (2011 - \$2.2 million), with an offsetting credit to contributed surplus.

As at August 31, 2012, the total number of unvested RSU's that are expected to vest is 0.2 million (August 31, 2011 – 0.4 million) and the total unrecognized compensation expense related to them is \$0.8 million (2011 - \$2.0 million), which is expected to be recognized over the next two years.

## **Deferred share unit plan**

The Company has a deferred share unit plan (the “DSU Plan”) for the benefit of its non-employee directors. The maximum number of deferred share units (“DSUs”) available for issuance under the DSU Plan shall not exceed 10% of the Company’s issued and outstanding shares. The DSU Plan is administered by the Board.

Under the DSU Plan, non-employee directors of the Company are required to elect to receive at least 50% (and may irrevocably elect to receive up to 100%) of their annual fees satisfied in the form of DSUs, and may receive additional grants of DSUs under the DSU Plan. The number of DSUs to be credited to a director will be calculated, on the date that fees are payable to such director, by dividing the dollar amount elected by such director in respect of such fees by the value of a share. The value of a share will be the volume-weighted average trading price of the Voting Shares for the five trading days immediately preceding the issuance of such DSU’s. As at August 31, 2012, the fair value per DSU was based on a fair value per share of \$0.81 (2011 – \$12.45). The vesting conditions (which may include time restrictions, performance conditions or a combination of both) of each DSU granted under the DSU Plan, will be determined by the Board, and on redemption (which would occur after the holder of the DSUs ceases to serve as a director and is not otherwise employed by the Company) will be paid out in cash. The DSUs are generally non-transferable. Whenever cash dividends are paid on the shares of the Company, additional DSUs will be credited to directors. The Board may discontinue the DSU Plan at any time or, subject to certain exceptions set out in the DSU Plan, may amend the DSU Plan at any time.

During the year ended August 31, 2012, the Company issued a nominal amount of DSUs to directors, which vested immediately upon issuance (2011 - 0.1 million). As at August 31, 2012, all issued and outstanding DSUs, which total 0.5 million, have vested (August 31, 2011 – 0.3 million). During the year ended August 31, 2012, the Company recorded a recovery of compensation expense relating to the DSU Plan of \$4.8 million (2011 - expense of \$3.5 million), with an offset to other non-current liabilities. The recovery of compensation expense is due to the decline in the share price of the Voting Shares of the Company which are used to compute the fair value per DSU. No payments were made related to the DSU plan during the years ended August 31, 2012 and 2011. Any changes in the fair value per DSU will be reflected in the future through adjustments to compensation expense until such a date as the DSUs are settled in cash.

The aggregate carrying value of the DSU Plan liability was \$0.3 million as at August 31, 2012 (August 31, 2011 - \$5.0 million, September 1, 2010 - \$1.5 million) and is recorded in other non-current liabilities on the consolidated statement of financial position.

## **Employee share purchase plan**

The Company has established an employee share purchase plan (“ESP Plan”) with the following plan provisions. The ESP Plan will enable employees of the Company to purchase shares of Postmedia, up to a maximum of \$8,000 per year (“Employee Contribution”). Postmedia will provide a match through which it will purchase additional shares for the employee equal to 25% of the Employee Contribution (the “Employer Match”). The shares purchased through the Employer Match will be subject to a minimum 12-month vesting period. During the year ended August 31, 2012 and 2011 there were no plan issuances under the ESP Plan as the ESP Plan has not yet commenced and accordingly the Company has not recorded any compensation expense.

During the year ended August 31, 2012, the Company has recorded a net recovery of compensation expense of \$2.5 million (2011 expense of - \$7.0 million) relating to its share-based compensation plans.



## 18. INCOME TAXES

### Provision for income taxes

The provision for income taxes differs from the amount that would have resulted from applying the statutory tax rate to loss before income taxes for the years ended August 31, 2012 and 2011 as follows:

	2012	2011
Net loss attributable to equity holders of the Company	(23,222)	(9,589)
Statutory income tax rate based on combined federal and provincial rates	26.3%	27.6%
Tax recovery based on statutory tax rates	(6,107)	(2,647)
<b>Effects of:</b>		
Non-taxable portion of net capital gains	(150)	(798)
Non-deductible expenses (non-taxable income)	(1,334)	872
Non-deductible expense (non-taxable income) on disposition of discontinued operations	(701)	
Tax rate changes on deferred income taxes	(147)	(341)
Adjustments in respect of prior years	10	(784)
Change in unrecognized deferred income tax assets	8,217	3,698
Other	212	-
Provision for income taxes	-	-

The applicable statutory tax rates are 26.3% in the year ended August 31, 2012 (2011 - 27.6%). The Company's applicable tax rate is the Canadian combined rates applicable in the jurisdictions in which the Company operates. The decrease in the applicable statutory rates is due to a 1.5% decrease in the federal income tax rate, partially offset by an increase in the weighted average provincial income tax rate.

No taxes have been recorded in other comprehensive income (loss) as the associated deferred tax assets have not been recognized.

### Deferred income tax

Certain of the Company's intangible assets have indefinite lives and accordingly, as at August 31, 2012 a deferred income tax liability of \$0.7 million is not expected to reverse until the assets are disposed of or become amortizable (August 31, 2011 and September 1, 2010 - \$0.7 million). In addition, deferred income tax assets of \$63.1 million as at August 31, 2012 have been recognized to offset other deferred income tax liabilities, primarily related to property and equipment, intangible assets and goodwill (August 31, 2011 - \$53.1 million).

The Company has not recognized deferred tax assets for the years ended August 31, 2012 and 2011 in respect of the following:

(\$ in millions)	2012	2011
Total tax loss carryforwards	223	129
Other deductible temporary differences	194	164
Total deductible temporary differences	417	293
Deferred income tax rate	25.8%	25.4%
Deferred income tax assets	108	74
Deferred income tax liabilities	(63)	(53)
Net deferred income tax assets not recognized	45	21

The total non-capital tax losses and net-capital losses are as follows:

Year	Tax losses (\$ in millions)
Expiring in 2030	35
Expiring in 2031	100
Expiring in 2032	87
Total non-capital losses	222
Total net-capital losses (no expiry date)	1
Total loss carryforwards	223

## 19. CAPITAL MANAGEMENT

The Company's capital management objective is to maximize shareholder returns by (a) prioritizing capital expenditures related to the development of digital media products with growth potential, and (b) utilizing the majority of remaining free cash flow for the repayment of debt. There were no changes in the Company's approach to capital management during the year ended August 31, 2012.

The Company's capital structure is composed of equity, long-term debt, net liabilities and assets related to derivative financial instruments, less cash. The capital structure as at August 31, 2012, August 31, 2011 and September 1, 2010 are as follows:

	As at August 31, 2012	As at August 31, 2011	As at September 1, 2010
Long-term debt (note 14)	499,902	572,298	646,031
Net liabilities (assets) related to derivative financial instruments (note 7)	(5,670)	29,583	(11,588)
Cash	(22,189)	(10,483)	(40,201)
Net liabilities	472,043	591,398	594,242
Equity	233,755	315,280	309,876
Total capital	705,798	906,678	904,118

The Company's capital structure decreased \$200.9 million in the year ended August 31, 2012, primarily as a result of long-term debt repayments, the settlement of and change in fair value of derivative financial instruments and the net actuarial losses on employee benefits recognized in other comprehensive income (loss) for the year ended August 31, 2012.

## 20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

As a result of the use of financial instruments, the Company is exposed to credit risk, liquidity risk and market risks relating to foreign exchange and interest rate fluctuations. Our enterprise risk management process is managed by a risk oversight committee comprised of senior executives of the Company. In order to manage foreign exchange and interest rate risks, the Company uses derivative financial instruments to set in Canadian dollars future payments on debts denominated in U.S. dollars (interest and principal). Provided there is no change to the hedged items, the Company does not intend to settle the derivative financial instruments prior to their maturity unless contractually obligated to do so (note 27). These instruments are not held or issued for speculative purposes.

### (a) Foreign currency interest rate swap

The following foreign currency interest rate swap is outstanding at August 31, 2012:

	Period covered	Notional amount	Pay leg - CDN	Receive leg - USD	CDN dollar exchange rate per one US dollar
<b>Derivatives - designated as cash flow hedge</b>					
Second-Lien Notes	2010 to 2014	USD \$265,000	14.78%	12.50%	1.035

### (b) Fair value of financial instruments

The carrying value and fair value of long-term debt and derivative financial instruments as at August 31, 2012 and 2011 are as follows:

	As at August 31, 2012		As at August 31, 2011	
	Carrying value	Fair value	Carrying value	Fair value
<b>Other financial liabilities</b>				
Long-term debt	499,902	521,964	572,298	602,541
<b>Derivative financial instruments</b>				
<b>Assets</b>				
Embedded derivatives	24,108 <sup>(1)</sup>	24,108	13,817 <sup>(1)</sup>	13,817
<b>Liabilities</b>				
Foreign currency interest rate swaps	18,438 <sup>(1)</sup>	18,438	43,400 <sup>(1)</sup>	43,400

<sup>(1)</sup> Net derivative financial instruments asset (Level 3) of \$5.7 million (2011 liability of - \$29.6 million) are reconciled in the table below.

The fair value of long-term debt is estimated based on quoted market prices when available or on valuation models. When the Company uses valuation models, the fair value is estimated using discounted cash flows using market yields or the market value of similar instruments with similar terms and credit risk.

The Company has considered the following fair value hierarchy that reflects the significance of the inputs used in measuring its financial instruments accounted for at fair value in the statement of financial position:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: inputs that are not based on observable market data (unobservable inputs).

The fair value of foreign currency interest rate swaps recognized on the statement of financial position is estimated as per the Company's valuation models. These models project future cash flows and discount the future amounts to a present value using the contractual terms of the derivative instrument and factors observable in external markets data, such as period-end swap rates and foreign exchange rates (Level 2 inputs). An adjustment is also included to reflect non-performance risk impacted by the financial and economic environment prevailing at the date of the valuation in the recognized measure of the fair value of the derivative instruments by applying a credit default premium estimated using a combination of observable and unobservable inputs in the market (Level 3 inputs) to the net exposure of the counterparty or the Company. Accordingly, financial derivative instruments are classified as level 3 under the fair value hierarchy.

The fair value of early prepayment options recognized as embedded derivatives is determined by option pricing models using Level 3 market inputs, including credit risk, volatility and discount factors.

The changes to the fair value of derivative financial instruments (Level 3) for the years ended August 31, 2012 and 2011 are as follows:

	2012	2011
Asset (liability) net position as at beginning of year (note 7)	(29,583)	11,588
Recognition of embedded derivative (note 14)	666	-
Gain (loss) on derivative financial instruments recognized in the statement of operations (note 6)	8,632	(21,414)
Gain (loss) on cash flow swaps recognized in statement of comprehensive income (loss)	8,928	(1,573)
Gain (loss) on cash flow swaps reclassified from accumulated other comprehensive loss to comprehensive income (loss) (note 7)	3,245	(24,188)
Cash settlements of derivative financial instruments	13,782	6,004
Asset (liability) net position as at end of year (note 7)	5,670	(29,583)

Based on the foreign currency interest rate swaps outstanding as at August 31, 2012, the estimated sensitivity on income and other comprehensive income for the year ended August 31, 2012, before income taxes, of a 100 basis-point change in the credit default premium used to calculate their fair value, holding all other variables constant, as per the Company's valuation models, is as follows:

	Income	Other comprehensive income
<b>Increase (decrease)</b>		
Increase of 100 basis points	-	256
Decrease of 100 basis points	-	(260)

### (c) Credit risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial asset fails to meet its contractual obligations.

The maximum credit exposure to credit risk at the reporting date is the carrying value of cash, accounts receivable and derivative financial instruments in an asset position. No collateral is held for any of the counterparties to the above financial assets.

## Accounts receivable

In the normal course of business, the Company continuously monitors the financial condition of its customers and reviews the credit history of each new customer. The Company's sales are widely distributed and the largest amount due from any single customer as at August 31, 2012 is \$3.8 million or 4.3% of receivables (August 31, 2011 – \$4.2 million or 4.1%). The Company establishes an allowance for doubtful accounts when collection is determined to be unlikely based on the specific credit risk of its customers and historical trends. The allowance for doubtful accounts amounted to \$3.2 million as at August 31, 2012 (August 31, 2011 - \$2.7 million). At August 31, 2012, \$40.9 million or 51% (2011 - \$57.0 million or 56%) of trade accounts receivable is considered past due as per the contractual credit terms and not yet impaired, which is defined as amounts outstanding beyond normal credit terms and conditions for respective customers. The amount past due relates to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables based on original invoice terms as at August 31, 2012 and 2011 is as follows:

	<b>As at August 31, 2012</b>	<b>As at August 31, 2011</b>
30 - 90 days	33,862	45,293
Greater than 90 days	7,073	11,718
	<b>40,935</b>	<b>57,011</b>

Changes to the allowance for doubtful accounts for the year ended August 31, 2012 and 2011 are as follows:

	<b>2012</b>	<b>2011</b>
Balance as at beginning of year	2,699	-
Provision for doubtful accounts	3,044	4,007
Disposal of discontinued operations (note 4)	(1,166)	-
Write-offs	(1,352)	(1,308)
Balance as at end of year	<b>3,225</b>	<b>2,699</b>

## Derivative financial instruments

As a result of the use of derivative financial instruments, the Company is exposed to the risk of non-performance by a third-party. The Company uses multiple counterparties when entering into derivative contracts to minimize its concentration exposure. The Company also uses counterparties that have an investment grade credit rating of no less than single "A".

### (d) Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages this exposure risk by using cash on hand, cash generated from operations, staggered maturities of long-term debt and derivative financial instruments, available borrowings under the ABL Facility, cash flow forecasts and by deferring or eliminating discretionary spending.

Material contractual obligations related to financial instruments include debt repayments, interest on long-term debt and obligations related to derivative instruments, less future receipts on derivative instruments. These contractual undiscounted obligations and their maturities as at August 31, 2012 are as follows:

	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>5 years or more</b>
Accounts payable	9,973	9,973	-	-	-
Accrued liabilities	49,065	49,065	-	-	-
Finance lease	1,560	-	-	-	1,560
Long-term debt <sup>(1)</sup>	514,794	32,153	25,000	192,847	264,794
Interest payments <sup>(2)</sup>	282,373	47,483	101,176	100,615	33,099
	857,765	138,674	126,176	293,462	299,453
Derivative financial instruments <sup>(3)</sup>					
Cash outflow	355,343	40,645	314,698	-	-
Cash inflow	(326,513)	(32,651)	(293,862)	-	-
	28,830	7,994	20,836	-	-
<b>Total</b>	<b>886,595</b>	<b>146,668</b>	<b>147,012</b>	<b>293,462</b>	<b>299,453</b>

<sup>(1)</sup> Contractual principal payments of long-term debt are based on foreign exchange rates as at August 31, 2012.

<sup>(2)</sup> Interest to be paid on long-term debt is based on actual interest rates and foreign exchange rates as at August 31, 2012.

<sup>(3)</sup> Contractual future disbursements and future receipts, on derivative financial instruments relates to principal and interest payments and receipts on the notional amount of the US\$265.0 million underlying swap based on interest rates and foreign exchange rates as at August 31, 2012. Subsequent to August 31, 2012, the Company settled a notional amount of US\$97.5 million of the derivative financial instruments (note 27).

#### (e) Market risk management

Market risk is the risk that changes in market prices due to foreign exchange rates and interest rates will affect the value of the Company's financial instruments. The objective of market risk management is to mitigate and control exposures within acceptable parameters while optimizing the return on risk.

##### *Foreign currency risk*

As at August 31, 2012, approximately 51% of the outstanding principal and related interest payable on the Company's long-term debt is payable in US dollars. As at August 31, 2012, the Company has entered into derivative financial instruments to hedge the foreign currency risk exposure on 99% of the US dollar denominated long-term debt outstanding (August 31, 2011 – 82%). The Company is still exposed to foreign currency risk on the un-hedged portion of the Second-Lien Notes of US\$3.6 million, representing 1% of the aggregate outstanding US dollar denominated long-term debt as at August 31, 2012. Subsequent to August 31, 2012, the Company settled a notional amount of US\$97.5 million of the foreign currency interest rate swap associated with the Second-Lien Notes (note 27).

Based on derivative financial instruments outstanding as at August 31, 2012, the estimated sensitivity on income and other comprehensive income for the year ended August 31, 2012, before income taxes, of a change of \$0.01 in the period-end exchange rate of a Canadian dollar per one US dollar, holding all other variables constant is as follows:

<b>Increase (decrease)</b>	<b>Income</b>	<b>Other comprehensive income</b>
Increase of \$0.01		
Gain (loss) on valuation and translation of financial instruments and derivative financial instruments	(36)	2,904
Decrease of \$0.01		
Gain (loss) on valuation and translation of financial instruments and derivative financial instruments	36	(2,904)

#### *Interest rate risk*

The Company's 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 will only expose the Company to interest rate risk on the portion of the ABL Facility that is drawn, if any, at the time of the interest rate change. As at August 31, 2012, the ABL Facility was undrawn (August 31, 2011 – nil) and as a result the Company is not subject to interest rate risk. During the year ended August 31, 2012, if interest rates on long-term debt had been 100 basis points higher or lower, with all other variables held constant, interest expense would have been \$2.2 million higher or lower.

Based on the foreign currency interest rate swaps outstanding as at August 31, 2012, the estimated sensitivity on income and other comprehensive income for the year ended August 31, 2012, before income tax, of a 100 basis-point change in the discount rate used to calculate their fair value, as per the Company's valuation model holding all other variables constant:

<b>Increase (decrease)</b>	<b>Income</b>	<b>Other comprehensive income</b>
Increase of 100 basis points	-	256
Decrease of 100 basis points	-	(260)

## **21. COMMITMENTS**

The Company has entered into various operating lease agreements for property, office equipment and vehicles and has various other commitments. Aggregate future minimum payments under the terms of these commitments are as follows:

2013	23,894
2014	22,013
2015	17,537
2016	15,447
2017	13,168
Thereafter	31,270

## 22. RELATED PARTY TRANSACTIONS

Key management personnel are comprised of the Company's key senior management and all members of the Board. Key management personnel compensation for the years ended August 31, 2012 and 2011 are as follows:

	2012	2011
Salaries and short-term benefits	3,676	5,277
Share-based compensation	(2,911)	7,021
Termination and other benefits	-	988
Total compensation	765	13,286

## 23. STATEMENTS OF CASH FLOWS

The following amounts comprise the net change in non-cash operating accounts included in cash flows from operating activities in the consolidated statement of cash flows for the years ended August 31, 2012 and 2011:

	2012	2011
Accounts receivable	10,631	(2,160)
Inventory	1,437	353
Prepaid expenses and other assets	5,242	(1,055)
Accounts payable, accrued liabilities and provisions	16,049	(24,829)
Deferred revenue	(2,377)	(1,602)
Other	(217)	478
Changes in non-cash operating accounts	30,765	(28,815)

## 24. SEGMENT INFORMATION

During the year ended August 31, 2012, the Company amended its operating segments to reflect recent changes to the reporting structure and its executive management team. The Eastern newspaper operating segment and Western newspaper operating segment have been replaced with one operating segment, the Newspaper operating segment. Changes in reporting segments are to be applied retroactively; however there was no impact on the Company's segment reporting as the Eastern and Western newspaper operating segments were previously aggregated to form one reportable segment for financial reporting purposes, the Newspaper segment. The Newspaper segment publishes daily and non-daily newspapers and operates the related newspaper websites. Its revenue is primarily from advertising and circulation. The Company has other business activities and an operating segment which is not separately reportable and is referred to as the All other category. Revenue in the All other category primarily consists of advertising and subscription revenue from Infomart and the website *canada.com*.

Each operating segment operates as a strategic business unit with separate management. Segment performance is measured primarily upon the basis of segment operating income. The Company accounts for intersegment sales as if the sales were to third parties.

Included within digital revenue in the consolidated statement of operations is advertising revenue of \$62.1 million for the year ended August 31, 2012 (2011 - \$60.6 million), and circulation/subscription revenue of \$27.0 million for the year ended August 31, 2012 (2011 - \$26.5 million). Accordingly, aggregate print and digital revenue from advertising was \$577.1 million for the year ended August 31, 2012 (2011 - \$634.5 million) and aggregate print and digital revenue from circulation/subscription was \$236.2 million for the year ended August 31, 2012 (2011 - \$245.8 million).



Segmented information and a reconciliation of segment operating income to loss before income taxes for the years ended August 31, 2012 and 2011 are as follows:

	2012	2011
<b>Revenue</b>		
Newspaper	800,186	864,143
All other	35,672	38,710
Intersegment elimination <sup>(1)</sup>	(3,981)	(3,965)
<b>Total revenue</b>	<b>831,877</b>	<b>898,888</b>
<b>Operating income before depreciation, amortization and restructuring</b>		
Newspaper	154,644	208,929
All other	8,129	13,162
Corporate	(18,437)	(32,889)
<b>Total operating income before depreciation, amortization and restructuring</b>	<b>144,336</b>	<b>189,202</b>
<b>Reconciliation of segment operating income to loss before taxes</b>		
Depreciation	26,157	27,015
Amortization	43,566	45,209
Restructuring and other items	35,355	38,011
<b>Operating income</b>	<b>39,258</b>	<b>78,967</b>
Interest expense	65,446	72,284
Loss on debt repayment	9,178	11,018
Net financing expense relating to employee benefit plans	3,900	2,971
Loss on disposal of property and equipment and intangible assets	258	176
(Gain) loss on derivative financial instruments	(8,632)	21,414
Foreign currency exchange (gains) losses	6,383	(17,959)
Acquisition costs	-	1,217
<b>Loss before income taxes</b>	<b>(37,275)</b>	<b>(12,154)</b>

<sup>(1)</sup> The Newspaper segment recorded intersegment revenue for the year ended August 31, 2012 of \$3.7 million (2011 - \$3.4 million) and the All other category recorded intersegment revenue for the year ended August 31, 2012 of \$0.3 million (2011 - \$0.6 million).

The total assets by operating segment as at August 31, 2012, August 31, 2011 and September 1, 2010 are as follows:

	As at August 31, 2012	As at August 31, 2011	As at September 1, 2010
Newspapers	919,371	1,048,908	1,124,452
All other and corporate	125,477	131,335	141,752
<b>Total assets</b>	<b>1,044,848</b>	<b>1,180,243</b>	<b>1,266,204</b>

The total additions to property and equipment and intangible assets by operating segment for the years ended August 31, 2012 and 2011 are as follows:

	Additions to property and equipment		Additions to intangible assets	
	2012	2011	2012	2011
Newspapers	4,312	7,820	99	535
All other and corporate	3,915	3,843	6,633	8,201
Total assets	8,227	11,663	6,732	8,736

## 25. IFRS - FIRST TIME ADOPTION

These consolidated financial statements have been prepared in accordance with IFRS. The accounting policies as presented in note 2 have been applied in preparing these consolidated financial statements for the year ended August 31, 2012, the comparative information for the year ended August 31, 2011 and the opening statement of financial position at September 1, 2010, the date of transition to IFRS ("Transition Date"). The Company applied IFRS 1 – First-time adoption of IFRS in preparing the consolidated statement of financial position as at September 1, 2010. Prior to September 1, 2010, the Company prepared its consolidated financial statements in accordance with Canadian GAAP. The effects of the transition are presented in this note.

### Transitional elections

#### Mandatory exceptions

##### (i) Hedge accounting

IFRS 1 requires that hedge accounting may only be applied at the Transition Date for transactions that satisfy the hedge accounting criteria in IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 1 also does not permit transactions entered into before the Transition Date to be retrospectively designated as hedges. As a result, only hedging relationships that were previously designated by the Company under Canadian GAAP and satisfy the hedge accounting criteria under IFRS as of September 1, 2010 can be reflected as hedges in the Company's results under IFRS.

The Company's hedge accounting under Canadian GAAP was determined to be compliant with requirements in accordance with IAS 39, accordingly no adjustments were required on transition to IFRS.

##### (ii) Estimates

IFRS 1 does not allow the Company to use hindsight to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policies.

## Optional exemptions

### (i) Employee benefits

IFRS 1 provides the option to recognize all cumulative actuarial gains and losses which have been deferred under Canadian GAAP in opening deficit at the Transition Date. The Company has elected to recognize cumulative actuarial losses from the Company's defined benefit pension plans, post-retirement benefit plans and other long-term employee benefit plans in opening deficit on September 1, 2010.

## Reconciliation of Canadian GAAP to IFRS on the Transition Date

### (i) Reconciliation of equity

Total equity as at August 31, 2011 and September 1, 2010 previously reported under Canadian GAAP is reconciled to the amounts reported under IFRS as follows:

	As at August 31, 2011	As at September 1, 2010
Total equity in accordance with Canadian GAAP	304,342	315,402
Differences (increasing) decreasing reported deficit		
Employee benefits - actuarial gains (losses) (a)	11,948	(5,313)
Employee benefits - other long-term employee benefit plans (b)	1,769	(213)
Employee benefits - curtailment gains (c)	1,367	-
Employee benefits - minimum funding liability (d)	(4,146)	-
Total differences increasing (decreasing) reported deficit	10,938	(5,526)
Total equity in accordance with IFRS	315,280	309,876

### (ii) Reconciliation of net loss

Net loss for the year ended August 31, 2011 previously reported under Canadian GAAP is reconciled to the amounts reported under IFRS as follows:

	2011
Net loss in accordance with Canadian GAAP	(12,938)
Differences decreasing reported net loss	
Employee benefits - other long-term employee benefit plans (b)	1,982
Employee benefits - curtailment gains (c)	1,367
Total differences decreasing reported net loss	3,349
Net loss in accordance with IFRS	(9,589)

(iii) Reconciliation of comprehensive income (loss)

Comprehensive loss for the year ended August 31, 2011 previously reported under Canadian GAAP is reconciled to the amounts reported under IFRS as follows:

	2011
Comprehensive loss in accordance with Canadian GAAP	(14,511)
Differences (increasing) or decreasing reported comprehensive loss	
Impact of IFRS adjustments on net loss	3,349
Employee benefits - actuarial gains (losses) (a)	17,261
Employee benefits - minimum funding liability (d)	(4,146)
Total differences decreasing reported comprehensive loss	16,464
Comprehensive income in accordance with IFRS	1,953

**Explanatory notes on the transition to IFRS**

(a) Employee benefits – actuarial gains and losses on defined benefit pension and post-retirement benefit plans

Under IFRS 1, the Company elected to recognize cumulative actuarial losses in opening deficit as at the Transition Date. As a result on September 1, 2010, other non-current liabilities increased by \$5.3 million with a corresponding increase to deficit.

Under IFRS, the Company elected to immediately recognize all actuarial gains and losses arising after the Transition Date in other comprehensive income and deficit. Under Canadian GAAP, the Company used the corridor method whereby actuarial gains or losses in excess of 10% of the greater of the accrued benefit obligation or the fair value of plan assets at the beginning of the year were amortized over the expected average remaining service period of active employees.

For the year ended August 31, 2011, the discount rate used to measure the Company's plan obligations for defined benefit pension and post-retirement benefit plans increased from 5.30% to 5.45% and from 5.40% to 5.45%, respectively, resulting in an actuarial gain of \$20.3 million. For the year ended August 31, 2011, the actual return on plan assets related to the Company's pension benefit plans was \$3.0 million lower compared to the expected return resulting in an actuarial loss. As a result of these changes during the year ended August 31, 2011, net actuarial gains of \$17.3 million were charged to other comprehensive income and then immediately transferred to deficit with a corresponding decrease to other non-current liabilities. The other comprehensive income of \$17.3 million for the year ended August 31, 2011, includes a gain of \$0.6 million related to discontinued operations. The effect of this adjustment, along with the adjustment on transition, on the consolidated statement of financial position as at August 31, 2011, was to decrease other non-current liabilities \$11.9 million with a corresponding decrease to deficit.

The deferred income tax effect of these adjustments was nil.

(b) Employee benefits – actuarial gains and losses on other long-term employee benefit plans

Under IAS 19, long-term employee benefit plans should be accounted for in the same way as defined benefit pension and defined benefit post-retirement plans with the exception that actuarial gains and losses and past service costs are recognized immediately in the statement of operations. Under Canadian GAAP, the Company accounted for these plans similarly except actuarial gains and losses were amortized on a straight-line basis over the average duration over which benefits are expected to be paid (expected average remaining service life). As a result on the Transition Date unamortized actuarial losses of \$0.2 million were recognized in opening deficit with a corresponding increase to other non-current liabilities. Net loss for the year ended August 31, 2011 decreased by a nominal amount due to the exclusion of the amortization of actuarial losses under Canadian GAAP. For the year ended August 31, 2011, the discount rate used to measure the Company's other long-term employee benefit plan obligations increased from 4.40% to 4.50% resulting in an actuarial gain of \$2.0 million. As a result net loss for the year ended August 31, 2011, decreased \$2.0 million with a corresponding decrease to other non-current liabilities. The effect of this adjustment, along with the adjustment on transition, on the consolidated statement of financial position as at August 31, 2011, was to decrease other non-current liabilities \$1.8 million with a corresponding decrease to deficit.

The deferred income tax effect of these adjustments was nil.

(c) Employee benefits – curtailment gain

During the year ended August 31, 2011, under Canadian GAAP, the Company recorded a curtailment gain by first reversing unamortized actuarial losses of \$1.4 million. As described above, under IFRS the Company recognizes actuarial gains and losses in other comprehensive income and deficit as they occur, accordingly under IFRS the curtailment gain was fully recognized in the statement of operations. As a result net loss for the year ended August 31, 2011, decreased \$1.4 million restructuring and other items decreased \$1.4 million in the consolidated statement of operations. The effect of this adjustment on the consolidated statement of financial position as at August 31, 2011, was to decrease other non-current liabilities \$1.4 million with a corresponding decrease to deficit.

The deferred income tax effect of these adjustments was nil.

(d) Employee benefits – minimum funding liability

IFRIC 14 "IAS 19 - The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", addresses the application of paragraph 58 of IAS 19 which limits the measurement of a defined benefit asset to "the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan" plus past service cost. IFRIC 14 provides guidance regarding (a) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19, (b) how a minimum funding requirement might affect the availability of reductions in future contributions and (c) when a minimum funding requirement might give rise to a liability. An additional minimum funding liability will exist if the discounted minimum funding requirements from the actuarial funding valuations exceed the Company's best estimate of future contributions required for past services and cannot be recovered. Canadian GAAP did not address accounting for an additional liability due to minimum funding requirements. Changes in the minimum funding requirement arising after the Transition Date are recognized in other comprehensive income and then immediately transferred to deficit. On the Transition Date, the Company determined that it did not have an additional liability associated with the minimum funding requirements of its defined benefit pension plans. For the year ended August 31, 2011, the Company determined that it had an additional liability associated with the minimum funding requirements of its pension plans and charged \$4.1 million to other comprehensive income and then immediately transferred to deficit. The effect of this adjustment on the consolidated statement of financial position as at August 31, 2011 was to increase other non-current liabilities by \$4.1 million with a corresponding increase to deficit.

The deferred income tax effect of these adjustments was nil.

(e) Employee benefits – presentation of expense

IAS 19 does not specify the presentation of current service cost, interest cost and the expected return on plan assets as components or a single item of income or expense. Accordingly, under IFRS the Company has elected to present the components of pension cost separately in the statement of operations. Current service costs will continue to be recorded in compensation expenses, and interest costs and the expected return on plan assets will be recorded in net financing expense relating to employee benefit plans in the statement of operations. As a result of this presentation change, compensation expense decreased by \$3.0 million and net financing expense relating to employee benefit plans increased by \$3.0 million in the consolidated statement of operations for the year ended August 31, 2011. In addition, net loss from continuing operations for the year ended August 31, 2011 decreased a nominal amount due to the reclassification of net financing expense relating to employee benefit plans to earnings from discontinued operations.

(f) Provisions and contingent liabilities

On transition to IFRS, a review of the Company's provisions and contingent liabilities was performed. As a result of the review, there were no changes to previously recorded amounts under Canadian GAAP. However, under IFRS provisions must be presented separately in the statement of financial position. As a result of this presentation change provisions of \$21.4 million and \$11.5 million were reclassified from accounts payable and accrued liabilities on September 1, 2010 and August 31, 2011, respectively, and provisions of \$1.1 million and \$1.5 million were reclassified from non-current liabilities on September 1, 2010 and August 31, 2011, respectively.

The following tables reconcile Canadian GAAP to IFRS, and where applicable, adjust for the presentation of discontinued operations, for the Company's consolidated statement of operations and consolidated statement of comprehensive income (loss) for year ended August 31, 2011, as well as the consolidated statement of financial position as of September 1, 2010 and August 31, 2011.

**Consolidated statement of operations for the year ended August 31, 2011**

	Canadian GAAP	Discontinued operations (note 4)	IFRS adjustments	IFRS
<b>Revenues</b>				
Print advertising	674,451	(100,531)	-	573,920
Print circulation	233,984	(14,688)	-	219,296
Digital	90,282	(3,232)	-	87,050
Other	20,408	(1,786)	-	18,622
<b>Total revenues</b>	<b>1,019,125</b>	<b>(120,237)</b>	<b>-</b>	<b>898,888</b>
<b>Expenses</b>				
Compensation	423,512	(50,026) [b]	(1,982)	
		[e]	(2,988)	368,516
Newsprint	62,125	(4,702)	-	57,423
Distribution	147,043	(20,218)	-	126,825
Other operating	185,337	(28,415)	-	156,922
<b>Operating income before depreciation, amortization and restructuring</b>	<b>201,108</b>	<b>(16,876)</b>	<b>4,970</b>	<b>189,202</b>
Depreciation	29,199	(2,184)	-	27,015
Amortization	45,893	(684)	-	45,209
Restructuring and other items	42,775	(3,397) [c]	(1,367)	38,011
<b>Operating income</b>	<b>83,241</b>	<b>(10,611)</b>	<b>6,337</b>	<b>78,967</b>
Interest expense	80,315	(8,031)	-	72,284
Loss on debt prepayment	11,018	-	-	11,018
Net financing expense relating to employee benefit plans	-	(17) [e]	2,988	2,971
Loss on disposal of property and equipment	175	1	-	176
Loss on derivative financial instruments	21,414	-	-	21,414
Foreign currency exchange gains	(17,960)	1	-	(17,959)
Acquisition costs	1,217	-	-	1,217
<b>Loss before income taxes</b>	<b>(12,938)</b>	<b>(2,565)</b>	<b>3,349</b>	<b>(12,154)</b>
Provision for income taxes	-	-	-	-
<b>Net loss from continuing operations</b>	<b>(12,938)</b>	<b>(2,565)</b>	<b>3,349</b>	<b>(12,154)</b>
Net earnings from discontinued operations, net of tax of nil	-	2,565	-	2,565
<b>Net loss attributable to equity holders of the Company</b>	<b>(12,938)</b>	<b>-</b>	<b>3,349</b>	<b>(9,589)</b>

**Consolidated statement of comprehensive income (loss) for the year ended August 31, 2011**

	Canadian GAAP	IFRS adjustments	IFRS
<b>Net loss attributable to equity holders of the Company</b>	<b>(12,938)</b>	<b>3,349</b>	<b>(9,589)</b>
<b>Other comprehensive (income) loss from continuing operations</b>			
Loss on valuation of derivative financial instruments, net of tax of nil	(1,573)	-	(1,573)
Net actuarial gains on employee benefits, net of tax of nil	- [a]	16,705	16,705
Loss on minimum funding liability of employee benefits, net of tax of nil	- [d]	(4,146)	(4,146)
<b>Other comprehensive income from discontinued operations</b>			
Net actuarial gains on employee benefits, net of tax of nil	- [a]	556	556
Other comprehensive income (loss)	(1,573)	13,115	11,542
<b>Comprehensive income (loss) attributable to equity holders of the Company</b>	<b>(14,511)</b>	<b>16,464</b>	<b>1,953</b>

**Consolidated statement of financial position as at September 1, 2010**

	Canadian GAAP		IFRS adjustments	IFRS
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash	40,201		-	40,201
Accounts receivable	116,417		-	116,417
Inventory	6,187		-	6,187
Prepaid expenses and other assets	14,873		-	14,873
<b>Total current assets</b>	<b>177,678</b>		<b>-</b>	<b>177,678</b>
<b>Non-Current Assets</b>				
Property and equipment	355,194		-	355,194
Derivative financial instruments	15,831		-	15,831
Other assets	4,208		-	4,208
Intangible assets	477,200		-	477,200
Goodwill	236,093		-	236,093
<b>Total assets</b>	<b>1,266,204</b>		<b>-</b>	<b>1,266,204</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	113,421	[f]	(21,398)	92,023
Provisions	-	[f]	21,398	21,398
Deferred revenue	32,096		-	32,096
Current portion of derivative financial instruments	3,685		-	3,685
Current portion of long-term debt	13,499		-	13,499
Current portion of obligation under finance lease	1,841		-	1,841
<b>Total current liabilities</b>	<b>164,542</b>		<b>-</b>	<b>164,542</b>
<b>Non-Current Liabilities</b>				
Long-term debt	632,532		-	632,532
Derivative financial instruments	558		-	558
Other non-current liabilities	152,489	[a]	5,313	
		[b]	213	
		[f]	(1,057)	156,958
Provisions	-	[f]	1,057	1,057
Deferred income taxes	681		-	681
<b>Total liabilities</b>	<b>950,802</b>		<b>5,526</b>	<b>956,328</b>
<b>Equity</b>				
Capital stock	371,132		-	371,132
Contributed surplus	2,151		-	2,151
Deficit	(44,618)	[a]	(5,313)	
		[b]	(213)	(50,144)
Accumulated other comprehensive loss	(13,263)		-	(13,263)
<b>Total equity</b>	<b>315,402</b>		<b>(5,526)</b>	<b>309,876</b>
<b>Total liabilities and equity</b>	<b>1,266,204</b>		<b>-</b>	<b>1,266,204</b>



Consolidated statement of financial position as at August 31, 2011

	Canadian GAAP		IFRS adjustments	IFRS
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash	10,483		-	10,483
Accounts receivable	118,577		-	118,577
Inventory	5,834		-	5,834
Prepaid expenses and other assets	15,928		-	15,928
<b>Total current assets</b>	<b>150,822</b>		<b>-</b>	<b>150,822</b>
<b>Non-Current Assets</b>				
Property and equipment	336,268		-	336,268
Derivative financial instruments	13,817		-	13,817
Other assets	3,211		-	3,211
Intangible assets	440,032		-	440,032
Goodwill	236,093		-	236,093
<b>Total assets</b>	<b>1,180,243</b>		<b>-</b>	<b>1,180,243</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	88,592	[f]	(11,508)	77,084
Provisions	-	[f]	11,508	11,508
Deferred revenue	30,494		-	30,494
Current portion of derivative financial instruments	12,307		-	12,307
Current portion of long-term debt	16,862		-	16,862
<b>Total current liabilities</b>	<b>148,255</b>		<b>-</b>	<b>148,255</b>
<b>Non-Current Liabilities</b>				
Long-term debt	555,436		-	555,436
Derivative financial instruments	31,093		-	31,093
Other non-current liabilities	140,436	[a]	(11,948)	
		[b]	(1,769)	
		[c]	(1,367)	
		[d]	4,146	
		[f]	(1,499)	127,999
Provisions	-	[f]	1,499	1,499
Deferred income taxes	681		-	681
<b>Total liabilities</b>	<b>875,901</b>		<b>(10,938)</b>	<b>864,963</b>
<b>Equity</b>				
Capital stock	371,132		-	371,132
Contributed surplus	5,602		-	5,602
Deficit	(57,556)	[a]	11,948	
		[b]	1,769	
		[c]	1,367	
		[d]	(4,146)	(46,618)
Accumulated other comprehensive loss	(14,836)		-	(14,836)
<b>Total equity</b>	<b>304,342</b>		<b>10,938</b>	<b>315,280</b>
<b>Total liabilities and equity</b>	<b>1,180,243</b>		<b>-</b>	<b>1,180,243</b>

## 26. UNITED STATES ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with IFRS. In certain aspects GAAP as applied in the United States ("US GAAP") differs from IFRS. The following information is being presented to comply with the US GAAP reconciliation requirements of the Second-Lien Notes indenture. All amounts are expressed in thousands of Canadian dollars unless otherwise noted.

### **Principle differences affecting the Company**

#### **(a) IFRS 1 – First time adoption of IFRS**

The Company was required to apply the provision of IFRS 1 upon transition to IFRS. IFRS 1 requires that the opening statement of financial position include all of the assets and liabilities that IFRS requires; exclude any assets and liabilities that IFRS does not permit; classify all assets, liabilities and equity in accordance with IFRS; measure all items in accordance with IFRS; and also includes certain optional exemptions and mandatory exceptions that do not require or permit recognition, classification and measurement in line with the above. US GAAP does not contain a comparable standard. Included in note 25 are the various reconciliations from Canadian GAAP to IFRS and below are the various IFRS and US GAAP accounting differences which would include any measurement differences pertaining to the application of IFRS 1.

#### **(b) Employee benefits – actuarial gains and losses**

Under IFRS, the Company adopted an accounting policy of recognizing actuarial gains and losses related to the present value of the defined benefit obligation and the fair value of plan assets in other comprehensive income and deficit. Such actuarial gains and losses are not subsequently recycled to the statement of operations. Under US GAAP, the Company recognizes the funded status of defined benefit pension and post-retirement plans and recognizes changes in the funded status in the year in which the changes occur through other comprehensive income and accumulated other comprehensive income. Actuarial gains and losses previously recognized in other comprehensive income are recycled to the statement of operations using the corridor method of amortization. Under the corridor method the net actuarial gain or loss over 10% of the greater of the defined benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service period of active employees.

Since the Company's actuarial gains and losses as at August 31, 2011 fall within the corridor there is no earnings difference related to the amortization of actuarial gains and losses for the year ended August 31, 2012. For the year ended August 31, 2011, net loss increased a nominal amount with a corresponding increase to other comprehensive income as a result of the amortization of actuarial losses, net of a deferred tax provision of nil. Due to the sale of the Disposed Properties under US GAAP, the cumulative net actuarial loss in equity is recycled to the statement of operations. The effect on US GAAP net loss for the year ended August 31, 2012, was to increase net loss \$0.4 million with a corresponding decrease to comprehensive loss (2011 – nil), net of a deferred income tax provision of nil.

#### **(c) Employee benefits – past service costs**

Under IFRS, the Company is required to recognize on the statement of financial position the difference between the defined benefit obligation and the fair value of plan assets, plus or minus any unrecognized past service costs, if any. Under US GAAP, the Company recognizes the funded status of defined benefit plans and recognizes changes in the funded status in the period in which the changes occur through other comprehensive income and accumulated other comprehensive income. The funded status represents the difference between the fair value of the plans assets and the defined benefit obligation. The effect on US GAAP comprehensive loss for the year ended August 31, 2012, was to decrease comprehensive loss by \$0.2 million (2011 – nil), net of a deferred income tax provision of nil. The effect on the consolidated statement of financial position as at August 31, 2012, was to increase other non-current liabilities \$1.9 million with a corresponding increase to deficit (August 31, 2011 - \$2.2 million, September 1, 2010 - nil).

#### **(d) Employee benefits – minimum funding liability**

Under IFRS, the additional minimum liability associated with minimum funding requirements is computed by discounting the minimum funding requirements from the actuarial funding valuations by the discount rate as defined by IAS 19. Changes in the minimum funding liability arising after the Transition Date are recognized in other comprehensive income and then immediately transferred to deficit. US GAAP does not recognize a minimum funding liability. The effect on US GAAP comprehensive loss for the year ended August 31, 2012 was to increase other comprehensive loss by \$4.1 million (2011 - increase other comprehensive income \$4.1 million), net of a deferred income tax provision of nil. The effect on the consolidated statement of financial position as at August 31, 2012, was to decrease other non-current liabilities nil with a corresponding decrease to deficit (August 31, 2011- \$4.1 million, September 1, 2010 - nil).

#### **(e) Employee benefits – curtailment gains**

Under IFRS, the Company recognizes curtailment gains when it is demonstrably committed to make a significant reduction in the number of employees covered by an employee benefit plan. Under US GAAP, curtailment gains are recognized at the date of the curtailment. During the year ended August 31, 2012, the termination of employees under the restructuring initiatives that will be completed in the year ended August 31, 2013 resulted in a curtailment under IFRS. The effect on US GAAP net loss for the year ended August 31, 2012, was to increase net loss by \$4.0 million (2011 – nil), net of a deferred income tax provision of nil. The effect on the consolidated statement of financial position as at August 31, 2012, was to increase other non-current liabilities \$4.0 million with a corresponding increase to deficit (August 31, 2011 and September 1, 2010 - nil). In addition, under IFRS, curtailment gains include a pro rata share of the related unamortized actuarial loss and unrecognized past service costs. Since the Company recognizes actuarial gains and losses in other comprehensive income and deficit as they occur, the curtailment gain is recognized in the statement of operations net of any pro rata share of unrecognized past service costs. Under US GAAP, the curtailment gain is first recorded to offset any related unamortized actuarial loss recognized in accumulated other comprehensive income and any remaining curtailment gain is recognized in the statement of operations. The effect on US GAAP net loss for the year ended August 31, 2012 was nil (2011- increase net loss \$1.4 million with a corresponding increase to other comprehensive income, net of a deferred income tax provision of nil).

#### **(f) Employee benefits – presentation of expense**

Under IFRS, the Company has elected an accounting policy of recognizing the components of the defined benefit expense within different line items in the statement of operations. The current service cost and recognized element of any past service costs of employee benefits expense is recorded in compensation expense in the consolidated statement of operations. The expected return on plan assets and interest cost on the benefit obligations are presented in net financing expense relating to employee benefit plans in the consolidated statement of operations. Under US GAAP, the components of the defined benefit expense must be aggregated and presented as a net amount in the statement of operations. During the year ended August 31, 2012, net financing expense relating to employee benefit plans was \$3.9 million (2011 - \$3.0 million).

#### **(g) Long-term debt – debt issuance costs**

Under IFRS, transaction costs related to the issuance of debt are deducted from the carrying value of the financial liability and are amortized using the effective interest method. Under US GAAP, debt issuance costs, other than debt discounts or premiums, are deferred as an asset and recognized over the contractual life using the constant interest method. The effect on the statement of financial position as at August 31, 2012, would be an increase to other assets of \$16.4 million (August 31, 2011 - \$24.9 million, September 1, 2010 - \$31.4 million) with an offsetting increase to long-term debt.

#### **(h) Impairment of indefinite life intangible assets**

Under IFRS, indefinite life intangible assets are tested for impairment as part of a CGU because they do not generate cash flows independently of other assets. A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Under US GAAP, impairments of indefinite life intangible assets are measured on an individual basis by directly comparing the fair value to the carrying amount. During the year ended August 31, 2012, under US GAAP the Company concluded that certain indefinite life intangible assets were impaired. The effect on US GAAP net loss for the year ended August 31, 2012 was to increase net loss by \$30.0 million (2011 - nil). The effect on the consolidated statement of financial position as at August 31, 2012 was to decrease intangible assets by \$30.0 million with a corresponding increase to deficit (August 31, 2011 – nil, September 1, 2010 - nil). The impairment recorded under US GAAP, based on the application of the relief from royalty valuation method, was a result of lower than anticipated long-term revenue projections due to economic and structural factors including the uncertainty of the print advertising market and the rapidly evolving digital advertising market. The impairment is to be recognized in operating income and pertains to the Newspaper operating segment.

#### **(i) Enacted tax rates**

Under ASC 740, *Income Taxes*, future tax liabilities should be adjusted for the effect of change in tax laws or tax rates in the period in which the changes are enacted. Under IFRS, deferred taxes are to be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based upon tax rates and laws that have been enacted or substantively enacted as at the date of the statement of financial position. For the years ended August 31, 2012 and 2011, there were no differences in the rates to be used under US GAAP and IFRS.

### Comparative reconciliation of net loss

The following is a reconciliation of net loss for the years ended August 31, 2012 and 2011, reflecting the differences between IFRS and US GAAP:

	2012	2011
Net loss in accordance with IFRS	(23,222)	(9,589)
Employee benefits - actuarials gains and losses (b)	(397)	(27)
Employee benefits - curtailment gains (e)	(4,108)	(1,367)
Impairment of indefinite life intangible assets (h)	(30,000)	-
Net loss in accordance with US GAAP	(57,727)	(10,983)

### Comparative reconciliation of comprehensive income (loss)

The following is a reconciliation of comprehensive income (loss) for the years ended August 31, 2012 and 2011, reflecting the differences between IFRS and US GAAP:

	2012	2011
Comprehensive income (loss) in accordance with IFRS	(83,811)	1,953
Impact of US GAAP differences on net loss	(34,505)	(1,394)
	(118,316)	559
Employee benefits - actuarial gains and losses (b)	397	27
Employee benefits - past service costs (c)	248	(2,171)
Employee benefits - minimum funding liability (d)	(4,146)	4,146
Employee benefits - curtailment gains (e)	-	1,367
Comprehensive income (loss) in accordance with US GAAP	(121,817)	3,928

### Comparative reconciliation of equity

A reconciliation of equity as at August 31, 2012, August 31, 2011 and September 1, 2010 reflecting the differences between IFRS and US GAAP is set out below:

	As at August 31, 2012	As at August 31, 2011	As at September 1, 2010
Equity in accordance with IFRS	233,755	315,280	309,876
Employee benefits - past service costs (c)	(1,923)	(2,171)	-
Employee benefits - minimum funding liability (d)	-	4,146	-
Employee benefits - curtailment gains (e)	(4,108)	-	-
Impairment of intangible assets (h)	(30,000)	-	-
Equity in accordance with US GAAP	197,724	317,255	309,876

### Other US GAAP disclosures

Operating expenses in the consolidated statement of operations for the year ended August 31, 2012 include \$367.7 million of selling, general and administrative expenses (2011 - \$380.9 million) and \$13.0 million of rent expense (2011 - \$10.7 million). Accounts payable and accrued liabilities and the current portion of provisions on the consolidated statement of financial position as at August 31, 2012 include \$55.6 million of payroll related accruals (August 31, 2011 - \$49.1 million, September 1, 2010 - \$65.5 million).

## **27. SUBSEQUENT EVENTS**

The issuance of the First-Lien Notes and repayment of the Term Loan Facility gave rise to a potential termination event under the Company's existing foreign currency interest rate swap associated with the Second-Lien Notes. As a result, in September 2012, the Company settled a notional amount of US\$97.5 million of the foreign currency interest rate swap associated with the Second-Lien Notes for cash consideration of \$9.6 million.

## Corporate Information

### BOARD OF DIRECTORS

**Paul Godfrey**  
Director, President and Chief Executive Officer

**Ronald W. Osborne**  
Director and Chair

**Charlotte Burke**

**Hugh F. Dow**

**David Emerson**

**John Paton**

**Graham Savage**

**Steven Shapiro**

**Peter Sharpe**

**Robert Steacy**

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**The Toronto Stock Exchange (TSX)**  
Trading Symbols: PNC.A, PNC.B

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