

POSTMEDIA NETWORK CANADA CORP.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 29, 2024 AND FEBRUARY 28, 2023
(UNAUDITED)

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

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

	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Revenues				
Advertising	43,152	54,483	94,004	119,756
Circulation	32,865	36,988	65,453	76,638
Parcel services	14,170	11,762	26,961	20,958
Other	7,151	8,592	15,534	18,649
Total revenues	97,338	111,825	201,952	236,001
Expenses				
Compensation (note 4)	34,513	40,777	69,774	84,855
Newsprint	2,812	4,321	6,062	9,647
Distribution	37,491	33,085	69,385	66,304
Production	10,340	14,169	21,614	30,448
Other operating	16,975	20,003	34,037	40,447
Operating (loss) income before depreciation, amortization and restructuring (note 3)	(4,793)	(530)	1,080	4,300

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

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

(IN THOUSANDS OF CANADIAN DOLLARS)

	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
CASH GENERATED (UTILIZED) BY:				
OPERATING ACTIVITIES				
Net loss attributable to equity holders of the Company	(20,097)	(20,781)	(30,705)	(36,687)
Items not affecting cash:				
Depreciation	2,271	4,220	5,766	6,884
Amortization	2,059	2,483	4,173	4,618
Loss on debt refinancing (note 8)	-	-	367	-
(Gain) loss on derivative financial instruments and financial assets at fair value through profit and loss	(217)	(55)	(131)	386
Non-cash interest	8,598	6,527	15,849	12,937
Gain on disposal of property, plant and equipment, assets held-for-sale and other assets	(84)	(1,609)	(998)	(3,136)
Non-cash foreign currency exchange (gains) losses	(266)	1,815	742	8,540
Share-based compensation plans (note 11)	177	236	380	531
Net financing expense relating to employee benefit plans (note 9)	343	350	689	699
Employee benefit plan funding in excess of compensation expense (note 9)	(692)	(1,011)	(1,472)	(1,886)
Net change in non-cash operating accounts (note 13)	9,055	6,171	1,478	(2,813)
Cash flows from (used in) operating activities	1,147	(1,654)	(3,862)	(9,927)
INVESTING ACTIVITIES				
Net proceeds from the sale of property, plant and equipment, assets held-for-sale and other assets (note 5)	707	16,310	3,072	20,866
Purchases of property and equipment	(153)	(29)	(397)	(107)
Purchases of intangible assets	(203)	(163)	(326)	(165)
Cash flows from investing activities	351	16,118	2,349	20,594
FINANCING ACTIVITIES				
Repayment of senior secured notes (note 8)	-	(21,060)	(24,475)	(21,060)
Repayment of first lien senior secured notes (note 8)	(699)	-	(699)	-
Restricted cash (note 5)	-	5,286	6,968	730
Advances from senior secured asset-based revolving credit facility (note 8)	-	7,000	8,500	14,000
Repayment of senior secured asset-based revolving credit facility (note 8)	-	-	(14,500)	-
Advances from asset-based lending credit facility (note 8)	3,956	-	3,956	-
Repayment of asset-based lending facility (note 8)	(4,170)	-	(4,170)	-
Repayment of unsecured promissory notes (note 8)	-	-	(4,696)	-
Issuance of first lien senior secured notes (note 8)	-	-	20,158	-
Issuance of asset-based lending facility (note 8)	-	-	15,393	-
Debt issuance costs (note 8)	(678)	-	(2,418)	-
Lease payments	(1,628)	(1,860)	(3,209)	(3,451)
Cash flows (used in) from financing activities	(3,219)	(10,634)	808	(9,781)
Net change in cash for the period	(1,721)	3,830	(705)	886
Cash at beginning of period	7,207	9,117	6,191	12,061
Cash at end of period	5,486	12,947	5,486	12,947
	2024	2023	2024	2023
Supplemental disclosure of operating cash flows				
Interest paid	427			

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

3. OPERATING INCOME BEFORE DEPRECIATION, AMORTIZATION AND RESTRUCTURING

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

4. GOVERNMENT ASSISTANCE

Journalism Tax Credits

On June 21, 2019 the federal budget was approved which contained measures specific to the news media industry including a journalism tax credit whereby qualifying Canadian news organizations may apply for a refundable labour tax credit applied to the salaries of journalists. In December 2019, the Canada Revenue

guidance related to the eligibility, qualifications and determination of the refundable labour tax credit which was further clarified in April 2020. On November 19, 2020, the Company received its designation as a Qualified Canadian Journalism Organization.

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

Both the federal and Quebec journalism tax credit legislation include provisions to reduce the qualifying salaries and wages eligible for the credit for other forms of assistance received. During the three and six months ended February 29, 2024, the Company recognized a recovery of compensation expense of \$2.4 million and \$3.9 million, respectively, related to the journalism tax credits (2023 \$1.4 million and 3.2 million, respectively). As at February 29, 2024, the net aggregate journalism tax credit receivable of \$0.5 million is included in trade and other receivables on the condensed consolidated statement of financial position (August 31, 2023 - \$6.4 million).

budget and the related legislation. Actual amounts received may differ from the amounts currently recorded based on future CRA and/or Revenue Québec interpretations of eligibility, qualifications and determination of the tax credits.

5. RESTRICTED CASH

restricted cash for the six months ended February 29, 2024:

	Restricted Cash
August 31, 2023	6,968
Long-term debt repayment ⁽¹⁾	(6,968)
Net proceeds on sale of other assets ⁽²⁾	2,365
Settlement of first-lien notes related to refinancing transaction (note 8) ⁽³⁾	(2,365)
November 30, 2023	-
Net proceeds on sale of property, plant and equipment ⁽⁴⁾	707
Long-term debt repayment ⁽⁵⁾	(707)
February 29, 2024	-

- (1) During the six months ended February 29, 2024, the Company used restricted cash to redeem \$6.8 million of first-lien debt and pay accrued interest of \$0.2 million.
- (2) During the six months ended February 29, 2024, net proceeds related to the sale of other assets of \$2.4 million were received as restricted cash.
- (3) During the six months ended February 29, 2024 the Company settled \$2.4 million of first-lien notes as part of a refinancing transaction (note 8).
- (4) During the six months ended February 29, 2024, the Company sold property and equipment for net proceeds of \$0.7 million.
- (5) During the six months ended February 29, 2024, the Company used restricted cash to redeem \$0.7 million of first-lien debt and pay accrued interest of a nominal amount.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at February 29, 2024	As at August 31, 2023
Trade accounts payable	13,250	16,253
Accrued liabilities	19,952	15,928
Accrued interest on long-term debt	2,721	3,428
Accounts payable and accrued liabilities	35,923	35,609

7. PROVISIONS

	Restructuring
Provisions as at August 31, 2023	10,201
Charges	3,280
Payments	(8,796)
Provisions as at February 29, 2024	4,685
Portion due within one year	(4,685)
Non-current provisions	-

During the year ended August 31, 2023, the Company began new restructuring initiatives and during the three and six months ended February 29, 2024 incurred restructuring expenses of \$1.7 million and \$3.3 million, respectively, which include both involuntary terminations and voluntary buyouts (2023 -\$4.4 million and \$6.1 million, respectively).

8. LONG-TERM DEBT

					As at February 29, 2024	As at August 31, 2023
	Maturity	Principal (US\$)	Principal (CAD\$)	Financing fees, discounts and other	Carrying value of debt	Carrying value of debt
10.5% First Lien Senior Secured Notes	November 2028	14,661	19,894	(828)	19,066	N/A
10.25% Second Lien Secured Notes	August 2027	197,494	267,999	(125)		

The terms and conditions of long-term debt as at February 29, 2024 are the same as disclosed in the consolidated financial statements for the years ended August 31, 2023 and 2022 except as described below.

9. EMPLOYEE BENEFIT PLANS

-retirement benefit plans recognized in the
condensed consolidated statements of comprehensive loss for the three and six months

11. SHARE-BASED COMPENSATION PLANS

Share option plan

The Company has a share retaining and motivating officers and employees. Changes to the number of issued and outstanding options during the six months ended February 29, 2024 are as follows:

	Options	Weighted average exercise price
August 31, 2023	1,956,723	\$ 1.03
Forfeited	(5,845)	
February 29, 2024	1,950,878	\$ 1.02

During the three and six months ended February 29, 2024, the Company recorded compensation expense relating to the Option Plan of nil and a nominal amount, respectively (2023 compensation expense of nominal amounts), with an offset to contributed surplus. The total unrecognized compensation expense is nil as of February 29, 2024.

Restricted share unit plan

The RSU Plan provides for the grant of -time or full-time officers, employees or consultants of the Company. The maximum aggregate number of RSUs issuable pursuant to the RSU Plan at any time shall not exceed 7.5 million shares of the Company. As at February 29, 2024, there are 5.6 million RSUs including a 1.2 million tandem reward outstanding (August 31, 2023 5.4 million RSUs including a 1.2 million tandem reward outstanding). Changes to the number of issued and outstanding RSUs during the six months ended February 29, 2024 are as follows:

	RSUs
August 31, 2023	5,438,398
Granted ⁽¹⁾	659,931
Exercised ⁽²⁾	(225,352)
Forfeited	(206,192)
Cancelled	(42,747)
February 29, 2024	5,624,038

⁽¹⁾ The fair value of the RSUs granted during the six months ended February 29, 2024 was estimated by using a grant date fair value per share of \$1.36. The fair value of \$1.36 per share was based on the volume-weighted average trading price of the Variable Voting Shares for the five trading days immediately preceding the issuance.

⁽²⁾ During the three and six months ended February 29, 2024, 225,352 RSUs were exercised for an aggregate value of \$0.2 million.

During the three and six months ended February 29, 2024, the Company recorded compensation expense related to the RSU Plan of \$0.2 million and \$0.4 million, respectively, with an offsetting credit to contributed surplus (2023 \$0.2 million and \$0.5 million, respectively). The total unrecognized compensation expense is \$1.2 million, which is expected to be recognized over the next three years.

12. FINANCIAL RISK MANAGEMENT

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial obligations associated with existing and future financial liabilities that are and will be settled by delivering cash or another financial -term debt which requires principal repayments and interest payments (note 8). The Company believes that its cash on hand, cash flows from operations and undrawn available credit facilities will be sufficient to fund its projected cash flow requirements over at least the next 12 months. Cash flows from operations have been and could continue to be negatively impacted by the current economic environment and structural factors related to the industry. The news media industry is under significant competitive pressures from global technology companies resulting in the permanent closure of numerous traditional competitors. To address the competitive imbalance in the Canadian news media industry the Government of Canada recently passed the Online News Act which aims to ensure that dominant digital platforms compensate news businesses when their content is made available on their services. These factors could impact the Company's ability to generate sufficient operating cash flows to satisfy its existing and future financial liabilities. The Company manages this risk by monitoring cash flow forecasts, implementing cost reduction and transformation initiatives, deferring or eliminating discretionary spending, monitoring and maintaining compliance with the terms of the long-term debt, identifying and selling redundant assets including certain real estate assets, utilizing the New ABL Facility to provide additional liquidity and obtaining a commitment to provide further financial support from Chatham of up to \$18 million, if needed for a period of no less than twelve months from the date of approval of these interim condensed consolidated financial statements. During the six months ended February 29, 2024, the Company entered into a New ABL Facility with an aggregate commitment equal to the lesser of US\$40 million and a borrowing base, with an advance at closing that was (note 8). As at February 29, 2024, the Company has \$10.7 million (US\$7.9) million available on the New ABL Facility.

If, over the course of the next year, market conditions deteriorate further than anticipated or costs are higher than projected, the Company may need to implement

13. STATEMENT OF CASH FLOWS

The following amounts compose the net change in non-cash operating accounts included in cash flows from operating activities in the condensed consolidated statements