February 17, 2011

Andrew J. Hatnay
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Dear Sir/Madam:

Re: Hollinger Canadian Publishing Holdings Co. ("HCPH") proceeding under the *Companies' Creditors Arrangement Act* ("CCAA")

Re: Update on CCAA Proceedings and Recent Notice of Wind-Up of HCPH Pension Plans:

i **Hollinger Canadian Publishing Holdings Co. Retirement Plan**

i **Hollinger Canadian Publishing Holdings Co., Windsor Star Employees' Pension Plan**

i **Hollinger Canadian Publishing Holdings Co. Pension Plan for the Employees of Newspapers formerly owned by Thomson Newspapers**

i **Sterling Newspaper Companies Pension Plan for the Employees of Newspapers formerly owned by Thomson Newspapers**

i **Hollinger Canadian Publishing Holdings Co. Plan for Employees of Newspapers formerly owned by Sterling Newspapers**

We are writing as your Representative Counsel to report on the status of the HCPH pension plans and post-retirement benefits in the HCPH CCAA proceedings.

HCPH is no longer an active company and is in the process of winding down. As you may be aware, on December 10, 2009 our firm was appointed by the Ontario Superior Court of Justice as Representative Counsel to all members and beneficiaries of HCPH's post-retirement benefit plans in HCPH's CCAA proceedings. On July 27, 2010, our mandate as Representative Counsel was expanded by a further court order to include representation of all HCPH members and beneficiaries of the HCPH registered pension plans.

In December, 2010, HCPH sent out a Notice of Proposal of Wind Up (the "Wind-Up Notice") dated December 21, 2010 relating to five pension plans that it administers:

1. Hollinger Canadian Publishing Holdings Co. Retirement Plan (formerly the Southam Pension Plan), (this plan is registered in Ontario);

2. Hollinger Canadian Publishing Holdings Co., Windsor Star Employees' Pension Plan (this plan is registered in Ontario);

3. Hollinger Canadian Publishing Holdings Co. Pension Plan for the Employees of Newspapers formerly owned by Thomson Newspapers (this plan is registered in Ontario);

4. Sterling Newspaper Company Pension Plan for Employees of Newspapers formerly owned by Thomson Newspapers (this plan is registered in Ontario); and

5. Hollinger Canadian Publishing Holdings Co. Plan for Employees of Newspapers formerly owned by Sterling Newspapers, (this plan is registered in British Columbia).

Although the Wind Up Notices state that the HCPH pension plans will be wound up (i.e. terminated) as of December 31, 2010 this does not mean that your pension benefits were stopped as of that date. At this time, you should be continuing to receive your regular pension benefits.

Pension Plan Wind-Ups - General

The wind-up of a registered pension plan is highly regulated by law. The Wind Up Notice that you received is a requirement of the first stage of the wind up process.

The wind up of HCPH's Ontario-registered pension plans must comply with the Ontario *Pension Benefits Act* ("PBA") and the policies established by the provincial regulator, the Financial Services Commission of Ontario ("FSCO"). Similarly, the wind up of the Sterling pension plan, which is registered in British Columbia, must comply with the British Columbia *Pension Benefits Standards Act* and the policies of the Superintendent of Pensions of British Columbia.

As a result of an agreement among various provincial pension regulators, a pension plan that has members who are employed in more than one province need only be registered in the province in which the majority of its members are employed. However, pension minimum standard laws of the other provinces where members work will also apply to those employees. Generally, the procedural law of the province of pension plan registration will be applied.

In a typical pension plan wind-up situation, the ultimate task of the entity implementing the wind up (whether it is the employer or an outside administrator appointed to perform the wind up) is to purchase annuity contracts from an insurance company to continue with the payment of pension benefits to each pension plan member. Such annuities are designed to replicate the payment of each member's pension benefits after the pension plan has been wound up.

There is no change in the tax status of your pension income when you receive pension payments through an annuity. For example, pension payments from an annuity will still be eligible for pension income splitting. Also, the beneficiary treatment established at the time of your retirement will also continue to apply to the annuity payments.

During the first phase of the wind-up process, the pension plan actuary retained by the pension plan administrator will proceed to prepare a Wind-Up Report. During this stage, pension benefits that commenced to be paid prior to the issuance of the Wind-Up Notice will continue to be paid. The Wind-Up Report will include an analysis by the actuary of the final funded status of the pension plan as of the wind up date. This analysis includes a comparison of the pension plan's assets to its liabilities which then determines the plan's final "wind-up ratio".

Whether a reduction to individual pension benefits will be instituted in the future depends on the final wind-up ratio of each pension plan as determined by the actuary in the Wind-Up Report. If there are sufficient assets (i.e., cash) in the fund of the pension plan to cover all of the plan's liabilities, then the annuities that are purchased from an insurance company should pay plan members and retirees the same level of monthly pension benefits that they received, or would have received, before and during the wind-up process.

If, however, it is determined by the actuary that there are insufficient assets to cover a plan's liabilities, then pension benefit payments going forward will likely need to be reduced to reflect the funded status of the plan. For example, if the actuary determines that a pension plan is 90% funded on its wind up, then pension benefits can be expected to be reduced by approximately 10%.

The Ontario Pension Benefits Guarantee Fund

For those members who were employed in Ontario and who are a member of an underfunded pension plan and thus exposed to a pension benefit reduction, an application can be made by the plan administrator to the Ontario Pension Benefits Guarantee Fund (the "PBGF") for a payment to be made to the underfunded plan to improve its funded status. The PBGF is a fund administered by the Ontario Superintendent of Financial Services. The PBGF "guarantees" the payment of specified pension benefits up to $1,000 per month for members who meet age and service criteria while employed in Ontario, subject to certain exclusions. Ontario is the only province that has a PBGF.

The Current Status of the Wind Up of the HCPH Pension Plans

HCPH has started the wind up process for the above-noted pension plans and has elected December 31, 2010 as the "wind up date". As noted above, the wind up date does not mean that the pension plans cease to be paid as of that date and you should have continued to receive pension benefits since the issuance of the Notice. Rather, the wind up date is the date that the actuary will use to determine the final wind up ratio of each HCPH plan.

Once the Wind-Up Reports have been completed for the HCPH pension plans, they will be submitted for the review and approval of the Ontario Superintendent of Financial Services (or the B.C. Superintendent of Pensions for the Sterling Newspaper Plan). When the Wind-Up Reports have been approved by the regulatory authorities, arrangements will be made by HCPH or any subsequent administrator for the purchase of annuities for plan members using the pension fund assets.

A number of you have inquired if your pension benefits will cease to be paid due to the wind up of the HCPH pension plans. Based on the information provided to us by HCPH, we expect that the full or close to full amount of your pension benefits will likely continue to be paid. However, the possibility does exist that the members of any HCPH plan that is found to be underfunded as of the wind up date will have their future pension benefits reduced.

We will not know the final funded status of your HCPH pension plan until the Wind-Up Reports have been completed by the HCPH actuary. As explained above, if there are sufficient assets in the pension plan fund to cover all of the plan's liabilities, then you should experience no reduction to your pension benefits. If so, a PBGF application will not be necessary and the changes that you experience as a result of the wind up will be largely administrative in nature. That is, HCPH will no longer be responsible for the administration of your pension plan, and instead of receiving a monthly pension payment from a pension fund, your monthly payment will be made to you through an annuity that has been purchased from an insurance company on your behalf.

In order to avoid pension benefit reductions due to any HCPH plan that is found to be underfunded as of the wind up date, we are currently in negotiations with HCPH to have any such pension plan topped up through arrangements in the CCAA proceedings. We will report on the status of those negotiations in due course.

In the event there are insufficient assets in your HCPH pension plan to cover all the plan's liabilities, an application can be expected to be made to the Ontario Superintendent to request that the PBGF apply in respect of the pensions of those employees who were employed in Ontario. If granted, a PBGF payment should be made to the plan to supplement its funded status and minimize the amount of any pension benefits reduction.

Possible Delays

If you are already in receipt of pension benefits from an HCPH pension plan, your pension payments should continue to be paid uninterrupted at their current level for the near future. However, those plan members who wish to start receiving their pension benefits or wish to receive a lump sum commuted value transfer may experience delays. Pension-eligible members may start to receive their pension benefits during the wind-up process only with Superintendent and administrator approval.

If you have questions about your pension eligibility, please contact HCPH's actuary, the firm of Mercer at 1-866-225-7316.

The wind-up process is lengthy and generally takes 12 to 24 months to complete. We will provide updates as the process moves forward as well as updates on the status of our negotiations with HCPH.

We will also ensure that you are notified of any future change to your pension benefits as early as possible. Furthermore, if a funding deficiency is identified by the actuary for any of the HCPH pension plans, we will ensure that an application is made by the pension plan administrator to have Ontario's PBGF pay an amount to supplement the underfunded HCPH plan in respect of Ontario members. We will keep you informed during this process.

Other HCPH Benefit Plans

In addition to the HCPH pension plans, you may also be entitled certain other benefits on your retirement from HCPH such as benefits for retiree health and dental benefits, life insurance and supplemental pension benefits. Although this coverage is currently being continued while HCPH winds down, HCPH will at some point in the future (date to be determined) cease to provide coverage for such benefits.

We are in negotiations with HCPH and Ernst & Young Inc., the court-appointed Monitor, of HCPH in its CCAA proceedings, to reach an arrangement to settle HCPH's liabilities for such benefits as HCPH approaches its own wind up. To date, there has been no final determination as to how such benefits will be treated on HCPH's wind down and options are still being discussed. There may also be tax implications for the arrangement which is ultimately agreed upon. If so, these will be explained to you in further correspondence while the settlement is being negotiated.

We have also been in contact with various insurance providers to discuss alternative retiree health care coverage that would be available to you for purchase on an individual basis without having to provide medical insurability when your health benefits coverage from HCPH ends. We will provide updates of these developments in due course.

Address Changes

It is important that we have your current address. If you have a change of address please write, e-mail or fax our office. Our fax number is 416-204-2897. Our address is 20 Queen Street West, Suite 900, Toronto, Ontario M5H 3R3. We cannot take address changes over the telephone.

If you have any questions or concerns, please contact us at the following coordinates:

Email: hcph@kmlaw.ca
Hotline: 1.866.545.9917

Please also visit our firm's website at www.kmlaw.ca where we post updates on the HCPH CCAA proceedings a periodic basis.

Yours truly,

KOSKIE MINSKY LLP

Andrew J. Hatnay
AJH:sg

cc: Andrea McKinnon and Michelle Landy-Shavim, *Koskie Minsky LLP*