KOSKIE
MINSKY LLP
BARRISTERS & SOLICITORS

March 14, 2013

Andrew J. Hatnay
ahatnay@kmlaw.ca

PRIVATE AND CONFIDENTIAL

Via Regular Mail

Dear Sir/Madam:

Re: Hollinger Canadian Publishing Holdings Co. ("HCPH")
Proceedings under the *Companies' Creditors Arrangement Act* ("CCAA")
Our File No. 09/1867

We are writing further to our letter of December 10, 2012 to provide you with an update on the status of this matter and the proposal that is under discussion for next steps.

In our December 10, 2012 letter (under heading number 3), we reported that we received information from HCPH's actuary in December 2012 that the cost for HCPH to purchase annuities from life insurance companies to take over the payment of pension benefits from the HCPH Pension Plans once those plans are wound up had become extraordinarily high.

It had been previously estimated by HCPH's actuary, Mercer Canada Ltd. ("Mercer") that the total wind up deficits with respect to all of HCPH's Pension Plans was approximately $916,000. This meant that HCPH would have to pay $916,000 from its cash (in addition to using all the pension plan assets) to be able to purchase annuities from a life insurance company that would continue to pay pension benefits to all HCPH pension plan members in full amounts.

However, in December 2012, when HCPH received quotes from insurance companies to purchase annuities, the additional cost required to purchase the annuities had increased from $916,000 to approximately $13 million, primarily due to market conditions. As a result, there was insufficient cash in all of the HCPH pension funds, plus the cash in HCPH at the time, to be able to proceed with the annuity purchases for all the HCPH pension plans that would pay pension benefits in full amounts (with the exception of the Windsor Star Plan, which is discussed further below).

Instead, the amount of cash available could only purchase annuities that would pay *reduced* pension benefits. In other words, if HCPH had proceeded with the annuity purchases in December 2012, then pension benefits for all HCPH pension plan members (other than the Windsor Star Plan) would have been reduced. Furthermore, there would have been no cash left for HCPH to make any distributions on retirees' OPEB claims.

We believe it is helpful to recap the HCPH pension and benefit situation before we proceed to discuss the proposal for next steps to deal with the current predicament.

HCPH is the administrator of six registered pension plans:

a) HCPH Retirement Plan, (Registration No. 0526947) (the "HCPH Plan"). This plan has 2333 members.

b) HCPH Pension Plan for Employees of Newspapers Formerly Owned by Thomson Newspapers, (Registration No. 1033786). This plan has 33 members.

c) Sterling Newspapers Company Pension Plan for Employees of the Newspapers Formerly Owned by Thompson Newspapers, (Registration No. 1024744). This plan has 41 members.

d) HCPH Plan for Employees of Newspapers Formerly Owned by Sterling Newspapers, (Registration No. 399444). This plan has 9 members.

e) Journal Publishing Company Limited Pension Plan, (Registration No. 0267351). This plan has 2 members.

f) Windsor Star Pension Plan, (Registration No. 0208355) (the "Windsor Star Plan"). This plan has 83 members.

Collectively, the HCPH pension plans are referred to in this letter as the "RPPs" (an acronym for "registered pension plans").

HCPH also sponsored a number of health benefit plans and unfunded supplementary pension plans for retirees. The benefits for these plans were paid out of company cash (as opposed to being funded by money paid into a trust fund). These plans are collectively referred to as "OPEBs" (an acronym for "other post-employment benefits").

As you are aware, HCPH terminated its OPEB plans on August 31, 2011. HCPH's actuary, in consultation with the actuary we retained, calculated the retirees' OPEB claims against HCPH in the amount of approximately $39.5 million. We filed a claim for this amount in the HCPH creditors' claims process. There are 1777 HCPH retirees with OPEB claims

The retirees are by far the largest creditor group of HCPH and have the greatest amount of claims.

Based on the financial situation estimated by Mercer, we negotiated the terms of a document called a Plan of Compromise (the "CCAA Plan") with HCPH to reflect the following general scheme of distribution of HCPH's assets to its creditors:

- an amount of cash would be paid from HCPH to the underfunded RPPs to fully fund those plans on their wind up. As described above, the total deficit of four RPPs that were in a deficit position had been estimated by Mercer to be $916,000.[1]

- the remaining cash of HCPH, after satisfying administration and professional costs and other relatively small priority claims would be distributed to unsecured creditors of HCPH, of which the retirees with OPEB claims are the predominant group; and

- The distribution from HCPH on OPEB claims was estimated by the Monitor to be in the range of 20-24 cents on the dollar based on the preliminary estimates prepared by Mercer of the surpluses and deficits in the RPPs and other relevant information at the time. This was expected to increase to approximately 25-28 cents on the dollar due to the payment of $2.95 million to HCPH that we obtained from proceedings we brought in the courts against other parties to Hollinger-related litigation where we sought re-payment of cash that had been paid by HCPH to the SunTimes Media Group Trust fund before HCPH filed for CCAA protection in December 2009.

On July 20, 2012, the CCAA Plan was approved at a creditors meeting by a vote of the required majorities of the creditors of HCPH (i.e., predominantly the retirees). On July 31, 2012 the CCAA Plan was approved by the Court.

Based on the scheme of distribution in the CCAA Plan, HCPH proceeded with the wind-up of the RPPs. HCPH filed wind-up reports with the Ontario Superintendent of Financial Services, the British Columbia Superintendent of Financial Institutions and the Minister of National Revenue. Conditional regulatory approvals of the wind-up reports for the RPPs have been received from the provincial pension regulators.

However, as explained above, due to the unexpected increase in annuity purchase costs that came to light in December 2012, annuities to pay the pension benefits at their full amounts could not be purchased with the cash in HCPH at that time. Accordingly, on December 12, 2012, the company sought direction from the court with respect to the wind up process, including a request for the court to approve the suspension of the wind-up of the RPPs, (with the exception of the wind up of the Windsor Star plan), pending further direction from the court. On the instructions of our client committee, we consented to the issuance of that order, which was issued that day by the CCAA judge.

<u>The Windsor Star Plan</u>

The Windsor Star plan was the only plan that had surplus cash as of December, 2012. That means there is sufficient cash in the Windsor Star plan to purchase annuities for the Windsor Star plan members to pay full pension benefits without reduction, and still have cash remaining (i.e.,

---

[1] As noted above, this amount was based on preliminary estimates by Mercer as described in the valuation reports with respect to each of the Pension Plans prepared by Mercer on a wind up valuation basis and were subject to change until the wind up process was completed.

the "surplus"). The annuity purchases have been completed and commencing March 2013, the Windsor Star members will receive their pension benefits from the annuity provider (BMO Insurance).

We have had discussions with a committee of Windsor Star pension plan members to explain the Windsor Star situation in detail. All Windsor Star pension plan members have been sent a package from BMO Insurance confirming that BMO Insurance is taking over payment of their pension benefits payable from the Windsor Star Plan. The next major step with respect to the Windsor Star members is the distribution of the surplus to the Windsor Star members. We will correspond further with the Windsor Star members in that regard in a separate letter.

Proposal to amend the distribution scheme under the CCAA Plan for the five other RPPs

Based on the distribution scheme in the CCAA Plan as it currently exists, there would not be any cash available for a distribution to retirees with OPEB claims because all of HCPH's cash would be paid to an insurance company for the purchase of annuities in respect of the five RPPs (i.e., all pension plans other than the Windsor Star Plan). Moreover, even if all the available cash is applied to purchase annuities for pension plan members, the available cash can only purchase annuities that pay reduced pension benefits.

We have discussed the significant change in the financial situation with our client committee, and have been instructed to pursue an alternative approach to the distribution scheme in the current CCAA Plan. Our objective is to continue payment of full pension benefits to all pension plan members without reduction (until further notice if a reduction becomes unavoidable) and allow some of HCPH's cash to remain available for a payment on retirees' OPEB claims. The proposal would be reflected in an amendment to the existing CCAA Plan.

We are writing to provide you with an overview of this proposal and to ask you for any questions or comments you may have. In addition, with the assistance of the Monitor, we will seek feedback from samples of retirees.

Please note that this proposal is not final and is subject to change. The general terms of the proposal are as follows:

a) The deficits in the four small underfunded pension plans (not the HCPH Plan), would be funded by a cash payment from HCPH to allow for annuities to be purchased to pay full pension benefits for the members of those plans. Those pension plans would then be wound up. These plans have significantly fewer members than the HCPH Plan and winding up these plans would result in reduced administration costs. Based on the annuity quotes received in December 2012, we understand that the cost of funding the deficits out of HCPH cash in four plans is approximately $1.5 million total.

b) Instead of winding up the HCPH Plan, HCPH would retract the wind up of that plan. HCPH would remain as plan administrator and continue to operate the plan on a going concern basis and pay pension benefits. Existing management of HCPH could continue for this purpose or retired executives (who have pension management experience) of our client committee have told us that they are willing to take over as administrators of the HCPH Plan;

c) The HCPH Plan would continue to pay pension benefits without reduction, until further notice if a reduction becomes unavoidable;

d) The HCPH Plan administrator would conservatively invest the assets of the HCPH Plan fund over a period of several years with the objective of increasing the fund assets;

e) In addition to investing the fund assets, the postponement of the wind up of the HCPH Plan would provide time for the annuity climate to hopefully improve so that the cost of annuities would decrease; and

f) The remaining cash in HCPH, after deducting an amount necessary to pay the administration and professional costs and other relatively small priority claims of other creditors will be distributed to unsecured creditors who, as noted above, are predominantly the retirees with OPEB claims.

The goal of the proposal is to arrive at a point in the future where the assets in the HCPH Plan would be sufficient to buy annuities that continue to pay full pension benefits to HCPH Plan members. At that point, the HCPH Plan could be wound up and members would not have any reduction to their pension benefits.

The major advantages of this proposal are:

a) annuities would be purchased now for the four smaller HCPH pension plans that have a deficit. Those plans could be wound up without reduction to the members' pension benefits;

b) the HCPH Plan would continue to operate and pay full pension benefits to the extent permitted under pension legislation (until further notice if a reduction becomes unavoidable);

c) there would be cash remaining in the company for a distribution in respect of retirees' OPEB claims. However, please note the rate of distribution on OPEB claims is not final in the proposal and will be less than the 20-24 cents on the dollar that the Monitor anticipated in the CCAA Plan.

d) pension benefit reductions for all plan members (other than Windsor Star) are avoided, which would occur if annuity purchases proceed now with the limited cash available.

The main disadvantage of this proposal is the risk of pension benefit reductions to the HCPH Plan members in the future if the HCPH Plan is wound up with insufficient assets. There is no guarantee that the assets in the HCPH Plan fund could be significantly increased through investment returns. Nor is there any guarantee that annuity prices will decrease in the future which are largely a function of interest rates. As related risks, the future investment returns in the HCPH plan fund could be negative or it is possible that annuity purchase costs could increase, which could result in pension benefit reductions for HCPH Plan members in the future if the plan is wound up.

However, the risks outlined above should be considered in light of the current financial situation. If HCPH were to proceed with annuity purchases at this time with insufficient cash, then pension benefit reductions for all HCPH plan members would immediately result. Furthermore, as noted above, there would not be any cash left to pay the retirees' OPEB claims.

We recognize that retirees within the HCPH retiree population have different and overlapping categories of claims. For example, the majority of HCPH retirees are members of a pension plan and also have an OPEB claim, while other retirees have an OPEB claim but not an entitlement to pension benefits. Conversely, other retirees are entitled to pension benefits but do not have an OPEB claim. In light of these different groups of claims among retirees, we, with the assistance of the Monitor, will be communicating directly with certain retirees under separate cover to obtain their views on the proposal, in addition to requesting your thoughts with this letter.

If you have any questions or comments on the proposal in this letter, please contact us as soon as possible at the following coordinates:

Hotline: 1-866-545-9917
Email: hcph@kmlaw.ca

Yours truly,

KOSKIE MINSKY ~~LLP~~

Andrew J. Hatnay
AJH:jc

cc: HCPH Client Committee (Gordon Bullock, John Craig, Fraser Kean, Bill Mann, Ross Morrison and Fred Granville)
Anthony Guindon, James Harnum, *Koskie Minsky LLP*