

ONTARIO

SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

IN THE MATTER OF THE *COMPANIES' CREDITORS
ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF
HOLLINGER CANADIAN PUBLISHING HOLDINGS CO.

Applicant

FIRST REPORT OF THE MONITOR
DATED JANUARY 5, 2010

INTRODUCTION

1. On December 10, 2009 Hollinger Canadian Publishing Holdings Co. (“**HCPH**” or the “**Applicant**”) filed for and obtained protection under the *Companies' Creditors Arrangement Act* (“**CCAA**”). Pursuant to the Order of this Honourable Court dated December 10, 2009 (the “**Initial Order**”), Ernst & Young Inc. (“**EYI**”) was appointed as the Monitor of the Applicant (the “**Monitor**”) in the CCAA proceeding. The Initial Order also appointed Mr. Dennis Byrd as the Chief Restructuring Officer (the “**CRO**”) of the Applicant and appointed the law firm of Koskie Minsky LLP as representative counsel (the “**Representative Counsel**”) to act on behalf of all plan members in respect of issues arising from HCPH's CCAA proceedings that affect the post-employment and post-retirement benefits, other than registered pension plan benefits, of plan members. The Initial Order provided for a stay of proceedings through to January 8, 2010 (the “**Stay Period**”).

PURPOSE

2. The purpose of this First Report of the Monitor (the “**First Report**”) is to report to this Honourable Court with respect to:
 - i) the status of the CCAA proceedings;
 - ii) actual receipts and disbursements of the Applicant from December 10, 2009 to December 27, 2009 as well as the Applicant’s revised cash flow projection from December 28, 2009 to April 18, 2010; and
 - iii) the motion by the Applicant to extend the Stay Period to April 15, 2010.

TERMS OF REFERENCE

3. In preparing this First Report, EYI has been provided with and in making the comments herein relied upon, unaudited financial information, the Applicant’s books and records, financial information prepared by the Applicant, and discussions with management of the Applicant. EYI has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, EYI expresses no opinion or other form of assurance in respect of such information contained in this First Report. Some of the information referred to in this First Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Canadian Institute of Chartered Accountants (“CICA”) Handbook, has not been performed. Future oriented financial information referred to in this report was prepared based on management’s estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.
4. Unless otherwise stated all monetary amounts contained herein are expressed in Canadian Dollars.

5. Capitalized terms not defined in this First Report are defined in the Initial Order or EYI's Report dated December 9, 2009.

BACKGROUND

6. HCPH is a wholly owned direct and indirect subsidiary of Sun-Times Media Group Inc. ("**STMG**"). STMG is currently in Chapter 11 proceedings and on October 26, 2009, substantially all of STMG's U.S. assets were sold. Following this sale, STMG has begun the process of liquidation in accordance with U.S. bankruptcy law procedures.
7. Several years ago, HCPH sold its various newspaper businesses and, for some period of time, it has had no ongoing business activity. The ongoing operation of HCPH consists primarily of the administration of two unfunded retirement plans and certain other post-employment benefits plans (the "**OPEBs**") and six registered pension plans (the "**Pension Plans**") for in excess of 3,000 former employees.

STATUS OF CCAA PROCEEDINGS

8. Pursuant to the Initial Order, on December 18, 2009 the Monitor published in the national edition of The Globe and Mail newspaper a notice which included information on the CCAA proceedings and the toll-free number and the website address of the Monitor and the Representative Counsel.
9. Further, as required by the Initial Order, on December 18, 2009, the Monitor sent the notice attached as Schedule A to the Initial Order (the "**Plan Member Notice**") to all known members of the OPEBs and the Pension Plans (the "**Plan Members**"). The Plan Member Notice included information with respect to the toll-free number and the website address of the Monitor and the Representative Counsel.
10. As required pursuant to the Initial Order, the Plan Member Notice included an "Opt-Out Notice" (the "**Opt-Out Notice**"). The Opt-Out Notice must be signed and returned to the Monitor and the Representative Counsel by January 18, 2010

by any individual Plan Member who does not wish to be represented by the Representative Counsel.

11. As at the date of this First Report, the Monitor has not yet received any signed Opt-Out Notices from Plan Members.
12. As a result of an error being noted in the Representative Counsel's email address on the Plan Member Notice, the Monitor sent a correction notice (the "**Correction Notice**") to the Plan Members with the revised contact information for the Representative Counsel on December 29, 2009.
13. As required by the Initial Order, on December 18, 2009 the Monitor sent a notice including the toll-free number and the website address of the Monitor to all known creditors, excluding Plan Members, with balances owing to them of greater than CDN\$1,000.
14. The Monitor has established a toll-free telephone number to enable creditors and Plan Members in Canada and the U.S. to contact the Monitor to obtain additional information concerning the CCAA proceedings. In addition, the Monitor has also posted all public documents related to the CCAA proceedings on its website at www.ey.com/ca/hcph.
15. To date, the Monitor has received approximately 140 calls on its toll free telephone number. These calls were primarily from Plan Members and related to questions with respect to their future payments as a result of the CCAA proceedings.

UPDATED PLAN INFORMATION

16. In order to begin the process of determining the options available for the Applicants, the Monitor has been working with the Applicants and the CRO to obtain updated information (the "**Updated Reports**") for the OBEBs and the Pension Plans from HCPH's actuaries, Mercer (Canada) Ltd. ("**Mercer**"). The updated information from Mercer will likely not be available until the end of

January or February.

ACTUAL CASH RECEIPTS AND DISBURSEMENTS

17. The Initial Order required the Applicant together with any person or entities performing administrative or payment functions in respect of the OPEBs and the Pension Plans to continue to make such payments to the Plan Members as prescribed by the terms of the Pension Plans and OPEBs (the “**Pension and Benefits Payments and Contributions**”). The Monitor is not aware of any interruption to such Pension and Benefits Payments and Contributions.
18. A summary of the actual receipts and disbursements as compared to the projection set out in Exhibit ‘N’ to the affidavit of Mr Thomas L. Kram, supporting HCPH’s CCAA Application, is attached as Appendix “A” to this First Report.
19. The Applicant’s actual consolidated net cash outflow for the period from December 10, 2009 to December 27, 2009 was \$163,000. The actual net cash outflow was lower than projected by approximately \$400,000 primarily as a result of timing differences with respect to certain disbursements.

UPDATED CASH FLOW PROJECTION

20. HCPH, with the assistance of the Monitor, had prepared a cash flow projection for the period from December 28, 2009 to April 18, 2010, (the “**Cash Flow Forecast**”) a copy of which is attached as Appendix “B” to this First Report. The Cash Flow Forecast has been prepared by management of HCPH, using probable and hypothetical assumptions set out in notes 1 to 12 attached to the Cash Flow Forecast. The Cash Flow Forecast reflects receipts and disbursements to be received or paid over the projection period in Canadian dollars.
21. The Applicant is projecting a net cash outflow of approximately \$3,311,000 during the projection period.
22. The Cash Flow Forecast projects that the Applicants will have sufficient liquidity to operate during the proposed Stay Period.

23. Based on the Monitor's review of the Cash Flow Forecast, the assumptions developed by management are suitably supported and provide a reasonable basis for the Cash Flow Forecast. Further, the Cash Flow Forecast reflects these assumptions and is consistent with the plans of HCPH.

STAY EXTENSION

24. The current stay of proceedings under the Initial Order expires on January 8, 2010. The Applicant is seeking an extension of the stay period to April 15, 2010 in order to permit HCPH the time to receive updated information on the OPEBs and the Pension Plans from Mercer, continue to share information with the Representative Counsel, and to begin the process of analyzing alternatives with respect to addressing its liabilities.
25. It is the Monitor's view that the Applicant has acted in accordance with the Initial Order and is also satisfied that the Applicant is acting in good faith and with due diligence.

RECOMMENDATIONS

26. The Monitor supports the relief sought by the Applicant and recommends that the following orders be made, if this Honourable Court sees fit:
- i) an order extending the Stay Period to April 15, 2010; and
 - ii) an order approving the First Report and the conduct and activities of the Monitor as reported on herein.

All of which is respectfully submitted this 5th day of January, 2010.

ERNST & YOUNG INC.
in its capacity as Court Appointed Monitor of
Hollinger Canadian Publishing Holdings Co.

Per:

A handwritten signature in black ink, appearing to read "Alex Morrison", with a long horizontal line extending to the right.

Alex Morrison
Senior Vice President

APPENDIX A

Hollinger Canadian Publishing Holding Co
Cumulative Receipts and Disbursements
For the Period December 10, 2009 to December 27, 2009

	Actual	Projection	Variance	Note
OPENING BANK BALANCE (In \$CDN)	24,893	24,577	316	1
RECEIPTS				
MAV II ABCP Note Payments Received	-	-	-	
Interest Income	3	5	(2)	
Total Receipts	3	5	(2)	
DISBURSEMENTS				
Payroll	(21)	(12)	(9)	
Consultants	-	(43)	43	2
Registered Pension Plan Contributions	-	(54)	54	3
Unfunded Pension Plan Payments	-	-	-	
Post Employment and Post Retirement Benefits	(139)	(152)	12	
General & Administrative Costs	(5)	(6)	1	
Restructuring Costs	-	(300)	300	4
Total Disbursements	(165)	(567)	402	
NET CASH INFLOW/(OUTFLOW)	(163)	(562)	400	
CLOSING BANK BALANCE	24,730	24,016	715	
Restricted Cash	11,297	11,273	24	

**Hollinger Canadian Publishing Holding Co. (“Applicant”)
Cumulative Actual Receipts and Disbursements
For the Period December 10 to December 27, 2009
Variance Analysis**

The actual receipts and disbursements are denominated in Canadian dollars. U.S. dollars are converted to Canadian dollars at the month end exchange rate as published by the Bank of Canada. In the projection, U.S. dollars are converted to Canadian dollars at the exchange rate of US\$1.00=CDN\$1.07.

- 1. Opening Bank Balance** – The opening bank balance of the actual receipts and disbursements includes funds held in Canadian dollars and U.S. dollars that were converted into Canadian dollars. The opening funds held in U.S. dollars in the projection were translated using the closing exchange rate of CDN\$1.07= USD\$1.00. Accordingly, the variance represents the impact of converting the opening bank balance held in U.S. dollars into Canadian dollars using different exchange rates for the actual receipts and disbursements and for the projection. In addition, the Forecast estimated a lower opening cash balance than actual results.
- 2. Consultants-** The positive variance is as a result of lower than projected consulting costs incurred and timing differences.
- 3. Registered Pension Plan Contributions** – The positive variance is primarily due to a timing difference and is expected to reverse in the future.
- 4. Restructuring Costs** – The positive variance is primarily due to a timing difference and is expected to reverse in the future.

APPENDIX B

**In the Matter of the CCAA of Hollinger Canadian Publishing Holdings Co.
("HCPH" or the "Applicant")
Notes to the Unaudited Cash Flow Projection**

Disclaimer:

In preparing this cash flow projection (the "Cash Flow Forecast"), the Applicant have relied upon unaudited financial information and the Applicant have not attempted to further verify the accuracy or completeness of such information. The Cash Flow Forecast includes estimates concerning the contributions to the registered pension plans, the unfunded pension plans and the post retirement and post employment benefit plans. Since the Cash Flow Forecast is based on assumptions about future events and conditions that are not ascertainable, the actual results achieved during the Cash Flow Forecast period will vary from the Cash Flow Forecast, even if the assumptions materialize, and such variation may be material. There is no representation, warranty or other assurance that any of the estimates, forecasts or projections will be realized.

Overview:

The Applicant have prepared the Cash Flow Forecast based primarily on historical payments. Receipts and disbursements are denominated in Canadian dollars.

Assumptions:

1) Opening Balance:

This is the projected opening cash balance of the Applicant at the commencement of the CCAA proceedings and includes funds held in Canadian dollars and U.S. dollars that were converted into Canadian dollars at U.S.\$ 1 = CDN\$ 1.07 exchange rate.

2) ABCP Note Receipts:

The Cash Flow Forecast assumes that no receipts from the ABCP notes will be received during the projection period.

3) Interest Income:

Interest income on available cash is earned at a projected rate of 0.28% and projected to be received bi-weekly.

4) Payroll:

Payroll represents projected salaries and benefit costs to three employees and one temporary assistant. In addition, payroll costs include retirement payments to an employee until April 2010 pursuant to an agreement with such employee.

5) Consultants:

Consultants represent projected costs to certain legal and other advisors assisting HCPH with non-restructuring issues.

6) Registered Pension Plan Contributions:

HCPH has certain registered pension plans for its former employees. Further details of such plans are presented in the affidavit of Thomas L. Kram filed in connection with the application for an initial order pursuant to the Companies' Creditors Arrangement Act (the "Kram Affidavit"). The projected payments included in this Cash Flow Forecast represent funding payments to the pension plans based on the most recent valuation reports received by HCPH from Mercer. The projected payments are calculated based on the minimum employer contributions identified by Mercer for each of the plans.

7) Unfunded Pension Plan Payments:

HCPH has two unfunded pension plans that provide retirement and certain death benefits for certain former employees based on individual arrangements with each of the employees included in these plans. Further details of such plans are presented in the Kram Affidavit. The projected payments included in this Cash Flow Forecast are based on historical run rates.

8) Post Employment and Post Retirement Benefits:

HCPH has several post employment and post retirement benefit programs for its former employees. Further details of such programs are presented in the Kram Affidavit. The projected payments included in this Cash Flow Forecast are based on historical run rates for each of the benefit plans.

9) General and Administrative Costs:

General and Administrative costs represent projected costs for rent for HCPH's Toronto office, utilities, office supplies and storage costs.

10) Restructuring Costs:

Restructuring costs include projected costs related to the fees of the Chief Restructuring Officer, HCPH's counsel, the Monitor and its counsel and representative counsel for the post employment and post retirement plan members.

11) Restricted Cash:

Represents approximately \$11.3 million of restricted cash held as reserves for certain indemnities and trust payments.

12) ABCP Notes:

Represents the Canadian currency equivalent of book value of the MAV II ABCP Notes of U.S. \$6.8 million held by HCPH.