

December 22, 2014

Andrew J. Hatnay
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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 to all retirees of May 23, 2014 to report on the status of this matter.

a) Interim Distribution in June, 2014

As reported in our letter to you of May 23, 2014, the company paid an interim distribution to all eligible retirees in respect of each retiree’s OPEB claim in the amount of approximately 7 cents on the dollar of claim amounts in June, 2014. All eligible retirees should have received this interim distribution payment.

b) Second Distribution

We had been in regular dialogue with HCPH about next steps to conclude this file and having the company release a second and final distribution to eligible retirees. HCPH told us on a number of occasions that it was working towards completing the file in 2014. A few weeks ago, we learned that HCPH is not yet in a position to close the file primarily because it continues to have unresolved issues with Canada Revenue Agency (“CRA”). We engaged the company to find out the nature of the impasse and we understand it relates to a request by HCPH for CRA to provide a full release to HCPH from CRA stating that CRA does not have any further tax claims against the company. The company has assured us it is proceeding as quickly as it can, and we have recently been provided with draft documentation between the company and CRA that they plan to sign to conclude this issue. We will continue to follow up so that the company concludes the CRA issue as soon as possible.

c) CRA rules in our Advance Tax Ruling that distributions in respect of retirees' health benefit claims are not taxable

In our letter of May 23, 2014, we reported that we had filed an Advance Tax Ruling request with CRA requesting that the distributions with respect to the health benefit claim be held non-taxable. We are pleased to report that we recently received the Advance Tax Ruling (copy enclosed) granting our request. The Ruling will provide tax savings to all retirees with a health benefit claim as the distribution amounts in respect of that claim have been expressly held by CRA to be not subject to tax.

We had considerable debate with the company and the Monitor (Ernst & Young) over the tax status of the health benefit distribution as both the company and Monitor refused to pursue with the Advance Tax Ruling request because their tax counsel was not satisfied that the HCPH benefit plans qualified as a "private health services plan" ("PHSP") under the *Income Tax Act* (Canada).

We disagreed with their opinion and retained specialist tax lawyers with the firm Davies, Ward, Philips, and Vineberg LLP ("Davies"). Davies was of the view that HCPH health benefit plans did qualify as PHSPs and that an Advance Tax Ruling request was warranted. We instructed Davies to proceed with the Ruling request, which, as noted above, was successful. Davies persuaded CRA that the existing administrative interpretation of PHSP was too rigid and that the HCPH benefit plans should qualify as PHSPs. Davies reported that the issue went to high levels of CRA who ultimately agreed with Davies' submissions. CRA added that they intend to publish a public statement clarifying the definition of PHSP as a result of our Ruling request for future reference with other cases.

If you are a retiree who received a distribution in 2014 in respect of a health benefit claim, we suggest you provide a copy of the enclosed Ruling to your tax preparer when you file your tax return in 2015 so that you can recover the tax that the company withheld from the June 2014 distribution relating to your health benefit claim. The company should provide you with a T4 slip in early 2015 reflecting the June 2014 distribution.

You will note that although the Advance Tax Ruling request did not specifically ask for confirmation that the distributions in respect of the health benefit claim be not subject to tax withholding at source by HCPH when it pays distributions, CRA nevertheless stated in the Ruling that no withholding is required. Accordingly, we sent a copy of the Ruling to HCPH and the Monitor, and brought the no-withholding portion to their attention to request that they not withhold tax at source in respect of the health benefit claim in the next distribution.

After further discussions, the Monitor's and company's tax counsel have refused to not withhold tax. Their tax counsel remain of the view that the HCPH benefit plans are not PSHPs and they are not willing to assume any risk of penalty from CRA for a failure to withhold, despite the language in the Ruling. While we strongly disagree with their position and view any such risk to

their clients to be infinitesimal, they maintain that they will not advise their clients to not withhold income tax from the health benefit claim portion of the upcoming distribution. Unless they change their view prior to the next distribution, this means that the company will again withhold tax on the health benefit claim portion of the next distribution. Nevertheless, you should be able to recover the withheld tax on your 2015 income tax return as discussed above, and for the upcoming distribution expected in 2015, on your tax return when you file it in 2016.

d) Payment of Pacific Press Trust funds to HCPH

In July, 2014, the company brought a motion before the court to withdraw dormant funds from the Pacific Press Trust in the amount of \$1.48 million and pay that amount to HCPH, for ultimate distribution to creditors. HCPH reported that while operating as “Southam”, HCPH, along with other Hollinger entities, ran a number of newspaper businesses. One such business was Pacific Press Limited (“Pacific Press”). Pacific Press was a subsidiary of Southam until its dissolution in 1996. Pacific Press owned the Vancouver Sun and Vancouver Province newspapers in British Columbia, and was responsible for all of the individuals employed in connection with these newspapers.

We understand that the Pacific Press Trust had originally been set up by HCPH (as successor to Southam) in September 1, 1989 to secure benefits payable to disabled and other eligible employees of Pacific Press. HCPH reported that the trust has been inactive for almost 15 years and not paid any amount to any employee as the employees who had originally been eligible for a benefit payable from the trust had been assumed by purchasers of Pacific Press and were now receiving benefits that are secured by the successor companies.

We contacted the Union who had represented those employees (Unifor, Local 2000 (formerly CEP, Local 2000)) who made inquiries of the affected employees and the Union confirmed to us in a sworn affidavit that the applicable employees’ benefits were covered through other sources, and that the Union would not oppose the company’s motion. Accordingly, the company took the position that the trust was obsolete and served no purpose and that the funds in the trust could be withdrawn and paid back to HCPH for later distribution to retirees.

We did not oppose the company’s motion and on August 19, 2014, Mr. Justice McEwen of the Ontario Superior Court of Justice (Commercial List) approved the withdrawal of the trust funds. We have confirmed with HCPH that they have now received the \$1.48 million. These funds will contribute to increase the distribution to retirees in 2015.

e) Refund of overpayment from HCPH pension plans to HCPH as part of the pension wind up process

As we explained in prior correspondence, we were successful in negotiating a transaction with BMO Insurance (“BMO”) for the company to be able to purchase annuities to continue full payment of pension benefits from all HCPH pension plans (i.e., without any reduction), and still have some funds remaining for distribution to retirees on OPEB claims. All eligible pensioners

should by now have received correspondence from BMO explaining the annuity process, and are receiving continuation of full pension benefits from BMO.

As part of the pension wind up process, it was subsequently determined that there was approximately \$3.8 million of excess funds that remained in the HCPH plans after the purchase of the annuities with BMO using the pension fund assets. The company applied to the Financial Services Commission of Ontario ("FSCO") for a refund of those funds and on November 12, 2014, FSCO approved the payment of approximately \$3.8 million from the HCPH pension plans to HCPH. HCPH has advised us that it expects to receive these funds imminently. When received, these funds will also contribute towards the next distribution and will generate a higher payment to retirees.

Next Steps

Due to the recovery of the Pacific Press funds and the refund from the pension wind up process, we estimate the next distribution by HCPH to be in the range of 10-15 cents on the dollar. We will confirm the exact amount with the Monitor as the distribution date approaches and will let you know future details under separate cover.

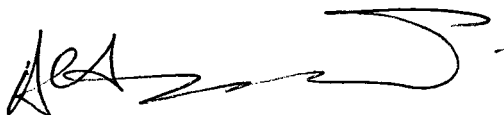
As noted above, although we had hoped to complete this file and have the company pay its final distribution in 2014, unfortunately that has not occurred due to the company's ongoing discussions with CRA, as well as the finalization of the transfer of \$3.8 million pension refund. We will continue to follow up with the company to bring this matter to conclusion and have the final distribution released to retirees as soon as possible.

We trust the above is satisfactory at this time. If you have any questions, please feel free to contact us on our toll-free hotline at 1-866-545-9917 or email us at hcph@kmlaw.ca.

We wish you the best for the holiday season.

Yours truly,

KOSKIE MINSKY LLP



Andrew J. Hatnay

AJH/vdl

cc. HCPH Client Committee (Gordon Bullock, John Craig, Fraser Kean, Bill Mann, Ross Morrison and Fred Granville)
Barbara Walancik, Natercia McLellan, *Koskie Minsky LLP*

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