Court File No.: 09-8503-00CL

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

REPORT OF THE PROPOSED MONITOR DATED DECEMBER 9, 2009

INTRODUCTION

1. Ernst & Young Inc. ("**EYI**") understands that Hollinger Canadian Publishing Holdings Co. ("**HCPH**" or the "**Applicant**") has brought a motion before this Honourable Court for an Initial Order under the *Companies' Creditors Arrangement Act* ("**CCAA**").

2. This is the first report of EYI, the proposed Monitor in the Applicant's CCAA proceedings. EYI has consented to act as Monitor in these CCAA proceedings.

PURPOSE

3. The purpose of this first report of the proposed Monitor (the "**First Report**") is to provide information to this Honourable Court on:

    i) HCPH's decision to commence insolvency proceedings;

    ii) an overview of HCPH's 13 week cash flow forecast;

    iii) selected financial matters addressed in the proposed Initial Order;

    iv) HCPH's restructuring alternatives; and

v) conclusions and recommendations.

TERMS OF REFERENCE

4. In preparing this 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 Report. Some of the information referred to in this 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.

5. Unless otherwise stated all monetary amounts contained herein are expressed in Canadian Dollars.

6. Capitalized terms not defined in this First Report are defined in the Kram Affidavit (defined below) filed by HCPH in connection with these CCAA proceedings.

7. EYI was retained by HCPH effective as of September 23, 2009, to assist it and its other professional advisors to analyse options available to address HCPH's liabilities.

8. EYI does not act as auditor to HCPH.

OVERVIEW

9. HCPH (formerly Southam) is a wholly owned direct and indirect subsidiary of Sun-Times Media Group Inc. ("STMG"). A copy of the organization chart as attached as Exhibit "A" to the affidavit of Thomas L. Kram, who is the Chief Financial Officer of STMG, filed in connection with HCPH's CCAA proceedings (the "**Kram Affidavit**"), is reproduced as Appendix '**A**' to this Report.

10. As discussed in the Kram Affidavit, 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. Accordingly, employees of STMG who were overseeing the business of HCPH will likely not be able to continue to do so.

11. 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. The details of these OPEBs and Pension Plans are presented in the Kram Affidavit.

12. The Applicant has three employees in Toronto who primarily manage the administration of the Pension Plans and the OPEBs. In addition, HCPH engages further temporary assistants as required.

DECISION TO COMMENCE INSOLVENCY PROCEEDINGS

13. As described earlier, HCPH has no ongoing operations, therefore, no ability to generate future revenues other than interest income. In addition, HCPH incurred certain investment losses as described in the Kram Affidavit.

14. Due to the Applicant's sale of operating assets and certain investment losses, a stay of proceedings is essential for the Applicant to restructure its OPEBs and

Pension Plans. Such stay would provide HCPH with the time required to develop a permanent solution to address the OPEBs and Pension Plans. Accordingly, the Applicant believes it is necessary for HCPH to file for CCAA protection.

OVERVIEW OF HCPH's 13 WEEK CASH FLOW PROJECTION

15. HCPH, with the assistance of the Monitor, has prepared a 13 week Cash Flow Projection (the "**Cash Flow Forecast**") for the 13 week period from December 7, 2009 to March 7, 2010. A copy of the Cash Flow Forecast as attached as Exhibit "N" to the Kram Affidavit is reproduced as Appendix '**B**' to this Report. The Cash Flow Forecast has been prepared by management of HCPH for the purpose of the Initial Application, 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 13 week projection period in Canadian dollars.

16. HCPH's cash position at the commencement of the CCAA proceedings is estimated to be approximately $24.5 million (excluding restricted cash of approximately $11.2 million).

17. The Monitor's review consisted of inquiries, analytical procedures and discussion related to information supplied to the Monitor by certain of the management and employees of HCPH. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. We have also reviewed the support provided by management of HCPH for the probable assumptions, and the preparation and presentation of the Cash Flow Forecast.

18. Based on the Monitor's review, nothing has come to our attention that causes the Monitor to believe that, in all material respects:

    i) the hypothetical assumptions are not consistent with the purpose of the Cash Flow Forecast;

ii) as at the date of this report, the probable assumptions developed by management are not suitably supported and consistent with the plans of HCPH or do not provide a reasonable basis for the Cash Flow Forecast, given the hypothetical assumptions; or

iii) the Cash Flow Forecast does not reflect the probable and hypothetical Assumptions.

19. As described in the Terms of Reference above, since the Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved. In addition, the Monitor expresses no opinion or other form of assurance with respect to the accuracy of financial information presented in the Cash Flow Forecast, or relied upon by the Monitor in preparing this Report.

20. The Cash Flow Forecast has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.

21. The Cash Flow Forecast projects that the Applicant will have sufficient liquidity to operate during the CCAA proceedings.

SELECTED FINANCIAL MATTERS ADDRESSED IN THE PROPOSED INITIAL ORDER

22. The proposed Initial Order provides for the engagement of a Chief Restructuring Officer, appoints Representative Counsel, provides for an Administration Charge and establishes a process of creditor notification as set our further below:

- *Chief Restructuring Officer*

23. The proposed Initial Order contemplates the engagement of Mr. Dennis Byrd as Chief Restructuring Officer ("**CRO**") to the Applicant in accordance with the

agreement substantially in the form attached as Exhibit "O" to the Kram Affidavit (the "**CRO Agreement**"). The powers, duties and responsibilities of the CRO are set out in the CRO Agreement together with such other powers, responsibilities and duties as may be approved by the Monitor or this Honourable Court. The appointment of a CRO will facilitate the management of HCPH's operations and participation in these proceedings given that it may not otherwise have directors or officers to direct its affairs. The proposed Initial Order provides for a charge (the "**CRO Charge**") on the property of HCPH as security for the CRO's fees and disbursements incurred in accordance with the terms of the CRO Agreement and a CRO indemnity as defined in the proposed Initial Order.

- *Representative Counsel*

24. The proposed Initial Order contemplates the appointment of Koskie Minsky LLP as ("**Representative Counsel**") for all members and beneficiaries of the OPEBs in respect of any issues affecting the members and/or beneficiaries of the OPEBs in these CCAA proceedings. Representative Counsel will facilitate discussion about ways to address OPEBs, and ensure that retirees are well represented, without otherwise precluding them from engaging their own counsel if they choose to do so. In addition, the proposed Initial Order notes that the Applicant shall provide to Representative Counsel, the names, last known addresses, and last known email addresses (if any) of all of the member of the OPEB Plans, as well as applicable data regarding their entitlements.

- *Administration Charge*

25. The Administration Charge as described in the proposed Initial Order provides for an amount of CDN$750,000 in favour of the Monitor, counsel to the Monitor, the Applicant's counsel and Representative Counsel as security for the professional fees and disbursements incurred both before and after the making of the Initial Order in respect of these proceedings. The Proposed Monitor believes that the charge is required and reasonable under the circumstances. The Administration Charge ranks ahead of the CRO Charge described above.

- *Creditor Notification*

26. The proposed Initial Order contemplates that the Monitor shall without delay publish in the Globe and Mail newspaper a notice containing the information prescribed under the CCAA and advising of the appointment of Representative Counsel. Further, the Initial Order contemplates that the Monitor shall, within ten days of the date of entry of the Initial Order, send the notice substantially in the form attached as Schedule "A" to the Initial Order to the members of the OPEBs and the Pension Plans. The proposed notice to retirees is intended to be more "user-friendly" than a standard CCAA notice given the audience to which it is addressed, and to alleviate immediate concerns they may have regarding the immediate consequences to their pensions and benefits. In addition, the Initial Order contemplates that the Monitor shall, within ten days of the date of entry of the Initial Order, send a notice of the making of the initial order to the Applicant's known creditors, other than employees, members of the OPEBs and Pension Plans members and creditors to the Applicant owed less than CDN$1,000.

RESTRUCTURING ALTERNATIVES

27. At this preliminary stage, it is not possible to present a comprehensive restructuring strategy as HCPH and the CRO will need to review the OPEBs and the Pension Plans and consult with the Representative Counsel in order to determine a permanent resolution to these plans. The CCAA proceedings will contribute a stable environment to enable HCPH to determine alternatives to restructure such plans. In the meantime, the proposed Initial Order contemplates that the plan members will continue to receive OPEB benefit payments and Pension Plan payments without adjustment until such time as the Applicant seeks further direction of this Honourable Court.

CONCLUSIONS AND RECOMMENDATION

28. The Proposed Monitor believes that it is appropriate that the Applicant be granted the benefit of protection under the CCAA, so it is able to restructure its OPEBs

and Pension Plans in a manner that is in the best interest of the plans members.

29. Further to EYI's review of the proposed Initial Order, EYI supports the thresholds in the proposed Initial Order, including:

i) an Administration Charge of CDN$750,000;

ii) a CRO Charge; and

iii) the notifications required to be sent to the OPEBs, Pension Plan members and the creditors.

All of which is respectfully submitted this 9th day of December, 2009.

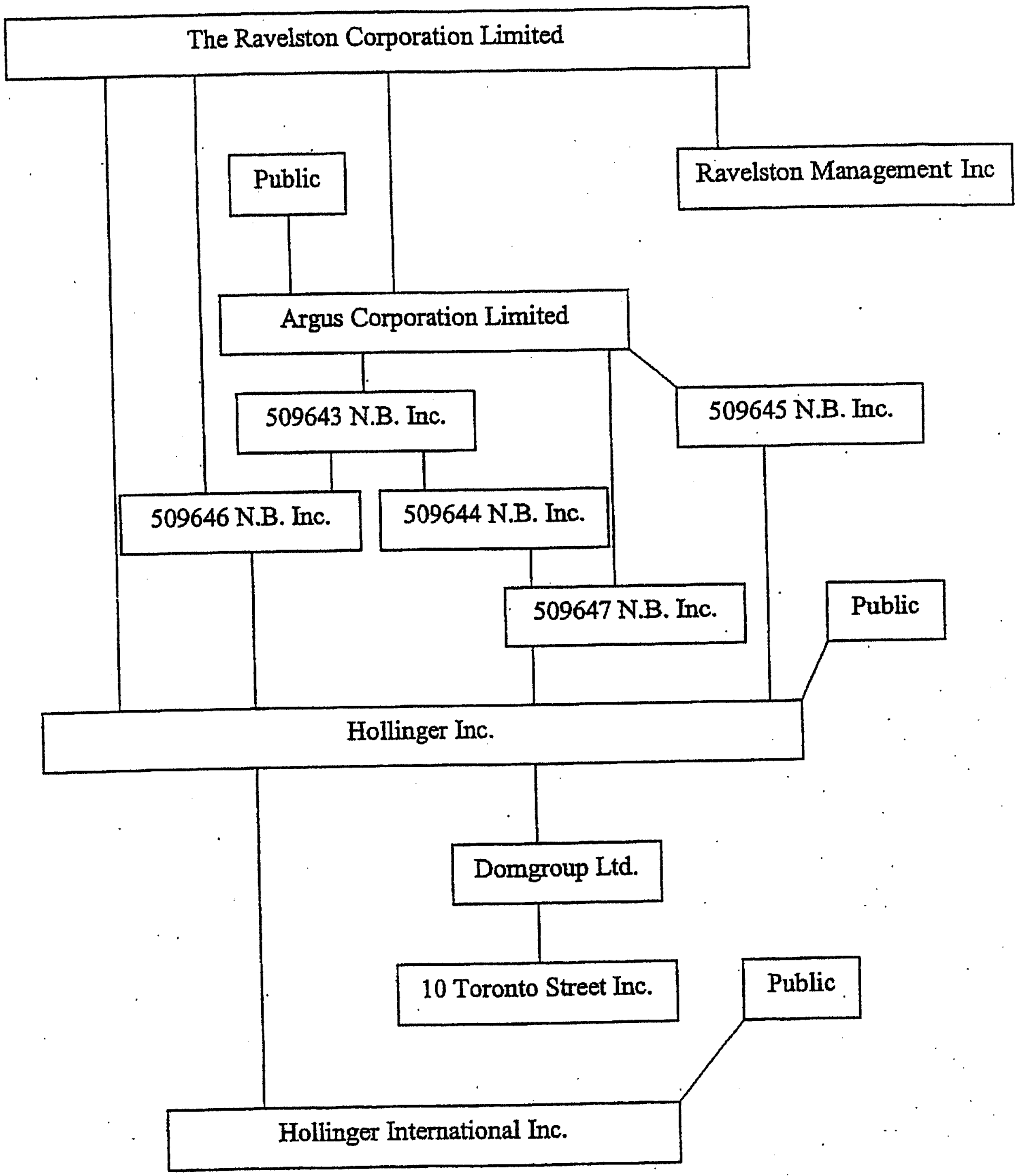
ERNST & YOUNG INC.
in its capacity as the Proposed Monitor of
Hollinger Canadian Publishing Holdings Co.

Per:

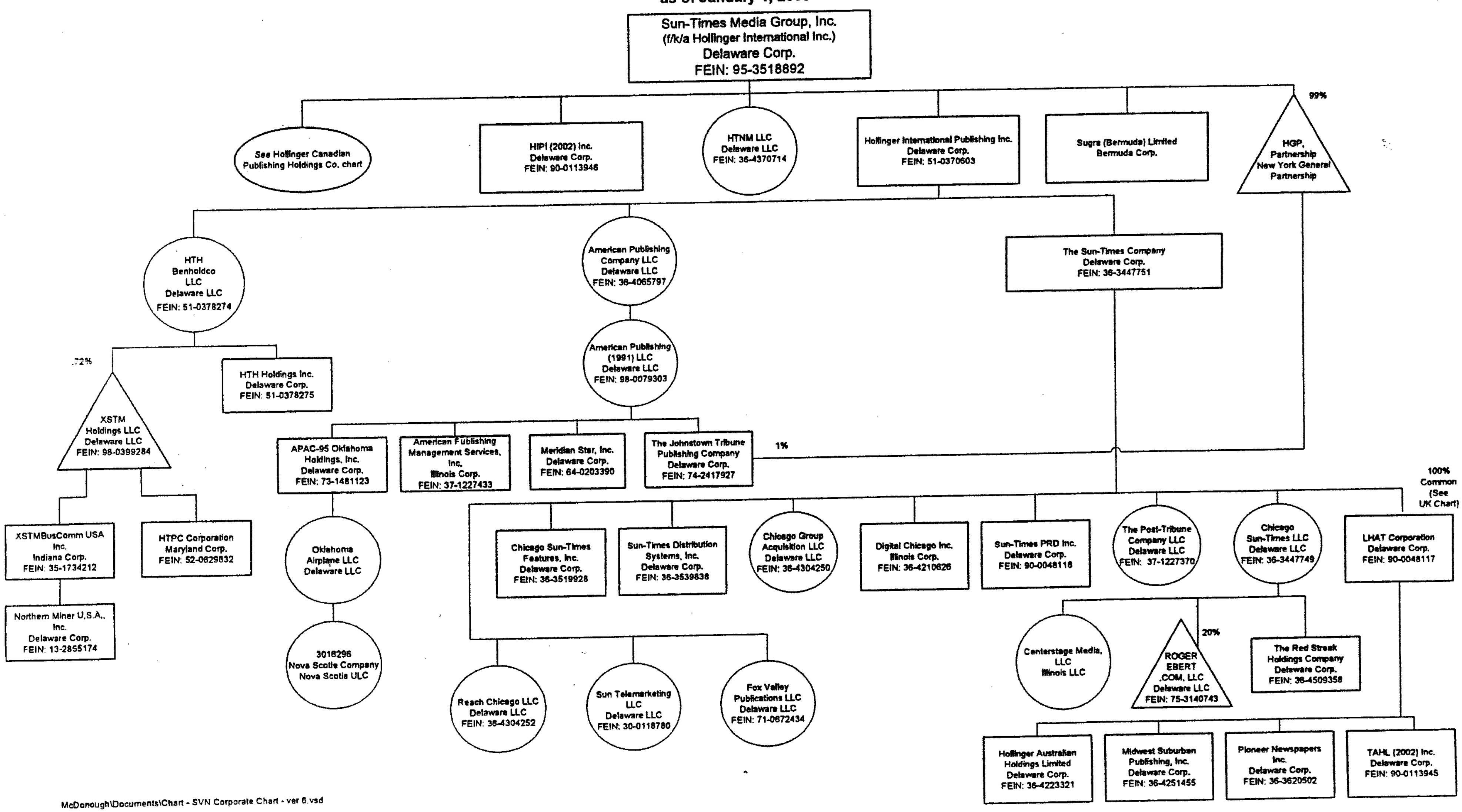
Alex Morrison
Senior Vice President

APPENDIX A

~~Corporate Structure~~

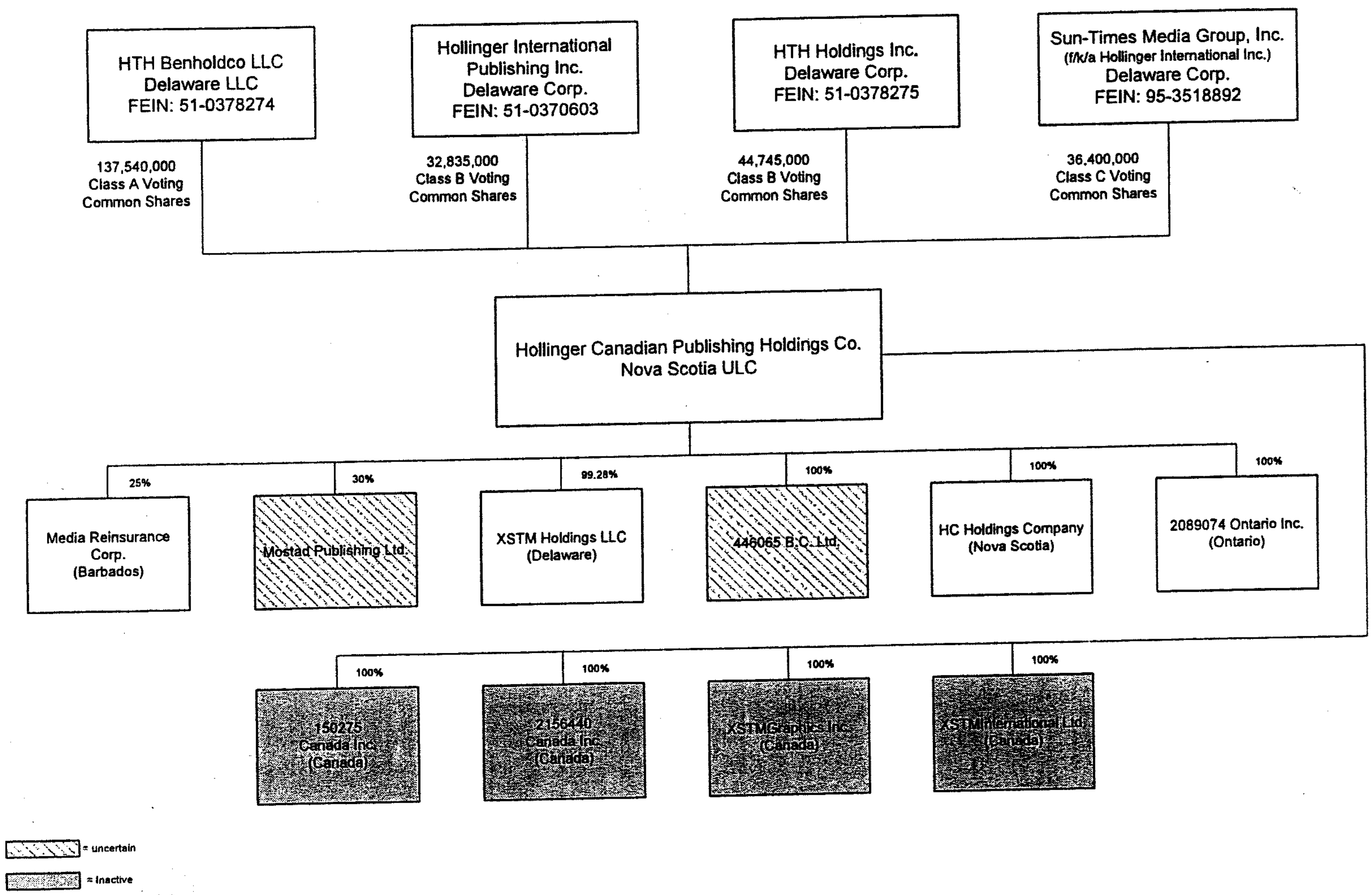


Sun-Times Media Group, Inc. (f/k/a Hollinger International Inc.)
Subsidiaries
as of January 1, 2009



McDonough\Documents\Chart - SVN Corporate Chart - ver 6.vsd

Hollinger Canadian Publishing Holdings Co.
Ownership and Subsidiaries



APPENDIX B

Hollinger Canadian Publishing Holdings Co. ("Applicants") Cash Flow Projection
For The Period From December 7, 2009 to March 7, 2010
(In Thousands of Canadian Dollars)

Week Ending	Notes	13-Dec	20-Dec	27-Dec	3-Jan	10-Jan	17-Jan	24-Jan	31-Jan	7-Feb	14-Feb	21-Feb	28-Feb	7-Mar	Total
Opening Bank Balance	1	24,577	24,541	24,345	24,016	23,768	23,734	23,501	23,467	23,158	22,913	22,870	22,674	22,365	24,577
Receipts															
MAV II ABCP Note Receipts	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Income	3	3	-	3	-	3	-	3	-	2	-	2	-	2	17
Total Receipts		3	-	3	-	3	-	3	-	2	-	2	-	2	17
Disbursements															
Payroll	4	(1)	(10)	(1)	(10)	(1)	(10)	(1)	(1)	(10)	(1)	(12)	(1)	(10)	(69)
Consultants	5	(15)	(13)	(15)	(13)	(13)	(15)	(13)	(15)	(13)	(15)	(13)	(15)	(13)	(181)
Registered Pension Plan Contributions	6	-	-	(54)	-	-	-	-	(31)	-	(4)	-	(31)	-	(120)
Unfunded Pension Plan Payments	7	-	-	-	(167)	-	-	-	-	(167)	-	-	-	(167)	(501)
Post Employment and Post Retirement Benefits	8	-	(152)	-	(30)	-	(187)	-	-	(30)	-	(152)	-	(30)	(579)
General & Administrative Costs	9	(2)	(2)	(2)	(8)	(2)	(2)	(2)	(2)	(8)	(2)	(2)	(2)	(8)	(45)
Restructuring Costs	10	(20)	(20)	(260)	(20)	(20)	(20)	(20)	(260)	(20)	(20)	(20)	(260)	(20)	(980)
Total Disbursements		(38)	(196)	(332)	(248)	(36)	(233)	(36)	(309)	(248)	(43)	(199)	(309)	(248)	(2,475)
Net Weekly Cash Flows		(36)	(196)	(330)	(248)	(34)	(233)	(34)	(309)	(245)	(43)	(196)	(309)	(245)	(2,458)
Closing Bank Balance		24,541	24,345	24,016	23,768	23,734	23,501	23,467	23,158	22,913	22,870	22,674	22,365	22,119	22,119
Restricted Cash	11	11,273	11,273	11,273	11,258	11,258	11,258	11,258	11,258	11,243	11,243	11,243	11,243	11,228	11,228
MAV II ABCP Notes (Book Value)	12	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100	7,100

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

Disclaimer:

In preparing this cash flow projection (the "Cash Flow Forecast"), the Applicants have relied upon unaudited financial information and the Applicants 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 Applicants 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 Applicants 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 March 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 Human Resource Consulting ("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.