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

TWENTY SECOND REPORT OF THE MONITOR DATED JANUARY 29, 2015

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 Court dated December 10, 2009 (the **"Initial Order"**), Ernst & Young Inc. was appointed as the Monitor of the Applicant (the **"Monitor"**) in the CCAA proceedings. The Initial Order also appointed Mr. Dennis Byrd as the Chief Restructuring Officer of the Applicant and appointed the law firm of Koskie Minsky LLP as representative counsel (the "**Representative Counsel**") for all members and beneficiaries of the OPEB Plans (as defined in the affidavit of Thomas L. Kram, sworn December 8, 2009 (the "**Kram Affidavit**")) ("**OPEB Plan Members**") in respect of issues affecting such members and/or beneficiaries in the HCPH CCAA proceedings.

2. By order dated July 27, 2010, Representative Counsel was also appointed as counsel for members and beneficiaries of the Pension Plans (defined below) ("**Pension Plan**

Members") for or in respect of any issues affecting such members and/or beneficiaries in respect of the Pension Plans in the HCPH CCAA proceedings.

3. By order dated February 25, 2014, Mr. Michael Krupa was appointed Chief Restructuring Officer (the "**CRO**") effective March 1, 2014, following the resignation of Mr. Dennis Byrd.

4. The Initial Order provided for a stay of proceedings through to January 8, 2010 (the "**Stay Period**"). The Stay Period has been extended through further orders of this Court and was extended to the end of these CCAA proceedings pursuant to the Order of this Court dated July 31, 2012.

PURPOSE

5. The purpose of this Twenty Second Report of the Monitor (the "**Twenty Second Report**") is to report to this Court with respect to:

   i. an update of the claims of the OPEB Plan Members (the "**OPEB Claims**") and claims of other general creditors (the "**General Claims**");

   ii. an update regarding a distribution of approximately $3 million from HCPH's available funds (the "**Interim Distribution**") in accordance with the CCAA Plan (defined below) and an Order of this Court made on May 12, 2014 (the "**Interim Distribution Order**");

   iii. an update with respect to HCPH's cash position;

   iv. an overview of the outstanding matters remaining in these CCAA proceedings (the "**Final Remaining Matters**"); and

   v. the Applicant's request for an order (the "**Final Distribution and Discharge Order**"), substantially in the form served by the Applicant on January29, 2015 (the "**Final Distribution and Discharge Motion**"), among other things:

      a. approving the memorandum of agreement between HCPH and the Canada Revenue Agency dated January 6, 2015 (the "**CRA Agreement**") and authorizing HCPH, the CRO and the Monitor to execute and implement the CRA Agreement and any ancillary steps and documents in connection therewith;

b. authorizing and directing the Applicant to act as Disbursing Agent (as defined in the CCAA Plan) and make one or more distributions occurring on or after February 23, 2015 (the "**Final Distribution Date**") to holders of OPEB Claims and General Claims in accordance with the CCAA Plan (the "**Final Distribution**"), and as varied by the order described in paragraph 5(d) below;

c. authorizing and directing the Applicant, with the assistance of the Monitor, to withhold and remit Taxes (as defined in the CCAA Plan) from the Final Distribution in accordance with the CRA Agreement in making the Final Distribution;

d. ordering that no Tax Gross-Up (as defined below) pursuant to section 5.09(b) of the CCAA Plan be made in respect of the Non-Pension Affected Claims that are Health Benefit Claims (as defined below);

e. authorizing and directing the Applicant, with the assistance of the Monitor, to deal with any Unclaimed Distributions (as defined in the CCAA Plan) with respect to any distributions made under the CCAA Plan, including the Final Distribution in the manner set out in the Final Distribution and Discharge Order;

f. authorizing access by the Monitor and the CRO and such other persons as the Monitor or CRO may direct, to all of HCPH's books and records (the "**HCPH Documents**"), including any HCPH Documents in the possession of a third party and authorizing and directing HCPH and/or the Monitor to enter into agreements *nunc pro tunc*, to store certain HCPH Documents with Iron Mountain Canada Corporation ("**Iron Mountain**");

g. on the Plan Completion Date (defined below), discharging and releasing the Monitor, CRO, Representative Counsel and other Estate Representatives (as defined below) and terminating these CCAA proceedings and discharging the Administration Charge and the CRO Charge, as each is defined in the Initial Order (collectively, the "**CCAA Charges**");

h. authorizing HCPH and the Monitor to issue notice to Canada Post to redirect to the Monitor all mail addressed to HCPH, from and after the Final Distribution Date to the date that the Monitor's Certificate of Discharge and Plan Termination (as defined below) is filed;

i. requesting the aid and recognition of the Final Distribution and Discharge Order by other Courts in Canada and the United States, as required; and

j. approving this Twenty Second Report of the Monitor and the activities of the Monitor as set forth herein, as well as the activities of the CRO as described in the affidavit of Michael Krupa sworn January 26, 2015 (the "**Krupa Affidavit**").

TERMS OF REFERENCE

6. In preparing this Twenty Second Report and making the comments herein, the Monitor has been provided with, and has relied upon certain unaudited financial information, the Applicant's books and records, financial information prepared by the Applicant, discussions with management of the Applicant including the CRO (the "**Management**") and information from other third-party sources including the Applicant's actuary. Except as described in this Twenty Second Report:

   i) the Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants Canada Handbook ("**CPA Handbook**"), and

ii) some of the information referred to in this Twenty Second Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the CPA Handbook, has not been performed.

7. Future oriented financial information referred to in this Twenty Second 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.

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

9. Capitalized terms not defined in this Twenty Second Report are defined in the Initial Order, previous reports of the Monitor and the CCAA Plan.

BACKGROUND

10. HCPH is a wholly owned direct and indirect subsidiary of Sun-Times Media Group Inc. ("**STMG**"). In March 2009, STMG commenced Chapter 11 proceedings, and on October 26, 2009, substantially all of STMG's U.S. assets were sold. Following this sale, STMG began the process of liquidation in accordance with U.S. bankruptcy law procedures.

11. Several years ago, HCPH sold its various newspaper businesses, which included the Pacific Press, Ottawa Citizen, Montreal Gazette, Calgary Herald and Kitchener Waterloo Record. For some period of time, HCPH has had no ongoing business activity. The ongoing operation of HCPH had consisted primarily of the administration of two unfunded retirement plans and certain other post-employment benefits plans (collectively with the unfunded retirement plans, the "**OPEB Plans**") and six registered pension plans (the "**Pension Plans**") for in excess of 3,000 former employees (the OPEB members and the Pension Plan members are collectively referred to as the "**Plan Members**"). Further details with respect to the OPEB and Pension Plans are described in the Kram Affidavit.

12. On December 10, 2009, HCPH was granted an Initial Order pursuant to the CCAA. Since

that time, and as reported in previous reports of the Monitor, HCPH has worked on determining liabilities (including an extensive Court-ordered audit process to compile and verify Plan Members' information) in relation to its more than 3,000 Plan Members and formulating a CCAA Plan in consultation with the Monitor and Representative Counsel for the Plan Members and other creditors.

13. The CCAA Plan was approved by HCPH's creditors at the creditors' meetings held on July 20, 2012 and sanctioned by the Court on July 31, 2012. On October 17, 2012, the Monitor filed a certificate confirming that it had been advised by HCPH that all conditions precedent to the CCAA Plan had been satisfied or waived, as applicable in accordance with the CCAA Plan. Accordingly, the CCAA Plan became effective and binding on the Plan Members and other creditors affected by the CCAA Plan.

14. As discussed in detail in the Twelfth Report of the Monitor dated June 7, 2012 (the "**Twelfth Report**"), the CCAA Plan contemplated two classes of affected creditors: a Pension Plan Claims Class (addressing claims relating to Pension Plans) and a Non-Pension Affected Claims Class (of which OPEB Claims are the predominant group). The CCAA Plan provides for the payment of Pension Plan Claims, including any deficiency in respect of the wind up of such Pension Plan, once determined, in full and final satisfaction of the applicable Pension Plan Claims, with such deficit amounts paid prior to any distributions to the Non-Pension Affected Claims Class.

15. At the time of the Twelfth Report, based on preliminary estimates of the wind up surpluses and deficits with respect to the Pension Plans prepared by HCPH's actuary Mercer (Canada) Ltd. ("**Mercer**"), four Pension Plans were estimated to be in a deficit position and two (the HCPH Retirement Plan and the Windsor Star Pension Plan) were estimated to be in a surplus position. The total preliminary wind up deficit for the four Pension Plans expected to be in a deficit position at that time was estimated to be approximately $916,000.

16. As discussed in detail in the Fifteenth Report of the Monitor dated December 10, 2012 (the "**Fifteenth Report**"), Schedule 'B' to the CCAA Plan set out the detailed Pension Plan wind up steps. Such steps included directing Mercer to prepare and distribute wind

up statements to the respective Pension Plan Members to obtain the election of such Pension Plan Members with respect to their option to choose a lump sum transfer or the purchase of a life annuity (the "**Option**"); directing Mercer to prepare annuity purchase data based on Options received and HCPH's records with respect to Pension Plan Members who currently receive monthly pensions; and requesting and accepting quotes from insurance companies for the purchase of annuities.

17. As further discussed in detail in the Fifteenth Report, and as contemplated by the CCAA Plan, HCPH, with the assistance of its actuary, Mercer, requested quotes from six insurance companies to purchase annuities for Pension Plan Members who were currently receiving monthly pensions and members who had opted for payment of a pension. In late November 2012, HCPH obtained quotes from five insurance companies for the purchase of annuities for its Pension Plans. Mercer provided HCPH and the Monitor with a summary of the estimated deficits in each of the Pension Plans based on the quotes received. Based on Mercer's analysis, the deficit calculations (the difference between the assets of the Pension Plans (not including the Windsor Star Pension Plan) and the cost of the annuities and the payment of commuted value transfers, in aggregate and before wind-up expenses) based on the most advantageous quotes totalled approximately $12.8 million in aggregate. This amount was significantly greater than the anticipated aggregate wind up deficit estimated in the wind up reports as at December 31, 2010, which had been estimated to be $916,000 as described above.

18. At the time, HCPH only held cash of approximately $11.9 million and accordingly, HCPH would not have been able to fund the deficits by the deadline of December 13, 2012 as required by the insurance companies. Further, Representative Counsel advised HCPH and the Monitor that it needed time to analyse the pension deficits and work with the Pension Plan Members and OPEB Plan Members to consider their views with respect to the options available in light of the pension plan deficits described above. For that reason, Representative Counsel requested that HCPH not proceed with the wind ups pending further direction of the Court.

19. Accordingly, HCPH sought an Order for directions from this Court to authorize and

direct HCPH to suspend the wind up and the purchase of annuities in respect of the Remaining Pension Plans (not including the Windsor Star Pension Plan which remained in a surplus position based on the quotes received on November 29, 2012), pending further Order of this Court. Such order was granted by this Court on December 12, 2012.

20. Pursuant to the Order of this Court of December 12, 2012, HCPH, with the assistance of the Monitor and in consultation with Representative Counsel continued with the wind up of the Windsor Star Pension Plan, including among other things working with Mercer on correspondence related to the wind up of the Windsor Star Pension Plan, obtaining quotes from insurance companies for the purchase of annuities, reviewing the contract with the selected insurance company and providing it with the information it needed to finalize and complete the purchase of annuities related to the Windsor Star Pension Plan. As the Windsor Star Pension Plan was in a substantial surplus position, HCPH sought an order of this Court authorizing and directing HCPH to apportion and make payment of costs relating to the administration of the Windsor Star Plan from the assets of the pension plan. Such order was granted by this Court on February 25, 2014. HCPH, with the assistance of Mercer, pursuant to the approval of the Financial Services Commission Ontario ("**FSCO**"), distributed the surplus remaining in the Windsor Star Pension Plan to the eligible plan members of the Windsor Star Pension Plan.

21. On April 12, 2013, further to the order of this Court made on December 12, 2012 described earlier in this Report, Mercer received updated illustrative quotes from six insurance companies. Based on Mercer's analysis, it appeared that the wind up deficit calculations based on the most advantageous annuity quotes totalled to approximately $8.9 million in aggregate. This compared favourably to the $12.8 million deficit estimated in December 2012.

22. Given the outcome of the illustrative quotes described above and based on discussions between HCPH, the Monitor and Representative Counsel, it was determined that it would be helpful to meet with the insurance companies who provided the three lowest quotes in order to understand the basis of these quotes, as well as to explain HCPH's situation to these insurance companies in order to ascertain if the quotes could be improved.

Accordingly, further to the authorization of this Court of April 30, 2013, the CRO, along with representatives of HCPH's counsel, the Monitor, Representative Counsel and its actuary and Mercer met with certain insurance companies on May 8, 2013.

23. After the discussions with the insurance companies described above, HCPH, in consultation with the Monitor and Representative Counsel, obtained an Order from this Court on May 13, 2013 (the "**May 13 Order**") which, among other things:

    i. authorized and directed HCPH with the assistance of the Monitor, Mercer, Representative Counsel and its actuary, to obtain refreshed quotes for the purchase of annuities and engage in negotiations with one or more insurance companies to obtain the most advantageous final quote; and

    ii. authorized and directed HCPH to complete the wind up of each of the Remaining Pension Plans in the event that the aggregate deficit calculations (the difference between the value of the assets of the Remaining Pension Plans and the value of all liabilities on wind up including the costs of the annuities, in aggregate and before wind up expenses) of the Remaining Pension Plans (the "**Aggregate Deficit Calculation**" or "**ADC**") was less than $7.5 million or such higher amount as agreed to by Representative Counsel, HCPH and the Monitor (the "**ADC Limit**").

24. Pursuant to the May 13 Order, Mercer sent a request on May 22, 2013 to the same six insurance companies as referred to above for refreshed quotes for the purchase of annuities with respect to the Remaining Pension Plans.

25. On June 10, 2013, Mercer received refreshed quotes from four insurance companies. Based on Mercer's analysis, it appeared that the Aggregate Deficit Calculation, based on the most advantageous annuity quote, totalled approximately $8.7 million.

26. Discussions continued with the leading annuity provider, BMO Life Assurance Company ("**BMO Insurance**"). Around the same time, HCPH worked with the trustees of the Remaining Pension Plans to liquidate the investments related to the Remaining Pension Plans. Discussions with BMO Insurance led to an ADC acceptable to Representative

Counsel and HCPH, which was calculated by Mercer in its report dated June 18, 2013 as $7,564,592, subject to final data adjustments and a final premium reconciliation from BMO Insurance.

27. As the ADC was acceptable to HCPH, Representative Counsel and the Monitor, pursuant to the May 13 Order:

    i. HCPH contributed $7,564,592 to the Remaining Pension Plans to fund the ADC;

    ii. HCPH paid BMO Insurance, the annuity provider, the premium amount for the purchase of the annuities; and

    iii. HCPH entered into a written contract with BMO Insurance for the purchase of the annuities and the finalization of the data with respect to the members of the Pension Plans.

28. In September 2013, BMO Insurance started making monthly pension payments to the members of the Remaining Pension Plans.

29. As the amount paid to BMO Insurance for the purchase of annuities was an estimate, over the last several months, BMO Insurance has worked with HCPH's actuary, Mercer, to complete the final reconciliation of the annuity premiums due to BMO Insurance. The reconciliation is primarily to account for deaths of retirees or their spouses and certain adjustments to premium values. This reconciliation has resulted in an amount of approximately $3.87 million being paid back to HCPH's trust account for the HCPH Retirement Plan (the "**HCPH Retirement Plan Trust Account**") on May 1, 2014 (the "**Premium Refund**").

30. Pursuant to the approval of FSCO, in the week of December 21, 2014, an amount of $3.82 million, net of costs and fees was received by HCPH in its general bank account from HCPH Retirement Plan Trust Account.

STATUS OF THE OPEB CLAIMS AND GENERAL CLAIMS

OPEB Claims

31. As described in the Twelfth Report, HCPH's OPEB Plans include its unfunded retirement plans, which include the Southam Executive Retirement Agreement (the "**SERA**") and the Divisional Allowance Top-Up (the "**DA**"), as well as its post-employment and post-retirement benefit plans, which include retiree medical coverage, dental coverage, life insurance, accidental death and dismemberment insurance and long-term disability income benefits.

32. Pursuant to the Order of this Court of July 28, 2011 (the "**OPEB Claims Procedure Order**"), HCPH's OPEB Plans were terminated as of August 31, 2011 (the "**OPEB Termination Date**"). On August 3, 2011, the Monitor sent a notice of the OPEB Termination Date (the "**OPEB Termination Date Notice**") to Representative Counsel and each OPEB Plan Member as indicated on the list of OPEB Plan Members provided by HCPH to the Monitor.

33. As described in the Twelfth Report, HCPH, with the assistance of the Monitor, conducted an extensive audit process to update its records with respect to the Plan Members. The information received through the audit process was provided to Mercer for the calculation of the OPEB Claims. The assumptions used by Mercer in the calculation of the OPEB Claims were reviewed and agreed to by Representative Counsel's actuary.

34. The OPEB Claims Procedure Order required that Mercer provide its valuation of the OPEB Claims (the "**OPEB Claims Report**") to HCPH, Representative Counsel and the Monitor. The OPEB Claims Report is a valuation of the claims of each of the individual OPEB Plan Members or beneficiaries entitled to an OPEB Claim. The OPEB Claims Report provided details of each OPEB Claim by individual OPEB Plan Member based on certain categories of OPEB Plans, such as health and dental, life insurance and other benefits. Mercer conducted its valuation of the OPEB Claims and provided the OPEB Claims Report on June 6, 2012.

35. On June 19, 2012, the Monitor sent to each holder of an OPEB Claim, at the address

provided on HCPH's master database, a notice of the OPEB Claim (the "**OPEB Claim Notice**"). The OPEB Claim Notice attached Mercer's calculation of the individual's OPEB Claim (the "**OPEB Claim Statement**"). In addition, the Monitor provided to Representative Counsel a copy of each individual's OPEB Claim Statement at the same time as it was sent to the individual.

36. A summary of OPEB Claims calculated by Mercer as reflected in the OPEB Claims Report in presented later in this Twenty Second Report.

37. Pursuant to the OPEB Claims Procedure Order, any OPEB Plan Member who wished to dispute the accuracy of the OPEB Claim or other information on the OPEB Claim Notice was required to provide notice of such dispute (the "**Disputed OPEB Claim**") in writing to Representative Counsel within 30 days of the date the Monitor sent the applicable OPEB Claim Notice and OPEB Claim Statement. OPEB Claims that were not disputed by the OPEB Plan Members within the required time were binding on the OPEB Plan Members and beneficiaries.

38. Representative Counsel received several Disputed OPEB Claims with respect to changes in the input data used in the calculation of the OPEB Claims in the 30 day period. Such disputes primarily related to the union/non-union status of the former employees, dates of retirement, spousal deaths and spousal dates of birth. Such changes were verified by HCPH, the Monitor and Representative Counsel and required changes were provided to Mercer to recalculate OPEB Claims. Due to the delay in the wind up of the Remaining Pension Plans, all Disputed OPEB Claims received were reviewed and provided to Mercer if calculation changes were required and such revised claims were used for purposed of the Interim Distribution. Subsequent to the Interim Distribution, further updates were received which resulted in certain minor changes to certain OPEB Claims.

39. The following is a summary of the original OPEB Claims Report, the claims as of the Interim Distribution and the final claims that will be used for purposes of the proposed Final Distribution, without any adjustment for a taxgross-up, based on HCPH's Claims Register:

Revised Summary of OPEB Claims OPEB Termination Date: August 31, 2011 ($000's)	A	B	C	C - B
OPEB Plan	Original Claim Amount ($)	Interim Distribution Claim Amount ($)	Proposed Final Distribution Claim Amount ($)	Difference ($)
Unfunded Pension Plan - SERA	12,863	12,863	12,863	-
Unfunded Pension Plan - Divisional Allowance	6,606	6,489	6,489	-
Retiree - Life Insurance	7,065	7,275	7,250	(24)
Retiree - Health and Dental	8,104	8,088	8,076	(12)
Retiree - British Columbia Medical	1,046	1,756	1,756	-
Disabled employee - Life Insurance	134	134	134	-
Disabled employee - Health	3,698	3,723	3,723	-
Disabled employee - British Columbia Medical	38	38	38	-
Total OPEB Claims	39,554	40,365	40,328	(37)

40. Based on HCPH's Claims Register, total OPEB Claims for purposes of the Final Distribution total to approximately $40.3 million.

General Claims

41. On April 15, 2010, this Court granted an Order (the "**Claims Procedure Order**") to commence a claims process to identify any creditor claims other than claims in respect of the OPEB Plans and Pension Plans, or claims secured by charges in the Initial Order or any further charge ordered by the Court.

42. As described in the Fourth Report, pursuant to the Claims Procedure Order, the Monitor sent a claims package, including a copy of an instruction letter and a proof of claim form (the "**Claims Package**"), to all creditors identified by HCPH. Subsequently, Claims Packages were sent to certain additional persons based on requests made to the Monitor.

43. Further, as required by the Claims Procedure Order, the Monitor posted a copy of the notice to creditors substantially in the form attached as Schedule 'A' to the Claims Procedure Order (the "**Notice to Creditors**") on its website. In addition, the Monitor published the Notice to Creditors in the National Post newspaper on May 17, 2010 and in the national edition of the Globe and Mail newspaper on May 18, 2010.

44. As described in the Ninth Report of the Monitor dated July 27, 2011 (the "**Ninth**

Report"), as of June 3, 2011, the Monitor had received 12 claims other than in respect of the OPEB Plans and Pension Plans totalling approximately $66.5 million (the "**General Claims**"). These General Claims included five claims that appeared to be in the nature of placeholder claims from the Canada Revenue Agency ("**CRA**") for $1 each (the "**CRA Claims**").

45. Pursuant to an Order made on June 8, 2011 by this Court (the "**Claims Disallowance Procedure Order**"), the Monitor, in consultation with HCPH, disallowed eight General Claims including the CRA Claims, totalling approximately $66.4 million, in their entirety. Of these eight General Claims that were disallowed, seven were either resolved or not disputed by the respective claimants including the CRA Claims which were not disputed by the CRA. As discussed in the Tenth Report of the Monitor dated November 25, 2011 (the "**Tenth Report**"), the claim of approximately $33.4 million from The Electronic-Rights Defence Committee ("**ERDC**") was settled on terms that included valuing the ERDC claim at $nil. The settlement was subject to the approval of this Court and the Superior Court of Quebec in ERDC's class action proceedings. The settlement was approved by this Court on November 28, 2011 and by the Superior Court of Quebec on April 3, 2012.

46. CRA has since confirmed in the CRA Agreement that it has no claims for or on account of Taxes of HCPH for any period prior to the date of the Initial Order such that there is no claim in respect of the CRA Claims. HCPH is not aware of any claims for Taxes in respect of periods subsequent to the date of the Initial Order and the CRA Agreement contemplates that there are no outstanding Taxes owing or payable by HCPH.

47. One of the eight General Claims that was disallowed, for approximately $38,000, was disputed by the claimant (the "**Disputed General Claim**"). This claim was from the Ministry of Revenue of Quebec and it related to a tax issue in Quebec. Further to discussions between the Monitor and the Ministry of Revenue of Quebec, the Ministry of Revenue of Quebec subsequently amended its claim to zero.

48. A further general claim was filed by Representative Counsel on behalf of a retiree alleging a misrepresentation by HCPH with respect to a survivor pension entitlement the

("**Retiree Claim**"). Further to extensive discussions between HCPH and Representative Counsel with respect to the Retiree Claim, in order to resolve the Retiree Claim in a fair and efficient manner, HCPH, in consultation with the Monitor agreed to admit the Retiree Claim as a General Claim in the amount of approximately $12,000.

49. Accordingly, five General Claims totalling approximately $60,000 were admitted by HCPH as proven claims. These claims were included in the Claims Register for the purposes of the proposed Final Distribution.

50. A copy of HCPH's Claims Register including HCPH's OPEB Claims and General Claims was provided to Representative Counsel on January 22, 2015.

UPDATE ON THE INTERIM DISTRIBUTION

51. On May 12, 2014, this Court issued an order directing HCPH to act as Disbursing Agent (as described in the CCAA Plan) and provide the Interim Distribution to members of OPEB Claims and other Non-Pension Affected Claims (as described in the CCAA Plan) (the "**Interim Distribution Order**").

52. Prior to making the Interim Distribution, HCPH, with the assistance of the Monitor had discussions with Canada Revenue Agency ("**CRA**") to obtain CRA's approval with respect to the withholding taxes and deductions for CPP and Employment Insurance ("**EI**"). HCPH, with the assistance of the Monitor and in consultation with Representative Counsel prepared a memorandum setting out the proposed methodology for the treatment of withholding taxes, CPP and EI (the "**Source Deductions Methodology**"). On June 3, 2014, HCPH provided a copy of the Source Deductions Methodology to CRA. On June 12, 2014, HCPH's counsel along with the Monitor and its counsel had a call with CRA to walk through the Interim Distribution and the Source Deductions Methodology. On the call, CRA advised that it was fine in principle with the treatment of withholding taxes, CPP and EI. CRA also sent an e-mail advising that it had reviewed the Source Deductions Methodology provided to it on June 3, 2014 and further advised that there did not appear to be any issue with the proposed withholding treatment, however, it was not in a position to confirm the correctness of the proposed withholding.

In addition, CRA indicated that a formal request could be made to the CRA Rulings Division.

53. Following the approval from CRA as described above, pursuant to the Interim Distribution Order, on June 20, 2014, HCPH, with the assistance of the Monitor made a distribution of approximately $3 million to certain OPEB Claims. An amount of $200,000 was set aside from the amount of $3 million to pay for the employer portion of CPP and EI. The Tax Gross-Up (defined below) was applied in calculating the amounts distributed to holders of OPEB Claims. Approximately 29 of the OPEB Claims were held back as certain of these OPEB claims were pending a Canada Pension Plan exemption approval, certain OPEB claims were pending Employment and Social Development Canada ("**ESDC**") approval and certain OPEB claims were on hold due to previous overpayments of OPEB amounts. Once such clearances and approvals were resolved, in the week of August 3, 2014, HCPH made a further distribution of approximately $40,000 to the OPEB Claims and the Non-Pension Affected Claims.

54. HCPH, with the assistance of the Monitor has worked on trying to locate and assist recipients of uncashed cheques. As of October 31, 2014, based on the records provided by the payroll provider, there were 126 outstanding cheques totalling approximately $64,000, of which 32 cheques totalling approximately $28,000 were reissued in subsequent months. A final reconciliation of the cheques issued with respect to the Interim Distribution is expected from the payroll provider in the next week. Such uncashed cheques are now stale dated and will be added to the Final Distribution of the respective persons. Any uncashed cheques from the Final Distribution will be dealt with as described in more detail below.

UPDATE WITH RESPECT TO HCPH'S CURRENT CASH POSITION

55. HCPH's primary remaining asset is cash of approximately $8.1 million as of January 18, 2015, before accrued but unpaid costs and expenses. This includes cash of approximately $3.82 million received by HCPH from the HCPH Retirement Plan Trust Account and cash of approximately $1.47 million received by HCPH from a former health and welfare trust related to one of HCPH's former newspapers, the Pacific Press Ltd. (the "**Pacific**

Press Trust"). Further details with respect to the Pacific Press Trust are described in the Twenty First Report of the Monitor dated August 15, 2014 (the "**Twenty First Report**"). Such cash, after the payments of costs relating to the ongoing administration of the CCAA proceedings is the primary source from which distributions will be made under the CCAA Plan.

56. A summary of the actual receipts and disbursements of the Applicant as compared to the projection presented in the Twenty First Report is attached as Appendix '**A**' to this Twenty Second Report. The Applicant's actual consolidated net cash inflow for the period from July 21, 2014 to January 18, 2015 was approximately $4.4 million primarily due to the receipt of the funds from the HCPH Retirement Plan Trust Account and the Pacific Press Trust as described above. A detailed variance analysis is set out in Appendix '**A**' to this Twenty Second Report.

MEMORANDUM OF AGREEMENT WITH CRA

57. As discussed earlier in this Twenty Second Report, prior to making the Interim Distribution, HCPH, with the assistance of the Monitor had discussions with CRA to obtain CRA's approval with respect to the Source Deductions Methodology.

58. Subsequent to the Interim Distribution, CRA conducted an audit of HCPH's payroll records including the source deductions with respect to the Interim Distribution and such audit resulted in finding of a minor discrepancy of less than $200 which did not relate to the source deductions with respect to the Interim Distribution.

59. Soon after the Interim Distribution, HCPH, with the assistance of the Monitor continued discussions with the CRA and its counsel to obtain a clearance certificate or other resolution of outstanding tax related matters to enable HCPH to make a final distribution and complete these CCAA proceedings. Further to discussions with CRA's counsel, the CRA Agreement was negotiated, which, among other things, confirms that HCPH could apply the Source Deductions Methodology used at the time of the Interim Distribution for the Final Distribution and CRA will accept that methodology as being appropriate compliance by HCPH with its obligations with respect to applicable tax law and neither

the CRO nor the Monitor will have any liability to CRA to the extent of the Final Distribution. A copy of the CRA Agreement is attached as Exhibit 'E' to the Krupa Affidavit.

TAX GROSS-UP

60. Taxes will be withheld and remitted from amounts paid by HCPH to holders of OPEB Claims in the Final Distribution in accordance with an Order being sought from this Court authorizing and directing the Applicant, with the assistance of the Monitor, to withhold and remit Taxes from the Final Distribution in accordance with the CRA Agreement.

61. The CCAA Plan provided that the claim values of OPEB Claims would be grossed-up by 10% (the "**Tax Gross-Up**") to the extent that taxes (including CPP and EI) are withheld and remitted ("**Source Deductions**") in respect of distributions made by HCPH to holders of such OPEB Claims, except to the extent the Court orders otherwise. The purpose of the Tax Gross-Up was to compensate the holders of OPEB Claims for the cost of the Source Deductions.

62. Representative Counsel has obtained an advance income tax ruling dated December 9, 2014 ("**Tax Ruling**") (attached as part of Appendix '**B**' to this Twenty Second Report) which provides among other things, that amounts paid by HCPH to holders of OPEB Claims that are in the nature of health and dental claims (but excluding B.C. Medical claims) (the, "**Health Benefit Claims**") will not be included in computing their income for purposes of the *Income Tax Act (Canada)*, all as described and on the basis set forth in the Tax Ruling. While the Tax Ruling is subject to certain assumptions and caveats, Representative Counsel has confirmed that it expects holders of Health Benefit Claims to be able to recover the Source Deductions from the CRA.

63. On this basis, Representative Counsel has informed the Monitor that it expects that the Source Deductions will not represent a permanent cost to holders of Health Benefit Claims so that the purpose of the Tax Gross-Up ceases to apply to them and has requested that the Final Distribution be adjusted accordingly. Representative Counsel

advised that it has provided a copy of the Tax Ruling to all retirees for their use when filing their tax returns so they can try and recoup the tax withheld on their distributions from HCPH. Attached as Appendix '**B**' to this Twenty Second Report is a letter from Representative Counsel to HCPH and the Monitor with respect to the Tax Ruling and its application.

64. Accordingly, at the request of Representative Counsel (who represents all members and beneficiaries of the OPEB Plans), HCPH, in consultation with the Monitor is seeking an order of the Court to provide that the Tax Gross-Up will not be made to the Health Benefit Claims, when determining the distribution to be made in respect of such Claims from funds available to be distributed to the OPEB Claims and the General Claims in the Final Distribution. Further, to address the impact of Tax Gross-Up on Health Benefit Claims for the purposes of the Interim Distribution on the amounts distributed on account of such Health Benefit Claims and all other Non-Pension Affected Claims, the Final Distribution and Discharge Order contemplates an adjustment to each Non-Pension Claim Affected Claim, as applicable, so that the aggregate amount distributed in respect of each such Claim in the Interim Distribution and the Final Distribution Order is equal to the aggregate amount that would have been distributed in the Interim Distribution and Final Distribution on account of such Claim had there been no Tax Gross-Up applied to the Health Benefit Claims for the purposes of the Interim Distribution.

FINAL DISTRIBUTION

65. Since an agreement with CRA has now been obtained, and the funds from the HCPH Retirement Plan Trust Account and the Pacific Press Trust have been received as described earlier in this Twenty Second Report, and since no further funds are anticipated by HCPH (other than interest and sales tax refunds), HCPH is now able to make a Final Distribution. The Final Distribution will be paid from HCPH's available funds net of HCPH's accrued and unpaid costs and expenses as well as estimated costs with respect to the Final Remaining Matters of which HCPH and the Monitor have been notified prior to February 23, 2015. The Final Distribution and Discharge Order contemplates a reserve to be held by the Monitor for the payment of Administration Claims (defined in the

CCAA Plan) (the "**Additional Reserve**"). Based on estimates provided to the Monitor, the Additional Reserve is in the amount of $1.58 million, with respect to the fees, disbursements, costs and taxes of professionals and others to complete the CCAA proceedings, including Representative Counsel, HCPH's counsel, the CRO, HCPH's remaining staff (including termination and severance costs), HCPH's tax advisor, the Monitor and its counsel. These amounts are conservative estimates for professional fees to complete one or more Final Distribution as well as the Final Remaining Matters and any further items required to be addressed to complete these CCAA proceedings. Actual costs will be based on actual time spent. Any surplus Additional Reserve will be paid into the Uncashed Distributions Fund (defined below) and included in a subsequent distribution to the OPEB Claims and the General Claims.

66. As described earlier in this Twenty Second Report, HCPH's cash position as of January 18, 2015 is approximately $8.1 million prior to its accrued and unpaid costs and expenses and prior to costs required to complete the Final Distribution and the Final Remaining Matters. Accordingly, based on a preliminary analysis, it is projected that the Final Distribution will be in the range of approximately 12% to 14% of the OPEB Claims and General Claims. As described earlier in this Twenty Second Report, the Interim Distribution was in the range of approximately 7% of the OPEB Claims and General Claims. Accordingly, the total distribution to OPEB Claims and General Claims (not including any further distribution of the Uncashed Distributions Fund (as described below) is projected to be in the range of approximately 19% to 21% of the OPEB Claims and General Claims.

UNCLAIMED DISTRIBUTIONS

67. Similar to the process followed subsequent to the Interim Distribution, on obtaining the list of outstanding cheques from the payroll provider, HCPH, with the assistance of the Monitor and Representative Counsel intends to attempt to locate and follow up with persons who have not cashed their cheques with respect to the Final Distribution in order to encourage such persons to cash their cheques as soon as possible. Despite such efforts with respect to uncased cheques related to the Interim Distribution, as described above,

approximately 126 cheques totaling to approximately $64,000 continued to remain outstanding of which 32 cheques totaling approximately $28,000 were subsequently reissued. Such uncashed cheque amounts will be added to the Final Distributions of the respective retirees to provide them with a further opportunity to cash these cheques. Such cheque recipients will have until six months after the Final Distribution to cash these cheques before they become stale dated.

68. In order to deal with any uncashed cheques with respect to the Final Distribution, the Final Distribution and Discharge Order contemplates that funds in respect of uncashed cheques will be returned to HCPH by the payroll provider after the cheques are stale dated (i.e. at least six months after the Final Distribution Date) and will be included in an uncashed distribution cheques fund (the "**Uncashed Distributions Fund**"). Such Uncashed Distributions Fund, along with any surplus Additional Reserve and any funds remaining with HCPH will be included in a further distribution to the OPEB Claims and General Claims if such Uncashed Distributions Fund is at least $250,000. If such Uncashed Distributions Fund is less than $250,000, the Final Distribution and Discharge Order contemplates that such Uncashed Distributions Fund will be dealt with in a manner agreed upon between the Monitor and Representative Counsel (which may include the donating of money to a charity or foundation), or further order of this Court.

FINAL REMAINING MATTERS

69. The majority of the Remaining Matters as defined in paragraph 23 of the Sanction Order have now been complete. At this date, the Final Remaining Matters left to complete include the following:

Long term storage of certain of HCPH's financial records:

70. HCPH, with the assistance of the Monitor has been reviewing the HCPH Documents currently stored at Iron Mountain to determine which financial records need to be maintained for seven years as required by applicable law. Records to be maintained for extended storage typically include historical financial statements, tax returns and supporting schedules related to such financial statements and tax returns. Once such

items are identified, HCPH will enter into an arrangement with Iron Mountain to store the HCPH Documents required to be held by HCPH for seven years, with instructions to Iron Mountain to automatically destroy the records as the required time period ends. HCPH has received a preliminary quote from Iron Mountain of approximately $182,000 for the long term storage of such HCPH Documents. Access to the HCPH Documents at Iron Mountain would be provided to HCPH and the Monitor.

71. Accordingly, HCPH is seeking an Order of this Court authorizing and directing HCPH and/or the Monitor to enter into agreements *nunc pro tunc*, to store certain HCPH Documents with Iron Mountain, with access to be provided to HCPH and the Monitor.

Completion of tax returns

72. HCPH, with the assistance of the Monitor will work towards completing its corporate and sales tax returns with the assistance of its tax advisors. The corporate returns relate to the 2014 and 2015 tax years, and if required, 2016.

Final Distribution follow-up

73. HCPH, with the assistance of the Monitor and Representative Counsel will work with the retirees to assist them in cashing their final distribution cheques. HCPH, with the assistance of the Monitor will work with HCPH's payroll provider to understand which cheques continue to remain outstanding. Such list of outstanding cheques including cheques that remain outstanding for a period of 60 days following the Final Distribution will be provided to Representative Counsel as contemplated in the Final Distribution and Discharge Order to enable Representative Counsel to attempt to locate and assist such retirees.

Further Final Distribution

74. As discussed above, the Final Distribution and Discharge Order contemplates that in the event the Uncashed Distributions Fund is at least $250,000, HCPH is authorized to make a further Final Distribution of the Uncashed Distributions Fund, net of any costs with respect to making such further Final Distribution.

Ongoing administration and other matters

75. HCPH, with the assistance of the Monitor will continue to respond to calls received from retirees with respect to the distribution and these CCAA proceedings, track HCPH's cash position and also work on any other ancillary matters that arise after the payment of the Final Distributions until the completion of these CCAA proceedings.

NOTICE TO CANADA POST

76. As HCPH winds up its operations, it will terminate its leases with respect to its office space in Toronto and Chicago. These offices currently receive HCPH's mail which will need to be redirected elsewhere. Accordingly, the Final Distribution and Discharge Order authorizes HCPH and the Monitor to issue a notice to Canada Post to redirect all mail addressed to HCPH currently being received at HCPH's offices in Toronto to the Monitor's office from and after the Final Distribution until the date that the Monitor files the Certificate of Discharge and Plan Termination (defined below).

EFFECT OF FILING OF MONITOR'S CERTIFICATE

77. The CCAA Plan included broad releases with respect to HCPH, the CRO, the Monitor and Representative Counsel, their respective directors, employees and advisors, and certain others, all as set out in Article XI of the CCAA Plan (the "**Releases**") and such Releases were sanctioned by this Court in the Court Order dated July 31, 2012 (the "**Sanction Order**"). The Final Distribution and Discharge Order contemplates that upon the termination of these CCAA proceedings, the Releases and injunctions under the CCAA Plan and prior Orders of the Court shall continue to remain in full force and effect.

78. The Final Distribution and Discharge Order contemplates that on the date (the "**Plan Completion Date**") that the Monitor files with this Court the Certificate of Discharge and Plan Termination in the form attached as Schedule 'B' to the Sanction Order (the "**Certificate of Discharge and Plan Termination**"), the CCAA proceedings shall be terminated and the Monitor, the CRO and Representative Counsel and each of their respective partners, employees, counsel and agents (collectively, the "**Estate**

Representatives") shall be discharged and have no further duties or obligations with respect to the CCAA proceedings.

RECOMMENDATION

79. The Monitor supports the relief sought by the Applicant and recommends that the Order be made, if this Court sees fit:

a. approving the CRA Agreement and authorizing HCPH, the CRO and the Monitor to execute and implement the CRA Agreement and any ancillary steps and documents in connection therewith;

b. authorizing and directing the Applicant to act as Disbursing Agent (as defined in the CCAA Plan) and make the Final Distribution occurring on or after the Distribution Date to holders of OPEB Claims General Claims, and as varied by the order described in paragraph 5(c) below;

c. authorizing and directing the Applicant, with the assistance of the Monitor, to withhold and remit Taxes (as defined in the CCAA Plan) from the Final Distribution in accordance with the CRA Agreement in making the Final Distribution;

d. ordering that no Tax Gross-Up (as defied below) pursuant to section 5.09(b) of the CCAA Plan be made in respect of the Non-Pension Affected Claims that are Health Benefit Claims (as defined below);

e. authorizing and directing the Applicant, with the assistance of the Monitor, to deal with any Unclaimed Distributions (as defined in the CCAA Plan) with respect to any distributions made under the CCAA Plan, including the Final Distribution in the manner set out in the Final Distribution and Discharge Order;

f. authorizing access by the Monitor and the CRO and such other persons as the Monitor or CRO may direct, to all of the HCPH Documents, including any HCPH Documents in the possession of a third party and authorizing and directing HCPH and/or the Monitor to enter into agreements *nunc pro tunc*, to store certain HCPH Documents with Iron Mountain;

g. on the Plan Completion Date, discharging and releasing the Monitor, CRO, Representative Counsel and other Estate Representatives and terminating these CCAA proceedings and discharging the CCAA Charges;

h. authorizing HCPH and the Monitor to issue notice to Canada Post to redirect to the Monitor all mail addressed to HCPH, from and after the Final Distribution Date to the date that the Monitor's Certificate of Discharge and Plan Termination is filed;

i. requesting the aid and recognition of the Final Distribution and Discharge Order by other Courts in Canada and the United States, as required; and

j. approving this Twenty Second Report of the Monitor and the activities of the Monitor as set forth herein, as well as the activities of the CRO as described in the Krupa Affidavit.

All of which is respectfully submitted this 29th day of January, 2015.

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

Per:

Alex Morrison
Senior Vice President

Simone Carvalho
Vice President

APPENDIX “A”

Hollinger Canadian Publishing Holding Co
Cumulative Consolidated Receipts and Disbursements
For the Period July 21, 2014 to January 18, 2015
(In Thousands of Canadian Dollars)

	Actual	Projection	Variance	Note
OPENING BANK BALANCE (In $CDN)	**3,662**	**3,662**	-	
RECEIPTS				
Interest Income	23	18	5	
Pacific Press Trust Funds	1,471	-	1,471	**1**
Pension Premium Refund	3,820	-	3,820	**2**
Other	-	202	(202)	**3**
Total Receipts	5,314	219	5,095	
DISBURSEMENTS				
Payroll	(43)	(39)	(4)	
Consultants	(87)	(125)	38	**4**
Registered Pension Plan Contributions	-	-	-	
Unfunded Pension Plan Payments	-	-	-	
Post Employment and Post Retirement Benefits	(44)	(40)	(4)	
General & Administrative Costs	(45)	(67)	22	
Restructuring Costs	(654)	(1,032)	378	**4**
Total Disbursements	(873)	(1,303)	430	
NET CASH INFLOW/(OUTFLOW)	4,441	(1,084)	5,525	
CLOSING BANK BALANCE	**8,103**	**2,578**	**5,525**	

Hollinger Canadian Publishing Holding Co. ("Applicant")
Combined Actual Receipts and Disbursements
For the Period July 21, 2014 to January 18, 2015
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 were converted to Canadian dollars at the exchange rate of US$1.00=CDN$1.06.

For the purpose of presenting the variance analysis, the actual cash flow results are compared to the cash flow forecast (the "**Cash Flow Forecast**") appended to the Twenty- First Report of the Monitor dated August 15, 2014 (the "**Twenty-First Report**").

1. **Pacific Press Funds** – Pursuant to the Court Order issued August 19, 2014, HCPH has received all remaining funds previously held at CIBC Mellon in account number 4470002, less bank charges required to close this account (the "**Pacific Press Funds**"). Further details with respect to the Pacific Press Funds are provided in the affidavit of Mike Krupa sworn July 31, 2014 and the Twenty-First Report.

2. **Premium Refund** – As described in the Twenty-First Report, HCPH has received a refund of approximately $3.8 million from BMO Insurance as a result of the final reconciliation of annuity premiums related to HCPH's registered pension plans that were wound up.

3. **Other receipts** – Other receipts include primarily HST refunds, which are lower expected due to both a timing difference and lower than projected restructuring and consultant costs as further discussed below.

4. **Consultants and Restructuring Costs** – The favourable variances are primarily due to lower than expected professional fees and a timing difference.

APPENDIX "B"

January 28, 2015

Via Email

Andrew J. Hatnay
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Direct Fax: 416-204-2872
ahatnay@kmlaw.ca

Raj Sahni
Bennett Jones LLP
3400 One First Canadian Place
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Toronto, ON M5X 1A4

James Gage
Kelly Peters
McCarthy Tétrault LLP
Suite 5300, TD Bank Tower, Box 48
66 Wellington Street West
Toronto, ON M5K 1E6

Dear Sirs and Madam:

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

We are writing further to our discussions regarding the Advance Tax Ruling ("ATR") we recently obtained through our tax counsel dated December 9, 2014, a copy of which has been provided to you and is also enclosed with this letter for ease of reference. The ATR holds that distributions from HCPH with respect to the retirees' claims for terminated health benefits are not taxable.

As a result of the ATR, adjustments need to be made to the calculation of the claims that have been previously submitted in the HCPH claims process relating to retirees' terminated health benefits to eliminate the 10% income tax gross-up that was added to that claim. Since the ATR confirms that distributions in respect of the health benefits claim are not taxable, there is no longer a basis to add a tax gross-up to the claim. Similarly, an adjustment is also required to the next distribution to offset the interim distribution paid in June 2014 which were made in respect of the grossed up health benefit claims.

Further, it is important to eliminate the tax gross-up on the health benefit claim to ensure that there is no prejudice to other OPEB claimants in respect of their other claims. Our review of the retiree claims records indicates that approximately 667 of the 1,800 OPEB claimants do not have a health benefit claim but have claims for terminated life insurance and terminated supplemental pension benefits, and would therefore be adversely impacted by being paid a smaller distribution amount if the tax gross-up remains added to retirees' health benefits claim.

As you are aware, section 5.09(b) of the HCPH CCAA Plan of Compromise provides:

> (b) to the extent that the Disbursing Agent determines that Taxes are required to be withheld and remitted to the appropriate Governmental Authority in respect of any Non-Pension Affected Claim that is an OPEB Claim, such OPEB Claim shall be grossed up by 10% ***unless otherwise ordered by the Court***. [emphasis added]

The elimination of the tax gross-up by court order is clearly contemplated by Section 5.09(b) of the CCAA Plan. As Representative Counsel for all members and beneficiaries of the OPEB Plans, we request such an order be sought from the court at the next attendance this Friday, January 30, 2015.

We have provided a copy of the ATR to all retirees for their use when filing their tax returns so that affected retirees can recoup the tax withheld on their distributions from HCPH. Our letter included instructions directing them to provide a copy of the ATR to their tax preparer. It is expected that when individuals with a health benefit claim file their tax returns, they will be able to receive a refund of the tax withheld in respect of the health benefit distributions.

We are available to discuss this further at your convenience.

Yours truly,

KOSKIE MINSKY LLP

Andrew J. Hatnay
AJH:jd
Enclosure

c HCPH Client Committee (Gordon Bullock, John Craig, Fraser Kean, Bill Mann, Ross Morrison and Fred Granville)
Alex Morrison, *Ernst & Young Inc.*
Chris Anderson, *Davies Ward Phillips & Vineberg LLP*
Barbara Walancik, *Koskie Minsky LLP*

Canada Revenue Agency	Agence du revenu du Canada

Your file Votre référence

Our file Notre référence
2013-051456

Chris Anderson
Davies Ward Phillips & Vineberg LLP
155 Wellington Street West
Toronto ON M5V 3J7

December 9, 2014

Dear Mr. Anderson:

Re: Advance Income Tax Ruling - Hollinger Canadian Publishing Holdings Co. (B/N 89386 8612)

This is in reply to your letter of December 3, 2013, in which you requested an advance income tax ruling on behalf of the above-named taxpayer. We also acknowledge the additional information provided in your letter dated September 16, 2014.

We understand that, to the best of your knowledge and that of the taxpayer, none of the issues involved in this ruling is:

(i) in an earlier return of the taxpayer or a related person,

(ii) being considered by a tax services office or taxation centre in connection with a previously filed tax return of the taxpayer or a related person,

(iii) under objection by the taxpayer or a related person,

(iv) before the courts, or

(v) the subject of a ruling previously issued by the Directorate to the taxpayer or a related person.

This letter is based solely on the facts and proposed transactions described below. The documentation submitted with your request does not form part of the facts and proposed transactions and any references thereto are provided solely for the convenience of the reader.

Unless otherwise stated, all references to a statute are to the *Income Tax Act* (Canada), R.S.C. 1985, c.1 (5th Supp.), as amended to the date of this letter, (the "Act"), and all terms and conditions used herein that are defined in the Act have the meaning given in such definition unless otherwise indicated.

…./cont'd

Definitions

In this letter, the following terms have the meanings specified:

"**A Plans**" means the hospital, major medical and dental plans between Canco and the Administrator established as a cost-plus arrangement to provide Benefits for Covered Persons;

"**Act**" means the *Income Tax Act* (Canada);

"**Actuary**" means Mercer (Canada) Ltd., the actuary retained by Canco;

"**Administrator**" means The Manufacturers Life Insurance Company;

"**Available Cash Pool**" means the cash and cash equivalent assets of Canco, as more specifically defined in the CCAA Plan;

"**B Plans**" means the hospital and major medical plans between Canco and Insurer B established to provide Benefits for Covered Persons;

"**Benefits**" means the right of Covered Persons for payment, reimbursement or coverage arising in connection with any of the Plans involving Canco (and its affiliates) whether in relation to hospital, medical, dental, disability, life insurance or other benefit, obligation or payment to which such person (or others who may be entitled to claim under or through such person) might be entitled;

"**C Plan**" means the hospital and major medical plan between Canco and Insurer C established to provide Benefits for Covered Persons;

"**C Health Plan**" has the meaning given to it in paragraph 9;

"**Canco**" means Hollinger Canadian Publishing Holdings Co.;

"**CCAA**" means the *Companies' Creditors Arrangement Act* (Canada);

"**CCAA Plan**" means the Plan of Compromise and Arrangement of Canco pursuant to the CCAA dated May 24, 2012, which was approved by the Court on July 31, 2012, together with all schedules, and as same may be amended;

"**Claim" or "Claims**" means a right or claim of any person against Canco in connection with any indebtedness, liability or obligation of any kind that may be permitted in accordance with the CCAA Plan and includes claims of Covered Persons relating to the termination of the Plans, as described in paragraph 19;

"**Claims Report**" means the Claims report described in paragraph 19 prepared by the Actuary;

"**Court**" means the Ontario Superior Court of Justice (Commercial List);

..../cont'd

“**Covered Persons**” means the Dependants and the Former Employees;

“**CRA**” means the Canada Revenue Agency;

“**Dependant” or “Dependants**” means a spouse, common-law partner, child or other beneficiary who is entitled to benefits under one or more of the Plans, as described in the Plan documents;

“**Former Employees**” means retired and/or disabled former employees of Canco (or its current and former affiliates) who are entitled to benefits under one or more of the Plans;

“**General Claims**” has the meaning given to it in paragraph 15;

“**Initial Order**” means the Court Order dated December 10, 2009, as amended;

“**Insurer B**” means PBC Health Benefits Society o/a Pacific Blue Cross;

“**Insurer C**” means SSQ Life Insurance Company Inc.;

“**Life Insurance Plan**” has the meaning given to it in paragraph 9;

“**Monitor**” means Ernst & Young Inc. in its capacity as the court-appointed Monitor pursuant to the Initial Order;

“**OPEB**” has the meaning given to it in paragraph 2;

“**OPEB Claims**” has the meaning given to it in paragraph 15;

“**Payment**” has the meaning given to it in paragraph 29 and “**Payments**” means all of the Payments to be made to the Former Employees;

“**Pension Plans**” has the meaning given to it in paragraph 2;

“**Pension Plan Claims**” has the meaning given to it in paragraph 15;

“**Plan**” or “**Plans**” means any or all of the A Plans, the B Plans and the C Plan as the context requires;

“**Private health services plan**” or “**PHSP**” has the meaning given to it under the Act;

“**Proceedings**” means the proceedings commenced on December 10, 2009 by Canco under the CCAA;

“**Representative Counsel**” means Koskie Minsky LLP in its capacity as court- appointed representative for the Covered Persons;

“**Settlement Amount**” has the meaning given to it in paragraph 28;

…./cont’d

"**Settlement Date**" refers to the date on which the final Payments will be paid to Former Employees, which is expected to occur in the last quarter of 2014 or the first quarter of 2015; and

"**Termination Date**" means August 31, 2011.

Our understanding of the facts, proposed transactions and the purpose of the proposed transactions is as follows:

Facts

1. Canco is an unlimited liability company existing under the laws of Nova Scotia. It is a taxable Canadian corporation. Canco's Business Number is 89386 8612. Its affairs are administered by the Toronto Centre Tax Services Office of CRA, and it files its returns with the Sudbury Tax Centre.

2. Canco formerly operated directly and indirectly (through affiliates) a newspaper, magazine and information business, which included the Southam newspaper chain. Canco disposed of its businesses prior to the date of the Initial Order[1] and, for some period of time, it has had no ongoing business activity. The ongoing operation of Canco consists primarily of the administration of two unfunded retirement plans and certain other post-employment benefits plans that include the Plans (collectively the "**OPEBs**") and six registered pension plans (the "**Pension Plans**") for in excess of 3,000 former employees.

3. Canco is a wholly owned direct and indirect subsidiary of Chicago Newspaper Liquidation Corp. (formerly known as Sun-Times Media Group Inc.), which sold substantially all of its assets in the course of U.S. Chapter 11 proceedings and is in the process of liquidation in accordance with U.S. bankruptcy law procedures.

4. The Plans require Canco, Insurer B or Insurer C, as applicable, to indemnify Covered Persons for covered hospital, medical and dental charges incurred by such Covered Persons.

5. The Former Employees are almost exclusively individuals resident in Canada for purposes of the Act. The Covered Persons are the only people entitled to benefits under the Plans. As of the Termination Date, there were over 1,100 Former Employees entitled to benefits under the Plans. The average age of the Former Employees is approximately 79 years.

6. The Plans comprise the A Plans, the B Plans and the C Plan as described below.

7. The A Plans comprise three administrative services only plans that were administered by the Administrator as agent for Canco in the ordinary course of its business of providing benefits coverage for Covered Persons in respect of

[1] The majority of such assets were sold in 2002 and the remaining newspaper assets were sold in 2006.

…./cont'd

hospital, medical and dental claims. Pursuant to such A Plans, Canco is required to reimburse the Administrator for claims paid by the Administrator as agent and also to pay the Administrator an administrative fee.

(a) Plan ASO 83497 dated May 26, 2004 provides hospital and major medical coverage to Covered Persons who are either an "employee" or a "dependant", as provided for under the Plan documents. Approximately 940 Former Employees were covered by this Plan. Certain relevant terms of Plan ASO 83497 provide as follows:

- Benefits: the Plan provides coverage for hospital charges and major medical charges (including charges for drugs, health care facilities, medical transport, medical supplies and services, dental services, physician and nursing services, paramedical practitioner services by licensed, certified or registered paramedical practitioners when operating within their fields of expertise, vision care, hearing care) on the terms and conditions of and as set forth in the Plan. Certain charges are excluded such as charges for cosmetic treatments (other than surgery or treatment for accidental injuries which is commenced within 90 days of the accident and, for certain Former Employees, sclerotherapy and drugs that are not Health Canada approved.
- Employee: a person who has been retired from the employer and who is a resident of Canada.
- Dependant: a "spouse" or "child" who is a resident of the same country in which the employee resides.
- Spouse: a person who either (A) is married through an ecclesiastical or civil ceremony to an employee or (B) although not legally married to an employee, continuously cohabits with the employee in a conjugal relationship which is recognized as such in the community in which they reside for a period of at least 12 months. The term conjugal relationship shall be deemed to include a conjugal relationship between partners of the same sex.
- Child: a person who (A) is unmarried, (B) is a natural child, stepchild, legally adopted child, or foster child, of an employee or such employee's spouse, and (C) is less than 21 years old or if he relies upon the employee for support and is in regular full time attendance at an accredited institute of learning is less than 25 years old. Certain divisions covered under this Plan amend the 21 year age restriction to 22 (or 23) years of age. Certain divisions covered under this Plan provide for continued coverage beyond the 25 year limit provided the support and full-time attendance criteria are met. Any mentally or physically disabled child who was covered up to the maximum age shall remain covered beyond such age provided the child, upon reaching the maximum age and thereafter, is incapable of self-

…./cont'd

sustaining employment and totally relies upon the employee for support and maintenance.

(b) Plan ASO 83172 dated June 15, 2004 provides hospital and major medical coverage to Covered Persons who are either an "employee" or a "dependant", as provided for under the Plan documents. Approximately 115 Former Employees were covered by this Plan. Certain relevant terms of Plan ASO 83172 provide as follows:

- Benefits: the Plan provides coverage for hospital charges and major medical charges (including charges for drugs, health care facilities, medical transport, medical supplies and services, dental services, physician and nursing services, paramedical practitioner services by licensed, certified or registered practitioners working within their recognized field of expertise, vision care, hearing care, extra provincial medical coverage, manuassist benefits for persons having a medical emergency while travelling outside of their normal province of residence) on the terms and conditions of and as set forth in the Plan. Certain charges are excluded such as charges for cosmetic treatments (subject to limited exceptions) and drugs that are not Health Canada approved.
- Disability Benefits: the Plan also provides for disability benefits payable to "a totally disabled employee". The Plan documents provide that such benefits were treated as being taxable to the recipient.
- Employee: a person who has been retired from the employer and who is a resident of Canada and certain non-retired employees.
- The definitions of "Dependant" and "Spouse" are as described above for Plan ASO 83497.
- Child: a person who (A) is unmarried, (B) is a natural child, stepchild, legally adopted child, or foster child, of an employee or such employee's spouse, and (C) is less than 21 years old or if he relies upon the employee for support and is in regular full time attendance at an accredited institute of learning is less than 25 years old. Certain children resident in Quebec may be covered beyond the 25 year limit provided the support and full-time attendance criteria are met. Disabled children are included as described for Plan ASO 83497.

(c) Plan ASO 83173 dated June 15, 2004 provides dental coverage to Covered Persons who are either an "employee" or a "dependant", as provided for under the Plan documents. Approximately 35 Former Employees were covered by this Plan. Certain relevant terms of this Plan provide as follows:

- The definitions of Employee; Dependant; Spouse; and Child are as described above for Plan ASO 83172.

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- Benefits: the Plan provides coverage for dental charges recommended as being necessary by a dentist, a physician or denturist and performed by a dentist or denturist (including charges for diagnostic services, preventive services, restorative services, endodontic services, periodontic services, prosthodontic services, surgical services, adjunctive services, orthodontic services, dentures and services) on the terms and conditions of and as set forth in the Plan. Certain charges are excluded such as charges for cosmetic treatments (subject to limited exceptions) and treatments not generally recognized by the dental profession as being effective, essential or appropriate.

8. The B Plans comprise two group insurance plans written by Insurer B in the ordinary course of its business of providing insured benefits coverage to Covered Persons in respect of hospital, medical and dental claims.

(a) Plans 038753/038857 dated February 1, 2002 and renewed subsequently provide for extended health care and dental coverage to Covered Persons who are either a "member" or a "dependant", as provided for under the Plan documents. Approximately four (4) Former Employees were covered by these Plans. Certain relevant terms of Plans 038753/038857 provide as follows:

- Benefits: the Plan provides coverage for hospital charges and major medical charges (including charges for medical transport, drugs/medicines, medical professional and nursing services, dental accident services, medical supplies and services, medical equipment, vision care, extra provincial coverage) on the terms and conditions of and as set forth in the Plan. The Plan also provides for dental coverage (including charges for preventative and restorative services, major restorative services, orthodontic services). The Plan provides for a series of exclusions.
- Member: a person who retired from employment with the employer or who is no longer employed due to a disability and who is enrolled in a government plan and meets eligibility requirements.
- Dependant: a "spouse" of the member or "child".
- Spouse: a person who is legally married to the Member or a person of the opposite sex who has been residing with the Member in a common-law relationship for at least 1 year (or 2 years in the case of Plan Group 038753) and publicly represented as the Member's spouse.
- Child: an unmarried child born to the Member (or Spouse) or a stepchild, legally adopted child, or legal ward who is under 21 years of age who is living with and is financially dependent on the Member (or Spouse), and under 25 years of age if the unmarried child is also in full-time attendance at a recognized educational institute. An unmarried disabled child of any age who is living with and financially

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dependent on the Member (or Spouse) and who is incapable of self-sustaining employment is also included as a Child.

(b) Plan 048387 dated May 1, 1991 and renewed subsequently provides for extended health care and family assistance coverage to Covered Persons who are either a "member" or a "dependant", as provided for under the Plan documents. Approximately ten (10) Former Employees were covered by this Plan. Certain relevant terms of this Plan provide as follows:

- Benefits: the Plan provides coverage for hospital charges and major medical charges (including charges for medical transport, drugs/medicines, nursing services, paramedical practitioner services performed by a person that is licensed, certified or registered to practice the relevant profession, or where no such authority exists, has a certificate of competency from the professional body which establishes standards of competence) dental accident services, medical supplies and services, medical equipment, and extra provincial and travel assistance coverage) on the terms and conditions of and as set forth in the Plan. The Plan also provides for employee and family assistance coverage including professional counselling, on the terms set forth in the Plan. The Plan provides for a series of exclusions.
- The definitions of Member and Dependant are as described above for Plans 038753/038857.
- Spouse: a person who is legally married to the Member or a person who has been residing with the Member in a common-law relationship and publicly represented as the Member's spouse.
- Child: an unmarried child born to the Member (or Spouse) or a stepchild, legally adopted child, or legal ward who is under 21 years of age who is financially dependent on the Member (or Spouse), and under 25 years of age if the unmarried child is also in full-time attendance at a recognized educational institute. Disabled children are included as described for Plans 038753/038857.

9. The C Plan comprises a single group insurance plan (policy 48950) dated August 1, 2009 written by Insurer C in the ordinary course of its business of providing insured benefits coverage. Coverage under the C Plan is provided to Covered Persons who are either a retired employee or a "spouse" or a dependent "child" of a covered retired employee, as provided for under the Plan documents. Approximately 55 Former Employees were covered by this Plan. The C Plan includes two separate plans. A life insurance plan that provides for a maximum life insurance death benefit of $5,000 to a "totally disabled employee" (the "**Life Insurance Plan**"), and Health Care Insurance Plan (the "**C Health Plan**"). The Life Insurance Plan and the C Health Plan were administered as separate plans. Certain relevant terms of the C Health Plan are as follows:

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- Benefits: the Plan provides coverage for hospital charges and major medical charges (including charges for prescription drugs, health care professional services, medical transport, medical supplies and services, dental accident services, vision care, travel/trip insurance) on the terms and conditions of and as set forth in the Plan. Certain charges are excluded such as charges for aesthetic treatments (subject to limited exceptions).
- Spouse: an individual who (A) is married to a retired employee through a civil union or other recognized marriage or (B) lives with the retired employee on a regular basis who has been designated as a spouse to Insurer C and where a child has been born of such union or (C) has been living with the retired employee on a regular basis for at least 12 months and who has been designated as a spouse to Insurer C.
- Child: a person who is supported by the covered retired employee or their Spouse and who is (A) unmarried, (B) a child over whom a covered retired employee or their Spouse exercises parental authority (or would exercise if a minor), and (C) under age 21, or under age 26 and a full-time student in an accredited educational institution. Certain children suffering from a functional impairment and meeting other criteria as set out in the Plan are also included as a child.

10. The Plans are "private health services plans" for purposes of the Act.

11. Pursuant to the terms of the Initial Order: (A) Canco was granted a stay of proceedings by the Court in respect of its creditors and other persons pursuant to the CCAA, (B) the Monitor was appointed to monitor the business and financial affairs of Canco during the Proceedings, (C) Canco was authorized to cease making payments to its creditors in respect of claims existing prior to the commencement of the Proceedings, provided that Canco was authorized to make certain payments notwithstanding this general prohibition including payment of ongoing contributions to the Pension Plans, payment of Benefits (as described below) and payment for any goods and services received by Canco after the date of the Initial Order, (D) Canco continued to act as the administrator of the Plans, (E) persons performing administrative services in respect of such Plans were directed to continue providing such services, (F) Canco was ordered to continue, following the date of the Initial Order, making payments to the Covered Persons under such Plans (and continued to do so until the Termination Date pursuant to the OPEB Claims Procedure Order described in paragraph 19).

12. The Proceedings and the protections afforded under the Initial Order have since been extended to the CCAA Termination Date as defined in the Court order of July 31, 2012, subject to further Orders of the Court.

13. Canco was insolvent prior to January 1, 2012.

14. Representative Counsel was appointed by the Court pursuant to the Initial Order as the representative of the Covered Persons pursuant to the terms of the Initial

Order and, *inter alia*, was granted the power to deal with any government agency as the representative of such Covered Persons.

15. Claims against Canco include claims with respect to the Pension Plans sponsored by Canco ("**Pension Plan Claims**"), claims with respect to the OPEBs including the Plans ("**OPEB Claims**") and claims of other general creditors ("**General Claims**").

16. Pursuant to the Claims Procedure Order dated April 15, 2010 a Claims process was undertaken by Canco to ascertain what Claims (other than in respect of the OPEBs and the Pension Plans (and certain other matters described in the Order)) existed against Canco. Claims in respect of the OPEBs (including the Plans) were addressed separately (refer to paragraph 19). The Claims of general creditors that were identified through this process are not material.

17. The majority of Canco's creditors therefore consist of its former employees, with claims under the Pension Plans and OPEBs.

18. Pursuant to the Court Order dated April 15, 2010, Canco, Representative Counsel and the Monitor conducted a retiree audit survey process in relation to the OPEB Claims, including validating the identification and other pertinent information of the Former Employees (and Dependants) having Claims in respect of the Plans.

19. Pursuant to the OPEB Claims Procedure Order of the Court dated July 28, 2011: (A) the Benefits under the Plans were suspended and Canco's obligations thereunder were terminated as of the Termination Date (with a 30 day grace period for pre-termination charges to be submitted) and (B) the Actuary was ordered, in consultation with Representative Counsel (and its actuarial advisor) to prepare a "**Claims Report**" setting forth the amount of the OPEB Claims including the Claims of each Former Employee (and relevant Dependant) in respect of the Plans (and termination of coverage thereunder).

20. The Actuary prepared the Claims Report and following discussions of the report among Canco, the Actuary, the Monitor and Representative Counsel, the Actuary provided the Claims Report on June 6, 2012.

21. Based upon the figures from the Claims Report, the Monitor prepared an OPEB Claim Notice for each Covered Person (substantially in the form approved by the Court) setting forth the amount of the Covered Person's OPEB Claim. The OPEB Claim Notice was given to Representative Counsel. The OPEB Claim Notice is final and binding on the Covered Person, although persons with an OPEB Claim Notice had the opportunity to dispute such a notice and the OPEB Claim.

22. Canco, in consultation with the Monitor and Representative Counsel, negotiated the CCAA Plan. The CCAA Plan is intended to permit an orderly windup of the relevant pension and OPEB plans, and the distribution of Canco's remaining assets to its creditors.

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23. The CCAA Plan is directed at the claims of all of Canco's creditors (excluding certain unaffected claims as described in the CCAA Plan). The CCAA Plan contemplates two classes of affected creditors: (i) a class for the Pension Plan Claims and (ii) a class for the OPEB Claims and the General Claims.

24. Pursuant to the Creditors' Meeting Order dated June 8, 2012, a separate creditors meeting was directed to be held for each class of affected creditors to consider and approve the CCAA Plan. If the CCAA Plan is approved by the requisite majorities of the affected creditors, Canco will apply to the Court for an order approving the CCAA Plan and, once approved, it will be binding on the affected creditors including the Covered Persons.

25. On or about October 1, 2013, the Pension Plans were wound-up and annuities have been purchased in satisfaction of the Pension Plan Claims.

26. The CCAA Plan was approved by the affected creditors and the Court.

Proposed Transactions

27. On or before the Settlement Date and in accordance with and subject to the CCAA Plan, the Available Cash Pool of Canco will be applied to satisfy affected Claims (and will be used to pay certain unaffected Claims), all in accordance with the terms of the CCAA Plan and any relevant Court orders.

28. The aggregate payment to be received by all Former Employees (and any Dependant holding a Claim in accordance with the Proceedings) in respect of their Claims in relation to the Plans is referred to as the "**Settlement Amount**". The Former Employees (and Dependants) are not expected to fully recover the face value of their Claims, based upon the estimated Claims to be paid in priority and the Available Cash Pool of Canco. The balance of the Former Employees' (and relevant Dependants') Claims in respect of the Plans will be settled and discharged in accordance with the CCAA Plan.

29. Each Former Employee (and Dependant where relevant) will receive one or more payments on account of their Claim for termination of coverage under the Plans (other than the Claim for termination of coverage of the Life Insurance Plan) (the "**Payment**") in an amount equal to their pro-rata share (based upon their Claim as a percentage of all such Claims) of the aggregate Settlement Amount. Former Employees with a Claim under the Life Insurance Plan will also receive a separate payment in respect of such Claim.

30. The Monitor may act or assist as disbursing agent on behalf of Canco in respect of the Payments to be made to Former Employees (and Dependants). The Monitor will have no discretion and is required to make such Payments in accordance with the CCAA Plan and any further orders of the Court.

31. Representative Counsel will advise each Former Employee (and any Dependant) receiving a Payment that for purposes of calculating the non-refundable medical

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expense tax credit under section 118.2, neither the Former Employee (or Dependant where relevant) nor their spouse or common-law partner can include any amounts that would otherwise be qualifying medical expenses until such time as their cumulative medical expenses incurred since the termination of the Plans exceed the amount of the Payment received.

Purpose of the proposed transactions

32. The purpose of the payment of the Settlement Amount is to settle and resolve the Former Employees' (and any Dependants') Claims in respect of the Plans in accordance with the CCAA Plan, since Canco is not continuing to fund the Plans following the Termination Date.

Rulings Given

Provided that the preceding statements constitute a complete and accurate disclosure of all of the relevant facts, proposed transactions, and purposes of the proposed transactions, and there are no other transactions that may be relevant to the rulings given, our rulings are as follows:

A. The Payment received from Canco by each Former Employee and Dependant as described in paragraph 29 above will not be taxable under the Act in accordance with CRA's previous administration of the rules regarding lump-sum amounts received in lieu of health and dental coverage as described in the CRA's questions and answers relating to the 2011 Federal budget.

B. Canco will not be required to withhold any amounts from the Payment under subsection 153(1) nor will Canco be required to report the Payment on an information return.

The above advance income tax rulings are based on the Act and Regulations in their present form and do not take into account any proposed amendments thereto. The rulings are subject to the general limitations and qualifications set out in Information Circular 70-6R5, *Advance Income Tax Rulings*, dated May 17, 2002, and are binding on the CRA provided that the proposed transactions are completed within 6 months of the date of this letter.

Caveats

Except as expressly stated, these advance income tax rulings do not imply that the CRA has confirmed, reviewed, or made any determination in respect of any tax consequences relating to the facts, the proposed transactions, or any transaction or event taking place either prior or subsequent to the implementation of the proposed transactions, whether described in this letter or not, other than those specifically described in the rulings given above. For greater certainty, the CRA has not confirmed or made a determination in respect of:

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(a) whether the Plans qualify as a PHSP, or

(b) whether Canco was insolvent prior to January 1, 2012.

Yours truly,

Nerill Thomas-Wilkinson

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Business and Employment Income Section
Business and Employment Division
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