Notes to Waterfall Summary

Overview

1. The "waterfall" analysis has been prepared by the Applicants with the assistance of the Monitor and includes information relating to:

   (a) the Applicants, consisting of:

   - Hollinger Inc. ("Hollinger");
   - Sugra Limited ("Sugra"); and
   - 4322525 Canada Inc. ("432 Canada"); as well as

   (b) certain non-Applicant subsidiaries (the "Subsidiaries") comprised of:

   - Domgroup Ltd. ("Domgroup");
   - 10 Toronto Street Inc. ("10 Toronto"); and
   - Holcay Holdings Ltd. ("Holcay").

2. The Waterfall Summary is based on the unaudited and unconsolidated financial statements of the Applicants and the Subsidiaries, as well as certain supporting financial schedules, as at June 30, 2007. The Monitor has not performed an audit or other verification of such information.

3. All dollars amounts are expressed in Canadian dollars, except where otherwise noted, and are approximate.

4. The Waterfall Summary provides a summary of both the Applicants' and the Subsidiaries' significant assets, inter-company amounts receivable and payable and third party obligations as of June 30, 2007, except for the following:

   (a) Cash is reflected as of August 1, 2007 (the date of the Applicants' CCAA filing);

   (b) An accrued payable to Catalyst in the amount $2.0 million, which was accrued as of June 30, 2007 and reflected in Hollinger's unconsolidated June 30, 2007 quarterly financial statements is not reflected. This payable has not been reflected in the Waterfall Summary as it was subsequently settled in July 2007, as previously noted in the Monitor's communication to the Service List dated August 17, 2007.

5. The Applicants and the non-Applicant Subsidiaries have not initiated a claims process at this time. Accordingly, the Waterfall Summary reflects known obligations recorded in the Applicants' and Subsidiaries' unconsolidated financial statements and trial balances as of June 30, 2007 and the contingent assets and liabilities referenced in Hollinger's consolidated June 30, 2007 quarterly financial statements.

6. The Waterfall Summary presents the inter-company accounts receivable and inter-company and third party accounts payable on a gross basis, before any management valuation allowance except as explicitly stated. For financial statement disclosure purposes, management makes an assessment of the collectibility of the inter-company and third party accounts receivable and in certain circumstances applies a valuation allowance. These valuation allowances are shown in the schedules included in Appendix B of this Third Report.

7. These Notes to the Waterfall Summary indicate potential priority claims that have been or may be asserted by certain creditors. As no claims process has been initiated, neither the Applicants nor the Monitor have reviewed or assessed the quantum, ranking or validity of any claims or the validity and enforceability of any security, subordinations, trust or escrow agreements. Any references suggesting security or priority are those of the Applicants and have not been reviewed or verified.

8. The Waterfall Summary also identifies contingent assets and contingent litigation or other liabilities as publicly disclosed by the Applicants in Hollinger's consolidated June 30, 2007 quarterly financial statements. These contingent assets and liabilities are described in paragraphs 39 and 42 and indicate the following:

(a) The Applicants (and in some cases the Subsidiaries) have commenced significant litigation claims against numerous related and unrelated parties. In aggregate these actions claim amounts in excess of $1.5 billion; and

(b) The Applicants (some or all depending on the case) and others are named as defendants in numerous actions, which are described in more detail in paragraph 42.

9. In addition to the claims by and against the Applicants and Subsidiaries that have been quantified on some basis, there are numerous claims (both by and against the Applicants) and potential or threatened claims for which no estimated quantum is available at present.

10. The Applicants advise that they and the Subsidiaries remain subject to audit and assessment/re-assessment by the relevant tax authorities. The Applicants are developing a tax optimization strategy.

11. The Applicants believe that the resolution or determination of all of these contingent assets and liabilities will have a material impact on the recoveries to each stakeholder.

12. The Monitor notes that certain assets and liabilities reflected in the Waterfall Summary are denominated in U.S. dollars (although translated to and reflected in Canadian dollars on the Waterfall Summary) and therefore are subject to effects of foreign exchange volatility over time.

13. The following provides a summary of pertinent information and considerations for each of the Applicants and Subsidiaries with respect to the Waterfall Summary. The Waterfall Summary is to be read in conjunction with these Notes to Waterfall Summary.

<u>Holcay</u>

14. The assets of Holcay include a 40% equity interest in Cayman Free Press ("CFP") which owns and operates the Cayman Compass newspaper. A divestiture transaction is currently in progress and the potential aggregate gross proceeds

from the sale of the shares and Holcay's share of CFP's dividend in the amount of approximately $5.5 million have been shown in the Waterfall Summary.

15. As noted in the Second Report of the Monitor, the transaction was anticipated to close August 30, 2007. The Applicants had indicated that the closing date of the transaction was extended by 7 days by the purchaser as its financing had not been concluded. The Applicants advise that the transaction closed on September 6, 2007 and that the sale proceeds and dividend are currently in the trust accounts of counsel for Holcay and the Applicants.

16. As noted in the Applicants' cash flow projections, at the date of filing Holcay had $0.6 million held in a bank in the Cayman Islands. For the purposes of the cash flow projections, it is assumed that cash held by Holcay is available for use by the Applicants, upon payment of all amounts owing by Holcay.

17. Holcay has inter-company payables of $0.2 million due to Hollinger and $1.7 million due to Domgroup, in additional to fees and costs associated with the closing of the sale transaction.

18. Holcay is a non-Applicant. It has not undertaken a process to identify existing claims.

<u>10 Toronto</u>

19. 10 Toronto is a wholly-owned subsidiary of Domgroup and employs the four active personnel of the Hollinger group. Prior to the CCAA proceedings, 10 Toronto realized upon its primary asset, the 10 Toronto Street property, and received $13.7 million in sale proceeds, net of commissions, of which $2.9 million is held in escrow as described below.

20. The assets of 10 Toronto include:

    (a) cash of $10.3 million at the date of filing;

    (b) funds held in escrow in the amount of $2.9 million. The funds being held were a portion of the proceeds of the sale of the 10 Toronto Street property. A claim has been asserted by Morneau Sobeco, as administrator appointed by the Financial Services Commission of Ontario, against 10 Toronto over an alleged deficiency in respect of a defined benefit pension plan sponsored by The Ravelston Corporation Limited ("RCL") for various individuals, some of whom were or are employees of 10 Toronto and others who are former employees of RCL or other companies. The funds are being held in escrow pending a determination of the claim or pending the outcome of the motions filed by 10 Toronto to have the funds released. The Monitor has not evaluated and expresses no view as to the enforceability of the escrow agreement; and

(c) Artwork with a book value of $0.5 million. The Monitor understands that ownership of certain artwork is disputed by a related party.

(d) Net inter-company receivable of $1.0 million due from RCL.

21. 10 Toronto has inter-company accounts payable of:

(a) $10.4 million due to the Applicants, of which approximately $9.6 million is due to Hollinger (with the balance of $0.8 million due to Sugra). 10 Toronto has agreed to pay up to $7.5 million of this inter-company balance to fund the Applicants' on-going cash requirements on an as-needed basis during the CCAA proceedings; and

(b) $2.0 million due to non-Applicants of which $1.3 million is due to Domgroup.

22. Claims for post-employment benefits total $2.9 million. 10 Toronto has accrued only $0.7 million in its financial statements in respect to this claim.

23. A wind-up of 10 Toronto could potentially result in employee termination and severance costs as well as wind-up costs and funding obligations for the current employees' pension and benefit plans. These costs and funding obligations have not been quantified and accordingly no provision has been accrued or reflected in the Waterfall Summary.

24. 10 Toronto is a non-Applicant. It has not undertaken a process to identify existing claims.

Domgroup

25. The assets of Domgroup include:

(a) Cash of $26.9 million at the date of filing;

(b) Funds held in escrow in the amount of $1.2 million. The funds are held in escrow in support of funding certain defaults should they accrue with respect to the group health benefits plans for specified retirees of the former Dominion Stores;

(c) Interest in real estate consisting of 4 owned properties and 4 leased properties, as follows:

- Owned - 230 Cannon St. Hamilton, Ontario;
- Owned - 5403 48th Ave. Taber, Alberta;
- Owned - 171 Ingersoll Rd, Woodstock, Ontario (parking lot);
- Owned - 3446 -3476 Fourth Ave. Port Alberni, B.C (3 vacant lots);
- Leased – 171 Ingersoll Road, Woodstock, Ontario;
- Leased - 220 Kingsway, Vancouver, B.C.;
- Leased 7350 Edmund St., Burnaby, B.C.; and
- Leased – 60 Winford Heights Cres., Toronto, Ontario.

The Hamilton, Woodstock and Port Alberni properties are currently listed for sale. The Taber property will soon be listed for sale. These four properties are estimated by Domgroup to have an aggregate market value of $2.5 million. The owned properties have been reflected in the Waterfall Summary at their book value of $0.7 million.

(d) Inter-company accounts receivable totalling $41.5 million, including:

- $1.3 million due from 10 Toronto and $1.7 million due from Holcay;
- $19.0 million due from RCL, which includes secured loans in the form of demand promissory notes from RCL in the principal amount of $14.7 million which are secured by general security agreements ("GSAs"). RCL and certain of its subsidiaries are in insolvency proceedings. Their primary asset is shares of Hollinger that are pledged to Domgroup as security for these loans;
- $9.0 million due from Hollinger. The Monitor notes that Domgroup owes Hollinger $23.6 million; and
- $0.6 million due from other related, associated or affiliated companies. Several of the companies are inactive and the recoverability of amounts owed to Domgroup has not been determined.

(e) Vendor take-back mortgage in the amount of $3.2 million relating to the sale of the property at 1050 The Queensway, Toronto in 2004. Domgroup anticipates receiving the proceeds from the vendor take-back by the end of the calendar year. Domgroup may be entitled to an additional amount of up to $1.0 million depending on the number of condominium units sold. Domgroup has not recorded this contingent receipt at the present time; and

(f) Future income tax receivable of approximately $5.6 million. The ultimate recoverability (both as to quantum and likelihood) is dependent upon future events.

26. The Waterfall Summary does not reflect inter–company amounts owing to Domgroup's inactive subsidiaries, including Safeguard Drugs, Quintana Sales, 021173 NB (formerly Willet Foods) and Highway Markets. The Applicants have advised that these subsidiaries have minimal third party assets and liabilities, which are comprised of:

(a) two pension plans relating to Willet Foods, currently in the process of being wound up; one of which is in a surplus position and the other is in a $0.1 million deficit position; and

(b) $0.2 million held in trust regarding General Bakeries, a predecessor company of Domgroup.

Domgroup advises that the only other assets and liabilities of these subsidiaries are claims against each other.

27. Domgroup's known liabilities include:

(a) Funding obligations for group health benefit plans and pension top-up payments for specified retirees of the former Dominion Stores, estimated by actuarial valuation at approximately $9.2 million;

(b) $1.5 million of trade accounts payable and accruals, which include $0.7 million relating to a provision for environmental matters. The environmental provision is management's estimate of remediation costs for certain properties. Domgroup has not undertaken environmental assessments for all of its owned and leased properties to quantify or determine the full extent and nature of possible environmental liabilities;

(c) The Waterfall Summary does not include any accrual for potential claims with respect to its operating leases some of which extend out until 2010;

(d) $23.6 million due to Hollinger, including principal of $4.8 million plus interest evidenced in the form of a promissory note. The promissory note indicates that the note is secured by a GSA. Hollinger has not been able to locate a signed GSA. The Applicants advise that no security has been registered at this time. Domgroup also has a receivable of $9.0 million due from Hollinger;

(e) $5.9 million due to Sugra, including principal of $4.0 million plus interest evidenced in the form of a promissory note. The promissory note indicates that the note is secured by a GSA. Sugra has not been able to locate a signed GSA. The Applicants advise that no security has been registered at this time. Domgroup also has a receivable of $0.9 million due from Sugra; and

(f) $8.9 million due to 432 Canada, including principal of $6.0 million plus interest evidenced in the form of a promissory note. The promissory note indicates that the note is secured by a GSA. 432 Canada has not been able to locate a signed GSA. The Applicants advise that no security has been registered at this time.

28. Domgroup is a non-Applicant. It has not undertaken a process to identify all existing claims.

<u>Sugra</u>

29. Sugra is a wholly owned subsidiary of Hollinger. Sugra's primary function was managing the operations of the Hollinger group's private aircraft and related personnel until this function was transferred to Hollinger Aviation in February 2002.

30. Sugra is a covenantor under the senior and second lien notes.

31. Sugra's assets include inter-company accounts receivable totalling $7.5 million, including:

(a) $0.8 million due from 10 Toronto;

(b) $5.9 million due from Domgroup, including principal of $4.0 million plus interest evidenced in the form of a promissory note. The promissory note indicates that the note is secured by a GSA. Sugra has not been able to locate a signed GSA. The Applicants advise that no security has been registered at this time. Sugra also has a payable of $0.9 million due to Domgroup; and

(c) Net $0.7 million due from non-Applicants.

32. Sugra's liabilities consist primarily of $349.1 million due to Hollinger. The Monitor has not undertaken any review of the historical transactions that give rise to this inter-company payable.

33. No claims process has been implemented with respect to Sugra.

<u>432 Canada</u>

34. 432 Canada is a wholly owned subsidiary of Sugra. 432 Canada is a guarantor under the senior and second lien notes and has granted security over certain of its assets, including its shares of STMG.

35. 432 Canada's assets include:

(a) 12.99 million Class B shares of STMG, which combined with the 2.0 million shares held by Hollinger comprise 100% of STMG's Class B shares. The Class B shares possess 10:1 multiple voting rights, compared to STMG's Class A shares, which provide the Applicants with voting control of STMG. These shares are not publicly traded. The fair market value of these shares is not determined for purposes of this Waterfall Summary;

(b) 615,944 Class A shares of STMG held in support of share exchange requests made by holders of the1.7 million of Hollinger's Series II preference shares. The Class A shares are held pursuant to an escrow agreement. The Monitor has not evaluated and expresses no view as to the enforceability of the escrow agreement; and

(c) Inter-company accounts receivable totalling $362.4 million including:

- $353.5 million due from Hollinger. 432 Canada also has an $8.1 million account payable to Hollinger. The Monitor has not undertaken any review of the historical transactions that give rise to this inter-company account receivable; and
- $8.9 million due from Domgroup, which includes $6.0 million plus interest evidenced in the form of a demand promissory note. The promissory note indicates that the note is secured by a GSA. 432 Canada has not been able to locate a signed GSA. The Applicants advise that no security has been registered at this time.

36. 432 Canada's known liabilities include:

(a) $38.7 million due to STMG consisting of principal of US$20.4 million plus interest evidenced in the form of a demand promissory note ("432 Note"). The 432 Note is subject to a subordination agreement with respect to the principal and interest owing pursuant to the notes issued under the Indentures. The 432 Note forms part of the subject matter of the on-going litigation between the Applicants and STMG. The Monitor expresses no view with respect to the scope of the subordination agreement or the ranking or priority of any of the claims.

(b) $5.3 million of current and deferred income taxes payable.

37. No claims process has been implemented with respect to 432 Canada.

Hollinger

38. Hollinger and the other Applicants do not conduct any direct business operations of their own. Their primary "hard" asset is their direct and indirect ownership interest in STMG consisting of :

(a) 2.0 million Class B shares of STMG, which combined with the 12.99 million shares held by 432 Canada comprise 100% of STMG's Class B shares. The STMG Class B shares possess 10:1 multiple voting rights, compared to the STMG Class A shares, which provide the Applicants with voting control of STMG. These shares are not publicly traded. The fair market value of these shares is not determined for purposes of this summary; and

(b) 166,979 Class A shares of STMG held in support of share exchange requests made by holders of the 1.7 million of Hollinger's Series II preference shares. The Class A shares are held pursuant to an escrow agreement. The Monitor has not evaluated and expresses no view with respect to the enforceability of the escrow agreement.

39. Hollinger's other principal assets are:

(a) Litigation claims asserted against a number of parties in various proceedings, in respect of which the aggregate amount of damages claimed exceeds \$1.5 billion. The Monitor notes that the value of these assets may be material but is uncertain at present. The Monitor has not conducted any assessment of the litigation assets and, accordingly, has no view as to their value. The Applicants believe that these assets have significant value;

(b) an indirect interest in CFP and any net proceeds in respect of this interest;

(c) a direct or indirect interest in certain active and inactive Canadian subsidiaries, including 10 Toronto and Domgroup;

(d) Cash held in escrow in the amount of \$0.5 million. The escrowed funds are in support of Hollinger's indemnities in respect of two of its officers. The Monitor has not evaluated and expresses no view as to the enforceability of the escrow arrangement;

(e) Inter-company accounts receivable totalling \$487.6 million including:

- $9.6 million due from 10 Toronto. 10 Toronto has agreed to pay up to $7.5 million of this inter-company balance to fund the Applicants' on-going cash requirements, on an as needed basis, during the CCAA proceedings, subject to any claims that may be asserted against 10 Toronto;
- $349.1 million due from Sugra. The Monitor has not undertaken any review of the historical transactions that give rise to the inter-company account receivable;
- $23.6 million due from Domgroup, which includes $4.8 million plus interest evidenced in the form of a demand promissory note. The promissory note indicates that the note is secured by a GSA. Hollinger has not been able to locate a signed GSA and the Applicants have advised the Monitor that no security has been registered at this time;
- $89.9 million from RMI in connection with RMI's non-interest bearing obligations under the support agreement. The Applicants have advised that RMI's obligation to Hollinger continues to accrue;
- $0.2 million due from Holcay;
- $8.1 million due from 432 Canada; and
- $7.1 million due from RCL secured by a GSA.

40. In addition to the Notes, Hollinger's known liabilities include:

(a) An accrued obligation in the amount of $4.3 million with respect to the retraction of 1.7 million of Hollinger's Series II preference shares. The Applicants and the Monitor have not reviewed or assessed the ranking of this particular obligation against other creditors.

(b) Accrued cumulative dividends to Hollinger's Series II preference shares in the amount of $4.8 million. Pursuant to the terms and rights of Hollinger's Series II preference shares, Hollinger's receipt of dividends paid by STMG on STMG's Class A and B shares triggered an obligation on Hollinger's Series II preference shares. Hollinger has not declared these dividends but has accrued the obligation. The Applicants and the Monitor have not reviewed or assessed the ranking of this particular obligation against other creditors;

(c) An obligation in the amount of $23.4 million with respect to the reimbursement of certain amounts, plus interest and legal fees, advanced by Lord Black pursuant to an Order of the Delaware Court of Chancery regarding payments to Sun-Times on account of non-compete payments. This obligation was originally classified as an obligation of Domgroup. The obligation has been re-classified as a liability of Hollinger and not of Domgroup in the June 30, 2007 financial statements. The reclassification resulted in the reduction of the amount payable by Hollinger to Domgroup in the amount of $23.4 million;

(d) $24.3 million relating to legal fees incurred by Lord Black, David Radler and other former officers and directors. Reimbursement is being sought from Hollinger under the terms of an alleged indemnity in favour of former directors and officers. This accrual grows as fees are incurred;

(e) $353.5 million due to 432 Canada. The Monitor has not undertaken any review of the historical transactions that give rise to this inter-company account payable. Hollinger also has a receivable of $8.1 million due from 432 Canada;

(f) $9.4 million of trade accounts payable and income taxes, including $4.7 million of income tax and $4.1 million of accrued legal expenses;

(g) $9.0 million due to Domgroup; and

(h) An accrual of $1.4 million related to common share retraction requests.

41. Hollinger is contingently liable to certain contractors and financial advisors for performance based compensation, some of which has already been publicly disclosed. The Monitor has not reviewed these arrangements but has been advised by the Applicants that the existence, quantum and timing of these potential obligations, are dependent upon future events.

42. In addition to the above, Hollinger is subject to a number of other contingent claims for significant amounts. Any consideration of the ultimate recoveries must take these contingent liabilities into account. Certain contingent claims against Hollinger include the following, with reference to the corresponding notes in Hollinger's June 30, 2007 quarterly financial statements:

	Claimant	**Amount of Claim**	**Financial Statements Note Reference**
(i)	Burnac Leaseholds Limited and Crystalline Investments Limited	$2.6 million + interest	12 a)
(ii)	Employers Reinsurance Corp.	Unknown	12 b)
(iii)	STMG	Unknown	12 (d)
(iv)	Parties outside of class action settlement	Unknown	12 (e)(i)(ii)
(v)	STMG Shareholders (Saskatchewan)	Unknown	12 e)(ii)
(vi)	STMG Shareholders (Ontario)	Unknown	12 e) (ii)
(vii)	STMG Shareholders (Quebec)	Unknown	12 e)(ii)
(viii)	SEC	Unknown	12 g)
(ix)	STMG	US $542 million	12 h)
(x)	Ontario Securities Commission	Unknown	12 k)

(xi)	783783 Alberta Ltd.	$5 million	12 n)
(xii)	Equitable Contribution (Black et al.)	$24.3 million	12 p)
(xiii)	Radler	unknown	12 q)
(xiv)	Tax contingencies	$4.0 million	12 s)
	Other potential tax liabilities	$25.3 million	
(xv)	Catalyst	$4.0 million	12 t) – settled for $2 million
(xvi)	Catalyst - other claims for reimbursement	unknown	n/a
(xvii)	D & O Indemnity	unknown	12 v)
(xviii)	Litigation in Ordinary Course	unknown	12 w)
(xix)	Indemnification re secured notes	unknown	13
(xx)	Property Leases	$0.5 million	13
(xxi)	Representation, Warranties and Retained Liabilities re dispositions	unknown	13
(xxii)	Black, Amiel-Black et al. Contribution and Indemnity Claim	unknown	13
(xxiii)	Indemnity to Trustee re wound up Trust (former O&D)	unknown	13

43. Hollinger executed a Limited Recourse Guarantee and a Security Agreement in favour of STMG on March 10, 2003 with respect to 432 Canada’s obligations under the 432 Note. The Applicants advise that STMG’s rights under the 432 Note and Security Agreement executed by Hollinger are limited to any recovery obtained under a guarantee executed by Ravelston in favour of Hollinger assigned and pledged by Hollinger to STMG.

44. No claims process has been implemented with respect to Hollinger.