FP Newspapers Inc.

Management's Discussion and Analysis 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 8, 2018

Management's discussion and analysis, prepared as at March 8, 2018, provides a review of significant developments that affected the performance of FP Newspapers Inc. ("FPI") in the three and twelve months ended December 30, 2017. This review is based on financial information contained in the consolidated financial statements and accompanying notes for the year ended December 30, 2017.

Factors that could affect future operations are also discussed. These factors may be affected by known and unknown risks and uncertainties that may cause the actual future results to be materially different from those expressed in this discussion.

The financial statements, which are the basis for data presented in this report, have been prepared in accordance with International Financial Reporting Standards (IFRS). The following information provides analysis of the operations and financial position of FPI and FP Canadian Newspapers Limited Partnership ("FPLP") and should be read in conjunction with the financial statements and accompanying notes.

This Management's Discussion and Analysis contains "forward-looking statements" that are subject to risks and uncertainties set out below under the heading "Caution Regarding Forward-Looking Statements". The reader is cautioned not to place undue reliance on forward-looking statements.

Further information relating to FPI is available at **www.sedar.com** or on FPI's website at **www fpnewspapers.com**.

FORMATION AND LEGAL ENTITIES

FPI, which was incorporated under the Canada Business Corporations Act on March 17, 2010, is the successor to the business of FP Newspapers Income Fund (the "Fund"). The Fund was created on May 15, 2002 and commenced operations on May 28, 2002 when it completed an initial public offering and purchased an interest in FP Canadian Newspapers Limited Partnership ("FPLP").

On December 31, 2010, the Fund completed its conversion from an income trust to a corporate structure pursuant to a plan of arrangement. Under the plan of arrangement, Unitholders of the Fund received, for each Unit of the Fund held, one common share of the resulting public corporation, FPI. The common shares of FPI commenced trading on the Toronto Stock Exchange on January 7, 2011 under the symbol "FP". Concurrently, the Fund's Units were delisted. Effective at the close of market on November 21, 2016 the Company delisted from trading on the Toronto Stock exchange and effective at the opening November 22, 2016, the common shares of FPI commenced trading on the TSX Venture Exchange under the same "FP" symbol.

FPI owns securities entitling it to 49% of the distributable cash of FPLP.

FPLP is a limited partnership formed on August 9, 1999. Effective November 29, 2001, FPLP acquired the business assets and assumed certain liabilities of the Winnipeg Free Press and the Brandon Sun. On July 13, 2004, FPLP acquired the business assets and liabilities of Canstar Community News ("Canstar"). On February 28, 2011, FPLP acquired the business assets and assumed certain liabilities of a commercial printing and publishing business operating under the name Derksen Printers based in Steinbach, Manitoba. On October 26, 2012, FPLP acquired substantially all of the assets and assumed certain liabilities of the Carberry News-Express, a weekly paid subscription publication.

FP NEWSPAPERS INC.

A summary of selected financial information of FPI for the last three years is as follows:

	2017	2016	2015
	$ in thousands except per share amounts		
Revenue	1,847	2,378	3,906
Net (loss)	(1,700)	(9,491)	(23,776)
Net (loss) per share	(0.246)	(1.375)	(3.445)
Total assets	7,146	9,787	17,574
Total long-term liabilities	835	972	174
Dividends declared	-	-	1,104
Dividends declared per share	-	-	0.160

Revenue for the year ended December 30, 2017 was $1.9 million compared to $2.4 million in 2016. The decrease was primarily the result of lower equity earnings from FPI's investment in FPLP. A non-cash write-down of $2.9 million was recorded in the twelve months ended December 31, 2017, based on FPI's determination that its 49% equity investment in FPLP was impaired, primarily due to continued declines in revenue and earnings experienced by FPLP. In 2016 FPI recorded non-cash write-downs of $11.1 million. The write-downs resulted in a net loss of $1.7 million for the year ended December 30, 2017 compared to a net loss of $9.5 million for the year ended December 30, 2016. Excluding the non-cash write-downs of the equity investment in FPLP, FPI reported net earnings of $1.3 million for the year ended December 30, 2017, compared to net earnings of $1.6 million for 2016. The decrease in net earnings is primarily due to a decrease in the equity share of the net earnings of FPLP, with details of this decline disclosed in the FPLP section of this report. For the year ended December 30, 2017, FPI recorded a current income tax expense of $0.3 million and a deferred income tax expense of $0.2 million compared to a current income tax expense of $0.1 million and a deferred income tax expense of $0.5 million in 2016. The deferred income tax expense is primarily due to FPI's share of FPLP's timing differences primarily relating to FPLP's change in its pension obligation. Other comprehensive loss for 2017 was $0.9 million compared to other comprehensive income of $0.9 million in 2016. The change in other comprehensive income (loss) results from FPI's equity share of FPLP's recognition of remeasurements gains and losses related to its defined benefit pension plan.

As at December 30, 2017, FPI had 6,902,592 shares outstanding.

SUMMARY OF QUARTERLY RESULTS

A summary of FPI's quarterly revenue, net (loss) earnings and net (loss) earnings per share for the years ended December 30, 2017, 2016 and 2015 are as follows:

	2017	**2016**	**2015**
	In thousands of dollars (except per share amounts)		
Revenue			
Quarter 1	$ 305	$ 391	$ 606
Quarter 2	802	740	1,367
Quarter 3	150	196	526
Quarter 4	590	1,051	1,407
Net (loss) earnings			
Quarter 1	$ 186	$ 250	$ 399
Quarter 2	566	(5,683)	(17,655)
Quarter 3	71	90	331
Quarter 4	(2,523)	(4,148)	(6,851)
Net (loss) earnings per share			
Quarter 1	$ 0.027	$ 0.036	$ 0.058
Quarter 2	0.082	(0.823)	(2.558)
Quarter 3	0.010	0.013	0.048
Quarter 4	(0.365)	(0.601)	(0.993)

A non-cash write-down of $2.9 million was recorded in the fourth quarter of 2017. A non-cash write-down of $6.2 million was recorded in the second quarter of 2016 and a write-down of $4.9 million was recorded in the fourth quarter of 2016. A non-cash write-down of $18.6 million was recorded in the second quarter of 2015 and a write-down of $7.8 million was recorded in the fourth quarter of 2015. These write-downs were based on FPI's determination that its 49% equity investment in FPLP was impaired, primarily due to continued declines in revenue and earnings experienced by FPLP.

Excluding the non-cash write-down of the equity investment in FPLP, FPI reported net earnings of $0.4 million for the three months ended December 30, 2017, compared to net earnings of $0.7 million for the same period in 2016.

Lower levels of revenue, net earnings and net earnings per share in the first and third quarters of 2017 and 2016 are due to lower EBITDA(1) of FPLP, due to the seasonality of the operating business.

RESULTS OF OPERATIONS OF FPLP

A summary of selected financial information of FPLP for the last three years is as follows:

	2017	2016	2015
		In thousands of dollars	
Revenue	71,949	80,505	89,026
Net (loss)(*)	(2,234)	(17,850)	(31,232)
Total assets (*)	51,333	66,670	93,064
Total long-term liabilities(**)	28,463	37,522	45,325

* The net (loss) and reduction in total assets results primarily from FPLP recording an impairment charge relating to its goodwill of $6 0 million in the fourth quarter of 2017, $12 7 million during the second quarter of 2016 and $10 0 million during the fourth quarter of 2016 and $23 2 million during the second quarter of 2015 and $16 0 million during the fourth quarter of 2015, primarily due to continued declines in revenue and earnings

**The reduction in long-term liabilities in 2017 from 2016 and 2015 results primarily from $7 0 million of principal voluntarily repaid on the long-term debt agreement in November of 2017

SUMMARY OF ANNUAL RESULTS

Revenue:

A summary of annual revenue by major category is as follows:

	2017	2016
	In thousands of dollars	
Print advertising	$ 40,460	$ 47,150
Circulation	24,342	25,042
Commercial printing	4,261	4,703
Digital	2,179	2,700
Other	707	910
	$ 71,949	$ 80,505

FPLP's revenue for the twelve months ended December 31, 2017 was $72.0 million, a decrease of $8.5 million or 10.6% from the prior year. Print advertising revenues for the year ended December 31, 2017 were lower by $6.7 million or 14.2% compared to last year. FPLP's largest print advertising revenue category, display advertising including colour, was $22.3 million, a decrease of $5.2 million or 18.8% from the prior year, primarily due to decreased spending in the local and national automotive, financial and retail categories. Classified advertising revenues for the 2017 year decreased by $0.9 million or 12.2% compared to last year, primarily due to lower spending in the employment and real estate categories. Flyer distribution revenues were $11.9 million, a decrease of $0.7 million or 5.7% from 2016, primarily due to a decrease in flyer volumes.

Circulation revenues for the year ended December 31, 2017 decreased by $0.7 million or 2.8%, primarily due to lower print unit sales, partly offset by higher print subscription rates and new digital subscription revenues from the Winnipeg Free Press digital content platforms. Commercial printing revenues for 2017 decreased by $0.4 million, primarily attributable to lower page counts in recurring print contracts. Digital revenues for 2017 decreased by $0.5 million or 19.3%, primarily due to on-line advertising revenue declines on the Winnipeg Free Press website and other digital offerings.

Operating Expenses:

Operating expenses by major category are as follows:

	2017	2016
	In thousands of dollars	
Employee compensation, excluding restructuring charges	$ 31,020	$ 34,322
Newsprint – own use	4,947	5,588
Newsprint – commercial printing	1,165	1,289
Delivery	13,060	14,219
Other	13,390	14,458
Depreciation and amortization	3,117	4,159
	66,699	74,035
Restructuring charges	354	393
	$ 67,053	$ 74,428

Operating expenses for the year ended December 31, 2017 were $67.1 million, a $7.4 million or 9.9% decrease from last year. Employee compensation costs, excluding restructuring charges, for the year decreased by $3.3 million or 9.6%, primarily due to a reduction in the number of employees across all of our business units. Restructuring charges for the year ending December 31, 2017 were $0.4 million, virtually unchanged from the prior year and represented voluntary and involuntary severance payments for employees. Newsprint expense for FPLP's own publications for the year decreased by $0.6 million or 11.5%, primarily due to lower printing volumes. Delivery costs decreased by $1.2 million or 8.2% primarily due to cost savings related to the consolidation of the carrier depots and route realignments to improve efficiency. Other expenses for the year decreased by $1.1 million or 7.4% compared to the prior year, primarily due to the loss of outside national account commission costs with these efforts assumed by existing staff.

EBITDA(1), excluding goodwill impairment charges, for the year ended December 31, 2017 was $8.0 million compared to $10.2 million in 2016, a decrease of 21.7%. EBITDA(1) margin, excluding the goodwill impairment charge, for the twelve months ended December 31, 2017 was 11.1% compared to 12.7% in 2016.

For the year ended December 31, 2017, finance costs decreased by $0.1 million or 5.8% primarily due to the lower level of debt outstanding as a result of the $10.0 million principal repayments made on the long-term debt during 2017.

As a result of continued declines in revenue and earnings, FPLP recorded an aggregate impairment charge relating to its goodwill of $6.0 million during the year ended December 31, 2017. Excluding this impairment charge, FPLP's net earnings were $3.8 million for the year ended December 31, 2017, compared to net earnings of $4.8 million in the prior year, excluding the $22.7 million impairment charge relating to goodwill recorded in 2016.

Under IFRS, comprehensive income includes remeasurement gains and losses related to FPLP's defined benefit pension plan. These gains or losses are primarily related to changes in actuarial discount rate assumptions and returns of plan assets differing from expected interest income. The actuarial loss in 2017 was due to a decrease in the discount rate, partly offset by higher than expected returns of plan assets.

SUMMARY OF FOURTH QUARTER RESULTS

Revenue:

A summary of revenue for the three months ended December 31, 2017 and 2016 by major category is as follows:

	Three months ended December 31, 2017	Three months ended December 31, 2016
	In thousands of dollars	
Print advertising	$ 10,286	$ 12,325
Circulation	5,970	6,369
Commercial printing	1,062	1,193
Digital	550	731
Other	175	263
	$ 18,043	$ 20,881

FPLP's revenue for the three months ended December 31, 2017 was $18.0 million, a decrease of $2.8 million or 13.6% from the same three months in the prior year. Print advertising revenues for the three months ended December 31, 2017 were $10.3 million, a 16.5% decrease compared to the same quarter last year. FPLP's largest print advertising revenue category, display advertising including colour, was $5.8 million, a decrease of $1.7 million or 22.4% from the same period in the prior year, primarily due to decreased spending in the local and national automotive, financial and retail categories. Classified advertising revenues for the fourth quarter decreased by $0.1 million or 3.5% compared to the same period last year, primarily due to a decrease in the real estate and employment categories, partially offset by an increase in obituary revenues. Flyer distribution revenues for the fourth quarter were lower by $0.3 million or 9.3% than the same period last year, primarily due to a decrease in flyer volumes, partly offset by slightly higher average rates.

Circulation revenues for the fourth quarter decreased by $0.4 million or 6.2%, from the same period last year, with lower unit sales offsetting increased revenue from higher print subscription rates and new digital subscription revenues from the Winnipeg Free Press digital offerings. Commercial printing revenues for the fourth quarter were lower by $0.1 million or 10.9%, primarily attributable to lower page counts in recurring print contracts and the loss of the Metro printing contract at the end of November. Digital revenues for the fourth quarter decreased by $0.2 million or 24.8% compared to the same period last year, primarily due to a decrease in on-line web ad revenues.

Operating Expenses:

	Three months ended December 31, 2017	December 31, 2016
	In thousands of dollars	
Employee compensation	$ 7,518	$ 8,197
Newsprint – own use	1,260	1,483
Newsprint – commercial printing	297	325
Delivery	3,264	3,613
Other	3,410	3,765
Depreciation and amortization	764	972
	$ 16,513	$ 18,355
Restructuring charge	53	86
	$ 16,566	$ 18,441

Operating expenses for the three months ended December 31, 2017 were $16.6 million, a $1.9 million or 10.2% decrease from the same quarter last year. Employee compensation costs, excluding restructuring charges, for the fourth quarter decreased by $0.7 million or 8.3%, primarily due a reduced number of employees across all our business units. Newsprint expense for FPLP's own publications for the quarter was $0.2 million or 15.3% lower than the fourth quarter in 2016, primarily due to lower volumes printed. Delivery costs decreased by $0.3 million or 9.7% primarily due to lower circulation units and flyer volumes.

EBITDA[(1)], excluding the goodwill impairment charge, for the three months ended December 31, 2017 was $2.2 million, a decrease of $1.2 million or 34.3% from the same period last year. EBITDA[(1)] margin, excluding the goodwill impairment charge, for the three months ending December 31, 2017 was 12.4%, compared to 16.3% in the same period last year.

Due to continued declines in primarily advertising revenue and earnings, FPLP recorded an impairment charge relating to its goodwill of $6.0 million during the fourth quarter of 2017, compared to an impairment charge relating to its goodwill of $10.0 million in the fourth quarter of 2016. Excluding the goodwill impairment charge, FPLP's net earnings were $1.2 million for the three months ended December 31, 2017, compared to $2.1 million for the same period last year.

QUARTERLY SUMMARY

Newspaper publishing is, to a certain extent, a seasonal business, with a higher proportion of revenues and operating earnings occurring during the second and fourth quarters of the calendar year. Revenue, EBITDA[(1)] and net earnings (loss) of FPLP by quarter for 2017, 2016, and 2015 were as follows:

	2017	2016	2015
		In thousands of dollars	
Revenue			
Quarter 1	$ 18,218	$ 19,642	$ 21,300
Quarter 2	18,795	20,773	23,461
Quarter 3	16,893	19,209	21,139
Quarter 4	18,043	20,881	23,126
	$ 71,949	$ 80,505	$ 89,026
EBITDA[(1)]			
Quarter 1	$ 1,704	$ 2,189	$ 2,684
Quarter 2	2,706	2,877	4,207
Quarter 3	1,362	1,759	2,466
Quarter 4	2,241	3,412	4,253
	$ 8,013	$ 10,237	$ 13,610
Net (Loss) Earnings			
Quarter 1	$ 621	$ 797	$ 1,236
Quarter 2[(*)]	1,637	(11,192)	(20,413)
Quarter 3	305	401	1,073
Quarter 4[(*)]	(4,797)	(7,856)	(13,128)
	$ (2,234)	$ (17,850)	$ (31,232)

[(*)] Goodwill impairment charges of $12.7 million in the second quarter of 2016 and $23.2 million in the second quarter 2015 and $6.0 million in the fourth quarter of 2017, $10.0 million in the fourth quarter of 2016 and $16.0 million in the fourth quarter of 2015 were recorded primarily due to continued declines in revenues and earnings.

FINANCIAL CONDITION OF FPLP

LIQUIDITY AND CAPITAL RESOURCES OF FPLP

Cash and cash equivalents at December 31, 2017 was $6.7 million compared to $10.0 million at December 31, 2016. Cash and cash equivalents may be used to reduce debt, to fund future capital expenditures, to pay future distributions (including future income taxes payable by the partners), or for other strategic initiatives or general purposes. During the year ended December 31, 2017, operating activities provided $7.7 million, cash flows used in investing activities were $0.1 million and $10.9 million was used for financing activities. Cash flow from operations, together with cash balances on hand, are currently expected to be sufficient to fund FPLP's operating requirements, capital expenditures, required principal and interest payments under FPLP's credit facility and finance lease obligations and anticipated distributions, assuming that advertising revenues do not materially deteriorate beyond management's current expectations.

CASH FLOW FROM OPERATING ACTIVITIES

During the year ended December 31, 2017, cash generated from operating activities was $7.7 million, compared to $5.0 million for 2016. The increase in cash generated from operating activities is primarily due to a timing of receipts from customersand due to a decrease in pension funding requirements resulting from higher discount rates used in the funding calculation compared to the previous year.

INVESTING ACTIVITIES

Capital asset additions were $0.1 million for the year ended December 31, 2017, compared to $0.7 million for the prior year. Maintenance capital expenditures in 2017 were primarily for the development of the Winnipeg Free Press Newsbreak mobile app, software purchases and minor press refurbishment.

FINANCING ACTIVITIES

Financing activities used $10.9 million of cash in 2017, compared to $5.1 million in 2016. Repayment of long-term debt principal in 2017 was $10.0 million compared to $3.0 million in 2016. Principal repayments of finance leases were $0.8 million in 2017 compared to $1.7 million in 2016 due to a reduction of finance lease principal. There were no distributions to partners in 2017, compared to $0.6 million in the first quarter of 2016.

CONTRACTUAL OBLIGATIONS

A summary of FPLP's undiscounted contractual obligations by period is as follows:

		Payments Due by Period			
	Total	**Less than 1 year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
		In thousands of dollars			
Long-term debt	$ 27,909	$ 1,960	$ 25,949	$ -	$ -
Mortgage loan	960	92	184	684	-
Finance leases	1,498	855	643	-	-
Operating leases	434	133	247	54	-
Other contractual commitments	1,136	461	555	120	-
Total contractual obligations	$ 31,937	$ 3,501	$ 27,578	$ 858	$ -

The long-term debt agreement was renewed on January 8, 2015 with a maturity date of January 31, 2020. On the renewal date, $6.3 million of principal was repaid, reducing the outstanding principal to $40.0 million. Principal repayments of $1.0 million are due on the first of June each year and a cash sweep is payable no later than 90 days after the end of each fiscal year. The cash sweep is equal to the lesser of $3.5 million or 25% of FPLP's annual distributable cash as defined in the agreement. In addition to the $0.5 million cash sweep payment made on March 31, 2017 for the 2016 fiscal year, a voluntary repayment of $1.5 million was made at that time and a voluntary early principal repayment in the amount of $7.0 million was made in November 2017, which eliminates the need for cash sweep repayment at March 31, 2018. Maximum principal balances under the agreement are $30.0 million on January 31, 2018 and $20.0 million on January 31, 2020.

FPLP sponsors registered defined benefit and defined contribution pension plans. As at December 31, 2017, the defined benefit plan assets totalled $53.5 million and were invested in a diversified portfolio of Canadian and International equity securities, as well as Canadian bonds and real estate. The most recent actuarial valuation for the defined benefit plan was performed as at December 31, 2016. This valuation established the contributions FPLP had to make under the defined benefit pension plan from January 1, 2017 until December 31, 2017, the next valuation date.

PRODUCTIVE CAPACITY MAINTENANCE STRATEGY

The key sources of revenue of FPLP are dependent upon our ability to sell and publish display and classified advertising, both in our newspapers and on our websites, our ability to distribute advertising flyers, and our ability to produce and distribute newspapers. The key capital assets used in these activities are premises, computer hardware and software, printing presses and distribution-related machinery. The available capital assets are used by our staff to deliver the products and services which result in revenue to FPLP.

It is the complex interaction of asset utilization, staffing levels and contracted services which ultimately determine our productive capacity on any given day, but there is no single measure which would accurately portray the productive capacity of the business. Generally speaking, we manage the business to ensure there is excess capacity available that would allow us to comfortably increase the volume of advertising, circulation and flyer distribution to take advantage of market opportunities.

FPLP's strategy is to maintain a reasonable level of excess productive capacity to at least ensure we are able to produce and distribute products and services at the current peak volumes. This is accomplished by conducting capital and non-capital preventive maintenance programs for machinery and equipment, performing repairs when necessary, evaluating new technologies as they become available, and investing in new technologies when appropriate.

DEBT MANAGEMENT STRATEGY

Under the HSBC credit facility, as renewed on January 8, 2015, FPLP is required to make principal repayments of $1.0 million on the first of June each year and a cash sweep is payable no later than 90 days after the end of each fiscal year with the first cash sweep due no later than March 30, 2016 for the 2015 financial year. The cash sweep is equal to the lesser of $3.5 million or 25% of FPLP's annual distributable cash as defined in the agreement. Maximum principal balances under the agreement are $30.0 million on January 31, 2018 and $20.0 million on January 31, 2020. In November of 2017 a voluntary early principal repayment was made in the amount of $7.0 million, which eliminates the need for a cash sweep repayment at March 31, 3018.

The capital assets with the most significant estimated replacement costs are buildings and printing presses, which have very long expected remaining useful lives. The ability to refinance the core debt at maturity will be dependent upon many factors, including the future EBITDA[(1)] of FPLP and the general conditions in the commercial lending market at the relevant time.

DEBT COVENANTS

The HSBC credit facility (see note 6 to the 2017 Annual Consolidated Financial Statements of FPLP) includes negative covenants which must be observed in order to avoid an accelerated termination of the agreement. These covenants include certain restrictions on paying distributions, the sale of assets, the purchase of investments and acquisitions, share capital, allowing encumbrances and certain issuances of loans or financial assistance. FPLP is restricted from making distributions which exceed distributable cash, as defined in the credit agreement, by more than $1.0 million annually. FPLP is required to maintain a leverage ratio of no greater than 3.5 to 1.0 prior to January 31, 2018 and 3.0 to 1.0 after that, a fixed charge coverage ratio of no less than 2.0 to 1.0, and a current ratio of no less than 1.2 to 1.0, all as defined in the agreement and measured quarterly on a trailing 12-month basis. Financial amounts used in the calculations are specifically defined in the credit agreement, but are substantially equivalent to the corresponding terms used in the external financial reports filed by FPLP. At December 31, 2017 FPLP is in compliance with all covenants.

FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

At December 30, 2017 there are no derivative contracts in place or off-balance sheet arrangements entered into by FPI.

CREDIT RISK

Credit risk is the risk a customer will fail to perform an obligation or fail to pay amounts due, causing a financial loss. Credit risk arises from cash and cash equivalents and outstanding accounts receivable. The maximum exposure to credit risk is the carrying value of these financial assets. Cash and cash equivalents are all held at large chartered Canadian banks, or Canadian subsidiaries of large international banks, and we do not expect the counterparties to fail to meet their obligations.

As we are in the business of publishing newspapers, in both print and electronic formats, and performing printing services for third parties, included in accounts receivable are amounts owed from advertisers and advertising agencies, circulation customers and commercial print clients. We do not hold collateral as security for these balances. Our credit risk relating to these accounts receivable is spread over a large number of national and local advertising clients and advertising agencies, in addition to many circulation retail customers and third-party printing clients. We manage credit risk on a customer-by-customer basis and establish a reasonable allowance for uncollectible amounts with this allowance netted against the accounts receivable on the balance sheet. The adequacy of the allowance is reviewed on a regular basis and is estimated based on past experience, specific risks associated with the customers and other relevant information.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. FPLP's variable interest rate term loan exposes the business to cash flow interest rate risk since the borrowings are in the form of prime-rate loans or bankers' acceptances with an available term of between 30 and 180 days. FPLP's fixed rate finance leases and mortgage loan expose the business to fair value interest rate risk.

We do not have a formal interest rate risk policy but management reviews the pricing of interest-rate swap contracts and would make a recommendation to the Board of Directors if there was a compelling case to purchase a swap contract.

For the year ended December 31, 2017, if interest rates on FPLP's term loan had been 1.0% higher or lower than actually were in effect, with all other variables held constant, interest expense would have been $0.3 million higher or lower (2016 $0.4 million).

LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. We believe that we have access to sufficient capital through existing cash balances, future internally generated cash flows and external sources (bank credit markets and debt capital markets) to meet current spending forecasts. Trade payables are due within one year.

RELATED PARTY TRANSACTIONS

In 2017 FPLP purchased the majority of its newsprint from Alberta Newsprint Company ("ANC"), a joint venture owned equally by a limited partnership controlled by Ronald Stern (Chairman of the Board and Director of FPLP), and West Fraser Mills Ltd. ANC, also supplies newsprint to a number of other newspaper publishing operations in both Canada and the United States. Total newsprint purchases from ANC based on actual invoice prices in 2017 were $4.9 million, compared to $5.5 million for the same period last year. While there is no formal contractual obligation in place with respect to future newsprint purchases, selection of a supplier or suppliers will continue to be made by management based on criteria approved by the Audit Committee of FPLP, which reviews newsprint purchasing details with management on a quarterly basis.

DISCLOSURE CONTROLS AND PROCEDURES

Management of FPI and FPLP, including the Chief Executive Officer and Chief Financial Officer, have evaluated the design and effectiveness of FPI's and FPLP's disclosure controls and procedures as of December 30, 2017 and December 31, 2017, respectively, and have concluded that FPI's and FPLP's disclosure controls and procedures were reasonably adequate and effective to ensure that material information relating to FPI and FPLP is recorded, processed, summarized and reported within the time periods specified, and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of FPI and FPLP, including the Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

Management assessed the effectiveness of FPI’s and FPLP’s internal control over financial reporting as of December 30, 2017 and December 31, 2017, respectively, and based on that assessment concluded that FPI’s and FPLP’s internal controls over financial reporting were effective. No material changes were made in FPI’s and FPLP’s internal controls over financial reporting during the year ended December 30, 2017 and December 31, 2017, respectively, that have materially affected, or are reasonably likely to materially affect, FPI’s and FPLP’s internal controls over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

FPLP

Valuation of Intangible Assets and Goodwill
FPLP has estimated the fair value of its cash generating units (“CGUs”) and goodwill CGUs, based on historical and expected operating plans, economic conditions and general outlook for the industry and geographic market in which FPLP operates. Significant unfavourable changes to these factors could result in a material impairment of the fair value and/or life of these assets.

In performing the annual impairment testing of goodwill and indefinite life intangibles, a number of assumptions and estimates are made. The fair value definition used is the amount at which an asset could be bought or sold in a current transaction between knowledgeable, willing parties. FPLP uses the fair value less cost to dispose method, which is based on applying market multiples to FPLP’s EBITDA.

Had different assumptions or valuation techniques been used in performing the impairment testing, the carrying value of finite life and indefinite life intangibles and goodwill may have been different. FPLP considers the assumptions and techniques used to be reasonable.

Pension Plans
FPLP has a defined benefit pension plan and multiple defined contribution pension plans. The defined benefit pension plan requires actuarial assumptions which include discount rates, rate of compensation increases, mortality assumptions, and other demographic assumptions. A change in the discount rate used in the valuation of the pension obligations could result in a significant increase or decrease in the value of the obligations, which impacts the funded status of the plans as well as the net benefit cost in subsequent years. At December 31, 2017, a 0.5% decrease in the discount rate would increase our defined benefit obligations by $4.8 million, and a 0.5% increase in the discount rate would decrease our defined benefit obligations by $4.2 million. At December 31, 2017, a 0.5% increase in salary assumption would increase our defined benefit obligations by $0.3 million and a 0.5% decrease in salary assumption would decrease our defined benefit obligations by $0.1 million.

The funding for the defined benefit pension plan is based on actuarial valuation reports which are filed with the Manitoba provincial pension commission. The last actuarial valuation report was completed as of December 31, 2016, and the next required valuation report is as of December 31, 2017. Refer to the Outlook Section of this report for comments relating to a Manitoba Pension legislation draft change and the potential implications on FPLP’s 2018 funding requirements.

FPI

Valuation of Investment in FPLP
Annually, FPI evaluates whether an impairment exists in its investment in FPLP. FPI completed its impairment assessment by comparing its recoverable amount to its carrying value. Under the fair value less cost to dispose approach, FPI estimates fair value by multiplying earnings before interest, income taxes, depreciation, amortization and other non-recurring costs by multiples based on market comparables.

FPI’s assumptions are affected by current market conditions which may affect expected revenues of FPLP. In addition, while FPLP continues to implement cost savings initiatives, operating costs may increase more significantly than expected. FPI has made certain assumptions which may differ or change quickly depending on economic conditions and other events. Accordingly, it is reasonably possible that future changes in assumptions may negatively impact future impairment assessments of FPI's investment in FPLP.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies followed in the financial statements are consistent with those of the previous financial year.

Accounting standards and amendments issued but not yet effective

IFRS 9 – Financial Instruments

IFRS 9, *Financial Instruments*, first issued in November 2009 with final version released in July 2014 by the IASB, brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39. IFRS 9 also introduces an expected loss impairment model for all financial assets not carried at FVTPL. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit and loss and a loss allowance is established; (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities. The standard is effective for annual periods beginning on or after January 1, 2018. FPI and FPLP have assessed the impact of adopting the new standard and have concluded that there will be no material impact on the accounting for its financial instruments.

IFRS 15 – Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, Construction Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 is mandatory and will be effective for the Company's beginning on January 1, 2018. FPI has performed revenue recognition assessments pertaining to its limited revenue streams and did not identify any matters that would change its existing accounting policies. FPI's intention is to apply the standard retrospectively with any immaterial cumulative effect recognized as an adjustment to the opening balance of retained earnings for the period commencing January 1, 2018.

FPLP has performed revenue recognition assessments pertaining to its various revenue streams and based on qualitative analysis, determined that the only potential changes may relate to:

- gross versus net reporting of certain revenue arrangements; and
- accounting for barter transactions for exchange of similar advertising services for which no revenue is currently recognized but for which IFRS 15 would require recognition.

Both identified potential differences would not impact net earnings but rather could increase/decrease revenues and operating expenses by an equal and opposite impact. Quantitative impacts will be finalized prior to publishing the interim financial statements for the quarter ending March 31, 2018. FPLP's intention is to apply the standard retrospectively with the immaterial cumulative effect recognized as an adjustment to the opening balance of retained earnings for the period commencing January 1, 2018.

IFRS 16 – Leases

IFRS 16, Leases replaces IAS 17, Leases and related interpretations. The core principle is that a lessee recognize assets and liabilities for all leases with a lease term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The new standard is intended to provide a faithful representation of leasing transactions, in particular those that do not currently require the lessees to recognize an asset and liability arising from an operating lease. IFRS 16 is effective for annual periods beginning on January 1, 2019, with early adoption permitted for entities that would also apply IFRS 15, Revenue from Contracts with Customers. FPLP's primary operating lease obligations pertain to leases associated with machinery and equipment, which the aggregate lease commitments are disclosed in note 11. Based on the current quantum of the lease commitments (excluding non-operating lease commitments) FPLP expects there will not be a material increase in the right of use assets and lease liabilities on

FPLP's consolidated balance sheet, however has not yet modelled the potential impact on its financial statements. FPLP will continue to evaluate its lease agreements and will perform quantitative analysis during the next fiscal year to finalize the impact of adopting this standard on its financial statements. FPI is assessing the impact of adopting this standard on its financial statements and does not anticipate early adoption of the standard.

BUSINESS RISKS AND UNCERTAINTIES

REVENUE

Print advertising revenues, which account for approximately 56% of total revenue, are historically dependent upon general economic conditions, the specific spending plans of high-volume advertisers and the readership levels of the printed products. A shift from newspaper and/or flyer advertising to digital or other media advertising has and is likely to continue to adversely affect total revenue. Digital competition is not limited to platforms that provide news and includes providers of search engine marketing, display advertising, digital classifieds, social media, mobile advertising and video advertising. A change in promotional strategy by significant users of newspaper advertising, such as the automotive industry, financial services industry, national retailers, employment advertisers and the consolidation of retailers, could adversely affect total revenue. A significant decline in the readership of our printed products would adversely affect print advertising revenues.

DECLINE IN OVERALL USAGE OF NEWSPAPERS AND FLYER DELIVERY

FPI and FPLP could be materially adversely affected if the usage of newspapers or flyer distribution declines significantly. For example, increased usage of the internet by consumers to find news or flyers could result in a decline in their use of newspapers and flyer distribution. Such declines could impair FPLP's ability to maintain or increase FPLP's advertising prices, cause businesses that purchase advertising in FPLP's newspapers and flyer distribution to reduce or discontinue their purchases, and discourage businesses that do not already purchase advertising in FPLP's newspapers and flyer distribution from doing so.

Any of the factors that may contribute to a decline in usage of FPLP's newspapers and flyer distribution could impair FPLP's revenues and have a material adverse effect on our business.

EXPENSES

Newspaper publishing is both capital and labour-intensive and, as a result, newspapers have relatively high fixed-cost structures. During periods of declining revenue, significant portions of costs may remain fixed, resulting in decreased earnings. Employee compensation is our single largest expense category accounting for approximately 46% of FPLP's total operating expenses. The majority of FPLP's employees are unionized and their employment is governed by the terms of collective agreements. The current contracts with the Unifor union expire on June 30, 2019, in respect of the unionized employees of the Winnipeg Free Press and Canstar Community News, on June 30, 2018 for city delivery carriers of the Winnipeg Free Press and on December 31, 2018 in respect of the Brandon Sun unionized employees. The collective agreements include clauses governing all aspects of the employer/employee relationship and include limitations on FPLP's ability to sub-contract work to independent third parties. Strikes, lockouts, or other labour disruptions could restrict FPLP's ability to service its customers and consequently materially adversely affect its revenues. In 2017 contingency language was added to the Winnipeg labour contract if free cash (as defined in the agreement) falls below \$0.8 million for a rolling twelve month period, an eight percent wage reduction would apply for the majority of employees. Other employees on the reduced compensation grid would take a four percent reduction. The free cash calculation is to be completed on a rolling twelve month basis completed quarterly with the first measurement taking place on December 31, 2017. Free cash at December 31, 2017 was determined to be \$1.6 million.

Newsprint and other paper is a significant cost for FPLP, accounting for \$6.1 million in 2017. Newsprint costs can vary widely from time to time, but over the past five years have been relatively stable. A \$10 per tonne increase or decrease in the price of newsprint would have an approximately \$0.1 million annualized change to our newsprint expense. If newsprint costs rise rapidly, there is no assurance that advertising and circulation revenues can be increased to offset the increased newsprint expense.

Over the last several years, FPLP has reduced costs in a number of ways. It will be increasingly difficult to continue to reduce costs from current levels. FPLP's ability to achieve cost savings may be impacted by the level of unionization at its businesses, existing third party suppliers and service providers and FPLP's ability to outsource additional components of its business operations in the future.

INTEREST RATE FLUCTUATIONS

FPLP is exposed to fluctuations in short-term interest rates as the amounts borrowed under the term loan facility are in the form of prime-rate loans or bankers' acceptances at varying interest rates. Furthermore, the interest rate spread above the prime-rate loans or bankers' acceptance rate varies based on the leverage ratio. FPLP is also exposed to fluctuations in long-term interest rates and credit spreads relative to the refinancing of its term loan obligation upon its maturity on January 31, 2020. The interest rate on new long-term debt issuances will be based on the prevailing market rates at the time of the refinancing. Increases in interest rates on new debt issuances may have a material adverse effect on our earnings.

FPLP monitors market conditions and the impact of interest rate fluctuations on its interest rate exposure. While there is no formal policy with respect to the use of interest rate swaps as a tool to manage interest rate risk, pricing of swap agreements is reviewed regularly and FPLP has used swap agreements historically when it was determined that these agreements were justified.

PENSION FUND OBLIGATIONS

FPLP has in place a defined benefit pension plan and defined contribution plans. The defined benefit pension plan was started when the Business was acquired by FPLP in November 2001. The plan text mirrored the predecessor plan.

Manitoba provincial pension legislation requires that the funded status of defined benefit pension plans be determined on both a going-concern basis (which assumes the pension plan continues indefinitely) and a solvency basis (which assumes the plan is wound-up on the valuation date). Based on FPLP's most recent actuarial valuation, as of December 31, 2016, the plan had a funding surplus of $9.4 million (funding surplus of $5.2 million in 2016) on a going-concern basis and a funding shortfall of $9.6 million ($13.1 million shortfall in 2016) on a solvency basis. The actual funded status of the pension plan and FPLP's contribution requirements and accounting expense are dependent on many factors, some of which include regulatory developments, actuarial assumptions and methods used, changes in plan demographics and experience and changes in economic conditions such as the return on fund assets and changes in interest rates used for determining the present value of pension obligations. Changes in the above factors can result in significant changes to the determination of the reported pension expense and the level of required funding to the plan, which can produce volatility in FPLP's reported results and cash generated from operating activities of FPLP. Refer to the Outlook Section of this report for disclosures relating to potential future changes to Manitoba Pension legislation and the potential impact on FPLP.

RELIANCE ON PRINTING FACILITIES

FPLP places considerable reliance on the functioning of its two printing operations, particularly the Winnipeg Free Press facility, which produces the Winnipeg Free Press, Brandon Sun and Canstar Community News newspapers and related products. In the event of a shutdown or disruption of one of its facilities, FPLP would attempt to mitigate potential damage by shifting production to the other facility or to a third-party printer. A shutdown or disruption of one of FPLP's facilities could result in FPLP being unable to print some publications, which could have a significant negative impact on FPLP's results.

INFORMATION TECHNOLOGY & OTHER MANUFACTURING SYSTEMS & EQUIPMENT

Our businesses rely on information technology and other critical manufacturing systems to help generate our revenue. There are critical risks associated with these systems including, but not limited to, unauthorized access, computer viruses, sabotage, power loss, system failures, human error and wear and tear on equipment. Our businesses and the revenue we generate could be significantly impacted by a disruption to these critical systems and equipment.

IMPAIRMENT

At December 30, 2017 the carrying value of FPI's investment in FPLP limited partnership units is $6.4 million. At December 31, 2017, FPLP has goodwill with a carrying value of $3.4 million and intangible assets of $6.0 million on its balance sheet. There are many factors which may affect the value of FPI's investment in FPLP and the goodwill and intangible assets of FPLP, some of which include the state of the general and local economy, competition, technology, consumer consumption habits, brand equity and various contractual arrangements. If any of these factors impair the value of these assets, we are required to reduce the carrying value on the balance sheet and record a non-cash write-down in the statement of earnings.

LITIGATION & INSURANCE COVERAGE

The nature of our business has and will continue to expose us to litigation claims, primarily arising from the publication of our editorial content. While we have processes and controls in place in attempts to reduce these risks, and carry insurance coverage against claims of defamation, there is no assurance that our insurance coverage will cover a particular loss, nor can there be any assurance that our insurance coverage will not be exceeded by a specific claim. While FPLP maintains insurance coverage which it feels protects itself from certain material insurable risks, there is no assurance that such insurance will continue to be available on an economically feasible basis, nor can there be any assurance that amounts owing from insurers will be collected.

DEPENDENCE ON KEY PERSONNEL

Our businesses have and will continue to rely on the contribution of critical employees. A loss of a significant number of skilled managerial, editorial or technical personnel would have a negative effect on the quality of our products. FPLP’s failure to recruit, train and retain such employees could have an adverse effect on its businesses.

REPUTATION

Our newspaper publications are well known and respected names in the markets we serve and have been for many years. Our reputation as a reliable trusted business partner is important for the continued success of our businesses. Damage to the reputation of any of our brands could have an adverse impact on the business and its future financial performance.

DEBT SERVICING

FPLP’S ability to make scheduled payments of interest and principal and to refinance its indebtedness when it becomes due in January 2020 will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, interest rate levels, competitive, business and other factors, many of which are beyond its control.

The risk factors detailed above represent what are considered to be the most prominent risk factors and are not an all-inclusive list of risk factors.

OUTLOOK

REVENUE

Print advertising revenues have declined for a number of years and while we continue to work hard to try to stabilize our largest revenue category, the pattern of advertisers shifting their advertising spend to digital offerings, largely on Facebook and Google, is likely to continue in 2018. Print ad revenues for the first two months of 2018 are showing a 12% decline versus the same period last year. Display advertising revenues represent our largest print revenue category and decreased by 18.8% in 2017 after falling by 15.5% in 2016. In 2017 decreased spending was experienced in all categories with the automobile category seeing the single largest decline. We are optimistic that upgrades in our national sales team will give us the best chance to slow the decline from our large national advertising customers. Print classified advertising continued to decline in 2017 but the fourth quarter decline of 3.5% was the lowest decline we’ve seen in some time. The classified revenue improvement has continued so far into the first quarter of 2018 with the first two months roughly at the same level as the prior year. Obituary classified revenue, which has remained relatively stable, is a larger portion of the total as other previously large verticals such as automobile and employment classified advertising have largely disappeared. Both our print obituary sections and our digital sections continue to offer an important source of record for the communities we serve. The Winnipeg Free Press Passages obituary website consistently generates 2.5 million page views per month. The insert delivery business in 2017 was once again the slowest declining print revenue source as advertisers continue to invest in their flyer print and deliver programs. The closure of Sears Canada in 2017 doesn’t help this revenue category going forward but these losses will be partially offset by new revenues from big box hardware store Lowe’s which opened its first Winnipeg location in the first quarter of 2018.

Print and digital circulation revenues, which account for approximately 34% of our overall revenues, are expected to be near 2017 levels as print subscription rate increases are expected to offset the long-term trend of slowly declining print circulation unit sales. We have seen continued increases in Winnipeg Free Press “all Access” digital subscribers who pay $16.99/month for digital access to our Winnipeg platforms across both desktop and mobile. As of February 2018 we have exceeded 7,000 “all access” digital subscribers an increase of approximately 25% compared to March of last year. The number of “read now pay later” accounts, for people who prefer to pay on a per story basis, stands at just over 7,100 an increase of just under 13% compared to this time last year. Digital revenue for individual articles on our digital website did grow by 64% in 2017 but is still less than $0.1

million overall. Newspapers digital advertising revenues continue to be impacted by the dominance of the large multi-national social media and search engine sites. In 2017 digital ad revenues were down by $0.5 million from the prior year and we are trying to keep these revenues relatively stable in 2018 with the help of improved resources in the digital sales area. The 2018 commercial print revenues will be impacted by the loss of the Metro printing contract at the end of November. In 2017 commercial printing revenues from this contract were $0.8 million with $0.2 million of this representing a newsprint recovery charge. Laurie Finley and his team at Derksen Printers are focused on trying to fill the revenue shortfall left from the cancelation of this contract.

OPERATING EXPENSES

Employee compensation is our single biggest expense and in 2017 accounted for 49% of our total operating expenses before depreciation and amortization. The Winnipeg collective bargaining agreement which was extended and modified during the year included a 0.75% increase effective July 1, 2017 and no further increases prior to the expiration of the contract on June 30, 2019. The Brandon Sun employees received a 1.5% increase effective January 1, 2018 and the contract expires on December 31, 2018. In 2018 we are planning to reduce employee compensation costs by approximately 2% through a combination of retirements and voluntary layoffs.

Delivery costs which account for approximately 21% of our operating expenses before depreciation and amortization are budgeted to decrease by approximately $0.6 million or just under 5% in 2018 primarily due to a continuation of a slow decline in printed circulation copies delivered and stream-lining, consolidation and elimination of delivery routes and depots as opportunities arise across all our businesses.

In addition to the 7% newsprint price increase effective October 1, 2017, a further 4% increase has been implemented effective March 1, 2018. If no further price changes are implemented during the year the 2018 full year price will be approximately 9% higher than the average 2017 price. Reduced volumes are expected resulting from both continued print circulation units and the loss of the Metro printing contract and overall we're anticipating newsprint expenses for 2018 will be relatively flat to 2017 levels.

Continued efforts to reduce expenses are expected to result in a decrease of other expenses in the 5% range. The non-renewal of a large sponsorship agreement which expires on June 30, 2018 together with reduced outside contracted printing costs are two of the major areas contributing to the expected overall decrease in this expense line. Management continues to focus on implementing as many cost reduction initiatives as possible in efforts to reduce the anticipated impact of future lower advertising revenues.

CAPITAL INITIATIVES, FINANCE COSTS AND OTHER ITEMS

Maintenance capital spending for 2018 is being budgeted at $0.4 million, but we think this can be reduced if we need to respond to lower operating results. Capital projects planned all related to minor equipment upgrades mostly in the computer hardware and software categories.

Finance costs are forecasted to be slightly lower in 2018 primarily resulting from lower principal balances on our term debt partially offset by expected higher average interest rates. The term loan maximum principal balance is $20.0 million at January 31, 2020 so the minimum required principal repayments is $6.0 million prior to this date. Effective January 31, 2018 the maximum leverage ratio as defined in the loan agreement is reduced from 3.5x to 3.0x and the actual leverage ratio at December 31, 2017 was 2.55x.

The Pension Commission of Manitoba completed a review of the province's pension laws and in early January 2018 issued a number of recommendations. One of the recommendations is to replace the current solvency funding rules with a regime that requires enhanced going concern funding. Solvency funding would only be required if the plan's solvency ratio is below a threshold level of 85% and solvency funding required only until the solvency ratio has increased to at least the threshold level. The commission reported that reducing solvency funding was seen as a priority since it is placing a significant burden on plan sponsors. As of the most recent plan valuation at December 31, 2016 our defined benefit pension plan had a solvency ratio of 83.3%, just under this proposed threshold level. While an updated valuation at December 31, 2017 will be completed over the upcoming months, a reasonably strong return on assets together with reasonably stable interest rates in 2017 should leave us at or slightly above this 85% threshold level. If this is the case and the pension commission's proposals are adopted into law effective with the 2017 valuation, we would see a reduction in our required 2018 funding level of approximately $1.5 million compared to the 2017 funding level.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this management's discussion and analysis may constitute forward-looking statements within the meaning of applicable securities laws. All statements other than statements of historical fact are forward-looking statements. These statements include but are not limited to statements regarding management's, intent, belief or current expectations with respect to market and general economic conditions, future costs and operating performance. Generally, but not always, forward-looking statements will be indicated by words such as "may", "will", "intend", "anticipate", "expect", "believe", "plan", "forecast", "is budgeting for" or similar terminology.

Forward-looking statements are subject to known and unknown risks and uncertainties that may cause the actual results, performance or achievements of FPI or FPLP, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the current general economic uncertainty, FPLP's ability to effectively manage growth and maintain its profitability, FPLP's ability to operate in a highly competitive industry, FPLP's ability to compete with other forms of media, FPLP's ability to attract advertisers, FPLP's reliance upon key personnel, FPLP's relatively high fixed costs, FPLP's dependence upon particular advertising customer segments, indebtedness incurred in making acquisitions, the availability of financing for capital improvements, costs related to capital expenditures, cyclical and seasonal variations in FPLP's revenues, the risk of acts of terrorism, the cost of newsprint, the potential for labour disruptions, the risk of equipment failure, and the effect of Canadian tax laws.

In addition, although the forward-looking statements contained in this management's discussion and analysis are based upon assumptions that management of FPI and FPLP believe to be reasonable, such assumptions may prove to be incorrect.

Forward-looking statements speak only as of the date hereof and, except as required by law, FPI and FPLP assume no obligation to update or revise them to reflect new events or circumstances. Because forward-looking statements are inherently uncertain, readers should not place undue reliance on them.

FOOTNOTES:

(1) EBITDA

FPLP believes that in addition to net earnings as reported on FPLP's consolidated statements of earnings, EBITDA is a useful supplemental measure as it is a measure used by many of FPLP's Unitholders, creditors and analysts as a proxy for performance and the amount of cash generated by FPLP's operating activities. EBITDA is not a recognized measure of financial performance under IFRS. Investors are cautioned that EBITDA should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of FPLP`s performance. FPLP's method of calculating EBITDA is detailed below and may differ from that used by other issuers and, accordingly, EBITDA as calculated by FPLP may not be comparable to similar measures used by other issuers.

	Three Months Ended December 31,		**Twelve Months Ended December 31,**	
	2017	**2016**	**2017**	**2016**
	In thousands of dollars			
Net (loss) for the period	$ (4,797)	$ (7,856)	$ (2,234)	$ (17,850)
Add (subtract):				
Depreciation and amortization	764	972	3,117	4,159
Impairment of goodwill	6,000	10,000	6,000	22,700
Finance costs	303	314	1,226	1,302
Other income	(29)	(18)	(96)	(75)
EBITDA	**$ 2,241**	**$ 3,412**	**$ 8,013**	**$ 10,236**