



FP Newspapers Inc.

Financial Statements

For the Three Months Ended March 31, 2017

FP Newspapers Inc.
Unaudited Condensed Balance Sheets
(in thousands of Canadian dollars)

	Note	As at March 31, 2017	As at December 30, 2016
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$ 495	\$ 673
Prepaid expenses and other assets		6	5
Income tax receivable		411	327
		912	1,005
LONG-TERM ASSETS			
Investment in FP Canadian Newspapers Limited Partnership	3	9,097	8,782
TOTAL ASSETS		\$ 10,009	\$ 9,787
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		\$ 69	\$ 116
		69	116
LONG-TERM LIABILITIES			
Deferred income tax liability		1,047	972
TOTAL LIABILITIES		1,116	1,088
SHAREHOLDERS' EQUITY			
Share capital		71,373	71,373
Deficit		(62,480)	(62,674)
TOTAL SHAREHOLDERS' EQUITY		8,893	8,699
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 10,009	\$ 9,787

(See accompanying notes)

FP Newspapers Inc.**Unaudited Condensed Statements of Earnings and Comprehensive Income (Loss)**

(in thousands of Canadian dollars except per share amounts)

		Three Months Ended March 31,	
	Note	2017	2016
Equity interest from FP Canadian Newspapers Limited Partnership Class A limited partner units	3	\$ 305	\$ 391
Administration expenses		(30)	(52)
Net income before income taxes		275	339
Current income tax (expense)		(16)	(59)
Deferred income tax (expense)		(73)	(30)
Net earnings for the period		\$ 186	\$ 250
Items that will not be reclassified to net income:			
Equity interest of other comprehensive income (loss) from FP Canadian Newspapers Limited Partnership	3	10	(834)
Deferred income tax recovery (expense)		(2)	225
Comprehensive income (loss) for the year		\$ 194	\$ (359)
Weighted average number of Common Shares outstanding		6,902,592	6,902,592
Net earnings per share – basic and diluted		\$ 0.027	\$ 0.036

(See accompanying notes)

FP Newspapers Inc.
Unaudited Condensed Statements of Changes in Equity
For the Periods Ended March 31, 2017 and 2016
(in thousands of Canadian dollars)

	Share Capital	Deficit	Total Shareholders' Equity
At December 30, 2015	\$ 71,373	\$ (54,053)	\$ 17,320
Net earnings for the period	-	250	250
Other comprehensive (loss) for the period	-	(609)	(609)
Comprehensive (loss) for the period	-	(359)	(359)
At March 31, 2016	\$ 71,373	\$ (54,412)	\$ 16,961
At December 30, 2016	\$ 71,373	\$ (62,674)	\$ 8,699
Net earnings for the period	-	186	186
Other comprehensive income for the period	-	8	8
Comprehensive income for the year	-	194	194
At March 31, 2017	\$ 71,373	\$ (62,480)	\$ 8,893

(See accompanying notes)

FP Newspapers Inc.
Unaudited Condensed Statements of Cash Flows
(in thousands of Canadian dollars)

		Three months ended March 31,	
	Note	2017	2016
Cash provided by (used in):			
Operating activities:			
Net earnings for the period		\$ 186	\$ 250
Items not affecting cash:			
Equity interest from Class A Units of FP Canadian Newspapers Limited Partnership	3	(305)	(391)
Deferred income tax expense		73	30
Distributions received on Class A Units of FP Canadian Newspapers Limited Partnership	3	-	276
Net change in non-cash working capital items		(132)	(316)
(DECREASE) IN CASH AND CASH EQUIVALENTS		(178)	(151)
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD		673	288
CASH AND CASH EQUIVALENTS – END OF PERIOD		\$ 495	\$ 137
Supplemental Cash Flow information:			
Income tax paid during the period		\$ 100	\$ 354

(See accompanying notes)

FP Newspapers Inc.
Unaudited Notes to Condensed Financial Statements at March 31, 2017
(in thousands of Canadian dollars)

1. GENERAL INFORMATION

FP Newspapers Inc. ("FPI"), which was incorporated under the Canada Business Corporations Act on March 17, 2010, owns securities entitling it to 49% of the distributable cash as defined in the partnership agreement of FP Canadian Newspapers Limited partnership ("FPLP"). FPLP is a limited partnership formed under the laws of British Columbia on August 9, 1999. It owns the Winnipeg Free Press, the Brandon Sun and other newspapers, printing and media businesses. The address of FPI's registered office is Suite 2900, P.O. Box 11583, 650 West Georgia Street, Vancouver, British Columbia, V6B 4N8.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 "Interim Financial Reporting". In accordance with GAAP, these financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 30, 2016. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

These financial statements were approved by the Board of Directors of FPI on May 10, 2017.

3. INVESTMENT IN FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP

FPI holds all of the Class A limited partner units of FPLP, which entitles it to 49% of the distributable cash, as defined in the Partnership Agreement of FPLP.

The investment in FPLP is summarized as follows:

	Class A limited partner units
Balance at December 30, 2015	\$ 16,589
Equity interest in net earnings and comprehensive income for the year ended December 30, 2016	3,569
Non-cash write-down of investment in FP Canadian Newspapers limited Partnership Class A limited partner units	(11,100)
Distributions received for the year ended December 30, 2016	(276)
Balance at December 30, 2016	\$ 8,782
Equity interest in net earnings and comprehensive income for the three months ended March 31, 2017	315
Balance at March 31, 2017	\$ 9,097

FP Newspapers Inc.
Unaudited Notes to Condensed Financial Statements at March 31, 2017
(in thousands of Canadian dollars)

The equity interest from FPI's investment in Class A limited partner units and the equity interest in the other comprehensive income (loss) of FPLP are calculated as follows:

	2017	2016
Net earnings of FPLP	\$ 621	\$ 797
Interest attributable to FPI	49%	49%
Equity interest in net earnings of FPLP	305	391
Other comprehensive income (loss) of FPLP	20	(1,702)
Interest attributable to FPI	49%	49%
Equity interest in other comprehensive income (loss) of FPLP	\$ 10	\$ (834)

4. FINANCIAL INSTRUMENTS

The fair value of current assets and liabilities including cash and cash equivalents and accounts payable and accrued liabilities approximates their carrying value due to the short-term nature of these financial instruments.

FPI does not carry any assets or liabilities at fair value, and therefore does not prepare a fair value hierarchy.



FP Canadian Newspapers Limited Partnership

Consolidated Financial Statements

For the Three Months ended March 31, 2017

FP Canadian Newspapers Limited Partnership
Unaudited Consolidated Balance Sheets
(in thousands of Canadian dollars)

	Note	As at March 31, 2017	As at December 31, 2016
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$ 10,926	\$ 9,970
Accounts receivable		7,290	9,476
Inventories		1,140	1,128
Prepaid expenses and other assets		1,369	1,116
		20,725	21,690
LONG-TERM ASSETS			
Property, plant and equipment		28,628	29,334
Intangible assets		6,252	6,296
Goodwill		9,350	9,350
TOTAL ASSETS		\$ 64,955	\$ 66,670
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		\$ 6,319	\$ 6,059
Provision		-	58
Prepaid subscriptions and deferred revenue		2,837	2,680
Finance lease obligation		801	844
Mortgage loan		61	60
Term loan	6	4,000	1,500
		14,018	11,201
LONG-TERM LIABILITIES			
Accrued pension benefit liability		348	811
Finance lease obligation		1,255	1,458
Mortgage loan		846	862
Term loan	6	29,900	34,391
TOTAL LIABILITIES		46,367	48,723
UNITHOLDERS' EQUITY			
Partner units		98,280	98,280
Deficit		(79,692)	(80,333)
TOTAL UNITHOLDERS' EQUITY		18,588	17,947
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY		\$ 64,955	\$ 66,670

(See accompanying notes)

FP Canadian Newspapers Limited Partnership
Unaudited Condensed Consolidated Earnings Statements and Statements of Comprehensive income
(Loss)

(in thousands of Canadian dollars)

	Note	Three Months Ended March 31,	
		2017	2016
Revenue			
Print Advertising		\$ 10,332	\$ 11,670
Circulation		5,982	6,027
Commercial Printing		1,134	1,105
Digital		572	612
Promotion and services		198	228
TOTAL REVENUE		18,218	19,642
Operating expenses			
Employee compensation		8,016	8,806
Newsprint and other paper		1,538	1,597
Delivery		3,252	3,459
Other		3,520	3,587
Depreciation and amortization		791	1,065
Restructuring charge		188	4
OPERATING INCOME		913	1,124
Interest income		21	18
Finance costs	4	(313)	(345)
NET EARNINGS FOR THE PERIOD		\$ 621	\$ 797
Items that will not be reclassified subsequently to net earnings:			
Remeasurements for defined benefit pension plan		20	(1,702)
COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		\$ 641	\$ (905)

(See accompanying notes)

FP Canadian Newspapers Limited Partnership
Unaudited Condensed Consolidated Statements of Changes in Equity
(in thousands of Canadian dollars)

	Partner Units	Deficit	Total Unitholders' Equity
UNITHOLDERS' EQUITY – DECEMBER 31, 2015	\$ 98,280	\$ (64,351)	\$ 33,929
Net earnings for the period	-	797	797
Other comprehensive (loss) for the period	-	(1,702)	(1,702)
Comprehensive (loss) for the period	-	(905)	(905)
Distributions paid	-	(563)	(563)
UNITHOLDERS' EQUITY – MARCH 31, 2016	\$ 98,280	\$ (65,819)	\$ 32,461
UNITHOLDERS' EQUITY – DECEMBER 31, 2016	\$ 98,280	\$ (80,333)	\$ 17,947
Net earnings for the period	-	621	621
Other comprehensive income for the period	-	20	20
Comprehensive income for the period	-	641	641
UNITHOLDERS' EQUITY – MARCH 31, 2017	\$ 98,280	\$ (79,692)	\$ 18,588

(See accompanying notes)

FP Canadian Newspapers Limited Partnership
Unaudited Condensed Consolidated Statements of Cash Flows
(in thousands of Canadian dollars)

Three Months Ended March 31,
2017 **2016**

CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net earnings for the period	\$ 621	\$ 797
Items not affecting cash:		
Depreciation and amortization	791	1,065
Accretion of deferred financing costs	9	9
Excess of pension contributions over expense	(823)	(465)
	598	1,406
Net change in non-cash working capital items	2,660	1,690
	3,258	3,096
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(7)	(36)
Purchase of intangibles	(34)	(70)
	(41)	(106)
FINANCING ACTIVITIES		
Distributions to partners	-	(563)
Principal repayments of finance lease	(246)	(514)
Principal repayments of mortgage loan	(15)	(14)
Principal repayment of term loan	(2,000)	(2,000)
	(2,261)	(3,091)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	956	(101)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	9,970	10,721
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 10,926	\$ 10,620
Supplemental Cash Flow Information:		
Interest paid during the period	\$ 300	\$ 334
Interest received during the period	19	16

(See accompanying notes)

FP Canadian Newspapers Limited Partnership
Unaudited Notes to the Condensed Consolidated Financial Statements as at March 31, 2017
(in thousands of Canadian dollars)

1. GENERAL INFORMATION

FP Canadian Newspapers Limited Partnership (“FPLP”) is a limited partnership formed on August 9, 1999 in accordance with the laws of British Columbia. FPLP publishes, prints and distributes daily and weekly newspapers and specialty publications, delivers advertising materials in the Manitoba market and provides commercial printing services. The address of the registered office of its managing general partner, FPCN General Partner Inc. is Suite 2900, P.O. Box 11583, 650 West Georgia Street, Vancouver, British Columbia, V6B 4N8.

These condensed consolidated financial statements include the operating businesses owned by FPLP. The managing general partner of FPLP is FPCN General Partner Inc. (“FPGP”). These consolidated financial statements include only the assets, liabilities, revenues and expenses of FPLP and its subsidiaries and do not include the other assets, liabilities, revenues and expenses, including income taxes of the partners.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 “Interim Financial Reporting”. In accordance with GAAP, these financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2016. In management’s opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

These interim condensed consolidated financial statements were approved by the Board of Directors of FPGP on May 10, 2017.

FPLP’s advertising revenue is seasonal. Advertising revenue and accounts receivable are highest in the second and fourth fiscal quarters, while expenses are relatively constant throughout the fiscal year.

3. EMPLOYEE FUTURE BENEFIT PLANS

The net benefit plan costs included in operating expenses is as follows:

	Three Months Ended March 31,	
	2017	2016
Defined benefit pension plan	\$ 326	\$ 414

4. FINANCE COSTS

	Three Months Ended March 31,	
	2017	2016
Finance Costs		
Interest on finance leases	18	33
Interest on mortgage loan	8	9
Interest on term loan	278	294
Accretion of term loan related to financing costs	9	9
	\$ 313	\$ 345

5. RELATED PARTY TRANSACTION

Total newsprint purchases from Alberta Newsprint Company, a company controlled indirectly by Ronald Stern, for the three months ended March 31, 2017 were \$1,200,000 (\$1,700,000 for the three months ended March 31, 2016).

6. LONG-TERM DEBT

The long-term debt agreement with HSBC Bank Canada was renewed on January 8, 2015 with a maturity date of January 31, 2020. On the renewal date, \$6,300,000 of principal was repaid reducing the outstanding principal to \$40,000,000. Principal repayments of \$1,000,000 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 principal repayment of \$2,000,000 was made on March 31, 2017 for the 2016 financial year results. The cash sweep is equal to the lesser of \$3,500,000 or 25% of FPLP's annual distributable cash as defined in the agreement. Maximum principal balances under the agreement are \$30,000,000 on January 31, 2018 and \$20,000,000 on January 31, 2020. The renewal agreement includes negative covenants which must be observed in order to avoid an accelerated termination of the agreement, including a covenant in favour of HSBC not to pay distributions which exceed distributable cash by more than \$1,000,000 in any fiscal year, as well as a covenant not to amend the share capital or permit changes to the beneficial ownership of FPLP. The Loan is secured by substantially all of the assets of FPLP.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of current assets and liabilities including cash and cash equivalents, accounts receivable and accounts payable, accrued liabilities and provisions approximates their carrying value due to the short-term nature of these financial instruments. The fair value of the HSBC term loan, based on Level 3 fair value hierarchy inputs, is approximately \$34,000,000 (2016 \$37,000,000). The fair value of the mortgage loan, based on Level 3 fair value hierarchy inputs, approximates its carrying value.

The fair value of long term debt and mortgage loan has been calculated by discounting the expected cash flows of each debt using a discount rate of 3.07% and 3.50%, respectively. The discount rate is determined using a risk free benchmark bond yield for instruments of similar maturity adjusted for the Company's specific credit risk. In determining the adjustment for credit risk, the Company considers market conditions, the underlying values of properties and other assets secured by the associated loan and other indicators of the Company's credit worthiness.

FPLP's financial assets and liabilities are comprised of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, provisions and long-term debt which include the term-loan and mortgage loan.

8. SUBSEQUENT EVENT

In April FPLP satisfied the requirements of the Special Payments Relief Regulation, 2016 of the Manitoba Pension Benefits Act and will be amortizing past service pension obligations over a ten year period. Total current service and past service pension funding for 2017 will be \$2,600,000 (2016 \$4,800,000).

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 the Corporation 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, the availability of an extension or refinancing of FPLP's term loan facilities, 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. Additional information about these and other factors is discussed under in our Annual Financial Statements dated March 17, 2017, which is available at www.sedar.com.

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

Forward-looking statements speak only as of the date hereof and, except as required by law, the Corporation 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.