# FP Newspapers Inc.

## Management's Discussion and Analysis

## First Quarter
## March 31, 2018

# MANAGEMENT'S DISCUSSION AND ANALYSIS
## First Quarter
## March 31, 2018

May 17, 2018

## OVERVIEW

Management's discussion and analysis, prepared as at May 18, 2018, provides a review of significant developments that affected the performance of FP Newspapers Inc. ("FPI") in the three months ended March 31, 2018. This review is based on financial information contained in the unaudited interim condensed financial statements and accompanying notes ("interim financial statements") for the three months ended March 31, 2018.

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 interim financial statements, which are the basis for data presented in this report, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including IAS 34. The interim financial statements do not include all the information and disclosures required for annual financial statements and, therefore, the following information should be read in conjunction with the most recent audited consolidated financial statements and accompanying notes and management's discussion and analysis for the year ended December 30, 2017 prepared in accordance with IFRS and with the interim unaudited condensed financial statements and accompanying notes for the first quarter of 2018.

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 TSX Venture Exchange.

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 FPI's quarterly revenue, net earnings and net earnings per share for 2018, 2017 and 2016 is as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| | *In thousands of dollars (except per share amounts)* | | |
| **Revenue** | | | |
| Quarter 1 | $ (53) | $ 305 | $ 391 |
| Quarter 2 | | 802 | 740 |
| Quarter 3 | | 150 | 196 |
| Quarter 4 | | 590 | 1,051 |
| **Net earnings (loss)** | | | |
| Quarter 1 | $ (84) | $ 186 | $ 250 |
| Quarter 2(*) | | 566 | (5,683) |
| Quarter 3 | | 71 | 90 |
| Quarter 4(*) | | (2,523) | (4,148) |
| **Net earnings (loss) per share** | | | |
| Quarter 1 | $ (0.012) | $ 0.027 | $ 0.036 |
| Quarter 2(*) | | 0.082 | (0.823) |
| Quarter 3 | | 0.010 | 0.013 |
| Quarter 4(*) | | (0.365) | (0.601) |

(*) 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. 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.

FPI reported a net loss of $0.1 million for the three months ended March 31, 2018, compared to net earnings of $0.2 million for the same period last year. 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.

As at May 17, 2018, FPI had 6,902,592 shares outstanding.

## FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP

### Results of Operations

FPLP's revenue for the three months ended March 31, 2018 was $16.1 million, a decrease of $2.1 million or 11.8% from the same three months in the prior year. FPLP's print advertising revenues for the three months ended March 31, 2018 were $8.8 million, a $1.5 million or 14.7% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was $4.6 million, a decrease of $1.2 million or 20.7% from the same period in the prior year, primarily due to decreased spending in the local and national automotive, financial, travel and telecommunications categories. Classified advertising revenues for the first quarter increased by less than $0.1 million or 2.6% compared to the same period last year, primarily due to higher spending in the obituary category, partly offset by reduced spending in the employment category. Flyer distribution revenues decreased by $0.4 million or 11.9% compared to the first quarter in 2017, primarily due to a decrease in flyer volumes delivered.

Operating expenses for the three months ended March 31, 2018 were $15.9 million, a decrease of $1.4 million or 7.9% compared to the same quarter last year. Employee compensation costs for the first quarter decreased by $0.4 million or 4.7% from the same period in the prior year, primarily due to a reduction in the number of employees across most of our business units. Newsprint expense for FPLP's own publications for the first quarter decreased by $0.1 million or 6.0% compared to the same period in the prior year, primarily due to lower printing volumes, partly offset by higher newsprint prices. Delivery expenses for the three months ended March 31, 2018 decreased by $0.2 million or 6.8%, primarily due to a lower number of circulation subscriptions delivered and initiatives implemented to improve delivery route efficiency. Other expenses for the three months ended March 31, 2018 decreased by $0.4 million, primarily due to a declining use of production supplies as a result of fewer printed pages and fewer printed copies.

EBITDA(1) for the three months ended March 31, 2018 was $0.9 million compared to $1.7 million for the same period last year, a decrease of 47.9%. EBITDA(1) margin for the three months ended March 31, 2018 was 5.5%, compared to 9.4% in the same period last year. The changes in EBITDA(1) were due to the factors described above.

Finance costs for the three months ended March 31, 2018 decreased slightly, primarily due to the lower level of debt outstanding.

FPLP's net loss was $0.1 million for the three months ended March 31, 2018, compared to net income of $0.6 million for the same period last year.

Under IFRS, comprehensive income includes remeasurements gains and losses related to FPLP's defined benefit pension plan. These gains and losses are primarily related to changes in actuarial discount rate assumptions and returns on plan assets differing from expected income. In the three months ended March 31, 2018, the actuarial loss was due to increases in the defined benefit obligation primarily resulting from a lower actual return on the plan's investments compared to the actuarial expected return assumptions, partially offset by an actuarial discount rate increase.

The *Winnipeg Free Press* received three nominations in the 2017 National Newspaper awards competition. Melissa Martin was one of three nominees for best columns, an award she won last year. Her three submitted entries focused broadly on violence against women. Columnist Doug Speirs and photographer Ruth Bonneville were nominated for a story thirteen years in the making. Their feature '*Class of 2017'* followed a group of graduating Glenlawn Collegiate students on their journeys from kindergarten until grade twelve. This work was nominated for the project of the year award. *Free Press* photographer Mike Deal was nominated for best feature photo, for a snapshot of a 2017 Canada Summer Games volunteer sporting a baseball cap covered in collectible pins.

The *Winnipeg Free Press* has received four nominations in the annual Digital Publishing Awards, put on by the National Media Awards Foundation. The *Free Press* is nominated for two of the four nominations for Best News Coverage. Health reporter Jane Gerster and city editor Shane Minkin are nominated for a feature on assisted dying while a team of reporters, and features editor Scott Gibbons, are nominated for a feature on migrants crossing the international border to seek asylum. The *Free Press* is also nominated for Excellence in Digital Publishing in the large publication category. Graeme Bruce, a multimedia producer and web editor, is nominated for the Emerging Excellence Award, given to people under the age of 30 for excellence in Canadian digital publishing. Mikaela MacKenzie who was recently hired by the *Free Press* as a photo journalist is nominated for best short online video for a story she did while working as a videographer with Today's Parent.

Vividata released readership trend data for the fourth quarter. *Winnipeg Free Press* weekday print readership remained relatively stable at 28% down slightly from the 30% reported for the same quarter in the prior year. Vividata reported the *Winnipeg Sun's* print weekday readership at 14% down from 20% reported last year. Saturday *Winnipeg Free Press* print readership was 39% a small reduction from 40% reported in the prior year. The *Winnipeg Sun's* Saturday print readership came in at 15% down from 20% a year earlier. Weekly digital readership of the *Winnipeg Free Press* was 28% down from 34% last year, compared to weekly digital readership of the *Winnipeg Sun* which Vividata reported at 19% down from 22% in the prior year. Total weekly print and digital readership of the *Free Press* was 65% versus 68% reported last year compared to total weekly print and digital readership of the *Winnipeg Sun* was 45% down from 50% last year.

Canstar Community News journalists and advertising artists came away with twelve awards at the Manitoba Community Newspaper Association's Better Newspaper Competition awards gala in April. Alana Trachenko of *The Metro* won two first-place awards, best photo essay and best feature story; Ligia Braidotti of *The Times* won first place in the best spot news photo category, for a picture of the vigil for a victim of a tragic hit-and-run incident on Main Street; and Danielle Da Silva of *The Sou'wester* won first place in the best agriculture story category. The *Headliner* also won the award for best front page in its circulation class.

Editorially, the monthly Community Homes section continues to be a success, and March's Prime Times supplement for older adults proved popular with both readers and advertisers. Advertising partners such as CancerCare Manitoba, Assiniboia Downs and the Tri-Hospitals Lottery have all happily renewed their agreements and Green Blade Lawn Care has made a significant investment.

In Steinbach, staff are working with the Winnipeg administration team and are nearing the completion of a project which will consolidate the advertising booking and invoicing component of *The Carillon* with the Winnipeg advertising system. This will provide a number of efficiencies, better reporting as well as aid in the flow of advertising content for the layout and pagination process. This work flow improvement will allow us to reduce staffing levels in the pre-press area.

On April 14, 2018 staff of the Carillon received a number of awards at the Manitoba Community Newspaper Association's Better Newspaper Competition. The Carillon took the first place award in the Best Christmas Edition and the Best Education Story, for Editor Grant Burr's article detailing a local teacher's mission for world religion instruction. The paper received nine second place awards including Best Tourism Story by Dave Baxter, Best Environmental story by Jordan Ross and Best Editorial and layout and design in its class.

As part of the Steinbach planned expense reductions this year we have moved the layout and pagination of the Carillon pages into the Winnipeg system which allows us to take advantage of some upcoming retirements not being back filled. Publishing revenues were below budget primarily due to some supplementary products that did not produce the number of editions we planned for. The extension of our insert distribution footprint launched later than originally planned but we are now distributing the full additional quantity. On the Derksen Printers side of the business we came through the first quarter slightly short of planned levels with the shortfall coming primarily on the sheet-fed side of the business.

The Brandon Sun conducted a readership survey and feedback was received from over 400 readers and non-readers. The information will be used to consider future ways to improve the overall content and design of the *Sun*. In response to lower advertising revenues, management continues to look for ways to reduce operating costs. A layoff of a copy editor position, and not back filling for a resignation in the circulation department will result in reduced labour costs going forward. An application for the Westman This Week (WTW), a weekly paper published each Thursday by the Brandon Sun, has been brought forward to the Manitoba Community Newspaper Association to become a member and enjoy the membership opportunities such as national advertising buys. The WTW is a free distribution paper delivered to Brandon Sun subscribers and non-subscribers and has a circulation of 23,000.

**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 of FPLP by quarter for 2018, 2017 and 2016 were as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| | | *In thousands of dollars* | |
| **Revenue** | | | |
| Quarter 1 | $ 16,070 | $ 18,218 | $ 19,642 |
| Quarter 2 | | 18,795 | 20,773 |
| Quarter 3 | | 16,893 | 19,209 |
| Quarter 4 | | 18,043 | 20,881 |
| | | $ 71,949 | $ 80,505 |
| **EBITDA(1)** | | | |
| Quarter 1 | $ 887 | $ 1,704 | $ 2,189 |
| Quarter 2(*) | | 2,706 | 2,877 |
| Quarter 3 | | 1,362 | 1,759 |
| Quarter 4(*) | | 2,241 | 3,412 |
| | | $ 8,013 | $ 10,237 |
| **Net Earnings (Loss)** | | | |
| Quarter 1 | $ (110) | $ 621 | $ 797 |
| Quarter 2(*) | | 1,637 | (11,192) |
| Quarter 3 | | 305 | 401 |
| Quarter 4(*) | | (4,797) | (7,856) |
| | | $ (2,234) | $ (17,850) |

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

## Liquidity and Capital Resources of FPLP

Cash and cash equivalents at March 31, 2018 was $7.5 million, compared to $6.7 million at December 31, 2017. 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. 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 repayments under FPLP's credit facility, assuming that advertising revenues do not materially deteriorate beyond management's current expectations.

***Cash Flow from Operating Activities***

During the three months ended March 31, 2018, cash generated from operating activities was $1.1 million, compared to $3.3 million for the same period in 2017. Net loss for the three months ended March 31, 2018 was $0.1 million, compared to income of $0.6 million for the same period in 2017. The net change in non-cash working capital provided $0.7 million of cash, compared to $2.7 million in the same period last year. The increase in cash provided by non-cash working capital changes is primarily the result of timing of receipts from customers.

***Financing Activities***

Financing activities used $0.2 million for the three months ended March 31, 2018, compared to $2.3 million for the same period in 2017. The primary reason for the lower use of funds is due to the voluntary early principal repayment of $7.0 million in November 2017, which eliminated the need for a cash sweep repayment for the 2017 fiscal year, which would have otherwise been required at March 31, 2018.

***Contractual Obligations***

There have been no significant changes to contractual obligations since December 31, 2017.

**Related Party Transactions**

FPLP purchased a majority of its newsprint from Alberta Newsprint Company ("ANC"), a related party, as disclosed under the related party transaction section of FPLP's Annual Management's Discussion and Analysis at December 31, 2017. Total newsprint purchases from ANC, based on actual invoice prices, for the three months ended March 31, 2017 were $1.2 million, compared to $1.2 million for the same period last year.

## ACCOUNTING POLICIES

The accounting policies adopted in preparation of the condensed consolidated financial statements for FPI and FPLP are consistent with those followed in the preparation of the annual consolidated financial statements for the year ended December 30, 2017 and December 31, 2017, respectively, except for the adoption of IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" which were effective January 1, 2018. The impact of adoption of IFRS 15 and IFRS 9 are summarized in Note 2 of the respective financial statements.

## DISCLOSURE CONTROLS AND PROCEDURES

In FPI's 2017 filings, the CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporation's disclosure controls and procedures, and the design and effectiveness of internal controls over financial reporting.

In FPI's first quarter 2018 filings, the CEO and CFO certify, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design of the Corporation's disclosure controls and procedures, and the design of internal controls over financial reporting.

FPI's Audit Committee reviewed this MD&A, and the interim financial report, and the Board of Directors approved these documents prior to their release.

There have been no changes to FPI's internal controls over financial reporting that occurred during the first quarter of 2018 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

## CRITICAL ACCOUNTING ESTIMATES

There have been no significant changes in FPI's or FPLP's critical accounting estimates since the December 2017 year-end.

## OUTLOOK

We expect the long term trend of lower advertising revenues will continue. Early into the second quarter advertising revenue declines aren't quite as steep as was experienced in the first quarter. Professional hockey playoff runs for both the Winnipeg Jets and the Manitoba Moose have created a buzz throughout the province and could provide some stimulus for advertising revenue improvements. In efforts to partially offset expected future advertising revenue declines a circulation rate increase was implemented in the second quarter for home delivered customers of the Winnipeg Free Press and Brandon Sun.

The preliminary actuarial results for our defined benefit pension plan were received and on a solvency funding basis the plan has improved from 83.3% at December 31, 2016 to 88.0% at December 31, 2017. Overall 2018 pension funding requirements in 2018 will be $0.5 million lower than the prior year. Funding for current service costs will be lower by $0.2 million due to lower employee levels and special payments for prior years funding deficiencies will be $0.3 million lower as a result of the improvement in the solvency funding levels. The Province of Manitoba continues to review pension funding regulations and has indicated they expect to release new funding regulations later this year. If the new regulations are consistent with the recommendation for reforms issued by the government in January, special payments for solvency funding would only be required if the plan's solvency ratio was below a threshold level of 85%. Total solvency deficiency special payments in 2018, under the current regulations, will be approximately $1.0 million.

During Winnipeg Free Press collective bargaining sessions held in 2017 it was agreed that an eight percent salary reduction (four percent for employees hired after June 30, 2013) would be triggered if free cash, as defined during the negotiations and calculated quarterly on a trailing twelve month basis, falls below a threshold level of $0.8 million. If revenue trends experienced during the first quarter continue and offsetting expense reduction initiatives are not sufficient, the salary reduction could be triggered at the start of a future quarter in 2018. The estimated annualized savings in expenses if these reductions are required to be implemented is $1.9 million. During the second quarter of 2018 management will be negotiating the Winnipeg carrier collective agreement, which expires on June 30, 2018 and the Brandon Sun employee agreement, which expires on December 31, 2018.

## NON-IFRS MEASURES

### (1) EBITDA

FPLP believes that in addition to net earnings as reported on FPLP's interim condensed 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 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 March 31, | |
|---|---|---|
| | **2018** | **2017** |
| | *In thousands of dollars* | |
| Net (loss) earnings for the period | $ (110) | $ 621 |
| Add (subtract): | | |
| Depreciation and amortization | 748 | 791 |
| Finance costs | 270 | 313 |
| Other income | (21) | (21) |
| EBITDA | $ 887 | $ 1,704 |

## 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 "Risk Factors" in our Annual Management Discussion and Analysis 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.