



FP Newspapers Inc.

Management's Discussion and Analysis

**Third Quarter
September 30, 2020**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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November 19, 2020

OVERVIEW

Management's discussion and analysis, prepared as of November 19, 2020, provides a review of significant developments that affected the performance of FP Newspapers Inc. ("FPI") in the three and nine months ended September 30, 2020. This review is based on financial information contained in the unaudited interim condensed financial statements and accompanying notes ("interim financial statements") for the three and nine months ended September 30, 2020.

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, 2019 prepared in accordance with IFRS and with the interim unaudited condensed financial statements and accompanying notes for the third quarter of 2020.

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.

FP NEWSPAPERS INC.

A summary of FPI's quarterly revenue, net income and net income per share for 2020, 2019 and 2018 is as follows:

	2020	2019	2018
	<i>In thousands of dollars (except per share amounts)</i>		
Revenue			
Quarter 1	\$ 112	\$ 121	\$ (53)
Quarter 2 ^(**)	1,902	852	435
Quarter 3 ^(**)	256	177	65
Quarter 4		1,026	740
Net income (loss)			
Quarter 1	\$ 60	\$ 54	\$ (84)
Quarter 2 ^(*) (**)	1,344	636	(2,463)
Quarter 3 ^(**)	126	67	22
Quarter 4		687	560
Net income (loss) per share			
Quarter 1	\$ 0.009	\$ 0.008	\$ (0.012)
Quarter 2 ^(*) (**)	0.195	0.092	(0.357)
Quarter 3 ^(**)	0.018	0.010	0.003
Quarter 4		0.100	0.081

^(*) A non-cash write-down of \$3.1 million was recorded in the second quarter of 2018. This write-down was 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's equity interest in its investment in FPLP, its net income and its net income per share were higher in the second quarter of 2020 primarily resulting from the government emergency wage subsidy program as detailed in the FPLP section of this report partially offset by lower advertising revenues as a result of the COVID-19 pandemic.

FPI reported net income of \$0.1 million for the three months ended September 30, 2020, compared to net income of \$0.1 million for the same period last year. The increase in net income is primarily due to an increase in the equity share of the net income of FPLP with details of this increase disclosed in the FPLP section of this report. Other comprehensive income for the three months ended September 30, 2020 was \$0.6 million, compared to comprehensive \$0.1 million in the third quarter of 2019. Other comprehensive income results from FPI's equity share of FPLP's recognition of remeasurements gains or losses related to the defined benefit pension plan.

As at November 19, 2020, FPI had 6,902,592 shares outstanding.

FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP

Results of Operations

FPLP's revenue for the three months ended September 30, 2020 was \$12.9 million, a decrease of \$2.2 million or 14.8% from the same three months in the prior year. FPLP's print advertising revenues for the three months ended September 30, 2020 were \$5.6 million, a \$1.9 million or 25.7% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was \$2.6 million, a decrease of \$1.1 million or 28.7% from the same period in the prior year, primarily due to the business closures due to the COVID-19 pandemic. Classified advertising revenues for the third quarter decreased by \$0.1 million or 9.0% compared to the same period last year, primarily due to COVID-19 business closures. Flyer distribution revenues decreased by \$0.8 million or 30.6% compared to the third quarter in 2019, once again, primarily due the business closures as a result of COVID-19.

Circulation revenues for the three months ended September 30, 2020 were \$6.2 million, virtually the same as the third quarter of 2019, with a small increase in home delivery rates offset by slightly lower print home delivery volumes and lower single copy revenues due to the business closures resulting from the COVID-19 pandemic. Commercial services revenue decreased by \$0.3 million primarily due to the cancellation of printing as a result of COVID-19 closures.

FPLP's revenue for the nine months ended September 30, 2020 was \$39.0 million, a decrease of \$8.6 million or 18.1% from the same period in the prior year. Print advertising revenues for the nine months ended September 30, 2020 were \$17.4 million, a \$7.3 million or 29.4% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was \$8.3 million, a decrease of \$4.5 million or 35.3% from the same period in the prior year, primarily due to the business closures as a result of the COVID-19 pandemic. Classified advertising revenues for the nine months ended September 30, 2020 were \$3.8 million, a decrease of \$0.5 million or 11.5% compared to the same period in 2019, primarily due to the COVID-19 business closures. Flyer distribution revenues decreased by \$2.2 million or 29.5% compared to the first nine months of 2019, primarily due to COVID-19 related business closures.

For the nine months ended September 30, 2020, circulation revenues were \$18.0 million, a decrease of \$0.3 million or 1.7% from the same period of 2019, primarily due to slightly lower print home delivery volumes and lower single copy revenues in the third quarter due to the business closures resulting from the COVID-19 pandemic. Commercial services revenue decreased by \$0.7 million primarily due to business closures in the third quarter due to COVID-19. Digital revenues for the first nine months of 2020 decreased by \$0.3 million or 14.8%, primarily due the business closures as a result of COVID-19.

Operating expenses for the three months ended September 30, 2020 were \$12.2 million, a decrease of \$2.3 million or 15.9% compared to the same quarter last year. Employee compensation costs for the third quarter decreased by \$1.7 million or 24.5% from the same period in the prior year, primarily the result of government support from the Canada Emergency Wage Subsidy ("CEWS") and the Federal Journalism Tax Credit Program. Newsprint expense for FPLP's own publications for the third quarter decreased by \$0.2 million or 17.1% compared to the same period in the prior year, primarily due to lower page counts as a result of the decrease in print advertising due to the COVID-19 pandemic in addition to slightly lower overall newsprint prices. Newsprint for commercial use decreased by 37.5% due to the decrease in commercial print jobs resulting from the business closures from the COVID-19 pandemic. Delivery expenses for the three months ended September 30, 2020 decreased by \$0.2 million or 6.7%, primarily due to reduced flyer volumes as a result of the business closures from the COVID-19 pandemic. Other expenses decreased by \$0.1 million or 4.1% as we reduced every possible expense in an effort to lessen the impact of lower advertising revenues resulting from the COVID-19 pandemic.

Operating expenses for the nine months ended September 30, 2020 were \$34.0 million, a decrease of \$10.7 million or 23.9% compared to the same period last year. Employee compensation costs for the nine months decreased by \$7.8 million or 36.9% from the same period in the prior year, primarily due to government support from CEWS, the Federal Journalism Tax Credit Program wage reductions and lower staffing levels implemented in response to the lower advertising revenues due to the COVID-19 pandemic. Newsprint expense for FPLP's own publications for the nine months ended September 30, 2020 decreased by \$0.7 million or 22.1% compared to the same period in the prior year, primarily due to lower page counts resulting from the print advertising decline from COVID-19 in addition to lower average newsprint prices. Newsprint for commercial use decreased by 27.4% due primarily to a decrease in commercial print jobs in the third quarter resulting from the business closures due to the COVID-19 pandemic. Delivery expenses for the nine months ended September 30, 2020 decreased by \$0.8 million or 9.2%, primarily due to the decrease in flyer delivery volumes resulting from the business closures due to COVID-19. Other expenses for the nine months ending September 30, 2020 decreased by \$1.1 million or 11.4% resulting from the cost reductions implemented to respond to the lower advertising revenues as a result of the COVID-19 business closures.

EBITDA⁽¹⁾ for the three and nine months ended September 30, 2020 was \$1.3 million and \$7.0 million compared to \$1.2 million and \$5.0 million for the same periods last year, an increase of 2.6% and 38.3%, respectively. EBITDA⁽¹⁾ margin for the three and nine months ended September 30, 2020 was 9.9% and 17.8%, compared to 15.5% and 11.7% in the same periods last year. The changes in EBITDA⁽¹⁾ were due to the revenue and operating expense paragraphs above.

Finance costs for the three and nine months ended September 30, 2020 decreased by \$0.1 million and \$0.3 million respectively compared to the same periods in 2019, due to the lower level of debt outstanding and lower average interest rates.

FPLP's net income was \$0.5 million and \$4.6 million for the three and nine months ended September 30, 2020, compared to net income of \$0.4 million and \$2.3 million for the same periods 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 September 30, 2020, the actuarial gain was

the result of higher than expected returns on plan assets. For the nine months ended September 30, 2020 the actuarial loss is primarily the result of the decrease in the discount rate used to calculate the obligations, partly offset by higher than expected return on plan assets.

Quarterly Summary

Newspaper publishing is, to a certain extent, a seasonal business, with a higher proportion of revenues and operating income occurring during the second and fourth quarters of the calendar year. Revenue, EBITDA⁽¹⁾ and net income of FPLP by quarter for 2020, 2019 and 2018 were as follows:

	2020	2019	2018
<i>In thousands of dollars</i>			
Revenue			
Quarter 1	\$ 14,218	\$ 15,493	\$ 16,070
Quarter 2 ^(****)	11,883	16,971	17,375
Quarter 3 ^(****)	12,885	15,129	15,925
Quarter 4		16,227	17,651
		<u>\$ 63,820</u>	<u>\$ 67,021</u>
EBITDA⁽¹⁾			
Quarter 1 ^(**)	\$ 1,039	\$ 1,171	\$ 887
Quarter 2 ^{(**)(**)(****)}	4,667	2,634	1,846
Quarter 3 ^{(**)(**)(****)}	1,272	1,240	1,096
Quarter 4 ^(**)		2,956	2,456
		<u>\$ 8,001</u>	<u>\$ 6,285</u>
Net Income (Loss)			
Quarter 1 ^(**)	\$ 227	\$ 244	\$ (110)
Quarter 2 ^{(*)(**)(**)(****)}	3,882	1,735	(5,465)
Quarter 3 ^{(**)(**)(****)}	523	360	132
Quarter 4 ^(**)		2,088	1,508
		<u>\$ 4,427</u>	<u>\$ (3,935)</u>

(*) A goodwill and intangibles impairment charge of \$6.4 million was recorded in the second quarter of 2018 primarily due to continued declines in revenues and income.

(**) A reduction in compensation costs in the amount of \$0.3 million was recorded in the first quarter of 2020 and \$0.2 million was recorded in each of the second and third quarters of 2020 and \$0.3 million in the third and fourth quarters of 2019 and \$0.5 million was recorded in the second quarter of 2019 for the estimated support under the federal government's Canadian journalism labour tax credit program, which was formally approved in the second quarter of 2019.

(***) During the second and third quarter FPLP was eligible for funding under the federal government's Canada Emergency Wage Subsidy ("CEWS") program. In the second quarter program and third quarter of 2020 FPLP recorded a reduction of its expenses in the amount of \$3.9 million and \$1.1 million, respectively from the CEWS.

(****) The second and third quarter of 2020 experienced a significant reduction in advertising revenues resulting from the COVID-19 pandemic and the resulting government enacted business closures in an effort to slow the spread of the virus.

Liquidity and Capital Resources of FPLP

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with existing and future financial liabilities that are and will be settled by delivering cash or another financial asset as they come due. Cash and cash equivalents at September 30, 2020 were \$5.4 million, compared to \$4.4 million at December 31, 2019. 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 forecasted cash requirements for the next twelve months, although this could be affected by worsening of the impact on advertising revenues of the COVID-19 pandemic.

Cash Flow from Operating Activities

During the three and nine months ended September 30, 2020, cash generated from operating activities was \$1.6 million and \$7.8 million, compared to \$0.9 million and \$4.5 million for the same periods in 2019. Net income for the three and nine months ended September 30, 2020 was \$0.5 million and \$4.6 million, compared to \$0.3 million and \$2.3 million, in 2019. The net change in non-cash working capital provided \$0.4 million and \$1.1 million of cash for the three and nine months ended September 30, 2020, compared to providing nil cash and \$0.6 million for the three and nine months ended September 30, 2019. The cash provided by non-cash working capital changes is primarily the result of timing of receipts from customers and payments to vendors.

Financing Activities

Financing activities used \$0.4 million and \$6.8 million for the three and nine months ended September 30, 2020, compared to less than \$0.1 million and \$4.9 million for the same periods in 2019. The primary reason for the higher use of funds in the three months ended September 30, 2020 is from a distribution to partners of \$.04 million to pay income taxes payable by the partners. The higher use of funds in the nine months ended September 30, 2020 is due to a voluntary term loan repayment of \$3.0 million made on June 30, 2020.

Commitments & Contingencies

There have been no significant changes to contractual obligations since December 31, 2019.

Related Party Transactions

FPLP purchased most 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, 2019. Total newsprint purchases from ANC, based on actual invoice prices, for the three and nine months ended September 30, 2020 were \$0.7 million and \$2.2 million, compared to \$1.1 million and \$3.0 million for the same periods last year.

DISCLOSURE CONTROLS AND PROCEDURES

In FPI’s 2019 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 third quarter 2020 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 three quarters of 2020 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The accounting policies adopted in preparation of the interim condensed 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, 2019 and December 31, 2019, respectively.

Use of Estimates and judgements

COVID-19

The COVID-19 outbreak and the resulting government response to combat the spread of the virus has resulted in a material disruption to the world-wide economy. The extent to which this slow-down affects our business operations, liquidity, availability of credit and operating results cannot be predicted with any meaningful precision. It is not possible to predict the length or severity of the slow-down and the impact on our financial condition, cash flows or results of operations in future periods.

Regular impairment testing requires predicting future revenues and cash flows in addition to other forward information. The outbreak of COVID-19 has resulted in increased risks with respect to predicting future operating results used in both FPI’s and FPLP’s impairment testing at September 30, 2020.

OUTLOOK

We are continuing to address the current challenges related to the COVID-19 pandemic but are seeing gradual improvements in advertising and commercial print revenues month over month since the Province began allowing businesses to re-open in July. This trend is expected to continue through the balance of the year, subject to Provincial restrictions being reinstated for prolonged periods of time. Recently, restrictions have been intermittently reinstated in certain parts of the Province, yet we have continued to see gradual improvements in advertising revenues.

The Canada Emergency Wage Subsidy (“CEWS”) program continued to provide financial relief. We applied for CEWS for the period from July 1 to September 30, 2020 and during the three months and nine months ended September 30, 2020, recognized a recovery of compensation expense of \$1.1 million and \$5.0 million, respectively. The CEWS program, as drafted, is scheduled to provide financial support for companies negatively impacted by the pandemic and is set to run to December 19, 2020. On September 23, 2020, the Government of Canada announced they will extend CEWS to the summer of 2021. We will continue to monitor our eligibility under the CEWS program.

The Manitoba Pension Superintendent’s office completed its review of the Colleges of Applied Arts & Technology Pension Plan (the “CAAT” Pension Plan) merger and a formal transfer of assets is anticipated to the CAAT Pension Plan to be completed on December 14, 2020.

Despite the fact that the impact of the COVID-19 pandemic remains unpredictable, we expect to generate positive cash flow.

COVID-19

With the increase in the number of COVID-19 cases, the short and long-term impact on the local and national economies is uncertain and is expected to remain this way for the unforeseeable future. The overall impact on our businesses as a result of COVID-19 cannot be predicted with any reliability. While we believe swift actions taken to reduce and defer costs together with meaningful direct support by the federal government has resulted in us being in a relatively stable financial position currently, this could deteriorate quickly if the overall economy does not improve or worsens from the present state.

NON-IFRS MEASURES

(1) EBITDA

FPLP believes that in addition to net income as reported on FPLP’s interim condensed consolidated statements of income, 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 income 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	<i>In thousands of dollars</i>		<i>In thousands of dollars</i>	
Net income for the period	\$ 523	\$ 360	\$ 4,632	\$ 2,339
Add (subtract):				
Depreciation and amortization	662	708	2,009	2,144
Finance costs	76	184	322	602
Other (income) loss	11	(12)	13	(40)
EBITDA	\$ 1,272	\$ 1,240	\$ 6,976	\$ 5,045

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 in our Annual Management Discussion and Analysis dated May 15, 2020, 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.