



FP Newspapers Inc.

Financial Statements

For the three months ended March 31, 2020

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

	Note	As at March 31, 2020	As at December 30, 2019
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$ 9	\$ 32
Prepaid expenses		6	4
Income taxes recoverable		62	74
		77	110
LONG-TERM ASSETS			
Investment in FP Canadian Newspapers Limited Partnership	3	4,134	5,617
TOTAL ASSETS		\$ 4,211	\$ 5,727
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		\$ 76	\$ 54
		76	54
LONG-TERM LIABILITIES			
Deferred income tax liability		227	661
TOTAL LIABILITIES		303	715
SHAREHOLDERS' EQUITY			
Share capital		71,373	71,373
Deficit		(67,465)	(66,361)
TOTAL SHAREHOLDERS' EQUITY		3,908	5,012
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 4,211	\$ 5,727

(See accompanying notes)

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

(unaudited, in thousands of Canadian dollars except per share amounts)

		For the three months ended	
	Note	March 31, 2020	March 31, 2019
Equity interest from FP Canadian Newspapers Limited Partnership Class A limited partner units	3	\$ 112	\$ 120
Administration expenses		(43)	(36)
Other income		-	1
Net income before income taxes		69	85
Current income tax expense		(12)	(33)
Deferred income tax recovery		3	2
Net income for the period		\$ 60	\$ 54
Items that will not be reclassified to net income (loss):			
Equity interest of other comprehensive (loss) income from FP Canadian Newspapers Limited Partnership	3	(1,595)	385
Deferred income tax recovery (expense)		431	(103)
Comprehensive (loss) income for the period		\$ (1,104)	\$ 336
Weighted average number of Common Shares outstanding		6,902,592	6,902,592
Net income per share – basic and diluted		\$ 0.009	\$ 0.008

(See accompanying notes)

FP Newspapers Inc.
Condensed Statements of Changes in Equity
(unaudited, in thousands of Canadian dollars)

	Share Capital	Deficit	Total Shareholders' Equity
At December 30, 2018	\$ 71,373	\$ (67,034)	\$ 4,339
Net income for the year	-	1,444	1,444
Other comprehensive (loss) for the year	-	(771)	(771)
Comprehensive income for the year	-	673	673
At December 30, 2019	\$ 71,373	\$ (66,361)	\$ 5,012
Net income for the period	-	60	60
Other comprehensive (loss) for the period	-	(1,164)	(1,164)
Comprehensive (loss) for the period	-	(1,104)	(1,104)
At March 31, 2020	\$ 71,373	\$ (67,465)	\$ 3,908

(See accompanying notes)

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

		For the three months ended March 31,	
	Note	2020	2019
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Cash provided by (used in):			
Operating activities			
Net income for the period		\$ 60	\$ 54
Items not affecting cash:			
Equity interest from Class A Units of FP Canadian Newspapers Limited Partnership	3	(112)	(120)
Deferred income tax (recovery)		(3)	(2)
Net change in non-cash working capital items		32	2
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(Decrease) in cash and cash equivalents		\$ (23)	\$ (66)
Cash and cash equivalents – beginning of period		32	418
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Cash and cash equivalents – end of period		\$ 9	\$ 352
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Supplemental Cash Flow information:			
Income tax paid during the period		\$ -	\$ 27

(See accompanying notes)

FP Newspapers Inc.
Notes to Condensed Financial Statements at March 31, 2020
(unaudited, 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, is the successor to the business of FP Newspapers Income Fund (the "Fund"). FPI's year end is December 30. The Fund was an unincorporated limited-purpose trust established under the laws of Ontario on May 15, 2002 to invest in securities issues by FP Canadian Newspapers Limited Partnership ("FPLP"). In response to changes in the tax treatment of income trusts, the trustees of the Fund determined that it would be in the best interests of the Fund and its unitholders to convert the Fund from a trust to a corporation pursuant to a plan of arrangement (the "conversion"). Effective on December 31, 2010, all of the outstanding units of the Fund were exchanged on a one-for-one basis for common shares of FPI which were listed on the Toronto Stock Exchange under the symbol FP until November 21, 2016. Effective November 22, 2016 FPI's shares commenced trading on the TSX Venture Exchange after voluntary delisting of its shares from the Toronto Stock Exchange. FPI owns securities entitling it to 49% of the distributable cash as defined in the partnership agreement of 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 interim condensed 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 Canadian Generally Accepted Accounting Principles ("Canadian GAAP"), these interim condensed 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 financial statements for the year ended December 30, 2019. In management's opinion, the interim condensed financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim periods presented.

These interim condensed financial statements were approved by the Board of Directors of FPI on June 25, 2020.

Use of Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates. In preparation of the condensed interim consolidated financial statements the estimates and judgements made by management in applying judgements the Company's accounting policies were the same as those that applied to the consolidated financial statements for the year ended December 30, 2019.

The COVID-19 pandemic is affecting economic and financial markets and virtually all industries are facing challenges associated with the economic conditions resulting from efforts to address it. Reactions and responses to COVID-19 continue to evolve and change, and developments are highly uncertain and cannot be accurately predicted. New information which may emerge concerning the severity, duration and actions by government authorities to contain the outbreak or manage its impact increase the possibility that circumstances may arise which cause actual results to differ from the estimates applied in these interim consolidated financial statements and such differences may effect FPI's future financial position, liquidity and operating results.

Regular impairment testing requires predicting future revenues and cash flows in addition to other forward information. The outbreak of COVID-19 has resulted in significantly increased risks with respect to predicting future operating results used in FPI's impairment testing at March 31, 2020.

FP Newspapers Inc.
Notes to Condensed Financial Statements at March 31, 2020
(unaudited, in thousands of Canadian dollars)

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, 2018	\$ 4,808
Equity interest in net income and comprehensive income for the year ended December 30, 2019	1,116
Non-cash write-down of investment in FP Canadian Newspapers Limited Partnership Class A limited partner units	(3)
Distributions received for the year ended December 30, 2019	(304)
Balance at December 30, 2019	\$ 5,617
Equity interest in net income and comprehensive (loss) for the three months ended March 31, 2020	(1,483)
Balance at March 31, 2020	\$ 4,134

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:

	For the three months ended March 31,	
	2020	2019
Net income of FPLP	\$ 227	\$ 244
Interest attributable to FPI	49%	49%
Equity interest in net income of FPLP before goodwill and intangible assets impairment charge	112	120
Other comprehensive (loss) income of FPLP	(3,256)	786
Interest attributable to FPI	49%	49%
Equity interest in other comprehensive (loss) income of FPLP	\$ (1,595)	\$ 385

4. FINANCIAL INSTRUMENTS

The fair value of current assets and liabilities including cash and cash equivalents and accounts payable 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, 2020

FP Canadian Newspapers Limited Partnership
Condensed Consolidated Balance Sheets
(unaudited, in thousands of Canadian dollars)

	Note	As at March 31, 2020	As at December 31, 2019
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$ 3,629	\$ 4,389
Accounts receivable		4,007	5,029
Due from related parties	6	1,332	1,082
Inventories		1,053	965
Prepaid expenses and other assets		1,014	1,137
		11,035	12,602
LONG-TERM ASSETS			
Property, plant and equipment		21,276	21,876
Intangible assets		2,412	2,475
TOTAL ASSETS		\$ 34,723	\$ 36,953
LIABILITIES AND UNITHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		\$ 4,810	\$ 5,220
Prepaid subscriptions and deferred revenue		2,883	2,855
Lease obligation		100	104
Mortgage loan	7	28	57
Term loan	7	1,000	15,500
		8,821	23,736
LONG-TERM LIABILITIES			
Accrued pension benefit liability		4,224	969
Lease obligation		39	61
Mortgage loan	7	710	695
Term loan	7	12,466	-
TOTAL LIABILITIES		26,260	25,461
UNITHOLDERS' EQUITY			
Partner units		99,362	99,362
Deficit		(90,899)	(87,870)
TOTAL UNITHOLDERS' EQUITY		8,463	11,492
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY		\$ 34,723	\$ 36,953

(See accompanying notes)

FP Canadian Newspapers Limited Partnership
Condensed Consolidated Statements of Income and Comprehensive (Loss) Income
(unaudited, in thousands of Canadian dollars)

		For the three months ended March 31,	
	Note	2020	2019
Revenue			
Print Advertising		\$ 6,776	\$ 8,017
Circulation		5,883	5,884
Commercial Printing		851	839
Digital advertising		562	602
Promotion and services		146	151
TOTAL REVENUE		14,218	15,493
Operating expenses			
Employee compensation		6,545	7,261
Newsprint and other paper		1,106	1,315
Delivery		2,563	2,720
Other		2,960	3,026
Depreciation and amortization		681	721
OPERATING INCOME BEFORE RESTRUCTURING		363	450
Restructuring charge		(5)	-
OPERATING INCOME		358	450
Other income		14	16
Finance costs	5	(145)	(222)
NET INCOME FOR THE PERIOD		\$ 227	\$ 244
Items that will not be reclassified subsequently to net income			
Remeasurements for defined benefit pension plan		(3,256)	786
COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD		\$ (3,029)	\$ 1,030

(See accompanying notes)

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

	Partner Units	Deficit	Total Unitholders' Equity
UNITHOLDERS' EQUITY –			
DECEMBER 31, 2018	\$ 98,280	\$ (88,440)	\$ 9,840
Comprehensive income for the year	-	2,272	2,272
Partner contributions	1,082	-	1,082
Partner distributions	-	(1,702)	(1,702)
UNITHOLDERS' EQUITY –			
DECEMBER 31, 2019	\$ 99,362	\$ (87,870)	\$ 11,492
Net income for the period	-	227	227
Other comprehensive (loss) for the period	-	(3,256)	(3,256)
Comprehensive (loss) for the period	-	(3,029)	(3,029)
UNITHOLDERS' EQUITY –			
MARCH 31, 2020	\$ 99,362	\$ (90,899)	\$ 8,463

(See accompanying notes)

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

	Note	For the three month ended March 31,	
		2020	2019
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net income for the year		\$ 227	\$ 244
Items not affecting cash:			
Depreciation and amortization		681	721
Accretion of deferred financing costs		2	9
(Gain) on disposal of property, plant and equipment		(3)	-
Excess of pension contributions over accounting expense		-	(214)
		907	760
Net change in non-cash working capital items		424	413
		1,331	1,173
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(17)	(14)
Purchase of intangibles		(1)	(12)
Proceeds from the sale of property, plant and equipment		3	-
		(15)	(26)
FINANCING ACTIVITIES			
Principal repayments of lease obligations		(26)	(233)
Principal repayments of mortgage loan		(14)	(13)
Principal repayment of term loan		(2,000)	(2,500)
Term loan refinancing costs		(36)	-
		(2,076)	(2,746)
(DECREASE) IN CASH AND CASH EQUIVALENTS		(760)	(1,599)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		4,389	4,270
CASH AND CASH EQUIVALENTS - END OF PERIOD		\$ 3,629	\$ 2,671
Supplemental Cash Flow Information:			
Interest paid during the year		\$ 197	\$ 265
Interest received during the year		11	16

(See accompanying notes)

FP Canadian Newspapers Limited Partnership
Notes to the Condensed Consolidated Financial Statements as at March 31, 2020
(tabular amounts 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 interim condensed consolidated financial statements include the operating businesses owned by FPLP. The managing general partner of FPLP is FPCN General Partner Inc. (“FPGP”). These interim condensed 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 interim condensed 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, 2019. In management’s opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim periods presented.

These interim condensed consolidated financial statements were approved by the Board of Directors of FPGP on June 25, 2020.

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. USE OF ESTIMATES

The preparation of consolidated financial statements requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates. In preparation of the condensed interim consolidated financial statements the estimates and judgements made by management in applying judgements the Company’s accounting policies were the same as those that applied to the consolidated financial statements for the year ended December 31, 2019.

The COVID-19 pandemic is affecting economic and financial markets and virtually all industries are facing challenges associated with the economic conditions resulting from efforts to address it. Reactions and responses to COVID-19 continue to evolve and change, and developments are highly uncertain and cannot be accurately predicted. New information which may emerge concerning the severity, duration and actions by government authorities to contain the outbreak or manage its impact increase the possibility that circumstances may arise which cause actual results to differ from the estimates applied in these interim consolidated financial statements and such differences may effect FPLP’s future financial position, liquidity and operating results.

Regular impairment testing requires predicting future revenues and cash flows in addition to other forward information. The outbreak of COVID-19 has resulted in significantly increased risks with respect to predicting future operating results used in FPLP’s impairment testing at March 31, 2020.

FP Canadian Newspapers Limited Partnership
Notes to the Condensed Consolidated Financial Statements as at March 31, 2020
(tabular amounts in thousands of Canadian dollars)

4. EMPLOYEE FUTURE BENEFIT PLANS

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

	Three Months Ended March 31,	
	2020	2019
Defined benefit pension plan	\$ -	\$ 333

On September 26, 2019 FPLP entered into an agreement with the Colleges of Applied Arts & Technology Pension Plan (the “CAAT Pension Plan”), a multi-employer defined benefit plan, to merge FPLP’s defined benefit pension and Winnipeg defined contribution plan (“FPLP’s Plans”) with the CAAT Pension Plan. Effective December 29, 2019, FPLP received approval from FPLP’s Plan members and effective January 1, 2020 FPLP became a participating employer under the CAAT Pension Plan and all members of the FPLP Plans began accruing benefits under the DBplus provisions of the CAAT Pension Plan. DBplus is a defined benefit pension plan with a fixed contribution rate for members, matched dollar for dollar by employers. The merger remains subject to consent from the Manitoba Office of the Superintendent – Pension Commission and the Financial Services Regulatory Authority of Ontario. Following the consent of the regulatory bodies to the transfer of assets, the CAAT Pension Plan will assume the defined benefit obligation of the FPLP Plans accrued prior to the effective date and FPLP will recognize a gain or loss on settlement. The CAAT Plan has determined the assets of the defined benefit portion of FPLP’s plan will exceed the obligations being assumed by approximately \$1,100,000 and the excess will be used to subsidize future contributions for both the employees and FPLP. On December 31, 2019, as a result of the CAAT Pension Plan merger, the FPLP Plans were amended to cease all service accruals on this date.

5. FINANCE COSTS

	Three Months Ended March 31,	
	2020	2019
Finance Costs		
Interest on lease obligations	1	7
Interest on mortgage loan	9	9
Interest on term loan	133	197
Accretion of term loan related to financing costs	2	9
	\$ 145	\$ 222

6. DUE FROM RELATED PARTIES

This balance relates to amounts owing from the general partners of FPLP who have agreed to pay FPLP for their respective shares of the refundable tax credit for qualifying Canadian Journalism Organizations that they receive. The eligible amount of the credit to date for the three months ended March 31, 2020 was \$250,000 (2019 the accrual was not recorded until the second quarter when the program was approved) and has been recorded as a reduction to employee compensation costs within the statement of income.

7. LONG-TERM DEBT

Effective January 31, 2020 FPLP completed a long-term debt renewal agreement with HSBC Bank Canada. As part of the renewal agreement FPLP repaid \$2,000,000 of principal bringing the outstanding principal to \$13,500,000. The loan includes annual principal repayments of \$1,000,000 due on June 1 along with a cash sweep to be paid no later than 90 days after the end of each fiscal year. The cash sweep is equal to 20% of FPLP’s annual distributable cash as defined in the agreement. The new loan agreement matures on January 31, 2023. Similar to the original facility, the renewal facility includes negative covenants which must be observed in order to avoid an accelerated termination of the agreement. The maximum leverage ratio is 3.0 to 1 as long as the outstanding loan balance is at or above \$10,000,000 and below this level there is no requirement to maintain a specified leverage ratio. The fixed charge coverage ratio cannot fall below 2.0 to 1

FP Canadian Newspapers Limited Partnership
Notes to the Condensed Consolidated Financial Statements as at March 31, 2020
(tabular amounts in thousands of Canadian dollars)

while the loan balance is at or above \$10,000,000 and reduces to 1.5 to 1 when the outstanding loan balance falls below \$10,000,000. The ratio calculations are defined in the agreement and measured quarterly on a trailing 12 month basis. The loan is secured by all of the assets of the businesses other than the Derksen Printers land and building and additionally a mortgage registered on FPLP's Winnipeg land and building. The variable interest rate is based on a grid determined by the trailing 12 month leverage ratio and at prevailing market rates ranges from 2.55% to 3.55%. At March 31, 2020 FPLP is in compliance with all covenants.

Subsequent to March 31, 2020, an annual principal repayment of \$1,000,000 was paid.

In 2016, a mortgage refinancing agreement was completed for the Derksen Printers real estate assets. The refinanced loan has a book value of \$738,000 at March 31, 2020 (\$752,000 at December 31, 2019) and carries a five year variable interest rate, at 3.75% at March 31, 2020 (4.75% at December 31, 2019). Due to the economic impact of the COVID-19 pandemic, FPLP's mortgage lender extended an offer to defer principal and interest payments for six months and FPLP accepted this offer. At the end of the 6-month period, the accrued interest will be added to the outstanding principal of the mortgage. Payments will resume on the same frequency for the same amount and amortization will be extended accordingly.

8. RELATED PARTY TRANSACTION

Total newsprint purchases from Alberta Newsprint Company, a company controlled indirectly by Ronald Stern, for the three months ended March 31, 2020 were \$872,000 (\$950,000 for the three months ended March 31, 2019).

9. FINANCIAL INSTRUMENTS

The fair value of current assets and liabilities including cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates their carrying value due to the short-term nature of these financial instruments. At March 31, 2020, the fair value of the HSBC term loan, based on Level 3 fair value hierarchy inputs, is approximately \$13,500,000 (\$15,500,000 at December 31, 2019). 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 payable has been calculated by discounting the expected cash flows of each debt using a discount rate of 3.55% and 4.25%, 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 and accrued liabilities, lease obligations and long-term debt which include the term-loan and mortgage loan.

There were no transfers within the fair value hierarchy during the three month ended March 31, 2020.

10. SUBSEQUENT EVENTS

In April, the federal government announced a wage subsidy program for eligible Canadian employers whose business has been affected by COVID-19. The Canada Emergency Wage Subsidy will provide a subsidy of 75% of eligible remuneration paid by an eligible entity to a maximum of \$847 per week per employee, retroactive to March 15, 2020, until August 29, 2020. As of June 25, 2020, FPLP received total funding of \$3,000,000 under the Canada Emergency Wage Subsidy.