FP Newspapers Inc.

Management's Discussion and Analysis 2020

FP NEWSPAPERS INC. ANNUAL 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

April 21, 2021

Management's discussion and analysis, prepared as at April 21, 2021, provides a review of significant developments that affected the performance of FP Newspapers Inc. ("FPI") in the three and twelve months ended December 30, 2020. This review is based on financial information contained in the financial statements and accompanying notes for the year ended December 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 financial statements, which are the basis for data presented in this report, have been prepared in accordance with International Financial Reporting Standards (IFRS). The following information provides analysis of the operations and financial position of FPI and FP Canadian Newspapers Limited Partnership ("FPLP") and should be read in conjunction with the financial statements and accompanying notes.

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

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

FORMATION AND LEGAL ENTITIES

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

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

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

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

FP NEWSPAPERS INC.

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

$ in thousands except per share amounts	2020	2019	2018
Income	5,609	2,176	1,187
Net income (loss)	3,984	1,444	(1,965)
Net income (loss) per share	0.577	0.209	(0.285)
Total assets	8,182	5,727	5,230
Total long-term liabilities	781	661	578

Income for the year ended December 30, 2020 was $5.6 million compared to $2.2 million in 2019. The increase was primarily the result of higher equity earnings from FPI's investment in FPLP. Net income for the year ended December 30, 2020 was $4.0 million compared to $1.4 million in 2019. This is primarily due to the transfer of the defined benefit plan asset to the CAAT Pension Plan that occurred on December 14, 2020. FPLP recognized a settlement gain on the Consolidated Statement of Income of $6.8 million. For the year ended December 30, 2018, a non-cash write-down of $3.1 million was recorded. This 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. For the year ended December 30, 2020, FPI recorded a current income tax expense of $0.6 million and a deferred income tax expense of $0.9 million compared to a current income tax expense of $0.2 million and a deferred income tax expense of $0.4 million in 2019. The deferred income tax expense is primarily from the deferral of taxes from 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 and timing differences between FPLP's year end and FPI's year end. Other comprehensive loss for 2020 was $2.0 million compared to $0.8 million in 2019. The change in other comprehensive income (loss) results from FPI's equity share of FPLP's recognition of remeasurements gains and losses related to its defined benefit pension plan.

As at December 30, 2020, FPI had 6,902,592 shares outstanding.

SUMMARY OF QUARTERLY RESULTS

A summary of FPI's quarterly income, net (loss) earnings and net (loss) earnings per share for the years ended December 30, 2020, 2019 and 2018 is as follows:

	2020	2019	2018
	In thousands of dollars (except per share amounts)		
Income			
Quarter 1	$ 112	$ 121	$ (53)
Quarter 2	1,902	852	435
Quarter 3	256	177	65
Quarter 4	3,339	1,026	740
Net income (loss)			
Quarter 1	$ 60	$ 54	$ (84)
Quarter 2[(1)]	1,344	636	(2,463)
Quarter 3	126	67	22
Quarter 4	2,454	687	560
Net income (loss) per share			
Quarter 1	$ 0.009	$ 0.008	$ (0.012)
Quarter 2[(1)]	0.195	0.092	(0.357)
Quarter 3	0.018	0.010	0.003
Quarter 4	0.355	0.100	0.081

[(1)] A non-cash write-down of $3.1 million was recorded in the second quarter of 2018. The write-down was based on FPI's determination that its 49% equity investment in FPLP was impaired, primarily due to continued declines in income and income experienced by FPLP.

FPI reported net income of $2.5 million for the three months ended December 30, 2020, compared to net income of $0.7 million for the same period in 2019. This is primarily due to the transfer of the defined benefit plan asset to the CAAT Pension Plan that occurred on December 14, 2020. FPLP recognized a settlement gain on the Consolidated Statements of Income of $6.8 million.

RESULTS OF OPERATIONS OF FPLP

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

	2020	2019	2018
		In thousands of dollars	
Revenue	53,430	63,820	67,021
Net income (loss)	11,445	4,427	(3,935)
Current liabilities	10,773	23,736	9,574
Long-term liabilities(*)	7,152	1,725	19,614

*The reduction in long-term liabilities in 2019 results primarily from the long-term debt agreement expired January 31, 2020. Effective January 31, 2020, FPLP completed a long-term debt renewal agreement with HSBC Bank Canada, which extended the term of the loan to January 31, 2023.

SUMMARY OF ANNUAL RESULTS

Revenue:

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

	2020	2019
	In thousands of dollars	
Print advertising	$ 24,370	$ 33,172
Circulation	24,157	24,509
Commercial printing	2,403	3,380
Digital advertising	2,039	2,227
Other	461	532
	$ 53,430	$ 63,820

FPLP’s revenue for the year ended December 31, 2020 was $53.4 million, a decrease of $10.4 million or 16.3% from the prior year. Print advertising revenues for the year ended December 31, 2020 were lower by $8.8 million or 26.5% compared to last year. FPLP’s largest print advertising revenue category, display advertising including colour, was $11.7 million, a decrease of $5.5 million or 31.7% from the prior year, primarily due to the business closures due to the COVID-19 pandemic. Classified advertising revenues for the 2020 year decreased by $0.4 million or 6.4% compared to last year, with decreases in the real estate and employment categories, partly offset by increases in obituaries. Flyer distribution revenues were $7.5 million, a decrease of $3.0 million or 28.6% from 2019, once again, primarily due to the business closures as a result of COVID-19.

Circulation revenues for the year ended December 31, 2020 were $24.2 million, a decrease of $0.4 million or 1.4% compared to 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 revenues decreased by $1.0 million, primarily due to business closures as a result of COVID-19. Digital advertising decreased by $0.2 million compared to 2019, due to lower advertising revenues due to COVID-19.

Operating Expenses:
Operating expenses by major category are as follows:

	2020	2019
	In thousands of dollars	
Employee compensation, excluding restructuring charges	$ 19,977	$ 27,667
Newsprint – own use	3,518	4,333
Newsprint – commercial printing	597	888
Delivery	10,282	11,140
Production	4,440	5,456
Other	6,832	6,968
Depreciation and amortization	2,653	2,839
	48,299	59,291
Restructuring charges	68	198
Pension curtailment gain	-	(833)
Pension settlement gain	(6,799)	-
	$ 41,568	$ 58,656

Operating expenses for the year ended December 31, 2020 were $41.6 million, a $17.1 million or 29.1% decrease from last year. Employee compensation costs, excluding restructuring charges, for the year decreased by $7.7 million or 27.8%, primarily due to government support from CEWS and lower staffing levels implemented in response to the lower advertising revenues due to the COVID-19 pandemic. Restructuring charges for the year ending December 31, 2020 were $0.1 million, which is $0.1 million lower than the prior year and represents voluntary and involuntary severance payments for employees. Newsprint expense for FPLP's own publications for the year decreased by $0.8 million or 18.8%, primarily due to lower page counts resulting from the print advertising decline from COVID-19. Newsprint for commercial printing decreased by $0.3 million, due to the decline in commercial print contracts. Delivery costs decreased by $0.9 million or 7.7% primarily due to the decrease in flyer delivery volumes resulting from the business closures due to COVID-19. Production expenses decreased by $1.0 million or 18.6%, primarily due to lower page counts resulting from the print advertising decline from COVID-19. Other expenses for the year remained at relatively the same level compared to the same period in 2019.

On December 14, 2020, as a result of the transfer of defined benefit plan asset to the CAAT Pension Plan, FPLP recognized a settlement gain in the Consolidated Statements of Income of $6.8 million.

EBITDA(1) for the year ended December 31, 2020 was $14.5 million compared to $8.0 million in 2019, an increase of 81.4%, primarily due to the pension settlement. EBITDA(1) margin for the year ended December 31, 2020 was 27.2% compared to 12.5% in 2019.

For the year ended December 31, 2020, finance costs decreased by $0.4 million or 49.8% primarily due to the lower level of debt outstanding.

FPLP's net income was $11.4 million for the year ended December 31, 2020, compared to $4.4 million in the prior year. The increase was primarily due to a pension settlement gain of $6.8 million.

Under IFRS, comprehensive income includes remeasurement gains and losses related to FPLP's defined benefit pension plan. These gains or losses are primarily related to changes in actuarial discount rate assumptions and returns on plan assets differing from expected investment income. The actuarial loss in 2020 was due to a decrease in the discount rate used for accounting purposes, partly offset by higher than expected returns on plan assets.

SUMMARY OF FOURTH QUARTER RESULTS

Revenue:

A summary of revenue for the three months ended December 31, 2020 and 2019 by major category is as follows:

	Three months ended	
	December 31, 2020	**December 31, 2019**
	In thousands of dollars	
Print advertising	$ 6,968	$ 8,517
Circulation	6,131	6,168
Commercial printing	635	866
Digital advertising	594	533
Other	116	143
	$ 14,444	$ 16,227

FPLP's revenue for the three months ended December 31, 2020 was $14.4 million, a decrease of $1.8 million or 11.0% from the same three months in the prior year. Print advertising revenues for the three months ended December 31, 2020 were $7.0 million, an 18.2% decrease compared to the same quarter last year. FPLP's largest print advertising revenue category, display advertising including colour, was $3.4 million, a decrease of $0.9 million or 21.2% 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 fourth quarter increased by $0.1 million or 11.0% compared to the same period last year, primarily due to an increase in obituaries. Flyer distribution revenues for the fourth quarter decreased by $0.8 million or 26.2% compared to the same period last year, primarily due to COVID-19 related business closures.

Circulation revenues for the three months ended December 31, 2020 remained at relatively the same level compared to 2019 as a result of an increase in print subscription prices and increased digital subscription revenue, offset by decreases in print unit sales. Commercial services revenues for the fourth quarter decreased by $0.2 million compared to the same period last year, primarily due to business closures due to COVID-19. Digital advertising revenues and other revenue for 2020 remained at relatively the same level compared to 2019.

Operating Expenses:

	Three months ended December 31, 2020	December 31, 2019
	In thousands of dollars	
Employee compensation	$ 6,706	$ 6,631
Newsprint – own use	963	1,054
Newsprint – commercial printing	162	226
Delivery	2,744	2,843
Production	1,252	1,383
Other	1,879	1,849
Depreciation and amortization	644	695
	$ 14,350	$ 14,681
Restructuring charge	-	118
Pension curtailment gain	-	(833)
Pension settlement gain	(6,799)	-
	$ 7,551	$ 13,966

Operating expenses for the three months ended December 31, 2020 remained at relatively the same level compared to 2019. Employee compensation costs, excluding restructuring charges, for the fourth quarter increased by $0.5 million or 7.2%, primarily due to the repayment of temporary wage reductions, offset by the Canada Employment Wage Subsidy of $0.4 million for the fourth quarter. There were no restructuring charges in the three months ended December 31, 2020 but restructuring costs for the same period in 2019 were $0.1 million due to voluntary and involuntary severance payments for employees. Newsprint expense for FPLP’s own publications and for commercial use remained at relatively the same level compared to the same period in 2019. Slightly higher newsprint prices were offset by lower page counts resulting from the print advertising decline from COVID-19. Delivery costs for the three months ended December 31, 2020 decreased by $0.1 million or 3.5% primarily due to reduced flyer volumes as a result of the business closures from the COVID-19 pandemic. Production costs for the three months ended December 31, 2020 decreased by $0.1 million or 9.5% primarily due to lower page counts resulting from the print advertising decline from COVID-19.

On December 14, 2020, as a result of the transfer of defined benefit plan asset to the CAAT Pension Plan, FPLP recognized a settlement gain in the Consolidated Statements of Income of $6.8 million.

EBITDA(1), for the three months ended December 31, 2020 was $7.5 million, an increase of $4.6 million or 155.0% from the same period last year, primarily due to the pension settlement. EBITDA(1) margin, for the three months ending December 31, 2020 was 52.2%, compared to 18.2% in the same period last year.

FPLP’s net income was $6.8 million for the three months ended December 31, 2020, compared to $2.1 million for the same period last year.

QUARTERLY SUMMARY

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

	2020	2019	2018
	In thousands of dollars		
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	14,444	16,227	17,651
	$ 53,430	$ 63,820	$ 67,021
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(**)(***)	7,537	2,956	2,456
	$ 14,515	$ 8,001	$ 6,285
Net Income (Loss)			
Quarter 1(**)	$ 227	$ 244	$ (110)
Quarter 2(*)(**)(***)(****)	3,882	1,735	(5,465)
Quarter 3(**)(***)(****)	523	360	132
Quarter 4(**)(***)	6,813	2,088	1,508
	$ 11,445	$ 4,427	$ (3,935)

(*) 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.

(**) Compensation costs decreased due to support from the federal government's Canadian journalism labour tax credit program, which was formally approved in the second quarter of 2019. Amounts recorded in 2019 for quarters two, three and four were $0.5 million, $0.3 million and $0.3 million, respectively. In 2020, approximately $0.2 million was recorded in each quarter.

(***) During the last three quarters of the year FPLP was eligible for funding under the federal government's Canada Emergency Wage Subsidy ("CEWS") program. In quarters two, three and four of 2020 FPLP recorded a reduction of its expenses in the amount of $3.9 million, $1.1 million, and $0.4 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.

FINANCIAL CONDITION OF FPLP

LIQUIDITY AND CAPITAL RESOURCES OF FPLP

Cash and cash equivalents at December 31, 2020 was $5.3 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. During the year ended December 31, 2020, operating activities provided $9.4 million, investing activities used $0.1 million and $8.3 million was used for financing activities. Cash flow from operations, together with cash balances on hand, are currently expected to be sufficient to fund FPLP's operating requirements, capital expenditures, required principal and interest payments under FPLP's credit facility and finance lease obligations and anticipated distributions, assuming that advertising revenues do not materially deteriorate beyond management's current expectations.

The Company's most significant financial obligation related to its long-term debt of which $7.5 million was repaid during 2020. Effective January 31, 2020 FPLP completed a long-term debt renewal agreement with HSBC Bank Canada (Note 7 to the 2020 Annual Consolidated Financial Statements of FPLP).

CASH FLOW FROM OPERATING ACTIVITIES

During the year ended December 31, 2020, cash generated from operating activities was $9.4 million, compared to $5.1 million for 2019. The increase in cash generated from operating activities is primarily due to the federal government's Canada Emergency Wage Subsidy payments of $5.4 million.

CASH FLOW FROM INVESTING ACTIVITIES

Capital asset additions were $0.1 million for the year ended December 31, 2020, unchanged from the prior year. Capital expenditures in 2020 were primarily for computer hardware and software upgrades and building and equipment replacements.

CASH FLOW FROM FINANCING ACTIVITIES

Financing activities used $8.3 million of cash in 2020, compared to $4.9 million in 2019. Repayment of long-term debt principal in 2020 was $7.5 million and $3.5 million in 2019. Principal repayments of lease obligations were $0.1 million in 2020 and $0.7 million in 2019. A distribution to partners of FPLP of $0.6 million was made during 2020, of which $0.3 million was paid to FPI as holder of Class A limited partner units to fund FPI's income taxes and administration costs for the 2020 year.

CONTRACTUAL OBLIGATIONS

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

		Payments Due by Period			
	Total	**Less than 1 year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
		In thousands of dollars			
Long-term debt	$ 8,303	$ 1,188	$ 7,115	$ -	$ -
Mortgage loan	768	768	-	-	-
Finance leases	314	88	136	90	-
Other contractual commitments	120	120	-	-	-
Total contractual obligations	$ 9,505	$ 2,164	$ 7,251	$ 90	$ -

The long-term debt renewal agreement completed in January 2020 with HSBC Bank of Canada includes annual principal repayments of $1.0 million due on each year 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 fixed charge coverage ratio cannot fall below 1.5 to 1. The ratio calculations are defined in the agreement and measured quarterly on a trailing 12-month basis. The loan is secured by all 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.

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 Company received consent from the Manitoba Office of the Superintendent – Pension Commission to transfer the defined benefit plan assets to the CAAT Pension Plan. The actual transfer of assets was completed on December 14, 2020 at which time the CAAT Pension Plan assumed the defined benefit plan obligations.

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. As a result of this amendment during the year ended December 31, 2019, FPLP recognized a curtailment gain in the Consolidated Statements of Income of $0.8 million.

On December 14, 2020, as a result of the transfer of defined benefit plan assets to the CAAT Pension Plan, FPLP recognized a settlement gain in the Consolidated Statements of Income of $6.8 million.

PRODUCTIVE CAPACITY MAINTENANCE STRATEGY

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

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

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

DEBT MANAGEMENT STRATEGY

Effective January 31, 2020 FPLP completed a long-term debt renewal agreement with HSBC Bank Canada. During the year FPLP paid $7.5 million bringing the outstanding principal to $7.9 million. The loan includes annual principal repayments of $1.0 million due on June 1, 2021 and 2022 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.

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

DEBT COVENANTS

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 (Note 7 of the FPLP Annual Financial Statements). The fixed charge coverage ratio cannot fall below 1.5 to 1. The ratio calculation is defined in the agreement and measured quarterly on a trailing 12-month basis. The loan is secured by all 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. At December 31, 2020 FPLP is in compliance with all covenants.

FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

At December 30, 2020 there are no derivative contracts in place or off-balance sheet arrangements entered into by FPI.

CREDIT RISK

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

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

INTEREST RATE RISK

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

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

For the year ended December 31, 2020, if interest rates on FPLP’s term loan had been 1.0% higher or lower, with all other variables held constant, interest expense would have been $0.1 million higher or lower (2019 $0.1 million).

LIQUIDITY RISK

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

RELATED PARTY TRANSACTIONS

In 2020 FPLP purchased the majority of its newsprint from Alberta Newsprint Company (“ANC”), a joint venture owned equally by a limited partnership controlled by Ronald Stern (former Chairman of the Board and Director of FPLP), and West Fraser Mills Ltd. ANC, also supply newsprint to a number of other newspaper publishing operations in both Canada and the United States. Total newsprint purchases from ANC based on actual invoice prices in 2020 were $2.9 million, compared to $3.8 million for the same period last year. While there is no formal contractual obligation in place with respect to future newsprint purchases, selection of a supplier or suppliers will continue to be made by management based on criteria approved by the Audit Committee of FPLP, which reviews newsprint purchasing details with management on a quarterly basis.

COVID-19

With 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 have resulted in a relatively stable financial position currently, this could deteriorate quickly if the overall economy does not improve or worsens from the present state.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer’s Annual and Interim Filings) (“NI 52-109”), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issue Basic Certificate with respect to the financial information contained in the financial statements for the year ended December 30, 2020 and this accompanying MD&A (together, the “Filings”).

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information, the reader should refer to the Venture Issuer Basic Certificates filed by the Company on SEDAR.

CRITICAL ACCOUNTING ESTIMATES

FPLP

Valuation of Intangible Assets

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

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

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

Pension Plans

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 Company received consent from the Manitoba Office of the Superintendent – Pension Commission to transfer the defined benefit plan assets to the CAAT Pension Plan. The actual transfer of assets was completed on December 14, 2020 at which time the CAAT Pension Plan assumed the defined benefit plan obligations.

The FPLP Plans were amended to cease all service accruals during 2019 due to the CAAT Pension Plan merger. As a result, FPLP recognized a curtailment gain in the Consolidated Statements of Income of $0.8 million. On December 14, 2020, as a result of the transfer of defined benefit plan assets to the CAAT Pension Plan, FPLP recognized a settlement gain in the Consolidated Statements of Income of $6.8 million.

FPI

Valuation of Investment in FPLP

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

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

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

BUSINESS RISKS AND UNCERTAINTIES

REVENUE

Print advertising revenues, which account for approximately 45.6% of total revenue, are historically dependent upon general economic conditions, the specific spending plans of high-volume advertisers and the readership levels of the printed products. Advertising revenues will be significantly lower as a result of the economic shutdown from the COVID-19 pandemic (see the "outlook" section of this report). A shift from newspaper and/or flyer advertising to digital or other media advertising has and is likely to continue to adversely affect total revenue. Digital competition is not limited to platforms that provide news and includes providers of search engine marketing, display advertising, digital classifieds, social media, mobile advertising and video advertising. A change in promotional strategy by significant users of newspaper advertising, such as the automotive industry, financial services industry, national retailers, employment advertisers and the consolidation of retailers, could adversely affect total revenue. A significant decline in the readership of our printed products would adversely affect print advertising revenues.

DECLINE IN OVERALL USAGE OF NEWSPAPERS AND FLYER DELIVERY

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

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

EXPENSES

Newspaper publishing is both capital and labour-intensive and, as a result, newspapers have relatively high fixed-cost structures. During periods of declining revenue, significant portions of costs may remain fixed, resulting in decreased earnings. Employee compensation is our single largest expense category accounting for approximately 41.4% of FPLP's total operating expenses. The majority of FPLP's employees are unionized and their employment is governed by the terms of collective agreements. The collective bargaining agreement for the unionized employees of the Winnipeg Free Press and Canstar Community News and contract delivery drivers of the Winnipeg Free Press runs to June 30, 2023. Wage levels which have been frozen since July 2017 continue to remain unchanged through the term of this new contract. Wage concession language previously agreed to in 2017 which includes an 8% (4% for staff hired after 2017) wage reduction if certain free cash levels are not achieved remains in place. The collective agreements include clauses governing all aspects of the employer/employee relationship and include limitations on FPLP's ability to sub-contract work to independent third parties. Strikes, lockouts, or other labour disruptions could restrict FPLP's ability to service its customers and consequently materially adversely affect its revenues. The free cash calculation is to be completed quarterly on a rolling twelve-month basis and at December 31, 2020 was determined to be $10.2 million.

Newsprint and other paper is a significant cost for FPLP, accounting for $4.1 million in 2020. Newsprint costs can vary widely from time to time, but over the past five years have been relatively stable. A $10 per tonne increase or decrease in the price of newsprint would have an approximately $0.1 million annualized change to our newsprint expense. If newsprint costs rise rapidly, there is no assurance that advertising and circulation revenues can be increased to offset the increased newsprint expense.

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

INTEREST RATE FLUCTUATIONS

FPLP is exposed to fluctuations in short-term interest rates as the amounts borrowed under the term loan facility are in the form of prime-rate loans or bankers' acceptances at varying interest rates. Furthermore, the interest rate spread above the prime-rate loans or bankers' acceptance rate varies based on the leverage ratio. FPLP is also exposed to fluctuations in long-term interest rates and credit spreads relative to the refinancing of its term loan obligation upon its maturity on January 31, 2023. The interest rate on new long-term debt issuances will be based on the prevailing market rates at the time of the refinancing. Increases in interest rates on new debt issuances may have a material adverse effect on our earnings.

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

PENSION FUND OBLIGATIONS

FPLP has in place a defined benefit pension plan and defined contribution plans. The defined benefit pension plan was started when the Business was acquired by FPLP in November 2001. The plan text mirrored the predecessor plan. In December 2019 the defined benefit plan members voted to approve a January 1, 2019 merger of the plan with the Colleges of Applied Arts & Technologies ("CAAT Pension Plan") an Ontario registered jointly sponsored pension plan. Effective January 1, 2020 FPLP became a participating employer under the CAAT Pension Plan and all members of the FPLP defined benefit plan 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.

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 Company received consent from the Manitoba Office of the Superintendent – Pension Commission to transfer the defined benefit plan assets to the CAAT Pension Plan. The actual transfer of assets was completed on December 14, 2020 at which time the CAAT Pension Plan assumed the defined benefit plan obligations.

RELIANCE ON PRINTING FACILITIES

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

INFORMATION TECHNOLOGY & OTHER MANUFACTURING SYSTEMS & EQUIPMENT

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

IMPAIRMENT

At December 30, 2020 the carrying value of FPI's investment in FPLP limited partnership units is $8.1 million. At December 31, 2020, FPLP has intangible assets of $2.3 million on its balance sheet. There are many factors which may affect the value of FPI's investment in FPLP and the intangible assets of FPLP, some of which include the state of the general and local economy, competition, technology, consumer consumption habits, brand equity and various contractual arrangements. If any of these factors impair the value of these assets, we are required to reduce the carrying value on the balance sheet and record a non-cash write-down in the statement of earnings.

LITIGATION & INSURANCE COVERAGE

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

DEPENDENCE ON KEY PERSONNEL

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

REPUTATION

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

DEBT SERVICING

FPLP'S ability to make scheduled payments of interest and principal and to refinance its indebtedness when it becomes due in January 2023 will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, interest rate levels, competitive, business and other factors, many of which are beyond its control.

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

OUTLOOK

We are continuing to address the current challenges related to the COVID-19 pandemic and have seen gradual improvements in advertising and commercial print revenues month over month. This is despite the reinstatement of restrictions by Province on how businesses may operate if they are allowed to operate all. The duration to which Provincial restrictions continue to remain in effect, will have a direct impact on our near-term revenue.

The Canada Emergency Wage Subsidy ("CEWS") program continued to provide financial relief. We applied for CEWS for the period from March 15 to December 31, 2020 and during the three months and twelve months ended December 31, 2020, recognized a recovery of compensation expense of $0.4 million and $5.4 million, respectively. 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.

Despite the fact that the impact of the COVID-19 pandemic remains unpredictable, we continue to identify and undertake cost reduction initiatives in an effort to address the underlying revenue declines in the legacy print business.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

FOOTNOTES:

(1) EBITDA

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

	Three Months Ended December 31,		**Twelve Months Ended December 31,**	
	2020	**2019**	**2020**	**2019**
	In thousands of dollars			
Net income (loss) for the period	$ 6,813	$ 2,088	$ 11,445	$ 4,427
Add (subtract):				
Depreciation and amortization	644	695	2,653	2,839
Impairment of intangible asses	-	6	-	6
Finance costs	70	179	392	781
Other income	10	(12)	25	(52)
EBITDA	**$ 7,537**	**$ 2,956**	**$ 14,515**	**$ 8,001**