



FP Newspapers Inc.

Financial Statements

For the year 2017



March 8, 2018

Independent Auditor's Report

To the Shareholders of FP Newspapers Inc.

We have audited the accompanying financial statements of FP Newspapers Inc., which comprise the balance sheets as at December 30, 2017 and December 30, 2016 and the statements of (loss) and comprehensive (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of FP Newspapers Inc. as at December 30, 2017 and December 30, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

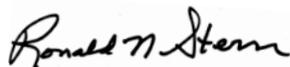
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FP Newspapers Inc.
Balance Sheets
(in thousands of Canadian dollars)

	Note	As at December 30, 2017	As at December 30, 2016
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$ 735	\$ 673
Prepaid expenses and other assets		-	5
Income tax receivable		-	327
		735	1,005
LONG-TERM ASSETS			
Investment in FP Canadian Newspapers Limited Partnership	3	6,411	8,782
TOTAL ASSETS		\$ 7,146	\$ 9,787
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		\$ 69	\$ 116
Income taxes payable		175	-
		244	116
LONG-TERM LIABILITIES			
Deferred income tax liability	7	835	972
TOTAL LIABILITIES		1,079	1,088
SHAREHOLDERS' EQUITY			
Share capital	5	71,373	71,373
Deficit		(65,306)	(62,674)
TOTAL SHAREHOLDERS' EQUITY		6,067	8,699
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 7,146	\$ 9,787

(See accompanying notes)

Approved by the Board of Directors



RONALD N. STERN
Director



HARVEY SECTER
Director

FP Newspapers Inc.
Statements of (Loss) and Comprehensive (Loss)
For the Years Ended December 30, 2017 and 2016
(in thousands of Canadian dollars except per share amounts)

	Note	2017	2016
Equity interest from FP Canadian Newspapers Limited Partnership Class A limited partner units	3	\$ 1,845	\$ 2,377
Write-down of investment in FP Canadian Newspapers Limited Partnership Class A limited partner units	3	(2,940)	(11,100)
Administration expenses		(123)	(222)
Other income		2	1
Net (loss) before income taxes		(1,216)	(8,944)
Current income tax (expense)	7	(277)	(71)
Deferred income tax (expense)	7	(207)	(476)
Net (loss) for the year		\$ (1,700)	\$ (9,491)
Items that will not be reclassified to net (loss):			
Equity interest of other comprehensive income (loss) from FP Canadian Newspapers Limited Partnership	3	(1,276)	1,192
Deferred income tax recovery (expense)	7	344	(322)
Comprehensive (loss) for the year		\$ (2,632)	\$ (8,621)
Weighted average number of Common Shares outstanding	5	6,902,592	6,902,592
Net (loss) per share – basic and diluted		\$ (0.246)	\$ (1.375)

(See accompanying notes)

FP Newspapers Inc.
Statements of Changes in Equity
For the Years Ended December 30, 2017 and 2016
(in thousands of Canadian dollars)

	Share Capital	Deficit	Total Shareholders' Equity
At December 30, 2015	\$ 71,373	\$ (54,053)	\$ 17,320
Net (loss) for the year	-	(9,491)	(9,491)
Other comprehensive income for the year	-	870	870
Comprehensive (loss) for the year	-	(8,621)	(8,621)
At December 30, 2016	\$ 71,373	\$ (62,674)	\$ 8,699
Net (loss) for the year	-	(1,700)	(1,700)
Other comprehensive (loss) for the year	-	(932)	(932)
Comprehensive (loss) for the year	-	(2,632)	(2,632)
At December 30, 2017	\$ 71,373	\$ (65,306)	\$ 6,067

(See accompanying notes)

FP Newspapers Inc.
Statements of Cash Flows
For the Years Ended December 30, 2017 and 2016
(in thousands of Canadian dollars)

	Note	2017	2016
Cash provided by (used in):			
Operating activities			
Net (loss) for the year		\$ (1,700)	\$ (9,491)
Items not affecting cash:			
Equity interest from Class A Units of FP Canadian Newspapers Limited Partnership	3	(1,845)	(2,377)
Non-cash write-down of investment in FP Canadian Newspapers Limited Partnership	3	2,940	11,100
Deferred income tax expense	7	207	476
Distributions received on Class A Units of FP Canadian Newspapers Limited Partnership	3	-	276
Net change in non-cash working capital items		460	401
		62	385
Increase in cash and cash equivalents		62	385
Cash and cash equivalents – beginning of year		673	288
Cash and cash equivalents – end of year		\$ 735	\$ 673
Supplemental Cash Flow information:			
Income tax refund received during the year		\$ (227)	\$ (292)

(See accompanying notes)

FP Newspapers Inc.**Notes to Financial Statements for the years ended December 30, 2017 and 2016**

(tabular amounts 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, 2017. 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

FPI prepares its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") – Part 1 as set out in the CPA Canada Handbook – Accounting ("CPA Handbook"). Part 1 of the CPA Handbook incorporates International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved by the Board of Directors of FPI on March 8, 2018.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying FPI's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise noted.

a) BASIS OF MEASUREMENT

The financial statements have been prepared under the historical cost convention.

b) INVESTMENTS IN ASSOCIATES

Associates are entities over which FPI has significant influence, but not control. The financial results of investments in its associates are included in FPI's results according to the equity method of accounting. Subsequent to the acquisition date, FPI's share of profits or losses of associates is recognized in the statement of earnings (loss) and its share of other comprehensive income (loss) of associates is included in other comprehensive income (loss).

Unrealized gains on transactions between FPI and an associate are eliminated to the extent of FPI's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the statement of earnings (loss).

FPI assesses at each reporting date whether there is any objective evidence that its interests in associates are impaired. If impaired, the carrying value of the investment in an associate is written down to its estimated

FP Newspapers Inc.

Notes to Financial Statements for the years ended December 30, 2017 and 2016

(tabular amounts in thousands of Canadian dollars)

recoverable amount (being the higher of fair value less cost of disposal and value in use) and charged to the statement of earnings (loss). A reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

c) CASH AND CASH EQUIVALENTS

Cash equivalents comprise only highly liquid investments with maturities at acquisition of less than 90 days and which are subject to insignificant risk of changes in value and are recorded at amortized cost, which approximates market value.

d) FINANCIAL INSTRUMENTS

Financial assets and liabilities are initially recorded at fair value including related transaction costs. FPI has made the following classifications:

Cash and cash equivalents are classified as “loans and receivables” and are measured at amortized cost using the effective interest rate method.

Accounts receivable are classified as “loans and receivables” and are measured at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities are classified as “other financial liabilities” and are measured at amortized cost using the effective interest rate method.

e) INCOME TAXES

The income tax expense for the year comprises current and deferred tax. Tax is recognized in the statements of earnings (loss), except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in equity. In this case the tax is also recognized in other comprehensive income (loss) or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. FPI establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authority.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The income tax basis for the investment in FPLP and FPCN General Partner Inc. is determined in a manner that is consistent with its expected recovery. As FPI expects to recover the investment by receiving distributions from the investee, the tax basis represents the sum of the investor’s share of the tax bases of the underlying assets and liabilities of the investee.

f) DIVIDENDS

Dividends are recognized in FPI’s financial statements in the period in which the dividends are approved by the Board of Directors.

g) SHARE CAPITAL

FPI share capital is classified as equity. Incremental costs directly attributable to their issuance are recognized as a deduction from equity.

FP Newspapers Inc.

Notes to Financial Statements for the years ended December 30, 2017 and 2016

(tabular amounts in thousands of Canadian dollars)

h) EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net earnings for the period attributable to equity owners of FPI by the weighted average number of shares outstanding during the year.

Diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding and corresponding earnings impact for dilutive instruments. No dilutive instruments were outstanding during the years presented.

Accounting policies

Accounting standards and amendments issued but not yet effective

IFRS 9 – Financial Instruments

IFRS 9, *Financial Instruments*, first issued in November 2009 with final version released in July 2014 by the IASB, brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39. IFRS 9 also introduces an expected loss impairment model for all financial assets not carried at FVTPL. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit and loss and a loss allowance is established; (2) if credit risk increases significantly full lifetime expected credit losses are recognized; and (3) when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities. The standard is effective for annual periods beginning on or after January 1, 2018. FPI has assessed the impact of adopting the new standard and has concluded that there will be no impact on the accounting for its financial instruments.

IFRS 15 – Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 is mandatory and will be effective for the Company's beginning on January 1, 2018, with earlier adoption permitted. FPI has performed revenue recognition assessments pertaining to its limited revenue streams and did not identify any matters that would change its existing accounting policies. FPI's intention is to apply the standard retrospectively with any immaterial cumulative effect recognized as an adjustment to the opening balance of retained earnings for the period commencing January 1, 2018.

IFRS 16 – Leases

IFRS 16, *Leases* replaces IAS 17, *Leases and related interpretations*. The core principle is that a lessee recognize assets and liabilities for all leases with a lease term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The new standard is intended to provide a faithful representation of leasing transactions, in particular those that do not currently require the lessees to recognize an asset and liability arising from an operating lease. IFRS 16 is effective for annual periods beginning on January 1, 2019, with early adoption permitted for entities that would also apply IFRS 15, *Revenue from Contracts with Customers*. FPI is assessing the impact of adopting this standard on its financial statements and does not anticipate early adoption of the standard.

FP Newspapers Inc.**Notes to Financial Statements for the years ended December 30, 2017 and 2016**

(tabular amounts 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, 2015	\$ 16,589
Equity interest in net earnings and comprehensive income for the year ended December 30, 2016	3,569
Non-cash write-down of investment in FP Canadian Newspapers Limited Partnership Class A limited partner units	(11,100)
Distributions received for the year ended December 30, 2016	(276)
Balance at December 30, 2016	\$ 8,782
Equity interest in net earnings and comprehensive income for the year ended December 30, 2017	569
Non-cash write-down of investment in FP Canadian Newspapers Limited Partnership Class A limited partner units	(2,940)
Balance at December 30, 2017	\$ 6,411

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

	2017	2016
Net (loss) of FPLP	\$ (2,234)	\$ (17,850)
Add back impairment of goodwill recorded by FPLP	6,000	22,700
Net earnings of FPLP before goodwill impairment charge	3,766	4,850
Interest attributable to FPI	49%	49%
Equity interest in net earnings of FPLP before goodwill impairment	1,845	2,377
Other comprehensive income (loss) of FPLP	(2,604)	2,431
Interest attributable to FPI	49%	49%
Equity interest in other comprehensive income (loss) of FPLP	\$ (1,276)	\$ 1,192

FPLP has a year-end of December 31, 2017. FPI has consolidated FPLP as at and for the year ended December 31, 2017 for convenience purposes and the impact was not material.

Due to continued declines in revenue and earnings experienced by FPLP, FPI determined that objective evidence of impairment existed in its investment in FPLP. The recoverable amount, based on fair value less costs to dispose, of the investment was determined by applying a market multiple of 4.1 to the trailing twelve month EBITDA of FPLP at December 31, 2017. The market multiple was considered to be a level 3 input within the IFRS 13 fair value hierarchy.

FP Newspapers Inc.**Notes to Financial Statements for the years ended December 30, 2017 and 2016**

(tabular amounts in thousands of Canadian dollars)

As a result of the impairment analysis performed, FPI concluded that the carrying value of its investment in FPLP was less than its recoverable amount and accordingly recorded an aggregate impairment charge of \$2,940,000.

As the recoverable amount of the investment is equal to its carrying value, any change in the key assumption, being the market multiple, used in the fair value less cost of disposal assessment would impact the impairment recorded. At December 31, 2017, if the multiple were to increase or decrease by 0.5 times the impairment would increase or decrease by approximately \$2,100,000. There were no tax impacts as a result of the impairment charges.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these financial statements requires FPI to use judgment in applying its accounting policies and make estimates and assumptions about future events. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that FPI has made in the preparation of the financial statements:

Investment in FPLP

FPI has determined that the most significant estimates involve transactions, balances and impairment considerations related to its investment in FPLP (note 3). The equity interest from FPI's Class A limited partner units depends on the accuracy of the estimates made in the preparation of the financial statements of FPLP. The method which FPI bases its impairment assessment of FPLP is described in note 3.

5. SHARE CAPITAL AND ACCUMULATED OTHER COMPREHENSIVE INCOME

The articles of incorporation of FPI provide that an unlimited number of common shares and one voting preferred share may be issued. Each common share is transferable and represents an equal undivided beneficial interest in any dividends of FPI and in the net assets of FPI in the event of termination or winding up of FPI. All common shares have equal rights and privileges. Each common share entitles the holder thereof to participate equally in the allocations and distributions and to one vote at all meetings of FPI shareholders for each share held. The common shares issued are not subject to future calls or assessments. As at December 30, 2017, 6,902,592 Common Shares were issued with a paid-up share capital amount of \$71,373,000. The preferred share is held by FPCN Media Management Ltd. ("FPCN"). The preferred share entitles the holder the right to elect one-third of FPI's directors, but does not entitle the holder thereof to any economic rights as a common shareholder of FPI. If and when Canstar Publications Ltd. and Kimberley Anne Holdings Ltd. (the General Partners of FPLP) cease to own at least ten percent of the outstanding partnership units of FPLP, the preferred share held by FPCN will automatically be redeemed by FPI for a redemption price of \$1.00 and be cancelled.

6. INDEMNIFICATIONS

FPI has agreed to indemnify its current and former trustees and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the trustees and officers as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which the trustees and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents FPI from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. FPI has directors' and officers' liability insurance coverage, pursuant to a joint policy covering FPCN General Partner Inc., FPLP and FPI, of up to \$10 million in joint coverage.

FP Newspapers Inc.**Notes to Financial Statements for the years ended December 30, 2017 and 2016**

(tabular amounts in thousands of Canadian dollars)

INCOME TAXES

Income tax expense is made up of the following:

	2017	2016
Current income tax	\$ (277)	\$ (71)
Deferred income tax	(207)	(476)
Income tax (expense) recognized in net (loss)	(484)	(547)
Deferred income tax recovery (expense) recognized in OCI	344	(322)

The income tax (expense) reflects an effective income tax rate which differs from its combined Canadian federal and provincial statutory income tax rate as follows:

	2017	2016
Income tax recovery at combined Canadian statutory income tax rate of 27.0% (2016 27.0%)	\$ 324	\$ 2,415
Non-cash write-down of investment in FPLP	(794)	(2,997)
Adjustments in respect of prior year	(21)	52
Other	7	(17)
Total income tax (expense)	\$ (484)	\$ (547)

FP Newspapers Inc.**Notes to Financial Statements for the years ended December 30, 2017 and 2016**

(tabular amounts in thousands of Canadian dollars)

Deferred taxes

Based on FPI's assets and liabilities as at December 30, 2017 and 2016, and its share of the assets and liabilities of its investment in FPLP, FPI's deferred tax assets and liabilities and the movement during the year are attributable to the following:

	December 30, 2016	Recognized in Net loss	Recognized in other comprehensive income (loss)	December 30, 2017
Property, plant and equipment	\$ 2,283	\$ (117)	\$ -	\$ 2,166
Intangible assets	787	(34)	-	753
Goodwill	(1,996)	182	-	(1,814)
Pension benefit obligation	(108)	170	(344)	(282)
Other	6	6	-	12
Total deferred income tax liabilities (asset)	\$ 972	\$ 207	\$ (344)	\$ 835

	December 30, 2015	Recognized in Net loss	Recognized in other comprehensive income (loss)	December 30, 2016
Property, plant and equipment	\$ 2,424	\$ (141)	\$ -	\$ 2,283
Intangible assets	776	11	-	787
Goodwill	(2,185)	189	-	(1,996)
Pension benefit obligation	(843)	413	322	(108)
Other	2	4	-	6
Total deferred income tax liabilities (asset)	\$ 174	\$ 476	\$ 322	\$ 972

Unrecognized deferred tax assets

Deferred tax assets in the amount of \$8,582,000 (December 30, 2016 \$7,529,000) have not been recognized in respect of FPI's investment in FPLP as it is not probable that the temporary difference will reverse in the foreseeable future.

7. CAPITAL MANAGEMENT

FPI was established for the purpose of investing in the securities of FPLP which entitle it to 49% of the distributable cash, as defined in the partner agreement of FPLP. FPI does not have a capital management program given its limited purpose.

8. FINANCIAL INSTRUMENTS

The fair value of current assets and liabilities including cash and cash equivalents, accounts payable and accrued liabilities and dividends 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 year 2017



March 8, 2018

Independent Auditor's Report

To the Unitholders of FP Canadian Newspapers Limited Partnership

We have audited the accompanying consolidated financial statements of FP Canadian Newspapers Limited Partnership, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016 and the consolidated statements of (loss) and comprehensive (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of FP Canadian Newspapers Limited Partnership as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

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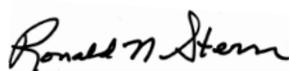
FP Canadian Newspapers Limited Partnership
Consolidated Balance Sheets
(in thousands of Canadian dollars)

	Note	As at December 31, 2017	As at December 31, 2016
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	\$ 6,698	\$ 9,970
Accounts receivable	14	6,399	9,476
Inventories		1,034	1,128
Prepaid expenses and other assets		1,230	1,116
		15,361	21,690
LONG-TERM ASSETS			
Property, plant and equipment	4	26,581	29,334
Intangible assets	5	6,041	6,296
Goodwill	5	3,350	9,350
TOTAL ASSETS		\$ 51,333	\$ 66,670
LIABILITIES AND UNITHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	7, 12	\$ 5,207	\$ 6,059
Provision	17	-	58
Prepaid subscriptions and deferred revenue		2,673	2,680
Finance lease obligation	11	820	844
Mortgage loan	6	61	60
Term loan	6, 15	1,000	1,500
		9,761	11,201
LONG-TERM LIABILITIES			
Accrued pension benefit liability	7	2,097	811
Finance lease obligation	11	638	1,458
Mortgage loan	6	801	862
Term loan	6, 15	24,927	34,391
TOTAL LIABILITIES		38,224	48,723
UNITHOLDERS' EQUITY			
Partner units	8	98,280	98,280
Deficit		(85,171)	(80,333)
TOTAL UNITHOLDERS' EQUITY		13,109	17,947
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY		\$ 51,333	\$ 66,670

(Commitments and contingencies Note 11)

(See accompanying notes)

Approved by the Board of Directors of the Managing General Partner



RONALD N. STERN
Director



HARVEY SECTER
Director

FP Canadian Newspapers Limited Partnership
Consolidated Statements of (Loss) and Comprehensive (Loss)
For the Years Ended December 31, 2017 and 2016
(in thousands of Canadian dollars)

	Note	2017	2016
Revenue			
Print Advertising		\$ 40,460	\$ 47,150
Circulation		24,342	25,042
Commercial Printing		4,261	4,703
Digital		2,179	2,700
Promotion and services		707	910
TOTAL REVENUE		71,949	80,505
Operating expenses			
Employee compensation		31,020	34,322
Newsprint and other paper		6,112	6,877
Delivery		13,060	14,219
Other		13,390	14,458
Depreciation and amortization	4, 5	3,117	4,159
Restructuring charge	17	354	393
OPERATING INCOME BEFORE IMPAIRMENT		4,896	6,077
Impairment of goodwill	5	(6,000)	(22,700)
OPERATING (LOSS)		(1,104)	(16,623)
Other income	9	96	75
Finance costs	9	(1,226)	(1,302)
NET (LOSS) FOR THE YEAR		\$ (2,234)	\$ (17,850)
Items that will not be reclassified subsequently to net (loss) earnings:			
Remeasurements for defined benefit pension plan	7	(2,604)	2,431
COMPREHENSIVE (LOSS) FOR THE YEAR		\$ (4,838)	\$ (15,419)

(See accompanying notes)

FP Canadian Newspapers Limited Partnership
Consolidated Statements of Changes in Equity
For the years ended December 31, 2017 and 2016
(in thousands of Canadian dollars)

	Partner Units	Deficit	Accumulated Other Comprehensive (Loss) Income	Total Unitholders' Equity
UNITHOLDERS' EQUITY –				
DECEMBER 31, 2015	\$ 98,280	\$ (64,351)	\$ -	\$ 33,929
Net (loss) for the year	-	(17,850)	-	(17,850)
Other comprehensive income for the year	-	2,431	-	2,431
Comprehensive (loss) for the year	-	(15,419)	-	(15,419)
Distributions paid	-	(563)	-	(563)
UNITHOLDERS' EQUITY –				
DECEMBER 31, 2016	\$ 98,280	\$ (80,333)	\$ -	\$ 17,947
Net (loss) for the year	-	(2,234)	-	(2,234)
Other comprehensive (loss) for the year	-	(2,604)	-	(2,604)
Comprehensive (loss) for the year	-	(4,838)	-	(4,838)
UNITHOLDERS' EQUITY –				
DECEMBER 31, 2017	\$ 98,280	\$ (85,171)	\$ -	\$ 13,109

(See accompanying notes)

FP Canadian Newspapers Limited Partnership
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016
(in thousands of Canadian dollars)

	Note	2017	2016
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net (loss) for the year		\$ (2,234)	\$ (17,850)
Items not affecting cash:			
Depreciation and amortization	4, 5	3,117	4,159
Accretion of deferred financing costs		36	36
Impairment of goodwill	5	6,000	22,700
(Gain) on disposal of property, plant and equipment		-	(3)
Excess of pension contributions over expense		(1,318)	(3,126)
		5,601	5,916
Net change in non-cash working capital items		2,141	(873)
		7,742	5,043
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(39)	(148)
Purchase of intangibles		(71)	(540)
Proceeds from sale of property, plant and equipment		-	3
		(110)	(685)
FINANCING ACTIVITIES			
Distributions to partners		-	(563)
Proceeds from mortgage		-	950
Principal repayments of finance lease		(844)	(1,709)
Principal repayments of mortgage loan		(60)	(787)
Principal repayment of term loan		(10,000)	(3,000)
		(10,904)	(5,109)
(DECREASE) IN CASH AND CASH EQUIVALENTS		(3,272)	(751)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		9,970	10,721
CASH AND CASH EQUIVALENTS - END OF YEAR		\$ 6,698	\$ 9,970
Supplemental Cash Flow Information:			
Interest paid during the year		\$ 1,203	\$ 1,266
Interest received during the year		97	71

(See accompanying notes)

FP Canadian Newspapers Limited Partnership

Notes to Consolidated Financial Statements for the Years ended December 31, 2017 and 2016

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) – Part 1 as set out in the CPA Canada Handbook – Accounting (“CPA Handbook”). Part 1 of the CPA Handbook incorporates International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were approved by the Board of Directors of FPGP on March 8, 2018.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying FPLP’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise noted.

a) BASIS OF MEASUREMENT

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including available for-sale investments and derivative financial instruments, as applicable.

b) PRINCIPLES OF CONSOLIDATION AND SPECIAL PURPOSE ENTITIES

The consolidated financial statements include the operating businesses owned by FPLP and its subsidiary. A subsidiary is an entity (including structured entities) which FPLP controls. FPLP controls an entity when it is exposed to, or has the rights to, variable returns from its investment in the entity and has the ability to affect these returns through its power over that entity. Subsidiaries are fully consolidated from the date on which control is obtained and are de-consolidated from the date that control ceases. All significant inter-company and intra-company transactions and balances have been eliminated.

c) REVENUE RECOGNITION

Advertising revenue, net of agency commissions, where applicable, is recognized when the advertisements are published. Circulation revenue is recognized based on the date of publication which is also the delivery date. Subscription revenue is recognized as earned over the term of the subscription on a straight-line basis. Digital revenue is recognized when advertisements are placed on the Company’s websites or when an ad-network places our customer’s ads on other websites. Other digital revenue includes contract term services which are recognized on a straight-line basis. Other revenue is recognized when the related service or product has been delivered. Amounts received relating to services to be performed in future periods are recorded as deferred revenue on the balance sheet.

FP Canadian Newspapers Limited Partnership

Notes to Consolidated Financial Statements for the Years ended December 31, 2017 and 2016

(tabular amounts in thousands of Canadian dollars)

d) INVENTORIES

Inventories, primarily newsprint and printing supplies, are stated at the lower of cost and net realizable value. Cost is determined using the on a first-in, first-out method. Net realizable value is the estimated selling price in the normal course of business, less estimated selling expenses. If carrying value exceeds net realizable amount, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

e) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to FPLP and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of income during the period in which they are incurred.

Depreciation on property, plant and equipment is calculated on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings	40 years
Building improvements	10 years
Leasehold improvements	Over remaining term of the lease
Machinery and equipment	7 - 25 years
Computer equipment, furniture and fixtures, and vehicles	4 - 10 years

FPLP allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant components and depreciates separately each such component. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

f) INTANGIBLE ASSETS

Intangible assets which are considered to have finite lives are initially recorded at cost and are subsequently amortized on a straight-line basis in the statements of income over the period of their expected useful lives as follows:

Subscriber base	15 years
News archives	10 years
Software	4 years

Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Mastheads are considered to have an indefinite life and are therefore recorded at cost and not amortized. The assessment of indefinite life is reviewed each period to determine whether the indefinite life assumption continues to be supportable. If it is deemed unsupported the change in the useful life from indefinite to finite life is made and amortization is recognized on a prospective basis.

g) IMPAIRMENT OF NON-FINANCIAL ASSETS

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test or more frequently if events or conditions indicate that the asset might be impaired. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's or CGU's fair value less costs to dispose and value in use. An impairment loss is recognized for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount. FPLP has identified each individual newspaper as a CGU, as each newspaper has separately identifiable independent cash inflows.

FP Canadian Newspapers Limited Partnership

Notes to Consolidated Financial Statements for the Years ended December 31, 2017 and 2016

(tabular amounts in thousands of Canadian dollars)

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists. Goodwill acquired through a business combination is allocated to each CGU or group of CGUs that are expected to benefit from the related business combination. The impairment assessment is performed at the lowest level within the entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment. Accordingly, management has allocated its goodwill to its single operating segment, which is at the entity level, and the level at which goodwill is monitored.

FPLP evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

h) BUSINESS COMBINATIONS

FPLP uses the acquisition method of accounting to record business combinations. The acquisition method of accounting requires FPLP to recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree measured at the acquisition-date fair values. The consideration transferred is measured at fair value calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities assumed and any equity interests issued by FPLP. Contingent consideration is recognized as part of the consideration transferred. Goodwill as of the acquisition date is measured as the excess of the consideration transferred and the amount of any non-controlling interest acquired over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, measured at fair value. Goodwill is not amortized.

Acquisitions costs are expensed in the period they are incurred except for those costs to issue equity instruments which are offset against the related equity instruments and those costs to issue debt instruments which are offset against the corresponding debt and amortized using the effective interest method.

i) PENSION PLANS

FPLP established defined benefit and defined contribution pension plans for certain of its employees. A defined contribution plan is a pension plan under which the group pays fixed contributions to a separate entity. FPLP has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The defined benefit pension plan provides benefits based on a set percentage of participants' earnings, the costs of which are shared between the participants and FPLP. The cost of defined contribution pension plans is charged to expense as the contributions become payable. For defined benefit plans, the level of benefit provided is based on the length of service and earnings of the employee. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The related pension liability recognized in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets.

Actuarial valuations for defined benefit plans are carried out as dictated by legislative requirements. Where a deep market for high quality corporate bonds exists, the discount rate applied in arriving at the present value of the pension liability represents yields on high quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in full in the period in which they occur, in other comprehensive income and deficit without recycling to the statements of income in subsequent periods. Past service costs are recognized immediately in the statements of income in the period of the plan amendment.

j) TRANSACTION COSTS

Transaction costs on financial assets and financial liabilities, classified other than as held for trading, are included in the carrying amount of the respective instrument. Deferred financing costs represent costs in connection with obtaining the credit facilities. These deferred costs are initially capitalized and subsequently amortized, using the effective interest rate method, over the term of the debt.

FP Canadian Newspapers Limited Partnership

Notes to Consolidated Financial Statements for the Years ended December 31, 2017 and 2016

(tabular amounts in thousands of Canadian dollars)

k) CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statements of cash flows, cash includes cash and short-term investments with maturities at the date of purchase of up to 90 days and which are subject to insignificant changes in value and are recorded at amortized cost, which approximates market value.

l) INCOME TAXES

FPLP is not a taxable entity, and accordingly, no provision for income taxes relating to FPLP is included in the consolidated financial statements since all income, deductions, gains, losses and credits are reportable on the tax returns of its partners.

m) PROVISIONS

Provisions for restructuring costs and legal claims are recognized when FPLP has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Restructuring provisions are primarily comprised of employee termination payments. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

n) FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized when FPLP becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially recorded at fair value. FPLP has made the following classifications:

Cash and cash equivalents are classified as "loans and receivables" and are measured at amortized cost using the effective interest rate method.

Accounts receivable are classified as "loans and receivables" and are measured at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities, term loan and mortgage loan are classified as "other financial liabilities" and are measured at amortized cost using the effective interest rate method.

o) UNITHOLDERS' EQUITY

General Partner Units and Class A limited partner Units are classified as equity. Incremental costs directly attributable to their issuance are recognized as a deduction from equity.

p) DISTRIBUTIONS

Distributions to partners are recognized in FPLP's financial statements in the period in which the distributions are approved by the Board of Directors of the FPGP.

q) ASSETS HELD FOR SALE

Assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to dispose.

Accounting standards and amendments issued but not yet effective

IFRS 9 – Financial Instruments

IFRS 9, *Financial Instruments*, first issued in November 2009 with final version released in July 2014 by the IASB, brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39. IFRS 9 also introduces

FP Canadian Newspapers Limited Partnership

Notes to Consolidated Financial Statements for the Years ended December 31, 2017 and 2016

(tabular amounts in thousands of Canadian dollars)

an expected loss impairment model for all financial assets not carried at FVTPL. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit and loss and a loss allowance is established; (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities. The standard is effective for annual periods beginning on or after January 1, 2018. FPLP has assessed the impact of adopting the new standard and has concluded that the impact will be limited to the implementation of the expected credit loss model for accounts receivables in its financial instruments. Based on the quantum of financial assets subject to the model, as well as existence of current allowances established for such losses, FPLP does not expect there will be a material impact as a result of adopting the new standard. Quantitative impacts will be finalized prior to publishing the interim financial statements for the quarter ending March 31, 2018. FPLP's intention is to apply the standard retrospectively with the immaterial cumulative effect recognized as an adjustment to the opening balance of retained earnings for the period commencing January 1, 2018.

IFRS 15 – Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, Construction Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 is mandatory and will be effective for the Company's beginning on January 1, 2018, with earlier adoption permitted. FPLP has performed revenue recognition assessments pertaining to its various revenue streams and based on qualitative analysis, determined that the only potential changes may relate to:

- gross versus net reporting of certain revenue arrangements; and
- accounting for barter transactions for exchange of similar advertising services for which no revenue is currently recognized but for which IFRS 15 would require recognition.

Both identified potential differences would not impact net earnings but rather could increase/decrease revenues and operating expenses by an equal and opposite impact. Quantitative impacts will be finalized prior to publishing the interim financial statements for the quarter ending March 31, 2018. FPLP's intention is to apply the standard retrospectively with the immaterial cumulative effect recognized as an adjustment to the opening balance of retained earnings for the period commencing January 1, 2018.

IFRS 16 – Leases

IFRS 16, Leases replaces IAS 17, Leases and related interpretations. The core principle is that a lessee recognize assets and liabilities for all leases with a lease term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The new standard is intended to provide a faithful representation of leasing transactions, in particular those that do not currently require the lessees to recognize an asset and liability arising from an operating lease. IFRS 16 is effective for annual periods beginning on January 1, 2019, with early adoption permitted for entities that would also apply IFRS 15, Revenue from Contracts with Customers. FPLP's primary operating lease obligations pertain to leases associated with machinery and equipment, which the aggregate lease commitments are disclosed in note 11. Based on the current quantum of the lease commitments (excluding non-operating lease commitments) FPLP expects there will not be a material increase in the right of use assets and lease liabilities on FPLP's consolidated balance sheet, however has not yet modelled the potential impact on its financial statements. FPLP will continue to evaluate its lease agreements and will perform quantitative analysis during the next fiscal year to finalize the impact of adopting this standard on its financial statements.

FP Canadian Newspapers Limited Partnership

Notes to Consolidated Financial Statements for the Years ended December 31, 2017 and 2016

(tabular amounts in thousands of Canadian dollars)

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. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. The following discusses the most significant accounting judgements and estimates that management has made in the preparation of the financial statements.

Long Lived Assets

FPLP has estimated the useful life of property, plant and equipment, finite life intangible assets and the fair value of indefinite life intangible assets and goodwill, based on historical customer patterns, industry trends and existing competitive factors. Significant unfavourable long-term changes to these factors could result in a material impairment of the carrying value of such assets.

FPLP tests at least annually whether indefinite lived intangible assets and goodwill have suffered any impairment loss, in accordance with its accounting policy. The recoverable amounts have been determined based on the higher of fair value less cost to dispose and value-in-use calculations. The principal assumptions and impairment assessments are included in note 5.

Employee Benefits

The present value of the pension benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate, mortality rates and the rate of compensation increases. Any changes in these assumptions will impact the carrying amount of the pension obligation. FPLP determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, FPLP considers the interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension benefit obligations are based in part on current market conditions and recognized actuarial practices. The principal assumptions and sensitivities are included in note 7.

FP Canadian Newspapers Limited Partnership
Notes to Consolidated Financial Statements for the Years ended December 31, 2017 and 2016
(tabular amounts in thousands of Canadian dollars)

4. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Computer equipment and other	Total
At December 31, 2015				
Cost	11,343	63,366	5,083	79,792
Accumulated depreciation	(3,167)	(38,808)	(4,929)	(46,904)
Net book value	8,176	24,558	154	32,888
Year ended December 31, 2016				
Balance at beginning of year	8,176	24,558	154	32,888
Additions	-	24	124	148
Additions acquired under capital lease	-	(206)	206	-
Disposals – cost	-	(39)	(23)	(62)
Disposals – accumulated depreciation	-	39	21	60
Depreciation for the year	(283)	(3,303)	(114)	(3,700)
At December 31, 2016	7,893	21,073	368	29,334
At December 31, 2016				
Cost	11,343	63,145	5,390	79,878
Accumulated depreciation	(3,450)	(42,072)	(5,022)	(50,544)
Net book value	7,893	21,073	368	29,334
Year ended December 31, 2017				
Balance at beginning of year	7,893	21,073	368	29,334
Additions	-	15	24	39
Disposals – cost	-	(136)	(10)	(146)
Disposals – accumulated depreciation	-	136	10	146
Depreciation for the year	(281)	(2,403)	(108)	(2,792)
At December 31, 2017	7,612	18,685	284	26,581
At December 31, 2017				
Cost	11,343	63,024	5,404	79,771
Accumulated depreciation	(3,731)	(44,339)	(5,120)	(53,190)
Net book value	7,612	18,685	284	26,581

As at December 31, 2017, machinery and equipment includes finance leased assets with a cost of \$4,322,000 (2016 \$4,826,000), less accumulated depreciation of \$1,081,000 (2016 \$918,000) for a net book value of \$3,241,000 (2016 \$3,908,000).

FP Canadian Newspapers Limited Partnership
Notes to Consolidated Financial Statements for the Years ended December 31, 2017 and 2016
(tabular amounts in thousands of Canadian dollars)

5. INTANGIBLE ASSETS AND GOODWILL

	Subscriber base and Archives	Computer Software	Mastheads	Total Intangible Assets	Goodwill
At December 31, 2015					
Cost	5,252	3,273	5,207	13,732	32,050
Accumulated amortization	(4,894)	(2,623)	-	(7,517)	-
Net book value	358	650	5,207	6,215	32,050
Year ended December 31, 2016					
Opening net book value	358	650	5,207	6,215	32,050
Additions	-	540	-	540	-
Impairment of goodwill	-	-	-	-	(22,700)
Amortization	(290)	(169)	-	(459)	-
At December 31, 2016	68	1,021	5,207	6,296	9,350
At December 31, 2016					
Cost	5,252	3,813	5,207	14,272	9,350
Accumulated amortization	(5,184)	(2,792)	-	(7,976)	-
Net book value	68	1,021	5,207	6,296	9,350
Year ended December 31, 2017					
Opening net book value	68	1,021	5,207	6,296	9,350
Additions	-	71	-	71	-
Retirements	-	(1)	-	(1)	-
Impairment of goodwill	-	-	-	-	(6,000)
Amortization	(3)	(322)	-	(325)	-
At December 31, 2017	65	769	5,207	6,041	3,350
At December 31, 2017					
Cost	5,252	3,883	5,207	14,342	3,350
Accumulated amortization	(5,187)	(3,114)	-	(8,301)	-
Net book value	65	769	5,207	6,041	3,350

Goodwill is entirely attributable to FPLP, as it represents the lowest level at which management internally monitors goodwill. The CGU also includes all mastheads related primarily to the Winnipeg Free Press. The recoverable amount of the CGU is determined based on the higher of fair value less cost to dispose and value-in-use. The recoverable amount was determined based on management's fair value less cost to dispose assessment by applying market multiples to FPLP's EBITDA.

Due to continued declines in revenue and profitability, FPLP performed an impairment analysis at its cash generating unit ("Goodwill CGU"), which represents the single operating segment of FPLP. The recoverable amount of the goodwill CGU was based on fair value less costs to dispose, determined by applying a market multiple of 4.1 to the trailing twelve month EBITDA of FPLP at December 31, 2017. The market multiple was considered to be a level 3 input within the IFRS 13 fair value hierarchy.

FP Canadian Newspapers Limited Partnership

Notes to Consolidated Financial Statements for the Years ended December 31, 2017 and 2016

(tabular amounts in thousands of Canadian dollars)

As a result of the impairment analysis performed, FPLP concluded that the carrying value of goodwill CGU was less than the recoverable amount and accordingly recorded an impairment charge of \$6,000,000 (2016 \$22,700,000).

As the recoverable amount of the goodwill CGU is equal to its carrying value, any change in the key assumption, being the market multiple, used in the fair value less cost of disposal assessment would impact the impairment recorded. At December 31, 2017, if the multiple were to increase or decrease by 0.5 times the impairment would increase or decrease by approximately \$4,200,000.

Furthermore, FPLP also performed its annual impairment assessment of its indefinite lived intangible assets, primarily comprised of the Winnipeg Free Press masthead. As a result of such impairment testing based on a fair value less cost to dispose methodology, FPLP determined that no impairment existed at December 31, 2017, with no reasonably possible changes in key assumptions, including discount rates which would result in the recoverable amount being less than the carrying value.

6. LONG-TERM DEBT

The long-term debt agreement with HSBC Bank Canada matures on January 31, 2020. Principal repayments of \$1,000,000 are due on the first of June each year and a cash sweep is payable no later than 90 days after the end of each fiscal year. The cash sweep is equal to the lesser of \$3,500,000 or 25% of FPLP's annual distributable cash as defined in the agreement. In addition to the \$483,000 cash sweep payment made on March 31, 2017 for the 2016 fiscal year, a voluntary repayment of \$1,517,000 was made and a voluntary early principal repayment was made in November 2017 in the amount of \$7,000,000, which eliminates the need for a cash sweep repayment at March 31, 2018. Maximum principal balances under the agreement are \$30,000,000 on January 31, 2018 and \$20,000,000 on January 31, 2020. The renewal agreement includes negative covenants which must be observed in order to avoid an accelerated termination of the agreement, including a covenant in favour of HSBC not to pay distributions which exceed distributable cash by more than \$1,000,000 in any fiscal year, as well as a covenant not to amend the share capital or permit changes to the beneficial ownership of FPLP. The financial covenants included in the agreement are detailed in note 15. The Loan is secured by substantially all of the assets of FPLP.

In 2016, a mortgage refinancing agreement was completed for the Derksen Printers real estate assets. The refinanced loan has a book value of \$862,000 at December 31, 2017 (2016 \$922,000) and carries a five year variable interest rate, at 3.75% at December 31, 2017.

7. EMPLOYEE FUTURE BENEFIT PLANS

FPLP has a defined benefit pension plan as well as defined contribution plans. Its defined benefit pension plan provides benefits based on a set percentage of participants' earnings, the costs of which are shared between the participants and FPLP. Pension benefits are not indexed to the rate of inflation. The benefit payments are from trustee administered funds. Responsibility for governance of the plan, overseeing all aspects of the plan, including investment decisions and contribution schedules, lies with FPLP. FPLP has set up a pension committee to assist in the management of the plan and has appointed experienced, independent professional experts such as investment managers, actuaries, custodians and trustees.

FPLP measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial funding valuation report for funding purposes was at December 31, 2016 and the next required valuation is as of December 31, 2017.

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Information on FPLP's defined benefit pension plan is as follows:

	2017	2016
	\$	\$
PLAN ASSETS		
Fair value - beginning of year	48,243	40,946
Interest income	2,019	1,724
Return on plan assets, excluding amounts included in interest income	1,750	1,551
Employer contributions	2,623	4,784
Employee contributions	1,048	1,181
Benefit payments	(2,130)	(1,883)
Administration expenses	(71)	(60)
Fair value - end of year	53,482	48,243
PLAN OBLIGATIONS		
Accrued benefit obligation - beginning of year	49,054	47,314
Interest expense	1,961	1,912
Current service cost	1,302	1,409
Benefit payments	(2,130)	(1,883)
Gain from change in financial assumptions	3,781	(335)
Experience losses (gains)	563	(544)
Employee contributions	1,048	1,181
Accrued benefit obligation - end of year	55,579	49,054

FPLP's accrued pension liability is determined as follows:

	2017	2016
	\$	\$
Fair value of plan assets	53,482	48,243
Accrued benefit obligation	55,579	49,054
Accrued pension benefit liability	(2,097)	(811)

FPLP's pension plan expense is determined as follows:

	2017	2016
	\$	\$
Current service cost	1,302	1,409
Administration expenses	60	60
Interest expense	1,961	1,912
Interest income	(2,019)	(1,724)
Pension expense – defined benefit pension plan	1,304	1,657
Employer contributions to defined contribution pension plans	327	329
Total pension expense recognized in employee compensation	1,631	1,986

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FPLP's components of employee benefits recognized in other comprehensive income are as follows:

	2017 \$	2016 \$
Remeasurements for defined benefit pension plan	(2,604)	2,431

Cumulative actuarial (losses) recognized in other comprehensive income and deficit for the year ended December 31, 2017 was (\$15,817,000) (2016 (\$13,213,000)).

Significant actuarial assumptions in measuring FPLP's accrued benefit obligations are as follows:

	2017 %	2016 %
Discount rate	3.60	4.05
Rate of compensation increase	0.50	0.50

Significant actuarial assumptions in measuring FPLP's benefit costs are as follows:

	2017 %	2016 %
Discount rate	4.05	4.05
Rate of compensation increase	0.00	0.00

The sensitivity of the defined benefit obligation to changes in assumptions is set out below.

	Impact on defined benefit obligation	
Discount rate		
Increase by 0.5% per year	(4,176)	
Decrease by 0.5% per year	4,757	
Rate of compensation increase		
Increase by 0.5% per year	319	
Decrease by 0.5% per year	(37)	

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The defined benefit pension plan assets consist of investments in units of investment funds with the following asset allocation by asset category:

	2017 %	2016 %
Canadian equities	28	30
United States equities	13	13
Non-North American equities	15	12
Canadian Government and corporate bonds	37	38
Real estate	7	7
	100	100

FPLP's management, in conjunction with its actuaries, reviews anticipated future long-term performance of individual asset categories and considers the asset allocation strategy adopted by FPLP. The determination of the long-term rate considers a number of factors including recent performance, and historical returns to the extent that the past is indicative of the expected long-term prospective rate. There can be no assurance that the plan will earn the expected rate of return.

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Under Manitoba pension laws, solvency deficiencies must be funded over a five-year period, which may be extended to ten years unless more than one-third of the active plan members and pensioners object to the extension. FPLP received an extension to ten years for funding of the defined benefit pension solvency deficiency that was identified in the actuarial funding valuation completed at December 31, 2016 and December 31, 2011. At December 31, 2016, the aggregate solvency deficit in the defined benefit plan amounted to \$7,639,000. Special payments for past service of \$1,306,000 (2016 \$3,516,000) have been made to fund the defined benefit pension plan deficit partially over ten years and partially over five years.

Based on information currently available, expected current service costs excluding minimum funding requirements related to past solvency deficits to defined benefit plans for 2017 are \$1,289,000.

The weighted average duration of the defined benefit obligation is 16.1 years (2016 16.1 years).

Through its defined benefit pension plan, FPLP is exposed to a number of risks, the most significant of which are detailed below:

Asset Volatility

The defined benefit pension plan liabilities are calculated using a discount rate set with reference to high quality corporate bond yields; if plan assets underperform this yield, this will create a deficit. The defined benefit plan holds a significant proportion of its portfolio in equities and real estate, which are expected to outperform corporate bonds in the long-term while contributing volatility and risk in the short-term.

FPLP believes that due to the long-term nature of the defined benefit pension plan liabilities a level of continuing equity investment is an appropriate element of the long-term strategy to manage the plan efficiently.

Changes in bond yields

A decrease in high quality corporate bond yields will increase the defined benefit pension plan liabilities, although this will partially offset by an increase in the value of the plan's bond holdings.

Life expectancy

The majority of the defined benefit pension plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the defined benefit pension plan's liabilities.

Each sensitivity analysis disclosed in this note is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as for calculating the liability recognised in the consolidated balance sheet.

8. SHARE CAPITAL AND ACCUMULATED OTHER COMPREHENSIVE INCOME

FPLP may issue an unlimited number of general partner and limited partner Units.

	2017		2016	
	Number of Units	\$	Number of Units	\$
FPCN General Partner Inc. - managing general partner	10	10	10	10
Canstar Publications Ltd. and R.I.S. Media Ltd. - general partners	7,184,321	30,711	7,184,321	30,711
FP Newspapers Inc. - Class A limited partner Units	6,902,592	67,559	6,902,592	67,559
	14,086,923	98,280	14,086,923	98,280

FPLP's net earnings are allocated to the general partners in respect of the general partner Units and the limited partners in respect of the Class A limited partner Units in proportion to the distributions made to the partners in the year. Under the exchange agreement entered into between the holders of the general

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partner Units, the Class A limited partner Units and FP Newspapers Inc. (“FPI”), each general partner Unit may, at any time, at the option of the holder, be exchanged for an equal number of FPI’s shares, subject to the exchange ratio and other provisions of the exchange agreement.

The Class A limited partner Units and the general partner Units are entitled to receive cash distributions equal to 49% and 51%, respectively, of FPLP’s distributable cash flow as defined in the limited partnership agreement.

9. OTHER INCOME AND FINANCE COSTS

	2017	2016
	\$	\$
Other income		
Interest income	96	72
Gain on sale of property, plant and equipment	-	3
Total other income	96	75
Finance Costs		
Interest on finance leases	61	105
Interest on mortgage loan	33	35
Interest on term loan	1,096	1,126
Accretion of term loan related to financing costs	36	36
	1,226	1,302

10. INCOME TAXES

The deferred income tax expense for income taxes differs from the expense that would be obtained by applying Canadian combined statutory tax rates as a result of the following:

	2017	2016
	\$	\$
Net (loss) before income taxes	(2,234)	(17,850)
Canadian combined statutory tax rate	27.0%	27.0%
Income tax recovery at the Canadian combined statutory tax rate	603	4,820
Income taxed in the hands of the partners	(603)	(4,820)
Income tax expense	-	-

11. COMMITMENTS AND CONTINGENCIES

a) LEASES AND OTHER COMMITMENTS

FPLP has entered into a five-year non-cancellable finance lease agreement to finance equipment projects at its printing facilities. The lease is fully secured by the assets subject to the lease. A summary of the future obligations under the lease is as follows:

	\$
2018	855
2019	643
Total payments	1,498
Interest cost (3.48%)	(41)
Present value of finance lease obligation	1,457

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FPLP also leases machinery and equipment under various third-party non-cancellable operating lease agreements with terms of up to six years. FPLP has entered into long-term sponsorship agreements, purchase agreements and various other commitments. Aggregate future minimum payments under the terms of these long-term commitments are as follows:

	\$
2018	594
2019	405
2020	397
2021	172
2022	2
Total payments	1,570

b) LEGAL MATTERS

FPLP is involved in various legal actions arising in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on FPLP's financial position, results of operations or cash flows.

12. RELATED PARTY TRANSACTION

FPLP is directly controlled by FPGP, which is ultimately controlled indirectly by Ronald Stern. FPLP incurs transactions with related parties in the normal course of operations. All related party transactions are with entities directly or indirectly controlled or significantly influenced by FPLP's controlling general partners.

For the year, total newsprint purchases from Alberta Newsprint Company, a company controlled indirectly by Ronald Stern, for 2017 were \$4,900,000 (2016 \$5,460,000). FPLP also reimbursed related parties for administration costs amounting to \$14,000 (2016 \$14,000). At December 31, 2017, accounts payable to related parties totalled \$411,000 (2016 \$468,000). Total advertising sales to related parties were \$5,000 (2016 \$14,000) and at December 31, 2017 there were no accounts receivable from related parties (2016 \$1,000).

Transactions with key management personnel

FPLP's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of FPLP and consist of the Board of Directors of FPCN General Partner Inc., the managing general partner of FPLP and FPLP's senior executive management team.

Total compensation expense for key management personnel, and the composition thereof is as follows:

	2017	2016
	\$	\$
Salaries and bonuses	623	624
Post-retirement pension benefits	65	75
	688	699

13. SEGMENT REPORTING

FPLP has determined that it operates in one operating segment which includes the publishing, printing and distribution of daily and weekly newspapers and specialty products, and advertising materials in Manitoba.

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14. FINANCIAL INSTRUMENTS

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

FPLP is exposed to financial risks arising from its financial assets and liabilities. The financial risks include credit risk, interest rate risk and liquidity risk.

a. 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 primarily arises from cash and cash equivalents and 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 FPLP does not expect the counterparties to fail to meet their obligations.

As FPLP is in the business of publishing newspapers and performing printing services for third parties, included in the accounts receivable are primarily amounts owed from advertisers and advertising agencies, circulation customers and commercial print clients. FPLP does not hold collateral as security for these balances. FPLP's 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. FPLP manages credit risk on a customer-by-customer basis and establishes a reasonable allowance for uncollectible amounts with this allowance netted against the accounts receivable on the consolidated 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. The 10 largest receivable amounts total \$2,162,000 (2016 \$2,489,000) and approximately 72% (2016 80%) of these balances are owed from national advertising agencies. The largest amount due from a single national agency is \$460,000 (2016 \$460,000) which represents 7% (2016 5%) of total receivables.

Accounts receivable are impaired when there is evidence that collection is unlikely. Collection is determined to be unlikely if the customer is in bankruptcy or FPLP has exhausted all efforts to obtain payment. At December 31, 2017, FPLP estimates the value of impaired accounts receivable is \$108,000 (December 31, 2016 \$125,000) and these amounts are included as part of the allowance for doubtful accounts.

The age of receivables and allowance for doubtful accounts is as follows:

	2017	2016
	\$	\$
Accounts receivable:		
Current	3,545	4,886
Up to three months past due	2,887	4,529
Greater than three months past due	11	99
Impaired	108	125
	6,551	9,639
Allowance for doubtful accounts	(152)	(163)
	6,399	9,476

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The following table summarizes the changes in the allowance for doubtful accounts for trade receivables:

	2017	2016
	\$	\$
Balance at beginning of year	(163)	(154)
Provision for impairment	(177)	(125)
Receivables written-off during the year – uncollectible	140	55
Unused amounts reversed	48	61
Balance at end of year	(152)	(163)

b. INTEREST RATE RISK

Interest rate risk is the risk that the fair value (fair value interest rate risk) or future cash flows (cash flow interest rate risk) of a financial instrument will fluctuate because of changes in market interest rates primarily related to the HSBC credit facility (see note 6). FPLP is exposed to cash flow interest rate risk due to fluctuations in interest rates as the amounts borrowed under the HSBC credit facility are in the form of a prime rate loan.

An assumed 1% increase in FPLP's short term borrowing rates during the year ended December 31, 2017, would have decreased net income by \$246,000 (2016 \$366,000), with an equal but opposite effect for an assumed 1% decrease in short term borrowing rates.

c. LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. FPLP believes that it has access to sufficient capital through current cash and cash equivalent balances, future internally generated cash flows and external sources (bank credit markets and debt capital markets) to meet current spending forecasts.

The following are the contractual maturities of the financial liabilities:

	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
	\$	\$	\$	\$	\$
At December 31, 2017					
Accounts payable and accrued liabilities and provisions	5,207	5,207	-	-	-
Mortgage loan principal and interest	960	92	184	684	-
Finance lease obligations principal and interest	1,498	855	643	-	-
Long-term debt principal and interest	27,909	1,960	25,949	-	-
Total	35,574	8,114	26,776	684	-
At December 31, 2016					
Accounts payable and accrued liabilities and provisions	6,117	6,117	-	-	-
Mortgage loan principal and interest	1,049	92	184	773	-
Finance lease obligations principal and interest	2,403	905	1,498	-	-
Long-term debt principal and interest	38,861	2,569	11,592	24,700	-
Total	48,430	9,683	13,274	25,473	-

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d. FAIR VALUES, INCLUDING VALUATION METHODS AND ASSUMPTIONS

Fair value hierarchy

Financial assets and liabilities are classified in a hierarchy that is based on significance of the inputs used in making the measurements and ultimately are reflected in the fair value hierarchy based on the lowest level input. The levels in the hierarchy are:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Financial assets and liabilities whose fair values are disclosed

The fair value of current assets and liabilities including cash and cash equivalents, accounts receivable and accounts payable, accrued liabilities and provisions approximates their carrying value due to the short-term nature of these financial instruments. The fair value of the HSBC term loan, based on Level 3 fair value hierarchy inputs, is approximately \$26,000,000 (2016 \$36,000,000). The fair value of the mortgage loan, based on Level 3 fair value hierarchy inputs, approximates its carrying value.

The fair value of long term debt and mortgage loan has been calculated by discounting the expected cash flows of each debt using a discount rate of 3.55% and 3.75%, 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 does not carry any assets or liabilities at their fair value.

15. CAPITAL MANAGEMENT

FPLP's objective for managing the capital structure is to take advantage of leverage with the prudent use of debt, while maintaining flexibility through historically setting distribution levels that are less than the cumulative amounts available for distribution. There are no set quantitative targets established for monitoring the capital structure. Management continuously monitors capital markets in the context of the general economic environment, FPLP's financial position and outlook, and strategic development plans. FPLP can alter the mix within the capital structure by repaying debt, increasing debt, adjusting distributions to partners or raising additional equity capital.

During 2015, in response to the uncertainty regarding print revenues, FPCN General Partner Inc., managing general partner of FPLP, determined that FPLP will discontinue regular distributions but will continue to make distributions required for income taxes and administrative costs of its limited and general partners. The Board feels that at this time it is in the best interest of the limited and general partners to have the continuing free cash generated by FPLP be available for increasing FPLP's long-term debt repayments, new strategic investments and/or restructuring initiatives which improve the returns generated by the businesses going forward.

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FPLP's capital consists of cash and cash equivalents, debt and Unitholders' equity. The components at December 31, 2017 and December 31, 2016 were as follows:

	2017	2016
	\$	\$
Term loan	25,927	35,891
Finance leases and mortgage loan	2,320	3,224
Cash and cash equivalents	(6,698)	(9,970)
External net debt	21,549	29,145
Unitholders' equity	13,109	17,947
Total capitalization	34,658	47,092

The HSBC credit facility includes negative covenants which must be observed in order to avoid an accelerated termination of the agreement. These covenants include certain restrictions on paying distributions, the sale of assets, the purchase of investments and acquisitions, share capital, allowing encumbrances and certain issuances of loans or financial assistance. FPLP is restricted from making distributions which exceed distributable cash, as defined by in the credit agreement, by more than \$1,000,000 annually. FPLP is required to maintain a leverage ratio of no greater than 3.5 to 1.0 prior to January 31, 2018 and 3.0 to 1.0 after that, a fixed charge coverage ratio of no less than 2.0 to 1.0 and a current ratio of no less than 1.2 to 1.0, all defined in the agreement and measured quarterly on a trailing 12-month basis. Financial amounts used in the calculations are specifically defined in the credit agreement, but are substantially equivalent to the corresponding terms used in the external financial reports filed by FPLP. The financial ratios are calculated in accordance with the HSBC credit agreement on a quarterly basis and at December 31, 2017 FPLP was in compliance with all the terms and conditions of its debt agreement.

16. INDEMNIFICATION

The managing general partner and FPLP have agreed to indemnify FPLP's current and former directors and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the partnership from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The general partner has directors' and officers' liability insurance coverage, pursuant to a joint policy covering FPGP, FPLP and FPI, of up to \$10,000,000 in joint coverage.

17. RESTRICTING CHARGE

FPLP incurred a restructuring charge of \$354,000 (2016 \$393,000) consisting of severance payments in relation to employee reductions primarily achieved through a combination of retirements, voluntary and involuntary layoffs.