Third Quarter Report
September 30, 2016
Letter to Shareholders

To our Shareholders

I am pleased to provide you with a report on the results of our operations and related dividends to Shareholders of FP Newspapers Inc. ("FPI") for the quarter ended September 30, 2016. FPI owns directly securities entitling it to 49% of the distributable cash of FP Canadian Newspapers Limited Partnership ("FPLP") in each fiscal year. FPI's shares trade on the Toronto Stock Exchange under the symbol "FP".

FPLP owns the Winnipeg Free Press and Brandon Sun daily newspapers, Canstar Community News ("Canstar"), which operates six weekly newspapers, the Steinbach printing and publishing business of Derksen Printers ("Derksen"), which operates a commercial web and sheet-fed printing business and publishes a regional paid weekly newspaper, The Carillon, and the Carberry News Express, a weekly newspaper serving the Carberry area since 1886.

Total revenue for FPLP for the three months ended September 30, 2016 was $19.2 million, a $1.9 million or 9.1% decrease from the same period last year. Total EBITDA[(1)] of FPLP for the quarter was $1.8 million, a $0.7 million or 28.7% decrease from the same quarter last year. FPLP had net earnings of $0.4 million for the three months ended September 30, 2016, a $0.7 million or 62.6% decrease from the same quarter last year.

FPI had net earnings of $0.1 million or $0.013 per share during the three months ended September 30, 2016, compared to net earnings of $0.3 million or $0.048 per share in the same quarter last year.

Operations

FPLP's revenue for the three months ended September 30, 2016 was $19.2 million, a decrease of $1.9 million or 9.1% from the same three months in the prior year. FPLP's print advertising revenues for the three months ended September 30, 2016 were $10.9 million, a $1.7 million or 13.5% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was $6.0 million, a decrease of $1.2 million or 17.0% from the same period in the prior year, primarily due to decreased spending in the local and national automotive, government and retail categories. Classified advertising revenues for the third quarter decreased by $0.2 million or 11.0% compared to the same period last year, primarily due to lower spending in the real estate and employment categories, partly offset by an increase in spending in the automotive category. Flyer distribution revenues decreased by $0.3 million or 7.6% compared to the third quarter in 2015, primarily due to a decrease in flyer volumes with much of this decline the result of the consolidation of two large grocery chains and the reduction to one flyer program.

Circulation revenues for the three months ended September 30, 2016 increased by 0.8% compared to the third quarter of 2015 from higher print subscription rates and new digital subscription revenues from the Winnipeg Free Press website, partially offset by lower unit sales. Commercial print revenues decreased by $0.1 million and digital revenues for the third quarter decreased by $0.2 million or 24.5%, primarily due to a decrease in on-line web ad revenues.

Operating expenses for the three months ended September 30, 2016 were $18.5 million, a decrease of $1.2 million or 6.3% compared to the same quarter last year. Employee compensation costs for the third quarter decreased by $0.9 million or 9.6% from the same period in the prior year, primarily due to a reduction in the number of employees across all of our business units. Newsprint expense for FPLP's own publications for the first quarter decreased by $0.1 million or 5.6% compared to the same period in the prior year, primarily due to lower volumes and a change in the weight of paper used, partly offset by increased prices. Newsprint expense for commercial printing for the three months ended September 30, 2016 remained at relatively the same levels compared to last year. Other expenses decreased by $0.2 million or 4.5% compared to the same quarter last year, primarily due to lower outside costs from lower levels of production supplies used and lower outside commission on national sales. Delivery expenses decreased by $0.2 million or 4.1%, primarily from lower delivery volumes and reduced expenses resulting from the consolidation of carrier newspaper bundle pick-up at our Free Press building at the end of the second quarter.

The print and digital editions of the Winnipeg Free Press continue to achieve the highest market penetration of any newspaper in the country in a market over 500,000 people, according to the second-quarter survey by Vividata, Canada's authoritative source for audience measurement. According to the survey, the Free Press weekday print editions reach 35% of Winnipeg adults, and weekday print and website visits combined reach 46% of Winnipeg adults. The Saturday print and digital editions reach 49% of Winnipeg adults. The Vividata results showed that in the Winnipeg market, 70% of adults read the Winnipeg Free Press weekly in either the print or digital format. Weekday readership of the Free Press in either print or on one of the digital platforms was 288,000 representing 46% of all Winnipeg compared to 164,000 or 26% for the Winnipeg Sun and 146,000 or 23% for the Metro Winnipeg edition.

The Free Press is seeing slow but steady pickup in our monthly all access digital only subscriptions. Total subscriptions now stand at approximately 4,700 and total registered users at 28,800.

Winnipeg Free Press Publisher Bob Cox, who is currently president of the Canadian Newspaper Association, provided insightful commentary to the House of Commons Standing Committee on Canadian Heritage who are conducting a review of the Media and Local Communities. Mr. Cox told MP's on the Standing Committee that laws and regulations have not kept pace with changes in the media industry, including the explosion of digital media and competition from online companies such as Facebook and Google. Mr. Cox told the Committee that falling ad buys are hurting the industry and Ottawa should be considering ways to help to ensure that we do not end up with media dominated by foreign companies with few Canadian operations.

The Winnipeg Free Press took home two honours – a gold medal and a silver medal - at the 2016 Canadian Online Publishing Awards held on November 7, 2016 in Toronto. Both awards were from The Rivers, which was a three-part series documenting the history of the junction of the Red and Assiniboine rivers and their effect on Winnipeg's past and future development: gold for best editorial packaging in the 24/7 news division and a silver medal for best article or series.

The Winnipeg advertising system upgrade project team spearheaded by our in-house project manager, Gary Jacobson was the focus of many supporting staff and the new system went live with the October 5 edition. All members of the upgrade team displayed their commitment and passion for the business as they pulled together to get the installation across the finish line. The untimely passing of Judy Homeniuk, our much beloved and expert classified advertising Supervisor, presented the team with an unanticipated challenge near the go-live date and Judy would have been proud of how her team responded under the extremely adverse circumstances. Work continues on generally typical post implementation issues and fixes to ensure the system is working to its specs and providing all the efficiencies we were anticipating.

Canstar Community News is experiencing better year-over-year advertising revenue levels than our daily newspapers. Readers and advertisers have both reacted well to the placement of e-editions online, page counts are up in the print editions and the editorial and advertising teams have worked together to streamline the sale of special sections, such as a monthly homebuilders' supplement and the placement of native advertising. Editorially, the papers continue to be hyper-local in their approach to community news, politics, business and sports, especially as the high school sports seasons are now back in full swing.

Derksen Printers received the Manitoba Print Industry Association Milestone Award recognizing their 80 years of contributions to the Manitoba printing industry. The Carillon newspaper is launching an addition to their web and print offerings, Carillon Homes, which will allow realtors to showcase their inventory in the South East region. Mapping and search functions will allow readers to drill down to specific housing wishes and compare properties easily. These new features will also allow realtors the opportunity to brand themselves and publish specific on-line listings into the weekly newspaper.

The Carillon is also mapping the adjoining community of Mitchell for home delivery and delivery of their weekly flyer distribution product, Flyer Impact. This change will add approximately 500 doors to the existing door to door footprint.

In Brandon, the third quarter saw the retirement of long time City Editor Jim Lewthwaite who was replaced by Charles Tweed who was previously a rural reporter with us. Sales initiatives in the third quarter included the supplement Classes and Course along with the Westman Business section, which were very successful and were mixed in with new features including: Shop Local, Brandon Wheat Kings 50th anniversary section and small space flyer wraps. Digital revenues have shown year-over-year improvements in Brandon largely due to strong sales efforts and growing confidence in the online product. In an effort to continue to solidify our dominant position in the market and grow our readership base a Focus Group was formed to get community feedback to better understand areas we can target for improvement. The Focus Group is comprised of 12 members with varied backgrounds. The first meeting will take place in November and feedback will be ready for review early in the new-year.

Outlook

Print advertising revenue year-over-year declines continued in the third quarter across all Canadian Metro markets. October revenues were relatively similar to year-to-date trends. Colliers International released its Fall 2016 Retail Sales Report and are predicting that Manitoba will post the second-biggest year-over-year increase in retail sales in the country in December at 6.2%. The report is based on what has happened so far this year in retail sales and factors in that December sales last year were disappointing last year in most provinces. Early in the fourth quarter Grant Suderman our Vice President of Advertising Sales hired Karen Buss as a new Director of Advertising Sales. Ms. Buss has considerable experience in Business-To-Business sales across a variety of industries.

FP Newspapers Inc. has received confirmation of conditional acceptance of share listing from the TSX Venture Exchange and we anticipate resolving the final outstanding matters and completing the listing change during the fourth quarter.

In early October a group of five actuarial firms in Manitoba wrote a letter to the Premier and Finance Minister urging the provincial government to provide funding relief for sponsors of defined benefit pension plans similar to relief offered by other provinces. In addition to recommending an extension from five to ten years for amortizing solvency deficiencies, similar to relief offered in 2008 and 2011, the actuarial firms have requested a comprehensive review of solvency funding framework in the Province. In 2016, based on current pension funding rule, FPLP will contribute a total of $4.8 million to the defined benefit plan, representing approximately 20% of employees' pensionable earnings.

Ronald N. Stern
Chairman
November 10, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

November 10, 2016

OVERVIEW

Management's discussion and analysis, prepared as at November 10, 2016, provides a review of significant developments that affected the performance of FP Newspapers Inc. ("FPI") in the three months ended September 30, 2016. This review is based on financial information contained in the unaudited interim condensed financial statements and accompanying notes ("interim financial statements") for the three months ended September 30, 2016.

Factors that could affect future operations are also discussed. These factors may be affected by known and unknown risks and uncertainties that may cause the actual future results to be materially different from those expressed in this discussion.

The interim financial statements, which are the basis for data presented in this report, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including IAS 34. The interim financial statements do not include all the information and disclosures required for annual financial statements and, therefore, the following information should be read in conjunction with the most recent audited consolidated financial statements and accompanying notes and management's discussion and analysis for the year ended December 30, 2015 prepared in accordance with IFRS in the Company's 2015 Annual Report and with the interim unaudited condensed financial statements and accompanying notes for the third quarter of 2016.

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, including its annual information form, 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.

Immediately following the closing of the arrangement, FPCN Holdings Trust and the Fund were wound up and dissolved. FPI has acquired all of the assets and assumed all of the liabilities of those entities. 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. On October 26, 2012 FPLP acquired substantially all of the assets and assumed certain liabilities of the Carberry News-Express, a weekly paid subscription publication.

FP NEWSPAPERS INC.

A summary of FPI's quarterly revenue, net earnings and net earnings per share for 2016, 2015, and, 2014 is as follows:

	2016	2015	2014
	In thousands of dollars (except per share amounts)		
Revenue			
Quarter 1	$ 391	$ 606	$ 809
Quarter 2	740	1,367	1,638
Quarter 3	196	526	1,052
Quarter 4		1,407	2,235
Net earnings (loss)			
Quarter 1	$ 250	$ 399	$ 545
Quarter 2(*)	(5,683)	(17,655)	1,148
Quarter 3	90	331	738
Quarter 4(*)		(6,851)	1,616
Net earnings (loss) per share			
Quarter 1	$ 0.036	$ 0.058	$ 0.079
Quarter 2(*)	(0.823)	(2.558)	0.166
Quarter 3	0.013	0.048	0.107
Quarter 4(*)		(0.993)	0.234

(*) In the second quarter of 2016 a non-cash write-down of $6.2 million was recorded, based on the determination that its 49% equity investment in FPLP was impaired, primarily due to continued declines in print advertising revenues. A non-cash write-down of $18.6 million was recorded in the second quarter of 2015 and a non-cash write-down of $7.8 million was recorded in the fourth quarter of 2015 based on FPI's determination that its 49% equity investment in FPLP was impaired, primarily due to continued declines in revenue and earnings experienced by FPLP.

FPI reported net earnings of $0.1 million for the three months ended September 30, 2016, compared to net earnings of $0.3 million for the same period last year. The decrease in net earnings is due primarily to a decrease in the equity share of the net earnings of FPLP, which is disclosed in the FPLP section of this report. Other comprehensive income for the three months ended September 30, 2016 was $0.2 million, compared to a loss of $0.3 million in the third quarter of 2015. Other comprehensive income/loss results from FPI's equity share of FPLP's recognition of remeasurements gains or losses related to the defined benefit pension plan.

For the nine months ended September 30, 2016, FPI reported a net loss of $5.3 million, compared to a net loss of $16.9 million for the nine months ended September 30, 2015. Excluding the non-cash write-down of the equity investment in FPLP, FPI reported net earnings of $0.8 million for the nine months ended September 30, 2016, compared to net earnings of $1.7 million for the same period last year. Other comprehensive loss for the nine months ended September 30, 2016 was $0.9 million compared to a loss of $0.3 million for the third quarter of 2015. Other comprehensive income/loss results from FPI's equity share of FPLP's recognition of remeasurements gains or losses related to the defined benefit pension plan.

As at November 10, 2016, FPI had 6,902,592 shares outstanding.

Distributable Cash Attributable to FPI(2)

Cash available for distribution attributable to FPI(2) was ($0.2) million or ($0.032) per share and ($0.6) million or ($0.090) per share for the three and nine months ended September 30, 2016, compared to ($0.1) million or ($0.008) per share and ($3.0) million or ($0.435) per share for the same periods in 2015. The negative cash available for distribution in 2016 results from a $3.0 million principal repayment of the long-term loan for the 2015 cash sweep, paid in March of 2016 and pension funding in excess of accounting expenses of $2.3 million. The full details of the distributable cash calculation are included in the "Non-IFRS measures" section of this report.

FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP

Results of Operations

FPLP's revenue for the three months ended September 30, 2016 was $19.2 million, a decrease of $1.9 million or 9.1% from the same three months in the prior year. FPLP's print advertising revenues for the three months ended September 30, 2016 were $10.9 million, a $1.7 million or 13.5% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was $6.0 million, a decrease of $1.2 million or 17.0% from the same period in the prior year, primarily due to decreased spending in the local and national automotive, government and retail categories. Classified advertising revenues for the third quarter decreased by $0.2 million or 11.0% compared to the same period last year, primarily due to lower spending in the real estate and employment categories, partly offset by an increase in spending in the automotive category. Flyer distribution revenues decreased by $0.3 million or 7.6% compared to the third quarter in 2015, primarily due to a decrease in flyer volumes with much of this decline the result of the consolidation of two large grocery chains and the reduction to one flyer program.

Circulation revenues for the three months ended September 30, 2016 increased by 0.8% compared to the third quarter of 2015 from higher print subscription rates and new digital subscription revenues from the Winnipeg Free Press website, partially offset by lower unit sales. Commercial print revenues decreased by $0.1 million and digital revenues for the third quarter decreased by $0.2 million or 24.5%, primarily due to a decrease in on-line web ad revenues.

FPLP's revenue for the nine months ended September 30, 2016 was $59.6 million, a decrease of $6.2 million or 9.5% from the same period in the prior year. Print advertising revenues for the nine months ended September 30, 2016 were $34.8 million, a $5.3 million or 13.3% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was $20.1 million, a decrease of $3.7 million or 15.6% from the same period in the prior year, primarily due to decreased spending in the local and national automotive, travel and government categories. Classified advertising revenues for the nine months ended September 30, 2016 decreased by $0.8 million or 13.0% compared to the same period last year, primarily due to lower spending in the employment and real estate categories, partly offset by increased spending in the automotive category. Flyer distribution revenues for the nine months ending September 30, 2016 were lower by $0.8 million or 7.9%, primarily due to the a decrease in flyer volumes, with much of the volume losses resulting from the consolidation of two national grocery chains and the resulting consolidation of their flyer advertising.

For the nine months ended September 30, 2016, circulation revenues were $12.3 million, virtually unchanged from the same period of 2015, with increased revenue from higher print subscription rates and new digital subscription revenues from the Winnipeg Free Press digital reader offerings, offset by lower print unit sales. Digital revenues for the first nine months of 2016 decreased by $0.8 million or 29.5%, primarily due to online advertising on the Winnipeg Free Press website and other digital offerings.

Operating expenses for the three months ended September 30, 2016 were $18.5 million, a decrease of $1.2 million or 6.3% compared to the same quarter last year. Employee compensation costs for the third quarter decreased by $0.9 million or 9.6% from the same period in the prior year, primarily due to a reduction in the number of employees across all of our business units. Newsprint expense for FPLP's own publications for the first quarter decreased by $0.1 million or 5.6% compared to the same period in the prior year, primarily due to lower volumes and a change in the weight of paper used, partly offset by increased prices. Newsprint expense for commercial printing for the three months ended September 30, 2016 remained at relatively the same levels compared to last year. Other expenses decreased by $0.2 million or 4.5% compared to the same quarter last year, primarily due to lower outside costs from lower levels of production supplies used and lower outside commission on national sales. Delivery expenses decreased by $0.2 million or 4.1%, primarily from lower delivery volumes and reduced expenses resulting from the consolidation of carrier newspaper bundle pick-up at our Free Press building at the end of the second quarter.

Operating expenses for the nine months ended September 30, 2016 were $56.0 million, a decrease of $3.8 million or 6.3% compared to the same period last year. Employee compensation costs for the nine months decreased by $2.5 million or 8.9% from the same period in the prior year, primarily due to the reduction in the number of employees. Newsprint expense for FPLP's own publications for the nine months decreased by $0.3 million or 7.1% compared to the same period in the prior year, primarily due to lower volumes resulting from fewer circulation copies and lower weight paper used, partly offset by a higher average rate per metric tonne. Newsprint expense for commercial printing for the nine months ended September 30, 2016 remained at relatively the same levels compared to last year. Delivery costs decreased by $0.3 million or $3.2% in the first nine months of 2016, primarily due to lower circulation units and flyer volumes. Other expenses for the nine months ended September 30, 2016 decreased by $0.7 million or 6.0% compared to the same period last year, primarily due to lower outside costs, and declining use of production supplies as a result of lower printed pages.

During the nine months ended September 30, 2016, as a result of continued revenue declines due to economic factors FPLP recorded an impairment charge relating to its goodwill of $12.7 million and in the same period in 2015 an impairment charge of $23.2 million was recorded. Excluding this impairment charge, FPLP's net earnings were $0.4 million and $2.7 million for the three and nine months ended September 30, 2016, compared to $1.1 million and $5.1 million for the same periods last year.

EBITDA(1), excluding the goodwill impairment charge, for the three and nine months ended September 30, 2016 was $1.8 million and $6.8 million compared to $2.5 million and $9.4 million for the same periods last year, a decrease of 28.7% and 27.1%, respectively. EBITDA(1) margin for the three and nine months ended September 30, 2016 was 9.2% and 11.4%, compared to 11.7% and 14.2% in the same periods last year. The changes in EBITDA(1) were due to the factors described in the revenue and operating expense paragraphs above.

Finance costs for the nine months ended September 30, 2016 decreased $0.1 million, primarily due to the lower level of debt outstanding.

Under IFRS, other comprehensive income includes remeasurements gains and losses related to FPLP's defined benefit pension plan. These gains and losses are primarily related to changes in actuarial discount rate assumptions and returns on plan assets differing from expected income. In the nine months ended September 30, 2016, the actuarial loss was due to increases in the defined benefit obligation primarily resulting from an actuarial discount rate decrease and a lower actual return on the plan's investments in compared to the actuarial expected return assumptions.

Quarterly Summary

Newspaper publishing is, to a certain extent, a seasonal business, with a higher proportion of revenues and operating earnings occurring during the second and fourth quarters of the calendar year. Revenue, EBITDA(1) and net earnings of FPLP by quarter for 2016, 2015 and 2014 were as follows:

	2016	**2015**	**2014**
		In thousands of dollars	
Revenue			
Quarter 1	$ 19,642	$ 21,300	$ 23,493
Quarter 2	20,773	23,461	25,787
Quarter 3	19,209	21,139	23,575
Quarter 4		23,126	26,184
		$ 89,026	$ 99,039
EBITDA(1)			
Quarter 1	$ 2,189	$ 2,684	$ 3,074
Quarter 2(*)	2,877	4,207	4,874
Quarter 3	1,759	2,466	3,679
Quarter 4(*)		4,253	6,085
		$ 13,610	$ 17,712
Net Earnings (Loss)			
Quarter 1	$ 797	$ 1,236	$ 1,652
Quarter 2(*)	(11,192)	(20,413)	3,341
Quarter 3	401	1,073	2,146
Quarter 4(*)		(13,128)	4,560
		$ (31,232)	$ 11,699

(*)Due to continued declines in revenue and earnings, goodwill impairment charges of $12.7 million were recorded in the second quarter of 2016 and in the second quarter and fourth quarter of 2015 goodwill impairment charges of $23.2 million and $16.0 million, respectively, were recorded.

Liquidity and Capital Resources of FPLP

Cash and cash equivalents at September 30, 2016 were $10.3 million, compared to $10.7 million at December 31, 2015. Cash and cash equivalents may be used to pay future distributions (including future income taxes payable by the partners), to reduce debt, to fund future capital expenditures, or for other general purposes. During the three months ended September 30, 2016, operating activities provided $0.5 million, investing activities used $0.2 million and $0.3 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 repayments under FPLP's credit facility and anticipated distributions, assuming that advertising revenues do not materially deteriorate beyond management's current expectations.

Cash Flow from Operating Activities

During the three and nine months ended September 30, 2016, cash generated from operating activities was $0.5 million and $5.1 million, compared to $3.1 million and $9.5 million for the same periods in 2015. Net earnings, excluding the impairment of goodwill, for the three and nine months ended September 30, 2016 were $0.4 million and $2.7 million, compared to $1.1 million and $5.1 million for the same period in 2015. The net change in non-cash working capital provided $0.4 million and $1.5 million of cash for the three and nine months ended September 30, 2016, compared to a providing $1.3 million and $2.9 million for the three and nine months ended September 30, 2015. The decrease in cash provided by non-cash working capital changes for the nine months ended September 30, 2016 is primarily due to an increase in pension funding requirements resulting from lower discount rates used in the funding calculation.

Investing Activities

Capital asset additions were $0.2 million and $0.6 million for the three and nine months ended September 30, 2016, compared to $0.3 million and $0.7 million in the same periods in the prior year. Maintenance capital spending in the three and nine months ended September 30, 2016 was primarily for the implementation of new computer software systems in the advertising and editorial departments, and other technology hardware and software upgrades at the Winnipeg Free Press.

Financing Activities

Financing activities used $0.3 million and $4.9 million for the three and nine months ended September 30, 2016, compared to $2.3 million and $14.5 million for the same period in 2015. Distributions to partners of FPLP for the three and nine months ended September 30, 2016 totalled nil and $0.6 million compared to $1.9 million and $5.7 million in 2015. Principal repayment of the long-term debt for the nine months ended September 30, 2016 was $3.0 million compared to $7.3 million in 2015, as part of the renewal of the long-term debt agreement during the first quarter of 2015.

Contractual Obligations

In August, FPLP signed a mortgage renewal agreement on its real estate assets in Steinbach at the Derksen Printers facility. Gross proceeds of the mortgage of $950,000 were partly used to repay the mortgage that was due on July 28, 2016 of $730,000, with the balance available for general business purposes.

Other than the change in the mortgage, there have been no significant changes to contractual obligations since December 31, 2015.

Reserves Related to Distributable Cash Attributable to FPI[(2)]

Under the terms of the LP Agreement, the managing general partner of FPLP is required to determine reserves which are necessary or desirable to withhold from any distributions to partners including, among other things, for capital expenditures, income taxes and operating expenses. A summary of the change in reserve balances for the three months ended September 30, 2016 and 2015 is as follows:

Reserve for future maintenance capital	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2016	**2015**	**2016**	**2015**
	In thousands of dollars		*In thousands of dollars*	
Reserve at beginning of period	$ 1,500	$ 1,500	$ 1,500	$ 1,500
Increase in reserve	-	-	-	-
Decrease in reserve	-	-	-	-
Reserve at end of period	$ 1,500	$ 1,500	$ 1,500	$ 1,500

Increases in the reserve for maintenance capital are shown as a deduction in determining distributable cash[(2)] of FPLP. Decreases in the reserve for maintenance capital are shown as an increase in determining distributable cash[(2)].

The use of a reserve for maintenance capital in calculating distributable cash attributable to FPI[(2)] is intended to provide an allowance for estimated annual capital expenditures required to maintain the productive capacity of the business. The level of the annual allowance for maintenance capital is reviewed periodically based on historical spending levels and future plans and adjusted based on reasonable and supportable assumptions. Actual future capital expenditures necessary to maintain the current productive capacity of the business may vary, perhaps materially, from the allowance used in determining distributable cash[(2)] due to technological change, unexpected equipment failure, changes in customer service expectations and other reasons. FPLP has established a maintenance capital maximum reserve policy, the maximum reserve level under which is $1.5 million.

Reserve for cash sweep debt payment	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2016	**2015**	**2016**	**2015**
	In thousands of dollars		*In thousands of dollars*	
Reserve at beginning of period	$ 500	$ 950	$ -	$ -
Increase in reserve	50	325	550	1,275
Decrease in reserve	-	-	-	-
Reserve at end of period	$ 550	$ 1,275	$ 550	$ 1,275

Increases in the reserve for the cash sweep long-term debt payment on the principal are shown as a deduction in determining distributable cash[(2)] of FPLP. Decreases in the reserve for the cash sweep debt payment are shown as an increase in determining distributable cash[(2)].

The use of a reserve for cash sweep debt payment in calculating distributable cash attributable to FPI[(2)] is intended to provide an allowance for estimated annual cash sweep payments required under FPLP's long-term debt agreement. The cash sweep debt payment is equal to the lesser of $3.5 million or 25% of FPLP's annual distributable cash as defined in the agreement and is payable no later than 90 days after the end of each fiscal year with the first cash sweep due no later than March 31, 2016. The maximum outstanding debt under the agreement is $30.0 million on January 31, 2018 and $20.0 million on January 31, 2020.

Certain reserves are non-IFRS measures established and utilized at the discretion of the board of directors of the managing general partner of FPLP.

Debt Covenants

The HSBC credit facility (see note 6 to the 2015 Annual Consolidated Financial Statements of FPLP) 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 in the credit agreement, by more than $1.0 million annually. FPLP is required to maintain a leverage ratio of no greater than 3.5 to 1.0 at any time prior to January 31, 2018, and 3.0 to 1.0 at any time thereafter, 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 as 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 September 30, 2016, FPLP is in compliance with all covenants.

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Related Party Transactions

FPLP purchased the majority of its newsprint from Alberta Newsprint Company (“ANC”), a related party, as disclosed under the related party transaction section of FPLP’s Annual Management’s Discussion and Analysis at December 31, 2015. Total newsprint purchases from ANC, based on actual invoice prices, for the three and nine months ended September 30, 2016 were $1.5 million and $4.2 million, compared to $1.3 million and $3.7 million for the same periods last year.

DISCLOSURE CONTROLS AND PROCEDURES

In FPI’s 2015 filings, the CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporation’s disclosure controls and procedures, and the design and effectiveness of internal controls over financial reporting.

In FPI’s third quarter 2016 filings, the CEO and CFO certify, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design of the Corporation’s disclosure controls and procedures, and the design of internal controls over financial reporting.

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

There have been no changes to FPI’s internal controls over financial reporting that occurred during the third quarter of 2016 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

There have been no significant changes in FPI’s or FPLP’s critical accounting estimates since the December 2015 year-end.

OUTLOOK

The outlook for operations is described earlier in this document.

NON-IFRS MEASURES

(1) EBITDA

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2016	**2015**	**2016**	**2015**
	In thousands of dollars		*In thousands of dollars*	
Net earnings (loss) for the period	$ 401	$ 1,073	$ (9,994)	$ (18,104)
Add (subtract):				
Depreciation and amortization	1,058	1,074	3,188	3,226
Impairment of goodwill	-	-	12,700	23,200
Finance costs	318	341	988	1,104
Other income	(18)	(22)	(57)	(69)
EBITDA	$ 1,759	$ 2,466	$ 6,825	$ 9,357

(2) Distributable Cash Attributable to FPI

FPI believes that in addition to the disclosure of cash flow from operations, distributable cash attributable to FPI is an important supplemental measure of cash flow because it provides investors with an indication of the amount of cash available for distribution to shareholders and because such calculations are required by the terms of the partnership agreement governing FPLP. Distributable cash attributable to FPI is not a defined term under IFRS, and it should not be construed as an alternative to using net earnings or the statements of cash flows as measures of profitability and cash flow. Readers are cautioned that distributable cash as calculated by FPI may not be comparable to similar measures presented by other issuers. FPI uses this measure as a factor to determine whether to adjust its monthly dividends to shareholders.

Management has determined distributable cash attributable to FPI for the stated periods as follows:

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Distributable cash of FPLP:				
EBITDA[(1)]	$ 1,759	$ 2,466	$ 6,825	$ 9,357
Other income (excluding non-cash gains or losses)	18	17	54	64
Finance costs on notes payable, term loan, mortgage loan, guarantee fee and finance leases, excluding accretion of related deferred financing costs	(309)	(332)	(960)	(1,077)
Principal repayment of term loan	-	-	(3,000)	(7,324)
Maintenance capital expenditures	(184)	(256)	(590)	(746)
Proceeds from sale of property, plant and equipment	-	5	3	5
Principal repayments on finance leases	(505)	(420)	(1,490)	(1,249)
Principal repayments on mortgage loan	(14)	(13)	(42)	(45)
Pension funding in excess of accounting expense	(1,362)	(425)	(2, 327)	(1,679)
Decrease in reserve for cash sweep long-term debt repayment	-	-	1,200	-
Increase in reserve for cash sweep long-term debt repayment	(50)	(325)	(550)	(1,275)
Distributable cash of FPLP	$ (647)	$ 717	$ (877)	$ (3,969)
49% attributable to FPI	$ (317)	$ 351	$ (430)	$ (1,945)
Administration expenses	(38)	(54)	(143)	(154)
Other income	-	-	1	1
Current income taxes	134	(350)	(47)	(903)
Distributable cash attributable to FPI	$ (221)	$ (53)	$ (619)	$ (3,001)
Distributable cash attributable to FPI – per share	$ (0.032)	$ (0.008)	$ (0.090)	$ (0.435)

A summary of distributable cash and distributions declared for the trailing twelve months to September 30, 2016 and for the period from commencement of FPI on May 28, 2002 to September 30, 2016 is as follows:

Distributable Cash of FPLP:

	Last Twelve Months	Since May 28, 2002
	In thousands of dollars	
EBITDA[(1)]	$ 11,078	$ 311,767
Interest income	71	1,823
Finance costs on notes payable, term loan, mortgage loan, guarantee fee and finance leases, excluding accretion of related deferred financing costs	(1,283)	(36,447)
Principal repayment of term loan	(3,000)	(24,000)
Maintenance capital expenditures	(1,040)	(13,830)
Increase in reserve for future maintenance capital expenditures	-	(1,500)
Strategic capital expenditures	-	(1,331)
Decrease in reserve for strategic capital, acquisitions, and/or debt reduction	-	(353)
Proceeds on disposal of property, plant and equipment	3	2,099
Principal repayment of finance leases	(1,913)	(7,927)
Principal repayments on mortgage loans	(56)	(259)
Current income and capital tax expense	-	(196)
Special distribution for tax purposes	-	(7,043)
Pension funding in excess of accounting expense	(2,797)	(11,409)
Decrease in reserve for cash sweep long-term debt repayment	1,200	1,200
Increase in reserve for cash sweep long-term debt repayment	(475)	(1,750)
Distributable cash of FPLP	$ 1,789	$ 210,844

Distributable Cash Attributable to FPI:

	Last Twelve Months	Since May 28, 2002
In thousands of dollars (except per share amounts)		
49% of FPLP distributable cash	$ 877	$ 103,314
Administration expenses	(207)	(4,062)
Interest income	1	67
Current income taxes	286	(3,653)
Distributable cash attributable to FPI	$ 957	$ 95,666
Distributable cash attributable to FPI – per share	$ 0.139	$ 13.859
Cash dividends declared by FPI – per share	-	$ 12.713
Payout Ratio		91.7%

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

	Note	As at September 30, 2016	As at December 30, 2015
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		$ 727	$ 288
Prepaid expenses and other assets		3	6
Income tax receivable		351	691
		1,081	985
LONG-TERM ASSETS			
Investment in FP Canadian Newspapers Limited Partnership	3	10,248	16,589
Deferred income tax asset		-	-
TOTAL ASSETS		$ 11,329	$ 17,574
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		$ 89	$ 80
LONG-TERM LIABILITIES			
Deferred income tax liability		133	174
TOTAL LIABILITIES		222	254
SHAREHOLDERS' EQUITY			
Share capital		71,373	71,373
Deficit		(60,266)	(54,053)
TOTAL SHAREHOLDERS' EQUITY		11,107	17,320
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 11,329	$ 17,574

(See accompanying notes)

FP Newspapers Inc.
Condensed Statements of Income (Loss) and Comprehensive Income (Loss)
(unaudited, in thousands of Canadian dollars except per share amounts)

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Note	**2016**	**2015**	**2016**	**2015**
Equity interest from FP Canadian Newspapers Limited Partnership Class A limited partner units	3	$ 196	$ 526	$ 1,326	$ 2,498
Write-down of investment in FP Canadian Newspapers Limited Partnership Class A limited partner units		-	-	(6,200)	(18,600)
Administration expenses		(38)	(54)	(143)	(154)
Other income		-	-	1	1
Net income (loss) before income taxes		158	472	(5,016)	(16,255)
Current income tax recovery (expense)		134	(350)	(47)	(903)
Deferred income tax (expense) recovery		(202)	209	(280)	233
Net income (loss) for the period		**$ 90**	**$ 331**	**$ (5,343)**	**$ (16,925)**
Items that will not be reclassified to net earnings:					
Equity interest of other comprehensive gain (loss) from FP Canadian Newspaper Limited Partnership	3	240	(375)	(1,191)	(379)
Deferred income tax (expense) recovery		(65)	101	321	102
Comprehensive income (loss) for the period		**$ 265**	**$ 57**	**$ (6,213)**	**$ (17,202)**
Weighted average number of Common Shares outstanding		6,902,592	6,902,592	6,902,592	6,902,592
Net earnings (loss) per share – basic and diluted		$ 0.013	$ 0.048	$ (0.774)	$ (2.452)

(See accompanying notes)

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

	Share Capital	Deficit	Total Shareholders' Equity
At December 30, 2014	$ 71,373	$ (28,509)	$ 42,864
Net (loss) for the period		(16,925)	(16,925)
Other comprehensive (loss) for the period		(277)	(277)
Comprehensive loss for the period	-	(17,202)	(17,202)
Dividends	-	(1,104)	(1,104)
At September 30, 2015	$ 71,373	$ (46,815)	$ 24,558
At December 30, 2015	$ 71,373	$ (54,053)	$ 17,320
Net (loss) for the period	-	(5,343)	(5,343)
Other comprehensive (loss) for the period		(870)	(870)
Comprehensive (loss) for the period	-	(6,213)	(6,213)
At September 30, 2016	$ 71,373	$ (60,266)	$ 11,107

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

	Note	Three months Ended September 30, 2016	Three months Ended September 30, 2015	Nine months Ended September 30, 2016	Nine months Ended September 30, 2015
CASH PROVIDED BY (USED IN):					
OPERATING ACTIVITIES					
Net income (loss) for the period		$ 90	$ 331	$ (5,343)	$ (16,925)
Items not affecting cash:					
Equity interest from Class A Units of FP Canadian Newspapers Limited Partnership	3	(196)	(526)	(1,326)	(2,498)
Non-cash write-down of investment in FP Canadian Newspapers Limited Partnership		-	-	6,200	18,600
Deferred income tax expense (recovery)		202	(209)	280	(233)
Distributions received on Class A Units of FP Canadian Newspapers Limited Partnership	3	-	931	276	2,794
Net change in non-cash working capital items		(208)	86	352	(118)
		(112)	613	439	1,620
FINANCING ACTIVITIES					
Dividends paid		-	(552)	-	(1,656)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(112)	61	439	(36)
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD		839	345	288	442
CASH AND CASH EQUIVALENTS – END OF PERIOD		$ 727	$ 406	$ 727	$ 406
Supplemental cash flow information:					
Income tax paid (received)		$ 95	$ 262	$ (294)	$ 998

(See accompanying notes)

(unaudited, 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, owns securities entitling it to 49% of the distributable cash as defined in the partnership agreement of FP Canadian Newspapers Limited Partnership (“FPLP”). FPLP is a limited partnership formed under the laws of British Columbia on August 9, 1999. It owns the Winnipeg Free Press, the Brandon Sun and other newspapers, printing and media businesses. The address of FPI’s registered office is Suite 2900, P.O. Box 11583, 650 West Georgia Street, Vancouver, British Columbia, V6B 4N8.

2. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 30, 2015, which have been prepared in accordance with IFRS as issued by the IASB.

The significant accounting policies and methods of computation used in the preparation of these condensed interim financial statements are the same as those followed in the most recent annual financial statements for the year ended December 30, 2015.

These interim condensed financial statements were approved by the Board of Directors of FPI on November 10, 2016.

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, 2014	$ 43,105
Equity interest in net earnings and comprehensive income for the year ended December 30, 2015	2,995
Non-cash write-down of investment in FP Canadian Newspapers Limited partnership Class A limited partner units	(26,440)
Distributions received for the year ended December 30, 2015	(3,071)
Balance at December 30, 2015	$ 16,589
Equity interest in net earnings and comprehensive (loss) for the nine months ended September 30, 2016	135
Non-cash write-down of investment in FP Canadian Newspapers Limited partnership Class A limited partner units	(6,200)
Distributions received for the nine months ended September 30, 2016	(276)
Balance at September 30, 2016	$ 10,248

(unaudited, tabular amounts in thousands of Canadian dollars)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Net earnings (loss) of FPLP	$ 401	$ 1,073	$ (9,994)	$ (18,104)
Add back impairment of goodwill recorded by FPLP	-	-	12,700	23,200
Net earnings of FPLP before goodwill impairment charge	401	1,073	2,706	5,096
Interest attributable to FPI	49%	49%	49%	49%
Equity interest in net earnings of FPLP before goodwill impairment charge	196	526	1,326	2,498
Other comprehensive income (loss) of FPLP	489	(765)	(2,430)	(774)
Interest attributable to FPI	49%	49%	49%	49%
Equity interest in other comprehensive income (loss) of FPLP	$ 240	$ (375)	$ (1,191)	$ (379)

During the nine months ended September 30, 2016, due to lower than anticipated operating results, 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 4.0 to the trailing twelve month EBITDA of FPLP at September 30, 2016. The market multiple was considered to be a level 3 input within the IFRS 13 fair value hierarchy. As a result of the impairment analysis as, FPI concluded the carrying value of the equity share of its investment in FPLP was less than the recoverable amount. Accordingly, FPI recorded an impairment charge relating to its investment in FPLP of $6,200,000 for the nine months ended September 30, 2016.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

FPI does not carry any assets or liabilities at their fair value, and therefore does not prepare a fair value hierarchy.

Financial instruments that are not measured at fair value on the balance sheet are represented by cash and cash equivalents, accounts payable and accrued liabilities and dividend payable. The fair values of such financial instruments approximate their carrying value due to their short term nature.

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

	Note	As at September 30, 2016	As at December 31, 2015
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		$ 10,329	$ 10,721
Accounts receivable		7,357	9,294
Inventories		1,352	1,069
Prepaid expenses and other assets		991	827
		20,029	21,911
LONG-TERM ASSETS			
Property, plant and equipment		30,197	32,888
Intangible assets		6,307	6,215
Goodwill		19,350	32,050
TOTAL ASSETS		**$ 75,883**	**$ 93,064**
LIABILITIES AND UNITHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		$ 5,908	$ 6,060
Provision		-	346
Prepaid subscriptions and deferred revenue		2,835	2,734
Finance lease obligation		863	1,709
Mortgage loan		60	761
Term loan	6	1,550	2,200
		11,216	13,810
LONG-TERM LIABILITIES			
Accrued pension benefit liability		6,859	6,368
Finance lease obligation		1,658	2,302
Mortgage loan		876	-
Term loan	6	34,332	36,655
TOTAL LIABILITIES		54,941	59,135
UNITHOLDERS' EQUITY			
Partner units		98,280	98,280
Deficit		(77,338)	(64,351)
TOTAL UNITHOLDERS' EQUITY		20,942	33,929
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY		**$ 75,883**	**$ 93,064**

(See accompanying notes)

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

	Note	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Revenue					
Print advertising		$ 10,899	$ 12,607	$ 34,831	$ 40,150
Circulation		6,385	6,337	18,673	18,685
Commercial printing		1,085	1,171	3,509	3,589
Digital		626	829	1,968	2,791
Promotion and services		214	195	643	685
TOTAL REVENUE		19,209	21,139	59,624	65,900
Operating expenses					
Employee compensation		8,526	9,426	26,125	28,671
Newsprint and other paper		1,670	1,758	5,070	5,379
Delivery of newspapers		3,509	3,673	10,606	10,953
Other		3,577	3,730	10,692	11,370
Depreciation and amortization		1,058	1,074	3,188	3,226
Restructuring charge		168	86	306	170
Operating income before impairment		701	1,392	3,637	6,131
Impairment of goodwill	8	-	-	(12,700)	(23,200)
OPERATING INCOME (LOSS)		701	1,392	(9,063)	(17,069)
Other income	4	18	22	57	69
Finance costs	4	(318)	(341)	(988)	(1,104)
NET EARNINGS (LOSS) FOR THE PERIOD		$ 401	$ 1,073	$ (9,994)	$ (18,104)
Items that will not be reclassified to net earnings:					
Remeasurements for defined benefit pension plan		489	(765)	(2,430)	(774)
COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		$ 890	$ 308	$ (12,424)	$ (18,878)

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

	Partner Units	Deficit	Total Unitholders' Equity
UNITHOLDERS' EQUITY – DECEMBER 31, 2014	$ 98,280	$ (24,993)	$ 73,287
Net (loss) for the period	-	(18,104)	(18,104)
Other comprehensive (loss) for the period	-	(774)	(774)
Comprehensive (loss) for the period	-	(18,878)	(18,878)
Distributions paid	-	(5,706)	(5,706)
UNITHOLDERS' EQUITY – SEPTEMBER 30, 2015	$ 98,280	$ (49,577)	$ 48,703
UNITHOLDERS' EQUITY – DECEMBER 31, 2015	$ 98,280	$ (64,351)	$ 33,929
Net (loss) for the period	-	(9,994)	(9,994)
Other comprehensive (loss) for the period	-	(2,430)	(2,430)
Comprehensive (loss) for the period	-	(12,424)	(12,424)
Distributions paid	-	(563)	(563)
UNITHOLDERS' EQUITY – SEPTEMBER 30, 2016	$ 98,280	$ (77,338)	$ 20,942

(See accompanying notes)

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

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Cash provided by (used in):				
Operating activities				
Net earnings (loss) for the period	$ 401	$ 1,073	$ (9,994)	$ (18,104)
Items not affecting cash:				
Depreciation and amortization	1,058	1,074	3,188	3,226
Accretion of term loan related to financing costs	9	9	27	27
Impairment of goodwill	-	-	12,700	23,200
Gain on disposal of property, plant and equipment	-	(5)	(3)	(5)
(Excess) of pension contribution over expense	(1,362)	(425)	(2,327)	(1,679)
	106	1,726	3,591	6,665
Net change in non-cash working capital items	395	1,328	1,479	2,864
	501	3,054	5,070	9,529
INVESTING ACTIVITIES				
Purchases of property, plant and equipment	(18)	(123)	(147)	(520)
Purchase of intangibles	(166)	(133)	(443)	(226)
Proceeds from sale of property, plant and equipment	-	5	3	5
	(184)	(251)	(587)	(741)
FINANCING ACTIVITIES				
Distributions to partners	-	(1,903)	(563)	(5,706)
Proceeds from mortgage	950	-	950	-
Principal repayments of finance lease	(505)	(420)	(1,490)	(1,249)
Principal repayments of mortgage loan	(744)	(13)	(772)	(45)
Term loan refinancing costs	-	-	-	(131)
Principal repayment of term loan	-	-	(3,000)	(7,324)
	(299)	(2,336)	(4,875)	(14,455)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	18	467	(392)	(5,667)
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD	10,311	10,097	10,721	16,231
CASH AND CASH EQUIVALENTS – END OF PERIOD	$ 10,329	$ 10,564	$ 10,329	$ 10,564
Supplemental Cash Flow Information:				
Interest paid during the period	$ 310	$ 332	$ 964	$ 1,174
Interest received during the period	18	18	53	73

(See accompanying notes)

(tabular amounts in thousands of Canadian dollars)

1. GENERAL INFORMATION

FP Canadian Newspapers Limited Partnership ("FPLP") is a limited partnership formed on August 9, 1999 in accordance with the laws of British Columbia. FPLP publishes, prints and distributes daily and weekly newspapers and specialty publications, delivers advertising materials in the Manitoba market and provides commercial printing services. The address of the registered office of its managing general partner, FPCN General Partner Inc., is Suite 2900, P.O. Box 11583, 650 West Georgia Street, Vancouver, British Columbia, V6B 4N8.

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS as issued by the IASB.

The significant accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial statements are the same as those followed in the most recent annual financial statements for the year ended December 31, 2015.

These interim condensed consolidated financial statements were approved by the Board of Directors of FPGP on November 10, 2016.

FPLP's advertising revenue is seasonal. Advertising revenue and accounts receivable are highest in the second and fourth fiscal quarters, while expenses are relatively constant throughout the fiscal year.

3. EMPLOYEE FUTURE BENEFIT PLANS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Defined benefit pension plan	$ 414	$ 471	$ 1,242	$ 1,065

(tabular amounts in thousands of Canadian dollars)

4. OTHER INCOME AND FINANCE COSTS

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Other income				
Interest income	$ 18	$ 17	$ 54	$ 64
Gain on sales of property, plant and equipment	-	5	3	5
Total other income	18	22	57	69
Finance costs				
Interest on finance leases	24	41	85	135
Interest on mortgage loan	9	10	27	25
Interest on term loan	276	281	849	917
Accretion of term loan related to financing costs	9	9	27	27
Total finance costs	$ 318	$ 341	$ 988	$ 1,104

5. RELATED PARTY TRANSACTIONS

Total newsprint purchases from Alberta Newsprint Company, a company controlled indirectly by Ronald Stern, for the three and nine months ended September 30, 2016 were $1,500,000 and $4,200,000 ($1,280,000 and $3,720,000 for the three and nine months ended September 30, 2015) .

6. LONG-TERM DEBT

The long-term debt renewal agreement with HSBC Bank Canada was renewed on January 8, 2015 with a maturity date of January 31, 2020. On the renewal date, $6,300,000 of principal was repaid reducing the outstanding principal to $40,000,000. 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 principal repayment of $2,000,000 was made on March 21, 2016 for the 2015 financial year results. 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. 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 FPGP.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

As at September 30, 2016 FPLP did not carry any financial assets and liabilities measured at fair value in the consolidated balance sheet.

The fair value of current assets and liabilities including cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates their carrying value due to the short-term nature of these financial instruments. At September 30, 2016 the fair value of the HSBC term loan, based on Level 3 fair value hierarchy inputs, is approximately $36,000,000 (December 31, 2015 $39,000,000) and the carrying value is $35,900,000 (December 31, 2015 $38,860,000). 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 payable has been calculated by discounting the expected cash flows of each debt using a discount rate of 3.07% and 4.80%, 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.

8. IMPAIRMENT OF GOODWILL

During the nine months ended September 30, 2016, as a result of continued revenue declines due to economic factors including the uncertainty of the print advertising market and the rapidly evolving digital advertising market, FPLP performed an impairment analysis. The recoverable amount of the goodwill cash generating unit ("Goodwill CGU"), which represents the single operating segment of FPLP, was based on fair value less costs to dispose. The fair value less costs to dispose goodwill CGU was determined by multiplying the reforecast full year 2016 EBITDA by a market multiple of 4.0. The market multiple was considered to be a level 3 input within the IFRS 13 fair value hierarchy. FPLP recorded an impairment charge relating to its goodwill of $12,700,000 for the nine months ended September 30, 2016.

9. MORTGAGE RENEWAL

In August, FPLP signed a mortgage renewal agreement on its real estate assets in Steinbach at the Derksen Printers facility. Gross proceeds of the mortgage of $950,000 were partly used to repay the mortgage that was due on July 28, 2016 of $730,000, with the balance available for general business purposes.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements are subject to known and unknown risks and uncertainties that may cause the actual results, performance or achievements of the Corporation or FPLP, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the current general economic uncertainty, FPLP's ability to effectively manage growth and maintain its profitability, FPLP's ability to operate in a highly competitive industry, FPLP's ability to compete with other forms of media, FPLP's ability to attract advertisers, FPLP's reliance upon key personnel, FPLP's relatively high fixed costs, FPLP's dependence upon particular advertising customer segments, indebtedness incurred in making acquisitions, the availability of financing for capital improvements, the availability of an extension or refinancing of FPLP's term loan facilities, costs related to capital expenditures, cyclical and seasonal variations in FPLP's revenues, the risk of acts of terrorism, the cost of newsprint, the potential for labour disruptions, the risk of equipment failure, and the effect of Canadian tax laws. Additional information about these and other factors is discussed under "Risk Factors" in our Annual Information Form dated March 9, 2016, which is available at www.sedar.com.

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

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

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