FP Newspapers Inc.

Management's Discussion and Analysis

First Quarter
March 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS
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May 10, 2017

OVERVIEW

Management's discussion and analysis, prepared as at May 10, 2017, provides a review of significant developments that affected the performance of FP Newspapers Inc. ("FPI") in the three months ended March 31, 2017. 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 March 31, 2017.

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, 2016 prepared in accordance with IFRS and with the interim unaudited condensed financial statements and accompanying notes for the first quarter of 2017.

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

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

FORMATION AND LEGAL ENTITIES

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

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

FPLP is a limited partnership formed on August 9, 1999. Effective November 29, 2001, FPLP acquired the business assets and assumed certain liabilities of the Winnipeg Free Press and the Brandon Sun. On July 13, 2004, FPLP acquired the business assets and liabilities of Canstar Community News ("Canstar"). On February 28, 2011, FPLP acquired the business assets and assumed certain liabilities of a commercial printing and publishing business operating under the name Derksen Printers based in Steinbach, Manitoba. 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 2017, 2016, and 2015 is as follows:

	2017	2016	2015
	In thousands of dollars (except per share amounts)		
Revenue			
Quarter 1	$ 305	$ 391	$ 606
Quarter 2		740	1,367
Quarter 3		196	526
Quarter 4		1,051	1,407
Net earnings (loss)			
Quarter 1	$ 186	$ 250	$ 399
Quarter 2(*)		(5,683)	(17,655)
Quarter 3		90	331
Quarter 4(*)		(4,148)	(6,851)
Net earnings (loss) per share			
Quarter 1	$ 0.027	$ 0.036	$ 0.058
Quarter 2(*)		(0.823)	(2.558)
Quarter 3		0.013	0.048
Quarter 4(*)		(0.601)	(0.993)

(*) A non-cash write-down of $6.2 million was recorded in the second quarter of 2016 and a non-cash write-down of $4.9 million was recorded in the fourth quarter of 2016. 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. These write-downs were 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 $0.2 million for the three months ended March 31, 2017, compared to net earnings of $0.3 million for the same period last year. The decrease in net earnings is primarily due to a decrease in the equity share of the net earnings of FPLP with details of this decline disclosed in the FPLP section of this report. Other comprehensive income for the three months ended March 31, 2017 was negligible, compared to a loss of $0.6 million in the first quarter of 2016. Other comprehensive 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 May 10, 2017, FPI had 6,902,592 shares outstanding.

FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP

Results of Operations

FPLP's revenue for the three months ended March 31, 2017 was $18.2 million, a decrease of $1.4 million or 7.3% from the same three months in the prior year. FPLP's print advertising revenues for the three months ended March 31, 2017 were $10.3 million, a $1.3 million or 11.5% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was $5.9 million, a decrease of $1.2 million or 17.2% from the same period in the prior year, primarily due to decreased spending in the local and national automotive, financial and retail categories, partly offset by increased spending in the travel category. Classified advertising revenues for the first quarter decreased by $0.3 million or 16.8% compared to the same period last year, primarily due to lower spending in the real estate and employment categories. Flyer distribution revenues increased by $0.2 million or 7.0% compared to the first quarter in 2016, primarily due to an increase in flyer volumes and higher rates.

Operating expenses for the three months ended March 31, 2017were $17.3 million, a decrease of $1.2 million or 6.6% compared to the same quarter last year. Employee compensation costs for the first quarter decreased by $0.8 million or 9.0% 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. Delivery expenses for the three months ended March 31, 2017 decreased by $0.2 million or 6.0%, primarily due to the cost savings related to the consolidation of the carrier depots.

EBITDA(1) for the three months ended March 31, 2017 was $1.7 million compared to $2.2 million for the same period last year, a decrease of 22.1%. EBITDA(1) margin for the three months ended March 31, 2016 was 9.4%, compared to 11.1% in the same period last year. The changes in EBITDA(1) were due to the factors described above.

Finance costs for the three months ended March 31, 2017 decreased slightly, primarily due to the lower level of debt outstanding.

FPLP's net earnings were $0.6 million for the three months ended March 31, 2017, compared to $0.8 million for the same period last year.

Under IFRS, comprehensive income includes remeasurements gains and losses related to FPLP's defined benefit pension plan. These gains and losses are primarily related to changes in actuarial discount rate assumptions and returns on plan assets differing from expected income. In the three months ended March 31, 2017, the actuarial gain was due to decreases in the defined benefit obligation primarily resulting from a higher actual return on the plan's investments compared to the actuarial expected return assumptions, partially offset by an actuarial discount rate decrease.

The Winnipeg Free Press was nominated for three awards at the 68th National Newspaper Awards competition. The awards are open to daily newspapers, news agencies, as well as online news sites approved for entry by the national Newspaper awards Board of Governors. Randy Turner and John Woods were nominated in the arts and entertainment category for their coverage of the Inuit art movement and the planned Inuit Art Centre. Randy Turner was also nominated in the sports category for a story on small-town arenas and what they mean to their communities. Melissa Martin was nominated in the columns category for her piece on Gord Downie and the right to die as well as a piece on a small town Pride parade.

In April the Winnipeg Free Press was named one of five finalists for the Canadian Journalism Foundation's prestigious Jackman Award for excellence in the large media category. The nomination was for tackling indigenous issues and reconciliation from three angles, examining remedial efforts at both the federal and provincial levels and through art. The award recognizes news organizations that embody exemplary journalism that positively impacts the communities they serve. Finalists are chosen in two categories: large and small media. The Free Press has won the award twice since the award was established in 1996. It recognizes the journalistic ideals of accuracy, independence, accountability, courage and originality.

Winnipeg Free Press reporter Kevin Rollason was selected by the Royal Canadian Legion to receive the Legion's Media Award for his story "Fading but not forgotten", a look at how while the number of second World War veterans is dropping, there are organizations like the Henderson Highway Legion Branch 215, which are working hard to remember them. The award was established by the Legion's Dominion Command to recognize individuals or organizations from media which publicize the work in the community of Legion Branches, Zones, Districts and provincial Commands.

The *International News Media Association* selected the Winnipeg Free Press as finalist in two categories, the *best brand awareness campaign* and the *best idea to grow digital readership or engagement*. The brand awareness campaign was a year-long campaign comprised of three separate and distinct elements: that no news is bad news, that our stories make a difference, and that we are a repudiation of fake news. *The Winnipeg Free Press Insiders Program* was selected as a finalist in the *best idea to grow readership or engagement* category. With the objective of improving our subscribers' online experience we introduced a number of new ways: online subscribers are able to create a customizable homepage and get real-time feedback on their reading activity. Winnipeg Free Press Insiders were offered exclusive access to Insider Events, including a conversation with former Canadian ambassador to the United States, Gary Doer, and local Olympic soccer medalist Desiree Scott.

News Break, the Winnipeg Free Press's new locally developed, mobile first, app was launch in the Apple App store at the beginning of March. It received over 11,000 downloads from readers since launch, and has maintained a 4+ star rating during that time. Free Press readers have responded to the product very positively, and are demonstrating continued interest with close to half of all downloads still active weekly. Apple seems to agree with readers, having featured the app in “Apps we love” in the apple news section. The app however, has not driven significant new readership numbers, with most of the 11,000 coming from existing customers. Enhancements are planned for both marketing and in-app trials to broaden its reach to attract a new customer base.

During the first quarter an external consulting firm was hired to review the existing operations and provide recommendations for improvements. The fieldwork and final report was completed in February with the assistance of various managers and staff at all our business units. Management are continuing to implement improvement ideas generated by the review in the on-going effort to improve the efficiency of our businesses.

During the first quarter we completed the actuarial valuation for the Winnipeg Free Press and Canstar Community News defined benefit pension plan**.** The valuation as of December 31, 2016 shows the plan has a $9.4 million surplus on a going concern valuation basis up from $5.2 million last year. On a solvency valuation basis, the fund has a deficit of $7.6 million which represents a funded ratio of 83.3% up from 75.6% last year. As reported in the fourth quarter, the Manitoba Pension Commission issued Special Payment Relief Regulation 2016 in December of 2016. This regulation allows plan sponsors to request plan members to approve an extension from five to ten years for the funding of the solvency deficiency. FPLP management completed the process of communicating the relief opportunity to members and other beneficiaries and allowed them the opportunity to object to the extension. On April 28, we concluded that there were not more than one-third of the plan members that objected to the extension and FPLP management completed the required documentation to enact the extension. With the longer amortization period, the required past service pension funding for 2017 will be $1.3 million, a $2.2 million decrease from the past service funding in 2016. Total pension funding in 2017 is estimated to be $2.6 million a decrease of $2.2 million from the 2016 total funding of $4.8 million.

Late in the first quarter we made the decision to assume responsibility of our own national account representation which was previously handled by a sales agency in Toronto. Kim Warburton, our National Manager based in Winnipeg, has assumed greater responsibility and will represent all our businesses in front of customers and advertising agencies located primarily in Toronto, Montreal and Vancouver.

The Brandon Sun continued with restructuring in the first quarter with the elimination of four positions. Two occurred in the newsroom, one in the classified department and one in advertising. The emphasis on more local content in the Brandon Sun daily edition and in the weekly *Westman This Week* publication has provided for growth in readership for both print and online subscribers. The Brandon Sun celebrated its 135th anniversary in the first quarter with a special front page commemorating the official anniversary of the newspaper and sold an advertising feature to support it. During the second quarter this year a special section will be compiled to commemorate the City of Brandon, Provincial Exhibition and the Brandon Sun – all celebrating 135th Anniversaries in the community. The Brandon Sun Community Leader Awards were launched in the first quarter with over seventy nominations received in eleven categories. The special print section and presentation of the awards will take place in June. The Brandon Sun is working on redesigning its website and the new site is planned to be introduced to the market before the end of the second quarter. The new site will provide an opportunity for increased traffic and advertising revenue growth. The *Carberry News Express* launched two new monthly advertising features Shop Local and Ask the Professional that are planned to become regularly scheduled sections going forward.

Canstar Community News had a challenging first quarter as last year’s revenue benefited from some incremental provincial election advertising. The six community weeklies continue to be well-read in print and online, and the editorial and advertising teams continue to develop streamlined special sections, such as a monthly Community Homes supplement, education registration sections, a City Shopper section and monthly local spotlights. Editorially, the papers continue to be hyper-local in their approach to community news, politics, business and sports.

In Steinbach, the Carillon has been focused on developing niche areas to drive display advertising revenues. In the first quarter, the Carillon launched Profiles of the Southeast, Made in the Southeast and Vision Health Month that all added to the Carillon revenues. In the quarter we expanded the flyer distribution footprint by introducing door-to-door delivery to the neighbouring communities of Mitchell and Blumenort, which will help expand our flyer delivery business. On the commercial printing side of the business we are actively exploring opportunities to expand our services both within and outside our province. We recently had success winning a competitive bid for a new customer in Saskatchewan. Careful managing of our costs is always important and during the first quarter we were able to negotiate pricing improvements in both plate and ink costs. The Carillon also continued its strong record of quality content, being selected in three categories in the Canadian Community Newspaper Awards taking home honours for Editorial Writing, Sports Coverage and our Annual Christmas edition.

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 2017, 2016 and 2015 were as follows:

	2017	2016	2015
		In thousands of dollars	
Revenue			
Quarter 1	$ 18,218	$ 19,642	$ 21,300
Quarter 2		20,773	23,461
Quarter 3		19,209	21,139
Quarter 4		20,881	23,126
		$ 80,505	$ 89,026
EBITDA(1)			
Quarter 1	$ 1,704	$ 2,189	$ 2,684
Quarter 2(*)		2,877	4,207
Quarter 3		1,759	2,466
Quarter 4(*)		3,412	4,253
		$ 10,237	$ 13,610
Net Earnings (Loss)			
Quarter 1	$ 621	$ 797	$ 1,236
Quarter 2(*)		(11,192)	(20,413)
Quarter 3		401	1,073
Quarter 4(*)		(7,856)	(13,128)
		$ (17,850)	$ (31,232)

(*)Goodwill impairment charges of $12.7 million in the second quarter of 2016 and $23.2 million in the second quarter 2015 and $10.0 million in the fourth quarter of 2016 and $16.0 million in the fourth quarter of 2015 were recorded primarily due to continued declines in revenues and earnings.

Liquidity and Capital Resources of FPLP

Cash and cash equivalents at March 31, 2017 was $10.9 million, compared to $10.0 million at December 31, 2016. 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. 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 months ended March 31, 2017, cash generated from operating activities was $3.3 million, compared to $3.1 million for the same period in 2016. Net earnings for the three months ended March 31, 2017 were $0.6 million, compared to $0.8 million for the same period in 2016. The net change in non-cash working capital provided $2.7 million of cash, compared to $1.7 million in the same period last year. The increase in cash provided by non-cash working capital changes is primarily the result of timing of receipts from customers.

Investing Activities

Capital asset additions were less than $0.1 million for the three months ended March 31, 2017, compared to $0.1 million in the same period in the prior year. Capital spending in the three months ended March 31, 2017 was primarily for the development of the Winnipeg Free Press Newsbreak ios app.

Financing Activities

Financing activities used $2.3 million for the three months ended March 31, 2017, compared to $3.1 million for the same period in 2016. The primary reason for the lower use of funds is due to the reduction of finance lease principal and there were no distributions to partners in the first quarter of 2017 compared to $0.6 million in the first quarter of 2016.

Contractual Obligations

There have been no significant changes to contractual obligations since December 31, 2016.

Related Party Transactions

FPLP purchased a 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, 2016. Total newsprint purchases from ANC, based on actual invoice prices, for the three months ended March 31, 2017 were $1.2 million, compared to $1.7 million for the same period last year.

DISCLOSURE CONTROLS AND PROCEDURES

In FPI's 2016 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 first quarter 2017 filings, the CEO and CFO certify, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design of the Corporation's disclosure controls and procedures, and the design of internal controls over financial reporting.

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

There have been no changes to FPI's internal controls over financial reporting that occurred during the first quarter of 2017 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 2016 year-end.

OUTLOOK

The print advertising market will continue to be challenging going forward. To date in the second quarter, print advertising revenues are trending at similar year over year levels that were seen in the first quarter. On May 3, The Outlet Collection Winnipeg opened and is Manitoba's first pure outlet shopping destination. The new facility offers more than 570,000 square feet of shopping featuring over one hundred popular outlet brands. Winnipeg Free Press and Canstar Community News advertising sales staff will be making every effort to generate new advertising partnerships in the coming months.

The pension solvency relief measures finalized in early April will provide significant cash flow relief for the remainder of the year. Since we were required to comply with higher pre-relief funding levels for the first four months of the year, company past service contributions for the months of April thorough December will total $0.2 million compared to $2.7 million for the same 8 month period last year.

A committee made up of senior managers at the Winnipeg Free Press, Unifor representatives and unionized departmental employees has been formed and has held a series of meetings to discuss the pressures the continued revenue declines are having on the business and what changes might be possible to help deal with these pressures. The meetings have included discussions around possible changes to the current collective bargaining agreement for inside workers at the Winnipeg Free Press which is scheduled to end on June 30, 2018. The Committee has agreed on a tentative agreement and unionized employees will be holding a ratification vote on Saturday May 13, 2017.

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 March 31,	
	2017	**2016**
	In thousands of dollars	
Net earnings for the period	$ 621	$ 797
Add (subtract):		
Depreciation and amortization	791	1,065
Finance costs	313	345
Other income	(21)	(18)
EBITDA	$ 1,704	$ 2,189

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 Management Discussion and Analysis dated March 17, 2017, 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.