FP Newspapers Inc.

Management's Discussion and Analysis

First Quarter
March 31, 2019

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May 28, 2019

OVERVIEW

Management's discussion and analysis, prepared as at May 28, 2019, provides a review of significant developments that affected the performance of FP Newspapers Inc. ("FPI") in the three months ended March 31, 2019. 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, 2019.

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, 2018 prepared in accordance with IFRS and with the interim unaudited condensed financial statements and accompanying notes for the first quarter of 2019.

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 income and net income per share for 2019, 2018 and 2017 is as follows:

	2019	2018	2017
	In thousands of dollars (except per share amounts)		
Revenue			
Quarter 1	$ 121	$ (53)	$ 305
Quarter 2		435	802
Quarter 3		65	150
Quarter 4		740	590
Net income (loss)			
Quarter 1	$ 54	$ (84)	$ 186
Quarter 2(*)		(2,463)	566
Quarter 3		22	71
Quarter 4(*)		560	(2,523)
Net income (loss) per share			
Quarter 1	$ 0.008	$ (0.012)	$ 0.027
Quarter 2(*)		(0.357)	0.082
Quarter 3		0.003	0.010
Quarter 4(*)		0.081	(0.365)

(*) A non-cash write-down of $3.1 million was recorded in the second quarter of 2018 and a non-cash write-down of $2.9 million was recorded in the fourth quarter of 2017. 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 income of $0.1 million for the three months ended March 31, 2019, compared to a net loss of $0.1 million for the same period last year. The increase in net income is primarily due to an increase in the equity share of the net income of FPLP with details disclosed in the FPLP section of this report. Other comprehensive income for the three months ended March 31, 2019 were $0.4 million compared to other comprehensive loss of $0.1 million for the same period in 2018. Other comprehensive income 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 28, 2019, 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, 2019 was $15.5 million, a decrease of $0.6 million or 3.6% from the same three months in the prior year. FPLP's print advertising revenues for the three months ended March 31, 2019 were $8.0 million, a $0.8 million or 9.0% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was $4.3 million, a decrease of $0.3 million or 6.4% from the same period in the prior year, primarily due to decreased spending in the local and national automotive and retail categories, partially offset by an increase in the telecommunications category. Classified advertising revenues for the first quarter decreased by $0.2 million or 12.8% compared to the same period last year, primarily due to lower spending in the obituary, employment and real estate categories. Flyer distribution revenues decreased by $0.2 million or 8.8% compared to the first quarter in 2018, primarily due to a decrease in flyer volumes delivered.

Circulation revenue increased by $0.1 million or 2.4% compared to the same quarter last year, primarily due to an increase in print subscription prices and increased digital subscription revenue. Digital advertising revenues were $0.6 million, an increase of $0.1 million or 27.0% compared to the first quarter of 2018, primarily due to increased digital design services revenues and revenues from web ads and mobile ads.

Operating expenses for the three months ended March 31, 2019 were $15.0 million, a decrease of $0.9 million or 5.6% compared to the same quarter last year. Employee compensation costs for the first quarter decreased by $0.4 million or 5.0% from the same period in the prior year, primarily due to a reduction in the number of employees across most of our business units. Newsprint expense for FPLP's own publications for the first quarter decreased by $0.1 million or 3.2% compared to the same period in the prior year, primarily due to lower printing volumes, partly offset by higher newsprint prices. Delivery expenses for the three months ended March 31, 2019 decreased by $0.3 million or 10.2%, primarily due to a lower number of circulation subscriptions delivered and initiatives implemented to improve delivery route efficiency. Other expenses for the three months ended March 31, 2019 decreased by $0.1 million, primarily due to the expiration of a major sponsorship agreement.

EBITDA(1) for the three months ended March 31, 2019 was $1.2 million compared to $0.9 million for the same period last year, an increase of 32.0%. EBITDA(1) margin for the three months ended March 31, 2019 was 7.6%, compared to 5.5% 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, 2019 decreased slightly, primarily due to the lower level of debt outstanding.

FPLP's net income was $0.2 million for the three months ended March 31, 2019, compared to net loss of $0.1 million for the same period last year.

Under IFRS, comprehensive income includes remeasurement 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, 2019, 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 indigenous writer Niigaan Sinclair was named Canada's best columnist at the National Newspaper Awards gala held Friday May 3, 2019. Sinclair, who is Anishinaabe and writes about indigenous issues, joined the Free Press as a regular columnist in June 2018. Sinclair is currently on sabbatical from his job as an associate professor at the University of Manitoba. Free Press reporters Jessica Botelho-Urbanski, Melissa Martin and Katie May were finalists in the Project of the Year category for Ice Storm: Manitoba's Meth Crisis. The seven-part series documented how Methamphetamine is ravaging Winnipeg and destroying lives.

A Winnipeg Free Press photographer won three News Photographers Association of Canada awards at the gala event held on April 13. Mikaela MacKenzie took first and second in the single Multimedia category and third in Portrait/Personality. Her first for Multimedia was for One Dog at a Time, a video about dangerous number of stray dogs at northern reserves. Her second place win was for her story, Sisterly Love, about the Sisters of the Holy Rock singing group. Her third place win was for a portrait of a former patient of the Children's Hospital for a story on the hospital's television program.

The Winnipeg Free Press was recognized at the prestigious 2019 Global Media Awards winning the first place award in the Best Idea to Grow Digital Readership or Engagement category for "Above the Fold" the online edition highlighting the day's top stories published every weeknight. The Global Media Awards are produced by the International News media Association and the winners were announced at the closing dinner of the INMA World Congress of News Media in New York on May 17, 2019.

During the first quarter the digital team at the Free Press completed the release of Newsbreak v2.0, a significantly updated version available to subscribers at both the Apple Store and Google Play. This is the first version of the award winning app for android operating systems. The News break app won the 2018 INMA Global Media Award for best use of mobile. The updated version allows the user to select which topics and writers matter most to them so they get more of what they want. Alerts have also been added to the new version so the Free Press can notify the user when major news is breaking. In addition to launching the updated News break app, the E-editions apps were also launched which allows readers to easily swipe their way through the digital version of the newspaper. The new e-edition apps were launched in both the apple Store and Google Play and we have seen an increase in daily traffic to the e-edition product which is viewable both on these new apps and on desk top computers.

The Manitoba Community Newspaper Association held its 100th annual better Newspaper Competition and Centennial Dinner on May 11, 2019. Canstar Community News journalist Danielle Da Silva won 6 awards including two first place awards for her work in the best business story and the best health story categories. In addition to her first place awards she received second place awards in the best arts and culture story and the best sports story categories and third place awards in the best feature story and best community story categories. Debbie Wilson and Karen Spence won a first place award in the best ad category and Simon Fuller won a second place award in the best community story category.

The six Canstar community weeklies continue to serve over 200,000 households in Winnipeg and area. Editorially, the papers continue their hyperlocal focus and Canstar's community journalists will soon unveil a series of reports on the more than 75 community centres that operate in our coverage areas — asking questions such as what programming they offer to our communities; what difficulties they face; and what their future may hold. Canstar's sales department is on board with this initiative while at the same time continuing its efforts to develop new business, special projects and partnerships such as those we have with CancerCare Manitoba, the Society for Manitobans with Disabilities and Assiniboia Downs.

The Brandon Sun team has continued to deliver improved operating results under Jim Mihaly's leadership. The first quarter saw an improvement in national revenues in addition to improved revenues from local sections and features. In addition to improved revenues the Brandon management team continues to effectively manage expenses and during the first quarter a plan was implemented to lower delivery expenses from streamlining motor routes and trucking routes.

Erin Debooy of the Brandon Sun was a finalist in the Local Reporting category at the National Newspaper Awards for her examination of the personal and human toll caused by Methamphetamine use in the western Manitoba City.

In Steinbach we are moving forward with a re-launch of The Carillon website which will provide additional news on a daily basis; this is being funded by a grant from the Province of Manitoba Sustainable Development to help migrate readers to digital. We are also adding a new replica edition of our print product through Tecnavia the supplier for both Brandon and Winnipeg's replica edition and we will be offering this as a bonus to all print subscribers.

The Carillon newspaper was the winner of seven awards at the May 2019 Manitoba Community Newspapers Association's 100th annual Better Newspapers competition. The Carillon won Best All Around Newspaper in the 3,600-9,999 circulation category. First place awards were also won by the Carillon in the Best Christmas Edition and Best Columnist categories. Second place awards were received in the Best First Nation Coverage, Best Health Story, and Best Tourism Story categories. A third place award was received in the Best Agricultural Section category.

Quarterly Summary

Newspaper publishing is, to a certain extent, a seasonal business, with a higher proportion of revenues and operating income occurring during the second and fourth quarters of the calendar year. Revenue, EBITDA[(1)] and net income of FPLP by quarter for 2019, 2018 and 2017 were as follows:

	2019	2018	2017
		In thousands of dollars	
Revenue			
Quarter 1	$ 15,493	$ 16,070	$ 18,218
Quarter 2		17,375	18,795
Quarter 3		15,925	16,893
Quarter 4		17,651	18,043
		$ 67,021	$ 71,949
EBITDA[(1)]			
Quarter 1	$ 1,171	$ 887	$ 1,704
Quarter 2[(*)]		1,846	2,706
Quarter 3		1,096	1,362
Quarter 4[(*)]		2,456	2,241
		$ 6,285	$ 8,013
Net Income (Loss)			
Quarter 1	$ 244	$ (110)	$ 621
Quarter 2[(*)]		(5,465)	1,637
Quarter 3		132	305
Quarter 4[(*)]		1,508	(4,797)
		$ (3,935)	$ (2,234)

[(*)] Goodwill impairment charges of $6.4 million in the second quarter of 2018 and $6.0 million in the fourth quarter of 2017 were recorded primarily due to continued declines in revenues and earnings.

Liquidity and Capital Resources of FPLP

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with existing and future financial liabilities that are and will be settled by delivering cash or another financial asset as they come due. Cash and cash equivalents at March 31, 2019 was $2.7 million, compared to $4.3 million at December 31, 2018. Cash and cash equivalents may be used to reduce debt, to fund future capital eexpenditures, to pay future distributions (including future income taxes payable by the partners), or for other strategic initiatives or 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 and interest payments under FPLP's credit facility and finance lease obligations and anticipated distributions, assuming that advertising revenues do not materially deteriorate beyond management's current expectations.

The Company's most significant financial obligation relates to its long-term debt which matures on January 31, 2020 (note 6). Management and the controlling shareholder have ongoing discussions with the lender relating to the loan, which include the approaching maturity date.

Cash Flow from Operating Activities

During the three months ended March 31, 2019, cash generated from operating activities was $1.2 million, compared to $1.1 million for the same period in 2018. Net income for the three months ended March 31, 2019 was $0.2 million, compared to net loss of $0.1 million for the same period in 2018. The net change in non-cash working capital provided $0.4 million of cash, compared to $0.7 million in the same period last year. The decrease in cash provided by non-cash working capital changes is primarily the result of timing of payments to vendors.

Financing Activities

Financing activities used $2.7 million for the three months ended March 31, 2019, compared to $0.2 million for the same period in 2018. The primary reason for the higher use of funds is due to the voluntary early principal repayment of $2.5 million on the term loan in March 2019.

Commitments and Contingencies

Effective January 1, 2019, FPLP has applied IFRS 16, Leases and changed its accounting policy for lease contracts, which previously were included in commitments and contractual obligations. IFRS 16 was applied only to contracts that were previously identified as operating leases, exempting short-term leases of equipment and leases of low value.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate.

At January 1, 2019 $0.2 million was transferred from operating commitments to property, plant and equipment on the balance sheet and lease obligations were increased by the same amount. The right-of-use assets will be depreciated by the amount of the monthly lease payment less the interest expense.

There has been no change in the status of the Multimaterial Stewardship Manitoba matter detailed in Note 11 in the annual financial statements at December 31, 2018.

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, 2018. Total newsprint purchases from ANC, based on actual invoice prices, for the three months ended March 31, 2019 were $1.0 million, compared to $1.2 million for the same period last year.

ACCOUNTING POLICIES

The accounting policies adopted in preparation of the condensed consolidated financial statements for FPI and FPLP are consistent with those followed in the preparation of the annual consolidated financial statements for the year ended December 30, 2018 and December 31, 2018, respectively, except for the adoption of IFRS 16, *Leases* which was effective January 1, 2019. The impact of adoption of IFRS 16 is summarized in Note 2 of the respective financial statements.

DISCLOSURE CONTROLS AND PROCEDURES

In FPI's 2018 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 2019 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 2019 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 2018 year-end.

OUTLOOK

We expect the long term trend of lower print advertising revenues to continue. To date in the second quarter we have seen print advertising revenues at slightly better year-over-year levels than we experienced in the first quarter.

In May management and the union representing the unionized employees of the Winnipeg Free Press and Canstar Community News and the unionized delivery agents of the Winnipeg Free Press completed the negotiation of the collective bargaining agreements that were scheduled to end on June 30 2019. A ratification vote for the two year agreement that will run to June 30, 2021 is scheduled for June 1, 2019. The negotiated extension terms would see wage rates unchanged from existing levels and cooperation between the union and management at exploring the option of transferring the defined benefit pension plan to a multi-employer plan with fixed maximum company contributions going forward. The contingent wage reduction language that was negotiated in the 2017 renewal remains in place. Under this agreement, if free cash (as defined in the agreement) falls below $0.8 million for a rolling 12 month period an 8% wage reduction would apply for the majority of employees, with newer employees hired on a reduced compensation grid subject to a 4% wage reduction.

We continue to wait for further details with respect to the federal government support for journalism programs previously announced in the 2019 budget. Bob Cox provided expert testimony at budget committee hearings in May and we're hopeful that the industry will get further clarification on the support programs in the coming months.

On April 29 the owners of the Westman Journal in Brandon announced its closure. The publication which began as an independent weekly free publication in 2002 was purchased by Glacier Media in 2004.

NON-IFRS MEASURES

(1) EBITDA

FPLP believes that in addition to net income as reported on FPLP's interim condensed consolidated statements of income, 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 income 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,	
	2019	**2018**
	In thousands of dollars	
Net income (loss) for the period	$ 244	$ (110)
Add (subtract):		
Depreciation and amortization	721	748
Finance costs	222	270
Other income	(16)	(21)
EBITDA	$ 1,171	$ 887

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 April 17, 2019, 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.