FP NEWSPAPERS INC.

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021 AND 2020

Approved for issuance: AUGUST 25, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis is dated **August 25, 2021** and does not reflect changes or information subsequent to this date. Additional regulatory filings for FP NEWSPAPERS INC. ("FPI") can be found on the SEDAR website at www.sedar.com.

The following discussion and analysis is supplementary to, and should be read in conjunction with, with our financial statements for the three and six months ended June 30, 2021.

Forward-Looking Statements

Certain statements in this discussion and analysis may constitute forward-looking statements that reflect management's expectations regarding future growth, financial performance and business opportunities that are not historical facts. Such forward-looking statements are subject to risks and uncertainties set out below under the heading "Caution Regarding Forward-Looking Statements". All such forward-looking statements are made pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. These statements reflect current expectations of management regarding future events and operating performance and speak only as of the date of this discussion and analysis. They are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes.

Interim Financial Statements

Our interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 – Interim Financial Reporting. Because interim financial statements do not include the same information and disclosures that are required for annual financial statements, this discussion and analysis should also be read in conjunction with our most recent audited consolidated financial statements for the year ended December 30, 2020, which are available on the SEDAR website.

All monetary amounts, unless otherwise indicated, are expressed in Canadian dollars.

OVERVIEW AND BACKGROUND

FP NEWSPAPERS INC. has no active business. It owns securities entitling it to 49% of the distributable cash flow of FP CANADIAN NEWSPAPERS LP ("FPLP"). FPLP owns and operates the Winnipeg Free Press, along with several other Manitoba based news and media publications that are available in both print and digital formats. The informative and engaging content we produce has an extensive reach throughout the province of Manitoba. The breadth of our reach provides compelling platforms for those looking to effectively reach a Manitoba audience.

OPERATING RESULTS

A discussion of our quarterly operating results

($ in 000's)	**For the three months ended June 30, 2021**	**2020**	**For the six months ended June 30, 2021**	**2020**
Equity interest in FP Canadian Newspapers Limited Partnership Income	$ 611	$ 1,902	$ 417	$ 2,014
Administration expenses	(48)	(33)	(87)	(76)
Other income	-	-	-	-
Income before income taxes	563	1,869	330	1,938
Current income tax recovery (expense)	(467)	(539)	(381)	(551)
Deferred income tax recovery	-	14	489	17
Net income for the period	95	1,344	438	1,404
Items that will not be reclassified to net income (loss):				
Equity interest of other comprehensive (loss) income from FP Canadian Newspapers Limited Partnership	-	128	-	(1,467)
Deferred income tax recovery	-	(35)	-	396
Comprehensive income for the period	$ 95	$ 1,437	$ 438	$ 333
Weighted average number of Common Shares outstanding	6,902,592	6,902,592	6,902,592	6,902,592
Net income per share – basic and diluted	$ 0.014	$ 0.195	$ 0.063	$ 0.203

Equity interest in FP Canadian Newspapers Limited Partnership Income (Loss)

FPI's proportionate share of FPLP net income for the three and six months ended June 30, 2021, was $0.6 and $0.4 million, respectively, compared to income of $1.9 and $2.0 million in the same period last year. See the supplemental management and analysis of FPLP included herein.

Administrative Expenses

Administrative expenses are flat compared to the same period last year.

Income Taxes

Current income taxes include FPI's proportionate share of FPLP's non-conterminous taxable income resulting in fluctuations of FPI's effective tax rate.

The deferred income tax recovery reflects an adjustment of $0.5 million to the net deferred tax liability relating to eligible capital expenditures, historical goodwill, and intangible assets of FPLP during the three months ended March 31, 2021.

Net Income

Net income for the period reflects FPI's investment in FPLP and its underlying performance for the period.

Comprehensive Income (loss)

Comprehensive income (loss) for the three and six months ended June 30, 2021, was $0.1 and $0.4 million, respectively, compared to an income of $1.4 and $0.3 million for the same period last year. Other comprehensive income or losses are a result of FPLP recognizing remeasurement gains or losses related to their defined benefit pension plan. This pension plan was settled in December 2020 as part of FPLP's transition to the Colleges of Applied Arts & Technology Pension Plan, a multi-employer defined benefit plan.

SUMMARY OF QUARTERLY PERFORMANCE

A summary view of our quarterly financial performance

The following table presents selected financial information for each of the nine most recently completed quarters:

		Quarter Ended								
($ in '000's, except share $)		2021 Jun - 30	2021 Mar - 31	2020 Dec - 31	2020 Sep - 30	2020 Jun - 30	2020 Mar - 31	2019 Dec - 31	2019 Sep - 30	2019 Jun - 30
FP CANADIAN NEWSPAPERS LP										
Revenue	$	13,675	12,875	14,444	12,885	11,883	14,218	16,227	15,129	16,971
Net income (Loss)	$	1,246	(395)	6,813	523	3,882	227	2,088	360	1,735
Proportionate % of Net Income (Loss) attributable to FP NEWSPAPERS INC		49.0%	49.0%	49.0%	49.0%	49.0%	49.0%	49.0%	49.0%	49.0%
Net income (Loss) attributable to FP NEWSPAPERS INC	$	611	(194)	3,339	256	1,902	112	1,026	177	850
FP NEWSPAPERS INC.										
Net income	$	95	341	2,454	126	1,344	60	687	67	636
Net income per Share	$	0.014	0.049	0.355	0.018	0.195	0.009	0.100	0.010	0.092
Outstanding Shares	#	6,902.6	6,902.6	6,902.6	6,902.6	6,902.6	6,902.6	6,902.6	6,902.6	6,902.6

INTERNAL CONTROL OVER FINANCIAL REPORTING

A discussion of our disclosure controls and internal controls over financial reporting

In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issue Basic Certificate with respect to the financial information contained in the financial statements for the quarter ended and this accompanying MD&A. This can be found on SEDAR.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of accounting estimates that are critical to determining our financial results

The accounting policies adopted in preparation of the interim condensed financial statements are consistent with those followed in the preparation of our most recent annual financial statements.

SUPPLEMENTAL DISCLOSURE BY FP NEWSPAPERS INC. OF

FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021 AND 2020

OPERATING RESULTS

A discussion of our quarterly operating results

($ in 000's)	For the three months ended June 30, 2021	For the three months ended June 30, 2020	For the six months ended June 30, 2021	For the six months ended June 30, 2020
Revenue				
Print advertising	$ 6,030	$ 5,012	$ 11,359	$ 11,788
Circulation	6,220	5,905	12,350	11,788
Digital advertising	460	421	984	983
Other	965	545	1,857	1,542
TOTAL REVENUE	13,675	11,883	26,550	26,101
Operating expenses				
Employee compensation	5,710	1,460	11,629	8,005
Newsprint and other paper	1,017	918	1,972	2,024
Distribution	2,507	2,436	4,938	4,999
Production	1,143	829	2,363	2,127
Other	1,159	1,548	2,586	3,210
Depreciation and amortization	831	666	1,634	1,347
OPERATING INCOME BEFORE RESTRUCTURING	1,308	4,026	1,428	4,389
Restructuring charge	-	(26)	(453)	(31)
OPERATING INCOME	1,308	4,000	975	4,358
Other income	2	(16)	4	(2)
Finance costs	(64)	(102)	(128)	(246)
NET INCOME FOR THE PERIOD	$ 1,246	$ 3,882	$ 851	$ 4,110

Revenue

Revenue increased $1.8 million or 15.1% to $13.7 million and increased $0.4 million or 1.7% to $26.6 million for the three and six months ended June 30, 2021, respectively as compared to the same period in the prior year. The increases are reflective of increases in almost all of our advertising categories, mostly due to the recovery of the economy which is attributable to the reopening of businesses in the Province.

Print advertising

Print Advertising revenues increased $1.0 million or 20.3% to $6.0 million and decreased $0.4 million or 3.6% to $11.4 million for the three and six months ended June 30, 2021, respectively as compared to the same period in the prior year. Display advertising increased $0.6 million or 25.6% to $3.1 million and decreased $0.1 million or 1.2% to $5.6 million for the three and six months ended June 30, 2021, respectively as compared to the same period in the prior year. Classified advertising revenues were steady compared to last year. Flyer distribution revenues increased $0.3 million or 22.9% and decreased $0.4 million or 12.0% for three and six months ended June 30, 2021, respectively as compared to the same period in 2020.

Circulation

Circulation revenue increased $0.3 million or 5.3% to $6.2 million and increased $0.6 million or 4.8% to $12.4 million for the three and six months ended June 30, 2021, respectively as compared to the same period in the prior year. This was primarily due to print subscription rate increases and a moderate increase in overall digital subscriptions.

Digital advertising

Digital Advertising revenues were $0.5 and $1.0 million for three and six months ended June 30, 2021, respectively, remaining at relatively the same level compared to the same period in 2020.

Other

Other revenues were $1.0 and $1.9 million for three and six months ended June 30, 2021, respectively, reflecting improved commercial print levels compared to the same period in 2020.

Expenses

Operating expenses increased $4.5 million or 57.4% to $12.4 million and increased $3.4 or 15.7% to $25.1 million for three and six months ended June 30, 2021, respectively as compared to the same period in the period year.

Employee Compensation

Employee compensation costs increased by $4.3 million or 291.1% and increased $3.6 million or 45.3% for three and six months ended June 30, 2021, respectively as compared to the same period in the prior year. The increase in compensation expense is largely due to the decline in the Canada Emergency Wage Subsidy ("CEWS") program. CEWS of $0.7 and $1.1 million were received for the three and six months ended June 30, 2021, respectively (2020 - $3.9 and $3.9 million). A recovery of $0.2 and $0.5 million was reflected in the period for three and six months ended June 30, 2021, respectively, related to the federal government's Canadian Journalism Tax credit program ("JTC"). The JTC recovery recorded in the second quarter of 2020 was $0.2 and $0.4 million.

Newsprint and other paper

Newsprint expense increased by $0.1 million or 10.8% to $1.0 million and decreased $0.1 million or 2.6% to $2.0 million for three and six months ended June 30, 2021, respectively as compared to the same period in the prior year. Printing volumes were relatively consistent with prior year.

Distribution

Distribution expenses increased by $0.1 million or 2.9% to $2.5 million and decreased $0.1 million or 1.2% to $4.9 million for three and six months ended June 30, 2021, respectively as compared to the same period in the prior year. Newspaper circulation volumes were relatively consistent with prior year.

Production

Production expenses increased $0.3 million or 37.9% to $1.1 million and increased $0.2 million or 11.1% to $2.4 million for three and six months ended June 30, 2021, respectively as compared to the same period in the prior year. The increase in production expenses is a result of increases in third party printing and delivery services.

Other

Other operating expenses decreased by $0.4 million or 25.1% to $1.2 million and decreased $0.6 million or 19.4% to $2.6 million for three and six months ended June 30, 2021, respectively as compared to the same period in the prior year, as a result of reduced property taxes and professional fees.

EBITDA (1)

EBITDA was $2.1 and $2.6 million for three and six months ended June 30, 2021, respectively, compared to $4.7 and $5.7 million for the same period last year, a decrease of 54.2% and 54.3%, respectively. EBITDA margin for the three and six months ended June 30, 2021 was 15.6% and 9.8%, respectively, compared to 39.3% and 21.9% in the same period last year. The changes in EBITDA were due to the factors described above.

Finance Costs

Finance costs decreased $0.1 million to $0.1 million for six months ended June 30, 2021 as compared to the same period in the prior year, as a result of less outstanding debt.

Net Income

A net income of $1.2 and $0.9 million was reflected for the three and six months ended June 30, 2021, respectively, a decline of $2.6 and $3.3 million from the previous year due to restructuring charges of $0.5 million related to ongoing transformation cost savings initiatives and reduced Canada Emergency Wage Subsidy.

SUMMARY OF QUARTERLY PERFORMANCE

A summary view of our quarterly financial performance

The following table presents selected financial information for each of the nine most recently completed quarters:

		Quarter Ended								
($ in '000's)		2021 Jun - 30	2021 Mar - 31	2020 Dec - 31	2020 Sep - 30	2020 Jun - 30	2020 Mar - 31	2019 Dec - 31	2019 Sep - 30	2019 Jun - 30
Revenue	$	13,675	12,875	14,444	12,885	11,883	14,218	16,227	15,129	16,971
EBITDA	$	2,139	470	7,537	1,272	4,667	1,039	2,956	1,240	2,634
Net Income (Loss)	$	1,246	(395)	6,813	523	3,882	227	2,088	360	1,735
Distributions	$	549	200	-	409	211	-	-	-	620
Restructuring	$	-	453	-	37	26	5	118	40	40
Capital Expenditures	$	266	540	156	14	-	18	40	2	14

LIQUIDITY AND CAPTIAL RESOURCES

A discussion of our cash flow and liquidity

Cash and cash equivalents at June 30, 2021 was $5.8 million, compared to $5.3 million at December 31, 2020. Our principal uses of funds are for working capital requirements, debt servicing and capital expenditures. Based on our current and anticipated level of operations, we believe that our cash on hand and cash flows from operations, which includes the receipt of CEWS and the journalism tax credits will enable us to meet our working capital, debt servicing, capital expenditure and other funding requirements for the next twelve months. However, our ability to fund our working capital needs, debt servicing and other funding requirements depends on our future operating performance and cash flows. Our cash flows from operating activities may be impacted by, among other things, the overall strength of the economy, competition from digital media and other forms of media as well as competition from alternative emerging technologies. In recent years there has been a growing shift in advertising dollars from print advertising to other advertising formats. We manage this risk by monitoring cash flow forecasts, implementing cost reduction initiatives, deferring or eliminating discretionary spending, monitoring and maintaining compliance with terms of the debt obligations.

Cash Flow from Operating Activities

During the three and six months ended June 30, 2021, cash generated from operating activities was $2.1 and $3.1 million, respectively compared to $4.8 and $6.2 million for the same period in 2020. Net income for the three and six months ended June 30, 2021, was $1.2 and $0.9 million, respectively, compared to net income of $3.9 and $4.1 million for the same period in 2020. The change in cash flow from operating activities is primarily from the restructuring charges and CEWS in the period.

Cash Flow from Investing Activities

Capital and intangible assets additions were $0.3 and $0.8 million for the three and six months ended June 30, 2021. Expenditures were primarily for computer hardware and software upgrades.

Cash Flow from Financing Activities

Financing activities used $1.6 and $1.8 million for three and six months ended June 30, 2021, respectively compared to $4.3 and $6.4 million for the same period in 2020. A $1 million repayment was made in the same quarter of 2021 (2020 - $4.0 and $6.0 million).

COMMITMENTS AND CONTINGENCIES

A description of changes to our material contractual obligations

There have been no significant changes to contractual obligations since December 31, 2020.

RELATED PARTY TRANSACTIONS

A description of our material transactions with related parties

Virtually all newsprint is purchased from the Alberta Newsprint Company. Total newsprint purchases for the three and six months ended June 30, 2021, were $0.7 and $1.4 million, respectively (2020 - $0.6 and $1.5 million).

INTERNAL CONTROL OVER FINANCIAL REPORTING

A discussion of our disclosure controls and internal controls over financial reporting

In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issue Basic Certificate with respect to the financial information contained in the financial statements for the quarter ended and this accompanying MD&A. This can be found on SEDAR.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of accounting estimates that are critical to determining our financial results

The accounting policies adopted in preparation of the interim condensed financial statements are consistent with those followed in the preparation of our most recent annual consolidated financial statements.

COVID-19

A description of COVID-19 Implications on the business

With the number of COVID-19 cases, the short and long-term impact on the local and national economies is uncertain and is expected to remain this way for the foreseeable future. The overall impact on our businesses as a result of COVID-19 cannot be predicted with any reliability. While we believe swift actions taken to reduce and defer costs together with meaningful direct support by the federal government have resulted in a relatively stable financial position currently, this could deteriorate quickly if the overall economy does not improve or worsens from the present state.

OUTLOOK

The outlook for our business

On August 7, 2021, the Province lifted the restrictions in general regarding travel and businesses operating within the province. We expect a positive impact in the near term from the lifted restrictions.

The Canada Emergency Wage Subsidy ("CEWS") program continued to provide financial relief. On April 19, 2021, as part of the proposed budget, the Government of Canada announced the extension of CEWS to September 2021. We will continue to monitor our eligibility under the CEWS program.

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

NON-IFRS MEASURES

A description of how we determine EBITDA and distributable cash flow used by management

(1) Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”)

EBITDA is often referred to as a useful proxy for operating cash flows of a business. EBITDA is not the actual cash provided by operating activities and is not a recognized measure of financial performance under IFRS. Readers are therefore cautioned against using this as an alternative to net earnings determined in accordance with IFRS as an indicator of our operating performance. Readers are similarly cautioned that our method for calculating EBITDA, may differ from those of other issuers and may not allow for direct comparisons to be made. Our calculation of EBITDA is the operating income as presented on the consolidated statement of income (loss) excluding depreciation, amortization, finance costs, other income and impairment of intangible assets.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
($ in 000’s)	**2021**	**2020**	**2021**	**2020**
Net income for the period	$ 1,246	$ 3,882	$ 851	$ 4,109
Add (subtract):				
Depreciation and amortization	831	666	1,634	1,347
Finance costs	64	102	128	247
Other (income) loss	(2)	17	(4)	3
EBITDA	$ 2,139	$ 4,667	$ 2,609	$ 5,706

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

An elaboration on the above noted title

Certain statements in this management’s discussion and analysis may constitute “forward-looking information” under applicable Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. These statements include but are not limited to statements using words such as “anticipate,” “believe,” “budgeted,” “could,” “expect,” “estimate,” “intend,” “may,” “will,” “would,” “should” and similar expressions and derivations thereof in connection with any discussion of future events, trends or prospects or future operating or financial performance. By their nature, forward-looking information and statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. These risks and uncertainties include, among others: competition from digital and other forms of media; the effect of economic conditions on advertising revenue; the ability build out digital media and online businesses; the failure to maintain current print and online newspaper readership and audience levels; the realization of anticipated cost savings; possible damage to the reputation of the Company’s brands or trademarks; possible labour disruptions; possible environmental liabilities, litigation and pension plan obligations; fluctuations in foreign exchange rates and the prices of newsprint and other commodities. While both FPI and FPLP base such information and statements on assumptions believed to be reasonable when made, they are not guarantees of future performance and actual results of operations, financial condition and liquidity, and developments in the industry in which they operate, may differ materially from any such information and statements in this press release. Given these risks and uncertainties, undue reliance should not be placed on any forward-looking information or forward-looking statements, which speak only as of the date of such information or statements. Other than as required by law, FPI and FPLP does not undertake, and specifically declines, any obligation to update such information or statements or to publicly announce the results of any revisions to any such information or statements.