FP Newspapers Inc.

Financial Statements

For the year 2012

March 13, 2013

Independent Auditor's Report

To the Shareholder of
FP Newspapers Inc.

We have audited the accompanying financial statements of FP Newspapers Inc., which comprise the balance sheets as at December 30, 2012 and December 30, 2011 and the statement of earnings (loss) and comprehensive income (loss), statements of changes in equity and statements of cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of FP Newspapers Inc. as at December 30, 2012 and December 30, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

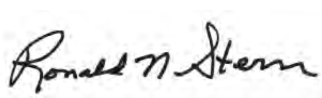
PricewaterhouseCoopers LLP
Richardson Building, One Lombard Place, Suite 2300, Winnipeg, Manitoba, Canada R3B 0X6
T: +1 204 926 2400, F: +1 204 944 1020

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

	Note	As at December 30, 2012	As at December 30, 2011
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		$ 570	$ 452
Prepaid expenses and other assets		26	35
		596	487
Investment in FP Canadian Newspapers Limited Partnership	3	45,019	45,191
Deferred income tax asset		232	-
TOTAL ASSETS		$ 45,847	$ 45,678
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		$ 108	$ 99
Dividend payable	5	345	345
Income taxes payable		3,462	-
		3,915	444
Deferred income tax liability	8	-	2,146
Total Liabilities		3,915	2,590
SHAREHOLDERS' EQUITY			
Share capital	6	71,373	71,373
Deficit		(29,441)	(28,285)
Total Shareholders' Equity		41,932	43,088
Total Liabilities and Shareholders' Equity		$ 45,847	$ 45,678

(See accompanying notes)

Approved by the Board of Directors



RONALD N. STERN
Director

HARVEY SECTER
Director

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

	Note	December 30, 2012	December 30, 2011
Equity interest from FP Canadian Newspapers Limited Partnership Class A limited partner units	3	$ 7,285	$ 7,954
Write-down of investment in FP Canadian Newspapers Limited Partnership Class A limited partner units	3	-	(15,000)
Equity interest from FPCN General Partner Inc.		-	37
Administration expenses		(251)	(336)
Other income		5	5
Net earnings (loss) before income taxes		7,039	(7,340)
Current income tax (expense)	8	(3,462)	-
Deferred income tax recovery (expense)	8	1,578	(2,060)
Net earnings (loss) for the year		$ 5,155	$ (9,400)
Equity interest of other comprehensive loss from FP Canadian Newspapers Limited Partnership	3	(2,969)	(2,714)
Deferred income tax recovery	8	800	733
Comprehensive income (loss) for the year		$ 2,986	$ (11,381)
Weighted average number of Common Shares outstanding	6	6,902,592	6,902,592
Net earnings (loss) per share – basic and diluted		$ 0.747	$ (1.362)

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

	Share Capital	Deficit	Total Shareholders' Equity
At December 31, 2010	$ 71,373	$ (12,763)	$ 58,610
Net (loss) for the year	-	(9,400)	(9,400)
Other comprehensive (loss) for the year	-	(1,981)	(1,981)
Comprehensive (loss) for the year	-	(11,381)	(11,381)
Dividends	-	(4,141)	(4,141)
At December 30, 2011	$ 71,373	$ (28,285)	$ 43,088
Net earnings for the year	-	5,155	5,155
Other comprehensive (loss) for the year	-	(2,169)	(2,169)
Comprehensive income for the year	-	2,986	2,986
Dividends	-	(4,142)	(4,142)
At December 30, 2012	$ 71,373	$ (29,441)	$ 41,932

FP Newspapers Inc.
Statements of Cash Flows
(in thousands of Canadian dollars)

	Note	December 30, 2012	December 30, 2011
Cash provided by (used in):			
Operating activities			
Net earnings (loss) for the year		$ 5,155	$ (9,400)
Items not affecting cash:			
Equity interest from Class A Units of FP Canadian Newspapers Limited Partnership	3	(7,285)	(7,954)
Equity interest from FPCN General Partner Inc.		-	(37)
Non-cash write-down of investment in FP Canadian Newspapers Limited Partnership	3	-	15,000
Deferred income tax expense (recovery)	8	(1,578)	2,060
Distributions received on Class A Units of FP Canadian Newspapers Limited Partnership	3	4,488	4,970
Distributions received on FPCN General Partner Inc.		-	86
Net change in non-cash working capital items		3,480	(106)
		4,260	4,619
Financing activities			
Dividends paid		(4,142)	(4,210)
Increase in cash and cash equivalents		118	409
Cash and cash equivalents – beginning of year		452	43
Cash and cash equivalents – end of year		$ 570	$ 452

(See accompanying notes)

1. GENERAL INFORMATION

FP Newspapers Inc. ("FPI"), which was incorporated under the Canada Business Corporations Act on March 17, 2010, is the successor to the business of FP Newspapers Income Fund (the "Fund"). FPI's year end is December 30. The Fund was an unincorporated limited-purpose trust established under the laws of Ontario on May 15, 2002 to invest in securities issues by FP Canadian Newspapers Limited Partnership ("FPLP"). In response to changes in the tax treatment of income trusts, the trustees of the Fund determined that it would be in the best interests of the Fund and its unitholders to convert the Fund from a trust to a corporation pursuant to a plan of arrangement (the "conversion"). Effective on December 31, 2010, all of the outstanding units of the Fund were exchanged on a one-for-one basis for common shares of FPI which are listed on the Toronto Stock Exchange under the symbol FP. FPI owns securities entitling it to 49% of the distributable cash as defined in the partnership agreement of FPLP. FPLP is a limited partnership formed under the laws of British Columbia on August 9, 1999. It owns the Winnipeg Free Press, the Brandon Sun and other newspapers, printing and media businesses. The address of FPI's registered office is Suite 2900, P.O. Box 11583, 650 West Georgia Street, Vancouver, British Columbia, V6B 4N8.

2. SIGNIFICANT ACCOUNTING POLICIES

FPI prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants – Part 1 ("CICA Handbook"), which incorporates International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB")

These financial statements were approved by the Board of Directors of FPI on March 13, 2013.

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

a) BASIS OF MEASUREMENT

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

b) INVESTMENTS IN ASSOCIATES

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

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

FPI assesses at each reporting date whether there is any objective evidence that its interests in associates are impaired. If impaired, the carrying value of the investment in an associate is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the statement of earnings. A reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

c) CASH AND CASH EQUIVALENTS

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

d) FINANCIAL INSTRUMENTS

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

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

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

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

e) INCOME TAXES

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

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

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

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

f) DIVIDENDS

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

g) SHARE CAPITAL

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

Units of the Fund at December 31, 2010 were puttable by the holder. Under IAS 32, a financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset (a 'puttable instrument') is a financial liability, except for those instruments that meet the exceptions to be classified as equity instruments. The trust units of the Fund meet the puttable equity exceptions and therefore are classified as equity. The Fund's declaration of trust allowed a unitholder to tender their units for cash redemption. This cash redemption right was restricted, at the Fund's option, to an aggregate cash amount of $50,000. Historically, the Fund had not been asked to redeem units for cash. As a result, the Fund did not have policies or processes for managing the potential redemption of units for cash.

h) EARNINGS PER SHARE

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

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

Accounting standards and amendments issued but not yet effective

The following is an overview of accounting standard changes that are required to be adopted in future years. Unless otherwise noted below, the standards are effective for the annual periods beginning on or after January 1, 2013, with earlier application permitted. FPI does not expect to adopt any of these standards before their effective dates. Based upon current facts and circumstances, the adoption of the standards which are not expected to have a material impact on the statement of operations and financial position.

IFRS 9 – Financial Instruments
IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods.

Requirements for classification and measurement of financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

IFRS 10 - Consolidated Financial Statements; Amendments to IAS 27 - Separate Financial Statements;
IFRS 11 - Joint Arrangements;
IFRS 12 - Disclosure of Interests in Other Entities; Amendments to IAS 28 - Investments in Associates and Joint Ventures
IFRS 10, amendments to IAS 27, IFRS 11, IFRS 12 and amendments to IAS 28 were all issued in May 2011 to improve consolidation and joint venture accounting. IFRS 10 replaces the consolidation guidance in IAS 27 Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. Under IFRS 10, control is based on whether an investor has (i) power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the returns. IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for joint ventures is removed. IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities. Lastly, IAS 28 is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

IFRS 13 – Fair Value Measurement
IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements.

(tabular amounts in thousands of Canadian dollars)

IAS 19 – Employee Benefits
The amendments to IAS 19 make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and enhance the disclosures for employee benefits. Actuarial gains and losses are renamed 'remeasurements' and will be recognized immediately in OCI. Remeasurements recognized in OCI will not be recycled through profit or loss in subsequent periods. The amendments also accelerate the recognition of past service costs whereby they are recognized in the period of a plan amendment, irrespective of whether the benefits have vested. The annual expense for a funded benefit plan will be computed based on the application of the discount rate to the net defined benefit asset or liability, including interest on any liability in respect of minimum funding requirements. A number of other amendments have been made to recognition, measurement and classification including those re-defining short-term and other long-term benefits guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing factors and expanded disclosures.

FPI will be impacted indirectly as its associate FPLP has defined benefit plans. FPLP's current accounting policy for employee benefits for the immediate recognition of actuarial gains and losses in OCI is consistent with the requirements in the new standard, however, additional disclosures and the computation of annual expense based on the application of the discount rate to the net defined benefit asset or liability will be required in relation to the revised standard, including interest on any liability in respect of minimum funding requirements.

Amendments to IAS 1 – Financial Statement Presentation
The amendments to IAS 1 require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled such as remeasurements related to IAS 19 will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

3. INVESTMENT IN FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP

On May 28, 2002, the Trust subscribed for 6,573,897 Class A limited partner Units of FPLP and $65,670,000 principal amount of subordinated notes of FPLP. On June 27, 2002, the Trust subscribed for a further 328,695 Class A limited partner Units of FPLP and $3,283,500 principal amount of subordinated notes of FPLP. On December 31, 2009, the subordinated notes were settled as a condition of FPLP's credit facility.

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 31, 2010	$ 59,921
Equity interest in net earnings and comprehensive income for the year ended December 30, 2011	5,240
Non-cash write-down of investment in FP Canadian Newspapers Limited partnership Class A limited partner units	(15,000)
Distributions received for the year ended December 30, 2011	(4,970)
Balance at December 30, 2011	$ 45,191
Equity interest in net earnings and comprehensive income for the year ended December 30, 2012	4,316
Distributions received for the year ended December 30, 2012	(4,488)
Balance at December 30, 2012	$ 45,019

(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:

	2012	2011
Net earnings of FPLP	$ 14,868	$ 16,232
Interest attributable to FPI	49%	49%
Equity interest in net earnings of FPLP	7,285	7,954
Other comprehensive income (loss) of FPLP	(6,061)	(5,540)
Interest attributable to FPI	49%	49%
Equity interest in other comprehensive income (loss) of FPLP	$ (2,969)	$ (2,714)

FPLP has a year-end of December 31, 2012. FPI has consolidated FPLP as at and for the year ended December 31, 2012 for convenience purposes and the impact was not material.

A discounted future cash flow model was used to determine the "value in use" for FPI's investment in FPLP. The future cash flows are based on management's best estimate over the next five years considering historical and expected operating plans, current strategies, economic conditions and the general outlook for the industry and markets in which FPLP operates. Cash flows beyond the five year period are extrapolated using long-term growth rates and pre-tax discount rate ranges as follows:

	2012	2011
Long-term growth rate	0%	0% to 1%
Pre-tax discount rate	14% to 17%	14% to 17%

FPI has concluded that there were no impairments as a result of this assessment at December 30, 2012. At December 30, 2012, the reasonable range of "value in use", based on the high-end of the range, was greater than its carrying value by an excess of $11,000,000. If the long-term growth rates were to decline by approximately 2.0% or if the discount rates were to increase by approximately 1.5%, the carrying amount would exceed the reasonable range for recoverable amount. The assessment for the fiscal year ended December 30, 2011 did conclude an impairment existed, which resulted in a $15,000,000 non-cash write-down of FPI's investment in FPLP Class A limited partner units.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(tabular amounts in thousands of Canadian dollars)

5. DIVIDENDS

FPI declared a dividend payable in respect of the month of December 2012 of $345,000 or $0.05 per share (equal to December 2011), which was paid January 31, 2013 to shareholders of record on December 31, 2012.

6. SHARE CAPITAL AND ACCUMULATED OTHER COMPREHENSIVE INCOME

The articles of incorporation of FPI provide that an unlimited number of common shares and one voting preferred share may be issued. Each common share is transferable and represents an equal undivided beneficial interest in any dividends of FPI and in the net assets of FPI in the event of termination or winding up of FPI. All common shares have equal rights and privileges. Each common share entitles the holder thereof to participate equally in the allocations and distributions and to one vote at all meetings of FPI shareholders for each share held. The common shares issued are not subject to future calls or assessments. As at December 30, 2012 6,902,592 Common Shares were issued with a paid-up share capital amount of $71,373,000. The preferred share is held by FPCN Media Management Ltd. ("`FPCN"). The preferred share entitles the holder the right to elect one-third of FPI's directors, but does not entitle the holder thereof to any economic rights as a common shareholder of FPI. If and when Canstar Publications Ltd. and R.I.S. Media Ltd. (the General Partners of FPLP) cease to own at least ten percent of the outstanding partnership units of FPLP, the preferred share held by FPCN will automatically be redeemed by FPI for a redemption price of $1.00 and be cancelled.

7. INDEMNIFICATIONS

FPI has agreed to indemnify its current and former trustees and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the trustees and officers as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which the trustees and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents FPI from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. FPI has directors' and officers' liability insurance coverage, pursuant to a joint policy covering FPCN General Partner Inc., FPLP and FPI, of up to $15 million in joint coverage.

8. INCOME TAXES

Income tax expense is made up of the following:

	2012	**2011**
Current income tax	$ (3,462)	$ -
Deferred income tax (expense) recovery	1,578	(2,060)
Income tax (expense) recognized in net earnings (loss)	(1,884)	(2,060)
Deferred income tax recovery recognized in OCI	800	733

FPI's fiscal year-end is December 30. None of the taxable income of FPLP (whose year-end is December 31) was allocated to FPI prior to its December 30, 2011 year-end. As a result, FPI had no current taxes in the year ended December 30, 2011. FPLP's taxable income for the year ended December 31, 2011 was allocated to FPI in its year ended December 30, 2012. FPI has determined that the legislation implementing the June 6, 2011 federal budget relating to the curtailment of income deferral by corporations using partnerships with different year-end dates applies such that the amount of the accrual of FPLP's income earned in the stub-period between the end of FPLP's fiscal period and the end of FPI's December 30, 2011 taxation year is nil and, accordingly, the transitional relief, which allows this stub-period income for the first affected fiscal period to be recognized over a five-year period is also nil. FPLP's taxable income for the year ended December 31, 2011 will be allocated to FPI in its current year and consequently, current taxes have been recorded by FPI for FPLP's proportionate number of days for the year ended December 31, 2011 and December 31, 2012.

(tabular amounts in thousands of Canadian dollars)

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

	2012	2011
Income tax recovery at combined Canadian statutory income tax rate of 27.0% (28.5% - 2011)	$ 1,900	$ 2,092
Difference between current tax rate and deferred income tax rate in temporary differences	-	81
Non-cash write-down of investment in FPLP	-	(4,275)
Adjustments in respect of prior year	(14)	57
Other	(2)	(15)
Total income tax recovery (expense)	$ 1,884	$ (2,060)

The change in the combined Canadian statutory income tax rates in 2012 is predominately a result of a substantively enacted decrease to the Canadian federal income tax rate.

Deferred taxes

Based on FPI's assets and liabilities as at December 30, 2012 and 2011, and its share of the assets and liabilities of its investment in FPLP, FPI's deferred tax assets and liabilities and the movement during the year are attributable to the following:

	December 30, 2011	Recognized in profit or loss	Recognized in other comprehensive loss	December 30, 2012
Property, plant and equipment	3,208	(177)	-	3,031
Intangible assets	899	(46)	-	853
Goodwill	(3,120)	258	-	(2,862)
Accrued pension benefit obligation	(759)	339	(800)	(1,220)
Partnership income deferred	2,037	(2,044)		(7)
Other	(119)	92	-	(27)
Total future income tax liabilities (asset)	2,146	(1,578)	(800)	(232)

	December 31, 2010	Recognized in profit or loss	Recognized in other comprehensive loss	December 30, 2011
Property, plant and equipment	3,512	(304)	-	3,208
Intangible assets	381	518	-	899
Goodwill	(2,880)	(240)	-	(3,120)
Accrued pension benefit obligation	(189)	163	(733)	(759)
Partnership income deferred for tax	-	2,037	-	2,037
Other	(5)	(114)	-	(119)
Total future income tax liabilities (asset)	819	2,060	(733)	2,146

Unrecognized deferred tax assets

Deferred tax assets in the amount of $3,069,000 (December 31, 2011 $3,077,000) have not been recognized in respect of FPI's investment in FPLP as it is not probable that the temporary difference will reverse in the foreseeable future.

9. LIQUIDITY RISK

As at December 30, 2012, FPI had a working capital deficiency of $3,319,000 resulting from current income taxes payable, which are due prior to February 28, 2013 (note 8). In February 2013, the Board of Directors of the managing general partner of FPLP approved a special distribution of $0.50 per partnership unit and FPI received $3,451,296 which it used to pay these income taxes owing.

10. CAPITAL MANAGEMENT

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

11. FINANCIAL INSTRUMENTS

The fair value of current assets and liabilities including cash and cash equivalents, accounts payable and accrued liabilities and dividends payable approximates their carrying value due to the short-term nature of these financial instruments.

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

CANADIAN **fp** NEWSPAPERS
LIMITED PARTNERSHIP

FP Canadian Newspapers Limited Partnership

Consolidated Financial Statements

For the year 2012

March 13, 2013

Independent Auditor's Report

To the Unitholders of
FP Canadian Newspapers Limited Partnership

We have audited the accompanying consolidated financial statements of FP Canadian Newspapers Limited Partnership, which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011 and the consolidated income statements and statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of FP Canadian Newspapers Limited Partnership as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers LLP
Richardson Building, One Lombard Place, Suite 2300, Winnipeg, Manitoba, Canada R3B 0X6
T: +1 204 926 2400, F: +1 204 944 1020

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

	Note	As at December 31, 2012	As at December 31, 2011
		$	$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		17,843	9,329
Accounts receivable	16	13,909	13,759
Inventories		1,299	1,314
Assets held for sale		-	53
Prepaid expenses and other assets		1,070	1,561
		34,121	26,016
LONG-TERM ASSETS			
Restricted cash	7	-	5,000
Property, plant and equipment	4	38,250	40,501
Investment	11	99	141
Intangible assets	5	6,882	7,258
Goodwill	5	71,250	71,160
TOTAL ASSETS		150,602	150,076
LIABILITIES AND UNITHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	8, 14	8,207	8,336
Provisions	19	158	-
Prepaid subscriptions and deferred revenue		3,082	3,064
Finance lease obligation	13	886	806
Mortgage loan	7	49	47
Term loan	7	1,000	5,000
		13,382	17,253
LONG-TERM LIABILITIES			
Accrued pension benefit liability	8	9,220	5,848
Finance lease obligation	13	2,794	3,222
Mortgage loan	7	870	918
Term loan	7	47,182	45,355
TOTAL LIABILITIES		73,448	72,596
UNITHOLDERS' EQUITY			
Partner units	9	98,280	98,280
Deficit		(21,091)	(20,740)
Accumulated other comprehensive loss		(35)	(60)
TOTAL UNITHOLDERS' EQUITY		77,154	77,480
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY		150,602	150,076

Commitments and Contingencies (Note 13)
(See accompanying notes)

Approved by the Board of Directors of the Managing General Partner

RONALD N. STERN
Director

HARVEY SECTER
Director

FP Canadian Newspapers Limited Partnership
Consolidated Income Statements and Statements of Comprehensive Income
For the Years Ended December 31, 2012 and 2011
(in thousands of Canadian dollars)

	Note	2012 $	2011 $
Revenue			
Advertising		75,034	76,513
Circulation		27,006	27,384
Commercial Printing		4,763	3,284
Digital		2,906	2,601
Promotion and services		1,819	1,487
TOTAL REVENUE		111,528	111,269
Operating expenses			
Employee compensation		43,637	42,738
Newsprint and other paper		9,899	10,004
Delivery		17,150	17,164
Other		19,200	18,006
Depreciation and amortization	4, 5	4,314	4,441
Restructuring charge	19	639	264
OPERATING INCOME		16,689	18,652
Other income	10	200	202
Finance costs	10	(2,064)	(2,579)
Gain (loss) on interest rate swap	7	43	(43)
NET EARNINGS FOR THE YEAR		14,868	16,232
Unrealized gain (loss) on investment		25	(60)
Actuarial (loss) on defined benefit pension plan	8	(6,061)	(5,540)
COMPREHENSIVE INCOME FOR THE YEAR		8,832	10,632

(See accompanying notes)

FP Canadian Newspapers Limited Partnership
Consolidated Statements of Changes in Equity
For the years ended December 31, 2012 and 2011
(in thousands of Canadian dollars)

	Partner Units	Deficit	Accumulated Other Comprehensive (Loss) income	Total Unitholders' Equity
UNITHOLDERS' EQUITY –				
JANUARY 1, 2011	$ 98,280	$ (21,291)	$ -	$ 76,989
Net earnings for the year	-	16,232	-	16,232
Other comprehensive (loss) for the year	-	(5,540)	(60)	(5,600)
Comprehensive income (loss) for the year	-	10,692	(60)	10,632
Distributions paid	-	(10,141)	-	(10,141)
UNITHOLDERS' EQUITY –				
DECEMBER 31, 2011	$ 98,280	$ (20,740)	$ (60)	$ 77,480
Net earnings for the year	-	14,868	-	14,868
Other comprehensive income (loss) for the year	-	(6,061)	25	(6,036)
Comprehensive income for the year	-	8,807	25	8,832
Distributions paid	-	(9,158)	-	(9,158)
UNITHOLDERS' EQUITY –				
DECEMBER 31, 2012	$ 98,280	$ (21,091)	$ (35)	**$** 77,154

(See accompanying notes)

FP Canadian Newspapers Limited Partnership
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011
(in thousands of Canadian dollars)

	Note	**2012** **$**	**2011** **$**
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net earnings for the year		$ 14,868	$ 16,232
Items not affecting cash:			
Depreciation and amortization	4, 5	4,314	4,441
Accretion of deferred financing costs	10	66	97
(Gain) on disposal of property, plant and equipment		(15)	(28)
(Gain) loss on interest rate swap		(43)	43
Excess of pension contributions over expense		(2,688)	(1,232)
		16,502	19,553
Net change in non-cash working capital items		18	(2,046)
		16,520	17,507
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(833)	(837)
Purchase of intangibles	5	(180)	(216)
Investment	11	-	(201)
Acquisition	6	(235)	(3,457)
Proceeds from sale of property, plant and equipment		28	512
Decrease in restricted cash		5,000	-
		3,780	(4,199)
FINANCING ACTIVITIES			
Distributions to partners		(9,158)	(10,141)
Proceeds from financing leases		464	4,149
Proceeds from mortgage loan		-	980
Term loan refinancing costs		(111)	-
Principal repayments of finance lease		(849)	(429)
Principal repayments of mortgage loan		(47)	(11)
Principal repayment of term loan		(2,085)	(5,004)
		(11,786)	(10,456)
INCREASE IN CASH AND CASH EQUIVALENTS		8,514	2,852
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		9,329	6,477
CASH AND CASH EQUIVALENTS - END OF YEAR		$ 17,843	$ 9,329
Supplemental Cash Flow Information:			
Interest paid during the year		$ 2,028	$ 2,489
Interest received during the year		174	269

(See accompanying notes)

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

FPLP prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants – Part 1 ("CICA Handbook"), which incorporates International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB")

The consolidated financial statements were approved by the Board of Directors of FPGP on March 13, 2013.

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.

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

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

a) BASIS OF MEASUREMENT

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

b) PRINCIPLES OF CONSOLIDATION AND SPECIAL PURPOSE ENTITIES

The consolidated financial statements include the operating businesses owned by FPLP and its subsidiary. A subsidiary is an entity (including special purpose entities) which FPLP controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether FPLP controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained and are de-consolidated from the date that control ceases. All significant inter-company and intra-company transactions and balances have been eliminated.

c) REVENUE RECOGNITION

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

d) INVENTORIES

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

e) PROPERTY, PLANT AND EQUIPMENT

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

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

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

FPLP allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant components and depreciates separately each such component. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

f) INTANGIBLE ASSETS

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

Subscriber base	15 years
News archives	10 years
Software	4 years

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

Mastheads are considered to have an indefinite life and are therefore recorded at cost and not amortized.

g) IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

h) BUSINESS COMBINATIONS

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

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

i) PENSION PLANS

FPLP established defined benefit and defined contribution pension plans for certain of its employees. The cost of defined contribution pension plans is charged to expense as the contributions become payable. For defined benefit plans, the level of benefit provided is based on the length of service and earnings of the employee. The cost of defined benefit plans is determined using the projected unit credit method. The related pension liability recognized in the statement of financial position is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets.

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

Actuarial gains and losses are recognized in full in the period in which they occur, in other comprehensive income and deficit without recycling to the statement of income in subsequent periods. Current service cost, the recognized element of any past service cost, the expected return on plan assets and the interest arising on the pension liability are included in the same line items in the statement of income as the related compensation cost.

Past service costs are recognized immediately to the extent the benefits are vested, and otherwise are amortized straight-line over the average period until the benefits become vested.

j) TRANSACTION COSTS

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

k) CASH AND CASH EQUIVALENTS

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

l) INCOME TAXES

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

m) LONG-TERM INCENTIVE PLAN (“LTIP”)

Under the terms of the LTIP, FPLP establishes an amount to be allocated to eligible participants based on a pre-defined formula subject to actual distributable cash being in excess of an established threshold. The cost is recorded as an expense over the period when the LTIP units vest.

n) PROVISIONS

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

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

o) FINANCIAL INSTRUMENTS

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

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

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

Investment is classified as “available for sale” and is recorded at fair value, as determined by the published price quotations in an active market. Gains and losses resulting from the periodic revaluation are recorded in comprehensive income, unless the investment is sold or impaired which would require recognition in the statements of income.

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

Derivatives are classified as “held-for-trading” and recorded at fair value with gains and losses resulting from periodic revaluation recorded in the statements of income.

p) UNITHOLDERS’ EQUITY

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

q) DISTRIBUTIONS

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

r) ASSETS HELD FOR SALE

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

Accounting standards and amendments issued but not yet effective

The following is an overview of accounting standard changes that are required to be adopted in future years. Unless otherwise noted below, the standards are effective for FPLP’s annual periods beginning on January 1, 2013, with earlier application permitted. FPLP does not expect to adopt any of these standards before their effective dates. Based upon current facts and circumstances, the adoption of the standards are not expected to have a material impact on the consolidated statement of operations and financial position.

IFRS 9 – Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods.

Requirements for classification and measurement of financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

IFRS 10 - Consolidated Financial Statements; Amendments to IAS 27 - Separate Financial Statements;
IFRS 11 - Joint Arrangements;
IFRS 12 - Disclosure of Interests in Other Entities; Amendments to IAS 28 - Investments in Associates and Joint Ventures

IFRS 10, amendments to IAS 27, IFRS 11, IFRS 12 and amendments to IAS 28 were all issued in May 2011 to improve consolidation and joint venture accounting. IFRS 10 replaces the consolidation guidance in IAS 27 Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. Under IFRS 10, control is based on whether an investor has (i) power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the returns. IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for joint ventures is removed. IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities. Lastly, IAS 28 is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

IFRS 13 – Fair Value Measurement

Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements. IFRS 13 is a more comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement.

Amendments to IAS 19 – Employee Benefits

The amendments to IAS 19 make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and enhance the disclosures for employee benefits. Actuarial gains and losses are renamed 'remeasurements' and will be recognized immediately in OCI. Remeasurements recognized in OCI will not be recycled through profit or loss in subsequent periods. The amendments also accelerate the recognition of past service costs whereby they are recognized in the period of a plan amendment, irrespective of whether the benefits have vested. The annual expense for a funded benefit plan will be computed based on the application of the discount rate to the net defined benefit asset or liability, including interest on any liability in respect of minimum funding requirements.

A number of other amendments have been made to recognition, measurement and classification including those re-defining short-term and other long-term benefits guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing factors and expanded disclosures.

FPLP's current accounting policy for employee benefits for the immediate recognition of actuarial gains and losses in OCI is consistent with the requirements in the new standard, however, additional disclosures and the computation of annual expense based on the application of the discount rate to the net defined benefit asset or liability will be required in relation to the revised standard, including interest on any liability in respect of minimum funding requirements.

Upon retrospective application of the new standard on January 1, 2013, FPLP expects restated net income for 2012 to be lower than originally reported under the current accounting standard. The decrease is expected to arise from net financing expense relating to the pension benefit liability which will be calculated using the discount rate used to value the benefit obligation. As the discount rate is lower than the expected rate of return on plan assets, consistent with the FPLP's current view and long-term historical experience, financing expense will increase as the interest attributable to plan assets will decline. The difference, if any, between the actual rate of return on plan assets and the discount rate, would be included in other comprehensive income as a re-measurement. Under the new standard, the interest cost on any additional minimum funding liability will be recorded in the consolidated income statement, whereas it is reported in other comprehensive income under the current standard. The impact of this change is estimated to decrease restated net income for 2012 in the amount of $137,000 and increase other comprehensive income in the same amount, with no net impact on comprehensive income.

Amendments to IAS 1 – Financial Statement Presentation
The amendments to IAS 1 require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled such as remeasurements related to IAS 19 will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

3. USE OF ESTIMATES

The preparation of consolidated financial statements requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances.

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

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

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

Other key assumptions for pension benefits (obligations) are based in part on current market conditions. The principal assumptions and sensitivities are included in note 8.

(tabular amounts in thousands of Canadian dollars)

4. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Computer equipment and other	Total
At December 31, 2010				
Cost	9,213	55,563	5,885	70,661
Accumulated depreciation	(1,945)	(25,943)	(4,906)	(32,794)
Net book value	7,268	29,620	979	37,867
Year ended December 31, 2011				
Balance at beginning of year	7,268	29,620	979	37,867
Additions	1,269	1,926	528	3,723
Assets acquired on acquisition	300	2,896	-	3,196
Disposals – cost	-	(2,860)	(149)	(3,009)
Disposals – accumulated depreciation	-	2,360	118	2,478
Depreciation for the year	(339)	(2,861)	(554)	(3,754)
At December 31, 2011	8,498	31,081	922	40,501
At December 31, 2011				
Cost	10,782	57,525	6,264	74,571
Accumulated depreciation	(2,284)	(26,444)	(5,342)	(34,070)
Net book value	8,498	31,081	922	40,501
Year ended December 31, 2012				
Balance at beginning of year	8,498	31,081	922	40,501
Additions	-	1,345	41	1,386
Assets acquired on acquisition	83	5	21	109
Disposals – cost	-	(389)	(430)	(819)
Disposals – accumulated depreciation	-	378	430	808
Depreciation for the year	(353)	(3,045)	(337)	(3,735)
At December 31, 2012	8,228	29,375	647	38,250
At December 31, 2012				
Cost	10,865	58,486	5,896	75,247
Accumulated depreciation	(2,637)	(29,111)	(5,249)	(36,997)
Net book value	8,228	29,375	647	38,250

As at December 31, 2012, machinery and equipment includes finance leased assets with a cost of $4,937,000 (2011 $4,437,000), less accumulated depreciation of $591,000 (2011 $218,000) for a net book value of $4,346,000 (2011 $4,219,000).

(tabular amounts in thousands of Canadian dollars)

5. INTANGIBLE ASSETS AND GOODWILL

	Subscriber base and Archives	Computer Software	Mastheads	Total Intangible Assets	Goodwill
At December 31, 2010					
Cost	5,150	2,991	5,155	13,296	71,160
Accumulated amortization	(3,286)	(2,393)	-	(5,679)	-
Net book value	1,864	598	5,155	7,617	71,160
Year ended December 31, 2011					
Opening net book value	1,864	598	5,155	7,617	71,160
Additions	-	176	40	216	-
Assets acquired on acquisition	90	22	-	112	-
Amortization	(361)	(326)	-	(687)	-
At December 31, 2011	1,593	470	5,195	7,258	71,160
At December 31, 2011					
Cost	5,240	3,189	5,195	13,624	71,160
Accumulated amortization	(3,647)	(2,719)	-	(6,366)	-
Net book value	1,593	470	5,195	7,258	71,160
Year ended December 31, 2012					
Opening net book value	1,593	470	5,195	7,258	71,160
Additions	-	180	-	180	-
Assets acquired on acquisition	12	2	12	26	90
Retirements	-	(75)	-	(75)	-
Retirements – Accumulated amortization	-	72	-	72	-
Amortization	(311)	(268)	-	(579)	-
At December 31, 2012	1,294	381	5,207	6,882	71,250
At December 31, 2012					
Cost	5,252	3,296	5,207	13,755	71,250
Accumulated amortization	(3,958)	(2,915)	-	(6,873)	-
Net book value	1,294	381	5,207	6,882	71,250

Goodwill is entirely attributable to FPLP, as it represents the lowest level at which management internally monitors goodwill. The CGU also includes all mastheads related primarily to the Winnipeg Free Press, for which the recoverable amounts were based on a relief of royalty fair value less cost to sell calculation using royalty rates and after tax discount rates of 5% and 11%, respectively (December 31, 2011 - 5% and 11%, respectively). The recoverable amount of the CGU is determined based on the value-in-use calculations using pre-tax cash flow projections based on management expectations covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the newspaper industry. The key assumptions used for value-in-use calculations included the following:

	2012	2011
Long-term growth rate	0%	0% to 1%
Pre-tax discount rate	14% to 17 %	14% to 17 %

The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used reflect specific risks relating to FPLP.

(tabular amounts in thousands of Canadian dollars)

FPLP has concluded that there were no impairments as a result of the testing for the years December 31, 2012 and December 31, 2011. The reasonable range of recoverable amounts for the CGU, based on the high-end of the range, was greater than its carrying value by an excess of $23,000,000. If the long-term growth rates were to decline by approximately 2.0% or if the discount rate were to increase by approximately 1.5%, the carrying amount would exceed the reasonable range for the recoverable amount.

6. ACQUISITION

On October 26, 2012 FPLP acquired substantially all of the assets and assumed certain liabilities of the Carberry News Express, a weekly newspaper operating in Carberry, Manitoba. The purchase price, which was paid in cash, was $235,000 and is subject to adjustment based on the determination of certain working capital amounts determined as of the closing date. The transaction has been accounted for by the acquisition method and the results of operations are included in FPLP's accounts from the date of acquisition. In addition to the purchase price, acquisition costs consisting primarily of legal fees totalling $11,000 were paid by FPLP and are included in operating expenses. The purchase price was allocated based on the fair market values of the assets acquired and liabilities assumed as follows:

Accounts receivable	$ 10
Property, plant & equipment	109
Intangible assets	26
Goodwill	90
	$ 235

7. LONG-TERM DEBT

During the second quarter, a long-term debt renewal agreement was finalized with HSBC Bank Canada, which matures on January 31, 2016 with an initial principal amount of $48,324,000 and annual principal payments of $1,000,000, payable each June until maturity. The terms of the agreement include the release of the $5,000,000 of restricted cash which FPLP had pledged under the previous HSBC credit agreement, and interest rate spreads over prevailing bankers' acceptance rates based on quarterly trailing twelve month leverage ratios ranging from 1.75% to 2.75%. The previous HSBC credit agreement, which consisted of two loan facilities, each with a three-year term expiring on January 31, 2013, included interest rate spreads over prevailing bankers' acceptance rates ranging from 3.0% to 3.75% and annual principal payments of $5,000,000.

An interest rate swap facility is also available under the credit agreement. In October 2011, FPLP entered into an interest rate swap agreement which fixes the interest rate on $15,000,000 million to mitigate cash flow interest rate risk associated with the term loan. This amortizing interest rate swap matures in October 2014 and fixes the interest rate at 4.32%. The interest rate swap facility is not designated as a cash-flow hedge for accounting purposes.

FPLP is subject to various covenants under the terms of the HSBC credit facility, including a covenant in favour of HSBC not to pay distributions which exceed distributable cash by more than $1.0 million in any fiscal year, as well as a covenant not to amend the share capital or permit changes to the beneficial ownership of FPGP. The financial covenants included in the agreement are detailed in note 17.

In 2011, a mortgage financing agreement was completed for the Derksen Printers real estate assets. The loan of $919,000 (2011 $965,000), which is to be repaid over 15 years, carries a five year fixed interest rate of 4.85%.

8. EMPLOYEE FUTURE BENEFIT PLANS

FPLP has a defined benefit pension plan as well as defined contribution plans. Its defined benefit pension plan provides benefits based on a set percentage of participants' earnings, the costs of which are shared between the participants and FPLP. Pension benefits are not indexed to the rate of inflation.

FPLP measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation report for funding purposes was at December 31, 2011 and the next required valuation is as of December 31, 2012 and will be completed during 2013.

(tabular amounts in thousands of Canadian dollars)

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

	2012 $	2011 $
PLAN ASSETS		
Fair value - beginning of year	21,658	20,348
Expenses	(79)	-
Expected return on plan assets	1,369	1,450
Actuarial gain (loss) on assets	297	(2,416)
Employer contributions	4,719	2,482
Employee contributions	921	933
Benefits paid	(3,305)	(1,139)
Fair value - end of year	25,580	21,658
PLAN OBLIGATIONS		
Accrued benefit obligation - beginning of year	27,506	21,889
Interest cost	1,602	1,368
Current service cost	2,718	2,264
Benefits paid	(3,305)	(1,139)
Actuarial loss	6,358	3,124
Expenses	(79)	-
Accrued benefit obligation - end of year	34,800	27,506

FPLP's accrued pension liability is determined as follows:

	2012 $	2011 $
Fair value of plan assets	25,580	21,658
Accrued benefit obligation	34,800	27,506
Plan (deficit)	(9,220)	(5,848)

FPLP's pension plan expense is determined as follows:

	2012 $	2011 $
Current service cost	2,718	2,264
Employee contributions	(921)	(933)
Interest costs	1,602	1,368
Expected return on plan assets	(1,369)	(1,450)
Pension expense – defined benefit plan	2,030	1,249
Employer contributions to defined contribution plans	215	212
Total pension expense recognized in employee compensation	2,245	1,461

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

	2012 $	2011 $
Actuarial (losses) recognized in other comprehensive income	(6,061)	(5,540)

(tabular amounts in thousands of Canadian dollars)

Cumulative actuarial (losses) recognized in other comprehensive income for the year ended December 31, 2012 was ($13,328,000) (December 31, 2011 – ($7,267,000)).

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

	2012 **%**	**2011** **%**
Discount rate	4.45	5.40
Rate of compensation increase	1.00	2.00

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

	2012 **%**	**2011** **%**
Discount rate	5.40	5.80
Expected long-term rate of return on pension plan assets	6.00	6.75
Rate of compensation increase	2.00	2.00

A 50 basis point increase in the discount rate used to measure the accrued benefit obligation would decrease the accrued benefit obligation by $3,200,000 and decrease the expense for the year ended December 31, 2013 by $300,000. A 50 basis point decrease in the discount rate would increase the accrued benefit obligation by $3,600,000 and increase the expense for the year ended December 31, 2013 by $400,000.

Plan assets consist of an investment in a pooled balanced fund with the following asset mix:

	2012 **%**	**2011** **%**
Canadian equities	36	33
United States equities	13	14
Non-North American equities	13	13
Canadian Government and corporate bonds	34	33
Short-term cash	4	7
	100	100

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

Under Manitoba pension laws, solvency deficiencies must be funded over a five-year period, which may be extended to ten years unless more than one-third of the active plan members and pensioners object to the extension. FPLP received an extension to ten years for funding of the defined benefit pension solvency deficiency that was identified in the actuarial funding valuation completed at December 31, 2011.

Based on information currently available, expected current service costs excluding minimum funding requirements to defined benefit plans for 2013 are $2,412,000.

(tabular amounts in thousands of Canadian dollars)

9. SHARE CAPITAL AND ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	2012		2011	
	Number of Units	$	Number of Units	$
FPCN General Partner Inc. - managing general partner	10	10	10	10
Canstar Publications Ltd. and R.I.S. Media Ltd. - general partners	7,184,321	30,711	7,184,321	30,711
FP Newspapers Inc. - Class A limited partner Units	6,902,592	67,559	6,902,592	67,559
	14,086,923	98,280	14,086,923	98,280

FPLP's net earnings are allocated to the general partners in respect of the general partner Units and the limited partners in respect of the Class A limited partner Units in proportion to the distributions made to the partners in the year. Under the exchange agreement entered into between the holders of the general partner Units, the Class A limited partner Units, and FP Newspapers Inc. ("FPI"), each general partner Unit may, at any time, at the option of the holder, be exchanged for an equal number of FPI's shares, subject to the exchange ratio and other provisions of the exchange agreement.

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

Accumulated other comprehensive loss includes the change in fair value of the investment related to the long-term incentive plan (LTIP) (note 11).

10. OTHER INCOME AND FINANCE COSTS

	2012 $	2011 $
Other income		
Interest income	185	174
Gain on sale of property, plant and equipment	15	28
Total other income	200	202
Finance Costs		
Interest on finance leases	179	90
Interest on mortgage loan	46	24
Interest on term loan	1,685	2,003
Accretion of term loan related to financing costs	66	97
Guarantee fee (note 14)	88	365
	2,064	2,579

(tabular amounts in thousands of Canadian dollars)

11. LONG-TERM INCENTIVE PLAN

The directors, officers and key management of FPLP and its affiliates (including certain directors of FP Newspapers Inc. ("FPI")) are eligible to participate in FPLP's LTIP. The purpose of the LTIP is to provide eligible participants with compensation opportunities that will encourage ownership of shares of FPI, enhance FPLP's ability to attract, retain and motivate key personnel, and reward directors, officers and key management for significant performance and cash flow growth. Pursuant to the LTIP, FPLP will set aside a pool of funds based upon the amount by which FPLP's distributable cash exceeds certain threshold amounts. A trustee will then purchase shares of FPI in the market with such pool of funds and will hold these shares in FPI until such time as ownership vests to each participant. The LTIP is administered by the Board of Directors of FPGP, the managing general partner of FPLP, and the terms are subject to adjustment by the Board of Directors from time to time. The Board of Directors has the power to, among other things: (i) determine those individuals who will participate in the LTIP; and (ii) determine the level of participation of each participant.

The LTIP currently provides for aggregate incentive payments based on the following thresholds:

Amount of excess distributable cash of FPLP, over $18,713,000 (2011 $15,707,000) annually	Proportion of excess distributable cash available for incentive payments
Up to $800,000	10%
$800,000 to $2,000,000	15%
Over $2,000,000	20%

For the year ended December 31, 2010, FPLP met the distributable cash threshold required to provide awards under the LTIP and on June 8, 2011 FPLP funded $201,000 and the Trust Fund acquired 37,348 FPI shares. FPLP does not guarantee the value of the shares held by the Trustee should the market value of the shares decrease from the value at which the Trustee acquired the shares. Other than forfeited units, a third of the Units vested on March 31, 2012. One third will vest on March 31, 2013 and the final third will vest on December 31, 2013. The aggregate expense recognized in employee compensation for the year ended December 31, 2012 was $66,000 (2011 $106,000).

For the years ended December 31, 2012 and December 31, 2011, FPLP results did not meet the minimum level required under the plan and therefore, no shares were purchased.

12. INCOME TAXES

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

	2012 $	2011 $
Net earnings before income taxes	14,868	16,232
Canadian combined statutory tax rate	27.0%	28.5%
Income tax expense at the Canadian combined statutory tax rate	(4,014)	(4,626)
Income taxed in the hands of the partners	4,014	4,626
Income tax expense	-	-

(tabular amounts in thousands of Canadian dollars)

13. COMMITMENTS AND CONTINGENCIES

a) LEASES AND OTHER COMMITMENTS

During 2011 and the first quarter of 2012, FPLP entered into a series of five-year non-cancellable finance lease agreements to finance equipment projects at its printing facilities.

	$
2013	1,028
2014	997
2015	981
2016	950
2017	50
Total payments	4,006
Interest cost (rates ranging from 4.1% to 5.5%)	(326)
Present value of finance lease obligation	3,680

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

	$
2013	1,716
2014	1,274
2015	1,093
2016	801
2017	744
Thereafter	1,188
Total payments	6,816

b) LEGAL MATTERS

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

14. RELATED PARTY TRANSACTION

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

Effective March 30, 2012, HSBC Bank Canada agreed to amend the guarantee requirement under the previous HSBC credit agreement, which eliminated the need for the collateral provided by FP Funding Corporation ("FundingCo"). The guarantee fee incurred up to March 30, 2012 was $88,000 (2011 $365,000) to FundingCo, a company controlled indirectly by Ronald Stern and Robert Silver, who together indirectly control 51% of FPLP.

For the year, total newsprint purchases from Alberta Newsprint Company, a company controlled indirectly by Ronald Stern, for 2012 were $4,016,000 (2011 $4,335,000). FPLP also reimbursed related parties for administration costs amounting to $37,000 (2011 $34,000). At December 31, 2012, accounts payable to related parties totalled $449,000 (2011 $627,000). Total advertising sales to related parties were $60,000 (2011 $69,000) and at December 31, 2012 accounts receivable from related parties totalled $1,000 (2011 $1,000).

Transactions with key management personnel

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

(tabular amounts in thousands of Canadian dollars)

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

	2012 $	2011 $
Salaries and bonus	824	858
Post-retirement pension benefits	56	48
LTIP expense (note 11)	15	24
	895	930

As disclosed in note 11, FPLP did not accrue for share based awards for the 2012 and 2011 financial years as the minimum threshold under the LTIP was not achieved, but an accrual for the 2010 year was made. The liability accrued for non-vested share awards under the LTIP for the key management personnel are as follows:

	2012 $	2011 $
Value of non-vested shares	22	32

15. SEGMENT REPORTING

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

16. FINANCIAL INSTRUMENTS

FPLP's financial assets and liabilities are comprised of cash and cash equivalents, accounts receivable, investment, interest rate swap, accounts payable and accrued liabilities and long-term debt which include the term-loan and finance leases. Cash and cash equivalents included cash equivalents of $10,045,000 at December 31, 2012 (December 31, 2011 $6,614,000).

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

a. CREDIT RISK

Credit risk is the risk a customer will fail to perform an obligation or fail to pay amounts due, causing a financial loss. Credit risk arises from cash and cash equivalents and accounts receivable. The maximum exposure to credit risk is the carrying value of these financial assets. Cash and cash equivalents are all held at large chartered Canadian banks or Canadian subsidiaries of large international banks and FPLP does not expect the counterparties to fail to meet their obligations.

As FPLP is in the business of publishing newspapers and performing printing services for third parties, included in the accounts receivable are primarily amounts owed from advertisers and advertising agencies, circulation customers and commercial print clients. FPLP does not hold collateral as security for these balances. FPLP's credit risk relating to these accounts receivable is spread over a large number of national and local advertising clients and advertising agencies, in addition to many circulation retail customers and third-party printing clients. FPLP manages credit risk on a customer-by-customer basis and establishes a reasonable allowance for uncollectible amounts with this allowance netted against the accounts receivable on the consolidated balance sheet. The adequacy of the allowance is reviewed on a regular basis and is estimated based on past experience, specific risks associated with the customers and other relevant information. The 10 largest receivable amounts total $5,282,000 (December 31, 2011 $5,080,000) and approximately 87% (December 31, 2011 88%) of these balances are owed from national advertising agencies. The largest amount due from a single national agency is $911,000 (December 31, 2011 $1,187,000) which represents 9%) of total receivables.

(tabular amounts in thousands of Canadian dollars)

Accounts receivable are impaired when there is evidence that collection is unlikely. Collection is determined to be unlikely if the customer is in bankruptcy or FPLP has exhausted all efforts to obtain payment. At December 31, 2012, FPLP estimates the value of impaired accounts receivable is $12,000 (December 31, 2011 $21,000) and these amounts are included as part of the allowance for doubtful accounts.

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

	2012 **$**	**2011** **$**
Accounts receivable:		
Current	7,891	8,221
Up to three months past due	6,289	5,596
Greater than three months past due	95	227
Impaired	12	21
	14,287	14,065
Allowance for doubtful accounts	(378)	(306)
	13,909	13,759

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

	2012 **$**	**2011** **$**
Balance at beginning of year	(306)	(373)
Provision for impairment	(184)	(219)
Receivables written-off during the year – uncollectible	56	84
Unused amounts reversed	56	202
Balance at end of year	(378)	(306)

b. INTEREST RATE RISK

Interest rate risk is the risk that the fair value (fair value interest rate risk) or future cash flows (cash flow interest rate risk) of a financial instrument will fluctuate because of changes in market interest rates primarily related to the HSBC credit facility (see note 7). FPLP is exposed to cash flow interest rate risk due to fluctuations in interest rates as the amounts borrowed under the HSBC credit facility are in the form of bankers' acceptances at varying interest rates ranging in terms from 30 to 180 days. In 2011, FPLP entered into an interest rate swap agreement to limit its exposure to variability due to changes in the general level of market interest rates. The agreement is based on an initial notional amount of $15,000,000 million which is being amortized over three years, until its maturity on October 6, 2014. Under the agreement, FPLP pays interest based on a fixed rate of 3.07% and receives interest based on floating HSBC Bank Canada Bankers Acceptance rates.

An assumed 1% increase in FPLP's short term borrowing rates during the year ended December 31, 2012, after taking into account the interest rate swap would have decreased net income by $360,000 (December 31, 2011 $477,000), with an equal but opposite effect for an assumed 1% decrease in short term borrowing rates.

c. LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. FPLP believes that it has access to sufficient capital through current cash and cash equivalent balances, future internally generated cash flows and external sources (bank credit markets and debt capital markets) to meet current spending forecasts. As at December 31, 2012, FPLP's non-restricted cash and cash equivalents on hand was $17,843,000.

(tabular amounts in thousands of Canadian dollars)

The following are the contractual maturities of the financial liabilities:

	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
	$	$	$	$	$
At December 31, 2012					
Accounts payable and accrued liabilities and provisions	8,365	8,365	-	-	-
Mortgage loan principal and interest	1,063	93	970		-
Finance lease obligations principal and interest	4,006	1,028	2,928	50	-
Long-term debt principal and interest	52,592	2,468	50,124	-	-
Total	66,026	11,954	54,022	50	-
At December 31, 2011					
Accounts payable and accrued liabilities	8,336	8,336	-	-	-
Mortgage loan principal and interest	1,155	92	278	785	-
Finance lease obligations principal and interest	4,479	927	2,703	849	-
Long-term debt principal and interest	52,768	7,194	45,574	-	-
Total	66,738	16,549	48,555	1,634	-

d. FAIR VALUES, INCLUDING VALUATION METHODS AND ASSUMPTIONS

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. The fair value of the HSBC term loan, is approximately $48,324,000 (2011 – $50,409,000) which is based on rates available for debt with similar terms and maturity. The fair value of the mortgage loan and finance leases obligation approximates their carrying value as it reflects FPLP's best estimate based upon estimated interest rates at which FPLP believes it could enter into similar instruments at the consolidated balance sheet date.

Fair value hierarchy
The following table classifies financial assets and liabilities that are recognized on the balance sheet at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are:

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

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

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

Financial asset or liability	Level 1 $	Level 2 $	Level 3 $	Total $
2012				
Investment	99	-	-	99
Interest rate swap*	-	-		-
	99	-	-	99

*Amount was nominal at December 31, 2012

Financial asset or liability	Level 1 $	Level 2 $	Level 3 $	Total $
2011				
Investment	141	-	-	141
Interest rate swap*	-	(43)		(43)
	141	(43)	-	98

(tabular amounts in thousands of Canadian dollars)

17. CAPITAL MANAGEMENT

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

FPLP's capital consists of cash and cash equivalents, debt and Unitholders' equity. The components at December 31, 2012 and December 31, 2011 were as follows:

	2012 **$**	**2011** **$**
Term loan	48,182	50,355
Finance leases and mortgage loan	4,599	4,993
Cash and cash equivalents	(17,843)	(9,329)
Restricted cash	-	(5,000)
External net debt	34,938	41,019
Unitholders' equity	77,154	77,480
Total capitalization	112,092	118,499
External net debt as a percentage of total capitalization	31.2%	34.6%

The HSBC credit facility includes negative covenants which must be observed in order to avoid an accelerated termination of the agreement. These covenants include certain restrictions on paying distributions, the sale of assets, the purchase of investments and acquisitions, share capital, allowing encumbrances and certain issuances of loans or financial assistance. FPLP is restricted from making distributions which exceed distributable cash by more than $1.0 million annually, as defined in this agreement. FPLP is required to maintain a leverage ratio of no greater than 3.5 to 1.0, a fixed charge coverage ratio of no less than 2.0 to 1.0 and a current ratio of no less than 1.2 to 1.0, all defined in the agreement and measured quarterly on a trailing 12-month basis. Financial amounts used in the calculations are specifically defined in the credit agreement, but are substantially equal to the corresponding terms used in the external financial reports filed by FPLP. At December 31, 2012 FPLP was in compliance with all the terms and conditions of its debt agreement.

18. INDEMNIFICATION

The managing general partner and FPLP have agreed to indemnify FPLP's current and former directors and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the partnership from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The general partner has directors' and officers' liability insurance coverage, pursuant to a joint policy covering FPGP, FPLP and FPI, of up to $15.0 million in joint coverage.

19. RESTRUCTURING CHARGE

In 2012, FPLP incurred a restructuring charge of $639,000 ($264,000 in 2011) consisting of severance payments in relation to a program to improve the effectiveness and productivity of its operations. During 2012, $481,000 of the restructuring charge was paid and a provision of $158,000 at December 31, 2012 will be paid in 2013.

20. SUBSEQUENT EVENT

In February 2013, FPLP paid a distribution of $0.50 per Partnership Unit or $7,043,462, of which $3,451,296 was paid to FPI as holders of 6,902,592 Class A limited partner units. The distribution was paid to fund FPI's income taxes payable for the 2011 and 2012 years, which were due on February 28, 2013.