MANAGEMENT'S DISCUSSION AND ANALYSIS

March 15, 2012

Management's discussion and analysis, prepared as at March 15, 2012, provides a review of significant developments that affected the performance of FP Newspapers Inc. ("FPI") in the three and twelve months ended December 30, 2011. This review is based on financial information contained in the consolidated financial statements and accompanying notes for the year ended December 30, 2011.

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

The consolidated financial statements, which are the basis for data presented in this report, have been prepared in accordance with International Financial Reporting Standards (IFRS). The following information provides analysis of the operations and financial position of FPI and FP Canadian Newspapers Limited Partnership ("FPLP") and should be read in conjunction with the consolidated financial statements and accompanying notes.

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

Further information relating to FPI, including the annual information form, is available at www.sedar.com or on FPI's website at www.fpnewspapers.com.

FORMATION AND LEGAL ENTITIES

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

On December 31, 2010, the Fund completed its conversion from an income trust to a corporate structure pursuant to a plan of arrangement. Under the plan of arrangement, Unitholders of the Fund received, for each Unit of the Fund held, one common share of the resulting public corporation, FPI. The common shares of FPI commenced trading on the Toronto Stock Exchange on January 7, 2011 under the symbol "FP". Concurrently, the Fund's Units were delisted.

Immediately following the closing of the arrangement, FPCN Holdings Trust and the Fund were wound up and dissolved. FPI has acquired all of the assets and assumed all of the liabilities of those entities. FPI owns securities entitling it to 49% of the distributable cash of FPLP.

Since there was no change in control as a result of the conversion, the transaction has been accounted for as if the conversion had occurred at the beginning of the earliest comparative period presented. The financial statements reflect the entity which owns the 49% interest in FPLP as a corporation subsequent to December 31, 2010 and an income trust prior to the conversion. All references to "Share Capital" refer to FPI's Common Shares subsequent to December 31, 2010 and Fund Units prior to the conversion. All references to "dividends" refer to dividends paid or payable to holders of FPI Common Shares after December 31, 2010 and to distributions paid or payable to Fund Unitholders prior to the conversion. All references to "Shareholders" refer to holders of Common Shares subsequent to December 31, 2010 and to Fund Unitholders prior to the conversion.

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

FP NEWSPAPERS INC.

A summary of selected financial information of FPI for the last three years is as follows:

	2011 (IFRS)	2010 (IFRS)	2009 (Canadian GAAP)
	$ in thousands except per share amounts		
Revenue	7,959	7,828	6,784
Net earnings (loss)	(9,400)	7,853	6,853
Net earnings (loss) per share	(1.362)	1.138	0.993
Total assets	45,678	60,034	59,221
Total long-term liabilities	2,146	819	868
Dividends declared	4,141	4,970	7,869
Dividends declared per share	0.600	0.720	1.140

Revenue for the year ended December 30, 2011 was $8.0 million compared to $7.8 million in 2010, primarily the result of increased equity earnings in FPI's investment in FPLP. FPI incurred $0.3 million in administration expenses for 2011 compared to $0.6 million in 2010 which included $0.3 million of non-recurring administration expenses related to the conversion of the Fund to the Corporation. A non-cash write-down of $15.0 million was recorded in 2011 based on FPI's determination that its 49% equity investment in FPLP was impaired, primarily due to continued soft advertising revenues which started in 2008, and decreasing newspaper industry valuations. For the year ended December 30, 2011, FPI recorded an increase in future income tax expense of $2.6 million primarily due to the income tax liability resulting from the conversion to a corporation as further explained in the taxation section of this report. Other comprehensive loss for 2011 was $2.0 million compared to a loss of $0.6 million in 2010. The other comprehensive loss for 2011 results from FPI's equity share of FPLP's recognition of actuarial losses related to the pension plan, as explained in the FPLP section of this report.

Cash dividends declared to shareholders for the year ended December 30, 2011 were as follows:

Record Date	Payment Date	Amount per share
January 31, 2011	February 25, 2011	$0.05
February 28, 2011	March 30, 2011	$0.05
March 31, 2011	April 28, 2011	$0.05
April 29, 2011	May 31, 2011	$0.05
May 31, 2011	June 30, 2011	$0.05
June 30, 2011	July 29, 2011	$0.05
July 29, 2011	August 31, 2011	$0.05
August 31, 2011	September 30, 2011	$0.05
September 30, 2011	October 31, 2011	$0.05
October 31, 2011	November 30, 2011	$0.05
November 30, 2011	December 30, 2011	$0.05
December 30, 2011	January 31, 2012	$0.05
		$0.60

FPI declared dividends to shareholders of $4.1 million or $0.60 per share for the year ended December 30, 2011, compared to $5.0 million or $0.72 per share in 2010. The reduction in the distribution level is primarily the result of FPI's conversion to a taxable entity as of January 1, 2011.

The dividend policy of FPI is to issue dividends in approximately equal monthly amounts based on expected operating results for each fiscal year. Dividend levels are reviewed regularly by the directors and are subject to change based on a number of factors, including the overall operating results and capital requirements of FPLP.

As at December 30, 2011, FPI had 6,902,592 shares outstanding.

DISTRIBUTABLE CASH ATTRIBUTABLE TO FPI(2)

Cash available for distribution attributable to FPI was $4.5 million or $0.658 per share for the twelve months ended December 30, 2011, compared to $7.9 million or $1.140 per share in 2010. The decrease in cash available for distribution attributable to FPI in 2011 is primarily due to the establishment of the reserve for future income taxes since FPI is a taxable corporation, the additional funding requirements of the defined benefit pension plan in excess of the accounting expense, and lower EBITDA(1) of FPLP.

FPI monitors the cumulative cash available for distribution attributable to FPI(2) as a factor in determining whether to make an adjustment to the level of monthly dividends. FPI believes it was prudent to pay out cumulatively less than 100% of cash available for distribution attributable to FPI(2).

From commencement of the Fund on May 28, 2002 until December 30, 2011, cumulative distributable cash attributable to FPI**(2)** totalled $12.227 per share. During that period FPI declared cash dividends to shareholders of $10.823 per share, resulting in a cumulative-from-inception payout ratio of 88.5%. Because FPI made an allowance for maintenance capital spending of FPLP in an amount estimated to be sufficient to maintain the productive capacity of the business when calculating distributable cash attributable to FPI(2), and because cumulative dividends declared were less than the cumulative distributable cash attributable to FPI(2), FPI believes there is no economic "return of capital".

FPI's fiscal year-end is December 30. None of the taxable income of FPLP (whose year-end is December 31) were 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 will be allocated to FPI in its year ended December 30, 2012, and subsequent years as described below. The increase in FPI's deferred income tax liability on December 30, 2011 is primarily due to this deferral of taxable income. The June 6, 2011 federal budget included new measures to curtail income deferral by corporations using partnerships with different year-end dates, and these measures have now been substantively enacted and apply to FPI's current year. FPI is required to accrue the portion of FPLP's income earned in the stub-period between the end of the partnership's fiscal period and the end of FPI's taxation year. The measures include transitional relief by allowing stub-period income for the first affected fiscal period to be recognized over a five-year period. FPI is required to include the following percentage of its share of FPLP's December 31, 2011 taxable income allocation in its determination of current taxes payable:

FPI's year-end	Inclusion of December 31, 2011 FPLP taxable income
December 30, 2012	15%
December 30, 2013	20%
December 30, 2014	20%
December 30, 2015	20%
December 30, 2016	25%

HISTORICAL DIVIDENDS PAID ANALYSIS

	2011 (IFRS)	2010 (IFRS)	2009 (Canadian GAAP)
	In thousands of dollars		
Cash provided by operating activities	$ 4,619	$ 4,439	$ 8,259
Net earnings (loss)	(9,400)	7,853	6,853
Dividends paid during the period	4,210	5,212	7,869
Excess (short-fall) of cash provided by operating activities over dividends paid	$ 409	$ (773)	$ 390
(Short-fall) excess of net earnings over dividends paid	$ (13,610)	$ 2,641	$ (1,016)

Dividends paid in two of the three periods exceeded net earnings. FPI does not use net earnings as a basis for determining the level of dividends to shareholders. Dividends are determined by the Directors and are primarily dependent upon the amount of distributions received from FPLP. Because amortization charged as an expense in calculating net earnings of FPLP in accordance with IFRS has exceeded capital expenditures charged as a reduction of distributable cash of FPLP in all periods and because deferred income tax expense and the 2011 write-down of FPI's carrying value of its investment in FPLP are non-cash reductions of net earnings, this result is not unexpected.

Dividends paid in the twelve months ended December 31, 2010 exceeded cash provided by operating activities due primarily to the settling of the subordinated notes at December 31, 2009 and the non-recurring administration expenses relating to the conversion of the Fund to FPI. The subordinated notes were settled effective December 31, 2009 and interest owing on those notes was paid on that date, when it would normally have been paid in January 2010. This had the effect of increasing FPI's cash balance at December 31, 2009 and decreasing the cash that would otherwise have been received in January 2010 and was the primary contributing factor to the temporary shortfall between dividends paid and cash provided by operating activities. This was a temporary deficiency; going forward, monthly distributions from FPLP will exceed FPI's administration costs and dividends declared by FPI, as has been the case in prior periods.

SUMMARY OF FOURTH QUARTER RESULTS

A summary of FPI's quarterly revenue, net earnings (loss) and net earnings (loss) per share for the years ended December 30, 2011, and December 31, 2010 and 2009 is as follows:

	2011 (IFRS)	2010 (IFRS)	2009 (Canadian GAAP)
	In thousands of dollars (except per share amounts)		
Revenue			
Quarter 1 (*)	$ 1,340	$ 1,479	$ 570
Quarter 2	2,527	2,390	2,213
Quarter 3	1,373	1,546	1,381
Quarter 4	2,719	2,413	2,620
Net earnings (loss)			
Quarter 1 (*)(**)	$ 953	$ 1,451	$ 543
Quarter 2 (**)	1,776	2,732	2,173
Quarter 3 (**)	974	1,511	1,298
Quarter 4 (***)	(13,103)	2,159	2,839
Net earnings (loss) per share			
Quarter 1 (**)	$ 0.138	$ 0.210	$ 0.079
Quarter 2 (**)	0 257	0.396	0.315
Quarter 3 (**)	0 141	0.219	0.188
Quarter 4 (***)	(1.898)	0.313	0.411

*The lower revenue and net earnings (loss) in the first quarter of 2009 are primarily the result of reduced FPLP advertising revenues resulting from the economic slowdown and a FPLP restructuring charge of $0.6 million relating to employee severance costs.

**Decreases in net earnings (loss) and net earnings (loss) per share in the first three quarters of 2011, are primarily due to an increase in deferred income tax expense resulting from the corporate conversion.

***Decreases in net earnings (loss) and net earnings (loss) per share in the fourth quarter of 2011 are primarily due to a non-cash write-down of $15.0 million of FPI's investment in FPLP Class A limited partner units.

FPI reported a net loss of $13.1 million for the three months ended December 30, 2011, compared to net earnings of $2.2 million for the same period last year. The decrease in net earnings is due to a $15.0 million non-cash write-down of the investment in FPLP Class A limited partner units to reflect a continuation of soft advertising revenues, which started in 2008 and decreasing newspaper industry valuations. For the three months ended December 30, 2011, excluding the non-cash write-down of the investment of FPLP Class A limited partner units, net earnings were $1.9 million compared to $2.2 million for the same period in the previous year, primarily due to an increase of $0.7 million in deferred income tax expense explained in the taxation section of this report, partly offset by increased equity earnings in FPLP as explained in the FPLP section of this report.

RESULTS OF OPERATIONS OF FPLP

A summary of selected financial information of FPLP for the last three years is as follows:

	2011 (IFRS)	2010 (IFRS)	2009 (Canadian GAAP)
	In thousands of dollars		
Revenue	111,269	110,032	113,863
Net earnings(*)	16,232	15,973	7,117
Total assets	150,076	145,041	146,947
Total long-term liabilities(**)	55,343	51,759	54,930

* Net earnings in 2009 were lower due to $6.7 million of interest on the subordinated notes held by the Fund which were settled on December 31, 2009, restructuring charges of $1.9 million and lower advertising revenues as a result of the economic slowdown.

** The decrease in total long-term liabilities from 2009 to 2010 is primarily due to term loan principal repayments of $4.6 million. The increase in long-term liabilities in 2011 is primarily the result of an increase in the defined benefit pension obligation, new lease agreements for the upgrade of production equipment and a new mortgage loan on Derksen Printers' real estate assets.

Summary of Annual Results

Revenue:
A summary of annual revenue by major category is as follows:

	2011	2010
	In thousands of dollars	
Advertising	$ 76,513	$ 75,283
Circulation	27,384	28,391
Commercial printing	3,284	3,593
Digital	2,601	1,978
Other	1,487	787
	$ 111,269	$ 110,032

FPLP's revenue for the twelve months ended December 31, 2011 was $111.3 million, an increase of $1.2 million or 1.1% from the prior year. Excluding revenue attributable to the Derksen operation for the year, revenue decreased by $3.7 million compared to the twelve months ended December 31, 2010. A decrease in commercial printing revenue of $3.1 million accounted for the largest decline in overall revenues, and excluding the Derksen business, the loss of the Globe and Mail printing contract was the primary factor for the overall commercial printing revenue decline. Advertising revenues for the year ended December 31, 2011, excluding the Derksen business, were $74.9 million, a 0.5% decrease compared to last year. FPLP's largest advertising revenue category, display advertising including colour, excluding the Derksen business, was $48.2 million, an increase of $0.3 million or 0.7% from the prior year, primarily due to increased spending in the telecommunications, automotive and real estate categories, partly offset by decreased spending in the retail, financial and government categories. Classified advertising revenues for the 2011 year, excluding the Derksen business, decreased by $1.0 million or 7.8% compared to last year, primarily due to lower spending in the automotive and employment categories. Flyer distribution revenues, excluding the Derksen business, increased by $0.2 million compared to last year primarily due to increased quantities and higher rates.

Circulation revenues for the year ended December 31, 2011, excluding the Derksen business, decreased by $1.2 million or 4.3%, due primarily to lower paid-subscription and single-copy volumes, partially offset by increased subscription rates. Digital revenues for 2011 increased by $0.6 million or 30.8%, primarily due to the increase in Winnipeg Free Press website banner advertising and revenues from new product offerings largely by the Winnipeg Free Press. Other revenue, excluding the Derksen business, increased by $0.4 million primarily due to sales of the book "Back in the Bigs", a history of the Winnipeg Jets written by Winnipeg Free Press reporter Randy Turner.

Operating Expenses:
Operating expenses by major category are as follows:

	2011	2010
	In thousands of dollars	
Employee compensation, excluding restructuring charges	$ 42,738	$ 41,497
Newsprint – own use	9,130	8,769
Newsprint – commercial printing	874	750
Delivery of newspapers	17,164	16,944
Other	18,006	17,521
Depreciation and amortization	4,441	5,967
	92,353	91,448
Restructuring charges	264	-
	$ 92,617	$ 91,448

Operating expenses for the year ended December 31, 2011 were $92.6 million, a $1.2 million or 1.3% increase from the same period last year. Excluding the Derksen business, operating expenses decreased $3.0 million or 3.2% compared to last year. Employee compensation costs for the year, excluding the Derksen business, decreased by $0.7 million or 1.7%, primarily due to fewer employees as a result of the restructuring completed in 2010 and closing of the Brandon production operation, partially offset by the 2% wage increase included in the collective agreements, restructuring severance costs and higher pension expense. In the second quarter of 2011, twelve employees were laid-off between the Winnipeg and Brandon operations, and a restructuring charge for severance costs of $0.3 million was incurred. Newsprint expense for FPLP's own publications for the year, excluding the Derksen business, increased by $0.3 million or 3.4%, primarily due to higher newsprint prices, partially offset by lower volumes mainly from fewer circulation copies. Newsprint expense for commercial printing for the year, excluding the Derksen business, decreased $0.6 million compared to the prior year, primarily due to the October 1, 2010 non-renewal of the Globe and Mail printing contract. Delivery costs, excluding the Derksen business, increased by $0.1 million or 0.3% in 2011, primarily due to extra costs resulting from higher flyer volumes. Other expenses for the year, excluding the Derksen business, decreased by $0.3 million or 1.9% compared to the prior year, primarily due to a reduction in an accrual relating to a labour matter and decreased marketing costs.

Depreciation and amortization for the twelve months ended December 31, 2011 decreased by $1.5 million compared to the same period in the prior year, or $1.7 million, excluding the Derksen business. This decrease was primarily due to accelerated depreciation recorded in the prior year for the Brandon production equipment, which was taken out of service effective October 1, 2010.

EBITDA(1) for the year ended December 31, 2011 was $23.1 million compared to $24.6 million in 2010, a decrease of 5.9%. EBITDA(1) margin for the twelve months ended December 31, 2011 was 20.8% compared to 22.3% in 2010. Excluding the Derksen business, EBITDA(1) for the twelve months ended December 31, 2011 was $22.1 million.

For the year ended December 31, 2011 finance costs remained at the same level compared to the previous year, due primarily to lower interest costs on the variable-rate term loan, as a result of the lower outstanding principal, partially offset by interest expense on the new equipment finance leases, the new Derksen mortgage loan and the non-cash loss on the interest rate swap.

FPLP's net earnings were 16.2 million for the year ended December 31, 2011, compared to $16.0 million for the same period last year.

Under IFRS, comprehensive income includes actuarial gains and losses. These gains or losses are primarily related to changes in actuarial discount rate assumptions and differences between actuarial estimates of return on pension plan assets versus actual returns. In 2011, an increase in the defined benefit obligation resulted from an actuarial discount rate decrease and a lower actual return on the plan's investments compared to the actuarial expected return assumptions.

Summary of Fourth Quarter Results

Revenue:

A summary of revenue for the three months ended December 31, 2011 and 2010 by major category is as follows:

	Three months ended	
	December 31, 2011	**December 31, 2010**
	In thousands of dollars	
Advertising	$ 20,839	$ 20,398
Circulation	6,864	6,915
Commercial printing	1,022	139
Digital	670	578
Other	547	216
	$ 29,942	$ 28,246

FPLP's revenue for the three months ended December 31, 2011 was $29.9 million, an increase of $1.7 million or 6.0% from the same three months in the prior year. Excluding revenue attributable to the Derksen operation for the quarter, revenue was higher by $0.1 million or 0.3% compared to the three months ended December 31, 2010. Advertising revenues for the three months ended December 31, 2011, excluding the Derksen business, were $20.3 million, a 0.6% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, excluding the Derksen business, was $13.3 million, an increase of $0.2 million or 1.4% from the same period in the prior year, primarily due to increased spending in the telecommunications, real estate, travel and financial categories, partly offset by decreased spending in retail and automotive categories. Classified advertising revenues for the fourth quarter, excluding the Derksen business, decreased by $0.2 million or 8.7% compared to the same period last year, primarily due to a decrease in the automotive, employment and obituary categories. Flyer distribution revenues for the fourth quarter, excluding the Derksen business, were lower by $0.1 million or 1.4% compared to the same period in 2010.

Circulation revenues for the fourth quarter, excluding the Derksen business, decreased by $0.1 million or 1.9%, due primarily to lower paid-subscription and single-copy volumes, partially offset by increased subscription rates. Commercial printing revenues for the quarter, excluding the Derksen business, were at the same level compared to the three months ended December 31, 2010. Digital revenues for the fourth quarter increased by $0.1 million or 16.0% compared to the same period last year, primarily due to the increase in Winnipeg Free Press website banner advertising and revenues from new product offerings largely by the Winnipeg Free Press. Other revenue increased by $0.3 million or 118.9%, primarily due to sales of the book "Back in the Bigs", a history of the Winnipeg Jets written by Winnipeg Free Press reporter Randy Turner.

Operating Expenses:

	Three months ended December 31, 2011	December 31, 2010
	In thousands of dollars	
Employee compensation	$ 10,620	$ 10,134
Newsprint – own use	2,377	2,465
Newsprint – commercial printing	327	40
Delivery of newspapers	4,545	4,592
Other	4,739	4,417
Depreciation and amortization	1,132	1,072
	$ 23,740	$ 22,720

Operating expenses for the three months ended December 31, 2011 were $23.7 million, a $1.0 million or 4.5% increase from the same quarter last year. Operating expenses excluding the Derksen business, for the three months ended December 31, 2011, decreased by $0.3 million or 1.5% compared to last year. Employee compensation costs for the fourth quarter, excluding the Derksen business, decreased by $0.2 million or 2.1% primarily due to fewer employees, partially offset by the 2% wage increase included in the collective agreements and higher pension costs. Newsprint expense for FPLP's own publications for the quarter, excluding the Derksen business, decreased by $0.1 million, primarily due to lower volumes mainly from fewer circulation copies. Newsprint expense for commercial printing for the fourth quarter, excluding the Derksen business, remained at the same level compared to the same period in the prior year. Delivery costs and other expenses for the fourth quarter, excluding the Derksen business, were largely at the same level compared to the same period in the previous year.

Depreciation and amortization for the three months ended December 31, 2011 increased by less than $0.1 million compared to the same period in the prior year as a result of depreciation expense commencing on the property, plant and equipment additions during the year.

EBITDA(1) for the three months ended December 31, 2011 was $7.3 million compared to $6.6 million for the same period last year, an increase of 11.2%. EBITDA(1) margin for the three months ending December 31, 2011 was 24.5% compared to 23.3% in the same period last year. Excluding the Derksen business, EBITDA(1) for the three months ended December 31, 2011 was $7.0 million. The changes in EBITDA(1) were due to the factors described above.

Finance costs for the three months ended December 31, 2011 increased by less than $0.1 million compared to the previous year, primarily due to interest expense on the new finance leases and mortgage loan and the non-cash loss on the interest rate swap.

FPLP's net earnings were $5.5 million for the three months ended December 31, 2011, compared to $4.9 million for the same period last year.

QUARTERLY SUMMARY

Newspaper publishing is, to a certain extent, a seasonal business, with a higher proportion of revenues and operating earnings occurring during the second and fourth quarters of the calendar year. Revenue, EBITDA(1) and net earnings of FPLP by quarter for 2011, 2010 and 2009 were as follows:

	2011 (IFRS)	2010 (IFRS)	2009 (Canadian GAAP)
	In thousands of dollars		
Revenue			
Quarter 1	$ 24,997	$ 26,370	$ 26,838
Quarter 2	29,926	28,946	29,691
Quarter 3	26,404	26,470	26,554
Quarter 4	29,942	28,246	30,780
	$ 111,269	$ 110,032	$ 113,863
EBITDA(1)			
Quarter 1(**)(****)	$ 4,384	$ 5,529	$ 3,170
Quarter 2(**)	6,861	7,068	6,581
Quarter 3(**)	4,514	5,356	4,660
Quarter 4(*)	7,334	6,598	7,987
	$ 23,093	$ 24,551	$ 22,398
Net Earnings (Loss)			
Quarter1(***)(****)	$ 2,733	$ 3,018	$ (496)
Quarter 2(***)	5,154	4,878	2,838
Quarter 3(***)	2,798	3,152	1,122
Quarter 4(*) (***)	5,547	4,925	3,653
	$ 16,232	$ 15,973	$ 7,117

(*) EBITDA(1) and net earnings (loss) in the fourth quarter of 2009 were impacted by restructuring charges of $0.8 million relating to severance costs largely for employee reductions resulting from the 2010 consolidation of production in Winnipeg.

(**) EBITDA(1) in the first three quarters of 2010 were higher than the previous year even though year-over-year revenues were lower in each period as a result of various cost reduction initiatives implemented in response to the economic slowdown, which resulted in reduced advertising revenues.

(***) Net earnings (loss) were lower in each quarter of 2009 primarily due to the settlement of the subordinated notes held by FPI at the end of the fourth quarter of 2009 resulting in higher financing costs in 2009.

(****) In addition to the explanations (**) and (***) above, EBITDA(1) and net earnings (loss) in the first quarter of 2009 were impacted by reduced advertising revenues resulting from the economic slowdown and a restructuring charge of $0.6 million relating to employee severance costs.

The distribution policy of FPLP is to make distributions in approximately equal monthly amounts based on expected operating results for each fiscal year. Distribution levels are reviewed regularly by management and the Board of Directors of the managing general partner and are subject to change based on a number of factors including the overall operating results and capital requirements of the business.

FINANCIAL CONDITION OF FPLP

LIQUIDITY AND CAPITAL RESOURCES OF FPLP

Cash and cash equivalents, excluding the restricted cash, at December 31, 2011 was $9.3 million compared to $6.5 million at December 31, 2010. Cash and cash equivalents may be used to pay future distributions (including future income taxes payable by the partners), to reduce debt, to fund future capital expenditures, or for other general purposes. During the year ended December 31, 2011, operating activities provided $17.5 million, $4.2 million was used for investing activities and $10.5 million was used for financing activities. Cash flow from operations, together with cash balances on hand, are currently expected to be sufficient to fund FPLP's operating requirements, capital expenditures, required principal repayments under FPLP's HSBC credit facility and anticipated distributions, assuming that advertising revenues do not materially deteriorate beyond management's current expectations.

CASH FLOW FROM OPERATING ACTIVITIES

During the year ended December 31, 2011, cash generated from operating activities was $17.5 million compared to $18.3 million for 2010. Net earnings for the year ended December 31, 2011 were $16.2 million compared to $16.0 million for the prior year. The main factors contributing to the change in net earnings are outlined in the FPLP section of this report. For the year ended December 31, 2011, depreciation and amortization decreased by $1.5 million compared to the prior year, as a result of accelerated amortization in 2010 on certain Brandon production equipment resulting from the consolidation of Brandon production at our Winnipeg production site, partially offset by increased depreciation expense relating to the Derksen assets acquired in February 2011. In 2011 there was an increase of $0.4 million in defined benefit pension funding compared to the accounting expense.

The net change in non-cash working capital for the year ended December 31, 2011 is primarily the result of the timing of receipts from customers and payments to suppliers. In 2010, deposits to suppliers of $2.0 million for production upgrades were included in prepaid and other assets. In 2011, deposits of approximately $0.4 million are included in prepaid and other assets for upgrading equipment in the Derksen operation.

INVESTING ACTIVITIES

Capital purchases were $3.7 million for the year ended December 31, 2011, compared to $0.6 million for the prior year. Internally financed capital spending during the year was $1.1 million and consisted of leasehold improvements and equipment for the consolidation of distribution depots, above-ground fuel tanks in Winnipeg, and technology hardware upgrades. In addition, FPLP completed lease financing agreements for the purchase of production equipment upgrades at both our Winnipeg and Derksen printing facilities totalling $2.6 million.

On February 28, 2011, FPLP acquired all of the assets and assumed specified liabilities of a publishing and printing business operated under the name Derksen Printers for cash consideration of $3.5 million. The business has been in operation in Steinbach, Manitoba since 1936. The business publishes The Carillon weekly paid subscription newspaper in addition to a commercial web and sheet-fed printing operation.

In the first quarter of 2010, as part of the HSBC credit agreement, FPLP made a $5.0 million cash deposit into a separate HSBC guarantee account, classified as restricted cash on the balance sheet.

During the second quarter of 2011, FPLP funded $0.2 million to FPLP's Long-Term Incentive Plan ("LTIP"), for exceeding certain 2010 defined distributable cash threshold amounts, subsequent to which the trustee of the LTIP Plan acquired 37,348 shares of FPI on the open market. One-third of these shares will vest on each of March 31, 2012, March 31, 2013 and December 31, 2013. FPLP has not guaranteed the value of the shares held in trust should the market value of the shares decrease from the value at which the shares were purchased.

FPLP generated proceeds from the sale of property, plant and equipment of $0.5 million during 2011, primarily from the sale of Brandon production equipment.

FINANCING ACTIVITIES

Distributions to partners of FPLP for the year ended December 31, 2011 totalled $10.1 million, of which $5.0 million was paid to FPI as holder of Class A limited partner units. This is compared to $10.7 million last year, of which $5.3 million was paid to FPI as holder of Class A limited partner units. The distributions to partners were determined in accordance with the limited partnership agreement that governs FPLP (the "LP Agreement").

In 2011, FPLP generated proceeds from equipment finance leases totalling $4.1 million, and proceeds from a new mortgage loan on the Derksen real estate assets generated $1.0

million. During 2011, $0.4 million was used for principal repayments on the finance leases and the mortgage loan.

The principal repayments of the HSBC term loan for the year ended December 31, 2011 totalled $5.0 million, compared to $4.6 million in principal repayments last year. The increase in the principal repayment in 2011 is a result of twelve full months of repayments compared to only eleven in 2010. In 2010, $0.3 million was used to fund financing costs associated with the HSBC loan agreement.

CONTRACTUAL OBLIGATIONS

A summary of FPLP's undiscounted contractual obligations by period is as follows:

		Payments Due by Period			
	Total	Less than 1 year	1-3 Years	4-5 Years	After 5 Years
	In thousands of dollars				
Long-term debt	$ 52,768	$ 7,194	$ 45,574	$ -	$ -
Mortgage loan	1,155	92	278	785	-
Finance leases	4,479	927	2,703	849	-
Operating leases	723	220	382	118	3
Other contractual commitments	6,765	1,228	3,084	1,279	1,174
Total contractual obligations	$ 65,890	$9,661	$ 52,021	$3,031	$ 1,177

During 2011 FPLP entered into three five-year non-cancellable finance lease agreements to finance upgrades to certain equipment at the Winnipeg Free Press and Derksen Printers.

During 2011 a mortgage financing agreement was completed for the Derksen Printers' real estate assets. FPLP entered into two long-term sponsorship agreements which require annual payments of $0.4 million.

In 2010, FPLP entered into a $0.4 million annual five-year agreement to purchase production supplies in connection with certain equipment purchases.

FPLP sponsors registered defined benefit and defined contribution pension plans. As at December 31, 2011, the defined benefit plan assets totalled $21.7 million and were invested in a diversified portfolio of Canadian and International equity securities, as well as Canadian bonds.

The most recent actuarial valuation for the defined benefit plan was performed as at December 31, 2010. This valuation established the amount of contributions FPLP would have to make under the defined benefit pension plan from December 31, 2010 until December 31, 2011, the next valuation date.

In January 2010, FPLP made an initial cash deposit of $5.0 million into a separate HSBC guarantee account with a second $5.0 million guarantee account deposit made by FP Funding Corporation ("FundingCo"), a company controlled indirectly by Ronald Stern and Robert Silver, who together indirectly control 51% of FPLP. FPLP and FundingCo have entered into a Credit Support Agreement and a Credit Support Fee Agreement outlining the terms of FundingCo's guarantee. Under the terms of the Credit Support Fee Agreement, FPLP is required to pay FundingCo a guarantee fee on the $5.0 million account deposit calculated at 3.0% per annum over the rate charged to FPLP by HSBC for Facility A under its credit agreement (see note 7 to the 2011 Annual Consolidated Financial Statements of FPLP).

In 2012, FPLP entered into a financial lease agreement in the amount of $0.4 million to complete the financing of the additional equipment required to upgrade the Derksen production operation.

HISTORICAL DISTRIBUTIONS PAID ANALYSIS

	2011 (IFRS)	2010 (IFRS)	2009 (Canadian GAAP)
	In thousands of dollars		
Cash provided by operating activities	$ 17,507	$ 18,304	$ 11,316
Net earnings	16,232	15,973	7,117
Distributions paid	10,141	10,749	9,477
Excess of cash provided by operating activities over distributions paid	$ 7,366	$ 7,555	$ 1,839
Excess (short-fall) of net earnings over distributions paid	$ 6,091	$ 5,224	$ (2,360)

Cash distributions paid in one of the three periods exceeded net earnings. FPLP does not use net earnings as a basis for determining the level of distributions to Unitholders. Distributions are determined in accordance with the LP Agreement. Because amortization charged as an expense in calculating net earnings in accordance with GAAP exceeds capital expenditures charged as a reduction of distributable cash in all periods, this result is not unexpected.

RESERVES RELATED TO DISTRIBUTABLE CASH ATTRIBUTABLE TO FPI(2)

Under the terms of the LP Agreement, the managing general partner of FPLP is required to determine reserves which are necessary or desirable to withhold from any distributions to partners, including among other things for capital expenditures, income taxes and operating expenses. A summary of the reserves for the years ended December 31, 2011 and 2010 is as follows:

Reserve for future maintenance capital

	2011	2010
	In thousands of dollars	
Reserve – beginning of year	$1,500	$1,500
Increase in reserve	-	-
Decrease in reserve	(281)	-
Reserve – end of year	$1,219	$1,500

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

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

Reserve for future income taxes payable

	2011	2010
	In thousands of dollars	
Reserve - beginning of period	$ -	$ -
Increase in reserve	3,901	-
Reserve at end of period	$ 3,901	$ -

As FPI's year end is December 30, and taxes will be temporarily deferred as explained under the taxation section of this report, a reserve at the FPLP level was established to fund future income taxes payable.

PRODUCTIVE CAPACITY MAINTENANCE STRATEGY

The key sources of revenue of FPLP are dependent upon our ability to sell and publish display and classified advertising, both in our newspapers and on our websites, our ability to distribute advertising flyers, and our ability to produce and distribute newspapers. The key capital assets used in these activities are premises, computer hardware and software, printing presses and distribution-related machinery. The available capital assets are used by our staff to deliver the products and services which result in revenue to FPLP.

It is the complex interaction of asset utilization, staffing levels and contracted services which ultimately determine our productive capacity on any given day, but there is no single measure which would accurately portray the productive capacity of the business. Generally speaking, we manage the business to ensure there is excess capacity available that would allow us to comfortably increase the volume of advertising, circulation and flyer distribution to take advantage of market opportunities.

FPLP's strategy is to maintain a reasonable level of excess productive capacity to at least ensure we are able to produce and distribute products and services at the current peak volumes. This is accomplished by conducting capital and non-capital preventive maintenance programs for machinery and equipment, performing repairs when necessary, evaluating new technologies as they become available, and investing in new technologies when appropriate.

DEBT MANAGEMENT STRATEGY

Under the HSBC credit facility, FPLP is required to make $5.0 million of annual debt principal repayments in the form of equal monthly payments until the remaining balance becomes due on January 31, 2013.

FPLP's strategy will be to refinance the remaining $45 million of long-term debt prior to January 31, 2013 on the best terms available at that time. The capital assets with the most significant estimated replacement costs are buildings and printing presses, which have very long expected remaining useful lives. The ability to refinance the core debt at maturity will be dependent upon many factors, including the future EBITDA(1) of FPLP and the general conditions in the commercial lending market at the relevant time.

DEBT COVENANTS

The HSBC credit facility (see note 7 to the 2011 Annual Consolidated Financial Statements of FPLP) includes negative covenants which must be observed in order to avoid an accelerated termination of the agreement. These covenants include certain restrictions on paying distributions, the sale of assets, the purchase of investments and acquisitions, share capital, allowing encumbrances and certain issuances of loans or financial assistance. FPLP is restricted from making distributions which exceed distributable cash, as defined in the credit agreement, by more than $1.0 million annually. FPLP is required to maintain a leverage ratio of no greater than 3.5 to 1.0, a fixed charge coverage ratio of no less than 2.0 to 1.0, and a current ratio of no less than 1.2 to 1.0, all as defined in the agreement and measured quarterly on a trailing 12-month basis. Financial amounts used in the calculations are specifically defined in the credit agreement, but are substantially equivalent to the corresponding terms used in the external financial reports filed by FPLP. The following financial ratios are calculated in accordance with the HSBC credit agreement:

Twelve months ended	Leverage ratio	Fixed charge ratio	Current ratio
December 31, 2011	1.8	3.0	5.4
September 30, 2011	1.9	3.0	4.6
June 30, 2011	1.9	3.2	2.7
March 31, 2011	1.9	3.3	2.4
December 31, 2010	1.8	3.6	3.4

FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2011 there are no derivative contracts in place or off-balance sheet arrangements entered into for FPI. The only derivative entered into by FPLP is disclosed in the Interest Rate Risk section.

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 outstanding 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, and we do not expect the counterparties to fail to meet their obligations.

As we are in the business of publishing newspapers and performing printing services for third parties, included in accounts receivable are amounts owed from advertisers and advertising agencies, circulation customers and commercial print clients. We do not hold collateral as security for these balances. Our 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. We manage credit risk on a customer-by-customer basis and establish a reasonable allowance for uncollectible amounts with this allowance netted against the accounts receivable on the 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.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. FPLP's variable interest rate term loan exposes the business to cash flow interest rate risk since the borrowings are in the form of bankers' acceptances with an available term of between 30 and 180 days. FPLP's fixed rate finance leases and mortgage loan expose the business to fair value interest rate risk.

We do not have a formal interest rate risk policy but did determine during the year that entering into an interest rate swap agreement was a prudent approach to managing our cash flow interest rate risk. Under the swap agreement, FPLP agrees with other parties to exchange, at specified intervals, the difference between Canadian fixed and floating interest rates calculated by reference to the agreed-upon amortizing principal amounts. The notional amount of the interest rate swap at December 31, 2011 was $14.2 million. At December 31, 2011, FPLP held $36.2 million (2010 $55.4 million) of debt subject to cash flow interest rate risk and $5.0 million (2010 $nil) of debt subject to fair value interest rate risk.

For the year ended December 31, 2011, if interest rates on FPLP's term loan had been 1 percent higher or lower than actually were in effect, with all other variables held constant, interest expense would have been $0.5 million higher or lower (2010 $0.6 million).

LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. We believe that we have access to sufficient capital through existing cash balances, future internally generated cash flows and external sources (bank credit markets and debt capital markets) to meet current spending forecasts. Trade payables are due within one year.

RELATED PARTY TRANSACTIONS

FPLP purchases a portion of its newsprint from Alberta Newsprint Company ("ANC"), a joint venture owned equally by a limited partnership controlled by Ronald Stern (Chairman of the Board and Director of FPLP), and West Fraser Mills Ltd. ANC, which is one of three suppliers of newsprint to FPLP, also supplies newsprint to a number of other newspaper publishing operations in both Canada and the United States. Total newsprint purchases from ANC based on actual invoice prices in 2011 were $4.3 million, compared to $3.8 million for the same period last year. While there is no formal contractual obligation in place with respect to future newsprint purchases, selection of suppliers will continue to be made by management based on criteria approved by the Audit Committee of FPLP, which reviews newsprint purchasing details with management on a quarterly basis.

In connection with the HSBC credit facility, FPLP pays a guarantee fee to FP Funding Corporation ("FundingCo"), a company controlled indirectly by Ronald Stern and Robert Silver, who together control 51% of FPLP. FundingCo has made a $5.0 million deposit into a HSBC guarantee account (as discussed in Note 7 to the 2011 Annual Consolidated Financial Statements of FPLP) held as collateral until the term loan is repaid. The guarantee fee for the year ending

December 31, 2011 was $0.4 million, virtually unchanged from the fee paid in 2010.

DISCLOSURE CONTROLS AND PROCEDURES

Management of FPI and FPLP, including the Chief Executive Officer and Chief Financial Officer, have evaluated the design and effectiveness of FPI's and FPLP's disclosure controls and procedures as of December 30, 2011, and December 31, 2011, respectively, and have concluded that FPI's and FPLP's disclosure controls and procedures were reasonably adequate and effective to ensure that material information relating to FPI and FPLP is recorded, processed, summarized and reported within the time periods specified, and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of FPI and FPLP, including the Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

Management assessed the effectiveness of FPI's and FPLP's internal control over financial reporting as of December 30, 2011 and December 31, 2011, respectively, and based on that assessment concluded that FPI's and FPLP's internal controls over financial reporting were effective. No material changes were made in FPI's and FPLP's internal controls over financial reporting during the year ended December 30, 2011 and December 31, 2011, respectively, that have materially affected, or are reasonably likely to materially affect, FPI's and FPLP's internal controls over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

FPLP

Valuation of Intangible Assets and Goodwill

FPLP has estimated the fair value and useful life of finite life intangible assets and the fair value of indefinite life intangible assets and goodwill, based on historical and expected operating plans, economic conditions and general outlook for the industry and geographic market in which FPLP operates. Significant unfavourable changes to these factors could result in a material impairment of the fair value and/or life of these assets.

In performing the annual impairment testing of goodwill and indefinite life intangibles, a number of assumptions and estimates are made in applying an impairment test. The fair value definition used is the amount at which an asset could be bought or sold in a current transaction between knowledgeable, willing parties. FPLP uses the discounted cash flow approach when comparing the net present value of the projected cash flows to the carrying value at year end. The projections used represent management's best estimates of expected operating results and use a range of discount rates taking into consideration factors such as the size of the operations and the risk profile.

Had different assumptions or valuation techniques been used in performing the impairment testing, the carrying value of finite life and indefinite life intangibles and goodwill may have been different. FPLP considers the assumptions and techniques used to be reasonable.

Pension Plans

FPLP has a defined benefit pension plan and multiple defined contribution pension plans. The defined benefit pension plan requires actuarial assumptions which include discount rates, rate of compensation increases, mortality assumptions, and long-term rates of return on pension plan assets. A change in the discount rate used in the valuation of the pension obligations could result in a significant increase or decrease in the value of the obligations, which impacts the funded status of the plans as well as the net benefit cost in subsequent years. At December 31, 2011, a 50 basis-point decrease in the discount rate would increase our defined benefit obligations by $2.4 million and increase our expense for the year ended December 31, 2012 by $0.2 million. At December 31, 2011, a 50 basis point increase in the discount rate would decrease our defined benefit obligations by $2.2 million and decrease our expense for the year ended December 31, 2012 by $0.2 million.

The funding for the defined benefit pension plan is based on actuarial funding valuation reports which are filed with the provincial pension commission. The last actuarial valuation report was completed as of December 31, 2010. An updated report as of December 31, 2011, will be completed during 2012.

FPI

Valuation of Investment in FPLP

Annually, FPI evaluates whether an impairment exists in its investment in FPLP. FPI completed its impairment assessment by comparing its recoverable amount (being the higher of fair value less cost to sell and value in use) to its carrying value. Under the value-in-use approach, management estimated the discounted future cash flows for five years and a terminal value for FPI's investment in FPLP.

The future cash flows are based on management's best estimates considering historical and expected operating plans, economic conditions, and general outlook for the industry and geographic market in which FPLP operates. The discount rates used by FPI are based on an industry-based debt/equity ratio and consider the risk free rate, risk premium and size premium for possible variations from management's projections. A terminal value is the value attributed to FPLP's operations beyond the projected period of 2016 using a perpetuity growth rate based on industry, revenue and operating income trends and growth prospects. Under the fair value less cost to sell approach, FPI estimates fair value by multiplying maintainable earnings before interest, income taxes, depreciation, amortization and other non-recurring costs by multiples based on market comparables.

FPI's assumptions are affected by current market conditions which may affect expected revenues of FPLP. In addition, while FPLP continues to implement cost savings initiatives, operating costs may increase more significantly than expected. FPI has made certain assumptions which may differ or change quickly depending on economic conditions and other events. Accordingly, it is reasonably possible that future changes in assumptions may negatively impact future impairment assessments of FPI's investment in FPLP.

FPI's assessment of the fair value of its investment in FPLP on December 30, 2011 resulted in a $15.0 million non-cash write-down of the investment in FPLP Class A limited partner units.

INITIAL ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In February 2008, the Canadian Accounting Standards Board ("AcSB") announced that International Financial Reporting Standards ("IFRS") will be used for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. FPI and FPLP began reporting under IFRS starting with the interim period ended March 31, 2011, with restatement for comparative purposes of amounts reported for the corresponding periods in 2010 including a transitional balance sheet at January 1, 2010.

In order to prepare for the transition date on January 1, 2011, FPI and FPLP finalized the evaluation of this new requirement and created a detailed plan to converge to IFRS. The detailed plan included an analysis of the project structure and governance, resources and training, analysis of key IFRS versus Canadian GAAP differences and a phased approach to the assessment of accounting policies and implementation. FPI's information technology, data systems and business processes were not impacted significantly by the changeover to IFRS.

Adjustments required on transition to IFRS have been made retrospectively against opening deficit at January 1, 2010. Transitional adjustments relating to those standards where comparative figures are not required to be restated will only be made as of the first day of the fiscal year of adoption.

IFRS 1 - provides entities adopting IFRS for the first time with a number of optional exceptions and mandatory exceptions to the general requirement for the full retrospective application of IFRS. FPI and FPLP analyzed the various accounting policy options available and implemented those determined to be most appropriate for our specific circumstances.

IFRS Exemption Options Applied

a. Business combinations - IFRS 1 provides the election to apply IFRS 3, *Business Combinations*, retrospectively or prospectively from the transition date. The retrospective basis would require restatement of all business combinations that occurred prior to the transition date or all business combinations that occurred subsequent to a date prior to transition selected by FPLP. FPLP elected to prospectively apply IFRS 3 to all business combinations subsequent to January 1, 2010 (Business Combinations Election Date). Accordingly any business combinations prior to such Business Combinations Election Date have not been restated. Any goodwill arising on such business combinations before the Business Combinations Election Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions.

b. Employee Benefits – IFRS 1 provides an election to recognize all cumulative actuarial gains and losses at the transition date as a direct entry to deficit rather than retrospectively applying IFRS pension guidance and recalculating amounts on transition. FPLP elected to apply the optional exemption and recognized all cumulative actuarial gains and losses at the transition date in deficit.

Income taxes (FPI) - FPI has recognized deferred income taxes related to temporary differences associated with the accounting and tax values of the assets and liabilities within FPLP. Accordingly, FPI recognized deferred income taxes associated with the change in the measurement of employee future benefit assets and liabilities (see note 9 to the 2011 Annual Consolidated Financial Statements of FPI). The impact of FPI's 49% equity share is a reduction in the deferred income tax liability at January 1, 2010 of $186,000 and December 31, 2010 of $343,000.

From January 1, 2010 to December 31, 2010, the Fund (the predecessor to FPI) was structured as an income trust. On May 5, 2010, unitholders approved the conversion from an income trust to a corporation. For interim periods prior to May 5, 2010, deferred taxes under IFRS must be measured using the highest marginal tax rate of 43.7%. On January 1, 2010, this resulted in an increase to the Fund's deferred tax liability of $537,000 as a result of the transition to IFRS. This increase reversed through the statements of earnings and comprehensive income as a deferred tax recovery in the second quarter of 2010 as a result of the approved conversion to a corporation.

Under the current Canadian Income Tax Act, "eligible capital expenditures" are deductible for tax purposes to the extent of 75% of the cost incurred, and proceeds are ultimately taxable only to the extent of 75% of the amount received. Under Canadian GAAP, the 25% of the amounts not deductible are included in the tax basis of the related asset. Under IFRS the 25% of the amounts not deductible do not meet the definition of tax basis. On transition, a deferred tax liability of approximately $388,000 and $240,000 was recognized related to such temporary difference as at January 1, 2010 and December 31, 2010, respectively.

Property, plant and equipment – IFRS requires an entity to identify significant component parts within fixed assets and depreciate those parts over their respective useful lives. Canadian GAAP only requires componentization to the extent practicable. FPLP finalized its review of its fixed assets to identify whether any additional components are required to be recognized on transition to IFRS. The annual impact of the additional componentization was insignificant.

Impairment of assets – Upon adoption of IFRS, FPLP was required to test goodwill and mastheads for impairment in accordance with IAS 36. Furthermore, IFRS requires FPLP to conduct an asset-impairment test at the date of adoption of IFRS if indicators of impairment exist. There are several differences that exist between Canadian GAAP and IFRS for impairment of non-financial assets, which include:

- the test for non-financial asset impairment (for finite life tangible and intangible assets) requires the use of a discounted cash flow model, whereas Canadian GAAP uses a two-step impairment test which is first based on undiscounted cash flows and then discounted cash flows;
- testing for impairment occurs at the level of cash-generating units, which is the lowest level of assets that generate largely independent cash inflows, whereas Canadian GAAP requires impairment tests at the asset group level; and
- IFRS allows the reversal of previous impairment losses, with the exception of goodwill, whereas Canadian GAAP prohibits the reversal of non-financial asset impairments.

FPLP has finalized its IAS 36 impairment assessments related to its recognized goodwill and indefinite life intangible assets at January 1, 2010 and December 31, 2010, and no impairment charge will be recognized under IFRS.

Accounting standards and amendments issued but not yet effective

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company does not expect to adopt any of these standards before their effective dates, as the evaluation of the impact of these standards is continuing.

IFRS 9 - Financial Instruments
IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for 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
IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

IFRS 11 - Joint Arrangements
IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities

have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers.*

IFRS 12 – Disclosure of Interests in Other Entities
IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

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 and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to IAS 19 - Employee Benefits
The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to enhance the disclosures for all employee benefits. Actuarial gains and losses are renamed 'remeasurements' and will be recognized immediately in other comprehensive income ("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. 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.

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 and deficit 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.

IAS 1 – Presentation of Financial Statements
The amendment requires 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 resulting from the amendments 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.

This standard is required to be applied for annual periods beginning on/or after July 1, 2012, with earlier adoption permitted.

BUSINESS RISKS AND UNCERTAINTIES

REVENUE

Advertising revenues, which account for approximately 69% of total revenue, are historically dependent upon general economic conditions and the specific spending plans of high-volume advertisers. A significant downturn in the national or regional economy, like the one which started in 2008, decreases advertising revenue earned by our newspapers. Similarly, a shift from newspaper and/or flyer advertising to internet advertising could adversely affect total revenue. A change in promotional strategy by significant users of newspaper advertising, such as the automotive industry, financial services industry, national retailers and employment advertisers, could adversely affect total revenue.

EXPENSES

Newspaper publishing is both capital and labour-intensive and, as a result, newspapers have relatively high fixed-cost structures. During periods of declining revenue, significant portions of costs may remain fixed, resulting in decreased earnings. Newsprint is a significant cost for FPLP, accounting for $10.0 million in 2011. Newsprint costs vary widely from time to time. If newsprint costs rise rapidly, there is no assurance that advertising and circulation revenues can be increased to offset the increased newsprint expense.

DECLINE IN OVERALL USAGE OF NEWSPAPERS AND FLYER DELIVERY

FPI and FPLP could be materially adversely affected if the usage of newspapers or flyer distribution declines significantly. For example, increased usage of the internet by consumers to find news or flyers could result in a decline in their use of newspapers and flyer distribution. Such declines could impair FPLP's ability to maintain or increase FPLP's advertising prices, cause businesses that purchase advertising in FPLP's newspapers and flyer distribution to reduce or discontinue their purchases, and discourage businesses that do not already purchase advertising in FPLP's newspapers and flyer distribution from doing so.

Any of the factors that may contribute to a decline in usage of FPLP's newspapers and flyer distribution could impair FPLP's revenues and have a material adverse effect on our business.

INTEREST RATE FLUCTUATIONS

FPLP is exposed to fluctuations in short-term interest rates as the amounts borrowed under both HSBC facilities will primarily be in the form of bankers' acceptances at varying interest rates. Furthermore, the interest rate spread above the bankers' acceptance rate varies based on the leverage ratio. FPLP is also exposed to fluctuations in long-term interest rates and credit spreads relative to the refinancing of its debt obligations upon its maturity. The interest rate on new long-term debt issuances will be based on the prevailing market rates at the time of the refinancing. Increases in interest rates on new debt issuances may have a material adverse effect on our earnings.

FPLP monitors market conditions and the impact of interest rate fluctuations on its interest rate exposure. To manage a portion of the interest rate risk, 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 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 4.32% and receives interest based on floating HSBC Bank Canada Bankers' Acceptance rates.

PENSION FUND OBLIGATIONS

FPLP has in place a defined benefit pension plan and multiple defined contribution plans. The defined benefit pension plan was started when the Business was acquired by FPLP in November 2001. The plan text mirrored the predecessor plan.

Provincial pension legislation requires that the funded status of defined benefit pension plans be determined on both a going-concern basis (which assumes the pension plan continues indefinitely) and a solvency basis (which assumes the plan is wound-up on the valuation date). Based on FPLP's most recent filed actuarial valuation, as of December 31, 2010, the plan had a funding excess of $0.2 million on a going-concern basis and a funding shortfall of $6.6 million on a solvency basis. The actual funded status of the pension plan and FPLP's contribution requirements and accounting expense are dependent on many factors, some of which include regulatory developments, actuarial assumptions and methods used, changes in plan demographics and experience and changes in economic conditions such as the return on fund assets and changes in interest rates used for determining the present value of pension obligations. Changes in the above factors can result in significant changes to the determination of the reported pension expense and the level of required funding to the plan, which can produce volatility in FPLP's reported results and cash generated from operating activities and distributable cash[(2)] of FPLP.

RELIANCE ON PRINTING FACILITIES

FPLP places considerable reliance on the functioning of its two printing operations, particularly the Winnipeg Free Press facility, which produces the Winnipeg Free Press and Brandon Sun newspapers and related products. In the event of a shutdown or disruption of one of its facilities, FPLP would attempt to mitigate potential damage by shifting production to the other facility or to a third-party printer. A shutdown or disruption of one of FPLP's facilities could result in FPLP being unable to print some publications, which could have a significant negative impact on FPLP's results.

Additional risk factors are described in the Corporation's Annual Information Form dated March 15, 2012, which is available at www.sedar.com.

OUTLOOK

REVENUE

Advertising revenue in the fourth quarter of 2011, on a same-store basis, decreased slightly by 0.6% versus the same quarter last year, and on a same-store basis over the full year decreased by 0.5% versus 2010. Increased revenue growth of 0.7% for the full year in our largest revenue category, display advertising including colour, was more than offset by continued decline in classified advertising revenues. Many economic forecasts are calling for a continuation of slow economic growth in 2012. Advertising revenue is extremely difficult to forecast. Looking ahead into 2012, we are planning for continued, relatively stable overall advertising revenues. 2012 will benefit from having two additional months of revenue and earnings from the Derksen acquisition and three additional months of the Metro printing contract, in addition to a full year under new leadership in both the Brandon and Canstar Community News divisions. We are budgeting for flat circulation revenue coming from rate increases implemented during the first quarter of 2012, partially offset by a continuation of the long-term trend of a slow decline in circulation unit sales. Digital revenues are budgeted to continue to show strong year-over-year increases, and we are forecasting growth in excess of 10% in this faster-growing revenue area.

OPERATING EXPENSES

Employee compensation, our single biggest expense category, was 46% of our total overall operating costs in 2011. Compensation costs are forecasted to increase in 2012 as a result of the two percent annual rate increases included in our collective bargaining agreements and higher employee benefit costs largely related to increases in the accounting expense for our defined benefit pension plan. Overall salary and benefits are being budgeted to increase between 3% and 4% in 2012.

Newsprint prices have not changed since the last increase in September 2010. If prices remain at current levels for 2012, we will see lower same-store costs resulting from lower circulation copies offset by the extra months of the Derksen operation and Metro printing contract. FPLP is budgeting for flat delivery expenses as rate increases are expected to be offset by lower units delivered. Other costs are forecasted to increase by approximately 5% due to planned additional costs for circulation promotions and full year costs for our new sponsorship agreement with the owners of the Winnipeg Jets.

Depreciation and amortization expense is forecasted to increase by $0.3 million or approximately 7.5% primarily due to a full year of depreciation on the production equipment investments made in 2011.

CAPITAL INITIATIVES, FINANCE COSTS AND OTHER ITEMS

Maintenance capital spending for 2012 is forecasted to be approximately $1.3 million, primarily made up of a number of software and hardware upgrades at all our business units together with production equipment replacements and upgrades at our Winnipeg and Steinbach printing plants.

Finance costs are forecasted to be slightly lower in 2012 with lower interest on our HSBC term loan due to lower principal balances, partially offset by a full year of interest on the finance leases and mortgage loan entered into in 2011. In 2012 we are forecasting for a continuation of the trend of higher year-over-year funding requirements relating to the defined benefit pension plan. Our forecasts primarily result from the lower investment return environment in 2011 combined with lower yields on fixed income investments used for setting the discount rate on future pension obligations. While an actuarial valuation at December 31, 2011 is planned to be completed during the second quarter of 2012 and will determine the level of required additional funding, preliminary estimates are in the range of $0.8 million to $1.5 million. The province of Manitoba, in response to the funding pressures facing many similar plans, introduced solvency relief measures which will be utilized wherever possible by FPLP to moderate the impact on actual funding levels in 2012.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements are subject to known and unknown risks and uncertainties that may cause the actual results, performance or achievements of the Corporation or FPLP, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the current general economic uncertainty, FPLP's ability to effectively manage growth and maintain its profitability, FPLP's ability to operate in a highly competitive industry, FPLP's ability to compete with other forms of media, FPLP's ability to attract advertisers, FPLP's reliance upon key personnel, FPLP's relatively high fixed costs, FPLP's dependence upon particular advertising customer segments, indebtedness incurred in making acquisitions, the availability of financing for capital improvements, costs related to capital expenditures, cyclical and seasonal variations in FPLP's revenues, the risk of acts of terrorism, the cost of newsprint, the potential for labour disruptions, the risk of equipment failure, and the effect of Canadian tax laws. Additional information about these and other factors is discussed under "Risk Factors" in our Annual Information Form dated March 15, 2012, which is available at www.sedar.com.

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

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

FOOTNOTES:

(1) EBITDA

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

	Three Months Ended December 31,		**Twelve Months Ended December 31,**	
	2011	**2010**	**2011**	**2010**
		In thousands of dollars		
Net earnings for the year	$ 5,547	$ 4,925	$ 16,232	$ 15,973
Add (subtract):				
Depreciation and amortization	1,132	1,072	4,441	5,967
Finance costs	701	650	2,622	2,619
Other income	(46)	(49)	(202)	(8)
EBITDA	$7,334	$6,598	$23,093	$24,551

(2) Distributable Cash Attributable to FPI

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

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

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2011	**2010**	**2011**	**2010**
	In thousands of dollars (except per share amounts)			
Distributable cash of FPLP:				
EBITDA(1)	$ 7,334	$ 6,598	$ 23,093	$ 24,551
Other income (excluding non-cash gains or losses)	41	49	174	151
Finance costs on notes payable, term loan, mortgage loan, guarantee fee and finance leases, excluding accretion of related deferred financing costs	(634)	(625)	(2,482)	(2,449)
Principal repayment of term loan	(1,251)	(1,251)	(5,004)	(4,587)
Maintenance capital expenditures	(128)	(193)	(1,053)	(616)
Decrease in reserve for future maintenance capital	-	-	281	-
Proceeds from sale of property, plant and equipment	11	-	512	242
Principal repayments on finance leases	(207)	-	(429)	-
Principal repayments on mortgage loan	(7)	-	(11)	-
Reserve for future cash income taxes	(1,036)	-	(3,901)	-
Pension funding in excess of accounting expense	(662)	-	(1,232)	-
Distributable cash of FPLP	$ 3,461	$ 4,578	$ 9,948	$ 17,292

Distributable cash attributable to FPI:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2011	**2010**	**2011**	**2010**
	In thousands of dollars (except per share amounts)			
49% attributable to FPI	$ 1,696	$ 2,243	$ 4,875	$ 8,473
Administration expenses	(70)	(168)	(336)	(606)
Other income	1	-	5	1
Distributable cash attributable to FPI	$ 1,627	$ 2,075	$ 4,544	$ 7,868
Distributable cash attributable to FPI – per share	$ 0.236	$ 0.301	$ 0.658	$ 1.140
Cash dividends declared by FPI – per share	$0.150	$0.180	$ 0.600	$ 0.720
Payout ratio for the year	63.6%	59.8%	91.1%	63.2%

A reconciliation of FPLP's distributable cash to cash flows from operating activities, as reported in FPLP's Consolidated Statements of Cash Flows, is as follows:

	Three Months Ended December 31,		**Twelve Months Ended December 31,**	
	2011	**2010**	**2011**	**2010**
	In thousands of dollars			
Cash flow from operating activities of FPLP	$ 3,810	$ 1,964	$ 17,507	$ 18,304
Add (subtract):				
Net change in non-cash working capital items [1]	2,269	4,058	2,046	3,062
Excess of pension contributions over expense[2]	-	-	-	829
Maintenance capital expenditures	(128)	(193)	(1,053)	(616)
Decrease in reserve for future maintenance capital[3]	-	-	281	-
Principal repayment of term loan[4]	(1,251)	(1,251)	(5,004)	(4,587)
Loss on derecognition of the Variable Interest Entity	-	-	-	58
Proceeds from sale of property, plant and equipment[5]	11	-	512	242
Principal repayment on finance leases	(207)	-	(429)	-
Principal repayment on mortgage loan	(7)	-	(11)	-
Increase in reserve for future income taxes[6]	(1,036)	-	(3,901)	-
Distributable cash of FPLP	$ 3,461	$ 4,578	$ 9,948	$ 17,292

This reconciliation is provided in order to comply with the guidance of the Canadian Securities Administrators National Policy 41-201. The Corporation does not use this information for any purpose other than compliance.

[1] While changes in non-cash working capital is a component in determining cash flow from operations in the statements of cash flows, changes in non-cash working capital are not normally included in the calculation of distributable cash, as these changes can often be financed with an available operating line of credit, or represent only a temporary source of cash, due to seasonal fluctuations.

[2] Differences between pension funding levels and accounting expense were historically treated as temporary and were added or subtracted in the calculation of distributable cash to offset the treatment in the annual cash flow from operating activities in the GAAP statement of cash flows. Since there is likely to be an excess of funding over accounting expense created largely by historically low bond yields used for determining the present value of pension obligations for funding purposes, management has determined the use of actual funding levels in the distributable cash calculations is the preferred treatment starting in 2011.

[3]Increase in the reserve for future capital is shown as a deduction in determining distributable cash. A decrease in the reserve is shown as an increase in the determination of distributable cash. This reserve is a non-IFRS measure established and utilized at the discretion of the board of directors of FPLP, and has no impact on the IFRS financial statements.

[4] The monthly principal repayments of the term loan is a requirement under the HSBC Bank Canada term facility (see note 7 to the 2011 Annual Consolidated Financial Statements of FPLP) and is therefore a reduction in determining the distributable cash of FPLP.

[5] Proceeds from sale of property, plant and equipment is a component of distributable cash, but is not included in cash flow from operating activities because it is classified as an investing activity in the statement of cash flows.

[6] Increases in the reserve for future income taxes are shown as a deduction in the calculation of distributable cash. This reserve is a non-IFRS measure established and utilized at the discretion of the board of directors of FPLP, and has no impact on the IFRS financial statements. Future reductions in the reserve for future income taxes will be shown as an increase in the calculation of distributable cash.