March 13, 2013

Management's discussion and analysis, prepared as at March 13, 2013, provides a review of significant developments that affected the performance of FP Newspapers Inc. ("FPI") in the three and twelve months ended December 30, 2012. This review is based on financial information contained in the consolidated financial statements and accompanying notes for the year ended December 30, 2012.

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 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 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. On October 26, 2012, FPLP acquired substantially all of the assets and assumed certain liabilities of the Carberry News-Express, a weekly paid subscription publication.

#### FP NEWSPAPERS INC.

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

	2012	2011	2010
	\$ in thousands	s except per sha	re amounts
Revenue	7,290	7,959	7,828
Net earnings (loss)	5,155	(9,400)	7,853
Net earnings (loss) per share	0.747	(1.362)	1.138
Total assets	45,847	45,678	60,034
Total long-term liabilities	-	2,146	819
Dividends declared	4,142	4,141	4,970
Dividends declared per share	0.600	0.600	0.720

Revenue for the year ended December 30, 2012 was \$7.3 million compared to \$8.0 million in 2011, the decrease primarily the result of lower equity earnings from FPI's investment in FPLP. 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, 2012, FPI recorded a current income tax expense of \$3.5 million and a deferred income tax recovery of \$1.6

million compared to a deferred income tax expense of \$2.1 million in 2011, as further explained in the taxation section of this report. Other comprehensive loss for 2012 was \$2.2 million compared to a loss of \$2.0 million in 2011. The other comprehensive loss results from FPI's equity share of FPLP's recognition of actuarial losses related to the defined benefit pension plan, as explained in the FPLP section of this report.

Cash dividends declared to shareholders for the year ended December 30, 2012 were as follows:

Record Date	Payment Date Amount	per share
January 31, 2012	February 29, 2012	\$0.05
February 29, 2012	March 30, 2012	\$0.05
March 30, 2012	April 30, 2012	\$0.05
April 30, 2012	May 31, 2012	\$0.05
May 31, 2012	June 29, 2012	\$0.05
June 29, 2012	July 31, 2012	\$0.05
July 31, 2012	August 31, 2012	\$0.05
August 31, 2012	September 28, 2012	\$0.05
September 28, 2012	October 31, 2012	\$0.05
October 31, 2012	November 30, 2012	\$0.05
November 30, 2012	December 31, 2012	\$0.05
December 31, 2012	January 31, 2013	\$0.05
-		\$0.60

FPI declared dividends to shareholders of \$4.1 million or \$0.60 per share for the year ended December 30, 2012, unchanged from the prior year.

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, 2012, FPI had 6,902,592 shares outstanding.

### DISTRIBUTABLE CASH ATTRIBUTABLE TO FPI(2)

Cash available for distribution attributable to FPI<sup>(2)</sup> was \$4.4 million or \$0.635 per share for the twelve months ended December 31, 2012, compared to \$4.5 million or \$0.658 per share in 2011. The decrease in cash available for distribution attributable to FPI in 2012 is primarily due to the additional funding requirements of the defined benefit pension plan in excess of the accounting expense, and lower EBITDA<sup>(1)</sup> of FPLP, partially offset by lower principal repayments on FPLP's term loan.

FPI monitors the cumulative cash available for distribution attributable to FPI<sup>(2)</sup> 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<sup>(2)</sup>.

From commencement of the Fund on May 28, 2002 until December 30, 2012, cumulative distributable cash attributable to FPI<sup>(2)</sup> totalled \$12.862 per share. During that period FPI declared cash dividends to shareholders of \$11.423 per share, resulting in a cumulative-from-inception payout ratio of 88.8%. 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<sup>(2)</sup>, and because cumulative dividends declared were less than the cumulative distributable cash attributable to FPI<sup>(2)</sup>, FPI believes there is no economic "return of capital".

#### **Taxation**

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 year ended December 31, 2011 and December 31, 2012. FPLP has established a non-IFRS cash reserve for future income taxes payable by its Unitholders as disclosed in the FPLP section of this report.

### HISTORICAL DIVIDENDS PAID ANALYSIS

	2012	2011	2010		
	In thousands of dollars				
Cash provided by operating activities	\$ 4,260	\$ 4.619	\$ 4,439		
Net earnings (loss)	5,155	(9,400)	7,853		
Dividends paid during the period	4,142	4,210	5,212		
Excess (short-fall) of cash provided by operating activities over					
dividends paid	\$ 118	\$ 409	\$ (773)		
Excess (short-fall) of net earnings					
over dividends paid	\$ 1,013	\$ (13,610)	\$ 2,641		

Dividends paid in one 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, income tax payments 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, 2012 and 2011, and December 31, 2010 is as follows:

	/	2012 n thousand	2011 ds of dollars (except per	share an	2010 nounts)
Revenue					
Quarter 1 <sup>(*)</sup>	\$	1,121	\$ 1,340	\$	1,479
Quarter 2		1,876	2,527		2,390
Quarter 3		1,422	1,373		1,546
Quarter 4		2,871	2,719		2,413
Net earnings (loss) Ouarter 1(*)	\$	811	\$ 953	\$	1,451
Ouarter 2(*)	ф	1,327	1,776	Ф	2,732
Quarter 3(*)		988	974		1,511
Quarter 4 <sup>(**)</sup>		2,029	(13,103)		2,159
Net earnings (loss)	per:	share			
Quarter 1 <sup>(*)</sup> Quarter 2 <sup>(*)</sup> Quarter 3 <sup>(*)</sup> Quarter 4 <sup>(**)</sup>	\$	0.117 0.192 0.143 0.294	\$ 0.138 0.257 0.141 (1.898)	\$	0.210 0.396 0.219 0.313

<sup>\*</sup>Decreases in net earnings (loss) and net earnings (loss) per share compared to the same quarters in 2010 are primarily due to an increase in income tax expense resulting from the corporate conversion.

FPI reported net earnings of \$2.0 million for the three months ended December 30, 2012, compared to a net loss of \$13.1 million for the same period last year. The increase in net earnings is due to a \$15.0 million non-cash write-down of the investment in FPLP Class A limited partner units during the fourth quarter of 2011 to reflect a continuation of soft advertising revenues, which started in 2008, and decreasing newspaper industry valuations. Excluding the non-cash write-down of the investment of FPLP Class A limited partner units on December 30, 2011, net earnings were \$1.9 million for the three months ended December 30, 2011. The increase of \$0.1 million is primarily due to higher 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:

	2012 2011		2010			
	In thousands of dollars					
Revenue	111,528	111,269	110,032			
Net earnings	14,868	16,232	15,973			
Total assets	150,602	150,076	145,041			
Total long-term liabilities(*)	60,066	55,343	51,759			

<sup>\*</sup> The increase in long-term liabilities in 2012 and 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:

	2012	2011
	In thousand	ds of dollars
Advertising	\$ 75,034	\$ 76,513
Circulation	27,006	27,384
Commercial printing	4,763	3,284
Digital	2,906	2,601
Other	1,819	1,487
	\$ 111,528	\$ 111,269

FPLP's revenue for the twelve months ended December 31, 2012 was \$111.5 million, an increase of \$0.3 million or 0.2% from the prior year. Excluding revenue attributable to the Derksen operation for the first quarter of 2012 and 2011, revenue decreased by \$0.7 million or 0.6%. Advertising revenues for the year ended December 31, 2012, excluding the Derksen business for the first quarter, were \$74.7 million, a 2.2% decrease compared to last year. FPLP's largest advertising revenue category, display advertising including colour, excluding the Derksen business for the first quarter, was \$48.3 million, a decrease of \$0.8 million or 1.7% from the prior year, primarily due to decreased spending in the telecommunications, retail, and travel categories, partly offset by increased spending in the

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

automotive category. Classified advertising revenues for the 2012 year, on a same-store basis, decreased by \$1.1 million or 9.5% compared to last year, primarily due to lower spending in the automotive and employment categories, partly offset by increased spending in the real estate category. Excluding the Derksen business for the first quarter of 2012 and 2011, flyer distribution revenues increased by \$0.2 million or 1.5% compared to last year, primarily due to increased quantities and marginally higher earned rates.

Circulation revenues for the year ended December 31, 2012, excluding the Derksen business for the first quarter of 2012 and 2011, decreased by \$0.4 million or 1.5%, with lower unit sales offsetting increased revenue from higher subscription rates. Commercial printing revenues for 2012, excluding the Derksen business for the first quarter of 2012 and 2011, increased by \$0.8 million, which is primarily attributable to increased printing volumes at Derksen Printers. Digital revenues for 2012 increased by \$0.3 million or 12.3%, primarily due to the increase in online and mobile product revenues and website design services. Other revenue increased by \$0.3 million primarily due to sales of the Winnipeg Jets officially licensed medallion collection in the first quarter of 2012.

### Operating Expenses:

Operating expenses by major category are as follows:

	2012	2011
	In thousar	nds of dollars
Employee compensation, excluding restructuring charges	\$ 43,637	\$ 42,738
Newsprint – own use	8,430	9,130
Newsprint – commercial printing	1,469	874
Delivery	17,150	17,164
Other	19,200	18,006
Depreciation and amortization	4,314	4,441
	94,200	92,353
Restructuring charges	639	264
	\$ 94,839	\$ 92,617

Operating expenses for the year ended December 31, 2012 were \$94.8 million, a \$2.2 million or 2.4% increase from last year. Operating expenses for 2012, excluding the Derksen business for the first quarter, were \$93.6 million, a \$1.4 million or 1.5% increase from last year. Employee compensation costs for the year, excluding the Derksen business for the first quarter of 2012 and 2011, increased by \$0.5 million or 1.1%, primarily due to the 2% wage increase included in the collective agreements, effective October 1, 2011, and higher defined benefit pension expense, partially offset by employee reductions in the second, third and fourth quarters of 2012, which resulted in thirty positions being eliminated through a combination of retirements, voluntary resignations and layoffs. During 2012 a restructuring charge of \$0.6 million was incurred relating to termination payments for positions eliminated during the year,

compared to a charge of \$0.3 million in the prior year, which also related to employee termination payments. Newsprint expense for FPLP's own publications for the year, excluding the Derksen business for the first guarter of 2012 and 2011, decreased by \$0.7 million or 7.8%, primarily due to lower printing volumes mainly from fewer circulation copies. Newsprint expense for commercial printing for the year, excluding the Derksen business for the first guarter of 2012 and 2011, increased by \$0.4 million compared to the prior year, primarily due to an increase in commercial printing at Derksen Printers compared to 2011. Delivery costs, excluding the Derksen business for the first quarter of 2012 and 2011, remained unchanged compared to the prior year. Other expenses for the year, excluding the Derksen business for the first guarter of 2012 and 2011, increased by \$1.0 million or 5.6% compared to the prior year, primarily due to increases during the first quarter, which included new outside print costs for two third-party magazines, costs for the Winnipeg Jets medallion circulation promotion project, a non-recurring reduction in an accrual relating to a labour matter during the first quarter in the prior year and increased costs on our long-term sponsorship agreement with the Winnipeg Jets.

EBITDA<sup>(1)</sup> for the year ended December 31, 2012 was \$21.0 million compared to \$23.1 million in 2011, a decrease of 9.1%. EBITDA<sup>(1)</sup> margin for the twelve months ended December 31, 2012 was 18.8% compared to 20.8% in 2011. Excluding the Derksen business for the first quarter and the full year restructuring charges, EBITDA<sup>(1)</sup> for the twelve months ended December 31, 2012 was \$21.4 million compared to \$23.3 million in 2011, a decrease of 8.2%.

For the year ended December 31, 2012 finance costs decreased as a result of lower interest on the term loan resulting from lower principal balances together with a reduction in interest rates from a long-term loan renewal agreement, which was completed effective at the beginning of June 2012. In addition, during the first quarter, FPLP negotiated the release of the guarantee requirement which eliminated the need for the collateral provided by FP Funding Corporation ("FundingCo") and FPLP's guarantee payments to FundingCo, which were approximately \$0.1 million per quarter. These decreases were partially offset by increased interest on the new finance leases and the mortgage loan entered into in 2011 and the first quarter of 2012.

FPLP's net earnings were \$14.9 million for the year ended December 31, 2012, compared to \$16.2 million in the prior year.

Under IFRS, comprehensive income includes actuarial gains and losses related to FPLP's defined benefit pension plan. These gains or losses are primarily related to changes in actuarial discount rate assumptions and differences between actuarial estimates of expected return on pension plan assets versus actual returns. The actuarial loss in 2012 was primarily due to increases in the defined benefit obligation resulting from an actuarial discount rate decrease.

#### SUMMARY OF FOURTH QUARTER RESULTS

#### Revenue:

A summary of revenue for the three months ended December 31, 2012 and 2011 by major category is as follows:

	Three months ended				
	December 31, 2012	December 31, 2011			
	In thousands of dollars				
Advertising	\$ 20,649	\$ 20,839			
Circulation	6,760	6,864			
Commercial printing	1,422	1,022			
Digital	770	670			
Other	583	547			
	\$ 30,184	\$ 29,942			

FPLP's revenue for the three months ended December 31, 2012 was \$30.2 million, an increase of \$0.2 million or 0.8% from the same three months in the prior year. Advertising revenues for the three months ended December 31, 2012 were \$20.6 million, a 0.9% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was \$13.6 million, a decrease of \$0.1 million or 0.6% from the same period in the prior year, primarily due to decreased spending in the automotive and travel categories, partly offset by increased spending in telecommunications and government categories. advertising revenues for the fourth quarter decreased by \$0.2 million or 8.8% compared to the same period last year, primarily due to a decrease in the employment and obituary categories, partly offset by an increase in the real estate category. Flyer distribution revenues for the fourth quarter were higher by \$0.1 million or 3.1% compared to the same period in 2011, primarily due to an increase in flyer volumes and a small increase in the average earned rate.

Circulation revenues for the fourth quarter decreased by \$0.1 million or 1.5%, with lower unit sales offsetting increased revenue from higher subscription rates. Commercial printing revenues for the quarter increased by \$0.4 million, primarily due to increased printing at our Derksen Printers operation. Digital revenues for the fourth quarter increased by \$0.1 million or 14.9% compared to the same period last year, primarily due to the increases in revenues from online advertising and website design services.

## Operating Expenses:

Three mor	nths ended
December 31, 2012	December 31, 2011
In thous:	ands of dollars

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Employee compensation	\$ 10,885	\$ 10,620
Newsprint – own use	2,137	2,377
Newsprint – commercial printing	442	327
Delivery	4,512	4,545
Other	4,783	4,739
Depreciation and aamortization	1,061	1,132
	\$ 23,820	\$ 23,740
Restructuring charge	137	-
	\$ 23,957	\$ 23,740

Operating expenses for the three months ended December 31, 2012 were \$24.0 million, a \$0.2 million or 0.9% increase from the same quarter last year. Employee compensation costs for the fourth quarter increased by \$0.3 million or 2.5%, primarily due to the wage increases included in the collective agreements and an increase in the expense for the defined benefit pension plan, partially offset by the reduction in the number of employees. Newsprint expense for FPLP's own publications for the quarter decreased by \$0.2 million, primarily due to lower volumes mainly from fewer circulation copies. Newsprint expense for commercial printing for the fourth quarter increased by \$0.1 million compared to the same period in the prior year, primarily due to increased commercial printing at Derksen Printers. During the fourth quarter a restructuring charge of \$0.1 million relating to employee severance costs was incurred.

Depreciation and amortization for the three months ended December 31, 2012 decreased by less than \$0.1 million compared to the same period in the prior year.

Excluding the restructuring charge, EBITDA<sup>(1)</sup> for the three months ended December 31, 2012 was \$7.4 million, an increase of \$0.1 million or 1.2% from the same period last year. EBITDA<sup>(1)</sup> margin for the three months ending December 31, 2012, excluding the restructuring charge, was 24.6% compared to 24.5% in the same period last year.

Finance costs for the three months ended December 31, 2012 decreased by \$0.2 million compared to the previous year, primarily due to lower principal balances together with a reduction in interest rates resulting from a long-term loan renewal agreement, which was completed effective the beginning of June 2012. In addition, during the first quarter of 2012, FPLP negotiated the release of the guarantee requirement which eliminated the need for the collateral provided by FP Funding Corporation ("FundingCo") and FPLP's guarantee payments to FundingCo, which were approximately \$0.1 million per quarter. These decreases were partly offset by interest expense on the finance leases and mortgage loan entered into in 2011 and the first quarter of 2012.

FPLP's net earnings were \$5.9 million for the three months ended December 31, 2012, compared to \$5.5 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<sup>(1)</sup> and net earnings of FPLP by quarter for 2012, 2011, and 2010 were as follows:

	2012	2011	2010
	In	thousands of dolla	rs
Revenue			
Quarter 1(*)	\$ 26,979	\$ 24,997	\$ 26,370
Quarter 2(*)	28,046	29,926	28,946
Quarter 3(*)	26,319	26,404	26,470
Quarter 4 <sup>(*)</sup>	30,184	29,942	28,246
	\$ 111,528	\$ 111,269	\$ 110,032
EBITDA <sup>(1)</sup>			
Quarter 1(*)	\$ 3,936	\$ 4,384	\$ 5,529
Quarter 2(*)	5,430	6,861	7,068
Quarter 3(*)	4,349	4,514	5,356
Quarter 4 <sup>(*)</sup>	7,288	7,334	6,598
	\$ 21,003	\$ 23,093	\$ 24,551
Net Earnings			
Quarter1	\$ 2,285	\$ 2,733	\$ 3,018
Quarter 2	3,825	5,154	4,878
Quarter 3	2,901	2,798	3,152
Quarter 4	5,857	5,547	4,925
	\$ 14,868	\$ 16,232	\$ 15,973

(\*) Revenues, EBITDA(1) and net earnings starting primarily in the second quarter of 2011 were higher due to the acquisition of the Derksen business on February 28, 2011, partly offset by lower revenues, EBITDA(1) and net earnings at the Winnipeg Free Press, Canstar Community News and Brandon Sun operations, primarily due to lower print advertising revenues.

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 at December 31, 2012 was \$17.8 million compared to \$9.3 million, excluding the restricted cash, at December 31, 2011. 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, 2012,

operating activities provided \$16.5 million, investing activities provided \$3.8 million and \$11.8 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, 2012, cash generated from operating activities was \$16.5 million compared to \$17.5 million for 2011. Net earnings for the year ended December 31, 2012 were \$14.9 million compared to \$16.2 million for the prior year. The main factors contributing to the decrease in net earnings are outlined in the FPLP section of this report. In 2012 there was an increase of \$1.5 million in defined benefit pension funding in excess of the accounting expense compared to the prior year.

The net change in non-cash working capital for the year ended December 31, 2012 compared to December 31, 2011 is primarily the result of the timing of receipts from customers and payments to suppliers. In 2012 prepaid and other assets was reduced by deposits of approximately \$0.4 million for upgrading equipment in the Derksen operation compared to a reduction of prepaid and other assets in 2011 of \$2.0 million representing deposits for production upgrades.

### INVESTING ACTIVITIES

In the second quarter of 2012, as part of the long-term debt renewal agreement, the \$5.0 million cash deposit in a separate HSBC guarantee account classified as restricted cash on the balance sheet was released, which accounts for the majority of the \$3.8 million of cash provided by investing activities for the year ended December 31, 2012.

Capital asset additions, which were internally financed, were \$1.0 million for the year ended December 31, 2012, compared to \$1.1 million for the prior year. Internal maintenance capital expenditures in 2012 were primarily for press expansion equipment at Derksen Printers, heat and ventilation installations and equipment upgrades at the Winnipeg operations and technology hardware upgrades across all business units.

On October 26, 2012, FPLP acquired substantially all of the assets and assumed certain liabilities of the Carberry News-Express, a weekly newspaper, for cash consideration of \$0.2 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.

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 vested on March 31, 2012, one third will vest on March 31, 2013 and the final third will vest on 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, 2012 totalled \$9.2 million, of which \$4.5 million was paid to FPI as holder of Class A limited partner units. This is compared to \$10.1 million last year, of which \$5.0 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").

During 2012 FPLP generated proceeds from equipment finance leases totalling \$0.5 million compared to 2011 when FPLP entered into lease agreements of \$4.1 million, of which \$1.1 million was to finance production equipment to allow for the consolidation of the Brandon Sun production operations at our Winnipeg facility and \$3.0 million to finance the production equipment at Derksen Printers. Also in 2011, proceeds from a new mortgage loan on the Derksen real estate assets generated \$1.0 million. During 2012, \$0.9 million was used for principal repayments on the finance leases and the mortgage loan, compared to \$0.4 million in 2011.

The principal repayments of the HSBC term loan for the year ended December 31, 2012 totalled \$2.1 million, compared to \$5.0 million in principal repayments last year. The decrease in the principal repayment in 2012 is a result of the renewal of the long-term debt agreement at the beginning of June 2012 and the resulting reduction of required annual principal repayments from \$5.0 million to \$1.0 million.

#### CONTRACTUAL OBLIGATIONS

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

	Payments Due by Period					
		Less	1-3 Years	4-5 Voore	-	fter 5
	Total	than 1 year		Years		Years
		In tha	usands of do	llars		
Long-term debt	\$ 52,592	\$ 2,468	\$ 50,124	\$ -	\$	-
Mortgage loan	1,063	93	970	-		-
Finance leases	4,006	1,028	2,928	50		-
Operating leases	988	250	645	93		-
Other contractual commitments	5,828	1,466	2,523	1,135		704
Total contractual						
obligations	\$ 64,477	\$5,305	\$ 57,190	\$ 1,278	\$	704

During the second quarter of 2012, FPLP finalized a long-term debt renewal agreement with HSBC Bank Canada, which runs through January 31, 2016. The renewal agreement included the release of \$5.0 million of restricted cash which FPLP had pledged under the previous agreement, interest rate spreads over prevailing bankers' acceptance rates based on quarterly trailing twelve month leverage ratios ranging from 1.75% to 2.75% and annual principal repayments of \$1.0 million, due on the anniversary of the agreement each June.

During 2012 FPLP entered into one five-year non-cancellable finance lease agreements to complete the financing of the additional equipment required to upgrade the Derksen production operation.

FPLP sponsors registered defined benefit and defined contribution pension plans. As at December 31, 2012, the defined benefit plan assets totalled \$25.6 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, 2011. This valuation established the amount of contributions FPLP would have to make under the defined benefit pension plan from December 31, 2011 until December 31, 2012, the next valuation date.

#### HISTORICAL DISTRIBUTIONS PAID ANALYSIS

	<b>2012</b> In thou	2010	
Cash provided by operating	ф <b>4</b> / БОО	<b>4 17 507</b>	<b># 10 004</b>
activities	\$ 16,520	\$ 17,507	\$ 18,304
Net earnings	14,868	16,232	15,973
Distributions paid	9,158	10,141	10,749
Excess of cash provided by operating activities over distributions paid	\$ 7,362	\$ 7,366	\$ 7,555
Excess of net earnings over distributions paid	\$ 5,710	\$ 6,091	\$ 5,224

Net earnings in all of the three periods exceeded cash distributions paid. 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, 2012 and 2011 is as follows:

#### Reserve for future maintenance capital

neces to to the factor of the	2012	2011	
	In thousands of dollars		
Reserve – beginning of year	\$1,219	\$1,500	
Increase in reserve	-	-	
Decrease in reserve	-	(281)	
Reserve – end of year	\$1,219	\$1,219	

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

The use of a reserve for maintenance capital in calculating distributable cash attributable to FPI<sup>(2)</sup> 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<sup>(2)</sup> 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

	2012	2011	
	In thousands of dollars		
Reserve - beginning of year	\$ 3,901	\$ -	
Increase in reserve	3,095	3,901	
Reserve at end of year	\$ 6,996	\$ 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.

The reserve for future income taxes will be reversed in the first quarter of 2013 and will be included as an increase in determining distributable cash. Offsetting this increase in the calculation of distributable cash will be the special distribution of \$0.50 per FPLP partnership Unit, which was approved by the Board of Directors of the managing general partner of FPLP to fund income taxes owing by the Partners.

These reserves are non-IFRS measures established and utilized at the discretion of the board of directors of the managing general partner of FPLP and have no impact on the IFRS financial statements.

#### 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 \$1.0 million of annual debt principal repayments annually in the month of June until the remaining balance becomes due on January 31, 2016.

FPLP's strategy will be to refinance the remaining \$45.3 million of long-term debt prior to January 31, 2016 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<sup>(1)</sup> 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 2012 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 financial ratios are calculated in accordance with the HSBC credit agreement on a guarterly basis. At December 31, 2012 FPLP is in compliance with all covenants.

# FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

At December 30, 2012 there are no derivative contracts in place or off-balance sheet arrangements entered into by FPI. The only derivative entered into by FPLP at December 31, 2012 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, or Canadian subsidiaries of large international 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 2011 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, 2012 was \$9.2 million, compared to \$14.2 million at December 31, 2011. At December 31, 2012, FPLP held \$39.1 million (2011 \$36.2 million) of debt subject to cash flow interest rate risk and \$4.6 million (2011 \$5.0 million) of debt subject to fair value interest rate risk.

For the year ended December 31, 2012, if interest rates on FPLP's term loan had been 1.0% higher or lower than actually were in effect, with all other variables held constant, interest expense would have been \$0.4 million higher or lower (2011 \$0.5 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 2012 were \$4.0 million, compared to \$4.3 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.

### 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, 2012 and December 31, 2012, 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, 2012 and December 31, 2012, 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, 2012 and December 31, 2012, 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, 2012, a 50 basis-point decrease in the discount rate would increase our defined benefit obligations by \$3.6 million and increase our expense for the year ended December 31, 2013 by \$0.4 million. At December 31, 2012, a 50 basis point increase in the discount rate would decrease our defined benefit obligations by \$3.2 million and decrease our expense for the year ended December 31, 2013 by \$0.3 million.

The funding for the defined benefit pension plan is based on actuarial valuation reports which are filed with the provincial pension commission. The last actuarial valuation report was completed as of December 31, 2011. An updated report as of December 31, 2012, will be completed during 2013.

#### 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 2017 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.

### ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following is an overview of accounting standard changes that are required to be adopted in future years. Except as otherwise noted below for IFRS 9, the standards are effective for the annual periods beginning on or after January 1, 2013, with earlier application permitted. It is not expected that any of these standards will be adopted before their effective dates. Based upon current facts and circumstances, the adoption of the standards which are effective on January 1, 2013 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 includes the immediate recognition of actuarial gains and losses in OCI and 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. 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 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 the additional minimum funding liability will be recorded in the consolidated statement of operations, 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 \$0.1 million and increase other comprehensive income in the same amount, with no net impact on total 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.

#### **BUSINESS RISKS AND UNCERTAINTIES**

### REVENUE

Advertising revenues, which account for approximately 67% 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.

The majority of FPLP's employees are unionized and their employment is governed by the terms of collective agreements. The current five-year contracts with the Communications, Energy and Paperworkers Union expire on June 30, 2013, in respect of the unionized employees and city delivery carriers of the Winnipeg Free Press and Canstar Community News unionized employees, and on December 31, 2013 in respect of the Brandon Sun unionized employees. Strikes, lockouts or other labour disruptions could restrict FPLP's ability to service its customers and consequently materially adversely affect its revenues.

#### **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 \$9.9 million in 2012. 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, 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 \$15.0 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.

#### 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 actuarial valuation, as of December 31, 2011, the plan had a funding shortfall of \$2.4 million (funding excess of \$0.2 million in 2010) on a going-concern basis and a funding shortfall of \$15.0 million (\$6.6 million in 2010) 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 13, 2013, which is available at www.sedar.com.

#### OUTLOOK

#### **REVENUE**

Advertising revenue is extremely difficult to predict and for 2013 we are planning for a continuation of relatively stable overall advertising revenues. Classified revenues are projected to continue to decline but this category accounts for only approximately 14 percent of our overall print advertising and delivery revenues. Circulation revenue is also forecasted to be around 2012 full-year levels with lower unit sales offset by higher rates primarily from the introduction of a new subscription pricing structure that charges more to subscribers who receive the Winnipeg TV book on Saturdays. We are planning to see increased commercial printing revenues as our Derksen printing facility is anticipating continued growth. Digital revenues are expected to continue growing from existing and new product launches and we are forecasting growth in excess of 10% in this category.

#### **OPERATING EXPENSES**

Contracted salary increases included in our collective bargaining agreements of 1.5% were effective October 1, 2012 at the Winnipeg Free Press and Canstar Community News in advance of the June 2013 contract expiry date. Meetings between the company and the union bargaining committee aimed at renewing these agreements have started. The Brandon collective bargaining agreement, which runs through to December 31, 2013, included a 2.0% wage level increase effective January 1, 2013. We are budgeting for overall salaries and benefits to increase by less than 1.0% in 2013 primarily resulting from another year of increased defined benefit pension plan accounting expense together with the contracted annual increases which will be partially offset by savings from the staff reductions implemented in 2012, which reduced our full time equivalent employees by thirty.

Newsprint prices decreased during the first quarter of 2013, the first price change since September 2010. If newsprint prices remain at this lower level for the remainder of 2013, we anticipate newsprint prices will be lower by approximately 2.0% versus the prior year. Newsprint expense for commercial printing is planned to increase as a result of anticipated additional work, largely at our Derksen printing location. Delivery costs are forecasted to be flat versus 2012 full year levels and other expenses are forecasted to be lower as a result of general reductions across all areas and non-recurring costs incurred in 2012 for the Winnipeg Jets medallion circulation promotion.

#### CAPITAL INITIATIVES, FINANCE COSTS AND OTHER ITEMS

Maintenance capital spending for 2013 is forecasted to be approximately \$2.2 million. In addition to the regularly required system hardware and software investments and upgrades, we are planning to replace the conveyor system, which transfers printed papers from our presses into the packaging and distribution center, at

our Winnipeg facility. We anticipate this increased level of maintenance capital investment to continue through the 2014 fiscal year and then return to a more normal level of between \$1.0 million and \$1.5 million.

Finance costs are forecasted to be slightly lower in 2013 with expected lower interest on our term loan due to lower principal balances and little change forecasted for future short-term bankers' acceptance rates. In recent years, as with many other defined benefit pension plans, significant employer funding increases have been required. At this time, we are not anticipating a significant change in the 2013 funding requirements from the 2012 levels. An actuarial valuation of our plan required as at December 31, 2012, which will be completed during the second and third quarters of 2013, will determine the actual minimum level of required employer funding.

With the reduction in required annual principal repayments on our senior debt, required repayments will decrease by \$1.1 million in 2013 versus the 2012 level.

We are pleased to announce two important additions to our management group which have taken place during the first quarter. Tim Happychuk was hired to lead our Information Technology team and Tony Leblanc was hired to lead our Audience Development Department. These positions were being temporarily overseen by existing staff. Both come to us with extensive experience and accomplishments in their respective fields and we look forward to their contributions in identifying and executing on opportunities to improve our operations for the future. In addition to these new appointments, Christine Fehler has been promoted to manage the Winnipeg Creative Services Department, a position vacated by George Denoon who accepted the new position of Purchasing Manager.

#### 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 mmanagement 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 En	Three Months Ended December 31,		d December 31,	
	2012	2011	2012	2011	
		In thousands of dollars			
Net earnings for the period	\$ 5,857	\$ 5,547	\$ 14,868	\$ 16,232	
Add (subtract):					
Depreciation and amortization	1,061	1,132	4,314	4,441	
Finance costs	429	701	2,021	2,622	
Other income	(59)	(46)	(200)	(202)	
EBITDA	\$7,288	\$7,334	\$21,003	\$23,093	

# (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 DDecember 31,	
	2012	2011	2012	2011
	In thousands of dollars (except per share amounts)			
Distributable cash of FPLP:				
EBITDA <sup>(1)</sup>	\$ 7,288	\$ 7,334	\$ 21,003	\$ 23,093
Other income (excluding non-cash gains or losses)	50	41	185	174
Finance costs on notes payable, term loan, mortgage loan, guarantee fee and finance leases, excluding accretion of related				
deferred financing costs	(423)	(634)	(1,998)	(2,482)
Principal repayment of term loan	=	(1,251)	(2,085)	(5,004)
Maintenance capital expenditures	(597)	(128)	(1,013)	(1,053)
Decrease in reserve for future maintenance capital expenditures	=	=	-	281
Proceeds from sale of property, plant and equipment	9	11	28	512
Principal repayments on finance leases	(216)	(207)	(849)	(429)
Principal repayments on mortgage loan	(12)	(7)	(47)	(11)
Reserve for future cash income taxes	(1,278)	(1,036)	(3,095)	(3,901)
Pension funding in excess of accounting expense	(568)	(662)	(2,688)	(1,232)
Distributable cash of FPLP	\$ 4,253	\$ 3,461	\$ 9,441	\$ 9,948

#### Distributable cash attributable to FPI:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2012	2011	2012	2011
	In thousands of dollars (except per share amounts)			
49% attributable to FPI	\$ 2,084	\$ 1,696	\$ 4,626	\$ 4,875
Administration expenses	(65)	(70)	(251)	(336)
Other income	1	1	5	5
Distributable cash attributable to FPI	\$ 2,020	\$ 1,627	\$ 4,380	\$ 4,544
Distributable cash attributable to FPI – per share	\$ 0.293	\$ 0.236	\$ 0.635	\$ 0.658
Cash dividends declared by FPI – per share	\$0.150	\$0.150	\$ 0.600	\$ 0.600
Payout ratio for the period	51.2%	63.6%	94.5%	91.1%