MANAGEMENT'S DISCUSSION AND ANALYSIS

March 12, 2014

Management's discussion and analysis, prepared as at March 12, 2014, provides a review of significant developments that affected the performance of FP Newspapers Inc. ("FPI") in the three and twelve months ended December 30, 2013. This review is based on financial information contained in the consolidated financial statements and accompanying notes for the year ended December 30, 2013.

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.

As a result, FPI owns securities entitling it to 49% of the distributable cash of FPLP.

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:

	2013	2012	2011
	$ in thousands except per share amounts		
Revenue	6,980	7,223	7,959
Net earnings (loss)	4,896	5,104	(9,400)
Net earnings (loss) per share	0.709	0.739	(1.362)
Total assets	45,448	45,847	45,678
Total long-term liabilities	692	-	2,146
Dividends declared	4,142	4,142	4,141
Dividends declared per share	0.600	0.600	0.600

Revenue for the year ended December 30, 2013 was $7.0 million compared to $7.2 million in 2012. The decrease was 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, 2013, FPI recorded a current income tax expense of $1.5 million and a deferred income tax expense of $0.3 million compared to a current income tax expense of $3.4 million and a deferred income tax recovery of $1.5 million in 2012, as further explained in the taxation section of this report. Other comprehensive income for 2013 was $1.6 million compared to a loss of $2.1 million in 2012. The other comprehensive income (loss) results from FPI's equity share of FPLP's recognition of remeasurements gains and 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, 2013 were as follows:

Record Date	Payment Date Amount	per share
January 31, 2013	February 28, 2013	$0.05
February 28, 2013	March 28, 2013	$0.05
March 28, 2013	April 30, 2013	$0.05
April 30, 2013	May 31, 2013	$0.05
May 31, 2013	June 28, 2013	$0.05
June 28, 2013	July 31, 2013	$0.05
July 31, 2013	August 30, 2013	$0.05
August 30, 2013	September 30, 2013	$0.05
September 30, 2013	October 31, 2013	$0.05
October 31, 2013	November 29, 2013	$0.05
November 29, 2013	December 31, 2013	$0.05
December 31, 2013	January 31, 2014	$0.05
		$0.60

FPI declared dividends to shareholders of $4.1 million or $0.60 per share for the year ended December 30, 2013, 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, 2013, FPI had 6,902,592 shares outstanding.

DISTRIBUTABLE CASH ATTRIBUTABLE TO FPI(2)

Cash available for distribution attributable to FPI(2) was $5.0 million or $0.718 per share for the twelve months ended December 31, 2013, compared to $4.4 million or $0.635 per share in 2012. The increase in cash available for distribution attributable to FPI in 2013 is primarily due to a reduction of $0.7 million in FPLP's maintenance capital spending and a reduction of $1.1 million in principal repayments on FPLP's term loan, partially offset by 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, 2013, cumulative distributable cash attributable to FPI(2) totalled $13.579 per share. During that period FPI declared cash dividends to shareholders of $12.023 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".

Taxation

Current income tax expense was $1.5 million for the twelve months ended December 30, 2013, compared to $3.4 million for the same period in 2012. 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 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 was nil and, accordingly, the transitional relief, which allowed 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 was allocated to FPI in 2012 and consequently, current taxes were recorded by FPI in 2012 for FPLP's year ended December 31, 2011 and December 31, 2012.

HISTORICAL DIVIDENDS PAID ANALYSIS

	2013	2012	2011
	In thousands of dollars		
Cash provided by operating activities	$ 4,016	$ 4,260	$ 4,619
Net earnings (loss)	4,896	5,104	(9,400)
Dividends paid during the period	4,142	4,142	4,210
Excess (shortfall) of cash provided by operating activities over dividends paid	$ (126)	$ 118	$ 409
Excess (shortfall) of net earnings over dividends paid	$ 754	$ 962	$ (13,610)

The shortfall of net earnings over dividends paid in 2011 resulted primarily from a non-cash $15.0 million write-down in the carrying value of FPI's investment in FPLP. 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 exceeded cash provided by operating activities in 2013 as FPI used some of its excess cash generated from prior years to fund a portion of the 2013 dividends.

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, 2013 and 2012, and December 31, 2011 are as follows:

	2013	2012	2011
	In thousands of dollars (except per share amounts)		
Revenue			
Quarter 1	$ 1,424	$ 1,104	$ 1,340
Quarter 2	2,109	1,859	2,527
Quarter 3	1,234	1,406	1,373
Quarter 4	2,213	2,854	2,719
Net earnings (loss)			
Quarter 1	$ 974	$ 798	$ 953
Quarter 2	1,499	1,314	1,776
Quarter 3	864	976	974
Quarter 4(*)	1,559	2,016	(13,103)
Net earnings (loss) per share			
Quarter 1	$ 0.141	$ 0.116	$ 0.138
Quarter 2	0.217	0.190	0.257
Quarter 3	0.125	0.141	0.141
Quarter 4(*)	0.226	0.292	(1.898)

*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.

FPI reported net earnings of $1.6 million for the three months ended December 30, 2013, compared to net earnings of $2.0 million for the same period last year. The decrease in net earnings is due to lower 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:

	2013	2012	2011
	In thousands of dollars		
Revenue	106,272	111,528	111,269
Net earnings	14,242	14,731	16,232
Total assets (*)	140,060	150,602	150,076
Total long-term liabilities(**)	51,401	60,066	55,343

* The decrease in total assets in 2013 is primarily the result of a reduction in cash from a special distribution payment of $7.0 million, which was being reserved by FPLP in its calculation of distributable cash (2) to fund FPI's income taxes owing for the 2011 and 2012 taxation years.

** The decrease in long-term liabilities in 2013 compared to 2012 and 2011 is primarily the result of a decrease in the defined benefit pension obligation in 2013, primarily resulting from an increase in the discount rate used to calculate this pension obligation.

SUMMARY OF ANNUAL RESULTS

Revenue:

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

	2013	2012
	In thousands of dollars	
Print advertising	$ 70,341	$ 75,034
Print circulation	25,980	27,006
Commercial printing	4,951	4,763
Digital	3,447	2,906
Other	1,553	1,819
	$ 106,272	$ 111,528

FPLP's revenue for the twelve months ended December 31, 2013 was $106.3 million, a decrease of $5.3 million or 4.7% from the prior year. Print advertising revenues for the year ended December 31, 2013 were $70.3 million, a 6.3% decrease compared to last year. FPLP's largest print advertising revenue category, display advertising including colour, was $44.8 million, a decrease of $3.7 million or 7.6% from the prior year, primarily due to decreased spending in the automotive, telecommunications, government and travel categories and the general slowdown experienced by many retailers during the fourth quarter as discussed in the "Summary of Fourth Quarter Results" section of this report. Classified advertising revenues for the 2013 year decreased by $0.9 million or 8.8% compared to last year, primarily due to lower spending in the automotive and employment categories. Flyer distribution revenues were unchanged compared to the prior year.

Print circulation revenues for the year ended December 31, 2013 decreased by $1.0 million or 3.8%, with lower unit sales offsetting increased revenue from higher subscription rates. Commercial printing revenues for 2013 increased by $0.2 million, which is primarily attributable to increased printing volumes at Derksen Printers. Digital revenues for 2013 increased by $0.5 million or 18.6%, primarily due to the increase in online and mobile product advertising revenues. Other revenue decreased by $0.3 million, primarily due to a reduction in revenue from a Winnipeg Jets medallion collection circulation promotion campaign.

Operating Expenses:

Operating expenses by major category are as follows:

	2013	2012
	In thousands of dollars	
Employee compensation, excluding restructuring charges	$ 42,589	$ 43,774
Newsprint – own use	7,648	8,430
Newsprint – commercial printing	1,417	1,469
Delivery	16,531	17,150
Other	18,085	19,200
Depreciation and amortization	4,232	4,314
	90,502	94,337
Restructuring charges	-	639
	$ 90,502	$ 94,976

Operating expenses for the year ended December 31, 2013 were $90.5 million, a $4.5 million or 4.7% decrease from last year. Employee compensation costs, excluding restructuring charges, for the year decreased by $1.2 million or 2.7%, primarily due to employee reductions in the second, third and fourth quarters of 2012. During 2012 restructuring charges of $0.6 million were incurred relating to termination payments for positions eliminated. Newsprint expense for FPLP's own publications for the year decreased by $0.8 million or 9.3%, primarily due to lower printing volumes mainly from fewer circulation copies. Delivery costs decreased by $0.6 million or 3.6% primarily due to lower carrier costs from a reduced number of circulation subscriptions delivered and a negotiated reduction in carrier travel costs. Other expenses for the year decreased by $1.1 million or 5.8% compared to the prior year, primarily due to expenses incurred in 2012 related to outside print costs for producing third-party magazines and costs for the Winnipeg Jets medallion circulation promotion project and a drawdown in 2013 in the bad debt reserve due to favourable collection experience.

EBITDA[1] for the year ended December 31, 2013 was $20.0 million compared to $20.9 million in 2012, a decrease of 4.1%. EBITDA[1] margin for the twelve months ended December 31, 2013 was 18.8% compared to 18.7% in 2012.

For the year ended December 31, 2013, finance costs decreased by $0.4 million or 18.8% as a result of lower interest on the term loan and finance leases due to lower principal balances outstanding, together with a reduction in the guarantee fee resulting from the elimination of the related party guarantee last year.

FPLP's net earnings were $14.2 million for the year ended December 31, 2013, compared to $14.7 million in the prior year.

Under IFRS, comprehensive income includes remeasurement 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 returns of plan assets differing from expected interest income. The actuarial gain in 2013 was due to decreases in the defined benefit obligation primarily resulting from an increase in the actuarial discount rate.

SUMMARY OF FOURTH QUARTER RESULTS

Revenue:

A summary of revenue for the three months ended December 31, 2013 and 2012 by major category is as follows:

	Three months ended	
	December 31, 2013	December 31, 2012
	In thousands of dollars	
Print advertising	$ 18,735	$ 20,649
Print circulation	6,430	6,760
Commercial printing	1,355	1,422
Digital	978	770
Other	592	583
	$ 28,090	$ 30,184

FPLP's revenue for the three months ended December 31, 2013 was $28.1 million, a decrease of $2.1 million or 6.9% from the same three months in the prior year. Print advertising revenues for the three months ended December 31, 2013 were $18.7 million, a 9.3% decrease compared to the same period last year. FPLP's largest print advertising revenue category, display advertising including colour, was $11.8 million, a decrease of $1.8 million or 12.9% from the same period in the prior year, primarily due to decreased spending in the automotive, telecommunications and retail categories. The decrease in print advertising revenues is consistent with the widespread decline of retail sales reported by Statistics Canada in its December retail trade report. Statistics Canada reported that the largest decline in dollar terms was in the motor vehicle and parts sector, with most of this decline coming from lower sales at new car dealers. Statistics Canada reported that most store types typically associated with the holiday shopping period registered weaker sales in December and that extreme weather conditions were a factor. Manitoba retail sales in December were down by 2.4% versus November, which is slightly higher than the average decline of 1.8% reported by Statistics Canada for the overall Canadian economy. Classified advertising revenues for the fourth quarter decreased by $0.2 million or 7.1% compared to the same period last year, primarily due to a decrease in the employment, automobile and real estate categories. Flyer distribution revenues for the fourth quarter were unchanged compared to the prior year.

Print circulation revenues for the fourth quarter decreased by $0.3 million or 4.9%, primarily due to lower unit sales. Commercial printing revenues for the quarter were lower by 4.7%, primarily due to the loss of recurring print work from a customer that went out of business. Digital revenues for the fourth quarter increased by $0.2 million or 27.0% compared to the same period last year, primarily due to the increases in online and mobile product advertising revenues.

Operating Expenses:

	Three months ended	
	December 31, 2013	December 31, 2012
	In thousands of dollars	
Employee compensation	$ 10,591	$ 10,920
Newsprint – own use	1,940	2,137
Newsprint – commercial printing	395	442
Delivery	4,364	4,512
Other	4,865	4,783
Depreciation and aamortization	1,047	1,061
	$ 23,202	$ 23,855
Restructuring charge	-	137
	$ 23,202	$ 23,992

Operating expenses for the three months ended December 31, 2013 were $23.2 million, a $0.8 million or 3.3% decrease from the same quarter last year. Employee compensation costs, excluding restructuring charges, for the fourth quarter decreased by $0.3 million or 3.0%, primarily due to 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 fewer circulation copies

printed. Newsprint expense for commercial printing for the fourth quarter decreased by 10.6% due to a small decrease in print jobs. During the fourth quarter of 2012 a restructuring charge of $0.1 million relating to employee severance costs was incurred.

EBITDA(1) for the three months ended December 31, 2013 was $5.9 million, a decrease of $1.3 million or 18.2% from the same period last year. EBITDA(1) margin for the three months ending December 31, 2013 was 21.1% compared to 24.0% in the same period last year.

FPLP's net earnings were $4.5 million for the three months ended December 31, 2013, compared to $5.8 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 2013, 2012, and 2011 were as follows:

	2013	2012	2011
		In thousands of dollars	
Revenue			
Quarter 1	$ 25,728	$ 26,979	$ 24,997
Quarter 2	27,324	28,046	29,926
Quarter 3	25,130	26,319	26,404
Quarter 4(*)	28,090	30,184	29,942
	$ 106,272	$ 111,528	$ 111,269
EBITDA(1)			
Quarter 1	$ 4,362	$ 3,902	$ 4,384
Quarter 2	5,746	5,396	6,861
Quarter 3	3,959	4,315	4,514
Quarter 4(*)	5,935	7,253	7,334
	$ 20,002	$ 20,866	$ 23,093
Net Earnings			
Quarter1	$ 2,907	$ 2,251	$ 2,733
Quarter 2	4,302	3,791	5,154
Quarter 3	2,519	2,867	2,798
Quarter 4(*)	4,514	5,822	5,547
	$ 14,242	$ 14,731	$ 16,232

(*) Fourth quarter 2013 revenues, EBITDA(1) and net earnings were lower than 2012 and 2011 fourth quarters, primarily due to lower advertising revenues as explained under the "Summary of fourth quarter results" section of this report.

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, 2013 was $10.3 million compared to $17.8 million at December 31, 2012. 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. At December 31, 2013, FPLP had used $3.3 million of internal funds to temporarily finance two capital projects. This balance is included as a prepaid expense on the December 31, 2013 balance sheet and will be converted to cash subsequent to year end with the completion of a five-year equipment financing agreement. During the year ended December 31, 2013, operating activities provided $13.7 million, cash flows used in investing activities were $0.3 million and $21.0 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, 2013, cash generated from operating activities was $13.7 million compared to $16.5 million for 2012. This decrease was primarily due to the temporary internal financing of capital equipment as described in the "Liquidity and Capital Resources" section of this report.

INVESTING ACTIVITIES

Cash flows related to investing activities were used for purchases of property, plant and equipment and intangibles of $0.3 million in 2013. In 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 were $0.3 million for the year ended December 31, 2013, compared to $1.0 million for the prior year. 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.

FINANCING ACTIVITIES

Financing activities used $21.0 million of cash in 2013, compared to $11.8 million in 2012. Distributions to partners of FPLP for the year ended December 31, 2013 totalled $19.0 million, compared to $9.2 million last year. The 2013 distribution included a special one-time distribution of $7.0 million, of which $3.5 million was paid to FPI as holder of Class A limited partner units to fund FPI's income taxes payable for the 2011 and 2012 years. In addition to this special distribution, monthly distributions were increased in 2013 to fund current income taxes of the partners of FPLP. 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.

The principal repayments of the HSBC term loan for the year ended December 31, 2013 totalled $1.0 million, compared to $2.1 million in principal repayments last year. The decrease in the principal repayment in 2013 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			
	Total	Less than 1 year	1-3 Years	4-5 Years	After 5 Years
	In thousands of dollars				
Long-term debt	$ 50,235	$ 2,455	$ 47,780	$ -	$ -
Mortgage loan	970	92	878	-	-
Finance leases	3,006	1,006	2,000	-	-
Operating leases	758	257	500	1	-
Other contractual commitments	4,653	1,222	2,385	691	355
Total contractual obligations	$ 59,622	$ 5,032	$ 53,543	$ 692	$ 355

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 agreement 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, 2013, the defined benefit plan assets totalled $32.5 million and were invested in a diversified portfolio of Canadian and International equity securities, as well as Canadian bonds and real estate.

The most recent actuarial valuation for the defined benefit plan was performed as at December 31, 2012. This valuation established the contributions FPLP had to make under the defined benefit pension plan from December 31, 2012 until December 31, 2013, the next valuation date.

HISTORICAL DISTRIBUTIONS PAID ANALYSIS

	2013	2012	2011
	In thousands of dollars		
Cash provided by operating activities	$ 13,747	$ 16,520	$ 17,507
Net earnings	14,242	14,731	16,232
Distributions paid	19,040	9,158	10,141
(Shortfall) excess of cash provided by operating activities over distributions paid	$ (5,293)	$ 7,362	$ 7,366
(Shortfall) excess of net earnings over distributions paid	$ (4,798)	$ 5,573	$ 6,091

Distributions paid exceeded both FPLP's net earnings and cash provided by operating activities in 2013 as a special one-time distribution of $7.0 million, or $0.50 per partnership unit, was paid in February 2013, of which $3.5 million was paid to FPI as holder of Class A limited partner units. This distribution was paid to fund FPI's 2011 and 2012 income taxes payable, which were due by February 28, 2013. Starting in the first quarter of 2011, following FPI's conversion from an income trust to a corporation, FPLP included a reserve to fund these taxes owing in its calculation of distributable cash[2]. 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, 2013 and 2012 is as follows:

Reserve for future maintenance capital

	2013	2012
	In thousands of dollars	
Reserve – beginning of year	$1,219	$1,219
Increase in reserve	281	-
Decrease in reserve	-	-
Reserve – end of year	$1,500	$1,219

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

	2013	2012
	In thousands of dollars	
Reserve - beginning of year	$ 6,996	$ 3,901
(Decrease) increase in reserve	(6,996)	3,095
Reserve at end of year	$ -	$ 6,996

As FPI's year end is December 30, and taxes, prior to 2013, were 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 was eliminated in the first quarter of 2013 as FPLP declared a special distribution of $7.0 million to its partners to fund FPI's income taxes owing for the 2011 and 2012 years.

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(1) of FPLP and the general conditions in the commercial lending market at the relevant time.

DEBT COVENANTS

The HSBC credit facility (see note 6 to the 2013 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 quarterly basis. At December 31, 2013 FPLP is in compliance with all covenants.

FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

At December 30, 2013 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, 2013 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, 2013 was $4.2 million, compared to $9.2 million at December 31, 2012. At December 31, 2013, FPLP held $43.2 million (2012 $39.1 million) of debt subject to cash flow interest rate risk and $7.9 million (2012 $13.8 million) of debt subject to fair value interest rate risk.

For the year ended December 31, 2013, 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 (2012 $0.4 million), after taking into account the interest rate swap.

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 2013 were $3.7 million, compared to $4.0 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, 2013 and December 31, 2013, 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, 2013 and December 31, 2013, 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, 2013 and December 31, 2013, 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 of its CGUs and goodwill CGUs, 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. 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 other demographic assumptions. 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, 2013, a 0.5% decrease in the discount rate would increase our defined benefit obligations by $3.2 million, and a 0.5% increase in the discount rate would decrease our defined benefit obligations by $2.9 million. At December 31, 2013, a 0.5% increase in salary assumption would increase our defined benefit obligations by $0.4 million and a 0.5% decrease in salary assumption would decrease our defined benefit obligations by $0.4 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, 2012, and the next required valuation report is as of December 31, 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 dispose 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 dispose 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.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies followed in the financial statements are consistent with those of the previous financial year except as described below.

FPI and FPLP have adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IFRS 10, Consolidated Financial Statements
IFRS 10, Consolidated Financial Statements, replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

FPI and FPLP assessed their consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of their subsidiaries and investees.

IFRS 11, Joint Arrangements and
IAS 28R, Investments in Associates and Joint Ventures
IFRS 11, Joint Arrangements, supersedes IAS 31, Interests in Joint Ventures, and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, Investments in Associates and Joint Ventures (amended in 2011). The standards did not affect FPI or FPLP as they did not have any joint arrangements.

IFRS 13 Fair Value Measurement
IFRS 13, Fair Value Measurement, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. FPI and FPLP adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by FPI or FPLP to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

IAS 1 Amendment, Presentation of Items of Other Comprehensive Income
FPI and FPLP have adopted the amendments to IAS 1. These amendments required FPI and FPLP to group other comprehensive income items by those that will be reclassified subsequently to the statement of income and those that will not be reclassified. FPI and FPLP have reclassified comprehensive income items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

IAS 19 Employee Benefits
IAS 19, Employee Benefits (amended in 2011), amends certain accounting requirements for defined benefit plans and termination benefits. IAS 19 (amended 2011) requires the net defined benefit liability to be recognized on the balance sheet without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in the statement of income when incurred. Expected returns on plan assets are no longer included in post-employment benefits' expense. Instead, post-employment benefits' expense includes the net interest on the net defined benefit liability calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income. FPLP continues to immediately recognize in retained earnings all pension adjustments recognized in other comprehensive income. FPLP also continues to recognize interest expense on net post-employment benefits liabilities in employee compensation in the statement of income. FPI is impacted indirectly as its associate FPLP has defined benefit plans.

IAS 19 (amended 2011) also clarified the definition of long-term employee benefits. FPLP has reviewed the classification of its benefits and reclassified its unused vacation accrual as a long-term employee benefit. The unused vacation accrual continues to be classified as a current liability as FPLP does not have an unconditional right to defer settlement for more than 12 months even though it may not expect to make payments within the next 12 months.

The amended standard also requires termination benefits to be recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit or recognizes any related restructuring costs. Termination benefits that require future services are required to be recognized over the periods the future services are provided. This amendment did not impact FPLP's accounting for restructuring charges recorded in the past or in the current period.

IAS 36 – Impairment of Assets – Recoverable amount disclosures for non-financial assets
FPI and FPLP early adopted the amendments to IAS 36, Impairment of Assets, which limit the requirement to disclose the recoverable amount to non-financial assets for which an impairment loss has been recognized or reversed during the year. These amendments also enhance and clarify the disclosures required when the recoverable amount is determined based on fair value less costs of disposal.

FPI and FPLP have applied these amendments on a retrospective basis. Since these amendments specifically concern disclosures, these changes did not result in any measurement adjustments.

Accounting standards and amendments issued but not yet effective

IFRS 9 – Financial Instruments

IFRS 9 introduces new requirements for classifying and measuring financial assets and financial liabilities. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 also introduced additional changes related to financial liabilities. The IASB also recently introduced amendments to IFRS related to hedge accounting. The Standard is not applicable until annual periods beginning on or after January 1, 2015, but is available for early adoption.

In November 2013, the IASB issued three amendments affecting IFRS 9, IAS 7 and IAS 39. The first amendment sets out new hedge accounting requirements. The second amendment allows entities to apply the accounting for changes from own credit risk in isolation without applying the other requirements of IFRS 9. The third amendment removes the mandatory effective date of IFRS 9 from January 1, 2015 to a new date that will be determined when IFRS 9 is closer to completion.

BUSINESS RISKS AND UNCERTAINTIES

REVENUE

Print advertising revenues, which account for approximately 66% of total revenue, are historically dependent upon general economic conditions, the specific spending plans of high-volume advertisers and the readership levels of the printed products. 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 digital or other media 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. A significant decline in the readership of our printed products would adversely affect print advertising revenues.

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.

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. Employee compensation is our single largest expense category accounting for approximately 47% of FPLP's total operating expenses. 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 Unifor union expire on June 30, 2018, 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, 2018 in respect of the Brandon Sun unionized employees. The collective agreements include clauses governing all aspects of the employer/employee relationship and include limitations on FPLP's ability to sub-contract work to independent third parties. Strikes, lockouts, or other labour disruptions could restrict FPLP's ability to service its customers and consequently materially adversely affect its revenues.

Newsprint is a significant cost for FPLP, accounting for $9.1 million in 2013. Newsprint costs can vary widely from time to time, but over the past five years have been relatively stable. If newsprint costs rise rapidly, there is no assurance that advertising and circulation revenues can be increased to offset the increased newsprint expense.

INTEREST RATE FLUCTUATIONS

FPLP is exposed to fluctuations in short-term interest rates as the amounts borrowed under the term loan facility are 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 term loan obligation upon its maturity on January 31, 2016. 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 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, 2012, the plan had a funding shortfall of $0.3 million (funding shortfall of $2.4 million in 2011) on a going-concern basis and a funding shortfall of $16.4 million ($15.0 million in 2011) 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, Brandon Sun and Canstar Community News 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.

INFORMATION TECHNOLOGY & OTHER MANUFACTURING SYSTEMS & EQUIPMENT

Our businesses rely on information technology and other critical manufacturing systems to help generate our revenue. There are critical risks associated with these systems including, but not limited to, unauthorized access, computer viruses, sabotage, power loss, system failures, human error and wear and tear on equipment. Our businesses and the revenue we generate could be significantly impacted by a disruption to these critical systems and equipment.

IMPAIRMENT

At December 30, 2013 the carrying value of FPI's investment in FPLP limited partnership units is $44.9 million. At December 31, 2013, FPLP has goodwill with a carrying value of $71.3 million and Intangible assets of $6.4 million on its balance sheet. There are many factors which may affect the value of FPI's investment in FPLP and the goodwill and intangible assets of FPLP, some of which include the state of the general and local economy, competition, technology, consumer consumption habits, brand equity and various contractual arrangements. If any of these factors impair the value of these assets, we are required to reduce the carrying value on the balance sheet and record a non-cash write-down in the statement of earnings.

LITIGATION & INSURANCE COVERAGE

The nature of our business has and will continue to expose us to litigation claims, primarily arising from the publication of our editorial content. While we have processes and controls in place in attempts to reduce these risks, and carry insurance coverage against claims of defamation, there is no assurance that our insurance coverage will cover a particular loss, nor can there be any assurance that our insurance coverage will not be exceeded by a specific claim. While FPLP maintains insurance coverage which it feels protects itself from certain material insurable risks, there is no assurance that such insurance will continue to be available on an economically feasible basis, nor can there be any assurance that amounts owing from insurers will be collected.

DEPENDENCE ON KEY PERSONNEL

Our businesses have and will continue to rely on the contribution of critical employees. A loss of a significant number of skilled managerial, editorial or technical personnel would have a negative effect on the quality of our products. FPLP's failure to recruit, train and retain such employees could have an adverse effect on its businesses.

REPUTATION

Our newspaper publications are well known and respected names in the markets we serve and have been for many years. Our reputation as a reliable trusted business partner is important for the continued success of our businesses. Damage to the reputation of any of our brands could have an adverse impact on the business and its future financial performance.

Additional risk factors are described in the Corporation's Annual Information Form dated March 13, 2014, which is available at www.sedar.com.

OUTLOOK

REVENUE

The fourth quarter of 2013 saw an accelerated decline in our print advertising revenues, which accounts for approximately 80% of our print and distribution revenue category, and this trend has continued in January and February of 2014. The extreme frigid weather experienced in December, which was a factor contributing to the December retail sales slow-down, has continued throughout both January and February 2014. Advertising revenues are extremely difficult to forecast and while management and staff are focused on dealing with this revenue decline, there is no way of forecasting how successful these efforts can be. Distribution revenues, which make up the remaining 20.0% of our non-digital advertising revenues, have been and are expected to continue to be relatively stable versus the 2013 full year levels.

Circulation revenues, which account for approximately 24.0% of our overall revenues, are expected to be near 2013 levels as subscription and single-copy rate increases should offset the continued trend of slowly declining print circulation subscriber and single-copy sales.

Digital revenues, which come primarily in the form of website advertising, are expected to continue the multi-year growth trend and in 2014 we are budgeting for an overall increase in this category of between 10.0% and 15.0%. We anticipate increased commercial printing revenues primarily resulting from our investment in ultra violet ink printing equipment at our Derksen Printers' business in Steinbach which adds glossier paper stock into our mix of available printed products. Other revenues are forecasted to decrease from the 2013 level due to non-recurring Winnipeg Jets pin promotion revenue in 2013.

OPERATING EXPENSES

Employee compensation is our single biggest expense, and in 2013 accounted for 45.0% of our total operating expenses. Collective bargaining agreements were completed in 2013 covering all our unionized employees. These agreements run to June 30, 2018 for Winnipeg Free Press and Canstar Community News employees and delivery contractors and December 31, 2018 for Brandon Sun employees. The Winnipeg collective agreements include a 0.5% increase effective July 1, 2014 and the same increase for Brandon employees effective January 1, 2015. We are budgeting for overall employee compensation to decrease by between 1.5% and 2.0% in 2014 primarily due to a reduction in the number of employees and a decrease in the defined benefit pension plan expense. The defined benefit pension plan expense, which has been increasing over a number of years, will be lower in 2014 primarily due to improvements in the overall economy resulting in actuarial calculation assumptions lowering our expense and a full year of increased employee contribution levels, included in the July 1, 2013 Winnipeg bargaining agreement.

Delivery costs, which account for approximately 18.0% of our overall operating expenses, are budgeted to decrease by between 2.0% and 3.0% in 2014, primarily due to a continuation of a slow decline in printed circulation copies delivered and a full year of reductions negotiated in the Winnipeg delivery contractor collective bargaining agreement.

We are forecasting a decrease in the other expense category of approximately $1.5 million or 8.5%, primarily due to the elimination of third-party inserting costs which started in January 2014 with the start-up of the new high-speed inserting equipment added to our Winnipeg production facility. In addition to these savings, we are forecasting for the reduction of contracted third-party work in the pre-press area by moving this work in-house and savings from the non-recurring Winnipeg Jets pin promotion in 2013.

Newsprint prices, which decreased by approximately 2.5% at the end of the first quarter of 2013, are not forecasted to change significantly in 2014. If prices remain at current levels, newsprint expense for our own publications in 2014 would be lower by approximately 3.0%, due to fewer print circulation copies. Newsprint and sheet-fed paper expense for our commercial printing business is forecasted to increase by approximately $0.3 million primarily due to planned increased commercial printing work at our Derksen Printers' business unit in Steinbach resulting from our investment in ultra-violet ink printing equipment which allows for products to be printed on a wider range of paper stocks.

CAPITAL INITIATIVES, FINANCE COSTS AND OTHER ITEMS

Maintenance capital spending for 2014 is forecasted to be between $1.0 and $1.5 million. The majority of this spending will be incurred to replace the Winnipeg plant's cooling water system machinery as required under provincial environmental legislation. Other smaller capital investments are planned to upgrade computer software and hardware.

Finance costs are forecasted to be higher by $0.1 million primarily resulting from FP entering into five year equipment financing leases during the first quarter of 2014 for the high-speed inserting equipment and used conveyor equipment installations at our Winnipeg production plant. With this additional $4.1 million of equipment financing, we estimate our total principal payments on our finance leases will increase by approximately $0.7 million over the 2013 level. Principal repayments on our term loan, which runs to January 31, 2016, are expected to be unchanged from the $1.0 million repaid in 2013.

An actuarial valuation, which is required on our defined benefit pension plan as of December 31, 2013, will ultimately determine the required level of employer funding for 2014. Our preliminary estimate of ranges is for a company funding decrease of between $1.0 million and $1.5 million versus the 2013 level. The anticipated decrease in employer funding is primarily due to higher bond yields, which are used to calculate the present value of the pension obligation, in addition to improvements in the investment return of the assets held in the pension plan and the impact of a full year of the increase in the employee contributions to the plan which took effect on July 1, 2013.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements are subject to known and unknown risks and uncertainties that may cause the actual results, performance or achievements of FPI 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 FPI's Annual Information Form dated March 13, 2014, 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 assumptions that management of FPI and FPLP believe to be reasonable, such assumptions may prove to be incorrect.

Forward-looking statements speak only as of the date hereof and, except as required by law, FPI 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,	
	2013	2012	2013	2012
	In thousands of dollars			
Net earnings for the period	$ 4,514	$ 5,822	$ 14,242	$ 14,731
Add (subtract):				
Depreciation and amortization	1,047	1,061	4,232	4,314
Finance costs	406	429	1,676	2,021
Other income	(32)	(59)	(148)	(200)
EBITDA	**$5,935**	**$7,253**	**$20,002**	**$20,866**

(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,	
	2013	2012	2013	2012
	In thousands of dollars			
Distributable cash of FPLP:				
EBITDA[1]	$ 5,935	$ 7,253	$ 20,002	$ 20,866
Other income (excluding non-cash gains or losses)	32	50	147	185
Finance costs on notes payable, term loan, mortgage loan, guarantee fee and finance leases, excluding accretion of related deferred financing costs	(395)	(423)	(1,628)	(1,998)
Principal repayment of term loan	-	-	(1,000)	(2,085)
Maintenance capital (expenditures) recovery*	644	(597)	(313)	(1,013)
Increase in reserve for future maintenance capital expenditures	-	-	(281)	-
Proceeds from sale of property, plant and equipment	-	9	2	28
Principal repayments on finance leases	(228)	(216)	(891)	(849)
Principal repayments on mortgage loan	(13)	(12)	(48)	(47)
(Increase) reduction in reserve for future cash income taxes	-	(1,278)	6,996	(3,095)
Special distribution for tax purposes	-	-	(7,043)	-
Pension funding in excess of accounting expense	(380)	(533)	(2,241)	(2,551)
Distributable cash of FPLP	**$ 5,595**	**$ 4,253**	**$ 13,702**	**$ 9,441**

Distributable cash attributable to FPI:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2013	2012	2013	2012
	In thousands of dollars (except per share amounts)			
49% attributable to FPI	$ 2,742	$ 2,084	$ 6,714	$ 4,626
Administration expenses	(57)	(65)	(248)	(251)
Other income	-	1	1	5
Current income taxes	(392)	-	(1,513)	-
Distributable cash attributable to FPI	**$ 2,293**	**$ 2,020**	**$ 4,954**	**$ 4,380**
Distributable cash attributable to FPI – per share	$ 0.332	$ 0.293	$ 0.718	$ 0.635
Cash dividends declared by FPI – per share	$0.150	$0.150	$ 0.600	$ 0.600
Payout ratio for the period	45.2%	51.2%	83.6%	94.5%

*The recovery in the fourth quarter represents amounts internally financed during the previous three quarters which will be recovered as part of a post year-end lease financing transaction.