MANAGEMENT'S DISCUSSION AND ANALYSIS

March 11, 2015

Management's discussion and analysis, prepared as at March 11, 2015, provides a review of significant developments that affected the performance of FP Newspapers Inc. ("FPI") in the three and twelve months ended December 30, 2014. This review is based on financial information contained in the consolidated financial statements and accompanying notes for the year ended December 30, 2014.

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:

	2014	2013	2012
	$ in thousands except per share amounts		
Revenue	5,734	6,980	7,223
Net earnings	4,047	4,896	5,104
Net earnings per share	0.586	0.709	0.739
Total assets	43,588	45,448	45,847
Total long-term liabilities	-	692	-
Dividends declared	3,658	4,142	4,142
Dividends declared per share	0.530	0.600	0.600

Revenue for the year ended December 30, 2014 was $5.7 million compared to $7.0 million in 2013. The decrease was primarily the result of lower equity earnings from FPI's investment in FPLP. For the year ended December 30, 2014, FPI recorded a current income tax expense of $1.5 million and a deferred income tax recovery of $0.1 million compared to a current income tax expense of $1.5 million and a deferred income tax expense of $0.3 million in 2013. The change in deferred income tax expense is primarily due to FPI's share of FPLP's timing differences primarily relating to FPLP's additional lease obligation and change in its pension obligation. Other comprehensive loss for 2014 was $1.8 million compared to other comprehensive income of $1.6 million in 2013. The change in other comprehensive (loss)/income results from FPI's equity share of FPLP's recognition of remeasurements gains and losses related to its defined benefit pension plan.

Cash dividends declared to shareholders for the year ended December 30, 2014 were as follows:

Record Date	Payment Date Amount	per share
January 31, 2014	February 28, 2014	$0.05
February 28, 2014	March 31, 2014	$0.05
March 31, 2014	April 30, 2014	$0.05
April 30, 2014	May 30, 2014	$0.05
May 30, 2014	June 30, 2014	$0.05
June 30, 2014	July 31, 2014	$0.05
July 31, 2014	August 29, 2014	$0.05
August 29, 2014	September 30, 2014	$0.05
September 30, 2014	October 31, 2014	$0.05
December 31, 2014	January 30, 2015	$0.08
		$0.53

FPI declared dividends to shareholders of $3.7 million or $0.53 per share for the year ended December 30, 2014, compared to $4.1 million or $0.60 per share in the prior year. Following the September 2014 dividend, the dividend frequency was changed from monthly to quarterly.

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, 2014, FPI had 6,902,592 shares outstanding.

DISTRIBUTABLE CASH ATTRIBUTABLE TO FPI[2]

Cash available for distribution attributable to FPI[2] was $4.0 million or $0.576 per share for the twelve months ended December 31, 2014, compared to $5.0 million or $0.718 per share in 2013. The decrease in cash available for distribution attributable to FPI in 2014 is primarily due to lower EBITDA[1] of FPLP of $2.3 million, an increase of $0.6 million in principal repayments on capital leases and an increase of $0.7 million in FPLP's maintenance capital spending, partially offset by a reduction in pension funding in excess of accounting expense of $1.3 million.

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 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, 2014, cumulative distributable cash attributable to FPI[2] totalled $14.16 per share. During that period FPI declared cash dividends to shareholders of $12.55 per share, resulting in a cumulative-from-inception payout ratio of 88.7%. 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, 2014, compared to $1.5 million for the same period in 2013.

HISTORICAL DIVIDENDS PAID ANALYSIS

	2014	2013	2012
	In thousands of dollars		
Cash provided by operating activities	$ 3,449	$ 4,016	$ 4,260
Net earnings	4,047	4,896	5,104
Dividends paid during the period	3,451	4,142	4,142
Excess (shortfall) of cash provided by operating activities over dividends paid	$ (2)	$ (126)	$ 118
Excess of net earnings over dividends paid	$ 596	$ 754	$ 962

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 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. Following the September 2014 dividend payment, the dividend frequency was changed from monthly to quarterly. The first quarterly dividend was declared on December 10, 2014, and paid on January 30, 2015 to shareholders of record on December 31, 2014.

SUMMARY OF FOURTH QUARTER RESULTS

A summary of FPI's quarterly revenue, net earnings and net earnings per share for the years ended December 30, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
	In thousands of dollars (except per share amounts)		
Revenue			
Quarter 1	$ 809	$ 1,424	$ 1,104
Quarter 2	1,638	2,109	1,859
Quarter 3	1,052	1,234	1,406
Quarter 4	2,235	2,213	2,854
Net earnings			
Quarter 1	$ 545	$ 974	$ 798
Quarter 2	1,148	1,499	1,314
Quarter 3	738	864	976
Quarter 4	1,616	1,559	2,016
Net earnings per share			
Quarter 1	$ 0.079	$ 0.141	$ 0.116
Quarter 2	0.166	0.217	0.190
Quarter 3	0.107	0.125	0.141
Quarter 4	0.234	0.226	0.292

Lower levels of revenue, net earnings and net earnings per share in the first three quarters of 2014 are due to lower EBITDA(1) of FPLP.

RESULTS OF OPERATIONS OF FPLP

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

	2014	2013	2012
	In thousands of dollars		
Revenue	99,039	106,272	111,528
Net earnings	11,699	14,242	14,731
Total assets (*)	142,763	140,060	150,602
Total long-term liabilities(**)	56,712	51,401	60,066

* The decrease in total assets from the 2012 level is primarily the result of a reduction in cash from a special distribution payment of $7.0 million during 2013, 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 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. The increase in long-term liabilities in 2014 is primarily due the long-term equipment financing completed during 2014 and a decrease in the discount rate used to calculate the defined benefit pension obligation.

SUMMARY OF ANNUAL RESULTS

Revenue:

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

	2014	2013
	In thousands of dollars	
Print advertising	$ 63,524	$ 70,341
Print circulation	25,334	25,980
Commercial printing	5,268	4,951
Digital	3,850	3,447
Other	1,063	1,553
	$ 99,039	$ 106,272

FPLP's revenue for the twelve months ended December 31, 2014 was $99.0 million, a decrease of $7.2 million or 6.8% from the prior year. Print advertising revenues for the year ended December 31, 2014 were lower by 9.7% compared to last year. FPLP's largest print advertising revenue category, display advertising including colour, was $38.9 million, a decrease of $5.9 million or 13.3% from the prior year, primarily due to decreased spending in the automotive, telecommunications, government and national retail categories. Classified advertising revenues for the 2014 year decreased by $0.5 million or 5.1% compared to last year, primarily due to lower spending in the automotive, employment and real estate categories, partly offset by higher obituary category revenues. Flyer distribution revenues were $15.3 million, a decrease of $0.4 million from 2013, primarily due to a decrease in flyer volumes.

Print circulation revenues for the year ended December 31, 2014 decreased by $0.6 million or 2.5%, with lower unit sales offsetting increased revenue from higher subscription and single copy rates. Commercial printing revenues for 2014 increased by $0.3 million, which is primarily attributable to increased revenue from one large commercial print contract at the Winnipeg Free Press and increased work resulting from our investment in ultra-violet ink printing equipment at our Steinbach print shop. Digital revenues for 2014 increased by $0.4 million or 11.7%, primarily due to the increase in online and mobile product advertising revenues. Other revenue decreased by $0.5 million, primarily due to a reduction in revenue from non-recurring revenue related to a third party magazine.

Operating Expenses:

Operating expenses by major category are as follows:

	2014	2013
	In thousands of dollars	
Employee compensation, excluding restructuring charges	$ 40,186	$ 42,589
Newsprint – own use	7,091	7,648
Newsprint – commercial printing	1,532	1,417
Delivery	15,998	16,531
Other	16,151	18,085
Depreciation and amortization	4,363	4,232
	85,321	90,502
Restructuring charges	369	-
	$ 85,690	$ 90,502

Operating expenses for the year ended December 31, 2014 were $85.7 million, a $4.8 million or 5.3% decrease from last year. Employee compensation costs, excluding restructuring charges, for the year decreased by $2.4 million or 5.6%, primarily due to employee reductions in 2014. The employee reductions were across all of our business units and were primarily achieved through attrition from voluntary retirements. Restructuring charges of $0.4 million were incurred relating to severance payments for some staff. The defined benefit pension expense was lower in 2014 due primarily to an increase in the discount rate at December 31, 2013, which is used for calculating the 2014 pension expense. Newsprint expense for FPLP's own publications for the year decreased by $0.6 million or 7.3%, primarily due to lower printing volumes mainly from fewer circulation copies and a lower newsprint price. Delivery costs decreased by $0.5 million or 3.2% primarily due to lower carrier costs from a reduced number of circulation subscriptions delivered. Other expenses for the year decreased by $1.9 million or 10.7% compared to the prior year, primarily due to the elimination of third party inserting costs with the start-up of the new high-speed inserting equipment added to the Winnipeg Free Press production facility early in 2014.

EBITDA[1] for the year ended December 31, 2014 was $17.7 million compared to $20.0 million in 2013, a decrease of 11.5%. EBITDA[1] margin for the twelve months ended December 31, 2014 was 17.9% compared to 18.8% in 2013.

For the year ended December 31, 2014, finance costs increased by $0.1 million or 7.9% as a result of slightly higher interest on the term loan due to a small increase in the leverage ratio and the increase in interest on finance leases from the addition of the finance lease for the high-speed inserting and used conveyor equipment installed in our Winnipeg production plant.

FPLP's net earnings were $11.7 million for the year ended December 31, 2014, compared to $14.2 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 loss in 2014 was due to increases in the defined benefit obligation primarily resulting from a decrease in the actuarial discount rate at the end of 2014 from the December 31, 2013 level.

SUMMARY OF FOURTH QUARTER RESULTS

Revenue:

A summary of revenue for the three months ended December 31, 2014 and 2013 by major category is as follows:

	Three months ended December 31, 2014	Three months ended December 31, 2013
	In thousands of dollars	
Print advertising	$ 16,858	$ 18,735
Print circulation	6,325	6,430
Commercial printing	1,449	1,355
Digital	1,132	978
Other	420	592
	$ 26,184	$ 28,090

FPLP's revenue for the three months ended December 31, 2014 was $26.2 million, a decrease of $1.9 million or 6.8% from the same three months in the prior year. Print advertising revenues for the three months ended December 31, 2014 were $16.9 million, a 10.0% decrease compared to the same quarter last year. FPLP's largest print advertising revenue category, display advertising including colour, was $10.4 million, a decrease of $1.4 million or 12.0% from the same period in the prior year, primarily due to decreased spending in the automotive, telecommunications and financial categories. Classified advertising revenues for the fourth quarter decreased by $0.2 million or 8.3% compared to the same period last year, primarily due to a decrease in the employment, automobile and real estate categories, partly offset by increased obituary category revenue. Flyer distribution revenues for the fourth quarter were $0.3 million lower than the same period last year, primarily due to a decrease in flyer volumes.

Print circulation revenues for the fourth quarter decreased by $0.1 million or 1.6%, primarily due to lower unit sales, partly offset by higher subscription and single copy prices. Commercial printing revenues for the quarter were higher by $0.1 million or 6.9%, primarily due to increased revenue from one large commercial print contract at the Winnipeg Free Press. Digital revenues for the fourth quarter increased by $0.2 million or 15.7% 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, 2014	Three months ended December 31, 2013
	In thousands of dollars	
Employee compensation	$ 9,604	$ 10,591
Newsprint – own use	1,799	1,940
Newsprint – commercial printing	396	395
Delivery	4,110	4,364
Other	4,013	4,865
Depreciation and amortization	1,102	1,047
	$ 21,024	$ 23,202
Restructuring charge	177	-
	$ 21,201	$ 23,202

Operating expenses for the three months ended December 31, 2014 were $21.2 million, a $2.0 million or 8.6% decrease from the same quarter last year. Employee compensation costs, excluding restructuring charges, for the fourth quarter decreased by $1.0 million or 9.3%, primarily due to the reduction in the number of employees in 2014. The employee reductions were across all of our business units and were primarily achieved through attrition from voluntary retirements. Restructuring charges of $0.2 million were incurred relating to severance payments for some staff. The defined benefit pension expense was lower in 2014 due primarily to an increase in the discount rate at December 31, 2013, which is used for calculating the 2014 pension expense versus the prior year level. Newsprint expense for FPLP's own publications for the quarter decreased by $0.1 million, primarily due to fewer circulation copies printed and a lower newsprint price.

EBITDA(1) for the three months ended December 31, 2014 was $6.1 million, an increase of $0.2 million or 2.5% from the same period last year. EBITDA(1), excluding restructuring charges, increased by $0.3 million or 5.5% versus the same quarter last year. EBITDA(1) margin for the three months ending December 31, 2014 was 23.2%, compared to 21.1% in the same period last year.

FPLP's net earnings were $4.6 million for the three months ended December 31, 2014, compared to $4.5 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(1) and net earnings of FPLP by quarter for 2014, 2013, and 2012 were as follows:

	2014	2013	2012
		In thousands of dollars	
Revenue			
Quarter 1	$ 23,493	$ 25,728	$ 26,979
Quarter 2	25,787	27,324	28,046
Quarter 3	23,575	25,130	26,319
Quarter 4	26,184	28,090	30,184
	$ 99,039	$ 106,272	$ 111,528
EBITDA(1)			
Quarter 1	$ 3,074	$ 4,362	$ 3,902
Quarter 2	4,874	5,746	5,396
Quarter 3	3,679	3,959	4,315
Quarter 4	6,085	5,935	7,253
	$ 17,712	$ 20,002	$ 20,866
Net Earnings			
Quarter 1	$ 1,652	$ 2,907	$ 2,251
Quarter 2	3,341	4,302	3,791
Quarter 3	2,146	2,519	2,867
Quarter 4	4,560	4,514	5,822
	$ 11,699	$ 14,242	$ 14,731

The distribution policy of FPLP prior to September 2014 was 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. Commencing the fourth quarter of 2014, the distribution frequency was changed to quarterly.

FINANCIAL CONDITION OF FPLP

LIQUIDITY AND CAPITAL RESOURCES OF FPLP

Cash and cash equivalents at December 31, 2014 was $16.2 million compared to $10.3 million at December 31, 2013. 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 was included as a prepaid expense on the December 31, 2013 balance sheet and was converted to cash in 2014 with the completion of a five-year equipment financing agreement. During the year ended December 31, 2014, operating activities provided $15.7 million, cash flows used in investing activities were $1.0 million and $8.7 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, 2014, cash generated from operating activities was $15.7 million, compared to $13.7 million for 2013. The increase in cash generated from operating activities is primarily due to a decrease in pension funding requirements and the net change in non-cash working capital items, partly offset by lower net earnings for the year. The variance in the net change in non-cash working capital is primarily the result of the reduction of the prepaid expenses and other assets due to the receipt of cash with the completion of the five-year equipment finance lease.

INVESTING ACTIVITIES

Capital asset additions were $1.0 million for the year ended December 31, 2014, compared to $0.3 million for the prior year. Maintenance capital expenditures in 2014 were primarily for the replacement of the building cooling system at our Winnipeg facility to comply with legislative regulations and technology hardware and software upgrades across all business units.

FINANCING ACTIVITIES

Financing activities used $8.7 million of cash in 2014, compared to $21.0 million in 2013. Distributions to partners of FPLP for the year ended December 31, 2014 totalled $10.2 million, compared to $19.0 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. The distributions to partners were determined in accordance with the limited partnership agreement that governs FPLP (the "LP Agreement"). In the fourth quarter of 2014 the frequency of distributions was changed from monthly to quarterly and the annualized level of distributions was reduced from $0.60 per share to $0.32 per share.

During 2014 FPLP generated proceeds from equipment finance leases totalling $4.0 million and the principal repayments under the lease financing agreements increased from $0.9 million in 2013 to $1.5 million in 2014.

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	$ 47,985	$ 2,532	$ 45,453	$ -	$ -
Mortgage loan	880	92	788	-	-
Finance leases	6,063	1,846	3,574	643	-
Operating leases	504	229	275	-	-
Other contractual commitments	3,475	1,063	1,783	509	120
Total contractual obligations	$ 58, 907	$ 5,762	$ 51,873	$ 1,152	$ 120

The long-term debt agreement, which was originally scheduled to mature on January 31, 2016, was renewed on January 8, 2015 with a maturity date of January 31, 2020. On the renewal date, $6.3 million of principal was repaid, reducing the outstanding principal to $40.0 million. Principal repayments of $1.0 million are due on the first of June each year and a cash sweep is payable no later than 90 days after the end of each fiscal year with the first cash sweep due no later than March 31, 2016 for the 2015 financial year. The cash sweep is equal to the lesser of $3.5 million or 25% of FPLP's annual distributable cash as defined in the agreement. Maximum principal balances under the agreement are $30.0 million on January 31, 2018 and $20.0 million on January 31, 2020.

During 2014 FPLP entered into a five-year non-cancellable finance lease agreement to complete the financing of the purchase of the Winnipeg plant's press conveyor and the high capacity inserting line projects.

FPLP sponsors registered defined benefit and defined contribution pension plans. As at December 31, 2014, the defined benefit plan assets totalled $35.1 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, 2013. This valuation established the contributions FPLP had to make under the defined benefit pension plan from January 1, 2014 until December 31, 2014, the next valuation date.

HISTORICAL DISTRIBUTIONS PAID ANALYSIS

	2014	2013	2012
	In thousands of dollars		
Cash provided by operating activities	$ 15,700	$ 13,747	$ 16,520
Net earnings	11,699	14,242	14,731
Distributions paid	10,213	19,040	9,158
Excess (shortfall) of cash provided by operating activities over distributions paid	$ 5,487	$ (5,293)	$ 7,362
Excess (shortfall) of net earnings over distributions paid	$ 1,486	$ (4,798)	$ 5,573

In 2013, distributions paid exceeded both FPLP's net earnings and cash provided by operating activities 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, 2014 and 2013 is as follows:

Reserve for future maintenance capital

	2014	2013
	In thousands of dollars	
Reserve – beginning of year	$1,500	$1,219
Increase in reserve	-	281
Reserve – end of year	$1,500	$1,500

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

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

Reserve for future income taxes payable

	2014	2013
	In thousands of dollars	
Reserve - beginning of year	$ -	$ 6,996
(Decrease) increase in reserve	-	(6,996)
Reserve at end of year	$ -	$ -

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 previously 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, as renewed on January 8, 2015, FPLP is required to make principal repayments of $1.0 million on the first of June each year and a cash sweep is payable no later than 90 days after the end of each fiscal year with the first cash sweep due no later than March 31, 2016 for the 2015 financial year. The cash sweep is equal to the lesser of $3.5 million or 25% of FPLP's annual distributable cash as defined in the agreement. Maximum principal balances under the agreement are $30.0 million on January 31, 2018 and $20.0 million on January 31, 2020.

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 2014 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 prior to January 31, 2018 and 3.0 to 1.0 after that, 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, 2014 FPLP is in compliance with all covenants.

FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

At December 30, 2014 there are no derivative contracts in place or off-balance sheet arrangements entered into by FPI. At December 31, 2013 FPLP had an interest rate swap agreement with a notional value of $4.2 million. That agreement expired on October 6, 2014.

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, in both print and electronic formats, 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 prime-rate loans or 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 management reviews the pricing of interest-rate swap contracts and would make a recommendation to the Board of Directors if there was a compelling case to purchase a swap contract. At December 31, 2014, FPLP held $46.3 million (2013 $43.2 million) of debt subject to cash flow interest rate risk, which was reduced to $40.0 million on January 8, 2015 and $6.5 million (2013 $7.9 million) of debt subject to fair value interest rate risk.

For the year ended December 31, 2014, 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 $0.5 million higher or lower (2013 $0.4 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

In 2014 FPLP purchased 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 2014 were $3.6 million, compared to $3.7 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, 2014 and December 31, 2014, 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, 2014 and December 31, 2014, 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, 2014 and December 31, 2014, 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 cost generating units ("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, 2014, a 0.5% decrease in the discount rate would increase our defined benefit obligations by $4.2 million, and a 0.5% increase in the discount rate would decrease our defined benefit obligations by $3.6 million. At December 31, 2014, 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, 2013, and the next required valuation report is as of December 31, 2014.

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 2019 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, 2014. These changes were made in accordance with the applicable transitional provisions.

IAS 32, Financial Instruments – Presentation

IAS 32 applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; and the right for offsetting financial assets and financial liabilities. A right to offset may be currently available or it may be contingent on a future event. An entity must have a legally enforceable right of set-off. The standard did not affect FPLP as its financial instruments currently do not have a legally enforceable right of set-off.

IFRIC 21, Levies

IFRIC 21 provides guidance on the accounting for a liability to pay a levy, if that liability is within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. Levies are imposed by governments in accordance with legislation and do not include income taxes, which are accounted for under IAS 12, Income Taxes or fines or other penalties imposed for breaches of legislation. The interpretation was issued to address diversity in practice around when the liability to pay a levy is recognized. The adoption of IFRIC 21 did not affect the financial statements or disclosures as it was determined that no changes were required to the existing accounting treatment of levies.

Accounting standards and amendments issued but not yet effective

IFRS 9 – Financial Instruments

IFRS 9, *Financial Instruments*, first issued in November 2009 with final version released in July 2014 by the IASB, brings together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace IAS 39. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity’s business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at fair value through profit or loss (“FVTPL”), fair value through other comprehensive income or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39. IFRS 9 also introduces an expected loss impairment model for all financial assets not carried at FVTPL. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit and loss and a loss allowance is established; (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity’s risk management activities. The standard is effective for annual periods beginning on or after January 1, 2018. FPLP is assessing the impact of adopting this standard on its financial statements.

IFRS 15 – Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, Construction Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 is mandatory and will be effective for the Company's beginning on January 1, 2017, with earlier adoption permitted. FPLP is assessing the impact of adopting this standard on its financial statements.

BUSINESS RISKS AND UNCERTAINTIES

REVENUE

Print advertising revenues, which account for approximately 64% 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 $8.6 million in 2014. 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 prime-rate loans or bankers' acceptances at varying interest rates. Furthermore, the interest rate spread above the prime-rate loans or 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, 2020. 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. While there is no formal policy with respect to the use of interest rate swaps as a tool to manage interest rate risk, pricing of swap agreements is reviewed regularly and FPLP has used swap agreements historically when it was determined that these agreements were justified.

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, 2013, the plan had a funding surplus of $3.5 million (funding shortfall of $0.3 million in 2012) on a going-concern basis and a funding shortfall of $6.3 million ($16.4 million shortfall in 2012) 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, 2014 the carrying value of FPI's investment in FPLP limited partnership units is $43.1 million. At December 31, 2014, FPLP has goodwill with a carrying value of $71.3 million and intangible assets of $6.2 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 11, 2015, which is available at www.sedar.com.

OUTLOOK

REVENUE

Print advertising revenues, which make up approximately 64% of our total revenues, are extremely difficult to forecast. While it is early into the new year, our results so far in 2015 are showing a lower level of decline than we experienced last year.

Print circulation revenues, which account for approximately 26% of our overall revenues, are expected to be near 2014 levels as subscription rate increases are expected to offset the trend of slowly declining print circulation unit sales. The Winnipeg Free Press is planning to limit access to free content on its digital product line during the second quarter of 2015. As part of this change, a new revenue stream from digital subscriptions and single article purchases will be introduced. Subscribers to the print newspaper will continue to have access to all the digital products at no extra charge.

Traditional digital revenues, which come primarily in the form of website advertising, are expected to continue the multi-year growth trend and in 2015 we are anticipating an overall increase in this category of between 10% and 15%. We are forecasting slightly higher commercial printing revenues as we continue to make efforts to increase printing revenues with the ultra-violet ink printing equipment at our Derksen printers business in Steinbach.

OPERATING EXPENSES

Employee compensation is our single biggest expense and in 2014 accounted for 47% of our total operating expenses. The Winnipeg collective bargaining agreement includes a 0.5% increase effective July 1, 2015 and the same increase for Brandon employees is effective January 1, 2015. In 2014, as we previously reported, we saw an increased level of retirements, partly a function of the elimination of the option of a commuted value transfer of earned pension benefits that took effect at the end of May. In 2015 we will continue to see year-over-year expense reductions from these reduced employee levels and we are budgeting for overall employee wages and benefits to decrease by between 3.0% and 5.0% in 2015.

Delivery costs, which account for approximately 19% of our overall operating expenses, are budgeted to decrease by approximately 4.0% in 2015 primarily due to a continuation of a slow decline in printed circulation copies delivered and stream-lining, consolidation and elimination of delivery routes as opportunities arise across all our businesses.

Newsprint prices are expected to be lower for 2015 resulting from both a market price reduction which took effect during the first quarter together with better pricing from consolidating our newsprint purchases with one supplier. After factoring in the expected full year price decline and decreased usage from declining circulation copies we are forecasting newsprint expense to decrease in the 6% to 8% range from the 2014 full year level.

We are forecasting a decrease in the other expense category of approximately 3.0% to 5.0% through smaller reductions in various categories.

CAPITAL INITIATIVES, FINANCE COSTS AND OTHER ITEMS

Maintenance capital spending for 2015 is forecast to be between $1.1 and $1.4 million. The single largest use of our capital budget will be for the completion of the project started in 2014 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 forecast to be lower by approximately $0.2 million, primarily resulting from a lower principal balance after making a $6.3 million repayment in January when we completed the renewal of our long-term debt facility. A further $1.0 million will be repaid on June 1 as per the terms of the renewal agreement (see long-term debt section of FPLP's notes to financial statements for details of the facility renewal).

An actuarial valuation, which is required on our defined benefit pension plan as of December 31, 2014 will ultimately determine the required level of employer funding for 2015, but discount rates did decline at the end of 2014 and this will likely increase the required pension funding once the detailed actuarial valuation work is completed during the second and third quarters of 2015. Combined principal and interest payments on financing leases will increase by approximately $0.2 million in 2015 as we have a full year of payments on one of the leases which started in April last year.

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 11, 2015, 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, 2014	Three Months Ended December 31, 2013	Twelve Months Ended December 31, 2014	Twelve Months Ended December 31, 2013
	In thousands of dollars			
Net earnings for the period	$ 4,560	$ 4,514	$ 11,699	$ 14,242
Add (subtract):				
Depreciation and amortization	1,102	1,047	4,363	4,232
Finance costs	466	406	1,807	1,676
Other income	(43)	(32)	(157)	(148)
EBITDA	$ 6,085	$ 5,935	$ 17,712	$ 20,002

(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,	
	2014	2013	2014	2013
	In thousands of dollars			
Distributable cash of FPLP:				
EBITDA[(1)]	$ 6,085	$ 5,935	$ 17,712	$ 20,002
Other income (excluding non-cash gains or losses)	43	32	146	147
Finance costs on notes payable, term loan, mortgage loan, guarantee fee and finance leases, excluding accretion of related deferred financing costs	(455)	(395)	(1,761)	(1,628)
Principal repayment of term loan	-	-	(1,000)	(1,000)
Maintenance capital (expenditures) recovery*	(693)	644	(1,030)	(313)
Increase in reserve for future maintenance capital expenditures	-	-	-	(281)
Proceeds from sale of property, plant and equipment	-	-	10	2
Principal repayments on finance leases	(408)	(228)	(1,459)	(891)
Principal repayments on mortgage loan	(13)	(13)	(51)	(48)
(Increase) reduction in reserve for future cash income taxes	-	-	-	6,996
Special distribution for tax purposes	-	-	-	(7,043)
Pension funding in excess of accounting expense	114	(380)	(911)	(2,241)
Distributable cash of FPLP	$ 4,673	$ 5,595	$ 11,656	$ 13,702

Distributable cash attributable to FPI:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
	In thousands of dollars (except per share amounts)			
49% attributable to FPI	$ 2,290	$ 2,742	$ 5,711	$ 6,714
Administration expenses	(55)	(57)	(212)	(248)
Other income	-	-	1	1
Current income taxes	(373)	(392)	(1,523)	(1,513)
Distributable cash attributable to FPI	$ 1,862	$ 2,293	$ 3,977	$ 4,954
Distributable cash attributable to FPI – per share	$ 0.270	$ 0.332	$ 0.576	$ 0.718
Cash dividends declared by FPI – per share	$0.080	$0.150	$ 0.530	$ 0.600
Payout ratio for the period	29.7%	45.2%	92.0%	83.6%

*The recovery in the fourth quarter of 2013 represents amounts internally financed during the previous three quarters which were recovered as part of a post year-end lease financing transaction.