



# **FP Newspapers Inc.**

## **Consolidated Financial Statements**

**For the year 2011**



## **Independent Auditor's Report**

### **To the Shareholders of FP Newspapers Inc.**

We have audited the accompanying consolidated financial statements of FP Newspapers Inc. (formerly FP Newspapers Income Fund), which comprise the consolidated balance sheets as at December 30, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of earnings (loss) and comprehensive income (loss), statements of changes in equity, and statements of cash flows for the years ended December 30, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

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

#### **Auditor's responsibility**

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

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

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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of FP Newspapers Inc. as at December 30, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 30, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

March 15, 2012

**FP Newspapers Inc.**  
**(formerly FP Newspapers Income Fund)**  
**Consolidated Balance Sheets**  
(in thousands of Canadian dollars)

	Note	As at December 30, 2011	As at December 31, 2010	As at January 1, 2010
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents		\$ 452	\$ 43	\$ 816
Prepaid expenses and other assets		35	21	14
		487	64	830
Investment in FPCN General Partner Inc.	7	-	49	49
Investment in FP Canadian Newspapers Limited Partnership	3	45,191	59,921	57,916
<b>Total Assets</b>		<b>\$ 45,678</b>	<b>\$ 60,034</b>	<b>\$ 58,795</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current Liabilities				
Accounts payable and accrued liabilities		\$ 99	\$ 191	\$ 116
Dividend payable	5	345	414	656
		444	605	772
Long-term liabilities				
Deferred income tax liability	9	2,146	819	1,607
<b>Total Liabilities</b>		<b>2,590</b>	<b>1,424</b>	<b>2,379</b>
Shareholders' equity				
Share capital	6	71,373	71,373	69,026
Deficit		(28,285)	(12,763)	(12,610)
<b>Total Shareholders' Equity</b>		<b>43,088</b>	<b>58,610</b>	<b>56,416</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 45,678</b>	<b>\$ 60,034</b>	<b>\$ 58,795</b>

(See accompanying notes)

**Approved by the Board of Directors**

*Signed*  
Ronald N. Stern,  
Director

*Signed*  
Harvey Sectar,  
Director

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

	Note	December 30, 2011	December 31, 2010
Equity interest from FP Canadian Newspapers Limited Partnership Class			
A limited partner units	3	\$ 7,954	\$ 7,827
Write-down of investment in FP Canadian Newspapers Limited Partnership Class A limited partner units	3	(15,000)	-
Equity interest from FPCN General Partner Inc.		37	-
Administration expenses		(336)	(606)
Other income		5	1
<hr/>			
Net earnings (loss) before income taxes		(7,340)	7,222
Deferred income tax recovery (expense)	9	(2,060)	631
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Net earnings (loss) for the year		\$ (9,400)	\$ 7,853
Equity interest of other comprehensive loss from FP Canadian Newspapers Limited Partnership	3	(2,714)	(846)
Deferred income tax recovery	9	733	157
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Comprehensive income (loss) for the year		\$ (11,381)	\$ 7,164
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Weighted average number of Common Shares outstanding	6	6,902,592	6,902,592
Net earnings (loss) per share – basic and diluted		\$ (1.362)	\$ 1.138

**FP Newspapers Inc.**  
**(formerly FP Newspapers Income Fund)**  
**Consolidated Statements of Changes in Equity**  
(in thousands of Canadian dollars)

	<b>Note</b>	<b>Share Capital</b>	<b>Deficit</b>	<b>Total Shareholders' Equity</b>
At January 1, 2010		\$ 69,026	\$ (12,610)	\$ 56,416
Net earnings		-	7,853	7,853
Other comprehensive income (loss)		-	(689)	(689)
Comprehensive income (loss) for the year		-	7,164	7,164
Special non-cash distribution	5	2,347	(2,347)	-
Dividends		-	(4,970)	(4,970)
<b>At December 31, 2010</b>		<b>\$ 71,373</b>	<b>\$ (12,763)</b>	<b>\$ 58,610</b>
At December 31, 2010		\$ 71,373	\$ (12,763)	\$ 58,610
Net earnings (loss)		-	(9,400)	(9,400)
Other comprehensive income (loss)		-	(1,981)	(1,981)
Comprehensive income (loss) for the year		-	(11,381)	(11,381)
Dividends		-	(4,141)	(4,141)
<b>At December 30, 2011</b>		<b>\$ 71,373</b>	<b>\$ (28,285)</b>	<b>\$ 43,088</b>

**FP Newspapers Inc.**  
**(formerly FP Newspapers Income Fund)**  
**Consolidated Statements of Cash flows**  
(in thousands of Canadian dollars)

	Note	December 30, 2011	December 31, 2010
Cash provided by (used in):			
Operating activities			
Net earnings (loss) for the year		\$ (9,400)	\$ 7,853
Items not affecting cash:			
Equity interest from Class A Units of FP Canadian Newspapers Limited Partnership	3	(7,954)	(7,827)
Equity interest from FPCN General Partner Inc.		(37)	-
Non-cash write-down of investment in FP Canadian Newspapers Limited Partnership	3	15,000	-
Deferred income tax expense (recovery)		2,060	(631)
Distributions received on Class A Units of FP Canadian Newspapers Limited Partnership	3	4,970	4,976
Distributions received on FPCN General Partner Inc.		86	-
Net change in non-cash working capital items		(106)	68
		4,619	4,439
Financing activities			
Dividends paid		(4,210)	(5,212)
Increase (decrease) in cash and cash equivalents		409	(773)
Cash and cash equivalents – beginning of year		43	816
Cash and cash equivalents – end of year		\$ 452	\$ 43

(See accompanying notes)

**FP Newspapers Inc.**  
**(formerly FP Newspapers Income Fund)**  
**Notes to Consolidated Financial Statements as at December 30, 2011**  
(tabular amounts in thousands of Canadian dollars)

## **1. GENERAL INFORMATION**

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

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

## **2. SIGNIFICANT ACCOUNTING POLICIES**

FPI prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, FPI has commenced reporting on this basis in these consolidated financial statements. In the financial statements, the term “Canadian GAAP” refers to Canadian Generally Accepted Accounting Principles – Part V before the adoption of IFRS.

These consolidated financial statements have been prepared in compliance with IFRS applicable to the preparation of financial statements, including and IFRS 1. Subject to certain transition elections disclosed in note 12, FPI has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 12 discloses the impact of the transition to IFRS on FPI’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in FPI’s Canadian GAAP consolidated financial statements for the year ended December 31, 2010.

These consolidated financial statements were approved by the Board of Directors of FPI on March 15, 2012.

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



**FP Newspapers Inc.**  
**(formerly FP Newspapers Income Fund)**  
**Notes to Consolidated Financial Statements as at December 30, 2011**  
(tabular amounts in thousands of Canadian dollars)

a) BASIS OF MEASUREMENT

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

b) INVESTMENTS IN ASSOCIATES

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

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

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

c) CASH AND CASH EQUIVALENTS

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

d) FINANCIAL INSTRUMENTS

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

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

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

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

e) INCOME TAXES

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

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

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

**FP Newspapers Inc.**  
**(formerly FP Newspapers Income Fund)**  
**Notes to Consolidated Financial Statements as at December 30, 2011**  
(tabular amounts in thousands of Canadian dollars)

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

f) DIVIDENDS

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

g) SHARE CAPITAL

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

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

h) EARNINGS PER SHARE

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

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

**Accounting standards and amendments issued but not yet effective**

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

**IFRS 9 - Financial Instruments**

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent they are not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

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

**FP Newspapers Inc.**  
**(formerly FP Newspapers Income Fund)**  
**Notes to Consolidated Financial Statements as at December 30, 2011**  
(tabular amounts in thousands of Canadian dollars)

**IFRS 10 – Consolidated Financial Statements**

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

**IFRS 11 - Joint Arrangements**

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*.

**IFRS 12 – Disclosure of Interests in Other Entities**

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

**IFRS 13 - Fair Value Measurement**

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

**IAS 19 - Employee Benefits**

IAS 19, Employee Benefits, has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The amended standard requires immediate recognition of actuarial gains and losses in other comprehensive income as they arise, without subsequent recycling to net income. This is consistent with the company's current accounting policy. Past service cost (which will now include curtailment gains and losses) will no longer be recognized over a service period but instead will be recognized immediately in the period of a plan amendment. The annual expense for a funded benefit plan will be completed based on the application of the discount rate to the net defined benefit asset or liability. A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosures.

IAS 19 will indirectly impact FPI as its associate FPLP has defined benefit plans. FPLP's current accounting policy for employee benefits and the immediate recognition of actuarial gains and losses in OCI is consistent with the requirements in the new standard, however, additional disclosures and the computation of annual expense based on the application of the discount rate to the net defined benefit asset or liability will be required in relation to the revised standard.

**IAS 1 – Presentation of Financial Statements**

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

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

**FP Newspapers Inc.**  
**(formerly FP Newspapers Income Fund)**  
**Notes to Consolidated Financial Statements as at December 30, 2011**  
(tabular amounts in thousands of Canadian dollars)

**3. INVESTMENT IN FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP**

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

FPI holds all of the Class A limited partner Units of FPLP, which entitles it to 49% of the distributable cash, as defined in the Partnership Agreement of FPLP.

The investment in FPLP is summarized as follows:

	<b>Class A limited partner units</b>
Balance at January 1, 2010	\$ 57,916
Equity interest in net earnings and comprehensive income for the year ended December 31, 2010	6,981
Distributions received for the year ended December 31, 2010	(4,976)
<b>Balance at December 31, 2010</b>	<b>\$ 59,921</b>
Equity interest in net earnings and comprehensive income for the year ended December 30, 2011	5,240
Non-cash write-down of investment in FP Canadian Newspapers Limited partnership Class A limited partner units	(15,000)
Distributions received for the year ended December 30, 2011	(4,970)
<b>Balance at December 30, 2011</b>	<b>\$ 45,191</b>

The equity interest from FPI's investment in Class A limited partner units and the equity interest in the other comprehensive income of FPLP are calculated as follows:

	2011	2010
Net earnings of FPLP	\$ 16,232	\$ 15,973
Interest attributable to FPI	49%	49%
Equity interest in net earnings of FPLP	7,954	7,827
Other comprehensive income (loss) of FPLP	(5,540)	(1,727)
Interest attributable to FPI	49%	49%
<b>Equity interest in other comprehensive income (loss) of FPLP</b>	<b>\$ (2,714)</b>	<b>\$ (846)</b>

FPLP has a year-end of December 31, 2011. FPI has consolidated FPLP as at and for the year ended December 31, 2011 for convenience purposes and the impact was not material.

On December 30, 2011, due to prolonged weakness in FPI's market capitalization and FPLP's declining revenue and earnings, FPI determined that objective evidence of impairment existed in its investment in FPLP. FPI completed its impairment assessment by comparing its recoverable amount (being the higher of fair value less cost to sell and value in use) to its carrying value.

**FP Newspapers Inc.**  
**(formerly FP Newspapers Income Fund)**  
**Notes to Consolidated Financial Statements as at December 30, 2011**  
(tabular amounts in thousands of Canadian dollars)

A discounted future cash flow model was used to determine the “value in use” for FPI’s investment in FPLP. The ranges of assumptions for the discounted cash flow (DCF) model are shown below:

	December 30, 2011	December 31, 2010	January 1, 2010
Long-term growth rate	0% to 1%	0% to 2%	0% to 2%
Pre-tax discount rate	14% to 17%	13% to 15%	13% to 15%

The calculation of “value in use” resulted in a \$15,000,000 non-cash write-down of FPI’s investment in FPLP Class A limited partner units based on this valuation assessment. The following table provides sensitivity analysis to this valuation:

	Sensitivity	Increase (decrease) on Impairment
Long term growth rate	+1.0%	\$ (3,600)
	-1.0%	3,000
Discount rate	+1.0%	4,300
	-1.0%	(5,700)

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

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

**Investment in FPLP**

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

**5. DIVIDENDS**

FPI declared a dividend payable in respect of the month of December 2011 of \$345,000 or \$0.05 per share (December 2010 – \$414,000 or \$0.06 per share; January 1, 2010 - \$656,000 or \$0.095 per Unit) which was paid January 31, 2012 to shareholders of record on December 31, 2011.

As a result of the conversion of the Fund, a special distribution in the amount of \$0.34 per Unit to Unitholders of record at the close of business on December 31, 2010, was paid on December 31, 2010 by way of the issuance of an aggregate of 368,427 additional Fund Units, based on the volume-weighted average trading price of the Units for the 10 trading days ended December 30, 2010. Immediately after the special distribution, the number of outstanding Units were automatically consolidated so that each Unitholder held exactly the same number of Units after the consolidation as that Unitholder held immediately prior to the special distribution.

**FP Newspapers Inc.**  
**(formerly FP Newspapers Income Fund)**  
**Notes to Consolidated Financial Statements as at December 30, 2011**  
(tabular amounts in thousands of Canadian dollars)

**6. SHARE CAPITAL AND ACCUMULATED OTHER COMPREHENSIVE INCOME**

**FP Newspapers Inc.**

The articles of incorporation of FPI provide that an unlimited number of common shares and one voting preferred share may be issued. Each common share is transferable and represents an equal undivided beneficial interest in any dividends of FPI and in the net assets of FPI in the event of termination or winding up of FPI. All common shares have equal rights and privileges. Each common share entitles the holder thereof to participate equally in the allocations and distributions and to one vote at all meetings of FPI shareholders for each share held. The common shares issued are not subject to future calls or assessments. As at December 30, 2011 6,902,592 Common Shares were issued with a paid-up share capital amount of \$71,373,000. The preferred share is held by FPCN Media Management Ltd. (“FPCN”). The preferred share entitles the holder the right to elect one-third of FPI’s directors, but does not entitle the holder thereof to any economic rights as a common shareholder of FPI. If and when Canstar Publications Ltd. and R.I.S. Media Ltd. (the General Partners of FPLP) cease to own at least ten percent of the outstanding partnership units of FPLP, the preferred share held by FPCN will automatically be redeemed by FPI for a redemption price of \$1.00 and be cancelled.

**FP Newspapers Income Fund (the predecessor to FPI)**

The Declaration of Trust of the Fund provided that an unlimited number of Units may be issued. Each Unit was transferable and represented an equal undivided beneficial interest in any distributions of the Fund and in the net assets of the Funds in the event of termination or winding up of the Fund. All Units had equal rights and privileges. Each Unit entitled the holder thereof to participate equally in the allocations and distributions and to one vote at all meetings of Fund Unitholders for each Unit held. The Units issued were not subject to future calls or assessments.

Trust Units outstanding were as follows:

	December 31, 2010		January 1, 2010	
	Number of Units	\$	Number of Units	\$
Balance - beginning of year	6,902,592	69,026	6,902,592	69,026
Non-cash distribution	368,427	2,347	-	-
Unit consolidation	(368,427)	-	-	-
Balance – end of year	6,902,592	71,373	6,902,592	69,026

**7. INDEMNIFICATIONS**

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

**FP Newspapers Inc.**  
**(formerly FP Newspapers Income Fund)**  
**Notes to Consolidated Financial Statements as at December 30, 2011**  
(tabular amounts in thousands of Canadian dollars)

**9. INCOME TAXES**

Income tax expense is made up of the following:

	December 30, 2011	December 31, 2010
Current income tax	\$ -	\$ -
Deferred income tax (expense) recovery	(2,060)	631
<b>Income tax (expense) recovery recognized in net earnings (loss)</b>	<b>(2,060)</b>	<b>631</b>
Deferred income tax recovery recognized in OCI	733	157

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 will be allocated to FPI in its year ended December 30, 2012. The June 6, 2011 federal budget included new measures to curtail income deferral by corporations using partnerships with different year-end dates, and these measures have now been substantively enacted and apply to FPI's current year. FPI is required to accrue the portion of FPLP's income earned in the stub-period between the end of the partnership's fiscal period and the end of FPI's taxation year. The measures include transitional relief by allowing stub-period income for the first affected fiscal period to be recognized over a five-year period. FPI is required to include the following percentage of its share of FPLP's December 31, 2011 taxable income allocation in its determination of current taxes payable:

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

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

	December 30, 2011	December 31, 2010
Income tax recovery (expense) at combined Canadian statutory income tax rate of 28.5% (30% - 2010)	\$ 2,092	\$ (2,167)
Distributions to Unitholders	-	2,195
Difference between current tax rate and deferred income tax rate in temporary differences	81	43
Change in deferred income tax rate upon conversion to a corporation	-	685
Non-cash write-down of investment in FPLP	(4,275)	-
Adjustments in respect of prior year	57	(57)
Other	(15)	(68)
<b>Total income tax (expense) recovery</b>	<b>\$ (2,060)</b>	<b>\$ 631</b>

The decrease in the combined Canadian statutory income tax rates was due to a federal tax rate reduction of 1.5%.

**FP Newspapers Inc.**  
**(formerly FP Newspapers Income Fund)**  
**Notes to Consolidated Financial Statements as at December 30, 2011**  
(tabular amounts in thousands of Canadian dollars)

**Deferred taxes**

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

	January 1, 2010	Recognized in profit or loss	Recognized in other comprehensive loss	December 31, 2010
	\$	\$	\$	\$
Property, plant and equipment	5,321	(1,809)	-	3,512
Intangible assets	940	(559)	-	381
Goodwill	(4,374)	1,494	-	(2,880)
Accrued pension benefit obligation	(281)	249	(157)	(189)
Other	1	(6)	-	(5)
<b>Total future income tax liabilities</b>	<b>1,607</b>	<b>(631)</b>	<b>(157)</b>	<b>819</b>

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

**Unrecognized deferred tax assets**

Deferred tax assets in the amount of \$3,077,000 (December 31, 2010 \$798,000; January 1, 2010 \$844,000) have not been recognized in respect of FPI's investment in FPLP as it is not probable that the temporary difference will reverse in the foreseeable future.

**10. CAPITAL MANAGEMENT**

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

**11. FINANCIAL INSTRUMENTS**

The fair value of current assets and liabilities including cash and cash equivalents, accounts payable and accrued liabilities and dividends payable approximates their carrying value due to the short-term nature of these financial instruments. Cash equivalents at December 30, 2011 was nil (December 31, 2010 \$12,000; January 1, 2010 \$241,000).

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



**FP Newspapers Inc.**  
**(formerly FP Newspapers Income Fund)**  
**Notes to Consolidated Financial Statements as at December 30, 2011**  
(tabular amounts in thousands of Canadian dollars)

**12. TRANSITION TO IFRS**

These consolidated financial statements represent the first annual financial statements of FPI in accordance with IFRS, as issued by the IASB. FPI adopted IFRS in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The first date at which IFRS was applied was January 1, 2010 (“Transition Date”). In accordance with IFRS, FPI has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- applied certain optional exemptions and certain mandatory exceptions as applicable for first-time IFRS adopters.

**INITIAL ELECTIONS UPON ADOPTION**

No IFRS optional exemptions were applied; however FPI has recognized its proportionate share of FPLP’s IFRS transition adjustments. As FPI is a reporting issuer as defined by Canadian Securities Regulations, the financial statements of FPI are accompanied by FPLP’s financial statements.

**IFRS Mandatory Exceptions**

Set forth below are the applicable IFRS 1 mandatory exceptions in the conversion from Canadian GAAP to IFRS.

Estimates - Hindsight is not used to create or revise estimates. The estimates previously made by FPI under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

**RECONCILIATIONS OF CANADIAN GAAP TO IFRS**

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. FPI’s first-time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows. The following represents the reconciliations from Canadian GAAP to IFRS for the respective years noted for shareholders’ equity:

**Reconciliation of Shareholders’ Equity**

	<b>December 31 2010</b>	<b>January 1 2010</b>
Shareholders’ equity under Canadian GAAP	\$ 59,779	\$ 57,581
Differences increasing (decreasing) reported shareholders’ equity:		
Proportionate share of FPLP’s IFRS differences (a)	(1,272)	(426)
Deferred income taxes (b)	103	(739)
<b>Total shareholders’ equity under IFRS</b>	<b>\$ 58,610</b>	<b>\$ 56,416</b>

**CHANGES IN ACCOUNTING POLICIES**

In addition to the mandatory exceptions discussed above, the following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS policies applied by FPI. Only the differences having an impact on FPI are described below. The following is not a complete summary of all of the differences between Canadian GAAP and IFRS. Relative to the impacts on FPI, the descriptive caption next to each item below corresponds to the same item and descriptive caption in the tables that follow, which reflect the quantitative impacts from each change. Unless a quantitative impact was noted below, the impact from the change was not material to FPI.

**FP Newspapers Inc.**  
**(formerly FP Newspapers Income Fund)**  
**Notes to Consolidated Financial Statements as at December 30, 2011**  
(tabular amounts in thousands of Canadian dollars)

**a. Employee Benefits (FPLP)**

FPI has recognized its proportionate share of the accounting policies adopted by FPLP below:

Optional exemptions applied

As indicated above, FPLP elected to apply the optional exemption and recognized all cumulative actuarial gains and losses at the transition date in retained earnings.

Accounting policy differences

Actuarial Gains (Losses)

In accordance with CICA 3461, FPLP adopted an accounting policy of amortizing actuarial gains (losses) using the corridor method whereby the excess of the net actuarial gain or loss over 10% of the greater of the projected obligation and the fair value of the plan assets is amortized over the average remaining service period of active employees.

In accordance with IAS 19, FPLP adopted an accounting policy of recognizing actuarial gains and losses in full in the period in which they occur, in other comprehensive income and retained earnings without recycling to the statement of income in subsequent periods.

The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 14 "IAS 19 - The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" ("IFRIC 14") addresses the application of paragraph 58 of IAS 19 which limits the measurement of a defined benefit asset to "the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan" plus past service cost.

IFRIC 14 provides guidance regarding (a) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19, (b) how a minimum funding requirement might affect the availability of reductions in future contributions and (c) when a minimum funding requirement might give rise to a liability. FPLP has determined that it must record an additional liability associated with the minimum funding requirements in its registered pension plan. The additional liability is computed by discounting the minimum funding requirements from the actuarial funding valuations by the discount rate as defined by IAS 19.

There is Canadian GAAP guidance related to the limit on the carrying amount of an accrued benefit asset and recognition of a related valuation allowance. However, IFRS and Canadian GAAP have different methods of calculating the defined benefit asset limit. Furthermore, Canadian GAAP did not address accounting for an additional liability due to minimum funding requirements.

**b. Income taxes (FPI)**

FPI has recognized deferred income taxes related to temporary differences associated with the accounting and tax values of the assets and liabilities within FPLP. Accordingly, FPI recognized deferred income taxes associated the change in the measurement of employee future benefits, as described above. The impact of FPI's 49% equity share is a reduction in the deferred income tax liability at January 1, 2010 of \$186,000 and December 31, 2010 of \$343,000.

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

**FP Newspapers Inc.**  
**(formerly FP Newspapers Income Fund)**  
**Notes to Consolidated Financial Statements as at December 30, 2011**  
(tabular amounts in thousands of Canadian dollars)

FPLP Intangible Assets – Temporary Differences

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

**FPI IFRS financial statements**

The following are reconciliations of the financial statements previously presented under Canadian GAAP to the financial statements prepared under IFRS.

**Reconciliation of Balance Sheet as of January 1, 2010**

	Canadian GAAP balance	IFRS Adjustments	IFRS Balances
<b>ASSETS</b>			
Cash and cash equivalents	\$ 816	\$	\$ 816
Prepaid expenses and other assets	14		14
	830		830
Investment in FPCN General Partner Inc.	49		49
Investment in FP Canadian Newspapers Limited Partnership (a)	58,342	(426)	57,916
<b>Total Assets</b>	<b>\$ 59,221</b>	<b>\$ (426)</b>	<b>\$ 58,795</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Accounts payable and accrued liabilities	\$ 116	\$	\$ 116
Dividend payable	656		656
	772		772
Deferred income tax liability (b)	868	739	1,607
<b>Total Liabilities</b>	<b>1,640</b>	<b>739</b>	<b>2,379</b>
Shareholders' equity			
Share capital	69,026		69,026
Deficit (a) (b)	(11,445)	(1,165)	(12,610)
<b>Total Shareholders' equity</b>	<b>57,581</b>	<b>(1,165)</b>	<b>56,416</b>
<b>Total Liabilities and Shareholders' equity</b>	<b>\$ 59,221</b>	<b>\$ (426)</b>	<b>\$ 58,795</b>

**FP Newspapers Inc.**  
**(formerly FP Newspapers Income Fund)**  
**Notes to Consolidated Financial Statements as at December 30, 2011**  
(tabular amounts in thousands of Canadian dollars)

**Reconciliation of Balance Sheet as of December 31, 2010**

	Canadian GAAP balance	IFRS Adjustments	IFRS Balances
<b>ASSETS</b>			
Cash and cash equivalents	\$ 43	\$	\$ 43
Prepaid expenses and other assets	21		21
	64		64
Investment in FPCN General Partner Inc.	49		49
Investment in FP Canadian Newspapers Limited Partnership (a)	61,193	(1,272)	59,921
<b>Total Assets</b>	<b>\$ 61,306</b>	<b>\$ (1,272)</b>	<b>\$ 60,034</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Accounts payable and accrued liabilities	\$ 191	\$	\$ 191
Dividend payable	414		414
	605		605
Deferred income tax liability (b)	922	(103)	819
<b>Total Liabilities</b>	<b>1,527</b>	<b>(103)</b>	<b>1,424</b>
<b>Shareholders' equity</b>			
Share Capital	71,373		71,373
Deficit (a) (b)	(11,594)	(1,169)	(12,763)
<b>Total Shareholders' equity</b>	<b>59,779</b>	<b>(1,169)</b>	<b>58,610</b>
<b>Total Liabilities and Shareholders' equity</b>	<b>\$ 61,306</b>	<b>\$ (1,272)</b>	<b>\$ 60,034</b>

**FP Newspapers Inc.**  
**(formerly FP Newspapers Income Fund)**  
**Notes to Consolidated Financial Statements as at December 30, 2011**  
(tabular amounts in thousands of Canadian dollars)

**Reconciliation of Consolidated Comprehensive Income for the year ended December 31, 2010**

	Canadian GAAP	IFRS Adjustments	IFRS Balances
Equity interest from FP Canadian Newspapers Limited Partnership Class A limited partner Units	\$ 7,827	\$	\$ 7,827
Administration expenses	(606)		(606)
Other interest	1		1
Earnings before income taxes	7,222		7,222
Deferred income tax (expense) recovery	(54)	685	631
Net earnings	\$ 7,168	\$ 685	\$ 7,853
Equity interest in comprehensive loss from FP Canadian Newspapers Limited Partnership (net of tax of \$157) (a) (b)	-	(689)	(689)
Comprehensive Income (loss)	\$ 7,168	\$ (4)	\$ 7,164



# **FP Canadian Newspapers Limited Partnership**

## **Consolidated Financial Statements**

**For the year 2011**



## **Independent Auditor's Report**

### **To the Unitholders of FP Canadian Newspapers Limited Partnership**

We have audited the accompanying consolidated financial statements of FP Canadian Newspapers Limited Partnership, which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated income statements and statements of comprehensive income, statements of changes in equity, and statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

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

#### **Auditor's responsibility**

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

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

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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of FP Canadian Newspapers Limited Partnership as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

March 15, 2012



**FP Canadian Newspapers Limited Partnership**

**Consolidated Balance Sheets**

(in thousands of Canadian dollars)

	Note	As at December 31, 2011 \$	As at December 31, 2010 \$	As at January 1, 2010 \$
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		9,329	6,477	9,178
Accounts receivable	16	13,759	13,026	12,991
Inventories		1,314	956	993
Assets held for sale		53	-	-
Prepaid expenses and other assets		1,561	2,938	1,132
		26,016	23,397	24,294
<b>RESTRICTED CASH</b>	7	5,000	5,000	-
<b>PROPERTY, PLANT AND EQUIPMENT</b>	4	40,501	37,867	42,968
<b>INVESTMENT</b>	11	141	-	136
<b>INTANGIBLE ASSETS</b>	5	7,258	7,617	8,163
<b>GOODWILL</b>	5	71,160	71,160	71,160
		150,076	145,041	146,721
<b>TOTAL ASSETS</b>				
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued liabilities	8, 14	8,336	8,359	8,977
Provisions		-	-	751
Prepaid subscriptions and deferred revenue		3,064	2,934	3,131
Finance lease obligation	13	806	-	-
Mortgage loan	7	47	-	-
Notes payable	7	-	-	59,930
Term loan	7	5,000	5,000	-
		17,253	16,293	72,789
<b>LONG-TERM LIABILITIES</b>				
Accrued pension benefit liability	8	5,848	1,541	643
Finance lease obligation	13	3,222	-	-
Mortgage loan	7	918	-	-
Term loan	7	45,355	50,218	-
		72,596	68,052	73,432
<b>TOTAL LIABILITIES</b>				
<b>UNITHOLDERS' EQUITY</b>				
Partner units	9	98,280	98,280	98,280
Deficit		(20,740)	(21,291)	(24,788)
Accumulated other comprehensive loss		(60)	-	(203)
		77,480	76,989	73,289
<b>TOTAL UNITHOLDERS' EQUITY</b>				
<b>TOTAL LIABILITIES AND UNITHOLDERS' EQUITY</b>				
		150,076	145,041	146,721

Commitments (Note 13)  
(See accompanying notes)

**Approved by the Board of Directors of the Managing General Partner**

*Signed*  
Ronald N. Stern,  
Director

*Signed*  
Harvey Sectar,  
Director

**FP Canadian Newspapers Limited Partnership****Consolidated Income Statements and Statements of Comprehensive Income****For the Years Ended December 31, 2011 and 2010**

(in thousands of Canadian dollars)

	Note	2011 \$	2010 \$
<hr/>			
Revenue			
Advertising		76,513	75,283
Circulation		27,384	28,391
Commercial Printing		3,284	3,593
Digital		2,601	1,978
Promotion and services		1,487	787
<hr/>			
TOTAL REVENUE		111,269	110,032
Operating expenses			
Employee compensation		42,738	41,497
Newsprint and other paper		10,004	9,519
Delivery of newspapers		17,164	16,944
Other		18,006	17,521
Depreciation and amortization	4, 5	4,441	5,967
Restructuring charge	19	264	-
<hr/>			
OPERATING INCOME		18,652	18,584
Other income			
Other income	10	202	8
Finance costs			
Finance costs	10	(2,579)	(2,619)
(Loss) on interest rate swap			
(Loss) on interest rate swap	7	(43)	-
<hr/>			
NET EARNINGS FOR THE YEAR		16,232	15,973
<hr/>			
Unrealized (loss) gain on investment		(60)	203
Actuarial (loss) on defined benefit pension plan	8	(5,540)	(1,727)
<hr/>			
COMPREHENSIVE INCOME FOR THE YEAR		10,632	\$ 14,449

(See accompanying notes)

**FP Canadian Newspapers Limited Partnership****Consolidated Statements of Changes in Equity**

For the years ended December 31, 2011 and 2010

(in thousands of Canadian dollars)

	Partner Units	Deficit	Accumulated Other Comprehensive (Loss) income	Total Unitholders' Equity
<b>UNITHOLDERS' EQUITY –</b>				
JANUARY 1, 2010	\$ 98,280	\$ (24,788)	\$ (203)	\$ 73,289
Net earnings for the year	-	15,973	-	15,973
Other comprehensive income (loss) for the year	-	(1,727)	203	(1,524)
Comprehensive income (loss) for the year	-	14,246	203	14,449
Distributions paid	-	(10,749)	-	(10,749)
<b>UNITHOLDERS' EQUITY –</b>				
DECEMBER 31, 2010	\$ 98,280	\$ (21,291)	\$ -	\$ 76,989
Net earnings for the year	-	16,232	-	16,232
Other comprehensive income (loss) for the year	-	(5,540)	(60)	(5,600)
Comprehensive income (loss) for the year	-	10,692	(60)	10,632
Distributions paid	-	(10,141)	-	(10,141)
<b>UNITHOLDERS' EQUITY –</b>				
DECEMBER 31, 2011	\$ 98,280	\$ (20,740)	\$ (60)	\$ 77,480

(See accompanying notes)

**FP Canadian Newspapers Limited Partnership**

**Consolidated Statements of Cash Flows**

**For the Years Ended December 31, 2011 and 2010**

(in thousands of Canadian dollars)

	Note	2011 \$	2010 \$
<b>CASH PROVIDED BY (USED IN):</b>			
<b>OPERATING ACTIVITIES</b>			
Net earnings for the year		\$ 16,232	\$ 15,973
Items not affecting cash:			
Depreciation and amortization	4, 5	4,441	5,967
Accretion of deferred financing costs	10	97	170
(Gain) loss on disposal of property, plant and equipment		(28)	85
Loss on interest rate swap		43	-
Excess of pension contributions over expense		(1,232)	(829)
		19,553	21,366
Net change in non-cash working capital items		(2,046)	(3,062)
		17,507	18,304
<b>INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment	4	(837)	(454)
Purchase of intangibles	5	(216)	(162)
Investment	11	(201)	-
Acquisition	6	(3,457)	-
Proceeds from sale of property, plant and equipment		512	242
Increase in restricted cash		-	(5,000)
		(4,199)	(5,374)
<b>FINANCING ACTIVITIES</b>			
Distributions to partners		(10,141)	(10,749)
Repayment of notes payable		-	(60,000)
Proceeds from financing leases		4,149	-
Proceeds from mortgage loan		980	-
Proceeds from term loan		-	60,000
Term loan refinancing costs		-	(295)
Principal repayments of finance lease		(429)	-
Principal repayments of mortgage loan		(11)	-
Principal repayment of term loan		(5,004)	(4,587)
		(10,456)	(15,631)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>2,852</b>	<b>(2,701)</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>		<b>6,477</b>	<b>9,178</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>		<b>\$ 9,329</b>	<b>\$ 6,477</b>
<b>Supplemental Cash Flow Information:</b>			
Interest paid during the year		\$ 2,489	\$ 2,643
Interest received during the year		269	37

(See accompanying notes)

## **FP Canadian Newspapers Limited Partnership**

### **Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010**

(tabular amounts in thousands of Canadian dollars)

#### **1. GENERAL INFORMATION**

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

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

#### **2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES**

FPLP prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these are FPLP’s first annual consolidated financial statements prepared in accordance with IFRS. In the financial statements, the term “Canadian GAAP” refers to Canadian Generally Accepted Accounting Principles before the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS. Subject to certain transition elections disclosed in note 20, FPLP has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 20 discloses the impact of the transition to IFRS on FPLP’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in FPLP’s Canadian GAAP consolidated financial statements for the year ended December 31, 2010.

The consolidated financial statements were approved by the Board of Directors of FPGP on March 15, 2012.

FPLP’s advertising revenue is seasonal. Advertising revenue and accounts receivable are highest in the second and fourth fiscal quarters, while expenses are relatively constant throughout the fiscal year.

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

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

##### **a) BASIS OF MEASUREMENT**

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

##### **b) PRINCIPLES OF CONSOLIDATION AND SPECIAL PURPOSE ENTITIES**

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

## FP Canadian Newspapers Limited Partnership

### Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010

(tabular amounts in thousands of Canadian dollars)

#### c) REVENUE RECOGNITION

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

#### d) INVENTORIES

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

#### e) PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

#### f) INTANGIBLE ASSETS

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

Subscriber base	15 years
News archives	10 years
Software	4 years

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

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

#### g) IMPAIRMENT OF NON-FINANCIAL ASSETS

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

## **FP Canadian Newspapers Limited Partnership**

### **Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010**

(tabular amounts in thousands of Canadian dollars)

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

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

#### **h) BUSINESS COMBINATIONS**

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

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

#### **i) PENSION PLANS**

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

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

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

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

#### **j) TRANSACTION COSTS**

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

#### **k) CASH AND CASH EQUIVALENTS**

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

## **FP Canadian Newspapers Limited Partnership**

### **Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010**

(tabular amounts in thousands of Canadian dollars)

#### **l) INCOME TAXES**

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

#### **m) LONG-TERM INCENTIVE PLAN (“LTIP”)**

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

#### **n) PROVISIONS**

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

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

#### **o) FINANCIAL INSTRUMENTS**

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

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

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

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

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

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

#### **p) UNITHOLDERS’ EQUITY**

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

#### **q) DISTRIBUTIONS**

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

#### **r) ASSETS HELD FOR SALE**

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

### **Accounting standards issued but not yet effective**

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



## **FP Canadian Newspapers Limited Partnership**

### **Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010**

(tabular amounts in thousands of Canadian dollars)

#### **IFRS 9 - Financial Instruments**

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

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

#### **IFRS 10 – Consolidated Financial Statements**

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

#### **IFRS 11 - Joint Arrangements**

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*.

#### **IFRS 12 – Disclosure of Interests in Other Entities**

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

#### **IFRS 13 - Fair Value Measurement**

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

#### **Amendments to IAS 19 - Employee Benefits**

The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to enhance the disclosures for all employee benefits. Actuarial gains and losses are renamed 'remeasurements' and will be recognized immediately in other comprehensive income ("OCI"). Remeasurements recognized in OCI will not be recycled through profit or loss in subsequent periods. The amendments also accelerate the recognition of past service costs whereby they are recognized in the period of a plan amendment. The annual expense for a funded benefit plan will be computed based on the application of the discount rate to the net defined benefit asset or liability.

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

## **FP Canadian Newspapers Limited Partnership**

### **Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010**

(tabular amounts in thousands of Canadian dollars)

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

#### **Amendments to IAS 1 - Presentation of Financial Statement**

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

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

### **3. USE OF ESTIMATES**

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

#### *Long Lived Assets*

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

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

#### *Employee Benefits*

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

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

**FP Canadian Newspapers Limited Partnership**

**Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010**

(tabular amounts in thousands of Canadian dollars)

**4. PROPERTY, PLANT AND EQUIPMENT**

	<b>Land and buildings</b>	<b>Machinery and equipment</b>	<b>Computer equipment and other</b>	<b>Total</b>
<b>At January 1, 2010</b>				
Cost	\$ 9,209	\$ 55,742	\$ 7,740	\$ 72,691
Accumulated depreciation	(1,659)	(21,712)	(6,352)	(29,723)
Net book value	7,550	34,030	1,388	42,968
<b>Year ended December 31, 2010</b>				
Balance at beginning of year	7,550	34,030	1,388	42,968
Additions	4	278	172	454
Disposals – cost	-	(457)	(2,027)	(2,484)
Disposals – accumulated depreciation	-	146	2,042	2,188
Depreciation for the year	(286)	(4,377)	(596)	(5,259)
At December 31, 2010	7,268	29,620	979	37,867
<b>At December 31, 2010</b>				
Cost	9,213	55,563	5,885	70,661
Accumulated depreciation	(1,945)	(25,943)	(4,906)	(32,794)
Net book value	7,268	29,620	979	37,867
<b>Year ended December 31, 2011</b>				
Balance at beginning of year	7,268	29,620	979	37,867
Additions	1,269	1,926	528	3,723
Assets acquired on acquisition	300	2,896	-	3,196
Disposals – cost	-	(2,860)	(149)	(3,009)
Disposals – accumulated depreciation	-	2,360	118	2,478
Depreciation for the year	(339)	(2,861)	(554)	(3,754)
At December 31, 2011	8,498	31,081	922	40,501
<b>At December 31, 2011</b>				
Cost	10,782	57,525	6,264	74,571
Accumulated depreciation	(2,284)	(26,444)	(5,342)	(34,070)
Net book value	8,498	31,081	922	40,501

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

**FP Canadian Newspapers Limited Partnership**

**Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010**

(tabular amounts in thousands of Canadian dollars)

**5. INTANGIBLE ASSETS AND GOODWILL**

	Subscriber base and Archives	Computer Software	Mastheads	Total Intangible Assets	Goodwill
At January 1, 2010					
Cost	\$ 5,150	\$ 2,829	\$ 5,155	\$ 13,134	\$ 71,160
Accumulated amortization	(2,924)	(2,047)	-	4,971	-
Net book value	2,226	782	5,155	8,163	71,160
Year ended December 31, 2010					
Opening net book value	2,226	782	5,155	8,163	71,160
Additions	-	162	-	162	-
Amortization for the year	(362)	(346)	-	(708)	-
At December 31, 2010	1,864	598	5,155	7,617	71,160
At December 31, 2010					
Cost	5,150	2,991	5,155	13,296	71,160
Accumulated amortization	(3,286)	(2,393)	-	(5,679)	-
Net book value	1,864	598	5,155	7,617	71,160
Year ended December 31, 2011					
Opening net book value	1,864	598	5,155	7,617	71,160
Additions	-	176	40	216	-
Assets acquired on acquisition	90	22	-	112	-
Amortization	(361)	(326)	-	(687)	-
At December 31, 2011	1,593	470	5,195	7,258	71,160
At December 31, 2011					
Cost	5,240	3,189	5,195	13,624	71,160
Accumulated amortization	(3,647)	(2,719)	-	(6,366)	-
Net book value	1,593	470	5,195	7,258	71,160

Goodwill is entirely attributable to FPLP, as it represents the lowest level at which management internally monitors goodwill. The CGU also includes all mastheads related primarily to the Winnipeg Free Press, for which the recoverable amounts were based on a relief of royalty fair value less cost to sell calculation using royalty rates and after tax discount rates of 5% and 11%, respectively (December 31, 2010 - 5% and 11%, respectively). The recoverable amount of the CGU is determined based on the value-in-use calculations using pre-tax cash flow projections based on management expectations covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the newspaper industry. The key assumptions used for value-in-use calculations included the following:

	2011	2010
Long-term growth rate	0% to 1%	0% to 2%
Pre-tax discount rate	14% to 17 %	13% to 15%

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

## FP Canadian Newspapers Limited Partnership

### Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010

(tabular amounts in thousands of Canadian dollars)

#### 6. ACQUISITION

On February 28, 2011 FPLP acquired substantially all of the assets and assumed specified liabilities of a Steinbach, Manitoba printing and publishing business previously operated by Derksen Printers Ltd. for a purchase price of \$3,457,000, paid in cash. The business publishes The Carillon, a weekly paid circulation newspaper and provides commercial printing services to a wide range of customers. The transaction has been accounted for by the acquisition method and the results of operations are included in FPLP's accounts from the date of acquisition. In addition to the purchase price, acquisition costs consisting primarily of legal fees totalling \$65,000 were paid by FPLP and are included in operating expenses. The purchase price was allocated based on the fair market values of the assets acquired and liabilities assumed as follows:

Accounts receivable	\$ 370
Inventory	230
Land	300
Plant & equipment	2,896
Intangible assets	112
Accounts payable & other current liabilities	(323)
Finance lease obligation	(128)
	<hr/>
	\$ 3,457

The fair value of accounts receivable represents approximately FPLP's best estimate of the gross contractual cash flows and amounts to be collected.

Net income attributable to FPLP of approximately \$800,000 has been recorded from the date of acquisition to December 31, 2011.

#### 7. LONG-TERM DEBT

During 2005, a previously consolidated special purpose entity issued \$60.0 million of its Series A Senior Secured Notes payable to Prudential which bore interest at 5.20%. On January 8, 2010 the notes payable were repaid in full as discussed below.

Effective December 31, 2009, FPLP signed a credit agreement with HSBC to replace FPLP's \$60.0 million notes payable with Prudential. On January 8, 2010, the security documentation and funding was completed and the proceeds were used to repay the Prudential notes payable in full. Accordingly, the Series A Senior Secured Notes were presented as a current liability on January 1, 2010.

The HSBC credit agreement consists of two loan facilities, each with a three-year term expiring on January 31, 2013, Facility A in the amount of \$50.0 million and Facility B in the amount of \$10.0 million. Amounts borrowed under both facilities will primarily be in the form of bankers' acceptances at varying interest rates and repricing dates of between 30 to 180 days. The interest rate spread above the bankers' acceptance rate varies based on the leverage ratio, as defined in the agreement, and was 3.0% and 0.375% on Facilities A and B respectively at December 31, 2011.

An interest rate swap facility is also available under the credit agreement. In October 2011, FPLP entered into an interest rate swap agreement which fixes the interest rate on \$15.0 million to mitigate cash flow interest rate risk associated with the term loan. This amortizing interest rate swap matures in October 2014 and fixes the interest rate at 4.32%. The interest rate swap facility is not designated as a cash-flow hedge for accounting purposes.

Facility A includes principal repayments of \$5.0 million annually (payable monthly) over each of the three years of the agreement. Both facilities are secured by a charge over all the assets of FPLP as well as a cash deposit of \$10.0 million. In January 2010, FPLP made an initial cash deposit of \$5.0 million into a separate HSBC guarantee account with a second \$5.0 million guarantee account deposit made by FundingCo, a company controlled indirectly by Ronald Stern and Robert Silver who together own 51% of FPLP. FPLP and FundingCo have entered into a Credit Support agreement and a Credit Support Fee agreement outlining the terms of FundingCo's guarantee. Under the terms of the Credit Support Fee agreement, FPLP is required to pay FundingCo at 3.0% per annum over the rate charged by HSBC for Facility A.

## FP Canadian Newspapers Limited Partnership

### Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010

(tabular amounts in thousands of Canadian dollars)

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

In 2011, a mortgage financing agreement was completed for the Derksen Printers Ltd. real estate assets. The loan of \$0.9 million, which is to be repaid over 15 years, carries a five year fixed interest rate of 4.85%.

#### 8. EMPLOYEE FUTURE BENEFIT PLANS

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

FPLP measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation report for funding purposes was at December 31, 2010 and the next required valuation is as of December 31, 2011 and will be completed during 2012.

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

	2011 \$	2010 \$
<b>PLAN ASSETS</b>		
Fair value - beginning of year	20,348	16,654
Expected return on plan assets	1,450	1,191
Actuarial gain (loss) on assets	(2,416)	779
Employer contributions	2,482	1,795
Employee contributions	933	938
Benefits paid	(1,139)	(1,009)
Fair value - end of year	21,658	20,348
<b>PLAN OBLIGATIONS</b>		
Accrued benefit obligation - beginning of year	21,889	16,282
Interest cost	1,368	1,210
Current service cost	2,264	1,885
Benefits paid	(1,139)	(1,009)
Actuarial loss	3,124	3,521
Accrued benefit obligation - end of year	27,506	21,889

FPLP's accrued pension liability is determined as follows:

	December 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Fair value of plan assets	21,658	20,348	16,654
Accrued benefit obligation	27,506	21,889	16,282
Plan (deficit)	(5,848)	(1,541)	372
Additional minimum funding liability	-	-	(1,015)
Plan (deficit)	(5,848)	(1,541)	(643)

## FP Canadian Newspapers Limited Partnership

### Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010

(tabular amounts in thousands of Canadian dollars)

FPLP's pension plan expense is determined as follows:

	<b>2011</b>	<b>2010</b>
	\$	\$
Current service cost	2,264	1,885
Employee contributions	(933)	(938)
Interest costs	1,368	1,210
Expected return on plan assets	(1,450)	(1,191)
Pension expense – defined benefit plan	1,249	966
Employer contributions to defined contribution plans	212	213
<b>Total pension expense recognized in employee compensation</b>	<b>1,461</b>	<b>1,179</b>

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

	<b>2011</b>	<b>2010</b>
	\$	\$
Actuarial gains (losses)	(5,540)	(2,742)
Additional minimum funding liability	-	1,015
<b>Total amounts recognized in other comprehensive income</b>	<b>(5,540)</b>	<b>(1,727)</b>

Cumulative actuarial gains (losses) recognized in other comprehensive income for the year ended December 31, 2011 was (\$7,267,000) (December 31, 2010 – (\$1,727,000)).

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

	<b>2011</b>	<b>2010</b>
	%	%
Discount rate	5.40	5.80
Rate of compensation increase	2.00	2.00

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

	<b>2011</b>	<b>2010</b>
	%	%
Discount rate	5.80	6.85
Expected long-term rate of return on pension plan assets	6.75	6.75
Rate of compensation increase	2.00	2.00

A 50 basis point increase/decrease in the discount rate used to measure the accrued benefit obligation would impact the accrued benefit obligation by (\$2,192,000) and \$2,382,000 respectively.

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

	<b>2011</b>	<b>2010</b>
	%	%
Canadian equities	33	37
United States equities	14	13
Non-North American equities	13	14
Canadian Government and corporate bonds	33	32
Short-term cash	7	4
	<b>100</b>	<b>100</b>

## FP Canadian Newspapers Limited Partnership

### Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010

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

Under Manitoba pension laws, solvency deficiencies must be funded over a five-year period, which may be extended to ten years unless more than one-third of the active plan members and pensioners object to the extension. FPLP received an extension to ten years for funding of the defined benefit pension solvency deficiency that was identified in the actuarial funding valuation completed at December 31, 2010. The actuarial valuation funding report was filed with the provincial regulators prior to the end of September, 2011.

Based on information currently available, expected current service costs excluding minimum funding requirements to defined benefit plans for 2012 are \$2,372,000.

## 9. SHARE CAPITAL AND ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	2011		2010	
	Number of Units	\$	Number of Units	\$
FPCN General Partner Inc. - managing general partner	10	10	10	10
Canstar Publications Ltd. and R.I.S. Media Ltd. - general partners	7,184,321	30,711	7,184,321	30,711
FP Newspapers Inc. - Class A limited partner Units	6,902,592	67,559	6,902,592	67,559
	14,086,923	98,280	14,086,923	98,280

FPLP's net earnings are allocated to the general partners in respect of the general partner Units and the limited partners in respect of the Class A limited partner Units in proportion to the distributions made to the partners in the year. Under the exchange agreement entered into between the holders of the general partner Units, the Class A limited partner Units, and FP Newspapers Inc. ("FPI") dated December 31, 2010 (previously between FP Newspapers Income Fund (the "Fund"), FPI's predecessor dated May 28, 2002), each general partner Unit may, at any time, at the option of the holder, be exchanged for an equal number of FPI's shares, subject to the exchange ratio and other provisions of the exchange agreement.

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

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



## FP Canadian Newspapers Limited Partnership

### Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010

(tabular amounts in thousands of Canadian dollars)

#### 10. OTHER INCOME AND FINANCE COSTS

	2011 \$	2010 \$
Other income		
Interest income	174	151
Gain (loss) on sales of property, plant and equipment	28	(85)
Loss on derecognition of the special purpose entity	-	(58)
<b>Total other income</b>	<b>202</b>	<b>8</b>
Finance Costs		
Notes payable	-	173
Accretion of notes payable related to financing costs	-	70
Interest on finance leases	90	-
Interest on mortgage loan	24	-
Interest on term loan	2,003	1,938
Accretion of term loan related to financing costs	97	100
Guarantee fee (note 14)	365	338
	<b>2,579</b>	<b>2,619</b>

#### 11. LONG-TERM INCENTIVE PLAN

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

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

<b>Amount of excess distributable cash of FPLP, over \$15,707,000 (2010 \$15,687,000) annually</b>	<b>Proportion of excess distributable cash available for incentive payments</b>
Up to \$800,000	10%
\$800,000 to \$2,000,000	15%
Over \$2,000,000	20%

On April 22, 2008, FPLP funded \$448,000 to the Trust Fund for exceeding certain 2007 defined distributable cash threshold amounts, subsequent to which the trustee acquired 34,816 Fund Units on the open market. Other than forfeited units, a third of the Units vested on each of March 31, 2009, March 31, 2010 and December 31, 2010 and were distributed to participants.

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

For the year ended December 31, 2011, FPLP results did not meet the minimum level required under the plan and therefore, no shares will be purchased.

## FP Canadian Newspapers Limited Partnership

### Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010

(tabular amounts in thousands of Canadian dollars)

#### 12. INCOME TAXES

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

	2011 \$	2010 \$
Net earnings before income taxes	16,232	15,973
Canadian combined statutory tax rate	28.5%	30.0%
Income tax expense at the Canadian combined statutory tax rate	(4,626)	(4,792)
Income taxed in the hands of the partners	4,626	4,792
Income tax expense	-	-

#### 13. COMMITMENTS AND CONTINGENCIES

##### a) LEASES AND OTHER COMMITMENTS

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

	\$
2012	927
2013	927
2014	896
2015	880
2016	849
Total payments	4,479
Interest cost (rates ranging from 4.1% to 5.5%)	451
Present value of finance lease obligation	4,028

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

	\$
2012	1,448
2013	1,389
2014	1,134
2015	943
2016	710
Thereafter	1,864
Total payments	7,488

##### b) LEGAL MATTERS

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

## FP Canadian Newspapers Limited Partnership

### Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010

(tabular amounts in thousands of Canadian dollars)

#### 14. RELATED PARTY TRANSACTION

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

In 2011, FPLP incurred a guarantee fee of \$365,000 (2010 \$338,000) to FP Funding Corporation, a company controlled indirectly by Ronald Stern and Robert Silver, who together indirectly control 51% of FPLP. At December 31, 2011, the outstanding guarantee fee payable of \$31,000 was included in accounts payable and accrued liabilities.

For the year, total newsprint purchases from Alberta Newsprint Company, a company controlled indirectly by Ronald Stern, for 2011 were \$4,335,000 (2010 \$3,875,000). FPLP also reimbursed related parties for administration costs amounting to \$34,000 (2010 \$61,000). At December 31, 2011, accounts payable to related parties totalled \$627,000 (2010 \$544,000). Total advertising sales to related parties were \$69,000 (2010 \$35,000) and at December 31, 2011 accounts receivable from related parties totalled \$1,000 (2010 \$1,000).

#### Transactions with key management personnel

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

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

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Salaries and bonus	858	750
Post-retirement pension benefits	48	28
LTIP expense (note 11)	24	-
	<b>930</b>	<b>778</b>

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

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Value of non-vested shares	32	54

#### 15. SEGMENT REPORTING

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

#### 16. FINANCIAL INSTRUMENTS

FPLP's financial assets and liabilities are comprised of cash and cash equivalents, restricted cash, accounts receivable, investment, interest rate swap, accounts payable and accrued liabilities and long-term debt which include the term-loan and finance leases. Cash and cash equivalents included cash equivalents of \$6,614,000 at December 31, 2011 (December 31, 2010 \$3,072,000 and January 1, 2010 \$7,495,000).

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

## FP Canadian Newspapers Limited Partnership

### Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010

(tabular amounts in thousands of Canadian dollars)

#### a. CREDIT RISK

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

As FPLP is in the business of publishing newspapers and performing printing services for third parties, included in the accounts receivable are primarily amounts owed from advertisers and advertising agencies, circulation customers and commercial print clients. FPLP does not hold collateral as security for these balances. FPLP's credit risk relating to these accounts receivable is spread over a large number of national and local advertising clients and advertising agencies, in addition to many circulation retail customers and third-party printing clients. FPLP manages credit risk on a customer-by-customer basis and establishes a reasonable allowance for uncollectible amounts with this allowance netted against the accounts receivable on the consolidated balance sheet. The adequacy of the allowance is reviewed on a regular basis and is estimated based on past experience, specific risks associated with the customers and other relevant information. The 10 largest receivable amounts total \$5,080,000 (December 31, 2010 \$5,587,000; January 1, 2010 \$ 4,607,000) and approximately 88% (December 31, 2010 84%; January 1, 2010 86%) of these balances are owed from national advertising agencies. The largest amount due from a single national agency is \$1,187,000 (December 31, 2010 \$1,358,000; January 1, 2010 \$791,000) which represents approximately 9% (December 31, 2010 10% and January 1, 2010 6%) of total receivables.

Accounts receivable are impaired when there is evidence that collection is unlikely. Collection is determined to be unlikely if the customer is in bankruptcy or FPLP has exhausted all efforts to obtain payment. At December 31, 2011, FPLP estimates the value of impaired accounts receivable is \$21,000 (December 31, 2010 \$28,000 and January 1, 2010 \$55,000) and these amounts are included as part of the allowance for doubtful accounts.

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

	December 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Accounts receivable:			
Current	8,221	7,053	7,485
Up to three months past due	5,596	6,079	5,660
Greater than three months past due	227	239	155
Impaired	21	28	55
	14,065	13,399	13,355
Allowance for doubtful accounts	(306)	(373)	(364)
	13,759	13,026	12,991

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

	2011 \$	2010 \$
Balance at beginning of year	(373)	(364)
Provision for impairment	(219)	(229)
Receivables written-off during the year – uncollectible	84	70
Unused amounts reversed	202	150
Balance at end of year	(306)	(373)

## FP Canadian Newspapers Limited Partnership

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(tabular amounts in thousands of Canadian dollars)

#### c. INTEREST RATE RISK

Interest rate risk is the risk that the fair value (fair value interest rate risk) or future cash flows (cash flow interest rate risk) of a financial instrument will fluctuate because of changes in market interest rates under the HSBC credit facility (see note 7). FPLP is exposed to cash flow interest rate risk due to fluctuations in interest rates as the amounts borrowed under the credit agreement are in the form of bankers' acceptances at varying interest rates ranging in terms from 30 to 180 days. In 2011, FPLP entered into an interest rate swap agreement to limit its exposure to variability due to changes in the general level of market interest rates. The agreement is based on an initial notional amount of \$15.0 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 4.32% and receives interest based on floating HSBC Bank Canada Bankers Acceptance rates.

An assumed 1% increase in FPLP's short term borrowing rates during the year ended December 31, 2011, after taking into account the interest rate swap would have decreased net income by \$477,000 (December 31, 2010 \$613,000), with an equal but opposite effect for an assumed 1% decrease in short term borrowing rates.

#### d. LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. FPLP believes that it has access to sufficient capital through current non-restricted cash balances, future internally generated cash flows and external sources (bank credit markets and debt capital markets) to meet current spending forecasts. As at December 31, 2011, FPLP's non-restricted cash and cash equivalents on hand was \$9,329,000.

The following are the contractual maturities of the financial liabilities:

	<b>Total</b>	<b>Less than 1 year</b>	<b>1 – 3 years</b>	<b>4 – 5 years</b>	<b>After 5 years</b>
	\$	\$	\$	\$	\$
At December 31, 2011					
Accounts payable and accrued liabilities	8,336	8,336	-	-	-
Mortgage loan principal and interest	1,155	92	278	785	-
Finance lease obligations principal and interest	4,479	927	2,703	849	-
Long-term debt principal and interest	52,768	7,194	45,574	-	-
<b>Total</b>	<b>66,738</b>	<b>16,549</b>	<b>48,555</b>	<b>1,634</b>	<b>-</b>
At December 31, 2010					
Accounts payable and accrued liabilities	8,359	8,359	-	-	-
Long-term debt principal and interest	60,089	7,360	52,729	-	-
<b>Total</b>	<b>68,448</b>	<b>15,719</b>	<b>52,729</b>	<b>-</b>	<b>-</b>

#### e. FAIR VALUES , INCLUDING VALUATION METHODS AND ASSUMPTIONS

The fair value of current assets and liabilities including cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates their carrying value due to the short-term nature of these financial instruments. The fair value of the HSBC term loan, is approximately \$50,409,000 (2010 – \$55,413,000) which is based on rates available for debt with similar terms and maturity. The fair value of the mortgage loan and finance leases obligation approximates their carrying value as it reflects FPLP's best estimate based upon estimated interest rates at which FPLP believes it could enter into similar instruments at the consolidated balance sheet date.

## FP Canadian Newspapers Limited Partnership

### Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010

(tabular amounts in thousands of Canadian dollars)

#### Fair value hierarchy

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

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

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

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

Financial asset or liability	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>2011</b>				
Investment	141	-	-	141
Interest rate swap	-	(43)	-	(43)
	141	(43)	-	98

## 17. CAPITAL MANAGEMENT

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

FPLP's capital consists of cash and cash equivalents, debt and Unitholders' equity. The components at December 31, 2011 and December 31, 2010 were as follows:

	December 31, 2011 \$	December 31, 2010 \$
Term loan	50,355	55,218
Finance leases and mortgage loan	4,993	-
Cash and cash equivalents	(9,329)	(6,477)
Restricted cash	(5,000)	(5,000)
External net debt	41,019	43,741
Unitholders' equity	77,480	76,989
Total capitalization	118,499	120,730
External net debt as a percentage of total capitalization	34.6%	36.2%

The HSBC credit facility includes negative covenants which must be observed in order to avoid an accelerated termination of the agreement. These covenants include certain restrictions on paying distributions, the sale of assets, the purchase of investments and acquisitions, share capital, allowing encumbrances and certain issuances of loans or financial assistance. FPLP is restricted from making distributions which exceed distributable cash by more than \$1.0 million annually, as defined in this agreement. FPLP is required to maintain a leverage ratio of no greater than 3.5 to 1.0, a fixed charge coverage ratio of no less than 2.0 to 1.0 and a current ratio of no less than 1.2 to 1.0, all defined in the agreement and measured quarterly on a trailing 12-month basis. Financial amounts used in the calculations are specifically defined in the credit agreement, but are substantially equal to the corresponding terms used in the external financial reports filed by FPLP. At December 31, 2011, FPLP was in compliance with all the terms and conditions of

## FP Canadian Newspapers Limited Partnership

### Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010

(tabular amounts in thousands of Canadian dollars)

its debt agreement. The following financial ratios are calculated in accordance with the HSBC credit agreement. The current ratio has been calculated assuming a current \$5.0 million loan principal amortization as required under the HSBC loan agreement.

	Leverage ratio	Fixed Charge ratio	Current ratio
Covenant threshold	3.5	2.0	1.2
Twelve Months Ended December 31, 2011	1.8	3.0	5.4
Twelve Months Ended December, 31, 2010	1.8	3.6	3.4

FPLP was in compliance with its covenants during 2011.

#### 18. INDEMNIFICATION

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

#### 19. RESTRUCTURING CHARGE

In 2011, FPLP paid a restructuring charge of \$264,000 consisting of severance payments in relation to a program to improve the effectiveness and productivity of its operations.

#### 20. TRANSITION TO IFRS

These consolidated financial statements represent the first financial statements of the Limited Partnership and its subsidiaries prepared in accordance with IFRS, as issued by the IASB. FPLP adopted IFRS in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The first date at which IFRS was applied was January 1, 2010 ("Transition Date"). In accordance with IFRS, FPLP has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- applied certain optional exemptions and certain mandatory exceptions as applicable for first-time IFRS adopters.

#### INITIAL ELECTIONS UPON ADOPTION

##### IFRS Exemption Options Applied

- a. Business combinations - IFRS 1 provides the election to apply IFRS 3, *Business Combinations*, retrospectively or prospectively from the transition date. The retrospective basis would require restatement of all business combinations that occurred prior to the transition date or all business combinations that occurred subsequent to a date prior to transition selected by FPLP. FPLP elected to prospectively apply IFRS 3 to all business combinations subsequent to January 1, 2010 (Business Combinations Election Date). Accordingly any business combinations prior to such Business Combinations Election Date have not been restated. Any goodwill arising on such business combinations before the Business Combination Elections Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions.
- b. Employee Benefits – IFRS 1 provides an election to recognize all cumulative actuarial gains and losses at the transition date as a direct entry to deficit rather than retrospectively applying IFRS pension guidance and recalculating amounts on transition. FPLP elected to apply the optional exemption and recognized all cumulative actuarial gains and losses at the transition date in retained earnings.

## FP Canadian Newspapers Limited Partnership

### Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010

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#### IFRS Mandatory Exceptions

Estimates - Hindsight was not used to create or revise previous estimates. The estimates previously made by FPLP under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

#### RECONCILIATIONS OF CANADIAN GAAP TO IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. FPLP's first time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows.

The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity:

#### Reconciliation of Unitholders' Equity

	December 31 2010	January 1 2010
Unitholders' equity under Canadian GAAP	\$ 79,585	\$ 74,158
Employee benefits (a)	(2,596)	(869)
Total Unitholders' equity under IFRS	\$ 76,989	\$ 73,289

#### CHANGES IN ACCOUNTING POLICIES

In addition to the optional exemptions and mandatory exceptions discussed above, the following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS policies applied by FPLP. Only the differences having an impact on FPLP are described below. The following is not a complete summary of all of the differences between Canadian GAAP and IFRS. Unless a quantitative impact was noted below, the impact from the change was not material to FPLP.

##### a. Employee Benefits

Optional exemptions applied

As indicated above, FPLP elected to apply the optional exemption and recognized all cumulative actuarial gains and losses at the transition date in deficit.

Accounting policy differences

##### Actuarial Gains (Losses)

In accordance with CICA 3461, FPLP adopted an accounting policy of amortizing actuarial gains (losses) using the corridor method whereby the excess of the net actuarial gain or loss over 10% of the greater of the projected obligation and the fair value of the plan assets is amortized over the average remaining service period of active employees.

In accordance with IAS 19, FPLP adopted an accounting policy of recognizing actuarial gains and losses in full in the period in which they occur, in other comprehensive income and deficit without recycling to the statement of income in subsequent periods.

##### The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 14 "IAS 19 - The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" ("IFRIC 14") addresses the application of paragraph 58 of IAS 19 which limits the measurement



## **FP Canadian Newspapers Limited Partnership**

### **Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010**

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of a defined benefit asset to "the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan" plus past service cost.

IFRIC 14 provides guidance regarding (a) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19, (b) how a minimum funding requirement might affect the availability of reductions in future contributions and (c) when a minimum funding requirement might give rise to a liability. FPLP has determined that it must record an additional liability associated with the minimum funding requirements in its registered pension plan. The additional liability is computed by discounting the minimum funding requirements from the actuarial funding valuations by the discount rate as defined by IAS 19.

There is Canadian GAAP guidance related to the limit on the carrying amount of an accrued benefit asset and recognition of a related valuation allowance. However, IFRS and Canadian GAAP have different methods of calculating the defined benefit asset limit. Furthermore, Canadian GAAP did not address accounting for an additional liability due to minimum funding requirements.

#### **b. Reclassification of Provisions**

FPLP reclassified its provision related to the restructuring of its operations from Accounts payable and accrued liabilities to Provisions in the balance sheet.

During the fourth quarter of 2009 a provision for a restructuring charge of \$751,000 was recorded relating to employee reductions planned for 2010 due to the end of the Globe and mail printing contract at the Brandon Sun. This provision was settled during 2010 and accordingly there is no remaining provision as at December 31, 2010.

#### **c. Reclassification of Notes payable**

In accordance with IFRS 1 the classification of liabilities as current or non-current is based on circumstances at the reporting date. Since the note payable outstanding at January 1, 2010 was due in full on June 5, 2010, it was reclassified as a current liability on the IFRS opening balance sheet.

In accordance with CICA EIC 122, FPLP classified its Notes Payable at December 31, 2009 as long-term obligations as a long-term refinancing agreement was entered into with another party subsequent to the period end but prior to the issuance of the financial statements.

**FP Canadian Newspapers Limited Partnership**

**Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010**

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**Restated FPLP consolidated financial statements**

The following are reconciliations of the consolidated financial statements previously presented under Canadian GAAP to the consolidated financial statements prepared under IFRS.

**Reconciliation of Consolidated Balance Sheet as of January 1, 2010**

	Canadian GAAP	IFRS Adjustments	IFRS Reclass	IFRS Balances
<b>ASSETS</b>				
Cash and cash equivalents	\$ 9,178	\$	\$	\$ 9,178
Accounts receivable	12,991			12,991
Inventories	993			993
Prepaid expenses and other assets	1,132			1,132
	24,294			24,294
Property, plant and equipment, net	42,968			42,968
Investment	136			136
Intangible assets	8,163			8,163
Goodwill	71,160			71,160
Accrued pension benefit asset (a)	226	(226)		-
	\$ 146,947	\$ (226)	\$	\$ 146,721
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>				
Accounts payable and accrued liabilities (b)	\$ 9,728	\$	\$ (751)	\$ 8,977
Provisions (b)	-		751	751
Prepaid subscriptions and deferred revenue	3,131			3,131
Notes payable (c)	5,000		54,930	59,930
	17,859		54,930	72,789
Notes payable (c)	54,930		(54,930)	
Accrued pension benefit liability	-	643		643
	72,789	643		73,432
Unitholders' equity				
Partner units	98,280			98,280
Deficit (a)	(23,919)	(869)		(24,788)
Accumulated other comprehensive loss	(203)			(203)
Total Unitholders' equity	74,158	(869)		73,289
	\$ 146,947	\$ (226)	\$	\$ 146,721

## FP Canadian Newspapers Limited Partnership

### Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010

(tabular amounts in thousands of Canadian dollars)

#### Reconciliation of Consolidated Comprehensive Income for the year ended December 31, 2010

	Canadian GAAP	IFRS Adjustments	IFRS Balances
Revenues	\$ 110,032	\$	\$ 110,032
Operating expenses	(91,448)		(91,448)
Operating income	18,584		18,584
Other income	8		8
Finance costs	(2,619)		(2,619)
Net earnings for the year	\$ 15,973	\$	\$ 15,973
Unrealized loss on investment	203		203
Actuarial loss on defined benefits (a)	-	(1,727)	(1,727)
Comprehensive income for the year	\$ 16,176	\$ (1,727)	\$ 14,449

**FP Canadian Newspapers Limited Partnership**

**Notes to Consolidated financial Statements for the Years ended December 31, 2011 and 2010**

(tabular amounts in thousands of Canadian dollars)

**Reconciliation of Consolidated Balance Sheet as of December 31, 2010**

	Canadian GAAP balance	IFRS Adjustments	IFRS Balances
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6,477	\$	\$ 6,477
Accounts receivable	13,026		13,026
Inventories	956		956
Prepaid expenses and other assets	2,938		2,938
	23,397		23,397
Restricted cash	5,000		5,000
Property, plant and equipment, net	37,867		37,867
Intangible assets	7,617		7,617
Goodwill	71,160		71,160
Accrued pension benefit asset (a)	1,055	(1,055)	-
	\$ 146,096	\$ (1,055)	\$ 145,041
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
Accounts payable and accrued liabilities	\$ 8,359	\$	\$ 8,359
Prepaid subscriptions and deferred revenue	2,934		2,934
Term Loan	5,000		5,000
	16,293		16,293
Term Loan	50,218		50,218
Accrued pension benefit liability (a)	-	1,541	1,541
	66,511	1,541	68,052
<b>Unitholders' equity</b>			
Partner Units	98,280		98,280
Deficit (a)	(18,695)	(2,596)	(21,291)
<b>Total Unitholders' equity</b>	79,585	(2,596)	76,989
	\$ 146,096	\$ (1,055)	\$ 145,041