



## **FP Newspapers Income Fund reports fourth quarter 2009 results**

**Winnipeg, March 10, 2010** – FP Newspapers Income Fund (“the Fund”) (TSX: FP.UN) announces financial results for the quarter ended December 31, 2009. FP Newspapers Income Fund owns securities entitling it to 49 percent of the distributable cash of FP Canadian Newspapers Limited Partnership (“FPLP”), which owns the Winnipeg Free Press and Brandon Sun daily newspapers, and Canstar Community News (“Canstar”), which operates six weekly newspapers, a weekly entertainment newspaper and a twice-monthly newspaper aimed at age 50-plus readers.

Total revenue for FPLP for the three months ended December 31, 2009 was \$30.8 million, a \$3.1 million or 11.0 percent increase from the same period last year. Revenues in the fourth quarter of 2008 were negatively impacted by the loss of 16 Winnipeg Free Press publishing days and the normally scheduled publications of the Canstar operation due to a strike by the unionized workers and delivery contractors in October 2008. Total FPLP revenue for the two months of November and December 2009 was \$20.3 million, a \$1.1 million or 5.0 percent decrease from the same period last year. Total EBITDA<sup>(1)</sup> of FPLP for the quarter was \$8.0 million, a \$4.7 million or 143.8 percent increase from the same quarter last year. EBITDA<sup>(1)</sup> for the quarter excluding October and excluding restructuring charges was \$5.7 million, a \$0.8 million or 15.3 percent increase compared to the same two months of 2008. FPLP had net earnings of \$3.7 million in the quarter compared to a net loss of \$0.5 million in the same quarter last year. Net earnings for the months of November and December of 2009 were \$1.9 million, a \$0.1 million or 5.0 percent decrease compared to the same period last year.

The Fund had net earnings of \$2.8 million, or \$0.411 per Unit, during the three months ended December 31, 2009, compared to net earnings of \$0.3 million, or \$0.048 per Unit, in the same quarter last year. The increase in the Fund’s net earnings in the quarter is primarily due to the increase in the net earnings of FPLP as discussed below, as well as the change in the future income tax liability as discussed in the Fund section of the attached management discussion and analysis.

### **Operations**

Revenue in the fourth quarter of 2009 was \$30.8 million, compared to \$27.7 million for the strike-impacted fourth quarter last year. Total revenue for November and December 2009, to exclude the impact of the strike, was \$20.3 million, a decrease of \$1.1 million or 5.0 percent from the same two months in the prior year. Advertising revenues for the two months of November and December 2009 were \$14.1 million, a \$0.9 million or 6.2 percent decrease compared to the same period last year. FPLP’s largest advertising revenue category, display advertising including colour, was \$9.2 million for the two months of November and December, which remained unchanged from the prior year, primarily due to increased spending in the local and national automotive categories, offset by lower spending in the retail department store, telecommunications and government categories. Classified advertising revenues for the two months of November and December 2009 decreased by \$0.5 million or 22.0 percent compared to the same period last year, primarily due to a decrease in the employment and real estate categories. Flyer distribution revenues for the two months of November and December 2009 decreased by \$0.4 million or 12.3 percent compared to the same period last year, primarily due to decreased volumes. Circulation revenues for the two months of November and December 2009 remained unchanged, primarily due to rate increases implemented in March 2009 at the Winnipeg Free Press, offset by subscription reductions. Commercial printing revenues for the two months of November and December 2009 decreased by \$0.1 million or 10.0 percent compared to the same period last year, primarily due to the cancellation of the Winnipeg printing contract for National Post. Promotions and services revenues for the two months of November and December decreased by \$0.1 million or 12.3 percent when compared to the same period last year, primarily due to lower sales of “The Greatest Manitoban” book, which was published in the previous year.

Operating expenses excluding amortization for the fourth quarter were \$22.8 million, a 6.8 percent decrease from \$24.5 million in the same quarter last year. Operating expenses for the two months of November and December excluding amortization and the restructuring charges were \$14.6 million, a decrease of \$1.8 million or 11.1 percent from the same two-month period in the prior year. Employee compensation costs, excluding the restructuring charge, for the two months of November and December decreased by \$0.7 million or 9.3 percent, primarily due to lower costs resulting from employee reductions and lower part-time hours. Newsprint expense for FPLP’s own publications for the two months of

November and December decreased by \$0.7 million or 32.7 percent, of which approximately \$0.4 million was due to lower newsprint prices and \$0.3 million was due to lower consumption. Delivery costs for the two months of November and December decreased \$0.5 million or 13.5 percent, primarily due to eliminating the Sunday Winnipeg Free Press home delivered newspaper, reducing Winnipeg non-subscriber weekly flyer distribution by one day, and no longer incurring Thunder Bay costs due to the sale of that distribution business. Other expenses for the two months of November and December increased by \$0.1 million or 4.3 percent, primarily due to marketing costs for the new Sunday single-copy On7 publication in Winnipeg. Restructuring charges for the two months of November and December were \$0.7 million in 2009 compared to \$0.4 million in the same two months last year. The 2009 fourth quarter restructuring charges relate to planned future severance costs due to the decision to consolidate production operations at our Winnipeg plant in response to the expiry of the Globe and Mail commercial printing contract effective September 30, 2010 (see Outlook Section). While we continue to review options relating to the Brandon production equipment, a non-cash impairment write-down of \$0.5 million on this equipment was recorded in the fourth quarter of 2009 as there is no assurance of future cash flow from this equipment after production is consolidated in Winnipeg.

Throughout 2009 a significant effort was put into refinancing FPLP's long-term debt and we are very pleased to have completed a new credit agreement with HSBC Bank Canada ("HSBC") prior to the June 2010 scheduled maturity of the \$60 million term loan facility with The Prudential Insurance Company of America ("Prudential"). Based on today's bankers' acceptance rates, the total interest cost to FPLP will be lower than under the Prudential's 5.2 percent term loan. However, the credit agreement requires principal repayments of \$5 million per year, so the total monthly instalments of principal and interest payable by FPLP will increase in 2010, but we believe de-leveraging is prudent and in the best long-term interest of the business. Primarily resulting from this refinancing, the Trustees of the Fund in January 2010 decreased the monthly distribution to Unitholders to \$0.060 from \$0.095. All cash received by the Fund from FPLP after December 31, 2009 will be by way of distributions on Class A Units of FPLP held by FPCN Holdings Trust ("the Trust"), since a condition of the HSBC credit facility was that the internal subordinated note structure between the Trust and FPLP be converted entirely to equity (Class A Units of FPLP), as contemplated by the agreements put in place at the time of the Fund's initial public offering (see "Financing Activities" section of attached management discussion and analysis for further details).

During the fourth quarter, the latest version of WinnipegFreePress.com was released, leveraging the robust functionality of Clickability, the new content management system deployed a year prior. The previous version of WinnipegFreePress.com was the hands-down market leader in local news websites and the latest version cements its status as the go-to website for news in Winnipeg. Other projects initiated during the fourth quarter include complete redesigns of the Brandon Sun and Canstar community websites. In both cases, Clickability is replacing the outdated content management systems, leveraging experience and functionality gained from the WinnipegFreePress.com redesigns. These sites are scheduled to launch at the end of the first quarter of 2010.

Winnipeg Free Press health reporter Jen Skerritt was honoured with two of Canada's premier health journalism awards. The Canadian Nurses Association and the Canadian Medical Association announced that she won both the award for excellence in print reporting (in-depth feature article) for her story "Hunger Amid the Plenty", and the award for excellence in print reporting (in-depth feature series) for her six-part series published in the Winnipeg Free Press in November on "Tuberculosis - the Forgotten Disease". In addition to Skerritt's awards, current Winnipeg Free Press sports reporter Ashley Prest and former Winnipeg Free Press sports reporter Jeff Blair have been honoured with inductions into the Manitoba Sportswriters and Sportscasters Roll of Honour.

Editorially, at the Brandon Sun, we brought back a once-popular Sound Off feature from the early '90s and gave it a new look. It is in essence a "beefs and bouquets" column where people can leave comments anonymously on voice mail or email, and has proven to be very popular. To increase content in the weekly Community News section, we started a "People in Your Neighbourhood" profile feature. We produced a major supplement marking Maple Leaf's ten years in Brandon. All staff were assigned stories to do in addition to their regular beats. We also added a regular travelogue by well-known writer and musician, Murray Evans, on his annual trek through Asia and it is proving to be a popular item on the Saturday travel pages.

The Brandon Sun, always a good corporate citizen, raised nearly \$60,000 for the local Christmas Cheer Board. The funds were put toward food hampers and a Christmas dinner for the less fortunate living in Brandon. The Sun also helped sell out a venue for a Singing For Supper concert. The proceeds went to the local Samaritan House. The Sun was again involved with the United Way's annual campaign, producing several features during the fall and winter. The group later announced it had raised more money than at any time in its history. The \$631,087 raised represented a 12.2 percent increase over last year's total.

## **Distributions**

Distributable cash attributable to the Fund<sup>(2)</sup> for the three months ended December 31, 2009 was \$3.3 million or \$0.483 per Unit, compared to \$0.9 million or \$0.137 per Unit last year. For the twelve months ended December 31, 2009,

FPLP has generated distributable cash attributable to the Fund<sup>(2)</sup> of \$1.296 per Unit, and the Fund has declared distributions of \$1.140 per Unit, resulting in a payout ratio of 88.0 percent.

The Fund declared distributions to Unitholders of \$0.285 per Unit for the fourth quarter, unchanged from the same quarter last year. In January 2010, the Trustees reduced the monthly distribution from \$0.095 per Unit to \$0.060 per Unit.

## **Outlook**

Advertising revenue in the two months of November and December of 2009 decreased by 6.2 percent compared to the same two months last year (two months are used to remove the impact of the missed publishing days in October 2008 due to the strike at the Winnipeg Free Press) which is a reduction from the 13.9 percent year-over-year decline experienced for the nine months to September 30, 2009. This reduced level of year-over-year declines in advertising revenues continues to be experienced in early 2010. While it is generally felt that the economy will continue to slowly improve throughout the remainder of 2010, there still remains significant uncertainty and we are not able to provide full-year guidance with respect to advertising revenue projections. Circulation revenue is expected to decline by between one and three percent due to the expected continued lower levels of home-delivery and single-copy newspaper sales. Circulation rate increases, which were in past years largely able to offset lost unit sales, were not implemented during the fourth quarter of 2009 given the decision to stop publishing and delivering a Sunday broadsheet newspaper in Winnipeg. Commercial printing revenues are expected to be approximately \$1.0 million lower for the full year of 2010 primarily due to the end of the Globe and Mail printing contract, which is scheduled to end on September 30, 2010.

Employee compensation is our single biggest expense category and in 2009 was 47 percent of our total overall operating costs before amortization and restructuring charges. Actions to reduce compensation and all other costs in response to significantly lower advertising revenues started during the fourth quarter of 2008, continued throughout 2009 and will continue into 2010. Compensation costs excluding restructuring charges are forecasted to decrease between two and four percent in 2010. The expiry in 2010 of the contract to print the Globe and Mail, which is currently printed at our Brandon printing facility, has resulted in the decision to transfer the production of the Brandon Sun to our Winnipeg print facility. The estimated employee severance costs relating to this production consolidation are included in the restructuring charge of \$0.8 million recorded in the fourth quarter of 2009. Management continues to review options with respect to the Brandon production equipment and building. Since there is no assurance of future cash flows from the equipment after September 30, 2010, a non-cash asset impairment charge of \$0.5 million was recorded in the fourth quarter of 2009. If it is determined there is no business case to continue to use the Brandon production equipment after September 30, 2010, the equipment will be listed for sale.

Newsprint price decreases were effective January 1, 2010. If these levels are in place for the remainder of the first quarter, our newsprint prices will be approximately 32 percent lower than they were in the first quarter of 2009. If there were no further price changes for the remainder of the year, our average price for 2010 would be approximately 16 percent lower than the 2009 full-year average price. The 2010 newsprint usage for our own products is projected to be slightly lower than in 2009, primarily due to fewer circulation copies printed. Newsprint usage is partly a function of advertising space, and an increase or decrease in this space will affect newsprint volume usage. Delivery costs are expected to be lower in 2010, primarily due to the elimination of the Sunday Winnipeg Free Press home-delivered newspaper, and the reduction of non-subscriber delivery to two days a week from three. Total delivery expenses are forecasted to be between five percent and ten percent lower in 2010 than in 2009, however volume changes in advertising flyer delivery would directly impact this expense category.

The completion of the refinancing of FPLP's long-term debt has resulted in the requirement to repay \$5.0 million of principal over each of the next three years starting in January 2010. The combination of lower debt levels and forecasted lower interest costs is expected to reduce interest expense by between \$0.2 million and \$0.4 million. The new debt is in the form of short-term bankers' acceptances and future interest expense will be a function of short-term borrowing rates and the extent to which it is decided to hedge this cost by purchasing a fixed interest rate swap agreement.

Capital spending for 2010 is forecasted to be approximately \$3.0 million, with two major production equipment projects in Winnipeg both of which will be financed by capital leases, accounting for an estimated \$2.2 million of this total. Both production projects, which are scheduled to be implemented by the end of the third quarter of 2010, will generate efficiencies and help with the consolidation of the Brandon Sun production in the Winnipeg facility.

During the balance of the first quarter, we will be continuing work relating to the anticipated future conversion of the Fund to a corporate structure.

## **Conference Call**

FP Newspapers Income Fund invites you to participate in a conference call on Wednesday, March 10, 2010 at 12:00 p.m. Eastern (11:00 a.m. Central) to discuss its fourth quarter results.

The dial-in number is 1-416-695-6616, or toll free at 1-800-766-6630. To ensure your participation, please dial in five minutes before the start of the conference call. Management's presentation will be followed by a question and answer period.

For those unable to participate, a taped rebroadcast will be available to listeners upon completion of the call until March 24, 2010. To access the rebroadcast, please dial 1-416-695-5800 or dial toll free at 1-800-408-3053, and use the passcode 7403315.

## **About FP Newspapers Income Fund**

FP Canadian Newspapers Limited Partnership owns the Winnipeg Free Press, the Brandon Sun, and their related businesses, as well as Canstar Community News, the publisher of eight community and special interest newspapers in the Winnipeg region. The Winnipeg Free Press newspaper publishes seven days a week, serving Winnipeg and Manitoba with an average Monday through Saturday circulation of approximately 129,000 copies. Effective November 1, 2009 the Winnipeg Free Press stopped publishing its Sunday home-delivered newspaper and launched a smaller tabloid-size single-copy newspaper called On7. The Brandon Sun also publishes seven days a week, serving the region with an average circulation of approximately 14,600 copies. Canstar Community News publishes weekly with an average circulation of approximately 206,000 copies. Based in Winnipeg, the businesses employ approximately 580 people in Winnipeg and Brandon. Further information can be found at [www.fpnewspapers.com](http://www.fpnewspapers.com), and in the disclosure documents filed by FP Newspapers Income Fund with the securities regulatory authorities, available at [www.sedar.com](http://www.sedar.com).

## **Caution Regarding Forward-Looking Statements:**

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

Forward-looking statements are subject to known and unknown risks and uncertainties that may cause the actual results, performance or achievements of the Fund or FPLP, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but not limited to, the current significant general economic uncertainty and credit and financial market volatility, FPLP's ability to effectively manage growth and maintain its profitability, FPLP's ability to operate in a highly competitive industry, FPLP's ability to compete with other forms of media, FPLP's ability to attract advertisers, FPLP's reliance upon key personnel, FPLP's relatively high fixed costs, FPLP's dependence upon particular advertising customer segments, indebtedness incurred in making acquisitions, the availability of financing for capital improvements, costs related to capital expenditures, cyclical and seasonal variations in FPLP's revenues, acts of terrorism, the cost of newsprint, the potential for labour disruptions, the risk of equipment failure, and the effect of Canadian tax laws. Additional information about these and other factors is discussed under "Risk Factors" in our Annual Information Form dated March 10, 2009, which is available at [www.sedar.com](http://www.sedar.com).

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

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

### *For further information:*

Dan Koshowski  
Vice President, Finance and Administration  
FP Newspapers Income Fund  
Phone: (204) 697-7425

## Management's Discussion and Analysis

### Overview

Management's discussion and analysis, prepared as at March 9, 2010, provides a review of significant developments that have affected the Fund's performance in the three months ended December 31, 2009. This review is based on financial information contained in the unaudited consolidated interim financial statements and accompanying notes for the three and twelve months ended December 31, 2009.

The following information should be read in conjunction with the most recent audited consolidated financial statements and accompanying notes for the year ended December 31, 2008. The consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"); however, the consolidated interim financial statements do not include all the information and disclosures required for annual financial statements.

This management's discussion and analysis contains "forward-looking statements" that are subject to risks and uncertainties set out in a cautionary note contained herein. The reader is cautioned not to place undue reliance on forward-looking statements.

Further information relating to the Fund is available under its profile at [www.sedar.com](http://www.sedar.com).

### Formation and Legal Entities

FP Newspapers Income Fund (the "Fund") was created on May 15, 2002 and commenced operations on May 28, 2002 when it completed an Initial Public Offering and purchased an interest in FP Canadian Newspapers Limited Partnership ("FPLP"). The Fund owns securities entitling it to 49% of the distributable cash of FPLP. The Fund is dependent on the operations of FPLP, its sole investment.

FPLP is a limited partnership formed on August 9, 1999. Effective November 29, 2001, FPLP acquired the business assets and assumed certain liabilities of the Winnipeg Free Press and the Brandon Sun. On July 13, 2004 FPLP acquired the business, assets and liabilities of Canstar Community News ("Canstar").

### FP Newspapers Income Fund

The Fund is dependent on the operations of FPLP, its sole investment. The Fund's net earnings were \$2.8 million and \$6.9 million for the three and twelve months ended December 31, 2009 compared to net earnings of \$0.3 million and \$6.7 million for the same periods last year. The 2008 fourth quarter and full-year results were impacted by lower FPLP earnings as a result of the strike by unionized workers in Winnipeg as discussed in the FPLP portion of this report. The increase in net earnings for the twelve months ended December 31, 2009 is primarily due to the future income tax recovery, as discussed below, partially offset by lower earnings of FPLP as discussed in the FPLP section. Interest income on the 11.5% subordinated notes issued by FPLP to the Fund was \$1.7 million and \$6.7 million for the three and twelve months ended December 31, 2009, unchanged when compared to the same periods in the prior year. The Fund's equity interest from its Class A limited partner Units was \$0.9 million and \$0.1 million for the three and twelve months ended December 31, 2009, compared to (\$1.1) million and \$0.5 million in the same periods last year (see FPLP section for discussion of earnings changes). The Fund recorded a future income tax recovery of \$0.3 million for both the three and twelve months ended December 31, 2009, compared to a future income tax expense of \$0.2 million and \$0.3 million in the same periods last year. The recovery for the three and twelve months ended December 31, 2009 is primarily due to the deferred tax impact from the elimination of the deferred financing costs on the subordinated notes (see "Financing Activities" section) as well as the accelerated accounting amortization of the Brandon production equipment due to the decision to consolidate production in Winnipeg as discussed in the FPLP section of this report. Operating expenses incurred by the Fund were \$0.1 million and \$0.3 million for the three and twelve months ended December 31, 2009, unchanged from the same periods in the prior year.

The Fund declared distributions to Unitholders of \$2.0 million or \$0.285 per Unit and \$7.9 million or \$1.14 per Unit for the three and twelve months ended December 31, 2009, compared to \$2.0 million or \$0.285 per Unit and \$8.6 million or \$1.253 per Unit in the same periods last year. Cash provided by operating activities of the Fund was \$2.5 million and \$8.3 million for the three and twelve months ended December 31, 2009, compared to \$2.1 million and \$8.8 million for the same periods last year.

### *Distributable Cash Attributable to the Fund<sup>(2)</sup>*

Cash available for distribution attributable to the Fund<sup>(2)</sup> was \$3.3 million or \$0.483 per Unit and \$8.9 million or \$1.296 per Unit for the three and twelve months ended December 31, 2009, compared to \$0.9 million or \$0.137 per Unit and

\$8.2 million or \$1.187 per Unit for the same periods last year. The increase in cash available for distribution attributable to the Fund<sup>(2)</sup> in the quarter is due to the increase in EBITDA<sup>(1)</sup> of FPLP as discussed in the FPLP section of this report, as well as lower capital spending.

The Fund monitors the cumulative cash available for distribution attributable to the Fund<sup>(2)</sup> as a factor in determining whether to make an adjustment to the level of monthly distributions. The Fund believes it is prudent to pay out cumulatively less than 100% of cash available for distribution attributable to the Fund<sup>(2)</sup>.

In January 2010, the Fund declared a monthly distribution of \$0.06 per Unit, a reduction of \$0.035 per Unit from the 2009 monthly level. The reduction in the distribution level is primarily the result of FPLP commencing principal amortization payments under its new term loan facility (see “Financing Activities” section).

From commencement of the Fund on May 28, 2002 until December 31, 2009, distributable cash attributable to the Fund<sup>(2)</sup> totals \$10.429 per Unit and during that period the Fund declared distributions to Unitholders of \$9.503 per Unit. Because the Fund makes an allowance for maintenance capital spending which is estimated to be sufficient to maintain the productive capacity of the business when calculating distributable cash attributable to the Fund<sup>(2)</sup>, and because cumulative distributions declared are less than the cumulative distributable cash attributable to the Fund<sup>(2)</sup>, the Fund believes there has been no economic “return of capital”.

### FP Canadian Newspapers Limited Partnership Results of Operations

Revenue:	<u>Three Months</u> <u>Ended December 31,</u>		<u>Twelve Months</u> <u>Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	In thousands		In thousands	
Advertising	\$ 21,322	\$ 19,807	\$ 76,692	\$ 84,115
Circulation	7,475	5,744	29,570	27,674
Commercial Printing	1,315	1,466	4,837	6,097
Promotions and Services	<u>668</u>	<u>713</u>	<u>2,764</u>	<u>3,226</u>
	<u>\$ 30,780</u>	<u>\$ 27,730</u>	<u>\$ 113,863</u>	<u>\$ 121,112</u>

Revenue in the fourth quarter was \$30.8 million, a \$3.1 million increase over the same quarter last year, which was impacted by missed publishing days at the Winnipeg operations due to a strike by unionized employees. Total revenue for November and December 2009 (to exclude the impact of the October 2008 strike) was \$20.3 million, a decrease of \$1.1 million or 5.0% from the same two months in the prior year. Advertising revenues for the two months of November and December were \$14.1 million, a \$0.9 million or 6.2% decrease compared to the same period last year. FPLP’s largest advertising revenue category, display advertising including colour, was \$9.2 million for the two months of November and December, which remained unchanged from the prior year, primarily due to increased spending in the local and national automotive categories, offset by lower spending in the retail department store, telecommunications and government categories. Classified advertising revenues for the two months of November and December decreased by \$0.5 million or 22.0% compared to the same period last year, primarily due to a decrease in the employment and real estate categories. Flyer distribution revenues for the two months of November and December decreased by \$0.4 million or 12.3% compared to the same period last year, primarily due to decreased volumes. Circulation revenues for the two months of November and December remained unchanged, primarily due to rate increases implemented in March 2009 at the Winnipeg Free Press, offset by subscription reductions. Commercial printing revenues for the two months of November and December decreased by \$0.1 million or 10.0% compared to the same period last year, primarily due to the cancellation of the Winnipeg printing contract for the National Post. Promotions and services revenues for the two months of November and December decreased by \$0.1 million or 12.3% when compared to the same period last year, primarily due to lower sales of “The Greatest Manitoban” book, which was published in the previous year.

Revenue for the twelve months ended December 31, 2009 was \$113.9 million, a decrease of \$7.2 million or 6.0% compared to 2008. Total revenue for the eleven months excluding October (to exclude the impact of the Winnipeg 2008 strike) was \$103.4 million, a decrease of \$11.4 million or 9.9% compared to the same period last year. Advertising revenues for the eleven months excluding October was \$69.4 million, a decrease of \$9.9 million or 12.4% compared to the same period last year. FPLP’s largest advertising revenue category, display advertising including colour, for the eleven months excluding October was \$42.1 million, a decrease of \$5.3 million or 11.1%, due to a decrease in the local and national automotive, retail and employment categories. Classified advertising revenues for the eleven months excluding October decreased by \$3.5 million or 21.3%, primarily due to a decrease in the employment category, with smaller decreases also in the real

estate and automotive categories. Flyer distribution revenues for the eleven months excluding October decreased by \$1.1 million or 7.0%, primarily due to decreased volumes. Circulation revenues for the eleven months excluding October increased by \$0.2 million or 0.7%, primarily due to rate increases implemented in March 2009 at the Winnipeg Free Press, partially offset by subscription reductions. Commercial printing revenues for the eleven months excluding October decreased by \$1.2 million or 21.5%, primarily due to the cancellation of the National Post printing as well as lower revenue from the Globe and Mail printing contract. Promotions and services revenues for the eleven months excluding October decreased by \$0.5 million or 15.8%, primarily due to a reduction of sponsorship revenues resulting from the termination of the Winnipeg Free Press's affiliation with the Canadian Tour Players Cup golf tournament, partially offset by an increase in online revenues.

Operating expenses, excluding amortization:

	Three Months		Twelve Months	
	Ended December 31,		Ended December 31,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	In thousands		In thousands	
Employee Compensation, excluding Restructuring Charge	\$ 10,160	\$ 10,137	\$ 41,806	\$ 44,624
Newsprint – Own Use	2,301	2,836	9,991	12,114
Newsprint - Commercial Printing	248	318	1,014	1,435
Delivery of Newspapers	4,682	4,797	19,016	19,120
Other	<u>4,651</u>	<u>5,949</u>	<u>17,773</u>	<u>20,421</u>
	\$ 22,042	\$ 24,037	\$ 89,600	\$ 97,714
Restructuring Charge	<u>751</u>	<u>417</u>	<u>1,865</u>	<u>417</u>
	<u>\$ 22,793</u>	<u>\$ 24,454</u>	<u>\$ 91,465</u>	<u>\$ 98,131</u>

Operating expenses excluding amortization for the fourth quarter were \$22.8 million, a 6.8% decrease from \$24.5 million in the same quarter last year. Operating expenses for the two months of November and December (to exclude the impact of the October 2008 strike) excluding amortization and the restructuring charge were \$14.6 million, a decrease of \$1.8 million or 11.1 percent from the same two-month period in the prior year. Employee compensation costs, excluding the restructuring charge, for the two months of November and December decreased \$0.7 million or 9.3%, due to lower costs resulting from employee reductions and lower part time hours. Newsprint expense for FPLP's own publications for the two months of November and December decreased by \$0.7 million or 32.7%, with approximately \$0.4 million due to lower newsprint prices and \$0.3 million due to lower consumption. Newsprint expense for commercial printing for the two months of November and December remained unchanged when compared to the same period in the prior year. Delivery costs for the two months of November and December decreased \$0.5 million or 13.5%, primarily due to eliminating the Sunday Winnipeg Free Press home delivered newspaper, reducing Winnipeg non-subscriber weekly flyer distribution by one day, and no longer incurring Thunder Bay costs due to the sale of that distribution business. Other expenses for the two months of November and December increased by \$0.1 million or 4.3%, primarily due to marketing costs for the new Sunday single-copy On7 publication in Winnipeg. The restructuring charge for the two months of November and December was \$0.8 million compared to \$0.4 million last year. The 2009 restructuring charge relates to planned future severance cost primarily due to the end of the Globe and Mail commercial printing contract effective September 30, 2010 and the decision to consolidate printing at FPLP's Winnipeg print facility.

Operating expenses excluding amortization in the twelve months ended December 31, 2009 were \$91.5 million, down from \$98.1 million for the twelve months (including the October 2008 strike month) last year. Operating expenses in the eleven months excluding October, excluding amortization and the restructuring charge, were \$82.1 million, a decrease of \$7.9 million or 8.8% from the same period in the prior year. Employee compensation costs excluding the restructuring charge for the eleven months excluding October decreased \$3.5 million or 8.4% compared to the same period last year, primarily due to lower costs resulting from employee reductions as well as lower part-time hours. Newsprint expense for FPLP's own publications for the eleven months excluding October decreased by \$2.3 million or 20.1%, \$1.9 million of which was a result of lower volume usage and \$0.4 million due to lower prices. Newsprint expense for FPLP's commercial printing for the eleven months excluding October decreased by \$0.4 million or 29.5%, primarily due to lower newsprint consumption as a result of the loss of the National Post printing contract. Delivery costs for the eleven months excluding October decreased \$0.5 million or 2.6%, compared to the same period last year, primarily due to the consolidation of the non-subscriber delivery from three days to two, as well as Winnipeg Free Press savings from eliminating the Sunday home delivered edition, partially offset by rate increases to contracted delivery agents included in the collective agreement. Other expenses for the eleven months excluding October decreased by \$1.2 million or 7.1% primarily due to not incurring costs associated with the Canadian Tour Players Cup golf tournament, lower rental costs associated with the Canstar move into the Winnipeg Free Press building, and lower production costs associated with the loss of the National Post printing contract. Restructuring costs for the eleven months excluding October increased by \$1.4 million, relating primarily to employee reductions at the Winnipeg operations, as well as planned future severance costs primarily due to the end of the Globe and Mail printing contract and the decision to consolidate printing at the Winnipeg printing facility.

EBITDA<sup>(1)</sup> for the three and twelve months ended December 31, 2009 was \$8.0 million and \$22.4 million, compared to \$3.3 million and \$23.0 million for the same periods last year. EBITDA<sup>(1)</sup> for the two months of November and December of 2009 excluding the restructuring charge was \$5.7 million an increase of \$0.8 million or 15.3%, compared to \$4.9 million for the same period last year. EBITDA<sup>(1)</sup> for the eleven months of 2009, excluding October and the restructuring charge, was \$21.2 million compared to \$24.6 million for the same period last year. EBITDA<sup>(1)</sup> margin excluding the restructuring charge for the two months of November and December was 28.1% when compared to 23.1% in the same period last year. EBITDA<sup>(1)</sup> margin excluding the restructuring charge for the eleven months excluding October was 20.5% compared to 21.5% in the same period last year.

Interest income for the three and twelve months ended December 31, 2009 decreased by \$0.1 million and \$0.3 million compared to the same periods last year due to lower interest rates earned.

The gain on sale of property, plant and equipment for the twelve months ended December 31, 2009 increased by \$0.3 million resulting from the sale of the assets of the Thunder Bay distribution business.

A non-cash asset impairment write-down of \$0.5 million was recorded in the fourth quarter for the Brandon production equipment. This equipment will not be used for printing the Brandon Sun products after the Globe and Mail printing contract ends on September 30, 2010 and will be listed for sale if no internal use is identified.

The future income tax expense for the three and twelve months ended December 31, 2009 was lower when compared to the same periods last year, as Canstar Community News Limited did not incur an expense in the fourth quarter due to fully exhausting the future income tax asset during the third quarter. Canstar Community News Limited was subsequently wound-up into FPLP.

FPLP's net earnings were \$3.7 million and \$7.1 million for the three and twelve months ended December 31, 2009, compared to (\$0.5) million and \$8.0 million for the same periods last year. The increase in the fourth quarter is primarily due to the revenues and earnings in the fourth quarter of 2008 being negatively impacted by the loss of 16 Winnipeg Free Press publishing days and of the normally scheduled publications of the Canstar operation due to a strike by the unionized workers and delivery contractors in October. The decrease in net earnings for the year is primarily due to reduced advertising revenues resulting from the current economic slowdown together with the Brandon production equipment asset impairment charge, partially offset by the impact of lower 2008 earnings due to the Winnipeg strike.

Newspaper publishing is, to a certain extent, a seasonal business with a higher proportion of revenues and operating earnings occurring during the second and fourth quarters of the calendar year. Revenue, EBITDA<sup>(1)</sup> and net earnings of FPLP by quarter for 2009, 2008 and 2007 were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
		In thousands	
<u>Revenue</u>			
Quarter 1	\$ 26,838 (**)	\$ 29,998	\$ 29,829
Quarter 2	29,691 (**)	32,409	32,224
Quarter 3	26,554 (**)	30,975	30,507
Quarter 4	<u>30,780 (***)</u>	<u>27,730 (*)</u>	<u>33,302</u>
	<u>\$113,863</u>	<u>\$ 121,112</u>	<u>\$ 125,862</u>
<u>EBITDA<sup>(1)</sup></u>			
Quarter 1	\$ 3,170 (**)	\$ 6,025	\$ 5,740
Quarter 2	6,581 (**)	7,468	7,611
Quarter 3	4,660 (**)	6,212	6,571
Quarter 4	<u>7,987 (***)</u>	<u>3,276 (*)</u>	<u>8,595</u>
	<u>\$ 22,398</u>	<u>\$ 22,981</u>	<u>\$ 28,517</u>
<u>Net earnings (loss)</u>			
Quarter 1	\$ (496) (**)	\$ 2,338	\$ 2,062
Quarter 2	2,838 (**)	3,653	3,925
Quarter 3	1,122 (**)	2,492	2,809
Quarter 4	<u>3,653 (***)</u>	<u>(526) (*)</u>	<u>4,622</u>
	<u>\$ 7,117</u>	<u>\$ 7,957</u>	<u>\$ 13,418</u>

(\*) The decrease in revenue, EBITDA<sup>(1)</sup> and net earnings in the fourth quarter of 2008 is the result of a loss due to the strike by the unionized workers of 16 publications in October of the Winnipeg Free Press as well as the publications that would normally be printed for the weekly Canstar Community News business.

(\*\*) The decrease in revenue, EBITDA<sup>(1)</sup> and net earnings in the first three quarters of 2009 is primarily the result of reduced advertising revenues resulting from the economic slowdown. EBITDA<sup>(1)</sup> and net earnings were also lower due to restructuring charges of \$1.1 million in the first three quarters of 2009.

(\*\*\*) Revenue, EBITDA<sup>(2)</sup> and net earnings were higher in the fourth quarter of 2009 versus 2008 primarily due to the impact of the strike in 2008. EBITDA<sup>(2)</sup> and net earnings in the fourth quarter of 2009 were impacted by restructuring charges of \$0.8 million relating to severance costs largely for employee reductions planned from the 2010 consolidation of production in Winnipeg.

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

### **Working Capital Position of FPLP**

Total working capital at December 31, 2009 was \$6.4 million, down from \$8.8 million at December 31, 2008. The decrease in working capital is due to the requirement to classify the \$5.0 million 2010 amortizing portion of the HSBC term loan (see “Financing Activities” section) as a current liability as discussed in note 11 of FPLP’s December 31, 2009 financial statements, partially offset by lower capital purchases and distributions. Excluding the current portion of the term loan, working capital was \$11.4 million at December 31, 2009 compared to \$8.8 million at December 31, 2008.

### **Liquidity and Capital Resources of FPLP**

Cash and cash equivalents at December 31, 2009 was \$9.2 million compared to \$7.8 million at December 31, 2008. Cash and cash equivalents may be used to pay future distributions, to reduce debt, to fund future capital expenditures, or for other general purposes. Operating activities provided \$3.9 million during the fourth quarter, while \$0.3 million was used for investing activities and \$2.4 million was used for financing activities. Cash flow from operations, together with cash balances on hand, are currently expected to be sufficient to fund FPLP’s operating requirements, capital expenditures, required principal repayments under FPLP’s new HSBC credit facility (see “Financing Activities” section) and anticipated distributions, assuming that advertising revenues do not materially deteriorate beyond management’s current expectations.

Effective December 31, 2009, an amortizing credit agreement was signed with HSBC and as part of this agreement, in January 2010, FPLP made an initial cash deposit of \$5 million into a separate HSBC guarantee account (see “Financing Activities” section for further disclosures relating to this guarantee).

### ***Cash Flow from Operating Activities***

During the three and twelve months ended December 31, 2009, cash generated from operating activities was \$3.9 million and \$11.3 million, compared to (\$0.1) million and \$11.9 million for the same periods last year. The net earnings for the three and twelve months ended December 31, 2009 were \$3.7 million and \$7.1 million, compared to (\$0.5) million and \$8.0 million for the same periods in the prior year. The main factors contributing to the change in net earnings are outlined in the FPLP section of this report. The net change in non-cash working capital in the three and twelve months ended December 31, 2009 was a decrease of \$1.6 million and \$1.3 million compared to decreases of \$0.9 million and \$1.4 million for the same periods last year. The net change in non-cash working capital for the three-month period is primarily the result of the timing of receipts from customers and payments to suppliers.

### ***Investing Activities***

Capital purchases totalled \$0.3 million and \$0.7 million for the three and twelve months ended December 31, 2009, compared to \$0.2 million and \$1.5 million for the same periods in the prior year. Maintenance capital spending during the fourth quarter of 2009 consisted primarily of the replacement of general computer hardware and software, an upgrade of the building fire alarm system at the Winnipeg Free Press and additional vending boxes for the new Sunday Winnipeg single-copy On7 publication.

Strategic capital spending is defined as investments not necessary for the current ongoing operation of the business, but justified based on a return on the investment which meets internal return on investment criteria. There were no strategic capital purchases for the twelve months ended December 31, 2009, compared to \$0.7 million for the same period in the prior year, which represented spending on renovations to the Winnipeg building and circulation planning software.

Capital spending in 2010 is expected to be \$3.0 million, of which \$0.8 million is considered normal maintenance capital and \$2.2 million is for two production equipment upgrades at our Winnipeg facility to improve efficiency and allow for the consolidation of the Brandon printing.

**Financing Activities**

Distributions to partners of FPLP for the three and twelve months ended December 31, 2009 totalled \$2.4 million and \$9.5 million, of which \$0.3 million and \$1.2 million were paid to the Fund as holder of Class A limited partner Units. This is compared to \$2.6 million and \$11.8 million in the same periods last year, of which \$0.4 million and \$2.4 million were paid to the Fund as holder of Class A limited partner Units. The distributions to partners were determined in accordance with the Amended and Restated Agreement of Limited Partnership dated May 3, 2005 (the “LP Agreement”).

Effective December 31, 2009, FPLP signed a credit agreement with HSBC to replace FPLP’s \$60 million term facility with The Prudential Insurance Company of America (“Prudential”), which was due on June 5, 2010. On January 8, 2010 the security documentation and funding was completed and the proceeds used to repay the Prudential term loan in full. 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 million and Facility B in the amount of \$10 million. Amounts borrowed under both facilities will primarily be in the form of bankers’ acceptances at varying interest rates and would mature over periods of 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 3.25% and 0.375% on Facilities A and B respectively at December 31, 2009. An interest rate swap facility is also available under the credit agreement. Facility A includes principal repayments of \$5 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 million. In January FPLP made an initial cash deposit of \$5 million into a separate HSBC guarantee account with a second \$5 million guarantee account deposit made by FP Funding Corporation (“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.

As a condition of the HSBC credit agreement, FPLP was required to call for the remaining unpaid Class A unit capital contribution of \$58.5 million from FPCN Holdings Trust. FPCN Holdings Trust held \$58.5 million of subordinated notes issued by FPLP and used these notes, net of \$1.5 million of unamortized deferred financing costs, to set off the required capital contribution. All cash received by the Fund from FPLP after December 31, 2009 will be by way of distributions on the Class A Units of FPLP held by FPCN Holdings Trust.

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 managing general partner of FPLP.

**Contractual Obligations**

There were no significant changes to contractual obligations with the exception of the new HSBC credit facility as detailed above.

**Reserve Related to Distributable Cash Attributable to the Fund<sup>(2)</sup>**

Under the terms of the LP Agreement, the Managing General Partner is required to determine reserves which are necessary or desirable to withhold from any distributions to Partners, including among other things for capital expenditures and operating expenses. A summary of the reserve for maintenance capital for the three and twelve months ended December 31, 2009 and 2008 is as follows:

	<u>Three Months</u> <u>Ended December 31,</u>		<u>Twelve Months</u> <u>Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	In thousands		In thousands	
Reserve at beginning of period	\$ 1,500	\$ 1,164	\$ 1,480	\$ 348
Increase in reserve	-	316	20	1,132
Decrease in reserve	-	-	-	-
Reserve at end of period	<u>\$ 1,500</u>	<u>\$ 1,480</u>	<u>\$ 1,500</u>	<u>\$ 1,480</u>

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

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

This reserve is a non-GAAP measure established and utilized at the discretion of the board of directors of FPLP, and has no impact on the GAAP financial statements.

### ***Debt Covenants***

Since at December 31, 2009, the Prudential loan was still in place refer to note 7 of the FPLP financial statements for covenant calculations. At December 31, 2009, FPLP was in compliance with all the terms and conditions of its debt agreement.

The HSBC credit facility (see “Financing Activities” section) 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 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. The following December 31, 2009, September 30, 2009, June 30, 2009, March 31, 2009, and December 31, 2008 financial ratios are calculated in accordance with the HSBC credit agreement as if it had been in place on these dates. The current ratio has been calculated assuming a current \$5 million loan principal amortization.

<u>Twelve Months Ended</u>	<u>Leverage ratio</u>	<u>Fixed Charge ratio</u>	<u>Current ratio (*)</u>
December 31, 2009	2.3	7.3	1.7
September 30, 2009	2.9	5.9	1.4
June 30, 2009	2.7	6.5	1.4
March 31, 2009	2.6	6.9	1.2
December 31, 2008	2.3	8.1	1.3

(\*) During the fourth quarter of 2008 and first quarter of 2009, the current ratio was lower than historical levels due primarily to the impact of 16 missed publishing days at the Winnipeg Free Press due to a strike by the unionized workers and delivery contractors in October 2008.

### ***Related Party Transactions***

FPLP purchases a portion of its newsprint from Alberta Newsprint Company (“ANC”), a related party as disclosed under the related party transaction section of FPLP’s Annual Management’s Discussion and Analysis at December 31, 2008. There have been no changes during 2009 to the process for selection of newsprint suppliers and the quarterly review by the Audit Committee of newsprint purchases. Total newsprint purchases from ANC for the three and twelve months ended December 31, 2009 were \$1.3 million and \$5.8 million, compared to \$2.4 million and \$9.7 million for the same period last year.

See also the “Financing Activities” section for the related party guarantee under the new HSBC credit facility.

### ***Internal Controls over Financial Reporting***

There have been no significant changes in internal controls over financial reporting since the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Fund’s or FPLP’s internal controls over financial reporting.

### *Critical Accounting Estimates*

There have been no significant changes in FPLP's or the Fund's critical accounting estimates since the year ended December 31, 2008.

### *Initial Adoption of New Accounting Pronouncements*

Effective January 1, 2009, the Fund and FPLP prospectively adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064 Goodwill and Intangible Assets. This standard establishes policies for the recognition, measurement, presentation and disclosure of goodwill and intangible assets as well as discussing when intangible assets can be recognized.

There was no financial statement impact as a result of adopting this new standard.

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

In order to prepare for the transition date on January 1, 2011, FPLP and the Fund are currently evaluating this new requirement and have created a detailed plan to converge to IFRS. The detailed plan includes an analysis of the project structure and governance, resources and training, analysis of key GAAP differences and a phased approach to the assessment of current accounting policies and implementation. The current status of the key elements of our detailed plan for adopting IFRS is as follows:

*Project Structure and Governance* – The transition process is monitored by senior finance management. Management will be updating the Audit Committee quarterly on the status of the project.

*Resources and Training* – The Fund and FPLP have identified key finance staff and continue to evaluate training needs in order to develop a comprehensive training plan.

*Analysis of Significant GAAP Differences* – The Fund and FPLP have completed the planning phase and initial conversion diagnostic between GAAP and IFRS. While the effects of IFRS have not yet been fully determined, the Fund and FPLP have identified the key areas, which include:

- Property, plant and equipment
- Impairment of assets
- Employee future benefits
- Presentation of financial statements

A detailed assessment of accounting differences by significant financial statement line items is currently underway and no decisions have yet been made with regard to accounting policy choices. The individual detailed assessments will cover the impact of IFRS implementation on our consolidated financial statements including an analysis of the differences between IFRS and our current accounting policies.

As first-time adopters of IFRS, the Fund and FPLP are required to apply IFRS 1 "First time adoption of International Financial Reporting Standards". A number of exemptions are available under the Standard which the Fund and FPLP are currently evaluating. We have not made any final conclusions on the available exemptions to date.

*Information technology and data systems* – As part of the identification of significant differences between Canadian GAAP and IFRS, we will evaluate the sufficiency of information technology and data systems. We have not identified any significant changes required to date.

*Internal controls over financial reporting and disclosure controls and processes* – We continue to identify all internal procedures and systems that must be updated in order for us to comply with IFRS. The financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are certain differences in recognition, measurement and disclosures. In the period leading to the changeover, the AcSB may continue to issue new accounting standards that are aligned with IFRS, which will reduce the impact of adopting IFRS on the transition date. The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period. As a result of

the upcoming changes, the final impact of IFRS on our consolidated financial statements can only be determined once all of the IFRS applicable as of December 31, 2011 are known.

Additional disclosure on the impact of the adoption of IFRS on our consolidated financial statements will be provided in future MD&As.

On December 31, 2009, FPLP adopted the CICA amended Handbook Section 3862 Financial Instruments – Disclosures to enhance disclosure requirements about fair value measurements and the liquidity risk of financial instruments. Specifically, financial instruments recognized at fair value on the consolidated balance sheet must be classified in one of the following three fair value hierarchy levels:

- Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;
- Level 2 – measurement based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability;
- Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

There was no financial impact to the financial statements as a result of adopting these standards.

### *Historical Distributions Paid Analysis*

FPLP:	<u>Three Months</u> <u>ended</u> <u>December 31,</u> <u>2009</u>	<u>Twelve Months</u> <u>ended</u> <u>December 31,</u> <u>2009</u>	<u>Twelve months</u> <u>ended</u> <u>December 31,</u> <u>2008</u>	<u>Twelve Months</u> <u>ended</u> <u>December 31,</u> <u>2007</u>
	In thousands			
Cash provided by operating activities	\$ 3,891	\$ 11,316	\$ 11,933	\$ 20,641
Net earnings	3,653	7,117	7,957	13,418
Distributions paid during the period	2,364	9,477	11,820	12,143
Excess of cash provided by operating activities over cash distributions paid	<u>\$ 1,527</u>	<u>\$ 1,839</u>	<u>\$ 113</u>	<u>\$ 8,498</u>
Excess (shortfall) of net earnings over cash distributions paid	<u>\$ 1,289</u>	<u>\$ (2,360)</u>	<u>\$ (3,863)</u>	<u>\$ 1,275</u>

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

Fund:	<u>Three Months</u> <u>ended</u> <u>December 31,</u> <u>2009</u>	<u>Twelve Months</u> <u>ended</u> <u>December 31,</u> <u>2009</u>	<u>Twelve months</u> <u>ended</u> <u>December 31,</u> <u>2008</u>	<u>Twelve Months</u> <u>ended</u> <u>December 31,</u> <u>2007</u>
	In thousands			
Cash provided by operating activities	\$ 2,492	\$ 8,259	\$ 8,819	\$ 9,051
Net earnings	2,839	6,853	6,682	7,968
Distributions paid during the period	1,967	7,869	8,732	8,904
Excess of cash provided by operating activities over cash distributions paid	<u>\$ 525</u>	<u>\$ 390</u>	<u>\$ 87</u>	<u>\$ 147</u>
Excess (shortfall) of net earnings over cash distributions paid	<u>\$ 872</u>	<u>\$ (1,016)</u>	<u>\$ (2,050)</u>	<u>\$ (936)</u>

Cash distributions paid in three of the four periods exceeded net earnings. The Fund does not use net earnings as a basis in determining the level of distributions to Unitholders. Distributions are determined by the Trustees in accordance with the Deed of Trust of the Fund and are primarily dependent upon the amount of interest and distributions received from FPLP. Because amortization charged as an expense in calculating net earnings of FPLP, in accordance with GAAP, has exceeded capital expenditures charged as a reduction of distributable cash of FPLP in all periods, this result is not unexpected.

## **Business Risks and Uncertainties**

### ***Revenue***

Advertising revenues, which account for approximately 67% of total revenue, are historically dependent upon general economic conditions and the specific spending plans of high-volume advertisers. A significant downturn in the national or regional economy, like the one which started in 2008, decreases advertising revenue earned by our newspapers. Similarly, a shift from newspaper and/or flyer advertising to internet advertising could impact total revenue. A change in promotional strategy by significant users of newspaper advertising, such as the automotive industry, financial services industry, national retailers and employment advertisers could impact total revenues.

### ***Expenses***

Newspaper publishing is both capital and labour-intensive, and as a result newspapers have relatively high fixed-cost structures. During periods of declining revenue, significant portions of costs may remain fixed, resulting in decreased earnings. Newsprint is a significant cost for FPLP, accounting for \$11.0 million during 2009. Newsprint costs vary widely from time to time. If newsprint costs rise rapidly, there is no assurance that advertising and circulation revenues can be increased to offset the increased newsprint expense.

### **Outlook**

The outlook for operations is described earlier in this document.

## Non GAAP Measures

### (1) EBITDA

EBITDA is not a recognized measure under Canadian generally accepted accounting principles (“GAAP”). FPLP believes that in addition to net earnings, EBITDA is a useful supplemental measure as it provides investors with an indication of cash available for distribution prior to debt service and capital expenditures. Investors are cautioned that EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of FPLP’s performance. FPLP’s method of calculating EBITDA may differ from that of other issuers and, accordingly, EBITDA may not be comparable to measures used by other issuers. FPLP determines EBITDA as follows:

	Three Months		Twelve Months	
	Ended December 31,		Ended December 31,	
	2009	2008	2009	2008
	In thousands		In thousands	
Net earnings (loss) for the period	\$ 3,653	\$ (526)	\$ 7,117	\$ 7,957
Add (subtract):				
Amortization of property, plant and equipment	1,071	1,082	4,185	4,341
Amortization of intangible assets	92	90	362	360
Interest expense	2,643	2,621	10,491	10,463
Interest income	(6)	(52)	(40)	(296)
Loss (gain) on sale of property, plant and equipment	1	(3)	(297)	(6)
Current income tax expense	7	14	4	30
Future income tax expense	-	50	50	132
Non-cash asset impairment charge	<u>526</u>	<u>-</u>	<u>526</u>	<u>-</u>
EBITDA	<u>\$ 7,987</u>	<u>\$ 3,276</u>	<u>\$ 22,398</u>	<u>\$ 22,981</u>

### (2) Distributable Cash Attributable to the Fund

The Fund believes that in addition to the disclosure of cash flow from operations, distributable cash attributable to the Fund is an important supplemental measure of cash flow because it provides investors with an indication of the amount of cash available for distribution to Unitholders and because such calculations are required by the terms of the partnership agreement governing FPLP and by the terms of the deed of trust governing the Fund. Distributable cash attributable to the Fund is not a defined term under Canadian GAAP, and it should not be construed as an alternative to using net earnings or the statement of cash flows as measures of profitability and cash flow. Readers are cautioned that distributable cash as calculated by the fund may not be comparable to similar measures presented by other issuers. The Fund uses this measure as a factor to determine whether to adjust the monthly distributions to Unitholders. Management has determined distributable cash attributable to the Fund as follows:

	Three Months		Twelve Months	
	Ended December 31,		Ended December 31,	
	2009	2008	2009	2008
	In thousands		In thousands	
Distributable cash of FPLP:				
EBITDA <sup>(1)</sup>	\$ 7,987	\$ 3,276	\$ 22,398	\$ 22,981
Interest income	6	52	40	296
Interest expense on notes payable and capital leases, excluding amortization of related deferred financing costs	(780)	(780)	(3,120)	(3,160)
Principal repayment of capital leases	-	-	-	(197)
Maintenance capital expenditures	(271)	(184)	(659)	(868)
Increase in reserve for future maintenance capital	-	(316)	(20)	(1,132)
Strategic capital expenditures	-	-	-	(681)
Proceeds from sale of property, plant and equipment	-	28	163	31
Current income and capital taxes expense	<u>(7)</u>	<u>(14)</u>	<u>(4)</u>	<u>(30)</u>
	<u>\$ 6,935</u>	<u>\$ 2,062</u>	<u>\$ 18,798</u>	<u>\$ 17,240</u>
49% attributable to the Fund	\$ 3,398	\$ 1,010	\$ 9,211	\$ 8,448
Administration expenses	(63)	(68)	(270)	(273)
Interest income	<u>-</u>	<u>3</u>	<u>3</u>	<u>15</u>
Distributable cash attributable to the Fund	<u>\$ 3,335</u>	<u>\$ 945</u>	<u>\$ 8,944</u>	<u>\$ 8,190</u>

Distributable cash attributable to the Fund – per Unit	<u>\$ 0.483</u>	<u>\$ 0.137</u>	<u>\$ 1.296</u>	<u>\$ 1.187</u>
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A summary of distributable cash and distributions declared for the trailing twelve months to December 31, 2009 and for the period from commencement of the Fund on May 28, 2002 to December 31, 2009 is as follows:

Distributable Cash of FPLP:

	Last Twelve <u>Months</u>	Since May 28, <u>2002</u>
	In thousands	
EBITDA <sup>(1)</sup>	\$ 22,398	\$ 185,108
Interest income	40	885
Interest expense on notes payable and capital leases, excluding amortization of related deferred financing costs	(3,120)	(23,770)
Principal repayment of capital leases	-	(1,136)
Maintenance capital expenditures	(659)	(8,020)
Increase in reserve for future maintenance capital expenditures	(20)	(1,500)
Strategic capital expenditures	-	(1,331)
Increase in reserve for strategic capital, acquisitions, and/or debt reduction	-	(353)
Proceeds on disposal of property, plant and equipment	163	1,297
Current income and capital tax expense	<u>(4)</u>	<u>(196)</u>
Distributable cash of FPLP	<u>\$ 18,798</u>	<u>\$ 150,984</u>

Distributable Cash Attributable to the Fund:

	Last Twelve <u>Months</u>	Since May 28, <u>2002</u>
	In thousands	
49% of FPLP distributable cash	\$ 9,211	\$ 73,982
Administration expenses	(270)	(2,050)
Interest income	<u>3</u>	<u>52</u>
Distributable cash attributable to the Fund	<u>\$ 8,944</u>	<u>\$ 71,984</u>
Distributable cash attributable to the Fund per Unit	\$ 1.296	\$ 10.429
Distributions declared by the Fund per Unit	\$ 1.140	\$ 9.503
Payout Ratio	88.0%	91.1%

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

	Three Months		Twelve Months	
	<u>Ended December 31,</u>		<u>Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	In thousands		In thousands	
Cash flow from operating activities of FPLP	\$ 3,891	\$ (105)	\$ 11,316	\$ 11,933
Add (subtract):				
Interest on Subordinated notes (*)	1,694	1,690	6,722	6,722
Net change in non-cash working capital items (**)	1,621	949	1,276	1,432
Maintenance capital expenditures	(271)	(184)	(659)	(868)
Increase in reserve for future maintenance capital (***)	-	(316)	(20)	(1,132)
Strategic capital expenditures	-	-	-	(681)
Principal repayment of capital leases	-	-	-	(197)
Proceeds from sale of property, plant and equipment (****)	-	28	163	31
Distributable cash of FPLP	<u>\$ 6,935</u>	<u>\$ 2,062</u>	<u>\$ 18,798</u>	<u>\$ 17,240</u>

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

(\*) Distributable cash of FPLP is determined before deduction of interest on the subordinated notes, since these amounts are paid to the Fund as holder of the subordinated notes.

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

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

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

**FP Newspapers Income Fund**  
**Consolidated Balance Sheets**  
(unaudited, in thousands of Canadian dollars)

	As at December 31, 2009	As at December 31, 2008
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents (note 3)	\$ 816	\$ 435
Interest receivable from FP Canadian Newspapers Limited Partnership (note 3)	-	569
Due from FPCN Media Funding Inc.	-	26
Prepaid expenses	14	12
	830	1,042
Investment in FPCN General Partner Inc.	49	40
Investment in FP Canadian Newspapers Limited Partnership (note 3)	58,342	59,499
	\$ 59,221	\$ 60,581
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 116	\$ 121
Distribution payable (note 4)	656	656
	772	777
Long-Term Liabilities:		
Future income taxes	1,596	1,935
	2,368	2,712
Unitholders' Equity:		
Trust Units	69,026	69,026
Cumulative earnings	53,415	46,562
Cumulative distributions	(65,588)	(57,719)
	56,853	57,869
	\$ 59,221	\$ 60,581

(See accompanying notes)

**FP Newspapers Income Fund**  
**Consolidated Statements of Earnings, Comprehensive Income and Cumulative Earnings**  
**(unaudited, in thousands of Canadian dollars except per Unit amounts)**

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2009	2008	2009	2008
Earnings from investment in FP Canadian Newspapers Limited Partnership				
Interest from subordinated notes	\$ 1,694	\$ 1,690	\$ 6,722	\$ 6,722
Equity interest from Class A limited partner Units (note 3)	926	(1,119)	59	471
Other interest	-	3	3	15
	2,620	574	6,784	7,208
Administration expenses	(63)	(68)	(270)	(273)
Net earnings before income taxes	\$ 2,557	\$ 506	\$ 6,514	\$ 6,935
Future income tax recovery (expense)	282	(176)	339	(253)
Net earnings and Comprehensive income for the period	\$ 2,839	\$ 330	\$ 6,853	\$ 6,682
Cumulative earnings, beginning of period	50,576	46,232	46,562	39,880
Cumulative earnings, end of period	\$ 53,415	\$ 46,562	\$ 53,415	\$ 46,562
Number of trust Units outstanding	6,902,592	6,902,592	6,902,592	6,902,592
Net earnings per trust Unit	\$ 0.411	\$ 0.048	\$ 0.993	\$ 0.968

**FP Newspapers Income Fund**  
**Consolidated Statements of Unitholders' Equity**  
**(unaudited, in thousands of Canadian dollars)**

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2009	2008	2009	2008
Balance – beginning of period	\$ 55,981	\$ 59,506	\$ 57,869	\$ 59,833
Net earnings for the period	2,839	330	6,853	6,682
Distributions to Unitholders	(1,967)	(1,967)	(7,869)	(8,646)
Balance – end of period	\$ 56,853	\$ 57,869	\$ 56,853	\$ 57,869

(See accompanying notes)

**FP Newspapers Income Fund**  
**Consolidated Statements of Cash Flows**  
(unaudited, in thousands of Canadian dollars)

	Three Months		Twelve Months	
	Ended December 31,		Ended December 31,	
	2009	2008	2009	2008
<hr/>				
Cash provided by (used in):				
Operating activities:				
Net earnings for the period	\$ 2,839	\$ 330	\$ 6,853	\$ 6,682
Items not affecting cash:				
Equity interest from Class A Units of FP				
Canadian Newspapers Limited Partnership (note 3)	(926)	1,119	(59)	(471)
Future income tax (recovery) expense	(282)	176	(339)	253
Distributions received on Class A Units of FP				
Canadian Newspapers Limited Partnership (note 3)	304	416	1,216	2,358
Net change in non-cash working capital items	557	20	588	(3)
	<hr/>	<hr/>	<hr/>	<hr/>
	2,492	2,061	8,259	8,819
Financing activities:				
Distributions to Unitholders	(1,967)	(2,053)	(7,869)	(8,732)
Investment activities:				
Investment in FPCN General Partner Inc.	-	-	(9)	(10)
Increase in cash and cash equivalents	525	8	381	77
Cash and cash equivalents – beginning of period	291	427	435	358
Cash and cash equivalents – end of period	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 816	\$ 435	\$ 816	\$ 435

(See accompanying notes)

**FP Newspapers Income Fund**  
**Notes to Consolidated Financial Statements as at December 31, 2009**  
**(unaudited, tabular amounts in thousands of dollars)**

**1. Basis of presentation**

FP Newspapers Income Fund (the “Fund”) was created on May 15, 2002 and commenced operations on May 28, 2002 when it completed an initial public offering and purchased an interest in FP Canadian Newspapers Limited Partnership (“FPLP”). The Fund owns securities entitling it to 49% of the distributable cash of FPLP.

These interim consolidated financial statements of the Fund have been prepared by management in accordance with accounting principles generally accepted in Canada for interim financial statements and include the accounts of the Fund and its wholly-owned subsidiary, FPCN Holdings Trust (“the Trust”). However, these interim financial statements do not include all the information and disclosures required for annual financial statements. These interim financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements of the Fund as at December 31, 2008, except as described below. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto and other financial information contained in the audited consolidated financial statements for the year ended December 31, 2008.

FPLP’s revenues are seasonal. As FPLP is the Fund’s sole investment, the Fund’s equity interest is seasonal as well. The Fund’s equity interest from Class A limited partner Units is highest in the second and fourth quarters.

**2. Summary of significant accounting policies**

Change in Accounting Policy

Effective January 1, 2009, the Fund prospectively adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3064 Goodwill and Intangible Assets. This standard establishes policies for the recognition, measurement, presentation and disclosure of goodwill and intangible assets as well as discussing when intangible assets can be recognized. There was no financial impact to the financial statements as a result of the adopting this new standard.

On December 31, 2009, the Fund adopted the CICA amended Handbook Section 3862 Financial Instruments – Disclosures to enhance disclosure requirements about fair value measurements and the liquidity risk of financial instruments. Specifically, financial instruments recognized at fair value on the consolidated balance sheet must be classified in one of the following three fair value hierarchy levels:

- Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;
- Level 2 – measurement based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability;
- Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

These amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009 and will apply to the Fund for its fiscal year ending December 31, 2009. The Fund does not expect a financial statement impact as a result of adopting the additional disclosure requirements, refer to note 5 for the additional disclosure.

**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. The Trust holds all of the Class A limited partner Units of FPLP, which, together with the subordinated notes, entitles it to 49% of the distributable cash, as defined in the Partnership Agreement of FPLP.

Effective December 31, 2009, FPLP entered into a credit agreement with HSBC Bank Canada (“HSBC”) (see note 11 “Refinancing” in the FPLP financial statements). As a condition of the HSBC credit agreement, FPLP was required to call for the remaining unpaid Class A unit capital contribution of \$58,454,000 from the Trust. The Trust held \$58,454,000 of subordinated notes issued by FPLP and used these notes to set off the required capital contribution. As the subordinated notes were settled on December 31, 2009 FPLP was required to pay the outstanding subordinated note interest on December 31, 2009 leaving a receivable balance of \$nil (\$569,000 - December 31, 2008). All cash received by the Fund from FPLP after December 31, 2009 will be by way of distributions on the Class A Units of FPLP held by the Trust.

The investment in FPLP is summarized as follows:

	Subordinated notes	Class A limited partner Units	Total
Balance at December 31, 2008	\$ 58,454	\$ 1,045	\$ 59,499
Equity interest in the period	-	(1,089)	(1,089)
Distributions received	-	(300)	(300)
Balance at March 31, 2009	\$ 58,454	\$ (344)	\$ 58,110
Equity interest in the period	-	536	536
Distributions received	-	(306)	(306)
Balance at June 30, 2009	\$ 58,454	\$ (114)	\$ 58,340
Equity interest in the period	-	(314)	(314)
Distributions received	-	(306)	(306)
Balance at September 30, 2009	\$ 58,454	\$ (734)	\$ 57,720
Equity interest in the period	-	926	926
Distributions received	-	(304)	(304)
Repayment of subordinated notes	(58,454)	-	(58,454)
Additional contribution	-	58,454	58,454
Balance at December 31, 2009	\$ -	\$ 58,342	\$ 58,342

The change in equity interest for the three and twelve months ended December 31, 2009 and 2008 from the Fund's investment in Class A limited partner Units of FPLP is calculated as follows:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Net earnings (loss) of FPLP	\$ 3,653	\$ (526)	\$ 7,117	\$ 7,957
Plus: Interest on subordinated notes	1,694	1,690	6,722	6,722
Net earnings before interest on subordinated notes	\$ 5,347	\$ 1,164	\$ 13,839	\$ 14,679
49% interest attributable to the Fund	2,620	571	6,781	7,193
Less: Interest from subordinated notes	(1,694)	(1,690)	(6,722)	(6,722)
Equity interest from Class A limited partner Units	\$ 926	\$ (1,119)	\$ 59	\$ 471

#### 4. Distribution payable

The Fund recorded a distribution payable at December 31, 2009 of \$0.095 per Unit. The distribution was paid January 28, 2010 to Unitholders of record on December 31, 2009 and is in respect of the month of December 2009.

#### 5. Financial Instruments

The fair value of current assets and liabilities including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and distribution payable approximates their carrying value due to the short-term nature of these financial instruments. Cash and cash equivalents at December 31, 2009 are \$816,000 (2008 – \$435,000), and the Level 1 valuation technique is used to determine their fair value.

**FP Canadian Newspapers Limited Partnership**  
**Consolidated Balance Sheets**  
**(unaudited, in thousands of Canadian dollars)**

	As at December 31, 2009	As at December 31, 2008
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents (note 11)	\$ 9,178	\$ 7,835
Accounts receivable	12,991	12,880
Inventories	993	1,699
Prepaid expenses	1,132	1,119
Future income taxes	-	50
	<hr/> 24,294	<hr/> 23,583
Property, plant and equipment	43,750	47,817
Investment (note 4)	136	208
Intangible assets	7,381	7,743
Goodwill	71,160	71,160
Accrued pension benefit asset (note 5)	226	-
	<hr/> \$ 146,947	<hr/> \$ 150,511
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 9,720	\$ 11,604
Income taxes payable	8	10
Prepaid subscriptions and deferred revenue	3,131	3,171
Notes payable (note 11)	5,000	-
	<hr/> 17,859	<hr/> 14,785
Long-Term Liabilities:		
Notes payable (note 11)	54,930	59,769
Subordinated notes (note 11)	-	56,498
	<hr/> 54,930	<hr/> 116,267
	<hr/> 72,789	<hr/> 131,052
Unitholders' Equity:		
Partner Units (note 11)	98,280	41,293
Cumulative earnings	68,191	61,074
Cumulative distributions	(92,110)	(82,633)
Accumulated other comprehensive loss (note 4)	(203)	(275)
	<hr/> 74,158	<hr/> 19,459
	<hr/> \$ 146,947	<hr/> \$ 150,511

(See accompanying notes)

**FP Canadian Newspapers Limited Partnership**  
**Consolidated Statements of Earnings and Cumulative Earnings**  
**(unaudited, in thousands of Canadian dollars)**

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2009	2008	2009	2008
Revenue	\$ 30,780	\$27,730	\$ 113,863	\$ 121,112
Operating expenses, excluding amortization and restructuring charge	(22,042)	(24,037)	(89,600)	(97,714)
Restructuring charge (note 9)	(751)	(417)	(1,865)	(417)
	7,987	3,276	22,398	22,981
Amortization of property, plant and equipment	(1,071)	(1,082)	(4,185)	(4,341)
Amortization of intangible assets	(92)	(90)	(362)	(360)
Earnings before the under-noted	6,824	2,104	17,851	18,280
Interest expense (note 6)	(2,643)	(2,621)	(10,491)	(10,463)
Interest income	6	52	40	296
Gain on sale of property, plant and equipment	(1)	3	297	6
Asset impairment write-down (note 10)	(526)	-	(526)	-
Earnings (loss) before income taxes	3,660	(462)	7,171	8,119
Income tax expense:				
- Current	(7)	(14)	(4)	(30)
- Future	-	(50)	(50)	(132)
Net earnings (loss) for the period	3,653	(526)	7,117	7,957
Cumulative earnings – beginning of period	64,538	61,600	61,074	53,117
Cumulative earnings – end of period	\$ 68,191	\$ 61,074	\$ 68,191	\$ 61,074

**Consolidated Statements of Comprehensive Income**  
**(unaudited, in thousands of Canadian dollars)**

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2009	2008	2009	2008
Net earnings (loss) for the period	\$ 3,653	\$ (526)	\$ 7,117	\$ 7,957
Other comprehensive (loss) income				
Unrealized (loss) gain on investment, net of tax (note 4)	(17)	(138)	72	(275)
Comprehensive income (loss) for the period	\$ 3,636	\$ (664)	\$ 7,189	\$ 7,682

(See accompanying notes)

**FP Canadian Newspapers Limited Partnership**  
**Consolidated Statements of Unitholders' Equity**  
**(unaudited, in thousands of Canadian dollars)**

	General partner Units	Class A limited partner Units	Total
Unitholders' equity – December 31, 2007	\$ 14,874	\$ 8,723	\$ 23,597
Net earnings for the period	1,850	488	2,338
Distributions paid	(2,414)	(636)	(3,050)
Unitholders' equity – March 31, 2008	\$ 14,310	\$ 8,575	\$ 22,885
Net earnings for the period	2,883	770	3,653
Distributions paid	(2,438)	(653)	(3,091)
Other comprehensive loss, net of tax	(32)	(8)	(40)
Unitholders' equity – June 30, 2008	\$ 14,723	\$ 8,684	\$ 23,407
Net earnings for the period	1,968	524	2,492
Distributions paid	(2,438)	(653)	(3,091)
Other comprehensive loss, net of tax	(77)	(20)	(97)
Unitholders' equity – September 30, 2008	\$ 14,176	\$ 8,535	\$ 22,711
Net loss for the period	(331)	(195)	(526)
Distributions paid	(2,172)	(416)	(2,588)
Other comprehensive loss, net of tax	(111)	(27)	(138)
Unitholders' equity – December 31, 2008	\$ 11,562	\$ 7,897	\$ 19,459
Net loss for the period	(432)	(64)	(496)
Distributions paid	(2,035)	(300)	(2,335)
Other comprehensive loss, net of tax	(72)	(11)	(83)
Unitholders' equity – March 31, 2009	\$ 9,023	\$ 7,522	\$ 16,545
Net earnings for the period	2,474	364	2,838
Distributions paid	(2,083)	(306)	(2,389)
Other comprehensive income, net of tax	112	17	129
Unitholders' equity – June 30, 2009	\$ 9,526	\$ 7,597	\$ 17,123
Net earnings for the period	977	145	1,122
Distributions paid	(2,083)	(306)	(2,389)
Other comprehensive income, net of tax	37	6	43
Unitholders' equity – September 30, 2009	\$ 8,457	\$ 7,442	\$ 15,899
Net earnings for the period	3,184	469	3,653
Distributions paid	(2,060)	(304)	(2,364)
Other comprehensive loss, net of tax	(14)	(3)	(17)
Contributions (note 11)	-	56,987	56,987
Unitholders' equity – December 31, 2009	\$ 9,567	\$ 64,591	\$ 74,158

(See accompanying notes)

**FP Canadian Newspapers Limited Partnership**  
**Consolidated Statements of Cash Flows**  
**(unaudited, in thousands of Canadian dollars)**

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2009	2008	2009	2008
Cash provided by (used in)				
Operating activities:				
Net earnings for the period	\$ 3,653	\$ (526)	\$ 7,117	\$ 7,957
Items not affecting cash:				
Amortization of property, plant and equipment and intangible assets	1,163	1,172	4,547	4,701
Amortization of deferred financing costs (note 6)	169	151	649	581
Future income tax expense	-	50	50	132
Gain on disposal of property, plant and equipment	1	(3)	(297)	(6)
Asset impairment write-down (note 10)	526	-	526	-
	5,512	844	12,592	13,365
Net change in non-cash working capital items	(1,621)	(949)	(1,276)	(1,432)
	3,891	(105)	11,316	11,933
Investing activities:				
Purchases of property, plant and equipment	(271)	(184)	(659)	(1,549)
Proceeds from sale of property, plant and equipment	-	28	163	31
Investment	-	-	-	(483)
	(271)	(156)	(496)	(2,001)
Financing activities:				
Distributions to partners	(2,364)	(2,588)	(9,477)	(11,820)
Principal repayment of capital leases	-	-	-	(197)
	(2,364)	(2,588)	(9,477)	(12,017)
Increase (decrease) in cash and cash equivalents	1,256	(2,849)	1,343	(2,085)
Cash and cash equivalents - beginning of period	7,922	10,684	7,835	9,920
Cash and cash equivalents - end of period	\$ 9,178	\$ 7,835	\$ 9,178	\$ 7,835
Supplemental Cash Flow Information:				
Interest paid during the period	\$ 3,026	\$ 2,448	\$ 10,411	\$ 9,876
Taxes paid during the period	\$ (15)	\$ 11	\$ 10	\$ 37

(See accompanying notes)

**FP Canadian Newspapers Limited Partnership**  
**Notes to Consolidated Financial Statements as at December 31, 2009**  
**(unaudited, tabular amounts in thousands of dollars)**

**1. Basis of presentation**

FP Canadian Newspapers Limited Partnership (“FPLP”) is a limited partnership formed on August 9, 1999 in accordance with the laws of British Columbia.

These interim consolidated financial statements include the operating businesses owned by FPLP. During the second quarter, Canstar Community News Limited was wound up into FPLP. During the fourth quarter, FP Funding Corporation (“FundingCo”) was incorporated to hold a deposit in a guarantee account as a requirement of securing the HSBC Bank Canada (“HSBC”) term loan (see note 11), and is controlled indirectly by Ronald Stern and Robert Silver who together own 51% of FPLP. In addition, the FPLP Employee Benefits Plan Trust Fund (“Trust Fund”), FPCN Media Funding Inc. and FundingCo have been determined to be variable interest entities, which also have been consolidated. The managing general partner of FPLP is FPCN General Partner Inc. (“FPGP”). These interim 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.

These interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada for interim financial statements and reflect all adjustments which are, in the opinion of management, necessary for fair statement of the results of the interim periods presented. However, these interim consolidated financial statements do not include all the information and disclosures required for annual financial statements. The accounting policies used in the preparation of these interim consolidated financial statements are the same as those used in the most recent annual consolidated financial statements, except as described below. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of FPLP for the year ended December 31, 2008.

FPLP’s advertising revenues are seasonal. Revenue and accounts receivable are highest in the second and fourth quarters while expenses are relatively constant.

**2. Summary of significant accounting policies**

Change in Accounting Policy

Effective January 1, 2009, FPLP prospectively adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3064 Goodwill and Intangible Assets. This standard establishes policies for the recognition, measurement, presentation and disclosure of goodwill and intangible assets as well as discussing when intangible assets can be recognized. There was no financial impact to the financial statements as a result of adopting this new standard.

On December 31, 2009, FPLP adopted the CICA amended Handbook Section 3862 Financial Instruments – Disclosures to enhance disclosure requirements about fair value measurements and the liquidity risk of financial instruments. Specifically, financial instruments recognized at fair value on the consolidated balance sheet must be classified in one of the following three fair value hierarchy levels:

- Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;
- Level 2 – measurement based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability;
- Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

These amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009 and apply to FPLP for its fiscal year ended December 31, 2009. FPLP does not expect a financial statement impact as a result of adopting the additional disclosure requirements. See note 8 for these additional disclosures.

**3. Allocation of net earnings**

The amended and restated Agreement of Limited Partnership dated May 3, 2005 sets out the method for allocating net earnings between the general and limited partner Units. Net earnings is allocated to the general partner Units and the Class A limited partner Units in proportion to the distributions made to the partners over an annual basis ending December 31 each year. As the allocation is defined using an annual period, quarterly allocations are determined by using a proportionate share of cumulative distributions and cumulative net earnings to the end of each quarter.

**4. Investment**

The Trust Fund holds Units of FP Newspapers Income Fund (“the Fund”), which have been classified as “available for sale” and therefore are measured at fair value, as determined by the published price quote. Gains and losses resulting from the periodic revaluation are recorded in other comprehensive income. During the quarter, 886 Units were distributed to participants leaving a balance of 26,484 Units with a carrying value of \$136,000 as at December 31, 2009 (37,813 Units with a carrying value of \$208,000 as at December 31, 2008). The accumulated other comprehensive loss related to this revaluation adjustment is \$203,000 as at December 31, 2009 (\$275,000 - December 31, 2008).

## 5. Employee future benefit plans

The net future benefit plan costs included in operating expenses is as follows:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Defined benefit pension plan	<u>\$ 88</u>	<u>\$ 358</u>	<u>\$ 1,044</u>	<u>\$ 1,423</u>

At the balance sheet date, the fair value of the defined benefit pension plan asset exceeded the accrued benefit obligation resulting in an accrued pension benefit asset of \$226,000 being recorded.

## 6. Interest expense

Interest expense is summarized as follows:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Subordinated notes	\$ 1,694	\$ 1,690	\$ 6,722	\$ 6,722
Amortization of subordinated notes deferred financing costs	128	112	488	429
Notes payable	780	780	3,120	3,156
Amortization of notes payable deferred financing costs	41	39	161	152
Capital lease obligations	-	-	-	4
	<u>\$ 2,643</u>	<u>\$ 2,621</u>	<u>\$ 10,491</u>	<u>\$ 10,463</u>

## 7. 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, 2009 and December 31, 2008 were as follows:

	As at December 31, <u>2009</u>	As at December 31, <u>2008</u>
Notes payable	\$ 59,930	\$ 59,769
Cash and cash equivalents	<u>(9,178)</u>	<u>(7,835)</u>
External net debt	50,752	51,934
Subordinated notes	-	56,498
Unitholders’ equity	<u>74,158</u>	<u>19,459</u>
Total capitalization	<u>\$ 124,910</u>	<u>\$ 127,891</u>
External net debt as a percentage of total capitalization	<u>40.6%</u>	<u>40.6%</u>

The notes payable include negative covenants which must be maintained in order to avoid an accelerated termination of the

agreement. These covenants include certain restrictions on the incurrence of additional debt, requirements to maintain insurance, certain restrictions on the sale of assets and other requirements and restrictions common to lending agreements of this nature. FPLP is restricted from making distributions which cumulatively exceed by more than \$1.4 million the total of distributable cash as defined in this agreement. FPLP is required to maintain a ratio of net debt to earnings, as defined in the agreement, of no greater than 3.5 to 1.0 and a net external interest expense of no less than 3.0 to 1.0 measured quarterly on a trailing 12-month basis. At December 31, 2009, FPLP was in compliance with all the terms and conditions of its debt agreements. The financial ratios calculated in accordance with the debt agreements for the trailing 12-month periods ending December 31, 2009, September 30, 2009, June 30, 2009, March 31, 2009 and December 31, 2008 are as follows:

	Net Debt / Earnings as defined under agreement	Earnings as defined under agreement / Net interest
December 31, 2009	2.46	7.27
September 30, 2009	3.11	5.81
June 30, 2009	2.86	6.47
March 31, 2009	2.73	6.90
December 31, 2008	2.39	8.02

Effective December 31, 2009, FPLP completed a credit agreement with HSBC (see note 11) to replace its current \$60 million term loan facility with The Prudential Insurance Company of America (“Prudential”). On January 8, 2010 the security documentation and funding was completed and the proceeds used to repay the Prudential term loan in full. The HSBC term loan includes negative covenants which must be maintained 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 issuance of loans or financial assistance. FPLP is restricted from making distributions which exceed distributable cash by more than \$1 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, with all calculations defined in the agreement and measured quarterly on a trailing 12-month basis.

## 8. Financial instrument risk management

### Credit Risk

As FPLP is in the business of publishing newspapers and performing printing services for third parties, included in 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 non-collectible amounts with this allowance netted against the accounts receivable on the balance sheet. The adequacy of the allowance is reviewed on a regular basis, and is estimated based on past experience, specific risks associated with the customers and other relevant information. The ten largest receivable amounts total \$4,607,000 as at December 31, 2009 (\$3,161,000 - December 31, 2008) and approximately 86% of these balances are owed from national advertising agencies. The largest amount due from a single national agency is \$791,000 as at December 31, 2009 (\$634,000 - December 31, 2008) which represents approximately 6% of total receivables.

At December 31, 2009, FPLP estimates the value of impaired accounts receivable is \$55,000 (\$156,000 - December 31, 2008), 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:

	As at December 31, <u>2009</u>	As at December 31, <u>2008</u>
Accounts receivable:		
Current	\$ 7,485	\$ 7,520
Up to three months past due	5,660	5,276
Greater than three months past due	155	367
Impaired	<u>55</u>	<u>156</u>
	13,355	13,319
 Allowance for doubtful accounts	 <u>(364)</u>	 <u>(439)</u>
	<u>\$ 12,991</u>	<u>\$ 12,880</u>

The movements in the allowance for doubtful accounts were as follows:

	As at December 31, <u>2009</u>	As at December 31, <u>2008</u>
Allowance for doubtful accounts:		
Balance, beginning of year	\$ (439)	\$ (361)
 Bad debt expense, net of recovery	 (267)	 (163)
Written-off	<u>342</u>	<u>85</u>
 Balance, end of year	 <u>\$ (364)</u>	 <u>\$ (439)</u>

#### Interest Rate Risk

Effective December 31, 2009, FPLP signed a credit agreement with HSBC (see note 11) to replace FPLP's \$60 million term facility. On January 8, 2010 the security documentation and funding was completed and the proceeds used to repay the Prudential term loan in full. For the HSBC agreement FPLP will be exposed to fluctuations in interest rates as the amounts borrowed under the credit agreement are primarily in the form of bankers' acceptances at varying interest rates. FPLP is able to manage the risk through the use of an interest rate swap facility which would fix the interest rate on all or a portion of the credit facility.

An interest rate sensitivity analysis is not relevant because of the fixed rate nature of the debt.

#### Liquidity Risk

The following are the contractual maturities of the financial liabilities:

	Total	Payments due for the years ending December 31		
		1 – 3 years	4 – 5 years	After 5 years
Accounts payable and accrued liabilities	\$ 9,720	\$ 9,720	\$ -	\$ -
Long-term debt principal	<u>60,000</u>	<u>15,000</u>	<u>45,000</u>	<u>-</u>
Total	<u>\$ 69,720</u>	<u>\$ 24,720</u>	<u>\$ 45,000</u>	<u>\$ -</u>

On January 8, 2010, the \$60 million HSBC credit facility was advanced and the proceeds were used to repay the Prudential notes payable in full, which has not been included in the previous table based on CICA Emerging Issues Committee ("EIC") Abstract 122.

## Fair Value Hierarchy

Financial asset or liability	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 9,178	\$ -	\$ -	\$ 9,178
Investment	<u>136</u>	<u>-</u>	<u>-</u>	<u>136</u>
	<u>\$ 9,314</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,314</u>

### 9. Restructuring charge

During the fourth quarter, FPLP incurred a restructuring charge of \$751,000 for future employee severance costs relating to the consolidation of printing at the Winnipeg print facility (see note 10). This charge is in addition to the aggregate \$1,114,000 in restructuring charges incurred during the first three quarters of 2009. During the fourth quarter, \$214,000 was paid, in addition to \$1,142,000 paid during the first three quarters, leaving an unpaid balance expected to be paid in the next fiscal period of \$926,000 at December 31, 2009 (\$417,000 - December 31, 2008) which is included in accounts payable and accrued liabilities on the consolidated balance sheet.

### 10. Asset Impairment Write-down

Prior to December 31, 2009, FPLP was notified by CTVGlobemedia Inc. that effective September 30, 2010, the Globe and Mail newspaper would no longer be printed at FPLP's Brandon production facility. Resulting from the loss of this printing contract, the decision was made to consolidate the printing of the Brandon Sun newspaper publications in FPLP's Winnipeg production facility. Management continues to review options with respect to both the Brandon production equipment and building. Since there is no assurance of future cash flows from the equipment after September 30, 2010 a non-cash asset impairment charge of \$526,000 was recorded, based on a discounted cash flow analysis, to reduce the equipment's carrying value to its fair value. If it is determined there is no business case to continue to use the Brandon production equipment after September 30, 2010, the equipment will be listed for sale.

### 11. Refinancing

Effective December 31, 2009, FPLP signed a credit agreement with HSBC to replace FPLP's \$60 million term facility with Prudential, which was due on June 5, 2010. On January 8, 2010, the security documentation and funding was completed and the proceeds used to repay the Prudential term loan in full. 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 million and Facility B in the amount of \$10 million. Amounts borrowed under both facilities will primarily be in the form of bankers' acceptances at varying interest rates and would mature over periods of 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 3.25% and 0.375% on Facilities A and B respectively at December 31, 2009. An interest rate swap facility is also available under the credit agreement. Facility A includes principal repayments of \$5 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 million. In January 2010, FPLP made an initial cash deposit of \$5 million into a separate HSBC guarantee account with a second \$5 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.

As a condition of the HSBC credit agreement, FPLP was required to call for the remaining unpaid Class A unit capital contribution of \$58.5 million from FPCN Holdings Trust. FPCN Holdings Trust held \$58.5 million of subordinated notes issued by FPLP and used these notes, net of \$1.5 million of unamortized deferred financing costs, to set off the required capital contribution. All cash received by the Fund from FPLP after December 31, 2009 will be by way of distributions on the Class A Units of FPLP held by FPCN Holdings Trust.

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 7.

FPLP is required to record the \$5 million amortizing portion of the HSBC credit agreement as a current liability, due to its short-term nature. The CICA EIC Abstract 122 allows FPLP to record the remaining \$55 million as a long-term liability.