2015 ANNUAL REPORT

FP NEWSPAPERS INC.

FP Newspapers Inc.
Annual Report 2015

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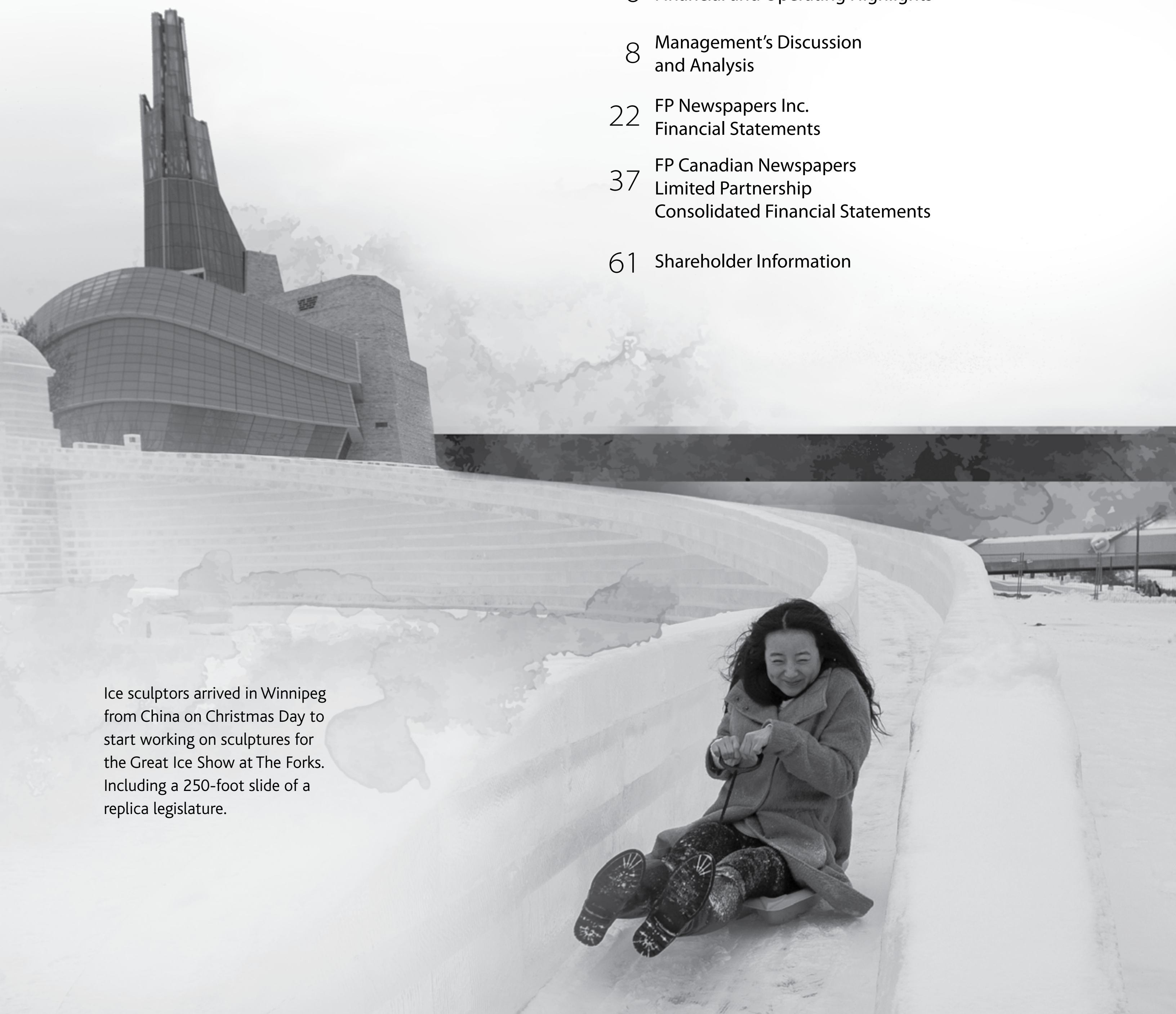


Ice sculptors arrived in Winnipeg from China on Christmas Day to start working on sculptures for the Great Ice Show at The Forks. Including a 250-foot slide of a replica legislature.

Letter to Shareholders

TO OUR SHAREHOLDERS

2015 was another challenging year for our newspaper properties in Manitoba. However, we demonstrated, once again, our ability to move quickly to respond to market conditions in the short term by reducing costs, while still positioning the company for the future in the rapidly changing media world.

Throughout the year our management team developed new initiatives that have resulted in more efficient and less costly production and delivery of the high-quality content that we are known for. This process continues, with further efficiencies identified for 2016.

Overall expenses, before amortization, interest and restructuring charges, were reduced by 7.2 per cent in 2015 on a year-over-year basis. A further 5.3 per cent reduction or $4.3 million is being implemented in 2016 with further reductions to be implemented during the year.

Our businesses remain profitable, but we made the difficult decision to suspend dividend payments to shareholders so that the company is on a stronger footing going forward; using cash to reduce long-term debt, pay for restructuring initiatives and invest in new projects.

One of those projects, our launch of paid access to our digital content for the *Winnipeg Free Press*, has shown steady growth and is attracting national and international attention for its use of micropayments for individual news items as a way to capture revenue from casual digital readers, who make up the majority of our online audience.

At a time when there is increased concern about the dwindling news coverage of local matters that most affect people's lives, we are committed to providing quality, original journalism to all of the communities we serve.

We are committed to our newspapers and proud to be headquartered in Winnipeg, a city that is filled with exciting developments – highlighted on the cover of this report – so much so that *National Geographic* has placed it on its top 20 "Best Trips of 2016."

In this year's annual report we are pleased to highlight the results of 2015.

FP Newspapers Inc. ("FPI") holds a 49 percent equity investment in FP Canadian Newspapers Limited Partnership ("FPLP"), which owns the operating businesses. Total revenue for 2015 for FPLP was $89.0 million. Total revenue year-over-year was lower by $10.0 million or 10.1 per cent, primarily the result of lower print advertising revenues.

Total operating expenses for 2015 were $79.7 million. Total operating expenses decreased by $6.0 million or 7.0 per cent primarily due to cost-cutting measures implemented during the year.

FPI declared dividends in 2015 of $0.16 per share. Dividends have been suspended for the time being so that the company can use cash from operations to reduce debt, fund restructuring initiatives and invest in new ventures as it transitions from a news media company based solely on printed papers. The directors of FPI and FPLP will continue to monitor the financial performance of the operating businesses to determine the appropriate future dividend levels.

The 100th anniversary of women voting for the first time in a provincial election in Canada in Manitoba on January 28, 1916. The franchise was won due to the efforts of pioneering women such as E. Cora Hind, a women's rights activist who was western Canada's first female journalist and became famous for her agricultural reporting in the *Free Press*.

WINNIPEG FREE PRESS

Under the guidance of Editor Paul Samyn, the *Winnipeg Free Pres*s editorial department implemented project "Metamorphosis" to revamp its approach to producing content for all platforms, print and digital. Staff were reorganized to reduce repetitive handling of material for publication. For example, the photo department was disbanded and replaced with a visuals department, combining photographers, layout and design staff, editors and multimedia journalists. Editing desks for separate sections were replaced with a central editing operation that handles all content as it becomes available.

This has allowed even more seamless production of multi-platform projects such as *The Rivers*, which combined multiple print and digital elements to present the past, present and future potential of Winnipeg through its waterways. The editorial work extended into the community, with editorial staff bringing community leaders and readers together at the *Winnipeg Free Press News Café* to discuss what role the rivers can play in the future of Winnipeg.

The *Free Press* sponsors numerous community groups, arts and cultural organizations and charitable endeavours, from the United Way to the Winnipeg Symphony Orchestra. The paper's staff was especially proud to help organize and participate in activities marking the 100th anniversary of women voting for the first time in a provincial election in Canada in Manitoba on January 28, 1916. The franchise was won due to the efforts of pioneering women such as E. Cora Hind, a women's rights activist who was western Canada's first female journalist and became famous for her agricultural reporting in the *Free Press*.

In 2015 we introduced a system of paid digital access to the Free Press. For the first time at a North American newspaper, it includes a system that allows readers to pay per article on the newspaper's website. Users are assessed 27 cents per article, and they pay at the end of each month via a credit card charge. Since the system was fully implemented in July 2015, there has been steady growth in the number of people who have registered for micropayments. There has also been steady growth in the number of readers who opt to pay $16.99 monthly for full access to all of our digital content, as well as in the number of home delivery print subscribers who are registered for *Free Press* digital platforms. Home delivery subscribers can get digital access at no additional charge.

We have a two-pronged strategy for paid digital content. We want to make paid digital access open to even the most casual users, and we want to ensure our relationship with existing paying subscribers remains strong. We feel the micropayment system is achieving this. We have approximately 8,000 users registered to pay for digital only content and about 23,000 print home subscribers registered for all access digital. This represents more than 50 per cent of our weekday home delivery subscription base. At the end of 2015, we had more paying subscribers, print and digital, than we did at the start of the year.

Our goal is to continue growing the overall audience for the *Free Press*, in print and digitally. Figures released by Vividata, the national audience measurement agency, show that the combined print/digital weekly readership of the *Free Press* represents 78 per cent of Winnipeg adults.

We continue to attract and hold readers, in print and online, with journalism that is recognized nationally and internationally for its quality. This past year, *Free Press* reporter Kevin Rollason won a National Newspaper Award for his work detailing the last hours of Brian Sinclair, a disabled native man who died unnoticed in the emergency department of a Winnipeg hospital. *Free Press* reporter Nick Martin was also nominated for a National Newspaper Award for his continuing coverage of education in Winnipeg and Manitoba, an area that is woefully under covered by other local media. *Free Press* reporter Carol Sanders won an Amnesty International Award for her coverage of life in a Kenyan refugee camp.

We have also been recognized for online journalism. The Canadian Online Publishing Awards recognized our "City Beautiful" series online, which among other techniques used video from cameras mounted on drones to give Winnipeggers a unique view of the architecture of their city. The Canadian Online Publishing Awards

Free Press reporter Carol Sanders won an Amnesty International Award for her coverage of life in a Kenyan refugee camp.

also recognized an online feature that tracks mosquito counts in Winnipeg and allows users to check what the risk is in their particular neighbourhoods.

We follow a strategy of continuous review of our operations to identify efficiencies that reduce costs. At the *Free Press*, we made multiple changes in 2015 as a result of this approach. We have reorganized the distribution system for printed newspapers. We closed one distribution depot in 2015 and we are in the process completing the analysis which could result in the closing of a second depot in 2016.

We have changed printing of the newspapers to reduce costs. We now use a single press on a number of nights of the week, instead of two presses as we did in the past. We have increased pre-packaging of advertising inserts to streamline handling of this material in conjunction with the daily paper.

In the advertising department, we are implementing a new computer system that will bundle all aspects of advertising, from selling to booking to billing, into one, continuous system, eliminating many repetitious tasks and reliance on lengthy paper trails.

In 2015, *Free Press* staffing was reduced by 26 full-time equivalent positions, a cut of 6 per cent. Included in this was a reduction of management staff. There are fewer managers in editorial, advertising, production, digital development and circulation to oversee leaner operations. Further staff reductions have been implemented early in 2016.

BRANDON SUN

At the *Brandon Sun*, the newsroom's reporting was recognized nationally and internationally, a great accomplishment for a small Prairie newspaper. Editor Matt Goerzen's long-form investigative piece "Breaking Faith" won a major international award, the EPPY, awarded by *Editor and Publisher* magazine for the best journalism to appear on media-affiliated websites.

"Breaking Faith," an investigation into the death of local man Henry Lawrence from asbestosis, also featured web development by Andrew Nguyen, photos and videos by Bruce Bumstead, and editing by Jim Lewthwaite, all of the *Sun* newsroom.

Sun photographer Tim Smith received multiple awards for his "Testing Positive" series on a mother and son both undergoing cancer treatment. They included a National Newspaper Awards citation of merit and an award from the News Photographers of Canada National Photos of the Year competition.

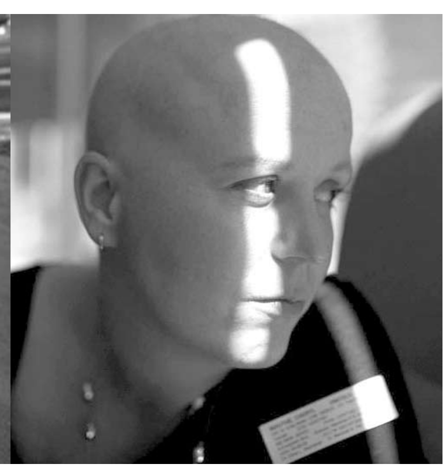
The newsroom also added two reporters in their twenties during 2015, part of our ongoing effort to ensure that we have young voices reporting in the paper and online.

In 2016 the newsroom will continue to produce high quality local journalistic projects. Pieces are planned on war veterans and immigrant profiles as Brandon awaits its first Syrian refugees. Other new products will include podcasts and video as the Sun expands the formats in which it reaches audiences.

Our advertising department introduced new print features, including a retirement tab entitled "Do You Have Any Plans After Work?"; a tab entitled "Going Deep" devoted to the Western Hockey League's Brandon Wheat Kings; the program for the Royal Manitoba Winter Fair that doubled as an agricultural magazine; and a feature for snowmobilers entitled "Trailblazers."

Established publications like *Manitoba Ag Days* and *Grow Your Home Your Way* drew new revenues from a broader range of advertisers. New sponsorship banners were attached to popular reader features like "Goldrush," a weekly profile of the Wheat Kings; a 12-week dental health feature; and "10 Steps to Winter-Ready / Summer-Ready Your Car."

For 2016 the advertising department will continue to add revenue streams in the form of new advertising products. A sample of planned initiatives includes a 12-week homes feature to attract local trade advertisers like plumbers; a CIS National Women's Volleyball Championships tabloid; a weekly feature in our Community News Edition (CNE) featuring lighter



Brandon Sun photographer Tim Smith received multiple awards for his "Testing Positive" series on a mother and son both undergoing cancer treatment.

moments from the internet, entitled The Paper Net; two new digital locations on brandonsun.com to attract national advertisers; video rolls to appear before stories on the web site; digital full pages unique to the electronic edition; and a SunSnaps feature online, featuring photographs taken by local residents.

The *Sun* also continuously searches for efficiencies and implemented cost-saving projects in 2015 that reduced operating costs by 18 per cent compared with 2014.

In Carberry, the *News-Express* added eight new local advertising features and broadened its range of local advertisers through initiatives such as a colour business card package. The *News-Express* also updated its website and in 2016 will offer both more news coverage and more advertising opportunities online.

CANSTAR COMMUNITY NEWS

Our free distribution weekly community newspapers in Winnipeg are now under the sales supervision of Barb Borden, who is also the manager of niche and specialty products that have seen growth in the past year.

Barb is overseeing a renewed effort to build the group of local advertisers who reach Winnipeg residents in their neighbourhoods. The six newspapers reach more than 200,000 doorsteps every week.

They feature hyperlocal news of people in their communities, the sort of thing other news media overlook – like how a 10-year-old girl from Headingley ended up skating with the Winnipeg Jets flag at the MTS Centre as part of the pre-game ceremonies prior to a match.

The team of community journalists has been recognized for their top-notch coverage, winning a number of awards at the annual Manitoba Community Newspaper Awards evening. They included firsts for works on arts and culture, community volunteers, and front pages.

DERKSEN PRINTERS

Our Steinbach business unit increased its EBITDA in 2015 by finding new efficiencies while maintaining existing operations. Derksen Printers and *The Carillon* underwent a comprehensive review of their operations and implemented a number of production initiatives to reduce costs, cut waste and streamline operations which contributed to a more efficient and profitable environment. Derksen introduced a program that involves all staff in continuous improvement exercises.

The Carillon continued to provide top quality news and information to southeastern Manitoba. The paper won 10 awards at the 2015 Manitoba Community Newspaper Association Awards. In one of the top honors, the paper was recognized as the best in its class. At the 2015 Canadian Community Newspaper Awards, *The Carillon* was awarded four national awards, including best in class for its editorial page.

Approximately 65 percent of *The Carillon's* weekly circulation is to home-delivery subscribers, with the remaining sales made through local retailers. Derksen Printers also publishes a variety of speciality products such as local directories and cookbooks.

In 2015 *The Carillon* completed an update of its website, which is located at www.thecarillon.com. It carries the most up-to-date southeastern Manitoba news, sports and entertainment coverage. The site, which attracts approximately 35,000 pageviews per week, will continue to evolve, allowing more opportunities for increased digital advertising revenue.

Derksen Printers has steadily increased its market share for printing services in southeastern Manitoba and continues to expand its reach into the Winnipeg market. In 2015 we added such new clients such as the *Niverville Citizen, Senior Scope* and the 2016 Manitoba Summer Games.

In 2016, Derksen Printers will be celebrating its 70th anniversary and *The Carillon* will be marking its 80th anniversary. We will be publishing a special edition of *The Carillon* for the occasion, one of a number of special advertising sections we plan for the year. Others include more issues of our award-winning *Ag Now*, with increased distribution to Manitoba farmers, as well as a 2016 Manitoba Summer Games edition.

In 2016, Derksen Printers will be celebrating its 70th anniversary and *The Carillon* will be marking its 80th anniversary.

We will also be promoting a new advertising feature, "Our Community Now," which will allow local community groups to buy a full page ad and then resell small ads to raise money and promote their events

We continue to enjoy strong community support. We are bolstering our strong print readership with a five-step marketing and circulation plan to increase subscriptions. This will combine promotional offers with improved customer service and more aggressive single copy sales.

LOOKING FORWARD

We are expecting the print advertising revenue declines to continue in 2016 as spending by advertisers and readership habits of our audiences continue to evolve.

We are building our future on our approach of effectively controlling costs and seeking new revenue opportunities while providing reliable, quality news and information to the audiences in the communities we serve.

We are fortunate to have many great people working at all of our operating units. Challenging times, like the ones we have had for a few years now, requires everyone at our businesses to be flexible and eager to introduce and embrace change. We very much appreciate the efforts made by all our employees to navigate our businesses through these challenging times.

Ronald N. Stern
Chairman
March 9, 2016

FINANCIAL AND OPERATING **HIGHLIGHTS**

FINANCIAL AND OPERATING HIGHLIGHTS IN 2015

- Winnipeg Free Press launched new digital monthly subscription edition and single digital story paid service. Approximately 7,900 monthly and single story accounts set up to date.
- Extension of long-term debt agreement to 2020 and gross debt reduced by $9.0 million.
- Continued cost reduction efforts resulted in $2.4 million or 6.1% reduction in compensation costs.
- First readership study conducted by Vividata shows that 78% of Winnipeg adults read the Winnipeg Free Press each week in either print or digital formats. Weekday print readership of 37% leads all markets in Canada as has been the case for many years.
- Free Press Publisher Bob Cox and reporter Kevin Rollason win National Newspaper Awards.
- Brandon completed study of rural flyer delivery business and implemented changes to reduce costs and improve delivery to communities closest to Brandon.
- Continuous improvement program launched at Derksen Printers in Steinbach.

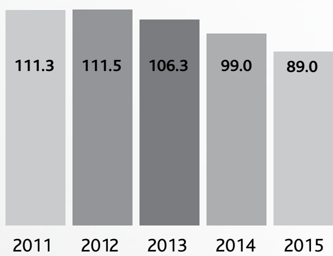
78% OF WINNIPEG ADULTS READ THE WINNIPEG FREE PRESS EACH WEEK IN EITHER PRINT OR DIGITAL FORMATS.

37% WEEKDAY READERSHIP LEADS ALL MARKETS IN CANADA AS HAS BEEN THE CASE FOR MANY YEARS.

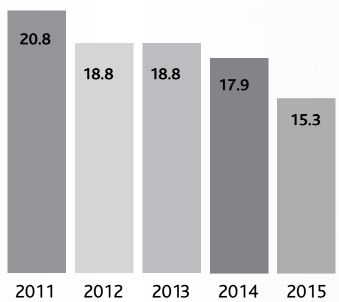
FINANCIAL AND OPERATING HIGHLIGHTS IN 2015

FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP (“FPLP”)

REVENUES ($ MILLIONS)

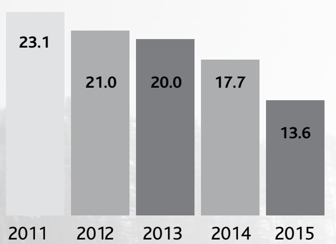


EBITDA[1] MARGINS (%)



Relatively stable EBITDA[1] margins (EBITDA[1] divided by revenue) have been maintained.

EBITDA[1] ($ MILLIONS)



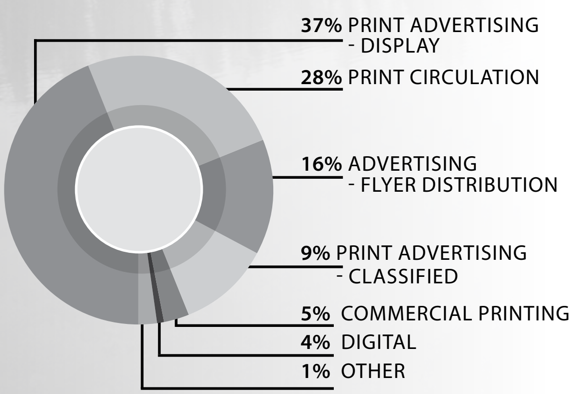
(1) Management’s discussion and analysis provides an explanation of how these financial measures are calculated and provides a reconciliation to the audited consolidated financial statements.

(2) In the second quarter of 2015 dividends were suspended, with the free cash generated from operations of FPLP used to reduce debt, fund restructuring initiatives and /or invest in new strategic investments that improve the return of the businesses going forward.

FP NEWSPAPERS INC. (“FPI”) (PREVIOUSLY FP NEWSPAPERS INCOME FUND)

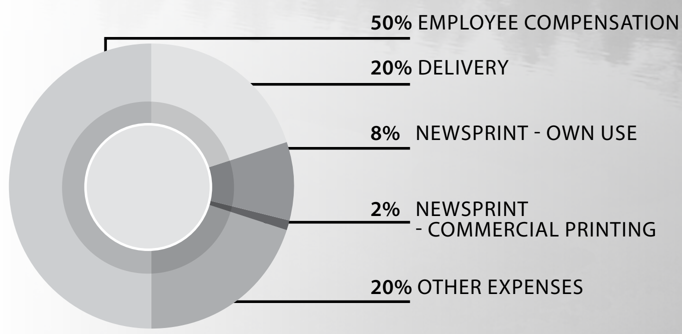
	2011	2012	2013	2014	2015 (2)
Distributable cash attributable to FPI[1]/share	$0.658	$0.635	$0.718	$0.575	$0.206
Dividends/share	$0.600	$0.600	$0.600	$0.530	$0.160

COMPONENTS OF REVENUE



Advertising revenue makes up 61% of revenue, with display advertising supplying the major share.

OPERATING EXPENSES, EXCLUDING AMORTIZATION



Labour cost reductions from continual process improvement initiatives. Newsprint price increases were announced in the first quarter of 2016.

FP NEWSPAPERS INC. ANNUAL REPORT 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 9, 2016

Management's discussion and analysis, prepared as at March 9, 2016, provides a review of significant developments that affected the performance of FP Newspapers Inc. ("FPI") in the three and twelve months ended December 30, 2015. This review is based on financial information contained in the consolidated financial statements and accompanying notes for the year ended December 30, 2015.

Factors that could affect future operations are also discussed. These factors may be affected by known and unknown risks and uncertainties that may cause the actual future results to be materially different from those expressed in this discussion.

The financial statements, which are the basis for data presented in this report, have been prepared in accordance with International Financial Reporting Standards (IFRS). The following information provides analysis of the operations and financial position of FPI and FP Canadian Newspapers Limited Partnership ("FPLP") and should be read in conjunction with the financial statements and accompanying notes.

This Management's Discussion and Analysis contains "forward-looking statements" that are subject to risks and uncertainties set out below under the heading "Caution Regarding Forward-Looking Statements". The reader is cautioned not to place undue reliance on forward-looking statements.

Further information relating to FPI, including the annual information form, is available at **www.sedar.com** or on FPI's website at **www.fpnewspapers.com**.

FORMATION AND LEGAL ENTITIES

FPI, which was incorporated under the Canada Business Corporations Act on March 17, 2010, is the successor to the business of FP Newspapers Income Fund (the "Fund"). The Fund was created on May 15, 2002 and commenced operations on May 28, 2002 when it completed an initial public offering and purchased an interest in FP Canadian Newspapers Limited Partnership ("FPLP").

On December 31, 2010, the Fund completed its conversion from an income trust to a corporate structure pursuant to a plan of arrangement. Under the plan of arrangement, Unitholders of the Fund received, for each Unit of the Fund held, one common share of the resulting public corporation, FPI. The common shares of FPI commenced trading on the Toronto Stock Exchange on January 7, 2011 under the symbol "FP". Concurrently, the Fund's Units were delisted.

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

FPLP is a limited partnership formed on August 9, 1999. Effective November 29, 2001, FPLP acquired the business assets and assumed certain liabilities of the Winnipeg Free Press and the Brandon Sun. On July 13, 2004, FPLP acquired the business assets and liabilities of Canstar Community News ("Canstar"). On February 28, 2011, FPLP acquired the business assets and assumed certain liabilities of a commercial printing and publishing business operating under the name Derksen Printers based in Steinbach, Manitoba. On October 26, 2012, FPLP acquired substantially all of the assets and assumed certain liabilities of the Carberry News-Express, a weekly paid subscription publication.

FP NEWSPAPERS INC.

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

	2015	2014	2013
	$ in thousands except per share amounts		
Revenue	3,906	5,734	6,980
Net (loss) earnings	(23,776)	4,047	4,896
Net (loss) earnings per share	(3.445)	0.586	0.709
Total assets	17,574	43,588	45,448
Total long-term liabilities	174	-	692
Dividends declared	1,104	3,658	4,142
Dividends declared per share	0.160	0.530	0.600

Revenue for the year ended December 30, 2015 was $3.9 million compared to $5.7 million in 2014. The decrease was primarily the result of lower equity earnings from FPI's investment in FPLP. A non-cash write-down of $18.6 million was recorded in the second quarter of 2015 and $7.8 million was recorded in the fourth quarter of 2015 based on FPI's determination that its 49% equity investment in FPLP was impaired, primarily due to continued declines in revenue and earnings experienced by FPLP. The write-downs resulted in a net loss of $23.8 million for the year ended December 30, 2015. Excluding the non-cash write-down of the equity investment in FPLP, FPI reported net earnings of $2.7 million for the year ended December 30, 2015, compared to net earnings of $4.0 million for 2014. The decrease in net earnings is primarily due to a decrease in the equity share of the net earnings of FPLP, with details of this decline disclosed in the FPLP section of this report. For the year ended December 30, 2015, FPI recorded a current income tax expense of $0.6 million and a deferred income tax expense of $0.5 million compared to a current income tax expense of $1.5 million and a deferred income tax recovery of $0.1 million in 2014. The change in deferred income tax expense is primarily due to FPI's share of FPLP's timing differences primarily relating to FPLP's change in its pension obligation. Other comprehensive loss for 2015 was $0.7 million compared to other comprehensive loss of $1.8 million in 2014. The change in other comprehensive (loss) results from FPI's equity share of FPLP's recognition of remeasurements gains and losses related to its defined benefit pension plan.

Cash dividends declared to shareholders for the year ended December 30, 2015 were as follows:

Record Date	Payment Date Amount	per share
March 31, 2015	April 30, 2015	$0.08
June 30, 2015	July 31, 2015	$0.08
		$0.16

In response to the uncertainty regarding print revenues, FPI's Board of Directors on August 14, 2015, determined not to declare further dividends at this time. FPCN General Partner Inc., as managing general partner of FPLP, determined that FPLP will continue to make distributions required for income taxes of its limited and general partners and for administrative costs. The Board feels that at this time it is in the best interest of shareholders to have the continuing free cash generated by FPLP be available for increasing FPLP's long-term debt repayments, new strategic investments and/or restructuring initiatives which improve the returns generated by the businesses going forward. The Board will continue to evaluate the dividend policy on a quarterly basis.

As at December 30, 2015, FPI had 6,902,592 shares outstanding.

DISTRIBUTABLE CASH ATTRIBUTABLE TO FPI(2)

From commencement of the Fund on May 28, 2002 until December 30, 2015, cumulative distributable cash attributable to FPI(2) totalled $13.95 per share. During that period FPI declared cash dividends to shareholders of $12.71 per share, resulting in a cumulative-from-inception payout ratio of 91.1%. Because FPI made an allowance for maintenance capital spending of FPLP in an amount estimated to be sufficient to maintain the productive capacity of the business when calculating distributable cash attributable to FPI(2), and because cumulative dividends declared were less than the cumulative distributable cash attributable to FPI(2), FPI believes there is no economic "return of capital".

HISTORICAL DIVIDENDS PAID ANALYSIS

	2015	2014	2013
	In thousands of dollars		
Cash provided by operating activities	$ 1,502	$ 3,449	$ 4,016
Net (loss) earnings	(23,776)	4,047	4,896
Dividends paid during the period	1,656	3,451	4,142
(Shortfall) of cash provided by operating activities over dividends paid	$ (154)	$ (2)	$ (126)
(Shortfall) excess of net (loss) earnings over dividends paid	$ (25,432)	$ 596	$ 754

The shortfall of net earnings over dividends paid in 2015 resulted primarily from a non-cash write-down in the carrying value of FPI's investment in FPLP. On August 14, 2015, FPI's Board of Directors determined not to declare further dividends at this time.

SUMMARY OF QUARTERLY RESULTS

A summary of FPI's quarterly revenue, net (loss) earnings and net (loss) earnings per share for the years ended December 30, 2015, 2014 and 2013 are as follows:

	2015	2014	2013
	In thousands of dollars (except per share amounts)		
Revenue			
Quarter 1	$ 606	$ 809	$ 1,424
Quarter 2	1,367	1,638	2,109
Quarter 3	526	1,052	1,234
Quarter 4	1,407	2,235	2,213
Net (loss) earnings			
Quarter 1	$ 399	$ 545	$ 974
Quarter 2	(17,655)	1,148	1,499
Quarter 3	331	738	864
Quarter 4	(6,851)	1,616	1,559
Net (loss) earnings per share			
Quarter 1	$ 0.058	$ 0.079	$ 0.141
Quarter 2	(2.558)	0.166	0.217
Quarter 3	0.048	0.107	0.125
Quarter 4	(0.993)	0.234	0.226

A non-cash write-down of $18.6 million was recorded in the second quarter of 2015 and a write-down of $7.8 million was recorded in the fourth quarter of 2015 based on FPI's determination that its 49% equity investment in FPLP was impaired, primarily due to continued declines in revenue and earnings experienced by FPLP.

Excluding the non-cash write-down of the equity investment in FPLP, FPI reported net earnings of $1.0 million for the three months ended December 30, 2015, compared to net earnings of $1.6 million for the same period in 2014.

Lower levels of revenue, net earnings and net earnings per share in the first and third quarters of 2015 are due to lower EBITDA(1) of FPLP.

FP NEWSPAPERS INC. ANNUAL REPORT 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS OF FPLP

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

	2015	2014	2013
	In thousands of dollars		
Revenue	89,026	99,039	106,272
Net (loss) earnings (*)	(31,232)	11,699	14,242
Total assets (*)	93,064	142,763	140,060
Total long-term liabilities(**)	45,325	56,712	51,401

*The reduction in net (loss) earnings and total assets results primarily from FPLP recording an impairment charge relating to its goodwill of $23.2 million during the second quarter of 2015 and $16.0 million during the fourth quarter of 2015, primarily due to continued declines in revenue and earnings.

**The reduction of long-term liabilities in 2015 from 2014 results from $6.3 million of principal repaid on the renewal of the long-term debt agreement in January 2015. The increase in long-term liabilities in 2014 compared to 2013 is primarily due the long-term equipment financing completed during 2014 and a decrease in the discount rate used to calculate the defined benefit pension obligation.

SUMMARY OF ANNUAL RESULTS

Revenue:

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

	2015	2014
	In thousands of dollars	
Print advertising	$ 54,627	$ 63,524
Print circulation	24,972	25,334
Commercial printing	4,853	5,268
Digital	3,647	3,850
Other	927	1,063
	$ 89,026	$ 99,039

FPLP's revenue for the twelve months ended December 31, 2015 was $89.0 million, a decrease of $10.0 million or 10.1% from the prior year. Print advertising revenues for the year ended December 31, 2015 were lower by 14.0% compared to last year. FPLP's largest print advertising revenue category, display advertising including colour, was $32.6 million, a decrease of $6.3 million or 16.2% from the prior year, primarily due to decreased spending in the automotive, telecommunications and national grocery and department store categories. Classified advertising revenues for the 2015 year decreased by $1.1 million or 12.3% compared to last year, primarily due to lower spending in the automotive, employment and real estate categories. Flyer distribution revenues were $13.9 million, a decrease of $1.4 million or 9.5% from 2014, primarily due to a decrease in flyer volumes, resulting from Target department stores exiting the market and consolidations of large national retailers.

Print circulation revenues for the year ended December 31, 2015 decreased by $0.4 million or 1.4%, with lower unit sales offsetting increased revenue from higher subscription and single copy rates. Commercial printing revenues for 2015 decreased by $0.4 million, which is primarily attributable to the loss of a major commercial print contract. Digital revenues for 2015 decreased by $0.2 million or 5.3%, primarily due a reduction in classified advertising revenues and decreased advertising on our mobile apps. Other revenue decreased by $0.1 million, primarily due to non-recurring revenue related to the publication of the City Beautiful book.

Operating Expenses:

Operating expenses by major category are as follows:

	2015	2014
	In thousands of dollars	
Employee compensation, excluding restructuring charges	$ 37,742	$ 40,186
Newsprint – own use	5,923	7,091
Newsprint – commercial printing	1,299	1,532
Delivery	14,736	15,998
Other	15,221	16,151
Depreciation and amortization	4,293	4,363
	79,214	85,321
Restructuring charges	495	369
	$ 79,709	$ 85,690

Operating expenses for the year ended December 31, 2015 were $79.7 million, a $6.0 million or 7.0% decrease from last year. Employee compensation costs, excluding restructuring charges, for the year decreased by $2.4 million or 6.1%, primarily due to employee reductions in 2015, partially offset by increased pension expense due to lower discount rates from the previous year. Restructuring charges for the year ending December 31, 2015 were $0.5 million, of which $0.4 million were for voluntary and involuntary severance payments for employees and $0.1 million was a charge for the closing of a rented delivery depot. Newsprint expense for FPLP's own publications for the year decreased by $1.2 million or 16.5%, primarily due to lower printing volumes mainly from fewer circulation copies and a lower newsprint price. Delivery costs decreased by $1.3 million or 7.9% primarily due to lower carrier costs from a reduced number of circulation subscriptions delivered and lower flyer volumes. Other expenses for the year decreased by $0.9 million or 5.8% compared to the prior year, primarily due to lower outside costs from reduced magazine printing and declining use of production supplies as a result of fewer printed pages.

EBITDA(1), excluding the goodwill impairment charge, for the year ended December 31, 2015 was $13.6 million compared to $17.7 million in 2014, a decrease of 23.2%. EBITDA(1) margin, excluding the goodwill impairment charge, for the twelve months ended December 31, 2015 was 15.3% compared to 17.9% in 2014.

For the year ended December 31, 2015, finance costs decreased by $0.4 million or 20.6% primarily due to the lower level of debt outstanding as a result of the $6.3 million principal repayment made on the renewal of the long-term debt agreement.

As a result of continued declines in revenue and earnings, FPLP recorded an aggregate impairment charge relating to its goodwill of $39.2 million. Excluding this impairment charge, FPLP's net earnings were $8.0 million for the year ended December 31, 2015, compared to net earnings of $11.7 million in the prior year.

Under IFRS, comprehensive income includes remeasurement gains and losses related to FPLP's defined benefit pension plan. These gains or losses are primarily related to changes in actuarial discount rate assumptions and returns of plan assets differing from expected interest income. The actuarial loss in 2015 was due to plan experience losses.

SUMMARY OF FOURTH QUARTER RESULTS

Revenue:

A summary of revenue for the three months ended December 31, 2015 and 2014 by major category is as follows:

	Three months ended December 31, 2015	Three months ended December 31, 2014
	In thousands of dollars	
Print advertising	$ 14,476	$ 16,858
Print circulation	6,288	6,325
Commercial printing	1,264	1,449
Digital	856	1,132
Other	242	420
	$ 23,126	$ 26,184

FPLP's revenue for the three months ended December 31, 2015 was $23.1 million, a decrease of $3.1 million or 11.7% from the same three months in the prior year. Print advertising revenues for the three months ended December 31, 2015 were $14.5 million, a 14.1% decrease compared to the same quarter last year. FPLP's largest print advertising revenue category, display advertising including colour, was $8.8 million, a decrease of $1.6 million or 15.4% from the same period in the prior year, primarily due to decreased spending in the department store, telecommunications, automotive and national retail categories. Classified advertising revenues for the fourth quarter decreased by $0.3 million or 16.0% compared to the same period last year, primarily due to a decrease in the real estate, employment and obituary categories. Flyer distribution revenues for the fourth quarter were $0.4 million or 10.2% lower than the same period last year, primarily due to a decrease in flyer volumes as a result of Target department stores exiting from the market and consolidation of national retail businesses.

Print circulation revenues for the fourth quarter were virtually unchanged compared to 2014, with subscriber rate increases offsetting lower unit sales. Commercial printing revenues for the quarter were lower by $0.2 million or 12.8%, primarily attributable to the loss of two major commercial print jobs at the Winnipeg Free Press. Digital revenues for the fourth quarter decreased by $0.3 million or 24.4% compared to the same period last year, primarily due to a decrease in on-line web ads together with lower mobile app revenues.

Operating Expenses:

	Three months ended December 31, 2015	Three months ended December 31, 2014
	In thousands of dollars	
Employee compensation	$ 9,071	$ 9,604
Newsprint – own use	1,505	1,799
Newsprint – commercial printing	339	396
Delivery	3,783	4,110
Other	3,850	4,013
Depreciation and amortization	1,067	1,102
	$ 19,615	$ 21,024
Restructuring charge	325	177
	$ 19,940	$ 21,201

Operating expenses for the three months ended December 31, 2015 were $19.9 million, a $1.3 million or 5.9% decrease from the same quarter last year. Employee compensation costs, excluding restructuring charges, for the fourth quarter decreased by $0.5 million or 5.6%, primarily due to the voluntary and non-voluntary reductions of employees across all our business units. Restructuring charges of $0.3 million were incurred in the fourth quarter of 2015 relating to employee severance payments. Compensation expense was also higher due to an increase in the defined benefit pension expense due primarily to a lower discount rate used in determining the expense for accounting purposes. Newsprint expense for FPLP's own publications for the quarter decreased by $0.3 million, primarily due to fewer circulation copies printed and a lower newsprint price. Delivery costs decreased by $0.3 million or 8.0% primarily due to lower circulation units and flyer volumes.

EBITDA[(1)], excluding the goodwill impairment charge, for the three months ended December 31, 2015 was $4.3 million, a decrease of $1.8 million or 30.1% from the same period last year. EBITDA[(1)], excluding restructuring charges and excluding the goodwill impairment charge, decreased by $1.7 million or 26.9% versus the same quarter last year. EBITDA[(1)] margin, excluding the goodwill impairment charge, for the three months ending December 31, 2015 was 18.4%, compared to 23.2% in the same period last year.

Finance costs for the three months ended December 31, 2015 decreased $0.1 million primarily due to the lower level of debt outstanding and lower interest rates on our variable rate loan.

Due to continued declines in revenue and earnings, FPLP recorded an impairment charge relating to its goodwill of $16.0 million. Excluding the goodwill impairment charge, FPLP's net earnings were $2.9 million for the three months ended December 31, 2015, compared to $4.6 million for the same period last year.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

QUARTERLY SUMMARY

Newspaper publishing is, to a certain extent, a seasonal business, with a higher proportion of revenues and operating earnings occurring during the second and fourth quarters of the calendar year. Revenue, EBITDA(1) and net earnings of FPLP by quarter for 2015, 2014, and 2013 were as follows:

	2015	2014	2013
	In thousands of dollars		
Revenue			
Quarter 1	$ 21,300	$ 23,493	$ 25,728
Quarter 2	23,461	25,787	27,324
Quarter 3	21,139	23,575	25,130
Quarter 4	23,126	26,184	28,090
	$ 89,026	$ 99,039	$ 106,272
EBITDA(1)			
Quarter 1	$ 2,684	$ 3,074	$ 4,362
Quarter 2	4,207	4,874	5,746
Quarter 3	2,466	3,679	3,959
Quarter 4	4,253	6,085	5,935
	$ 13,610	$ 17,712	$ 20,002
Net (Loss) Earnings			
Quarter 1	$ 1,236	$ 1,652	$ 2,907
Quarter 2(*)	(20,413)	3,341	4,302
Quarter 3	1,073	2,146	2,519
Quarter 4(*)	(13,128)	4,560	4,514
	$ (31,232)	$ 11,699	$ 14,242

(*) Goodwill impairment charges of $23.2 million in the second quarter and $16.0 million in the fourth quarter were recorded primarily due to continued declines in revenue and earnings.

FINANCIAL CONDITION OF FPLP

LIQUIDITY AND CAPITAL RESOURCES OF FPLP

Cash and cash equivalents at December 31, 2015 was $10.7 million compared to $16.2 million at December 31, 2014. Cash and cash equivalents may be used to pay future distributions (including future income taxes payable by the partners), to reduce debt, to fund future capital expenditures, or for other strategic initiatives or general purposes. During the year ended December 31, 2015, operating activities provided $11.1 million, cash flows used in investing activities were $1.2 million and $15.5 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 credit facility and anticipated distributions, assuming that advertising revenues do not materially deteriorate beyond management's current expectations.

CASH FLOW FROM OPERATING ACTIVITIES

During the year ended December 31, 2015, cash generated from operating activities was $11.1 million, compared to $15.7 million for 2014. The decrease in cash generated from operating activities is primarily due to lower earnings for the year and an increase in pension funding requirements resulting from lower discount rates used in the funding calculation.

INVESTING ACTIVITIES

Capital asset additions were $1.2 million for the year ended December 31, 2015, compared to $1.0 million for the prior year. Maintenance capital expenditures in 2015 were primarily for the completion of the replacement of the building cooling system at our Winnipeg facility to comply with legislative regulations and technology hardware and software upgrades across all business units.

FINANCING ACTIVITIES

Financing activities used $15.5 million of cash in 2015, compared to $8.7 million in 2014. Of this change, $6.3 million relates to the repayment of long-term debt principal in the first quarter of the year when the term loan was renewed. Distributions to partners of FPLP for the year ended December 31, 2015 totalled $6.3 million, compared to $10.2 million last year. During the second quarter of 2015 it was decided that until further notice, distributions to the partners of FPLP would be limited to that required to fund the partners' income taxes and administrative costs. During 2014 FPLP generated proceeds from equipment finance leases totalling $4.0 million.

CONTRACTUAL OBLIGATIONS

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

		Payments Due by Period			
	Total	Less than 1 year	1-3 Years	4-5 Years	After 5 Years
	In thousands of dollars				
Long-term debt	$ 42,704	$ 3,375	$ 13,082	$ 26,247	$ -
Mortgage loan	782	782	-	-	-
Finance leases	4,217	1,814	1,760	643	-
Operating leases	353	155	139	59	-
Other contractual commitments	2,412	678	1,105	509	120
Total contractual obligations	$ 50,468	$ 6,804	$ 16,086	$ 27,458	$ 120

The long-term debt agreement, which was originally scheduled to mature on January 31, 2016, was renewed on January 8, 2015 with a maturity date of January 31, 2020. On the renewal date, $6.3 million of principal was repaid, reducing the outstanding principal to $40.0 million. Principal repayments of $1.0 million are due on the first of June each year and a cash sweep is payable no later than 90 days after the end of each fiscal year with the first cash sweep due no later than March 30, 2016 for the 2015 financial year. The cash sweep is equal to the lesser of $3.5 million or 25% of FPLP's annual distributable cash as defined in the agreement. Maximum principal balances under the agreement are $30.0 million on January 31, 2018 and $20.0 million on January 31, 2020.

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

FPLP sponsors registered defined benefit and defined contribution pension plans. As at December 31, 2015, the defined benefit plan assets totalled $40.9 million and were invested in a diversified portfolio of Canadian and International equity securities, as well as Canadian bonds and real estate.

The most recent actuarial valuation for the defined benefit plan was performed as at December 31, 2014. This valuation established the contributions FPLP had to make under the defined benefit pension plan from January 1, 2015 until December 31, 2015, the next valuation date.

HISTORICAL DISTRIBUTIONS PAID ANALYSIS

	2015	2014	2013
	In thousands of dollars		
Cash provided by operating activities	$ 11,137	$ 15,700	$ 13,747
Net (loss) earnings	(31,232)	11,699	14,242
Distributions paid	6,270	10,213	19,040
Excess (shortfall) of cash provided by operating activities over distributions paid	$ 4,867	$ 5,487	$ (5,293)
Excess (shortfall) of net earnings over distributions paid	$ (37,502)	$ 1,486	$ (4,798)

The shortfall of net earnings over distributions paid in 2015 is a result of an aggregate non-cash impairment charge relating to FPLP's goodwill of $39.2 million during 2015, as a result of revenue declines due to economic factors including the uncertainty of the print advertising market and the rapidly evolving digital advertising market. In 2013, distributions paid exceeded both FPLP's net earnings and cash provided by operating activities as a special one-time distribution of $7.0 million, or $0.50 per partnership unit, was paid in February 2013, of which $3.5 million was paid to FPI as holder of Class A limited partner units. This distribution was paid to fund FPI's 2011 and 2012 income taxes payable, which were due by February 28, 2013. Starting in the first quarter of 2011, following FPI's conversion from an income trust to a corporation, FPLP included a reserve to fund these taxes owing in its calculation of distributable cash(2). FPLP does not use net earnings as a basis for determining the level of distributions to Unitholders. Distributions are determined in accordance with the LP Agreement. Because amortization charged as an expense in calculating net earnings in accordance with GAAP exceeds capital expenditures charged as a reduction of distributable cash in all periods, this result is not unexpected.

RESERVES RELATED TO DISTRIBUTABLE CASH ATTRIBUTABLE TO FPI(2)

Under the terms of the LP Agreement, the managing general partner of FPLP is required to determine reserves which are necessary or desirable to withhold from any distributions to partners, including among other things for capital expenditures, income taxes and operating expenses. A summary of the reserves for the years ended December 31, 2015 and 2014 is as follows:

Reserve for future maintenance capital

	2015	2014
	In thousands of dollars	
Reserve – beginning of year	$1,500	$1,500
Increase in reserve	-	-
Reserve – end of year	$1,500	$1,500

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

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

Reserve for cash sweep debt payment

	2015	2014
	In thousands of dollars	
Reserve - beginning of year	$ -	$ -
Increase in reserve	1,200	-
Reserve at end of year	$ 1,200	$ -

Increases in the reserve for the cash sweep long-term debt payment on the principal are shown as a deduction in determining distributable cash(2) of FPLP. Decreases in the reserve for the cash sweep debt payment are shown as an increase in determining distributable cash(2).

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The use of a reserve for cash sweep debt payment in calculating distributable cash attributable to FPI(2) is intended to provide an allowance for estimated annual cash sweep payments required under FPLP's long-term debt agreement. The cash sweep debt payment is equal to the lesser of $3.5 million or 25% of FPLP's annual distributable cash as defined in the agreement and is payable no later than 90 days after the end of each fiscal year with the first cash sweep due no later than September 30, 2016.

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

PRODUCTIVE CAPACITY MAINTENANCE STRATEGY

The key sources of revenue of FPLP are dependent upon our ability to sell and publish display and classified advertising, both in our newspapers and on our websites, our ability to distribute advertising flyers, and our ability to produce and distribute newspapers. The key capital assets used in these activities are premises, computer hardware and software, printing presses and distribution-related machinery. The available capital assets are used by our staff to deliver the products and services which result in revenue to FPLP.

It is the complex interaction of asset utilization, staffing levels and contracted services which ultimately determine our productive capacity on any given day, but there is no single measure which would accurately portray the productive capacity of the business. Generally speaking, we manage the business to ensure there is excess capacity available that would allow us to comfortably increase the volume of advertising, circulation and flyer distribution to take advantage of market opportunities.

FPLP's strategy is to maintain a reasonable level of excess productive capacity to at least ensure we are able to produce and distribute products and services at the current peak volumes. This is accomplished by conducting capital and non-capital preventive maintenance programs for machinery and equipment, performing repairs when necessary, evaluating new technologies as they become available, and investing in new technologies when appropriate.

DEBT MANAGEMENT STRATEGY

Under the HSBC credit facility, as renewed on January 8, 2015, FPLP is required to make principal repayments of $1.0 million on the first of June each year and a cash sweep is payable no later than 90 days after the end of each fiscal year with the first cash sweep due no later than March 30, 2016 for the 2015 financial year. The cash sweep is equal to the lesser of $3.5 million or 25% of FPLP's annual distributable cash as defined in the agreement. Maximum principal balances under the agreement are $30.0 million on January 31, 2018 and $20.0 million on January 31, 2020.

The capital assets with the most significant estimated replacement costs are buildings and printing presses, which have very long expected remaining useful lives. The ability to refinance the core debt at maturity will be dependent upon many factors, including the future EBITDA(1) of FPLP and the general conditions in the commercial lending market at the relevant time.

DEBT COVENANTS

The HSBC credit facility (see note 6 to the 2015 Annual Consolidated Financial Statements of FPLP) includes negative covenants which must be observed in order to avoid an accelerated termination of the agreement. These covenants include certain restrictions on paying distributions, the sale of assets, the purchase of investments and acquisitions, share capital, allowing encumbrances and certain issuances of loans or financial assistance. FPLP is restricted from making distributions which exceed distributable cash, as defined in the credit agreement, by more than $1.0 million annually. FPLP is required to maintain a leverage ratio of no greater than 3.5 to 1.0 prior to January 31, 2018 and 3.0 to 1.0 after that, a fixed charge coverage ratio of no less than 2.0 to 1.0, and a current ratio of no less than 1.2 to 1.0, all as defined in the agreement and measured quarterly on a trailing 12-month basis. Financial amounts used in the calculations are specifically defined in the credit agreement, but are substantially equivalent to the corresponding terms used in the external financial reports filed by FPLP. The financial ratios are calculated in accordance with the HSBC credit agreement on a quarterly basis. At December 31, 2015 FPLP is in compliance with all covenants.

FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

At December 30, 2015 there are no derivative contracts in place or off-balance sheet arrangements entered into by FPI.

CREDIT RISK

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

As we are in the business of publishing newspapers, in both print and electronic formats, and performing printing services for third parties, included in accounts receivable are amounts owed from advertisers and advertising agencies, circulation customers and commercial print clients. We do not hold collateral as security for these balances. Our credit risk relating to these accounts receivable is spread over a large number of national and local advertising clients and advertising agencies, in addition to many circulation retail customers and third-party printing clients. We manage credit risk on a customer-by-customer basis and establish a reasonable allowance for uncollectible amounts with this allowance netted against the accounts receivable on the balance sheet. The adequacy of the allowance is reviewed on a regular basis and is estimated based on past experience, specific risks associated with the customers and other relevant information.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. FPLP's variable interest rate term loan exposes the business to cash flow interest rate risk since the borrowings are in the form of prime-rate loans or bankers' acceptances with an available term of between 30 and 180 days. FPLP's fixed rate finance leases and mortgage loan expose the business to fair value interest rate risk.

We do not have a formal interest rate risk policy but management reviews the pricing of interest-rate swap contracts and would make a recommendation to the Board of Directors if there was a compelling case to purchase a swap contract.

For the year ended December 31, 2015, if interest rates on FPLP's term loan had been 1.0% higher or lower than actually were in effect, with all other variables held constant, interest expense would have been $0.4 million higher or lower (2014 $0.5 million).

LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. We believe that we have access to sufficient capital through existing cash balances, future internally generated cash flows and external sources (bank credit markets and debt capital markets) to meet current spending forecasts. Trade payables are due within one year.

RELATED PARTY TRANSACTIONS

In 2015 FPLP purchased the majority of its newsprint from Alberta Newsprint Company ("ANC"), a joint venture owned equally by a limited partnership controlled by Ronald Stern (Chairman of the Board and Director of FPLP), and West Fraser Mills Ltd. ANC, also supplies newsprint to a number of other newspaper publishing operations in both Canada and the United States. Total newsprint purchases from ANC based on actual invoice prices in 2015 were $5.5 million, compared to $3.9 million for the same period last year. While there is no formal contractual obligation in place with respect to future newsprint purchases, selection of a supplier or suppliers will continue to be made by management based on criteria approved by the Audit Committee of FPLP, which reviews newsprint purchasing details with management on a quarterly basis.

DISCLOSURE CONTROLS AND PROCEDURES

Management of FPI and FPLP, including the Chief Executive Officer and Chief Financial Officer, have evaluated the design and effectiveness of FPI's and FPLP's disclosure controls and procedures as of December 30, 2015 and December 31, 2015, respectively, and have concluded that FPI's and FPLP's disclosure controls and procedures were reasonably adequate and effective to ensure that material information relating to FPI and FPLP is recorded, processed, summarized and reported within the time periods specified, and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of FPI and FPLP, including the Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

Management assessed the effectiveness of FPI's and FPLP's internal control over financial reporting as of December 30, 2015 and December 31, 2015, respectively, and based on that assessment concluded that FPI's and FPLP's internal controls over financial reporting were effective. No material changes were made in FPI's and FPLP's internal controls over financial reporting during the year ended December 30, 2015 and December 31, 2015, respectively, that have materially affected, or are reasonably likely to materially affect, FPI's and FPLP's internal controls over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

FPLP

Valuation of Intangible Assets and Goodwill

FPLP has estimated the fair value of its cash generating units ("CGUs") and goodwill CGUs, based on historical and expected operating plans, economic conditions and general outlook for the industry and geographic market in which FPLP operates. Significant unfavourable changes to these factors could result in a material impairment of the fair value and/or life of these assets.

In performing the annual impairment testing of goodwill and indefinite life intangibles, a number of assumptions and estimates are made. The fair value definition used is the amount at which an asset could be bought or sold in a current transaction between knowledgeable, willing parties. FPLP uses the higher of fair value less cost to dispose and value-in-use. Value-in-use calculations are based on management's expectations covering a five-year period discounted using a pre-tax discount rate. Cash flows beyond the five-year period are extrapolated using the estimated growth rate that does not exceed the long-term average growth rate for the newspaper industry. Management's fair value less cost to dispose assessment is based on applying market multiples to FPLP's EBITDA.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Had different assumptions or valuation techniques been used in performing the impairment testing, the carrying value of finite life and indefinite life intangibles and goodwill may have been different. FPLP considers the assumptions and techniques used to be reasonable.

Pension Plans

FPLP has a defined benefit pension plan and multiple defined contribution pension plans. The defined benefit pension plan requires actuarial assumptions which include discount rates, rate of compensation increases, mortality assumptions, and other demographic assumptions. A change in the discount rate used in the valuation of the pension obligations could result in a significant increase or decrease in the value of the obligations, which impacts the funded status of the plans as well as the net benefit cost in subsequent years. At December 31, 2015, a 0.5% decrease in the discount rate would increase our defined benefit obligations by $4.2 million, and a 0.5% increase in the discount rate would decrease our defined benefit obligations by $3.7 million. At December 31, 2015, a 0.5% increase in salary assumption would increase our defined benefit obligations by $0.5 million and a 0.5% decrease in salary assumption would decrease our defined benefit obligations by $0.4 million.

The funding for the defined benefit pension plan is based on actuarial valuation reports which are filed with the provincial pension commission. The last actuarial valuation report was completed as of December 31, 2014, and the next required valuation report is as of December 31, 2015.

FPI

Valuation of Investment in FPLP

Annually, FPI evaluates whether an impairment exists in its investment in FPLP. FPI completed its impairment assessment by comparing its recoverable amount (being the higher of fair value less cost to dispose and value in use) to its carrying value. Under the value-in-use approach, management estimates the discounted future cash flows for five years and a terminal value for FPI's investment in FPLP. The future cash flows are based on management's best estimates considering historical and expected operating plans, economic conditions, and general outlook for the industry and geographic market in which FPLP operates. The discount rates used by FPI are based on an industry-based debt/equity ratio and consider the risk free rate, risk premium and size premium for possible variations from management's projections. A terminal value is the value attributed to FPLP's operations beyond the projected period of 2020 using a perpetuity growth rate based on industry, revenue and operating income trends and growth prospects. Under the fair value less cost to dispose approach, FPI estimates fair value by multiplying earnings before interest, income taxes, depreciation, amortization and other non-recurring costs by multiples based on market comparables.

FPI's assumptions are affected by current market conditions which may affect expected revenues of FPLP. In addition, while FPLP continues to implement cost savings initiatives, operating costs may increase more significantly than expected. FPI has made certain assumptions which may differ or change quickly depending on economic conditions and other events. Accordingly, it is reasonably possible that future changes in assumptions may negatively impact future impairment assessments of FPI's investment in FPLP.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Accounting standards and amendments issued but not yet effective

IFRS 9 – Financial Instruments

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

IFRS 15 – Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, Construction Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 is mandatory and will be effective for the Company's beginning on January 1, 2018, with earlier adoption permitted. FPLP is assessing the impact of adopting this standard on its financial statements.

IFRS 16 – Leases

IFRS 16, Leases replaces IAS 17, Leases and related interpretations. The core principle is that a lessee recognize assets and liabilities for all leases with a lease term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The new standard is intended to provide a faithful representation of leasing transactions, in particular those that do not currently require the lessees to recognize an asset and liability arising from an operating lease. IFRS 16 is effective for annual periods beginning on January 1, 2019, with early adoption permitted for entities that would also apply IFRS 15, Revenue from Contracts with Customers.

BUSINESS RISKS AND UNCERTAINTIES

REVENUE

Print advertising revenues, which account for approximately 61% of total revenue, are historically dependent upon general economic conditions, the specific spending plans of high-volume advertisers and the readership levels of the printed products. A significant downturn in the national or regional economy, like the one which started in 2008, decreases advertising revenue earned by our newspapers. Similarly, a shift from newspaper and/or flyer advertising to digital or other media advertising has and is likely to continue to adversely affect total revenue. Digital competition is not limited to platforms that provide news and includes providers of search engine marketing, display advertising, digital classifieds, social media, mobile advertising and video advertising. A change in promotional strategy by significant users of newspaper advertising, such as the automotive industry, financial services industry, national retailers, employment advertisers and the consolidation of retailers, could adversely affect total revenue. A significant decline in the readership of our printed products would adversely affect print advertising revenues.

DECLINE IN OVERALL USAGE OF NEWSPAPERS AND FLYER DELIVERY

FPI and FPLP could be materially adversely affected if the usage of newspapers or flyer distribution declines significantly. For example, increased usage of the internet by consumers to find news or flyers could result in a decline in their use of newspapers and flyer distribution. Such declines could impair FPLP's ability to maintain or increase FPLP's advertising prices, cause businesses that purchase advertising in FPLP's newspapers and flyer distribution to reduce or discontinue their purchases, and discourage businesses that do not already purchase advertising in FPLP's newspapers and flyer distribution from doing so.

Any of the factors that may contribute to a decline in usage of FPLP's newspapers and flyer distribution could impair FPLP's revenues and have a material adverse effect on our business.

EXPENSES

Newspaper publishing is both capital and labour-intensive and, as a result, newspapers have relatively high fixed-cost structures. During periods of declining revenue, significant portions of costs may remain fixed, resulting in decreased earnings. Employee compensation is our single largest expense category accounting for approximately 47% of FPLP's total operating expenses. The majority of FPLP's employees are unionized and their employment is governed by the terms of collective agreements. The current five-year contracts with the Unifor union expire on June 30, 2018, in respect of the unionized employees and city delivery carriers of the Winnipeg Free Press and Canstar Community News unionized employees and on December 31, 2018 in respect of the Brandon Sun unionized employees. The collective agreements include clauses governing all aspects of the employer/employee relationship and include limitations on FPLP's ability to sub-contract work to independent third parties. Strikes, lockouts, or other labour disruptions could restrict FPLP's ability to service its customers and consequently materially adversely affect its revenues.

Newsprint and other paper is a significant cost for FPLP, accounting for $7.2 million in 2015. Newsprint costs can vary widely from time to time, but over the past five years have been relatively stable. A $10 per tonne increase or decrease in the price of newsprint would have an approximately $0.1 million annualized change to our newsprint expense. If newsprint costs rise rapidly, there is no assurance that advertising and circulation revenues can be increased to offset the increased newsprint expense.

Over the last several years, FPLP has reduced costs in a number of ways. It will be increasingly difficult to continue to reduce costs from current levels. FPLP's ability to achieve cost savings may be impacted by the level of unionization at its businesses, existing third party suppliers and service providers and FPLP's ability to outsource additional components of its business operations in the future.

INTEREST RATE FLUCTUATIONS

FPLP is exposed to fluctuations in short-term interest rates as the amounts borrowed under the term loan facility are in the form of prime-rate loans or bankers' acceptances at varying interest rates. Furthermore, the interest rate spread above the prime-rate loans or bankers' acceptance rate varies based on the leverage ratio. FPLP is also exposed to fluctuations in long-term interest rates and credit spreads relative to the refinancing of its term loan obligation upon its maturity on January 31, 2020. The interest rate on new long-term debt issuances will be based on the prevailing market rates at the time of the refinancing. Increases in interest rates on new debt issuances may have a material adverse effect on our earnings.

FP NEWSPAPERS INC. ANNUAL REPORT 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

FPLP monitors market conditions and the impact of interest rate fluctuations on its interest rate exposure. While there is no formal policy with respect to the use of interest rate swaps as a tool to manage interest rate risk, pricing of swap agreements is reviewed regularly and FPLP has used swap agreements historically when it was determined that these agreements were justified.

PENSION FUND OBLIGATIONS

FPLP has in place a defined benefit pension plan and defined contribution plans. The defined benefit pension plan was started when the Business was acquired by FPLP in November 2001. The plan text mirrored the predecessor plan.

Provincial pension legislation requires that the funded status of defined benefit pension plans be determined on both a going-concern basis (which assumes the pension plan continues indefinitely) and a solvency basis (which assumes the plan is wound-up on the valuation date). Based on FPLP's most recent actuarial valuation, as of December 31, 2014, the plan had a funding surplus of $4.3 million (funding surplus of $3.5 million in 2013) on a going-concern basis and a funding shortfall of $11.0 million ($6.3 million shortfall in 2013) on a solvency basis. The actual funded status of the pension plan and FPLP's contribution requirements and accounting expense are dependent on many factors, some of which include regulatory developments, actuarial assumptions and methods used, changes in plan demographics and experience and changes in economic conditions such as the return on fund assets and changes in interest rates used for determining the present value of pension obligations. Changes in the above factors can result in significant changes to the determination of the reported pension expense and the level of required funding to the plan, which can produce volatility in FPLP's reported results and cash generated from operating activities and distributable cash(2) of FPLP.

RELIANCE ON PRINTING FACILITIES

FPLP places considerable reliance on the functioning of its two printing operations, particularly the Winnipeg Free Press facility, which produces the Winnipeg Free Press, Brandon Sun and Canstar Community News newspapers and related products. In the event of a shutdown or disruption of one of its facilities, FPLP would attempt to mitigate potential damage by shifting production to the other facility or to a third-party printer. A shutdown or disruption of one of FPLP's facilities could result in FPLP being unable to print some publications, which could have a significant negative impact on FPLP's results.

INFORMATION TECHNOLOGY & OTHER MANUFACTURING SYSTEMS & EQUIPMENT

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

IMPAIRMENT

At December 30, 2015 the carrying value of FPI's investment in FPLP limited partnership units is $16.6 million. At December 31, 2015, FPLP has goodwill with a carrying value of $32.1 million and intangible assets of $6.2 million on its balance sheet. There are many factors which may affect the value of FPI's investment in FPLP and the goodwill and intangible assets of FPLP, some of which include the state of the general and local economy, competition, technology, consumer consumption habits, brand equity and various contractual arrangements. If any of these factors impair the value of these assets, we are required to reduce the carrying value on the balance sheet and record a non-cash write-down in the statement of earnings.

LITIGATION & INSURANCE COVERAGE

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

DEPENDENCE ON KEY PERSONNEL

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

REPUTATION

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

DEBT SERVICING

FPLP'S ability to make scheduled payments of interest and principal and to refinance its indebtedness when it becomes due in January 2020 will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, interest rate levels, competitive, business and other factors, many of which are beyond its control.

Additional risk factors are described in the Corporation's Annual Information Form dated March 9, 2016, which is available at www.sedar.com.

OUTLOOK

REVENUE

FPLP's print advertising revenues are expected to continue to face challenges in 2016 as a result of continued shifts in spending by advertisers. Print advertising revenues for the first two months of 2016 were approximately 10.0% lower than the previous year.

Print circulation revenues, which account for approximately 28% of our overall revenues, are expected to be near 2015 levels as subscription rate increases are expected to offset the long term trend of slowly declining print circulation unit sales. We have seen a lower level of decline in our city home delivery subscribers in recent months and while we have no way of knowing for sure, we believe the introduction of our digital paywall last year has helped slow the decline. A full year of readership revenues from both the Winnipeg Free Press monthly digital subscribers and single article purchases is budgeted to generate additional revenues of $0.5 million in 2016. In February 2016 there are approximately 4,000 "all Access" subscribers paying $16.99 per month for digital access to our Winnipeg products and we have planned to grow this to 4,400 by the end of the year. For single article digital sales we are charging $0.27 per article and also have approximately 4,000 registered accounts which we are planning to generate $0.1 million in revenue from in 2016. In addition to these digital only readership groups, at the end of February we have approximately 23,000 print subscribers who have registered to get access to the full digital suite of products.

Newspapers Digital advertising revenues are increasingly being impacted by the dominance of the large multi-national social media and search engine sites. After a number of years of increasing digital advertising revenues 2015 saw a small decline of $0.2 million or 5%. Our 2016 plan is to grow this revenue source back to the 2014 level or beyond by continually improving our digital product offerings and making small investments to promote both our desktop website and our mobile apps.

We are planning for a small 3% growth in commercial printing revenues which are largely generated by our Derksen Printing plant in Steinbach.

OPERATING EXPENSES

Employee compensation is our single biggest expense and in 2015 accounted for just over 50% of our total operating expenses before depreciation and amortization. The Winnipeg collective bargaining agreement includes a 0.5% increase effective July 1, 2016 and the same increase for Brandon employees is effective January 1, 2016. We are planning to reduce these costs by a further $2.7 million or approximately 7% in 2016 through a combination of retirements, voluntary and involuntary layoffs. Total full time equivalent employee counts which were lower by approximately 5% in 2015 from the previous year are planned to be down by a further 7% in 2016.

Delivery costs which account for approximately 20% of our operating expenses before depreciation and amortization are budgeted to decrease by approximately $0.3 million in 2016 primarily due to a continuation of a slow decline in printed circulation copies delivered and stream-lining, consolidation and elimination of delivery routes and depots as opportunities arise across all our businesses.

Newsprint price increases were announced and implemented during the first quarter of 2016. We have tested lighter weight newsprint and will be switching to the lighter grade, which, combined with fewer circulation copies printed, will result in a reduction of newsprint expense in 2016.

We are forecasting a decrease in the other expense category in the 5% range from a variety of cost reductions put in place including the cancellation of some sponsorships, lower levels of contracted third party work and lower national commissions from lower anticipated revenue levels.

CAPITAL INITIATIVES, FINANCE COSTS AND OTHER ITEMS

Maintenance capital spending for 2016 is being budgeted at $0.8 million, but can be reduced if required. Our only committed capital projects are the completion of the Winnipeg advertising and editorial systems software upgrades which were started in the fourth quarter last year. Replacements of computer hardware, fleet vehicles and photo equipment will be done on an "as required" basis. Other minor software investments may be made if they are justified by an appropriate return.

Finance costs are forecasted to be lower by approximately $0.2 million primarily resulting from lower principal balances on our term debt and two expiring finance leases. The 2015 required cash sweep principal repayment on our term loan is due by March 30, 2016 and while the required minimum payment is estimated at $1.2 million, we may decide to use a portion of our available cash on hand to increase this amount. Under the terms of our term loan agreement, the maximum loan balance at January 31, 2018 is $30.0 million and $20.0 million at the end of the facility on January 31, 2020.

An actuarial valuation, which is required on our defined benefit pension plan as of December 31, 2015, will ultimately determine the required level of employer funding for 2016, but discount rates which declined at the end of 2015 will increase the required 2016 company pension funding. The actual increase will not be known until after completing the actuarial study during the second and third quarters of this year, but we are budgeting for increased annual funding in the $0.6 million range.

FP NEWSPAPERS INC. ANNUAL REPORT 2015
MANAGEMENT'S DISCUSSION AND ANALYSIS

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements are subject to known and unknown risks and uncertainties that may cause the actual results, performance or achievements of FPI or FPLP, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the current general economic uncertainty, FPLP's ability to effectively manage growth and maintain its profitability, FPLP's ability to operate in a highly competitive industry, FPLP's ability to compete with other forms of media, FPLP's ability to attract advertisers, FPLP's reliance upon key personnel, FPLP's relatively high fixed costs, FPLP's dependence upon particular advertising customer segments, indebtedness incurred in making acquisitions, the availability of financing for capital improvements, costs related to capital expenditures, cyclical and seasonal variations in FPLP's revenues, the risk of acts of terrorism, the cost of newsprint, the potential for labour disruptions, the risk of equipment failure, and the effect of Canadian tax laws. Additional information about these and other factors is discussed under "Risk Factors" in FPI's Annual Information Form dated March 9, 2016, which is available at www.sedar.com.

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

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

FOOTNOTES:

EBITDA

FPLP believes that in addition to net earnings as reported on FPLP's consolidated statements of earnings, EBITDA is a useful supplemental measure as it is a measure used by many of FPLP's Unitholders, creditors and analysts as a proxy for the amount of cash generated by FPLP's operating activities. EBITDA is not a recognized measure of financial performance under IFRS. Investors are cautioned that EBITDA should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of FPLP`s performance. FPLP's method of calculating EBITDA is detailed below and may differ from that used by other issuers and, accordingly, EBITDA as calculated by FPLP may not be comparable to similar measures used by other issuers.

	Three Months Ended December 31, 2015	2014	Twelve Months Ended December 31, 2015	2014
	In thousands of dollars			
Net earnings (loss) for the period	$ (13,128)	$ 4,560	$ (31,232)	$ 11,699
Add (subtract):				
Depreciation and amortization	1,067	1,102	4,293	4,363
Impairment of goodwill	16,000	-	39,200	-
Finance costs	331	466	1,435	1,807
Other income	(17)	(43)	(86)	(157)
EBITDA	**$ 4,253**	**$ 6,085**	**$ 13,610**	**$ 17,712**

(2) DISTRIBUTABLE CASH ATTRIBUTABLE TO FPI

FPI believes that in addition to the disclosure of cash flow from operations, distributable cash attributable to FPI is an important supplemental measure of cash flow because it provides investors with an indication of the amount of cash available for distribution to shareholders and because such calculations are required by the terms of the partnership agreement governing FPLP. Distributable cash attributable to FPI is not a defined term under IFRS, and it should not be construed as an alternative to using net earnings or the statements of cash flows as measures of profitability and cash flow. Readers are cautioned that distributable cash as calculated by FPI may not be comparable to similar measures presented by other issuers. FPI uses this measure as a factor to determine whether to adjust its monthly dividends to shareholders.

Management has determined distributable cash attributable to FPI for the stated periods as follows:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2015	**2014**	**2015**	**2014**
	In thousands of dollars			
Distributable cash of FPLP:				
EBITDA(1)	$ 4,253	$ 6,085	$ 13,610	$ 17,712
Other income (excluding non-cash gains or losses)	17	43	81	146
Finance costs on notes payable, term loan, mortgage loan, guarantee fee and finance leases, excluding accretion of related deferred financing costs	(322)	(455)	(1,399)	(1,761)
Principal repayment of term loan	-	-	(7,324)	(1,000)
Maintenance capital expenditures	(449)	(693)	(1,195)	(1,030)
Proceeds from sale of property, plant and equipment	-	-	5	10
Principal repayments on finance leases	(424)	(408)	(1,673)	(1,459)
Principal repayments on mortgage loan	(14)	(13)	(59)	(51)
Pension funding in excess of accounting expense	(469)	114	(2,148)	(911)
Reserve for cash sweep long-term debt repayment	75	-	(1,200)	-
Distributable cash of FPLP	**$ 2,667**	**$ 4,673**	**$ (1,302)**	**$ 11,656**

Distributable cash attributable to FPI:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2015	**2014**	**2015**	**2014**
	In thousands of dollars (except per share amounts)			
49% attributable to FPI	$ 1,307	$ 2,290	$ (638)	$ 5,711
Administration expenses	(63)	(55)	(217)	(212)
Other income	-	-	1	1
Current income tax recovery (expense)	333	(373)	(570)	(1,523)
Distributable cash attributable to FPI	**$ 1,577**	**$ 1,862**	**$ (1,424)**	**$ 3,977**
Distributable cash attributable to FPI – per share	$ 0.228	$ 0.270	$ (0.206)	$ 0.576
Cash dividends declared by FPI – per share	-	$0.080	$ 0.16	$ 0.530
Payout ratio for the period	n/a	29.7%	n/a	92.0%

FP NEWSPAPERS INC.

Financial Statements

National Geographic Traveler's prestigious list of Top 20 "Best Trips of 2016" noted that the opening of the Canadian Museum for Human Rights "blipped" Winnipeg, the "multicultural, multilingual metropolis" onto the international scene, citing the humming Exchange District and the city's many festivals.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of FP Newspapers Inc. ("FPI"), the consolidated financial statements of FP Canadian Newspapers Limited Partnership ("FPLP"), and all the information in this annual report are the responsibility of the management of FPI and FPCN General Partner Inc. (FPGP), the Managing General Partner of FPLP. The financial statements of FPI and FPLP have been prepared in accordance with International Financial Reporting Standards and where appropriate include management's best estimates and judgments. Management has reviewed the financial information presented throughout this report and has ensured it is consistent with the financial statements.

Management maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and that financial information is timely and reliable.

The Directors of FPI and FPGP are responsible for ensuring that management fulfills its responsibilities for financial reporting and are ultimately responsible for reviewing and approving the financial statements of FPI and FPLP, respectively. In each case, the Directors carry out this responsibility principally through an Audit Committee appointed by the Board of Directors.

The Audit Committees of FPI and FPGP have the same members, a majority of whom are independent directors. The Audit Committees meet periodically with management and the external auditors to review internal controls, auc results and accounting principles. Acting on the recommendation of the Audit Committees, the financial statements and Management's Discussion and Analysis are forwarded to the Directors of each of FPI and FPGP for their approval.

PricewaterhouseCoopers LLP, an independent firm of Chartered Professional Accountants, was appointed by the shareholders of FPI at the last annual meeting to complete the audits of the financial statements and to provide independent professional opinions.

PricewaterhouseCoopers LLP has full and free access to the Audit Committees.

Ronald N. Stern

RONALD N. STERN
Chief Executive Officer

DAN KOSHOWSKI
Chief Financial Officer

Winnipeg, Canada
March 9, 2016

March 9, 2016

Independent Auditor's Report

To the Shareholders of
FP Newspapers Inc.

We have audited the accompanying financial statements of FP Newspapers Inc., which comprise the balance sheets as at December 30, 2015 and December 30, 2014 and the statements of earnings (loss) and comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of FP Newspapers Inc. as at December 30, 2015 and December 30, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

PricewaterhouseCoopers LLP
Richardson Building, One Lombard Place, Suite 2300, Winnipeg, Manitoba, Canada R3B 0X6
T: +1 204 926 2400, F: +1 204 944 1020

FP Newspapers Inc.
Balance Sheets
(in thousands of Canadian dollars)

	Note	As at December 30, 2015	As at December 30, 2014
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		$ 288	$ 442
Prepaid expenses and other assets		6	6
Income tax receivable		691	-
		985	448
LONG-TERM ASSETS			
Investment in FP Canadian Newspapers Limited Partnership	3	16,589	43,105
Deferred income tax asset		-	35
TOTAL ASSETS		$ 17,574	$ 43,588
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		$ 80	$ 81
Dividend payable	5	-	552
Income taxes payable		-	91
		80	724
LONG-TERM LIABILITIES			
Deferred income tax liability	8	174	-
TOTAL LIABILITIES		254	724
SHAREHOLDERS' EQUITY			
Share capital	6	71,373	71,373
Deficit		(54,053)	(28,509)
TOTAL SHAREHOLDERS' EQUITY		17,320	42,864
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 17,574	$ 43,588

(See accompanying notes)

Approved by the Board of Directors

RONALD N. STERN
Director

HARVEY SECTER
Director

FP Newspapers Inc.
Statements of Earnings (Loss) and Comprehensive Income (Loss)
For the Years Ended December 30, 2015 and 2014
(in thousands of Canadian dollars except per share amounts)

	Note	2015	2014
Equity interest from FP Canadian Newspapers Limited Partnership Class A limited partner units	3	$ 3,905	$ 5,733
Write-down of investment in FP Canadian Newspapers Limited Partnership Class A limited partner units		(26,440)	-
Administration expenses		(217)	(212)
Other income		1	1
Net (loss) earnings before income taxes		(22,751)	5,522
Current income tax (expense)	8	(570)	(1,523)
Deferred income tax (expense) recovery	8	(455)	48
Net (loss) earnings for the year		$ (23,776)	$ 4,047
Items that will not be reclassified to net earnings (loss):			
Equity interest of other comprehensive (loss) from FP Canadian Newspapers Limited Partnership	3	(910)	(2,515)
Deferred income tax recovery	8	246	679
Comprehensive (loss) income for the year		$ (24,440)	$ 2,211
Weighted average number of Common Shares outstanding	6	6,902,592	6,902,592
Net (loss) earnings per share – basic and diluted		$ (3.445)	$ 0.586

(See accompanying notes)

FP Newspapers Inc.
Statements of Changes in Equity
For the Years Ended December 30, 2015 and 2014
(in thousands of Canadian dollars except per share amounts)

	Share Capital	Deficit	Total Shareholders' Equity
At December 30, 2013	$ 71,373	$ (27,062)	$ 44,311
Net earnings for the year	-	4,047	4,047
Other comprehensive (loss) for the year	-	(1,836)	(1,836)
Comprehensive income for the year	-	2,211	2,211
Dividends	-	(3,658)	(3,658)
At December 30, 2014	$ 71,373	$ (28,509)	$ 42,864
Net (loss) for the year	-	(23,776)	(23,776)
Other comprehensive (loss) for the year	-	(664)	(664)
Comprehensive (loss) for the year	-	(24,440)	(24,440)
Dividends	-	(1,104)	(1,104)
At December 30, 2015	$ 71,373	$ (54,053)	$ 17,320

(See accompanying notes)

FP Newspapers Inc.
Statements of Cash Flows
For the Years Ended December 30, 2015 and 2014
(in thousands of Canadian dollars)

	Note	2015	2014
Cash provided by (used in):			
Operating activities			
Net (loss) earnings for the year		$ (23,776)	$ 4,047
Items not affecting cash:			
Equity interest from Class A Units of FP Canadian Newspapers Limited Partnership	3	(3,905)	(5,733)
Non-cash write-down of investment in FP Canadian Newspapers Limited Partnership	3	26,440	
Deferred income tax expense (recovery)	8	455	(48)
Distributions received on Class A Units of FP Canadian Newspapers Limited Partnership	3	3,071	5,005
Net change in non-cash working capital items		(783)	178
		1,502	3,449
Financing activities			
Dividends paid		(1,656)	(3,451)
(Decrease) in cash and cash equivalents		(154)	(2)
Cash and cash equivalents – beginning of year		442	444
Cash and cash equivalents – end of year		$ 288	$ 442
Supplemental Cash Flow information:			
Income tax paid during the year		$ 1,352	$ 1,477

(See accompanying notes)

1. GENERAL INFORMATION

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

2. SIGNIFICANT ACCOUNTING POLICIES

FPI prepares its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") – Part 1 as set out in the CPA Canada Handbook – Accounting ("CPA Handbook"). Part 1 of the CPA Handbook incorporates International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved by the Board of Directors of FPI on March 9, 2016.

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

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

a) BASIS OF MEASUREMENT

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

b) INVESTMENTS IN ASSOCIATES

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

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

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

FP Newspapers Inc.
Notes to Financial Statements for the years ended December 30, 2015 and 2014
(tabular amounts in thousands of Canadian dollars)

c) CASH AND CASH EQUIVALENTS

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

d) FINANCIAL INSTRUMENTS

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

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

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

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

e) INCOME TAXES

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

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

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

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

f) DIVIDENDS

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

g) SHARE CAPITAL

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

h) EARNINGS PER SHARE

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

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

Accounting policies

Accounting standards and amendments issued but not yet effective

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

IFRS 15 – Revenue from contracts with customers
In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various IFRIC and SI C interpretations regarding revenue. Adoption of IFRS 15 is mandatory and will be effective for the Company's beginning on January 1, 2018, with earlier adoption permitted. FPI is assessing the impact of adopting this standard on its financial statements.

IFRS 16 – Leases
IFRS 16, *Leases* replaces IAS 17, *Leases and related interpretations*. The core principle is that a lessee recognize assets and liabilities for all leases with a lease term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The new standard is intended to provide a faithful representation of leasing transactions, in particular those that do not currently require the lessees to recognize an asset and liability arising from an operating lease. IFRS 16 is effective for annual periods beginning on January 1, 2019, with early adoption permitted for entities that would also apply IFRS 15, *Revenue from Contracts with Customers*.

FP Newspapers Inc.
Notes to Financial Statements for the years ended December 30, 2015 and 2014
(tabular amounts in thousands of Canadian dollars)

3. INVESTMENT IN FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP

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

The investment in FPLP is summarized as follows:

	Class A limited partner units
Balance at December 30, 2013	$ 44,892
Equity interest in net earnings and comprehensive income for the year ended December 30, 2014	3,218
Distributions received for the year ended December 30, 2014	(5,005)
Balance at December 30, 2014	$ 43,105
Equity interest in net earnings and comprehensive income for the year ended December 30, 2015	2,995
Non-cash write-down of investment in FP Canadian Newspapers limited Partnership Class A limited partner units	(26,440)
Distributions received for the year ended December 30, 2015	(3,071)
Balance at December 30, 2015	$ 16,589

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

	2015	**2014**
Net earnings (loss) of FPLP	$ (31,232)	$ 11,699
Add back impairment of goodwill recorded by FPLP	39,200	-
Net earnings of FPLP before goodwill impairment charge	7,968	11,699
Interest attributable to FPI	49%	49%
Equity interest in net earnings of FPLP before goodwill impairment	3,905	5,733
Other comprehensive (loss) of FPLP	(1,856)	(5,133)
Interest attributable to FPI	49%	49%
Equity interest in other comprehensive (loss) of FPLP	$ (910)	$ (2,515)

FPLP has a year-end of December 31, 2015. FPI has consolidated FPLP as at and for the year ended December 31, 2015 for convenience purposes and the impact was not material.

Due to continued declines in revenue and earnings experienced by FPLP, FPI determined that objective evidence of impairment existed in its investment in FPLP. The recoverable amount, based on fair value less costs to dispose, of the investment was determined by applying a market multiple of 4.75 to the trailing twelve month EBITDA of FPLP at December 31, 2015. The market multiple was considered to be a level 3 input within the IFRS 13 fair value hierarchy.

As a result of the impairment analysis performed, FPI concluded that the carrying value of its investment in FPLP was less than its recoverable amount and accordingly recorded an aggregate impairment charge of $26,440,000.

As the recoverable amount of the investment is equal to its carrying value, any change in the key assumption, being the market multiple, used in the fair value less cost of disposal assessment would impact the impairment recorded. At December 31, 2015, if the multiple were to increase or decrease by 0.5 times the impairment would increase or decrease by approximately $3,500,000. There were no tax impacts as a result of the impairment charges.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

5. DIVIDENDS

In response to the uncertainty regarding print revenues, FPI's Board of Directors on August 14, 2015, determined not to declare further dividends at this time. The Board felt that at this time it is in the best interest of shareholders to have the continuing free cash generated by FPLP be available for increasing FPLP's long-term debt repayments, new strategic investments and/or restructuring initiatives, which improve the returns generated by the businesses. The Board will continue to evaluate the dividend policy on a quarterly basis.

FP Newspapers Inc.
Notes to Financial Statements for the years ended December 30, 2015 and 2014
(tabular amounts in thousands of Canadian dollars)

6. SHARE CAPITAL AND ACCUMULATED OTHER COMPREHENSIVE INCOME

The articles of incorporation of FPI provide that an unlimited number of common shares and one voting preferred share may be issued. Each common share is transferable and represents an equal undivided beneficial interest in any dividends of FPI and in the net assets of FPI in the event of termination or winding up of FPI. All common shares have equal rights and privileges. Each common share entitles the holderthereof to participate equally in the allocations and distributions and to one vote at all meetings of FPI shareholders for each share held. The common shares issued are not subject to future calls or assessments. As at December 30, 2015, 6,902,592 Common Shares were issued with a paid-up share capital amount of $71,373,000. The preferred share is held by FPCN Media Management Ltd. ("`FPCN"). The preferred share entitles the holder the right to elect one-third of FPI's directors, but does not entitle the holder thereof to any economic rights as a common shareholder of FPI. If and when Canstar Publications Ltd. and R.I.S. Media Ltd. (the General Partners of FPLP) cease to own at least ten percent of the outstanding partnership units of FPLP, the preferred share held by FPCN will automatically be redeemed by FPI for a redemption price of $1.00 and be cancelled.

7. INDEMNIFICATIONS

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

8. INCOME TAXES

Income tax expense is made up of the following:

	2015	2014
Current income tax	$ (570)	$ (1,523)
Deferred income tax (expense) recovery	(455)	48
Income tax (expense) recognized in net earnings (loss)	(1,025)	(1,475)
Deferred income tax recovery recognized in OCI	246	679

(tabular amounts in thousands of Canadian dollars)

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

	2015	**2014**
Income tax recovery (expense) at combined Canadian statutory income tax rate of 27.0% (2014 27.0%)	$ 6,142	$ (1,491)
Non-cash write-down of investment in FPLP	(7,139)	-
Difference between current tax rate and deferred income tax rate in temporary differences	(16)	(15)
Adjustments in respect of prior year	-	3
Other	(12)	28
Total income tax (expense)	$ (1,025)	$ (1,475)

Deferred taxes

Based on FPI's assets and liabilities as at December 30, 2015 and 2014, and its share of the assets and liabilities of its investment in FPLP, FPI's deferred tax assets and liabilities and the movement during the year are attributable to the following:

	December 30, 2014	**Recognized in profit or loss**	**Recognized in other comprehensive income (loss)**	**December 30, 2015**
Property, plant and equipment	$ 2,665	$ (241)	$ -	$ 2,424
Intangible assets	744	32	-	776
Goodwill	(2,395)	210	-	(2,185)
Pension benefit obligation	(881)	284	(246)	(843)
Partnership income deferred	(168)	168	-	-
Other	-	2	-	2
Total deferred income tax liabilities (asset)	$ (35)	$ 455	$ (246)	$ 174

	December 30, 2013	**Recognized in profit or loss**	**Recognized in other comprehensive income (loss)**	**December 30, 2014**
Property, plant and equipment	$ 2,852	$ (187)	$ -	$ 2,665
Intangible assets	793	(49)	-	744
Goodwill	(2,620)	225	-	(2,395)
Pension benefit obligation	(322)	120	(679)	(881)
Partnership income deferred	1	(169)	-	(168)
Other	(12)	12	-	-
Total deferred income tax liabilities (asset)	$ 692	$ (48)	$ (679)	$ (35)

Unrecognized deferred tax assets

Deferred tax assets in the amount of $6,692,000 (December 30, 2014 $3,107,000) have not been recognized in respect of FPI's investment in FPLP as it is not probable that the temporary difference will reverse in the foreseeable future.

FP Newspapers Inc.
Notes to Financial Statements for the years ended December 30, 2015 and 2014
(tabular amounts in thousands of Canadian dollars)

9. CAPITAL MANAGEMENT

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

10. FINANCIAL INSTRUMENTS

The fair value of current assets and liabilities including cash and cash equivalents, accounts payable and accrued liabilities and dividends payable approximates their carrying value due to the short-term nature of these financial instruments.

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

FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP

Consolidated Financial Statements

It's not just that Winnipeg has embraced the winter months with skating trails, warming huts and pop-up restaurants on the Red. Or just that the museum and Women's World Cup games generated national attention. Just as important: Winnipeg is now selling its collective story to the world.

March 9, 2016

Independent Auditor's Report

To the Unitholders of
FP Canadian Newspapers Limited Partnership

We have audited the accompanying consolidated financial statements of FP Canadian Newspapers Limited Partnership, which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014 and the consolidated income (loss) statements and statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of FP Canadian Newspapers Limited Partnership as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

PricewaterhouseCoopers LLP
Richardson Building, One Lombard Place, Suite 2300, Winnipeg, Manitoba, Canada R3B 0X6
T: +1 204 926 2400, F: +1 204 944 1020

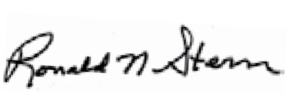
FP Canadian Newspapers Limited Partnership
Consolidated Balance Sheets
(in thousands of Canadian dollars)

	Note	As at December 31, 2015	As at December 31, 2014
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	$ 10,721	$ 16,231
Accounts receivable	14	9,294	11,018
Inventories		1,069	1,264
Prepaid expenses and other assets		827	799
		21,911	29,312
LONG-TERM ASSETS			
Property, plant and equipment	4	32,888	36,033
Intangible assets	5	6,215	6,168
Goodwill	5	32,050	71,250
TOTAL ASSETS		$ 93,064	$ 142,763
LIABILITIES AND UNITHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	7, 12	$ 6,060	$ 7,172
Provision	17	346	167
Prepaid subscriptions and deferred revenue		2,734	2,699
Finance lease obligation	11	1,709	1,673
Mortgage loan	6	761	53
Term loan	6, 15	2,200	1,000
		13,810	12,764
LONG-TERM LIABILITIES			
Accrued pension benefit liability	7	6,368	6,660
Finance lease obligation	11	2,302	4,011
Mortgage loan	6	-	767
Term loan	6, 15	36,655	45,274
TOTAL LIABILITIES		59,135	69,476
UNITHOLDERS' EQUITY			
Partner units	8	98,280	98,280
Deficit		(64,351)	(24,993)
TOTAL UNITHOLDERS' EQUITY		33,929	73,287
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY		$ 93,064	$ 142,763

(Commitments and contingencies Note 11)

(See accompanying notes)

Approved by the Board of Directors of the Managing General Partner



RONALD N. STERN
Director

HARVEY SECTER
Director

FP Canadian Newspapers Limited Partnership
Consolidated Income (Loss)Statements and Statements of Comprehensive Income (Loss)
For the Years Ended December 31, 2015 and 2014
(in thousands of Canadian dollars)

	Note	2015	2014
Revenue			
Print Advertising		$ 54,627	$ 63,524
Print Circulation		24,972	25,334
Commercial Printing		4,853	5,268
Digital		3,647	3,850
Promotion and services		927	1,063
TOTAL REVENUE		89,026	99,039
Operating expenses			
Employee compensation		37,742	40,186
Newsprint and other paper		7,222	8,623
Delivery		14,736	15,998
Other		15,221	16,151
Depreciation and amortization	4, 5	4,293	4,363
Restructuring charge	17	495	369
OPERATING INCOME BEFORE IMPAIRMENT		9,317	13,349
Impairment of goodwill	5	(39,200)	-
OPERATING (LOSS) INCOME		(29,883)	13,349
Other income	9	86	157
Finance costs	9	(1,435)	(1,807)
NET (LOSS) EARNINGS FOR THE YEAR		$ (31,232)	$ 11,699
Items that may be reclassified subsequently to net earnings:			
Unrealized gain on investment		-	2
Items that will not be reclassified subsequently to net earnings:			
Remeasurements for defined benefit pension plan	7	(1,856)	(5,133)
COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		$ (33,088)	$ 6,568

(See accompanying notes)

FP Canadian Newspapers Limited Partnership
Consolidated Statements of Changes in Equity
For the years ended December 31, 2015 and 2014
(in thousands of Canadian dollars)

	Partner Units	Deficit	Accumulated Other Comprehensive (Loss) Income	Total Unitholders' Equity
UNITHOLDERS' EQUITY – DECEMBER 31, 2013	$ 98,280	$ (21,346)	$ (2)	$ 76,932
Net earnings for the year	-	11,699	-	11,699
Other comprehensive (loss) income for the year	-	(5,133)	2	(5,131)
Comprehensive income for the year	-	6,566	2	6,568
Distributions paid	-	(10,213)	-	(10,213)
UNITHOLDERS' EQUITY – DECEMBER 31, 2014	$ 98,280	$ (24,993)	$ -	$ 73,287
Net (loss) for the year	-	(31,232)	-	(31,232)
Other comprehensive (loss) for the year	-	(1,856)	-	(1,856)
Comprehensive (loss) for the year	-	(33,088)	-	(33,088)
Distributions paid	-	(6,270)	-	(6,270)
UNITHOLDERS' EQUITY – DECEMBER 31, 2015	$ 98,280	$ (64,351)	$ -	$ 33,929

(See accompanying notes)

FP Canadian Newspapers Limited Partnership
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014
(in thousands of Canadian dollars)

	Note	2015	2014
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net (loss) earnings for the year		$ (31,232)	$ 11,699
Items not affecting cash:			
Depreciation and amortization	4, 5	4,293	4,363
Accretion of deferred financing costs		36	46
Impairment of goodwill	5	39,200	-
(Gain) on disposal of property, plant and equipment		(5)	(10)
Loss on interest rate swap		-	1
Excess of pension contributions over expense		(2,148)	(911)
		10,144	15,188
Net change in non-cash working capital items		993	512
		11,137	15,700
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(675)	(800)
Purchase of intangibles		(520)	(230)
Proceeds from sale of property, plant and equipment		5	10
		(1,190)	(1,020)
FINANCING ACTIVITIES			
Distributions to partners		(6,270)	(10,213)
Proceeds from financing leases		-	3,974
Principal repayments of finance lease		(1,673)	(1,459)
Principal repayments of mortgage loan		(59)	(51)
Principal repayment of term loan		(7,324)	(1,000)
Term loan refinancing costs		(131)	-
		(15,457)	(8,749)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(5,510)	5,931
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		16,231	10,300
CASH AND CASH EQUIVALENTS - END OF YEAR		$ 10,721	$ 16,231
Supplemental Cash Flow Information:			
Interest paid during the year		$ 1,448	$ 1,639
Interest received during the year		88	141

(See accompanying notes)

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") – Part 1 as set out in the CPA Canada Handbook – Accounting ("CPA Handbook"). Part 1 of the CPA Handbook incorporates International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved by the Board of Directors of FPGP on March 9, 2016.

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

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

a) BASIS OF MEASUREMENT

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

b) PRINCIPLES OF CONSOLIDATION AND SPECIAL PURPOSE ENTITIES

The consolidated financial statements include the operating businesses owned by FPLP and its subsidiary. A subsidiary is an entity (including structured entities) which FPLP controls. FPLP controls an entity when it is exposed to, or has the rights to, variable returns from its investment in the entity and has the ability to affect these returns through its power over that entity. Subsidiaries are fully consolidated from the date on which control is obtained and are de-consolidated from the date that control ceases. All significant inter-company and intra-company transactions and balances have been eliminated.

c) REVENUE RECOGNITION

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

FP Canadian Newspapers Limited Partnership
Notes to Consolidated Financial Statements for the Years ended December 31, 2015 and 2014
(tabular amounts in thousands of Canadian dollars)

d) INVENTORIES

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

e) PROPERTY, PLANT AND EQUIPMENT

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

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

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

FPLP allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant components and depreciates separately each such component. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

f) INTANGIBLE ASSETS

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

Subscriber base	15 years
News archives	10 years
Software	4 years

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

Mastheads are considered to have an indefinite life and are therefore recorded at cost and not amortized. The assessment of indefinite life is reviewed each period to determine whether the indefinite life assumption continues to be supportable. If it is deemed unsupportable the change in the useful life from indefinite to finite life is made and amortization is recognized on a prospective basis.

g) IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

h) BUSINESS COMBINATIONS

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

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

i) PENSION PLANS

FPLP established defined benefit and defined contribution pension plans for certain of its employees. A defined contribution plan is a pension plan under which the group pays fixed contributions to a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The defined benefit pension plan provides benefits based on a set percentage of participants' earnings, the costs of which are shared between the participants and FPLP. The cost of defined contribution pension plans is charged to expense as the contributions become payable. For defined benefit plans, the level of benefit provided is based on the length of service and earnings of the employee. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The related pension liability recognized in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets.

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in full in the period in which they occur, in other comprehensive income and deficit without recycling to the statements of income in subsequent periods. Past service costs are recognized immediately in the statements of income in the period of the plan amendment.

j) TRANSACTION COSTS

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

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k) CASH AND CASH EQUIVALENTS

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

l) INCOME TAXES

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

m) PROVISIONS

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

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

n) FINANCIAL INSTRUMENTS

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

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

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

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

o) UNITHOLDERS' EQUITY

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

p) DISTRIBUTIONS

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

q) ASSETS HELD FOR SALE

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

Accounting standards and amendments issued but not yet effective

IFRS 9 – Financial Instruments

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

IFRS 15 – Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 is mandatory and will be effective for the Company's beginning on January 1, 2018, with earlier adoption permitted. FPLP is assessing the impact of adopting this standard on its financial statements.

IFRS 16 – Leases

IFRS 16, *Leases* replaces IAS 17, *Leases and related interpretations*. The core principle is that a lessee recognize assets and liabilities for all leases with a lease term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The new standard is intended to provide a faithful representation of leasing transactions, in particular those that do not currently require the lessees to recognize an asset and liability arising from an operating lease. IFRS 16 is effective for annual periods beginning on January 1, 2019, with early adoption permitted for entities that would also apply IFRS 15, *Revenue from Contracts with Customers*.

3. USE OF ESTIMATES

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

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

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

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

Other key assumptions for pension benefit obligations are based in part on current market conditions and recognized actuarial practices. The principal assumptions and sensitivities are included in note 7.

(tabular amounts in thousands of Canadian dollars)

4. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Computer equipment and other	Total
At December 31, 2013				
Cost	10,876	58,675	5,045	74,596
Accumulated depreciation	(2,992)	(32,181)	(4,606)	(39,779)
Net book value	7,884	26,494	439	34,817
Year ended December 31, 2014				
Balance at beginning of year	7,884	26,494	439	34,817
Additions	597	194	9	800
Additions acquired under capital lease	-	4,321	-	4,321
Disposals – cost	-	(42)	(28)	(70)
Disposals – accumulated depreciation	-	42	28	70
Depreciation for the year	(359)	(3,337)	(209)	(3,905)
At December 31, 2014	8,122	27,672	239	36,033
At December 31, 2014				
Cost	11,473	63,148	5,026	79,647
Accumulated depreciation	(3,351)	(35,476)	(4,787)	(43,614)
Net book value	8,122	27,672	239	36,033
Year ended December 31, 2015				
Balance at beginning of year	8,122	27,672	239	36,033
Additions	359	259	57	675
Disposals – cost	(489)	(41)	-	(530)
Disposals – accumulated depreciation	489	41	-	530
Depreciation for the year	(305)	(3,373)	(142)	(3,820)
At December 31, 2015	8,176	24,558	154	32,888
At December 31, 2015				
Cost	11,343	63,366	5,083	79,792
Accumulated depreciation	(3,167)	(38,808)	(4,929)	(46,904)
Net book value	8,176	24,558	154	32,888

As at December 31, 2015, machinery and equipment includes finance leased assets with a cost of $9,163,000 (2014 $9,163,000), less accumulated depreciation of $2,133,000 (2014 $1,487,000) for a net book value of $7,030,000 (2014 $7,676,000).

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5. INTANGIBLE ASSETS AND GOODWILL

	Subscriber base and Archives	Computer Software	Mastheads	Total Intangible Assets	Goodwill
At December 31, 2013					
Cost	5,252	2,523	5,207	12,982	71,250
Accumulated amortization	(4,270)	(2,316)	-	(6,586)	-
Net book value	982	207	5,207	6,396	71,250
Year ended December 31, 2014					
Opening net book value	982	207	5,207	6,396	71,250
Additions	-	230	-	230	-
Retirements	-	-	-	-	-
Retirements – Accumulated amortization	-	-	-	-	-
Amortization	(312)	(146)	-	(458)	-
At December 31, 2014	670	291	5,207	6,168	71,250
At December 31, 2014					
Cost	5,252	2,753	5,207	13,212	71,250
Accumulated amortization	(4,582)	(2,462)	-	(7,044)	-
Net book value	670	291	5,207	6,168	71,250
Year ended December 31, 2015					
Opening net book value	670	291	5,207	6,168	71,250
Additions	-	520	-	520	-
Impairment of goodwill	-	-	-	-	(39,200)
Amortization	(312)	(161)	-	(473)	-
At December 31, 2015	358	650	5,207	6,215	32,050
At December 31, 2015					
Cost	5,252	3,273	5,207	13,732	32,050
Accumulated amortization	(4,894)	(2,623)	-	(7,517)	-
Net book value	358	650	5,207	6,215	32,050

Goodwill is entirely attributable to FPLP, as it represents the lowest level at which management internally monitors goodwill. The CGU also includes all mastheads related primarily to the Winnipeg Free Press. The recoverable amount of the CGU is determined based on the higher of fair value less cost to dispose and value-in-use. Value-in-use calculations are based on management's expectations covering a five-year period discounted using a pre-tax discount rate. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the newspaper industry. Management's fair value less cost to dispose assessment is based on applying market multiples to FPLP's EBITDA.

Due to continued declines in revenue and earnings, FPLP performed an impairment analysis at its cash generating unit ("Goodwill CGU"), which represents the single operating segment of FPLP. The recoverable amount of the goodwill CGU was based on fair value less costs to dispose, determined by applying a market multiple of 4.75 to the trailing twelve month EBITDA of FPLP at December 31, 2015. The market multiple was considered to be a level 3 input within the IFRS 13 fair value hierarchy.

As a result of the impairment analysis performed, FPLP concluded that the carrying value of goodwill CGU was less than the recoverable amount and accordingly recorded an aggregate impairment charge of $39,200,000.

As the recoverable amount of the goodwill CGU is equal to its carrying value, any change in the key assumption, being the market multiple, used in the fair value less cost of disposal assessment would impact the impairment recorded. At December 31, 2015, if the multiple were to increase or decrease by 0.5 times the impairment would increase or decrease by approximately $7,100,000.

Furthermore, FPLP also performed its annual impairment assessment of its indefinite lived intangible assets, primarily comprised of the Winnipeg Free Press masthead. As a result of such impairment testing based on a fair value less cost to dispose methodology, FPLP determined that no impairment existed at December 31, 2015, with no reasonably possible changes in key assumptions, including discount rates which would result in the recoverable amount being less than the carrying value.

6. LONG-TERM DEBT

The long-term debt agreement with HSBC Bank Canada was renewed on January 8, 2015 with a maturity date of January 31, 2020. On the renewal date, $6,300,000 of principal was repaid reducing the outstanding principal to $40,000,000. Principal repayments of $1,000,000 are due on the first of June each year and a cash sweep is payable no later than 90 days after the end of each fiscal year, with the first cash sweep due no later than March 30, 2016 for the 2015 financial year. The cash sweep is equal to the lesser of $3,500,000 or 25% of FPLP's annual distributable cash as defined in the agreement and the amount has been estimated to be $1,200,000. Maximum principal balances under the agreement are $30,000,000 on January 31, 2018 and $20,000,000 on January 31, 2020. The renewal agreement includes negative covenants which must be observed in order to avoid an accelerated termination of the agreement, including a covenant in favour of HSBC not to pay distributions which exceed distributable cash by more than $1,000,000 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 15.

In 2011, a mortgage financing agreement was completed for the Derksen Printers real estate assets. The loan of $761,000 (2014 $820,000), with a loan amortization schedule over 15 years and a maturity date of July 2016, carries a five year fixed interest rate of 4.85%.

7. EMPLOYEE FUTURE BENEFIT PLANS

FPLP has a defined benefit pension plan as well as defined contribution plans. Its defined benefit pension plan provides benefits based on a set percentage of participants' earnings, the costs of which are shared between the participants and FPLP. Pension benefits are not indexed to the rate of inflation. The benefit payments are from trustee administered funds. Responsibility for governance of the plans, overseeing all aspects of the plans, including investment decisions and contribution schedules, lies with FPLP. FPLP has set up pension committees to assist in the management of the plans and has appointed experienced, independent professional experts such as investment managers, actuaries, custodians and trustees.

FPLP measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation report for funding purposes was at December 31, 2014 and the next required valuation is as of December 31, 2015, which will be completed during 2016.

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

	2015 $	2014 $
PLAN ASSETS		
Fair value - beginning of year	35,079	32,522
Interest income	1,466	1,652
Return on plan assets, excluding amounts included in interest income	116	1,220
Employer contributions	4,033	2,331
Employee contributions	1,350	1,476
Benefit payments	(1,048)	(4,042)
Administration expenses	(50)	(80)
Fair value - end of year	40,946	35,079
PLAN OBLIGATIONS		
Accrued benefit obligation - beginning of year	41,739	34,959
Interest expense	1,688	1,691
Current service cost	1,603	1,321
Benefit payments	(1,048)	(4,042)
Loss from change in demographic assumptions	456	45
Loss from change in financial assumptions	-	5,579
Experience losses	1,526	710
Employee contributions	1,350	1,476
Accrued benefit obligation - end of year	47,314	41,739

FPLP's accrued pension liability is determined as follows:

	2015 $	2014 $
Fair value of plan assets	40,946	35,079
Accrued benefit obligation	47,314	41,739
Accrued pension benefit liability	(6,368)	(6,660)

FPLP's pension plan expense is determined as follows:

	2015 $	2014 $
Current service cost	1,603	1,321
Administration expenses	60	60
Interest expense	1,688	1,691
Interest income	(1,466)	(1,652)
Pension expense – defined benefit pension plan	1,885	1,420
Employer contributions to defined contribution pension plans	333	307
Total pension expense recognized in employee compensation	2,218	1,727

(tabular amounts in thousands of Canadian dollars)

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

	2015 $	2014 $
Remeasurements for defined benefit pension plan	(1,856)	(5,134)

Cumulative actuarial (losses) recognized in other comprehensive income and deficit for the year ended December 31, 2015 was ($15,643,000) (2014 ($13,787,000)).

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

	2015 %	2014 %
Discount rate	4.05	4.05
Rate of compensation increase	0.50	0.50

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

	2015 %	2014 %
Discount rate	4.05	4.90
Rate of compensation increase	0.50	1.00

The sensitivity of the defined benefit obligation to changes in assumptions is set out below.

	Impact on defined benefit obligation
Discount rate	
Increase by 0.5% per year	(3,674)
Decrease by 0.5% per year	4,196
Rate of compensation increase	
Increase by 0.5% per year	469
Decrease by 0.5% per year	(409)

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The defined benefit pension plan assets consist of investments in units of investment funds with the following asset allocation by asset category:

	2015 %	2014 %
Canadian equities	28	29
United States equities	15	12
Non-North American equities	13	12
Canadian Government and corporate bonds	37	40
Real estate	7	7
	100	100

FPLP's management, in conjunction with its actuaries, reviews anticipated future long-term performance of individual asset categories and considers the asset allocation strategy adopted by FPLP. The determination of the long-term rate considers a number of factors including recent performance, and historical returns to the extent that the past is indicative of the expected long-term prospective rate. There can be no assurance that the plan will earn the expected rate of return.

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Under Manitoba pension laws, solvency deficiencies must be funded over a five-year period, which may be extended to ten years unless more than one-third of the active plan members and pensioners object to the extension. FPLP received an extension to ten years for funding of the defined benefit pension solvency deficiency that was identified in the actuarial funding valuation completed at December 31, 2012 and December 31, 2011. At December 31, 2014, the aggregate solvency deficit in the defined benefit plan amounted to $10,952,000 (December 31, 2013 $6,329,000). Special payments for past service of $2,967,000 (2014 $1,368,000) have been made to fund the defined benefit pension plan deficit partially over ten years and partially over five years.

Based on information currently available, expected current service costs excluding minimum funding requirements related to past solvency deficits to defined benefit plans for 2016 are $1,409,000.

The weighted average duration of the defined benefit obligation is 16.6 years (2014 18.7 years).

Through its defined benefit pension plan, FPLP is exposed to a number of risks, the most significant of which are detailed below:

Asset Volatility
The defined benefit pension plan liabilities are calculated using a discount rate set with reference to high quality corporate bond yields; if plan assets underperform this yield, this will create a deficit. The defined benefit plan holds a significant proportion of its portfolio in equities and real estate, which are expected to outperform corporate bonds in the long-term while contributing volatility and risk in the short-term.

FPLP believes that due to the long-term nature of the defined benefit pension plan liabilities a level of continuing equity investment is an appropriate element of the long-term strategy to manage the plan efficiently.

Changes in bond yields
A decrease in high quality corporate bond yields will increase the defined benefit pension plan liabilities, although this will partially offset by an increase in the value of the plan's bond holdings.

Life expectancy
The majority of the defined benefit pension plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the defined benefit pension plan's liabilities.

Each sensitivity analysis disclosed in this note is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as for calculating the liability recognised in the consolidated balance sheet.

8. SHARE CAPITAL AND ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	2015		2014	
	Number of Units	**$**	**Number of Units**	**$**
FPCN General Partner Inc. - managing general partner	10	10	10	10
Canstar Publications Ltd. and R.I.S. Media Ltd. - general partners	7,184,321	30,711	7,184,321	30,711
FP Newspapers Inc. - Class A limited partner Units	6,902,592	67,559	6,902,592	67,559
	14,086,923	98,280	14,086,923	98,280

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

(tabular amounts in thousands of Canadian dollars)

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

9. OTHER INCOME AND FINANCE COSTS

	2015 $	2014 $
Other income		
Interest income	81	147
Gain on sale of property, plant and equipment	5	10
Total other income	86	157
Finance Costs		
Interest on finance leases	173	188
Interest on mortgage loan	34	41
Interest on term loan	1,192	1,532
Accretion of term loan related to financing costs	36	46
	1,435	1,807

10. INCOME TAXES

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

	2015 $	2014 $
Net (loss) earnings before income taxes	(31,232)	11,699
Canadian combined statutory tax rate	27.0%	27.0%
Income tax recovery (expense) at the Canadian combined statutory tax rate	8,432	(3,159)
Income taxed in the hands of the partners	(8,432)	3,159
Income tax expense	-	-

11. COMMITMENTS AND CONTINGENCIES

a) LEASES AND OTHER COMMITMENTS

FPLP has entered into a series of five-year non-cancellable finance lease agreements to finance equipment projects at its printing facilities. The leases are fully secured by the assets subject to the lease. A summary of the future obligations under the leases are as follows:

	$
2016	1,814
2017	905
2018	855
2019	643
2020	-
Total payments	4,217
Interest cost (rates ranging from 3.5% to 5.5%)	(206)
Present value of finance lease obligation	4,011

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

	$
2016	833
2017	749
2018	495
2019	306
2020	262
Thereafter	120
Total payments	2,765

b) LEGAL MATTERS

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

12. RELATED PARTY TRANSACTION

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

For the year, total newsprint purchases from Alberta Newsprint Company, a company controlled indirectly by Ronald Stern, for 2015 were $5,533,000 (2014 $3,558,000). FPLP also reimbursed related parties for administration costs amounting to $11,000 (2014 $19,000). At December 31, 2015, accounts payable to related parties totalled $444,000 (2014 $365,000). Total advertising sales to related parties were $25,000 (2014 $30,000) and at December 31, 2015 accounts receivable from related parties totalled $1,000 (2014 $4,100).

Transactions with key management personnel

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

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

	2015 $	2014 $
Salaries and bonuses	662	659
Post-retirement pension benefits	77	63
	739	722

13. SEGMENT REPORTING

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

(tabular amounts in thousands of Canadian dollars)

14. FINANCIAL INSTRUMENTS

FPLP's financial assets and liabilities are comprised of cash and cash equivalents, accounts receivable, accounts payable, provisions and accrued liabilities and long-term debt which include the term-loan and mortgage loan. Cash and cash equivalents included cash equivalents of $3,141,000 at December 31, 2015 (2014 $3,119,000).

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

a. CREDIT RISK

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

As FPLP is in the business of publishing newspapers and performing printing services for third parties, included in the accounts receivable are primarily amounts owed from advertisers and advertising agencies, circulation customers and commercial print clients. FPLP does not hold collateral as security for these balances. FPLP's credit risk relating to these accounts receivable is spread over a large number of national and local advertising clients and advertising agencies, in addition to many circulation retail customers and third-party printing clients. FPLP manages credit risk on a customer-by-customer basis and establishes a reasonable allowance for uncollectible amounts with this allowance netted against the accounts receivable on the consolidated balance sheet. The adequacy of the allowance is reviewed on a regular basis and is estimated based on past experience, specific risks associated with the customers and other relevant information. The 10 largest receivable amounts total $3,086,000 (2014 $4,171,000) and approximately 67% (2014 81%) of these balances are owed from national advertising agencies. The largest amount due from a single national agency is $613,000 (2014 $703,000) which represents 7% of total receivables.

Accounts receivable are impaired when there is evidence that collection is unlikely. Collection is determined to be unlikely if the customer is in bankruptcy or FPLP has exhausted all efforts to obtain payment. At December 31, 2015, FPLP estimates the value of impaired accounts receivable is $29,000 (December 31, 2014 $78,000) and these amounts are included as part of the allowance for doubtful accounts.

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

	2015	**2014**
	$	**$**
Accounts receivable:		
Current	5,607	6,186
Up to three months past due	3,723	4,707
Greater than three months past due	91	207
Impaired	29	78
	9,450	11,178
Allowance for doubtful accounts	(156)	(160)
	9,294	11,018

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(tabular amounts in thousands of Canadian dollars)

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

	2015 $	2014 $
Balance at beginning of year	(160)	(221)
Provision for impairment	(146)	(199)
Receivables written-off during the year – uncollectible	76	45
Unused amounts reversed	76	215
Balance at end of year	(154)	(160)

b. INTEREST RATE RISK

Interest rate risk is the risk that the fair value (fair value interest rate risk) or future cash flows (cash flow interest rate risk) of a financial instrument will fluctuate because of changes in market interest rates primarily related to the HSBC credit facility (see note 6). FPLP is exposed to cash flow interest rate risk due to fluctuations in interest rates as the amounts borrowed under the HSBC credit facility are in the form of a prime rate loan.

An assumed 1% increase in FPLP's short term borrowing rates during the year ended December 31, 2015, would have decreased net income by $394,000 (2014 $467,000), with an equal but opposite effect for an assumed 1% decrease in short term borrowing rates.

c. LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. FPLP believes that it has access to sufficient capital through current cash and cash equivalent balances, future internally generated cash flows and external sources (bank credit markets and debt capital markets) to meet current spending forecasts. As at December 31, 2015, FPLP's cash and cash equivalents on hand was $10,721,000.

The following are the contractual maturities of the financial liabilities:

	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
	$	$	$	$	$
At December 31, 2015					
Accounts payable and accrued liabilities and provisions	6,406	6,406	-	-	-
Mortgage loan principal and interest	782	782	-	-	-
Finance lease obligations principal and interest	4,217	1,814	1,760	643	-
Long-term debt principal and interest	42,704	3,375	13,082	26,247	-
Total	54,109	12,377	14,842	26,890	-
At December 31, 2014					
Accounts payable and accrued liabilities and provisions	7,339	7,339	-	-	-
Mortgage loan principal and interest	880	92	788	-	-
Finance lease obligations principal and interest	6,063	1,846	3,574	643	-
Long-term debt principal and interest	47,985	2,532	45,453	-	-
Total	62,267	11,809	49,815	643	-

d. FAIR VALUES, INCLUDING VALUATION METHODS AND ASSUMPTIONS

Fair value hierarchy
Financial assets and liabilities are classified in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are:

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

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

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

Financial assets and liabilities whose fair values are disclosed
The fair value of current assets and liabilities including cash and cash equivalents, accounts receivable and accounts payable, provisions and accrued liabilities approximates their carrying value due to the short-term nature of these financial instruments. The fair value of the HSBC term loan, based on Level 3 fair value hierarchy inputs, is approximately $39,000,000 (2014 $46,324,000). The fair value of the mortgage loan, based on Level 3 fair value hierarchy inputs, approximates its carrying value.

The fair value of long term debt and mortgage loan has been calculated by discounting the expected cash flows of each debt using a discount rate of 3.07% and 4.80%, respectively. The discount rate is determined using a risk free benchmark bond yield for instruments of similar maturity adjusted for the Company's specific credit risk. In determining the adjustment for credit risk, the Company considers market conditions, the underlying values of properties and other assets secured by the associated loan and other indicators of the Company's credit worthiness.

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

15. 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.

In the second quarter of 2015, in response to the uncertainty regarding print revenues, FPCN General Partner Inc., managing general partner of FPLP, determined that FPLP will continue to make distributions required for income taxes and administrative costs of its limited and general partners. The Board feels that at this time it is in the best interest of the limited and general partners to have the continuing free cash generated by FPLP be available for increasing FPLP’s long-term debt repayments, new strategic investments and/or restructuring initiatives which improve the returns generated by the businesses going forward.

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FPLP's capital consists of cash and cash equivalents, debt and Unitholders' equity. The components at December 31, 2015 and December 31, 2014 were as follows:

	2015 $	2014 $
Term loan	38,855	46,274
Finance leases and mortgage loan	4,772	6,504
Cash and cash equivalents	(10,721)	(16,231)
External net debt	32,906	36,547
Unitholders' equity	33,929	73,287
Total capitalization	66,835	109,834
External net debt as a percentage of total capitalization	49.2%	33.3%

The HSBC credit facility includes negative covenants which must be observed in order to avoid an accelerated termination of the agreement. These covenants include certain restrictions on paying distributions, the sale of assets, the purchase of investments and acquisitions, share capital, allowing encumbrances and certain issuances of loans or financial assistance. FPLP is restricted from making distributions which exceed distributable cash, as defined by in the credit agreement, by more than $1.0 million annually. FPLP is required to maintain a leverage ratio of no greater than 3.5 to 1.0, prior to January 31, 2018 and 3.0 to 1.0 after that, a fixed charge coverage ratio of no less than 2.0 to 1.0 and a current ratio of no less than 1.2 to 1.0, all defined in the agreement and measured quarterly on a trailing 12-month basis. Financial amounts used in the calculations are specifically defined in the credit agreement, but are substantially equivalent to the corresponding terms used in the external financial reports filed by FPLP. The financial ratios are calculated in accordance with the HSBC credit agreement on a quarterly basis and at December 31, 2015 FPLP was in compliance with all the terms and conditions of its debt agreement.

16. INDEMNIFICATION

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

17. RESTUCTURING CHARGE

In 2015, FPLP incurred a restructuring charge of $495,000 (2014 $369,000) consisting of severance payments in relation to employee reductions primarily achieved through a combination of retirements, voluntary and involuntary layoffs and a charge for a leased facility that will be vacated. During 2015, $149,000 of the restructuring charge was paid and the remaining provision of $346,000 at December 31, 2015 ($167,000 at December 31, 2014) will be paid in 2016.

Shareholder Information

DIRECTORS

Ronald N. Stern
President, Stern Partners Inc.
and Chairman of FPGP

Robert Silver[1]
President, Western Glove Works Ltd.
and Chancellor, University of Winnipeg

Stephen Dembroski[1]
President, Indigenous Inc.

Phil de Montmollin[1]
Retired newspaper executive

Harvey Secter[1]
Chancellor, University of Manitoba, and
President, Resolution Processes Inc.

1. Audit Committee member

OFFICERS

Ronald N. Stern
Chief Executive Officer

Daniel Koshowski
Chief Financial Officer

Wendy Daniels
Secretary

ANNUAL MEETING

The Annual Meeting of Shareholders will be held on Wednesday May 11, 2016 at 11:00am at the Winnipeg Free Press, 1355 Mountain Avenue, Winnipeg.

AUDITORS

PricewaterhouseCoopers LLP

TRANSFER AGENT

CST Trust Company

INVESTOR INQUIRIES

Daniel Koshowski
Chief Financial Officer
Ph: 204-771-1897
Website: www.fpnewspapers.com

LISTING INFORMATION

TSX: FP
SHARES: 6,902,592 outstanding
(at March 9, 2016)

MAILING INFORMATION

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1355 Mountain Ave.
Winnipeg, MB
R2X 3B6