NEWSPAPERS fp INCOME FUND

Q2 – 2010
Quarterly Report
June 30, 2010

TSX: FP.UN

Second Quarter Report
June 30, 2010
Report to Unitholders

fp NEWSPAPERS INCOME FUND

Dear Fellow Unitholders:

I am pleased to provide you with a report on the results of our operations and related distributions to Unitholders of FP Newspapers Income Fund (the "Fund") for the quarter ending June 30, 2010. FP Newspapers Income Fund owns securities entitling it to 49 percent of the distributable cash of FP Canadian Newspapers Limited Partnership ("FPLP"), which owns the Winnipeg Free Press and Brandon Sun daily newspapers, and Canstar Community News ("Canstar") which operates six weekly newspapers, a weekly entertainment newspaper and a twice-monthly newspaper aimed at age 50-plus readers.

Total revenue for FPLP for the three months ended June 30, 2010 was $28.9 million, a $0.7 million or 2.5 percent decrease from the same period last year. Total EBITDA(1) of FPLP for the quarter was $7.1 million, a $0.5 million or 7.4 percent increase from the same quarter last year. EBITDA(1) in the second quarter, excluding the 2009 restructuring charges of $0.2 million, increased by $0.3 million or 4.4 percent. FPLP had net earnings of $4.9 million in the quarter compared to $2.8 million in the same quarter last year. The increase in net earnings is primarily due to the increase in EBITDA(1) and the reduction of interest expense associated with the settlement of the subordinated notes in the fourth quarter of 2009.

The Fund had net earnings of $2.0 million, or $0.297 per Unit, during the three months ended June 30, 2010, compared to net earnings of $2.2 million, or $0.315 per Unit, in the same quarter last year. The decrease in the Fund's net earnings in the quarter is primarily due to costs associated with the agreement to convert the trust to a corporation, as approved by the Unitholders during the May 5, 2010 annual general meeting.

Operations

Advertising revenues for the three months ended June 30, 2010 were $19.8 million, a $0.3 million or 1.3 percent decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was $12.5 million, an increase of $0.5 million or 4.0 percent from the same period in the prior year, primarily due to increased spending in the national automotive category. Classified advertising revenues for the second quarter decreased by $0.5 million or 13.2 percent compared to the same period last year, primarily due to a decrease in the employment and real estate categories. Flyer distribution revenues for the second quarter decreased by $0.2 million or 5.5 percent compared to the same period last year, primarily due to decreased volumes as a result of the sale of the Thunder Bay distribution operation.

Operating expenses excluding amortization for the second quarter were $21.9 million, a $1.2 million or 5.3 percent decrease from $23.1 million in the same quarter last year. Operating expenses for the second quarter, excluding amortization and the restructuring charge, decreased by $1.0 million or 4.5 percent from the same quarter last year. Employee compensation costs, excluding the restructuring charge, for the second quarter remained virtually unchanged when compared to the same period last year, with savings from staff reductions and lower part-time hours offset by the 2-percent wage increases included in the collective bargaining agreements. Newsprint expense for FPLP's own publications for the second quarter decreased by $0.4 million or 16.1 percent, with virtually the entire difference due to lower newsprint prices. Newsprint expense for commercial printing for the second quarter decreased by 8.8 percent from the same period in the prior year, due to lower newsprint prices partially offset by higher consumption. Delivery costs for the second quarter decreased by $0.7 million or 14.5 percent, primarily due to eliminating the Sunday Winnipeg Free Press home-delivered newspaper, reducing Winnipeg non-subscriber weekly flyer distribution by one day, and no longer incurring Thunder Bay costs due to the sale of that distribution business. Other expenses for the second quarter increased by $0.1 million or 2.8 percent, primarily due to an increase in the Winnipeg Free Press building maintenance costs.

During the second quarter two Winnipeg Free Press editorial staff members were recipients of national awards recognizing their work. Reporter Kevin Rollason won a national "great ideas" award from the Canadian Newspaper Association for his 2009 feature story detailing the legacy of prominent and notable Manitobans. Free Press intern Arielle Godbout won the Gregory Clark award from the Canadian Journalism Foundation in June. This award is designed to offer working journalists, early in their careers, a professional development opportunity which will allow them to gain insight, strategic information and meet key decision-makers in a sector or issue they regularly cover. The award will allow Arielle to conduct additional research on a story she first wrote for the Free Press last summer on gun smuggling in Canada.

During the second quarter, the Winnipeg Free Press has continued to work on the expansion of its offering of digital services. During the quarter, the Free Press launched a new golf tee-time booking service which allows individuals to book tee-times at over 40 city and rural golf courses. Future revenue opportunities will be generated largely from banner advertising on the site.

The finance team has completed the transition of cash management services to HSBC Bank Canada and is continuing to work on the consolidation of business systems between the Brandon Sun and Winnipeg Free Press.

Canstar Community News was also very active during the second quarter. On May 20, Uptown Magazine printed its Best of Winnipeg issue, featuring the results of its annual readers' survey. Sales for this edition were the highest figure since the acquisition of the Uptown magazine in 2005. On May 27, a redesigned and rebranded version of The Prime Times made its debut, featuring a profile of long-time Winnipeg family entertainer Fred Penner. This publication now looks and reads much more like a magazine and includes two feature-length stories in every issue, as well as regular columns on active living, finance, travel, homes, technology, food, history and sports.

The Brandon Sun management team, together with members of the Winnipeg Free Press management team, continue to work on preparations for consolidating the production operations at our Winnipeg print facility, which will take effect October 1, 2010. Management is continuing to study various options with respect to both the Brandon building and production equipment.

During the second quarter, the advertising department at the Brandon Sun completed a major sales campaign designed to attract small budget and new customers to enter into 12-month ad campaigns for twice-weekly advertising buys. The campaign was similar to one which was introduced last year and has expanded the advertising customer base in Brandon.

The Brandon Sun re-designed and re-launched its website during the second quarter. An on-line coordinator position was created from within existing staffing levels to monitor and update the site as needed. The new website has attracted an increased number of unique visitors.

Distributions

Distributable cash attributable to the Fund(2) for the three months ended June 30, 2010 was $2.3 million or $0.330 per Unit, compared to $2.8 million or $0.401 per Unit last year. For the trailing twelve months ended June 30, 2010, FPLP has generated distributable cash attributable to the Fund(2) of $1.346 per Unit, and the Fund has declared distributions of $0.930 per Unit, resulting in a payout ratio of 69.1 percent.

The Fund declared distributions to Unitholders of $0.180 per Unit for the second quarter, compared to $0.285 in the same quarter last year.

Outlook

During the first two quarters, increases in display advertising revenues were more than offset by lower classified revenues, largely in the employment category, and flyer distribution revenues. While it is early in the third quarter we're seeing a small improvement in the advertising revenue trend. Newsprint price increases were effective during the second quarter and a further increase has been made effective July 1. If there are no further price increases for the remainder of 2010, the third and fourth quarter would see newsprint prices at a roughly 2 percent higher level than the same quarters in 2009. Lower delivery expenses will continue throughout the third and fourth quarters.

We are pleased to announce that Bruce Leslie has been hired as the Vice President of Marketing at the Winnipeg Free Press. Mr. Leslie, who started his professional career as a journalist working for the CBC, has an extensive background in marketing and community relations. Mr. Leslie will be a valued senior executive in Winnipeg and will strengthen our position as the number one provider of news and information in Winnipeg.

Ronald N. Stern
Chairman & Trustee
August 10, 2010

Management's Discussion and Analysis

Overview

Management's discussion and analysis, prepared as at August 10, 2010, provides a review of significant developments that have affected the Fund's performance in the three months ended June 30, 2010. This review is based on financial information contained in the unaudited consolidated interim financial statements and accompanying notes for the three and six months ended June 30, 2010.

The following information should be read in conjunction with the most recent audited consolidated financial statements and accompanying notes and management's discussion and analysis for the year ended December 31, 2009. The consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"); however, the consolidated interim financial statements do not include all the information and disclosures required for annual financial statements.

This management's discussion and analysis contains "forward-looking statements" that are subject to risks and uncertainties set out 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 the Fund is available under its profile at www.sedar.com.

Formation and Legal Entities

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

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

FP Newspapers Income Fund

The Fund is dependent on the operations of FPLP, its sole investment. The Fund's net earnings were $2.0 million and $3.5 million for the three and six months ended June 30, 2010, compared to net earnings of $2.2 million and $2.7 million for the same periods last year. The decrease in net earnings for the three months ended June 30, 2010 is primarily due to $0.2 million of costs associated with the agreement to convert the trust structure to a corporate structure, as approved by the Unitholders during the May 5, 2010 annual general meeting. The increase in net earnings for the six months ended June 30, 2010 is primarily due to the increased earnings of FPLP, as discussed in the FPLP section, partially offset by the increase in the future income tax asset due to accelerated amortization associated with the Brandon production equipment and the costs associated with the agreement to convert the trust structure to a corporate structure. There was no interest income earned during the first and second quarters of 2010 as the subordinated notes were settled in the fourth quarter of 2009. The Fund's equity interest from its Class A limited partner Units was $2.4 million and $3.9 million for the three and six months ended June 30, 2010, compared to $0.5 million and ($0.6) million in the same periods last year due primarily to the settling of the subordinated notes which eliminated the portion of the Fund's return received in the form of interest income and increasing the equity interest return combined with higher earnings of FPLP.

The Fund declared distributions to Unitholders of $1.2 million or $0.180 per Unit and $2.5 million or $0.360 per Unit for the three and six months ended June 30, 2010, compared to $2.0 million or $0.285 per Unit and $3.9 million or $0.570 per Unit in the same periods last year. Cash provided by operating activities of the Fund was $1.3 million and $2.2 million for the three and six months ended June 30, 2010, compared to $1.9 million and $3.8 million for the same periods last year. The reduction in cash provided by operating activities is a result of a decrease in the overall cash paid by FPLP to the Fund which prior to January 1, 2010 was a combination of interest payments on the subordinated notes and distributions on Class A units. As a result of the settlement of the subordinated notes on December 31, 2009, for the first two quarters of 2010 and going forward, the Fund receives its entire 49% share of FPLP cash payments in the form of distributions on its Class A units.

Working Capital Position of the Fund

Total working capital at June 30, 2010 was ($0.5) million, compared to $0.1 million at June 30, 2009. Working capital has decreased as the Fund no longer carries an interest receivable from FPLP due to the settlement of the subordinated notes on December 31, 2009, as well as increased liabilities associated with the agreement to convert the trust structure to a corporate structure. Based on the FPLP Limited Partnership Agreement, FPLP issues its monthly distribution in the month following the distribution period, therefore the Fund does not record FPLP's June distribution as a receivable at June 30, 2010. In July 2010, FPLP paid the Fund $0.4 million for this June distribution and the Fund has used this payment to pay the $0.4 million June distribution which the Fund declared on June 17, 2010 and recorded as a liability on the Fund's balance sheet at June 30, 2010.

Distributable Cash Attributable to the Fund[(2)]

Cash available for distribution attributable to the Fund[(2)] was $2.3 million or $0.330 per Unit and $4.2 million or $0.604 per Unit for the three and six months ended June 30, 2010, compared to $2.8 million or $0.401 per Unit and $3.8 million or $0.554 per Unit for the same periods last year. The decrease in cash available for distribution attributable to the Fund[(2)] in the quarter is primarily due to the principal repayments required under the HSBC term loan as well as incurring costs associated with the agreement to convert the trust structure to a corporate structure, partially offset by the increase in EBITDA[(1)] of FPLP as discussed in the FPLP section of this report.

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

From commencement of the Fund on May 28, 2002 until June 30, 2010, distributable cash attributable to the Fund[(2)] totals $11.032 per Unit and during that period the Fund declared distributions to Unitholders of $9.863 per Unit, resulting in a cumulative from inception payout ratio of 89.4%. Because the Fund makes an allowance for maintenance capital spending which is estimated to be sufficient to maintain the productive capacity of the business when calculating distributable cash attributable to the Fund[(2)], and because cumulative distributions declared are less than the cumulative distributable cash attributable to the Fund[(2)], the Fund believes there has been no economic "return of capital".

FP Canadian Newspapers Limited Partnership
Results of Operations

Revenue:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	In thousands		In thousands	
Advertising	$ 19,769	$ 20,020	$ 37,337	$ 38,029
Circulation	7,287	7,586	14,343	14,588
Commercial Printing	1,258	1,251	2,388	2,401
Promotions and Services	632	834	1,248	1,511
	$ 28,946	$ 29,691	$ 55,316	$ 56,529

Revenue in the second quarter was $28.9 million, a decrease of $0.7 million or 2.5% from the same three months in the prior year. Advertising revenues for the three months ended June 30, 2010 were $19.8 million, a $0.3 million or 1.3% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was $12.5 million, an increase of $0.5 million or 4.0% from the same period in the prior year, primarily due to increased spending in the national automotive category. Classified advertising revenues for the second quarter decreased by $0.5 million or 13.2% compared to the same period last year, primarily due to a decrease in the employment, real estate and automotive categories. Flyer distribution revenues for the second quarter decreased by $0.2 million or 5.5% compared to the same period last year, primarily due to decreased volumes due to the sale of the Thunder Bay distribution operation. Circulation revenues for the second quarter decreased by $0.3 million or 3.9% due primarily to lower paid subscription and single copy volumes. Promotions and services revenues for the second quarter decreased by $0.2 million or 24.2% when compared to the same period last year, primarily due to not hosting the Career Expo trade show as in the prior year, as well as lower internet revenues.

Revenue in the six months ended June 30, 2010 was $55.3 million, a decrease of $1.2 million or 2.1% from the same period in the prior year. Advertising revenues for the six months were $37.3 million, a $0.7 million or 1.8% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, for the six months was $23.8 million, an increase of $1.0 million or 4.2% from the same period in the prior year, primarily due to increased spending in the local and national automotive categories. Classified advertising revenues for the six months decreased by $1.1 million or 14.7% compared to the same period last year, primarily due to a decrease in the employment, real estate and automotive categories. Flyer distribution revenues for the six months decreased by $0.5 million or 7.2% compared to the same period last year, primarily due to decreased volumes due to the sale of the Thunder Bay distribution operation. Circulation revenues for the six months decreased by $0.2 million or 1.7%, primarily due to lower paid subscription and single copy volumes partially offset by improved subscription rates in the first quarter due to the rate increase implemented during March 2009. Promotions and services revenues for the six months decreased by $0.3 million or 17.4% when compared to the same period last year, primarily due to not hosting the Career Expo trade show as in the prior year, as well as lower internet revenues and lower sales of the "Greatest Manitoban" book.

Operating expenses, excluding amortization:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	In thousands		In thousands	
Employee Compensation, excluding Restructuring Charge	$ 10,591	$ 10,577	$ 20,976	$ 21,344
Newsprint - Own Use	2,195	2,617	4,140	5,586
Newsprint - Commercial Printing	268	294	490	566
Delivery of Newspapers	4,316	5,047	8,246	9,651
Other	4,508	4,385	8,867	8,838
	$ 21,878	$ 22,920	$ 42,719	$ 45,985
Restructuring Charge	-	190	-	793
	$ 21,878	$ 23,110	$ 42,719	$ 46,778

Operating expenses excluding amortization for the second quarter were $21.9 million, a 5.3% decrease from $23.1 million in the same quarter last year. Operating expenses for the three months ended June 30, 2010 excluding amortization and excluding the 2009 restructuring charge decreased by $1.0 million or 4.5% from the same quarter last year. Employee compensation costs, excluding the restructuring charge, remained virtually unchanged for the second quarter, due to savings from staff reductions and lower part-time hours offset by the 2% wage increases included in the collective bargaining agreements. Newsprint expense for FPLP's own publications for the second quarter decreased by $0.4 million or 16.1%, with virtually the entire difference due to lower newsprint prices. Newsprint expense for commercial printing for the second quarter decreased by 8.8% from the same period in the prior year, due to lower newsprint prices partially offset by higher consumption. Delivery costs for the second quarter decreased by $0.7 million or 14.5%, primarily due to eliminating the Sunday Winnipeg Free Press home-delivered newspaper, reducing Winnipeg non-subscriber weekly flyer distribution by one day, and no longer incurring Thunder Bay costs due to the sale of that distribution business. Other expenses for the second quarter increased by $0.1 million or 2.8%, primarily due to an increase in the Winnipeg Free Press building maintenance costs.

Operating expenses excluding amortization for the six months ended June 30, 2010 were $42.7 million, an 8.7% decrease from $46.8 million in the same period last year. Operating expenses for the six months excluding amortization and excluding the 2009 restructuring charge decreased by $3.3 million or 7.1% from the same period last year. Employee compensation costs, excluding the restructuring charge, for the six months decreased by $0.4 million or 1.7%, due to savings from staff reductions and lower part-time hours partially offset by the 2% wage increases included in the collective bargaining agreements. Newsprint expense for FPLP's own publications for the six months decreased by $1.4 million or 25.9%, with approximately $1.2 million due to lower newsprint prices and $0.2 million due to lower consumption. Newsprint expense for commercial printing for the six months decreased $0.1 million or 13.4% when compared to the same period in the prior year, due to lower newsprint prices partially offset by higher consumption. Delivery costs for the six months decreased by $1.4 million or 14.6%, primarily due to eliminating the Sunday Winnipeg Free Press home-delivered newspaper, reducing Winnipeg non-subscriber weekly flyer distribution by one day, and no longer incurring Thunder Bay costs due to the sale of that distribution business. Other expenses for the six months remained virtually unchanged, primarily due to an increase in the Winnipeg Free Press building maintenance costs offset by lower utility costs.

EBITDA(1) for the three and six months ended June 30, 2010 were $7.1 million and $12.6 million compared to $6.6 million and $9.8 million for the same periods last year. EBITDA(1) for the three and six months excluding the restructuring charge were higher by $0.3 million or 4.4% and $2.1 million or 19.5%, compared to the same periods last year. EBITDA(1) margin excluding the restructuring charge for the three and six months were 24.4% and 22.8%, compared to 22.8% and 18.7% in the same periods last year.

Amortization of property, plant and equipment increased by $0.5 million and $1.0 million compared to the three and six months last year, primarily due to the requirement to accelerate amortization of the Brandon production equipment as a result of the decision to consolidate printing at the Winnipeg plant in the fourth quarter of 2010.

Interest expense for the three and six months decreased by $2.0 million and $3.9 million compared to the same periods last year, due primarily to the subordinated notes being settled at the end of the fourth quarter of 2009 and lower interest costs on the external debt.

During the first quarter, the Prudential notes payable were repaid in full. As FPCN Media Funding Inc.'s sole purpose was to hold these notes, it is no longer considered a variable interest entity as defined by CICA AcG-15 and is therefore no longer consolidated into FPLP's financial statements. During the first quarter, FPLP recorded a loss of $0.1 million on its income statement as a result of this change.

FPLP's net earnings were $4.9 million and $7.9 million for the three and six months, compared to $2.8 million and $2.3 million for the same periods last year. The increase in both quarters is primarily due to lower expenses due to savings from the restructuring initiatives as well as the lower interest expense as detailed above, partially offset by the increase in amortization of property, plant and equipment as also noted above.

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 2010, 2009 and 2008 were as follows:

	2010	2009	2008
		In thousands	
Revenue			
Quarter 1	$ 26,370	$ 26,838 (**)	$ 29,998
Quarter 2	28,946	29,691 (**)	32,409
Quarter 3		26,554 (**)	30,975
Quarter 4		30,780 (***)	27,730 (*)
		$ 113,863	$ 121,112
EBITDA(1)			
Quarter 1	$ 5,529	$ 3,170 (**)	$ 6,025
Quarter 2	7,068	6,581 (**)	7,468
Quarter 3		4,660 (**)	6,212
Quarter 4		7,987 (***)	3,276 (*)
		$ 22,398	$ 22,981
Net earnings (loss)			
Quarter 1	$ 3,018	$ (496) (**)	$ 2,338
Quarter 2	4,878	2,838 (**)	3,653
Quarter 3		1,122 (**)	2,492
Quarter 4		3,653 (***)	(526) (*)
		$ 7,117	$ 7,957

(*) The decrease in revenue, EBITDA(1) and net earnings in the fourth quarter of 2008 is primarily due to the missed publishing days resulting from the strike at the Winnipeg operation and lower advertising revenues from the economic slowdown.

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

(***) Revenue, EBITDA(1) and net earnings were higher in the fourth quarter of 2009 versus 2008 primarily due to the impact of the strike in 2008. EBITDA(1) and net earnings in the fourth quarter of 2009 were impacted by restructuring charges of $0.8 million relating to severance costs largely for employee reductions planned from the 2010 consolidation of production in Winnipeg.

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

Working Capital Position of FPLP

Total working capital at June 30, 2010 was $4.8 million, compared to ($50.9) million at June 30, 2009. Working capital increased primarily due to the requirements at June 30, 2009 to classify the $60.0 million Prudential notes payable as a current liability as the notes had a due date within one year of the balance sheet date and the requirement to classify the $5.0 million of restricted cash held in a HSBC guarantee account as a non-current asset. Normalizing for these classifications, working capital was $9.8 million at June 30, 2010, compared to $9.1 million at June 30, 2009, with increases due to FPLP's earnings as well as lower distributions paid, partially offset by $2.1 million of HSBC term loan amortization payments.

Liquidity and Capital Resources of FPLP

Cash and cash equivalents at June 30, 2010 was $8.4 million compared to $7.1 million at June 30, 2009. Cash and cash equivalents may be used to pay future distributions, to reduce debt, to fund future capital expenditures, or for other general purposes. Operating activities provided $6.3 million during the second quarter, while $0.1 million was used for investing activities and $4.0 million was used for financing activities. Cash flow from operations, together with cash balances on hand, are currently expected to be sufficient to fund FPLP's operating requirements, capital expenditures, required principal repayments under FPLP's new HSBC credit facility (see "Financing Activities" section) and anticipated distributions, assuming that advertising revenues do not materially deteriorate beyond management's current expectations.

Cash Flow from Operating Activities

During the three and six months ended June 30, 2010, cash generated from operating activities was $6.3 million and $12.1 million, compared to $2.4 million and $4.2 million for the same periods last year. The net earnings for the three and six months ended June 30, 2010 were $4.9 million and $7.9 million compared to $2.8 million and $2.3 million for the same periods in the prior year. The main factors contributing to the change in net earnings are outlined in the FPLP section of this report. The change in the amortization of property, plant and equipment and intangibles in the three and six months ended June 30, 2010 was an increase of $0.5 million and $1.0 million from the same periods last year and results from the accelerated amortization of the Brandon production equipment. The net change in non-cash working capital in the three and six months ended June 30, 2010 was a decrease of $0.2 million and an increase of $0.7 million compared to decreases of $1.7 million and $0.7 million for the same periods last year. The net change in non-cash working capital for the three and six month periods are primarily the result of the timing of receipts from customers and payments to suppliers.

Investing Activities

Capital purchases totalled $0.1 million and $0.3 million for the three and six months ended June 30, 2010, compared to $0.1 million for the three and six months ended June 30, 2009. Maintenance capital spending during the second quarter of 2010 consisted of software development upgrades to the Winnipeg Free Press advertising system.

Capital spending for the remainder of 2010 is expected to be $2.7 million, of which $0.5 million is considered normal maintenance capital and $2.2 million, which will be financed by a capital lease, is for two production equipment upgrades at our Winnipeg facility to improve efficiency and allow for the consolidation of the Brandon printing.

Financing Activities

Distributions to partners of FPLP for the three and six months totalled $2.7 million and $5.3 million, of which $1.3 million and $2.3 million were paid to the Fund as holder of Class A limited partner Units. This is compared to $2.4 million and $4.7 million in the same period last year, of which $0.3 million and $0.6 million were paid to the Fund as holder of Class A limited partner Units. The increased distribution to the Fund is a result of the settlement of the subordinated notes in the fourth quarter of 2009 resulting in the Fund receiving its share of FPLP's distributions entirely as a distribution on its Class A units. The distributions to partners were determined in accordance with the Amended and Restated Agreement of Limited Partnership dated May 3, 2005 (the "LP Agreement").

The principal repayments of the HSBC term loan for the three and six months ended June 30, 2010 totalled $1.3 million and $2.1 million.

Contractual Obligations

Effective December 31, 2009, FPLP signed a credit agreement with HSBC to replace FPLP's $60.0 million term facility with Prudential, which was due on June 5, 2010. On January 8, 2010, the security documentation and funding was completed and the proceeds used to repay the Prudential notes payable in full. In January 2010, FPLP made an initial cash deposit of $5.0 million into a separate HSBC guarantee account with a second $5.0 million guarantee account deposit made by FP

Funding Corporation ("FundingCo"), a company controlled indirectly by Ronald Stern and Robert Silver, who together indirectly control 51% of FPLP. FPLP and FundingCo have entered into a Credit Support Agreement and a Credit Support Fee Agreement outlining the terms of FundingCo's guarantee. Under the terms of the Credit Support Fee Agreement, FPLP is required to pay FundingCo a guarantee fee on the $5.0 million account deposit calculated at 3.0% per annum over the rate charged by HSBC for Facility A.

FPLP has entered into supplier agreements to upgrade certain equipment at the Winnipeg Free Press as part of the $2.2 million project to consolidate FPLP's production operations. Deposits of $0.6 million have been paid as of June 30, 2010 and are included in prepaid expenses on FPLP's balance sheet. FPLP intends to enter into a capital lease agreement to finance this equipment once the projects are completed later this year. Relating to these purchases, during the quarter, FPLP entered into a $0.4 million annual five-year agreement to purchase production supplies.

Other than as discussed above, there were no significant changes to contractual obligations since December 31, 2009.

***Reserve Related to Distributable Cash Attributable to the Fund*[(2)]**

Under the terms of the LP Agreement, the Managing General Partner is required to determine reserves which are necessary or desirable to withhold from any distributions to Partners, including among other things for capital expenditures and operating expenses. A summary of the reserve for maintenance capital for the three and six months ended June 30, 2010 and 2009 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	In Thousands		In thousands	
Reserve at beginning of period	$ 1,500	$ 1,480	$ 1,500	$ 1,480
Increase in reserve	-	20	-	20
Decrease in reserve	-	-	-	-
Reserve at end of period	$ 1,500	$ 1,500	$ 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 the Fund[(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 under which the maximum reserve level is $1.5 million.

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

Debt Covenants

The HSBC credit facility (see "Financing Activities" section) includes negative covenants which must be observed in order to avoid an accelerated termination of the agreement. These covenants include certain restrictions on paying distributions, the sale of assets, the purchase of investments and acquisitions, share capital, allowing encumbrances and certain issuances of loans or financial assistance. FPLP is restricted from making distributions which exceed distributable cash by more than $1 million annually, as defined in the credit agreement. FPLP is required to maintain a leverage ratio of no greater than 3.5 to 1.0, a fixed charge coverage ratio of no less than 2.0 to 1.0 and a current ratio of no less than 1.2 to 1.0, all 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 equal to the corresponding terms used in the external financial reports filed by FPLP. The following financial ratios are calculated in accordance with the HSBC credit agreement as if it had been in place on the dates stated. The current ratio has been calculated assuming a current $5 million loan principal amortization.

Twelve Months Ended	Leverage ratio	Fixed Charge ratio	Current ratio
June 30, 2010	1.8	5.3	3.1
March 31, 2010	1.9	6.5	2.3
December 31, 2009	2.3	7.3	1.7
September 30, 2009	2.9	5.9	1.4
June 30, 2009	2.7	6.5	1.4

Related Party Transactions

FPLP purchases a portion of its newsprint from Alberta Newsprint Company ("ANC"), a related party as disclosed under the related party transaction section of FPLP's Annual Management's Discussion and Analysis at December 31, 2009. There have been no changes during 2010 to the process for selection of newsprint suppliers and the quarterly review by the Audit Committee of newsprint purchases. Total newsprint purchases from ANC for the three and six months ended June 30, 2010 were $1.0 million and $1.8 million, compared to $1.0 million and $3.5 million for the same periods last year.

FPLP pays FundingCo a guarantee fee as FundingCo has made an initial $5.0 million deposit into a HSBC guarantee account (as discussed in the "Financing Activities" section) held as collateral until the term loan is repaid. The guarantee fee in the three and six months ending June 30, 2010 was $0.1 million and $0.2 million.

Internal Controls over Financial Reporting

There have been no significant changes in internal controls over financial reporting since December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Fund's or FPLP's internal controls over financial reporting.

Critical Accounting Estimates

There have been no significant changes in FPLP's or the Fund's critical accounting estimates since December 31, 2009.

Initial Adoption of New Accounting Pronouncements

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

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

Project Structure and Governance – The transition process is monitored by senior finance management. Management continues to update the Audit Committee quarterly on the status of the project.

Resources and Training – FPLP and the Fund have identified key finance staff and such finance staff attend external IFRS training events and have been involved in the IFRS conversion process and have obtained the requisite knowledge and experience such that additional training will not be required.

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

- IFRS 1 – First-time Adoption of International Financial Reporting Standards:

Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings at the date of the first comparative balance sheet. Transitional adjustments relating to those standards where comparative figures are not required to be restated will only be made as of the first day of the fiscal year of adoption.

IFRS 1 provides entities adopting IFRS for the first time with a number of optional exceptions and mandatory exceptions to the general requirement for the full retrospective application of IFRS. FPLP and the Fund are analyzing the various accounting policy options available and will implement those we determine to be most appropriate for our specific circumstances. We have made preliminary conclusions regarding these options but they will be subject to ongoing assessment during the transition year. FPLP and the Fund's current intentions are as follows:

  - Business Combinations - This exemption allows an entity to carry forward its previous GAAP accounting for business combinations prior to the transition date. The exemption is optional and can be applied to any business combination transaction prior to the transition date. However, should an entity choose to adjust a prior business combination to comply with IFRS, all business combinations subsequent to the date of the adjusted transaction must also be retrospectively adjusted. FPLP and the Fund intend to apply this exemption to all acquisitions.
  - Fair value or revaluation as deemed cost – This exemption allows FPLP to revalue Property, Plant and Equipment at fair value at the transition date and use this fair value as the deemed transition cost. This election applies to individual assets. FPLP does not intend to apply this exemption.
  - Employee Benefits - This exemption allows an entity to recognize all cumulative actuarial gains and losses at the date of transition as a direct entry to retained earnings rather than retrospectively applying IFRS pension guidance and recalculating amounts on transition. FPLP intends to apply this exemption.
  - Borrowing costs - This exemption allows an entity to adopt IAS 23 prospectively to projects for which the capitalization commencement date is after the transition date. FPLP intends to apply this exemption to the extent possible.

- Property, plant and equipment - IFRS requires an entity to identify significant component parts within fixed assets and depreciate those parts over their respective useful lives. Canadian GAAP only requires componentization to the extent practicable. FPLP is in the midst of performing a review of its fixed assets to identify whether any additional components are required to be recognized on transition to IFRS. Preliminary conclusions indicate that no additional components will be required to be recognized.

- Classification of liabilities/equity - Units issued by the Fund give Unitholders the right to "put" the units back to the Fund in exchange for cash. IAS 32 Financial Instruments: Presentation establishes the general principle that an instrument which gives the holder the right to "put" the instrument back to the issuer for cash should be classified as a financial liability, unless the instrument has all of the features and meets the conditions of the IAS 32 "puttable instrument amendment". If these "puttable instrument" criteria are met, the instrument is classified as equity. The Fund continues to evaluate its legal agreements to assess whether it meets the IAS 32 "puttable instrument amendment." Furthermore, the Limited Partnership agreement is being reviewed to assess whether the Class A and General Partnership Units would meet the requirements for equity classification.

- Impairment of assets - Upon adoption of IFRS, FPLP is required to test our goodwill and mastheads for impairment in accordance with IAS 36. Furthermore, IFRS requires FPLP to conduct an asset-impairment test at the date of adoption of IFRS if indicators of impairment exist. There are several differences that exist between current Canadian GAAP and IFRS for impairment of non-financial assets, which include:

  - the test for non-financial asset impairment requires the use of a discounted cash flow model, whereas Canadian GAAP uses a two-step impairment test which is first based on undiscounted cash flows and then discounted cash flows;
  - testing for impairment occurs at the level of cash generating units, which is the lowest level of assets that generate largely independent cash inflows, whereas Canadian GAAP requires impairment tests at the asset group level; and
  - IFRS allows the reversal of previous impairment losses, with the exception of goodwill, whereas Canadian

GAAP prohibits the reversal of non-financial asset impairments.

FPLP is currently evaluating the application of IAS 36, however preliminary conclusion indicate that no impairment charge would be recognized under IFRS.

- Presentation of financial statements - FPLP and the Fund have prepared a draft set of IFRS financial statements excluding any quantitative financial information. Such financial information continues to be reviewed by senior management and management anticipates that the financial statements will be provided to the Audit Committee in the third quarter of 2010.

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

Internal controls over financial reporting and disclosure controls and processes – FPLP and the Fund are in the process of identifying the impact of divergences on our internal controls. Any significant impacts we identify will be disclosed in future filings when the assessment is finalized. FPLP and the Fund have prepared a draft set of IFRS financial statements to ascertain whether any amendments to internal controls over financial reporting and disclosure controls and procedures are required. As management continue to review the draft financial statements we will disclose any requisite updates to controls required. FPLP and the Fund have not identified any change that would materially affect, or is reasonably likely to materiality affect, our internal controls over financial reporting and disclosure controls and procedures.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are certain differences in recognition, measurement and disclosures. In the period leading to the changeover, the AcSB may continue to issue new accounting standards that are aligned with IFRS, which will reduce the impact of adopting IFRS on the transition date. The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period. As a result of the upcoming changes, the final impact of IFRS on our consolidated financial statements can only be determined once all of the IFRS applicable as of December 31, 2011 are known.

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

Historical Distributions Paid Analysis

FPLP:	Three Months ended June 30, 2010	Six Months ended June 30, 2010	Twelve months ended December 31, 2009	Twelve Months ended December 31, 2008
		In thousands		
Cash provided by operating activities	$ 6,336	$ 12,069	$ 11,316	$ 11,933
Net earnings	4,878	7,896	7,117	7,957
Distributions paid during the period	2,712	5,325	9,477	11,820
Excess of cash provided by operating activities over cash distributions paid	$ 3,624	$ 6,744	$ 1,839	$ 113
Excess (shortfall) of net earnings over cash distributions paid	$ 2,166	$ 2,571	$ (2,360)	$ (3,863)

Cash distributions paid in two of the four periods exceeded net earnings. 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.

Fund:	Three Months ended June 30, 2010	Six Months ended June 30, 2010	Twelve Months ended December 31, 2009	Twelve months ended December 31, 2008
		In thousands		
Cash provided by operating activities	$ 1,250	$ 2,161	$ 8,259	$ 8,819
Net earnings	2,047	3,498	6,853	6,682
Distributions paid during the period	1,242	2,727	7,869	8,732
Excess (shortfall) of cash provided by operating activities over cash distributions paid	$ 8	$ (566)	$ 390	$ 87
Excess (shortfall) of net earnings over cash distributions paid	$ 805	$ 771	$ (1,016)	$ (2,050)

Cash distributions paid in two of the four periods exceeded net earnings. The Fund does not use net earnings as a basis for determining the level of distributions to Unitholders. Distributions are determined by the Trustees in accordance with the Deed of Trust of the Fund and are primarily dependent upon the amount of distributions (and interest on the subordinated notes prior to December 31, 2009) received from FPLP. Because amortization charged as an expense in calculating net earnings of FPLP, in accordance with GAAP, has exceeded capital expenditures charged as a reduction of distributable cash of FPLP in all periods, this result is not unexpected.

Cash distributions paid in the six months ended June 30, 2010 exceeded cash provided by operating activities due to the settlement of the subordinated notes on December 31, 2009, which resulted in a December 31, 2009 subordinated note interest payment of $0.6 million which would have otherwise been a source of operating cash in the first quarter of 2010.

Business Risks and Uncertainties

Revenue

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

Expenses

Newspaper publishing is both capital and labour-intensive, and as a result newspapers have relatively high fixed-cost structures. During periods of declining revenue, significant portions of costs may remain fixed, resulting in decreased earnings. Newsprint is a significant cost for FPLP, accounting for $4.6 million during the first two quarters of 2010. Newsprint costs vary widely from time to time. If newsprint costs rise rapidly, there is no assurance that advertising and circulation revenues can be increased to offset the increased newsprint expense.

Outlook

The outlook for operations is described earlier in this document.

Non GAAP Measures

(1) EBITDA

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	In thousands		In thousands	
Net earnings for the period	$ 4,878	$ 2,838	$ 7,896	$ 2,342
Add (subtract):				
Amortization of property, plant and equipment	1,561	1,035	3,078	2,078
Amortization of intangible assets	90	90	180	180
Interest expense	568	2,616	1,360	5,211
Interest income	(29)	(6)	(60)	(29)
Loss (gain) on sale of property, plant and equipment	-	-	85	(4)
Loss on derecognition of Variable Interest Entity	-	-	58	-
Current income tax expense	-	(10)	-	(9)
Future income tax expense (recovery)	-	18	-	(18)
EBITDA	$ 7,068	$ 6,581	$ 12,597	$ 9,751

(2) Distributable Cash Attributable to the Fund

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Distributable cash of FPLP:	In thousands		In thousands	
EBITDA[(1)]	$ 7,068	$ 6,581	$ 12,597	$ 9,751
Interest income	29	6	60	29
Interest expense on notes payable, term loan and guarantee, excluding amortization of related deferred financing costs	(542)	(780)	(1,240)	(1,560)
Principal repayment of term loan	(1,252)	-	(2,085)	-
Maintenance capital expenditures	(135)	(57)	(328)	(143)
Increase in reserve for future maintenance capital	-	(20)	-	(20)
Proceeds from sale of property, plant and equipment	-	-	221	4
Current income and capital taxes expense	-	10	-	9
	$ 5,168	$ 5,740	$ 9,225	$ 8,070
49% attributable to the Fund	$ 2,532	$ 2,813	$ 4,520	$ 3,954
Administration expenses	(254)	(48)	(354)	(134)
Interest income	-	1	-	2
Distributable cash attributable to the Fund	$ 2,278	$ 2,766	$ 4,166	$ 3,822
Distributable cash attributable to the Fund – per Unit	$ 0.330	$ 0.401	$ 0.604	$ 0.554

A summary of distributable cash and distributions declared for the trailing twelve months to June 30, 2010 and for the period from commencement of the Fund on May 28, 2002 to June 30, 2010 is as follows:

Distributable Cash of FPLP:

	Last Twelve Months	Since May 28, 2002
	In thousands	
EBITDA[1]	$ 25,244	$ 197,705
Interest income	71	945
Interest expense on notes payable and capital leases, excluding amortization of related deferred financing costs	(2,800)	(25,010)
Principal repayment of term loan	(2,085)	(2,085)
Principal repayment of capital leases	-	(1,136)
Maintenance capital expenditures	(844)	(8,348)
Increase in reserve for future maintenance capital expenditures	-	(1,500)
Strategic capital expenditures	-	(1,331)
Increase in reserve for strategic capital, acquisitions, and/or debt reduction	-	(353)
Proceeds on disposal of property, plant and equipment	380	1,518
Current income and capital tax expense	(13)	(196)
Distributable cash of FPLP	$ 19,953	$ 160,209

Distributable Cash Attributable to the Fund:

	Last Twelve Months	Since May 28, 2002
	In thousands	
49% of FPLP distributable cash	$ 9,777	$ 78,502
Administration expenses	(490)	(2,404)
Interest income	1	52
Distributable cash attributable to the Fund	$ 9,288	$ 76,150
Distributable cash attributable to the Fund per Unit	$ 1.346	$ 11.032
Distributions declared by the Fund per Unit	$ 0.930	$ 9.863
Payout Ratio	69.1%	89.4%

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	In thousands		In thousands	
Cash flow from operating activities of FPLP	$ 6,336	$ 2,435	$ 12,069	$ 4,171
Add (subtract):				
Interest on subordinated notes (*)	-	1,676	-	3,334
Net change in non-cash working capital items (**)	219	1,706	(710)	724
Maintenance capital expenditures	(135)	(57)	(328)	(143)
Increase in reserve for future maintenance capital(***)	-	(20)	-	(20)
Principal repayment of term loan(****)	(1,252)	-	(2,085)	-
Loss on derecognition of the Variable Interest Entity	-	-	58	-
Proceeds from sale of property, plant and equipment (*****)	-	-	221	4
Distributable cash of FPLP	$ 5,168	$ 5,740	$ 9,225	$ 8,070

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

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

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

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

(****) The monthly principal repayments of the term loan is a requirement under the HSBC Bank Canada term facility (see note 11 in FPLP financial statements) and is therefore a reduction in determining the distributable cash of FPLP.

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

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

	As at June 30, 2010	As at December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 250	$ 816
Prepaid expenses	30	14
	280	830
Investment in FPCN General Partner Inc.	49	49
Investment in FP Canadian Newspapers Limited Partnership (note 2)	59,893	58,342
	$ 60,222	$ 59,221
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 329	$ 116
Distribution payable (note 3)	414	656
	743	772
Long-Term Liabilities:		
Future income taxes	1,613	1,596
	2,356	2,368
Unitholders' Equity:		
Trust Units	69,026	69,026
Cumulative earnings	56,913	53,415
Cumulative distributions	(68,073)	(65,588)
	57,866	56,853
	$ 60,222	$ 59,221

(See accompanying notes)

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Earnings from investment in FP Canadian Newspapers Limited Partnership				
Interest from subordinated notes	$ -	$ 1,676	$ -	$ 3,334
Equity interest from Class A limited partner Units (note 2)	2,390	536	3,869	(553)
Other interest	-	1	-	2
	2,390	2,213	3,869	2,783
Administration expenses (note 5)	(254)	(48)	(354)	(134)
Net earnings before income taxes	$ 2,136	$ 2,165	$ 3,515	$ 2,649
Future income tax (expense) recovery	(89)	8	(17)	67
Net earnings and comprehensive income for the period	$ 2,047	$ 2,173	$ 3,498	$ 2,716
Cumulative earnings, beginning of period	54,866	47,105	53,415	46,562
Cumulative earnings, end of period	$ 56,913	$ 49,278	$ 56,913	$ 49,278
Number of trust Units outstanding	6,902,592	6,902,592	6,902,592	6,902,592
Net earnings per trust Unit	$ 0.297	$ 0.315	$ 0.507	$ 0.394

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Balance – beginning of period	$ 57,061	$ 56,444	$ 56,853	$ 57,869
Net earnings for the period	2,047	2,173	3,498	2,716
Distributions to Unitholders	(1,242)	(1,967)	(2,485)	(3,935)
Balance – end of period	$ 57,866	$ 56,650	$ 57,866	$ 56,650

(See accompanying notes)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Cash provided by (used in):				
Operating activities:				
Net earnings for the period	$ 2,047	$ 2,173	$ 3,498	$ 2,716
Items not affecting cash:				
Equity interest from Class A Units of FP Canadian Newspapers Limited Partnership (note 2)	(2,390)	(536)	(3,869)	553
Future income tax expense (recovery)	89	(8)	17	(67)
Distributions received on Class A Units of FP Canadian Newspapers Limited Partnership (note 2)	1,329	306	2,318	606
Net change in non-cash working capital items	175	(9)	197	36
	1,250	1,926	2,161	3,844
Financing activities:				
Distributions to Unitholders	(1,242)	(1,967)	(2,727)	(3,935)
Investment activities:				
Investment in FPCN General Partner Inc.	-	(9)	-	(9)
Increase (decrease) in cash and cash equivalents	8	(50)	(566)	(100)
Cash and cash equivalents – beginning of period	242	385	816	435
Cash and cash equivalents – end of period	$ 250	$ 335	$ 250	$ 335

(See accompanying notes)

(unaudited, tabular amounts in thousands of Canadian dollars)

1. Basis of presentation

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

These interim consolidated financial statements of the Fund have been prepared by management in accordance with accounting principles generally accepted in Canada for interim financial statements and include the accounts of the Fund and its wholly-owned subsidiary, FPCN Holdings Trust (“the Trust”). However, these interim financial statements do not include all the information and disclosures required for annual financial statements. These interim financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements of the Fund as at December 31, 2009. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto and other financial information contained in the audited consolidated financial statements for the year ended December 31, 2009.

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

2. Investment in FP Canadian Newspapers Limited Partnership

On May 28, 2002, the Trust subscribed for 6,573,897 Class A limited partner Units of FPLP and $65,670,000 principal amount of subordinated notes of FPLP. On June 27, 2002, the Trust subscribed for a further 328,695 Class A limited partner Units of FPLP and $3,283,500 principal amount of subordinated notes of FPLP. On December 31, 2009, the subordinated notes were settled as a condition of the HSBC credit facility (see FPLP note 11). The Trust 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 31, 2009	$ 58,342
Equity interest in the period	1,479
Distributions received	(989)
Balance at March 31, 2010	$ 58,832
Equity interest in the period	2,390
Distributions received	(1,329)
Balance at June 30, 2010	$ 59,893

The change in equity interest for the three and six months ended June 30, 2010 and 2009 from the Fund's investment in Class A limited partner Units and subordinated notes of FPLP is calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net earnings of FPLP	$ 4,878	$ 2,838	$ 7,896	$ 2,342
Plus: Interest on subordinated notes	-	1,676	-	3,334
Net earnings before interest on subordinated notes	$ 4,878	$ 4,514	$ 7,896	$ 5,676
49% interest attributable to the Fund	2,390	2,212	3,869	2,781
Less: Interest from subordinated notes	-	(1,676)	-	(3,334)
Equity interest from Class A limited partner Units	$ 2,390	$ 536	$ 3,869	$ (553)

3. Distribution payable

The Fund recorded a distribution payable at June 30, 2010 of $0.06 per Unit. The distribution was paid July 29, 2010 to Unitholders of record on June 30, 2010 and is in respect of the month of June 2010.

4. Financial instruments

The fair value of current assets and liabilities including cash and cash equivalents, accounts payable and accrued liabilities, and distribution payable approximates their carrying value due to the short-term nature of these financial instruments. Cash and cash equivalents at June 30, 2010 are $250,000 ($335,000 – June 30, 2009), and the Level 1 valuation technique is used to determine their fair value.

5. Corporate conversion costs

During the May 5, 2010 annual general meeting, the Unitholders approved an arrangement to convert at the end of 2010 from a trust structure to a corporation structure. During the quarter, the Fund incurred expenses of $214,000 with regard to this arrangement.

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

	As at June 30, 2010	As at December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 8,435	$ 9,178
Accounts receivable	11,511	12,991
Inventories	931	993
Prepaid expenses (note 12)	1,888	1,132
	22,765	24,294
Restricted cash (note 9)	5,000	-
Property, plant and equipment	40,704	43,750
Investment (note 4)	81	136
Intangible assets	7,201	7,381
Goodwill	71,160	71,160
Accrued pension benefit asset	540	226
	$ 147,451	$ 146,947
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 9,858	$ 9,720
Income taxes payable	-	8
Prepaid subscriptions and deferred revenue	3,125	3,131
Notes payable (note 11)	-	5,000
Term loan (note 11)	5,000	-
	17,983	17,859
Long-Term Liabilities:		
Notes payable (note 11)	-	54,930
Term loan (note 11)	52,670	-
	52,670	54,930
	70,653	72,789
Unitholders' Equity:		
Partner Units	98,280	98,280
Cumulative earnings	76,087	68,191
Cumulative distributions	(97,435)	(92,110)
Accumulated other comprehensive loss (note 4)	(134)	(203)
	76,798	74,158
	$ 147,451	$ 146,947

(See accompanying notes)

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June, 2010	Six Months Ended June, 2009
Revenue	$ 28,946	$ 29,691	$ 55,316	$ 56,529
Operating expenses, excluding amortization and restructuring charge	(21,878)	(22,920)	(42,719)	(45,985)
Restructuring charge	-	(190)	-	(793)
	7,068	6,581	12,597	9,751
Amortization of property, plant and equipment	(1,561)	(1,035)	(3,078)	(2,078)
Amortization of intangible assets	(90)	(90)	(180)	(180)
Earnings before the under-noted	5,417	5,456	9,339	7,493
Interest expense (note 6)	(568)	(2,616)	(1,360)	(5,211)
Interest income	29	6	60	29
(Loss) gain on sale of property, plant and equipment	-	-	(85)	4
Loss on derecognition of the Variable Interest Entity (note 1)	-	-	(58)	
Earnings before income taxes	4,878	2,846	7,896	2,315
Income tax recovery (expense):				
- Current	-	10	-	9
- Future	-	(18)	-	18
Net earnings for the period	4,878	2,838	7,896	2,342
Cumulative earnings – beginning of period	71,209	60,578	68,191	61,074
Cumulative earnings – end of period	$ 76,087	$ 63,416	$ 76,087	$ 63,416

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net earnings for the period	$ 4,878	$ 2,838	$ 7,896	$ 2,342
Other comprehensive loss				
Unrealized loss on investment, net of tax (note 4)	73	129	69	46
Comprehensive income for the period	$ 4,951	$ 2,967	$ 7,965	$ 2,388

(See accompanying notes)

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

	General partner Units	Class A limited partner Units	Total
Unitholders' equity – December 31, 2008	$ 11,562	$ 7,897	$ 19,459
Net loss for the period	(432)	(64)	(496)
Distributions paid	(2,035)	(300)	(2,335)
Other comprehensive loss, net of tax	(72)	(11)	(83)
Unitholders' equity – March 31, 2009	$ 9,023	$ 7,522	$ 16,545
Net earnings for the period	2,474	364	2,838
Distributions paid	(2,083)	(306)	(2,389)
Other comprehensive income, net of tax	112	17	129
Unitholders' equity – June 30, 2009	$ 9,526	$ 7,597	$ 17,123
Net earnings for the period	977	145	1,122
Distributions paid	(2,083)	(306)	(2,389)
Other comprehensive income, net of tax	37	6	43
Unitholders' equity – September 30, 2009	$ 8,457	$ 7,442	$ 15,899
Net earnings for the period	3,184	469	3,653
Distributions paid	(2,060)	(304)	(2,364)
Other comprehensive loss, net of tax	(14)	(3)	(17)
Contributions	-	56,987	56,987
Unitholders' equity – December 31, 2009	$ 9,567	$ 64,591	$ 74,158
Net earnings for the period	1,876	1,142	3,018
Distributions paid	(1,624)	(989)	(2,613)
Other comprehensive loss, net of tax	(2)	(2)	(4)
Unitholders' equity – March 31, 2010	$ 9,817	$ 64,742	$ 74,559
Net earnings for the period	2,583	2,295	4,878
Distributions paid	(1,383)	(1,329)	(2,712)
Other comprehensive income, net of tax	41	32	73
Unitholders' equity – June 30, 2010	$ 11,058	$ 65,740	$ 76,798

(See accompanying notes)

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Cash provided by (used in)				
Operating activities:				
Net earnings for the period	$ 4,878	$ 2,838	$ 7,896	$ 2,342
Items not affecting cash:				
Amortization of property, plant and equipment and intangible assets	1,651	1,125	3,258	2,258
Accretion of notes payable/term loan related to financing costs (note 6)	26	160	120	317
Future income tax recovery	-	18	-	(18)
Loss (gain) on disposal of property, plant and equipment	-	-	85	(4)
	6,555	4,141	11,359	4,895
Net change in non-cash working capital items	(219)	(1,706)	710	(724)
	6,336	2,435	12,069	4,171
Investing activities:				
Purchases of property, plant and equipment	(135)	(57)	(328)	(143)
Proceeds from sale of property, plant and equipment	-	-	221	4
Increase in restricted cash (note 9)	-	-	(5,000)	-
	(135)	(57)	(5,107)	(139)
Financing activities:				
Distributions to partners	(2,712)	(2,389)	(5,325)	(4,724)
Repayment of notes payable (note 11)	-	-	(60,000)	-
Proceeds from term loan (note 11)	-	-	60,000	-
Term loan refinancing costs	-	-	(295)	-
Principal repayment of term loan	(1,252)	-	(2,085)	-
	(3,964)	(2,389)	(7,705)	(4,724)
Increase (decrease) in cash and cash equivalents	2,237	(11)	(743)	(692)
Cash and cash equivalents - beginning of period	6,198	7,154	9,178	7,835
Cash and cash equivalents - end of period	$ 8,435	$ 7,143	$ 8,435	$ 7,143
Supplemental Cash Flow Information:				
Interest paid during the period	$ 543	$ 2,475	$ 1,465	$ 4,911
Taxes paid during the period	$ 2	$ 6	$ 7	$ 14

(See accompanying notes)

1. Basis of presentation

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

These interim consolidated financial statements include the operating businesses owned by FPLP. During the first quarter, FPCN Media Funding Inc. ("Funding") was wound up as its sole purpose was to hold the Prudential notes payable, which were repaid in full on January 8, 2010, and therefore Funding is no longer considered a variable interest entity as defined by CICA AcG-15 and no longer consolidated into the FPLP financial statements. Based on a reassessment and before any activity, FP Funding Corporation ("FundingCo"), which was previously disclosed to be a variable interest entity, has been determined not to be a variable interest entity and has not been consolidated. The FPLP Employee Benefits Plan Trust Fund ("Trust Fund") has been determined to be a variable interest entity, which has been consolidated into FPLP. The managing general partner of FPLP is FPCN General Partner Inc. ("FPGP"). These interim consolidated financial statements include only the assets, liabilities, revenues and expenses of FPLP and its subsidiaries and do not include the other assets, liabilities, revenues and expenses, including income taxes, of the partners.

These interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada for interim financial statements and reflect all adjustments which are, in the opinion of management, necessary for fair statement of the results of the interim periods presented. However, these interim consolidated financial statements do not include all the information and disclosures required for annual financial statements. The accounting policies used in the preparation of these interim consolidated financial statements are the same as those used in the most recent annual consolidated financial statements, except as described below. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of FPLP for the year ended December 31, 2009.

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

2. Summary of significant accounting policies

Financial Instruments

FPLP has made the following additional classifications during hte six months ended June 30, 2010:

Restricted cash is classified as "assets held for trading" and is measured at fair value.

Term loan is classified as "other financial liabilities" and is measured at amortized cost using the effective interest method.

3. Allocation of net earnings

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

4. Investment

The Trust Fund holds Units of FP Newspapers Income Fund ("the Fund"), which have been classified as "available for sale" and therefore are measured at fair value, as determined by the published price quote. Gains and losses resulting from the periodic revaluation are recorded in other comprehensive income. During the quarter 9,509 Units were distributed to participants leaving a balance of 16,851 Units with a carrying value of $81,000 as at June 30, 2010 (26,484 Units with a carrying value of $136,000 as at December 31, 2009). The accumulated other comprehensive loss related to this revaluation adjustment is $134,000 as at June 30, 2010 ($203,000 - December 31, 2009).

5. Employee future benefit plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Defined benefit pension plan	$ 259	$ 315	$ 519	$ 636

6. Interest expense

Interest expense is summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Subordinated notes	$ -	$ 1,676	$ -	$ 3,334
Accretion of subordinated notes related to financing costs	-	120	-	237
Notes payable	-	780	173	1,560
Accretion of notes payable related to financing costs	-	40	70	80
Term loan	459	-	908	-
Accretion of term loan related to financing costs	26	-	50	-
Guarantee fee (note 10)	83	-	159	-
	$ 568	$ 2,616	$ 1,360	$ 5,211

7. Capital management

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

FPLP's capital consists of cash and cash equivalents, debt and Unitholders' equity. The components at June 30, 2010 and December 31, 2009 were as follows:

	As at June 30, 2010	As at December 31, 2009
Notes payable	$ -	$ 59,930
Term loan	57,670	-
Cash and cash equivalents	(8,435)	(9,178)
Restricted cash	(5,000)	-
External net debt	44,235	50,752
Unitholders' equity	76,798	74,158
Total capitalization	$ 121,033	$ 124,910
External net debt as a percentage of total capitalization	36.5%	40.6%

The credit facility includes negative covenants which must be observed in order to avoid an accelerated termination of the agreement. These covenants include certain restrictions on paying distributions, the sale of assets, the purchase of investments and acquisitions, share capital, allowing encumbrances and certain issuances of loans or financial assistance. FPLP is restricted from making distributions which exceed distributable cash by more than $1,000,000 annually, as defined in this agreement. FPLP is required to maintain a leverage ratio of no greater than 3.5 to 1.0, a fixed charge coverage ratio of no less than 2.0 to 1.0 and a current ratio of no less than 1.2 to 1.0, all defined in the agreement and measured quarterly on a trailing 12-month basis. Financial amounts used in the calculations are specifically defined in the credit agreement, but are substantially equal to the corresponding terms used in the external financial reports filed by FPLP. The following financial ratios are calculated in accordance with the HSBC credit agreement:

Twelve Months Ended	Leverage ratio	Fixed Charge ratio	Current ratio
June 30, 2010	1.8	5.3	3.1
March 31, 2010	1.9	6.5	2.3

8. Financial instrument risk management

Credit Risk

As FPLP is in the business of publishing newspapers and performing printing services for third parties, included in accounts receivable are primarily amounts owed from advertisers and advertising agencies, circulation customers and commercial print clients. FPLP does not hold collateral as security for these balances. FPLP's credit risk relating to these accounts receivable is spread over a large number of national and local advertising clients and advertising agencies, in addition to many circulation retail customers and third-party printing clients. FPLP manages credit risk on a customer by customer basis and establishes a reasonable allowance for non-collectible amounts with this allowance netted against the accounts receivable on the balance sheet. The adequacy of the allowance is reviewed on a regular basis, and is estimated based on past experience, specific risks associated with the customers and other relevant information. The ten largest receivable amounts total $4,045,000 as at June 30, 2010 ($4,607,000 - December 31, 2009) and approximately 81% of these balances are owed from national advertising agencies. The largest amount due from a single national agency is $1,010,000 as at June 30, 2010 ($791,000 - December 31, 2009) which represents approximately 8% of total receivables.

At June 30, 2010, FPLP estimates the value of impaired accounts receivable is $28,000 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:

	As at June 30, 2010	As at December 31, 2009
Accounts receivable:		
Current	$ 6,722	$ 7,485
Up to three months past due	5,003	5,660
Greater than three months past due	162	155
Impaired	28	55
	11,915	13,355
Allowance for doubtful accounts	(404)	(364)
	$ 11,511	$ 12,991

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

Balance, at December 31, 2009	$ (364)
Bad debt expense, net of recovery	(71)
Written-off	17
Balance at March 31, 2010	$ (418)
Bad debt expense, net of recovery	(49)
Written-off	13
Reserve reduction	50
Balance at June 30, 2010	$ (404)

Liquidity Risk

The following are the contractual maturities of the financial liabilities:

		Payments due for the years ending June 30		
	Total	1 – 3 years	4 – 5 years	After 5 years
Accounts payable and accrued liabilities	$ 9,858	$ 9,858	$ -	$ -
Long-term debt principal	57,916	15,000	42,916	-
Total	$ 67,774	$ 24,858	$ 42,916	$ -

Fair Value Hierarchy

Financial asset or liability	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 8,435	$ -	$ -	$ 8,435
Restricted cash	5,000			5,000
Investment	81	-	-	81
	$ 13,516	$ -	$ -	$ 13,516

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 under the HSBC credit facility. FPLP will be exposed to fluctuations in interest rates as the amounts borrowed under the credit agreement (see note 11) are in the form of bankers' acceptances at varying interest rates. FPLP is able to manage the risk through the use of an interest rate swap facility which would fix the interest rate on all or a portion of the credit facility, however, FPLP has not entered into any interest rate swap agreements during the three and six months ended June 30, 2010.

An assumed 1% increase in FPLP's short-term borrowing rates during the three and six months ended June 30, 2010 would have decreased net income by $158,000 and $303,000, with an equal but opposite effect for an assumed 1% decrease in short-term borrowing rates.

9. Restricted cash

During the first quarter of 2010, FPLP made an initial cash deposit of $5,000,000 into a separate HSBC guarantee account as it is pledged as a guarantee to HSBC based on the credit agreement. These restricted funds will remain in this HSBC account until the term loan is repaid and are presented as "Restricted Cash" on the balance sheet.

10. Related party transaction

For the three and six months ended June 30, 2010, FPLP incurred a guarantee fee of $83,000 and $159,000 to FundingCo (see note 11). At June 30, 2010, the outstanding payable of $27,000 was included in accounts payable and accrued liabilities.

11. Refinancing

Effective December 31, 2009, FPLP signed a credit agreement with HSBC to replace FPLP's $60,000,000 term facility with Prudential, which was due on June 5, 2010. On January 8, 2010, the security documentation and funding was completed and the proceeds used to repay the Prudential notes payable in full. The HSBC credit agreement consists of two loan facilities, each with a three-year term expiring on January 31, 2013: Facility A in the amount of $50,000,000 and Facility B in the amount of $10,000,000. Amounts borrowed under both facilities will primarily be in the form of bankers' acceptances at varying interest rates and would mature over periods of 30 to 180 days. The interest rate spread above the bankers' acceptance rate varies based on the leverage ratio, as defined in the agreement, and was 3.00% and 0.375% on Facilities A and B respectively at June 30, 2010. An interest rate swap facility is also available under the credit agreement. Facility A includes principal repayments of $5,000,000 annually (payable monthly) over each of the three years of the agreement. Both facilities are secured by a charge over all the assets of FPLP as well as a cash deposit of $10,000,000. In January 2010, FPLP made an initial cash deposit of $5,000,000 into a separate HSBC guarantee account (see note 9) with a second $5,000,000 guarantee account deposit made by FundingCo, a company controlled indirectly by Ronald Stern and Robert Silver who together indirectly control 51% of FPLP. FPLP and FundingCo have entered into a Credit Support Agreement and a Credit Support Fee Agreement outlining the terms of FundingCo's guarantee. Under the terms of the Credit Support Fee Agreement, FPLP is required to pay FundingCo a guarantee fee on the $5,000,000 account deposit calculated at 3.0% per annum over the rate charged by HSBC for Facility A. The financial covenants which are included in the agreement are detailed in note 7.

12. Commitments and contingencies

FPLP has entered into supplier agreements to upgrade certain equipment at the Winnipeg Free Press as part of the $2,200,000 project to consolidate FPLP's production operations. Deposits of $639,000 have been paid as of June 30, 2010 and are included in prepaid expenses on FPLP's balance sheet. FPLP is intending to enter into a capital lease agreement to finance this equipment once the projects are completed later this year. Relating to these equipment purchases, during the quarter, FPLP entered into a $400,000 annual five year agreement to purchase production supplies.

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" or similar terminology.

Forward-looking statements are subject to known and unknown risks and uncertainties that may cause the actual results, performance or achievements of the Fund or FPLP, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but not limited to, the current significant general economic uncertainty and credit and financial market volatility, FPLP's ability to effectively manage growth and maintain its profitability, FPLP's ability to operate in a highly competitive industry, FPLP's ability to compete with other forms of media, FPLP's ability to attract advertisers, FPLP's reliance upon key personnel, FPLP's relatively high fixed costs, FPLP's dependence upon particular advertising customer segments, indebtedness incurred in making acquisitions, the availability of financing for capital improvements, costs related to capital expenditures, cyclical and seasonal variations in FPLP's revenues, acts of terrorism, the cost of newsprint, the potential for labour disruptions, the risk of equipment failure, and the effect of Canadian tax laws. Additional information about these and other factors is discussed under "Risk Factors" in our Annual Information Form dated March 24, 2010, 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 what management of FPLP believes are reasonable assumptions, such assumptions may prove to be incorrect.

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

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The Units of FP Newspapers Income Fund are traded on the Toronto Stock Exchange under the symbol FP.UN

Transfer Agent:

CIBC Mellon Trust Company

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PricewaterhouseCoopers LLP, Winnipeg