



# FP NEWSPAPERS INC.

**First Quarter Report - 2012**

March 31, 2012

**First Quarter Report  
March 31, 2012  
Letter to Shareholders**



To our Shareholders

I am pleased to provide you with a report on the results of our operations and related dividends to Shareholders of FP Newspapers Inc. ("FPI") for the quarter ended March 31, 2012. FPI owns directly securities entitling it to 49% of the distributable cash of FP Canadian Newspapers Limited Partnership ("FPLP") in each fiscal year. FPI's shares trade on the Toronto Stock Exchange under the symbol "FP".

FPLP 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 bi-monthly magazine for mature readers. On February 28, 2011, FPLP completed the acquisition of the Steinbach printing and publishing business of Derksen Printers ("Derksen"), which operates a commercial web and sheet-fed printing business and publishes a regional paid weekly newspaper, "The Carillon".

Total revenue for FPLP for the three months ended March 31, 2012 was \$27.0 million, a \$2.0 million or 7.9% increase from the same period last year. Excluding the Derksen business, total revenue increased by \$1.0 million or 4.2% compared to the first quarter in 2011. Total EBITDA<sup>(1)</sup> of FPLP for the quarter was \$3.9 million, a \$0.4 million or 10.2% decrease from the same quarter last year. Excluding the Derksen business, total EBITDA<sup>(1)</sup> of FPLP decreased by \$0.6 million or 13.5 % from the same quarter last year. FPLP had net earnings of \$2.3 million in the quarter compared to \$2.7 million in the same quarter last year. Excluding the Derksen business, FPLP's net earnings were \$2.1 million for the first quarter of 2012.

FPI had net earnings of \$0.8 million, or \$0.117 per share, during the three months ended March 31, 2012, compared to net earnings of \$1.0 million, or \$0.138 per share, in the same quarter last year. The decrease in FPI's net earnings in the quarter is primarily due to a \$0.2 million decrease in its equity share of the earnings of FPLP.

**Operations**

FPLP's revenue for the three months ended March 31, 2012 was \$27.0 million, an increase of \$2.0 million or 7.9% from the same three months in the prior year. Excluding revenue attributable to the Derksen operation for the quarter, revenue increased by \$1.0 million or 4.2%. Advertising revenues for the three months ended March 31, 2012, excluding the Derksen business, were \$17.6 million, a \$0.5 million or 3.0% increase compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, excluding the Derksen business, was \$11.5 million, an increase of \$0.5 million or 4.5% from the same period in the prior year, primarily due to new revenue from two third party magazines. Excluding this new magazine revenue and the Derksen revenue, advertising revenues were lower by \$0.1 million or 0.6% from the same quarter last year, primarily due to lower classified advertising. Classified advertising revenues for the first quarter, excluding the Derksen business, decreased by \$0.1 million or 4.1% compared to the same period last year, primarily due to decreased spending in the automotive and obituary categories, partly offset by increased revenue in the real estate category. Flyer distribution revenues for the quarter, excluding the Derksen business, increased by \$0.1 million or 3.7%, due to increased volumes and rates.

Circulation revenues for the first quarter, excluding the Derksen business, were \$6.5 million, unchanged from the first quarter of 2011, with increased revenue from higher subscription rates offsetting lower unit sales. Commercial printing revenues for the quarter increased by \$0.6 million, which is entirely attributable to the Derksen acquisition last year. Digital revenues for the first quarter increased by \$0.1 million or 20.7%, primarily due to the increase in Winnipeg Free Press website banner advertising and revenues from online web ads and other digital offerings introduced in 2011. Other income, excluding the Derksen business, increased by \$0.4 million primarily due to sales of the Winnipeg Jets 2011/12 Officially Licensed Medallion Collection.

Operating expenses for the three months ended March 31, 2012 were \$24.1 million, a \$2.5 million or 11.4% increase from the same quarter last year. Operating expenses excluding the Derksen business, for the three months ended March 31, 2012, increased \$1.6 million or 7.5% compared to last year. Employee compensation costs for the first quarter, excluding the Derksen business, increased by \$0.2 million or 2.1% primarily due to the 2% wage increase included in the collective agreements. Newsprint expense for FPLP's own publications for the quarter, excluding the Derksen business, was unchanged compared to the prior year as prices and volumes remained at last year's levels. Newsprint expense for commercial printing, excluding the Derksen business, remained relatively level compared to the previous year. Other expenses, excluding the Derksen business, increased \$1.3 million or 33.6% compared to the same quarter last year primarily due to new outside print costs for two third party magazines, costs for the Winnipeg Jets medallion circulation promotion project, a non-recurring reduction in an accrual relating to a labour matter during the first quarter last year and increased costs on our long-term sponsorship agreement with the Winnipeg Jets. A small increase in depreciation and amortization resulted from the acquisition of the Derksen business last year.

The results of the 2011 Newspaper Audience Databank (NADbank) survey were released in March and once again the Winnipeg Free Press continues to show the highest readership percentage across all large Canadian cities. The NADbank survey showed the Free Press weekday readership at 37%, comparable to the 39% level in the 2010 survey results. The same survey showed Saturday readership was 47% versus 49% for the prior year. Our primary competitor, the Winnipeg Sun, which continues to convert more of its circulation from paid circulation to non-paid, had a weekday readership in the 2011 NADbank survey of 20%, up from 19% in the prior year, and a Saturday readership of 14%, compared to 13% in the previous year. The 2011 NADbank survey showed that the online readership of the Winnipeg Free Press increased to 21% from 18%, and that the Winnipeg Sun's online readership was 12% versus 11% in the 2010 survey.

During the first quarter Newspapers Canada announced the winners of the 2012 Great Idea awards. Of the twelve awards announced in the 25,000 and over newspaper circulation category, five were won by the Winnipeg Free Press. The Free press won first and third place in the Marketing and promotions category for the launch of the news café and "it's a Winnipeg thing" promotion campaign. In the newspaper promotional campaign category, the Winnipeg Free Press won third place for the MTS "Hoofprints" campaign. In the digital innovation category, the Free Press won first place for the launch of WFPTV and third place for its innovative coverage of the federal election. The work of the Winnipeg Free Press journalists was also recognized with three nominations for National Newspaper Awards for photography, sports writing and beat reporting.

During the first quarter, the trade journal Editor & Publisher featured the Winnipeg Free Press as one of "10 Newspapers that do it Right" in recognition of the innovative live web coverage of the 2011 federal election that was anchored out of the Winnipeg Free Press News Café. It was the only Canadian newspaper included in this annual list. Also during the first quarter the newspaper industry's trade magazine Editor and Publisher selected Winnipeg Free Press's multimedia editor Tyler Walsh as one of their top 25 under 35 in their cover piece on how new blood is pumping renewed life into the heart of the industry. The publication reported Walsh is part of a youthful brigade who are "tough, inventive, resourceful, resilient and armed with state-of-the-art technology marching to the front line of the new media battlefield".

At the Canstar Community News division, during the first quarter we added new recurring automotive related content in all six weekly newspapers, which will help us target new automotive advertising customers.

During the first quarter, Canstar staff started working on a re-design of the six community weeklies to improve the design, layout and overall appeal of the publications. The re-design is planned to be launched at the end of the second quarter.

The Canstar community presence was increased during the first quarter with sponsorships of the Winnipeg Symphony's New Music Festival and the Advertising Association of Winnipeg's Signature Awards.

Similar to our other business units, Canstar management continues to review all current processes and procedures and potential new revenue streams in efforts to maximize the division's profitability.

The Brandon Sun has made changes to improve its coverage of local content. Changes were made to allow editors more time to develop and assign local stories to two new reporters, ensuring that local content increased substantially. Examples include the revived Rural Roundup column, enhanced on-line content, frequent use of all-local section

fronts, and in-depth coverage of local events and issues like the Royal Manitoba Winter Fair and the drive to bring WestJet air service to Brandon. This re-emphasis on local content will continue throughout 2012.

The Brandon Sun expanded its use of, and number of followers on, social media. The Sun uses social media to connect with the community and drive readers to the print and on-line versions of the newspaper. In May of 2011 the Sun had 700 likes on Facebook and 427 followers on Twitter; these numbers increased to 2,175 and 1,851 respectively by April of 2012.

At Derksen Printers in Steinbach, we completed the installation of a refurbished four-colour sheet-fed press, which will allow us to better compete for business in the instant small color sheet-fed printing market. Early indications from our separate wedding invitation and business card specials showed encouraging results.

Derksen Printers also recently promoted two internal candidates to fill recently vacated positions in the estimating and outside sales department and the customer service representative role. In addition, The Carillon hired a local candidate to assume the circulation manager position to increase our focus on driving circulation and readership of southeastern Manitoba's largest publication.

At the 2011 Canadian Community Newspaper Awards, The Carillon finished second in the best holiday edition category and was awarded a blue ribbon under the general excellence category for weekly newspapers with circulation of between 6,500 and 12,499. In other award categories, The Carillon consistently placed in the upper half of the rankings. The Carillon enhanced its presence in the community by becoming a new major sponsor of various community organizations including the Steinbach minor baseball association, Rural Municipality of Hanover minor soccer association, the Steinbach arts council, and Steinbach's Summer in the City Festival.

## **Dividends**

Distributable cash attributable to FPI<sup>(2)</sup> for the three months ended March 31, 2012 was \$0.4 million or \$0.061 per share, compared to \$0.6 million or \$0.092 per share for the same period last year. FPI declared dividends to Shareholders of \$0.150 per share for the quarter, unchanged from the same quarter last year. For the trailing twelve months ended March 31, 2012, FPLP generated distributable cash attributable to FPI<sup>(2)</sup> of \$0.627 per share, and FPI declared dividends of \$0.600 per share, resulting in a payout ratio of 95.7%.

## **Outlook**

Total advertising revenues for the first quarter after excluding the Derksen business and revenue from two new third party magazines was down by 0.6% compared to the first quarter last year. The advertising revenue results early into the second quarter are showing a further decline primarily attributed to decreased spending by large national customers. Circulation home delivery rate increases of slightly over 5% were implemented at the beginning of March, which we anticipate will largely offset the lost revenue from lower circulation unit sales. Newsprint prices have remained the same since September 2010 and we are not anticipating an increase during 2012.

During the second quarter our Derksen operation in Steinbach will be launching an expanded flyer distribution operation that will see flyer customers able to reach over 13,000 homes in Steinbach and the surrounding trading area once a week. The southeastern region of the province continues to be the fastest growing region in Manitoba.

A preliminary report from our actuarial consultants has been received with updated funding valuation estimates for the Winnipeg and Canstar Community News defined benefit pension plan. The report is showing deterioration in the solvency ratio of the plan from 75% at December 31, 2010 to 59% at December 31, 2011. The decline in the solvency ratio was primarily due to a decrease in the discount rate which is based on long-term bond yields, which fell by approximately 1% during 2011. The impact of the decline in the solvency ratio is an increase in the required funding of the pension plan by FPLP in 2012. In response to similar challenges facing other defined benefit pension plan sponsors, the Manitoba Pension Commission issued Special Payment Relief Regulation 2011 in December of 2011. This regulation allows plan sponsors to request plan members to approve an extension from five to ten years for the funding of this solvency deficiency. FPLP management is planning to request member's permission to extend the solvency deficiency funding to ten years, similar to the process which resulted in FPLP receiving funding relief last year. The preliminary actuarial report indicates a range of additional funding required in 2012 over the 2011 funding level of between \$1.3 million, if solvency relief is received, and \$2.2 million, if solvency relief is not approved.

During the second quarter the Winnipeg Free Press production department staff have been working on reconfiguring our presses and have successfully implemented changes which will allow for a 33 percent increase in the full colour capacity on our live production runs. Total full colour page capacity will increase by eight pages from twenty-four to thirty two. As demand for full-colour advertising spots continues to increase, this additional capacity will allow our sales staff more colour spots to sell and our page layout will be more efficient to help keep newsprint costs as low as possible. The changes were completed in-house by our press and technical maintenance staff and utilized excess components from our existing spare parts inventory.

As the existing long-term debt agreement expires on January 31, 2013, negotiations on a renewal agreement are currently taking place.

Ronald N. Stern  
Chairman  
May 14, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

May 14, 2012

### **OVERVIEW**

Management's discussion and analysis, prepared as at May 14, 2012, provides a review of significant developments that affected the performance of FP Newspapers Inc. ("FPI") in the three months ended March 31, 2012. This review is based on financial information contained in the unaudited interim condensed financial statements and accompanying notes ("interim financial statements") for the three months ended March 31, 2012.

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 interim financial statements, which are the basis for data presented in this report, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB. The interim financial statements do not include all the information and disclosures required for annual financial statements and, therefore, 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, 2011 prepared in accordance with IFRS in the Company's 2011 Annual Report and with the interim unaudited condensed financial statements and accompanying notes for the first quarter of 2012.

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 its annual information form, is available at [www.sedar.com](http://www.sedar.com) or on FPI's website at [www.fpnewspapers.com](http://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.

Immediately following the closing of the arrangement, FPCN Holdings Trust and the Fund were wound up and dissolved. FPI has acquired all of the assets and assumed all of the liabilities of those entities. 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.

## FP NEWSPAPERS INC.

A summary of FPI's quarterly revenue, net earnings (loss) and net earnings (loss) per share for 2012, 2011, and, 2010 is as follows:

	2012	2011	2010
	<i>In thousands of dollars (except per share amounts)</i>		
<b>Revenue</b>			
Quarter 1	\$ 1,121	\$ 1,340	\$ 1,479
Quarter 2		2,527	2,390
Quarter 3		1,373	1,546
Quarter 4		2,719	2,413
<b>Net earnings (loss)</b>			
Quarter 1 <sup>(*)</sup>	\$ 811	\$ 953	\$ 1,451
Quarter 2 <sup>(*)</sup>		1,776	2,732
Quarter 3 <sup>(*)</sup>		974	1,511
Quarter 4 <sup>(**)</sup>		(13,103)	2,159
<b>Net earnings (loss) per share</b>			
Quarter 1 <sup>(*)</sup>	\$ 0.117	\$ 0.138	\$ 0.210
Quarter 2 <sup>(*)</sup>		0.257	0.396
Quarter 3 <sup>(*)</sup>		0.141	0.219
Quarter 4 <sup>(**)</sup>		(1.898)	0.313

\*Decreases in net earnings (loss) and net earnings (loss) per share compared to the same quarters in 2010, are primarily due to an increase in deferred income tax expense resulting from the corporate conversion.

\*\*Decreases in net earnings (loss) and net earnings (loss) per share in the fourth quarter of 2011 are primarily due to a non-cash write-down of \$15.0 million of FPI's investment in FPLP Class A limited partner units.

FPI reported net earnings of \$0.8 million for the three months ended March 31, 2012, compared to net earnings of \$1.0 million for the same period last year. The increase in net earnings is primarily due to a decrease in the equity share of the net earnings of FPLP, as discussed in the FPLP section of this report. Other comprehensive income (loss) results from FPI's equity share of FPLP's recognition of actuarial gains or losses related to the defined benefit pension plan. For the three months ended March 31, 2012, FPI's share of the actuarial losses was \$0.3 million, compared to FPI's share of actuarial gains of \$0.2 million in the first quarter of 2011.

FPI declared dividends to shareholders of \$1.0 million or \$0.150 per share for the three months ended March 31, 2012 and the three months ended March 31, 2011.

The dividend policy of FPI is to issue dividends in approximately equal monthly amounts based on expected operating results for each fiscal year. Dividend levels are reviewed regularly by the directors and are subject to change based on a number of factors, including the overall operating results and capital requirements of FPLP. Dividends paid in any period may exceed net earnings as a result of depreciation and amortization, which are non-cash expenses that reduce net earnings of FPLP and FPI's equity share of those net earnings in accordance with IFRS, being in excess of capital expenditures charged as a reduction of distributable cash of FPLP<sup>(2)</sup>.

As at May 14, 2012, FPI had 6,902,592 shares outstanding.

### Distributable Cash Attributable to FPI<sup>(2)</sup>

Cash available for distribution attributable to FPI was \$0.4 million or \$0.061 per share for the three months ended March 31, 2012, compared to \$0.6 million or \$0.092 per share in 2011. The decrease in cash available for distribution attributable to FPI in 2012 is primarily due to lower EBITDA<sup>(1)</sup> of FPLP. The full details of the calculation are included in the "Non-IFRS measures" section of this report.

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

From commencement of the Fund on May 28, 2002 until March 31, 2012, cumulative distributable cash attributable to FPI<sup>(2)</sup> totalled \$12.287 per share. During that period FPI declared cash dividends to shareholders of \$10.973 per share, resulting in a cumulative-from-inception payout ratio of 89.3%. 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<sup>(2)</sup>, and because cumulative dividends declared were less than the cumulative distributable cash attributable to FPI<sup>(2)</sup>, FPI believes there is no economic “return of capital”.

### **Working Capital Position of FPI**

The working capital deficiency of \$2.3 million at March 31, 2012 results from FPLP deferring the payment of distributions for FPI’s income taxes, which are not due until February 28, 2013 (refer to Taxation section below and reserve for future income taxes payable in FPLP section of this report).

### **Taxation**

FPI’s fiscal year-end is December 30. None of the taxable income of FPLP (whose year-end is December 31) was allocated to FPI prior to its December 30, 2011 year-end. As a result, FPI had no current taxes in the year ended December 30, 2011. FPLP’s taxable income for the year ended December 31, 2011 will be allocated to FPI in its year ended December 30, 2012. FPI has determined that the legislation implementing the June 6, 2011 federal budget relating to the curtailment of income deferral by corporations using partnerships with different year-end dates applies such that the amount of the accrual of FPLP’s income earned in the stub-period between the end of the partnership’s fiscal period and the end of FPI’s December 30, 2011 taxation year is nil and, accordingly, the transitional relief, which allows this stub-period income for the first affected fiscal period to be recognized over a five-year period is also nil. FPLP’s taxable income for the year ended December 31, 2011 will be allocated to FPI in its current year and consequently current taxes have been recorded by FPI for FPLP’s year ended December 31, 2011 and the three months ended March 31, 2012. FPLP has established a non-IFRS cash reserve for future income taxes payable by its Unitholders as disclosed in the FPLP section of this report.

## **FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP**

### **Results of Operations**

FPLP’s revenue for the three months ended March 31, 2012 was \$27.0 million, an increase of \$2.0 million or 7.9% from the same three months in the prior year. Excluding revenue attributable to the Derksen operation for the quarter, revenue increased by \$1.0 million or 4.2%. Advertising revenues for the three months ended March 31, 2012, excluding the Derksen business, were \$17.6 million, a \$0.5 million or 3.0% increase compared to the same period last year. FPLP’s largest advertising revenue category, display advertising including colour, excluding the Derksen business, was \$11.5 million, an increase of \$0.5 million or 4.5% from the same period in the prior year, primarily due to new revenue from two third party magazines. Excluding this new magazine revenue and the Derksen revenue, advertising revenues were lower by \$0.1 million or 0.6% from the same quarter last year, primarily due to lower classified advertising. Classified advertising revenues for the first quarter, excluding the Derksen business, decreased by \$0.1 million or 4.1% compared to the same period last year, primarily due to decreased spending in the automotive and obituary categories, partly offset by increased revenue in the real estate category. Flyer distribution revenues for the quarter, excluding the Derksen business, increased by \$0.1 million or 3.7%, due to increased volumes and rates.

Circulation revenues for the first quarter, excluding the Derksen business, were \$6.5 million, unchanged from the first quarter of 2011, with increased revenue from higher subscription rates offsetting lower unit sales. Commercial printing revenues for the quarter increased by \$0.6 million, which is entirely attributable to the Derksen acquisition last year. Digital revenues for the first quarter increased by \$0.1 million or 20.7%, primarily due to the increase in Winnipeg Free Press website banner advertising and revenues from online web ads and other digital offerings introduced in 2011. Other income, excluding the Derksen business, increased by \$0.4 million primarily due to sales of the Winnipeg Jets 2011/12 Officially Licensed Medallion Collection.

Operating expenses for the three months ended March 31, 2012 were \$24.1 million, a \$2.5 million or 11.4% increase from the same quarter last year. Operating expenses excluding the Derksen business, for the three months ended March 31, 2012, increased \$1.6 million or 7.5% compared to last year. Employee compensation costs for the first quarter, excluding the Derksen business, increased by \$0.2 million or 2.1% primarily due to the 2% wage increase included in the collective agreements. Newsprint expense for FPLP’s own publications for the quarter, excluding the Derksen business, was unchanged compared to the prior year as prices and volumes remained at last year’s levels.



Newsprint expense for commercial printing, excluding the Derksen business, remained relatively level compared to the previous year. Other expenses, excluding the Derksen business, increased \$1.3 million or 33.6% compared to the same quarter last year primarily due to new outside print costs for two third party magazines, costs for the Winnipeg Jets medallion circulation promotion project, a non-recurring reduction in an accrual relating to a labour matter during the first quarter last year and increased costs on our long-term sponsorship agreement with the Winnipeg Jets. A small increase in depreciation and amortization resulted from the acquisition of the Derksen business last year.

EBITDA<sup>(1)</sup> for the three months ended March 31, 2012 was \$3.9 million compared to \$4.4 million for the same period last year, a decrease of 10.2%. EBITDA<sup>(1)</sup> margin for the three months ending March 31, 2012 was 14.6% compared to 17.5% in the same period last year. Excluding the Derksen business, EBITDA<sup>(1)</sup> for the three months ended March 31, 2012 was \$3.7 million, compared to \$4.3 million for the same quarter last year. The changes in EBITDA<sup>(1)</sup> were due to the factors described above.

Finance costs for the three months ended March 31, 2012 were unchanged compared to the previous year, primarily due to lower interest on the term loan resulting from lower principal balances, offset by increased interest on the new finance leases and the mortgage loan entered into in 2011 and the first quarter of 2012.

FPLP's net earnings were \$2.3 million for the three months ended March 31, 2012, compared to \$2.7 million for the same period last year. Excluding the Derksen business, FPLP's net earnings were \$2.1 million for the first quarter of 2012.

Under IFRS, comprehensive income includes actuarial gains and losses. These gains or losses are primarily related to changes in actuarial discount rate assumptions and differences between actuarial estimates of return on pension plan assets versus actual returns. In the first quarter of 2012, increases in the defined benefit obligation resulted from an actuarial discount rate decrease, partly offset by a higher actual return on the plan's investments in excess of the actuarial expected return assumptions, compared to the first quarter of 2011, in which the actuarial discount rate increase and higher than expected returns on plan assets resulted in a decrease in the defined benefit obligation.

#### 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<sup>(1)</sup> and net earnings of FPLP by quarter for 2012, 2011 and 2010 were as follows:

	2012	2011	2010
<i>In thousands of dollars</i>			
<b>Revenue</b>			
Quarter 1 <sup>(*)</sup>	\$ 26,979	\$ 24,997	\$ 26,370
Quarter 2 <sup>(*)</sup>		29,926	28,946
Quarter 3 <sup>(*)</sup>		26,404	26,470
Quarter 4 <sup>(*)</sup>		29,942	28,246
	\$ 26,979	\$ 111,269	\$ 110,032
<b>EBITDA<sup>(1)</sup></b>			
Quarter 1 <sup>(*)</sup>	\$ 3,936	\$ 4,384	\$ 5,529
Quarter 2 <sup>(*)</sup>		6,861	7,068
Quarter 3 <sup>(*)</sup>		4,514	5,356
Quarter 4		7,334	6,598
	\$ 3,936	\$ 23,093	\$ 24,551
<b>Net Earnings</b>			
Quarter 1	\$ 2,285	\$ 2,733	\$ 3,018
Quarter 2		5,154	4,878
Quarter 3		2,798	3,152
Quarter 4		5,547	4,925
	\$ 2,285	\$ 16,232	\$ 15,973

(\*) Revenues, EBITDA and net earnings starting primarily in the second quarter of 2011 were higher due to the acquisition of the Derksen business on February 28, 2011, offset by lower revenues, EBITDA and net earnings at the Winnipeg Free Press, Canstar Community News and Brandon Sun operations.

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.

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

Cash and cash equivalents, excluding the restricted cash, at March 31, 2012 was \$10.4 million compared to \$9.3 million at December 31, 2011. Cash and cash equivalents may be used to pay future distributions (including future income taxes payable by the partners), to reduce debt, to fund future capital expenditures, or for other general purposes. During the three months ended March 31, 2012, operating activities provided \$4.5 million, \$0.1 million was used for investing activities and \$3.3 million was used for financing activities. Cash flow from operations, together with cash balances on hand, are currently expected to be sufficient to fund FPLP's operating requirements, capital expenditures, required principal repayments under FPLP's HSBC credit facility and anticipated distributions, assuming that advertising revenues do not materially deteriorate beyond management's current expectations.

As at March 31, 2012, FPLP had current assets of \$25.6 million and current liabilities of \$61.5 million. The working capital deficit is due to \$49.1 million of the term loan being classified as a current liability as it is due on January 31, 2013. FPLP is currently evaluating several alternatives to refinance or extend the term loan. FPLP is currently in discussions with its lender to ensure sufficient liquidity. Although several options are available to FPLP, the timing, amount and terms of any refinancing, extension or other efforts are not determinable with certainty at the present time.

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

During the three months ended March 31, 2012, cash generated from operating activities was \$4.5 million compared to \$6.5 million for 2011. Net earnings for the three months ended March 31, 2012 were \$2.3 million compared to \$2.7 million for the prior year. The main factors contributing to the change in net earnings are outlined in the FPLP section of this report. The net change in non-cash working capital for the three months ended March 31, 2012 is primarily the result of the timing of receipts from customers and payments to suppliers.

#### ***Investing Activities***

Capital asset additions, including non-cash finance lease additions, were \$0.6 million for the three months ended March 31, 2012, compared to \$1.4 million for the same period in the prior year. Internal maintenance capital spending during the three months was \$0.1 million primarily for technology hardware upgrades, compared to \$0.4 million in the previous year. In the first quarter of 2012, FPLP completed a lease financing agreement for additional equipment required to upgrade the Derksen production operation totalling \$0.5 million, and in the first quarter of 2011, FPLP entered into a lease agreement in the amount of \$1.0 million to finance production equipment to allow for the consolidation of the Brandon Sun production operations at our Winnipeg facility.

#### ***Financing Activities***

Distributions to partners of FPLP for the first quarter totalled \$2.3 million, of which \$1.1 million was paid to FPI as holder of Class A limited partner units. This compares to \$2.7 million in the same period last year, of which \$1.3 million was paid to FPI as holder of Class A limited partner units. The distributions to partners were determined in accordance with the limited partnership agreement that governs FPLP (the "LP Agreement").

In the first quarter of 2012, FPLP generated proceeds from equipment finance leases totalling \$0.5 million, compared to \$1.0 million in 2011. During the first three months of 2012, \$0.2 million was used for principal repayments on the finance leases and the mortgage loan, and the principal repayments of the HSBC term loan for the three months ended March 31, 2012 and 2011 were \$1.3 million in each year.

#### ***Contractual Obligations***

During the first quarter of 2012 FPLP entered into a five-year non-cancellable finance lease agreement to complete the financing of the additional equipment required to upgrade the Derksen production operation.

Other than as discussed above and the elimination of the guarantee fee arrangement as disclosed in the related party transaction section of this report, there have been no significant changes to contractual obligations since December 31, 2011.

### **Reserves Related to distributable Cash Attributable to FPI<sup>(2)</sup>**

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 three months ended March 31, 2012 and 2011 is as follows:

#### **Reserve for future maintenance capital**

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<i>In thousands of dollars</i>	
Reserve – beginning of year	\$1,219	\$1,500
Increase in reserve	-	-
Decrease in reserve	-	(281)
Reserve – end of year	\$1,219	\$1,219

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

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

#### **Reserve for future income taxes payable**

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<i>In thousands of dollars</i>	
Reserve - beginning of period	\$ 3,901	\$ -
Increase in reserve	576	3,901
Reserve at end of period	\$ 4,477	\$ 3,901

As FPI's year end is December 30, and taxes will be temporarily deferred as explained under the taxation section of this report, a reserve at the FPLP level was established to fund future income taxes payable.

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.

#### **Debt Covenants**

The HSBC credit facility (see note 7 to the 2011 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, 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 and at March 31, 2012, FPLP is in compliance with all covenants.

### ***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, 2011. There have been no changes during 2012 to the process for selection of newsprint suppliers or the quarterly review by the Audit Committee of newsprint purchases. Total newsprint purchases from ANC, based on actual invoice prices, for the three months ended March 31, 2012 were \$1.1 million, virtually unchanged from the same period last year.

In connection with the HSBC credit facility, FPLP pays a guarantee fee to FP Funding Corporation (“FundingCo”), a company controlled indirectly by Ronald Stern and Robert Silver, who together control 51% of FPLP. FundingCo has made a \$5.0 million deposit into a HSBC guarantee account (as discussed in Note 7 to the 2011 Annual Consolidated Financial Statements of FPLP) held as collateral until the term loan is repaid. The guarantee fee for the three months ended March 31, 2012 was \$0.1 million, virtually unchanged from the fee paid in the first quarter of 2011. Effective March 30, 2012, HSBC Bank Canada agreed to amend the guarantee requirement under the term loan, which eliminates the need for the collateral provided by FundingCo.

### **DISCLOSURE CONTROLS AND PROCEDURES**

In FPI’s 2011 filings, the CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporation’s disclosure controls and procedures, and the design and effectiveness of internal controls over financial reporting.

In FPI’s first quarter 2012 filings, the CEO and CFO certify, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design of the Corporation’s disclosure controls and procedures, and the design of internal controls over financial reporting.

FPI’s Audit Committee reviewed this MD&A, and the interim financial report, and the Board of Directors approved these documents prior to their release.

### **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

There have been no changes to FPI’s internal controls over financial reporting that occurred during the first quarter of 2012 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

### **CRITICAL ACCOUNTING ESTIMATES**

There have been no significant changes in FPI’s or FPLP’s critical accounting estimates since December 31, 2011.

### **OUTLOOK**

The outlook for operations is described earlier in this document.

## NON-IFRS MEASURES

### (1) EBITDA

FPLP believes that in addition to net earnings as reported on FPLP's interim condensed 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.

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<i>In thousands of dollars</i>	
Net earnings for the period	\$ 2,285	\$ 2,733
Add (subtract):		
Depreciation and amortization	1,103	1,069
Finance costs	639	630
Other income	(48)	(48)
(Gain) on interest rate swap	(43)	-
EBITDA	<b>\$ 3,936</b>	<b>\$ 4,384</b>

### (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:

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<i>In thousands of dollars (except per share amounts)</i>	
Distributable cash of FPLP:		
EBITDA <sup>(1)</sup>	\$ 3,936	\$ 4,384
Other income (excluding non-cash gains or losses)	42	45
Finance costs on notes payable, term loan, mortgage loan, guarantee fee and finance leases, excluding accretion of related deferred financing costs	(616)	(605)
Principal repayment of term loan	(1,251)	(1,251)
Maintenance capital expenditures	(150)	(366)
Decrease in reserve for future maintenance capital	-	116
Proceeds from sale of property, plant and equipment	19	16
Principal repayments on finance leases	(210)	(21)
Principal repayments on mortgage loan	(11)	-
Reserve for future cash income taxes	(576)	(863)
Pension funding in excess of accounting expense	(195)	-
Distributable cash of FPLP	<b>\$ 988</b>	<b>\$ 1,455</b>
49% attributable to FPI	\$ 484	\$ 713
Administration expenses	(67)	(81)
Other income	1	-
Distributable cash attributable to FPI	<b>\$ 418</b>	<b>\$ 632</b>
Distributable cash attributable to FPI – per share	<b>\$ 0.061</b>	<b>\$ 0.092</b>

A summary of distributable cash and distributions declared for the trailing twelve months to March 31, 2012 and for the period from commencement of FPI on May 28, 2002 to March 31, 2012 is as follows:

Distributable Cash of FPLP:

	Last Twelve Months	Since May 28, 2002
	<i>In thousands of dollars</i>	
EBITDA <sup>(1)</sup>	\$ 22,645	\$ 236,688
Interest income	171	1,252
Finance costs on notes payable, term loan, mortgage loan, guarantee fee and finance leases, excluding accretion of related deferred financing costs	(2,493)	(29,317)
Principal repayment of term loan	(5,004)	(10,842)
Principal repayment of finance leases	(618)	(1,775)
Maintenance capital expenditures	(837)	(9,839)
Decrease (increase) in reserve for future maintenance capital expenditures	165	(1,219)
Strategic capital expenditures	-	(1,331)
Decrease in reserve for strategic capital, acquisitions, and/or debt reduction	-	(353)
Proceeds on disposal of property, plant and equipment	515	2,070
Principal repayments on mortgage loans	(22)	(22)
Current income and capital tax expense	-	(196)
Reserve for future cash income taxes	(3,614)	(4,477)
Pension funding in excess of accounting expense	(1,427)	(1,427)
Distributable cash of FPLP	<u>\$ 9,481</u>	<u>\$ 179,212</u>

Distributable Cash Attributable to FPI:

	Last Twelve Months	Since May 28, 2002
	<i>In thousands of dollars (except per share amounts)</i>	
49% of FPLP distributable cash	\$ 4,646	\$ 87,814
Administration expenses	(322)	(3,059)
Interest income	6	59
Distributable cash attributable to FPI	<u>\$ 4,330</u>	<u>\$ 84,814</u>
Distributable cash attributable to FPI – per share	\$ 0.627	\$ 12.287
Cash distributions declared by FPI – per share	\$ 0.600	\$ 10.973
Payout Ratio	95.7%	89.3%

**FP Newspapers Inc.****Condensed Balance Sheets**

(unaudited, in thousands of Canadian dollars)

	Note	As at March 31, 2012	As at December 30, 2011
		\$	\$
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents		476	452
Prepaid expenses and other assets		42	35
		518	487
Investment in FP Canadian Newspapers Limited Partnership	3	44,809	45,191
Deferred income tax asset	5	116	-
		45,443	45,678
<b>TOTAL ASSETS</b>			
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		109	99
Dividend payable	4	345	345
Income taxes payable	5	2,403	-
		2,857	444
LONG-TERM LIABILITIES			
Deferred income tax liability	5	-	2,146
		2,857	2,590
<b>TOTAL LIABILITIES</b>			
SHAREHOLDERS' EQUITY			
Share capital		71,373	71,373
Deficit		(28,787)	(28,285)
		42,586	43,088
<b>TOTAL SHAREHOLDERS' EQUITY</b>			
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
		45,443	45,678

(See accompanying notes)

**FP Newspapers Inc.****Condensed Statements of Earnings and Comprehensive Income**

(unaudited, in thousands of Canadian dollars except per share amounts)

	Note	Three Months Ended March 31,	
		2012	2011
		\$	\$
Equity interest from FP Canadian Newspapers Limited Partnership Class			
A limited partner units	3	1,120	1,339
Administration expenses		(67)	(81)
Other income		1	1
<hr/>			
Net earnings before income taxes		1,054	1,259
Current income tax (expense)		(2,403)	-
Deferred income tax recovery (expense)	5	2,160	(306)
<hr/>			
<b>Net earnings for the period</b>		<b>811</b>	<b>953</b>
<hr/>			
Equity interest of other comprehensive income (loss) from FP Canadian Newspapers Limited Partnership	3	(380)	231
Deferred income tax recovery (expense)	5	102	(62)
<hr/>			
<b>Comprehensive income for the period</b>		<b>533</b>	<b>1,122</b>
<hr/>			
Weighted average number of Common Shares outstanding		6,902,592	6,902,592
Net earnings per share – basic and diluted		\$ 0.117	\$ 0.138



**FP Newspapers Inc.****Condensed Statements of Changes in Equity**  
(unaudited, in thousands of Canadian dollars)

	<b>Share Capital</b>	<b>Deficit</b>	<b>Total Shareholders' Equity</b>
	\$	\$	\$
At December 31, 2010	71,373	(12,763)	58,610
Net earnings for the period	-	953	953
Other comprehensive income for the period	-	169	169
Comprehensive income for the period	-	1,122	1,122
Dividends	-	(1,035)	(1,035)
At March 31, 2011	71,373	(12,676)	58,697
At December 31, 2011	71,373	(28,285)	43,088
Net earnings for the period	-	811	811
Other comprehensive income (loss) for the period	-	(278)	(278)
Comprehensive income (loss) for the period	-	533	533
Dividends	-	(1,035)	(1,035)
At March 31, 2012	71,373	(28,787)	42,586

**FP Newspapers Inc.**

**Condensed Statements of Cash flows**

(unaudited, in thousands of Canadian dollars)

		<b>Three months Ended March 31,</b>	
	<b>Note</b>	<b>2012</b>	<b>2011</b>
		\$	\$
<b>CASH PROVIDED BY (USED IN):</b>			
OPERATING ACTIVITIES			
Net earnings for the period		811	953
Items not affecting cash:			
Equity interest from Class A Units of FP Canadian Newspapers Limited Partnership	3	(1,120)	(1,339)
Deferred income tax expense (recovery)		(2,160)	306
Distributions received on Class A Units of FP Canadian Newspapers Limited Partnership	3	1,122	1,329
Net change in non-cash working capital items		2,406	(142)
		1,059	1,107
FINANCING ACTIVITIES			
Dividends paid		(1,035)	(1,104)
INCREASE IN CASH AND CASH EQUIVALENTS		24	3
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD		452	43
CASH AND CASH EQUIVALENTS – END OF PERIOD		476	46

(See accompanying notes)

**FP Newspapers Inc.**

**Notes to Condensed Financial Statements at March 31, 2012**

(unaudited, tabular amounts in thousands of Canadian dollars)

**1. GENERAL INFORMATION**

FP Newspapers Inc. ("FPI"), which was incorporated under the Canada Business Corporations Act on March 17, 2010, owns securities entitling it to 49% of the distributable cash as defined in the partnership agreement of FP Canadian Newspapers Limited Partnership ("FPLP"). FPLP is a limited partnership formed under the laws of British Columbia on August 9, 1999. It owns the Winnipeg Free Press, the Brandon Sun and other newspapers, printing and media businesses. The address of its registered office is Suite 2900, P.O. Box 11583, 650 West Georgia Street, Vancouver, British Columbia, V6B 4N8.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 30, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

These interim condensed financial statements were approved by the Board of Directors of FPI on May 14, 2012.

**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:

	<b>Class A limited partner units</b>
Balance at December 31, 2010	\$ 59,921
Equity interest in net earnings and comprehensive income for the year ended December 31, 2011	5,240
Non-cash write-down of investment in FP Canadian Newspapers Limited Partnership Class A limited partner units	(15,000)
Distributions received for the year ended December 31, 2011	(4,970)
<b>Balance at December 31, 2011</b>	<b>\$ 45,191</b>
Equity interest in net earnings and comprehensive income for the three months ended March 31, 2012	740
Distributions received for the three months ended March 31, 2012	(1,122)
<b>Balance at March 31, 2012</b>	<b>\$ 44,809</b>

**FP Newspapers Inc.****Notes to Condensed Financial Statements at March 31, 2012**

(unaudited, tabular amounts in thousands of Canadian dollars)

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

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net earnings of FPLP	\$ 2,285	\$ 2,733
Interest attributable to FPI	49%	49%
Equity interest in net earnings of FPLP	1,120	1,339
Other comprehensive income (loss) of FPLP	(776)	471
Interest attributable to FPI	49%	49%
Equity interest in other comprehensive income (loss) of FPLP	\$ (380)	\$ 231

**4. DIVIDENDS**

FPI declared a dividend payable in respect of the month of March 2012 of \$345,000 or \$0.05 per share (March 2011 – \$345,000 or \$0.05 per share) which was paid April 30, 2012 to shareholders of record on March 31, 2012.

**5. INCOME TAXES**

FPI's fiscal year-end is December 30. None of the taxable income of FPLP (whose year-end is December 31) was allocated to FPI prior to its December 30, 2011 year-end. As a result, FPI had no current taxes in the year ended December 30, 2011. FPLP's taxable income for the year ended December 31, 2011 will be allocated to FPI in its year ended December 30, 2012. FPI has determined that the legislation implementing the June 6, 2011 federal budget relating to the curtailment of income deferral by corporations using partnerships with different year-end dates applies such that the amount of the accrual of FPLP's income earned in the stub-period between the end of the partnership's fiscal period and the end of FPI's December 30, 2011 taxation year is nil and, accordingly, the transitional relief, which allows this stub-period income for the first affected fiscal period to be recognized over a five-year period is also nil. FPLP's taxable income for the year ended December 31, 2011 will be allocated to FPI in its current year and consequently current taxes have been recorded by FPI for FPLP's year ended December 31, 2011 and the three months ended March 31, 2012.

**6. LIQUIDITY RISK**

As at March 31, 2012, FPI had a working capital deficiency of \$2,339,000 resulting from current income taxes payable, which are due prior to February 28, 2013 (note 5). FPI is dependent upon FPLP distributions sufficient to settle such obligation. The Board of Directors of the general partner of FPLP will declare a distribution sufficient for the payment of current income taxes payable.

**FP Canadian Newspapers Limited Partnership****Condensed Consolidated Balance Sheets****As at March 31, 2012**

(unaudited, in thousands of Canadian dollars)

	Note	As at March 31, 2012	As at December 31, 2011
		\$	\$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		10,433	9,329
Accounts receivable		12,440	13,759
Inventories		1,610	1,314
Assets held for sale		-	53
Prepaid expenses and other assets		1,093	1,561
		25,576	26,016
<b>RESTRICTED CASH</b>		5,000	5,000
<b>PROPERTY, PLANT AND EQUIPMENT</b>		40,208	40,501
<b>INVESTMENT</b>		128	141
<b>INTANGIBLE ASSETS</b>		7,138	7,258
<b>GOODWILL</b>		71,160	71,160
		149,210	150,076
<b>TOTAL ASSETS</b>			
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities		8,293	8,336
Prepaid subscriptions and deferred revenue		3,211	3,064
Finance lease obligation		856	806
Mortgage loan		47	47
Term loan	6	49,084	5,000
		61,491	17,253
<b>LONG-TERM LIABILITIES</b>			
Accrued pension benefit liability		6,611	5,848
Finance lease obligation		3,462	3,222
Mortgage loan		907	918
Term loan		-	45,355
		72,471	72,596
<b>TOTAL LIABILITIES</b>			
<b>UNITHOLDERS' EQUITY</b>			
Partner units		98,280	98,280
Deficit		(21,521)	(20,740)
Accumulated other comprehensive loss		(20)	(60)
		76,739	77,480
<b>TOTAL UNITHOLDERS' EQUITY</b>			
<b>TOTAL LIABILITIES AND UNITHOLDERS' EQUITY</b>			
		149,210	150,076

(See accompanying notes)

**FP Canadian Newspapers Limited Partnership****Condensed Consolidated Income Statements and Statements of Comprehensive Income**

(unaudited, in thousands of Canadian dollars)

		<b>Three Months Ended March 31,</b>	
		<b>2012</b>	<b>2011</b>
	<b>Note</b>	<b>\$</b>	<b>\$</b>
Revenue			
Advertising		17,931	17,197
Circulation		6,562	6,517
Commercial Printing		1,041	431
Digital		719	596
Promotion and services		726	256
<b>TOTAL REVENUE</b>		<b>26,979</b>	<b>24,997</b>
Operating expenses			
Employee compensation		11,035	10,380
Newsprint and other paper		2,366	2,207
Delivery of newspapers		4,129	4,000
Other		5,513	4,026
Depreciation and amortization		1,103	1,069
<b>OPERATING INCOME</b>		<b>2,833</b>	<b>3,315</b>
Other income	4	48	48
Finance costs	4	(639)	(630)
Gain on interest rate swap		43	-
<b>NET EARNINGS FOR THE PERIOD</b>		<b>2,285</b>	<b>2,733</b>
Unrealized gain on investment		40	-
Actuarial gain (loss) on defined benefit pension plan		(776)	471
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>1,549</b>	<b>3,204</b>

(See accompanying notes)

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

(unaudited, in thousands of Canadian dollars)

	<b>Partner Units</b>	<b>Deficit</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Unitholders' Equity</b>
<b>UNITHOLDERS' EQUITY –</b>				
DECEMBER 31, 2010	\$ 98,280	\$ (21,291)	\$ -	\$ 76,989
Net earnings for the period	-	2,733	-	2,733
Other comprehensive income for the period	-	471	-	471
Comprehensive income for the period	-	3,204	-	3,204
Distributions paid	-	(2,710)	-	(2,710)
<b>UNITHOLDERS' EQUITY –</b>				
MARCH 31, 2011	\$ 98,280	\$ (20,797)	\$ -	\$ 77,483
<b>UNITHOLDERS' EQUITY –</b>				
DECEMBER 31, 2011	\$ 98,280	\$ (20,740)	\$ (60)	\$ 77,480
Net earnings for the period	-	2,285	-	2,285
Other comprehensive income (loss) for the period	-	(776)	40	(736)
Comprehensive income for the period	-	1,509	40	1,549
Distributions paid	-	(2,290)	-	(2,290)
<b>UNITHOLDERS' EQUITY –</b>				
MARCH 31, 2012	\$ 98,280	\$ (21,521)	\$ (20)	\$ 76,739

(See accompanying notes)

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

	<b>Three months ended March 31,</b>	
Note	<b>2012</b>	<b>2011</b>
	\$	\$
<b>CASH PROVIDED BY (USED IN):</b>		
<b>OPERATING ACTIVITIES</b>		
Net earnings for the period	2,285	2,733
Items not affecting cash:		
Depreciation and amortization	1,103	1,069
Accretion of deferred financing costs	23	25
Gain on disposal of property, plant and equipment	(6)	(3)
Gain on interest rate swap	(43)	-
Excess of pension contribution over expense	(195)	(22)
	<u>3,167</u>	<u>3,802</u>
Net change in non-cash working capital items	1,366	2,682
	<u>4,533</u>	<u>6,484</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(108)	(342)
Purchase of intangibles	(42)	(24)
Acquisition	-	(3,457)
Proceeds from sale of property, plant and equipment	19	16
	<u>(131)</u>	<u>(3,807)</u>
<b>FINANCING ACTIVITIES</b>		
Distributions to partners	(2,290)	(2,710)
Proceeds from financing leases	464	956
Principal repayments of finance lease	(210)	(21)
Principal repayments of mortgage loan	(11)	-
Principal repayment of term loan	(1,251)	(1,251)
	<u>(3,298)</u>	<u>(3,026)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,104	(349)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>	9,329	6,477
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<u>10,433</u>	<u>6,128</u>
<b>Supplemental Cash Flow Information:</b>		
Interest paid during the period	609	616
Interest received during the period	43	127

(See accompanying notes)



## FP Canadian Newspapers Limited Partnership

### Notes to Condensed Consolidated Financial Statements as at March 31, 2012

(tabular amounts in thousands of Canadian dollars)

#### 1. GENERAL INFORMATION

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

These interim condensed consolidated financial statements include the operating businesses owned by FPLP. The managing general partner of FPLP is FPCN General Partner Inc. ("FPGP"). These interim condensed 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 condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statement for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

These interim condensed consolidated financial statements were approved by the Board of Directors of FPGP on May 14, 2012.

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

#### 3. EMPLOYEE FUTURE BENEFIT PLANS

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

	Three Months Ended March 31,	
	2012	2011
	\$	\$
Defined benefit pension plan	450	337

#### 4. OTHER INCOME AND FINANCE COSTS

	Three Months Ended March 31,	
	2012	2011
	\$	\$
Other income		
Interest income	42	45
Gain on sales of property, plant and equipment	6	3
Total other income	48	48
Finance Costs		
Interest on finance leases	47	-
Interest on mortgage loan	11	-
Interest on term loan	470	515
Accretion of term loan related to financing costs	23	25
Guarantee fee (note 5)	88	90
	639	630

## FP Canadian Newspapers Limited Partnership

### Notes to Condensed Consolidated Financial Statements as at March 31, 2012

(tabular amounts in thousands of Canadian dollars)

#### 5. RELATED PARTY TRANSACTIONS

For the three months ended March 31, 2012, FPLP incurred a guarantee fee of \$88,000 to FP Funding Corporation ("FundingCo"), a company controlled indirectly by Ronald Stern and Robert Silver, who together indirectly control 51% of FPLP. At March 31, 2012, the outstanding guarantee fee payable of \$30,000 was included in accounts payable and accrued liabilities. Effective March 30, 2012, HSBC Bank Canada agreed to amend the guarantee requirement under the term loan, which eliminates the need for the collateral provided by FundingCo.

Total newsprint purchases from Alberta Newsprint Company, a company controlled indirectly by Ronald Stern, for the three months ended March 31, 2012 were \$1,103,000 (\$1,074,000 for the three months ended March 31, 2011).

#### 6. LONG TERM DEBT, FINANCE LEASES AND LIQUIDITY RISK

The Term loan 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. As the amounts are due within one year, the term loan has been classified as a current liability at March 31, 2012 and results in a working capital deficiency of \$49,100,000 at March 31, 2012. FPLP is currently evaluating several alternatives to refinance or extend the term loan. FPLP is currently in discussion with its lender to ensure sufficient liquidity. Although several options are available to FPLP, the timing, amount and terms if any refinancing, extension or other efforts is not determinable with certainty at the present time.

During the first quarter of 2012, FPLP entered into a five-year non-cancellable finance lease agreement to complete the financing of the additional equipment required to upgrade the Derksen production operation.

	\$
2012	84
2013	86
2014	90
2015	93
2016	97
2017	49
Total payments	500
Interest cost (4.25%)	55
Present value of finance lease obligation	555

## **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", "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 the Corporation 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, the availability of an extension of refinancing of FPLP's term loan facilities, 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 our Annual Information Form dated March 15, 2012, which is available at [www.sedar.com](http://www.sedar.com).

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

Forward-looking statements speak only as of the date hereof and, except as required by law, the Corporation 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.

### **INVESTOR INQUIRIES:**

Dan Koshowski  
Chief Financial Officer  
Phone: (204) 697-7425  
Website: [www.fpnewspapers.com](http://www.fpnewspapers.com)

### **LISTING INFORMATION:**

TSX; FP

### **TRANSFER AGENT:**

CIBC Mellon Trust Company

### **AUDITORS:**

PricewaterhouseCoopers LLP, Winnipeg