FP NEWSPAPERS INC.

Second Quarter Report - 2012

June 30, 2012

Second Quarter Report
June 30, 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 June 30, 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 various other publications. 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 June 30, 2012 was $28.0 million, a $1.9 million or 6.3% decrease from the same period last year. Total EBITDA[(1)] of FPLP for the quarter was $5.4 million, a $1.4 million decrease from the same quarter last year. FPLP had net earnings of $3.8 million in the quarter compared to $5.2 million in the same quarter last year.

FPI had net earnings of $1.3 million, or $0.192 per share, during the three months ended June 30, 2012, compared to net earnings of $1.8 million, or $0.257 per share, in the same quarter last year. The decrease in FPI's net earnings in the quarter is due to a $0.6 million decrease in its equity share of the earnings of FPLP.

Operations

FPLP's revenue for the three months ended June 30, 2012 was $28.0 million, a decrease of $1.9 million or 6.3% from the same three months in the prior year. Advertising revenues for the three months ended June 30, 2012 were $19.0 million, a $1.8 million or 8.8% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was $12.1 million, a decrease of $1.4 million or 10.4% from the same period in the prior year, primarily due to decreased spending in the retail, telecommunication, government and travel categories. Classified advertising revenues for the second quarter decreased by $0.3 million or 10.6% compared to the same period last year, primarily due to decreased spending in the automotive, employment and real estate categories, partly offset by increased revenue in the obituary category. Flyer distribution revenues for the quarter decreased by $0.1 million or 2.0%, due to a small decrease in volumes and a lower average rate due primarily to some high rate jobs in the prior year that were not repeated in the current year.

Circulation revenues for the second quarter were $6.9 million, a decrease of $0.2 million from the second quarter of 2011, with lower unit sales offsetting increased revenue from higher subscription rates. Commercial printing revenues for the quarter increased by $0.2 million, primarily attributable to increased printing at the Derksen Printers operation. Digital revenues and other revenues for the second quarter remained at relatively the same level compared to the same period last year.

Operating expenses for the three months ended June 30, 2012 were $23.7 million, a $0.5 million or 2.1% decrease from the same quarter last year. Employee compensation costs for the second quarter were unchanged from the prior year, primarily due to fewer employees, partially offset by the 2% wage increase included in the collective agreements. In the second quarter of 2012, seven positions were eliminated by either retirements, voluntary resignations and involuntary terminations, six of which were in May and June. During the second quarter a restructuring charge of $0.1 million was incurred relating to termination payments to employees. In the second quarter of 2011 twelve employees were laid-off and a restructuring charge of $0.3 million was incurred. Newsprint expense for FPLP's own publications for the quarter decreased by $0.2 million or 9.7% compared to the same period in the prior year, primarily due to lower volumes mainly from fewer circulation copies as newsprint prices remained at last year's levels. Newsprint expense for commercial printing increased by $0.1 million primarily due to increased commercial printing at Derksen Printers compared to the second quarter in 2011. Other expenses decreased $0.2 million or 4.4% compared to the same quarter last year, primarily due to more printing jobs that had previously been contracted out, being performed internally.

Winnipeg Free Press journalists Mary Agnes Welch, Carol Sanders and Mia Rabson were awarded the Hollobon Award, presented by the Health Care Public Relations Association for their work on the series Wounded in the Womb, a story on fetal alcohol spectrum disorder. Mary Agnes Welch's story Life at Rock Bottom, a feature story on solvent abusers, was awarded second place. Winnipeg Free Press writer Bill Redekop received a Public Communication award from the Canadian Archaeological Association for his story entitled Hydro Crew Hits Historical Bonanza: Rock Piles Mark Thompson Post. The piece was about an accidental discovery of an unusual pile of rocks that turned out to be the remains of a fort built and burned by David Thompson in 1792-93. The story weaves together the work of the archaeologists uncovering the site with the life and adventures of Thompson.

We were very pleased to have completed the renewal of our long-term debt agreement prior to the January 31, 2013 expiry date of the original agreement. The renewal agreement included the release of $5.0 million of restricted cash as required under the original agreement entered into in January 2010. A reduction in the interest rate spread over bankers' acceptance rates will result in interest savings of approximately $0.6 million annually using current bankers' acceptance rates. The renewal agreement includes annual required principal payments of $1.0 million, payable each June until maturity, a reduction of $4.0 million from the original agreement.

As we reported last quarter, FPLP requested pension solvency relief from the members of its defined benefit pension plan and, effective July 30, 2012, this relief was formally approved. As a result, FPLP's increased annual pension funding over the next ten years is $1.9 million versus the $2.8 million, which would have otherwise been required over the next five years if relief had not been granted.

At the Canstar Community weekly newspapers, Publisher Michelle Pereira led a team that completed a rebranding of the products, which was launched in the marketplace with the June 6, 2012 editions. With the help of editorial and creative services resources, the team came up with a crisp, vibrant approach to the layout of the six community newspapers, which makes better use of colour photos and advertising space. The end result of the redesign project is a fresh, cleaner look to all the newspapers. Initial feedback from the community has been encouraging, with many readers and advertisers sharing their praise for the new design and layout of the publications.

The Brandon Sun Publisher, Eric Lawson and his team continued to implement process changes to improve the quality of information used by the business to aid in the business decision process throughout all areas of the operation.

The Brandon Sun continued its focus on improving the level of local content with our goal being a completely local first section. In addition, the editorial team continues to increase local sports coverage over major league sports in the second section, reflecting our strategy of making the Brandon Sun a stronger local newspaper.

During the second quarter, the management team developed a set of cost-reduction measures, all of which were implemented by the end of the quarter, to respond to slowing revenues. Maintaining those cost reductions while returning to growth in advertising revenue will be the key initiatives during the second half of 2012.

Brandon management continues to study options with respect to the present building, which is owned and has unutilized production and warehouse space since the closure of the production operation in the fall of 2010.

We're extremely proud of the hard work and energy at our Steinbach operation, which was recognized by the Manitoba Community Newspapers Association at its annual conference on Saturday May 26, 2012. Our weekly newspaper, the Carillon, won the best all-around newspaper award in addition to nine other first-place finishes in various other categories including best editorial page, best layout and design and best front page. The Carillon has won the best-all-around newspaper award ten times in the past sixteen years.

Dividends

Distributable cash attributable to FPI[2] for the three months ended June 30, 2012 was $1.1 million or $0.164 per share, compared to $1.5 million or $0.211 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 June 30, 2012, FPLP generated distributable cash attributable to FPI[2] of $0.580 per share, and FPI declared dividends of $0.600 per share, resulting in a payout ratio of 103.4%.

Outlook

Given the disappointing revenue reported during the second quarter and inherent difficulties in forecasting future advertising levels, during the second quarter and continuing into the third quarter, management has made a number of changes to reduce future costs. On the staffing side, fifteen positions have been eliminated through a combination of retirements, voluntary resignations and involuntary terminations. Management is continuing to develop further cost reduction initiatives which will include further voluntary and, if deemed required, involuntary reductions in staff. The annual savings of salaries and benefits from the fifteen positions eliminated total $1.3 million and restructuring costs are $0.2 million. In addition to these compensation savings and the interest expense savings from the long term debt renewal agreement, other operational changes have been implemented which will reduce annual operating expenses in the newsprint, delivery and other expense categories by approximately $1.0 million on an annualized basis.

Newsprint prices have not changed since September 2010 and we do not anticipate a change before the end of this year.

Margo Goodhand, Editor of the Winnipeg Free Press for the past five years, decided it was time to take on new challenges and left the Free Press effective July 31, 2012. Management and staff thank Margo for her efforts over the past five years and wish her great success in her future endeavors. The Free Press team was saddened by the deaths of former Assistant Editor Pat Flynn, Director of Information Technology Terry Kulchycki and long-time columnist Tom Oleson.

Ronald N. Stern
Chairman
August 14, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 14, 2012

OVERVIEW

Management's discussion and analysis, prepared as at August 14, 2012, provides a review of significant developments that affected the performance of FP Newspapers Inc. ("FPI") in the three months ended June 30, 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 and six months ended June 30, 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 International Accounting Standards Board. 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 second 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 or on FPI's website at www fpnewspapers.com.

FORMATION AND LEGAL ENTITIES

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

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

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
	In thousands of dollars (except per share amounts)		
Revenue			
Quarter 1	$ 1,121	$ 1,340	$ 1,479
Quarter 2	1,876	2,527	2,390
Quarter 3		1,373	1,546
Quarter 4		2,719	2,413
Net earnings (loss)			
Quarter 1(*)	$ 811	$ 953	$ 1,451
Quarter 2(*)	1,326	1,776	2,732
Quarter 3(*)		974	1,511
Quarter 4(**)		(13,103)	2,159
Net earnings (loss) per share			
Quarter 1(*)	$ 0.117	$ 0.138	$ 0.210
Quarter 2(*)	0.192	0.257	0.396
Quarter 3(*)		0.141	0.219
Quarter 4(**)		(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 $1.3 million and $2.1 million for the three and six months ended June 30, 2012, compared to net earnings of $1.8 million and $2.7 million for the same periods last year. The decrease 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 and six months ended June 30, 2012, FPI's share of the actuarial losses were $0.5 million and $0.8 million, compared to FPI's share of actuarial losses of $0.2 million and a nominal amount for the same periods in 2011.

FPI declared dividends to shareholders of $1.0 million or $0.15 per share and $2.1 million or $0.30 per share for the three and six months ended June 30, 2012, unchanged from the same periods of 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(2).

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

Distributable Cash Attributable to FPI(2)

Cash available for distribution attributable to FPI was $1.1 million or $0.164 per share and $1.5 million or $0.224 per share for the three and six months ended June 30, 2012, compared to $1.5 million or $0.211 per share and $2.1 million or $0.302 per share for the same periods in 2011. The decrease in cash available for distribution attributable to FPI in 2012 is primarily due to lower EBITDA(1) 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[(2)] 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[(2)].

From commencement of the Fund on May 28, 2002 until June 30, 2012, cumulative distributable cash attributable to FPI**[(2)]** totalled $12.451 per share. During that period FPI declared cash dividends to shareholders of $11.123 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[(2)], and because cumulative dividends declared were less than the cumulative distributable cash attributable to FPI[(2)], FPI believes there is no economic "return of capital".

Working Capital Position of FPI

The working capital deficiency of $2.8 million at June 30, 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, 2012 and the six months ended June 30, 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 June 30, 2012 was $28.0 million, a decrease of $1.9 million or 6.3% from the same three months in the prior year. Advertising revenues for the three months ended June 30, 2012 were $19.0 million, a $1.8 million or 8.8% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was $12.1 million, a decrease of $1.4 million or 10.4% from the same period in the prior year, primarily due to decreased spending in the retail, telecommunication, government and travel categories. Classified advertising revenues for the second quarter decreased by $0.3 million or 10.6% compared to the same period last year, primarily due to decreased spending in the automotive, employment and real estate categories, partly offset by increased revenue in the obituary category. Flyer distribution revenues for the quarter decreased by $0.1 million or 2.0%, due to a small decrease in volumes and a lower average rate due primarily to some high rate jobs in the prior year that were not repeated in the current year.

Circulation revenues for the second quarter were $6.9 million, a decrease of $0.2 million from the second quarter of 2011, with lower unit sales offsetting increased revenue from higher subscription rates. Commercial printing revenues for the quarter increased by $0.2 million, primarily attributable to increased printing at the Derksen Printers operation. Digital revenues and other revenues for the second quarter remained at relatively the same level compared to the same period last year.

FPLP's revenue for the six months ended June 30, 2012 was $55.0 million, an increase of $0.1 million or 0.2% from the same period in the prior year. Excluding revenue attributable to the Derksen operation for the first quarters of 2012 and 2011, revenue decreased by $0.8 million or 1.6%. Advertising revenues for the six months ended June 30, 2012, excluding the Derksen business for the first quarter, were $36.5 million, a $1.3 million or 3.5% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, excluding the Derksen business for the first quarter, was $23.5 million, a decrease of $0.9 million or 3.7% from the same period in the prior year, primarily due to decreased spending in the retail and telecommunications categories, partly offset by increased spending in the automotive and travel categories and new revenue from two third-party magazines. Classified advertising revenues for the six months ended June 30, 2012, on a same-store basis, decreased by $0.5 million or 7.7% compared to the same period last year, primarily due to decreased spending in the employment, automotive and obituary categories, partly offset by increased revenue in the real estate category. Flyer distribution revenues for the six months increased by less than $0.1 million, primarily due to increased volumes.

Circulation revenues for the six months ended June 30, 2012, excluding the Derksen business for the first quarter, were $13.4 million, a decrease of $0.2 million or 1.2% compared to the same period in 2011, with lower unit sales offsetting increased revenue from higher subscription rates. Commercial printing revenues for the six months increased by $0.2 million, which is primarily attributable to, on a same-store basis, increased printing volumes at Derksen Printers during the second quarter. Digital revenues for the six months increased by $0.1 million or 8.1%, 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 increased by $0.4 million, primarily due to sales of the Winnipeg Jets 2011/12 Officially Licensed Medallion Collection in the first quarter of 2012.

Operating expenses for the three months ended June 30, 2012 were $23.7 million, a $0.5 million or 2.1% decrease from the same quarter last year. Employee compensation costs for the second quarter were unchanged from the prior year, primarily due to fewer employees, partially offset by the 2% wage increase included in the collective agreements. In the second quarter of 2012, seven positions were eliminated by either retirements, voluntary resignations and involuntary terminations, six of which were in May and June. During the second quarter a restructuring charge of $0.1 million was incurred relating to termination payments to employees. In the second quarter of 2011 twelve employees were laid-off and a restructuring charge of $0.3 million was incurred. Newsprint expense for FPLP's own publications for the quarter decreased by $0.2 million or 9.7% compared to the same period in the prior year, primarily due to lower volumes mainly from fewer circulation copies as newsprint prices remained at last year's levels. Newsprint expense for commercial printing increased by $0.1 million primarily due to increased commercial printing at Derksen Printers compared to the second quarter in 2011. Other expenses decreased $0.2 million or 4.4% compared to the same quarter last year, primarily due to more printing jobs that had previously been contracted out, being performed internally.

Operating expenses for the six months ended June 30, 2012 were $47.8 million, a $1.9 million or 4.3% increase from the same period last year. Operating expenses year to date, excluding the Derksen business for the first quarter, increased $1.1 million or 2.4% compared to last year. Employee compensation costs for the six months, excluding the Derksen business for the first quarter, increased by $0.2 million or 1.0%, primarily due to the 2% wage increase included in the collective agreements, partially offset by employee reductions near the end of the second quarter as discussed in the previous paragraph. Newsprint expense for FPLP's own publications for the six months, excluding the Derksen business for the first quarter, decreased by $0.3 million compared to the prior year, primarily due to lower volumes mainly from fewer circulation copies. Newsprint expense for commercial printing, excluding the Derksen business for the first quarter, increased by $0.2 million primarily due to an increase in commercial printing at Derksen Printers in the second quarter compared to 2011. Other expenses for the first six months ending June 30, 2012, increased $1.3 million or 14.7% compared to the same period last year primarily due to increases during the first quarter, which included 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. Depreciation and amortization remained at relatively the same level compared to the same period last year.

EBITDA[(1)] for the three and six months ended June 30, 2012 was $5.4 million and $9.4 million compared to $6.9 million and $11.2 million for the same periods last year, a decrease of 20.8% and 16.7%, respectively. EBITDA[(1)] margin for the three and six months ending June 30, 2012 was 19.4% and 17.0% compared to 22.9% and 20.5% in the same periods last year.

Finance costs for the three and six months ended June 30, 2012 decreased by $0.1 million, primarily due to lower interest on the term loan resulting from lower principal balances together with a reduction in interest rates resulting from a long-term loan renewal agreement, which was completed effective at the beginning of June. During the first quarter, FPLP negotiated the release of the guarantee requirement which eliminated the need for the collateral provided by FP Funding Corporation ("FundingCo") and FPLP's guarantee payments to FundingCo., which were approximately $0.1 million per quarter. These decreases were partially 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 $3.8 million and $6.1 million for the three and six months ended June 30, 2012, compared to $5.2 million and $7.9 million for the same periods last year.

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 second quarter of 2012, increases in the defined benefit obligation resulted from an actuarial discount rate decrease, and a lower actual return on the plan's investments compared to the actuarial expected return on plan assets assumptions.

Quarterly Summary

Newspaper publishing is, to a certain extent, a seasonal business, with a higher proportion of revenues and operating earnings occurring during the second and fourth quarters of the calendar year. Revenue, EBITDA[(1)] and net earnings of FPLP by quarter for 2012, 2011 and 2010 were as follows:

	2012	2011	2010
		In thousands of dollars	
Revenue			
Quarter 1[(*)]	$ 26,979	$ 24,997	$ 26,370
Quarter 2[(*)]	28,046	29,926	28,946
Quarter 3[(*)]		26,404	26,470
Quarter 4[(*)]		29,942	28,246
	$ 55,025	$ 111,269	$ 110,032
EBITDA[(1)]			
Quarter 1[(*)]	$ 3,936	$ 4,384	$ 5,529
Quarter 2[(*)]	5,430	6,861	7,068
Quarter 3[(*)]		4,514	5,356
Quarter 4		7,334	6,598
	$ 9,366	$ 23,093	$ 24,551
Net Earnings			
Quarter1	$ 2,285	$ 2,733	$ 3,018
Quarter 2	3,825	5,154	4,878
Quarter 3		2,798	3,152
Quarter 4		5,547	4,925
	$ 6,110	$ 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 at June 30, 2012 was $16.2 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 six months ended June 30, 2012, operating activities provided $8.9 million, investing activities provided $4.7 million and $6.8 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.

Cash Flow from Operating Activities

During the three and six months ended June 30, 2012, cash generated from operating activities was $4.4 million and $8.9 million compared to $3.3 million and $9.8 million for the same periods in 2011. Net earnings for the three and six months ended June 30, 2012 were $3.8 million and $6.1 million, compared to $5.2 million and $7.9 million for the prior year. The main factor contributing to the change in net earnings is a decrease in advertising revenues as detailed in the FPLP section of this report. The net change in non-cash working capital for the three and six months ended June 30, 2012 was a decrease of $0.2 million and an increase of $1.2 million compared to decreases of $3.0 million and $0.3 million for the same periods last year. The decrease of $3.0 million in the second quarter of 2011 resulted primarily from an increase in amounts receivable from customers due to payments being delayed by several large advertising agencies which were transitioning their payment processes. In 2012, efficiencies in the collections processes have decreased the amount of receivables through the increased use of electronic invoicing and payments made through electronic fund transfers.

Investing Activities

In the second quarter of 2012, as part of the long-term debt renewal agreement, the $5.0 million cash deposit in a separate HSBC guarantee account classified as restricted cash on the balance sheet was released, which accounts for the majority of the $4.7 million of cash provided by investing activities for the six months ended June 30, 2012.

Capital asset additions, which were internally financed, were $0.1 million and $0.2 million for the three and six months ended June 30, 2012, compared to $0.3 million and $0.7 million for the same periods in the prior year. Internal maintenance capital expenditures in the six months ended June 30, 2012 of $0.2 million was primarily for press expansion equipment at Derksen Printers, heat and ventilation installations at the Winnipeg operations and technology hardware upgrades. In the six months ending June 30, 2012, FPLP completed a lease financing agreement for additional equipment required to upgrade the Derksen production operation totalling $0.5 million, compared to the first six months of 2011, when FPLP entered into lease agreements 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 and $1.0 million to finance the production equipment at Derksen Printers.

Financing Activities

Distributions to partners of FPLP for the three and six months ended June 30, 2012 totalled $2.3 million and $4.6 million, of which $1.1 million and $2.2 million was paid to FPI as holder of Class A limited partner units. This compares to $2.7 million and $5.4 million in the same periods last year, of which $1.3 million and $2.7 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 six months ended June 30, 2012, FPLP generated proceeds from equipment finance leases totalling $0.5 million, compared to $2.0 million in 2011. During the three and six months of 2012, $0.2 million and $0.4 million, respectively, was used for principal repayments on the finance leases and the mortgage loan. The principal repayments of the HSBC term loan for the three and six months of 2012 were $0.8 million and $2.1 million, compared to $1.3 million and $2.5 million in 2011 the decrease being the result of the renewal of the long-term debt agreement at the beginning of June of this year and the resulting reduction of required annual principal repayments from $5.0 million to $1.0 million.

Contractual Obligations

During the second quarter of 2012, FPLP finalized a long-term debt renewal agreement with HSBC Bank Canada, which runs through January 31, 2016. The renewal agreement includes the release of $5.0 million of restricted cash which FPLP had pledged under the previous agreement, interest rate spreads over prevailing bankers' acceptance rates based on quarterly trailing twelve month leverage ratios ranging from 1.75% to 2.75% and annual principal repayments of $1.0 million, due on the anniversary of the agreement in June.

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, there have been no significant changes to contractual obligations since December 31, 2011.

Reserves Related to distributable Cash Attributable to FPI[(2)]

Under the terms of the LP Agreement, the managing general partner of FPLP is required to determine reserves which are necessary or desirable to withhold from any distributions to partners, including among other things for capital expenditures, income taxes and operating expenses. A summary of the reserves for the three months ended June 30, 2012 and 2011 is as follows:

Reserve for future maintenance capital	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2012	**2011**	**2012**	**2011**
	In thousands of dollars		*In thousands of dollars*	
Reserve at beginning of period	$ 1,219	$ 1,384	$ 1,219	$ 1,500
Increase in reserve	-	-	-	-
Decrease in reserve	-	(165)	-	(281)
Reserve at end of period	$ 1,219	$ 1,219	$ 1,219	$ 1,219

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

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

Reserve for future income taxes	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2012	**2011**	**2012**	**2011**
	In thousands of dollars		*In thousands of dollars*	
Reserve at beginning of period	$ 4,477	$ 863	$ 3,901	$ -
Increase in reserve	900	1,264	1,476	2,127
Reserve at end of period	$5,377	$ 2,127	$5,377	$ 2,127

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 of its partners.

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 June 30, 2012, FPLP is in compliance with all covenants.

The previous financial covenants, including the negative covenants, remain unchanged with the revised agreement, except that FPLP is permitted to make a one-time payment of up to $4 million as a special dividend for tax purposes and certain other amendments pertaining to the calculation of earnings before interest, taxes, depreciation and amortization.

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 and six months ended June 30, 2012 were $1.0 million and $2.1 million, virtually unchanged from the same period last year.

Effective March 30, 2012, HSBC Bank Canada agreed to amend the guarantee requirement under the prior credit agreement in force at that time, which eliminated the need for the collateral which had been provided by FP Funding Corporation ("FundingCo"), a company controlled indirectly by Ronald Stern and Robert Silver, who together control 51% of FPLP. FundingCo. had 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 under the terms of that loan agreement and this required collateral was released by HSBC Canada on March 30, 2012.

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 second 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 during the second 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
	In thousands of dollars		*In thousands of dollars*	
Net earnings for the period	$ 3,825	$ 5,154	$ 6,110	$ 7,887
Add (subtract):				
Depreciation and amortization	1,085	1,146	2,188	2,215
Finance costs	552	637	1,191	1,267
Other income	(45)	(76)	(93)	(124)
(Gain) on interest rate swap	13	-	(30)	-
EBITDA	$ 5,430	$ 6,861	$ 9,366	$ 11,245

(2) Distributable Cash Attributable to FPI

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
	In thousands of dollars (except per share amounts)		*In thousands of dollars (except per share amounts)*	
Distributable cash of FPLP:				
EBITDA[1]	$ 5,430	$ 6,861	$ 9,366	$ 11,245
Other income (excluding non-cash gains or losses)	45	41	87	86
Finance costs on notes payable, term loan, mortgage loan, guarantee fee and finance leases, excluding accretion of related deferred financing costs	(533)	(613)	(1,149)	(1,218)
Principal repayment of term loan	(834)	(1,251)	(2,085)	(2,502)
Maintenance capital expenditures	(145)	(415)	(295)	(781)
Decrease in reserve for future maintenance capital expenditures	-	165	-	281
Proceeds from sale of property, plant and equipment	-	481	19	497
Principal repayments on finance leases	(210)	(69)	(420)	(90)
Principal repayments on mortgage loan	(11)	-	(22)	-
Reserve for future cash income taxes	(900)	(1,264)	(1,476)	(2,127)
Reserve for pension solvency payments	-	(750)	-	(750)
Pension funding in excess of accounting expense	(422)	-	(617)	-
Distributable cash of FPLP	$ 2,420	$ 3,186	$ 3,408	$ 4,641
49% attributable to FPI	$ 1,186	$ 1,561	$ 1,670	$ 2,274
Administration expenses	(59)	(107)	(126)	(188)
Other income	2	1	3	2
Distributable cash attributable to FPI	$ 1,129	$ 1,455	$ 1,547	$ 2,088
Distributable cash attributable to FPI – per share	$ 0.164	$ 0.211	$ 0.224	$ 0.302

A summary of distributable cash and distributions declared for the trailing twelve months to June 30, 2012 and for the period from commencement of FPI on May 28, 2002 to June 30, 2012 is as follows:

Distributable Cash of FPLP:

	Last Twelve Months	Since May 28, 2002
	In thousands of dollars	
EBITDA[1]	$ 21,214	$ 242,118
Interest income	175	1,297
Finance costs on notes payable, term loan, mortgage loan, guarantee fee and finance leases, excluding accretion of related deferred financing costs	(2,413)	(29,850)
Principal repayment of term loan	(4,587)	(11,676)
Principal repayment of finance leases	(759)	(1,985)
Maintenance capital expenditures	(567)	(9,984)
Decrease (increase) in reserve for future maintenance capital expenditures	-	(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	34	2,070
Principal repayments on mortgage loans	(33)	(33)
Current income and capital tax expense	-	(196)
Reserve for future cash income taxes	(3,250)	(5,377)
Decrease in reserve for pension solvency payments	750	750
Increase in reserve for pension solvency payments	-	(750)
Pension funding in excess of accounting expense	(1,849)	(1,849)
Distributable cash of FPLP	$ 8,715	$ 181,632

Distributable Cash Attributable to FPI:

	Last Twelve Months	Since May 28, 2002
	In thousands of dollars (except per share amounts)	
49% of FPLP distributable cash	$ 4,270	$ 89,000
Administration expenses	(274)	(3,118)
Interest income	6	61
Distributable cash attributable to FPI	$ 4,002	$ 85,943
Distributable cash attributable to FPI – per share	$ 0.580	$ 12.451
Cash distributions declared by FPI – per share	$ 0.600	$ 11.123
Payout Ratio	103.4%	89.3%

FP Newspapers Inc.

Condensed Balance Sheets
(unaudited, in thousands of Canadian dollars)

	Note	As at June 30, 2012	As at December 30, 2011
		$	**$**
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		492	452
Prepaid expenses and other assets		37	35
		529	487
Investment in FP Canadian Newspapers Limited Partnership	3	44,852	45,191
Deferred income tax asset		302	-
TOTAL ASSETS		45,683	45,678
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		91	99
Dividend payable	4	345	345
Income taxes payable	5	2,888	-
		3,324	444
LONG-TERM LIABILITIES			
Deferred income tax liability	5	-	2,146
TOTAL LIABILITIES		3,324	2,590
SHAREHOLDERS' EQUITY			
Share capital		71,373	71,373
Deficit		(29,014)	(28,285)
TOTAL SHAREHOLDERS' EQUITY		42,359	43,088
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		45,683	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)

		Three Months Ended June 30,		Six Months Ended June 30,	
	Note	**2012**	**2011**	**2012**	**2011**
		$	$	$	$
Equity interest from FP Canadian Newspapers Limited Partnership Class A limited partner units	3	1,874	2,526	2,994	3,865
Administration expenses		(59)	(107)	(126)	(188)
Other income		2	1	3	2
Net earnings before income taxes		1,817	2,420	2,871	3,679
Current income tax (expense)		(485)	-	(2,888)	-
Deferred income tax recovery (expense)	5	(5)	(644)	2,155	(950)
Net earnings for the period		**1,327**	**1,776**	**2,138**	**2,729**
Equity interest of other comprehensive income (loss) from FP Canadian Newspapers Limited Partnership		(709)	(266)	(1,089)	(35)
Deferred income tax recovery (expense)		191	72	293	10
Comprehensive income for the period		**809**	**1,582**	**1,342**	**2,704**
Weighted average number of Common Shares outstanding		6,902,592	6,902,592	6,902,592	6,902,592
Net earnings per share – basic and diluted		$ 0.192	$ 0.257	$ 0.310	$ 0.395

(See accompanying notes)

FP Newspapers Inc.

Condensed Statements of Changes in Equity
(unaudited, in thousands of Canadian dollars)

	Share Capital	**Deficit**	**Total Shareholders' Equity**
	$	$	$
At December 31, 2010	71,373	(12,763)	58,610
Net earnings for the period	-	2,729	2,729
Other comprehensive income (loss) for the period	-	(25)	(25)
Comprehensive income for the period	-	2,704	2,704
Dividends	-	(2,071)	(2,071)
At June 30, 2011	71,373	(12,130)	59,243
At December 31, 2011	71,373	(28,285)	43,088
Net earnings for the period	-	2,138	2,138
Other comprehensive income (loss) for the period	-	(796)	(796)
Comprehensive income (loss) for the period	-	1,342	1,342
Dividends	-	(2,071)	(2,071)
At June 30, 2012	71,373	(29,014)	42,359

(See accompanying notes)

FP Newspapers Inc.

Condensed Statements of Cash flows
(unaudited, in thousands of Canadian dollars)

	Note	Three months Ended June 30, 2012	Three months Ended June 30, 2011	Six months Ended June 30, 2012	Six months Ended June 30, 2011
		$	$	$	$
CASH PROVIDED BY (USED IN):					
OPERATING ACTIVITIES					
Net earnings for the period		1,327	1,776	2,138	2,729
Items not affecting cash:					
Equity interest from Class A Units of FP Canadian Newspapers Limited Partnership	3	(1,874)	(2,526)	(2,994)	(3,865)
Deferred income tax expense (recovery)		5	644	(2,155)	950
Distributions received on Class A Units of FP Canadian Newspapers Limited Partnership	3	1,122	1,329	2,244	2,658
Net change in non-cash working capital items		472	38	2,878	(104)
		1,052	1,261	2,111	2,368
FINANCING ACTIVITIES					
Dividends paid		(1,036)	(1,036)	(2,071)	(2,140)
INCREASE IN CASH AND CASH EQUIVALENTS		16	225	40	228
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD		476	46	452	43
CASH AND CASH EQUIVALENTS – END OF PERIOD		492	271	492	271

(See accompanying notes)

(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 International Accounting Standards Board (“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 August 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:

	Class A limited partner units
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)
Balance at December 31, 2011	**$ 45,191**
Equity interest in net earnings and comprehensive income for the six months ended June 30, 2012	1,905
Distributions received for the six months ended June 30, 2012	(2,244)
Balance at June 30, 2012	**$ 44,852**

(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:

	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Net earnings of FPLP	$ 3,825	$ 5,154	$ 6,110	$ 7,887
Interest attributable to FPI	49%	49%	49%	49%
Equity interest in net earnings of FPLP	1,874	2,526	2,994	3,865
Other comprehensive income (loss) of FPLP	(1,447)	(542)	(2,223)	(71)
Interest attributable to FPI	49%	49%	49%	49%
Equity interest in other comprehensive income (loss) of FPLP	$ (709)	$ (266)	$ (1,089)	$ (35)

4. DIVIDENDS

FPI declared a dividend payable in respect of the month of June 2012 of $345,130 or $0.05 per share (June 2011 – $345,130 or $0.05 per share) which was paid July 31, 2012 to shareholders of record on June 29, 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 six months ended June 30, 2012.

6. LIQUIDITY RISK

As at June 30, 2012, FPI had a working capital deficiency of $2,795,000 resulting from current income taxes payable, which are due prior to February 28, 2013 (note 5). FPI is dependent upon FPLP distributions being 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 June 30, 2012
(unaudited, in thousands of Canadian dollars)

	Note	As at June 30, 2012	As at December 31, 2011
		$	$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		16,191	9,329
Accounts receivable		12,194	13,759
Inventories		1,309	1,314
Assets held for sale		-	53
Prepaid expenses and other assets		1,305	1,561
		30,999	26,016
RESTRICTED CASH		-	5,000
PROPERTY, PLANT AND EQUIPMENT		39,384	40,501
INVESTMENT		104	141
INTANGIBLE ASSETS		7,022	7,258
GOODWILL		71,160	71,160
TOTAL ASSETS		148,669	150,076
LIABILITIES AND UNITHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	7	7,824	8,336
Prepaid subscriptions and deferred revenue		3,122	3,064
Finance lease obligation		866	806
Mortgage loan		48	47
Term loan	6	1,000	5,000
		12,860	17,253
LONG-TERM LIABILITIES			
Accrued pension benefit liability		7,689	5,848
Finance lease obligation		3,242	3,222
Mortgage loan		895	918
Term loan		47,172	45,355
TOTAL LIABILITIES		71,858	72,596
UNITHOLDERS' EQUITY			
Partner units		98,280	98,280
Deficit		(21,433)	(20,740)
Accumulated other comprehensive loss		(36)	(60)
TOTAL UNITHOLDERS' EQUITY		76,811	77,480
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY		148,669	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)

		Three Months Ended June 30,		Six Months Ended June 30,	
		2012	**2011**	**2012**	**2011**
	Note	**$**	**$**	**$**	**$**
Revenue					
Advertising		18,967	20,807	36,898	38,004
Circulation		6,941	7,119	13,503	13,636
Commercial Printing		1,172	966	2,213	1,397
Digital		712	728	1,431	1,324
Promotion and services		254	306	980	562
TOTAL REVENUE		28,046	29,926	55,025	54,923
Operating expenses					
Employee compensation		11,103	11,094	22,138	21,474
Newsprint and other paper		2,623	2,687	4,989	4,894
Delivery of newspapers		4,344	4,357	8,473	8,357
Other		4,456	4,663	9,969	8,689
Depreciation and amortization		1,085	1,146	2,188	2,215
Restructuring charge		90	264	90	264
OPERATING INCOME		4,345	5,715	7,178	9,030
Other income	4	45	76	93	124
Finance costs	4	(552)	(637)	(1,191)	(1,267)
Gain (loss) on interest rate swap		(13)	-	30	-
NET EARNINGS FOR THE PERIOD		3,825	5,154	6,110	7,887
Unrealized gain (loss) on investment		(16)	(5)	24	(5)
Actuarial gain (loss) on defined benefit pension plan		(1,447)	(542)	(2,223)	(71)
COMPREHENSIVE INCOME FOR THE PERIOD		2,362	4,607	3,911	7,811

(See accompanying notes)

FP Canadian Newspapers Limited Partnership

Condensed Consolidated Statements of Changes in Equity
(unaudited, in thousands of Canadian dollars)

	Partner Units	Deficit	Accumulated Other Comprehensive Income (Loss)	Total Unitholders' Equity
UNITHOLDERS' EQUITY –				
DECEMBER 31, 2010	$ 98,280	$ (21,291)	$ -	$ 76,989
Net earnings for the period	-	7,887	-	7,887
Other comprehensive (loss) for the period	-	(71)	(5)	(76)
Comprehensive income (loss) for the period	-	7,816	(5)	7,811
Distributions paid	-	(5,422)	-	(5,422)
UNITHOLDERS' EQUITY –				
JUNE 30, 2011	$ 98,280	$ (18,897)	$ (5)	$ 79,378
UNITHOLDERS' EQUITY –				
DECEMBER 31, 2011	$ 98,280	$ (20,740)	$ (60)	$ 77,480
Net earnings for the period	-	6,110	-	6,110
Other comprehensive income (loss) for the period	-	(2,223)	24	(2,199)
Comprehensive income for the period	-	3,887	24	3,911
Distributions paid	-	(4,580)	-	(4,580)
UNITHOLDERS' EQUITY –				
JUNE 30, 2012	$ 98,280	$ (21,433)	$ (36)	$ 76,811

(See accompanying notes)

FP Canadian Newspapers Limited Partnership

Condensed Consolidated Statements of Cash Flows
(unaudited, in thousands of Canadian dollars)

	Note	Three months ended June 30, 2012 $	Three months ended June 30, 2011 $	Six months ended June 30, 2012 $	Six months ended June 30, 2011 $
CASH PROVIDED BY (USED IN):					
OPERATING ACTIVITIES					
Net earnings for the period		3,825	5,154	6,110	7,887
Items not affecting cash:					
Depreciation and amortization		1,085	1,146	2,188	2,215
Accretion of deferred financing costs		19	24	42	49
(Gain) on disposal of property, plant and equipment		-	(35)	(6)	(38)
(Gain) loss on interest rate swap		13	-	(30)	-
Excess of pension contribution over expense		(422)	(36)	(617)	(58)
		4,520	6,253	7,687	10,055
Net change in non-cash working capital items		(161)	(2,950)	1,205	(268)
		4,359	3,303	8,892	9,787
INVESTING ACTIVITIES					
Purchases of property, plant and equipment		(110)	(338)	(218)	(680)
Purchase of intangibles		(35)	(77)	(77)	(101)
Investment		-	(201)	-	(201)
Acquisition		-	-	-	(3,457)
Proceeds from sale of property, plant and equipment		-	481	19	497
Decrease in restricted cash		5,000	-	5,000	-
		4,855	(135)	4,724	(3,942)
FINANCING ACTIVITIES					
Distributions to partners		(2,290)	(2,712)	(4,580)	(5,422)
Proceeds from financing leases		-	1,030	464	1,986
Principal repayments of finance lease		(210)	(69)	(420)	(90)
Principal repayments of mortgage loan		(11)	-	(22)	-
Term loan refinancing costs		(111)	-	(111)	-
Principal repayment of term loan		(834)	(1,251)	(2,085)	(2,502)
		(3,456)	(3,002)	(6,754)	(6,028)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		5,758	166	6,862	(183)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		10,433	6,128	9,329	6,477
CASH AND CASH EQUIVALENTS - END OF PERIOD		16,191	6,294	16,191	6,294
Supplemental Cash Flow Information:					
Interest paid during the period		565	618	1,172	1,234
Interest received during the period		45	13	88	140

(See accompanying notes)

(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 International Accounting Standards Board ("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 August 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 June 30,		**Six Months Ended June 30,**	
	2012	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**
Defined benefit pension plan	484	336	970	673

4. OTHER INCOME AND FINANCE COSTS

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2012	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**
Other income				
Interest income	45	41	87	86
Gain on sales of property, plant and equipment	-	35	6	38
Total other income	45	76	93	124
Finance Costs				
Interest on finance leases	47	16	94	16
Interest on mortgage loan	12	-	23	-
Interest on term loan	474	506	944	1,021
Accretion of term loan related to financing costs	19	24	42	49
Guarantee fee (note 5)	-	91	88	181
	552	637	1,191	1,267

(tabular amounts in thousands of Canadian dollars)

5. RELATED PARTY TRANSACTIONS

Effective March 30, 2012, HSBC Bank Canada agreed to amend the guarantee requirement under the previous HSBC credit agreement, which eliminates the need for the collateral provided by FundingCo. The guarantee fee incurred up to March 30, 2012 was $88,000 to FP Funding Corporation (“FundingCo”), a company controlled indirectly by Ronald Stern and Robert Silver, who together indirectly control 51% of FPLP.

Total newsprint purchases from Alberta Newsprint Company, a company controlled indirectly by Ronald Stern, for the three and six months ended June 30, 2012 were $997,000 and $2,100,000 ($988,000 and $2,063,000 for the three and six months ended June 30, 2011) .

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

During the second quarter, a long-term debt renewal agreement was finalized with HSBC Bank Canada, which matures on January 31, 2016 with an initial principal amount of $48,324,000 and annual principal payments of $1,000,000, payable each June until maturity. The terms of the agreement include the release of the $5,000,000 of restricted cash which FPLP had pledged under the previous HSBC credit agreement, and interest rate spreads over prevailing bankers’ acceptance rates based on quarterly trailing twelve month leverage ratios ranging from 1.75% to 2.75%. The previous HSBC credit agreement, which consisted of two loan facilities, each with a three-year term expiring on January 31, 2013, included interest rate spreads over prevailing bankers’ acceptance rates ranging from 3.0% to 3.75% and annual principal payments of $5,000,000. The previous financial covenants, including the negative covenants, remain unchanged with the revised agreement, except that FPLP is permitted to make a one-time payment of up to $4,000,000 as a special dividend for tax purposes and certain other amendments pertaining to the calculation of earnings before interest, taxes, depreciation and amortization.

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	101
2013	101
2014	101
2015	101
2016	101
2017	50
Total payments	555
Interest cost (4.25%)	55
Present value of finance lease obligation	500

7. RESTRUCTURING COSTS

During the second quarter of 2012, FPLP announced a new restructuring programme to improve the effectiveness and productivity of its operations. Provisions for staff severance payments are made when management has made a formal decision to eliminate certain positions and this has been communicated to the groups of employees affected. During the second quarter of 2012, FPLP recorded restructuring charges of $90,000 related to severance costs for employee reductions at the Winnipeg and Brandon operations, compared to $264,000 in 2011 related to severance costs for employee reductions at the Winnipeg operation. During the second quarter of 2012, $35,000 was paid, leaving an unpaid balance to be paid in the third and fourth quarters of $55,000, which is included in accounts payable and accrued liabilities.

8. COMPARATIVE AMOUNTS

Prior year comparative amounts have been revised to correspond with the current year presentation.

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.

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

LISTING INFORAMTION:
TSX; FP

TRANSFER AGENT:
CIBC Mellon Trust Company
c/o Canadian Stock Transfer Company Inc.

AUDITORS:
PricewaterhouseCoopers LLP, Winnipeg