FP NEWSPAPERS INC.

SECOND QUARTER REPORT 2014

JUNE 30, 2014

Second Quarter Report
June 30, 2014
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, 2014. 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, Canstar Community News ("Canstar"), which operates six weekly newspapers, 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, and the Carberry News Express, a weekly newspaper serving the Carberry area since 1886.

Total revenue for FPLP for the three months ended June 30, 2014 was $25.8 million, a $1.5 million or 5.6% decrease from the same period last year. Total EBITDA[(1)] of FPLP for the quarter was $4.9 million, a $0.9 million or 15.2% decrease from the same quarter last year. FPLP had net earnings of $3.3 million in the quarter, a decrease of $1.0 million or 22.3% compared to the same quarter last year.

FPI had net earnings of $1.1 million, or $0.166 per share, during the three months ended June 30, 2014, compared to net earnings of $1.5 million, or $0.217 per share in the same quarter last year.

Operations

FPLP's revenue for the three months ended June 2014 was $25.8 million, a decrease of $1.5 million or 5.6% from the same three months in the prior year. FPLP's print advertising revenues for the three months ended June 2014 were $16.7 million, a $1.3 million or 7.5% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was $10.1 million, a decrease of $1.3 million or 11.2% from the same period in the prior year, primarily due to decreased spending in the national automotive, government and national retail categories. Classified advertising revenues for the second quarter decreased by $0.1 million or 4.2% compared to the same period last year, primarily due to decreased spending in automotive and employment categories, partly offset by increased obituary category revenues.

Print circulation revenues for the three months ended June 2014 were $6.5 million, a decrease of $0.2 million or 2.4% from the second quarter of 2013, with lower unit sales offsetting increased revenue from higher subscription rates.

Operating expenses for the three months ended June 30, 2014 were $22.0 million, a decrease of $0.6 million or 2.7% compared to the same quarter last year. Employee compensation costs for the second quarter decreased by $0.4 million from the same period in the prior year, primarily due to a reduction in the number of employees. During the second quarter a restructuring charge of $0.1 million was incurred relating to termination payments to employees. We had anticipated that some employees would choose to retire as a result of the elimination of the lump sum commuted value transfer option of the earned pension benefit effective for retirements after May 31, 2014 and, during the second quarter twenty-six employees left our businesses, primarily through retirements. Newsprint expense for FPLP's own publications for the second quarter decreased by $0.2 million or 8.8% compared to the same period in the prior year, primarily due to lower volumes resulting from fewer circulation copies and a slightly lower average rate per metric tonne. Newsprint expense for commercial printing increased by $0.1 million compared to last year, primarily due to an increase in print jobs generated from the addition of ultra-violet ink printing equipment at our Steinbach print shop. Other expenses decreased by $0.2 million or 3.8% compared to the same quarter last year, primarily due to lower contracted inserting costs from consolidating our inserting in-house, partly offset by a non-recurring drawdown of surplus bad debt reserve in the second quarter last year.

In April, the Winnipeg Free Press was named as a finalist for one of the most prestigious journalism awards in the country, the Excellence in Journalism Award – large or national media category. Four other large news gathering organizations received similar recognition and the Toronto Star was ultimately chosen as the winner. The award, which honours large media outlets that reach specific journalistic ideals including accuracy, independence and courage, was announced at the annual Canadian Journalism Foundation Awards dinner in May. The Winnipeg Free Press won the award in 2013 and 2009.

Free Press reporter Carol Sanders was nominated as one of three finalists in the human rights investigative reporting category by the Canadian Association of Journalists for her work titled “When Hope Runs Out”, a story which gave readers a rarely seen look inside the refugee-claimant courtroom and examined how, statistically, the odds of remaining in Canada are stacked against newcomers.

Free Press reporter Kevin Rollason was honoured for his coverage of the Provincial inquiry into the death of Brian Sinclair. The Canadian Association of Emergency Physicians selected Rollason as the recipient of their 2014 Award for Medical Journalism. The award is presented annually to a journalist who has demonstrated exemplary leadership, commitment and dedication to the cause of reporting on emergency medicine in Canada. Brian Sinclair, 45, died after spending 34 hours in the Winnipeg Health Sciences Centre’s emergency waiting room without being triaged.

During collective bargaining negotiations in 2013, the option to receive a lump sum transfer of earned pension benefit on retirement was eliminated effective May 31, 2014. A number of Winnipeg Free Press employees chose to retire during the second quarter in order to take advantage of that opportunity. Between retirements and a small number of involuntary severances a total of twenty-six employees left the business during the second quarter, bringing the six month total to thirty-three. As a result of work process changes and consolidation of functions, those positions will not be replaced.

Our community newspaper division, which produces weekly, free-distribution papers that cover all Winnipeg households and the Headingley area, has streamlined its editorial and sales workforce to ensure maximum cost-effectiveness while maintaining excellent reader and customer service. Sales manager Chad Taylor has revitalized sales efforts through regular meetings with sales reps to proactively reassess budgets, plans and forecasts. He initiated a new distribution plan for The Headingly Headliner which significantly reduced costs while enabling the paper to continue reaching readers in every community it serves. The editorial department continues to enhance neighbourhood content through reader-generated material, such as this June’s second annual Best of Winnipeg readers’ survey. Hundreds of readers responded to an online and in-paper survey asking them to name the top things in the city, from best Chinese restaurant to favourite neighbourhood playground, and results were published in a pullout supplement. Our sales team followed up by distributing certificates to winners, fostering goodwill in the community and creating sales leads.

During the second quarter of 2014 the Brandon Sun participated in a number of joint restructuring projects at FPLP. The Information Technology department was streamlined and practices brought in line with those in use across the organization, lowering staffing and operating costs while improving operating efficiency.

A consolidated delivery model was developed and implemented for the Winnipeg Free Press and the Brandon Sun, resulting in improved service and lower overall costs.

During the second quarter, and continuing into the third quarter, Brandon staff worked with the Winnipeg production team to restructure the delivery of farm mail in southwestern Manitoba. We have addressed steadily rising costs associated with using Canada Post by building a new, and substantially less expensive, independent farm mail delivery system. The third quarter will also see final restructuring changes in the newsroom, lowering costs without jeopardizing our ability to deliver the region’s leading local news coverage.

In Steinbach, the second quarter saw improved revenues in some of our specialty publications. The Carillon’s Ag Now, SE Tourism Guide, Anniversary Edition, Spring and Yard, and our Steinbach Map all saw an increase in revenues from previous years. The Carillon’s web-site continues to gain new viewers and now averages over 120,000 monthly page views.

Derksen Printers and The Carillon continued to be out in the community attending many local fairs and parades with our rebranded float “New Ideas, Built on Our Heritage” handing out our new "Carillon Jr. Reporter contest" an activity book that teaches kids how to make a newspaper.

Derksen Printers' web printing operation, which completed the installation of ultra-violet ink equipment earlier this year, continues to add new clients and extend printing contracts for existing customers. Early in the second quarter we completed a four year contract extension for the printing of the daily paper The Metro in addition to new print work from Price Choppers and The Northwest Company. The sheet-fed printing business has been steady with repeat business for Gospel Tracts, Shepherd Guides as well as new business including two sets of History Books for the Village of Cereal, and three novels from independent writers Jacob Fehr, Alice Warkentin and Noel Doherty. During the second half of the year, management is planning a new marketing campaign aimed at new revenue sources for Derksen Printers.

Dividends

Distributable cash attributable to FPI(2) for the three months ended June 30, 2014 was $0.7 million or $0.105 per share, compared to $1.1 million or $0.160 per share for the same period last year. FPI declared dividends to Shareholders of $0.15 per share for the quarter, unchanged from the same quarter last year. For the trailing twelve months ended June 30, 2014, FPLP generated distributable cash attributable to FPI(2) of $0.576 per share, and FPI declared dividends of $0.600 per share, resulting in a payout ratio of 104.2%.

Outlook

Year-over-year declines in advertising revenue in the second quarter were less steep than those experienced during the first quarter. Early into the third quarter we are experiencing similar declines as reported in the second quarter.

The second half of 2014 will see a decrease in expenses, year-over-year, primarily attributable to the employee reductions experienced during the first six months of 2014. The preliminary valuation report on our defined benefit pension plan shows an improvement in both the going concern and solvency valuation positions, as we expected. On a going concern valuation basis, the plan has a surplus of $3.5 million at December 31, 2013 compared to the previous year's unfunded liability of $0.3 million. On the solvency basis valuation approach, the plan has a solvency ratio of 84% versus 61% at December 31, 2012. FPLP's minimum special payment required to fund the solvency deficiency for 2014 is $1.3 million and this amount has been funded by July 2014. While we're not anticipating any material change in these preliminary results, review work will continue prior to the final report being filed with the federal and provincial regulatory agencies no later than September 27, 2014. The improvement in the solvency deficiency is primarily the result of an increase in the discount rate used in calculating the pension obligation and, to a lesser extent, the improved investment returns on the plans assets realized in 2013.

Significant amount of research and planning work is underway for a re-launch of our Winnipeg digital product offering. This work will continue during the second half of 2014 and will ultimately culminate in a roll-out of integrated paid web and mobile platforms.

Looking forward into the remainder of 2014 and beyond there is no shortage of major openings and announcements in and around the City of Winnipeg. In July the highly anticipated 10 acre Journey to Churchill exhibit opened at the Assiniboine Park Zoo. This major development includes new habitat exhibits featuring among others, polar bears, wolf, fox and seals in addition to showcasing incredible underwater viewing tunnels and Manitoba's largest 360-degree theatre. In September the Canadian Museum for Human Rights will open its doors. The Museum is dedicated to the evolution, celebration and the future of human rights through creating inspiring encounters which will engage Canadians and international visitors in immersive, interactive experience that offers both inspiration and tools to make a difference in the lives of others. The Canadian Museum for Human Rights is the first national museum to be built in nearly half a century and the first outside the National Capital Region. On the commercial front, many Manitoba fashion enthusiasts are anxiously anticipating the arrival of the first H&M store scheduled to open on September 10 in Winnipeg's Polo Park Shopping Centre. Earlier this year developers announced plans for a 910,000 square foot commercial development in Winnipeg's Tuxedo area, which would include a 385,000 square foot enclosed premier fashion outlet mall scheduled to open in the spring of 2017. On the sporting front, Winnipeg has been selected to host the 2015 Grey Cup game to be played at Winnipeg's new Investor's Group Football Stadium.

Ronald N. Stern
Chairman
August 14, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 14, 2014

OVERVIEW

Management's discussion and analysis, prepared as at August 14, 2014, provides a review of significant developments that affected the performance of FP Newspapers Inc. ("FPI") in the three months ended June 30, 2014. 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 June 30, 2014.

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"). 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, 2013 prepared in accordance with IFRS in the Company's 2013 Annual Report and with the interim unaudited condensed financial statements and accompanying notes for the second quarter of 2014.

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. On October 26, 2012 FPLP acquired substantially all of the assets and assumed certain liabilities of the Carberry News-Express, a weekly paid subscription publication.

FP NEWSPAPERS INC.

A summary of FPI's quarterly revenue, net earnings and net earnings per share for 2014, 2013, and, 2012 is as follows:

	2014	2013	2012
	In thousands of dollars (except per share amounts)		
Revenue			
Quarter 1	$ 809	$ 1,424	$ 1,104
Quarter 2	1,638	2,109	1,859
Quarter 3		1,234	1,406
Quarter 4		2,213	2,854
Net earnings			
Quarter 1	$ 545	$ 974	$ 798
Quarter 2	1,148	1,499	1,314
Quarter 3		864	976
Quarter 4		1,559	2,016
Net earnings per share			
Quarter 1	$ 0.079	$ 0.141	$ 0.116
Quarter 2	0.166	0.217	0.190
Quarter 3		0.125	0.141
Quarter 4		0.226	0.292

FPI reported net earnings of $1.1 million and $1.7 million for the three and six months ended June 30, 2014, compared to net earnings of $1.5 million and $2.5 million for the same periods last year. The decrease in net earnings is 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 loss for the three and six months ended June 30, 2014 was $0.1 million and $0.5 million compared to income of $0.1 million and nil in the same periods of 2013. Other comprehensive income (loss) results from FPI's equity share of FPLP's recognition of remeasurements gains or losses related to the defined benefit pension plan.

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, 2014, unchanged from the same periods in 2013.

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, 2014, FPI had 6,902,592 shares outstanding.

Distributable Cash Attributable to FPI(2)

Cash available for distribution attributable to FPI(2) was $0.7 million or $0.105 per share and $1.2 million or $0.167 per share for the three and six months ended June 30, 2014, compared to $1.1 million or $0.160 per share and $2.1 million or $0.309 per share for the same periods in 2013. 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, 2014, cumulative distributable cash attributable to FPI**(2)** totalled $13.747 per share. During that period FPI declared cash dividends to shareholders of $12.323 per share, resulting in a cumulative-from-inception payout ratio of 89.7%. 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".

FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP

Results of Operations

FPLP's revenue for the three months ended June 2014 was $25.8 million, a decrease of $1.5 million or 5.6% from the same three months in the prior year. FPLP's print advertising revenues for the three months ended June 2014 were $16.7 million, a $1.3 million or 7.5% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was $10.1 million, a decrease of $1.3 million or 11.2% from the same period in the prior year, primarily due to decreased spending in the national automotive, government and national retail categories. Classified advertising revenues for the second quarter decreased by $0.1 million or 4.2% compared to the same period last year, primarily due to decreased spending in automotive and employment categories, partly offset by increased obituary category revenues.

Print circulation revenues for the three months ended June 2014 were $6.5 million, a decrease of $0.2 million or 2.4% from the second quarter of 2013, with lower unit sales offsetting increased revenue from higher subscription rates.

FPLP's revenue for the six months ended June 2014 was $49.3 million, a decrease of $3.8 million or 7.1% from the same period in the prior year. Print advertising revenues for the six months ended June 2014 were $31.9 million, a $3.2 million or 9.1% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was $19.6 million, a decrease of $3.1 million or 13.5% from the same period in the prior year, primarily due to decreased spending in the national automotive and telecommunications categories and lower revenue from third-party magazines. Classified advertising revenues for the six months ended June 30, 2014 decreased by $0.2 million or 4.2% compared to the same period last year, primarily due to lower spending in the automotive and employment categories, partly offset by increased obituary category revenues.

Print circulation revenues for the six months ended June 2014 were $12.6 million, a decrease of $0.5 million or 4.1% from the same period of 2013, with lower unit sales offsetting increased revenue from higher subscription rates. Commercial printing revenues for the six months increased by $0.1 million, primarily attributable to increased work resulting from our investment in ultra-violet ink printing equipment at our Steinbach print shop. Other revenues for the six months decreased by $0.2 million, primarily due to non-recurring booking revenue in the first quarter of 2013. Digital revenues for the six months increased by $0.1 million, primarily due to online advertising on the Winnipeg Free Press website and other digital offerings.

Operating expenses for the three months ended June 30, 2014 were $22.0 million, a decrease of $0.6 million or 2.7% compared to the same quarter last year. Employee compensation costs for the second quarter decreased by $0.4 million from the same period in the prior year, primarily due to a reduction in the number of employees. During the second quarter a restructuring charge of $0.1 million was incurred relating to termination payments to employees. We had anticipated that some employees would choose to retire as a result of the elimination of the lump sum commuted value transfer option of the earned pension benefit effective for retirements after May 31, 2014 and, during the second quarter twenty-six employees left our businesses, primarily through retirements. Newsprint expense for FPLP's own publications for the second quarter decreased by $0.2 million or 8.8% compared to the same period in the prior year, primarily due to lower volumes resulting from fewer circulation copies and a slightly lower average rate per metric tonne. Newsprint expense for commercial printing increased by $0.1 million compared to last year, primarily due to an increase in print jobs generated from the addition of ultra-violet ink printing equipment at our Steinbach print shop. Other expenses decreased by $0.2 million or 3.8% compared to the same quarter last year, primarily due to lower contracted inserting costs from consolidating our inserting in-house, partly offset by a non-recurring drawdown of surplus bad debt reserve in the second quarter last year.

Operating expenses for the six months ended June 2014 were $43.5 million, a decrease of $1.6 million or 3.5% compared to the same period last year. Employee compensation costs for the six months decreased by $0.7 million from the same period in the prior year, primarily due to the reduction in the number of employees and a decrease in the defined benefit pension plan expense. During the first six months of 2014, our total number of employees was reduced by approximately thirty-three, primarily through retirements. As noted, an increased level of retirements had been anticipated as a result of the elimination of the lump sum commuted value transfer option of the earned pension benefit effective for retirements after May 31, 2014. Newsprint expense for FPLP's own publications for the six months decreased by $0.3 million or 7.4% compared to the same period in the prior year, primarily due to lower volumes resulting from fewer circulation copies and a slightly lower average rate per metric tonne. Newsprint expense for commercial printing increased by $0.1 million compared to last year, primarily due to increased commercial printing largely due to an increase in print jobs generated from the addition of ultra-violet ink printing equipment at our Steinbach print shop. Other expenses for the six months ended June 30, 2014 decreased by $0.7 million or 7.9% compared to the same period last year, primarily due to the elimination of third-party inserting costs with the start-up of the new high-speed inserting equipment added to the Winnipeg Free Press production facility early in 2014.

EBITDA(1) for the three and six months ended June 30, 2014 was $4.9 million and $7.9 million compared to $5.7 million and $10.1 million for the same periods last year, a decrease of 15.2% and 21.4% respectively. EBITDA(1) margin for the three and six months ended June 30, 2014 was 18.9% and 16.1%, compared to 21.0% and 19.1% in the same periods last year. The changes in EBITDA(1) were due to the factors described above.

Finance costs for the three and six months ended June 30, 2014 increased marginally, primarily due to the increase in interest on finance leases from the addition of the finance lease for the high-speed inserting and used conveyor equipment installed in our Winnipeg production plant.

FPLP's net earnings were $3.3 million and $5.0 million for the three and six months ended June 30, 2014, compared to $4.3 million and $7.2 million for the same periods last year.

Under IFRS, comprehensive income includes remeasurements gains and losses related to FPLP's defined benefit pension plan. These gains and losses are primarily related to changes in actuarial discount rate assumptions and returns on plan assets differing from expected income. In the three and six months ended June 30, 2014, the actuarial loss was due to increases in the defined benefit obligation primarily resulting 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.

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 2014, 2013 and 2012 were as follows:

	2014	2013	2012
		In thousands of dollars	
Revenue			
Quarter 1	$ 23,493	$ 25,728	$ 26,979
Quarter 2	25,787	27,324	28,046
Quarter 3		25,130	26,319
Quarter 4		28,090	30,184
		$ 106,272	$ 111,528
EBITDA(1)			
Quarter 1	$ 3,074	$ 4,362	$ 3,902
Quarter 2	4,874	5,746	5,396
Quarter 3		3,959	4,315
Quarter 4		5,935	7,253
		$ 20,002	$ 20,866
Net Earnings			
Quarter1	$ 1,652	$ 2,907	$ 2,251
Quarter 2	3,341	4,302	3,791
Quarter 3		2,519	2,867
Quarter 4		4,514	5,822
		$ 14,242	$ 14,731

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, 2014 was $13.3 million compared to $10.3 million at December 31, 2013. 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, 2014, operating activities provided $7.1 million, investing activities used $0.3 million and $3.8 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 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, 2014, cash generated from operating activities was $3.1 million and $7.1 million compared to $3.7 million and $8.7 million for the same periods in 2013. Net earnings for the three and six months ended June 30, 2014 were $3.3 million and $5.0 million compared to $4.3 million and $7.2 million for the same periods in 2013. The variance in the net change in non-cash working capital for the three and six month periods is primarily the result of lower accounts payable and timing of receipts from customers.

Investing Activities

Capital asset additions were $0.1 million and $0.3 million for the three and six months ended June 30, 2014, compared to $0.4 million and $0.5 million for the same period in the prior year. Maintenance capital spending in the second quarter of both 2014 and 2013 was primarily for ultra-violet ink printing equipment in Steinbach and an overhaul of a building cooling tower at our Winnipeg facility.

Financing Activities

Distributions to partners of FPLP for the three and six months totalled $3.1 million and $6.1 million, of which $1.5 million and $3.0 million was paid to FPI as holder of Class A limited partner units. This compares to prior year figures of $3.1 million and $12.9 million, of which $1.5 million and $6.3 million was paid to FPI as holder of Class A limited partner units. In February 2013 FPLP paid a distribution of $7.0 million or $0.50 per FPLP partnership unit, of which $3.5 million was paid to FPI as holder of Class A limited partner units, to fund FPI's income taxes payable for the 2011 and 2012 years, which were due on or before February 28, 2013. The distributions to partners were determined in accordance with the limited partnership agreement that governs FPLP (the "LP Agreement").

In the second quarter of 2014, FPLP generated proceeds from equipment finance leases totalling $4.0 million. During the three and six months ended June 30, 2014, $0.4 million and $0.7 million, respectively, were used for principal repayments on the finance leases and the mortgage loan, compared to $0.2 million and $0.4 million in the same periods in 2013. The increase in principal repayments is a result of the payments on the new finance lease.

Contractual Obligations

During the second quarter of 2014 FPLP entered into a five-year non-cancellable finance lease agreement to finance the purchase of the Winnipeg plant's press conveyor and the high capacity inserting line projects. In July 2014 contracts were entered into totaling $0.9 million for the supply and installation of a new chiller used for building cooling at our Winnipeg facility.

Other than discussed above, there have been no significant changes to contractual obligations since December 31, 2013.

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 and six months ended June 30, 2014 and 2013 is as follows:

Reserve for future maintenance capital	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2014	**2013**	**2014**	**2013**
	In thousands of dollars		*In thousands of dollars*	
Reserve at beginning of period	$ 1,500	$ 1,500	$ 1,500	$ 1,219
Increase in reserve	-	-	-	281
Decrease in reserve	-	-	-	-
Reserve at end of period	$ 1,500	$ 1,500	$ 1,500	$ 1,500

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

The use of a reserve for maintenance capital in calculating distributable cash attributable to 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,**	
	2014	**2013**	**2014**	**2013**
	In thousands of dollars		*In thousands of dollars*	
Reserve at beginning of period	$ -	$ -	$ -	$ 6,996
Increase in reserve	-	-	-	(6,996)
Reserve at end of period	$ -	$ -	$ -	$ -

As FPI's year end is December 30, and taxes were 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. The reserve was eliminated in the second quarter of 2013 as FPLP was required to pay a special distribution of $7.0 million to its partners to allow FPI to pay income taxes owing for the 2011 and 2012 years.

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 2013 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, 2014, 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, 2013. There have been no changes during 2014 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, 2014 were $0.9 million and $1.9 million, compared to $1.0 million and $2.0 million for the same periods last year.

DISCLOSURE CONTROLS AND PROCEDURES

In FPI's 2013 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 2014 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.

There have been no changes to FPI's internal controls over financial reporting that occurred during the second quarter of 2014 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, 2013.

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,**	
	2014	**2013**	**2014**	**2013**
	In thousands of dollars		*In thousands of dollars*	
Net earnings for the period	$ 3,341	$ 4,302	$ 4,993	$ 7,209
Add (subtract):				
Depreciation and amortization	1,110	1,062	2,154	2,132
Finance costs	462	424	871	849
Other income	(38)	(38)	(69)	(82)
(Gain) on interest rate swap	(1)	(4)	(1)	-
EBITDA	$ 4,874	$ 5,746	$ 7,948	$ 10,108

(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,**	
	2014	**2013**	**2014**	**2013**
	In thousands of dollars (except per share amounts)			
Distributable cash of FPLP:				
EBITDA[1]	$ 4,874	$ 5,746	$ 7,948	$ 10,108
Other income (excluding non-cash gains or losses)	38	37	66	81
Finance costs on notes payable, term loan, mortgage loan, guarantee fee and finance leases, excluding accretion of related deferred financing costs	(450)	(412)	(847)	(825)
Principal repayment of term loan	(1,000)	(1,000)	(1,000)	(1,000)
Maintenance capital expenditures	(119)	(439)	(275)	(472)
Increase in reserve for future maintenance capital expenditures	-	-	-	(281)
Proceeds from sale of property, plant and equipment	-	2	3	2
Principal repayments on finance leases	(416)	(220)	(646)	(438)
Principal repayments on mortgage loan	(12)	(12)	(25)	(24)
Reduction in reserve for future cash income taxes	-	-	-	6,996
Special distribution for tax purposes	-	-	-	(7,043)
Pension funding in excess of accounting expense	(537)	(567)	(1,074)	(953)
Distributable cash of FPLP	$ 2,378	$ 3,135	$ 4,150	$ 6,151
49% attributable to FPI	$ 1,165	$ 1,536	$ 2,034	$ 3,014
Administration expenses	(58)	(49)	(118)	(132)
Other income	1	1	1	1
Current income taxes	(382)	(384)	(764)	(751)
Distributable cash attributable to FPI	$ 726	$ 1,104	$ 1,153	$ 2,132
Distributable cash attributable to FPI – per share	$ 0.105	$ 0.160	$ 0.167	$ 0.309

A summary of distributable cash and distributions declared for the trailing twelve months to June 30, 2014 and for the period from commencement of FPI on May 28, 2002 to June 30, 2014 is as follows:

Distributable Cash of FPLP:

	Last Twelve Months	**Since May 28, 2002**
	In thousands of dollars	
EBITDA[(1)]	$ 17,842	$ 281,568
Interest income	132	1,608
Finance costs on notes payable, term loan, mortgage loan, guarantee fee and finance leases, excluding accretion of related deferred financing costs	(1,650)	(33,174)
Principal repayment of term loan	(1,000)	(13,676)
Principal repayment of finance leases	(1,099)	(3,951)
Maintenance capital expenditures	(116)	(11,290)
Increase in reserve for future maintenance capital expenditures	-	(1,500)
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	3	2,084
Principal repayments on mortgage loans	(50)	(132)
Current income and capital tax expense	-	(196)
Increase in reserve for future cash income taxes	-	(6,996)
Reduction of reserve for future cash income taxes	-	6,996
Special distribution for tax purposes	-	(7,043)
Pension funding in excess of accounting expense	(2,361)	(7,097)
Distributable cash of FPLP	$ 11,701	$ 205,517

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	$ 5,733	$ 100,703
Administration expenses	(233)	(3,608)
Interest income	1	65
Current income taxes	(1,526)	(2,277)
Distributable cash attributable to FPI	$ 3,975	$ 94,883
Distributable cash attributable to FPI – per share	$ 0.576	$ 13.747
Cash dividends declared by FPI – per share	$ 0.600	$ 12.323
Payout Ratio	104.2%	89.7%

FP Newspapers Inc.
Condensed Balance Sheets
(unaudited, in thousands of Canadian dollars except per share amounts)

	Note	As at June 30, 2014	As at December 30, 2013
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		$ 504	$ 444
Prepaid expenses and other assets		12	6
Income tax receivable		81	106
		597	556
LONG-TERM ASSETS			
Investment in FP Canadian Newspapers Limited Partnership	3	43,672	44,892
TOTAL ASSETS		$ 44,269	$ 45,448
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		$ 90	$ 100
Dividend payable	4	345	345
		435	445
LONG-TERM LIABILITIES			
Deferred income tax liability		386	692
TOTAL LIABILITIES		821	1,137
SHAREHOLDERS' EQUITY			
Share capital		71,373	71,373
Deficit		(27,925)	(27,062)
TOTAL SHAREHOLDERS' EQUITY		43,448	44,311
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 44,269	$ 45,448

(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 June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Equity interest from FP Canadian Newspapers Limited Partnership Class A limited partner units	3	$ 1,637	$ 2,108	$ 2,446	$ 3,532
Administration expenses		(58)	(49)	(118)	(132)
Other income		1	1	1	1
Net earnings before income taxes		1,580	2,060	2,329	3,401
Current income tax (expense)		(382)	(384)	(764)	(751)
Deferred income tax (expense) recovery		(50)	(177)	128	(177)
Net earnings for the period		**$ 1,148**	**$ 1,499**	**$ 1,693**	**$ 2,473**
Items that will not be reclassified to net earnings:					
Equity interest of other comprehensive gain (loss) from FP Canadian Newspapers Limited Partnership	3	(163)	182	(663)	17
Deferred income tax (expense) recovery		44	(49)	178	(5)
Comprehensive income for the period		**$ 1,029**	**$ 1,632**	**$ 1,208**	**$ 2,485**
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		$ 0.166	$ 0.217	$ 0.245	$ 0.358

(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 30, 2012	$ 71,373	$ (29,441)	$ 41,932
Net earnings for the period	-	2,473	2,473
Other comprehensive income (loss) for the period	-	12	12
Comprehensive income for the period	-	2,484	2,484
Dividends	-	(2,071)	(2,071)
At June 30, 2013	$ 71,373	$ (29,027)	$ 42,346
At December 30, 2013	$ 71,373	$ (27,062)	$ 44,311
Net earnings for the period	-	1,693	1,693
Other comprehensive income (loss) for the period		(485)	(485)
Comprehensive income for the period	-	1,208	1,208
Dividends	-	(2,071)	(2,071)
At June 30, 2014	$ 71,373	$ (27,925)	$ 43,448

FP Newspapers Inc.
Condensed Statements of Cash flows
(unaudited, in thousands of Canadian dollars)

	Note	Three months Ended June 30, 2014	Three months Ended June 30, 2013	Six months Ended June 30, 2014	Six months Ended June 30, 2013
CASH PROVIDED BY (USED IN):					
OPERATING ACTIVITIES					
Net earnings for the period		$ 1,148	$ 1,499	$ 1,693	$ 2,473
Items not affecting cash:					
Equity interest from Class A Units of FP Canadian Newspapers Limited Partnership	3	(1,637)	(2,108)	(2,446)	(3,532)
Deferred income tax expense (recovery)		50	177	(128)	177
Distributions received on Class A Units of FP Canadian Newspapers Limited Partnership	3	1,502	1,502	3,003	6,328
Net change in non-cash working capital items		57	(129)	9	(3,570)
		1,120	941	2,131	1,876
FINANCING ACTIVITIES					
Dividends paid		(1,036)	(1,036)	(2,071)	(2,071)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		84	(95)	60	(195)
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD		420	470	444	570
CASH AND CASH EQUIVALENTS – END OF PERIOD		$ 504	$ 375	$ 504	$ 375

(See accompanying notes)

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 FPI's 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, 2013, 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, 2014.

Accounting policies

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

Changes in accounting policies

FPI has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

IAS 32, Financial Instruments – Presentation
IAS 32 applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; and the right for offsetting financial assets and financial liabilities. A right to offset may be currently available or it may be contingent on a future event. An entity must have a legally enforceable right of set-off. The standard did not affect FPI as its financial instruments currently do not have a legally enforceable right of set-off.

IFRIC 21, Levies
IFRIC 21 provides guidance on the accounting for a liability to pay a levy, if that liability is within the scope of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. Levies are imposed by governments in accordance with legislation and do not include income taxes, which are accounted for under IAS 12, Income Taxes or fines or other penalties imposed for breaches of legislation. The interpretation was issued to address diversity in practice around when the liability to pay a levy is recognized. The adoption of IFRIC 21 did not affect the financial statements or disclosures as it was determined that no changes were required to the existing accounting treatment of levies.

Accounting standards and amendments issued but not yet effective

IFRS 9 – Financial Instruments
On July 24, 2014, the IASB issued IFRS 9, "*Financial Instruments*" ("IFRS 9") to replace International Accounting Standard 39, "*Financial Instruments: Recognition and Measurement*". IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. FPI is currently evaluating the impact of adopting IFRS 9 on its financial statements.

IFRS 15 – Revenue from contracts with customers
In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers,* a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 is mandatory and will be effective for the Company's beginning on September 1, 2017, with earlier adoption permitted. FPI is assessing the impact of adopting this standard on its financial statements.

(unaudited, tabular amounts in thousands of Canadian dollars)

3. INVESTMENT IN FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP

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

The investment in FPLP is summarized as follows:

	Class A limited partner units
Balance at December 30, 2012	$ 45,019
Equity interest in net earnings and comprehensive income for the year ended December 30, 2013	9,205
Distributions received for the year ended December 30, 2013	(9,332)
Balance at December 30, 2013	$ 44,892
Equity interest in net earnings and comprehensive income for the six months ended June 30, 2014	1,783
Distributions received for the six months ended June 30, 2014	(3,003)
Balance at June 30, 2014	$ 43,672

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,		Six Months Ended June 30,	
Net earnings of FPLP	$ 3,341	$ 4,302	$ 4,993	$ 7,209
Interest attributable to FPI	49%	49%	49%	49%
Equity interest in net earnings of FPLP	1,637	2,108	2,446	3,532
Other comprehensive income (loss) of FPLP	(333)	372	(1,353)	34
Interest attributable to FPI	49%	49%	49%	49%
Equity interest in other comprehensive income (loss) of FPLP	$ 163)	$ 182	$ (663)	$ 17

4. DIVIDENDS

FPI declared a dividend payable in respect of the month of June 2014 of $345,000 or $0.05 per share (equal to June 30, 2013), which was paid July 31, 2014 to shareholders of record on June 30, 2014.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Financial instruments that are not measured at fair value on the balance sheet are represented by cash and cash equivalents, accounts payable and accrued liabilities and dividend payable. The fair values of such financial instruments approximate their carrying value due to their short term nature.

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

	As at June 30, 2014	As at December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 13,254	$ 10,300
Accounts receivable	10,352	11,955
Inventories	1,194	1,201
Prepaid expenses and other assets	1,316	4,087
	26,116	27,543
LONG-TERM ASSETS		
Property, plant and equipment	37,480	34,817
Investment	29	54
Intangible assets	6,173	6,396
Goodwill	71,250	71,250
TOTAL ASSETS	**$ 141,048**	**$ 140,060**
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 7,067	$ 6,984
Prepaid subscriptions and deferred revenue	2,950	2,786
Finance lease obligation	1,642	905
Mortgage loan	52	52
Term loan	1,000	1,000
	12,711	11,727
LONG-TERM LIABILITIES		
Accrued pension benefit liability	2,998	2,437
Finance lease obligation	4,855	1,917
Mortgage loan	793	819
Term loan	45,251	46,228
TOTAL LIABILITIES	66,608	63,128
UNITHOLDERS' EQUITY		
Partner units	98,280	98,280
Deficit	(23,833)	(21,346)
Accumulated other comprehensive loss	(7)	(2)
TOTAL UNITHOLDERS' EQUITY	74,440	76,932
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY	**$ 141,048**	**$ 140,060**

(See accompanying notes)

FP Canadian Newspapers Limited Partnership
Condensed Consolidated Income Statements and Statements of Comprehensive Income
(unaudited, in thousands of Canadian dollars)

	Note	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Revenue					
Print advertising		$ 16,744	$ 18,093	$ 31,929	$ 35,128
Print circulation		6,513	6,672	12,562	13,096
Commercial Printing		1,351	1,307	2,591	2,500
Digital		977	933	1,761	1,654
Promotion and services		202	319	437	674
TOTAL REVENUE		25,787	27,324	49,280	53,052
Operating expenses					
Employee compensation		10,453	10,851	20,797	21,540
Newsprint and other paper		2,269	2,373	4,371	4,545
Delivery of newspapers		4,109	4,212	7,967	8,118
Other		3,985	4,142	8,051	8,741
Depreciation and amortization		1,110	1,062	2,154	2,132
Restructuring charge		97	-	146	-
OPERATING INCOME		3,764	4,684	5,794	7,976
Other income	4	38	38	69	82
Finance costs	4	(462)	(424)	(871)	(849)
Gain (loss) on interest rate swap		1	4	1	-
NET EARNINGS FOR THE PERIOD		$ 3,341	$ 4,302	$ 4,993	$ 7,209
Items that may be reclassified subsequently to net earnings:					
Unrealized gain (loss) on investment		(5)	10	(5)	28
Items that will not be reclassified to net earnings:					
Remeasurements for defined benefit pension plan		(333)	372	(1,353)	34
COMPREHENSIVE INCOME FOR THE PERIOD		$ 3,003	$ 4,684	$ 3,635	$ 7,271

(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, 2012	$ 98,280	$ (21,091)	$ (35)	$ 77,154
Net earnings for the period	-	7,209	-	7,209
Other comprehensive income for the period	-	34	28	62
Comprehensive income for the period	-	7,243	28	7,271
Distributions paid	-	(12,913)	-	(12,913)
UNITHOLDERS' EQUITY – JUNE 30, 2013	$ 98,280	$ (26,761)	$ (7)	$ 71,512
UNITHOLDERS' EQUITY – DECEMBER 31, 2013	$ 98,280	$ (21,346)	$ (2)	$ 76,932
Net earnings for the period	-	4,993	-	4,993
Other comprehensive (loss) for the period	-	(1,353)	(5)	(1,358)
Comprehensive income (loss) for the period	-	3,640	(5)	3,635
Distributions paid	-	(6,127)	-	(6,127)
UNITHOLDERS' EQUITY – JUNE 30, 2014	$ 98,280	$ (23,833)	$ (7)	$ 74,440

(See accompanying notes)

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

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net earnings for the period	$ 3,341	$ 4,302	$ 4,993	$ 7,209
Items not affecting cash:				
Depreciation and amortization	1,110	1,062	2,154	2,132
Accretion of term loan related to financing costs	12	12	24	24
Gain on disposal of property, plant and equipment	-	(1)	(3)	(1)
Loss (gain) on interest rate swap	1	(4)	1	-
Excess of pension contribution over expense	(537)	(567)	(1,074)	(953)
	3,927	4,804	6,095	8,411
Net change in non-cash working capital items	(836)	(1,058)	955	335
	3,091	3,746	7,050	8,746
INVESTING ACTIVITIES				
Purchases of property, plant and equipment	(119)	(432)	(262)	(459)
Purchase of intangibles	-	(7)	(13)	(13)
Proceeds from sale of property, plant and equipment	-	2	3	2
	(119)	(437)	(272)	(470)
FINANCING ACTIVITIES				
Distributions to partners	(3,064)	(3,064)	(6,127)	(12,913)
Proceeds from financing leases	3,974	-	3,974	-
Principal repayments of finance lease	(416)	(220)	(646)	(438)
Principal repayments of mortgage loan	(12)	(12)	(25)	(24)
Principal repayment of term loan	(1,000)	(1,000)	(1,000)	(1,000)
	(518)	(4,296)	(3,824)	(14,375)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,454	(987)	2,954	(6,099)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	10,800	12,731	10,300	17,843
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 13,254	$ 11,744	$ 13,254	$ 11,744
Supplemental Cash Flow Information:				
Interest paid during the period	$ 326	$ 412	$ 727	$ 829
Interest received during the period	35	36	64	100

(See accompanying notes)

1. GENERAL INFORMATION

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

These 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 statements for the year ended December 31, 2013, 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, 2014.

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.

Accounting policies

Changes in accounting policies

FPI has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

IAS 32, Financial Instruments – Presentation
IAS 32 applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; and the right for offsetting financial assets and financial liabilities. A right to offset may be currently available or it may be contingent on a future event. An entity must have a legally enforceable right of set-off. The standard did not affect FPLP as its financial instruments currently do not have a legally enforceable right of set-off.

IFRIC 21, Levies
IFRIC 21 provides guidance on the accounting for a liability to pay a levy, if that liability is within the scope of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. Levies are imposed by governments in accordance with legislation and do not include income taxes, which are accounted for under IAS 12, Income Taxes or fines or other penalties imposed for breaches of legislation. The interpretation was issued to address diversity in practice around when the liability to pay a levy is recognized. The adoption of IFRIC 21 did not affect the financial statements or disclosures as it was determined that no changes were required to the existing accounting treatment of levies.

Accounting standards and amendments issued but not yet effective

IFRS 9 – Financial Instruments
On July 24, 2014, the IASB issued IFRS 9, "*Financial Instruments*" ("IFRS 9") to replace International Accounting Standard 39, "*Financial Instruments: Recognition and Measurement*". IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. FPLP is currently evaluating the impact of adopting IFRS 9 on its financial statements.

IFRS 15 – Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 is mandatory and will be effective for the Company's beginning on September 1, 2017, with earlier adoption permitted. FPLP is assessing the impact of adopting this standard on its financial statements.

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,	
	2014	**2013**	**2014**	**2013**
Defined benefit pension plan	$ 355	$ 705	$ 710	$ 1,410

4. OTHER INCOME AND FINANCE COSTS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Other income				
Interest income	$ 38	$ 37	$ 66	$ 81
Gain on sales of property, plant and equipment	-	1	3	1
Total other income	38	38	69	82
Finance costs				
Interest on finance leases	49	37	78	76
Interest on mortgage loan	10	11	20	22
Interest on term loan	391	364	749	727
Accretion of term loan related to financing costs	12	12	24	24
Total finance costs	$ 462	$ 424	$ 871	$ 849

5. COMMITMENTS AND CONTINGENCIES

During 2013, FPLP entered into supplier agreements for capital expenditures aggregating to $4,000,000 for the Winnipeg Free Press plant's press conveyor and high capacity inserting line projects. This equipment was initially internally financed and included in the prepaid expenses and other assets on the March 31, 2014 balance sheet. During the second quarter, FPLP entered into a five-year non-cancellable finance lease agreement, which is fully secured based on the assets subject to the lease.

	In thousands $
2014	642
2015	855
2016	855
2017	855
2018	855
2019	643
Total payments	4,705
Interest cost (3.48%)	383
Present value of finance lease obligation	4,322

During the second quarter of 2014, FPLP signed commitments for the replacement of the chiller at the Winnipeg facility in the amount of $830,000.

(tabular amounts in thousands of Canadian dollars)

6. RELATED PARTY TRANSACTIONS

Total newsprint purchases from Alberta Newsprint Company, a company controlled indirectly by Ronald Stern, for the three and six months ended June 30, 2014 were $920,000 and $1,720,000 ($963,000 and $1,963,000 for the three and six months ended June 30, 2013) .

7. LONG TERM DEBT

The long-term debt renewal agreement with HSBC Bank Canada matures on January 31, 2016 with annual principal amounts of $1,000,000 payable each June until maturity. The terms of the agreement include interest rate spreads over prevailing bankers' acceptance rates based on quarterly trailing twelve month leverage ratios ranging from 1.75% to 3.50%.

FPLP is subject to various covenants under the terms of the HSBC credit facility, including a covenant in favour of HSBC not to pay distributions which exceed distributable cash by more than $1,000,000 in any fiscal year, as well as a covenant not to amend the share capital or permit changes to the beneficial ownership of FPGP.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table provides information about financial assets and liabilities measured at fair value in the consolidated balance sheet and categorized by level according to the significance of the inputs used in making the measurements:

Recurring measurements	June 30, 2014	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets				
Investment	$ 29	$ 29	-	-

The fair value of current assets and liabilities including cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates their carrying value due to the short-term nature of these financial instruments. The fair value of the HSBC term loan, based on Level 3 fair value hierarchy inputs, is approximately $46,324,000 (December 31, 2013 $47,324,000) and a carrying value of $46,251,000 (December 31, 2013 $47,229,000). The fair value of the mortgage loan, based on level 3 fair value hierarchy inputs, approximates its carrying value.

The fair value of long-term debt and mortgage payable has been calculated by discounting the expected cash flows of each debt using a discount rate of 3.07% and 4.85%, respectively. The discount rate is determined using a risk free benchmark bond yield for instruments of similar maturity adjusted for the Company's specific credit risk. In determining the adjustment for credit risk, the Company considers market conditions, the underlying values of properties and other assets secured by the associated loan and other indicators of the company's credit worthiness.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements are subject to known and unknown risks and uncertainties that may cause the actual results, performance or achievements of 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 or 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 13, 2014, 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.

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