NEWSPAPERS fp INCOME FUND

Q1 – 2010
Quarterly Report
March 31, 2010

TSX: FP.UN

First Quarter Report
March 31, 2010
Report to Unitholders

fp NEWSPAPERS INCOME FUND

Dear Fellow Unitholders:

I am pleased to provide you with a report on the results of our operations and related distributions to Unitholders of FP Newspapers Income Fund (the "Fund") for the quarter ending March 31, 2010. FP Newspapers Income Fund owns securities entitling it to 49 percent of the distributable cash of FP Canadian Newspapers Limited Partnership ("FPLP"), which owns the Winnipeg Free Press and Brandon Sun daily newspapers, and Canstar Community News ("Canstar") which operates six weekly newspapers, a weekly entertainment newspaper and a twice-monthly newspaper aimed at age 50-plus readers.

Total revenue for FPLP for the three months ended March 31, 2010 was $26.4 million, a $0.5 million or 1.7 percent decrease from the same period last year. Total EBITDA(1) of FPLP for the quarter was $5.5 million, a $2.4 million or 74.4 percent increase from the same quarter last year. EBITDA(1) in the first quarter, excluding the 2009 restructuring charges of $0.6 million, increased by $1.8 million or 46.5 percent. FPLP had net earnings of $3.0 million in the quarter compared to a net loss of $0.5 million in the same quarter last year.

The Fund had net earnings of $1.5 million, or $0.210 per Unit, during the three months ended March 31, 2010, compared to net earnings of $0.5 million, or $0.079 per Unit, in the same quarter last year. The increase in the Fund's net earnings in the quarter is primarily due to the increase in the net earnings of FPLP as discussed below.

Operations

Advertising revenues for the three months ended March 31, 2010 were $17.6 million, a $0.4 million or 2.4 percent decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was $11.3 million, an increase of $0.5 million or 4.4 percent from the same three months in the prior year, primarily due to increased spending in the local and national automotive categories and retail department store category. Classified advertising revenues for the three months ended March 31, 2010 decreased by $0.6 million or 16.2 percent compared to the same period last year, primarily due to a decrease in the employment and real estate categories. Flyer distribution revenues for the three months ended March 31, 2010 decreased by $0.3 million or 9.1 percent compared to the same period last year, primarily due to decreased volumes as a result of the sale of the Thunder Bay distribution operation.

Operating expenses excluding amortization for the first quarter were $20.8 million, a $2.8 million or 11.9 percent decrease from $23.7 million in the same quarter last year. Operating expenses for the three months ended March 31, 2010 excluding amortization and the restructuring charge decreased by $2.2 million or 9.6 percent from the same quarter last year. Employee compensation costs, excluding the restructuring charge, for the first quarter decreased $0.4 million or 3.5 percent, due to savings from staff reductions and lower part-time hours partially offset by the 2 percent wage increases included in the collective bargaining agreements. Newsprint expense for FPLP's own publications for the first quarter decreased by $1.0 million or 34.5 percent, with approximately $0.8 million due to lower newsprint prices and $0.2 million due to lower consumption. Newsprint expense for commercial printing for the first quarter decreased $0.1 million when compared to the same period in the prior year, due to lower newsprint prices partially offset by higher consumption. Delivery costs for the first quarter decreased by $0.7 million or 14.6 percent, primarily due to eliminating the Sunday Winnipeg Free Press home-delivered newspaper, reducing Winnipeg non-subscriber weekly flyer distribution by one day, and no longer incurring Thunder Bay costs due to the sale of that distribution business. Other expenses for the first quarter decreased by $0.1 million or 2.1 percent, primarily due to decreases in utility costs. There were no restructuring charges incurred during the first quarter, compared to $0.6 million in the same period last year.

The results of the 2009 Newspaper Audience Databank (NADbank) survey were released in March and once again the Winnipeg Free Press continues to show the highest readership percentage across all large Canadian cities. The NADbank survey showed the Free Press weekday readership at 41 percent, virtually unchanged from the 42 percent level in the 2008 survey results. The same survey showed Saturday readership was unchanged from the 2008 survey, at 51 percent. Our primary competitor, the Winnipeg Sun, had a weekday readership in the 2009 NADbank survey of 17 percent down from 20 percent in the 2008 survey. Saturday readership for the Winnipeg Sun was also lower in the 2009 survey at 13 percent compared to the 16 percent result from the 2008 survey. The 2009 NADbank survey showed that the online readership of the Winnipeg Free Press increased to 16 percent from 14 percent.

During the second quarter, we continued our long-standing position of investing editorial resources to provide our readers with increased coverage of local athletes participating in the Olympic Games. Winnipeg Free Press sports reporters Ed Tait and Randy Turner, together with photo journalists Boris Minkevich and Phil Hossack provided first class coverage used for both the print and on-line editions of our products.

Winnipeg Free Press photographer Wayne Glowacki won the national Photo of the Year award in the social issues category at the 2009 National Pictures of the Year Awards in Toronto on April 24. Wayne's work was used in coverage the Free Press published on The Forgotten Disease, a six-part series last November that described the physical and emotional toll tuberculosis had and continues to have on first nations communities in Manitoba.

The Brandon Sun posted a strong first quarter of the year. Advertising showed a strong gain over last year, with display advertising leading the way. Classified advertising revenues showed signs of firming up but remained down from the previous year. Insert revenues were higher over last year. Circulation revenue was down slightly, but circulation units were up. Overall revenue was up with expenses flat to last year, the net result being increased operating profit.

Some restructuring within the editorial department occurred to accommodate the requirements of the Sun's new website that launched in mid-April. An online coordinator monitors and updates the site throughout the day.

The advertising and editorial departments were busy planning and selling special sections tied to the national major junior hockey championship, the Memorial Cup, which will be held in Brandon in mid-May. The Sun will produce a pre-tournament piece and an eight-page tab section for each of the ten days of the event.

During the second quarter, we announced that the Board of Trustees of the Fund has determined that it would be in the best interest of the Fund and its Unitholders to convert the Fund from a trust to a corporation at the end of 2010, when the tax savings from the trust structure will be eliminated. The conversion will be presented to Unitholders for approval at the Fund's annual general meeting on May 5, 2010. The objective in the arrangement is to convert the Fund to a simplified corporate structure while maintaining as nearly as possible all of the existing rights and relationships among the affected parties. Under the arrangement, Unitholders will receive, for each unit held, one common share of a newly formed company, FP Newspapers Inc. ("FPI"). Upon completion of the proposed arrangement, the FPI shares will be listed for trading on the Toronto Stock Exchange, subject to FPI satisfying certain listing conditions of the Exchange. The exchange of units for FPI shares will be completed on a tax-free "rollover" basis for Canadian federal income tax purposes. The resolution approving the conversion must be approved by not less than two-thirds of the votes cast by Unitholders voting on the matter at the annual general meeting and is subject to the approval of the Supreme Court of British Columbia and receipt of all necessary regulatory approvals.

Distributions

Distributable cash attributable to the Fund(2) for the three months ended March 31, 2010 was $1.9 million or $0.274 per Unit, compared to $1.1 million or $0.153 per Unit last year. For the trailing twelve months ended March 31, 2010, FPLP has generated distributable cash attributable to the Fund(2) of $1.416 per Unit, and the Fund has declared distributions of $1.035 per Unit, resulting in a payout ratio of 73.1 percent.

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

Outlook

During the first quarter, our largest advertising revenue category, display advertising, increased by 4.4 percent versus the same quarter last year. This is the first quarterly growth in this category since the third quarter of 2008. Unfortunately, revenue reductions in the classified and flyer delivery categories resulted in an overall decline in total advertising revenues. While it is early in the second quarter, we are continuing to see improved advertising revenues. The decrease in employee compensation costs, excluding the restructuring charge, of 3.5 percent for the first quarter was the result of the restructuring initiatives which were started in the fourth quarter of 2008 and are in line with our full-year forecasted year-over-year declines of between two and four percent. Newsprint price increases were announced and have been implemented in the second quarter. The new price level would result in a 9 percent reduction in the average price in the second quarter of 2010 compared to the same quarter last year, and an overall full-year 2010 average price reduction of 13 percent, compared to the prior year, if no further price changes are implemented in 2010. Continued year-over-year expense savings in the delivery cost area from restructuring initiatives completed in 2009 are also expected to continue and be in line with our full-year forecasted savings of between 5 and 10 percent.

During the second quarter, FPLP will continue to plan for the fall consolidation of printing of the Brandon Sun at our Winnipeg print site. Projects to upgrade production equipment at the Winnipeg Free Press to accommodate this consolidation are underway and on track for completion by the end of the third quarter. In addition to these changes to accommodate our printed versions, management is constantly reviewing and upgrading our digital product lines to maintain our brands as the most trusted sources for content in the markets we serve.

On behalf of my fellow board members, I would like to thank Rudy Redekop and Susan Lewis, both of whom are retiring this spring from the board of directors of the general partner of FPLP, for their contributions over the years.

Additionally, I would like to thank the employees of FPLP for their vision and hard work in helping us adjust to the changing media world and changing economy.

Ronald N. Stern
Chairman & Trustee
May 4, 2010

Management's Discussion and Analysis

Overview

Management's discussion and analysis, prepared as at May 4, 2010, provides a review of significant developments that have affected the Fund's performance in the three months ended March 31, 2010. This review is based on financial information contained in the unaudited consolidated interim financial statements and accompanying notes for the three months ended March 31, 2010.

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

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

Further information relating to the Fund is available under its profile at www.sedar.com.

Formation and Legal Entities

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

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

FP Newspapers Income Fund

The Fund is dependent on the operations of FPLP, its sole investment. The Fund's net earnings were $1.5 million for the three months ended March 31, 2010, compared to net earnings of $0.5 million for the same period last year. The increase in net earnings for the three months ended March 31, 2010 is primarily due to the increased earnings of FPLP, as discussed in the FPLP section. There was no interest income earned during the first quarter of 2010 as the subordinated notes were settled in the fourth quarter of 2009. The Fund's equity interest from its Class A limited partner Units was $1.5 million for the three months ended March 31, 2010, compared to a loss of $1.1 million in the same period last year due primarily to the settling of the subordinated notes which eliminated the portion of the Fund's return received in the form of interest income and increasing the equity interest return combined with higher earnings of FPLP.

The Fund declared distributions to Unitholders of $1.2 million or $0.180 per Unit for the three months ended March 31, 2010, compared to $2.0 million or $0.285 per Unit in the same period last year. Cash provided by operating activities of the Fund was $0.9 million for the three months ended March 31, 2010, compared to $1.9 million for the same period last year. The reduction in cash provided by operating activities is a result of a decrease in the overall cash paid by FPLP to the Fund which prior to January 1, 2010 was a combination of interest payments on the subordinated notes and distributions on Class A units. As a result of the settlement of the subordinated notes on December 31, 2009, for the first quarter of 2010 and going forward, the Fund receives its entire 49% share of FPLP cash payments in the form of distributions on its Class A units.

Distributable Cash Attributable to the Fund[(2)]

Cash available for distribution attributable to the Fund[(2)] was $1.9 million or $0.274 per Unit for the three months ended March 31, 2010, compared to $1.1 million or $0.153 per Unit for the same period last year. The increase in cash available for distribution attributable to the Fund[(2)] in the quarter is primarily due to the increase in EBITDA[(1)] of FPLP as discussed in the FPLP section of this report, partially offset by principal repayments required under the HSBC term loan.

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

From commencement of the Fund on May 28, 2002 until March 31, 2010, distributable cash attributable to the Fund(2) totals $10.702 per Unit and during that period the Fund declared distributions to Unitholders of $9.683 per Unit, resulting in a cumulative from inception payout ratio of 90.5%. Because the Fund makes an allowance for maintenance capital spending which is estimated to be sufficient to maintain the productive capacity of the business when calculating distributable cash attributable to the Fund(2), and because cumulative distributions declared are less than the cumulative distributable cash attributable to the Fund(2), the Fund believes there has been no economic "return of capital".

FP Canadian Newspapers Limited Partnership
Results of Operations

Revenue:

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	In thousands	
Advertising	$ 17,568	$ 18,009
Circulation	7,056	7,002
Commercial Printing	1,130	1,150
Promotions and Services	616	677
	$ 26,370	$ 26,838

Revenue in the first quarter was $26.4 million, a decrease of $0.5 million or 1.7% from the same three months in the prior year. Advertising revenues for the three months ended March 31, 2010 were $17.6 million, a $0.4 million or 2.4% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was $11.3 million, an increase of $0.5 million from the same three months in the prior year, primarily due to increased spending in the local and national automotive categories and retail department store category. Classified advertising revenues for the three months ended March 31, 2010 decreased by $0.6 million or 16.2% compared to the same period last year, primarily due to a decrease in the employment and real estate categories. Flyer distribution revenues for the three months ended March 31, 2010 decreased by $0.3 million or 9.1% compared to the same period last year, primarily due to decreased volumes due to the sale of the Thunder Bay distribution operation. Circulation revenues for the first quarter increased by $0.1 million due to rate increases implemented in March 2009 at the Winnipeg Free Press, partially offset by subscription reductions. Commercial printing revenues for the three months ended March 31, 2010 remained virtually unchanged compared to the same period last year. Promotions and services revenues for the three months ended March 31, 2010 decreased by $0.1 million or 9.0% when compared to the same period last year, primarily due to lower sales of "The Greatest Manitoban" book, which was published in 2008.

Operating expenses, excluding amortization:

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	In thousands	
Employee Compensation, excluding Restructuring Charge	$ 10,385	$ 10,767
Newsprint - Own Use	1,945	2,969
Newsprint - Commercial Printing	222	272
Delivery of Newspapers	3,930	4,604
Other	4,359	4,453
	$ 20,841	$ 23,065
Restructuring Charge	-	603
	$ 20,841	$ 23,668

Operating expenses excluding amortization for the first quarter were $20.8 million, an 11.9% decrease from $23.7 million in the same quarter last year. Operating expenses for the three months ended March 31, 2010 excluding amortization and excluding the 2009 restructuring charge decreased by $2.2 million or 9.6% from the same quarter last year. Employee compensation costs, excluding the restructuring charge, for the first quarter decreased $0.4 million or 3.5%, due to savings from staff reductions and lower part-time hours partially offset by the 2% wage increases included in the collective bargaining agreements. Newsprint expense for FPLP's own publications for the first quarter decreased by $1.0 million or 34.5%, with approximately $0.8 million due to lower newsprint prices and $0.2 million due to lower consumption. Newsprint expense for commercial printing for the first quarter decreased $0.1 million when compared to the same period in the prior year, due to lower newsprint prices partially offset by higher consumption. Delivery costs for the first quarter decreased by $0.7 million or 14.6%, primarily due to eliminating the Sunday Winnipeg Free Press home-delivered newspaper, reducing Winnipeg non-subscriber weekly flyer distribution by one day, and no longer incurring Thunder Bay costs due to the sale of that distribution business. Other expenses for the first quarter decreased by $0.1 million or 2.1%, primarily due to decreases in utility costs. There were no restructuring charges incurred during the first quarter compared to $0.6 million in the same period last year.

EBITDA[(1)] for the three months ended March 31, 2010 was $5.5 million compared to $3.2 million for the same period last year. EBITDA[(1)] for the first quarter excluding the restructuring charge was higher by $1.8 million or 46.5%, compared to the same period last year. EBITDA[(1)] margin excluding the restructuring charge for the first quarter was 21.0%, compared to 14.1% in the same period last year.

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

Interest expense for the first quarter decreased by $1.8 million compared to the same period last year, due primarily to the subordinated notes being settled at the end of the fourth quarter of 2009 and lower interest costs on the external debt.

The future income tax recovery for the quarter was lower than in the same period last year, as Canstar Community News Limited, a subsidiary, was wound-up into FPLP in the third quarter of 2009 and all tax losses were fully utilized during 2009.

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

FPLP's net earnings were $3.0 million for the quarter, compared to a net loss of $0.5 million for the same period last year. The increase in the first quarter is primarily due to the lower expenses due to savings from the restructuring initiatives as well as the lower interest expense as detailed above, partially offset by the increase in amortization of property, plant and equipment as also noted above.

Newspaper publishing is, to a certain extent, a seasonal business with a higher proportion of revenues and operating earnings occurring during the second and fourth quarters of the calendar year. Revenue, EBITDA[(1)] and net earnings of FPLP by quarter for 2010, 2009 and 2008 were as follows:

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

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

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

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

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

Working Capital Position of FPLP

Total working capital at March 31, 2010 was $2.3 million, compared to $7.2 million at March 31, 2009. Working capital decreased due to the requirement to classify $5.0 million of restricted cash held in a HSBC guarantee account as a non-current asset and the requirement to classify the $5.0 million 2010 amortizing portion of the HSBC term loan as a current liability. Normalizing for the classification of the restricted cash and the current portion of the term loan, working capital was $12.3 million at March 31, 2010, compared to $7.2 million at March 31, 2009, with the increase due to FPLP's earnings.

Liquidity and Capital Resources of FPLP

Cash and cash equivalents at March 31, 2010 was $6.2 million compared to $7.2 million at March 31, 2009. Cash and cash equivalents may be used to pay future distributions, to reduce debt, to fund future capital expenditures, or for other general purposes. Operating activities provided $5.7 million during the first quarter, while $5.0 million was used for investing activities (see HSBC restricted cash comments in "Investing Activities" below) and $3.7 million was used for financing activities. Cash flow from operations, together with cash balances on hand, are currently expected to be sufficient to fund FPLP's operating requirements, capital expenditures, required principal repayments under FPLP's new HSBC credit facility (see "Financing Activities" section) and anticipated distributions, assuming that advertising revenues do not materially deteriorate beyond management's current expectations.

Cash Flow from Operating Activities

During the three months ended March 31, 2010, cash generated from operating activities was $5.7 million, compared to $1.7 million for the same period last year. The net earnings for the three months ended March 31, 2010 were $3.0 million compared to a net loss of $0.5 million for the same period in the prior year. The main factors contributing to the change in net earnings are outlined in the FPLP section of this report.

Investing Activities

Capital purchases totalled $0.2 million for the three months ended March 31, 2010, compared to $0.1 million for the same period in the prior year. Maintenance capital spending during the first quarter of 2010 consisted of an upgrade of electronic control devices on the Winnipeg mailroom equipment and other smaller technology related upgrades.

Strategic capital spending is defined as investments not necessary for the current ongoing operation of the business, but justified based on a return on the investment which meets internal return on investment criteria. There were no strategic capital purchases in the first quarter of 2010 or 2009.

Capital spending for the remainder of 2010 is expected to be $2.8 million, of which $0.6 million is considered normal maintenance capital and $2.2 million is for two production equipment upgrades at our Winnipeg facility to improve efficiency and allow for the consolidation of the Brandon printing and will be financed by a capital lease.

During the quarter, FPLP received proceeds of $0.2 million for the sale of excess press equipment.

As part of the HSBC credit agreement, FPLP made a $5.0 million initial cash deposit into a separate HSBC guarantee account, classified as "restricted cash" on the balance sheet. This deposit is required to remain in this account until the term loan is repaid.

Financing Activities

Distributions to partners of FPLP for the first quarter totalled $2.6 million, of which $1.0 million was paid to the Fund as holder of Class A limited partner Units. This is compared to $2.3 million in the same period last year, of which $0.3 million were paid to the Fund as holder of Class A limited partner Units. The increased distribution to the Fund is a result of the settlement of the subordinated notes in the fourth quarter of 2009 resulting in the Fund receiving its share of FPLP's distributions entirely as a distribution on its Class A units. The distributions to partners were determined in accordance with the Amended and Restated Agreement of Limited Partnership dated May 3, 2005 (the "LP Agreement").

During the quarter, FPLP received the $60.0 million HSBC credit agreement proceeds, which were used to repay the $60.0 million Prudential Insurance Company of America's notes payable. Additionally, FPLP incurred $0.3 million in financing costs associated with the HSBC loan agreement, and has begun repaying the $5.0 million annual principal reductions of the term loan.

Contractual Obligations

Effective December 31, 2009, FPLP signed a credit agreement with HSBC to replace FPLP's $60.0 million term facility with Prudential, which was due on June 5, 2010. On January 8, 2010, the security documentation and funding was completed and the proceeds used to repay the Prudential notes payable in full. In January 2010, FPLP made an initial cash deposit of $5.0 million into a separate HSBC guarantee account with a second $5.0 million guarantee account deposit made by FP Funding Corporation ("FundingCo"), a company controlled indirectly by Ronald Stern and Robert Silver, who together indirectly control 51% of FPLP. FPLP and FundingCo have entered into a Credit Support Agreement and a Credit Support Fee Agreement outlining the terms of FundingCo's guarantee. Under the terms of the Credit Support Fee Agreement, FPLP is required to pay FundingCo a guarantee fee on the $5.0 million account deposit calculated at 3.0% per annum over the rate charged by HSBC for Facility A.

FPLP has entered into supplier agreements to upgrade certain equipment at the Winnipeg Free Press as part of the project to consolidate FPLP's production operations. The total required capital investment is projected to be $2.2 million, of which agreements for $1.7 million have been entered into and deposits of $0.4 million have been paid as of March 31, 2010 and are included in prepaid expenses on FPLP's balance sheet. FPLP is intending to enter into a capital lease agreement for the entire $2.2 million projected cost, once the equipment is operational later this year.

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

Reserve Related to Distributable Cash Attributable to the Fund(2)

Under the terms of the LP Agreement, the Managing General Partner is required to determine reserves which are necessary or desirable to withhold from any distributions to Partners, including among other things for capital expenditures and operating expenses. A summary of the reserve for maintenance capital for the three months ended March 31, 2010 and 2009 is as follows:

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	In thousands	
Reserve at beginning of period	$ 1,500	$ 1,480
Increase in reserve	-	-
Decrease in reserve	-	-
Reserve at end of period	$ 1,500	$ 1,480

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

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

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

Debt Covenants

The HSBC credit facility (see "Financing Activities" section) includes negative covenants which must be observed in order to avoid an accelerated termination of the agreement. These covenants include certain restrictions on paying distributions, the sale of assets, the purchase of investments and acquisitions, share capital, allowing encumbrances and certain issuances of loans or financial assistance. FPLP is restricted from making distributions which exceed distributable cash by more than $1 million annually, as defined in the credit agreement. FPLP is required to maintain a leverage ratio of no greater than 3.5 to 1.0, a fixed charge coverage ratio of no less than 2.0 to 1.0 and a current ratio of no less than 1.2 to 1.0, all as defined in the agreement and measured quarterly on a trailing 12-month basis. Financial amounts used in the calculations are specifically defined in the credit agreement, but are substantially equal to the corresponding terms used in the external financial reports filed by FPLP. The following financial ratios are calculated in accordance with the HSBC credit agreement as if it had been in place on the dates stated. The current ratio has been calculated assuming a current $5 million loan principal amortization.

Twelve Months Ended	Leverage ratio	Fixed Charge ratio	Current ratio (*)
March 31, 2010	1.9	6.5	2.3
December 31, 2009	2.3	7.3	1.7
September 30, 2009	2.9	5.9	1.4
June 30, 2009	2.7	6.5	1.4
March 31, 2009	2.6	6.9	1.2

(*) The current ratio was lower in the first quarter of 2009 largely due to the impact of the missed publishing days and associated lost revenue due to the October 2008 strike at the Winnipeg operation.

Related Party Transactions

FPLP purchases a portion of its newsprint from Alberta Newsprint Company ("ANC"), a related party as disclosed under the related party transaction section of FPLP's Annual Management's Discussion and Analysis at December 31, 2009. There have been no changes during 2010 to the process for selection of newsprint suppliers and the quarterly review by the Audit Committee of newsprint purchases. Total newsprint purchases from ANC for the three months ended March 31, 2010 were $0.8 million, compared to $2.5 million for the same period last year.

FPLP pays FundingCo a guarantee fee as FundingCo has made an initial $5.0 million deposit into a HSBC guarantee account, (as discussed in the "Financing Activities" section) held as collateral until the term loan is repaid. The guarantee fee in the first quarter was $0.1 million.

Internal Controls over Financial Reporting

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

Critical Accounting Estimates

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

Initial Adoption of New Accounting Pronouncements

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

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

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

Resources and Training – The Fund and FPLP have identified key finance staff and continue to evaluate training needs in order to develop a comprehensive training plan.

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

- Property, plant and equipment
- Impairment of assets
- Employee future benefits
- Presentation of financial statements

A detailed assessment of accounting differences by significant financial statement line items is currently underway and no decisions have yet been made with regard to accounting policy choices. The individual detailed assessments will cover the impact of IFRS implementation on our consolidated financial statements including an analysis of the differences between IFRS and our current accounting policies. During the second quarter, we anticipate completing a number of detailed assessments and concluding on accounting differences and accounting elections.

As first-time adopters of IFRS, the Fund and FPLP are required to apply IFRS 1 "First time adoption of International Financial Reporting Standards". A number of exemptions are available under the Standard which the Fund and FPLP are currently evaluating. We have not made any final conclusions on the available exemptions to date.

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

Internal controls over financial reporting and disclosure controls and processes – We continue to identify all internal procedures and systems that must be updated in order for us to comply with IFRS. The financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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

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

Historical Distributions Paid Analysis

FPLP:	Three Months ended March 31, 2010	Twelve months ended December 31, 2009	Twelve Months ended December 31, 2008
		In thousands	
Cash provided by operating activities	$ 5,733	$ 11,316	$ 11,933
Net earnings	3,018	7,117	7,957
Distributions paid during the period	2,613	9,477	11,820
Excess of cash provided by operating activities over cash distributions paid	$ 3,120	$ 1,839	$ 113
Excess (shortfall) of net earnings over cash distributions paid	$ 405	$ (2,360)	$ (3,863)

Cash distributions paid in two of the three periods exceeded net earnings. FPLP does not use net earnings as a basis for determining the level of distributions to Unitholders. Distributions are determined in accordance with the LP Agreement. Because amortization charged as an expense in calculating net earnings, in accordance with GAAP, exceeds capital expenditures charged as a reduction of distributable cash in all periods, this result is not unexpected.

Fund:	Three Months ended March 31, 2010	Twelve Months ended December 31, 2009	Twelve months ended December 31, 2008
		In thousands	
Cash provided by operating activities	$ 911	$ 8,259	$ 8,819
Net earnings	1,451	6,853	6,682
Distributions paid during the period	1,485	7,869	8,732
(Shortfall) excess of cash provided by operating activities over cash distributions paid	$ (574)	$ 390	$ 87
Shortfall of net earnings over cash distributions paid	$ (34)	$ (1,016)	$ (2,050)

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

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

Business Risks and Uncertainties

Revenue

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

Expenses

Newspaper publishing is both capital and labour-intensive, and as a result newspapers have relatively high fixed-cost structures. During periods of declining revenue, significant portions of costs may remain fixed, resulting in decreased earnings. Newsprint is a significant cost for FPLP, accounting for $2.2 million during the first quarter of 2010. Newsprint costs vary widely from time to time. If newsprint costs rise rapidly, there is no assurance that advertising and circulation revenues can be increased to offset the increased newsprint expense.

Outlook

The outlook for operations is described earlier in this document.

Non GAAP Measures

(1) EBITDA

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

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	In thousands	
Net earnings (loss) for the period	$ 3,018	$ (496)
Add (subtract):		
Amortization of property, plant and equipment	1,517	1,043
Amortization of intangible assets	90	90
Interest expense	792	2,595
Interest income	(31)	(23)
Loss (gain) on sale of property, plant and equipment	85	(4)
Loss on derecognition of Variable Interest Entity	58	-
Current income tax expense	-	1
Future income tax expense	-	(36)
EBITDA	$ 5,529	$ 3,170

(2) Distributable Cash Attributable to the Fund

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

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Distributable cash of FPLP:	In thousands	
EBITDA[1]	$ 5,529	$ 3,170
Interest income	31	23
Interest expense on notes payable, term loan and guarantee, excluding amortization of related deferred financing costs	(698)	(780)
Principal repayment of term loan	(833)	-
Maintenance capital expenditures	(193)	(86)
Proceeds from sale of property, plant and equipment	221	4
Current income and capital taxes expense	-	(1)
	$ 4,057	$ 2,330
49% attributable to the Fund	$ 1,988	$ 1,142
Administration expenses	(100)	(86)
Interest income	-	1
Distributable cash attributable to the Fund	$ 1,888	$ 1,057
Distributable cash attributable to the Fund – per Unit	$ 0.274	$ 0.153

A summary of distributable cash and distributions declared for the trailing twelve months to March 31, 2010 and for the period from commencement of the Fund on May 28, 2002 to March 31, 2010 is as follows:

Distributable Cash of FPLP:

	Last Twelve Months	Since May 28, 2002
	In thousands	
EBITDA(1)	$ 24,757	$ 190,637
Interest income	48	916
Interest expense on notes payable and capital leases, excluding amortization of related deferred financing costs	(3,038)	(24,468)
Principal repayment of term loan	(833)	(833)
Principal repayment of capital leases	-	(1,136)
Maintenance capital expenditures	(766)	(8,213)
Increase in reserve for future maintenance capital expenditures	(20)	(1,500)
Strategic capital expenditures	-	(1,331)
Increase in reserve for strategic capital, acquisitions, and/or debt reduction	-	(353)
Proceeds on disposal of property, plant and equipment	380	1,518
Current income and capital tax expense	(3)	(196)
Distributable cash of FPLP	$ 20,525	$ 155,041

Distributable Cash Attributable to the Fund:

	Last Twelve Months	Since May 28, 2002
	In thousands	
49% of FPLP distributable cash	$ 10,057	$ 75,970
Administration expenses	(284)	(2,150)
Interest income	2	52
Distributable cash attributable to the Fund	$ 9,775	$ 73,872
Distributable cash attributable to the Fund per Unit	$ 1.416	$ 10.702
Distributions declared by the Fund per Unit	$ 1.035	$ 9.683
Payout Ratio	73.1%	90.5%

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

	Three Months Ended March 31, 2010	2009
	In thousands	
Cash flow from operating activities of FPLP	$ 5,733	$ 1,736
Add (subtract):		
Interest on subordinated notes (*)	-	1,658
Net change in non-cash working capital items (**)	(929)	(982)
Maintenance capital expenditures	(193)	(86)
Principal repayment of term loan	(833)	-
Loss on derecognition of the Variable Interest Entity	58	
Proceeds from sale of property, plant and equipment (***)	221	4
Distributable cash of FPLP	$ 4,057	$ 2,330

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

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

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

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

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

	As at March 31, 2010	As at December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 242	$ 816
Prepaid expenses	17	14
	259	830
Investment in FPCN General Partner Inc.	49	49
Investment in FP Canadian Newspapers Limited Partnership (note 2)	58,832	58,342
	$ 59,140	$ 59,221
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 141	$ 116
Distribution payable (note 3)	414	656
	555	772
Long-Term Liabilities:		
Future income taxes	1,524	1,596
	2,079	2,368
Unitholders' Equity:		
Trust Units	69,026	69,026
Cumulative earnings	54,866	53,415
Cumulative distributions	(66,831)	(65,588)
	57,061	56,853
	$ 59,140	$ 59,221

(See accompanying notes)

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

	Three Months Ended March 31, 2010	2009
Earnings from investment in FP Canadian Newspapers Limited Partnership		
Interest from subordinated notes	$ -	$ 1,658
Equity interest from Class A limited partner Units (note 2)	1,479	(1,089)
Other interest	-	1
	1,479	570
Administration expenses	(100)	(86)
Net earnings before income taxes	$ 1,379	$ 484
Future income tax recovery	72	59
Net earnings and comprehensive income for the period	$ 1,451	$ 543
Cumulative earnings, beginning of period	53,415	46,562
Cumulative earnings, end of period	$ 54,866	$ 47,105
Number of trust Units outstanding	6,902,592	6,902,592
Net earnings per trust Unit	$ 0.210	$ 0.079

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

	Three Months Ended March 31, 2010	2009
Balance – beginning of period	$ 56,853	$ 57,869
Net earnings for the period	1,451	543
Distributions to Unitholders	(1,243)	(1,968)
Balance – end of period	$ 57,061	$ 56,444

(See accompanying notes)

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

	Three Months Ended March 31, 2010	2009
Cash provided by (used in):		
Operating activities:		
Net earnings for the period	$ 1,451	$ 543
Items not affecting cash:		
Equity interest from Class A Units of FP Canadian Newspapers Limited Partnership (note 2)	(1,479)	1,089
Future income tax recovery	(72)	(59)
Distributions received on Class A Units of FP Canadian Newspapers Limited Partnership (note 2)	989	300
Net change in non-cash working capital items	22	45
	911	1,918
Financing activities:		
Distributions to Unitholders	(1,485)	(1,968)
Increase in cash and cash equivalents	(574)	(50)
Cash and cash equivalents – beginning of period	816	435
Cash and cash equivalents – end of period	$ 242	$ 385

(See accompanying notes)

(unaudited, tabular amounts in thousands of dollars)

1. Basis of presentation

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

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

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

2. Investment in FP Canadian Newspapers Limited Partnership

On May 28, 2002, the Trust subscribed for 6,573,897 Class A limited partner Units of FPLP and $65,670,000 principal amount of subordinated notes of FPLP. On June 27, 2002, the Trust subscribed for a further 328,695 Class A limited partner Units of FPLP and $3,283,500 principal amount of subordinated notes of FPLP. On December 31, 2009, the subordinated notes were settled as a condition of the HSBC credit facility (see FPLP note 11). The Trust holds all of the Class A limited partner Units of FPLP, which entitles it to 49% of the distributable cash, as defined in the Partnership Agreement of FPLP.

The investment in FPLP is summarized as follows:

	Class A limited partner Units
Balance at December 31, 2009	$ 58,342
Equity interest in the period	1,479
Distributions received	(989)
Balance at March 31, 2010	$ 58,832

The change in equity interest for the three months ended March 31, 2010 and 2009 from the Fund's investment in Class A limited partner Units and subordinated notes of FPLP is calculated as follows:

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Net earnings (loss) of FPLP	$ 3,018	$ (496)
Plus: Interest on subordinated notes	-	1,658
Net earnings before interest on subordinated notes	$ 3,018	$ 1,162
49% interest attributable to the Fund	1,479	569
Less: Interest from subordinated notes	-	(1,658)
Equity interest from Class A limited partner Units	$ 1,479	$ (1,089)

3. Distribution payable

The Fund recorded a distribution payable at March 31, 2010 of $0.06 per Unit. The distribution was paid April 29, 2010 to Unitholders of record on March 31, 2010 and is in respect of the month of March 2010.

4. Financial Instruments

The fair value of current assets and liabilities including cash and cash equivalents, accounts payable and accrued liabilities, and distribution payable approximates their carrying value due to the short-term nature of these financial instruments. Cash and cash equivalents at March 31, 2010 are $242,000 (2009 – $385,000), and the Level 1 valuation technique is used to determine their fair value.

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

	As at March 31, 2010	As at December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 6,198	$ 9,178
Accounts receivable	10,479	12,991
Inventories	946	993
Prepaid expenses (note 12)	1,689	1,132
	19,312	24,294
Restricted cash (note 9)	5,000	-
Property, plant and equipment	42,130	43,750
Investment (note 4)	132	136
Intangible assets	7,291	7,381
Goodwill	71,160	71,160
Accrued pension benefit asset	425	226
	$ 145,450	$ 146,947
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 8,788	$ 9,720
Income taxes payable	-	8
Prepaid subscriptions and deferred revenue	3,207	3,131
Notes payable (note 11)	-	5,000
Term loan (note 11)	5,000	-
	16,995	17,859
Long-Term Liabilities:		
Notes payable (note 11)	-	54,930
Term loan (note 11)	53,896	-
	70,891	72,789
Unitholders' Equity:		
Partner Units	98,280	98,280
Cumulative earnings	71,209	68,191
Cumulative distributions	(94,723)	(92,110)
Accumulated other comprehensive loss (note 4)	(207)	(203)
	74,559	74,158
	$ 145,450	$ 146,947

(See accompanying notes)

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

	Three Months Ended March 31, 2010	2009
Revenue	$ 26,370	$ 26,838
Operating expenses, excluding amortization and restructuring charge	(20,841)	(23,065)
Restructuring charge	-	(603)
	5,529	3,170
Amortization of property, plant and equipment	(1,517)	(1,043)
Amortization of intangible assets	(90)	(90)
Earnings before the under-noted	3,922	2,037
Interest expense (note 6)	(792)	(2,595)
Interest income	31	23
(Loss) gain on sale of property, plant and equipment	(85)	4
Loss on derecognition of the Variable Interest Entity (note 1)	(58)	-
Earnings (loss) before income taxes	3,018	(531)
Income tax recovery (expense):		
- Current	-	(1)
- Future	-	36
Net earnings (loss) for the period	3,018	(496)
Cumulative earnings – beginning of period	68,191	61,074
Cumulative earnings – end of period	$ 71,209	$ 60,578

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

	Three Months Ended March 31, 2010	2009
Net earnings (loss) for the period	$ 3,018	$ (496)
Other comprehensive loss		
Unrealized loss on investment, net of tax (note 4)	(4)	(83)
Comprehensive income (loss) for the period	$ 3,014	$ (579)

(See accompanying notes)

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

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

(See accompanying notes)

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

	Three Months Ended March 31, 2010	2009
Cash provided by (used in)		
Operating activities:		
Net earnings (loss) for the period	$ 3,018	$ (496)
Items not affecting cash:		
Amortization of property, plant and equipment and intangible assets	1,607	1,133
Accretion of notes payable/term loan related to financing costs (note 6)	94	157
Future income tax recovery	-	(36)
Loss (gain) on disposal of property, plant and equipment	85	(4)
	4,804	754
Net change in non-cash working capital items	929	982
	5,733	1,736
Investing activities:		
Purchases of property, plant and equipment	(193)	(86)
Proceeds from sale of property, plant and equipment	221	4
Increase in restricted cash (note 9)	(5,000)	-
	(4,972)	(82)
Financing activities:		
Distributions to partners	(2,613)	(2,335)
Repayment of notes payable (note 11)	(60,000)	-
Proceeds from term loan (note 11)	60,000	-
Term loan refinancing costs	(295)	-
Principal repayment of term loan	(833)	-
	(3,741)	(2,335)
Decrease in cash and cash equivalents	(2,980)	(681)
Cash and cash equivalents - beginning of period	9,178	7,835
Cash and cash equivalents - end of period	$ 6,198	$ 7,154
Supplemental Cash Flow Information:		
Interest paid during the period	$ 922	$ 2,436
Taxes paid during the period	$ 5	$ 8

(See accompanying notes)

1. Basis of presentation

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

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

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

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

2. Summary of significant accounting policies

Financial Instruments

FPLP has made the following classifications:

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

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

3. Allocation of net earnings

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

4. Investment

The Trust Fund holds Units of FP Newspapers Income Fund ("the Fund"), which have been classified as "available for sale" and therefore are measured at fair value, as determined by the published price quote. Gains and losses resulting from the periodic revaluation are recorded in other comprehensive income. During the quarter, 124 Units were distributed to participants leaving a balance of 26,360 Units with a carrying value of $132,000 as at March 31, 2010 (26,484 Units with a carrying value of $136,000 as at December 31, 2009). The accumulated other comprehensive loss related to this revaluation adjustment is $207,000 as at March 31, 2010 ($203,000 - December 31, 2009).

5. Employee future benefit plans

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

	Three Months Ended March 31, 2010	2009
Defined benefit pension plan	$ 260	$ 321

6. Interest expense

Interest expense is summarized as follows:

	Three Months Ended March 31, 2010	2009
Subordinated notes	$ -	$ 1,658
Accretion of subordinated notes related to financing costs	-	117
Notes payable	173	780
Accretion of notes payable related to financing costs	70	40
Term loan	449	-
Accretion of term loan related to financing costs	24	-
Guarantee fee (note 10)	76	-
	$ 792	$ 2,595

7. Capital management

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

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

	As at March 31, 2010	As at December 31, 2009
Notes payable	$ -	$ 59,930
Term loan	58,896	-
Cash and cash equivalents	(6,198)	(9,178)
Restricted cash	(5,000)	-
External net debt	47,698	50,752
Unitholders' equity	74,559	74,158
Total capitalization	$ 122,257	$ 124,910
External net debt as a percentage of total capitalization	39.0%	40.6%

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

Twelve Months Ended	Leverage ratio	Fixed Charge ratio	Current ratio
March 31, 2010	1.9	6.5	2.3

8. Financial instrument risk management

Credit Risk

As FPLP is in the business of publishing newspapers and performing printing services for third parties, included in accounts receivable are primarily amounts owed from advertisers and advertising agencies, circulation customers and commercial print clients. FPLP does not hold collateral as security for these balances. FPLP's credit risk relating to these accounts receivable is spread over a large number of national and local advertising clients and advertising agencies, in addition to many circulation retail customers and third-party printing clients. FPLP manages credit risk on a customer by customer basis and establishes a reasonable allowance for non-collectible amounts with this allowance netted against the accounts receivable on the balance sheet. The adequacy of the allowance is reviewed on a regular basis, and is estimated based on past experience, specific risks associated with the customers and other relevant information. The ten largest receivable amounts total $3,254,000 as at March 31, 2010 ($4,607,000 - December 31, 2009) and approximately 76% of these balances are owed from national advertising agencies. The largest amount due from a single national agency is $644,000 as at March 31, 2010 ($791,000 - December 31, 2009) which represents approximately 6% of total receivables.

At March 31, 2010, FPLP estimates the value of impaired accounts receivable is $40,000 and these amounts are included as part of the allowance for doubtful accounts.

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

	As at March 31, 2010	As at December 31, 2009
Accounts receivable:		
Current	$ 6,569	$ 7,485
Up to three months past due	4,016	5,660
Greater than three months past due	272	155
Impaired	40	55
	10,897	13,355
Allowance for doubtful accounts	(418)	(364)
	$ 10,479	$ 12,991

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

	As at March 31, 2010	As at December 31, 2009
Allowance for doubtful accounts:		
Balance, beginning of period	$ (364)	$ (439)
Bad debt expense, net of recovery	(71)	(267)
Written-off	17	342
Balance, end of period	$ (418)	$ (364)

Liquidity Risk

The following are the contractual maturities of the financial liabilities:

		Payments due for the years ending March 31		
	Total	1 – 3 years	4 – 5 years	After 5 years
Accounts payable and accrued liabilities	$ 8,788	$ 8,788	$ -	$ -
Long-term debt principal	59,167	15,000	44,167	-
Total	$ 67,955	$ 23,788	$ 44,167	$ -

Fair Value Hierarchy

Financial asset or liability	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 6,198	$ -	$ -	$ 6,198
Restricted cash	5,000			5,000
Investment	132	-	-	132
	$ 11,330	$ -	$ -	$ 11,330

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates under the HSBC credit facility. FPLP will be exposed to fluctuations in interest rates as the amounts borrowed under the credit agreement (see note 11) are in the form of bankers' acceptances at varying interest rates. FPLP is able to manage the risk through the use of an interest rate swap facility which would fix the interest rate on all or a portion of the credit facility.

An assumed 1% increase in FPLP's short-term borrowing rates during the quarter would have decreased net income by $0.2 million, with an equal but opposite effect for an assumed 1% decrease in short-term borrowing rates.

9. Restricted cash

During the quarter, FPLP made an initial cash deposit of $5.0 million into a separate HSBC guarantee account as it is pledged as a guarantee to HSBC based on the credit agreement. These restricted funds will remain in this HSBC account until the term loan is repaid and are presented as "Restricted Cash" on the balance sheet.

10. Related party transaction

During the quarter, FPLP incurred a guarantee fee of $76,000 to FundingCo (see note 11). At March 31, 2010, the outstanding payable of $28,000 was included in accounts payable and accrued liabilities.

11. Refinancing

Effective December 31, 2009, FPLP signed a credit agreement with HSBC to replace FPLP's $60.0 million term facility with Prudential, which was due on June 5, 2010. On January 8, 2010, the security documentation and funding was completed and the proceeds used to repay the Prudential notes payable in full. The HSBC credit agreement consists of two loan facilities, each with a three-year term expiring on January 31, 2013: Facility A in the amount of $50.0 million and Facility B in the amount of $10.0 million. Amounts borrowed under both facilities will primarily be in the form of bankers' acceptances at varying interest rates and would mature over periods of 30 to 180 days. The interest rate spread above the bankers' acceptance rate varies based on the leverage ratio, as defined in the agreement, and was 3.25% and 0.375% on Facilities A and B respectively at March 31, 2010. An interest rate swap facility is also available under the credit agreement. Facility A includes principal repayments of $5.0 million annually (payable monthly) over each of the three years of the agreement. Both facilities are secured by a charge over all the assets of FPLP as well as a cash deposit of $10.0 million. In January 2010, FPLP made an initial cash deposit of $5.0 million into a separate HSBC guarantee account (see note 9) with a second $5 million guarantee account deposit made by FundingCo, a company controlled indirectly by Ronald Stern and Robert Silver who together indirectly control 51% of FPLP. FPLP and FundingCo have entered into a Credit Support Agreement and a

Credit Support Fee Agreement outlining the terms of FundingCo's guarantee. Under the terms of the Credit Support Fee Agreement, FPLP is required to pay FundingCo a guarantee fee on the $5.0 million account deposit calculated at 3.0% per annum over the rate charged by HSBC for Facility A.

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 $1.0 million in any fiscal year as well as a covenant not to amend the share capital or permit changes to the beneficial ownership of FPGP. The financial covenants included in the agreement are detailed in note 7.

12. Commitments and contingencies

FPLP has entered into supplier agreements to upgrade certain equipment at the Winnipeg Free Press as part of the project to consolidate FPLP's production operations. The total required capital investment is projected to be $2.2 million, of which agreements for $1.7 million have been entered into and deposits of $0.4 million have been paid as of March 31, 2010 and are included in prepaid expenses on FPLP's balance sheet. FPLP is intending to enter into a capital lease agreement for the entire $2.2 million projected cost, once the equipment is operational later this year.

Caution Regarding Forward-looking Statements:

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

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

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

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

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

Transfer Agent:

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