NEWSPAPERS fp INCOME FUND

Q3 – 2010
Quarterly Report
September 30, 2010

TSX: FP.UN

Third Quarter Report
September 30, 2010
Report to Unitholders

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 September 30, 2010. FP Newspapers Income Fund owns securities entitling it to 49 percent of the distributable cash of FP Canadian Newspapers Limited Partnership ("FPLP"), which owns the Winnipeg Free Press and Brandon Sun daily newspapers, and Canstar Community News ("Canstar") which operates six weekly newspapers, a weekly entertainment newspaper and a twice-monthly newspaper aimed at age 50-plus readers.

Total revenue for FPLP for the three months ended September 30, 2010 was $26.5 million, a $0.1 million or 0.3 percent decrease from the same period last year. Total EBITDA(1) of FPLP for the quarter was $5.4 million, a $0.7 million or 14.9 percent increase from the same quarter last year. EBITDA(1) in the third quarter, excluding the 2009 restructuring charges of $0.3 million, increased by $0.4 million or 7.5 percent. FPLP had net earnings of $3.2 million in the quarter compared to $1.1 million in the same quarter last year. The increase in net earnings is primarily due to the reduction of interest expense associated with the settlement of the subordinated notes in the fourth quarter of 2009 and the increase in EBITDA(1).

The Fund had net earnings of $1.5 million, or $0.219 per Unit, during the three months ended September 30, 2010, compared to net earnings of $1.3 million, or $0.188 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.

Operations

Advertising revenues for the three months ended September 30, 2010 were $17.5 million, a $0.2 million or 1.2 percent increase compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was $10.9 million, an increase of $0.9 million or 9.4 percent from the same period in the prior year, primarily due to increased spending in the local and national automotive categories, as well as the retail department store category. Classified advertising revenues for the third quarter decreased by $0.5 million or 15.5 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 third quarter decreased by $0.1 million or 3.9 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, partially offset by increased volumes in the Winnipeg Free Press and Brandon Sun operations. Circulation revenues for the third quarter decreased by $0.4 million or 5.0 percent due primarily to lower paid-subscription and single copy volumes.

Operating expenses excluding amortization for the third quarter were $21.1 million, a $0.8 million or 3.6 percent decrease from $21.9 million in the same quarter last year. Operating expenses for the third quarter, excluding amortization and the restructuring charge, decreased by $0.5 million or 2.1 percent from the same quarter last year. Employee compensation costs, excluding the restructuring charge, for the third quarter increased by $0.1 million or 0.8 percent, due to the 2 percent wage increases included in the collective bargaining agreements and an increase in unanticipated short-term sick leave partially offset by lower part-time hours. Newsprint expense for FPLP's own publications for the third quarter increased by $0.1 million or 2.8 percent, primarily due to higher newsprint prices. Delivery costs for the third quarter decreased by $0.6 million or 12.3 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.

During the third quarter, management of the Brandon Sun and Winnipeg Free Press completed the planning for the consolidation of printing at our Winnipeg facility. The first edition of the Brandon Sun printed in Winnipeg was published on Friday, October 1. While a significant portion of our commercial printing revenue has been lost with the non-renewal of the Globe and Mail printing contract, the bottom line will not be significantly impacted largely through this consolidation which resulted in the loss of 43 employees in October. The restructuring charge of $0.8 million relating to these employees was recorded in the fourth quarter last year when the restructuring plan was formally approved. Winnipeg production employees completed the installation of new computer-to-plate technology for producing printing plates. In addition, the Winnipeg maintenance staff assisted with the installation of new mailroom equipment to increase the capacity to pre-insert advertising flyers. Capital lease financing has been arranged for both investments and it is expected the lease will be finalized during the fourth quarter.

Five Winnipeg Free Press journalists were honoured for their rural journalism, receiving six awards from the Canadian Farm Writers Federation ("CFWF"). Free Press columnist Laura Rance picked up two bronze medals, one in the print column category and another in the print feature category. In daily print reporting, Free Press rural reporter Bill Redekop won a silver award and city hall reporter Bartley Kives won the bronze. Veteran Free Press photographer Ken Gigliotti picked up a silver award for feature photograph and fellow photographer Phil Hossack landed a silver for best news photograph. The winners were chosen by a panel of judges from across Canada and the United States. The awards were announced at the CFWF's annual conference and banquet in Moose Jaw, Saskatchewan.

The annual Raise-A-Reader fundraiser for family literacy programs in September raised $46,500, $12,000 of which was raised by the almost 300 volunteers, including employees of the Winnipeg Free Press and Canstar Community News who hit the streets in support of the campaigns on Raise-A-Reader day.

The Audit Bureau of Circulations ("ABC") recently released circulation results for the six-month period ending September 30, 2010, compared to the same six-month period in 2009. The Winnipeg Free Press reported a decline in paid circulation of 2.1 percent for average Monday through Friday circulation and a 3.3 percent decline on Saturdays. The Winnipeg Free Press's results are in line with those of many other Canadian metro newspapers, and better than some. The Winnipeg Sun does not participate in ABC circulation reporting, but according to the most recent Canadian Circulation Audit Board report, at December 31, 2009, the Sun's paid circulation had declined by 16 percent on average Mondays through Fridays and by 21 percent on Sundays, its largest circulation day of the week, compared to the prior year. The Brandon Sun's ABC-reported paid circulation for the six months ending September 30, 2010 showed a Monday through Friday decline of 4.3 percent and a Saturday decline of 7.8 percent versus the same six month period last year.

FPLP has made an offer to the City of Brandon to purchase a city-owned building for the operation of the Brandon Sun. The transaction has been approved by city council, but is subject to a 60-day mutual due diligence period which can be extended with the approval of both parties. FPLP would purchase the land and building for a cash payment of $1.9 million, in addition to transferring the ownership of the Sun's current land and building to the City of Brandon. If both parties decide to proceed with the transfer, after completing the required due diligence, the earliest the transaction would close would be on January 4, 2011.

Uptown Magazine, one of eight Canstar Community News titles, launched a brand new version of its website, uptownmag.com, on September 9, 2010. The new site has shown immediate growth, as during its first eight weeks, page views were up 29 percent and time spent on-site per visitor was up 58 percent. In an effort to foster continued growth, Uptown is now presenting significant web-only content on a weekly basis, and promoting this content both through the paper and via social media networking sites and services such as Facebook and Twitter.

Distributions

Distributable cash attributable to the Fund(2) for the three months ended September 30, 2010 was $1.6 million or $0.235 per Unit, compared to $1.8 million or $0.259 per Unit last year. For the trailing twelve months ended September 30, 2010, FPLP has generated distributable cash attributable to the Fund(2) of $1.322 per Unit, and the Fund has declared distributions of $0.825 per Unit, resulting in a payout ratio of 62.4 percent.

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

Outlook

During the third quarter we experienced the first year-over-year growth in advertising revenue since the third quarter of 2008. Strong growth in display advertising including colour, our largest revenue category, more than offset continued revenue declines in the classified revenue category. Early into the fourth quarter, historically our busiest advertising revenue quarter, we are experiencing largely similar trends. The price of newsprint increased in both the second and third quarters. If there are no further price increases this year, we expect to see newsprint prices for the fourth quarter at a roughly 10.5 percent higher level than the same quarter in 2009. Lower delivery costs will continue into the fourth quarter but not at the same percentage levels as in previous quarters, because we implemented many of our cost-reduction initiatives prior to the end of the fourth quarter last year.

During the fourth quarter, work will be carried out to complete the conversion of the Fund to a corporation, which is planned to be effective on December 31, 2010. The directors of FP Newspapers Inc., the newly formed company that has been formed to hold directly the interest in FPLP that is currently held by the Fund, continue to review and consider the post-conversion monthly dividend levels. It is anticipated that a news release concerning future dividends will be made during the fourth quarter.

Ronald N. Stern
Chairman & Trustee
November 9, 2010

Management's Discussion and Analysis

Overview

Management's discussion and analysis, prepared as at November 9, 2010, provides a review of significant developments that have affected the Fund's performance in the three months ended September 30, 2010. This review is based on financial information contained in the unaudited consolidated interim financial statements and accompanying notes for the three and nine months ended September 30, 2010.

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

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

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

Formation and Legal Entities

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

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

FP Newspapers Income Fund

The Fund is dependent on the operations of FPLP, its sole investment. The Fund's net earnings were $1.5 million and $5.0 million for the three and nine months ended September 30, 2010, compared to net earnings of $1.3 million and $4.0 million for the same periods last year. The increase in net earnings for the three months ended September 30, 2010 is primarily due to the increase in the net earnings of FPLP, as discussed in the FPLP section. The increase in net earnings for the nine months ended September 30, 2010 is primarily due to the increased net earnings of FPLP, partially offset by the $0.2 million of costs associated with the agreement to convert the trust structure to a corporate structure, as approved by the Unitholders at the May 5, 2010 annual general meeting. There was no interest income earned from subordinated notes during the nine months ended September 30, 2010 as the 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 and $5.4 million for the three and nine months ended September 30, 2010, compared to ($0.3) million and ($0.9) million in the same periods last year, due primarily to the settling of the subordinated notes, which eliminated the portion of the Fund's return received in the form of interest income and increased its equity interest return, combined with higher earnings of FPLP.

The Fund declared distributions to Unitholders of $1.2 million or $0.180 per Unit and $3.7 million or $0.540 per Unit for the three and nine months ended September 30, 2010, compared to $2.0 million or $0.285 per Unit and $5.9 million or $0.855 per Unit in the same periods last year. Cash provided by operating activities of the Fund was $1.1 million and $3.2 million for the three and nine months ended September 30, 2010, compared to $1.9 million and $5.8 million for the same periods last year. The reduction in cash provided by operating activities is a result of a decrease in the overall cash paid by FPLP to the Fund, which prior to January 1, 2010, was a combination of interest payments on the subordinated notes and distributions on Class A units. As a result of the settlement of the subordinated notes on December 31, 2009, for 2010 and going forward, the Fund receives its entire 49% share of FPLP cash payments in the form of distributions on its Class A units.

Working Capital Position of the Fund

Total working capital at September 30, 2010 was ($0.5) million, compared to $0.1 million at September 30, 2009. Working capital has decreased as the Fund no longer carries an interest receivable from FPLP due to the settlement of the subordinated notes on December 31, 2009. Pursuant to the limited partnership agreement that governs FPLP (the "LP Agreement"), FPLP issues its monthly distribution in the month following the distribution period, accordingly, the Fund does not record FPLP's September distribution as a receivable at September 30, 2010. In October 2010, FPLP paid the Fund $0.4 million for the September distribution, and the Fund used that payment to pay the $0.4 million distribution that the Fund declared on September 20, 2010 and recorded as a liability on the Fund's balance sheet at September 30, 2010.

Prior Period Restatement

On June 12, 2007, Bill C-52 Budget Implementation Act 2007 was substantively enacted, which contained legislation to tax publicly traded income trusts in Canada. The new tax does not apply until 2011. However, the Fund was required to recognize the taxable temporary differences that were expected to reverse after 2010. Based on its assets and liabilities on December 31, 2008 and its share of the assets and liabilities of its investment in FPLP, the Fund had estimated temporary differences of $1.9 million. The Fund had initially determined, in error, that a valuation allowance was required on certain cumulative eligible capital balances. Upon further analysis, the Fund has determined that such deductible temporary differences will be realized through the future reversal of taxable temporary differences. As a result, the January 1, 2009 opening Cumulative Earnings has been increased by $0.7 million with a corresponding decrease in future income tax liabilities. The Fund has restated the Consolidated Balance Sheets as at December 31, 2009, Cumulative Earnings, and the Consolidated Statements of Unitholders' Equity for all periods presented. The restatement did not impact net earnings, comprehensive income, or net earnings per trust Unit for the three and nine months ended September 30, 2010 and 2009.

Distributable Cash Attributable to the Fund[2]

Cash available for distribution attributable to the Fund[2] was $1.6 million or $0.235 per Unit and $5.8 million or $0.839 per Unit for the three and nine months ended September 30, 2010, compared to $1.8 million or $0.259 per Unit and $5.6 million or $0.813 per Unit for the same periods last year. The decrease in cash available for distribution attributable to the Fund[2] for the three months ended September 30, 2010 is primarily due to the principal repayments required under the HSBC term loan as well as costs incurred in connection with the agreement to convert the trust structure to a corporate structure, partially offset by the increase in EBITDA[1] of FPLP, as discussed in the FPLP section of this report. The increase in cash available for distribution attributable to the Fund[2] for the nine months ended September 30, 2010 is primarily due to the increase in EBITDA[1] of FPLP, partially offset by the principal repayments required under the HSBC term loan as well as incurring costs in connection with the agreement to convert the trust structure to a corporate structure.

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 September 30, 2010, cumulative distributable cash attributable to the Fund[2] totals $11.268 per Unit. During that period the Fund declared distributions to Unitholders of $10.043 per Unit, resulting in a cumulative from inception payout ratio of 89.1%. 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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	In thousands		In thousands	
Advertising	$ 17,548	$ 17,341	$ 54,885	$ 55,370
Circulation	7,133	7,507	21,476	22,095
Commercial Printing	1,066	1,013	3,454	3,414
Promotions and Services	723	693	1,971	2,204
	$ 26,470	$ 26,554	$ 81,786	$ 83,083

Revenue in the third quarter was $26.5 million, a decrease of $0.1 million or 0.3% from the same three months in the prior year. Advertising revenues for the three months ended September 30, 2010 were $17.5 million, a $0.2 million or 1.2% increase compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was $10.9 million, an increase of $0.9 million or 9.4% from the same period in the prior year, primarily due to increased spending in the local and national automotive categories, as well as the retail department store category. Classified advertising revenues for the third quarter decreased by $0.5 million or 15.5% compared to the same period last year, primarily due to a decrease in the employment and real estate categories. Flyer distribution revenues for the third quarter decreased by $0.1 million or 3.9% compared to the same period last year, primarily due to decreased volumes due to the sale of the Thunder Bay distribution operation, partially offset by increased volumes in the Winnipeg Free Press and Brandon Sun operations. Circulation revenues for the third quarter decreased by $0.4 million or 5.0% due primarily to lower paid-subscription and single copy volumes.

Revenue in the nine months ended September 30, 2010 was $81.8 million, a decrease of $1.3 million or 1.6% from the same period in the prior year. Advertising revenues for the nine months were $54.9 million, a $0.5 million or 0.9% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, for the nine months was $34.8 million, an increase of $1.9 million or 5.8% from the same period in the prior year, primarily due to increased spending in the local and national automotive categories, as well as the retail department store category. Classified advertising revenues for the nine months decreased by $1.7 million or 14.9% compared to the same period last year, primarily due to a decrease in the employment and real estate categories. Flyer distribution revenues for the nine months decreased by $0.7 million or 6.4% 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 nine months decreased by $0.6 million or 2.8%, primarily due to lower paid-subscription and single copy volumes, partially offset by improved subscription rates in the first quarter due to the rate increase implemented during March 2009. Promotions and services revenues for the nine months decreased by $0.2 million or 10.6% when compared to the same period last year, primarily due to our decision not to host the Career Expo trade show as in the prior year, as well as lower sales of the "Greatest Manitoban" book and lower internet revenues.

Operating expenses, excluding amortization:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	In thousands		In thousands	
Employee Compensation, excluding Restructuring Charge	$ 10,387	$ 10,302	$ 31,363	$ 31,646
Newsprint - Own Use	2,163	2,104	6,303	7,690
Newsprint - Commercial Printing	221	200	711	766
Delivery of Newspapers	4,106	4,683	12,352	14,334
Other	4,237	4,284	13,104	13,122
	$ 21,114	$ 21,573	$ 63,833	$ 67,558
Restructuring Charge	-	321	-	1,114
	$ 21,114	$ 21,894	$ 63,833	$ 68,672

Operating expenses excluding amortization for the third quarter were $21.1 million, a $0.8 million or 3.6% decrease from $21.9 million in the same quarter last year. Operating expenses for the three months ended September 30, 2010, excluding amortization and excluding the 2009 restructuring charge, decreased by $0.5 million or 2.1% from the same quarter last year. Employee compensation costs, excluding the restructuring charge, for the third quarter increased by $0.1 million or 0.8%, due to the 2% wage increases included in the collective bargaining agreements and an increase in unanticipated short-term sick leave, partially offset by lower part-time hours. Newsprint expense for FPLP's own publications for the third quarter increased by $0.1 million or 2.8%, primarily due to higher newsprint prices. Delivery costs for the third quarter decreased by $0.6 million or 12.3%, 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 third quarter remained virtually unchanged when compared to the same period in the prior year, because increases in consulting costs were primarily offset by lower Winnipeg Free Press building maintenance costs.

Operating expenses excluding amortization for the nine months ended September 30, 2010 were $63.8 million, a $4.8 million or 7.0% decrease from $68.7 million in the same period last year. Operating expenses for the nine months, excluding amortization and excluding the 2009 restructuring charge, decreased by $3.7 million or 5.5% from the same period last year. Employee compensation costs, excluding the restructuring charge, for the nine months decreased by $0.3 million or 0.9%, due to savings from staff reductions and lower part-time hours, partially offset by the 2% wage increases included in the collective bargaining agreements and an increase in unanticipated short-term sick leave. Newsprint expense for FPLP's own publications for the nine months decreased by $1.4 million or 18.0%, with approximately $1.2 million due to lower newsprint prices and $0.2 million due to lower consumption. Newsprint expense for commercial printing for the nine months decreased $0.1 million or 7.2% when compared to the same period in the prior year, primarily due to lower newsprint prices, partially offset by higher consumption. Delivery costs for the nine months decreased by $2.0 million or 13.8%, 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.

EBITDA(1) for the three and nine months ended September 30, 2010 were $5.4 million and $18.0 million compared to $4.7 million and $14.4 million for the same periods last year. EBITDA(1) for the three and nine months excluding the restructuring charge were higher by $0.4 million or 7.5% and $2.4 million or 15.6%, compared to the same periods last year. EBITDA(1) margin excluding the restructuring charge for the three and nine months were 20.2% and 22.0%, compared to 18.8% and 18.7% in the same periods last year.

Amortization of property, plant and equipment increased by $0.5 million and $1.5 million compared to the three and nine months last year, primarily due to the requirement to accelerate amortization of the Brandon production equipment as a result of the decision to consolidate printing at the Winnipeg plant in the fourth quarter of 2010.

Interest expense for the three and nine months decreased by $2.0 million and $5.9 million compared to the same periods last year, due primarily to the subordinated notes being settled at the end of the fourth quarter of 2009 and lower interest costs on the external debt.

During the first quarter, the Prudential notes 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 the applicable accounting guideline and is therefore no longer consolidated into FPLP's financial statements. During the first quarter, FPLP recorded a loss of $0.1 million on its income statement as a result of this change.

FPLP's net earnings were $3.2 million and $11.0 million for the three and nine months, compared to $1.1 million and $3.5 million for the same periods last year. The increase in the three and nine month periods is primarily due to lower expenses due to savings from the restructuring initiatives as well as the lower interest expense, partially offset by the increase in amortization of property, plant and equipment, as detailed above.

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

	2010	2009	2008
		In thousands	
Revenue			
Quarter 1	$ 26,370	$ 26,838 (**)	$ 29,998
Quarter 2	28,946	29,691 (**)	32,409
Quarter 3	26,470	26,554 (**)	30,975
Quarter 4		30,780 (***)	27,730 (*)
		$ 113,863	$ 121,112
EBITDA(1)			
Quarter 1	$ 5,529	$ 3,170 (**)	$ 6,025
Quarter 2	7,068	6,581 (**)	7,468
Quarter 3	5,356	4,660 (**)	6,212
Quarter 4		7,987 (***)	3,276 (*)
		$ 22,398	$ 22,981
Net earnings (loss)			
Quarter 1	$ 3,018	$ (496) (**)	$ 2,338
Quarter 2	4,878	2,838 (**)	3,653
Quarter 3	3,152	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 during the strike at the Winnipeg operation and lower advertising revenues resulting 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 to result 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 September 30, 2010 was $5.4 million, compared to ($51.1) million at September 30, 2009. Working capital increased primarily due to the requirements at September 30, 2009 to classify the $60.0 million Prudential notes payable as a current liability once the notes had a due date within one year of the balance sheet date, and to classify the $5.0 million of restricted cash held in a HSBC guarantee account as a non-current asset. Normalizing for these classifications, working capital was $10.4 million at September 30, 2010, compared to $8.8 million at September 30, 2009, with increases due to FPLP's earnings partially offset by $3.3 million of HSBC term loan amortization payments and higher distributions paid due to the settlement of the subordinated notes at the end of last year, which resulted in the Fund in 2010 receiving its entire FPLP return in the form of distributions versus a combination of interest and distributions last year.

Liquidity and Capital Resources of FPLP

Cash and cash equivalents at September 30, 2010 was $8.7 million compared to $7.9 million at September 30, 2009. Cash and cash equivalents may be used to pay future distributions, to reduce debt, to fund future capital expenditures, or for other general purposes. Operating activities provided $4.3 million during the third quarter, while $0.1 million was used for investing activities and $4.0 million was used for financing activities. Cash flow from operations, together with cash balances on hand, are currently expected to be sufficient to fund FPLP's operating requirements, capital expenditures, required principal repayments under FPLP's new HSBC credit facility (see "Financing Activities" section) and anticipated distributions, assuming that advertising revenues do not materially deteriorate beyond management's current expectations.

Cash Flow from Operating Activities

During the three and nine months ended September 30, 2010, cash generated from operating activities was $4.3 million and $16.3 million, compared to $3.3 million and $7.4 million for the same periods last year. The net earnings for the three and nine months ended September 30, 2010 were $3.2 million and $11.0 million compared to $1.1 million and $3.5 million for the same periods in the prior year. The main factors contributing to the change in net earnings are outlined in the FPLP section of this report. The change in the amortization of property, plant and equipment and intangibles in the three and nine months ended September 30, 2010 was an increase of $0.5 million and $1.5 million from the same periods last year and as a result of the accelerated amortization of the Brandon production equipment. The net change in non-cash working capital in the three and nine months ended September 30, 2010 was a decrease of $0.5 million and an increase of $0.2 million compared to increases of $1.1 million and $0.3 million for the same periods last year. The net change in non-cash working capital for the three and nine month periods are primarily the result of the timing of receipts from customers and payments to suppliers. Specifically, deposits to suppliers of $1.7 million for two production equipment upgrades have been included in prepaid expenses (see "Investing Activities" section).

Investing Activities

Capital purchases totalled $0.1 million and $0.4 million for the three and nine months ended September 30, 2010, compared to $0.2 million and $0.4 million for the same periods in the prior year. Maintenance capital spending during the third quarter of 2010 consisted of software development upgrades to the advertising system and equipment for the Winnipeg Free Press's circulation depots.

Normal maintenance capital spending for the remainder of 2010 is expected to be approximately $0.4 million. In addition, during the fourth quarter we will be completing the lease agreements for the Winnipeg production equipment upgrades. This investment in pre-press and mailroom equipment is approximately $2.2 million, of which $1.7 million has been internally funded to date and is included in prepaid expenses on FPLP's balance sheet at September 30, 2010. When the lease agreements are finalized, FPLP will be reimbursed for the entire amount of these capital investments and will repay the lease financing over a 60-month period.

Financing Activities

Distributions to partners of FPLP for the three and nine months totalled $2.7 million and $8.0 million, of which $1.3 million and $3.6 million were paid to the Fund as holder of Class A limited partner Units. This is compared to $2.4 million and $7.1 million in the same period last year, of which $0.3 million and $0.9 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, as a result of which the Fund now receives 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 LP Agreement.

The principal repayments of the HSBC term loan for the three and nine months ended September 30, 2010 totalled $1.3 million and $3.3 million.

Contractual Obligations

Effective December 31, 2009, FPLP signed a credit agreement with HSBC to replace FPLP's $60.0 million term facility with Prudential, which was due on June 5, 2010. On January 8, 2010, the security documentation and funding was completed and the proceeds were used to repay the Prudential notes 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 to FPLP by HSBC for Facility A.

FPLP has entered into supplier agreements to upgrade certain equipment at the Winnipeg Free Press as part of the $2.2 million project to consolidate FPLP's production operations. Deposits of $1.7 million have been paid as of September 30, 2010 and are included in prepaid expenses on FPLP's balance sheet. FPLP intends to enter into a capital lease agreement to finance this equipment once the projects are completed later this year. In connection with these equipment purchases, during the second quarter, FPLP entered into a $0.4 million annual five-year agreement to purchase production supplies.

Other than as discussed above, there have been 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 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 and operating expenses. A summary of the reserve for maintenance capital for the three and nine months ended September 30, 2010 and 2009 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	In thousands		In thousands	
Reserve at beginning of period	$ 1,500	$ 1,500	$ 1,500	$ 1,480
Increase in reserve	-	-	-	20
Decrease in reserve	-	-	-	-
Reserve at end of period	$ 1,500	$ 1,500	$ 1,500	$ 1,500

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

The use of a reserve for maintenance capital in calculating distributable cash attributable to the Fund[(2)] is intended to provide an allowance for estimated annual capital expenditures required to maintain the productive capacity of the business. The level of the annual allowance for maintenance capital is reviewed periodically based on historical spending levels and future plans, and adjusted based on reasonable and supportable assumptions. Actual future capital expenditures necessary to maintain the current productive capacity of the business may vary, perhaps materially, from the allowance used in determining distributable cash[(2)] due to technological change, unexpected equipment failure, changes in customer service expectations and other reasons. FPLP has established a maintenance capital maximum reserve policy, the maximum reserve level under which 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
September 30, 2010	1.7	4.5	3.2
June 30, 2010	1.8	5.3	3.1
March 31, 2010	1.9	6.5	2.3
December 31, 2009	2.3	7.3	1.7
September 30, 2009	2.9	5.9	1.4

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 or the quarterly review by the Audit Committee of newsprint purchases. Total newsprint purchases from ANC for the three and nine months ended September 30, 2010 were $0.9 million and $2.7 million, compared to $1.0 million and $4.5 million for the same periods last year.

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

Internal Controls over Financial Reporting

During the quarter, management identified, and remediated, a deficiency in the Fund's internal controls over financial reporting with regard to its future income tax liability calculation (see "Prior Period Restatement" section). This deficiency resulted in a prior period restatement presented on the Fund's financial statements.

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

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

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

Analysis of Significant GAAP Differences – The Fund and FPLP have completed the planning phase and initial conversion diagnostic between GAAP and IFRS. The Fund and FPLP have identified the key areas, which include:

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

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

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

- Business Combinations – This exemption allows an entity to carry forward its previous GAAP accounting for business combinations prior to the transition date. The exemption is optional and can be applied to any business combination transaction prior to the transition date. However, should an entity choose to adjust a prior business combination to comply with IFRS, all business combinations subsequent to the date of the adjusted transaction must also be retrospectively adjusted. The Fund and FPLP intend to apply this exemption to all acquisitions.
- Fair value or revaluation as deemed cost – This exemption allows FPLP to revalue Property, Plant and Equipment at fair value at the transition date and use this fair value as the deemed transition cost. This election applies to individual assets. FPLP does not intend to apply this exemption.
- Employee Benefits – This exemption allows an entity to recognize all cumulative actuarial gains and losses at the date of transition as a direct entry to cumulative earnings rather than retrospectively applying IFRS pension guidance and recalculating amounts on transition. FPLP intends to apply this exemption. The cumulative actuarial gains to be recognized in equity on transition are $146,000.
- Borrowing costs – This exemption allows an entity to adopt IAS 23 prospectively to projects for which the capitalization commencement date is after the transition date. FPLP intends to apply this exemption to the extent possible.

- Property, plant and equipment – IFRS requires an entity to identify significant component parts within fixed assets and depreciate those parts over their respective useful lives. Canadian GAAP only requires componentization to the extent practicable. FPLP is in the midst of performing a review of its fixed assets to identify whether any additional components are required to be recognized on transition to IFRS. The annual impact is insignificant.

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

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

- IFRS allows the reversal of previous impairment losses, with the exception of goodwill, whereas Canadian GAAP prohibits the reversal of non-financial asset impairments.

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

- Presentation of financial statements – The Fund and FPLP have prepared a draft set of IFRS financial statements excluding any quantitative financial information. Such financial information continues to be reviewed by senior management. Management has provided the draft financial statements to the Audit Committee.

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. The Fund and FPLP have not identified any significant changes required to date.

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

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

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

Historical Distributions Paid Analysis

FPLP:	Three Months ended September 30, 2010	Nine Months ended September 30, 2010	Twelve months ended December 31, 2009	Twelve Months ended December 31, 2008
	In thousands			
Cash provided by operating activities	$ 4,271	$ 16,340	$ 11,316	$ 11,933
Net earnings	3,152	11,048	7,117	7,957
Distributions paid during the period	2,712	8,037	9,477	11,820
Excess of cash provided by operating activities over cash distributions paid	$ 1,559	$ 8,303	$ 1,839	$ 113
Excess (shortfall) of net earnings over cash distributions paid	$ 440	$ 3,011	$ (2,360)	$ (3,863)

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

Fund:	Three Months ended September 30, 2010	Nine Months ended September 30, 2010	Twelve Months ended December 31, 2009	Twelve months ended December 31, 2008
		In thousands		
Cash provided by operating activities	$ 1,088	$ 3,249	$ 8,259	$ 8,819
Net earnings	1,511	5,009	6,853	6,682
Distributions paid during the period	1,242	3,969	7,869	8,732
(Shortfall) excess of cash provided by operating activities over cash distributions paid	$ (154)	$ (720)	$ 390	$ 87
Excess (shortfall) of net earnings over cash distributions paid	$ 269	$ 1,040	$ (1,016)	$ (2,050)

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

Cash distributions paid in the three and nine months ended September 30, 2010 exceeded cash provided by operating activities due to the settlement of the subordinated notes on December 31, 2009, which increased FPLP-allocated earnings and decreased interest income, thereby decreasing cash provided by operating activities.

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 adversely affect 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 adversely affect total revenue.

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 $7.0 million in the first nine months 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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	In thousands		In thousands	
Net earnings for the period	$ 3,152	$ 1,122	$ 11,048	$ 3,464
Add (subtract):				
Amortization of property, plant and equipment	1,547	1,036	4,625	3,114
Amortization of intangible assets	90	90	270	270
Interest expense	609	2,637	1,969	7,848
Interest income	(42)	(5)	(102)	(34)
Loss (gain) on sale of property, plant and equipment	-	(294)	85	(298)
Loss on derecognition of Variable Interest Entity	-	-	58	-
Current income tax expense	-	6	-	(3)
Future income tax expense	-	68	-	50
EBITDA	$ 5,356	$ 4,660	$ 17,953	$ 14,411

(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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Distributable cash of FPLP:	In thousands		In thousands	
EBITDA(1)	$ 5,356	$ 4,660	$ 17,953	$ 14,411
Interest income	42	5	102	34
Interest expense on notes payable, term loan and guarantee, excluding amortization of related deferred financing costs	(584)	(780)	(1,824)	(2,340)
Principal repayment of term loan	(1,251)	-	(3,336)	-
Maintenance capital expenditures	(95)	(245)	(423)	(388)
Increase in reserve for future maintenance capital	-	-	-	(20)
Proceeds from sale of property, plant and equipment	21	159	242	163
Current income and capital taxes (expense) recovery	-	(6)	-	3
	$ 3,489	$ 3,793	$ 12,714	$ 11,863
49% attributable to the Fund	$ 1,710	$ 1,859	$ 6,230	$ 5,813
Administration expenses	(84)	(73)	(438)	(207)
Interest income	1	1	1	3
Distributable cash attributable to the Fund	$ 1,627	$ 1,787	$ 5,793	$ 5,609
Distributable cash attributable to the Fund – per Unit	$ 0.235	$ 0.259	$ 0.839	$ 0.813

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

Distributable Cash of FPLP:

	Last Twelve Months	Since May 28, 2002
	In thousands	
EBITDA[1]	$ 25,940	$ 203,061
Interest income	108	987
Interest expense on notes payable and capital leases, excluding amortization of related deferred financing costs	(2,604)	(25,594)
Principal repayment of term loan	(3,336)	(3,336)
Principal repayment of capital leases	-	(1,136)
Maintenance capital expenditures	(694)	(8,443)
Increase in reserve for future maintenance capital expenditures	-	(1,500)
Strategic capital expenditures	-	(1,331)
Increase in reserve for strategic capital, acquisitions, and/or debt reduction	-	(353)
Proceeds on disposal of property, plant and equipment	242	1,539
Current income and capital tax expense	(7)	(196)
Distributable cash of FPLP	$ 19,649	$ 163,698

Distributable Cash Attributable to the Fund:

	Last Twelve Months	Since May 28, 2002
	In thousands	
49% of FPLP distributable cash	$ 9,628	$ 80,212
Administration expenses	(501)	(2,488)
Interest income	1	53
Distributable cash attributable to the Fund	$ 9,128	$ 77,777
Distributable cash attributable to the Fund per Unit	$ 1.322	$ 11.268
Distributions declared by the Fund per Unit	$ 0.825	$ 10.043
Payout Ratio	62.4%	89.1%

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	In thousands		In thousands	
Cash flow from operating activities of FPLP	$ 4,271	$ 3,254	$ 16,340	$ 7,425
Add (subtract):				
Interest on subordinated notes (*)	-	1,694	-	5,028
Net change in non-cash working capital items (**)	543	(1,069)	(167)	(345)
Maintenance capital expenditures	(95)	(245)	(423)	(388)
Increase in reserve for future maintenance capital(***)	-	-	-	(20)
Principal repayment of term loan(****)	(1,251)	-	(3,336)	-
Loss on derecognition of the Variable Interest Entity	-	-	58	-
Proceeds from sale of property, plant and equipment (*****)	21	159	242	163
Distributable cash of FPLP	$ 3,489	$ 3,793	$ 12,714	$ 11,863

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

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

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

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

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

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

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

	As at September 30, 2010	As at December 31, 2009 (Restated note 6)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 96	$ 816
Prepaid expenses	20	14
	116	830
Investment in FPCN General Partner Inc.	49	49
Investment in FP Canadian Newspapers Limited Partnership (note 2)	60,109	58,342
	$ 60,274	$ 59,221
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 161	$ 116
Distribution payable (note 3)	414	656
	575	772
Long-Term Liabilities:		
Future income taxes	836	868
	1,411	1,640
Unitholders' Equity:		
Trust Units	69,026	69,026
Cumulative earnings	59,152	54,143
Cumulative distributions	(69,315)	(65,588)
	58,863	57,581
	$ 60,274	$ 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 September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Earnings from investment in FP Canadian Newspapers Limited Partnership				
Interest from subordinated notes	$ -	$ 1,694	$ -	$ 5,028
Equity interest from Class A limited partner Units (note 2)	1,545	(314)	5,414	(867)
Other interest	1	1	1	3
	1,546	1,381	5,415	4,164
Administration expenses (note 5)	(84)	(73)	(438)	(207)
Net earnings before income taxes	$ 1,462	$ 1,308	$ 4,977	$ 3,957
Future income tax recovery (expense)	49	(10)	32	57
Net earnings and comprehensive income for the period	$ 1,511	$ 1,298	$ 5,009	$ 4,014
Cumulative earnings, beginning of period as previously reported	56,913	49,278	53,415	46,562
Prior period restatement (note 6)	728	728	728	728
Cumulative earnings, beginning of period as restated	57,641	50,006	54,143	47,290
Cumulative earnings, end of period	$ 59,152	$ 51,304	$ 59,152	$ 51,304
Number of trust Units outstanding	6,902,592	6,902,592	6,902,592	6,902,592
Net earnings per trust Unit	$ 0.219	$ 0.188	$ 0.726	$ 0.582

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Balance – beginning of period as previously reported	$ 57,866	$ 56,650	$ 56,853	$ 57,869
Prior period restatement (note 6)	728	728	728	728
Balance – beginning of period as restated	58,594	57,378	57,581	58,597
Net earnings and comprehensive earnings for the period	1,511	1,298	5,009	4,014
Distributions to Unitholders	(1,242)	(1,967)	(3,727)	(5,902)
Balance – end of period	$ 58,863	$ 56,709	$ 58,863	$ 56,709

(See accompanying notes)

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash provided by (used in):				
Operating activities:				
Net earnings for the period	$ 1,511	$ 1,298	$ 5,009	$ 4,014
Items not affecting cash:				
Equity interest from Class A Units of FP Canadian Newspapers Limited Partnership (note 2)	(1,545)	314	(5,414)	867
Future income tax (recovery) expense	(49)	10	(32)	(57)
Distributions received on Class A Units of FP Canadian Newspapers Limited Partnership (note 2)	1,329	306	3,647	912
Net change in non-cash working capital items	(158)	(5)	39	31
	1,088	1,923	3,249	5,767
Financing activities:				
Distributions to Unitholders	(1,242)	(1,967)	(3,969)	(5,902)
Investment activities:				
Investment in FPCN General Partner Inc.	-	-	-	(9)
Decrease in cash and cash equivalents	(154)	(44)	(720)	(144)
Cash and cash equivalents – beginning of period	250	335	816	435
Cash and cash equivalents – end of period	$ 96	$ 291	$ 96	$ 291

(See accompanying notes)

(unaudited, tabular amounts in thousands of Canadian dollars)

1. Basis of presentation

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

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

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

2. Investment in FP Canadian Newspapers Limited Partnership

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

The investment in FPLP is summarized as follows:

	Class A limited partner Units
Balance at December 31, 2009	$ 58,342
Equity interest in the period	1,479
Distributions received	(989)
Balance at March 31, 2010	$ 58,832
Equity interest in the period	2,390
Distributions received	(1,329)
Balance at June 30, 2010	$ 59,893
Equity interest in the period	1,545
Distributions received	(1,329)
Balance at September 30, 2010	$ 60,109

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net earnings of FPLP	$ 3,152	$ 1,122	$ 11,048	$ 3,464
Plus: Interest on subordinated notes	-	1,694	-	5,028
Net earnings before interest on subordinated notes	$ 3,152	$ 2,816	$ 11,048	$ 8,492
49% interest attributable to the Fund	1,545	1,380	5,414	4,161
Less: Interest from subordinated notes	-	(1,694)	-	(5,028)
Equity interest from Class A limited partner Units	$ 1,545	$ (314)	$ 5,414	$ (867)

3. Distribution payable

The Fund recorded a distribution payable at September 30, 2010 of $0.06 per Unit. The distribution was paid October 28, 2010 to Unitholders of record on September 30, 2010 in respect of the month of September 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 September 30, 2010 are $96,000 ($816,000 – December 30, 2009), and the Level 1 valuation technique is used to determine their fair value.

5. Corporate conversion costs

At the May 5, 2010 annual general meeting, the Unitholders approved an arrangement to convert the Fund from a trust structure to a corporate structure at the end of fiscal 2010. During the second and third quarters, the Fund incurred expenses of $231,000 with regard to this arrangement.

6. Prior period restatement

On June 12, 2007, Bill C-52 Budget Implementation Act 2007 was substantively enacted, which contained legislation to tax publicly traded income trusts in Canada. The new tax does not apply until 2011. However, the Fund was required to recognize the taxable temporary differences that were expected to reverse after 2010. Based on its assets and liabilities on December 31, 2008 and its share of the assets and liabilities of its investment in FPLP, the Fund had estimated temporary differences of $1,935,000. In error, the Fund had initially determined that a valuation allowance was required on certain cumulative eligible capital balances. Upon further analysis, the Fund has determined that such deductible temporary differences will be realized through the future reversal of taxable temporary differences. As a result, the January 1, 2009 opening Cumulative Earnings has been increased by $728,000 with a corresponding decrease in future income tax liabilities. The Fund has restated the Consolidated Balance Sheets as at December 31, 2009, Cumulative Earnings and the Consolidated Statements of Unitholders' Equity for all periods presented. The restatement did not impact net earnings, comprehensive income, and net earnings per trust Unit for the three and nine months ended September 30, 2010 and 2009.

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

	As at September 30, 2010	As at December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 8,669	$ 9,178
Accounts receivable (note 8)	11,306	12,991
Inventories	1,124	993
Prepaid expenses (note 12)	2,715	1,132
	23,814	24,294
Restricted cash (note 9)	5,000	-
Property, plant and equipment	39,252	43,750
Investment (note 4)	81	136
Intangible assets	7,111	7,381
Goodwill	71,160	71,160
Accrued pension benefit asset	655	226
	$ 147,073	$ 146,947
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 10,265	$ 9,720
Income taxes payable	-	8
Prepaid subscriptions and deferred revenue	3,126	3,131
Notes payable (note 11)	-	5,000
Term loan (note 11)	5,000	-
	18,391	17,859
Long-Term Liabilities:		
Notes payable (note 11)	-	54,930
Term loan (note 11)	51,444	-
	51,444	54,930
	69,835	72,789
Unitholders' Equity:		
Partner Units	98,280	98,280
Cumulative earnings	79,239	68,191
Cumulative distributions	(100,147)	(92,110)
Accumulated other comprehensive loss (note 4)	(134)	(203)
	77,238	74,158
	$ 147,073	$ 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 September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenue	$ 26,470	$ 26,554	$ 81,786	$ 83,083
Operating expenses, excluding amortization and restructuring charge	(21,114)	(21,573)	(63,833)	(67,558)
Restructuring charge	-	(321)	-	(1,114)
	5,356	4,660	17,953	14,411
Amortization of property, plant and equipment	(1,547)	(1,036)	(4,625)	(3,114)
Amortization of intangible assets	(90)	(90)	(270)	(270)
Earnings before the under-noted	3,719	3,534	13,058	11,027
Interest expense (note 6)	(609)	(2,637)	(1,969)	(7,848)
Interest income	42	5	102	34
Gain(loss) on sale of property, plant and equipment	-	294	(85)	298
Loss on derecognition of the Variable Interest Entity (note 1)	-	-	(58)	-
Earnings before income taxes	3,152	1,196	11,048	3,511
Income tax recovery (expense):				
- Current	-	(6)	-	3
- Future	-	(68)	-	(50)
Net earnings for the period	3,152	1,122	11,048	3,464
Cumulative earnings – beginning of period	76,087	63,416	68,191	61,074
Cumulative earnings – end of period	$ 79,239	$ 64,538	$ 79,239	$ 64,538

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net earnings for the period	$ 3,152	$ 1,122	$ 11,048	$ 3,464
Other comprehensive loss				
Unrealized gain on investment, net of tax (note 4)	-	43	69	89
Comprehensive income for the period	$ 3,152	$ 1,165	$ 11,117	$ 3,553

(See accompanying notes)

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

	General partner Units	Class A limited partner Units	Total
Unitholders' equity – December 31, 2008	$ 11,562	$ 7,897	$ 19,459
Net loss for the period	(432)	(64)	(496)
Distributions paid	(2,035)	(300)	(2,335)
Other comprehensive loss, net of tax	(72)	(11)	(83)
Unitholders' equity – March 31, 2009	$ 9,023	$ 7,522	$ 16,545
Net earnings for the period	2,474	364	2,838
Distributions paid	(2,083)	(306)	(2,389)
Other comprehensive income, net of tax	112	17	129
Unitholders' equity – June 30, 2009	$ 9,526	$ 7,597	$ 17,123
Net earnings for the period	977	145	1,122
Distributions paid	(2,083)	(306)	(2,389)
Other comprehensive income, net of tax	37	6	43
Unitholders' equity – September 30, 2009	$ 8,457	$ 7,442	$ 15,899
Net earnings for the period	3,184	469	3,653
Distributions paid	(2,060)	(304)	(2,364)
Other comprehensive loss, net of tax	(14)	(3)	(17)
Contributions	-	56,987	56,987
Unitholders' equity – December 31, 2009	$ 9,567	$ 64,591	$ 74,158
Net earnings for the period	1,876	1,142	3,018
Distributions paid	(1,624)	(989)	(2,613)
Other comprehensive loss, net of tax	(2)	(2)	(4)
Unitholders' equity – March 31, 2010	$ 9,817	$ 64,742	$ 74,559
Net earnings for the period	2,583	2,295	4,878
Distributions paid	(1,383)	(1,329)	(2,712)
Other comprehensive income, net of tax	41	32	73
Unitholders' equity – June 30, 2010	$ 11,058	$ 65,740	$ 76,798
Net earnings for the period	1,576	1,576	3,152
Distributions paid	(1,383)	(1,329)	(2,712)
Other comprehensive income, net of tax	-	-	-
Unitholders' equity – September 30, 2010	$ 11,251	$ 65,987	$ 77,238

(See accompanying notes)

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash provided by (used in)				
Operating activities:				
Net earnings for the period	$ 3,152	$ 1,122	$ 11,048	$ 3,464
Items not affecting cash:				
Amortization of property, plant and equipment and intangible assets	1,637	1,126	4,895	3,384
Accretion of notes payable/term loan related to financing costs (note 6)	25	163	145	480
Future income tax recovery	-	68	-	50
(Gain) loss on disposal of property, plant and equipment	-	(294)	85	(298)
	4,814	2,185	16,173	7,080
Net change in non-cash working capital items	(543)	1,069	167	345
	4,271	3,254	16,340	7,425
Investing activities:				
Purchases of property, plant and equipment	(95)	(245)	(423)	(388)
Proceeds from sale of property, plant and equipment	21	159	242	163
Increase in restricted cash (note 9)	-	-	(5,000)	-
	(74)	(86)	(5,181)	(225)
Financing activities:				
Distributions to partners	(2,712)	(2,389)	(8,037)	(7,113)
Repayment of notes payable (note 11)	-	-	(60,000)	-
Proceeds from term loan (note 11)	-	-	60,000	-
Term loan refinancing costs	-	-	(295)	-
Principal repayment of term loan	(1,251)	-	(3,336)	-
	(3,963)	(2,389)	(11,668)	(7,113)
Increase (decrease) in cash and cash equivalents	234	779	(509)	87
Cash and cash equivalents - beginning of period	8,435	7,143	9,178	7,835
Cash and cash equivalents - end of period	$ 8,669	$ 7,922	$ 8,669	$ 7,922
Supplemental Cash Flow Information:				
Interest paid during the period	$ 555	$ 2,474	$ 2,020	$ 7,385
Taxes paid during the period	$ -	$ 11	$ 7	$ 25

(See accompanying notes)

1. Basis of presentation

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

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

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

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

2. Summary of significant accounting policies

Financial Instruments

FPLP has made the following additional classifications during the nine months ended September 30, 2010:

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

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

3. Allocation of net earnings

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

4. Investment

The Trust Fund holds Units of FP Newspapers Income Fund ("the Fund"), which have been classified as "available for sale" and therefore are measured at fair value, as determined by the published price quote. Gains and losses resulting from the periodic revaluation are recorded in other comprehensive income. During the first three quarters, 9,633 Units were distributed to participants, leaving a balance of 16,851 Units with a carrying value of $81,000 as at September 30, 2010 (26,484 Units with a carrying value of $136,000 as at December 31, 2009). The accumulated other comprehensive loss related to this revaluation adjustment is $134,000 as at September 30, 2010 ($203,000 - December 31, 2009).

5. Employee future benefit plans

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Defined benefit pension plan	$ 259	$ 320	$ 778	$ 956

6. Interest expense

Interest expense is summarized as follows:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Subordinated notes	$ -	$ 1,694	$ -	$ 5,028
Accretion of subordinated notes related to financing costs	-	123	-	360
Notes payable	-	780	173	2,340
Accretion of notes payable related to financing costs	-	40	70	120
Term loan	497	-	1,405	-
Accretion of term loan related to financing costs	25	-	75	-
Guarantee fee (note 10)	87	-	246	-
	$ 609	$ 2,637	$ 1,969	$ 7,848

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 September 30, 2010 and December 31, 2009 were as follows:

	As at September 30, 2010	As at December 31, 2009
Notes payable	$ -	$ 59,930
Term loan	56,444	-
Cash and cash equivalents	(8,669)	(9,178)
Restricted cash	(5,000)	-
External net debt	42,775	50,752
Unitholders' equity	77,238	74,158
Total capitalization	$ 120,013	$ 124,910
External net debt as a percentage of total capitalization	35.6%	40.6%

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

Twelve Months Ended	Leverage ratio	Fixed Charge ratio	Current ratio
September 30, 2010	1.7	4.5	3.2
June 30, 2010	1.8	5.3	3.1
March 31, 2010	1.9	6.5	2.3

8. Financial instrument risk management

Credit Risk

As FPLP is in the business of publishing newspapers and performing printing services for third parties, included in accounts receivable are primarily amounts owed from advertisers and advertising agencies, circulation customers and commercial print clients. FPLP does not hold collateral as security for these balances. FPLP's credit risk relating to these accounts receivable is spread over a large number of national and local advertising clients and advertising agencies, in addition to many circulation retail customers and third-party printing clients. FPLP manages credit risk on a customer by customer basis and establishes a reasonable allowance for non-collectible amounts with this allowance netted against the accounts receivable on the balance sheet. The adequacy of the allowance is reviewed on a regular basis, and is estimated based on past experience, specific risks associated with the customers and other relevant information. The ten largest receivable amounts total $3,898,000 as at September 30, 2010 ($4,607,000 - December 31, 2009) and approximately 81% of these balances are owed from national advertising agencies. The largest amount due from a single national agency is $1,117,000 as at September 30, 2010 ($791,000 - December 31, 2009), which represents approximately 10% of total receivables.

At September 30, 2010, FPLP estimates the value of impaired accounts receivable is $14,000. 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 September 30, 2010	As at December 31, 2009
Accounts receivable:		
Current	$ 7,392	$ 7,485
Up to three months past due	4,075	5,660
Greater than three months past due	237	155
Impaired	14	55
	11,718	13,355
Allowance for doubtful accounts	(412)	(364)
	$ 11,306	$ 12,991

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

Balance, at December 31, 2009	$ (364)
Bad debt expense, net of recovery	(71)
Written-off	17
Balance at March 31, 2010	$ (418)
Bad debt expense, net of recovery	(49)
Written-off	13
Reserve reduction	50
Balance at June 30, 2010	$ (404)
Bad debt expense, net of recovery	(48)
Written-off	40
Balance at September 30, 2010	$ (412)

Liquidity Risk

The following are the contractual maturities of the financial liabilities:

		Payments due for the years ending September 30		
	Total	1 – 3 years	4 – 5 years	After 5 years
Accounts payable and accrued liabilities	$ 10,265	$ 10,265	$ -	$ -
Long-term debt principal	56,444	56,444	-	-
Total	$ 66,709	$ 66,709	$ -	$ -

Fair Value Hierarchy

Financial asset or liability	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 8,669	$ -	$ -	$ 8,669
Restricted cash	5,000			5,000
Investment	81	-	-	81
	$ 13,750	$ -	$ -	$ 13,750

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 could manage the risk through the use of an interest rate swap facility which would fix the interest rate on all or a portion of the credit facility, however, FPLP has not entered into any interest rate swap agreements during the three and nine months ended September 30, 2010.

An assumed 1% increase in FPLP's short-term borrowing rates during the three and nine months ended September 30, 2010 would have decreased net income by $156,000 and $459,000, with an equal but opposite effect for an assumed 1% decrease in short-term borrowing rates.

9. Restricted cash

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

10. Related party transaction

For the three and nine months ended September 30, 2010, FPLP incurred a guarantee fee of $87,000 and $246,000 to FundingCo (see note 11). At September 30, 2010, the outstanding payable of $29,000 was included in accounts payable and accrued liabilities.

11. Refinancing

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

12. Commitments and contingencies

FPLP has entered into supplier agreements to upgrade certain equipment at the Winnipeg Free Press as part of the $2,200,000 project to consolidate FPLP's production operations. Deposits of $1,716,000 paid as of September 30, 2010 are included in prepaid expenses on FPLP's balance sheet. FPLP intends to enter into a capital lease agreement to finance this equipment once the projects are completed later this year. Related to these equipment purchases, during the second quarter, FPLP entered into a $400,000 annual five-year agreement to purchase production supplies.

Caution Regarding Forward-looking Statements:

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

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

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

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

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

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