FP NEWSPAPERS INC

Q2 – 2011 Quarterly Report June 30, 2011

TSX: FP

Second Quarter Report
June 30, 2011
Letter to Shareholders

To our Shareholders

I am pleased to provide you with a report on the results of our operations and related dividends to Shareholders of FP Newspapers Inc. ("FPI") formerly FP Newspapers Income Fund ("the Fund") for the quarter ended June 30, 2011. FPI is the successor to the business of the Fund. Effective December 31, 2010 all of the outstanding Units of the Fund were exchanged on a one-for-one basis for common shares of FPI pursuant to a plan of arrangement (the "conversion"). FPI now owns directly the securities entitling it to 49% of the distributable cash of FP Canadian Newspapers Limited Partnership ("FPLP") in each fiscal year that were previously owned indirectly by the Fund. Effective January 7, 2011, FPI's shares began trading on the Toronto Stock Exchange under the symbol "FP" in place of the Units.

Since there was no change in control as a result of the conversion, the transaction has been accounted for as if the conversion had occurred at the beginning of the earliest comparative period presented. The interim condensed consolidated financial statements reflect the entity which owns the 49% interest in FPLP as a corporation subsequent to December 31, 2010 and an income trust prior to the conversion. All references to "Share Capital" refer to FPI's shares subsequent to December 31, 2010 and Fund Units prior to the conversion. All references to "dividends" refer to dividends paid or payable to holders of FPI shares after December 31, 2010 and to distributions paid or payable to Fund Unitholders prior to the conversion. All references to "Shareholders" refer to holders of shares subsequent to December 31, 2010 and to Fund Unitholders prior to the conversion.

FPLP owns the Winnipeg Free Press and Brandon Sun daily newspapers, and Canstar Community News ("Canstar"), which operates six weekly newspapers, a weekly entertainment newspaper and a twice-monthly newspaper aimed at age 50-plus readers. On February 28, 2011, FPLP completed the acquisition of the Steinbach printing and publishing business of Derksen Printers ("Derksen"), which operates a commercial web and sheet-fed printing business and publishes a regional paid weekly newspaper, "The Carillon".

Total revenue for FPLP for the three months ended June 30, 2011 was $29.9 million, a $1.0 million or 3.4% increase from the same period last year. Total revenue excluding the Derksen business was $28.6 million, a decrease of $0.4 million compared to the second quarter in 2010. Total EBITDA[(1)] of FPLP for the quarter was $6.9 million, a $0.2 million or 2.9% decrease from the same quarter last year. Total EBITDA[(1)] of FPLP, excluding the Derksen business was $6.6 million, a decrease of $0.5 million or 7.2% from the same quarter last year. FPLP had net earnings of $5.2 million in the quarter compared to $4.9 million in the same quarter last year. Excluding the Derksen business, FPLP's net earnings were unchanged from the prior year level of $4.9 million.

FPI had net earnings of $1.8 million, or $0.257 per share, during the three months ended June 30, 2011, compared to net earnings of $2.7 million, or $0.396 per share, in the same quarter last year. The decrease in FPI's net earnings in the quarter is primarily due to an increase in deferred income tax expense described below, partially offset by the increased equity share of the earnings of FPLP.

Operations

FPLP's revenue for the three months ended June 30, 2011 was $29.9 million, an increase of $1.0 million or 3.4% from the same three months in the prior year. Excluding revenue attributable to the Derksen operation for the quarter, revenue decreased by $0.4 million or 1.4%. Advertising revenues for the three months ended June 30, 2011, excluding the Derksen business, were $20.3 million, a 2.9% increase compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, excluding the Derksen business, was $13.3 million, an increase of $0.7 million or 5.7% from the same period in the prior year, primarily due to increased spending in the automotive, telecommunications and government categories. Classified advertising revenues for the second quarter, excluding the Derksen business, decreased by $0.3 million or 7.6% compared to the same period last year, primarily due to a decrease in the employment, obituary and automotive categories, partly offset by increased revenue in the real estate category. Flyer distribution revenues for the second quarter, excluding the Derksen business, increased by $0.1 million or 3.2% compared to the same period last year due to increased rates and volumes.

Circulation revenues for the second quarter, excluding the Derksen business, decreased by $0.2 million or 3.1%, due primarily to lower paid-subscription and single-copy volumes, partially offset by increased subscription rates. Commercial printing revenues for the quarter, excluding the Derksen business, decreased by $1.1 million, primarily due to the October 1, 2010 non-renewal of the Globe and Mail printing contract. Digital revenues for the second quarter increased by $0.2 million or 51.0%, primarily due to the increase in Winnipeg Free Press website banner advertising and revenues from new product offerings largely by the Winnipeg Free Press.

Operating expenses excluding depreciation and amortization and a restructuring charge for the three months ended June 30, 2011 were $22.8 million, a $0.9 million or 4.2% increase from the same quarter last year. Operating expenses excluding depreciation and amortization, the restructuring charge and the Derksen business, for the three months ended June 30, 2011, decreased $0.2 million or 0.8% compared to last year. Employee compensation costs for the second quarter, excluding the restructuring charge and the Derksen business, decreased by $0.2 million or 1.5% primarily due to fewer employees, partially offset by the 2% wage increase included in the collective agreements. In the second quarter, twelve employees were laid-off between the Winnipeg and Brandon operations and a restructuring charge for severance costs of $0.3 was incurred. Newsprint expense for FPLP's own publications for the quarter, excluding the Derksen business, increased by $0.3 million or 11.8%, primarily due to higher newsprint prices partially offset by lower volumes mainly from fewer circulation copies. Newsprint expense for commercial printing for the second quarter, excluding the Derksen business, decreased $0.2 million compared to the same period in the prior year, primarily due to the October 1, 2010 non-renewal of the Globe and Mail printing contract. Delivery costs and other expenses for the second quarter, excluding the Derksen business were at the same level compared to the same period in the previous year.

During the second quarter we continued to upgrade our digital product offering and in June the Winnipeg Free Press launched a new version of a mobile application named Winnipeg Free Press News. The application features regularly updated content from the Free Press newsroom, as well as other information sources. It replaces an older Free Press application, which simply displayed a static PDF file of the morning print version of the newspaper. We are currently averaging approximately 1,500 distinct users daily on this new application. The new application is built using the same platform as FP News, a Free Press-owned mobile news application that focuses on national and international stories, which is averaging approximately 10,000 distinct users daily.

In June the Free Press rolled out the first phase of its new reader comment system, which provides increased functionality and personalization options. The new system will allow users to review their activities, edit their profile, link to their Twitter, Facebook or Linked In accounts, and review the rewards that they have earned. Future enhancements will include an interactive rewards package that will include many fun badges for users to earn or for editors to award to users.

During April 2011, in a move to differentiate ourselves from other publications in the Winnipeg market, we introduced a broadsheet publication called Sunday Extra as our single copy newspaper replacing the tabloid sized "On-7" product. To date we have experienced modest increases in circulation and advertising sales since making the change.

In late July, Free Press members of the defined benefit pension plan were sent letters indicating FPLP is requesting pension solvency relief as allowed under the Manitoba Pension Regulations. Under Manitoba pension laws, solvency deficiencies must be funded over a five-year period, unless pension solvency relief is being requested from plan members, which extends this payment period to 10 years. An initial actuarial report is showing required solvency deficiency payments starting in 2011 of $1.5 million per year for five years, which is an increase of $1.2 million from the solvency deficiency payments made in 2010 of $0.3 million. If the solvency relief is obtained, the annual solvency deficiency payments will be approximately $0.8 million per year for ten years. The increased solvency deficiency is primarily the result of three factors: lower than expected investment returns since the last funding valuation study on December 31, 2007; declining bond yields, which increase the present value of plan obligations; and an increase in the average age of active employees covered under the plan. Solvency relief is obtained if fewer than one-third of current plan members, former plan members and any other persons entitled to benefits under the plan object to the proposal. The deadline for receiving objections is August 22, 2011.

Canstar's editorial department earned eight awards at the Manitoba Community Newspapers Association awards in May. The very next day, six of our community journalists spent the day in the Headliner coverage area, talking to residents for a special flood issue of The Headingley Headliner as they anxiously awaited overland flooding from the Assiniboine River.

Uptown Magazine continued its tradition of honouring the best aspects of the city with the publication of the results of its annual Best of the City survey in May. The 20-page supplement led to empty racks and thousands of additional website hits on its site, uptownmag.com, which was updated and relaunched in June, with a new front page design and a new, interactive events widget.

Brandon and western Manitoba suffered through severe flooding this past spring. While the flood caused logistical problems in distributing the paper in the trading area, it also afforded an opportunity for the Brandon Sun's reporters and photographers to provide exceptional coverage in print and online. The coverage was extensive, the stories were compelling and the art was outstanding. The Sun's website component, *The Flood of 2011*, was a popular destination for flood-weary western Manitobans to read about the latest flood conditions in their area. The page featured the latest reports, archived stories, art, video, and live streaming video from two cameras focused on the surging Assiniboine River. In May - the height of the flood - the Sun's website attracted nearly 200,000 unique visitors and over 1,000,000 page views.

The Brandon Sun was awarded the St. John Ambulance Media Award by Manitoba's Lt. Governor for outstanding coverage in Manitoba in the second quarter.

The Brandon Sun has been a seven-day publication since the early 1990s. The decision to discontinue the Sunday edition was made in the second quarter and the work necessary to transition to a six-day publication was completed in that period. We anticipate minimal advertising revenue shrinkage, as virtually all Sunday linage has been migrated to other publication days. There will be lost circulation revenue given one fewer day, but the net result will be cost savings of about $0.3 million per year. The final Sunday edition was printed on June 26, 2011.

In Steinbach we started printing the Metro Winnipeg free daily newspaper on April 4 and continue to work on the investment to increase our printing capacity. A combination of new and used equipment has been sourced and the installation is expected to be completed before the end of September. We are planning to finance the estimated $1.2 million capital investment through a capital lease facility with HSBC Bank Canada. During the quarter we moved the delivery of our Carillon weekly newspaper from Canada Post to a contracted home delivery network in Steinbach which allows us to get the newspaper to subscribers one day earlier. We have seen an increase of about ten percent in the home delivery subscribers since making the change. The Carillon advertising sales team are finalizing the development of a media kit to help generate new revenue sources and have finalized an annual schedule of twelve special supplement sections, an increase from an average of six in past years. In July a mortgage financing agreement was completed for the Steinbach real estate assets. The loan of $1.0 million, which is to be repaid over 15 years, carries a five-year fixed interest rate of 4.85%.

Dividends

Distributable cash attributable to FPI[(2)] for the three months ended June 30, 2011 was $1.5 million or $0.211 per share, compared to $2.3 million or $0.330 per share for the same period last year. For the trailing twelve months ended June 30, 2011, FPLP generated distributable cash attributable to FPI[(2)] of $0.839 per share, and FPI declared dividends of $0.66 per share, resulting in a payout ratio of 78.7%.

FPI declared dividends to Shareholders of $0.150 per share for the quarter, compared to $0.180 per share in the same quarter last year. Since FPI is a taxable corporation, dividends declared to shareholders who hold their shares in non-registered accounts are taxed at lower personal marginal tax rates than were distributions paid under the previous income trust structure, which were taxable at the highest personal marginal tax rates as ordinary income.

Outlook

The advertising revenue growth, excluding the Derksen business, of 2.9% for the second quarter has brought advertising revenue levels for the first six months roughly equal to the prior year. Strength in the display advertising category was partially offset by continuation of the decline in classified revenue. Early in the third quarter, display advertising revenue has softened somewhat from what we experienced in the second quarter. Newsprint prices are expected to remain at current levels, which would result in an average price increase of approximately 5 per cent in the third quarter and 2.5 percent over the next six months.

The Winnipeg Free Press is partnering with Penguin Books to publish a commemorative book that will mark Winnipeg's historic re-entry into the National Hockey League. *Back in the Bigs: How Winnipeg Won, Lost and Regained its Place in the NHL*, will be written by award-winning sports writer Randy Turner, and is due out in September. The book will track the history of professional hockey in Winnipeg from the wild days of the World Hockey Association to the Winnipeg Jets entry into the NHL in 1979, and from the heartbreaking loss of the franchise in 1996 to its triumphant return in 2011.

Ronald N. Stern
Chairman
August 10, 2011

Management's Discussion and Analysis

Overview

Management's discussion and analysis, prepared as at August 10, 2011, provides a review of significant developments that affected the performance of FP Newspapers Inc. ("FPI") in the three months ended June 30, 2011. This review is based on financial information contained in the unaudited interim condensed consolidated financial statements and accompanying notes ("Interim financial statements") for the three and six months ended June 30, 2011.

The interim financial statements, which are the basis for data presented in this report, have been prepared in accordance with International Financial Reporting Standards (IFRS). The interim financial statements do not include all the information and disclosures required for annual financial statements, and therefore, the following information should be read in conjunction with the most recent audited consolidated financial statements and accompanying notes and management's discussion and analysis for the year ended December 31, 2010 prepared in accordance with Canadian generally accepted accounting principles ("GAAP") in the Company's 2010 Annual Report. This MD&A should also be read in conjunction with FPI's interim unaudited condensed consolidated financial statements and accompanying notes for Quarter 2, 2011, and FPI's interim unaudited condensed consolidated financial statements and accompanying notes for Quarter 1, 2011.

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

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

Formation and Legal Entities

FPI, which was incorporated under the Canada Business Corporations Act on March 17, 2010, is the successor to the business of FP Newspapers Income Fund (the "Fund"). The Fund was created on May 15, 2002 and commenced operations on May 28, 2002 when it completed an initial public offering and purchased an interest in FP Canadian Newspapers Limited Partnership ("FPLP"). FPI's year end is December 30.

On December 31, 2010, the Fund completed its conversion from an income trust to a corporate structure pursuant to a plan of arrangement. Under the plan of arrangement, Unitholders of the Fund received, for each Unit of the Fund held, one common share of the resulting public corporation, FPI. The common shares of FPI commenced trading on the Toronto Stock Exchange on January 7, 2011 under the symbol "FP". Concurrently, the Fund's Units were delisted. Immediately following the closing of the arrangement, FPCN Holdings Trust and the Fund were wound up and dissolved. FPI has acquired all of the assets and assumed all of the liabilities of those entities. FPI owns securities entitling it to 49% of the distributable cash of FPLP.

Since there was no change in control as a result of the conversion, the transaction has been accounted for as if the conversion had occurred at the beginning of the earliest comparative period presented. These interim financial statements reflect the entity which owns the 49% interest in FPLP as a corporation subsequent to December 31, 2010 and an income trust prior to the conversion. All references to "Share Capital" refer to FPI's Common Shares subsequent to December 31, 2010 and Fund Units prior to the conversion. All references to "dividends" refer to dividends paid or payable to holders of FPI Common Shares after December 31, 2010 and to distributions paid or payable to Fund Unitholders prior to the conversion. All references to "Shareholders" refer to holders of Common Shares subsequent to December 31, 2010 and to Fund Unitholders prior to the conversion.

FPLP is a limited partnership formed on August 9, 1999. Effective November 29, 2001, FPLP acquired the business assets and assumed certain liabilities of the Winnipeg Free Press and the Brandon Sun. On July 13, 2004, FPLP acquired the business assets and liabilities of Canstar Community News ("Canstar"). On February 28, 2011, FPLP acquired the business assets and assumed certain liabilities of a commercial printing and publishing business operating under the name Derksen Printers based in Steinbach, Manitoba.

FP Newspapers Inc.

FPI is dependent on the operations of FPLP, its sole investment. FPI's net earnings were $1.8 million and $2.7 million for the three and six months ended June 30, 2011, compared to net earnings of $2.7 million and $4.2 million for the same periods last year. The decrease in net earnings for the three months ended June 30, 2011 is due to a deferred income tax expense of $0.6 million in 2011 compared to a deferred income tax recovery of $0.6 million in 2010, as explained in the taxation section of this report. The decrease in net earnings for the six months ended June 30, 2011 is primarily due to deferred income tax expense of $0.9 million in 2011 compared to a deferred income tax recovery of $0.7 million in 2010 as explained in the taxation section of this report. Other Comprehensive Income for the three months ended June 30, 2011 was a loss of $0.2 million, unchanged from the same quarter last year. Other Comprehensive Income for the six months ended June 30, 2011 was nil compared to a loss of $0.4 million in the prior year, primarily due to a reduction in FPI's equity share of FPLP's change in actuarial loss as explained in the FPLP section of this report.

FPI declared dividends to Shareholders of $1.0 million or $0.150 per share and $2.1 million or $0.300 per share for the three and six months ended June 30, 2011, compared to $1.2 million or $0.180 per share and $2.5 million or $0.360 per share for the same periods last year. Cash provided by operating activities of FPI was $1.3 million and $2.4 million for the three and six months ended June 30, 2011, compared to $1.3 million and $2.2 million for the same periods last year. The increase in cash provided by operating activities for the six months is a result of an increase in cash received from FPLP due to FPI's final interest payment on the subordinated notes received on December 31, 2009, the date these notes were redeemed, when this interest would have been received in the first quarter of 2010 if the notes had not been redeemed. The increase in net cash received by FPI from FPLP was partially offset by the use of cash for accounts payable.

As at August 10, 2011, FPI had 6,902,592 shares outstanding.

Working Capital Position of FPI

The working capital deficiency at June 30, 2011 is due to the fact that FPLP's distributions are payable by the end of the month following the respective month; accordingly, FPLP's distribution for June is not accrued as a liability on FPLP's June balance sheet nor recorded as a receivable on FPI's June balance sheet. FPI received FPLP's June 2011 distribution before the end of July 2011 and used a portion of this distribution to pay its dividend to Shareholders for June, which was paid on July 29, 2011.

Distributable Cash Attributable to FPI (2)

Cash available for distribution attributable to FPI was $1.5 million or $0.211 per share and $2.1 million or $0.302 per share for the three and six months ended June 30, 2011, compared to $2.3 million or $0.330 per share and $4.2 million or $0.604 per share for the same periods last year. The decrease in cash available for distribution attributable to FPI in the quarter is primarily due to the establishment of the reserve for future income taxes since FPI is a taxable corporation (see "Taxation" below) and the establishment of a reserve for pension solvency payments resulting from the draft actuarial report showing required solvency deficiency payments of $1.5 million annually beginning in 2011, as discussed in the operations section of this report.

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

From commencement of the Fund on May 28, 2002 until June 30, 2011, cumulative distributable cash attributable to FPI totalled $11.871 per share. During that period FPI declared cash dividends to Shareholders of $10.523 per share, resulting in a cumulative-from-inception payout ratio of 88.6%. Because FPI made an allowance for maintenance capital spending of FPLP in an amount estimated to be sufficient to maintain the productive capacity of the business when calculating distributable cash attributable to FPI(2), and because cumulative dividends declared were less than the cumulative distributable cash attributable to FPI(2), FPI believes there is no economic "return of capital".

Taxation

FPI's year-end date is December 30. For FPI's December 30, 2011 year-end, none of the taxable income of FPLP (whose year-end is December 31) will be allocated to it prior to that date. As a result FPI will have no current taxes in the year ended December 30, 2011. FPLP's taxable income for the year ended December 31, 2011 will be allocated to FPI in its year ended December 30, 2012. The increase in FPI's deferred income taxes payable on June 30, 2011 is primarily due to this deferral of taxable income. The June 6, 2011 federal budget proposed new measures to curtail income deferral by corporations using partnerships with different year-end dates. These proposals would have applied to FPI's current period but are not considered substantively enacted as at June 30, 2011. If the budget measures are enacted in their current form, corporate partners would be required to accrue the portion of partnership income earned in the stub-period between the end of the partnership's fiscal period and the end of the corporate partner's taxation year. The proposed measures include transitional relief by allowing stub-period income for the first affected fiscal period to be recognized over a five-year period. If the above-noted measures are substantively enacted FPI will be required to include the following percentage of its share of FPLP's December 31, 2011 taxable income allocation in its determination of current taxes payable:

FPI's year-end	Allocation of December 31, 2011 FPLP taxable income
December 30, 2012	15%
December 30, 2013	20%
December 30, 2014	20%
December 30, 2015	20%
December 30, 2016	25%

FP Canadian Newspapers Limited Partnership
Results of Operations

FPLP's revenue for the three months ended June 30, 2011 was $29.9 million, an increase of $1.0 million or 3.4% from the same three months in the prior year. Excluding revenue attributable to the Derksen operation for the quarter, revenue decreased by $0.4 million or 1.4%. Advertising revenues for the three months ended June 30, 2011, excluding the Derksen business, were $20.3 million, a 2.9% increase compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, excluding the Derksen business, was $13.3 million, an increase of $0.7 million or 5.7% from the same period in the prior year, primarily due to increased spending in the automotive, telecommunications and government categories. Classified advertising revenues for the second quarter, excluding the Derksen business, decreased by $0.3 million or 7.6% compared to the same period last year, primarily due to a decrease in the employment, obituary and automotive categories, partly offset by increased revenue in the real estate category. Flyer distribution revenues for the second quarter, excluding the Derksen business, increased by $0.1 million or 3.2% compared to the same period last year due to increased rates and volumes.

Circulation revenues for the second quarter, excluding the Derksen business, decreased by $0.2 million or 3.1%, due primarily to lower paid-subscription and single-copy volumes, partially offset by increased subscription rates. Commercial printing revenues for the quarter, excluding the Derksen business, decreased by $1.1 million, primarily due to the October 1, 2010 non-renewal of the Globe and Mail printing contract. Digital revenues for the second quarter increased by $0.2 million or 51.0%, primarily due to the increase in Winnipeg Free Press website banner advertising and revenues from new product offerings largely by the Winnipeg Free Press.

FPLP's revenue in the six months ended June 30, 2011 was $54.9 million, a decrease of $0.4 million or 0.7% from the same period in the prior year. Excluding revenue attributable to the Derksen operation, revenue decreased by $2.3 million or 4.1%. Advertising revenues for the six months ended June 30, 2011, excluding the Derksen business, were $37.4 million, a 0.2% increase compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, excluding the Derksen business, was $24.2 million, an increase of $0.4 million or 1.6% from the same period in the prior year, primarily due to increased spending in the automotive, telecommunications and government categories, partially offset by decreased spending in the travel category. Classified advertising revenues for the six months, excluding the Derksen business, decreased by $0.6 million or 9.2% compared to the same period last year, primarily due to a decrease in the automotive, obituary and employment categories. Flyer distribution revenues for the six months, excluding the Derksen business, increased by $0.3 million or 4.1% compared to the same period last year, due to increased rates and volumes.

Circulation revenues for the six months, excluding the Derksen business, decreased by $0.8 million or 5.5%, due primarily to lower paid-subscription and single-copy volumes, partially offset by higher subscription rates implemented in February 28, 2011 at the Winnipeg Free Press. A portion of the subscription reduction was due to the elimination of some rate discount programs. Commercial printing revenues for the six months, excluding the Derksen business, decreased by $2.1 million, primarily due to the October 1, 2010 non-renewal of the Globe and Mail printing contract. Digital revenues for the six months increased by $0.4 million or 48.3% primarily due to the increase in Winnipeg Free Press website banner advertising and revenues from new product offerings largely by the Winnipeg Free Press.

Operating expenses excluding depreciation and amortization and a restructuring charge for the three months ended June 30, 2011 were $22.8 million, a $0.9 million or 4.2% increase from the same quarter last year. Operating expenses excluding depreciation and amortization, the restructuring charge and the Derksen business, for the three months ended June 30, 2011, decreased $0.2 million or 0.8% compared to last year. Employee compensation costs for the second quarter, excluding the restructuring charge and the Derksen business, decreased by $0.2 million or 1.5% primarily due to fewer employees, partially offset by the 2% wage increase included in the collective agreements. In the second quarter, twelve employees were laid-off between the Winnipeg and Brandon operations and a restructuring charge for severance costs of $0.3 was incurred. Newsprint expense for FPLP's own publications for the quarter, excluding the Derksen business, increased by $0.3 million or 11.8%, primarily due to higher newsprint prices partially offset by lower volumes mainly from fewer circulation copies. Newsprint expense for commercial printing for the second quarter, excluding the Derksen business, decreased $0.2 million compared to the same period in the prior year, primarily due to the October 1, 2010 non-renewal of the Globe and Mail printing contract. Delivery costs and other expenses for the second quarter, excluding the Derksen business were at the same level compared to the same period in the previous year.

Operating expenses excluding depreciation and amortization and the restructuring charge for the six months ended June 30, 2011 were $43.4 million, a $0.7 million or 1.6% increase from the same period last year. Operating expenses excluding depreciation and amortization, the restructuring charge and the Derksen business, for the six months ended June 30, 2011, decreased $0.8 million or 1.9% compared to last year. Employee compensation costs, for the six months, excluding the Derksen business and the restructuring charge, decreased by $ 0.4 million or 1.8%, primarily due to fewer employees, partially offset by the 2% wage increase included in the collective agreements. In the second quarter, twelve employees were laid-off between the Winnipeg and Brandon operations and a restructuring charge for severance costs of $0.3 was incurred. Newsprint expense for FPLP's own publications for the six months, excluding the Derksen business, increased by $0.4 million or 9.5%, primarily due to higher newsprint prices partially offset by lower volumes mainly from fewer circulation copies. Newsprint expense for commercial printing for the six months, excluding the Derksen business, decreased $0.4 million compared to the same period in the prior year, primarily due to the October 1, 2010 non-renewal of the Globe and Mail printing contract. Delivery costs for the six months, excluding the Derksen business, increased by $0.1 million or 1.0%, primarily due to higher fuel costs. Other expenses for the six months, excluding the Derksen business, decreased by $0.5 million or 5.5% when compared to the same period in the prior year, primarily due to a reduction in an accrual relating to a labour matter and decreased marketing costs.

EBITDA(1) for the three and six months ended June 30, 2011 was $6.9 million and $11.2 million compared to $7.1 million and $12.6 million for the same periods last year, a decrease of 2.9% and 10.7% respectively. EBITDA(1) margin for the three and six months ending June 30, 2011 was 22.9% and 20.5% compared to 24.4% and 22.8% in the same periods last year. Excluding the Derksen business, EBITDA(1) for the three and six months ended June 30, 2011 was $6.6 million and $10.9 million. The reductions in EBITDA(1) were due to the changes described above.

Depreciation and amortization for the three and six months ended June 30, 2011 decreased by $0.5 million and $1.0 million compared to the same periods in the prior year, primarily due to accelerated depreciation recorded in the prior year for the Brandon production equipment, which was taken out of service effective October 1, 2010, partially offset by increased depreciation from the Derksen business assets acquired.

Finance costs for the three months ended June 30, 2011 increased by $0.1 million compared to the previous year, due to an increase in interest rates on the term loan and interest expense on the new finance leases. Finance costs decreased by $0.1 million for the six months ending June 30, 2011 compared to the previous year, due primarily to lower interest costs on the variable rate term loan versus the fixed 5.2% rate on the notes payable together with lower principal amounts owing, partially offset by interest payments on the new finance leases.

FPLP's net earnings were $5.2 million and $7.9 million for the three and six months ended June 30, 2011, compared to $4.9 million and $7.9 million for the same period last year.

Under IFRS, comprehensive income includes actuarial gains and losses. These gains or losses are primarily related to changes in actuarial discount rate assumptions and differences between actuarial estimates of return on pension plan assets versus actual returns. In the second quarter, the actual investment income of the pension plan assets was less than the actuarial expected return, resulting in an increase in the defined benefit obligation for the second quarter. The actuarial loss for the six months ended June 30, 2011 was lower when compared to the loss in the previous year due to an investment income gain and an increase in the discount rate which resulted in an actuarial gain in the first quarter of 2011.

Newspaper publishing is, to a certain extent, a seasonal business, with a higher proportion of revenues and net earnings occurring during the second and fourth quarters of the calendar year. Revenue, EBITDA[(1)] and net earnings of FPLP by quarter for 2011, 2010 and 2009 were as follows:

	2011	2010	2009
	(IFRS)	(IFRS)	(Canadian GAAP)
Revenue		*In thousands*	
Quarter 1	$ 24,997	$ 26,370	$ 26,838
Quarter 2	29,926	28,946	29,691
Quarter 3		26,470	26,554
Quarter 4		28,246	30,780
		$ 110,032	$ 113,863
EBITDA[(1)]			
Quarter 1	$ 4,384	$ 5,529 (**)	$ 3,170
Quarter 2	6,861	7,068 (**)	6,581
Quarter 3		5,356 (**)	4,660
Quarter 4		6,598	7,987 (*)
		$ 24,551	$ 22,398
Net earnings (loss)			
Quarter 1	$2,733	$ 3,018 (***)	$ (496) (****)
Quarter 2	5,154	4,878 (***)	2,838
Quarter 3		3,152 (***)	1,122
Quarter 4		4,925	3,653 (*)
		$ 15,973	$ 7,117

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

(**) EBITDA[(1)] in the first three quarters of 2010 were higher than the previous year even though year-over-year revenues were lower in each period as a result of various cost reduction initiatives implemented in response to the economic slowdown, which resulted in reduced advertising revenues.

(***) Net earnings were higher in each quarter of 2010 compared to 2009 primarily due to the settlement of the subordinated notes held by FPI at the end of the fourth quarter of 2009 resulting in lower financing costs and the implementation of the cost reduction initiatives referred to under (**) above.

(****) The lower net earnings in the first quarter of 2009 are primarily the result of reduced advertising revenues resulting from the economic slowdown and a restructuring charge of $0.6 million relating to employee severance costs.

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

FPLP's total working capital at June 30, 2011 was $3.7 million, compared to $3.6 million at June 30, 2010. The change is working capital is primarily due to an increase in accounts receivable as a result of higher advertising revenues in the month of June compared to the prior year, offset by the acquisition of Derksen Printers.

Liquidity and Capital Resources of FPLP

Cash and cash equivalents, excluding the restricted cash, at June 30, 2011 was $6.3 million compared to $8.4 million at June 30, 2010. 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 $9.8 million during the six months, while $3.9 million was used for investing activities and $6.0 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 HSBC credit facility (see Note 6 to the 2010 Annual

Consolidated Financial Statements of FPLP) and anticipated distributions, assuming that advertising revenues do not materially deteriorate beyond management's current expectations.

Cash Flow from Operating Activities

During the three and six months ended June 30, 2011, cash generated from operating activities was $3.3 million and $9.8 million compared to $6.3 million and $12.1 million for the same periods last year. The net earnings for the three and six months ended June 30, 2011 were $5.2 million and $7.9 million compared to $4.9 million and $7.9 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 intangible assets in the three and six months ended June 30, 2011 was a decrease of $0.5 million and $1.0 million from the same periods last year as a result of accelerated amortization in 2010 on certain Brandon production equipment resulting from the consolidation of Brandon production at our Winnipeg production site, partially offset by increased depreciation expense relating to the Derksen acquired assets. The net change in non-cash working capital for the three and six months ended June 30, 2011 was a decrease of $3.0 million and $0.3 million compared to a decrease of $0.2 million and increase of $0.7 million for the same periods last year, primarily the result of the timing of receipts from customers and payments to suppliers.

Investing Activities

Capital purchases totalled $0.3 million and $0.7 million for the three and six months ended June 30, 2011, compared to $0.1 million and $0.3 million for the same periods in the prior year. Capital spending during the six months consisted of leasehold improvements and equipment for the consolidation of distribution depots and above-ground fuel tanks in Winnipeg, and technology hardware upgrades.

On February 28, 2011, FPLP acquired all of the assets and assumed specified liabilities of a publishing and printing business operated under the name Derksen Printers for cash consideration of $3.5 million. The business has been in operation in Steinbach, Manitoba since 1936. The business publishes The Carillon weekly paid subscription newspaper in addition to a commercial web and sheet-fed printing operation.

In the first quarter of 2010, as part of the HSBC credit agreement, FPLP made a $5.0 million cash deposit into a separate HSBC guarantee account, classified as restricted cash on the balance sheet.

Financing Activities

Distributions to partners of FPLP for the three and six months totalled $2.7 million and $5.4 million, of which $1.3 million and $2.6 million was paid to FPI as holder of Class A limited partner units. This is compared to $2.7 million and $5.3 million in the same periods last year, of which $1.3 million and $2.3 million was paid to FPI as holder of Class A limited partner units. The distributions to partners were determined in accordance with the limited partnership agreement that governs FPLP (the "LP Agreement").

The principal repayments of the HSBC term loan for the three and six months ended June 30, 2011 totalled $1.3 million and $2.5 million, compared to $1.3 million and $2.1 million principal repayment plus $0.3 million in financing costs associated with the HSBC loan agreement for the same period of 2010. The increase in the principal repayment in the six-month period of 2011 is a result of six full months of repayments compared to only five in 2010.

Contractual Obligations

During 2011, FPLP entered into two finance lease agreements to finance equipment purchases, one during the first quarter of 2011 and the second in the second quarter.

Other than as discussed above, there have been no significant changes to contractual obligations since December 31, 2010.

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

Under the terms of the LP Agreement, the managing general partner of FPLP is required to determine reserves which are necessary or desirable to withhold from any distributions to partners, including among other things for capital expenditures and operating expenses. A summary of the reserves for the three and six months ended June 30, 2011 and 2010 is as follows:

Reserve for future maintenance capital	Three Months Ended June 30, 2011	2010	Six Months Ended June 30, 2011	2010
	In thousands		*In thousands*	
Reserve at beginning of period	$ 1,384	$ 1,500	$ 1,500	$ 1,500
Increase in reserve	-	-	-	-
Decrease in reserve	(165)	-	(281)	-
Reserve at end of period	$ 1,219	$ 1,500	$ 1,219	$ 1,500

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

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

Reserve for future income taxes	Three Months Ended June 30, 2011	2010	Six Months Ended June 30, 2011	2010
	In thousands		*In thousands*	
Reserve at beginning of period	$ 863	$ -	$ -	$ -
Increase in reserve	1,264	-	2,127	-
Reserve at end of period	$ 2,127	$ -	$ 2,127	$ -

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

Reserve for pension solvency payments	Three Months Ended June 30, 2011	2010	Six Months Ended June 30, 2011	2010
	In thousands		*In thousands*	
Reserve at beginning of period	$ -	$ -	$ -	$ -
Increase in reserve	750	-	750	-
Reserve at end of period	$ 750	$ -	$ 750	$ -

As discussed in the operation section of this report, pension solvency deficiency payments will be required starting in the second half of 2011. In the second quarter it was decided to establish a reserve in the distributable cash calculation at the higher end of the range of potential required future payments.

These reserves are non-IFRS measures established and utilized at the discretion of the board of directors of the managing general partner of FPLP, and have no impact on the IFRS financial statements.

Debt Covenants

The HSBC credit facility (see Note 6 to the 2010 Annual Consolidated Financial Statements of FPLP) includes negative covenants which must be observed in order to avoid an accelerated termination of the agreement. These covenants include certain restrictions on paying distributions, the sale of assets, the purchase of investments and acquisitions, share capital, allowing encumbrances and certain issuances of loans or financial assistance. FPLP is restricted from making distributions which exceed distributable cash by more than $1.0 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:

Twelve Months Ended	Leverage ratio	Fixed Charge ratio	Current ratio
June 30, 2011	1.9	3.2	2.2
March 31, 2011	1.9	3.3	2.0
December, 31, 2010	1.8	3.6	3.4
September 30, 2010	1.7	4.5	3.2
June 30, 2010	1.8	5.3	3.1

FPLP was in compliance with its covenants during the periods noted above.

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, 2010. There have been no changes during 2011 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 six months ended June 30, 2011 were $1.0 million and $2.1 million, compared to $1.0 million and $1.8 million for the same periods last year.

In connection with the HSBC credit facility, FPLP pays a guarantee fee to FP Funding Corporation ("FundingCo"), a company controlled indirectly by Ronald Stern and Robert Silver, who together control 51% of FPLP, as FundingCo has made a $5.0 million deposit into a HSBC guarantee account (as discussed in Note 6 to the 2010 Annual Consolidated Financial Statements of FPLP) held as collateral until the term loan is repaid. The guarantee fee in the three and six months ending June 30, 2011 was $0.1 million and $0.2 million compared to $0.1 million and $0.2 million for the same periods in 2010.

Disclosure controls and procedures and internal controls over financial reporting

In FPI's 2010 filings, the CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporation's disclosure controls and procedures, and the design and effectiveness of internal controls over financial reporting.

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

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

Changes in internal controls over financial reporting

There have been no changes to FPI's internal controls over financial reporting that occurred during the second quarter of 2011 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Critical Accounting Estimates

There have been no significant changes in FPI's or FPLP's critical accounting estimates since December 31, 2010.

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. FPI and FPLP began 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 including a transitional balance sheet at January 1, 2010.

In order to prepare for the transition date on January 1, 2011, FPI and FPLP finalized the evaluation of this new requirement and created a detailed plan to converge to IFRS. The detailed plan included an analysis of the project structure and governance, resources and training, analysis of key IFRS versus Canadian GAAP differences and a phased approach to the assessment of accounting policies and implementation. FPI's information technology, data systems and business processes were not impacted significantly by the changeover to IFRS.

Adjustments required on transition to IFRS have been made retrospectively against opening deficit at January 1, 2010. 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. FPI and FPLP analyzed the various accounting policy options available and implemented those determined to be most appropriate for our specific circumstances. The conclusions regarding these options are as follows, but will be subject to ongoing assessment during the transition year:

IFRS Exemption Options Applied

a. Business combinations - IFRS 1 provides the election to apply IFRS 3, *Business Combinations*, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date or all business combinations that occurred subsequent to a date prior to transition selected by FPLP. FPLP elected to prospectively apply IFRS 3 to all business combinations subsequent to January 1, 2010 (Business Combinations Election Date). Accordingly any business combinations prior to such Business Combinations Election Date have not been restated. Any goodwill arising on such business combinations before the Business Combinations Election Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions.

b. Employee Benefits – IFRS 1 provides an election to recognize all cumulative actuarial gains and losses at the transition date as a direct entry to deficit rather than retrospectively applying IFRS pension guidance and recalculating amounts on transition. FPLP elected to apply the optional exemption and recognized all cumulative actuarial gains and losses at the transition date in retained earnings.

Income taxes (FPI) - FPI has recognized deferred income taxes related to temporary differences associated with the accounting and tax values of the assets and liabilities within FPLP. Accordingly, FPI recognized deferred income taxes associated with the change in the measurement of employee future benefit assets and liabilities, as described above. The impact of FPI's 49% equity share is a reduction in the deferred income tax liability at January 1, 2010 of $186,000.

From January 1, 2010 to December 31, 2010, the Fund (the predecessor to FPI) was structured as an income trust and on May 5, 2010 unitholders approved the conversion from an income trust to a corporation. For interim periods prior to May 5, 2010, deferred taxes under IFRS must be measured using the highest marginal tax rate of 43.7%. On January 1, 2010, this resulted in an increase to the Fund's deferred tax liability of $537,000 as a result of the transition to IFRS. This increase reversed through the statements of earnings and comprehensive income as a deferred tax recovery in the second quarter of 2010 as a result of the approved conversion to a corporation.

FPLP Intangible Assets – Temporary Differences

Under the current Canadian Income Tax Act, "eligible capital expenditures" are deductible for tax purposes to the extent of 75% of the cost incurred, and proceeds are ultimately taxable only to the extent of 75% of the amount received. Under Canadian GAAP, the 25% of the amounts not deductible are included in the tax basis of the related asset. Under IFRS the 25% of the amounts not deductible do not meet the definition of tax basis. A deferred tax liability of approximately $388,000 was recognized related to such temporary difference.

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 finalized its review of its fixed assets to identify whether any additional components are required to be recognized on transition to IFRS. The annual impact of the additional componentization 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 (for finite lived tangible and intangible assets) 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 has finalized its IAS 36 impairment assessments related to its recognized goodwill and indefinite lived intangible assets at January 1, 2010 and December 31, 2010, and no impairment charge will be recognized under IFRS.

The AcSB and International Accounting Standards Board may continue to issue new accounting standards during the conversion year. FPI and FPLP will continue to monitor any changes and consider the impact changes in the standards would have on the consolidated financial statements.

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

Accounting standards issued but not yet effective

IFRS 9 - Financial Instruments
IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. FPI has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 10 – Consolidation
IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. FPI has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 11 - Joint Arrangements
IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will

recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers.*

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. FPI has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 12 – Disclosure of Interests in Other Entities
IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. FPI has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 13 - Fair Value Measurement
IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. FPI has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

Amendments to IAS 19 - Employee Benefits
The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to enhance the disclosures for all employee benefits. Actuarial gains and losses are renamed 'remeasurements' and will be recognized immediately in other comprehensive income ("OCI"). Remeasurements recognized in OCI will not be recycled through profit or loss in subsequent periods. The amendments also accelerate the recognition of past service costs whereby they are recognized in the period of a plan amendment. The annual expense for a funded benefit plan will be computed based on the application of the discount rate to the net defined benefit asset or liability. The amendments to IAS 19 will also impact the presentation of pension expense as benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income.

A number of other amendments have been made to recognition, measurement and classification including those re-defining short-term and other long-term benefits guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing factors and expanded disclosures.

The Corporation's current accounting policy for employee benefits for the presentation of pension expense and the immediate recognition of actuarial gains and losses in OCI is consistent with the requirements in the new standard, however, additional disclosures and the computation of annual expense based on the application of the discount rate to the net defined benefit asset or liability will be required in relation to the revised standard.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. FPI has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

Amendments to IAS 1 - Financial Statement Presentation
The amendment requires entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled such as remeasurements resulting from the amendments to IAS 19 will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

This standard is required to be applied for annual periods beginning on/after July 1, 2012, with earlier adoption permitted. FPI has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

Historical Distributions Paid Analysis

FPLP:	Three Months ended June 30, 2011	Six Months ended June 30, 2011	Twelve Months ended December 31, 2010	Twelve months ended December 31, 2009
		In thousands		
Cash provided by operating activities	$ 3,303	$ 9,787	$ 18,304	$ 11,316
Net earnings	5,154	7,887	15,973	7,117
Distributions paid during the period	2,712	5,422	10,749	9,477
Excess of cash provided by operating activities over cash distributions paid	$ 591	$ 4,365	$ 7,555	$ 1,839
Excess (shortfall) of net earnings over cash distributions paid	$ 2,442	$ 2,465	$ 5,224	$ (2,360)

Cash distributions paid in one of the four periods exceeded net earnings. FPLP does not use net earnings as a basis for determining the level of distributions to Shareholders. 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.

FPI:	Three Months ended June 30, 2011	Six Months Ended June 30, 2011	Twelve Months ended December 31, 2010	Twelve Months ended December 31, 2009
		In thousands		
Cash provided by operating activities	$ 1,261	$ 2,368	$ 4,439	$ 8,259
Net earnings	1,776	2,728	7,168	6,853
Dividends paid during the period	1,036	2,140	5,212	7,869
Excess (shortfall) of cash provided by operating activities over dividends paid	$ 225	$ 228	$ (773)	$ 390
Excess (shortfall) of net earnings over dividends paid	$ 740	$ 588	$ 1,956	$ (1,016)

Dividends paid in one of the four periods exceeded net earnings. FPI does not use net earnings as a basis for determining the level of dividends to Shareholders. Dividends are determined by the Directors (previously the Trustees) and are primarily dependent upon the amount of distributions received from FPLP. Because amortization charged as an expense in calculating net earnings of FPLP in accordance with IFRS has exceeded capital expenditures charged as a reduction of distributable cash of FPLP in all periods and deferred income tax expense is a non-cash reduction of net earnings, this result is not unexpected.

Dividends paid in the twelve months ended December 31, 2010 exceeded cash provided by operating activities due primarily to the settling of the subordinated notes at December 31, 2009 and the non-recurring administration expenses relating to the conversion of the Fund to FPI. The subordinated notes were settled effective December 31, 2009 and interest owing on those notes was paid on that date, when it would normally have been paid in January 2010. This had the effect of increasing FPI's cash balance at December 31, 2009 and decreasing the cash that would have otherwise been received in January 2010 and was the primary contributing factor to the temporary shortfall between dividends paid and cash provided by operating activities. This is a temporary deficiency; going forward, monthly distributions from FPLP will exceed FPI's administration costs and dividends declared by FPI, as has been the case in prior periods.

Business Risks and Uncertainties

Revenue
Advertising revenues, which account for approximately 69% 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 $4.9 million in the first two quarters of 2011. 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-IFRS Measures

(1) EBITDA

FPLP believes that in addition to net earnings as reported on FPLP's interim condensed consolidated income statement, EBITDA is a useful supplemental measure as it is a measure used by many of FPLP's unitholders, creditors and analysts as a proxy for the amount of cash generated by FPLP's operating activities and is not a recognized measure of financial performance under IFRS. Investors are cautioned that EBITDA should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of FPLP`s performance. FPLP's method of calculating EBITDA is detailed below and may differ from other issuers and, accordingly, EBITDA may not be comparable to measures used by other issuers.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	In thousands		*In thousands*	
Net earnings for the period	$ 5,154	$ 4,878	$ 7,887	$ 7,896
Add (subtract):				
Depreciation of property, plant and equipment	971	1,473	1,867	2,902
Amortization of intangible assets	175	178	348	356
Finance costs	637	568	1,267	1,360
Other income	(41)	(29)	(86)	(60)
Other (gains) losses	(35)	-	(38)	85
Loss on Derecognition of Variable Interest Entity	-	-	-	58
EBITDA	$ 6,861	$ 7,068	$ 11,245	$ 12,597

(2) Distributable Cash Attributable to FPI

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

	Three Months Ended June 30		Six Months Ended June 30,	
	2011	2010	2011	2010
	In thousands		*In thousands*	
Distributable cash of FPLP:				
EBITDA[(1)]	$ 6,861	$ 7,068	$ 11,245	$ 12,597
Other income	41	29	86	60
Finance costs on notes payable, term loan, guarantee fee and finance leases, excluding accretion of related deferred financing costs	(613)	(542)	(1,218)	(1,240)
Principal repayment of term loan	(1,251)	(1,252)	(2,502)	(2,085)
Maintenance capital expenditures	(415)	(135)	(781)	(328)
Decrease in reserve for future maintenance capital	165	-	281	-
Proceeds from sale of property, plant and equipment	481	-	497	221
Principal repayments on finance leases	(69)	-	(90)	-
Reserve for future cash income taxes	(1,264)	-	(2,127)	-
Reserve for pension solvency payments	(750)	-	(750)	-
	$ 3,186	$ 5,168	$ 4,641	$ 9,225
49% attributable to FPI	$ 1,561	$ 2,532	$ 2,274	$ 4,520
Administration expenses	(107)	(254)	(188)	(354)
Income taxes	-	-	-	-
Distributable cash attributable to FPI	$ 1,454	$ 2,278	$ 2,086	$ 4,166
Distributable cash attributable to FPI – per share	$ 0.211	$ 0.330	$ 0.302	$ 0.604

A summary of distributable cash and distributions declared for the trailing twelve months to June 30, 2011 and for the period from commencement of FPI (and previously the Fund) on May 28, 2002 to June 30, 2011 is as follows:

Distributable Cash of FPLP:

	Last Twelve Months	Since May 28, 2002
	In thousands	
EBITDA[(1)]	$ 23,199	$ 220,904
Interest income	177	1,122
Finance costs on notes payable, term loan, guarantee fee and finance leases, excluding accretion of related deferred financing costs	(2,427)	(27,437)
Principal repayment of term loan	(5,004)	(7,089)
Principal repayment of finance leases	(90)	(1,226)
Maintenance capital expenditures	(1,069)	(9 ,417)
Decrease (increase) in reserve for future maintenance capital expenditures	281	(1,219)
Strategic capital expenditures	-	(1,331)
Decrease in reserve for strategic capital, acquisitions, and/or debt reduction	-	(353)
Proceeds on disposal of property, plant and equipment	518	2,036
Current income and capital tax expense	-	(196)
Reserve for future income taxes	(2,127)	(2,127)
Reserve for pension solvency payments	(750)	(750)
Distributable cash of FPLP	$ 12,708	$ 172,917

Distributable Cash Attributable to FPI (previously the Fund):

	Last Twelve Months	Since May 28, 2002
	In thousands	
49% of FPLP distributable cash	$ 6,227	$ 84,729
Administration expenses	(440)	(2,844)
Interest income	2	54
Distributable cash attributable to FPI	$ 5,789	$ 81,939
Distributable cash attributable to FPI – per share	$ 0.839	$ 11.871
Cash distributions declared by FPI – per share	$ 0.660	$ 10.523
Payout Ratio	78.7%	88.6%

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

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	In thousands		*In thousands*	
Cash flow from operating activities of FPLP	$ 3,303	$ 6,336	$ 9,787	$ 12,069
Add (subtract):				
Net change in non-cash working capital items (*)	2,986	219	326	(710)
Maintenance capital expenditures	(415)	(135)	(781)	(328)
Decrease in reserve for future maintenance capital(**)	165	-	281	-
Principal repayment of term loan(***)	(1,251)	(1,252)	(2,502)	(2,085)
Loss on derecognition of the Variable Interest Entity	-	-	-	58
Proceeds from sale of property, plant and equipment (****)	481	-	497	221
Principal repayment on finance leases	(69)	-	(90)	-
Reserve for future income taxes(*****)	(1,264)	-	(2,127)	-
Reserve for pension solvency payments(******)	(750)	-	(750)	-
Distributable cash of FPLP	$ 3,186	$ 5,168	$ 4,641	$ 9,225

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

(*) 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-IFRS measure established and utilized at the discretion of the board of directors of FPLP, and has no impact on the IFRS financial statements.

(***) The monthly principal repayments of the term loan is a requirement under the HSBC Bank Canada term facility (see note 6 in FPLP's Annual Consolidated 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 statements of cash flows.

(*****) Reserve for future income taxes is a deduction in determining distributable cash. This reserve has been established to fund future income taxes payable resulting from a temporary deferral of taxes as a result of FPI's year end being December 30 as discussed in the taxation section of this report.

(******) The reserve for pension solvency payments is a deduction in determining distributable cash. The reserve was established in the second quarter to fund pension solvency deficiency payments which will be required starting in the second half of 2011 as discussed in the operations section of this report.

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

	Note	As at June 30, 2011	As at December 31, 2010
ASSETS			
Current Assets			
Cash and cash equivalents		$ 271	$ 43
Prepaid expenses and other assets		46	21
		317	64
Investment in FPCN General Partner Inc.		49	49
Investment in FP Canadian Newspapers Limited Partnership	3	61,093	59,921
		$ 61,459	$ 60,034
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		$ 112	$ 191
Dividend payable	5	345	414
		457	605
Long-term liabilities			
Deferred income tax liability	7	1,744	804
		2,201	1,409
Shareholders' equity			
Share capital	6	71,373	71,373
Deficit		(12,115)	(12,748)
		59,258	58,625
		$ 61,459	$ 60,034

(See accompanying notes)

FP Newspapers Inc.
(formerly FP Newspapers Income Fund)
Condensed Consolidated Statements of Earnings and Comprehensive Income
(unaudited, in thousands of Canadian dollars except per share amounts)

	Note	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Equity interest from FP Canadian Newspapers Limited Partnership Class A limited partner units	3	$ 2,526	$ 2,390	$ 3,865	$ 3,869
Administration expenses		(107)	(254)	(188)	(354)
		2,419	2,136	3,677	3,515
Other income		1	-	2	-
Deferred income tax (expense) recovery	7	(644)	596	(950)	668
Net earnings for the period		$ 1,776	$ 2,732	$ 2,729	$ 4,183
Equity interest of other comprehensive loss from FPLP		(266)	(211)	(35)	(423)
Deferred income tax recovery (expense)		72	(14)	10	43
Comprehensive income for the period		$ 1,582	$ 2,507	$ 2,704	$ 3,803
Weighted average number of Common Shares outstanding	6	6,902,592	6,902,592	6,902,592	6,902,592
Net earnings per share		$ 0.257	$ 0.396	$ 0.395	$ 0.606

FP Newspapers Inc.
(formerly FP Newspapers Income Fund)
Condensed Consolidated Statements of Changes in Equity
(unaudited, in thousands of Canadian dollars except per share amounts)

	Share Capital	Deficit	Total Shareholders' Equity
At December 31, 2010	$ 71,373	$ (12,748)	$ 58,625
Net earnings for the period	-	2,729	2,729
Other comprehensive (loss) for the period	-	(25)	(25)
Comprehensive income for the period	-	2,704	2,704
Dividends	-	(2,071)	(2,071)
At June 30, 2011	$ 71,373	$ (12,115)	$ 59,258
At January 1, 2010	$ 69,026	$ (12,610)	$ 56,416
Net earnings for the period	-	4,183	4,183
Other comprehensive income for the period	-	(380)	(380)
Comprehensive income for the period	-	3,803	3,803
Dividends	-	(2,485)	(2,485)
At June 30, 2010	$ 69,026	$ (11,292)	$ 57,734

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

	Note	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash provided by (used in):					
Operating activities					
Net earnings for the period		$ 1,776	$ 2,732	$ 2,729	$ 4,183
Items not affecting cash:					
Equity interest from Class A Units of FP Canadian Newspapers Limited Partnership	3	(2,526)	(2,390)	(3,865)	(3,869)
Deferred income tax expense (recovery)		644	(596)	950	(668)
Distributions received on Class A Units of FP Canadian Newspapers Limited Partnership	3	1,329	1,329	2,658	2,318
Net change in non-cash working capital items		38	175	(104)	197
		1,261	1,250	2,368	2,161
Financing activities					
Dividends paid		(1,036)	(1,242)	(2,140)	(2,727)
Increase (decrease) in cash and cash equivalents		225	8	228	(566)
Cash and cash equivalents – beginning of period		46	242	43	816
Cash and cash equivalents – end of period		$ 271	$ 250	$ 271	$ 250

(See accompanying notes)

1. GENERAL INFORMATION

FP Newspapers Inc. ("FPI"), which was incorporated under the Canada Business Corporations Act on March 17, 2010, is the successor to the business of FP Newspapers Income Fund (the "Fund"). FPI's year end is December 30. The Fund was an unincorporated limited-purpose trust established under the laws of Ontario on May 15, 2002 to invest in securities issues by FP Canadian Newspapers Limited Partnership ("FPLP"). In response to changes in the tax treatment of income trusts, the trustees of the Fund determined that it would be in the best interests of the Fund and its unitholders to convert the Fund from a trust to a corporation pursuant to a plan of arrangement (the "conversion"). Effective on December 31, 2010, all of the outstanding units of the Fund were exchanged on a one-for-one basis for common shares of FPI which are listed on the Toronto Stock Exchange under the symbol FP. FPI owns securities entitling it to 49% of the distributable cash as defined in the partnership agreement of FPLP. FPLP is a limited partnership formed under the laws of British Columbia on August 9, 1999. It owns the Winnipeg Free Press, the Brandon Sun and other newspapers and media businesses. The address of its registered office is Suite 2900, P.O. Box 11583, 650 West Georgia Street, Vancouver, British Columbia, V6B 4N8.

Since there was no change in control as a result of the conversion, the transaction has been accounted for as if the conversion had occurred at the beginning of the earliest comparative period presented. These interim condensed consolidated financial statements reflect the entity which owns the 49% interest in FPLP as a corporation subsequent to December 31, 2010 and an income trust prior to the conversion. All references to "Share Capital" refer to FPI's Common Shares subsequent to December 31, 2010 and Fund Units prior to the conversion. All references to "Dividends" refer to dividends paid or payable to holders of FPI Common Shares after December 31, 2010 and to distributions paid or payable to Fund Unitholders prior to the conversion. All references to "Shareholder" refer to holders of Common Shares subsequent to December 31, 2010 and to Fund Unitholders prior to the conversion.

FPLP's revenues are seasonal. As FPLP is FPI's sole investment, FPI's equity interest is also seasonal, with the equity interest from Class A Limited Partner units being highest in the second and fourth quarters.

2. SIGNIFICANT ACCOUNTING POLICIES

FPI prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, FPI began reporting on this basis in its interim condensed consolidated financial statements as at March 31, 2011 and for the three months then ended. In the financial statements, the term "Canadian GAAP" refers to Canadian Generally Accepted Accounting Principles before the adoption of IFRS.

These interim condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. The accounting policies followed in these interim financial statements are the same as those applied in FPI's interim financial statements for the period ended March 31, 2011. FPI has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 8 discloses the impact of the transition to IFRS on FPI's reported equity as at June 30, 2010 and comprehensive income for the three and six months ended June 30, 2010, including the nature and effect of significant changes in accounting policies from those used in FPI's consolidated financial statements for the year ended December 31, 2010.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ended December 31, 2011, as issued and outstanding as of August 9, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in FPI's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including transition adjustments recognized on change-over to IFRS. The condensed interim consolidated financial statements should be read in conjunction with FPI's Canadian GAAP annual financial statements for the year ended December 31, 2010, and FPI's interim financial statements for the quarter ended March 31, 2011 prepared in accordance with IFRS applicable to interim financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying FPI's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the interim condensed consolidated financial statements are disclosed in note 4.

Accounting standards issued but not yet effective

IFRS 9 - Financial Instruments
IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. FPI has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 10 – Consolidation
IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. FPI has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 11 - Joint Arrangements
IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers.*

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. FPI has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 12 – Disclosure of Interests in Other Entities
IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. FPI has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 13 - Fair Value Measurement
IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. FPI has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

Amendments to IAS 19 - Employee Benefits
The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to enhance the disclosures for all employee benefits. Actuarial gains and losses are renamed ‘remeasurements’ and will be recognized immediately in other comprehensive income (“OCI”). Remeasurements recognized in OCI will not be recycled through profit or loss in subsequent periods. The amendments also accelerate the recognition of past service costs whereby they are recognized in the period of a plan amendment. The annual expense for a funded benefit plan will be computed based on the application of the discount rate to the net defined benefit asset or liability. The amendments to IAS 19 will also impact the presentation of pension expense as benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income.
A number of other amendments have been made to recognition, measurement and classification including those re-defining short-term and other long-term benefits guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing factors and expanded disclosures.

FPI’s current accounting policy for employee benefits for the presentation of pension expense and the immediate recognition of actuarial gains and losses in OCI is consistent with the requirements in the new standard, however, additional disclosures and the computation of annual expense based on the application of the discount rate to the net defined benefit asset or liability will be required in relation to the revised standard.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. FPI has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

Amendments to IAS 1 - Financial Statement Presentation
The amendment requires entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled such as remeasurements resulting from the amendments to IAS 19 will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

This standard is required to be applied for annual periods beginning on/after July 1, 2012, with earlier adoption permitted. FPI has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

3. INVESTMENT IN FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP

FPI’s investment in FPLP’s Class A Limited partner units was originally made in May and June of 2002 after the completion of the Initial Public Offering of the Fund. FPI’s investment in Class A limited partner units of FPLP entitle it to 49% of the distributable cash as defined in the Partnership Agreement of FPLP.

(unaudited, tabular amounts in thousands of Canadian dollars)

The investment in FPLP is summarized as follows:

	Class A limited partner units
Balance at January 1, 2010	$ 57,916
Equity interest in net earnings and comprehensive income for the year ended December 31, 2010	6,981
Distributions received for the year ended December 31, 2010	(4,976)
Balance at December 31, 2010	$ 59,921
Equity interest in net earnings and comprehensive income for the six months ended June 30, 2011	3,830
Distributions received for the six months ended June 30, 2011	(2,658)
Balance at June 30, 2011	$ 61,093

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net earnings of FPLP	$ 5,154	$ 4,878	$ 7,887	$ 7,896
Interest attributable to FPI	49%	49%	49%	49%
	2,526	2,390	3,865	3,869
Other comprehensive (loss) of FPLP	(542)	(432)	(71)	(864)
Interest attributable to FPI	49%	49%	49%	49%
Equity interest in other comprehensive (loss) of FPLP	$ (266)	$ (211)	$ (35)	$ (423)

4. USE OF ESTIMATES

The preparation of these interim condensed consolidated financial statements requires FPI to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

FPI has determined that the most significant estimates involve transactions and balances related to its investment in FPLP (note 3). The equity interest from FPI's Class A limited partner units depends on the accuracy of the estimates made in the preparation of the interim condensed consolidated financial statements of FPLP. The actual equity interest may vary from the estimates made in FPLP.

FPI bases its impairment assessment of FPLP, as required, on both the income and market based approach. Under the income approach, management estimates the discounted future cash flows for five years and a terminal value for FPI's investment in FPLP. The future cash flows are based on management's best estimates considering historical and expected operating plans, economic conditions, and general outlook for the industry and geographic market in which FPLP operates. The discount rates used by FPI are based on an industry based debt/equity ratio and considers the risk free rate, risk premium and size premium for possible variations from management's projections. A terminal value is the value attributed to FPLP's operations beyond the projected period using a perpetuity growth rate based on industry, revenue and operating income trends and growth prospects. Under the market approach, FPI estimates fair value by multiplying maintainable earnings before interest, income taxes, depreciation, amortization and other non-recurring costs by multiples based on market comparables. The estimation process for the income and market approaches results in a range of values for which management uses the simple average of the mid-points under each approach.

5. DIVIDEND PAYABLE

FPI declared a dividend payable in respect of the month of June 2011 of $345,130 or $0.05 per share (June 2010 – $414,156 or $0.06 per share) which was paid July 29, 2011 to holders of record on June 30, 2011.

6. SHARE CAPITAL

The articles of incorporation of FPI provide that an unlimited number of common shares and one voting preferred share may be issued. Each common share is transferable and represents an equal undivided beneficial interest in any dividends of FPI and in the net assets of FPI in the event of termination or winding up of FPI. All common shares have equal rights and privileges. Each common share entitles the holder thereof to participate equally in the allocations and distributions and to one vote at all meetings of FPI shareholders for each share held. The common shares issued are not subject to future calls or assessments. As at June 30, 2011 6,902,592 Common Shares were issued with a paid-up share capital amount of $71,373,000. The preferred share is held by FPCN Media Management Ltd. ("`FPCN"). The preferred share entitles the holder the right to elect one-third of FPI's directors, but does not entitle the holder thereof to any economic rights as a common shareholder of FPI. If and when Canstar Publications Ltd. and R.I.S. Media Ltd. (the General Partners of FPLP) cease to own at least ten percent of the outstanding partnership units of FPLP, the preferred share held by FPCN will automatically be redeemed by FPI for a redemption price of $1.00 and be cancelled.

(unaudited, tabular amounts in thousands of Canadian dollars)

7. INCOME TAX EXPENSE

Income tax expense is made up of the following:

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Current income tax on income	$ -	$ -	$ -	$ -
Deferred income tax (expense) recovery	(644)	596	(950)	668
Income tax (expense) recovery	(644)	596	(950)	668
Deferred income tax recognized in OCI	72	(14)	10	43
Total income taxes	$ (572)	$ 582	$ (940)	$ 711

The deferred income tax (expense) for income taxes reflects an effective income tax rate which differs from its combined Canadian federal and provincial statutory income tax rate as follows:

	Three months ended June 30, 2011	Six months ended June 30, 2011
Income taxes at combined Canadian statutory income tax rate of 28.5%	$ (613)	$ (1,038)
Difference between current tax rate and deferred income tax rate in temporary differences	33	57
Adjustments in respect of prior year	(16)	21
Other	24	20
Total income tax (expense)	$ (572)	$ (940)

8. TRANSITION TO IFRS

FPI adopted IFRS in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards.* The first date at which IFRS was applied was January 1, 2010 (“Transition Date”). In accordance with IFRS, FPI has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- applied certain optional exemptions and certain mandatory exceptions as applicable for first-time IFRS adopters.

(unaudited, tabular amounts in thousands of Canadian dollars)

INITIAL ELECTIONS UPON ADOPTION

No IFRS optional exemptions were applied, however FPI has recognized its proportionate share of FPLP's IFRS transition adjustments. As FPI is a reporting issuer as defined by Canadian Securities Regulations, the financial statements are accompanied by FPLP's financial statements.

IFRS Mandatory Exceptions

Set forth below are the applicable IFRS 1 mandatory exceptions in the conversion from Canadian GAAP to IFRS.

Estimates - Hindsight is not used to create or revise estimates. The estimates previously made by FPI under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

RECONCILIATIONS OF CANADIAN GAAP TO IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. FPI's first-time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows. The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity:

Reconciliation of Equity

	December 31 2010	June 30 2010	January 1 2010
Shareholders' equity under Canadian GAAP	$ 59,779	$ 58,594	$ 57,581
Differences increasing (decreasing) reported shareholders' equity:			
Proportionate share of FPLP differences (a)	(1,272)	(849)	(426)
Deferred income taxes (b)	118	(11)	(739)
Total equity under IFRS	$ 58,625	$ 57,734	$ 56,416

CHANGES IN ACCOUNTING POLICIES

In addition to the mandatory exceptions discussed above, the following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS policies applied by FPI. Only the differences having an impact on FPI are described below. The following is not a complete summary of all of the differences between Canadian GAAP and IFRS. Relative to the impacts on FPI, the descriptive caption next to each item below corresponds to the same item and descriptive caption in the tables that follow, which reflect the quantitative impacts from each change. Unless a quantitative impact was noted below, the impact from the change was not material to FPI.

a. Employee Benefits (FPLP)

FPI has recognized its proportionate share of the accounting policies adopted by FPLP below:

Optional exemptions applied

FPLP elected to apply the optional exemption and recognized all cumulative actuarial gains and losses at the transition date in cumulative earnings.

Accounting policy differences

Actuarial Gains (Losses)

In accordance with CICA 3461, FPLP adopted an accounting policy of amortizing actuarial gains (losses) using the corridor method whereby the excess of the net actuarial gain or loss over 10% of the greater of the projected obligation and the fair value of the plan assets is amortized over the average remaining service period of active employees.

In accordance with IAS 19, FPLP adopted an accounting policy of recognizing actuarial gains and losses in full in the period in which they occur, in other comprehensive income and retained earnings without recycling to the statement of income in subsequent periods.

The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 14 "IAS 19 - The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" ("IFRIC 14") addresses the application of paragraph 58 of IAS 19 which limits the measurement of a defined benefit asset to "the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan" plus past service cost.

IFRIC 14 provides guidance regarding (a) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19, (b) how a minimum funding requirement might affect the availability of reductions in future contributions and (c) when a minimum funding requirement might give rise to a liability. FPLP has determined that it must record an additional liability associated with the minimum funding requirements in its registered pension plan. The additional liability is computed by discounting the minimum funding requirements from the actuarial funding valuations by the discount rate as defined by IAS 19.

There is Canadian GAAP guidance related to the limit on the carrying amount of an accrued benefit asset and recognition of a related valuation allowance. However, IFRS and Canadian GAAP have different methods of calculating the defined benefit asset limit. Furthermore, Canadian GAAP did not address accounting for an additional liability due to minimum funding requirements.

b. Income taxes (FPI)

FPI has recognized deferred income taxes related to temporary differences associated with the accounting and tax values of the assets and liabilities within FPLP. Accordingly, FPI recognized deferred income taxes associated the change in the measurement of employee future benefit assets and liabilities, as described above. The impact of FPI's 49% equity share is a reduction in the deferred income tax liability at January 1, 2010 of $186,000.

From January 1, 2010 to December 31, 2010, the Fund (the predecessor to FPI) was structured as an income trust and on May 5, 2010 unitholders approved the conversion from an income trust to a corporation. For interim periods prior to May 5, 2010, deferred taxes under IFRS must be measured using the highest marginal tax rate of 43.7%. On January 1, 2010, this resulted in an increase to the Fund's deferred tax liability of $537,000 as a result of the transition to IFRS. This increase reversed through the statements of earnings and comprehensive income as a deferred tax recovery in the second quarter of 2010 as a result of the approved conversion to a corporation.

FPLP Intangible Assets – Temporary Differences

Under the current Canadian Income Tax Act, "eligible capital expenditures" are deductible for tax purposes to the extent of 75% of the cost incurred, and proceeds are ultimately taxable only to the extent of 75% of the amount received. Under Canadian GAAP, the 25% of the amounts not deductible are included in the tax basis of the related asset. Under IFRS the 25% of the amounts not deductible do not meet the definition of tax basis. A deferred tax liability of approximately $388,000 was recognized related to such temporary difference.

(unaudited, tabular amounts in thousands of Canadian dollars)

Restated FPI financial statements

The following are reconciliations of the financial statements previously presented under Canadian GAAP to the financial statements prepared under IFRS.

Reconciliation of Consolidated Comprehensive Income for the three months ended June 30, 2010

	Canadian GAAP	IFRS Adjustments	IFRS Balances
Equity interest from FP Canadian Newspapers Limited Partnership Class A limited partner Units	$ 2,390	$	$ 2,390
Administration expenses	(254)		(254)
	2,136		2,136
Deferred income tax (expense) recovery	(89)	685	596
Net earnings for the period	$ 2,047	685	$ 2,732
Equity interest in other comprehensive (loss) from FP Canadian Newspapers Limited Partnership (net of tax of ($14)) (a) (b)	-	(225)	(225)
Comprehensive income for the period	$ 2,047	$ 460	$ 2,507

Reconciliation of Consolidated Comprehensive Income for the six months ended June 30, 2010

	Canadian GAAP	IFRS Adjustments	IFRS Balances
Equity interest from FP Canadian Newspapers Limited Partnership Class A limited partner Units	$ 3,869	$	$ 3,869
Administration expenses	(354)		(354)
	3,515		3,515
Deferred income tax (expense) recovery	(17)	685	668
Net earnings for the period	$ 3,498	685	$ 4,183
Equity interest in other comprehensive (loss) from FP Canadian Newspapers Limited Partnership (net of tax of $43) (a) (b)	-	(380)	(380)
Comprehensive income for the period	$ 3,498	$ 305	$ 3,803

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

	Note	As at June 30, 2011	As at December 31, 2010
ASSETS			
Current Assets			
Cash and cash equivalents		$ 6,294	$ 6,477
Accounts receivable		13,762	13,026
Inventories		1,115	956
Assets held for sale		53	-
Prepaid expenses and other assets	9	1,661	2,938
		22,885	23,397
Restricted cash		5,000	5,000
Property, plant and equipment, net		41,373	37,867
Investment		196	-
Intangible assets		7,483	7,617
Goodwill		71,160	71,160
		$ 148,097	$ 145,041
LIABILITIES AND UNITHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		$ 8,946	$ 8,359
Accrued pension benefit liability	6	1,670	1,541
Prepaid subscriptions and deferred revenue		3,155	2,934
Finance lease obligations	9	390	-
Term loan		5,000	5,000
		19,161	17,834
Long-term liabilities			
Finance lease obligations	9	1,792	-
Term loan		47,766	50,218
		68,719	68,052
Unitholders' equity			
Partner units		98,280	98,280
Deficit		(18,897)	(21,291)
Accumulated other comprehensive loss		(5)	-
		79,378	76,989
		$ 148,097	$ 145,041

Commitments (Note 9)
(See accompanying notes)

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

	Notes	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenue					
Advertising		$ 20,807	$ 19,769	$ 38,004	$ 37,337
Circulation		7,119	7,287	13,636	14,343
Commercial Printing		966	1,258	1,397	2,388
Digital		728	482	1,324	893
Promotion and services		306	150	562	355
		$ 29,926	$ 28,946	$ 54,923	$ 55,316
Operating expenses, excluding depreciation and amortization					
Employee compensation		11,094	10,591	21,474	20,976
Newsprint and other paper		2,687	2,463	4,894	4,630
Delivery of newspapers		4,357	4,316	8,357	8,246
Restructuring charge	10	264	-	264	-
Other		4,663	4,508	8,689	8,867
		23,065	21,878	43,678	42,719
Depreciation and amortization	5	1,146	1,651	2,215	3,258
		5,715	5,417	9,030	9,339
Other income		41	29	86	60
Other gains (losses)	5	35	-	38	(143)
Finance costs	5	(637)	(568)	(1,267)	(1,360)
Net earnings for the period		$ 5,154	$ 4,878	$ 7,887	$ 7,896
Unrealized (loss) gain on investment		(5)	73	(5)	69
Actuarial (loss) on defined benefits plan	6	(542)	(432)	(71)	(864)
Comprehensive income for the period		$ 4,607	$ 4,519	$ 7,811	$ 7,101

(See accompanying notes)

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

	Partner Units	Deficit	Accumulated Other Comprehensive (Loss) income	Total Unitholders' Equity
December 31, 2010	$ 98,280	$ (21,291)	$ -	$ 76,989
Net earnings for the period	-	7,887	-	7,887
Distributions paid	-	(5,422)	-	(5,422)
Other comprehensive (loss) for the period	-	(71)	(5)	(76)
June 30, 2011	$ 98,280	$ (18,897)	$ (5)	$ 79,378

January 1, 2010	$ 98,280	$ (24,788)	$ (203)	$ 73,289
Net earnings for the period	-	7,896	-	7,896
Distributions paid	-	(5,325)	-	(5,325)
Other comprehensive (loss) income for the period	-	(864)	69	(795)
June 30, 2010	$ 98,280	$ (23,081)	$ (134)	$ 75,065

(See accompanying notes)

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

	Notes	Three Months Ended June 30,		Six Months Ended June 30,	
				2011	2010
Cash provided by (used in):					
Operating activities					
Net earnings for the period		$ 5,154	$ 4,878	$ 7,887	$ 7,896
Items not affecting cash:					
Amortization of property, plant and equipment and intangible assets	5	1,146	1,651	2,215	3,258
Accretion of deferred financing costs	5	24	26	49	120
(Gain) loss on disposal of property, plant and equipment		(35)	-	(38)	85
		6,289	6,555	10,113	11,359
Net change in non-cash working capital items		(2,986)	(219)	(326)	710
		3,303	6,336	9,787	12,069
Investing activities					
Purchases of property, plant and equipment		(338)	(135)	(680)	(328)
Purchase of intangibles		(77)	-	(101)	-
Investment		(201)	-	(201)	-
Acquisition	7	-	-	(3,457)	-
Proceeds from sale of property, plant and equipment		481	-	497	221
Increase in restricted cash					(5,000)
		(135)	(135)	(3,942)	(5,107)
Financing activities					
Distributions to partners		(2,712)	(2,712)	(5,422)	(5,325)
Repayment of notes payable		-	-	-	(60,000)
Proceeds from financing lease		1,030	-	1,986	
Proceeds from term loan		-	-	-	60,000
Term loan refinancing costs		-	-	-	(295)
Principal repayments of finance lease		(69)	-	(90)	
Principal repayment of term loan		(1,251)	(1,252)	(2,502)	(2,085)
		(3,002)	(3,964)	(6,028)	(7,705)
Increase (decrease) in cash and cash equivalents		166	2,237	(183)	(743)
Cash and cash equivalents - beginning of period		6,128	6,198	6,477	9,178
Cash and cash equivalents - end of period		$ 6,294	$ 8,435	$ 6,294	$ 8,435
Supplemental Cash Flow Information:					
Interest paid during the period		$ 618	$ 543	$ 1,234	$ 1,465

(See accompanying notes)

1. General Information

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

These interim condensed consolidated financial statements include the operating businesses owned by FPLP. The managing general partner of FPLP is FPCN General Partner Inc. ("FPGP"). These interim condensed consolidated financial statements include only the assets, liabilities, revenues and expenses of FPLP and its subsidiaries and do not include the other assets, liabilities, revenues and expenses, including income taxes of the partners.

2. Significant Accounting Policies

FPLP prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, FPLP began reporting on this basis in its interim condensed consolidated financial statements as at March 31, 2011 and for the three months then ended. In the financial statements, the term "Canadian GAAP" refers to Canadian Generally Accepted Accounting Principles before the adoption of IFRS.

These interim condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim condensed consolidated financial statements, including IAS 34 and IFRS 1. The accounting policies followed in these interim financial statements are the same as those applied in FPI's interim financial statements for the period ended March 31, 2011. FPLP has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 8 discloses the impact of the transition to IFRS on FPLP's reported equity as at June 30, 2010 and comprehensive income for the three and six months ended June 30, 2010, including the nature and effect of significant changes in accounting policies from those used in FPLP's consolidated financial statements for the year ended December 31, 2010.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ended December 31, 2011, as issued and outstanding as of August 9, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in FPLP's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including transition adjustments recognized on change-over to IFRS. The condensed interim consolidated financial statements should be read in conjunction with FPLP's Canadian GAAP annual financial statements for the year ended December 31, 2010, and FPLP's interim financial statements for the quarter ended March 31, 2011 prepared in accordance with IFRS applicable to interim financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying FPLP's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the interim condensed consolidated financial statements are disclosed in note 3.

Accounting standards issued but not yet effective

IFRS 9 - Financial Instruments
IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. FPLP has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 10 – Consolidation
IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. FPLP has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 11 - Joint Arrangements
IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers.*

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. FPLP has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 12 – Disclosure of Interests in Other Entities
IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. FPLP has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 13 - Fair Value Measurement
IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. FPLP has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

Amendments to IAS 19 - Employee Benefits
The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to enhance the disclosures for all employee benefits. Actuarial gains and losses are renamed 'remeasurements' and will be recognized immediately in other comprehensive income ("OCI"). Remeasurements recognized in OCI will not be recycled through profit or loss in subsequent periods. The amendments also accelerate the recognition of past service costs whereby they are recognized in the period of a plan amendment. The annual expense for a funded benefit plan will be computed based on the application of the discount rate to the net defined benefit asset or liability. The amendments to IAS 19 will also impact the presentation of pension expense as benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income.

A number of other amendments have been made to recognition, measurement and classification including those re-defining short-term and other long-term benefits guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing factors and expanded disclosures.

FPLP's current accounting policy for employee benefits for the presentation of pension expense and the immediate recognition of actuarial gains and losses in OCI is consistent with the requirements in the new standard, however, additional disclosures and the computation of annual expense based on the application of the discount rate to the net defined benefit asset or liability will be required in relation to the revised standard.

This standard is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. FPLP has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

Amendments to IAS 1 - Financial Statement Presentation
The amendment requires entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled such as remeasurements resulting from the amendments to IAS 19 will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

This standard is required to be applied for annual periods beginning on/after July 1, 2012, with earlier adoption permitted. FPLP has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

3. Use of Estimates

The preparation of interim condensed consolidated financial statements require management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances.

Long Lived Assets
FPLP has estimated the useful life of property, plant and equipment, finite life intangible assets and the fair value of indefinite life intangible assets and goodwill, based on historical customer patterns, industry trends and existing competitive factors. Significant unfavourable long-term changes to these factors could result in a material impairment of the carrying value of such assets.

(unaudited, tabular amounts in thousands of Canadian dollars)

FPLP tests at least annually whether indefinite lived intangible assets and goodwill have suffered any impairment loss, in accordance with the accounting policy. The recoverable amounts have been determined based on the higher of fair value less cost to sell and value-in-use calculations.

Employee Benefits
The present value of the pension benefit (obligation) depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate, expected long-term rates of return and the rate of compensation increases. Any changes in these assumptions will impact the carrying amount of the pension obligation. FPLP determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, FPLP considers the interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension benefits (obligations) are based in part on current market conditions.

4. Employee future benefit plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Defined benefit pension plan	$ 336	$ 259	$ 673	$ 519

Under Manitoba pension laws, solvency deficiencies must be funded over a five year period, unless pension solvency relief is being requested from plan members, which extends this payment period to 10 years. An initial draft actuarial funding report is showing potential required solvency deficiency payments starting in 2011 of $1.5 million per year for five years. If the solvency relief is obtained, the annual solvency deficiency payments will be approximately $0.8 million per year for ten years. Solvency relief is obtained if fewer than one-third of current plan members, former plan members and any other persons entitled to benefits under the plan object to the proposal. The deadline for receiving objections is August 22, 2011. Upon filing the actuarial funding report with the regulators, FPLP will be required to recognize, as appropriate, an additional liability associated with such minimum funding requirements in its registered defined benefit pension plan. The additional liability is computed by discounting the minimum funding requirements from the actuarial funding valuations by the discount rate as defined by IAS 19. Accordingly, such additional liability will be recognized in the third quarter of 2011 and such adjustments may be material.

(unaudited, tabular amounts in thousands of Canadian dollars)

5. Expenses

Additional details of expenses, other than Operating expenses, excluding depreciation and amortization, are as follows:

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Depreciation and amortization				
Depreciation of building	$ 88	$ 55	$ 163	$ 110
Depreciation of machinery and equipment	744	1,260	1,432	2,465
Depreciation of computer equipment and other	139	155	272	324
Amortization of intangibles	175	181	348	359
	$ 1,146	$ 1,651	$ 2,215	$ 3,258
Other Gains (Losses)				
Gain (loss) on sales of property, plant and equipment	$ 35	$ -	$ 38	$ (85)
Loss on derecognition of the special purpose entity	-	-	-	(58)
	$ 35	$ -	$ 38	$ (143)
Finance Costs				
Notes payable	$ -	$ -	$ 5	$ 173
Accretion of notes payable related to financing costs	-	-	-	70
Interest on finance leases	16	-	16	-
Interest on term loan	506	459	1,021	908
Accretion of term loan related to financing costs	24	26	49	50
Guarantee fee	91	83	181	159
	$ 637	$ 568	$ 1,267	$ 1,360

6. TRANSITION TO IFRS

FPLP adopted IFRS in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards.* The first date at which IFRS was applied was January 1, 2010 ("Transition Date"). In accordance with IFRS, FPLP has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- applied certain optional exemptions and certain mandatory exceptions as applicable for first-time IFRS adopters.

INITIAL ELECTIONS UPON ADOPTION

IFRS Exemption Options Applied

a. Business combinations - IFRS 1 provides the election to apply IFRS 3, *Business Combinations*, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date or all business combinations that occurred subsequent to a date prior to transition selected by FPLP. FPLP elected to prospectively apply IFRS 3 to all business combinations subsequent to January 1, 2010 (Business Combinations Election Date).

(unaudited, tabular amounts in thousands of Canadian dollars)

Accordingly any business combinations prior to such Business Combinations Election Date have not been restated. Any goodwill arising on such business combinations before the Business Combinations Election Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions.

b. Employee Benefits – IFRS 1 provides an election to recognize all cumulative actuarial gains and losses at the transition date as a direct entry to deficit rather than retrospectively applying IFRS pension guidance and recalculating amounts on transition. FPLP elected to apply the optional exemption and recognized all cumulative actuarial gains and losses at the transition date in retained earnings.

IFRS Mandatory Exceptions

Estimates - Hindsight was not used to create or revise previous estimates. The estimates previously made by FPLP under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

RECONCILIATIONS OF CANADIAN GAAP TO IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. FPLP's first time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows.

The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity:

Reconciliation of Equity

	December 31 2010	**June 30 2010**	**January 1 2010**
Unitholders' equity under Canadian GAAP	$ 79,585	$ 76,798	$ 74,158
Differences decreasing reported Unitholders' equity:			
Employee benefits (a)	(2,596)	(1,733)	(869)
Total Unitholders' equity under IFRS	$ 76,989	$ 75,065	$ 73,289

CHANGES IN ACCOUNTING POLICIES

In addition to the optional exemptions and mandatory exceptions discussed above, the following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS policies applied by FPLP. Only the differences having an impact on FPLP are described below. The following is not a complete summary of all of the differences between Canadian GAAP and IFRS. Unless a quantitative impact was noted below, the impact from the change was not material to FPLP.

a. Employee Benefits

Optional exemptions applied

As indicated above, FPLP elected to apply the optional exemption and recognized all cumulative actuarial gains and losses at the transition date in deficit.

Accounting policy differences

Actuarial Gains (Losses)

In accordance with CICA 3461, FPLP adopted an accounting policy of amortizing actuarial gains (losses) using the corridor method whereby the excess of the net actuarial gain or loss over 10% of the greater of the projected obligation and the fair value of the plan assets is amortized over the average remaining service period of active employees.

In accordance with IAS 19, FPLP adopted an accounting policy of recognizing actuarial gains and losses in full in the period in which they occur, in other comprehensive income and retained earnings without recycling to the statement of income in subsequent periods.

The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 14 "IAS 19 - The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" ("IFRIC 14") addresses the application of paragraph 58 of IAS 19 which limits the measurement of a defined benefit asset to "the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan" plus past service cost.

IFRIC 14 provides guidance regarding (a) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19, (b) how a minimum funding requirement might affect the availability of reductions in future contributions and (c) when a minimum funding requirement might give rise to a liability. FPLP has determined that it must record an additional liability associated with the minimum funding requirements in its registered pension plan. The additional liability is computed by discounting the minimum funding requirements from the actuarial funding valuations by the discount rate as defined by IAS 19.

There is Canadian GAAP guidance related to the limit on the carrying amount of an accrued benefit asset and recognition of a related valuation allowance. However, IFRS and Canadian GAAP have different methods of calculating the defined benefit asset limit. Furthermore, Canadian GAAP did not address accounting for an additional liability due to minimum funding requirements.

b. Reclassification of Provisions

FPLP reclassified its provision related to the restructuring of its operations from Accounts payable and accrued liabilities to Provisions in the balance sheet.

During the fourth quarter of 2009 a provision for a restructuring charge of $0.8 million was recorded relating to employee reductions planned for 2010 due to the end of the Globe and mail printing contract at the Brandon Sun. This provision was settled during 2010 and accordingly there is no remaining provision as at December 31, 2010.

c. Reclassification of Notes payable

In accordance with IFRS 1 the classification of liabilities as current or non-current is based on circumstances at the reporting date. Since the note payable outstanding at January 1, 2010 was due in full on June 5, 2010, it was reclassified as a current liability on the IFRS opening balance sheet.

In accordance with CICA EIC 122, FPLP classified its Notes Payable at December 31, 2009 as long-term obligations as a long-term refinancing agreement was entered into with another party subsequent to the period end but prior to the issuance of the financial statements.

Restated FPLP consolidated financial statements

The following are reconciliations of the interim condensed consolidated financial statements previously presented under Canadian GAAP to the consolidated financial statements prepared under IFRS.

(unaudited, tabular amounts in thousands of Canadian dollars)

Reconciliation of Consolidated Comprehensive Income for the three months ended June 30, 2010

	Canadian GAAP	IFRS Adjustments	IFRS Balances
Revenues	$ 28,946	$	$ 28,946
Operating expenses excluding depreciation and amortization	(21,878)		(21,878)
Depreciation and amortization	(1,651)		(1,651)
	5,417		5,417
Other income	29		29
Other losses	-		-
Finance costs	(568)		(568)
Net earnings for the period	$ 4,878	$	$ 4,878
Unrealized gain on investment	73		73
Actuarial (loss) on defined benefits (a)	-	(432)	(432)
Comprehensive income for the period	$ 4,951	$ (432)	$ 4,519

Reconciliation of Consolidated Comprehensive Income for the six months ended June 30, 2010

	Canadian GAAP	IFRS Adjustments	IFRS Balances
Revenues	$ 55,316	$	$ 55,316
Operating expenses excluding depreciation and amortization	(42,719)		(42,719)
Depreciation and amortization	(3,258)		(3,258)
	9,339		9,339
Other income	60		60
Other losses	(143)		(143)
Finance costs	(1,360)		(1,360)
Net earnings for the period	$ 7,896	$	$ 7,896
Unrealized gain on investment	69		69
Actuarial (loss) on defined benefits (a)	-	(864)	(864)
Comprehensive income for the period	$ 7,965	$ (864)	$ 7,101

(unaudited, tabular amounts in thousands of Canadian dollars)

7. Acquisition

On February 28, 2011 FPLP acquired substantially all of the assets and assumed specified liabilities of a Steinbach, Manitoba printing and publishing business previously operated by Derksen Printers Ltd for a purchase price of $3,457,000, paid in cash. The business publishes The Carillon, a weekly paid circulation newspaper and provides commercial printing services to a wide range of customers. The transaction has been accounted for by the acquisition method and the results of operations are included in FPLP's accounts from the date of acquisition. In addition to the purchase price, acquisition costs consisting primarily of legal fees totalling $65,000 were paid by FPLP and are included in operating expenses. The purchase price was allocated based on the fair market values of the assets acquired and liabilities assumed as follows:

Accounts receivable	$ 370
Inventory	230
Land	300
Plant & equipment	2,896
Intangible assets	112
Accounts payable & other current liabilities	(323)
Finance lease obligation	(128)
	$ 3,457

The fair value of accounts receivable represents approximately FPLP's best estimate of the gross contractual cash flows and amounts to be collected.

Net income attributable to FPLP of approximately $321,000 has been recorded from the date of acquisition.

8. Related party transaction

For the three and six months ended June 30, 2011, FPLP incurred a guarantee fee of $91,000 and $181,000 to FP Funding Corporation, a company controlled indirectly by Ronald Stern and Robert Silver, who together indirectly control 51% of FPLP. At June 30, 2011, the outstanding guarantee fee payable of $30,000 was included in accounts payable and accrued liabilities.

Total newsprint purchases from Alberta Newsprint Company (a related party as disclosed under the related party transaction section of FPLP's Annual Management's Discussion and Analysis at December 31, 2010) for the three and six months ended June 30, 2011 were $988,000 and $2,063,000 compared to $969,000 and $1,788,000 for the same periods last year.

9. Commitments

During 2010, FPLP 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. FPLP has entered into two five-year non-cancellable finance lease agreement to finance the equipment projects during the first half of 2011. The leases are fully secured based on the assets subject to the lease. Furthermore, the Company assumed a finance lease obligation related to certain production equipment upon the acquisition of the printing and publishing business of Derksen Printers Ltd. as described in note 7 of $128,000.

The aggregate undiscounted total lease payments, at inception of the agreements, were as follows:

2011	$ 352
2012 - 2016	2,233
Total	2,585
Interest portion (5.5% to 9.6%)	(312)
Finance lease obligation	$ 2,273

10. Restructuring costs

In April 2011, FPLP announced a new restructuring programme to improve the effectiveness and productivity of its operations. Provisions for staff severance payments are made when management has made a formal decision to eliminate certain positions and this has been communicated to the groups of employees affected. During the second quarter, FPLP has recorded restructuring charges of $0.3 million related to severance costs for employee reductions which include voluntary and involuntary layoffs at the Winnipeg operations. During the quarter, $0.1 million was paid, leaving an unpaid balance to be paid in the third quarter of $0.2 million which is included in accounts payable and accrued liabilities.

11. Subsequent event

In July a mortgage financing agreement was completed for the Steinbach real estate assets (see note 7). The loan of $1.0 million, which is to be repaid over 15 years, carries a five-year fixed interest rate of 4.85%.

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 FPI or FPLP, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the current general economic uncertainty, FPLP's ability to effectively manage growth and maintain its profitability, FPLP's ability to operate in a highly competitive industry, FPLP's ability to compete with other forms of media, FPLP's ability to attract advertisers, FPLP's reliance upon key personnel, FPLP's relatively high fixed costs, FPLP's dependence upon particular advertising customer segments, indebtedness incurred in making acquisitions, the availability of financing for capital improvements, 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 FPI's Annual Information Form dated March 17, 2011, which is available at www.sedar.com.

In addition, although the forward-looking statements contained in this report are based upon what management of FPI and FPLP believe 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, FPI and FPLP assume no obligation to update or revise them to reflect new events or circumstances. Because forward-looking statements are inherently uncertain, readers should not place undue reliance on them.

Investor Inquiries:
Dan Koshowski
Chief Financial Officer
Phone: (204) 697-7425
Website: www fpnewspapers.com

Listing Information:
TSX: FP

Transfer Agent:
CIBC Mellon Trust Company

Auditors:
PricewaterhouseCoopers LLP, Winnipeg