# FP NEWSPAPERS INC.

**Third Quarter Report - 2012**

September 30, 2012

**Third Quarter Report**
**September 30, 2012**
**Letter to Shareholders**

To our Shareholders

I am pleased to provide you with a report on the results of our operations of FP Newspapers Inc. ("FPI") for the quarter ended September 30, 2012. FPI owns directly securities entitling it to 49% of the distributable cash of FP Canadian Newspapers Limited Partnership ("FPLP") in each fiscal year. FPI's shares trade on the Toronto Stock Exchange under the symbol "FP".

FPLP owns the Winnipeg Free Press and Brandon Sun daily newspapers, and Canstar Community News ("Canstar"), which operates six weekly newspapers. 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". On October 26, 2012 FPLP completed the acquisition of the Carberry News Express, a weekly newspaper serving the Carberry area since 1886.

Total revenue for FPLP for the three months ended September 30, 2012 was $26.3 million, a $0.1 million or 0.3% decrease from the same period last year. Total EBITDA[(1)] of FPLP for the quarter was $4.3 million, a $0.2 million or 3.7% decrease from the same quarter last year. Total EBITDA[(1)] of FPLP, excluding restructuring charges, was $4.8 million, an increase of $0.2 million or 5.5% from the same quarter last year. FPLP had net earnings of $2.9 million in the quarter compared to $2.8 million in the same quarter last year.

FPI had net earnings of $1.0 million, or $0.143 per share, during the three months ended September 30, 2012, which is unchanged from the same quarter last year.

**Operations**

FPLP's revenue for the three months ended September 30, 2012 was $26.3 million, a decrease of $0.1 million or 0.3% from the same three months in the prior year. Advertising revenues for the three months ended September 30, 2012 were $17.5 million, a $0.2 million or 1.0% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was $11.1 million, an increase of $0.2 million or 1.6% from the same period in the prior year, primarily due to increased spending in the automotive category together with increased spending by two hospital lotteries, partly offset by decreased spending in the telecommunication and travel categories. Classified advertising revenues for the third quarter decreased by $0.4 million or 13.9% compared to the same period last year, primarily due to decreased spending in the employment and automotive categories. Flyer distribution revenues for the quarter increased by $0.1 million or 1.6% primarily due to a small increase in flyer volumes.

Circulation revenues for the third quarter were $6.7 million, a decrease of $0.1 million from the third quarter of 2011, with lower unit sales offsetting increased revenue from higher subscription rates. Commercial printing revenues for the quarter increased by $0.3 million, primarily attributable to increased printing at the Derksen Printers operation. Digital revenues for the third quarter increased by $0.1 million primarily due to increases in online and mobile product revenues and website design services. Other revenues for the third quarter decreased by $0.1 million, primarily due to non-recurring custom book orders revenue in the third quarter of 2011.

Operating expenses for the three months ended September 30, 2012 were $23.0 million, virtually unchanged from the same quarter last year. Operating expenses excluding restructuring charges were lower by $0.4 million or 1.6% compared to the same quarter last year. Employee compensation costs for the third quarter were unchanged from the prior year, primarily due to fewer employees, partially offset by the 2% wage increase included in the collective agreements and an increase in the expense for the defined benefit pension plan. In the third quarter of 2012, seventeen positions were eliminated through a combination of retirements, voluntary resignations and layoffs. During the third quarter, a restructuring charge of $0.4 million was incurred relating to termination payments to employees. Newsprint expense for FPLP's own publications for the quarter decreased by $0.2 million or 9.8% compared to the same period in the prior year, primarily due to lower volumes resulting from fewer circulation copies, as newsprint prices remained unchanged from the prior year. Newsprint expense for commercial printing increased by $0.1 million primarily due to increased commercial printing at Derksen Printers compared to the third quarter in 2011. Other expenses decreased $0.2 million or 4.7% compared to the same quarter last year, primarily due to some non-recurring maintenance expenses incurred mainly at the Winnipeg facility in 2011.

During the third quarter and to-date in the fourth quarter, management continues to make changes to respond to the trend of declining print advertising revenues. During the second and third quarters we reduced our employee base by twenty-four people through a combination of retirements, voluntary resignations and layoffs, and an additional six positions were eliminated to-date in the fourth quarter. The total reduction in employees this year totals thirty, with full year compensation savings of approximately $2.6 million and savings of $1.0 million for the 2012 fiscal year. Staff reductions in the third and to-date in the fourth quarters were primarily in the editorial departments at the Winnipeg Free Press and Canstar Community News. Restructuring charges for severance payments for positions eliminated in the third quarter were $0.4 million, bringing the total year-to-date severance related restructuring costs to $0.5 million. The Canstar employee reductions were primarily resulting from the decision to consolidate the weekly Uptown Entertainment publication and the Winnipeg Free Press Thursday "Tab" entertainment section. On Thursday November 1, 2012, Uptown was relaunched as the entertainment section of the Winnipeg Free Press. Uptown will continue to be distributed weekly in the existing Uptown boxes and racks around Winnipeg.

Paul Samyn, who was acting as interim Editor at the Winnipeg Free Press following Margo Goodhand's departure in July 2012, was formally appointed Editor during the third quarter. Mr. Samyn started as a reporter with the paper in 1988 and served as the Free Press's Ottawa correspondent for a decade before returning to Winnipeg to assume the city editor's position in 2007. We have high expectations for the leadership he will provide.

During the third quarter the Winnipeg Free Press implemented a fifty cent price increase for subscribers who receive the weekend edition of the Winnipeg Free Press, including the weekly TV listing and entertainment section. This section was rebranded "Yourtube". While some subscribers have opted to discontinue receiving the TV book, which will result in newsprint and delivery savings, the estimated annual incremental revenue from this change is approximately $0.5 million.

In Brandon, Publisher Eric Lawson was working on completing the acquisition of the Carberry News Express, a weekly paid publication serving the town of Carberry and surrounding area with a circulation of approximately 1,100 copies. On October 26, 2012 we completed the acquisition of the assets and assumption of specified liabilities of this business for a cash purchase price of $0.2 million. Carberry is located 50 kilometres east of Brandon and the Carberry region has a population of approximately 4,000 people. The printing of the publication will be added to the regular weekly print schedule at our Derksen Printers operation in Steinbach.

The Brandon Sun also implemented changes to increase operational efficiencies during the third quarter which resulted in the reduction of one district manager position and one customer service supervisor position. All circulation department staff now report directly to Circulation Manager Kevin Wardle. Consolidating the circulation staff will improve communications between the warehouse, customer service representatives and district managers.

At Canstar Community News, we completed a process of focusing the organization on its weekly community newspapers by removing responsibilities for some specialty publications. We introduced enhanced advertising opportunities which included full page wraps around our weekly papers and new banner positions across the top of the front pages. The full page wraps were very well received by advertisers with a total of fifteen wraps sold across our five weekly publications during the third quarter. At Canstar, in addition to the consolidation of Uptown weekly entertainment publication into the Winnipeg Free Press Thursday edition, as mentioned above, the decision was made to discontinue publishing Boomer magazine due to continued revenue shortfalls from our financial plan.

At Derksen Printers in Steinbach, the special sections included in our Carillon newspaper continue to grow and attract new advertisers and readers. The agricultural supplement this year saw a thirty percent increase in advertising revenue and included local editorial content including a piece on the rebuilding of a large local family dairy farm that was destroyed by fire. The annual Graduation supplement was once again extremely well supported by advertisers and in September a new annual supplement called "Feeling Better" was introduced. In addition, the Carillon launched a new weekly pullout section called the Southeast Real Estate Guide that is dedicated to real estate agents, open houses and associated companies and includes editorial content of interest to home owners. The total market flyer delivery service in Steinbach under the name Derksen Flyer Impact series has grown steadily and now includes four weekly national flyers in addition to various local advertising pieces. Commercial printing services at Derksen has benefited from the addition of a new full-time print salesperson that started with us on August 1, 2012.

**Dividends**

Distributable cash attributable to FPI(2) for the three months ended September 30, 2012 was $0.8 million or $0.118 per share, virtually unchanged from the same quarter last year. FPI declared dividends to Shareholders of $0.150 per share for the quarter, unchanged from the same quarter last year. For the trailing twelve months ended September 30, 2012, FPLP generated distributable cash attributable to FPI(2) of $0.585 per share, and FPI declared dividends of $0.60 per share, resulting in a payout ratio of 102.6%.

**Outlook**

During the third quarter and early into the fourth quarter we have seen an improvement in the level of advertising revenues compared to the first two quarters of this year. Stronger automotive advertising is primarily the reason for this change, and in the fourth quarter we will benefit from new advertising spending along with incremental revenues related to new retail openings, including the long-anticipated opening of Manitoba's first IKEA store, which will open in Winnipeg on November 28, 2012. The fourth quarter of 2012 includes one less Saturday publication compared to the prior year, which could have a negative impact on the overall revenue reported versus the prior year.

Newsprint prices have not changed since September 2010 and we are not anticipating a change before the end of this year. The fourth quarter results and the 2013 operating costs will benefit from the restructuring changes implemented during the first three quarters of this year.

As other newspapers have introduced systems of paid digital content as a way to capture new revenue to recover some of the diminished print advertising revenue, FPLP management is actively monitoring these efforts and studying whether a paid digital content system would be appropriate for our publications.

Ronald N. Stern
Chairman
November 14, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

November 14, 2012

## OVERVIEW

Management's discussion and analysis, prepared as at November 14, 2012, provides a review of significant developments that affected the performance of FP Newspapers Inc. ("FPI") in the three months ended September 30, 2012. This review is based on financial information contained in the unaudited interim condensed financial statements and accompanying notes ("interim financial statements") for the three and nine months ended September 30, 2012.

Factors that could affect future operations are also discussed. These factors may be affected by known and unknown risks and uncertainties that may cause the actual future results to be materially different from those expressed in this discussion.

The interim financial statements, which are the basis for data presented in this report, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. The interim financial statements do not include all the information and disclosures required for annual financial statements and, therefore, the following information should be read in conjunction with the most recent audited consolidated financial statements and accompanying notes and management's discussion and analysis for the year ended December 31, 2011 prepared in accordance with IFRS in the Company's 2011 Annual Report and with the interim unaudited condensed financial statements and accompanying notes for the third quarter of 2012.

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

Further information relating to FPI, including its annual information form, is available at www.sedar.com or on FPI's website at www.fpnewspapers.com.

## FORMATION AND LEGAL ENTITIES

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

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

Immediately following the closing of the arrangement, FPCN Holdings Trust and the Fund were wound up and dissolved. FPI has acquired all of the assets and assumed all of the liabilities of those entities. FPI owns securities entitling it to 49% of the distributable cash of FPLP.

FPLP is a limited partnership formed on August 9, 1999. Effective November 29, 2001, FPLP acquired the business assets and assumed certain liabilities of the Winnipeg Free Press and the Brandon Sun. On July 13, 2004, FPLP acquired the business assets and liabilities of Canstar Community News ("Canstar"). On February 28, 2011, FPLP acquired the business assets and assumed certain liabilities of a commercial printing and publishing business operating under the name Derksen Printers based in Steinbach, Manitoba. On October 26, 2012 FPLP acquired the business assets and assumed certain liabilities of the Carberry News Express, a weekly paid subscription publication.

**FP NEWSPAPERS INC.**

A summary of FPI's quarterly revenue, net earnings (loss) and net earnings (loss) per share for 2012, 2011, and 2010 is as follows:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | *In thousands of dollars (except per share amounts)* | | |
| **Revenue** | | | |
| Quarter 1 | $ 1,121 | $ 1,340 | $ 1,479 |
| Quarter 2 | 1,876 | 2,527 | 2,390 |
| Quarter 3 | 1,422 | 1,373 | 1,546 |
| Quarter 4 | | 2,719 | 2,413 |
| **Net earnings (loss)** | | | |
| Quarter 1(*) | $ 811 | $ 953 | $ 1,451 |
| Quarter 2(*) | 1,326 | 1,776 | 2,732 |
| Quarter 3(*) | 988 | 974 | 1,511 |
| Quarter 4(**) | | (13,103) | 2,159 |
| **Net earnings (loss) per share** | | | |
| Quarter 1(*) | $ 0.117 | $ 0.138 | $ 0.210 |
| Quarter 2(*) | 0.192 | 0.257 | 0.396 |
| Quarter 3(*) | 0.143 | 0.141 | 0.219 |
| Quarter 4(**) | | (1.898) | 0.313 |

* Decreases in net earnings (loss) and net earnings (loss) per share compared to the same quarters in 2010 are primarily due to an increase in income tax expense resulting from the corporate conversion.

**Decreases in net earnings (loss) and net earnings (loss) per share in the fourth quarter of 2011 are primarily due to a non-cash write-down of $15.0 million of FPI's investment in FPLP Class A limited partner units.

FPI reported net earnings of $1.0 million and $3.1 million for the three and nine months ended September 30, 2012, compared to net earnings of $1.0 million and $3.7 million for the same periods last year. The decrease in net earnings for the nine months ended September 30, 2012 is primarily due to a decrease in the equity share of the net earnings of FPLP, as discussed in the FPLP section of this report. Other comprehensive income (loss) results from FPI's equity share of FPLP's recognition of actuarial gains or losses related to the defined benefit pension plan. For the three and nine months ended September 30, 2012, FPI's share of the actuarial losses were $0.2 million and $1.0 million, compared to FPI's share of actuarial losses of $1.8 million for the three and nine month periods in 2011.

FPI declared dividends to shareholders of $1.0 million or $0.15 per share and $3.1 million or $0.450 per share for the three and nine months ended September 30, 2012, unchanged from the same periods of 2011.

The dividend policy of FPI is to issue dividends in approximately equal monthly amounts based on expected operating results for each fiscal year. Dividend levels are reviewed regularly by the directors and are subject to change based on a number of factors, including the overall operating results and capital requirements of FPLP. Dividends paid in any period may exceed net earnings as a result of depreciation and amortization, which are non-cash expenses that reduce net earnings of FPLP and FPI's equity share of those net earnings in accordance with IFRS, being in excess of capital expenditures charged as a reduction of distributable cash of FPLP(2).

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

**Distributable Cash Attributable to FPI(2)**

Cash available for distribution attributable to FPI was $0.8 million or $0.118 per share and $2.4 million or $0.342 per share for the three and nine months ended September 30, 2012, compared to $0.8 million or $0.113 per share and $2.9 million or $0.416 per share for the same periods in 2011. The decrease in cash available for distribution attributable to FPI for the nine months in 2012 is primarily due to lower EBITDA(1) of FPLP. The full details of the calculation are included in the "Non-IFRS measures" section of this report.

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

From commencement of the Fund on May 28, 2002 until September 30, 2012, cumulative distributable cash attributable to FPI**[2]** totalled $12.569 per share. During that period FPI declared cash dividends to shareholders of $11.273 per share, resulting in a cumulative-from-inception payout ratio of 89.7%. Because FPI made an allowance for maintenance capital spending of FPLP in an amount estimated to be sufficient to maintain the productive capacity of the business when calculating distributable cash attributable to FPI[2], and because cumulative dividends declared were less than the cumulative distributable cash attributable to FPI[2], FPI believes there is no economic "return of capital".

### Working Capital Position of FPI

The working capital deficiency of $3.3 million at September 30, 2012 results from FPLP deferring the payment of distributions for FPI's income taxes, which are not due until February 28, 2013 (refer to Taxation section below and reserve for future income taxes payable in FPLP section of this report). The Board of Directors of the general partner of FPLP have committed to the declaration of a distribution sufficient for the payment of current income taxes payable.

### Taxation

FPI's fiscal year-end is December 30. None of the taxable income of FPLP (whose year-end is December 31) was allocated to FPI prior to its December 30, 2011 year-end. As a result, FPI had no current taxes in the year ended December 30, 2011. FPLP's taxable income for the year ended December 31, 2011 will be allocated to FPI in its year ended December 30, 2012. FPI has determined that the legislation implementing the June 6, 2011 federal budget relating to the curtailment of income deferral by corporations using partnerships with different year-end dates applies such that the amount of the accrual of FPLP's income earned in the stub-period between the end of the FPLP's fiscal period and the end of FPI's December 30, 2011 taxation year is nil and, accordingly, the transitional relief, which allows this stub-period income for the first affected fiscal period to be recognized over a five-year period is also nil. FPLP's taxable income for the year ended December 31, 2011 will be allocated to FPI in its current year and consequently current taxes have been recorded by FPI for FPLP's year ended December 31, 2012 and the nine months ended September 30, 2012. FPLP has established a non-IFRS cash reserve for future income taxes payable by its Unitholders as disclosed in the FPLP section of this report.

## FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP

### Results of Operations

FPLP's revenue for the three months ended September 30, 2012 was $26.3 million, a decrease of $0.1 million or 0.3% from the same three months in the prior year. Advertising revenues for the three months ended September 30, 2012 were $17.5 million, a $0.2 million or 1.0% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was $11.1 million, an increase of $0.2 million or 1.6% from the same period in the prior year, primarily due to increased spending in the automotive category together with increased spending by two hospital lotteries, partly offset by decreased spending in the telecommunication and travel categories. Classified advertising revenues for the third quarter decreased by $0.4 million or 13.9% compared to the same period last year, primarily due to decreased spending in the employment and automotive categories. Flyer distribution revenues for the quarter increased by $0.1 million or 1.6% primarily due to a small increase in flyer volumes.

Circulation revenues for the third quarter were $6.7 million, a decrease of $0.1 million from the third quarter of 2011, with lower unit sales offsetting increased revenue from higher subscription rates. Commercial printing revenues for the quarter increased by $0.3 million, primarily attributable to increased printing at the Derksen Printers operation. Digital revenues for the third quarter increased by $0.1 million primarily due to increases in online and mobile product revenues and website design services. Other revenues for the third quarter decreased by $0.1 million, primarily due to non-recurring custom book orders revenue in the third quarter of 2011.

FPLP's revenue for the nine months ended September 30, 2012 was $81.3 million, unchanged from the same period in the prior year. Excluding revenue attributable to the Derksen operation for the first quarter of 2012 and 2011, revenue decreased by $0.9 million or 1.2%. Advertising revenues for the nine months ended September 30, 2012, excluding the Derksen business for the first quarter, were $54.0 million, a $1.5 million or 2.7% decrease compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, excluding the Derksen business for the first quarter, was $34.7 million, a decrease of $0.7 million or 2.1% from the same period in the prior year, primarily due to decreased spending in the telecommunications and travel categories, partly offset by increased spending in the automotive category and new revenue from two third-party magazines. Classified advertising revenues for the nine months ended September 30, 2012, on a same-store basis, decreased by $0.9 million or 9.7% compared to the same period last year, primarily due to decreased spending in the employment, automotive and obituary categories, partly offset by increased revenue in the real estate category. Flyer distribution revenues for the nine months increased by $0.1 million, primarily due to increased volumes.

Circulation revenues for the nine months ended September 30, 2012, excluding the Derksen business for the first quarter, were $20.2 million, a decrease of $0.3 million or 1.5% compared to the same period in 2011, with lower unit sales offsetting increased revenue from higher subscription rates. Commercial printing revenues, excluding the Derksen business from the first quarter, for the nine months ending September 30, 2012 increased by $0.4 million, which is primarily attributable to increased printing volumes at Derksen Printers during the second and third quarters. Digital revenues for the nine months increased by $ 0.2 million or 24.9%, primarily due to the increase in Winnipeg Free Press website banner advertising and revenues from online web ads and other digital offerings introduced in 2011. Other income increased by $0.2 million, primarily due to sales of the Winnipeg Jets 2011/12 Officially Licensed Medallion Collection in the first quarter of 2012.

Operating expenses for the three months ended September 30, 2012 were $23.0 million, virtually unchanged from the same quarter last year. Operating expenses excluding restructuring charges were lower by $0.4 million or 1.6% compared to the same quarter last year. Employee compensation costs for the third quarter were unchanged from the prior year, primarily due to fewer employees, partially offset by the 2% wage increase included in the collective agreements and an increase in the expense for the defined benefit pension plan. In the third quarter of 2012, seventeen positions were eliminated through a combination of retirements, voluntary resignations and layoffs. During the third quarter, a restructuring charge of $0.4 million was incurred relating to termination payments to employees. Newsprint expense for FPLP's own publications for the quarter decreased by $0.2 million or 9.8% compared to the same period in the prior year, primarily due to lower volumes resulting from fewer circulation copies, as newsprint prices remained unchanged from the prior year. Newsprint expense for commercial printing increased by $0.1 million primarily due to increased commercial printing at Derksen Printers compared to the third quarter in 2011. Other expenses decreased $0.2 million or 4.7% compared to the same quarter last year, primarily due to some non-recurring maintenance expenses incurred mainly at the Winnipeg facility in 2011.

Operating expenses for the nine months ended September 30, 2012 were $70.9 million, a $2.0 million or 2.9% increase from the same period last year. Operating expenses year to date, excluding the Derksen business for the first quarter, increased $1.1 million or 1.6% compared to last year. Employee compensation costs for the nine months, excluding the Derksen business for the first quarter, increased by $0.2 million or 0.6%, primarily due to the 2% wage increase included in the collective agreements, partially offset by employee reductions in the second and third quarters and to-date in the fourth quarter, which resulted in thirty positions being eliminated through a combination of retirements, voluntary resignations and layoffs. During the nine months ending September 30, 2012 a restructuring charge of $0.5 million was incurred relating to termination payments for positions eliminated in the second and third quarters, compared to a charge for similar purposes of $0.3 million in the prior year. Newsprint expense for FPLP's own publications for the nine months, excluding the Derksen business for the first quarter, decreased by $0.5 million compared to the prior year, primarily due to lower volumes mainly from fewer circulation copies. Newsprint expense for commercial printing, excluding the Derksen business for the first quarter, increased by $0.2 million primarily due to an increase in commercial printing at Derksen Printers in the second and third quarters compared to 2011. Other expenses for the first nine months ending September 30, 2012, increased by $1.1 million or 7.9% compared to the same period last year primarily due to increases during the first quarter, which included new outside print costs for two third-party magazines, costs for the Winnipeg Jets medallion circulation promotion project, a non-recurring reduction in an accrual relating to a labour matter during the first quarter in the prior year and increased costs on our long-term sponsorship agreement with the Winnipeg Jets. Depreciation and amortization remained at approximately the same level compared to the same period last year.

EBITDA(1) for the three and nine months ended September 30, 2012 was $4.3 million and $13.7 million compared to $4.5 million and $15.8 million for the same periods last year, a decrease of 3.7% and 12.9%, respectively. EBITDA(1) for the three and nine months ending September 30, 2012, excluding the restructuring charges, were $4.8 million and $14.2 million. EBITDA(1) margin for the three and nine months ending September 30, 2012 was 16.5% and 16.9%, compared to 17.1% and 19.4% in the same periods last year.

Finance costs for the three and nine months ended September 30, 2012 decreased by $0.2 million and $0.3 million, primarily due to lower interest on the term loan resulting from lower principal balances together with a reduction in interest rates resulting from a long-term loan renewal agreement, which was completed effective at the beginning of June 2012. In addition, during the first quarter, FPLP negotiated the release of the guarantee requirement which eliminated the need for the collateral provided by FP Funding Corporation ("FundingCo") and FPLP's guarantee payments to FundingCo, which were approximately $0.1 million per quarter. These decreases were partially offset by increased interest on the new finance leases and the mortgage loan entered into in 2011 and the first quarter of 2012.

FPLP's net earnings were $2.9 million and $9.0 million for the three and nine months ended September 30, 2012, compared to $2.8 million and $10.7 million for the same periods last year.

Under IFRS, comprehensive income includes actuarial gains and losses related to FPLP's defined benefit pension plan. These gains or losses are primarily related to changes in actuarial discount rate assumptions and differences between actuarial estimates of expected return on pension plan assets versus actual returns. The actuarial loss during the third quarter of 2012 was primarily due to increases in the defined benefit obligation resulting from an actuarial discount rate decrease, partly offset by a higher actual return on the plan's investments compared to the actuarial expected return on plan assets assumptions.

**Quarterly Summary**

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

| | **2012** | **2011** | **2010** |
|---|---|---|---|
| | | *In thousands of dollars* | |
| **Revenue** | | | |
| Quarter 1(*) | $ 26,979 | $ 24,997 | $ 26,370 |
| Quarter 2(*) | 28,046 | 29,926 | 28,946 |
| Quarter 3(*) | 26,319 | 26,404 | 26,470 |
| Quarter 4(*) | | 29,942 | 28,246 |
| | $ 81,344 | $ 111,269 | $ 110,032 |
| **EBITDA(1)** | | | |
| Quarter 1(*) | $ 3,936 | $ 4,384 | $ 5,529 |
| Quarter 2(*) | 5,430 | 6,861 | 7,068 |
| Quarter 3(*) | 4,349 | 4,514 | 5,356 |
| Quarter 4 | | 7,334 | 6,598 |
| | $ 13,715 | $ 23,093 | $ 24,551 |
| **Net Earnings** | | | |
| Quarter1 | $ 2,285 | $ 2,733 | $ 3,018 |
| Quarter 2 | 3,825 | 5,154 | 4,878 |
| Quarter 3 | 2,901 | 2,798 | 3,152 |
| Quarter 4 | | 5,547 | 4,925 |
| | $ 9,011 | $ 16,232 | $ 15,973 |

(*) Revenues, EBITDA and net earnings starting primarily in the second quarter of 2011 were higher due to the acquisition of the Derksen business on February 28, 2011, offset by lower revenues, EBITDA and net earnings at the Winnipeg Free Press, Canstar Community News and Brandon Sun operations, primarily due to lower print advertising revenues.

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

### Liquidity and Capital Resources of FPLP

Cash and cash equivalents at September 30, 2012 was $16.9 million compared to $9.3 million at December 31, 2011. Cash and cash equivalents may be used to pay future distributions (including future income taxes payable by the partners), to reduce debt, to fund future capital expenditures, or for other general purposes. During the nine months ended September 30, 2012, operating activities provided $12.3 million, investing activities provided $4.6 million and $9.3 million was used for financing activities. Cash flow from operations, together with cash balances on hand, are currently expected to be sufficient to fund FPLP's operating requirements, capital expenditures, required principal repayments under FPLP's HSBC credit facility and anticipated distributions, assuming that advertising revenues do not materially deteriorate beyond management's current expectations.

#### *Cash Flow from Operating Activities*

During the three and nine months ended September 30, 2012, cash generated from operating activities was $3.4 million and $12.3 million compared to $4.0 million and $13.8 million for the same periods in 2011. Net earnings for the three and nine months ended September 30, 2012 were $2.9 million and $9.0 million, compared to $2.8 million and $10.7 million for the prior year. The main factors contributing to the change in net earnings for the quarter are a decrease in other costs and finance costs, partially offset by $0.4 million in restructuring costs. The change in year-to-date net earnings reflects an increase in other expenses and the restructuring charge, partly offset by lower finance costs. The excess of pension contributions over expense represents the payment for the three and nine months of funding for the Winnipeg defined benefit pension solvency deficiency. The net change in non-cash working capital for the three and nine months ended September 30, 2012 was an increase of $0.9 million and $2.1 million compared to increases of $0.6 million and $0.3 million for the same periods last year, primarily the result of timing of receipts from customers and payments to suppliers.

#### *Investing Activities*

In the second quarter of 2012, as part of the long-term debt renewal agreement, the $5.0 million cash deposit in a separate HSBC guarantee account classified as restricted cash on the balance sheet was released, which accounts for the majority of the $4.6 million of cash provided by investing activities for the nine months ended September 30, 2012.

Capital asset additions, which were internally financed, were $0.1 million and $0.3 million for the three and nine months ended September 30, 2012, compared to $0.2 million and $1.0 million for the same periods in the prior year. Internal maintenance capital expenditures in the nine months ended September 30, 2012 of $0.3 million was primarily for press expansion equipment at Derksen Printers, heat and ventilation installations and equipment upgrades at the Winnipeg operations and technology hardware upgrades across all business units.

#### *Financing Activities*

Distributions to partners of FPLP for the three and nine months ended September 30, 2012 totalled $2.3 million and $6.9 million, of which $1.2 million and $3.4 million was paid to FPI as holder of Class A limited partner units. This compares to $2.4 million and $7.9 million in the same periods last year, of which $1.2 million and $3.8 million was paid to FPI as holder of Class A limited partner units. The distributions to partners were determined in accordance with the limited partnership agreement that governs FPLP (the "LP Agreement").

In the nine months ended September 30, 2012, FPLP generated proceeds from equipment finance leases totalling $0.5 million, compared to the first nine months of 2011 when FPLP entered into lease agreements in the amount of $1.1 million to finance production equipment to allow for the consolidation of the Brandon Sun production operations at our Winnipeg facility and $3.0 million to finance the production equipment at Derksen Printers. During the three and nine months of 2012, $0.2 million and $0.7 million, respectively, were used for principal repayments on the finance leases and the mortgage loan. The principal repayments of the HSBC term loan for the three and nine months of 2012 were nil and $2.1 million, compared to $1.3 million and $3.8 million in 2011, the decrease being the result of the renewal of the long-term debt agreement at the beginning of June of this year and the resulting reduction of required annual principal repayments from $5.0 million to $1.0 million.

#### *Contractual Obligations*

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

During the first quarter of 2012, FPLP entered into a five-year non-cancellable finance lease agreement to complete the financing of the additional equipment required to upgrade the Derksen production operation.

Other than as discussed above, there have been no significant changes to contractual obligations since December 31, 2011.

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

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

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

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

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

| Reserve for future income taxes | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | *In thousands of dollars* | | *In thousands of dollars* | |
| Reserve at beginning of period | $ 5,377 | $ 2,127 | $ 3,901 | $ - |
| Increase in reserve | 341 | 738 | 1,817 | 2,865 |
| Reserve at end of period | $ 5,718 | $ 2,865 | $ 5,718 | $ 2,865 |

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

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

***Debt Covenants***

The HSBC credit facility (see note 7 to the 2011 Annual Consolidated Financial Statements of FPLP) includes negative covenants which must be observed in order to avoid an accelerated termination of the agreement. These covenants include certain restrictions on paying distributions, the sale of assets, the purchase of investments and acquisitions, share capital, allowing encumbrances and certain issuances of loans or financial assistance. FPLP is restricted from making distributions which exceed distributable cash, as defined in the credit agreement, by more than $1.0 million annually. FPLP is required to maintain a leverage ratio of no greater than 3.5 to 1.0, a fixed charge coverage ratio of no less than 2.0 to 1.0, and a current ratio of no less than 1.2 to 1.0, all as defined in the agreement and measured quarterly on a trailing 12-month basis. Financial amounts used in the calculations are specifically defined in the credit agreement, but are substantially equivalent to the corresponding terms used in the external financial reports filed by FPLP. The financial ratios are calculated in accordance with the HSBC credit agreement on a quarterly basis and at September 30, 2012, FPLP is in compliance with all covenants.

The previous financial covenants, including the negative covenants, remain unchanged with the revised long-term debt agreement that was completed during the second quarter, except that FPLP is now permitted to make a one-time payment of up to $4.0 million as a special dividend for tax purposes and certain other amendments pertaining to the calculation of earnings before interest, taxes, depreciation and amortization.

***Related Party Transactions***

FPLP purchases a portion of its newsprint from Alberta Newsprint Company (“ANC”), a related party, as disclosed under the related party transaction section of FPLP’s Annual Management’s Discussion and Analysis at December 31, 2011. There have been no changes during 2012 to the process for selection of newsprint suppliers or the quarterly review by the Audit Committee of newsprint purchases. Total newsprint purchases from ANC, based on actual invoice prices, for the three and nine months ended September 30, 2012 were $1.0 million and $3.1 million, compared to $1.2 million and $3.2 million for the same periods last year.

Effective March 30, 2012, HSBC Bank Canada agreed to amend the guarantee requirement under the prior credit agreement in force at that time, which eliminated the need for the collateral which had been provided by FP Funding Corporation (“FundingCo”), a company controlled indirectly by Ronald Stern and Robert Silver, who together control 51% of FPLP. FundingCo had made a $5.0 million deposit into a HSBC guarantee account (as discussed in Note 7 to the 2011 Annual Consolidated Financial Statements of FPLP) held as collateral under the terms of that loan agreement, and this required collateral was released by HSBC Canada on March 30, 2012.

## DISCLOSURE CONTROLS AND PROCEDURES

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

In FPI’s third quarter 2012 filings, the CEO and CFO certify, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design of the Corporation’s disclosure controls and procedures, and the design of internal controls over financial reporting.

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

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes to FPI’s internal controls over financial reporting during the third quarter of 2012 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

## CRITICAL ACCOUNTING ESTIMATES

There have been no significant changes in FPI’s or FPLP’s critical accounting estimates since December 31, 2011.

## OUTLOOK

The outlook for operations is described earlier in this document.

## NON-IFRS MEASURES

### (1) EBITDA

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

| | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | *In thousands of dollars* | | *In thousands of dollars* | |
| Net earnings for the period | $ 2,901 | $ 2,798 | $ 9,011 | $ 10,685 |
| Add (subtract): | | | | |
| Depreciation and amortization | 1,065 | 1,094 | 3,253 | 3,309 |
| Finance costs | 438 | 654 | 1,629 | 1,921 |
| Other income | (48) | (32) | (141) | (156) |
| (Gain) on interest rate swap | (7) | - | (37) | - |
| EBITDA | $ 4,349 | $ 4,514 | $ 13,715 | $ 15,759 |

### (2) Distributable Cash Attributable to FPI

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

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

| | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | *In thousands of dollars (except per share amounts)* | | *In thousands of dollars (except per share amounts)* | |
| Distributable cash of FPLP: | | | | |
| EBITDA[(1)] | $ 4,349 | $ 4,514 | $ 13,715 | $ 15,759 |
| Other income (excluding non-cash gains or losses) | 48 | 47 | 135 | 133 |
| Finance costs on notes payable, term loan, mortgage loan, guarantee fee and finance leases, excluding accretion of related deferred financing costs | (426) | (630) | (1,575) | (1,848) |
| Principal repayment of term loan | - | (1,251) | (2,085) | (3,753) |
| Maintenance capital expenditures | (121) | (243) | (416 ) | (1,024) |
| Decrease in reserve for future maintenance capital expenditures | - | - | - | 281 |
| Proceeds from sale of property, plant and equipment | - | 4 | 19 | 501 |
| Principal repayments on finance leases | (213) | (132) | (633) | (222) |
| Principal repayments on mortgage loan | (13) | (4) | (35) | (4) |
| Reserve for future cash income taxes | (341) | (738) | (1,817) | (2,865) |
| Increase in reserve for pension solvency payments | - | - | - | (750) |
| Decrease in reserve for pension solvency payments | - | 750 | - | 750 |
| Pension funding in excess of accounting expense | (1,503) | (570) | (2,120) | (570) |
| Distributable cash of FPLP | $ 1,780 | $ 1,747 | $ 5,188 | $ 6,388 |
| 49% attributable to FPI | $ 872 | $ 856 | $ 2,542 | $ 3,130 |
| Administration expenses | (60) | (78) | (186) | (266) |
| Other income | 1 | 2 | 4 | 4 |
| Distributable cash attributable to FPI | $ 813 | $ 780 | $ 2,360 | $ 2,868 |
| Distributable cash attributable to FPI – per share | $ 0.118 | $ 0.113 | $ 0.342 | $ 0.416 |

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

Distributable Cash of FPLP:

| | Last Twelve Months | Since May 28, 2002 |
|---|---|---|
| | *In thousands of dollars* | |
| EBITDA[1] | $ 21,049 | $ 246,467 |
| Interest income | 176 | 1,345 |
| Finance costs on notes payable, term loan, mortgage loan, guarantee fee and finance leases, excluding accretion of related deferred financing costs | (2,209) | (30,276) |
| Principal repayment of term loan | (3,336) | (11,676) |
| Principal repayment of finance leases | (840) | (2,198) |
| Maintenance capital expenditures | (445) | (10,105) |
| Decrease (increase) in reserve for future maintenance capital expenditures | - | (1,219) |
| Strategic capital expenditures | - | (1,331) |
| Decrease in reserve for strategic capital, acquisitions, and/or debt reduction | - | (353) |
| Proceeds on disposal of property, plant and equipment | 30 | 2,070 |
| Principal repayments on mortgage loans | (42) | (46) |
| Current income and capital tax expense | - | (196) |
| Reserve for future cash income taxes | (2,853) | (5,718) |
| Decrease in reserve for pension solvency payments | - | 750 |
| Increase in reserve for pension solvency payments | - | (750) |
| Pension funding in excess of accounting expense | (2,782) | (3,352) |
| Distributable cash of FPLP | $ 8,748 | $ 183,412 |

Distributable Cash Attributable to FPI:

| | Last Twelve Months | Since May 28, 2002 |
|---|---|---|
| | *In thousands of dollars (except per share amounts)* | |
| 49% of FPLP distributable cash | $ 4,287 | $ 89,872 |
| Administration expenses | (256) | (3,178) |
| Interest income | 7 | 62 |
| Distributable cash attributable to FPI | $ 4,038 | $ 86,756 |
| Distributable cash attributable to FPI – per share | $ 0.585 | $ 12.569 |
| Cash distributions declared by FPI – per share | $ 0.600 | $ 11.273 |
| Payout Ratio | 102.6% | 89.7% |

**FP Newspapers Inc.**

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

| | Note | As at September 30, 2012 | As at December 30, 2011 |
|---|---|---|---|
| | | **$** | **$** |
| **ASSETS** | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 526 | 452 |
| Prepaid expenses and other assets | | 35 | 35 |
| | | 561 | 487 |
| Investment in FP Canadian Newspapers Limited Partnership | 3 | 44,911 | 45,191 |
| Deferred income tax asset | | 478 | - |
| **TOTAL ASSETS** | | 45,950 | 45,678 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | | 95 | 99 |
| Dividend payable | 4 | 345 | 345 |
| Income taxes payable | 5 | 3,373 | - |
| | | 3,813 | 444 |
| LONG-TERM LIABILITIES | | | |
| Deferred income tax liability | 5 | - | 2,146 |
| TOTAL LIABILITIES | | 3,813 | 2,590 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | | 71,373 | 71,373 |
| Deficit | | (29,236) | (28,285) |
| TOTAL SHAREHOLDERS' EQUITY | | 42,137 | 43,088 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | 45,950 | 45,678 |

(See accompanying notes)

**FP Newspapers Inc.**

**Condensed Statements of Earnings and Comprehensive Income (Loss)**
(unaudited, in thousands of Canadian dollars except per share amounts)

| | Note | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | | **2012** | **2011** | **2012** | **2011** |
| | | $ | $ | $ | $ |
| Equity interest from FP Canadian Newspapers Limited Partnership Class A limited partner units | 3 | 1,421 | 1,371 | 4,415 | 5,236 |
| Equity interest from FPCN General Partner Inc. | | - | 37 | - | 37 |
| Administration expenses | | (60) | (78) | (186) | (266) |
| Other income | | 1 | 2 | 4 | 4 |
| Net earnings before income taxes | | 1,362 | 1,332 | 4,233 | 5,011 |
| Current income tax (expense) | | (485) | - | (3,373) | - |
| Deferred income tax recovery (expense) | 5 | 111 | (358) | 2,266 | (1,308) |
| **Net earnings for the period** | | **988** | **974** | **3,126** | **3,703** |
| Equity interest of other comprehensive (loss) from FP Canadian Newspapers Limited Partnership | | (240) | (2,415) | (1,329) | (2,450) |
| Deferred income tax recovery | | 65 | 652 | 358 | 662 |
| **Comprehensive income (loss) for the period** | | **813** | **(789)** | **2,155** | **1,915** |
| Weighted average number of Common Shares outstanding | | 6,902,592 | 6,902,592 | 6,902,592 | 6,902,592 |
| Net earnings per share – basic and diluted | | $ 0.143 | $ 0.141 | $ 0.453 | $ 0.536 |

(See accompanying notes)

**FP Newspapers Inc.**

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

| | Share Capital | Deficit | Total Shareholders' Equity |
|---|---|---|---|
| | $ | $ | $ |
| At December 31, 2010 | 71,373 | (12,763) | 58,610 |
| Net earnings for the period | - | 3,703 | 3,703 |
| Other comprehensive (loss) for the period | - | (1,788) | (1,788) |
| Comprehensive income for the period | - | 1,915 | 1,915 |
| Dividends | - | (3,106) | (3,106) |
| At September 30, 2011 | 71,373 | (13,954) | 57,419 |
| At December 30, 2011 | 71,373 | (28,285) | 43,088 |
| Net earnings for the period | - | 3,126 | 3,126 |
| Other comprehensive (loss) for the period | - | (971) | (971) |
| Comprehensive income for the period | - | 2,155 | 2,155 |
| Dividends | - | (3,106) | (3,106) |
| At September 30, 2012 | 71,373 | (29,236) | 42,137 |

(See accompanying notes)

**FP Newspapers Inc.**

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

| | Note | Three months Ended September 30, 2012 | Three months Ended September 30, 2011 | Nine months Ended September 30, 2012 | Nine months Ended September 30, 2011 |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **CASH PROVIDED BY (USED IN):** | | | | | |
| OPERATING ACTIVITIES | | | | | |
| Net earnings for the period | | 988 | 974 | 3,126 | 3,703 |
| Items not affecting cash: | | | | | |
| Equity interest from Class A Units of FP Canadian Newspapers Limited Partnership | 3 | (1,421) | (1,371) | (4,415) | (5,236) |
| Equity interest from FPCN General partner Inc. | | - | (37) | - | (37) |
| Deferred income tax expense (recovery) | | (111) | 358 | (2,266) | 1,308 |
| Distributions received on Class A Units of FP Canadian Newspapers Limited Partnership | 3 | 1,122 | 1,189 | 3,366 | 3,847 |
| Net change in non-cash working capital items | | 491 | (21) | 3,369 | (125) |
| | | 1,069 | 1,092 | 3,180 | 3,460 |
| FINANCING ACTIVITIES | | | | | |
| Dividends paid | | (1,035) | (1,035) | (3,106) | (3,175) |
| INCREASE IN CASH AND CASH EQUIVALENTS | | 34 | 57 | 74 | 285 |
| CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD | | 492 | 271 | 452 | 43 |
| CASH AND CASH EQUIVALENTS – END OF PERIOD | | 526 | 328 | 526 | 328 |

(See accompanying notes)

(unaudited, tabular amounts in thousands of Canadian dollars)

## 1. GENERAL INFORMATION

FP Newspapers Inc. ("FPI"), which was incorporated under the Canada Business Corporations Act on March 17, 2010, owns securities entitling it to 49% of the distributable cash as defined in the partnership agreement of FP Canadian Newspapers Limited Partnership ("FPLP"). FPLP is a limited partnership formed under the laws of British Columbia on August 9, 1999. It owns the Winnipeg Free Press, the Brandon Sun and other newspapers, printing and media businesses. The address of its registered office is Suite 2900, P.O. Box 11583, 650 West Georgia Street, Vancouver, British Columbia, V6B 4N8.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 30, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

These interim condensed financial statements were approved by the Board of Directors of FPI on November 14, 2012.

## 3. INVESTMENT IN FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP

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

The investment in FPLP is summarized as follows:

| | **Class A limited partner units** |
|---|---|
| Balance at December 31, 2010 | $ 59,921 |
| Equity interest in net earnings and comprehensive income for the year ended December 31, 2011 | 5,240 |
| Non-cash write-down of investment in FP Canadian Newspapers Limited Partnership Class A limited partner units | (15,000) |
| Distributions received for the year ended December 31, 2011 | (4,970) |
| **Balance at December 30, 2011** | **$ 45,191** |
| Equity interest in net earnings and comprehensive income for the nine months ended September 30, 2012 | 3,086 |
| Distributions received for the nine months ended September 30, 2012 | (3,366) |
| **Balance at September 30, 2012** | **$ 44,911** |

(unaudited, tabular amounts in thousands of Canadian dollars)

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

| | Three Months Ended September 30, 2012 | Three Months Ended September 30, 2011 | Nine Months Ended September 30, 2012 | Nine Months Ended September 30, 2011 |
|---|---|---|---|---|
| Net earnings of FPLP | $ 2,901 | $ 2,798 | $ 9,011 | $ 10,685 |
| Interest attributable to FPI | 49% | 49% | 49% | 49% |
| Equity interest in net earnings of FPLP | 1,421 | 1,371 | 4,415 | 5,236 |
| Other comprehensive (loss) of FPLP | (490) | (4,929) | (2,713) | (5,000) |
| Interest attributable to FPI | 49% | 49% | 49% | 49% |
| Equity interest in other comprehensive (loss) of FPLP | $ (240) | $ (2,415) | $ (1,329) | $ (2,450) |

## 4. DIVIDENDS

FPI declared a dividend payable in respect of the month of September 2012 of $345,130 or $0.05 per share (September 2011 – $345,130 or $0.05 per share) which was paid October 31, 2012 to shareholders of record on September 28, 2012.

## 5. INCOME TAXES

FPI's fiscal year-end is December 30. None of the taxable income of FPLP (whose year-end is December 31) was allocated to FPI prior to its December 30, 2011 year-end. As a result, FPI had no current taxes in the year ended December 30, 2011. FPLP's taxable income for the year ended December 31, 2011 will be allocated to FPI in its year ended December 30, 2012. FPI has determined that the legislation implementing the June 6, 2011 federal budget relating to the curtailment of income deferral by corporations using partnerships with different year-end dates applies such that the amount of the accrual of FPLP's income earned in the stub-period between the end of FPLP's fiscal period and the end of FPI's December 30, 2011 taxation year is nil and, accordingly, the transitional relief, which allows this stub-period income for the first affected fiscal period to be recognized over a five-year period is also nil. FPLP's taxable income for the year ended December 31, 2011 will be allocated to FPI in its current year and consequently current taxes have been recorded by FPI for FPLP's year ended December 31, 2011 and the nine months ended September 30, 2012.

## 6. LIQUIDITY RISK

As at September 30, 2012, FPI had a working capital deficiency of $3,252,000 resulting from current income taxes payable, which are due prior to February 28, 2013 (note 5). FPI is dependent upon FPLP distributions being sufficient to settle such obligation. The Board of Directors of the general partner of FPLP have committed to the declaration of a distribution sufficient for the payment of current income taxes payable.

**FP Canadian Newspapers Limited Partnership**

**Condensed Consolidated Balance Sheets**
**As at September 30, 2012**
(unaudited, in thousands of Canadian dollars)

| | Note | As at September 30, 2012 | As at December 31, 2011 |
|---|---|---|---|
| | | $ | $ |
| **ASSETS** | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 16,930 | 9,329 |
| Accounts receivable | | 11,804 | 13,759 |
| Inventories | | 1,523 | 1,314 |
| Assets held for sale | | - | 53 |
| Prepaid expenses and other assets | | 1,109 | 1,561 |
| | | 31,366 | 26,016 |
| RESTRICTED CASH | | - | 5,000 |
| PROPERTY, PLANT AND EQUIPMENT | | 38,550 | 40,501 |
| INVESTMENT | | 106 | 141 |
| INTANGIBLE ASSETS | | 6,912 | 7,258 |
| GOODWILL | | 71,160 | 71,160 |
| **TOTAL ASSETS** | | 148,094 | 150,076 |
| **LIABILITIES AND UNITHOLDERS' EQUITY** | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | 7 | 8,375 | 8,336 |
| Prepaid subscriptions and deferred revenue | | 3,056 | 3,064 |
| Finance lease obligation | | 876 | 806 |
| Mortgage loan | | 49 | 47 |
| Term loan | 6 | 1,000 | 5,000 |
| | | 13,356 | 17,253 |
| LONG-TERM LIABILITIES | | | |
| Accrued pension benefit liability | | 6,720 | 5,848 |
| Finance lease obligation | | 3,019 | 3,222 |
| Mortgage loan | | 882 | 918 |
| Term loan | | 47,176 | 45,355 |
| TOTAL LIABILITIES | | 71,153 | 72,596 |
| UNITHOLDERS' EQUITY | | | |
| Partner units | | 98,280 | 98,280 |
| Deficit | | (21,311) | (20,740) |
| Accumulated other comprehensive loss | | (28) | (60) |
| TOTAL UNITHOLDERS' EQUITY | | 76,941 | 77,480 |
| **TOTAL LIABILITIES AND UNITHOLDERS' EQUITY** | | 148,094 | 150,076 |

(See accompanying notes)

**FP Canadian Newspapers Limited Partnership**

**Condensed Consolidated Income Statements and Statements of Comprehensive Income (Loss)**
(unaudited, in thousands of Canadian dollars)

| | Note | Three Months Ended September 30, 2012 | Three Months Ended September 30, 2011 | Nine Months Ended September 30, 2012 | Nine Months Ended September 30, 2011 |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| Revenue | | | | | |
| Advertising | | 17,487 | 17,670 | 54,385 | 55,674 |
| Circulation | | 6,743 | 6,884 | 20,246 | 20,520 |
| Commercial Printing | | 1,128 | 865 | 3,341 | 2,262 |
| Digital | | 705 | 607 | 2,136 | 1,931 |
| Promotion and services | | 256 | 378 | 1,236 | 940 |
| TOTAL REVENUE | | 26,319 | 26,404 | 81,344 | 81,327 |
| Operating expenses | | | | | |
| Employee compensation | | 10,614 | 10,644 | 32,752 | 32,118 |
| Newsprint and other paper | | 2,331 | 2,406 | 7,320 | 7,300 |
| Delivery of newspapers | | 4,165 | 4,175 | 12,638 | 12,532 |
| Other | | 4,448 | 4,665 | 14,417 | 13,354 |
| Depreciation and amortization | | 1,065 | 1,094 | 3,253 | 3,309 |
| Restructuring charge | | 412 | - | 502 | 264 |
| OPERATING INCOME | | 3,284 | 3,420 | 10,462 | 12,450 |
| Other income | 4 | 48 | 32 | 141 | 156 |
| Finance costs | 4 | (438) | (654) | (1,629) | (1,921) |
| Gain on interest rate swap | | 7 | - | 37 | - |
| NET EARNINGS FOR THE PERIOD | | 2,901 | 2,798 | 9,011 | 10,685 |
| Unrealized gain (loss) on investment | | 8 | (24) | 32 | (29) |
| Actuarial (loss) on defined benefit pension plan | | (490) | (4,929) | (2,713) | (5,000) |
| COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD | | 2,419 | (2,155) | 6,330 | 5,656 |

(See accompanying notes)

**FP Canadian Newspapers Limited Partnership**

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

| | Partner Units | Deficit | Accumulated Other Comprehensive Income (Loss) | Total Unitholders' Equity |
|---|---|---|---|---|
| UNITHOLDERS' EQUITY – | | | | |
| DECEMBER 31, 2010 | $ 98,280 | $ (21,291) | $ - | $ 76,989 |
| Net earnings for the period | - | 10,685 | - | 10,685 |
| Other comprehensive (loss) for the period | - | (5,000) | (29) | (5,029) |
| Comprehensive income (loss) for the period | - | 5,685 | (29) | 5,656 |
| Distributions paid | - | (7,852) | - | (7,852) |
| UNITHOLDERS' EQUITY – | | | | |
| SEPTEMBER 30, 2011 | $ 98,280 | $ (23,458) | $ (29) | $ 74,793 |
| UNITHOLDERS' EQUITY – | | | | |
| DECEMBER 31, 2011 | $ 98,280 | $ (20,740) | $ (60) | $ 77,480 |
| Net earnings for the period | - | 9,011 | - | 9,011 |
| Other comprehensive income (loss) for the period | - | (2,713) | 32 | (2,681) |
| Comprehensive income for the period | - | 6,298 | 32 | 6,330 |
| Distributions paid | - | (6,869) | - | (6,869) |
| UNITHOLDERS' EQUITY – | | | | |
| SEPTEMBER 30, 2012 | $ 98,280 | $ (21,311) | $ (28) | **$** 76,941 |

(See accompanying notes)

**FP Canadian Newspapers Limited Partnership**

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

| | Note | Three months ended September 30, 2012 | Three months ended September 30, 2011 | Nine months ended September 30, 2012 | Nine months ended September 30, 2011 |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **CASH PROVIDED BY (USED IN):** | | | | | |
| OPERATING ACTIVITIES | | | | | |
| Net earnings for the period | | 2,901 | 2,798 | 9,011 | 10,685 |
| Items not affecting cash: | | | | | |
| Depreciation and amortization | | 1,065 | 1,094 | 3,253 | 3,309 |
| Accretion of deferred financing costs | | 12 | 24 | 54 | 73 |
| (Gain) loss on disposal of property, plant and equipment | | - | 15 | (6) | (23) |
| (Gain) on interest rate swap | | (7) | - | (37) | - |
| Excess of pension contribution over expense | | (1,503) | (570) | (2,120) | (570) |
| | | 2,468 | 3,361 | 10,155 | 13,474 |
| Net change in non-cash working capital items | | 907 | 648 | 2,112 | 322 |
| | | 3,375 | 4,009 | 12,267 | 13,796 |
| INVESTING ACTIVITIES | | | | | |
| Purchases of property, plant and equipment | | (94) | (194) | (312) | (874) |
| Purchase of intangibles | | (27) | (49) | (104) | (150) |
| Investment | | - | - | - | (201) |
| Acquisition | | - | - | - | (3,457) |
| Proceeds from sale of property, plant and equipment | | - | 4 | 19 | 501 |
| Decrease in restricted cash | | - | - | 5,000 | - |
| | | (121) | (239) | 4,603 | (4,181) |
| FINANCING ACTIVITIES | | | | | |
| Distributions to partners | | (2,289) | (2,430) | (6,869) | (7,852) |
| Proceeds from financing leases | | - | 2,163 | 464 | 4,149 |
| Proceeds from mortgage loan | | - | 980 | - | 980 |
| Principal repayments of finance lease | | (213) | (132) | (633) | (222) |
| Principal repayments of mortgage loan | | (13) | (4) | (35) | (4) |
| Term loan refinancing costs | | - | - | (111) | - |
| Principal repayment of term loan | | - | (1,251) | (2,085) | (3,753) |
| | | (2,515) | (674) | (9,269) | (6,702) |
| INCREASE IN CASH AND CASH EQUIVALENTS | | 739 | 3,096 | 7,601 | 2,913 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD | | 16,191 | 6,294 | 9,329 | 6,477 |
| CASH AND CASH EQUIVALENTS - END OF PERIOD | | 16,930 | 9,390 | 16,930 | 9,390 |
| Supplemental Cash Flow Information: | | | | | |
| Interest paid during the period | | 469 | 623 | 1,610 | 1,857 |
| Interest received during the period | | 54 | 19 | 142 | 301 |

(See accompanying notes)

(tabular amounts in thousands of Canadian dollars)

## 1. GENERAL INFORMATION

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

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

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statement for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

These interim condensed consolidated financial statements were approved by the Board of Directors of FPGP on November 14, 2012.

FPLP's advertising revenue is seasonal. Advertising revenue and accounts receivable are highest in the second and fourth fiscal quarters, while expenses are relatively constant throughout the fiscal year.

## 3. EMPLOYEE FUTURE BENEFIT PLANS

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | **$** | **$** | **$** | **$** |
| Defined benefit pension plan | 488 | 336 | 1,458 | 1,009 |

(tabular amounts in thousands of Canadian dollars)

## 4. OTHER INCOME AND FINANCE COSTS

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $ | $ | $ | $ |
| Other income | | | | |
| Interest income | 48 | 47 | 135 | 133 |
| Gain (loss) on sales of property, plant and equipment | - | (15) | 6 | 23 |
| Total other income | 48 | 32 | 141 | 156 |
| Finance Costs | | | | |
| Interest on finance leases | 44 | 28 | 138 | 44 |
| Interest on mortgage loan | 11 | 12 | 34 | 12 |
| Interest on term loan | 371 | 498 | 1,315 | 1,519 |
| Accretion of term loan related to financing costs | 12 | 24 | 54 | 73 |
| Guarantee fee (note 5) | - | 92 | 88 | 273 |
| | 438 | 654 | 1,629 | 1,921 |

## 5. RELATED PARTY TRANSACTIONS

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

Total newsprint purchases from Alberta Newsprint Company, a company controlled indirectly by Ronald Stern, for the three and nine months ended September 30, 2012 were $1,000,000 and $3,100,000 ($1,200,000 and $3,200,000 for the three and nine months ended September 30, 2011) .

## 6. LONG-TERM DEBT, FINANCE LEASES AND COMMITMENTS

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

(tabular amounts in thousands of Canadian dollars)

During the first quarter of 2012, FPLP entered into a five-year non-cancellable finance lease agreement to complete the financing of the additional equipment required to upgrade the Derksen production operation.

| | **$** |
|---|---|
| 2012 | 101 |
| 2013 | 101 |
| 2014 | 101 |
| 2015 | 101 |
| 2016 | 101 |
| 2017 | 50 |
| Total payments | 555 |
| Interest cost (4.25%) | 55 |
| Present value of finance lease obligation | 500 |

The Board of Directors of FPGP have committed to the declaration of a distribution sufficient for the payment of current income taxes due in February 2013 by FP Newspapers Inc.

## 7. RESTRUCTURING COSTS

During the second and third quarters of 2012, FPLP implemented restructuring programs 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 and third quarter of 2012, FPLP recorded restructuring charges of $502,000 related to severance costs for employee reductions at the Winnipeg and Brandon operations. During the second and third quarter of 2012, $134,000 was paid, leaving an unpaid balance of $368,000, which is included in accounts payable and accrued liabilities.

## 8. SUBSEQUENT EVENT

On October 26, 2012 FPLP acquired substantially all of the assets and assumed certain liabilities of the Carberry News Express, a weekly newspaper with circulation of approximately 1,100. The purchase price, which was paid in cash, was $235,000 and is subject to adjustment based on the determination of certain working capital amounts determined as of the closing date.

## 9. COMPARATIVE AMOUNTS

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

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements are subject to known and unknown risks and uncertainties that may cause the actual results, performance or achievements of the 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, the availability of an extension of refinancing of FPLP's term loan facilities, costs related to capital expenditures, cyclical and seasonal variations in FPLP's revenues, the risk of acts of terrorism, the cost of newsprint, the potential for labour disruptions, the risk of equipment failure, and the effect of Canadian tax laws. Additional information about these and other factors is discussed under "Risk Factors" in our Annual Information Form dated March 15, 2012, which is available at www.sedar.com.

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

Forward-looking statements speak only as of the date hereof and, except as required by law, 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.

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TSX; FP

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c/o Canadian Stock Transfer Company Inc.

**AUDITORS:**
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