

fp

NEWSPAPERS INCOME FUND


440¢
 from every Free Press sold today will be used to fight breast cancer

The PINK PAPER 10¢
 WEDNESDAY JUNE 4, 2008

Winnipeg Free Press

THE WEATHER IS: ☀️ 15°C to 22°C | SCHOOL DAY 1 | DAY 2 | OLDER PAPER 2

'I don't want to be sad, I don't want to be miserable.
 I want to live and be happy.
And I am.'



Margyra Dumbroski's prognosis is not good. She's already had a mastectomy. She's lost her hair as she plows through a brutal round of chemotherapy. But it is unlikely you'll ever meet anyone more full of life. / **C1**

Building confidence
 Local woman custom-designs lifelike prosthetic breasts / **B9**

10,000 more mammograms
 Province ups funding by \$362,000 to ensure screening for breast cancer is available to those who need it / **A3**

Pathology lab budget cuts put women at risk / A4
'Pink' products: buyer beware / A8, A9
Cancer's silver linings: one woman's story / B1
Recipes: take one full measure of hope / D1



Shilo-based officer killed
 Capt. Richard Leary dies in Afghanistan combat / **A7**

Doctor resigns over life-support
 Patient's treatment 'an abomination,' says specialist / **A5**



Hollywood's Grandma honoured
 Man 100th Frances Day inducted into Canada's Walk of Fame / **B3**

It's Obama vs McCain
 Clinton says she's open to being Democratic running mate / **A11**

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Q2 – 2008
Quarterly Report
June 30, 2008

TSX: FP.UN

**Second Quarter Report
June 30, 2008
Report to Unitholders**



Dear Fellow Unitholders:

I am pleased to provide you with a report on the results of our operations and related distributions to Unitholders of FP Newspapers Income Fund (the "Fund") for the quarter ending June 30, 2008. FP Newspapers Income Fund owns securities entitling it to 49 percent of the distributable cash of FP Canadian Newspapers Limited Partnership ("FPLP"), which owns the Winnipeg Free Press and Brandon Sun daily newspapers, and Canstar Community News Limited ("Canstar") which operates five weekly newspapers, a weekly entertainment newspaper and a twice monthly newspaper aimed at age 50-plus readers in the Winnipeg area, as well as delivery businesses in Winnipeg and Thunder Bay.

Total revenue for FPLP for the three months ended June 30, 2008 was \$32.4 million, a \$0.2 million or 0.6 percent increase over the same period last year. Revenue growth for the quarter was primarily the result of advertising revenue growth in the classified category. Total EBITDA⁽¹⁾ of FPLP for the second quarter was \$7.5 million, a \$0.1 million or 1.9 percent decrease from the same quarter last year. The partnership had net earnings of \$3.7 million in the second quarter compared to \$3.9 million in the same quarter last year.

The Fund had net earnings of \$2.5 million, or \$0.365 per Unit, during the three months ended June 30, 2008, compared to net earnings of \$0.8 million, or \$0.116 per Unit, in the same quarter last year. The increase in net earnings in the second quarter is due to the requirement in the second quarter of 2007 to record a future income tax expense of \$1.9 million based on the substantive enactment of Bill C-52 Budget Implementation Act 2007 which contains legislative provisions to tax publically traded income trusts in Canada.

Operations

Advertising revenue in the second quarter was \$22.6 million, a \$0.3 million or 1.3 percent increase over the same quarter last year. Our largest advertising revenue category, display advertising including colour, was \$13.3 million for the quarter, unchanged from the same period last year, with increases in the local automotive and employment advertising categories offset by reduced spending in the financial, telecommunications, and department store categories. Classified advertising revenues increased by \$0.2 million or 4.6% primarily due to increases in the obituary and real estate categories partly offset by a decline in the employment category. Flyer distribution revenue increased by \$0.1 million or 2.9 percent, primarily due to increased rates.

Operating expenses, excluding amortization for the second quarter, were \$24.9 million, a 1.3 percent increase from the \$24.6 million in the same quarter last year. Employee compensation costs increased \$0.3 million or 2.3 percent, compared to the same quarter last year primarily due to annual contracted rate increases and severance costs partially offset by lower management bonus plan costs. Newsprint expense for FPLP's own publications decreased by \$0.2 million or 7.2 percent, as a result of lower newsprint prices partially offset by slightly higher consumption due to one additional publishing day. Delivery costs were \$4.9 million for the quarter, a 3.4 percent increase from the \$4.7 million in the same quarter last year primarily due to increased carrier costs due to contracted rate increases as well as additional costs associated with rising fuel costs.

During the second quarter, the Canadian Newspapers Association held their Annual General Meeting in Toronto where a number of our editorial employees were recognized with National Newspaper Awards. Free Press columnist Gordon Sinclair Jr. won the award in the columns category, and this was his third National Newspaper award. Three Free Press journalists won citations of merit, Jen Skerritt in the beat reporting category, Gerald Flood in the editorials category and Phil Hossack in the feature photography category. In addition, we are pleased to recognize that Winnipeg Free Press reporter Kevin Rollason has been selected by the Huntington Society as the recipient of its highest regional award, the Regional award of Merit – Communications for his work over the years in reporting on various issues relating to disability related issues and the impact on people living with Huntington's disease.

In May, the Winnipeg Free Press received a prestigious award for excellence in Journalism. The Free Press was the runner-up for the Excellence in Journalism award from the Canadian Journalism Foundation. The Free Press won the runner-up citation in the large media category, behind the winner The Canadian Press.

In June, Winnipeg hosted the World Conference on Breast Cancer and on June 4th the Winnipeg Free Press used pink newsprint to publish the daily newspaper. Interest at all levels was extremely high and the product raised both awareness and money for the on-going fight against cancer.

At the Brandon Sun, long-serving Operations Manager Bill Chester retired. Mr. Chester made a significant contribution to the Brandon Sun over his 32 years with the paper and we wish him the very best in his retirement. Randy Smith, who has extensive experience in the production side of the Brandon Sun business, has been appointed to the Operations Manager position. We're also pleased to announce that Rhonda Wieler, who is a Certified General Accountant has joined the Brandon Sun and assumed the Controller's position.

Building renovations were on-going during the second quarter to accommodate the move of the Canstar Community News division office employees into vacant space at the Winnipeg Free Press building. The renovations and the move were completed during the second week of July.

Distributions

Distributable cash attributable to the Fund⁽²⁾ for the three months ended June 30, 2008 was \$2.8 million, or \$0.403 per Unit compared to \$3.0 million or \$0.437 per Unit last year. For the trailing twelve months ended June 30, 2008, FPLP has generated distributable cash attributable to the Fund⁽²⁾ of \$1.602 per Unit, and the Fund has declared distributions of \$1.290 per Unit, resulting in a payout ratio of 80.5 percent.

The Fund declared distributions to Unitholders of \$0.323 per Unit for the second quarter, unchanged from the same quarter last year.

Outlook

Overall revenue growth for the quarter was lower than we were expecting largely the result of lower spending levels by some of our national advertisers. Given the uncertain economic outlook, our initial full year advertising revenue growth forecast of between 2 and 3 percent is less likely to be achieved. Newsprint price increases were announced and implemented during the second quarter and these increases were higher than anticipated. If there are no further price increases, our third quarter newsprint prices will be approximately 13 percent higher and our fourth quarter newsprint prices approximately 23 percent higher than the same quarters last year. If there are no further price increases, our full year newsprint prices will increase by approximately 3 percent, which compares to initial forecast of flat prices for 2008 compared to 2007.

Management at the Winnipeg Free Press has started talks with the unions representing employees and independent carriers and delivery agents relating to the renewal of collective agreements which expire on September 30, 2008.

Ronald N. Stern
Chairman & Trustee

August 12, 2008

Management's Discussion and Analysis

Overview

Management's Discussion and Analysis is as at August 12, 2008 and provides a review of significant developments that have affected the Fund's performance in the six months ended June 30, 2008. This review is based on financial information contained in the consolidated interim financial statements. 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 following information provides analysis of the operations and financial position of the Fund and FPLP and should be read in conjunction with the most recent audited consolidated financial statements and accompanying notes for the year ended December 31, 2007. The consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), however, the consolidated interim financial statements do not include all the information and disclosures required for annual financial statements.

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

Formation and Legal Entities

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

FPLP is a limited partnership formed on August 9, 1999. FPLP acquired the business and assets and assumed certain liabilities of the Winnipeg Free Press and Brandon Sun newspapers effective November 29, 2001. On July 13, 2004, FPLP acquired five weekly newspapers in the Winnipeg area, as well as delivery businesses in Winnipeg, Brandon and Thunder Bay and operates them under its wholly owned subsidiary Canstar Community News Limited ("Canstar"). In January 2006, the Canstar Brandon distribution operation was amalgamated within the Brandon Sun operations. On July 21, 2005 Canstar acquired the shares of Rosebud Publications Ltd., the publisher of a weekly entertainment newspaper and a twice-monthly newspaper aimed at age-50 plus readers, serving the Winnipeg area, and subsequently was wound up into the operations of Canstar Community News Limited.

FP Newspapers Income Fund

The Fund is dependent on the operations of FPLP, its sole investment. The Fund's net earnings were \$2,520,000 and \$4,375,000 for the three and six months ended June 30, 2008 compared to net earnings of \$801,000 and \$2,557,000 for the same periods last year. Interest income on the 11.5% Subordinated notes issued by FPLP to the Fund was \$1,671,000 and \$3,342,000 for the three and six months ended June 30, 2008 compared to \$1,706,000 and \$3,393,000 in the same periods last year. The Fund's equity interest from its Class A limited partner Units was \$938,000 and \$1,231,000 for the three and six months ended June 30, 2008 compared to \$1,053,000 and \$1,203,000 in the same periods last year (see "FP Canadian Newspapers Limited Partnership – Results of Operations" below). For the three and six months ended June 30, 2008, the Fund recorded a future income tax expense of \$18,000 and \$65,000 for the three and six months ended June 30, 2008, which relates to the on-going requirement to calculate future income taxes resulting from the substantive enactment of Bill C-52 Budget Implementation Act 2007 in the second quarter of 2007, compared to \$1,893,000 and \$1,893,000 in the same periods last year. Operating expenses incurred by the Fund were \$74,000 and \$141,000 for the three and six months ending June 30, 2008 compared to \$68,000 and \$152,000 in the same periods last year.

The Fund declared distributions to Unitholders of \$2,226,000 or \$0.323 per Unit and \$4,452,000 or \$0.646 per Unit for the three and six months ended June 30, 2008, which is unchanged from the same periods last year. Cash provided by operating activities of the Fund was \$2,267,000 and \$4,520,000 for the three and six months ended June 30, 2008 compared to \$2,234,000 and \$4,468,000 for the same periods last year.

Distributable Cash Attributable to the Fund⁽²⁾

Cash available for distribution attributable to the Fund⁽²⁾ was \$2,783,000 or \$0.403 per Unit and \$5,042,000 or \$0.730 per unit for the three and six months ended June 30, 2008 compared to \$3,013,000 or \$0.437 per Unit and \$5,083,000 or \$0.736 per unit for the same periods last year. The decrease in cash available for distribution attributable to the Fund⁽²⁾ for the three months ending June 30 is primarily due to increases in strategic capital purchases in FPLP.

The Fund monitors the cumulative cash available for distribution attributable to the Fund⁽²⁾ for the three months ending June 30, 2008 as a factor in determining whether to make an adjustment to the level of monthly distributions. The Fund believes it is prudent to pay out less than 100% of cumulative cash available for distribution attributable to the Fund⁽²⁾.

Since commencement of the Fund on May 28, 2002 until June 30, 2008 distributable cash attributable to the Fund⁽²⁾ totals \$8.677 per Unit and during that period the Fund declared distributions to Unitholders of \$7.755 per Unit. Because the Fund makes an allowance for maintenance capital spending which is estimated to be sufficient to maintain the productive capacity of the business, when calculating distributable cash attributable to the Fund⁽²⁾, and because cumulative distributions declared are less than the cumulative distributable cash attributable to the Fund⁽²⁾, the Fund believes there has been no economic “return of capital”.

Standardized Distributable Cash

In July 2007 the Canadian Institute of Chartered Accountants published an interpretive release concerning recommendations for certain Management’s Discussion and Analysis disclosures entitled Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosure. This Management’s Discussion and Analysis has not been prepared in all material respects in accordance with the CICA guidance.

The Fund believes that the computation of Standardized Distributable Cash of FPLP would be misleading and not comparable to other similar entities, since the payment of interest on the FPLP Notes by FPLP to the Fund would be deducted in arriving at Standardized Distributable Cash. As described elsewhere in this quarterly report and in other public filings of the Fund, the Fund owns securities entitling it to 49% of the distributable cash of FPLP (determined in accordance with the agreement of limited partnership and related agreements), including distributions in the form of interest paid on the FPLP Notes. The CICA guidance does not allow adjustments to Standardized Distributable Cash to reflect the underlying rights of the different classes of Unitholders in the capital structure of FPLP, and would therefore be misleading in these circumstances.

The Fund believes that the computation of Standardized Distributable Cash of the Fund would be of little value and not comparable to other similar entities, since the financial statements of the Fund do not consolidate the operations of FPLP.

FP Canadian Newspapers Limited Partnership Results of Operations

| Revenue: | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------|--------------------------------|------------------|------------------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| | In thousands | | In thousands | |
| Advertising | \$ 22,635 | \$ 22,337 | \$ 43,366 | \$ 42,840 |
| Circulation | 7,372 | 7,376 | 14,520 | 14,469 |
| Commercial Printing | 1,610 | 1,727 | 3,100 | 3,285 |
| Promotions and Services | 792 | 784 | 1,421 | 1,459 |
| | <u>\$ 32,409</u> | <u>\$ 32,224</u> | <u>\$ 62,407</u> | <u>\$ 62,053</u> |

Revenue for the three months ended June 30, 2008 was \$32.4 million, an increase of \$0.2 million or 0.6% compared to the same quarter last year. Advertising revenues increased by \$0.3 million or 1.3% compared to the same period last year. FPLP’s largest advertising revenue category, display advertising including colour, remained unchanged from the same quarter last year, with increases in the local automotive and employment advertising categories offset by reduced spending in the financial, telecommunications, and department store categories. Classified advertising revenues increased by \$0.2 million or 4.6% primarily due to increases in the obituary and real estate categories partly offset by a decline in the employment category. Flyer distribution revenues increased by \$0.1 million or 2.9%, primarily due to increased rates. Circulation revenue remained unchanged from the same quarter last year, the result of increased revenue from home delivery rate increases in the fourth quarter of 2007 offset by targeted discounting to increase single copy unit sales. Commercial printing revenue decreased by \$0.1 million or 6.8%, primarily due to lower charges for newsprint usage partially offset by increased printing rates. Promotions and Services revenue was largely unchanged with increased internet revenues offset by decreased sales of the Hermetic Code book which was published in the prior year.

Revenue for the six months ended June 30, 2008 was \$62.4 million, an increase of \$0.4 million or 0.6% compared to the same period last year. Advertising revenues increased by \$0.5 million or 1.2% compared to the same period last year. FPLP’s largest advertising revenue category, display advertising including colour, remained unchanged from the same period

last year, due to an increase in the local and national automotive category offset by reduced spending in the national financial, telecommunications, and department stores categories. Classified advertising revenues increased by \$0.3 million or 2.9% primarily due to increases in the obituary and real estate categories partly offset by a decline in the employment category. Flyer distribution revenues increased by \$0.2 million or 2.9%, primarily due to increased rates. Circulation revenue increased slightly from the same period in the prior year due to increased revenue from home delivery rate increases in the fourth quarter of 2007 offset by targeted discounting to increase single copy unit sales. Commercial printing revenue decreased by \$0.2 million or 5.9%, primarily due to lower charges for newsprint usage partially offset by increased printing rates. Promotions and Services revenue was largely unchanged with increased internet revenues offset by decreased sales of the Hermetic Code book which was published in the prior year.

| Operating expenses, excluding amortization: | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|------------------|------------------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| | In thousands | | In thousands | |
| Employee Compensation | \$ 11,606 | \$ 11,347 | \$ 23,300 | \$ 22,649 |
| Newsprint – Own Use | 3,219 | 3,467 | 5,993 | 6,722 |
| Newsprint - Commercial Printing | 392 | 541 | 752 | 1,070 |
| Delivery of Newspapers | 4,869 | 4,709 | 9,477 | 9,230 |
| Other | <u>4,855</u> | <u>4,549</u> | <u>9,392</u> | <u>9,031</u> |
| | <u>\$ 24,941</u> | <u>\$ 24,613</u> | <u>\$ 48,914</u> | <u>\$ 48,702</u> |

Operating expenses, excluding amortization in the three months ended June 30, 2008 were \$24.9 million, an increase of \$0.3 million or 1.3% compared to the second quarter last year. Employee compensation costs increased \$0.3 million or 2.3%, compared to the same quarter last year primarily due to annual contracted rate increases and severance costs partially offset by lower management bonus plan costs. Newsprint expense for FPLP's own publications decreased by \$0.2 million or 7.2%, of which \$0.3 million is a result of lower newsprint prices partially offset by \$0.1 million as a result of higher consumption largely due to one additional publishing day. Delivery costs increased by \$0.2 million or 3.4% for the quarter compared to the same quarter last year, primarily due to increased carrier costs due to contracted rate increases as well as additional costs associated with rising fuel costs. Other expenses increased by \$0.3 million or 6.7% primarily due to costs associated with expensing the remaining months of the Canstar facility lease due to the movement of office employees to the existing Winnipeg Free Press building as well as extra costs from adding new advertising supplements in the quarter.

Operating expenses, excluding amortization in the six months ended June 30, 2008 were \$48.9 million, an increase of \$0.2 million or 0.4% compared to the same period last year. Employee compensation costs increased \$0.7 million or 2.9%, compared to the same quarter last year primarily due to annual contracted rate increases and statutory holiday costs for the first annual provincial Louis Riel statutory holiday which fell in February. Newsprint expense for FPLP's own publications decreased by \$0.7 million or 10.8%, primarily due to lower newsprint prices. Delivery costs increased \$0.2 million or 2.7% for the six months ended June 30, 2008, compared to the same period last year, primarily due to increased carrier costs due to contracted rate increases as well as additional costs associated with one additional statutory holiday. Other expenses increased by \$0.4 million or 4.0% primarily due to costs associated with expensing the remaining months of the Canstar facility lease due to the movement of office employees to the existing Winnipeg Free Press building as well as extra costs from adding new advertising supplements in the for the first six months of 2008 compared to the same period last year.

EBITDA⁽¹⁾ for the three and six months ended June 30, 2008 was \$7.5 million and \$13.5 million, compared to \$7.6 million and \$13.4 million for the same periods last year. EBITDA⁽¹⁾ margin was 23.0% and 21.6% for the three and six months ended June 30, 2008, compared to 23.6% and 21.5% in the same periods last year.

Interest expense on the notes payable, the subordinated notes and capital lease obligations for the three and six months ended June 30, 2008 was \$2.6 million and \$5.2 million compared to \$2.6 million and \$5.3 million from the same periods last year.

Amortization of property, plant and equipment for the three and six months ended June 30, 2008 was \$1.2 million and \$2.2 million compared to \$1.0 million and \$2.0 million from the same periods last year.

Interest income is higher in the three and six months ended June 30, 2008 due to higher cash balances.

Income tax expense for the six months ended June 30, 2008 was \$0.1 million, which represents future taxes payable by Canstar Community News Limited.

FPLP's net earnings were \$3.7 million and \$6.0 million for the three and six months ended June 30, 2008 compared to \$3.9 million and \$6.0 million for the same periods last year.

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 2006, 2007 and the first and second quarter of 2008 was as follows:

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|-----------------------------|-------------|------------------|--------------------|
| <u>Revenue</u> | | In thousands | |
| Quarter 1 | \$ 29,998 | \$ 29,829 | \$ 28,582 |
| Quarter 2 | 32,409 | 32,224 | 31,261 |
| Quarter 3 | | 30,507 | 29,804 |
| Quarter 4 | | <u>33,302</u> | <u>32,573</u> |
| | | <u>\$125,862</u> | <u>\$122,220</u> |
| <u>EBITDA⁽¹⁾</u> | | | |
| Quarter 1 | \$ 6,025 | \$ 5,740 | \$ 4,746 |
| Quarter 2 | 7,468 | 7,611 | 7,196 |
| Quarter 3 | | 6,571 | 5,853 |
| Quarter 4 | | <u>8,595</u> | <u>7,672</u> |
| | | <u>\$ 28,517</u> | <u>\$ 25,467</u> |
| <u>Net earnings</u> | | | |
| Quarter 1 | \$ 2,338 | \$ 2,062 | \$ 1,038 |
| Quarter 2 | 3,653 | 3,925 | 3,492 |
| Quarter 3 | | 2,809 | 827 ^(*) |
| Quarter 4 | | <u>4,622</u> | <u>3,649</u> |
| | | <u>\$ 13,418</u> | <u>\$ 9,006</u> |

(*) The increase in earnings in the third quarter of 2007 is due to the 2006 write-down on the value of excess press components held for sale which resulted in a \$1,303,000 charge against net earnings in 2006.

The distribution policy of FPLP is to make distributions in approximately equal monthly amounts based on expected operating results for each fiscal year.

Working Capital Position of FPLP

Total working capital at June 30, 2008 was \$10.5 million, up from \$6.2 million at June 30, 2007. The increase in working capital is primarily due to cash flow from operating activities exceeding cash used for capital expenditures and distributions to partners and the resulting increase in the cash balance.

Liquidity and Capital Resources of FPLP

Cash and cash equivalents at June 30, 2008 was \$10.9 million compared to \$6.6 million at June 30, 2007. Cash and cash equivalents may be used to pay future distributions, to reduce debt, to fund future capital expenditures, or for other general purposes. Operating activities provided \$4.7 million during the second quarter, while \$1.1 million was used for investing activities and \$3.2 million was used for financing activities. Cash flow from operations, together with cash balances on hand and unutilized credit facilities, are expected to be sufficient to fund FPLP's operating requirements, capital expenditures and anticipated distributions.

Cash Flow from Operating Activities

During the three and six months ended June 30, 2008, cash generated from operating activities was \$4.7 million and \$8.7 million, compared to \$5.8 million and \$10.0 million for the same periods last year. The net change in non-cash working capital in the three and six months ended June 30, 2008 was a decrease of \$0.4 million and \$0.1 million compared to an increase of \$0.7 million and \$1.6 million for the same periods last year. The net change in non-cash working capital for the three and six month periods is primarily the result of the timing of receipts from customers and payments to suppliers.

Investing Activities

Capital purchases totalled \$0.6 million and \$0.9 million for the three and six months ended June 30, 2008, compared to \$0.5 million and \$1.0 million in the same periods last year. Maintenance capital spending, representing the replacement of capital in order to sustain current business operations, for the three and six months ending June 30, 2008 was \$0.3 million and \$0.5 million compared to \$0.5 million and \$1.0 million for the same periods in the prior year. Maintenance capital spending during the second quarter of 2008 consisted of on-going upgrades to the Winnipeg Free Press financial accounting system, as

well as the replacement of fleet vehicles. In 2008, our full year maintenance capital spending is expected to be approximately \$1.8 million.

During the second quarter, there were strategic capital purchases of \$0.4 million. The strategic capital spending consisted primarily of the investment of automation equipment for a portion of the Winnipeg Free Press mailroom, renovations to the Winnipeg Free Press building to accommodate the majority of the Canstar Community News employees, and software which automates the planning and managing of circulation routes which will allow for selective delivery of products to home delivered customers.

Financing Activities

Distributions to partners of FPLP for the three and six months ended June 30, 2008 totalled \$3.1 million and \$6.1 million, of which \$0.7 million and \$1.3 million was paid to the Fund as holder of Class A limited partner Units. This is compared to \$3.1 million and \$6.0 million, in the same periods last year, of which \$0.6 million and \$1.2 million was paid to the Fund as holder of Class A limited partner Units. The distributions to partners have been determined in accordance with the Amended and Restated Agreement of Limited Partnership dated May 3, 2005.

Contractual Obligations

There have been no significant changes in contractual obligations since the year ended December 31, 2007.

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

Under the terms of the Amended and Restated Agreement of Limited Partnership dated May 3, 2005, the Managing General Partner is required to determine reserves which are necessary or desirable to withhold from any distributions to Partners, including among other things for capital expenditures and operating expenses. A summary of the reserve for maintenance capital for the six months ended June 30, 2008 and 2007 is as follows:

| | <u>Three Months</u> <u>Ended June 30,</u> | | <u>Six Months</u> <u>Ended June 30,</u> | |
|--------------------------------|--|---------------|--|---------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| | In thousands | | In thousands | |
| Reserve at beginning of period | \$ 614 | \$ 347 | \$ 348 | \$ 370 |
| Increase in reserve | 221 | - | 487 | - |
| Decrease in reserve | <u>-</u> | <u>(17)</u> | <u>-</u> | <u>(40)</u> |
| Reserve at end of period | <u>\$ 835</u> | <u>\$ 330</u> | <u>\$ 835</u> | <u>\$ 330</u> |

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

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

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

Productive Capacity Maintenance Strategy

The key sources of revenue of FPLP are dependent upon our ability to sell and publish display and classified advertising lineage, both in our newspapers and on our websites, our ability to distribute advertising flyers, and our ability to produce and distribute newspapers. The key capital assets used in these activities are premises, computer hardware and software, printing presses and distribution related machinery. The available capital assets are used by our staff to deliver the products and services which results in revenue to FPLP.

It is the complex interaction of asset utilization, staffing levels and contracted services which ultimately determine our productive capacity on any given day, but there is no single measure which would accurately portray the productive capacity

of the business. Generally speaking, we manage the business to ensure there is excess capacity available that would allow us to comfortably increase the volume of lineage, circulation and flyer distribution to take advantage of market opportunities.

Therefore, the strategy of FPLP is to maintain a reasonable level of excess productive capacity to at least ensure we are able to produce and distribute products and services at the current peak volumes. This is accomplished by conducting capital and non-capital preventive maintenance programs for machinery and equipment, performing repairs when necessary, evaluating new technologies as they become available, and investing in new technologies when appropriate.

Debt Management Strategy

The strategy of FPLP is to refinance the \$60 million core long-term debt prior to the June 5, 2010 maturity date, on a non-amortizing basis. The capital assets with the most significant estimated replacement costs are buildings and printing presses, which have very long expected remaining useful lives. If the EBITDA⁽¹⁾ of FPLP continues to grow, it is likely that the future borrowing capacity of FPLP will also grow, thereby reducing the risk of refinancing the core debt at maturity.

Debt Covenants

Under the terms of the \$60 million Series A Senior Secured Notes and the \$10 million credit facility (undrawn at June 30, 2008), FPLP is subject to various positive and negative covenants which must be maintained in order to avoid an accelerated termination of the agreements. These covenants include certain restrictions on the incurrence of additional debt, requirements to maintain insurance, certain restrictions on the sale of assets, and other requirements and restrictions common to lending agreements of this nature. FPLP is restricted from making distributions which cumulatively exceed by more than \$1.4 million the total of distributable cash of FPLP⁽²⁾ since May 28, 2002. FPLP is required to maintain a ratio of net debt to EBITDA⁽¹⁾ of no greater than 3.5 to 1.0, and a ratio of EBITDA⁽¹⁾ to net external interest expense of no less than 3.0 to 1.0, measured quarterly on a trailing twelve month basis. Financial amounts used in the calculations are specifically defined in the debt agreements, but are substantially equal to the corresponding terms used in the external financial reports filed by FPLP and the Fund, where applicable, except that the maximum cash balance allowable for the calculation of net debt under the debt agreements is \$5.0 million. At June 30, 2008 FPLP was in compliance with all the terms and conditions of its debt agreements. The financial ratios calculated in accordance with the debt agreements for the five most recent twelve-month periods are as follows:

| | <u>Net Debt/EBITDA⁽¹⁾</u> | <u>EBITDA⁽¹⁾/Net Interest</u> |
|--------------------|--------------------------------------|--|
| June 30, 2008 | 1.91 | 10.01 |
| March 31, 2008 | 1.90 | 9.89 |
| December 31, 2007 | 1.92 | 9.59 |
| September 30, 2007 | 1.99 | 9.13 |
| June 30, 2007 | 2.06 | 8.75 |

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 Discussion and Analysis at December 31, 2007. There have been no changes during 2008 to the process for selection of newsprint suppliers and the quarterly review by the Audit Committee of newsprint purchases. Total newsprint purchases from ANC for the three and six months ended June 30, 2008 was \$2,304,000 and \$4,606,000 compared to \$1,525,000 and \$2,931,000 for the same periods last year.

Internal Controls over Financial Reporting

There have been no significant changes in internal controls over financial reporting since the year ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, the Fund’s or FPLP’s internal controls over financial reporting.

Critical Accounting Estimates

There have been no significant changes in our critical accounting estimates since the year ended December 31, 2007.

Initial Adoption of New Accounting Pronouncements

Effective January 1, 2008, the Fund and FPLP prospectively adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1535 Capital Disclosures, Section 3862 Financial Instruments – Disclosures and Section 3863 Financial Instruments – Presentation. The adoption of the Capital Disclosure standard resulted in additional disclosure

requirements in presenting management's policies and processes, both qualitatively and quantitatively, in defining and managing its capital, as further discussed in note 4 of the Fund's interim financial statements and note 5 of FPLP's interim consolidated financial statements. The adoption of the Financial Instrument – Disclosures and Financial Instruments – Presentation sections enhance the existing disclosures for financial instruments. In particular, section 3862 focuses on the identification of risk exposures and FPLP's approach to management of these risks, as further discussed in note 6 of FPLP's interim consolidated financial statements. The comparative interim consolidated financial statements have not been restated.

There was no financial impact to the financial statements as a result of the adopting these new standards.

Future Accounting Developments

In February 2008, the CICA confirmed that International Financial Reporting Standards will be mandatory in Canada, for public companies, for fiscal periods beginning on or after January 1, 2011. The Fund is evaluating the impact of the adoption of these new standards.

Historical Distributions Paid Analysis

| FPLP: | <u>Three Months</u> <u>ended</u> <u>June 30,</u> <u>2008</u> | <u>Six Months</u> <u>ended</u> <u>June 30,</u> <u>2008</u> | <u>Twelve Months</u> <u>ended</u> <u>December 31,</u> <u>2007</u> | <u>Twelve Months</u> <u>ended</u> <u>December 31,</u> <u>2006</u> |
|---|---|---|--|--|
| | In thousands | | | |
| Cash provided by operating activities | \$ 4,666 | \$ 8,660 | \$ 20,641 | \$ 15,387 |
| Net earnings | 3,653 | 5,991 | 13,418 | 9,006 |
| Distributions paid during the period | 3,091 | 6,141 | 12,143 | 11,527 |
| Excess of cash provided by operating activities over cash distributions paid | <u>\$ 1,575</u> | <u>\$ 2,519</u> | <u>\$ 8,498</u> | <u>\$ 3,860</u> |
| Excess (short-fall) of net earnings over cash distributions paid | <u>\$ 562</u> | <u>\$ (150)</u> | <u>\$ 1,275</u> | <u>\$ (2,521)</u> |

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

| FP Fund: | <u>Three Months</u> <u>ended</u> <u>June 30,</u> <u>2008</u> | <u>Six Months</u> <u>ended</u> <u>June 30,</u> <u>2008</u> | <u>Twelve Months</u> <u>ended</u> <u>December 31,</u> <u>2007</u> | <u>Twelve Months</u> <u>ended</u> <u>December 31,</u> <u>2006</u> |
|---|---|---|--|--|
| | In thousands | | | |
| Cash provided by operating activities | \$ 2,267 | \$ 4,520 | \$ 9,051 | \$ 8,951 |
| Net earnings | 2,520 | 4,375 | 7,968 | 7,677 |
| Distributions paid during the period | 2,226 | 4,452 | 8,904 | 8,904 |
| Excess of cash provided by operating activities over cash distributions paid | <u>\$ 41</u> | <u>\$ 68</u> | <u>\$ 147</u> | <u>\$ 47</u> |
| Excess (short-fall) of net earnings over cash distributions paid | <u>\$ 294</u> | <u>\$ (77)</u> | <u>\$ (936)</u> | <u>\$ (1,227)</u> |

Cash distributions paid in three of the four periods exceeded net earnings. The Fund does not use net earnings as a basis in determining the level of distributions to Unitholders. Distributions are determined by the Trustees in accordance with Deed of Trust of the Fund and are primarily dependant upon the amount of interest and distributions received from FPLP. Because amortization charged as an expense in calculating net earnings of FPLP, in accordance with GAAP, has exceeded capital expenditures charged as a reduction of distributable cash of FPLP in all periods, this result is not unexpected. Cash provided by operating activities exceeded distributions in all periods.

Business Risks and Uncertainties

Revenue

Advertising revenue, which accounts for approximately 69% of total revenue, is historically dependent upon general economic conditions and the specific spending plans of high volume advertisers. A significant downturn in the national or regional economy would likely decrease advertising revenue earned by our newspapers. Similarly, a change in promotional strategy by significant users of newspaper advertising, such as the automotive industry, financial services industry and national retailers, could reduce or increase revenue.

Employee Relations

The majority of FPLP's employees are unionized and their employment is governed by the terms of collective agreements. A work stoppage could restrict or eliminate the ability of FPLP to earn revenue from its publishing business during the stoppage. Collective agreements are in place with unionized employees at the Winnipeg Free Press and Canstar Community News Limited office employees which expire on September 30, 2008 and collective agreements covering unionized employees at the Brandon Sun expire December 31, 2008. Talks continue on the renewal of the collective agreement covering unionized delivery contractors at Canstar Community News Limited, which expired on April 20, 2007.

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 \$6.7 million during the first two quarters of 2008. Newsprint costs vary widely from time to time. If newsprint costs rise rapidly, there is no assurance that advertising and circulation revenues can be increased to offset the increased newsprint expense.

Outlook

The outlook for operations is described earlier in this document.

Non GAAP Measures

(1) EBITDA

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-----------------|------------------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| | In thousands | | In thousands | |
| Net earnings for the period | \$ 3,653 | \$ 3,925 | \$ 5,991 | \$ 5,987 |
| Add (subtract): | | | | |
| Amortization of property, plant and equipment | 1,170 | 1,008 | 2,175 | 2,010 |
| Amortization of intangible assets | 90 | 90 | 180 | 180 |
| Interest expense | 2,610 | 2,638 | 5,217 | 5,254 |
| Interest income | (77) | (48) | (170) | (83) |
| Gain on sale of property, plant and equipment | (3) | - | (3) | (17) |
| Current income tax (recovery) expense | (2) | (2) | 8 | 20 |
| Future income tax expense | <u>27</u> | <u>-</u> | <u>95</u> | <u>-</u> |
| EBITDA | <u>\$ 7,468</u> | <u>\$ 7,611</u> | <u>\$ 13,493</u> | <u>\$ 13,351</u> |

(2) Distributable Cash Attributable to the Fund

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-----------------|------------------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| | In thousands | | In thousands | |
| Distributable cash of FPLP: | | | | |
| EBITDA ⁽¹⁾ | \$ 7,468 | \$ 7,611 | \$ 13,493 | \$ 13,351 |
| Interest income | 77 | 48 | 170 | 83 |
| Interest expense on Notes payable and capital leases, excluding amortization of related deferred financing costs | (795) | (804) | (1,592) | (1,604) |
| Principal repayment of capital leases | (74) | (75) | (147) | (170) |
| Maintenance capital expenditures | (279) | (517) | (513) | (1,040) |
| (Increase) decrease in reserve for future maintenance capital | (221) | 17 | (487) | 40 |
| Strategic capital expenditures | (357) | - | (357) | - |
| Proceeds from sale of property, plant and equipment | 3 | - | 3 | 31 |
| Current income and capital taxes recovery (expense) | <u>2</u> | <u>2</u> | <u>(8)</u> | <u>(20)</u> |
| | <u>\$ 5,824</u> | <u>\$ 6,282</u> | <u>\$ 10,562</u> | <u>\$ 10,671</u> |
| 49% attributable to the Fund | \$ 2,854 | \$ 3,078 | \$ 5,175 | \$ 5,229 |
| Administration expenses | (74) | (68) | (141) | (152) |
| Interest income | <u>3</u> | <u>3</u> | <u>8</u> | <u>6</u> |
| Distributable cash attributable to the Fund | <u>\$ 2,783</u> | <u>\$ 3,013</u> | <u>\$ 5,042</u> | <u>\$ 5,083</u> |
| Distributable cash attributable to the Fund – per Unit | <u>\$ 0.403</u> | <u>\$ 0.437</u> | <u>\$ 0.730</u> | <u>\$ 0.736</u> |

A summary of distributable cash and distributions declared for the trailing twelve months to June 30, 2008 and for the period from commencement of the Fund on May 28, 2002 to June 30, 2008 is as follows:

Distributable Cash of FPLP:

| | Last Twelve <u>Months</u> | Since May 28, <u>2002</u> |
|--|---------------------------------|---------------------------------|
| | In thousands | |
| EBITDA ⁽¹⁾ | \$ 28,659 | \$ 153,222 |
| Interest income | 311 | 719 |
| Interest expense on Notes payable and capital leases, excluding amortization of related deferred financing costs | (3,185) | (19,082) |
| Principal repayment of capital leases | (295) | (1,086) |
| Maintenance capital expenditures | (1,495) | (7,006) |
| Increase in reserve for future maintenance capital expenditures | (505) | (835) |
| Strategic capital expenditures | (357) | (1,007) |
| Increase in reserve for strategic capital, acquisitions, and/or debt reduction | - | (353) |
| Proceeds on disposal of property, plant and equipment | 5 | 1,106 |
| Current income and capital tax expense | <u>(26)</u> | <u>(170)</u> |
| Distributable cash of FPLP | <u>\$ 23,112</u> | <u>\$ 125,508</u> |

Distributable Cash Attributable to the Fund:

| | Last Twelve <u>Months</u> | Since May 28, <u>2002</u> |
|--|---------------------------------|---------------------------------|
| | In thousands | |
| 49% of FPLP distributable cash | \$ 11,325 | \$ 61,499 |
| Administration expenses | (278) | (1,648) |
| Interest income | <u>13</u> | <u>42</u> |
| Distributable cash attributable to the Fund | <u>\$ 11,060</u> | <u>\$ 59,893</u> |
| Distributable cash attributable to the Fund per Unit | \$1.602 | \$8.677 |
| Distributions declared by the Fund per Unit | \$1.290 | \$7.755 |
| Payout Ratio | 80.5% | 89.4% |

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:

| | <u>Three Months</u> | | <u>Six Months</u> | |
|--|-----------------------|-----------------|-----------------------|------------------|
| | <u>Ended June 30,</u> | | <u>Ended June 30,</u> | |
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| | In thousands | | In thousands | |
| Cash flow from operating activities of FPLP | \$ 4,626 | \$ 5,817 | \$ 8,620 | \$ 10,043 |
| Add (subtract): | | | | |
| Interest on Subordinated notes ^(*) | 1,671 | 1,706 | 3,342 | 3,393 |
| Net change in non-cash working capital items ^(**) | 415 | (666) | 61 | (1,626) |
| Maintenance capital expenditures | (279) | (517) | (513) | (1,040) |
| (Increase) decrease in reserve for future maintenance capital ^(***) | (221) | 17 | (487) | 40 |
| Strategic capital expenditures | (357) | - | (357) | - |
| Principal repayment of capital leases | (74) | (75) | (147) | (170) |
| Proceeds from sale of property, plant and equipment ^(****) | 3 | - | 3 | 31 |
| Other comprehensive earnings | 40 | - | 40 | - |
| Distributable cash of FPLP | <u>\$ 5,824</u> | <u>\$ 6,282</u> | <u>\$ 10,562</u> | <u>\$ 10,671</u> |

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

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

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

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

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

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

| | As at June 30, 2008 | As at December 31, 2007 |
|---|---------------------------|-------------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 416 | \$ 358 |
| Interest receivable from subordinated notes | 551 | 571 |
| Due from FPCN Media Funding Inc. | 26 | 26 |
| Prepaid expenses | 9 | 13 |
| | 1,002 | 968 |
| Investment in FPCN General Partner Inc. | 40 | 30 |
| Investment in FP Canadian Newspapers Limited Partnership (note 2) | 61,328 | 61,386 |
| | \$ 62,370 | \$ 62,384 |
| LIABILITIES AND UNITHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 125 | \$ 127 |
| Distribution payable (note 3) | 742 | 742 |
| | 867 | 869 |
| Long-Term Liabilities: | | |
| Future income taxes | 1,747 | 1,682 |
| | 2,614 | 2,551 |
| Unitholders' Equity: | | |
| Trust Units | 69,026 | 69,026 |
| Cumulative earnings | 44,255 | 39,880 |
| Cumulative distributions | (53,525) | (49,073) |
| | 59,756 | 59,833 |
| | \$ 62,370 | \$ 62,384 |

(See accompanying notes)

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------|------------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Earnings from investment in FP Canadian Newspapers Limited Partnership | | | | |
| Interest from subordinated notes | \$ 1,671 | \$ 1,706 | \$ 3,342 | \$ 3,393 |
| Equity interest from Class A limited partner Units (note 2) | 938 | 1,053 | 1,231 | 1,203 |
| Other interest | 3 | 3 | 8 | 6 |
| | 2,612 | 2,762 | 4,581 | 4,602 |
| Administration expenses | (74) | (68) | (141) | (152) |
| Earnings before income taxes | 2,538 | 2,694 | 4,440 | 4,450 |
| Future income tax expense | (18) | (1,893) | (65) | (1,893) |
| Net earnings and Comprehensive income for the period | \$ 2,520 | \$ 801 | \$ 4,375 | \$ 2,557 |
| Cumulative earnings, beginning of period | 41,735 | 33,668 | 39,880 | 31,632 |
| Transitional amount | - | - | - | 280 |
| Adjusted cumulative earnings, beginning of period | 41,735 | 33,668 | 39,880 | 31,912 |
| Cumulative earnings, end of period | \$ 44,255 | \$ 34,469 | \$ 44,255 | \$ 34,469 |
| Number of trust Units outstanding | 6,902,592 | 6,902,592 | 6,902,592 | 6,902,592 |
| Net earnings per trust Unit | \$ 0.365 | \$ 0.116 | \$ 0.634 | \$ 0.370 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------|------------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Balance – beginning of period | \$ 59,462 | \$ 60,299 | \$ 59,833 | \$ 60,489 |
| Transitional amount | - | - | - | 280 |
| Adjusted balance – beginning of period | 59,462 | 60,299 | 59,833 | 60,769 |
| Net earnings for the period | 2,520 | 801 | 4,375 | 2,557 |
| Distributions to Unitholders | (2,226) | (2,226) | (4,452) | (4,452) |
| Balance – end of period | \$ 59,756 | \$ 58,874 | \$ 59,756 | \$ 58,874 |

(See accompanying notes)

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------|------------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Cash provided by (used in): | | | | |
| Operating activities: | | | | |
| Net earnings for the period | \$ 2,520 | \$ 801 | \$ 4,375 | \$ 2,557 |
| Items not affecting cash: | | | | |
| Equity interest from Class A Units of FP | | | | |
| Canadian Newspapers Limited Partnership (note 2) | (938) | (1,053) | (1,231) | (1,203) |
| Future income tax (recovery) expense | 18 | 1,893 | 65 | 1,893 |
| Distributions received on Class A Units of FP | | | | |
| Canadian Newspapers Limited Partnership (note 2) | 653 | 624 | 1,289 | 1,202 |
| Net change in non-cash working capital items | 14 | (31) | 22 | 19 |
| | 2,267 | 2,234 | 4,520 | 4,468 |
| Financing activities: | | | | |
| Distributions to Unitholders | (2,226) | (2,226) | (4,452) | (4,452) |
| Investment activities: | | | | |
| Investment in FPCN General Partner Inc. | (10) | (10) | (10) | (10) |
| Increase (decrease) in cash and cash equivalents | 31 | (2) | 58 | 6 |
| Cash and cash equivalents – beginning of period | 385 | 229 | 358 | 221 |
| Cash and cash equivalents – end of period | \$ 416 | \$ 227 | \$ 416 | \$ 227 |

(See accompanying notes)

FP Newspapers Income Fund
Notes to Consolidated Financial Statements as at June 30, 2008
(unaudited, tabular amounts in thousands of dollars)

1. Basis of presentation

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

These interim consolidated financial statements of the Fund have been prepared by management in accordance with accounting principles generally accepted in Canada for interim financial statements and include the accounts of the Fund and its wholly-owned subsidiary, FPCN Holdings Trust. However, these interim financial statements do not include all the information and disclosures required for annual financial statements. These interim financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements of the Fund as at December 31, 2007, except as described below. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto and other financial information contained in the audited consolidated financial statements for the year ended December 31, 2007.

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

2. Investment in FP Canadian Newspapers Limited Partnership

On May 28, 2002, FPCN Holdings Trust subscribed for 6,573,897 Class A limited partner Units of FPLP and \$65,670,000 principal amount of subordinated notes of FPLP. On June 27, 2002, FPCN Holdings Trust subscribed for a further 328,695 Class A limited partner Units of FPLP and \$3,283,500 principal amount of subordinated notes of FPLP. FPCN Holdings Trust holds all of the Class A limited partner Units of FPLP, which, together with the subordinated notes, entitles it to 49% of the distributable cash (as defined in the Partnership Agreement) of FPLP.

Future repayments of the subordinated notes will be applied as a contribution to the Class A limited partner Units of FPLP.

The investment in FPLP is summarized as follows:

| | Subordinated notes | Class A limited partner Units | Total |
|---------------------------------|-----------------------|----------------------------------|------------------|
| Balance at March 31, 2008 | \$ 58,454 | \$ 2,589 | \$ 61,043 |
| Equity interest in the period | - | 938 | 938 |
| Distributions received | - | (653) | (653) |
| Balance at June 30, 2008 | \$ 58,454 | \$ 2,874 | \$ 61,328 |

The change in equity interest for the three months ended June 30, 2008 and 2007 from the Fund’s investment in Class A limited partner Units of FPLP is calculated as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-----------------|------------------------------|-----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net earnings of FPLP | \$ 3,653 | \$ 3,925 | \$ 5,991 | \$ 5,987 |
| Plus: Interest on subordinated notes | 1,671 | 1,706 | 3,342 | 3,393 |
| Net earnings before interest on subordinated notes | \$ 5,324 | \$ 5,631 | \$ 9,333 | \$ 9,380 |
| 49% interest attributable to the Fund | 2,609 | 2,759 | 4,573 | 4,596 |
| Less: Interest from subordinated notes | (1,671) | (1,706) | (3,342) | (3,393) |
| Equity interest from Class A limited partner Units | \$ 938 | \$ 1,053 | \$ 1,231 | \$ 1,203 |

3. Distribution payable

The Fund recorded a distribution payable at June 30, 2008 of \$0.1075 per Unit. The distribution was paid July 30, 2008 to Unitholders of record on June 30, 2008 and is in respect of the month of June 2008.

4. Capital management

On January 1, 2008, the Fund adopted CICA Handbook section 1535 Capital Disclosures. This section establishes disclosure requirements for management's policies and processes in defining and managing its capital. There was no financial impact to previously reported financial statements as a result of the implementation of this new standard.

The Fund was established as a limited purpose trust for the sole purpose of investing the proceeds of the initial public offering to purchase securities of FPLP which entitle it to 49% of the distributable cash, as defined in the partner agreement of FPLP. While the Fund does not have a capital management program given its limited purpose, the FPLP's capital management objectives are disclosed in note 5 of its financial statements.

As a result of the Canadian trust taxation passed in June 2007 and effective January 1, 2011, the Fund is subject to certain capital growth restrictions referred to as "normal growth" equity rules. These rules limit the amount of Unitholder's capital that can be issued by the Fund in each of the next three years, based on the fund's market capitalization on October 31, 2006 as follows:

| (\$millions) | Annual | Cumulative |
|-----------------------------------|---------|------------|
| Normal growth capital allowed in: | | |
| 2008 | \$ 50.0 | \$ 43.5 |
| 2009 | 50.0 | 58.0 |
| 2010 | 50.0 | 72.5 |

If the maximum equity growth capital allowed is exceeded, the Trust may be subject to trust taxation prior to 2011.

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

| | As at June 30, 2008 | As at December 31, 2007 |
|--|---------------------------|-------------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 10,942 | \$ 9,920 |
| Accounts receivable | 11,545 | 11,740 |
| Inventories | 1,125 | 1,123 |
| Prepaid expenses | 960 | 823 |
| Future income taxes | 87 | 182 |
| | <hr/> 24,659 | <hr/> 23,788 |
| Property, plant and equipment | 49,329 | 50,634 |
| Investment (note 3) | 443 | - |
| Intangible assets | 7,923 | 8,103 |
| Goodwill | 71,160 | 71,160 |
| | <hr/> \$ 153,514 | <hr/> \$ 153,685 |
| LIABILITIES AND UNITHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 10,808 | \$ 11,017 |
| Income taxes payable | 15 | 21 |
| Prepaid subscriptions and deferred revenue | 3,265 | 3,167 |
| Current obligations under capital leases | 50 | 197 |
| | <hr/> 14,138 | <hr/> 14,402 |
| Long-Term Liabilities: | | |
| Notes payable | 59,692 | 59,617 |
| Subordinated notes | 56,277 | 56,069 |
| | <hr/> 115,969 | <hr/> 115,686 |
| | <hr/> 130,107 | <hr/> 130,088 |
| Unitholders' Equity: | | |
| Partner Units | 41,293 | 41,293 |
| Cumulative earnings | 59,108 | 53,117 |
| Cumulative distributions | (76,954) | (70,813) |
| Comprehensive earnings | (40) | - |
| | <hr/> 23,407 | <hr/> 23,597 |
| | <hr/> \$ 153,514 | <hr/> \$ 153,685 |

(See accompanying notes)

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------|------------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenue | \$ 32,409 | \$ 32,224 | \$ 62,407 | \$ 62,053 |
| Operating expenses, excluding amortization | (24,941) | (24,613) | (48,914) | (48,702) |
| | 7,468 | 7,611 | 13,493 | 13,351 |
| Amortization of property, plant and equipment | (1,170) | (1,008) | (2,175) | (2,010) |
| Amortization of intangible assets | (90) | (90) | (180) | (180) |
| Earnings before the under noted | 6,208 | 6,513 | 11,138 | 11,161 |
| Interest expense (note 5) | (2,610) | (2,638) | (5,217) | (5,254) |
| Interest income | 77 | 48 | 170 | 83 |
| Gain on sale of property, plant and equipment | 3 | - | 3 | 17 |
| Earnings before income taxes | 3,678 | 3,923 | 6,094 | 6,007 |
| Income tax (expense) recovery: | | | | |
| - Current | 2 | 2 | (8) | (20) |
| - Future | (27) | - | (95) | - |
| Net earnings for the period | 3,653 | 3,925 | 5,991 | 5,987 |
| Cumulative earnings – beginning of period | 55,455 | 41,761 | 53,117 | 39,128 |
| Transitional amount | - | - | - | 571 |
| Adjusted cumulative earnings – beginning of period | 55,455 | 41,761 | 53,117 | 39,699 |
| Cumulative earnings – end of period | \$ 59,108 | \$ 45,686 | \$ 59,108 | \$ 45,686 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|----------|------------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Net earnings for the period | \$ 3,653 | \$ 3,925 | \$ 5,991 | \$ 5,987 |
| Other comprehensive earnings | | | | |
| Unrealized loss in financial instruments (note 3) | (40) | - | (40) | - |
| Comprehensive earnings for the period | \$ 3,613 | 3,925 | \$ 5,951 | 5,987 |

(See accompanying notes)

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

| | General partner Units | Class A limited partner Units | Total |
|--|-----------------------------|--|-----------|
| Unitholders' equity – December 31, 2006 | \$ 13,348 | \$ 7,353 | \$ 20,701 |
| Transitional amount | 508 | 63 | 571 |
| Adjusted Unitholders' equity – January 1, 2007 | \$ 13,856 | \$ 7,416 | \$ 21,272 |
| Net earnings for the period | 1,661 | 401 | 2,062 |
| Distributions paid | (2,392) | (578) | (2,970) |
| Unitholders' equity – March 31, 2007 | \$ 13,125 | \$ 7,239 | \$ 20,364 |
| Net earnings for the period | 3,134 | 791 | 3,925 |
| Distributions paid | (2,445) | (624) | (3,069) |
| Unitholders' equity – June 30, 2007 | \$ 13,814 | \$ 7,406 | \$ 21,220 |
| Net earnings for the period | 2,237 | 572 | 2,809 |
| Distributions paid | (2,445) | (624) | (3,069) |
| Unitholders' equity – September 30, 2007 | \$ 13,606 | \$ 7,354 | \$ 20,960 |
| Contributions | - | 1,050 | 1,050 |
| Net earnings for the period | 3,686 | 936 | 4,622 |
| Distributions paid | (2,418) | (617) | (3,035) |
| Unitholders' equity – December 31, 2007 | \$ 14,874 | \$ 8,723 | \$ 23,597 |
| Net earnings for the period | 1,850 | 488 | 2,338 |
| Distributions paid | (2,414) | (636) | (3,050) |
| Unitholders' equity – March 31, 2008 | \$ 14,310 | \$ 8,575 | \$ 22,885 |
| Net earnings for the period | 2,883 | 770 | 3,653 |
| Distributions paid | (2,438) | (653) | (3,091) |
| Comprehensive earnings | (32) | (8) | (40) |
| Unitholders' equity – June 30, 2008 | \$ 14,723 | \$ 8,684 | \$ 23,407 |

(See accompanying notes)

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-----------------|------------------------------|-----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Cash provided by (used in) | | | | |
| Operating activities: | | | | |
| Net earnings for the period | \$ 3,653 | \$ 3,925 | \$ 5,991 | \$ 5,987 |
| Items not affecting cash: | | | | |
| Amortization of property, plant and equipment and intangible assets | 1,260 | 1,098 | 2,355 | 2,190 |
| Amortization of deferred financing costs (note 5) | 144 | 128 | 283 | 257 |
| Future income tax expense | 27 | - | 95 | - |
| Gain on disposal of property, plant and equipment | (3) | - | (3) | (17) |
| | 5,081 | 5,151 | 8,721 | 8,417 |
| Net change in non-cash working capital items | (415) | 666 | (61) | 1,626 |
| | 4,666 | 5,817 | 8,660 | 10,043 |
| Investing activities: | | | | |
| Purchases of property, plant and equipment | (636) | (517) | (870) | (1,040) |
| Proceeds from sale of property, plant and equipment | 3 | - | 3 | 31 |
| Investment | (483) | - | (483) | - |
| | (1,116) | (517) | (1,350) | (1,009) |
| Financing activities: | | | | |
| Distributions to partners | (3,091) | (3,069) | (6,141) | (6,039) |
| Principal repayment of capital leases | (74) | (75) | (147) | (170) |
| | (3,165) | (3,144) | (6,288) | (6,209) |
| Increase in cash and cash equivalents | 385 | 2,156 | 1,022 | 2,825 |
| Cash and cash equivalents - beginning of period | 10,557 | 4,398 | 9,920 | 3,729 |
| Cash and cash equivalents - end of period | \$ 10,942 | \$ 6,554 | \$ 10,942 | \$ 6,554 |
| Supplemental Cash Flow Information: | | | | |
| Interest paid during the period | \$ 2,484 | \$ 2,527 | \$ 4,951 | \$ 5,024 |
| Taxes paid during the period | 4 | 3 | 9 | 14 |

(See accompanying notes)

FP Canadian Newspapers Limited Partnership
Notes to Consolidated Financial Statements as at June 30, 2008
(unaudited, tabular amounts in thousands of dollars)

1. Basis of presentation

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

These interim consolidated financial statements include the accounts of FPLP and Canstar Community News Limited (“Canstar”). In addition, the FP Canadian Newspapers Limited Partnership Employee Benefits Plan Trust Fund (“Trust Fund”) and FPCN Media Funding Inc. (“Funding”) have been determined to be variable interest entities (“VIE”), which also have been consolidated. The managing general partner of FPLP is FPCN General Partner Inc. These consolidated interim financial statements include only the assets, liabilities, revenues and expenses of FPLP and its subsidiaries and do not include the other assets, liabilities, revenues and expenses, including income taxes, of the partners.

These interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada for interim financial statements and reflect all adjustments which are, in the opinion of management, necessary for fair statement of the results of the interim periods presented. However, these consolidated interim financial statements do not include all the information and disclosures required for annual financial statements. The accounting policies used in the preparation of these consolidated interim financial statements are the same as those used in the most recent annual consolidated financial statements, except as described below. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of FPLP for the year ended December 31, 2007.

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

2. Allocation of net income

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

3. Investment

During the second quarter, the Trust Fund acquired units of FP Newspapers Income Fund. These units have been classified as “available for sale” and are measured at fair value, as determined by the published price quote as of June 30, 2008. Gains and losses resulting from the periodic revaluation are recorded in other comprehensive earnings. As at June 30, 2008, FPLP holds 37,813 units at the carrying value of \$443,000.

4. Employee future benefit plans

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|------------------------------|--------------------------------|---------------|------------------------------|---------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Defined benefit pension plan | <u>\$ 345</u> | <u>\$ 367</u> | <u>\$ 692</u> | <u>\$ 734</u> |

5. Interest expense

Interest expense is summarized as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-----------------|------------------------------|-----------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Subordinated notes | \$ 1,671 | \$ 1,706 | \$ 3,342 | \$ 3,393 |
| Amortization of subordinated notes deferred financing costs | 106 | 92 | 208 | 185 |
| Notes payable | 794 | 799 | 1,588 | 1,593 |
| Amortization of notes payable deferred financing costs | 38 | 36 | 75 | 72 |
| Capital lease obligations | <u>1</u> | <u>5</u> | <u>4</u> | <u>11</u> |
| | <u>\$ 2,610</u> | <u>\$ 2,638</u> | <u>\$ 5,217</u> | <u>\$ 5,254</u> |

6. Capital management

On January 1, 2008, FPLP adopted CICA Handbook section 1535 Capital Disclosures. This section establishes disclosure requirements for management's policies and processes in defining and managing its capital. There was no financial impact to previously reported financial statements as a result of the implementation of this new standard.

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

FPLP's capital consists of cash and cash equivalents, debt and Unitholders' equity. The components at June 30, 2008 and December 31, 2007 were as follows:

| | As at June 30, <u>2008</u> | As at December 31, <u>2007</u> |
|---|----------------------------------|--------------------------------------|
| Notes payable | \$ 59,692 | \$ 59,617 |
| Capital leases | 50 | 197 |
| Cash and cash equivalents | <u>(10,942)</u> | <u>(9,920)</u> |
| External net debt | 48,800 | 49,894 |
| Subordinated notes | 56,277 | 56,069 |
| Unitholders' equity | <u>23,407</u> | <u>23,597</u> |
| Total capitalization | <u>\$ 128,484</u> | <u>\$ 129,560</u> |
| External net debt as a percentage of total capitalization | <u>38.0%</u> | <u>38.5%</u> |

The notes payable and the \$10 million credit facility (undrawn at June 30, 2008) include negative covenants which must be maintained in order to avoid an accelerated termination of the agreement. These covenants include certain restrictions on the incurrence of additional debt, requirements to maintain insurance, certain restrictions on the sale of assets and other requirements and restrictions common to lending agreements of this nature. FPLP is restricted from making distributions which cumulatively exceed by more than \$1.4 million the total of distributable cash as defined in these agreements. FPLP is required to maintain a ratio of net debt to earnings, as defined in the agreements, of no greater than 3.5 to 1.0 and a net external interest expense of no less than 3.0 to 1.0 measured quarterly on a trailing 12-month basis. At June 30, 2008, FPLP was in compliance with all the terms and conditions of its debt agreements. The financial ratios calculated in accordance with the debt agreements for the trailing 12-month periods ending June 30, 2008, March 31, 2008 and December 31, 2007 are as follows:

| | Net Debt / Earnings as defined under agreement | Earnings as defined under agreement / Net interest |
|-------------------|---|---|
| June 30, 2008 | 1.91 | 10.01 |
| March 31, 2008 | 1.90 | 9.89 |
| December 31, 2007 | 1.92 | 9.59 |

7. Financial instrument risk management

On January 1, 2008, FPLP adopted CICA Handbook sections 3862 Financial Instruments – Disclosures and 3863 Financial Instruments – Presentation, which enhances existing disclosures for financial instruments. In particular, section 3862 focuses on the identification of risk exposures and FPLP's approach to management of these risks. There was no financial impact to previously reported financial statements as a result of the implementation of these new standards.

FPLP's financial assets and liabilities are comprised of cash and cash equivalents, accounts receivable, investment, accounts payable and accrued liabilities and long-term debt which include subordinated notes and notes payable.

FPLP is exposed to financial risks arising from its financial assets and liabilities. The financial risks include credit risk, interest rate risk and liquidity risk.

Credit Risk

Credit risk is the risk a customer will fail to perform an obligation or fail to pay amounts due causing a financial loss. As FPLP is in the business of publishing newspapers and performing printing services for third parties, included in the accounts receivable are amounts owed from advertisers, circulation customers and commercial print clients. FPLP does not hold collateral as security for these balances. The maximum exposure to credit risk is the carrying value of the financial assets. FPLP's credit risk relating to these accounts receivable is spread over a large number of national and local advertising clients, in addition to many circulation retail customers and third party printing clients. Generally, no single advertising or circulation customer accounts for more than approximately 3.5% of the total accounts receivable at any given point in time. FPLP manages credit risk on a customer by customer basis and establishes a reasonable allowance for non collectible amounts with this allowance netted against the accounts receivable on the balance sheet. While the adequacy of the allowance is reviewed on a regular basis, generally the allowance level will cover all accounts receivable that are greater than ninety days past due.

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

| | |
|-------------------------------------|----------------------------------|
| | As at June 30, <u>2008</u> |
| Accounts receivable: | |
| Current | \$ 7,455 |
| Up to three months past due | 4,295 |
| Greater than three months past due | <u>235</u> |
| | 11,985 |
| Allowance for doubtful accounts | <u>(440)</u> |
| | <u>\$ 11,545</u> |

There are no impaired financial assets as at June 30, 2008.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As FPLP currently has no variable interest long term debt and has not drawn against its operating line, there is no interest rate risk. The current fixed rate debt facility is scheduled to mature on June 5, 2010 and FPLP's intention is to negotiate the refinancing of this debt and at that time the interest rate and the other terms could be more or less favourable than the existing terms.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. FPLP believes that it has access to sufficient capital through internally generated cashflows and external sources (bank credit markets and debt capital markets), and undrawn committed borrowing facilities to meet current spending forecasts. Trade payables are due within one year and notes payable are due June 5, 2010. Future repayments of the subordinated notes will be applied as a contribution to the Class A limited partner Units.

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. 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 include statements regarding management's intent, belief or current expectations with respect to market and general economic conditions, future costs and operating performance. They are subject to known and unknown risks and uncertainties that may cause the actual results, performance or achievements of the Fund or FPLP, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

A number of factors may cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, 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 dependence upon particular advertising customer segments, indebtedness incurred in making acquisitions, 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, 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 11, 2008.

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 that the Canadian and Manitoba economies will expand at a moderate pace in 2008 and that inflation will remain relatively low, such assumptions may prove to be incorrect, and actual results may differ materially from management's expectations.

Forward-looking statements speak only as of the date hereof and, except as required by law, the Fund and FPLP assume no obligation to update or revise them to reflect new events or circumstances.

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Listing:

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

Transfer Agent:

CIBC Mellon Trust Company

Auditors:

Ernst & Young LLP, Winnipeg