

NEWS RELEASE



FP Newspapers Income Fund reports Second Quarter 2004 results

Winnipeg, August 12, 2004 – **FP Newspapers Income Fund (TSX:FP.UN)** announces financial results for the second quarter ended June 30, 2004. FP Newspapers Income Fund owns a 49 per cent interest in FP Canadian Newspapers Limited Partnership (“FPLP”), which owns the Winnipeg Free Press and Brandon Sun daily newspapers and six weekly newspapers.

Total revenue for FPLP for the three months ended June 30, 2004 was \$26.5 million, a \$0.9 million or 3.6 per cent increase over the same period last year. Total EBITDA⁽¹⁾ of FPLP for the second quarter was \$6.8 million, a 4.2 per cent increase compared to \$6.5 million in 2003. The partnership had a net loss of \$1.5 million in the second quarter, compared to net earnings of \$2.2 million in the second quarter last year.

The year on year decline in net earnings in the second quarter of \$3.7 million is the result of a \$3.0 million write down of surplus equipment which will be held for sale, and a \$1.2 million loss on surplus equipment sold during the second quarter. These non-cash losses were partially offset by a \$0.4 million improvement in operating earnings. The decision was made to sell some excess components of one of the three printing presses at the Winnipeg Free Press, to take advantage of market opportunities which resulted in FPLP receiving net proceeds on the equipment sold in the quarter of \$1.0 million. FPLP continues to have significant unused printing capacity available on the two presses not involved in the disposal program. Upon completion of the disposal program we expect to have generated in excess of \$3 million in net proceeds from this surplus equipment. (see “Disposal and Future Sale of Excess Press Components” in the management discussion and analysis section).

“We were pleased with the solid operating results in the second quarter,” said Ronald Stern, Chairman of FPLP. “Revenue was 3.6 per cent higher in the second quarter this year, leading to a 4.2 per cent improvement in EBITDA⁽¹⁾. The loss in the quarter, which had no negative impact on cash flow, was the result of the sale and write-down of equipment not needed by the business,” he added.

The Fund earned \$0.2 million, or \$0.023 per Unit during the three months ended June 30, 2004, compared to \$2.0 million or \$0.289 per Unit in the second quarter last year. The reduction in earnings is the result of the reduction in earnings of FPLP in the quarter.

Operations

Revenue growth in the second quarter was attributable to a number of areas. Advertising revenue for the newspaper operations in the second quarter was \$19.4 million compared to \$18.7 million in the prior year, an increase of 3.7 per cent. Advertising flyer distribution revenues continued to show strong growth and accounted for \$0.5 million of this increase. This growth was the result of a combination of new flyer distribution customers and a shift by some advertising display spending into this category. Classified advertising revenue growth of \$0.2 million or 4.5 per cent higher than last year was primarily the result of increased advertising largely from the automotive category. Commercial printing revenues increased by \$0.3 million in the second quarter of 2004, resulting from an increase in printing jobs.

Operating expenses excluding amortization were \$19.7 million in the second quarter compared to \$19.1 million last year, an increase of 3.5 per cent. Employee compensation costs accounted for \$0.3 million of this increase, a result of contracted annual rate increases, increased labour hours required to handle the increased flyer distribution volumes, as well as the impact of strategic executive appointments made in the second half of last year. Newsprint prices were lower in the second quarter than they were in the same quarter last year, but increased usage primarily from commercial printing, resulted in this expense increasing slightly compared to last year. Delivery costs increased by \$0.3 million primarily from additional costs associated with increased flyer distribution volumes.

We are pleased to report that one of our senior reporters, Dan Lett, was awarded the National Newspaper Award for 2003 in the investigation category for his examination of the case of James Driskell. Mr. Driskell was sentenced and served 13 years for a murder that Mr. Lett and Mr. Driskell's defence team argued that he did not commit. DNA evidence destroyed part of the crown's case and Mr. Driskell is now free on bail pending a federal review of his case. Mr. Lett accepted the award at a Gala dinner in Vancouver on June 5th.

Distributions

Distributable cash attributable to the Fund ⁽²⁾ for the three months ended June 30, 2004 was \$2.8 million, or \$0.408 per Unit compared to \$2.4 million or \$0.348 per Unit last year. Since the start of operations of the Fund on May 28, 2002, FPLP has generated distributable cash attributable to the Fund ⁽²⁾ of \$2.852 per Unit and the Fund has declared distributions of \$2.605 per Unit, resulting in a cumulative payout ratio of 91.3%.

The Fund declared distributions to unitholders of \$0.315 per Unit for the quarter, compared to \$0.300 in the second quarter of 2003.

Outlook

Overall advertising revenues for the first half of the year increased by 2.8 per cent compared to our full year forecast of 2 to 4 per cent. Flyer distribution revenues continued to be the largest growth area and we expect this growth to continue into the final two quarters of 2004. Advertising revenue is very difficult to forecast since advertising activity is driven by a number of factors, including general economic growth, consumer spending, employment trends and consumer confidence. Commercial printing revenue increases over prior years levels should continue over the remainder of this year due primarily to new on-going commercial printing jobs. Circulation revenues are expected to be largely unchanged from 2003 levels.

While the timing of newsprint price increases are difficult to predict, some newsprint suppliers have announced increases of approximately 9.5% to take effect September 1. Since third quarter newsprint consumption will largely be at existing prices, the overall newsprint price is expected to be approximately 4.0% lower in the third quarter of 2004 compared to last year.

In July FPLP announced the acquisition from Transcontinental Media, of five weekly community newspapers in Winnipeg as well as door-to-door advertising delivery businesses in Winnipeg, Brandon and Thunder Bay. The acquired newspapers are The Lance, The Metro, The Herald, The Times and The Headliner. These well established free distribution weeklies have a combined circulation of 169,000 copies and the advertising distribution operations reach approximately 290,000 households. The acquired operations generate approximately \$8.0 million in annual revenue. Canstar Community News Limited, a newly incorporated company wholly owned by FPLP, will be operating the businesses. Steps are being taken to optimize the operations of these recently acquired publications.

Conference Call

FP Newspapers Income Fund invites you to participate in a conference call on Thursday, August 12, 2004 at 10:00 a.m. EST to discuss the results.

The dial-in number is (416) 405-9328, or toll free at 1-800-387-6216. To ensure your participation, please dial in five minutes before the start of the conference call. The call also will be webcast live at www.fpnewspapers.com. Management's presentation will be followed by a question and answer period.

For those unable to participate, a taped rebroadcast will be available to listeners upon completion of the call until midnight on August 26, 2004. To access the rebroadcast, please dial (416) 695-5800 or dial toll free at 1-800-408-3053. The order number for replay is 3088307#.

About FP Newspapers Income Fund

FP Canadian Newspapers Limited Partnership owns the Winnipeg Free Press, the Brandon Sun, and their related businesses as well as Canstar Community News Limited, the publisher of five community newspapers in the Winnipeg region. The Winnipeg Free Press newspaper publishes seven days a week, serving Winnipeg and Manitoba with an average seven-day circulation of approximately 128,000. The Brandon Sun also publishes seven days a week, serving the region with an average circulation of approximately 15,000. Canstar Community News publishes weekly with an average

circulation of approximately 169,000. Based in Winnipeg, the businesses employ approximately 620 people in Winnipeg, Brandon and Thunder Bay. Further information can be found at www.fpnewspapers.com, and in the disclosure documents filed by FP Newspapers Income Fund with the securities regulatory authorities available at www.sedar.com.

Forward-looking statements

This document may contain forward-looking statements, relating to the Fund's operations or to the environment in which it operates, which are based on the Fund's operations, estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict, and/or are beyond the Fund's control. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. These factors include those set forth in other public filings. Consequently, readers should not place any undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they are made. FP Newspapers Income Fund disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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Management's Discussion and Analysis
August 11, 2004

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.

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.

FP Newspapers Income Fund

The Fund is dependant on the operations of FPLP, its sole investment. The Fund earned \$208,000 and \$1,749,000 in income from its investment in FPLP for the three and six months ended June 30, 2004 compared to \$2,057,000 and \$3,527,000 for the same periods last year. Interest income on the 11.5% subordinated notes issued by FPLP to the Fund was \$1,914,000 and \$3,828,000 for the three and six months ended June 30, 2004 compared to \$1,948,000 and \$3,875,000 for the same periods last year. The Fund's equity interest from its Class A limited partnership units was (\$1,706,000) and (\$2,079,000) for the three and six months ended June 30, 2004 versus \$109,000 and (\$348,000) for the same periods in 2003 (see "FP Canadian Newspapers Limited Partnership – Results of Operations" below). Operating expenses incurred by the Fund were \$52,000 and \$113,000 for the three and six month periods in 2004 compared to \$62,000 and \$125,000 for the same periods last year and net earnings for the three and six months ended June 30, 2004 was \$158,000 and \$1,641,000 versus \$1,995,000 and \$3,402,000 for the same periods last year.

The Fund declared distributions to unitholders of \$0.315 and \$0.630 per Unit for the three and six months ended June 30, 2004 compared to \$0.300 and \$0.600 in the same periods last year. Cash available for distribution attributable to the Fund⁽²⁾ was \$2,818,000 or \$0.408 per Unit for the quarter ended June 30, 2004 and \$4,934,000 or \$0.715 per Unit for the six months ended June 30, 2004. Cash available for distribution attributable to the Fund for the three and six months ended June 30, 2003 was \$2,405,000 and \$4,738,000 or \$0.348 and \$0.686 per Unit. The cash available for distribution attributable to the Fund⁽²⁾ in the second quarter of 2003 included a repayment of a loan from related parties for \$290,000.

FP Canadian Newspapers Limited Partnership
Results of Operations

Revenue:	<u>Three Months</u> <u>Ended June 30</u>		<u>Six Months</u> <u>Ended June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	\$ Thousands		\$ Thousands	
Advertising	\$19,360	\$18,663	\$36,609	\$35,620
Circulation	5,357	5,345	10,680	10,561
Commercial Printing	1,545	1,291	2,966	2,572
Promotions and Services	<u>237</u>	<u>269</u>	<u>598</u>	<u>521</u>
	<u>\$26,499</u>	<u>\$25,568</u>	<u>\$50,853</u>	<u>\$49,274</u>

Revenue for the three months ended June 30, 2004 was \$26.5 million, an increase of \$0.9 million, or 3.6% compared to the second quarter of 2003. Advertising revenues increased by \$0.7 million or 3.7% primarily the result of increased flyer distribution revenue and classified advertising. FPLP's largest advertising revenue category, display advertising, including colour, was unchanged in the second quarter compared to last year. Display advertising revenue increases were generated during the quarter resulting from new retail store openings, strength in the telecommunications sector and federal and municipal election advertising. These gains were offset by lower spending by some national automotive customers, travel customers and some retail furniture customers. Commercial printing revenues increased by \$0.3 million or 19.7% resulting from an increase in printing work at both the Brandon and Winnipeg operations. Circulation revenue was flat in the second quarter resulting from the net impact of increased Home Delivery and selective Single Copy prices offset by targeted discounting to increase unit sales.

Revenue for the six months ended June 30, 2004 was \$50.9 million, an increase of \$1.6 million or 3.2% over the same period in 2003. Advertising revenues increased by \$1.0 million or 2.8% primarily the result of increased flyer distribution revenue generated by an increase in pieces distributed, and an increase in classified revenues, primarily from the automotive category.

Operating expenses, excluding amortization:

	<u>Three Months</u>		<u>Six Months</u>	
	<u>Ended June 30</u>		<u>Ended June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	\$ Thousands		\$ Thousands	
Employee Compensation	\$9,664	\$9,337	\$19,247	\$18,476
Newsprint	3,972	3,902	7,629	7,522
Delivery of Newspapers	2,438	2,188	4,626	4,252
Other	<u>3,653</u>	<u>3,640</u>	<u>7,192</u>	<u>7,319</u>
	<u>\$19,727</u>	<u>\$19,067</u>	<u>\$38,694</u>	<u>\$37,569</u>

Operating expenses excluding amortization in the three months ended June 30, 2004 were \$19.7 million, an increase of \$0.7 million or 3.5% over the second quarter of 2003. Employee remuneration, including pension and non-pension benefits costs and payroll taxes, increased by \$0.3 million or 3.5% primarily the result of the contracted annual rate increases of 2.0%, an increase in part-time hours due to increased advertising flyer volumes, and strategic executive appointments made in the second half of last year. Newsprint expense increased \$0.1 million or 1.8% in the second quarter, the result of an overall decrease of approximately 2.5% in the average price of newsprint used offset by an increase in consumption resulting primarily from increased commercial printing work. Delivery costs increased by \$0.3 million or 11.4% compared to the same quarter last year largely the result of costs associated with the increase in advertising flyer distribution.

Operating expenses excluding amortization in the six months ended June 30, 2004 were \$38.7 million, an increase of \$1.1 million or 3.0% over the same period last year. Employee compensation including pension and non-pension benefits increased by \$0.8 million or 4.2% largely the result of the contracted rate increase of 2.0%, increased man hours due to increased advertising flyer pieces handled, and strategic executive appointments made in the second half of 2003, as well as severance payments and labour costs for an additional leap year publishing day incurred in the first quarter.

EBITDA⁽¹⁾ for the three and six months ended June 30, 2004 was \$6.8 million and \$12.2 million, compared to \$6.5 million and \$11.7 million for the same periods in 2003. EBITDA⁽¹⁾ margin was 25.6% and 23.9% for the three and six month periods ended June 30, 2004 compared to 25.4% and 23.8% for the same periods last year.

Interest expense on the term credit facility and the subordinated notes for the three months ended June 30, 2004 was \$2.6 million a decrease of \$0.2 million or 5.6% largely the result of lower interest rates on the term loan. Interest expense on the debt for the six months ended June 30, 2004 was \$5.2 million compared to \$5.4 million or 3.0% lower than the same period last year.

During the second quarter FPLP recorded a \$1.2 million loss on the sale of excess press components and recorded a further non cash loss of \$3.0 million relating to the reduction of the carrying value of additional excess components which are being held for sale (see "Disposal and Future Sale of Excess Press Components" under liquidity and capital resource section).

FPLP's net loss was \$1.5 million for the three months ending June 30, 2004 compared to earnings of \$2.2 million for the same period in 2003. During the six months ended June 30, 2004, FPLP's net loss was \$0.3 million compared to earnings of \$3.3 million for the same period in the prior year. The reduction in net earnings in both the second quarter and for the six months ended June 30, 2004 is the result of the loss on disposal and write-down of equipment discussed in the previous paragraph.

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 and EBITDA⁽¹⁾ of FPLP by quarter for 2002 and 2003 and the first two quarters of 2004 was as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<u>Revenue</u>		\$Thousands	
Quarter 1	\$ 24,354	\$ 23,706	\$ 23,610
Quarter 2	26,499	25,568	24,809
Quarter 3		23,885	22,677
Quarter 4		<u>26,647</u>	<u>23,544*</u>
		<u>\$ 99,806</u>	<u>\$ 94,640</u>
<u>EBITDA</u> ⁽¹⁾			
Quarter 1	\$ 5,387	\$ 5,204	\$ 5,139
Quarter 2	6,772	6,501	6,403
Quarter 3		5,281	4,977
Quarter 4		<u>7,264</u>	<u>5,458*</u>
		<u>\$ 24,250</u>	<u>\$ 21,977</u>

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

* The decline in revenue and EBITDA in the fourth quarter of 2002 resulted primarily from the loss of nine publishing days at the Winnipeg Free Press due to a labour interruption.

Liquidity and Capital Resources

Cash Flow from Operations

During the three months ended June 30, 2004, cash generated from operating activities was \$3.5 million, compared to \$3.3 million for the second quarter of 2003. The net change in non-cash working capital in the second quarter of 2004 was (\$0.7) million compared to (\$0.5) million for the same period of 2003.

During the six months ended June 30, 2004, cash generated from operating activities was \$7.9 million which is unchanged from the same period last year. The net change in non cash working capital in the six months ended June 30, 2004 was \$0.9 million compared to \$1.6 million last year. The largest item contributing to this decrease was an increase in accounts receivable largely resulting from the increase in revenues.

Capital Expenditures

Maintenance capital purchases representing the replacement of capital in order to sustain current business operations, totalled \$0.3 million and \$0.5 million for the three and six months ended June 30, 2004 compared to \$0.1 million in both periods last year. During the second quarter a partial replacement of our fleet vehicles was completed with the addition of twelve new cars accounting for capital spending of \$0.1 million. It is expected that maintenance capital spending will be around our planned \$250,000 quarterly level in the third quarter, but in addition the strategic capital purchase of additional print rolls to improve efficiency of handling increase advertising flyer pieces will be made at a cost of \$0.4 million.

Disposal and Future Sale of Excess Press Components

During the second quarter, FPLP sold some of the surplus components from one of its three Winnipeg printing presses for total net proceeds of \$0.9 million. The resulting non cash accounting loss of \$1.2 million is reported in FPLP's second quarter statement of earnings. In addition to this, FPLP determined during the quarter that certain other surplus components of the same press would also be marketed for sale. Based on the requirements of CICA Handbook Section 3475, "Disposal of long-lived Assets and Discontinued Operations", these components have been revalued based on their estimated fair value less costs to sell. A non cash accounting loss of \$3.0 million was recorded in FPLP's second quarter statement of earnings and as required, these assets have been separately disclosed in FPLP's June 30, 2004 Balance Sheet at a carrying value of \$2.3 million.

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

Under the terms of the Amended and Restated Agreement of Limited Partnership dated May 24, 2002, 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. During the second quarter of 2004, the Managing General Partner determined that it was prudent to decrease the reserve for maintenance capital by \$0.1 million. A summary of the reserve for maintenance capital is as follows:

	<u>Three Months</u> <u>Ended June 30</u>		<u>Six Months</u> <u>Ended June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Reserve at beginning of period	\$ 784	\$ -	\$ 641	\$ -
Increase in reserve	-	-	143	-
Decrease in reserve	<u>(95)</u>	<u>-</u>	<u>(95)</u>	<u>-</u>
Reserve at end of period	<u>\$ 689</u>	<u>\$ -</u>	<u>\$ 689</u>	<u>\$ -</u>

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

During the second quarter of 2004 the Managing General Partner determined that it was desirable to establish a reserve in the amount of \$1.0 million for purposes of future strategic capital, acquisitions and/or debt reduction. The amount of the reserve established is equal to the net proceeds received on the sale of surplus equipment described above.

These reserves are 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.

Financing Activities

Distributions to partners of FPLP for the three and six months ended June 30, 2004 totaled \$2.7 million and \$5.3 million and have been determined in accordance with the Amended and Restated Agreement of Limited Partnership dated May 24, 2002. Distributions to partners for the three and six months ended June 30, 2003 totaled \$3.0 million and \$5.8 million.

Cash and cash equivalents at June 30, 2004 total \$8.5 million. Cash and cash equivalents may be used to pay future distributions, to reduce debt, to fund future capital expenditures, or for other general purposes. 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.

At June 30, 2004 FPLP's current liabilities exceed it's current assets due to the requirement to classify the term loan as a current liability as discussed in note 5 of FPLP's June 30, 2004 financial statements. It is management's intention to complete the re-financing of this loan prior to its maturity and once the terms are finalized this loan will be re-classified as a long term liability.

Business Risks and Uncertainties

Revenue

Advertising revenue, which accounts for greater than 70% of total revenue, is historically dependant 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. Contracts are now in place with unionized employees at the Winnipeg Free Press which run to October 2005. Collective agreements covering unionized employees at the Brandon Sun expire December 31, 2005.

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 \$15.1 million of expenses in 2003. 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 should be cautioned that EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of FPLP's performance. FPLP's method of calculating EBITDA may differ from other issuers and, accordingly, EBITDA may not be comparable to measures used by other issuers. FPLP determines EBITDA as follows:

	<u>Three Months</u> <u>Ended June 30</u>		<u>Six Months</u> <u>Ended June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	\$ Thousands		\$ Thousands	
Operating earnings	\$ 5,703	\$ 5,323	\$ 9,895	\$ 9,352
Add:				
Amortization of property, plant and equipment	978	1,087	2,083	2,172
Amortization of intangible assets	<u>91</u>	<u>91</u>	<u>181</u>	<u>181</u>
EBITDA	<u>\$ 6,772</u>	<u>\$ 6,501</u>	<u>\$ 12,159</u>	<u>\$ 11,705</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. This measure is a useful supplemental measurement as 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 generally accepted accounting principles 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 should be cautioned that the method of calculating distributable cash may not be comparable to similar measures presented by other issuers. Management has determined distributable cash attributable to the Fund as follows:

	<u>Three Months</u> <u>Ended June 30</u>		<u>Six Months</u> <u>Ended June 30</u>		Period from May 28, 2002 to June 30 <u>2004</u>
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	
Distributable cash of FPLP:					
EBITDA ⁽¹⁾	\$ 6,772	\$ 6,501	\$ 12,159	\$ 11,705	\$ 49,495
Interest income	24	28	49	49	202
Interest expense on term loan	(692)	(813)	(1,419)	(1,535)	(6,381)
Maintenance capital expenditures	(345)	(101)	(459)	(136)	(1,452)
Decrease (increase) in reserve for future maintenance capital	95	-	(48)	-	(689)
Proceeds from sale of property, plant and equipment	956	12	963	46	1,030
Increase in reserve for future strategic capital, acquisitions, and/or debt reduction	<u>(956)</u>	<u>-</u>	<u>(956)</u>	<u>-</u>	<u>(956)</u>
	<u>\$ 5,854</u>	<u>\$ 5,627</u>	<u>\$ 10,289</u>	<u>\$ 10,129</u>	<u>\$ 41,249</u>
49% attributable to the Fund	2,868	2,757	5,042	4,963	20,212
Administration expenses	(52)	(62)	(113)	(125)	(532)
Loan from related party	-	(290)	-	(100)	-
Interest income	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ 6</u>
Distributable cash attributable to the Fund	<u>\$ 2,818</u>	<u>\$ 2,405</u>	<u>\$ 4,934</u>	<u>\$ 4,738</u>	<u>\$ 19,686</u>
Distributable cash attributable to the Fund – per Unit	<u>\$ 0.408</u>	<u>\$ 0.348</u>	<u>\$ 0.715</u>	<u>\$ 0.686</u>	<u>\$ 2.852</u>

A summary of the trailing twelve months distributable cash and distributions declared is as follows:

Distributable Cash of FPLP:

EBITDA ⁽¹⁾	\$ 24,704
Interest income	113
Interest expense on term loan	(2,998)
Maintenance capital expenditures	(724)
Increase in reserve for maintenance capital expenditures	(689)
Proceeds on disposal of property, plant and equipment	972
Increase in reserve for strategic capital, acquisitions, and/or debt reduction	<u>(956)</u>
Distributable cash of FPLP	\$ 20,422

Distributable Cash Attributable to the Fund:

49% of FPLP distributable cash	10,007
Administrative costs	(281)
Interest income	<u>7</u>
Distributable cash attributable to the Fund	<u>\$ 9,733</u>
Distributable cash attributable to the Fund per unit	\$ 1.410
Distributions declared by the Fund per unit	\$ 1.240
Payout Ratio	87.9%

A reconciliation of FPLP's distributable cash to cash flows from operating activities, as reported in FPLP's three and six month Statements of Cash Flows is as follows:

	<u>Three Months</u> <u>Ended June 30</u>		<u>Six Months</u> <u>Ended June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	\$ Thousands		\$ Thousands	
Cash flow from operating activities of FPLP	\$ 3,504	\$ 3,266	\$ 7,892	\$ 7,911
Add (subtract)				
Interest on subordinated notes *	1,914	1,948	3,828	3,875
Net change in non-cash working capital items **	686	502	(931)	(1,567)
Maintenance capital expenditures	(345)	(101)	(459)	(136)
(Increase) decrease in reserve for future maintenance capital ***	95	-	(48)	-
Increase in reserve for future strategic capital, acquisitions, and/or debt reduction ***	(956)	-	(956)	-
Proceeds from sale of property, plant and equipment ****	<u>956</u>	<u>12</u>	<u>963</u>	<u>46</u>
Distributable cash of FPLP	<u>\$ 5,854</u>	<u>\$ 5,627</u>	<u>\$ 10,289</u>	<u>\$ 10,129</u>

* 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.

*** Increases in the reserves for future maintenance capital, strategic capital, acquisitions, and/or debt reduction are shown as a deduction in determining distributable cash. Decreases in the reserves would be shown as an increase in the determination of distributable cash. Such reserves are 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.

**** 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, 2004	As at December 31, 2003
ASSETS		
Current Assets:		
Cash	\$ 366	\$ 330
Interest receivable on subordinated notes	631	654
Prepaid expenses	26	24
	1,023	1,008
Investment in FP Canadian Newspapers Limited Partnership	63,242	65,948
	\$ 64,265	\$ 66,956
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 56	\$ 40
Distribution payable to unitholders (note 2)	725	725
	781	765
Unitholders' equity:		
Trust units	69,026	69,026
Cumulative earnings	12,435	10,794
Cumulative distributions	(17,977)	(13,629)
	63,484	66,191
	\$ 64,265	\$ 66,956

FP Newspapers Income Fund
Consolidated Statements of Earnings and Cumulative Earnings
(unaudited, in thousands of Canadian dollars except for per unit information)

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Earnings from investment in FP Canadian Newspapers Limited Partnership				
Interest income on subordinated notes	\$ 1,914	\$ 1,948	\$ 3,828	\$ 3,875
Equity interest from Class A units (note 3)	(1,706)	109	(2,079)	(348)
Other interest	2	-	5	-
	210	2,057	1,754	3,527
Administrative costs	(52)	(62)	(113)	(125)
Net earnings for the period	\$ 158	\$ 1,995	\$ 1,641	\$ 3,402
Cumulative earnings, beginning of period	12,277	5,068	10,794	3,661
Cumulative earnings, end of period	\$ 12,435	\$ 7,063	\$ 12,435	\$ 7,063
Number of trust units outstanding	6,902,592	6,902,592	6,902,592	6,902,592
Earnings per trust unit	\$ 0.023	\$ 0.289	\$ 0.238	\$ 0.493

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,	
	2004	2003	2004	2003
Cash provided by (used in):				
Operating activities:				
Net earnings for the period	\$ 158	\$ 1,995	\$ 1,641	\$ 3,402
Item not affecting cash:				
Equity interest from Class A units of FP Canadian Newspapers Limited Partnership (note 3)	1,706	(109)	2,079	348
Distributions received on Class A units of FP Canadian Newspapers Limited Partnership	320	490	627	512
Net change in non-cash working capital items	14	(49)	37	(56)
	2,198	2,327	4,384	4,206
Financing activities:				
Distributions to Unitholders	(2,174)	(2,071)	(4,348)	(4,142)
Proceeds of loan from Related Parties	-	-	-	190
Repayment of loan from Related Parties	-	(290)	-	(290)
	(2,174)	(2,361)	(4,348)	(4,242)
Change in cash balance	24	(34)	36	(36)
Cash balance, beginning of period	342	58	330	60
Cash balance, end of period	\$ 366	\$ 24	\$ 366	\$ 24

FP Newspapers Income Fund
Notes to the Consolidated Financial Statements as at June 30, 2004
(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.

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.

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 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, 2003. 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 financial statements for the year ended December 31, 2003.

2. Distributions payable

The Fund recorded a distribution payable at June 30, 2004 of \$0.105 per unit. The distribution is payable July 28, 2004 to unitholders of record on June 30, 2004 and is in respect of the month of June 2004.

3. Equity interest from Class A limited partnership units

FP Newspapers Income Fund owns securities entitling it to 49% of the distributable cash of FPLP. For accounting purposes, the equity interest from the Fund’s investment in Class A limited partnership units of FPLP is calculated as follows:

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Net (loss) earnings of FPLP	\$ (1,489)	\$ 2,249	\$ (258)	\$ 3,322
Plus: Interest on subordinated notes	1,914	1,948	3,828	3,875
Net earnings before interest on subordinated notes	\$ 425	\$ 4,197	\$ 3,570	\$ 7,197
49% interest attributable to the fund	208	2,057	1,749	3,527
Less: Interest from subordinated notes	(1,914)	(1,948)	(3,828)	(3,875)
Equity interest from Class A limited partnership units	\$ (1,706)	\$ 109	\$ (2,079)	\$ (348)

4. Subsequent event

On July 13, 2004 FPLP acquired substantially all of the assets and assumed specified liabilities of a weekly newspaper publishing business and an advertising distribution business. The combined purchase price was \$7,100,000 and is subject to adjustment based on the determination of certain working capital amounts on the closing date.

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

	As at June 30, 2004	As at December 31, 2003
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 8,530	\$ 5,434
Accounts receivable	10,191	11,088
Inventories	853	988
Prepaid expenses and deposits	1,528	1,395
	<hr/> 21,102	<hr/> 18,905
Property, plant and equipment held for sale (note 6)	2,289	-
Property, plant and equipment (notes 4 and 6)	56,896	65,194
Deferred financing costs	4,070	4,760
Intangibles	9,151	9,331
Goodwill	64,805	64,805
	<hr/> \$ 158,313	<hr/> \$ 162,995
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities (note 4)	\$ 9,932	\$ 9,148
Prepaid subscriptions and deferred revenue	2,890	2,798
Term loan (note 5)	59,600	-
	<hr/> 72,422	<hr/> 11,946
Long-term liabilities:		
Term loan (note 5)	-	59,600
Subordinated notes	66,954	66,954
	<hr/> 66,954	<hr/> 126,554
	<hr/> 139,376	<hr/> 138,500
Unitholders' equity:		
Partnership units	32,793	32,793
Cumulative earnings	17,159	17,417
Cumulative distributions	(31,015)	(25,715)
	<hr/> 18,937	<hr/> 24,495
	<hr/> \$ 158,313	<hr/> \$ 162,995

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

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Revenue	\$ 26,499	\$ 25,568	\$ 50,853	\$ 49,274
Operating expenses, excluding amortization	(19,727)	(19,067)	(38,694)	(37,569)
	6,772	6,501	12,159	11,705
Amortization of property, plant and equipment	(978)	(1,087)	(2,083)	(2,172)
Amortization of intangible assets	(91)	(91)	(181)	(181)
Operating earnings	5,703	5,323	9,895	9,352
Interest on term loan	(692)	(813)	(1,419)	(1,535)
Interest on subordinated notes	(1,914)	(1,948)	(3,828)	(3,875)
Amortization of deferred financing costs	(346)	(345)	(691)	(691)
Interest income	24	28	49	49
(Loss)/gain on disposal of property, plant and equipment (note 6)	(1,245)	4	(1,245)	22
Write down of property, plant and equipment held for sale (note 6)	(3,019)	-	(3,019)	-
Net (loss) earnings for the period	(1,489)	2,249	(258)	3,322
Cumulative earnings - beginning of period	18,648	11,153	17,417	10,080
Cumulative earnings - end of period	\$ 17,159	\$ 13,402	\$ 17,159	\$ 13,402

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

	General partner units	Limited partner Class A units	Total
Unitholders' equity – Jan. 1, 2003	26,620	823	27,443
Net earnings for the period	1,064	9	1,073
Distributions paid	(2,716)	(22)	(2,738)
Unitholders' equity – March 31, 2003	24,968	810	25,778
Net earnings for the period	1,965	284	2,249
Distributions paid	(2,558)	(490)	(3,048)
Unitholders' equity – June 30, 2003	24,375	604	24,979
Net earnings for the period	831	152	983
Distributions paid	(2,444)	(379)	(2,823)
Unitholders' equity – Sept. 30, 2003	22,762	377	23,139
Contributions	-	1,000	1,000
Net earnings for the period	2,692	340	3,032
Distributions paid	(2,360)	(316)	(2,676)
Unitholders' equity – Dec. 31, 2003	23,094	1,401	24,495
Net earnings for the period	1,087	144	1,231
Distributions paid	(2,324)	(308)	(2,632)
Unitholders' equity – March 31, 2004	21,857	1,237	23,094
Net (loss) earnings for the period	(1,314)	(175)	(1,489)
Distributions paid	(2,348)	(320)	(2,668)
Unitholders' equity – June 30, 2004	18,195	742	18,937

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

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Cash provided by (used in)				
Operating activities:				
Net (loss) earnings for the period	\$ (1,489)	\$ 2,249	\$ (258)	\$ 3,322
Items not affecting cash:				
Amortization	1,415	1,523	2,955	3,044
Loss/(gain) on disposal of property, plant and equipment (note 6)	1,245	(4)	1,245	(22)
Write down of property, plant and equipment (note 6)	3,019	-	3,019	-
	4,190	3,768	6,961	6,344
Net change in non-cash working capital items				
	(686)	(502)	931	1,567
	3,504	3,266	7,892	7,911
Investing activities:				
Purchases of property, plant and equipment	(345)	(101)	(459)	(136)
Proceeds from sale of property, plant and equipment	956	12	963	46
	611	(89)	504	(90)
Financing activities:				
Distributions to partners	(2,668)	(3,048)	(5,300)	(5,786)
Increase in cash and cash equivalents				
Cash and cash equivalents - beginning of period	1,447	129	3,096	2,035
	7,083	4,220	5,434	2,314
Cash and cash equivalents - end of period	\$ 8,530	\$ 4,349	\$ 8,530	\$ 4,349

FP Canadian Newspapers Limited Partnership
Notes to the Financial Statements as at June 30, 2004
(unaudited, tabular amounts in thousands of dollars)

1. Nature of operations

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

Effective November 29, 2001, FPLP acquired the business and assets of the Winnipeg Free Press and the Brandon Sun and related businesses in exchange for cash and the assumption of certain liabilities. These financial statements include only the assets, liabilities, revenues and expenses of FPLP and do not include the other assets, liabilities, revenues and expenses, including income taxes, of the partners.

The managing general partner of FPLP is FPCN General Partner Inc.

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

2. Summary of significant accounting policies

Basis of presentation

These 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 period presented. However, these 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 interim financial statements are the same as those used in the most recent annual financial statements except as indicated below. These interim statements should be read in conjunction with the audited financial statements of FPLP for the year ended December 31, 2003.

CICA Accounting Guideline 13 ("AcG 13")

FPLP adopted CICA Accounting Guideline 13, "Hedging Relationships" effective January 1, 2004. In accordance with AcG 13 each of FPLP's hedging relationships are documented and subject to an effectiveness test on a quarterly basis for reasonable assurance that they are and will continue to be effective. As required by this Guideline a derivative that does not qualify for hedge accounting is reported on a mark to market basis in earnings. The adoption of this guideline had no impact on the financial statements.

3. Allocation of net income

The amended and restated Agreement of Limited Partnership dated May 24, 2002 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.

4. Non cash transactions

FPLP has entered into an interim funding agreement relating to a technology upgrade at one of its printing operations. The interim funding agreement facilitates the purchase of the required equipment and upon completion of the project, a capital lease agreement will be entered into. At June 30, 2004, funds directly advanced from the interim funding counterparty to the vendors including accrued interest totaled \$844,000 and this amount is included in the accounts payable and accrued liabilities caption on the balance sheet. Variable rate interest is charged on these advances and during the second quarter this rate averaged 3.7 per cent.

5. Term loan

The term loan matures in May 2005 and FPLP intends to refinance this loan prior to its maturity. Since the terms of the re-financing have not yet been completed the entire term loan has been classified as a current liability on FPLP's balance sheet.

6. Loss on disposal and write down of assets held for sale

During the second quarter, FPLP sold certain surplus components of one of its printing presses and realized a loss on disposal of \$1,245,000. FPLP also made the decision during the second quarter to sell other surplus printing press components. The value of these components, was written down to their estimated fair value less costs to sell of \$2,289,000 and the resulting loss on write down of \$3,019,000 is included in the second quarter statement of earnings.

7. Employee future benefit plans

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

	<u>Three months</u> <u>ended June 30,</u>		<u>Six months</u> <u>ended June 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Defined benefit pension plan	\$ 264	\$ 233	\$ 524	\$ 467

8. Subsequent event

On July 13, 2004 FPLP acquired substantially all of the assets and assumed specified liabilities of a weekly newspaper publishing business and an advertising distribution business. The combined purchase price was \$7,100,000 in cash and is subject to adjustment based on the determination of certain working capital amounts on the closing date.