

fp

NEWSPAPERS INCOME FUND



**Q1 – 2006
Quarterly Report
March 31, 2006**

TSX: FP.UN

**First Quarter Report
March 31, 2006
Report to Unitholders**

Dear Fellow Unitholders:

We are 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 March 31, 2006. FP Newspapers Income Fund owns a 49 percent interest in FP Canadian Newspapers Limited Partnership ("FPLP"), which owns the Winnipeg Free Press and Brandon Sun daily newspapers, Canstar Community News Limited ("Canstar") which operates five weekly newspapers in the Winnipeg area as well as a delivery businesses in Winnipeg and Thunder Bay, and Rosebud Publications Ltd. ("Rosebud"), which publishes a weekly entertainment newspaper and a twice monthly newspaper aimed at age-50 plus readers, both serving the Winnipeg area.

Total revenue for FPLP for the three months ended March 31, 2006 was \$28.6 million, a \$1.8 million or 6.6 percent increase over the same period last year. The acquisition during the third quarter in 2005 of Rosebud accounted for \$0.2 million of this increase. The increase in revenue, on a same store basis, of \$1.6 million or 5.8 percent is primarily due to growth in all advertising categories with our largest category, display advertising including colour, increasing by \$0.6 million or 5.7 percent. Total EBITDA⁽¹⁾ of FPLP for the first quarter was \$4.8 million. Excluding Rosebud, EBITDA⁽¹⁾ was \$4.7 million for the first quarter compared to \$4.3 million last year. The partnership had net earnings of \$1.0 million in the first quarter and \$0.9 million on a same store basis compared to \$0.5 million in the same quarter last year.

The Fund had net earnings of \$1.3 million, or \$0.191 per Unit during the three months ended March 31, 2006 compared to \$1.1 million, or \$0.156 per Unit for the same quarter last year. The increase in net earnings in the first quarter is primarily due to the increase in net earnings of FPLP.

Operations

Overall revenue in the first quarter, on a same store basis, was \$28.3 million, a \$1.6 million or 5.8 percent increase from the same quarter last year. Advertising revenue, on a same store basis, was \$19.5 million, a \$1.2 million or 6.8 percent increase over the same quarter last year. Our largest advertising revenue category, display advertising including colour, on a same store basis, was \$11.9 million for the quarter, an increase of 5.7 percent, compared to \$11.3 million for the same period last year. This growth is partially due to one additional publishing day due to the shift of the Good Friday non publishing day and partially due to increased spending by two national automotive customers. Classified advertising revenue, on a same store basis, was \$4.0 million compared to \$3.7 million in the first quarter last year, an increase of 9.1 percent. Increased classified revenue was primarily the result of rate increases and volume increases in the employment category. Advertising flyer distribution revenues increased \$0.3 million or 8.0 percent compared to the same period last year resulting from higher flyer volumes and increased rates. Commercial printing revenues for the first quarter were \$1.6 million, an increase of \$0.1 million or 6.7 percent primarily due to increased printing of both the National Post and Globe and Mail.

Operating expenses, excluding amortization were \$23.8 million in the first quarter. Excluding Rosebud, operating expenses, excluding amortization were \$23.7 million, a 5.1 percent increase from \$22.5 million reported for the first quarter last year. Employee compensation costs accounted for \$0.6 million of this increase, a result of nonrecurring voluntary terminations as we reported in the fourth quarter news release, an additional work-day in the first quarter of 2006 and an increase in the defined benefit pension expense. Newsprint prices were higher in the first quarter when compared to the same quarter last year and newsprint expense for our own products, excluding Rosebud, increased by \$0.1 million or 1.8 percent. Newsprint expense in the quarter for commercial printing was \$0.6 million, a 10.5 percent increase over the same quarter last year, largely the result of the increased National Post and Globe and Mail printing, as noted above. Delivery costs, excluding Rosebud, were \$4.4 million for the first quarter, a 5.2 percent increase from the \$4.2 million reported for the same quarter last year. This increase was primarily due to contracted increases for unionized delivery agents in Winnipeg, higher fuel costs, and increased costs associated with an increase in flyer delivery volumes.

We are pleased to report that three Winnipeg Free Press editorial staff members have been nominated for National Newspaper Awards. Leah Janzen and Kevin Rollason were nominated for news coverage of the October crash of a Cessna cargo plane in Winnipeg, and Kevin Prokosh was nominated in the arts and entertainment category for his feature story on

staging of “Strike, The Musical”. The National Newspaper Award winners will be announced at the awards dinner on May 27th in Halifax.

The Winnipeg Free Press has been recognized in the Canadian Newspaper Association’s best practices competition for excellent work in the past year. The Free Press Marketing staff won second place in the marketing best practices contest among large market papers for our “Win Big on Gas” promotion with Domo gas. Customers who bought a paper got a seven cent discount at the pump. The program provided a major boost to newspaper sales at Domo locations. In January of this year more than 16,000 papers were sold at Domo pumps. The Editorial staff won second and third place in the editorial best practices competition for papers in all markets for two major projects. Second place went to The Unwanted, our front-page feature on animals at the Humane Society last August that featured the faces of all the pets. Third place went to Lest We Forget, our ambitious effort to list Manitoba war dead on Remembrance Day in a special section.

Readership for the Winnipeg Free Press in 2005 continues to be the highest percentage across all large Canadian cities as reported by the Newspaper Audience Databank (“NADbank”). The 2005 NADbank survey, which were released during the quarter, showed that 44 percent of Winnipeg adults read the Free Press weekdays, which was 9 percent higher than the next highest large Canadian city. The Saturday readership figures for the Winnipeg Free Press were 57 percent according to the 2005 Survey results. Our primary competitor, the Winnipeg Sun, recorded 20 percent weekday readership and 17 percent Saturday readership.

During the first quarter the Brandon Sun completed the integration of the Canstar distribution business with its own distribution operations and integrated and re-launched the Brandon Shopper and News as the Brandon Sun Community News Edition. The changes have been well received by both readers and advertisers and operational synergies and cost savings anticipated have been achieved.

Distributions

Distributable cash attributable to the Fund (2) for the three months ended March 31, 2006 was \$1.7 million, or \$0.241 per Unit compared to \$1.5 million or \$0.219 per Unit last year. Higher earnings in FPLP has resulted in higher distributable cash attributable to the Fund⁽²⁾ when compared to the first quarter of 2005. For the trailing twelve months ended March 31, 2006, FPLP has generated distributable cash attributable to the Fund of \$1.37 per Unit, and the Fund has declared distributions of \$1.29 per Unit, resulting in a payout ratio of 94.0 percent.

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

Outlook

We benefited from an additional publishing day during the first quarter of 2006 resulting from the Good Friday non publishing day falling in April this year and March last year. After taking this extra day into account, we still experienced strong revenue growth. We are pleased that in the first quarter we have experienced growth in our largest advertising revenue category, display advertising including colour of 5.7 percent on a same store basis. Revenue growth in April was not as strong as in the first quarter, and the second quarter will have one less publishing day than the second quarter last year.

Compensation costs, on a same store basis, are expected to increase between 3 and 4 percent for the full year, compared to 2005. An increase in newsprint prices of approximately 1.4 percent took effect on April 1. We do not anticipate a change to these new prices during the 2nd quarter, and if this is the case, our average price is expected to increase by approximately 6.5 percent in the second quarter of 2006 compared to the same quarter last year.

Ronald N. Stern
Chairman & Trustee

Rudy Redekop
President

May 9, 2006

Management's Discussion and Analysis

May 9, 2006

Overview

Management's Discussion and Analysis provides a review of significant developments that have affected the Fund's performance during the period January 1, 2006 to March 31, 2006. This review is based on financial information contained in the consolidated 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 consolidated financial statements and accompanying notes. The interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

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. ("Rosebud"), the publisher of a weekly entertainment newspaper and a twice monthly newspaper aimed at age-50 plus readers, serving the Winnipeg area.

FP Newspapers Income Fund

The Fund is dependent on the operations of FPLP, its sole investment. The Fund earned \$1,383,000 in income from its investment in FPLP for the three months ended March 31, 2006 compared to \$1,140,000 for the same period last year. The increase in earnings for the three months ended March 31, 2006 is mainly attributable to higher earnings of FPLP due primarily to increased revenue growth. Interest income on the 11.5% subordinated notes issued by FPLP to the Fund was \$1,785,000 for the quarter compared to \$1,842,000 last year. The Fund's equity interest from its Class A limited partnership units were (\$402,000) for the quarter versus (\$702,000) last year (see "FP Canadian Newspapers Limited Partnership – Results of Operations" below). Operating expenses incurred by the Fund were \$66,000 compared to \$64,000 last year and net earnings was \$1,319,000 versus \$1,078,000 last year.

The Fund declared distributions to unitholders of \$2,226,000 or \$0.323 per Unit for the three months ended March 31, 2006 which is unchanged from the same quarter last year. Cash available for distribution attributable to the Fund⁽²⁾ was \$1,662,000 or \$0.241 per Unit for the quarter ended March 31, 2006 and \$1,509,000 or \$0.219 per Unit in the first quarter of 2005. The increase in cash available for distribution attributable to the Fund⁽²⁾ is primarily due to higher net earnings in FPLP as explained later in this discussion.

FP Canadian Newspapers Limited Partnership
Results of Operations

Revenue:

	<u>Three Months</u> <u>Ended March 31</u>	
	<u>2006</u>	<u>2005</u>
	In thousands	
Advertising	\$ 19,687	\$ 18,217
Circulation	6,792	6,563
Commercial Printing	1,610	1,509
Promotions and Services	<u>493</u>	<u>516</u>
	<u>\$ 28,582</u>	<u>\$ 26,805</u>

Revenue for the three months ended March 31, 2006 was \$28.6 million, an increase of \$1.8 million, or 6.6% compared to the first quarter of 2005. The acquisition of Rosebud during the third quarter of 2005 accounted for \$0.2 million in revenue. Revenues, on a same store basis, increased by \$1.6 million or 5.8% compared to the first quarter of last year. Advertising revenues, excluding Rosebud, increased by \$1.2 million or 6.8% compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, excluding Rosebud, increased by \$0.6 million or 5.7% partly due to one additional publishing day and increased spending by two national automotive customers. Flyer distribution revenues, excluding Rosebud, increased by \$0.3 million or 8.0% primarily due to a combination of increased volumes together with higher rates. Classified advertising, on a same store basis, increased by \$0.3 million or 9.1% in the first quarter due primarily to increased revenue from the employment category. Circulation revenue, on a same store basis, increased by \$0.2 million or 3.5% primarily due to rate increases implemented in the fourth quarter of 2005. Commercial printing revenues increased by \$0.1 million or 6.7% primarily due to increased printing of both the National Post and Globe and Mail newspapers.

Operating expenses, excluding amortization:

	<u>Three Months</u> <u>Ended March 31</u>	
	<u>2006</u>	<u>2005</u>
	In thousands	
Employee Compensation	\$ 11,208	\$ 10,543
Newsprint – Own Use	3,223	3,147
Newsprint - Commercial Printing	589	533
Delivery of Newspapers	4,419	4,185
Other	<u>4,397</u>	<u>4,095</u>
	<u>\$ 23,836</u>	<u>\$ 22,503</u>

Operating expenses, excluding amortization in the three months ended March 31, 2006 were \$23.8 million, an increase of \$1.3 million or 5.9% over the first quarter of 2005. Operating expenses, excluding Rosebud, were \$23.7 million, or 5.1% higher than the same quarter last year. Employee compensation, excluding Rosebud, increased by \$0.6 million or 5.5% due primarily to nonrecurring voluntary termination offers accepted by employees at the Winnipeg Free Press totalling \$0.3 million, an additional work-day in the first quarter of 2006 together with an increase in the defined benefit pension expense. Newsprint expense for FPLP's own publications, excluding Rosebud, increased by \$0.1 million or 1.8%, the result of increased newsprint prices partially offset by lower consumption. Newsprint expense for commercial printing increased by \$0.1 million or 10.5% the result of higher newsprint prices and increased print quantities. Delivery costs, excluding Rosebud, increased by \$0.2 million or 5.2% compared to the same quarter last year largely the result of contracted annual increases to unionized delivery agents at the Winnipeg Free Press, higher fuel costs and higher costs resulting from increased flyer volumes. Other expenses, excluding Rosebud, increased by \$0.3 million or 6.2% over the same quarter last year primarily due to an increase in press repairs and maintenance completed at our Winnipeg printing facility together with increased marketing costs to attract circulation subscribers.

EBITDA⁽¹⁾ for the three months ended March 31, 2006 was \$4.8 million. EBITDA⁽¹⁾ for the three months ended March 31, 2006, excluding Rosebud, was \$4.7 million, an increase of 9.0%, compared to \$4.3 million for the same period in 2005. EBITDA⁽¹⁾ margin, on a same store basis, was 16.5% for the three month period ended March 31, 2006 compared to 16.0% last year.

Interest expense on the notes payable, the subordinated notes and capital lease obligations for the three months ended March 31, 2006 was \$2.6 million which is unchanged from last year. Interest expense on the notes payable was slightly higher but was offset by a reduction in the interest on the subordinated notes due to the lower principal amount outstanding when compared to the first quarter of 2005.

FPLP's net earnings were \$1.0 million for the three months ended March 31, 2006 compared to \$0.5 million for the same period in 2005.

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 2004, 2005 and the first quarter of 2006 was as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
		In thousands	
<u>Revenue</u>			
Quarter 1	\$ 28,582	\$ 26,805 ^(**)	\$ 25,674
Quarter 2		30,270 ^(**)	27,840
Quarter 3		28,005	27,283 ^(**)
Quarter 4		<u>31,837</u>	<u>30,441^(**)</u>
		<u>\$116,917</u>	<u>\$111,238</u>
<u>EBITDA⁽¹⁾</u>			
Quarter 1	\$ 4,746	\$ 4,302 ^(***)	\$ 5,387
Quarter 2		7,094	6,772
Quarter 3		5,176	5,167
Quarter 4		<u>7,503</u>	<u>7,008</u>
		<u>\$ 24,075</u>	<u>\$ 24,334</u>
<u>Net Earnings (loss)</u>			
Quarter 1	\$ 1,038	\$ 485 ^(***)	\$ 1,231
Quarter 2		3,320	(1,489) ^(*)
Quarter 3		1,420	1,077
Quarter 4		<u>3,744</u>	<u>2,917</u>
		<u>\$ 8,969</u>	<u>\$ 3,736</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 earnings in the second quarter of 2004 was due to the disposal and write-down in value of excess press components which resulted in a \$4,264,000 charge against income.

(**) The increase in revenue from the same quarter(s) in the prior year(s) is primarily due to the revenue from the community newspapers and advertising distribution businesses acquired during the third quarter of 2004.

(***) Decrease in EBITDA⁽¹⁾ and net earnings is primarily due to lower revenues due to two fewer publishing days and an 11.5% decline in Friday/Saturday publishing days.

Working Capital Position of FPLP

FPLP's advertising revenues are seasonal and, as a result, accounts receivable are highest in the second and fourth quarters. Cash and cash equivalents increased by \$1.8 million from December 31, 2005 primarily due to the conversion of a higher accounts receivable balances into cash. Consequently, accounts receivable have decreased by \$2.7 million from December 31, 2005.

Liquidity and Capital Resources of FPLP

Cash and cash equivalents at March 31, 2006 was \$3.5 million compared to \$2.9 million at March 31, 2005. 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 \$4.9 million during the first quarter of 2006, while \$0.3 million was used for investing activities and \$2.8 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 months ended March 31, 2006, cash generated from operating activities was \$4.9 million, compared to \$5.2 million for the first quarter of 2005. The net change in non-cash working capital in the first quarter of 2006 was \$2.8 million compared to \$3.5 million for the same period of 2005. This decrease is largely the result of the timing of payments to trade suppliers.

Investing Activities

Maintenance capital purchases, representing the replacement of capital in order to sustain current business operations, totaled \$0.3 million for the three months ended March 31, 2006 consisting primarily of the continuation of building improvement projects at our Brandon and Canstar Community News Limited facilities that were started late last year as well as regularly required hardware and software upgrades. Maintenance capital spending is expected to slightly increase during the remainder of the year and be in line with our full year estimated spending of between \$1.2 and \$1.4 million.

Financing Activities

Distributions to partners of FPLP for the three months ended March 31, 2006 totaled \$2.7 million, of which \$0.4 million was paid to the Fund as holder of Class A limited partnership units, unchanged from the prior year. The distributions to partners have been determined in accordance with the Amended and Restated Agreement of Limited Partnership dated May 3, 2005.

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 three months ended March 31, 2006 and 2005 is as follows:

	Three Months Ended March 31	
	In thousands	
	2006	2005
Reserve at beginning of period	\$ 516	\$ 630
Increase in reserve	2	120
Decrease in reserve	-	-
Reserve at end of period	<u>\$ 518</u>	<u>\$ 750</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 an amount of \$1.0 million for purposes of future strategic capital, acquisitions and/or debt reduction. The amount of the reserve initially established was equal to the net proceeds received on the sale of surplus equipment in the second quarter of 2004. A summary of the reserve for strategic capital, acquisitions and/or debt reduction for the three months ended March 31, 2006 and 2005 is as follows:

	<u>Three Months</u> <u>Ended March 31</u>	
	In thousands	
	<u>2006</u>	<u>2005</u>
Reserve at beginning of period	\$ 157	\$ 510
Increase in reserve	-	-
Decrease in reserve	-	-
Reserve at end of period	<u>\$ 157</u>	<u>\$ 510</u>

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.

Business Risks and Uncertainties

Revenue

Advertising revenue, which accounts for 69% 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 2008. Collective agreements covering unionized employees at the Brandon Sun expire December 31, 2008.

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 \$16.0 million of expenses in 2005. 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:

	Three Months Ended March 31	
	2006	2005
	In thousands	
Net earnings for the period	\$ 1,038	\$ 485
Add (subtract):		
Amortization of property, plant and equipment	882	858
Amortization of intangible assets	90	90
Interest	2,605	2,641
Amortization of deferred financing costs	140	345
Interest income	(12)	(6)
Gain on sale of property, plant and equipment	-	(11)
Current income tax expense	46	-
Future income tax recovery	<u>(43)</u>	<u>(100)</u>
EBITDA	<u>\$ 4,746</u>	<u>\$ 4,302</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 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 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:

	Three Months Ended March 31	
	2006	2005
	In thousands	
Distributable cash of FPLP:		
EBITDA ⁽¹⁾	\$ 4,746	\$ 4,302
Interest income	12	6
Interest expense on notes payable and capital leases	(820)	(799)
Principal repayment of capital leases	(69)	(66)
Maintenance capital expenditures	(298)	(130)
Increase in reserve for future maintenance capital	(2)	(120)
Proceeds from sale of property, plant and equipment	-	13
Current income and capital taxes payable	<u>(46)</u>	<u>-</u>
	<u>\$ 3,523</u>	<u>\$ 3,206</u>
49% attributable to the Fund	\$ 1,726	\$ 1,571
Administration expenses	(66)	(64)
Interest income	<u>2</u>	<u>2</u>
Distributable cash attributable to the Fund	<u>\$ 1,662</u>	<u>\$ 1,509</u>
Distributable cash attributable to the Fund – per Unit	<u>\$ 0.241</u>	<u>\$ 0.219</u>

A summary of distributable cash and distributions declared for the trailing twelve months to March 31, 2006 and for the period from commencement of the Fund on May 28, 2002 to March 31, 2006 is as follows:

Distributable Cash of FPLP:

	Last Twelve Months	Since May 28, 2002
	In thousands	
EBITDA ⁽¹⁾	\$ 24,519	\$ 90,491
Interest income	36	259
Interest expense on notes payable and capital leases	(3,275)	(11,883)
Principal repayment of capital leases	(273)	(429)
Maintenance capital expenditures	(1,282)	(3,423)
Decrease (increase) in reserve for future maintenance capital expenditures	232	(518)
Strategic capital expenditures	-	(446)
Proceeds on disposal of property, plant and equipment	19	1,064
Increase in reserve for strategic capital, acquisitions, and/or debt reduction	-	(510)
Current income and capital tax payable	<u>(131)</u>	<u>(131)</u>
Distributable cash of FPLP	<u>\$ 19,845</u>	<u>\$ 74,474</u>

Distributable Cash Attributable to the Fund:

	Last Twelve Months	Since May 28, 2002
	In thousands	
49% of FPLP distributable cash	\$ 9,724	\$ 36,492
Administration expenses	(253)	(997)
Interest income	<u>7</u>	<u>20</u>
Distributable cash attributable to the Fund	<u>\$ 9,478</u>	<u>\$ 35,515</u>
Distributable cash attributable to the Fund per unit	\$1.373	\$5.145
Distributions declared by the Fund per unit	\$1.290	\$4.853
Payout Ratio	94.0%	94.3%

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

	<u>Three Months</u> <u>Ended March 31</u>	
	<u>2006</u>	<u>2005</u>
	In thousands	
Cash flow from operating activities of FPLP	\$ 4,923	\$ 5,183
Add (subtract):		
Interest on subordinated notes ^(*)	1,785	1,842
Net change in non-cash working capital items ^(**)	(2,816)	(3,516)
Maintenance capital expenditures	(298)	(130)
Principal repayment of capital leases	(69)	(66)
Increase in reserve for future maintenance capital ^(***)	(2)	(120)
Proceeds from sale of property, plant and equipment ^(****)	-	13
Distributable cash of FPLP	<u>\$ 3,523</u>	<u>\$ 3,206</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.

^(***) Increase in the reserve for future maintenance 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. 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 March 31, 2006	As at December 31, 2005
ASSETS		
Current Assets :		
Cash and cash equivalents	\$ 159	\$ 184
Interest receivable from subordinated notes	616	634
Prepaid expenses	20	18
	795	836
Investment in FPCN General Partner Inc.	10	10
Investment in FP Canadian Newspapers Limited Partnership (note 2)	60,879	61,689
	\$ 61,684	\$ 62,535
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 133	\$ 77
Distribution payable (note 3)	742	742
	875	819
Unitholders' Equity:		
Trust units	69,026	69,026
Cumulative earnings	25,274	23,955
Cumulative distributions	(33,491)	(31,265)
	60,809	61,716
	\$ 61,684	\$ 62,535

(See accompanying notes)

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

	Three months ended March 31,	
	2006	2005
Earnings from investment in FP Canadian Newspapers Limited Partnership		
Interest from subordinated notes	\$ 1,785	\$ 1,842
Equity interest from Class A limited partnership units (note 2)	(402)	(702)
Other interest	2	2
	1,385	1,142
Administration expenses	(66)	(64)
Net earnings for the period	\$ 1,319	\$ 1,078
Cumulative earnings, beginning of period	23,955	16,144
Cumulative earnings, end of period	\$ 25,274	\$ 17,222
Number of trust units outstanding	6,902,592	6,902,592
Net earnings per trust unit	\$0.191	\$0.156

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

	Three months ended March 31,	
	2006	2005
Balance, beginning of period	\$ 61,716	\$ 62,809
Net earnings	1,319	1,078
Distributions	(2,226)	(2,226)
Balance, end of period	\$ 60,809	\$ 61,661

(See accompanying notes)

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

	Three months ended March 31,	
	2006	2005
<hr/>		
Cash provided by (used in):		
Operating activities:		
Net earnings for the period	\$ 1,319	\$ 1,078
Item not affecting cash:		
Equity interest from Class A units of FP		
Canadian Newspapers Limited Partnership (note 2)	402	702
Distributions received on Class A units of FP		
Canadian Newspapers Limited Partnership (note 2)	408	351
Net change in non-cash working capital items	72	21
	<hr/> 2,201	<hr/> 2,152
Financing activities:		
Distributions to unitholders	(2,226)	(2,226)
	<hr/> (2,226)	<hr/> (2,226)
(Decrease) increase in cash and cash equivalents	(25)	(74)
Cash and cash equivalents, beginning of period	184	384
Cash and cash equivalents, end of period	<hr/> \$ 159	<hr/> \$ 310

(See accompanying notes)

FP Newspapers Income Fund
Notes to Consolidated Financial Statements as at March 31, 2006
(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 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, 2005. 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, 2005.

2. Investment in FP Canadian Newspapers Limited Partnership

On May 28, 2002, FPCN Holdings Trust subscribed for 6,573,897 Class A limited partnership 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 partnership units of FPLP and \$3,283,500 principal amount of subordinated notes of FPLP. FPCN Holdings Trust holds all of the Class A limited partnership 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.

The investment in FPLP is summarized as follows:

	Subordinated Notes \$	Class A limited partner units \$	Total \$
Balance at December 31, 2005	62,954	(1,265)	61,689
Equity interest	-	(402)	(402)
Distributions received	-	(408)	(408)
Balance at March 31, 2006	62,954	(2,075)	60,879

The equity interest from the Fund's investment in Class A limited partnership units of FPLP is calculated as follows:

	Three months ended March 31,	
	2006	2005
Net earnings of FPLP	\$ 1,038	\$ 485
Plus: Interest on subordinated notes	1,785	1,842
Net earnings before interest on subordinated notes	\$ 2,823	\$ 2,327
49% interest attributable to the Fund	1,383	1,140
Less: Interest from subordinated notes	(1,785)	(1,842)
Equity interest from Class A limited partnership units	\$ (402)	\$ (702)

3. Distribution Payable

The Fund recorded a distribution payable at March 31, 2006 of \$0.1075 per unit. The distribution was paid April 27, 2006 to unitholders of record on March 31, 2006 and is in respect of the month of March 2006.

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

	As at March 31, 2006	As at December 31, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,518	\$ 1,674
Accounts receivable	11,081	13,746
Inventories	1,322	1,064
Prepaid expenses	1,027	838
Future income tax asset	222	222
	<hr/> 17,170	<hr/> 17,544
Equipment held for sale	2,289	2,289
Property, plant and equipment	53,428	54,012
Future income taxes	262	219
Deferred financing costs	3,150	3,290
Intangible assets	8,737	8,827
Goodwill	71,160	71,160
	<hr/> \$ 156,196	<hr/> \$ 157,341
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 11,175	\$ 10,879
Income taxes payable	132	85
Prepaid subscriptions and deferred revenue	3,130	2,875
Current obligations under capital leases	287	284
	<hr/> 14,724	<hr/> 14,123
Long-Term Liabilities:		
Subordinated notes	62,954	62,954
Notes Payable	60,000	60,000
Obligations under capital leases	420	492
	<hr/> 123,374	<hr/> 123,446
	<hr/> 138,098	<hr/> 137,569
Unitholders' Equity:		
Partnership units	36,793	36,793
Cumulative earnings	31,160	30,122
Cumulative distributions	(49,855)	(47,143)
	<hr/> 18,098	<hr/> 19,772
	<hr/> \$ 156,196	<hr/> \$ 157,341

(See accompanying notes)

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

	Three months ended March 31,	
	2006	2005
Revenue	\$ 28,582	\$ 26,805
Operating expenses, excluding amortization	(23,836)	(22,503)
	4,746	4,302
Amortization of property, plant and equipment	(882)	(858)
Amortization of intangible assets	(90)	(90)
Earnings before the under-noted	3,774	3,354
Interest (note 5)	(2,605)	(2,641)
Amortization of deferred financing costs	(140)	(345)
Interest income	12	6
Gain on sale of property, plant and equipment	-	11
Net earnings before income taxes	1,041	385
Income tax (expense) recovery:		
- Current	(46)	-
- Future	43	100
Net earnings for the period	1,038	485
Cumulative earnings – beginning of period	30,122	21,153
Cumulative earnings – end of period	\$ 31,160	\$ 21,638

(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, 2004	\$ 17,042	\$ 2,582	\$ 19,624
Net earnings for the period	421	64	485
Distributions paid	(2,300)	(352)	(2,652)
Unitholders' equity – March 31, 2005	\$ 15,163	\$ 2,294	\$ 17,457
Net earnings for the period	2,867	453	3,320
Distributions paid	(2,354)	(379)	(2,733)
Unitholders' equity – June 30, 2005	15,676	2,368	18,044
Net earnings for the period	1,222	198	1,420
Distributions paid	(2,354)	(379)	(2,733)
Unitholders' equity – September 30, 2005	14,544	2,187	16,731
Contributions	-	2,000	2,000
Net earnings for the period	3,228	516	3,744
Distributions paid	(2,329)	(374)	(2,703)
Unitholders' equity – December 31, 2005	\$ 15,443	\$ 4,329	\$ 19,772
Net earnings for the period	881	157	1,038
Distributions paid	(2,303)	(409)	(2,712)
Unitholders' equity – March 31, 2006	\$ 14,021	\$ 4,077	\$ 18,098

(See accompanying notes)

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

	Three months ended March 31,	
	2006	2005
Cash provided by (used in)		
Operating activities:		
Net earnings for the period	\$ 1,038	\$ 485
Items not affecting cash:		
Amortization	1,112	1,293
Future income tax recovery	(43)	(100)
Gain on disposal of property, plant and equipment	-	(11)
	<hr/> 2,107	<hr/> 1,667
Net change in non-cash working capital items	<hr/> 2,816	<hr/> 3,516
	<hr/> 4,923	<hr/> 5,183
Investing activities:		
Purchases of property, plant and equipment	(298)	(130)
Proceeds from sale of property, plant and equipment	-	13
	<hr/> (298)	<hr/> (117)
Financing activities:		
Deferred financing costs	-	(7)
Distributions to partners	(2,712)	(2,652)
Principal repayment of capital leases	(69)	(66)
	<hr/> (2,781)	<hr/> (2,725)
Increase in cash and cash equivalents	1,844	2,341
Cash and cash equivalents - beginning of period	1,674	571
	<hr/>	<hr/>
Cash and cash equivalents - end of period	\$ 3,518	\$ 2,912
Supplemental Cash Flow Information:		
Interest paid during the period	2,589	2,156

(See accompanying notes)

FP Canadian Newspapers Limited Partnership
Notes to Consolidated Financial Statements as at March 31, 2006
(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, Canstar Community News Limited ("Canstar"), and Rosebud Publications Ltd. ("Rosebud"). Rosebud is wholly owned by Canstar, which is wholly owned by FPLP. 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 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 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. These interim consolidated financial statements should be read in conjunction with the audited financial statements of FPLP for the year ended December 31, 2005.

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

Income taxes

FPLP is not a taxable entity, and accordingly, no provision for income taxes relating to FPLP is included in the financial statements since all income, deductions, gains, losses and credits are reportable on the tax returns of the partners. FPLP's incorporated subsidiaries and Funding are subject to tax and use the liability method for accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. FPLP's subsidiaries have non-capital losses in the amount of approximately \$1,322,000 which can be used to reduce the company's taxable income in the future. The tax benefit of this loss is estimated at approximately \$484,000 and has been recognized as an asset in the consolidated balance sheet of FPLP. The expiration of the non-capital losses begin expiring in the current year and end in 2016, with 90% of the losses expiring in the final three years.

3. 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.

4. Employee future benefit plans

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

	Three months ended March 31,	
	<u>2006</u>	<u>2005</u>
Defined benefit pension plan	<u>\$ 390</u>	<u>\$ 351</u>

5. Interest expense

Interest expense is summarized as follows:

	Three months ended March 31,	
	<u>2006</u>	<u>2005</u>
Subordinated notes	\$ 1,785	\$ 1,842
Notes payable	811	787
Capital lease obligations	<u>9</u>	<u>12</u>
	<u>\$ 2,605</u>	<u>\$ 2,641</u>

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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