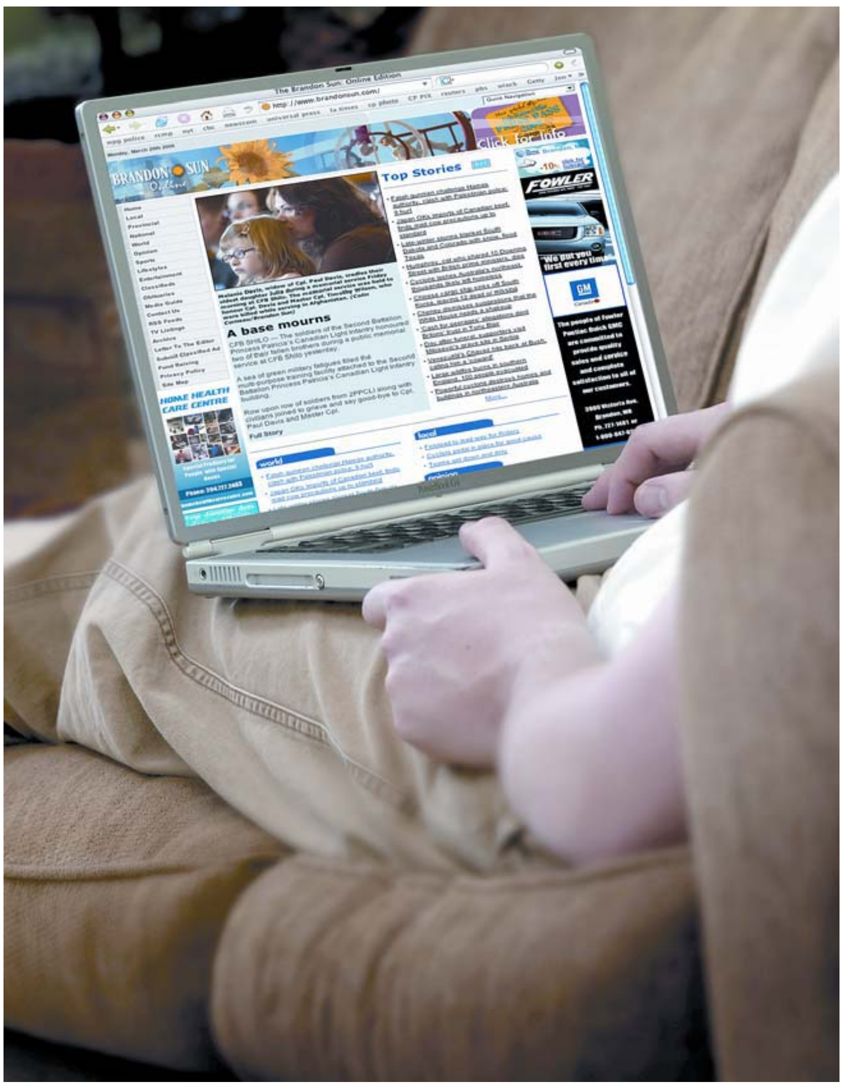
NEWSPAPERS fp INCOME FUND



Q2 – 2006
Quarterly Report
June 30, 2006

TSX: FP.UN

Second Quarter Report
June 30, 2006
Report to Unitholders

fp NEWSPAPERS INCOME FUND

Dear Fellow Unitholders:

I am pleased to provide you with a report on the results of our operations and related distributions to Unitholders of FP Newspapers Income Fund (the "Fund") for the quarter ending June 30, 2006. FP Newspapers Income Fund owns securities entitling it to 49 per cent of the distributable cash of 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 June 30, 2006 was $31.3 million, a $1.0 million or 3.3 percent increase over the same period last year. The acquisition of Rosebud during the third quarter in 2005, accounted for $0.2 million of this increase. The increase in revenue, on a same store basis (excluding Rosebud), of $0.8 million or 2.5 percent is primarily due to growth in classified advertising and circulation revenue. Total EBITDA(1) of FPLP for the second quarter was $7.2 million. Excluding Rosebud, EBITDA(1) was $7.2 million for the second quarter compared to $7.1 million last year, an increase of 0.8 percent. The partnership had net earnings of $3.5 million in the second quarter and $3.5 million on a same store basis compared to $3.3 million in the same quarter last year.

The Fund had net earnings of $2.5 million, or $0.363 per Unit during the three months ended June 30, 2006 which is unchanged from the same quarter last year.

Operations

Overall revenue in the second quarter, on a same store basis, was $31.0 million, a $0.8 million or 2.5 percent increase from the same quarter last year. Advertising revenue, on a same store basis, was $21.7 million, a $0.3 million or 1.5 percent increase over the same quarter last year. Our largest advertising revenue category, display advertising including colour, on a same store basis, was $12.6 million for the quarter, a decrease of 5.5 percent, compared to $13.3 million for the same period last year. This decline is partially due to one less publishing day due to the shift of the Good Friday non publishing day and partially due to decreased spending in the automotive and telecommunication categories. Classified advertising revenue, on a same store basis, was $5.0 million compared to $4.3 million in the second quarter last year, an increase of 17.5 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 8.2 percent compared to the same period last year resulting from higher flyer volumes and increased rates.

Operating expenses, excluding amortization for the second quarter were $24.1 million, a 3.8 percent increase from the $23.2 million in the second quarter. Excluding Rosebud, operating expenses, excluding amortization were $23.9 million, a 3.1 percent increase from $23.2 million reported for the second quarter last year. Employee compensation costs, excluding Rosebud, increased $0.1 million or 1.3 percent, primarily the result of an increase in the defined benefit pension expense. Newsprint prices were higher in the second quarter when compared to the same quarter last year and newsprint expense for our own products, excluding Rosebud, increased by $0.1 million or 3.0 percent. Delivery costs, excluding Rosebud, were $4.6 million for the second quarter, a 2.7 percent increase from the $4.5 million reported for the same quarter last year. This increase was primarily due to contracted increases for delivery agents in Winnipeg, and higher fuel costs.

A number of new initiatives were launched during the second quarter relating to the Winnipeg Free Press internet operations. WFPLive, the main web site for the Winnipeg Free Press launched blogs for a number of editorial staff members including Bob Cox, the managing editor. There are currently 14 writers and freelance journalists who are using blogs on the site as a way to further interact with interested readers. Tom Canada, a member of the Winnipeg Blue Bombers has a photo blog which includes a number of photo's covering the activities of the Blue Bomber team. During the quarter the Free Press launched a new classified advertising site named WFPStuff to generate additional on-line revenues. A new website named "Celebrations" was also launched which allows in-paper social notices to be posted on line with the ability for the customer to post additional pictures to celebrate the event.

A number of editorial staff received recognition during the quarter. The Western Canadian News Photographers Association awarded Winnipeg Free Press photographer Boris Minkevich first prize in the sports action and pictorial categories while Joe Bryksa and Marc Gallant, also of the Winnipeg Free Press, were second in the Sports Feature and the Portrait Personality categories respectively. Christopher Pike of the Brandon Sun was awarded third place in the Picture Story category. Tim Dolighan of Canstar Community News Limited was awarded best cartoon in the greater than 10,000 circulation category. Winnipeg Free Press columnist, Lindor Reynolds was awarded an honorable mention for humor writing at the National Society of Newspaper Columnists conference in Boston.

Distributions

Distributable cash attributable to the Fund[(2)] for the three months ended June 30, 2006 was \$3.0 million, or \$0.418 per Unit compared to \$2.9 million or \$0.417 per Unit last year. For the trailing twelve months ended June 30, 2006, FPLP has generated distributable cash attributable to the Fund of \$1.375 per Unit, and the Fund has declared distributions of \$1.290 per Unit, resulting in a payout ratio of 93.8 percent.

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

Outlook

The weakness in display advertising in the second quarter was somewhat surprising after the relatively strong first quarter performance. It is uncertain whether this softness will continue in the second half of the year. Continued strength in classified revenue, largely related to employment advertising and insert distribution revenues is expected.

During the third quarter continued efforts will be made towards enhancing our internet presence. The Winnipeg Free Press has dedicated both internal and external resources towards the development of a new entertainment website which will be launched in September. As with the other internet enhancements as detailed above, we will be working hard to attract increased on-line advertising revenues.

Newsprint prices were increased by approximately 1.4 percent in April and at this time we are not anticipating further increases during the third quarter and if this is the case, our average price is expected to increase by approximately 2.5 percent in the third quarter compared to the same quarter last year.

The pending retirement of Rudy Redekop as President was announced in July. Rudy will continue to work part-time until March 2007 and remains a director. Rudy made significant contributions to our newspapers during his career and my fellow directors join me in thanking him for his dedicated service to the business.

Ronald N. Stern
Chairman & Trustee

August 9, 2006

Management's Discussion and Analysis
August 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 June 30, 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 $2,596,000 and $3,979,000 in income from its investment in FPLP for the three and six months ended June 30, 2006 compared to $2,539,000 and $3,679,000 for the same periods last year. Interest income on the 11.5% subordinated notes issued by FPLP to the Fund was $1,805,000 and $3,590,000 for the three and six months ended June 30, 2006 compared to $1,862,000 and $3,704,000 in the same periods last year. The Fund's equity interest from its Class A limited partnership units were $791,000 and $389,000 for the three and six months ended June 30, 2006 compared to $677,000 and ($25,000) in the same periods last year (see "FP Canadian Newspapers Limited Partnership – Results of Operations" below). Operating expenses incurred by the Fund were $91,000 and $157,000 for the three and six months ending June 30, 2006 compared to $64,000 and $128,000 in the same periods last year. Net earnings were $2,506,000 and $3,825,000 for the three and six month periods ending June 30, 2006 compared to $2,478,000 and $3,556,000 in the same periods last year.

The Fund declared distributions to unitholders of $2,226,000 or $0.323 per Unit and $4,452,000 or $0.645 per Unit for the three and six months ended June 30, 2006 which is unchanged from the same periods last year. Cash available for distribution attributable to the Fund(2) was $2,887,000 or $0.418 per Unit and $4,550,000 or $0.659 per Unit for the three and six months ended June 30, 2006 compared to $2,877,000 or $0.417 per Unit and $4,385,000 or $0.635 per Unit in the same periods in the prior year. 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	In thousands		In thousands	
Advertising	$ 21,916	$ 21,372	$ 41,604	$ 39,589
Circulation	7,204	6,799	13,995	13,362
Commercial Printing	1,671	1,571	3,281	3,080
Promotions and Services	470	528	963	1,044
	$ 31,261	$ 30,270	$ 59,843	$ 57,075

Revenue for the three months ended June 30, 2006 was $31.3 million, an increase of $1.0 million, or 3.3% compared to the second 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 (excluding Rosebud), increased by $0.8 million or 2.5% compared to the second quarter of last year. Advertising revenues, excluding Rosebud, increased by $0.3 million or 1.5% compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, excluding Rosebud, declined by $0.7 million or 5.5% partly due to one less publishing day and decreased spending in the automotive and telecommunication categories. Flyer distribution revenues, excluding Rosebud, increased by $0.3 million or 8.2% primarily due to a combination of increased volumes together with higher rates. Classified advertising, on a same store basis, increased by $0.7 million or 17.5% in the second quarter due primarily to increased revenue from the employment category. Circulation revenue, on a same store basis, increased by $0.4 million or 5.9% primarily due to rate increases implemented in the fourth quarter of 2005. Commercial printing revenues increased by $0.1 million or 6.4% primarily due to increased printing of both the Globe and Mail and National Post newspapers.

Revenue for the six months ended June 30, 2006 was $59.8 million, an increase of $2.8 million, or 4.8% compared to the same period last year. The acquisition of Rosebud during the third quarter of 2005 accounted for $0.5 million in revenue. Revenues, on a same store basis, increased by $2.3 million or 4.1% compared to the first two quarters of last year. Advertising revenues, excluding Rosebud, increased by $1.6 million or 4.0% compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, excluding Rosebud, declined by $0.1 million or 0.4% partly due to one less publishing day and decreased spending in the automotive and telecommunication categories. Flyer distribution revenues, excluding Rosebud, increased by $0.6 million or 8.1% primarily due to a combination of increased volumes together with higher rates. Classified advertising, on a same store basis, increased by $1.1 million or 13.6% in the six months ending June 30, 2006 due primarily to increased revenue from the employment category. Circulation revenue, on a same store basis, increased by $0.6 million or 4.7% primarily due to rate increases implemented in the fourth quarter of 2005. Commercial printing revenues increased by $0.2 million or 6.5% primarily due to increased printing of both the Globe and Mail and National Post newspapers.

Operating expenses, excluding amortization:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	In thousands		In thousands	
Employee Compensation	$ 10,822	$ 10,607	$ 22,030	$ 21,150
Newsprint – Own Use	3,650	3,519	6,873	6,669
Newsprint - Commercial Printing	621	544	1,210	1,074
Delivery of Newspapers	4,617	4,478	9,036	8,664
Other	4,355	4,028	8,752	8,122
	$ 24,065	$ 23,176	$ 47,901	$ 45,679

Operating expenses, excluding amortization in the three months ended June 30, 2006 were $24.1 million, an increase of $0.9 million or 3.8% over the second quarter of 2005. Operating expenses, excluding Rosebud, were $23.9 million, or 3.1% higher than the same quarter last year. Employee compensation, excluding Rosebud, increased by $0.1 million or 1.3% due primarily to an increase in defined benefit pension expense. Newsprint expense for FPLP's own publications, excluding Rosebud, increased by $0.1 million or 3.0%, the result of increased newsprint prices partially offset by lower consumption. Newsprint expense for commercial printing increased by $0.1 million or 14.2% the result of higher newsprint prices and increased print quantities. Delivery costs, excluding Rosebud, increased by $0.1 million or 2.7% compared to the same quarter last year largely the result of contracted annual increases to unionized delivery agents at the Winnipeg Free Press, and higher fuel costs. Other expenses, excluding Rosebud, increased by $0.3 million or 6.9% over the same quarter last year primarily due to an increase in consulting costs together with increased marketing costs targeting circulation subscribers.

Operating expenses, excluding amortization in the six months ended June 30, 2006 were $47.9 million, an increase of $2.2 million or 4.9% over the same period in 2005. Operating expenses, excluding Rosebud, were $47.6 million, an increase of $1.9 million or 4.1% higher than the same period last year. Employee compensation, excluding Rosebud, increased by $0.7 million or 3.4% due primarily to voluntary termination offers accepted by employees at the Winnipeg Free Press during the first quarter of 2006 and an increase in the defined benefit pension expense. Newsprint expense for FPLP's own publications, excluding Rosebud, increased by $0.2 million or 2.4%, the result of increased newsprint prices partially offset by lower consumption. Newsprint expense for commercial printing increased by $0.1 million or 12.7% the result of higher newsprint prices and increased print quantities. Delivery costs, excluding Rosebud, increased by $0.3 million or 3.9% compared to the same period last year largely the result of contracted annual increases to delivery agents at the Winnipeg Free Press, and higher fuel costs. Other expenses, excluding Rosebud, increased by $0.5 million or 6.5% over the same six month period 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, and an increase in consulting costs.

EBITDA[(1)] for the three and six months ended June 30, 2006 was $7.2 million and $11.9 million compared to $7.1 million and $11.4 million for the same periods in the prior year. EBITDA[(1)] for the three and six months ended June 30, 2006, excluding Rosebud, was $7.2 million and $11.8 million compared to $7.1 million and $11.4 million for the same periods in 2005. EBITDA[(1)] margin, on a same store basis, was 23.0% and 19.9% for the three and six month periods ended June 30, 2006 compared to 23.4% and 20.0% in the same periods last year.

Interest expense on the notes payable, the subordinated notes and capital lease obligations for the three and six months ended June 30, 2006 was $2.6 million and $5.2 million which are substantially 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 two quarters of 2005.

FPLP's net earnings were $3.5 million and $4.5 million for the three and six months ended June 30, 2006 compared to $3.3 million and $3.8 for the same periods 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 first half of 2006 was as follows:

	2006	2005	2004
Revenue		In thousands	
Quarter 1	$ 28,582	$ 26,805[(**)]	$ 25,674
Quarter 2	31,261	30,270[(**)]	27,840
Quarter 3		28,005	27,283[(**)]
Quarter 4		31,837	30,441[(**)]
		$116,917	$111,238
EBITDA[(1)]			
Quarter 1	$ 4,746	$ 4,302[(***)]	$ 5,387
Quarter 2	7,196	7,094	6,772
Quarter 3		5,176	5,167
Quarter 4		7,503	7,008
		$ 24,075	$ 24,334
Net Earnings (loss)			
Quarter 1	$ 1,038	$ 485[(***)]	$ 1,231
Quarter 2	3,492	3,320	(1,489)[(*)]
Quarter 3		1,420	1,077
Quarter 4		3,744	2,917
		$ 8,969	$ 3,736

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

As FPLP's advertising revenues are seasonal and higher in the second and fourth quarters, accounts receivable are higher at the end of these quarters. Total working capital at June 30, 2006 was \$3.3 million up from \$2.4 million at March 31, 2006.

Liquidity and Capital Resources of FPLP

Cash and cash equivalents at June 30, 2006 was \$1.9 million compared to \$2.1 million at June 30, 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 \$2.0 million during the second quarter of 2006, while \$0.6 million was used for investing activities and \$3.0 million was used for financing activities. Cash flow from operations, together with cash balances on hand and unutilized credit facilities, are expected to be sufficient to fund FPLP's operating requirements, capital expenditures and anticipated distributions.

Cash Flow from Operating Activities

During the three and six months ended June 30, 2006, cash generated from operating activities was \$2.0 million and \$6.9 million, compared to \$2.6 million and \$7.8 million for the same periods last year. The net change in non-cash working capital in the three and six months ended June 30, 2006 was (\$2.6) million and \$0.2 million compared to (\$1.9) million and \$1.7 million for the same periods last year. The net change in non-cash working capital for the three month period is largely the result of the timing of payments to trade suppliers and higher levels of accounts receivable and prepaid expenses. The net change in non-cash for the six month period is partially the result of an increase in prepaid taxes and insurance, along with the timing of payments to suppliers.

Investing Activities

Maintenance capital purchases, representing the replacement of capital in order to sustain current business operations, totalled \$0.6 million and \$0.8 million for the three and six months ended June 30, 2006 compared to \$0.3 million and \$0.4 million in the same periods in the prior year. Maintenance capital spending in the first half of the year consisted 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, software, and building security upgrades. Maintenance capital spending is expected to decrease during the remainder of the year and be in line with our full year estimated spending of between \$1.2 and \$1.4 million.

Strategic capital spending representing website development costs, totalled \$0.1 million for the three and six months ended June 30, 2006. For purposes of calculating distributable cash attributable to the Fund(2) this spending has no effect as the amount has been funded by a reduction in the reserve for strategic capital (see below).

Financing Activities

Distributions to partners of FPLP for the three and six months ended June 30, 2006 totalled \$2.9 million and \$5.6 million, of which \$0.5 million and \$0.9 million was paid to the Fund as holder of Class A limited partnership units. This is compared to \$2.7 million and \$5.4 million in the same periods the prior year of which \$0.4 million and \$0.7 million was paid to the Fund. 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 and six months ended June 30, 2006 and 2005 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	In thousands		In thousands	
Reserve at beginning of period	\$ 518	\$ 750	\$ 516	\$ 630
Increase in reserve	-	-	2	120
Decrease in reserve	(250)	(46)	(250)	(46)
Reserve at end of period	\$ 268	\$ 704	\$ 268	\$ 704

Increases in the reserve for maintenance capital is shown as a deduction in determining distributable cash(2) FPLP. Decreases in the reserve for maintenance capital are shown as an increase in determining 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 and six months ended June 30, 2006 and 2005 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	In thousands		In thousands	
Reserve at beginning of period	$ 157	$ 510	$ 157	$ 510
Increase in reserve	-	-	-	-
Decrease in reserve	(90)	(320)	(90)	(320)
Reserve at end of period	$ 67	$ 190	$ 67	$ 190

The reduction in the reserve in the quarter relates to the investment in website development at the Winnipeg Free Press.

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 June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	In thousands		In thousands	
Net earnings for the period	$ 3,492	$ 3,320	$ 4,530	$ 3,805
Add (subtract):				
Amortization of property, plant and equipment	921	870	1,803	1,728
Amortization of intangible assets	90	91	180	181
Interest	2,612	2,662	5,217	5,303
Amortization of deferred financing costs	141	213	281	558
Interest income	(15)	(9)	(27)	(15)
Gain on sale of property, plant and equipment	(4)	(8)	(4)	(19)
Current income tax expense	(39)	-	7	-
Future income tax recovery	(2)	(45)	(45)	(145)
EBITDA	$ 7,196	$ 7,094	$ 11,942	$ 11,396

(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 June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Distributable cash of FPLP:	In thousands		In thousands	
EBITDA[(1)]	$ 7,196	$ 7,094	$ 11,942	$ 11,396
Interest income	15	9	27	15
Interest expense on notes payable and capital leases	(807)	(800)	(1,627)	(1,599)
Principal repayment of capital leases	(71)	(67)	(140)	(133)
Maintenance capital expenditures	(550)	(296)	(848)	(426)
Decrease (increase) in reserve for future maintenance capital	250	46	248	(74)
Strategic capital expenditures	(90)	-	(90)	-
Decrease (increase) in reserve for strategic capital, acquisitions, and/or debt reduction	90	-	90	-
Proceeds from sale of property, plant and equipment	4	9	4	22
Current income and capital taxes receivable (payable)	39	-	(7)	-
	$ 6,076	$ 5,995	$ 9,599	$ 9,201
49% attributable to the Fund	$ 2,977	$ 2,938	$ 4,704	$ 4,508
Administration expenses	(91)	(64)	(157)	(128)
Interest income	1	3	3	5
Distributable cash attributable to the Fund	$ 2,887	$ 2,877	$ 4,550	$ 4,385
Distributable cash attributable to the Fund – per Unit	$ 0.418	$ 0.417	$ 0.659	$ 0.635

A summary of distributable cash and distributions declared for the trailing twelve months to June 30, 2006 and for the period from commencement of the Fund on May 28, 2002 to June 30, 2006 is as follows:

Distributable Cash of FPLP:

	Last Twelve Months	Since May 28, 2002
	In thousands	
EBITDA[(1)]	$ 24,621	$ 97,687
Interest income	42	274
Interest expense on notes payable and capital leases	(3,282)	(12,690)
Principal repayment of capital leases	(277)	(500)
Maintenance capital expenditures	(1,536)	(3,973)
Decrease (increase) in reserve for future maintenance capital expenditures	436	(268)
Strategic capital expenditures	(90)	(536)
Decrease (increase) in reserve for strategic capital, acquisitions, and/or debt reduction	90	(420)
Proceeds on disposal of property, plant and equipment	14	1,068
Current income and capital tax payable	(92)	(92)
Distributable cash of FPLP	$ 19,926	$ 80,550

Distributable Cash Attributable to the Fund:

	Last Twelve Months	Since May 28, 2002
	In thousands	
49% of FPLP distributable cash	$ 9,764	$ 39,470
Administration expenses	(280)	(1,088)
Interest income	5	21
Distributable cash attributable to the Fund	$ 9,489	$ 38,403
Distributable cash attributable to the Fund per unit	$1.375	$5.564
Distributions declared by the Fund per unit	$1.290	$4.853
Payout Ratio	93.8%	87.2%

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	In thousands		In thousands	
Cash flow from operating activities of FPLP	$ 1,994	$ 2,588	$ 6,917	$ 7,771
Add (subtract):				
Interest on subordinated notes (*)	1,805	1,862	3,590	3,704
Net change in non-cash working capital items (**)	2,644	1,853	(172)	(1,663)
Maintenance capital expenditures	(550)	(296)	(848)	(426)
Principal repayment of capital leases	(71)	(67)	(140)	(133)
Decrease (increase) in reserve for future maintenance capital (***)	250	46	248	(74)
Proceeds from sale of property, plant and equipment (****)	4	9	4	22
Distributable cash of FPLP	$ 6,076	$ 5,995	$ 9,599	$ 9,201

(*) 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 June 30, 2006	As at December 31, 2005
ASSETS		
Current Assets :		
Cash and cash equivalents	$ 90	$ 184
Interest receivable from subordinated notes	595	634
Due from FPCN Media Funding Inc.	26	-
Prepaid expenses	8	18
	719	836
Investment in FPCN General Partner Inc.	20	10
Investment in FP Canadian Newspapers Limited Partnership (note 2)	61,175	61,689
	$ 61,914	$ 62,535
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 83	$ 77
Distribution payable (note 3)	742	742
	825	819
Unitholders' Equity:		
Trust units	69,026	69,026
Cumulative earnings	27,780	23,955
Cumulative distributions	(35,717)	(31,265)
	61,089	61,716
	$ 61,914	$ 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 June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Earnings from investment in FP Canadian Newspapers Limited Partnership				
Interest from subordinated notes	$ 1,805	$ 1,862	$ 3,590	$ 3,704
Equity interest from Class A limited partnership units (note 2)	791	677	389	(25)
Other interest	1	3	3	5
	2,597	2,542	3,982	3,684
Administration expenses	(91)	(64)	(157)	(128)
Net earnings for the period	$ 2,506	$ 2,478	$ 3,825	$ 3,556
Cumulative earnings, beginning of period	25,274	17,222	23,955	16,144
Cumulative earnings, end of period	$ 27,780	$ 19,700	$ 27,780	$ 19,700
Number of trust units outstanding	6,902,592	6,902,592	6,902,592	6,902,592
Net earnings per trust unit	$ 0.363	$ 0.359	$ 0.554	$ 0.515

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

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Balance, beginning of period	$ 60,809	$ 61,661	$ 61,716	$ 62,809
Net earnings	2,506	2,478	3,825	3,556
Distributions to unitholders	(2,226)	(2,226)	(4,452)	(4,452)
Balance, end of period	$ 61,089	$ 61,913	$ 61,089	$ 61,913

(See accompanying notes)

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

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Cash provided by (used in):				
Operating activities:				
Net earnings for the period	$ 2,506	$ 2,478	$ 3,825	$ 3,556
Item not affecting cash:				
Equity interest from Class A units of FP Canadian Newspapers Limited Partnership (note 2)	(791)	(677)	(389)	25
Distributions received on Class A units of FP Canadian Newspapers Limited Partnership (note 2)	495	379	904	730
Net change in non-cash working capital items	(43)	6	28	27
	2,167	2,186	4,368	4,338
Financing activities:				
Distributions to unitholders	(2,226)	(2,226)	(4,452)	(4,452)
Investing activities:				
Investment in FPCN General Partner Inc.	(10)	(9)	(10)	(9)
(Decrease) in cash and cash equivalents	(69)	(49)	(94)	(123)
Cash and cash equivalents, beginning of period	159	310	184	384
Cash and cash equivalents, end of period	$ 90	$ 261	$ 90	$ 261

(See accompanying notes)

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

FPLP's revenues are seasonal. As FPLP is the Fund's sole investment, the fund's Equity interest is seasonal as well. The Fund's equity interest from Class A limited partnership units is highest in the second and fourth quarters.

2. Investment in FP Canadian Newspapers Limited Partnership

On May 28, 2002, FPCN Holdings Trust subscribed for 6,573,897 Class A limited 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 March 31, 2006	62,954	(2,075)	60,879
Equity interest	-	791	791
Distributions received	-	(495)	(495)
Balance at June 30, 2006	62,954	(1,779)	61,175

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,	
	2006	2005	2006	2005
Net earnings of FPLP	$ 3,492	$ 3,320	$ 4,530	$ 3,805
Plus: Interest on subordinated notes	1,805	1,862	3,590	3,704
Net earnings before interest on subordinated notes	$ 5,297	$ 5,182	$ 8,120	$ 7,509
49% interest attributable to the Fund	2,596	2,539	3,979	3,679
Less: Interest from subordinated notes	(1,805)	(1,862)	(3,590)	(3,704)
Equity interest from Class A limited partnership units	$ 791	$ 677	$ 389	$ (25)

3. Distribution Payable

The Fund recorded a distribution payable at June 30, 2006 of $0.1075 per unit. The distribution was paid July 28, 2006 to unitholders of record on June 30, 2006 and is in respect of the month of June 2006.

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

	As at June 30, 2006	As at December 31, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,895	$ 1,674
Accounts receivable	11,874	13,746
Income tax receivable	26	-
Inventories	946	1,064
Prepaid expenses	1,671	838
Future income tax asset	39	222
	16,451	17,544
Equipment held for sale	2,289	2,289
Property, plant and equipment	53,147	54,012
Future income taxes	447	219
Deferred financing costs	3,009	3,290
Intangible assets	8,647	8,827
Goodwill	71,160	71,160
	$ 155,150	$ 157,341
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 9,768	$ 10,879
Income taxes payable	-	85
Prepaid subscriptions and deferred revenue	3,112	2,875
Current obligations under capital leases	290	284
	13,170	14,123
Long-Term Liabilities:		
Subordinated notes	62,954	62,954
Notes Payable	60,000	60,000
Obligations under capital leases	346	492
	123,300	123,446
	136,470	137,569
Unitholders' Equity:		
Partnership units	36,793	36,793
Cumulative earnings	34,652	30,122
Cumulative distributions	(52,765)	(47,143)
	18,680	19,772
	$ 155,150	$ 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 June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Revenue	$ 31,261	$ 30,270	$ 59,843	$ 57,075
Operating expenses, excluding amortization	(24,065)	(23,176)	(47,901)	(45,679)
	7,196	7,094	11,942	11,396
Amortization of property, plant and equipment	(921)	(870)	(1,803)	(1,728)
Amortization of intangible assets	(90)	(91)	(180)	(181)
Earnings before the under-noted	6,185	6,133	9,959	9,487
Interest (note 5)	(2,612)	(2,662)	(5,217)	(5,303)
Amortization of deferred financing costs	(141)	(213)	(281)	(558)
Interest income	15	9	27	15
Gain on sale of property, plant and equipment	4	8	4	19
Net earnings before income taxes	3,451	3,275	4,492	3,660
Income tax (expense) recovery:				
- Current	39	-	(7)	-
- Future	2	45	45	145
Net earnings for the period	3,492	3,320	4,530	3,805
Cumulative earnings – beginning of period	31,160	21,638	30,122	21,153
Cumulative earnings – end of period	$ 34,652	$ 24,958	$ 34,652	$ 24,958

(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
Net earnings for the period	2,898	594	3,492
Distributions paid	(2,415)	(495)	(2,910)
Unitholders' equity – June 30, 2006	$ 14,504	$ 4,176	$ 18,680

(See accompanying notes)

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

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Cash provided by (used in)				
Operating activities:				
Net earnings for the period	$ 3,492	$ 3,320	$ 4,530	$ 3,805
Items not affecting cash:				
Amortization	1,152	1,174	2,264	2,467
Future income tax recovery	(2)	(45)	(45)	(145)
Gain on disposal of property, plant and equipment	(4)	(8)	(4)	(19)
	4,638	4,441	6,745	6,108
Net change in non-cash working capital items	(2,644)	(1,853)	172	1,663
	1,994	2,588	6,917	7,771
Investing activities:				
Purchases of property, plant and equipment	(640)	(296)	(938)	(426)
Proceeds from sale of property, plant and equipment	4	9	4	22
	(636)	(287)	(934)	(404)
Financing activities:				
Deferred financing costs	-	(713)	-	(720)
Distributions to partners	(2,910)	(2,733)	(5,622)	(5,385)
Principal repayment of capital leases	(71)	(67)	(140)	(133)
Proceeds on issuance of Series A senior secured notes	-	60,000	-	60,000
Repayment of term loan	-	(59,600)	-	(59,600)
	(2,981)	(3,113)	(5,762)	(5,838)
Increase (decrease) in cash and cash equivalents	(1,623)	(812)	221	1,529
Cash and cash equivalents - beginning of period	3,518	2,912	1,674	571
Cash and cash equivalents - end of period	$ 1,895	$ 2,100	$ 1,895	$ 2,100
Supplemental Cash Flow Information:				
Interest paid during the period	$ 2,623	$ 2,277	$ 5,212	$ 4,609

(See accompanying notes)

FP Canadian Newspapers Limited Partnership
Notes to Consolidated Financial Statements as at June 30, 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 $1,463,000 which can be used to reduce the company's taxable income in the future. The tax benefit of these losses is estimated at approximately $486,000 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 92% of the losses expiring in 2014, 2015 and 2016.

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 June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Defined benefit pension plan	$ 386	$ 351	$ 776	$ 702

5. Interest expense

Interest expense is summarized as follows:

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Subordinated notes	$ 1,805	$ 1,862	$ 3,590	$ 3,704
Notes payable/term loan	799	788	1,610	1,575
Capital lease obligations	8	12	17	24
	$ 2,612	$ 2,662	$ 5,217	$ 5,303

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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