

fp

NEWSPAPERS INCOME FUND



Q3 – 2006
Quarterly Report
September 30, 2006

TSX: FP.UN



Third Quarter Report September 30, 2006 Report to Unitholders

Dear Fellow Unitholders:

I am pleased to provide you with a report on the results of our operations and related distributions to Unitholders of FP Newspapers Income Fund (the "Fund") for the quarter ending September 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 September 30, 2006 was \$29.8 million, a \$1.8 million or 6.4 percent increase over the same period last year. The increase in revenue is due to growth in classified advertising, display advertising, flyer distribution and circulation revenues. Total EBITDA⁽¹⁾ of FPLP for the third quarter was \$5.9 million, a \$0.7 million or 13.1 percent increase from the same quarter last year. The partnership had net earnings of \$0.8 million in the third quarter compared to \$1.4 million in the same quarter last year. The decline in net earnings in the third quarter is the result of a \$1.3 million write down in carrying value of excess press equipment that is classified in the equipment held for sale category.

The Fund had net earnings of \$1.2 million, or \$0.179 per Unit, during the three months ended September 30, 2006, compared to \$1.6 million, or \$0.225 per Unit, in the same quarter last year. The reduction of net earnings is due to the write down in value of surplus press equipment as discussed above.

Operations

Advertising revenue in the third quarter was \$20.2 million, a \$1.4 million or 7.3 percent increase over the same quarter last year. Our largest advertising revenue category, display advertising including colour was \$11.8 million for the quarter, an increase of 3.9 percent, compared to \$11.3 million for the same period last year. This increase is primarily due to increased spending in the local retail category together with increased spending by one national automotive customer. Classified advertising revenue was \$4.6 million compared to \$4.0 million in the third quarter last year, an increase of 13.6 percent. Increased classified revenue was primarily the result of rate increases in most categories and volume increases in the employment category. Advertising flyer distribution revenues increased \$0.4 million or 11.2 percent compared to the same period last year resulting from higher flyer volumes and increased rates.

Operating expenses, excluding amortization for the third quarter were \$24.0 million, a 4.9 percent increase from the \$22.8 million in the third quarter last year. Employee compensation costs increased \$0.4 million or 4.0 percent, primarily the result of the filling of vacant management positions, accruals under annual incentive plans and an increase in the defined benefit pension plan expense. Newsprint prices were higher in the third quarter when compared to the same quarter last year and newsprint expense for our own products increased by \$0.1 million or 2.7 percent. Delivery costs were \$4.6 million for the third quarter, a 6.5 percent increase from the \$4.3 million reported for the same quarter last year. This increase was primarily due to contracted increases for delivery agents in Winnipeg, increased flyer volumes and higher fuel costs.

In the past few months a number of employees have been spending time on several teams focusing on driving operational improvements throughout all areas of the businesses. A team at the Winnipeg Free Press looking at developing a formal process for gathering and reviewing new product ideas launched an initiative called "What's Your Big Idea". The initiative sets out a process by which all employees are encouraged to submit ideas to help generate improvements.

New product launches and re-designed sections continued during the third quarter. In September the Winnipeg Free Press launched the new "What's on Winnipeg" entertainment website which offers a comprehensive guide to Winnipeg's entertainment, news, restaurants, events, concert listings and includes editorial reviews on it all. The Winnipeg Free Press re-designed its Saturday TV product to add additional colour pages and improve the overall look. Also during the quarter the Winnipeg Free Press Saturday travel section was redesigned to become more reader friendly.

In November the Audit Bureau of Circulations released the preliminary unaudited circulation results for the six months ending September 30, 2006. The Winnipeg Free Press reported an average weekday circulation increase of 1.1 percent, an average Sunday circulation increase of 0.8 percent and a decrease in average Saturday circulation of 1.1 percent. The Winnipeg Sun, the other daily newspaper in the Winnipeg market, reported declines in weekday circulation of 1.5 percent, a 2.4 percent decline in Saturday circulation and a 3.4 percent decline in Sunday circulation. The Brandon Sun reported a decline of 3.5 percent for its Monday to Friday Circulation, a Sunday circulation decline of 2.0 percent and a Saturday circulation decline of 5.9 percent.

Distributions

Distributable cash attributable to the Fund⁽²⁾ for the three months ended September 30, 2006 was \$2.2 million, or \$0.321 per Unit compared to \$1.9 million or \$0.275 per Unit last year. For the trailing twelve months ended September 30, 2006, FPLP has generated distributable cash attributable to the Fund of \$1.420 per Unit, and the Fund has declared distributions of \$1.290 per Unit, resulting in a payout ratio of 90.8 percent.

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

Outlook

The fourth quarter will be impacted by one less Saturday publishing day compared to last year. We anticipate the strong growth in classified advertising and flyer distribution revenue will continue in the fourth quarter. Early in the fourth quarter we have seen some weakness in display advertising revenues but it is very difficult to predict future display advertising results.

Preparations continue as Winnipeg is preparing to host the 2006 Grey Cup game which will be played on Sunday November 19. In October the Winnipeg Free Press entered into a letter of intent with the Winnipeg Blue Bomber Football Club to obtain the naming rights over the next 5 years for the Alumni Lounge at Canad Inns Stadium.

Newsprint prices are not anticipated to increase during the fourth quarter and if this is the case, our average price would be largely unchanged compared to the same quarter last year.

On October 31, 2006 the department of Finance (Canada) released details of proposed legislation that would implement a tax on distributions made by publicly listed flow-through entities ("FTE's") such as income trusts and limited partnerships. The new tax, if it is passed into law, would be effective January 1, 2011 for FP Newspapers Income Fund. Depending upon what the final basis of calculation and rates are when any new tax becomes effective, it would likely reduce the amount of distributable cash available to the Fund for purposes of making distributions to Unitholders. The proposal indicates that, for Canadian resident individuals, any distribution subject to this new tax will be deemed to be dividends eligible for the enhanced dividend tax credit.

Ronald N. Stern
Chairman & Trustee

November 9, 2006

Management's Discussion and Analysis

November 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 September 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 \$1,299,000 and \$5,278,000 in income from its investment in FPLP for the three and nine months ended September 30, 2006 compared to \$1,618,000 and \$5,297,000 for the same periods last year. Interest income on the 11.5% subordinated notes issued by FPLP to the Fund was \$1,825,000 and \$5,415,000 for the three and nine months ended September 30, 2006 compared to \$1,883,000 and \$5,587,000 in the same periods last year. The Fund's equity interest from its Class A limited partnership units were (\$526,000) and (\$137,000) for the three and nine months ended September 30, 2006 compared to (\$265,000) and (\$290,000) in the same periods last year (see "FP Canadian Newspapers Limited Partnership – Results of Operations" below). Operating expenses incurred by the Fund were \$66,000 and \$223,000 for the three and nine months ending September 30, 2006 compared to \$64,000 and \$192,000 in the same periods last year. Net earnings were \$1,234,000 and \$5,059,000 for the three and nine month periods ending September 30, 2006 compared to \$1,556,000 and \$5,112,000 in the same periods last year.

The Fund declared distributions to unitholders of \$2,227,000 or \$0.323 per Unit and \$6,679,000 or \$0.968 per Unit for the three and nine months ended September 30, 2006 which is unchanged from the same periods last year. Cash available for distribution attributable to the Fund⁽²⁾ was \$2,213,000 or \$0.321 per Unit and \$6,763,000 or \$0.980 per Unit for the three and nine months ended September 30, 2006 compared to \$1,901,000 or \$0.275 per Unit and \$6,286,000 or \$0.911 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 EBITDA⁽¹⁾ in FPLP as explained later in this discussion.

FP Canadian Newspapers Limited Partnership
Results of Operations

Revenue:	<u>Three Months</u> <u>Ended September 30,</u>		<u>Nine Months</u> <u>Ended September 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	In thousands		In thousands	
Advertising	\$ 20,194	\$ 18,806	\$ 61,795	\$ 58,395
Circulation	7,058	6,784	21,054	20,146
Commercial Printing	1,565	1,532	4,847	4,612
Promotions and Services	<u>987</u>	<u>883</u>	<u>1,951</u>	<u>1,927</u>
	<u>\$ 29,804</u>	<u>\$ 28,005</u>	<u>\$ 89,647</u>	<u>\$ 85,080</u>

Revenue for the three months ended September 30, 2006 was \$29.8 million, an increase of \$1.8 million, or 6.4% compared to the third quarter of 2005. Advertising revenues increased by \$1.4 million or 7.3% compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour increased by \$0.4 million or 3.9%, primarily due to an increase in spending in the local retail category together with increased spending by one national automotive customer. Flyer distribution revenues increased by \$0.4 million or 11.2%, primarily due to a combination of increased volumes together with higher rates. Classified advertising increased by \$0.6 million or 13.6% in the third quarter due primarily to rate increases in most categories and volume increases in the employment category. Circulation revenue increased by \$0.3 million or 4.0% primarily due to rate increases implemented in the fourth quarter of 2005. Promotional and services revenue increased by \$0.1 million or 12.8% primarily due to a new agreement relating to copyright royalties.

Revenue for the nine months ended September 30, 2006 was \$89.6 million, an increase of \$4.6 million, or 5.4% compared to the same period last year. The acquisition of Rosebud during the third quarter of 2005 accounted for \$0.5 million of this increase. Revenues, on a same store basis, increased by \$4.1 million or 4.8% compared to the same nine months of last year. Advertising revenues, excluding Rosebud, increased by \$2.9 million or 5.0% compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, excluding Rosebud, increased by \$0.3 million or 0.8%. Flyer distribution revenues, excluding Rosebud, increased by \$1.0 million or 9.1% primarily due to a combination of increased volumes together with higher rates. Classified advertising, on a same store basis, increased by \$1.6 million or 13.7% in the nine months ending September 30, 2006 due primarily to rate increases in most categories and volume increases in the employment category. Circulation revenue, on a same store basis, increased by \$0.9 million or 4.4% primarily due to rate increases implemented in the fourth quarter of 2005. Commercial printing revenues increased by \$0.2 million or 5.1% primarily due to increased printing of both the Globe and Mail and National Post newspapers.

Operating expenses, excluding amortization:	<u>Three Months</u> <u>Ended September 30,</u>		<u>Nine Months</u> <u>Ended September 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	In thousands		In thousands	
Employee Compensation	\$ 10,785	\$ 10,366	\$ 32,815	\$ 31,516
Newsprint – Own Use	3,366	3,280	10,239	9,949
Newsprint - Commercial Printing	565	550	1,775	1,624
Delivery of Newspapers	4,624	4,342	13,660	13,006
Other	<u>4,611</u>	<u>4,291</u>	<u>13,363</u>	<u>12,413</u>
	<u>\$ 23,951</u>	<u>\$ 22,829</u>	<u>\$ 71,852</u>	<u>\$ 68,508</u>

Operating expenses, excluding amortization in the three months ended September 30, 2006 were \$24.0 million, an increase of \$1.1 million or 4.9% over the third quarter of 2005. Employee compensation increased by \$0.4 million or 4.0% due primarily to the filling of some vacant management positions, accruals under annual incentive plans and an increase in the defined benefit pension expense. Newsprint expense for FPLP's own publications increased by \$0.1 million or 2.7%, the result of increased newsprint prices partially offset by lower consumption. Delivery costs increased by \$0.3 million or 6.5% compared to the same quarter last year largely the result of contracted annual increases to unionized delivery agents at the Winnipeg Free Press, increased flyer volumes and higher fuel costs. Other expenses increased by \$0.3 million or 7.5% 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 nine months ended September 30, 2006 were \$71.9 million, an increase of \$3.3 million or 4.9% over the same period in 2005. Operating expenses, excluding Rosebud, were \$71.3 million, an increase

of \$3.0 million or 4.3% higher than the same period last year. Employee compensation, excluding Rosebud, increased by \$1.1 million or 3.6% due primarily to voluntary termination offers accepted by employees at the Winnipeg Free Press during the first quarter of 2006, an increase in the defined benefit pension expense, accruals under annual incentive plans and the filling of vacant management positions. Newsprint expense for FPLP's own publications, excluding Rosebud, increased by \$0.2 million or 2.2%, the result of increased newsprint prices partially offset by lower consumption. Newsprint expense for commercial printing increased by \$0.2 million or 10.0% the result of higher newsprint prices and increased print quantities. Delivery costs, excluding Rosebud, increased by \$0.6 million or 4.8% compared to the same period last year largely the result of contracted annual increases to delivery agents at the Winnipeg Free Press, higher fuel costs and increased flyer volumes. Other expenses, excluding Rosebud, increased by \$0.9 million or 7.1% over the same nine 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 months ended September 30, 2006 was \$5.9 million compared to \$5.2 million for the same period in the prior year. EBITDA⁽¹⁾ for the nine months ended September 30, 2006, excluding Rosebud, was \$17.6 million compared to \$16.5 million for the same period in 2005. EBITDA⁽¹⁾ margin was 19.6% and 18.5% for the three months ended September 30, 2006 and 2005, and 19.8% and 19.5% for the nine months ending September 30, 2006 and 2005 excluding Rosebud.

Interest expense on the notes payable, the subordinated notes and capital lease obligations for the three and nine months ended September 30, 2006 was \$2.6 million and \$7.8 million compared to \$2.7 million and \$8.0 million in the same periods last year. Interest expense was lower compared to the prior year as there was a reduction in principle in the subordinated notes compared to the same period in prior year.

During the quarter, FPLP recorded a non-cash loss of \$1.3 million relating to the reduction of the carrying value of excess press components held for sale (see "Future Sale of Excess Press Components" under liquidity and capital resource section). In addition, FPLP reclassified \$0.6 million of components, carried as held for sale, into the property, plant and equipment category as it is the intention to re-utilize these press components at a later date.

FPLP's net earnings were \$0.8 million and \$5.4 million for the three and nine months ended September 30, 2006 compared to \$1.4 million and \$5.2 for the same periods in 2005. The decline in net earnings is due to the write down of the press equipment that is held for sale as discussed above.

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 third 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	31,261	30,270 ^(**)	27,840
Quarter 3	29,804	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	7,196	7,094	6,772
Quarter 3	5,853	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	3,492	3,320	(1,489) ^(*)
Quarter 3	827 ^(****)	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 net earnings.

(**) 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.

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

Working Capital Position of FPLP

Total working capital at September 30, 2006 was \$3.1 million up from \$2.1 million at September 30, 2005. The increase in working capital is mainly due to the increase in accounts receivable attributable to the increase in advertising revenues.

Liquidity and Capital Resources of FPLP

Cash and cash equivalents at September 30, 2006 was \$2.6 million compared to \$2.2 million at September 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 \$4.0 million during the third quarter of 2006, while \$0.3 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 nine months ended September 30, 2006, cash generated from operating activities was \$4.0 million and \$11.0 million, compared to \$3.4 million and \$11.2 million for the same periods last year. The net change in non-cash working capital in the three and nine months ended September 30, 2006 was \$0.8 million and \$1.0 million compared to \$1.0 million and \$2.7 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 receipts from customers and the timing of the payment of prepaid expenses.

Investing Activities

Total capital purchases totalled \$0.4 million and \$1.3 million for the three and nine months ended September 30, 2006 compared to \$0.1 million and \$0.5 million in the same periods in the prior year. Maintenance capital spending, representing the replacement of capital in order to sustain current business operations, for the three and nine months ending September 30, 2006 was \$0.3 million and \$1.1 million compared to \$0.1 million and \$0.5 million for the same periods last year. Maintenance capital spending during the third quarter of 2006 consisted of upgrades to vending boxes, replacement of an electronic photo archive system and the completion of the Brandon Sun premises renovation. Maintenance capital spending is expected to decrease during the remainder of the year and be in line with our full year estimated spending of \$1.2 million to \$1.4 million.

During the third quarter of 2006 there was strategic capital spending of \$0.1 million on website costs at the Winnipeg Free Press. The total for the nine months ended September 30, 2006, representing website development costs, totalled \$0.2 million. For purposes of calculating distributable cash attributable to the Fund⁽²⁾ this spending has been partially funded by a reduction in the reserve for strategic capital (see below).

Financing Activities

Distributions to partners of FPLP for the three and nine months ended September 30, 2006 totalled \$3.0 million and \$8.6 million, of which \$0.5 million and \$1.4 million was paid to the Fund as holder of Class A limited partnership units. This is compared to \$2.7 million and \$8.1 million in the same periods the prior year of which \$0.4 million and \$1.1 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.

Reclassification and Revaluation of Excess Press Components

During the third quarter FPLP reclassified press components with a carrying value of \$0.6 million from the “equipment held for sale” category on the balance sheet to the “property, plant and equipment” category as it is the intention to re-utilize this equipment at a later date. In addition, it was determined that a write-down in value of the remaining “equipment held for sale” in the amount of \$1,303,000 was required and this write-down was recorded on FPLP’s statement of earnings during the third quarter.

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 nine months ended September 30, 2006 and 2005 is as follows:

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2006	2005	2006	2005
	In thousands		In thousands	
Reserve at beginning of period	\$ 268	\$ 704	\$ 516	\$ 630
Increase in reserve	42	139	44	259
Decrease in reserve	-	-	(250)	(46)
Reserve at end of period	<u>\$ 310</u>	<u>\$ 843</u>	<u>\$ 310</u>	<u>\$ 843</u>

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 third quarter of 2004. A summary of the reserve for strategic capital, acquisitions and/or debt reduction for the three and nine months ended September 30, 2006 and 2005 is as follows:

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2006	2005	2006	2005
	In thousands		In thousands	
Reserve at beginning of period	\$ 67	\$ 190	\$ 157	\$ 510
Increase in reserve	-	-	-	-
Decrease in reserve	(67)	(33)	(157)	(353)
Reserve at end of period	<u>\$ -</u>	<u>\$ 157</u>	<u>\$ -</u>	<u>\$ 157</u>

The reduction in the reserve in the three and nine months ending September 30, 2006 relates to an 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 68% 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 \$12.0 million for the first three quarters of 2006, compared to \$11.6 million for the same period 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.

Announced Taxation Changes

On October 31, 2006 the department of Finance (Canada) released details of proposed legislation that would implement a tax on distributions made by publicly listed flow-through entities ("FTE's") such as income trusts and limited partnerships. The new tax, if it is passed into law, would be effective January 1, 2011 for the Fund. Depending upon what the final basis of calculation and rates are when any new tax becomes effective, it would likely reduce the amount of distributable cash available to the Fund for purposes of making distributions to Unitholders.

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		Nine Months	
	Ended September 30,		Ended September 30,	
	2006	2005	2006	2005
	In thousands		In thousands	
Net earnings for the period	\$ 827	\$ 1,420	\$ 5,357	\$ 5,225
Add (subtract):				
Amortization of property, plant and equipment	931	877	2,734	2,605
Amortization of intangible assets	90	91	270	272
Interest	2,627	2,746	7,844	8,049
Amortization of deferred financing costs	141	142	422	700
Interest income	(20)	(7)	(47)	(22)
Gain on sale of property, plant and equipment	(2)	(7)	(6)	(26)
Write down of property, plant and equipment held for sale	1,303	-	1,303	-
Current income tax expense	27	-	34	-
Future income tax recovery	(71)	(86)	(116)	(231)
EBITDA	<u>\$ 5,853</u>	<u>\$ 5,176</u>	<u>\$ 17,795</u>	<u>\$ 16,572</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		Nine Months	
	Ended September 30,		Ended September 30,	
	2006	2005	2006	2005
	In thousands		In thousands	
Distributable cash of FPLP:				
EBITDA ⁽¹⁾	\$ 5,853	\$ 5,176	\$ 17,795	\$ 16,572
Interest income	20	7	47	22
Interest expense on notes payable and capital leases	(802)	(863)	(2,429)	(2,462)
Principal repayment of capital leases	(72)	(68)	(212)	(201)
Maintenance capital expenditures	(258)	(111)	(1,106)	(537)
Decrease (increase) in reserve for future maintenance capital	(42)	(139)	206	(213)
Strategic capital expenditures	(92)	-	(182)	-
Decrease (increase) in reserve for strategic capital, acquisitions, and/or debt reduction	67	-	157	-
Proceeds from sale of property, plant and equipment	2	4	6	26
Current income and capital taxes receivable (payable)	(27)	-	(34)	-
	<u>\$ 4,649</u>	<u>\$ 4,006</u>	<u>\$ 14,248</u>	<u>\$ 13,207</u>
49% attributable to the Fund	\$ 2,278	\$ 1,963	\$ 6,982	\$ 6,471
Administration expenses	(66)	(64)	(223)	(192)
Interest income	1	2	4	7
Distributable cash attributable to the Fund	<u>\$ 2,213</u>	<u>\$ 1,901</u>	<u>\$ 6,763</u>	<u>\$ 6,286</u>
Distributable cash attributable to the Fund – per Unit	<u>\$ 0.321</u>	<u>\$ 0.275</u>	<u>\$ 0.980</u>	<u>\$ 0.911</u>

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

Distributable Cash of FPLP:

	Last Twelve Months	Since May 28, 2002
	In thousands	
EBITDA ⁽¹⁾	\$ 25,298	\$ 103,540
Interest income	55	294
Interest expense on notes payable and capital leases	(3,221)	(13,492)
Principal repayment of capital leases	(281)	(572)
Maintenance capital expenditures	(1,683)	(4,231)
Decrease (increase) in reserve for future maintenance capital expenditures	533	(310)
Strategic capital expenditures	(182)	(628)
Decrease (increase) in reserve for strategic capital, acquisitions, and/or debt reduction	157	(353)
Proceeds on disposal of property, plant and equipment	12	1,070
Current income and capital tax payable	<u>(119)</u>	<u>(119)</u>
Distributable cash of FPLP	<u>\$ 20,569</u>	<u>\$ 85,199</u>

Distributable Cash Attributable to the Fund:

	Last Twelve Months	Since May 28, 2002
	In thousands	
49% of FPLP distributable cash	\$ 10,079	\$ 41,748
Administration expenses	(282)	(1,154)
Interest income	<u>4</u>	<u>22</u>
Distributable cash attributable to the Fund	<u>\$ 9,801</u>	<u>\$ 40,616</u>
Distributable cash attributable to the Fund per unit	\$1.420	\$5.884
Distributions declared by the Fund per unit	\$1.290	\$5.497
Payout Ratio	90.8%	93.4%

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

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	In thousands		In thousands	
Cash flow from operating activities of FPLP	\$ 4,046	\$ 3,442	\$ 10,963	\$ 11,213
Add (subtract):				
Interest on subordinated notes (*)	1,825	1,883	5,415	5,587
Net change in non-cash working capital items (**)	(827)	(1,005)	(999)	(2,668)
Maintenance capital expenditures	(258)	(111)	(1,106)	(537)
Strategic capital expenditures	(92)	-	(182)	-
Principal repayment of capital leases	(72)	(68)	(212)	(201)
Decrease (increase) in reserve for future maintenance capital (***)	(42)	(139)	206	(213)
Decrease in reserve for future strategic capital (***)	67	-	157	-
Proceeds from sale of property, plant and equipment (****)	<u>2</u>	<u>4</u>	<u>6</u>	<u>26</u>
Distributable cash of FPLP	\$ <u>4,649</u>	\$ <u>4,006</u>	\$ <u>14,248</u>	\$ <u>13,207</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 September 30, 2006	As at December 31, 2005
ASSETS		
Current Assets :		
Cash and cash equivalents	\$ 123	\$ 184
Interest receivable from subordinated notes	595	634
Due from FPCN Media Funding Inc.	26	-
Prepaid expenses	27	18
	771	836
Investment in FPCN General Partner Inc.	20	10
Investment in FP Canadian Newspapers Limited Partnership (note 2)	60,125	61,689
	\$ 60,916	\$ 62,535
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 78	\$ 77
Distribution payable (note 3)	742	742
	820	819
Unitholders' Equity:		
Trust units	69,026	69,026
Cumulative earnings	29,014	23,955
Cumulative distributions	(37,944)	(31,265)
	60,096	61,716
	\$ 60,916	\$ 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 September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Earnings from investment in FP Canadian Newspapers Limited Partnership				
Interest from subordinated notes	\$ 1,825	\$ 1,883	\$ 5,415	\$ 5,587
Equity interest from Class A limited partnership units (note 2)	(526)	(265)	(137)	(290)
Other interest	1	2	4	7
	1,300	1,620	5,282	5,304
Administration expenses	(66)	(64)	(223)	(192)
Net earnings for the period	\$ 1,234	\$ 1,556	\$ 5,059	\$ 5,112
Cumulative earnings, beginning of period	27,780	19,700	23,955	16,144
Cumulative earnings, end of period	\$ 29,014	\$ 21,256	\$ 29,014	\$ 21,256
Number of trust units outstanding	6,902,592	6,902,592	6,902,592	6,902,592
Net earnings per trust unit	\$ 0.179	\$ 0.225	\$ 0.733	\$ 0.741

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Balance, beginning of period	\$ 61,089	\$ 61,913	\$ 61,716	\$ 62,809
Net earnings	1,234	1,556	5,059	5,112
Distributions to unitholders	(2,227)	(2,227)	(6,679)	(6,679)
Balance, end of period	\$ 60,096	\$ 61,242	\$ 60,096	\$ 61,242

(See accompanying notes)

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

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2006	2005	2006	2005
Cash provided by (used in):				
Operating activities:				
Net earnings for the period	\$ 1,234	\$ 1,556	\$ 5,059	\$ 5,112
Item not affecting cash:				
Equity interest from Class A units of FP				
Canadian Newspapers Limited Partnership (note 2)	526	265	137	290
Distributions received on Class A units of FP				
Canadian Newspapers Limited Partnership (note 2)	524	379	1,428	1,110
Net change in non-cash working capital items	(24)	23	4	50
	2,260	2,223	6,628	6,562
Financing activities:				
Distributions to unitholders	(2,227)	(2,227)	(6,679)	(6,679)
Investing activities:				
Investment in FPCN General Partner Inc.	-	-	(10)	(10)
Increase (decrease) in cash and cash equivalents	33	(4)	(61)	(127)
Cash and cash equivalents, beginning of period	90	261	184	384
Cash and cash equivalents, end of period	\$ 123	\$ 257	\$ 123	\$ 257

(See accompanying notes)

FP Newspapers Income Fund
Notes to Consolidated Financial Statements as at September 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 June 30, 2006	62,954	(1,779)	61,175
Equity interest	-	(526)	(526)
Distributions received	-	(524)	(524)
Balance at September 30, 2006	62,954	(2,829)	60,125

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

	Three months Ended September 30,		Nine months Ended September 30,	
	2006	2005	2006	2005
Net earnings of FPLP	\$ 827	\$ 1,420	\$ 5,357	\$ 5,225
Plus: Interest on subordinated notes	1,825	1,883	5,415	5,587
Net earnings before interest on subordinated notes	\$ 2,652	\$ 3,303	\$ 10,772	\$ 10,812
49% interest attributable to the Fund	1,299	1,618	5,278	5,297
Less: Interest from subordinated notes	(1,825)	(1,883)	(5,415)	(5,587)
Equity interest from Class A limited partnership units	\$ (526)	\$ (265)	\$ (137)	\$ (290)

3. Distribution Payable

The Fund recorded a distribution payable at September 30, 2006 of \$0.1075 per unit. The distribution was paid October 30, 2006 to unitholders of record on September 29, 2006 and is in respect of the month of September 2006.

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

	As at September 30, 2006	As at December 31, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,552	\$ 1,674
Accounts receivable	12,169	13,746
Income tax receivable	10	-
Inventories	1,356	1,064
Prepaid expenses	943	838
Future income tax asset	20	222
	17,050	17,544
Equipment held for sale (note 6)	400	2,289
Property, plant and equipment (note 6)	53,152	54,012
Future income taxes	537	219
Deferred financing costs	2,868	3,290
Intangible assets	8,557	8,827
Goodwill	71,160	71,160
	\$ 153,724	\$ 157,341
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 10,505	\$ 10,879
Income taxes payable	11	85
Prepaid subscriptions and deferred revenue	3,152	2,875
Current obligations under capital leases	295	284
	13,963	14,123
Long-Term Liabilities:		
Subordinated notes	62,954	62,954
Notes Payable	60,000	60,000
Obligations under capital leases	269	492
	123,223	123,446
	137,186	137,569
Unitholders' Equity:		
Partnership units	36,793	36,793
Cumulative earnings	35,479	30,122
Cumulative distributions	(55,734)	(47,143)
	16,538	19,772
	\$ 153,724	\$ 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 September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenue	\$ 29,804	\$ 28,005	\$ 89,647	\$ 85,080
Operating expenses, excluding amortization	(23,951)	(22,829)	(71,852)	(68,508)
	5,853	5,176	17,795	16,572
Amortization of property, plant and equipment	(931)	(877)	(2,734)	(2,605)
Amortization of intangible assets	(90)	(91)	(270)	(272)
Earnings before the under-noted	4,832	4,208	14,791	13,695
Interest (note 5)	(2,627)	(2,746)	(7,844)	(8,049)
Amortization of deferred financing costs	(141)	(142)	(422)	(700)
Interest income	20	7	47	22
Gain on sale of property, plant and equipment	2	7	6	26
Write down of property, plant and equipment held for sale (note 6)	(1,303)	-	(1,303)	-
Net earnings before income taxes	783	1,334	5,275	4,994
Income tax (expense) recovery:				
- Current	(27)	-	(34)	-
- Future	71	86	116	231
Net earnings for the period	827	1,420	5,357	5,225
Cumulative earnings – beginning of period	34,652	24,958	30,122	21,153
Cumulative earnings – end of period	\$ 35,479	\$ 26,378	\$ 35,479	\$ 26,378

(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
Net earnings for the period	681	146	827
Distributions paid	(2,445)	(524)	(2,969)
Unitholders' equity – September 30, 2006	\$ 12,740	\$ 3,798	\$ 16,538

(See accompanying notes)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
<hr/>				
Cash provided by (used in)				
Operating activities:				
Net earnings for the period	\$ 827	\$ 1,420	\$ 5,357	\$ 5,225
Items not affecting cash:				
Amortization	1,162	1,110	3,426	3,577
Future income tax recovery	(71)	(86)	(116)	(231)
Gain on disposal of property, plant and equipment	(2)	(7)	(6)	(26)
Write down of property, plant and equipment held for sale (note 6)	1,303	-	1,303	-
	<hr/>	<hr/>	<hr/>	<hr/>
	3,219	2,437	9,964	8,545
<hr/>				
Net change in non-cash working capital items	827	1,005	999	2,668
	<hr/>	<hr/>	<hr/>	<hr/>
	4,046	3,442	10,963	11,213
<hr/>				
Investing activities:				
Acquisitions	-	(427)	-	(427)
Purchases of property, plant and equipment	(350)	(111)	(1,288)	(537)
Proceeds from sale of property, plant and equipment	2	4	6	26
	<hr/>	<hr/>	<hr/>	<hr/>
	(348)	(534)	(1,282)	(938)
<hr/>				
Financing activities:				
Deferred financing costs	-	(33)	-	(753)
Distributions to partners	(2,969)	(2,733)	(8,591)	(8,118)
Principal repayment of capital leases	(72)	(68)	(212)	(201)
Proceeds on issuance of Series A senior secured notes	-	-	-	60,000
Repayment of term loan	-	-	-	(59,600)
	<hr/>	<hr/>	<hr/>	<hr/>
	(3,041)	(2,834)	(8,803)	(8,672)
<hr/>				
Increase in cash and cash equivalents	657	74	878	1,603
Cash and cash equivalents - beginning of period	1,895	2,100	1,674	571
	<hr/>	<hr/>	<hr/>	<hr/>
Cash and cash equivalents - end of period	\$ 2,552	\$ 2,174	\$ 2,552	\$ 2,174
<hr/>				
Supplemental Cash Flow Information:				
Interest paid during the period	\$ 2,627	\$ 2,993	\$ 7,839	\$ 7,602

(See accompanying notes)

FP Canadian Newspapers Limited Partnership
Notes to Consolidated Financial Statements as at September 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 \$1,680,000 which can be used to reduce the company's taxable income in the future. The tax benefit of these losses is estimated at approximately \$557,000 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 94% 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		Nine Months	
	Ended September 30,	Ended September 30,	Ended September 30,	Ended September 30,
	2006	2005	2006	2005
Defined benefit pension plan	<u>\$ 388</u>	<u>\$ 354</u>	<u>\$ 1,164</u>	<u>\$ 1,056</u>

5. Interest expense

Interest expense is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Subordinated notes	\$ 1,825	\$ 1,883	\$ 5,415	\$ 5,587
Notes payable/term loan	794	852	2,404	2,427
Capital lease obligations	<u>8</u>	<u>11</u>	<u>25</u>	<u>35</u>
	<u>\$ 2,627</u>	<u>\$ 2,746</u>	<u>\$ 7,844</u>	<u>\$ 8,049</u>

6. Asset reclass and write down of assets held for sale

During the quarter, FPLP reclassified \$586,000 of excess press components carried in the equipment held for sale category into property, plant and equipment. This reclassification did not effect the statement of earnings. FPLP re-valued the remaining excess press components classified in the balance sheet as held for sale, based on their estimated fair value less costs to sell of \$400,000. A non cash accounting loss of \$1,303,000 was recorded in FPLP's statement of earnings.

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

Transfer Agent:

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Auditors:

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