

fp

NEWSPAPERS INCOME FUND



Q3 – 2007
Quarterly Report
September 30, 2007

TSX: FP.UN

**Third Quarter Report
September 30, 2007
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, 2007. FP Newspapers Income Fund owns securities entitling it to 49 percent of the distributable cash of FP Canadian Newspapers Limited Partnership ("FPLP"), which owns the Winnipeg Free Press and Brandon Sun daily newspapers, Canstar Community News Limited ("Canstar") which operates five weekly newspapers in the Winnipeg area as well as 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, 2007 was \$30.5 million, a \$0.7 million or 2.4 percent increase over the same period last year. The increase in revenue is due to growth in the display, flyer distribution and classified advertising revenue categories and circulation revenue. Total EBITDA⁽¹⁾ of FPLP for the third quarter was \$6.6 million, a \$0.7 million or 12.3 percent increase from the same quarter last year. The partnership had net earnings of \$2.8 million in the third quarter compared to \$0.8 million in the same quarter last year. The increase in net earnings in the third quarter is primarily the result of the increase in EBITDA⁽¹⁾, as well as the result of a prior year third quarter \$1.3 million write down in carrying value of excess press equipment held for sale.

The Fund had net earnings of \$2.2 million, or \$0.315 per Unit, during the three months ended September 30, 2007, compared to net earnings of \$1.2 million, or \$0.179 per Unit, in the same quarter last year. The increase in net earnings in the third quarter is primarily due to the increase in the net earnings of FPLP.

Operations

Advertising revenue in the third quarter was \$20.7 million, a \$0.5 million or 2.4 percent increase over the same quarter last year. Our largest advertising revenue category, display advertising including colour was \$12.0 million for the quarter, an increase of 1.7 percent, compared to \$11.8 million for the same period last year. This increase is primarily due to increased spending in the telecommunication category. Classified advertising revenue increased by \$0.2 million or 4.2 percent primarily due to increases in the employment category. Circulation revenue was \$0.2 million or 3.4 percent higher in the third quarter of 2007 largely due to rate increases implemented in the fourth quarter of 2006.

Operating expenses, excluding amortization for the third quarter were virtually unchanged compared to last year at \$23.9 million. Employee compensation costs increased \$0.3 million or 2.9 percent, compared to the third quarter last year primarily due to annual salary increases as well as an increase in the number of staff. Newsprint expense for FPLP's own publications decreased by \$0.3 million or 7.7 percent, as a result of lower newsprint prices partially offset by increased consumption. Other costs were \$4.7 million compared to \$4.6 million last year primarily due to an increase in costs associated with increased numbers of advertising supplements published.

On Wednesday September 12, the Winnipeg Free Press held a reception to recognize 117 employees who have been employed with the business for 25 years or more. The evening was a huge success and provided the opportunity for employees at all levels to recognize the dedicated service the honourees have provided to the Free Press over the years.

Winnipeg Free Press reporters Aldo Santin and Paul Samyn won the Canadian Farm Writers' Federation top prize for daily reporting and Free Press agricultural columnist Laura Rance won a bronze in the columnist category. Santin and Samyn's award related to a story from December 2006 exploring the firing of Canadian Wheat Board president and CEO Adrian Measner.

In Brandon, we introduced two new regular columns during the third quarter. One column is an about-town column with a number of local names and faces and the second is a wine column that runs regularly on the Saturday Food Page. Reporter Matt Goerzen and photographer Colin Corneau developed an in-depth special report on the impact the hundreds of immigrant workers coming to Brandon's Maple Leaf Fresh Foods are having in the area. The Brandon Sun raised in excess of \$28,000 through its Sun Fund for Kids program and the funds will be used to send underprivileged children to summer camp.

In November the Audit Bureau of Circulations released the preliminary unaudited circulation results for the six months ending September 30, 2007. The Winnipeg Free Press reported an average weekday circulation increase of 1.3 percent, an average Saturday circulation increase of 0.4 percent and an increase of 4.6 percent in average Sunday circulation. The Winnipeg Sun showed an average weekday decline of 2.8 percent, a Saturday decline of 1.8 percent and a Sunday decline of 3.4 percent.

The Brandon Sun reported an increase of 1.6 percent in its weekday circulation, a Saturday increase of 0.5 percent and a Sunday average circulation increase of 1.4 percent.

Distributions

Distributable cash attributable to the Fund⁽²⁾ for the three months ended September 30, 2007 was \$2.5 million, or \$0.364 per Unit compared to \$2.2 million or \$0.321 per Unit last year. For the trailing twelve months ended September 30, 2007, FPLP has generated distributable cash attributable to the Fund⁽²⁾ of \$1.554 per Unit, and the Fund has declared distributions of \$1.290 per Unit, resulting in a payout ratio of 83.0 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 is historically our strongest revenue quarter due largely to increased advertising spending around the Christmas buying season. We anticipate that the revenue growth we've experienced throughout the first three quarters of between 2.5 and 3.0 percent will continue in the fourth quarter.

The fourth quarter will benefit from a further newsprint price reduction which was announced by suppliers effective September 1. The average newsprint price in the fourth quarter is expected to be approximately 20 percent lower than in the fourth quarter last year.

Ronald N. Stern
Chairman & Trustee

November 13, 2007

Management's Discussion and Analysis

Overview

Management's Discussion and Analysis is as at November 13, 2007 and provides a review of significant developments that have affected the Fund's performance during the period January 1, 2007 to September 30, 2007. 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's net earnings were \$2,174,000 and \$4,731,000 for the three and nine months ended September 30, 2007 compared to net earnings of \$1,234,000 and \$5,059,000 for the same periods last year. Interest income on the 11.5% Subordinated notes issued by FPLP to the Fund was \$1,725,000 and \$5,118,000 for the three and nine months ended September 30, 2007 compared to \$1,825,000 and \$5,415,000 in the same periods last year. The Fund's equity interest from its Class A limited partnership Units was \$497,000 and \$1,700,000 for the three and nine months ended September 30, 2007 compared to (\$526,000) and (\$137,000) in the same periods last year (see "FP Canadian Newspapers Limited Partnership – Results of Operations" below). The reduction in net earnings reported in the nine months ending September 30, 2007 is due to the requirement for the Fund to record a future income tax expense of \$1,879,000 resulting from the substantive enactment of Bill C-52 Budget Implementation Act 2007, which contains legislative provisions to tax publicly traded income trusts in Canada (see "Taxation Changes" for further discussion). Operating expenses incurred by the Fund were \$64,000 and \$216,000 for the three and nine months ending September 30, 2007 compared to \$66,000 and \$223,000 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 for the three and nine months ended September 30, 2007 which is unchanged from the same periods last year. Cash provided by operating activities of the Fund was \$2,276,000 and \$6,744,000 for the three and nine months ended September 30, 2007 and \$2,260,000 and \$6,628,000 for the same periods last year.

Distributable Cash Attributable to the Fund⁽²⁾

Cash available for distribution attributable to the Fund⁽²⁾ was \$2,512,000 or \$0.364 per Unit and \$7,595,000 or \$1.100 per Unit for the three and nine months ended September 30, 2007 compared to \$2,213,000 or \$0.321 per Unit and \$6,763,000 or \$0.980 per Unit for 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 partially offset by an increase in maintenance capital spending as explained later in this discussion.

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

Since commencement of the Fund on May 28, 2002 until September 30, 2007 distributable cash attributable to the Fund⁽²⁾ totals \$7.438 per Unit and during that period the Fund declared distributions to Unitholders of \$6.788 per Unit. Because the Fund makes an allowance for maintenance capital spending which is estimated to be sufficient to maintain the productive capacity of the business, when calculating distributable cash attributable to the Fund⁽²⁾, and because cumulative distributions declared are less than the cumulative distributable cash attributable to the Fund⁽²⁾, the Fund believes there has been no economic "return of capital".

Standardized Distributable Cash

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

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

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

Taxation Changes

On June 12, 2007 proposed legislation that implements a tax on distributions made by flow-through entities such as income trusts and limited partnerships, was substantively enacted through the passing of Bill C-52 Budget Implementation Act 2007. The new tax is effective January 1, 2011 for the Fund, unless accelerated by the issuance of new equity, in certain circumstances. It is expected the new tax will reduce the amount of distributable cash otherwise available to the Fund for purposes of making distributions to Unitholders. Whether distributions to Unitholders will be reduced from current levels will depend on future events, including the results of operations during the years leading up to 2011 and the distributions to Unitholders during that period, the outlook for operations and expected cash flows for the year 2011 and beyond, the level of un-distributed distributable cash⁽²⁾ on hand at the time the new tax becomes effective, and the distribution policy adopted by the Trustees of the Fund at that time.

As the new tax has been enacted, the Fund is studying the expected impact in greater detail, and considering whether changes to the distribution policy or capital structure of the Fund are desirable. Because the legislation does not appear to have any effect on the 51% interest in FPLP held by the General Partners, the Fund and the General Partners may have conflicting interests with respect to available options to mitigate the impact of the new tax on the Fund and its Unitholders. Similarly, because the new tax is expected to have no net impact on Unitholders of the Fund who are taxable Canadian entities, there may be a conflict of interests among investors in the Fund. There can be no assurance that the Fund will be able to minimize the impact of the new tax on the Fund or any of its Unitholders.

The Fund will evaluate alternatives as to the best legal structure for its Unitholders, including consideration of a corporate structure. However, at this time in Manitoba, where the Fund indirectly operates substantially all its business, a corporation is subject to a higher overall rate of tax than the 31.5 percent tax that will apply under the new income trust tax effective January 1, 2011.

As at September 30, 2007, the Fund recorded a future income tax liability of \$1,879,000, based on the Fund's share of FPLP's temporary differences between the accounting and tax basis of FPLP's net assets, and the Fund's investment in FPLP which begin to reverse in 2011 when the new tax becomes effective. The Fund has estimated its future income taxes based on its estimates of results of operations, tax deductions, and distributions in the future. Future income taxes will be recorded each quarter in the future based on the changes to temporary timing differences and related assumptions. The Fund's estimate

of its future income tax liability will vary as do the Fund's assumptions pertaining to the factors described above, and such variations may be material.

Included in the future income tax liability is \$221,000 related to the temporary timing differences on mastheads, which are non-amortizing intangible assets. Although the Fund has no reason to believe these temporary timing differences will reverse because the Fund has no reason to believe such balances will be written down for accounting purposes, a future tax liability has nonetheless been recorded in accordance with Canadian GAAP.

FP Canadian Newspapers Limited Partnership Results of Operations

Revenue:	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	In thousands		In thousands	
Advertising	\$ 20,680	\$ 20,194	\$ 63,520	\$ 61,795
Circulation	7,298	7,058	21,767	21,054
Commercial Printing	1,507	1,565	4,792	4,847
Promotions and Services	<u>1,022</u>	<u>987</u>	<u>2,481</u>	<u>1,951</u>
	<u>\$ 30,507</u>	<u>\$ 29,804</u>	<u>\$ 92,560</u>	<u>\$ 89,647</u>

Revenue for the three months ended September 30, 2007 was \$30.5 million, an increase of \$0.7 million or 2.4% compared to the third quarter of 2006. Advertising revenues increased by \$0.5 million or 2.4% compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, increased by \$0.2 million or 1.7%, primarily due to increased spending in the telecommunication category. Flyer distribution revenues increased by \$0.1 million or 2.6%, primarily due to increased rates over the prior year. Classified advertising increased by \$0.2 million or 4.2% in the third quarter, due primarily to increases in the employment category. Circulation revenue increased by \$0.2 million or 3.4%, primarily due to increases in volume as well as rate increases implemented in the fourth quarter of 2006. Promotion and services revenue increased by the 44.4% growth in internet revenue from banner advertising on our websites, but was offset by the prior year third quarter adjustment to copyright royalties, leaving the revenue slightly higher from the same period in the prior year.

Revenue for the nine months ended September 30, 2007 was \$92.6 million, an increase of \$2.9 million or 3.2% compared to the same period of 2006. Advertising revenues increased by \$1.7 million or 2.8% compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour increased by \$1.0 million or 2.7%, primarily due to increased spending in the telecommunications category, increased employment related advertising, and small increases from a number of national accounts. Flyer distribution revenues increased by \$0.4 million or 3.6%, primarily due to increased rates. Classified revenues increased by \$0.3 million or 2.4% compared to the prior year, due to strong first and third quarter employment revenue growth. Circulation revenue increased by \$0.7 million or 3.4%, primarily due to rate increases implemented in the fourth quarter of 2006. Promotional and services revenue increased by \$0.5 million or 27.2%, due to an increase in internet revenues from employment advertising and banner advertising on our websites, as well as increased revenue from the sale of the Hermetic Code book.-

Operating expenses, excluding amortization:	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	In thousands		In thousands	
Employee Compensation	\$ 11,096	\$ 10,785	\$ 33,744	\$ 32,815
Newsprint – Own Use	3,106	3,366	9,828	10,239
Newsprint - Commercial Printing	417	565	1,487	1,775
Delivery of Newspapers	4,624	4,624	13,854	13,660
Other	<u>4,693</u>	<u>4,611</u>	<u>13,725</u>	<u>13,363</u>
	<u>\$ 23,936</u>	<u>\$ 23,951</u>	<u>\$ 72,638</u>	<u>\$ 71,852</u>

Operating expenses, excluding amortization in the three months ended September 30, 2007 were \$23.9 million, virtually unchanged from the third quarter of 2006. Employee compensation costs increased \$0.3 million or 2.9% compared to the third quarter last year, primarily due to salary increases as well as an increase in staff. Newsprint expense for FPLP's own publications decreased by \$0.3 million or 7.7% as a result of lower newsprint prices, partially offset by increased

consumption. Other expenses increased by \$0.1 million or 1.8% primarily due to an increase in the costs associated with the increased number of advertising supplements published.

Operating expenses, excluding amortization in the nine months ended September 30, 2007 were \$72.6 million, an increase of \$0.8 million or 1.1% over the same period last year. Employee compensation costs increased \$0.9 million or 2.8%, compared to the same period last year. This percentage increase is lower than our forecasted 2007 full year increase largely due to the cost of voluntary terminations which occurred in the first quarter of 2006. Newsprint expense for FPLP's own publications decreased by \$0.4 million or 4.0%, as a result of lower newsprint prices partially offset by increased consumption. Newsprint expense for commercial printing decreased by \$0.3 million or 16.2% as a result of lower newsprint prices. Delivery costs increased by \$0.2 million or 1.4% compared to the same period last year, largely the result of higher fuel costs and contracted rate increases. Other expenses increased by \$0.4 million or 2.7%, primarily due to increases in professional development costs, consulting fees, and costs associated with the increased number of advertising supplements published.

EBITDA⁽¹⁾ for the three and nine months ended September 30, 2007 was \$6.6 million and \$19.9 million, compared to \$5.9 million and \$17.8 million for the same periods in the prior year. EBITDA⁽¹⁾ margin was 21.5% for both the three and nine months ended September 30, 2007, compared to 19.6% and 19.9% in the same periods last year.

Interest expense on the Notes payable, the Subordinated notes and capital lease obligations for the three and nine months ended September 30, 2007 was \$2.7 million and \$7.9 million, compared to \$2.6 million and \$7.8 million for the same periods in the prior year. Interest expense increased from the prior year, due to the inclusion of amortization of the deferred financing costs accounted for within this line based on FPLP's adoption of the CICA 3855 and 3861 Financial Instruments Handbook sections (see "Accounting Policy Change" heading below), partially offset by the lower principal amount outstanding on the Subordinated notes when compared to the third quarter last year.

FPLP's net earnings were \$2.8 million and \$8.8 million for the three and nine months ended September 30, 2007 compared to \$0.8 million and \$5.4 million for the same periods in 2006.

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 2005, 2006 and the first, second, and third quarters of 2007 was as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
		In thousands	
<u>Revenue</u>			
Quarter 1	\$ 29,829	\$ 28,582	\$ 26,805
Quarter 2	32,224	31,261	30,270
Quarter 3	30,507	29,804	28,005
Quarter 4		<u>32,573</u>	<u>31,837</u>
		<u>\$122,220</u>	<u>\$116,917</u>
<u>EBITDA⁽¹⁾</u>			
Quarter 1	\$ 5,740	\$ 4,746	\$ 4,302
Quarter 2	7,611	7,196	7,094
Quarter 3	6,571	5,853	5,176
Quarter 4		<u>7,672</u>	<u>7,503</u>
		<u>\$ 25,467</u>	<u>\$ 24,075</u>
<u>Net earnings</u>			
Quarter 1	\$ 2,062	\$ 1,038	\$ 485
Quarter 2	3,925	3,492	3,320
Quarter 3	2,809	827 ^(*)	1,420
Quarter 4		<u>3,649</u>	<u>3,744</u>
		<u>\$ 9,006</u>	<u>\$ 8,969</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 third quarter of 2006 is 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, 2007 was \$6.5 million, up from \$3.1 million at September 30, 2006. The increase in working capital is primarily due to the increase in EBITDA⁽¹⁾ and the resulting increase in the cash balance.

Liquidity and Capital Resources of FPLP

Cash and cash equivalents at September 30, 2007 was \$6.4 million compared to \$2.6 million at September 30, 2006. 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 \$3.7 million during the third quarter of 2007, while \$0.7 million was used for investing activities and \$3.1 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, 2007, cash generated from operating activities was \$3.7 million and \$13.7 million, compared to \$4.0 million and \$11.0 million for the same periods last year. The net change in non-cash working capital in the three and nine months ended September 30, 2007 was (\$0.4) million and \$1.2 million compared to \$0.8 million and \$1.0 million for the same periods last year. The net change in non-cash working capital for the three and nine month periods is primarily the result of the timing of receipts from customers and payments to suppliers.

Investing Activities

Total capital purchases, which were all for maintenance capital projects, totalled \$0.7 million and \$1.7 million for the three and nine months ended September 30, 2007, compared to \$0.4 million and \$1.3 million in the same periods in the prior year. Maintenance capital spending during the third quarter of 2007 consisted mainly of upgrades to press control systems in the Winnipeg plant and upgrades to the Winnipeg Free Press editorial production system. Maintenance capital spending is expected to be approximately \$2.2 million to \$2.4 million for the full year. In 2008, maintenance capital is expected to be in the range of \$1.6 million to \$2.0 million.

There was no strategic capital spending for the three and nine months ending September 30, 2007. The three month spending is consistent with the prior year, while the nine months spending is down from \$0.2 million spent on website costs at the Winnipeg Free Press during 2006.

Financing Activities

Distributions to partners of FPLP for the three and nine months ended September 30, 2007 totalled \$3.1 million and \$9.1 million, of which \$0.6 million and \$1.8 million was paid to the Fund as holder of Class A limited partnership Units. This is compared to \$3.0 million and \$8.6 million in the same periods in the prior year, of which \$0.5 million and \$1.4 million was paid to the Fund as holder of Class A limited partnership units. 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 nine months ended September 30, 2007 and 2006 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	In thousands		In thousands	
Reserve at beginning of period	\$ 330	\$ 268	\$ 370	\$ 516
Increase in reserve	-	42	-	44
Decrease in reserve	(163)	-	(203)	(250)
Reserve at end of period	<u>\$ 167</u>	<u>\$ 310</u>	<u>\$ 167</u>	<u>\$ 310</u>

Increases in the reserve for maintenance capital is shown as a deduction in determining distributable cash⁽²⁾ of FPLP. Decreases in the reserve for maintenance capital are shown as an increase in determining distributable cash⁽²⁾. We expect this reserve will be fully utilized in 2007 to partially fund planned maintenance capital expenditures.

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

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, and was fully utilized in the third quarter of 2006. A summary of the reserve for strategic capital, acquisitions and/or debt reduction for the three and nine months ended September 30, 2007 and 2006 is as follows:

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2007	2006	2007	2006
	In thousands		In thousands	
Reserve at beginning of period	\$ -	\$ 67	\$ -	\$ 157
Increase in reserve	-	-	-	-
Decrease in reserve	-	(67)	-	(157)
Reserve at end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

These reserves are non-GAAP measures established and utilized at the discretion of the board of directors of FPLP, and have no impact on the GAAP financial statements.

Productive Capacity Maintenance Strategy

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

It is the complex interaction of asset utilization, staffing levels and contracted services that ultimately determines our productive capacity on any given day, but there is no single measure which would accurately portray the productive capacity of the business. Generally speaking, we manage the business to ensure there is excess capacity available that would allow us to comfortably increase the volume of lineage, circulation and flyer distribution to take advantage of market opportunities.

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

Debt Management Strategy

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

Debt Covenants

Under the terms of the \$60 million Series A Senior Secured Notes and the \$10 million credit facility (undrawn at September 30, 2007), FPLP is subject to various positive and negative covenants which must be maintained in order to avoid an accelerated termination of the agreements. These covenants include certain restrictions on the incurrence of additional debt, requirements to maintain insurance, certain restrictions on the sale of assets, and other requirements and restrictions common

to lending agreements of this nature. FPLP is restricted from making distributions which cumulatively exceed by more than \$1.4 million the total of distributable cash of FPLP⁽²⁾ since May 28, 2002. FPLP is required to maintain a ratio of net debt to EBITDA⁽¹⁾ of no greater than 3.5 to 1.0, and a ratio of EBITDA⁽¹⁾ to net external interest expense of no less than 3.0 to 1.0, measured quarterly on a trailing twelve month basis. Financial amounts used in the calculations are specifically defined in the debt agreements, but are substantially equal to the corresponding terms used in the external financial reports filed by FPLP and the Fund, where applicable. At September 30, 2007 FPLP was in compliance with all the terms and conditions of its debt agreements. The financial ratios calculated in accordance with the debt agreements for the four most recent twelve-month periods are as follows:

	<u>Net Debt/EBITDA⁽¹⁾</u>	<u>EBITDA⁽¹⁾/Net Interest</u>
September 30, 2007	1.99	9.13
June 30, 2007	2.06	8.75
March 31, 2007	2.12	8.51
December 31, 2006	2.23	8.08

Change in Accounting Policy

Effective January 1, 2007, the Fund and FPLP prospectively adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1530 Comprehensive income, Section 3855 Financial Instruments – Recognition and Measurement and Section 3865 Hedges. The adoption, in the first quarter of 2007, of these new standards resulted in changes in the accounting for financial instruments, as well as the recognition of a transition adjustment in both the Fund and FPLP. The comparative interim consolidated financial statements have not been restated. The principal change in the accounting for FPLP due to the adoption of these accounting standards is to net the deferred financing costs against the Subordinated notes and Notes payable, and implement the effective interest method with respect to these costs which resulted in a transition adjustment to opening Cumulative earnings at January 1, 2007. As the Fund accounted for its investment in FPLP as an equity investment, in the first quarter of 2007, the Fund recorded its share of FPLP’s transitional adjustment to the Investment in FPLP as well as opening Cumulative earnings.

The adoption of these Sections was done retroactively, in the first quarter of 2007, without restatement of the consolidated financial statements of prior periods.

Historical Distributions Paid Analysis

FPLP:	<u>Three Months ended September 30, 2007</u>	<u>Nine Months ended September 30, 2007</u>	<u>Twelve Months ended December 31, 2006</u>	<u>Twelve Months ended December 31, 2005</u>
	In thousands			
Cash provided by operating activities	\$ 3,690	\$ 13,733	\$ 15,387	\$ 13,995
Net Income	2,809	8,796	9,006	8,969
Distributions paid during the period	3,069	9,108	11,527	10,822
Excess of cash provided by operating activities over cash distributions paid	<u>\$ 621</u>	<u>\$ 4,625</u>	<u>\$ 3,860</u>	<u>\$ 3,173</u>
Short-fall of net income over cash distributions paid	<u>\$ (260)</u>	<u>\$ (312)</u>	<u>\$ (2,521)</u>	<u>\$ (1,853)</u>

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

FP Fund:	<u>Three Months</u> <u>ended</u> <u>September 30,</u> <u>2007</u>	<u>Nine Months</u> <u>ended</u> <u>September 30,</u> <u>2007</u>	<u>Twelve Months</u> <u>ended</u> <u>December 31,</u> <u>2006</u>	<u>Twelve Months</u> <u>ended</u> <u>December 31,</u> <u>2005</u>
	In thousands			
Cash provided by operating activities	\$ 2,276	\$ 6,744	\$ 8,951	\$ 8,714
Net Income	2,174	4,731	7,677	7,811
Distributions paid during the period	2,227	6,679	8,904	8,904
Excess (short-fall) of cash provided by operating activities over cash distributions paid	<u>\$ 49</u>	<u>\$ 65</u>	<u>\$ 47</u>	<u>\$ (190)</u>
Short-fall of net income over cash distributions paid	<u>\$ (53)</u>	<u>\$ (1,948)</u>	<u>\$ (1,227)</u>	<u>\$ (1,093)</u>

Cash distributions paid in all periods exceeded net income. The Fund does not use net income as a basis in determining the level of distributions to Unitholders. Distributions are determined by the Trustees in accordance with Deed of Trust of the Fund and are primarily dependant upon the amount of interest and distributions received from FPLP. Because amortization charged as an expense in calculating net income of FPLP in accordance with GAAP has exceeded capital expenditures charged as a reduction of distributable cash of FPLP in all periods, this result is not unexpected. The excess of cash distributions paid over cash provided by operating activities in the year ended December 31, 2005 was funded by cash on hand at the beginning of the period, which was generated by an excess of cash provided by operating activities over cash distributions paid in prior periods.

Business Risks and Uncertainties

Revenue

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

Employee Relations

The majority of FPLP's employees are unionized and their employment is governed by the terms of collective agreements. A work stoppage could restrict or eliminate the ability of FPLP to earn revenue from its publishing business during the stoppage. Collective agreements are in place with unionized employees at the Winnipeg Free Press which run to September 30, 2008 and collective agreements covering unionized employees at the Brandon Sun expire December 31, 2008. Management are currently working on an initial agreement with the Canstar Community News office staff as well as the renewal agreement for the unionized contractors for Canstar.

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 \$11.3 million in the first three quarters of 2007. Newsprint costs vary widely from time to time. If newsprint costs rise rapidly, there is no assurance that advertising and circulation revenues can be increased to offset the increased newsprint expense.

Outlook

The outlook for operations is described earlier in this document.

Non GAAP Measures

(1) EBITDA

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

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	In thousands		In thousands	
Net earnings for the period	\$ 2,809	\$ 827	\$ 8,796	\$ 5,357
Add (subtract):				
Amortization of property, plant and equipment	1,070	931	3,080	2,734
Amortization of intangible assets	90	90	270	270
Interest expense	2,657	2,627	7,911	7,844
Amortization of deferred financing costs	-	141	-	422
Interest income	(66)	(20)	(149)	(47)
Gain on sale of property, plant and equipment	-	(2)	(17)	(6)
Write down of property, plant and equipment held for sale	-	1,303	-	1,303
Current income tax expense	11	27	31	34
Future income tax recovery	-	(71)	-	(116)
EBITDA	<u>\$ 6,571</u>	<u>\$ 5,853</u>	<u>\$ 19,922</u>	<u>\$ 17,795</u>

(2) Distributable Cash Attributable to the Fund

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

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	In thousands		In thousands	
Distributable cash of FPLP:				
EBITDA ⁽¹⁾	\$ 6,571	\$ 5,853	\$ 19,922	\$ 17,795
Interest income	66	20	149	47
Interest expense on Notes payable and capital leases, excluding amortization of related deferred financing costs	(797)	(802)	(2,401)	(2,429)
Principal repayment of capital leases	(75)	(72)	(245)	(212)
Maintenance capital expenditures	(663)	(258)	(1,703)	(1,106)
Decrease in reserve for future maintenance capital	163	(42)	203	206
Strategic capital expenditures	-	(92)	-	(182)
Decrease in reserve for strategic capital	-	67	-	157
Proceeds from sale of property, plant and equipment	-	2	31	6
Current income and capital taxes expense	(11)	(27)	(31)	(34)
	<u>\$ 5,254</u>	<u>\$ 4,649</u>	<u>\$ 15,925</u>	<u>\$ 14,248</u>
49% attributable to the Fund	\$ 2,574	\$ 2,278	\$ 7,803	\$ 6,982
Administration expenses	(64)	(66)	(216)	(223)
Interest income	2	1	8	4
Distributable cash attributable to the Fund	<u>\$ 2,512</u>	<u>\$ 2,213</u>	<u>\$ 7,595</u>	<u>\$ 6,763</u>
Distributable cash attributable to the Fund – per Unit	<u>\$ 0.364</u>	<u>\$ 0.321</u>	<u>\$ 1.100</u>	<u>\$ 0.980</u>

A summary of distributable cash and distributions declared for the trailing twelve months to September 30, 2007 and for the period from commencement of the Fund on May 28, 2002 to September 30, 2007 is as follows:

Distributable Cash of FPLP:

	Last Twelve <u>Months</u>	Since May 28, <u>2002</u>
	In thousands	
EBITDA ⁽¹⁾	\$ 27,594	\$ 131,134
Interest income	180	474
Interest expense on Notes payable and capital leases, excluding amortization of related deferred financing costs	(3,202)	(16,694)
Principal repayment of capital leases	(294)	(866)
Maintenance capital expenditures	(1,943)	(6,174)
Increase in reserve for future maintenance capital expenditures	143	(167)
Strategic capital expenditures	(22)	(650)
Decrease (increase) in reserve for strategic capital, acquisitions, and/or debt reduction	-	(353)
Proceeds on disposal of property, plant and equipment	31	1,101
Current income and capital tax expense	<u>(36)</u>	<u>(155)</u>
Distributable cash of FPLP	<u>\$ 22,451</u>	<u>\$ 107,650</u>

Distributable Cash Attributable to the Fund:

	Last Twelve <u>Months</u>	Since May 28, <u>2002</u>
	In thousands	
49% of FPLP distributable cash	\$ 11,001	\$ 52,749
Administration expenses	(280)	(1,434)
Interest income	<u>8</u>	<u>30</u>
Distributable cash attributable to the Fund	<u>\$ 10,729</u>	<u>\$ 51,345</u>
Distributable cash attributable to the Fund per Unit	\$1.554	\$7.438
Distributions declared by the Fund per Unit	\$1.290	\$6.788
Payout Ratio	83.0%	91.3%

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:

	<u>Three Months</u> <u>Ended September 30,</u>		<u>Nine Months</u> <u>Ended September 30,</u>	
	<u>2007</u> In thousands	<u>2006</u> In thousands	<u>2007</u> In thousands	<u>2006</u> In thousands
Cash flow from operating activities of FPLP	\$ 3,690	\$ 4,046	\$ 13,733	\$ 10,963
Add (subtract):				
Interest on Subordinated notes (*)	1,725	1,825	5,118	5,415
Net change in non-cash working capital items (**)	414	(827)	(1,212)	(999)
Maintenance capital expenditures	(663)	(258)	(1,703)	(1,106)
Decrease in reserve for future maintenance capital (***)	163	(42)	203	206
Strategic capital expenditures	-	(92)	-	(182)
Decrease in reserve for future strategic capital (***)	-	67	-	157
Principal repayment of capital leases	(75)	(72)	(245)	(212)
Proceeds from sale of property, plant and equipment (****)	-	2	31	6
Distributable cash of FPLP	<u>\$ 5,254</u>	<u>\$ 4,649</u>	<u>\$ 15,925</u>	<u>\$ 14,248</u>

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

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

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

(***) Increase in the reserves for future capital is shown as a deduction in determining distributable cash. A decrease in the reserve is shown as an increase in the determination of distributable cash. 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, 2007	As at December 31, 2006
ASSETS		
Current Assets :		
Cash and cash equivalents	\$ 276	\$ 221
Interest receivable from Subordinated notes	562	581
Due from FPCN Media Funding Inc.	26	26
Prepaid expenses	25	15
	889	843
Investment in FPCN General Partner Inc.	30	20
Investment in FP Canadian Newspapers Limited Partnership (note 3)	60,618	60,464
	\$ 61,537	\$ 61,327
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 95	\$ 96
Distribution payable (note 4)	742	742
	837	838
Long Term Liabilities:		
Future income taxes (note 5)	1,879	-
	2,716	838
Unitholders' Equity:		
Trust Units	69,026	69,026
Cumulative earnings (note 2)	36,643	31,632
Cumulative distributions	(46,848)	(40,169)
	58,821	60,489
	\$ 61,537	\$ 61,327

(See accompanying notes)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Earnings from investment in FP Canadian Newspapers Limited Partnership				
Interest from Subordinated notes	\$ 1,725	\$ 1,825	\$ 5,118	\$ 5,415
Equity interest from Class A limited partnership Units (note 3)	497	(526)	1,700	(137)
Other interest	2	1	8	4
	2,224	1,300	6,826	5,282
Administration expenses	(64)	(66)	(216)	(223)
Earnings before income taxes	\$ 2,160	\$ 1,234	\$ 6,610	\$ 5,059
Future income tax expense (note 5)	14	-	(1,879)	-
Net earnings and Comprehensive income for the period	\$ 2,174	\$ 1,234	\$ 4,731	\$ 5,059
Cumulative earnings, beginning of period	34,469	27,780	31,632	23,955
Transitional amount (note 2)	-	-	280	-
Adjusted Cumulative earnings, beginning of period	34,469	27,780	31,912	23,955
Cumulative earnings, end of period	\$ 36,643	\$ 29,014	\$ 36,643	\$ 29,014
Number of trust Units outstanding	6,902,592	6,902,592	6,902,592	6,902,592
Net earnings per trust Unit	\$ 0.315	\$ 0.179	\$ 0.685	\$ 0.733

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,	
	2007	2006	2007	2006
Balance, beginning of period	\$ 58,874	\$ 61,089	\$ 60,489	\$ 61,716
Transitional amount (note 2)	-	-	280	-
Adjusted balance – beginning of period	58,874	61,089	60,769	61,716
Net earnings	2,174	1,234	4,731	5,059
Distributions to Unitholders	(2,227)	(2,227)	(6,679)	(6,679)
Balance, end of period	\$ 58,821	\$ 60,096	\$ 58,821	\$ 60,096

(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,	
	2007	2006	2007	2006
Cash provided by (used in):				
Operating activities:				
Net earnings for the period	\$ 2,174	\$ 1,234	\$ 4,731	\$ 5,059
Item not affecting cash:				
Equity interest from Class A Units of FP				
Canadian Newspapers Limited Partnership (note 3)	(497)	526	(1,700)	137
Future income tax expense (note 5)	(14)	-	1,879	-
Distributions received on Class A Units of FP				
Canadian Newspapers Limited Partnership (note 3)	624	524	1,826	1,428
Net change in non-cash working capital items	(11)	(24)	8	4
	2,276	2,260	6,744	6,628
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	49	33	55	(61)
Cash and cash equivalents, beginning of period	227	90	221	184
Cash and cash equivalents, end of period	\$ 276	\$ 123	\$ 276	\$ 123

(See accompanying notes)

FP Newspapers Income Fund
Notes to Consolidated Financial Statements as at September 30, 2007
(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, 2006, except as described below. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto and other financial information contained in the audited consolidated financial statements for the year ended December 31, 2006.

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. Summary of significant accounting policies

Change in Accounting Policy

Effective January 1, 2007, the Fund adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1530 Comprehensive income, Section 3855 Financial Instruments – Recognition and Measurement and Section 3865 Hedges. The adoption of these new standards resulted in changes in the accounting for financial instruments, as well as the recognition of a transition adjustment. The comparative interim consolidated financial statements have not been restated. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

Section 3855 Financial Instruments – Recognition and Measurement sets out the standards for the recognition and measurements of financial assets and financial liabilities. The standard prescribes when to recognize a financial instrument in the balance sheet and at what amount. Depending on their balance sheet classification, fair value or cost-based measures are used. This standard also prescribes the basis of presentation for gains and losses on financial instruments. Based on financial instrument classification, gains and losses on financial instruments are recognized in net income or other Comprehensive income.

The Fund has made the following classifications:

- Cash and cash equivalents are classified as “assets held for trading” and are measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in net earnings.
- Interest receivable from Subordinated notes and due from FPCN Media Funding Inc. are classified as “loans and receivables” and are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities and distribution payable are classified as “other financial liabilities” and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

The adoption of these Sections is done retroactively without restatement of the consolidated financial statements of prior periods. FPLP, the Fund’s equity accounted for investment was impacted by these new standards and recorded a transition adjustment of \$571,000. Accordingly, as at January 1, 2007, the impact on the Fund’s consolidated balance sheet from recording its equity share of the transition adjustment from FPLP is an increase in both the Investment in FP Canadian Newspapers Limited Partnership and opening cumulative earnings of \$280,000.

3. 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, 2007	59,504	1,241	60,745
Equity interest in the period	-	497	497
Distributions received	-	(624)	(624)
Balance at September 30, 2007	59,504	1,114	60,618

The change in equity interest for the three and nine months ended September 30, 2007 and 2006 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,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Net earnings of FPLP	\$ 2,809	\$ 827	\$ 8,796	\$ 5,357
Plus: Interest on Subordinated notes	1,725	1,825	5,118	5,415
Net earnings before interest on Subordinated notes	\$ 4,534	\$ 2,652	\$ 13,914	\$ 10,772
49% interest attributable to the Fund	2,222	1,299	6,818	5,278
Less: Interest from Subordinated notes	(1,725)	(1,825)	(5,118)	(5,415)
Equity interest from Class A limited partnership Units	\$ 497	\$ (526)	\$ 1,700	\$ (137)

4. Distribution Payable

The Fund recorded a distribution payable at September 30, 2007 of \$0.1075 per Unit. The distribution was paid October 30, 2007 to Unitholders of record on September 28, 2007 and is in respect of the month of September 2007.

5. Future Income Taxes

On June 12, 2007, Bill C-52 Budget Implementation Act 2007 was substantively enacted by the Canadian federal government, which contains legislation to tax publicly traded trusts in Canada. As a result, a new 31.5% tax will be applied to taxable distributions from Canadian public income trusts. The new tax is not expected to apply until 2011 as a transition period applies to publicly traded trusts that existed prior to November 1, 2006. As a result of this substantive enactment of trust taxation, the Fund recorded a \$1,893,000 future income tax expense in the second quarter of 2007. The future income tax liability of \$1,879,000 represents the taxable temporary differences of the Fund expected to reverse after 2010, at 31.5%, which is the rate that will be applicable in 2011 under the current legislation.

Based on its assets and liabilities as at September 30, 2007, and its share of the assets and liabilities of its investment in FPLP, the Fund has estimated the amount of its temporary differences which were previously not subject to tax, and has estimated the periods in which these differences are expected to reverse. Significant components of the future income tax assets and liabilities as at September 30, 2007 are as follows:

Future income tax liabilities:

Property, plant and equipment and amortizing intangible assets	\$ 4,306
Non-amortizing intangible assets	221
Other	141
<u>Total future income tax liabilities</u>	<u>\$ 4,668</u>

Future income tax assets:

Tax value of goodwill	\$ 3,360
Tax value in excess of accounting value of investment in FPLP	984
	<u>4,344</u>
Less valuation allowance – goodwill	(571)
Less valuation allowance – investment in FPLP	(984)
	<u>2,789</u>

Net future income tax liabilities \$ 1,879

As the legislation is new, future technical interpretations of the legislation could occur and could materially affect the Fund's estimate of future income taxes. The amount and timing of reversals of temporary differences will also depend on the Fund's future operating results, acquisitions and dispositions of assets and liabilities, and the distribution policy and will be expected to create adjustments to the future income tax assets and liabilities in future periods. A significant change in any of the preceding assumptions could materially affect the Fund's estimate of the future tax assets and liabilities.

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

	As at September 30, 2007	As at December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 6,437	\$ 3,729
Accounts receivable	11,008	13,495
Income tax receivable	-	10
Inventories	1,301	1,021
Prepaid expenses	1,028	690
Future income taxes	55	174
	19,829	19,119
Equipment held for sale	400	400
Property, plant and equipment	51,009	52,400
Future income taxes	324	205
Deferred financing costs (note 2)	-	2,728
Intangible assets	8,195	8,465
Goodwill	71,160	71,160
	\$ 150,917	\$ 154,477
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 10,063	\$ 10,627
Income taxes payable	24	16
Prepaid subscriptions and deferred revenue	3,003	3,114
Current obligations under capital leases	270	318
	13,360	14,075
Long-Term Liabilities:		
Notes payable (note 2)	59,580	60,000
Subordinated notes (note 2)	57,017	59,504
Obligations under capital leases	-	197
	116,597	119,701
	129,957	133,776
Unitholders' Equity:		
Partnership Units	40,243	40,243
Cumulative earnings (note 2)	48,495	39,128
Cumulative distributions	(67,778)	(58,670)
	20,960	20,701
	\$ 150,917	\$ 154,477

(See accompanying notes)

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

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2007	2006	2007	2006
Revenue	\$ 30,507	\$ 29,804	\$ 92,560	\$ 89,647
Operating expenses, excluding amortization	(23,936)	(23,951)	(72,638)	(71,852)
	6,571	5,853	19,922	17,795
Amortization of property, plant and equipment	(1,070)	(931)	(3,080)	(2,734)
Amortization of intangible assets	(90)	(90)	(270)	(270)
Earnings before the under-noted	5,411	4,832	16,572	14,791
Interest (note 5)	(2,657)	(2,627)	(7,911)	(7,844)
Amortization of deferred financing costs (note 2)	-	(141)	-	(422)
Interest income	66	20	149	47
Gain on sale of property, plant and equipment	-	2	17	6
Write down of property, plant and equipment held for sale	-	(1,303)	-	(1,303)
Earnings before income taxes	2,820	783	8,827	5,275
Income tax (expense) recovery:				
- Current	(11)	(27)	(31)	(34)
- Future	-	71	-	116
Net earnings and Comprehensive income for the period	2,809	827	8,796	5,357
Cumulative earnings – beginning of period	45,686	34,652	39,128	30,122
Transitional amount (note 2)	-	-	571	-
Adjusted Cumulative earnings – beginning of period	45,686	34,652	39,699	30,122
Cumulative earnings – end of period	\$ 48,495	\$ 35,479	\$ 48,495	\$ 35,479

(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, 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
Contributions	-	3,450	3,450
Net earnings for the period	3,026	623	3,649
Distributions paid	(2,418)	(518)	(2,936)
Unitholders' equity – December 31, 2006	\$ 13,348	\$ 7,353	\$ 20,701
Transitional amount (note 2)	501	70	571
Adjusted Unitholders' equity – January 1, 2007	\$ 13,849	\$ 7,423	\$ 21,272
Net earnings for the period	1,661	401	2,062
Distributions paid	(2,392)	(578)	(2,970)
Unitholders' equity – March 31, 2007	\$ 13,118	\$ 7,246	\$ 20,364
Net earnings for the period	3,134	791	3,925
Distributions paid	(2,445)	(624)	(3,069)
Unitholders' equity – June 30, 2007	\$ 13,807	\$ 7,413	\$ 21,220
Net earnings for the period	2,237	572	2,809
Distributions paid	(2,445)	(624)	(3,069)
Unitholders' equity – September 30, 2007	\$ 13,599	\$ 7,361	\$ 20,960

(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,	
	2007	2006	2007	2006
Cash provided by (used in)				
Operating activities:				
Net earnings for the period	\$ 2,809	\$ 827	\$ 8,796	\$ 5,357
Items not affecting cash:				
Amortization of property, plant and equipment and intangible assets	1,160	1,021	3,350	3,004
Amortization of deferred financing costs (note 5)	135	141	392	422
Future income tax recovery	-	(71)	-	(116)
Gain on disposal of property, plant and equipment	-	(2)	(17)	(6)
Write down of property, plant and equipment held for sale	-	1,303	-	1,303
	4,104	3,219	12,521	9,964
Net change in non-cash working capital items	(414)	827	1,212	999
	3,690	4,046	13,733	10,963
Investing activities:				
Purchases of property, plant and equipment	(663)	(350)	(1,703)	(1,288)
Proceeds from sale of property, plant and equipment	-	2	31	6
	(663)	(348)	(1,672)	(1,282)
Financing activities:				
Distributions to partners	(3,069)	(2,969)	(9,108)	(8,591)
Principal repayment of capital leases	(75)	(72)	(245)	(212)
	(3,144)	(3,041)	(9,353)	(8,803)
(Decrease) increase in cash and cash equivalents	(117)	657	2,708	878
Cash and cash equivalents - beginning of period	6,554	1,895	3,729	1,674
Cash and cash equivalents - end of period	\$ 6,437	\$ 2,552	\$ 6,437	\$ 2,552
Supplemental Cash Flow Information:				
Interest paid during the period	\$ 2,520	\$ 2,627	\$ 7,543	\$ 7,839
Taxes (recovered) paid during the period	(1)	32	13	150

(See accompanying notes)

FP Canadian Newspapers Limited Partnership
Notes to Consolidated Financial Statements as at September 30, 2007
(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 periods presented. However, these interim financial statements do not include all the information and disclosures required for annual financial statements. The accounting policies used in the preparation of these interim financial statements are the same as those used in the most recent annual financial statements, except as described below. These interim consolidated financial statements should be read in conjunction with the audited financial statements of FPLP for the year ended December 31, 2006.

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

Change in Accounting Policy

Effective January 1, 2007, FPLP adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530 Comprehensive income, Section 3855 Financial Instruments – Recognition and Measurement and Section 3865 Hedges. The adoption of these new standards resulted in changes in the accounting for financial instruments, as well as the recognition of a transition adjustment. The comparative interim consolidated financial statements have not been restated. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

Section 3855 Financial Instruments – Recognition and Measurement sets out the standards for the recognition and measurements of financial assets and financial liabilities. The standard prescribes when to recognize a financial instrument in the balance sheet and at what amount. Depending on their balance sheet classification, fair value or cost-based measures are used. This standard also prescribes the basis of presentation for gains and losses on financial instruments. Based on financial instrument classification, gains and losses on financial instruments are recognized in net income or other Comprehensive income.

FPLP has made the following classifications:

- Cash and cash equivalents are classified as "assets held for trading" and are measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in net earnings.
- Accounts receivable are classified as "loans and receivables" and are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities, income taxes payable, Subordinated notes and Notes payable are classified as "other financial liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

The adoption of these Sections is done retroactively without restatement of the consolidated financial statements of prior periods. As at January 1, 2007, the impact on the consolidated balance sheet of measuring the Subordinated notes and Notes payable using the effective interest rate method was a decrease in deferred financing costs of \$2,728,000, a decrease in Subordinated notes of \$2,771,000, a decrease in Notes payable of \$528,000 and an increase in opening cumulative earnings of \$571,000.

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, <u>2007</u>	<u>2006</u>	Ended September 30, <u>2007</u>	<u>2006</u>
Defined benefit pension plan	<u>\$ 365</u>	<u>\$ 388</u>	<u>\$ 1,099</u>	<u>\$ 1,164</u>

5. Interest expense

Interest expense is summarized as follows:

	Three Months		Nine Months	
	Ended September 30, <u>2007</u>	<u>2006</u>	Ended September 30, <u>2007</u>	<u>2006</u>
Subordinated notes	\$ 1,725	\$ 1,825	\$ 5,118	\$ 5,415
Amortization of Subordinated notes deferred financing costs	99	-	284	-
Notes payable	793	794	2,386	2,404
Amortization of Notes payable deferred financing costs	36	-	108	-
Capital lease obligations	<u>4</u>	<u>8</u>	<u>15</u>	<u>25</u>
	<u>\$ 2,657</u>	<u>\$ 2,627</u>	<u>\$ 7,911</u>	<u>\$ 7,844</u>

Forward-looking statements

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

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Listing:

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

Transfer Agent:

CIBC Mellon Trust Company

Auditors:

Ernst & Young LLP, Winnipeg

