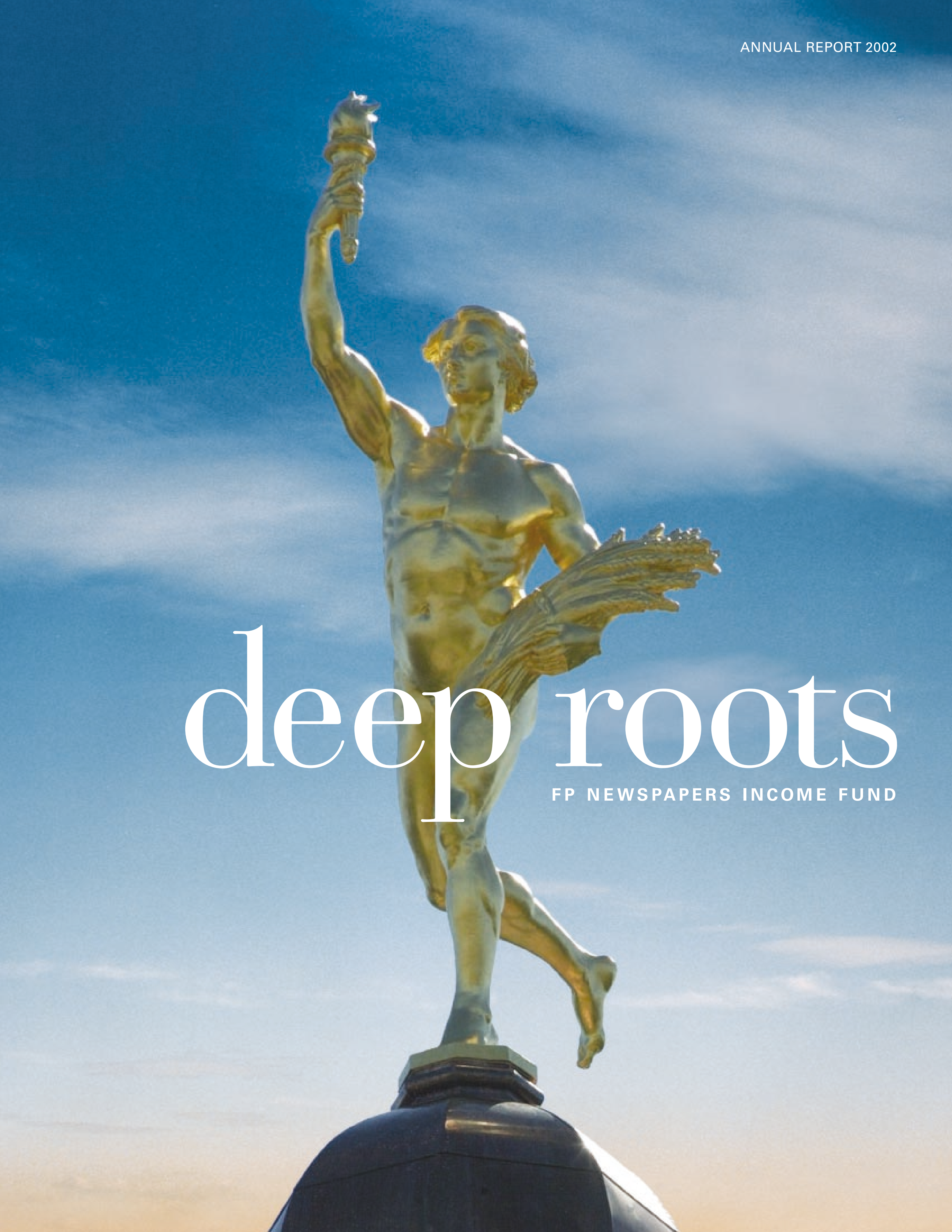
ANNUAL REPORT 2002



deep roots

FP NEWSPAPERS INCOME FUND

COVER IMAGE: The Golden Boy rises from the Manitoba Legislature.

Our newspapers have served the readers and advertisers in their communities for more than 120 years.

LETTER TO THE UNITHOLDERS

In May 2002, FP Newspapers Income Fund invested in the fortunes of two newspapers, the Winnipeg Free Press and the Brandon Sun. Both have an august history and a great future. The Winnipeg Free Press was founded in 1872, two years after Manitoba joined Confederation and the Brandon Sun was founded 10 years later. Since then, both newspapers have continued to grow deep relationships with the readers, advertisers and suppliers in their communities. You now share in that history and those relationships. We are proud you have invested in the fund.

WELL ESTABLISHED BRANDS

Both the Brandon Sun and the Winnipeg Free Press are titles whose passion of purpose, vision for their communities and commitments to service have gained the respect and the admiration of readers and advertisers. Well-established newspapers are an integral part of the life and culture of their communities. Their hold on the loyalty of readers and advertisers is difficult to displace. The launching of a competitor requires heavy capital spending and high operating costs. Established newspapers like the Brandon Sun and Winnipeg Free Press create formidable obstacles to new entrants to the business. They are very good long-term businesses.

Newspapers remain a preferred medium for advertisers seeking to reach a broad audience. An average 54 per cent of adult Canadians read a newspaper every day. Advertisers can reach this readership quickly and easily. A newspaper advertisement has relatively low production costs for the advertiser, and quickly delivers its message to a literate audience with desirable consumer demographics. The more highly regarded a newspaper is by its readers, the more advertisers benefit from the relationship. How well readers regard their newspaper depends, not only on its customer service and the way it relates to its community but also on the quality of its editorial content: on the writing of its news, its analysis and its opinion.

STRONG COMMUNITY LEADERSHIP

Both the Winnipeg Free Press and the Brandon Sun have built a loyal readership in their communities. A good newspaper not only reflects a community, but challenges the community to better itself. A newspaper should be the forum for debate, for an exchange of ideas to improve and inform and change what needs to be changed. Both the Brandon Sun and the Winnipeg Free Press have earned enviable reputations for providing that exchange, for the delivery of news and opinion and for community support. Both newspapers support their communities with sponsorship of major events. Both are the leading sources for news and information.

No other major Canadian daily publication enjoys as strong a circulation lead over its main competitor as the Winnipeg Free Press. The Free Press is the most read of any newspaper in a comparable market in Canada. The Brandon Sun has a similarly strong record of civic commitment, reader loyalty and market leadership.

Last year the newspapers made significant changes for the benefit of both readers and advertisers. Increasingly, advertisers are demanding access to more colour pages. The Winnipeg Free Press made an innovative change to the arrangement of its sections to make more colour pages available to advertisers in sought after positions.

Over the past year, the Winnipeg Free Press has created new sections, and added more sports, lifestyles, entertainment, general news and special features. The editorial content has grown by 11 per cent, equal to over 1,000 pages annually. A new twice-weekly feature called "View from the West", showcases the voices of leading opinion makers in western Canada.

Former federal opposition leader Preston Manning and former foreign affairs minister Lloyd Axworthy write regularly for the section.

Last year the Winnipeg Free Press boasted the Canadian Press' Photographer of the Year. It also garnered nominations for the National Newspaper and Michener Awards. For 2002, it has again been nominated for a National Newspaper Award and has been awarded a Society of Newspaper Design Award of Excellence.

SOLID AND RECURRING PERFORMANCE RECORD

The commitment of our team to the readers, advertisers, and to the community has also brought solid financial benefits. Over the past four years our newspaper operations have delivered revenues in a range from $95 to $98 million and EBITDA[1] in a range from $22 to $25 million. Unfortunately, results from this year's operations were affected by an October strike, which reduced revenue by $2.7 million and EBITDA by $2.0 million. While the strike was resolved and a new three-year contract is now in place, revenue and EBITDA were affected sufficiently that we made the difficult decision to reduce distributions. Management continues to work on building better relations with its unionized employees.

The directors and management team own over half of the outstanding units of FP Canadian Newspapers Limited Partnership and so the decision to lower distributions has had a significant affect on us as well. We were encouraged to see our revenues return to pre-strike levels in November and December of 2002 and now have contracts for labour and newspaper delivery of the Winnipeg Free Press effective through late 2005. These contracts cover more than 50 per cent of the total cash operating costs of the partnership.

As a result of our 49 per cent investment in the newspaper business, FP Newspapers Income Fund earned cash distributions of $5.3 million. The Fund also declared cash distributions of $5.3 million or 76.5 cents per unit to unitholders. Your management team is motivated to improve this performance in 2003.

Our strong team of employees continues to gain the respect and admiration of readers and advertisers, and the communities we serve. We thank them for their commitment to high-quality journalism and customer service, and their dedication to the Brandon Sun and the Winnipeg Free Press.

We hope that you are pleased to have invested in a business at the heart of democracy, with deep roots in the community, whose passion and performance we share with you. We are independent in spirit, in debate, and committed to maximizing our long-term financial returns by producing great newspapers.

Ronald N. Stern
Chairman & Trustee

Rudy Redekop
President & Publisher

APRIL 16, 2003

[1] FP Newspapers Income Fund defines EBITDA as earnings before interest, taxes, depreciation and amortization.

FINANCIAL AND OPERATING HIGHLIGHTS

MANITOBA NEWSPAPER OPERATIONS

(in millions of dollars)	**2002**[2]	**2001**	**2000**	**1999**
Revenues	**$95**	$97	$98	$96
EBITDA	**$22**	$23	$25	$24

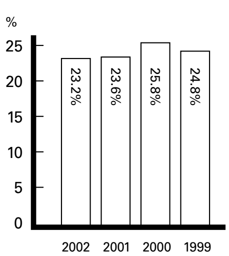
FP NEWSPAPERS INCOME FUND[3]

Distributable cash earned	$5.3 million	n/a	n/a	n/a
Distributions declared	$5.3 million	n/a	n/a	n/a
Distributions/unit	76.5 cents	n/a	n/a	n/a

FINANCIAL AND OPERATING HIGHLIGHTS IN 2002

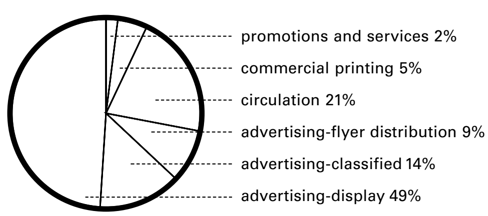
- FP Newspapers Income Fund purchased a 49 per cent interest in FP Canadian Newspapers Limited Partnership, publisher of the Winnipeg Free Press and the Brandon Sun.
- Average daily advertising revenue was unchanged, as consumer confidence continued to be tentative in Canada.
- Newsprint prices declined 22 per cent, decreasing costs by $3.7 million.
- Editorial content was added to the Winnipeg Free Press to deliver more value to readers and advertisers.
- October strike at the Winnipeg Free Press resulted in nine lost publishing days; new three-year contract settled.

EBITDA MARGIN



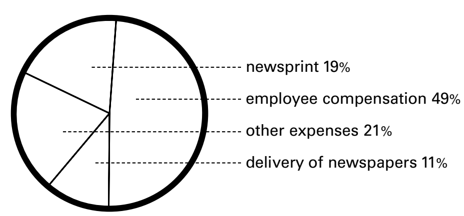
Relatively steady EBITDA margins have been maintained, even with the negative effect of a strike in 2002.

COMPONENTS OF REVENUE



More than 70 per cent of revenue is generated from advertising sources, with display advertisers supplying the major share.

COMPONENTS OF OPERATING EXPENSES EXCLUDING AMORTIZATION



Compensation and city-carrier delivery costs are under contract at the Winnipeg Free Press until 2005.

[2] Figures for 2002 include the negative impact of the loss of nine publishing days due to a strike at the Winnipeg Free Press.

[3] The fund commenced operations on May 28, 2002 and therefore 2002 results reflect only the period from May 28, 2002 to December 31, 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis provides a review of significant developments that have affected the Fund's performance during 2002. 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 or implied in this discussion.

FORMATION AND LEGAL ENTITIES

FP Newspapers Income Fund (the "Fund") was created on May 15, 2002 and commenced operations on May 28, 2002 when it completed an Initial Public Offering and purchased an interest in FP Canadian Newspapers Limited Partnership ("FPLP"). The Fund owns securities entitling it to 49% of the distributable cash of FPLP.

FPLP is a limited partnership formed on August 9, 1999. FPLP acquired the business and assets, and assumed certain liabilities, of the Winnipeg Free Press and Brandon Sun newspapers effective November 29, 2001. Prior to the acquisition of the newspaper publishing business the results of operations were insignificant, and accordingly, no comparison of the results of FPLP for the period ended December 31, 2002 is made to the same period in 2001.

FP NEWSPAPERS INCOME FUND

The consolidated financial statements of the Fund report the results of operations for the period from May 28, 2002 to December 31, 2002.

The Fund earned $3,787,000 in income from its investment in FPLP for the period from May 28, 2002 to December 31, 2002. Of this amount $4,706,000 was earned as interest on the 11.5% subordinated notes issued by FPLP to the Fund and ($919,000) represents the Fund's equity interest from its Class A limited partnership units. The Fund incurred $126,000 in operating expenses, resulting in net earnings for the period from May 28, 2002 to December 31, 2002 of $3,661,000.

The Fund's share of distributions declared by FPLP for the period from May 28, 2002 to December 31, 2002 was $5,267,000, or $0.763 per unit. The Fund declared distributions to unitholders of $0.7645 per unit for the period from May 28, 2002 to December 31, 2002.

Cash available for distribution attributable to the Fund for the period from May 28, 2002 to December 31, 2002 is calculated as follows:

Distributable cash of FPLP	$	thousands
Operating income before amortization	$	13,086
Interest income		40
Interest expense on term loan		(1,848)
Capital expenditures		(586)
	$	10,692
49% attributable to the Fund	$	5,239
Loan from related parties		100
Administration expenses		(126)
Distributable cash attributable to the Fund	$	5,213
Distributable cash attributable to the Fund – per Unit	$	0.755

Distributions declared to unitholders for the period from May 28, 2002 to December 31, 2002 were as follows:

RECORD DATE	PAYMENT DATE	AMOUNT PER UNIT
June 28, 2002	July 30, 2002	$ 0.1270
July 31, 2002	August 29, 2002	0.1125
August 30, 2002	September 27, 2002	0.1125
September 30, 2002	October 30, 2002	0.1125
October 31, 2002	November 28, 2002	0.1000
November 29, 2002	December 30, 2002	0.1000
December 31, 2002	January 30, 2003	0.1000
		$ 0.7645

The initial distribution of $0.127 paid on July 30, 2002 was comprised of $0.1125 for the month of June and $0.0145 for the four days from May 28, 2002 to May 31, 2002.

The Fund is dependent on the operations of FPLP, its sole investment.

RESULTS OF OPERATIONS OF FPLP

Revenue for the year ended December 31, 2002 was $94.6 million. Revenue in the period was reduced by the loss of nine publishing days in October due to a strike at the Winnipeg Free Press. Total revenues at the newspapers owned by FPLP for the two months following the strike were unchanged at $17.6 million compared to November and December of 2001. Operating expenses excluding amortization in the twelve months ended December 31, 2002 were $72.7 million. For the twelve months ended December 31, 2002, compensation and benefits costs accounted for 49.4% of these expenses while newsprint accounted for 18.6%. Operating income before amortization (EBITDA) was $22.0 million for the year ended December 31, 2002.

Amortization of property, plant and equipment in the year ended December 31, 2002 was $4.3 million, all of which relates to the newspaper publishing business acquired in late 2001 and capital expenditures since the acquisition.

Interest expense on the term credit facility was $3.9 million for the year ended December 31, 2002. The average interest rate applicable to the term credit facility during the fourth quarter was 4.90%. Interest expense on the subordinated notes issued May 28, 2002 was $4.7 million for the year ended December 31, 2002, and is included in earnings of the Fund.

Net income for the year ended December 31, 2002 was $7.7 million, and represented 8.2% of revenue.

SUPPLEMENTARY INFORMATION – OPERATING RESULTS OF THE MANITOBA NEWSPAPER OPERATIONS

Prior to November 29, 2001, the Winnipeg Free Press and the Brandon Sun (the "Manitoba Newspaper Operations" or "MNO") were operated as a division of The Thomson Corporation. Note 3 to the FPLP financial statements for the year ended December 31, 2002 contains supplementary revenue and operating expense information of the MNO, with comparative information for the prior year. Because the cost basis of the assets and the capital structure of the MNO was materially different under the prior owner, no supplementary information is provided regarding depreciation, amortization or interest expense, or net income. Reference should also be made to the audited financial statements of the MNO included in the Final Prospectus of the Fund dated May 16, 2002.

REVENUE	2002	2001
$ thousands		
Advertising	$ 67,890	$ 69,724
Circulation	20,015	20,557
Commercial Printing	5,177	5,577
Promotions and Services	1,558	1,481
	$ 94,640	$ 97,339

Revenue for the year of 2002 was $94.6 million, a decrease of $2.7 million or 2.8% versus 2001. This decrease is the result of the loss of nine publishing days in October (including two Fridays and two Saturdays) due to a strike by the unionized workers at the Winnipeg Free Press. Revenue for the eleven months excluding the month of October was $88.7 million in 2002 which is unchanged from the same period in 2001 primarily a result of a $0.4 million or 6.7% decrease in commercial printing revenue, offset by an increase of $0.2 million or 0.3% in advertising revenues and an increase of $0.2 million or 38.0% in Internet and electronic archive revenues.

EXPENSES BEFORE AMORTIZATION AND INTEREST	2002	2001
$ thousands		
Employee Compensation	$ 35,892	$ 35,166
Newsprint	13,484	16,653
Delivery of Newspapers	8,154	8,334
Other	15,133	14,229
	$ 72,663	$ 74,382

Operating expenses excluding depreciation and amortization for the twelve months of 2002 were $72.7 million, a decrease of $1.7 million or 2.3% over the twelve months of 2001. Operating expenses excluding the month of October were $67.1 million in 2002 compared to $68.2 million for 2001 representing a 1.6% decrease. Employee remuneration, including pension and non-pension benefits costs and payroll taxes, increased $1.3 million or 4.0% in the eleven months excluding October, largely the result of expenses accruing on the new pension plans established by FPLP on November 29, 2001. The cost of newsprint for the eleven months excluding October decreased by $2.7 million or 17.5% primarily due to a 22.1% decrease in newsprint prices partially offset by additional usage.

Operating income before amortization (EBITDA) in the year ended December 31, 2002 was $22.0 million compared to $23.0 million in the same period of 2001, representing a 4.3% decrease. EBITDA for 2002 excluding the month of October increased by $1.0 million to $21.6 million versus $20.6 million in the same eleven month period in 2001. EBITDA margin for the twelve months ended December 31, 2002 fell to 23.2% from 23.6% in the same period of the prior year, but increased to 24.3% from 23.2% for the eleven months excluding October, compared to 2001.

Newspaper publishing is, to a certain extent, a seasonal business with a higher proportion of revenues and operating income occurring during the second and fourth quarters of the calendar year. Revenue and EBITDA of the Manitoba Newspaper Operations for 2001 and of FPLP for 2002 were as follows:

REVENUE	**2002**	**2001**
$ thousands		
Quarter 1	$ 23,610	$ 23,026
Quarter 2	24,809	25,135
Quarter 3	22,677	22,981
Quarter 4	23,544	26,197
	$ 94,640	$ 97,339
EBITDA		
Quarter 1	$ 5,139	$ 4,521
Quarter 2	6,403	6,210
Quarter 3	4,977	4,858
Quarter 4	5,458	7,368
	$ 21,977	$ 22,957

The distribution policy of FPLP is to make distributions in approximately equal monthly amounts based on expected operating results for each fiscal year. Based on historical trends, distributions are expected to exceed distributable cash generated in the first and third calendar quarter, and distributable cash generated is expected to exceed distributions in the second and fourth quarter, each year.

LIQUIDITY AND CAPITAL RESOURCES OF FPLP

CASH FLOW FROM OPERATIONS

During the year ended December 31, 2002, cash generated from operating activities was $12.4 million, net of $1.0 million from an increase in non-cash working capital items. The net change in non-cash working capital resulted in a use of cash of $1.0 million, including $0.6 million from an increase in prepaid expenses, primarily related to increases in prepaid interest expense and prepaid maintenance contracts.

CAPITAL EXPENDITURES

Purchases of property plant and equipment totaled $0.9 million for the year ended December 31, 2002. Capital expenditures for the twelve months ended December 31, 2002 were slightly below planned expenditures of $1.0 million. The capital expenditures budget for 2003 is $1.0 million.

FINANCING ACTIVITIES

On January 4, 2002 FPLP borrowed $100.0 million under its term credit facility. These funds were used to return a portion of the capital contributed by the limited partners in the prior year. On May 28 and June 27, 2002, in connection with the Initial Public Offering of the Fund, FPLP issued Class A limited partnership units and subordinated notes to the Fund for proceeds totaling $69.0 million. These funds were used to reduce borrowings under the term credit facility by $40.4 million, to make distributions as a partial return of capital to the general partners of $24.3 million, and to pay expenses of the financing of $4.3 million. Further details are provided in the Final Prospectus dated May 16, 2002 filed by the Fund (available at www.sedar.com).

DISTRIBUTIONS TO PARTNERS

Distributions to partners of FPLP for the period January 1 to May 27, 2002 totaled $9.2 million. Distributions to partners of FPLP for the period from May 28 to December 31, 2002 totaled $4.7 million, of which $0.6 million was paid to the Fund as holder of Class A limited partnership units.

BUSINESS RISKS AND UNCERTAINTIES

REVENUE

Advertising revenue, which accounts for greater than 70% 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 strike, like the one that occurred in October 2002 at the Winnipeg Free Press, could restrict or eliminate the ability of FPLP to earn revenue from its publishing business during a strike. While contracts are now in place with unionized employees at the Winnipeg Free Press which run to October 2005, the collective agreement covering 80 members of the CEP at the Brandon Sun expired December 31, 2002 and negotiations are in progress. A five-year contract with the 20 members of the GCIU in Brandon expires December 31, 2005.

EXPENSES

Newspaper publishing is both capital and labour intensive, and as a result newspapers have relatively high fixed cost structures. During periods of declining revenue, significant portions of costs may remain fixed, resulting in decreased earnings. Newsprint is a significant cost for FPLP, accounting for $13.5 million of expenses in 2002. 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

As a result of the contract settlements at the Winnipeg Free Press, wage rates will increase by 2% in 2003 compared to 2002. Compensation related expenses accounted for 49.4% of expenses before interest and amortization, while newsprint and delivery costs accounted for 18.6% and 11.2% respectively in 2002. Newsprint prices are expected to increase slowly in 2003. Newsprint producers announced a 10.4% increase effective March 1, 2003, but the result of this announcement is still uncertain. A 10% year-on-year increase in newsprint prices would decrease EBITDA by $1.3 million compared to 2002. Because approximately 50% of operating expenses before interest and amortization are contractually committed for 2003, earnings respond quickly to changes in revenue. Circulation rates were increased an average of 5.6% effective in January 2003. Although advertising volumes are very difficult to forecast, many industry commentators are expecting increased print advertising spending in Canada in 2003, after a flat 2002. During the period 1996 to 2001, estimated total daily newspaper advertising in Canada grew at a compound annual rate of 4.1%. However, advertising spending is highly dependent on consumer spending, which can change quickly due to a variety of factors.

Cash and cash equivalents at December 31, 2002 total $2.3 million. In addition, FPLP has an unused operating line of $10.0 million that may be used to fund working capital needs.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of FP Newspapers Income Fund (the "Fund"), the financial statements of FP Canadian Newspapers Limited Partnership ("FPLP"), and all the information in this annual report are the responsibility of the management of FPCN General Partner Inc., the Managing General Partner of FPLP and the Administrator of the Fund. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and where appropriate include management's best estimates and judgements. Management has reviewed the financial information presented throughout this report and has ensured it is consistent with the financial statements.

Management maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and that financial information is timely and reliable.

The Trustees of the Fund and the Directors of FPCN General Partner Inc. are responsible for ensuring that management fulfills its responsibilities for financial reporting and are ultimately responsible for reviewing and approving the financial statements. The Trustees and the Directors carry out this responsibility principally through the Audit Committee.

The Board of Directors of FPCN General Partner Inc. appoints the Audit Committee, and the majority of its members are independent of management. The Audit Committee meets periodically with management and the external auditors to review internal controls, audit results and accounting principles. Acting on the recommendation of the Audit Committee, the financial statements are forwarded to the Trustees and the Directors for their approval.

PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants, was retained by the Trustees of the Fund and the Directors of FPCN General Partner Inc. to complete the audits of the financial statements and to provide independent professional opinions. The appointment of PricewaterhouseCoopers LLP as auditors of the Fund will be confirmed at the Annual Meeting of the Fund. PricewaterhouseCoopers LLP has full and free access to the Audit Committee.

Ronald N. Stern
Chairman

Daniel Koshowski
Chief Financial Officer

Winnipeg, Canada
February 14, 2003

FP Canadian Newspapers Limited Partnership Financial Statements

AUDITORS' REPORT

February 14, 2003

TO THE PARTNERS OF FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP

We have audited the balance sheets of FP Canadian Newspapers Limited Partnership as at December 31, 2002 and 2001 and the statements of operations, partners' capital and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants

FPLP: BALANCE SHEETS

AS AT DECEMBER 31, 2002 AND 2001 (in thousands of dollars)	**2002**	**2001**
ASSETS	**$**	**$**
CURRENT ASSETS		
Cash and cash equivalents	2,314	4,792
Accounts receivable	11,152	11,497
Inventories	1,086	826
Prepaid expenses	1,298	714
	15,850	17,829
PROPERTY, PLANT AND EQUIPMENT (note 4)	69,188	72,443
OTHER ASSETS (note 5)	6,142	3,003
INTANGIBLES (note 6)	9,693	10,055
GOODWILL (note 6)	64,805	64,805
	165,678	168,135
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	8,020	8,294
Prepaid subscriptions and deferred revenue	2,661	2,858
	10,681	11,152
LONG-TERM LIABILITIES (note 7)		
Term loan	59,600	–
Subordinated notes	67,954	–
	127,554	–
	138,235	11,152
Partners' capital (note 12)	27,443	156,983
	165,678	168,135

APPROVED BY THE BOARD OF DIRECTORS
OF THE MANAGING GENERAL PARTNER

Ronald N. Stern
Director

Harvey Secter
Director

FPLP: STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001 (in thousands of dollars)	**2002**	**2001**
	$	**$**
REVENUE	94,640	9,278
OPERATING EXPENSES, INCLUDING SELLING, GENERAL AND ADMINISTRATION EXPENSES	(72,663)	(6,504)
OPERATING INCOME BEFORE AMORTIZATION	21,977	2,774
AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT	(4,266)	(358)
AMORTIZATION OF INTANGIBLE ASSETS	(362)	(30)
OPERATING INCOME	17,349	2,386
INTEREST ON TERM LOAN	(3,942)	–
INTEREST ON SUBORDINATED NOTES	(4,706)	–
AMORTIZATION OF DEFERRED FINANCING COSTS	(1,084)	(40)
INTEREST INCOME	87	15
SUNDRY INCOME	12	–
NET INCOME FOR THE YEAR	7,716	2,361

FPLP: STATEMENTS OF PARTNERS' CAPITAL

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001
(in thousands of dollars)

	GENERAL PARTNER UNITS $	LIMITED PARTNER CLASS A UNITS $	LIMITED PARTNER CLASS B UNITS $	LIMITED PARTNER CLASS C UNITS $	TOTAL $
Partners' capital – JANUARY 1, 2001	35	–	116	–	151
Contributions	–	155,000	–	–	155,000
Distributions	–	(529)	–	–	(529)
Redesignation	(35)	–	–	35	–
Net income for the year	–	2,360	–	1	2,361
Partners' capital – DECEMBER 31, 2001	–	156,831	116	36	156,983
Redemption	–	–	(116)	(36)	(152)
Return of capital	(24,285)	(100,000)	–	–	(124,285)
Net income allocated prior to redesignation	–	2,646	–	–	2,646
Redesignation	59,477	(59,477)	–	–	–
Contributions	10	1,072	–	–	1,082
Distributions	(13,340)	(561)	–	–	(13,901)
Net income allocated after redesignation	4,758	312	–	–	5,070
Partners' capital – DECEMBER 31, 2002	26,620	823	–	–	27,443

FPLP: STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001 (in thousands of dollars)	**2002**	**2001**
	$	**$**
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	7,716	2,361
Item not affecting cash		
Amortization	5,712	428
	13,428	2,789
Net change in non-cash working capital items (note 11)	(1,049)	811
	12,379	3,600
INVESTING ACTIVITIES		
Acquisition (note 3)	–	(150,327)
Other investment	162	(12)
Purchases of property, plant and equipment	(939)	(59)
Proceeds from sale of property, plant and equipment	7	–
	(770)	(150,398)
FINANCING ACTIVITIES		
Proceeds from term loan (note 12(a))	100,000	–
Repayment of term loan (note 12(c))	(40,400)	–
Contributions by partners	82	155,000
Distribution to partners	(13,901)	(529)
Capital returned to partners (note 12(a) and (c))	(124,285)	–
Redemption of partnership units	(152)	–
Deferred financing costs	(4,385)	(2,881)
Issuance of subordinated notes (note 12(c))	68,954	–
	(14,087)	151,590
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,478)	4,792
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	4,792	–
CASH AND CASH EQUIVALENTS – END OF YEAR	2,314	4,792

FPLP: NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001 (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. Prior to November 26, 2001, the name of FPLP was Canstar Productions 1999-3 Limited Partnership.

Prior to fiscal 2000, FPLP was inactive.

Effective November 29, 2001, FPLP acquired the business and assets of the Winnipeg Free Press and the Brandon Sun and related businesses (note 3) in exchange for cash and the assumption of certain liabilities. These financial statements include only the assets, liabilities, revenues and expenses of FPLP and do not include the other assets, liabilities, revenues and expenses, including income taxes, of the partners.

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

2 DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) DESCRIPTION OF BUSINESS

FPLP produces and distributes newspapers and related publications, including the Winnipeg Free Press and the Brandon Sun.

B) REVENUE RECOGNITION

Advertising revenue is recognized when the advertisements are published. Circulation revenue is recognized based on the date of publication which is also the delivery date. Subscription revenue is recognized as earned over the term of the subscription on a straight-line basis.

C) INVENTORIES

Inventories, primarily newsprint and printing supplies, are stated at the lower of cost and net realizable value. Cost is determined on a first in first out basis.

D) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. Amortization on property, plant and equipment is calculated on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings	40 years
Machinery and equipment	7 – 25 years
Computer, furniture and fixtures, and vehicles	3 – 10 years

Expenditures for major renewals and betterments are capitalized, while minor replacements, repairs and maintenance that do not extend the useful lives are charged to operations as incurred. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

DECEMBER 31, 2002 AND 2001 (tabular amounts in thousands of dollars)

E) INTANGIBLE ASSETS
Intangible assets, which are considered to have finite lives, are initially recorded at cost and are subsequently amortized on a straight-line basis as follows:

Subscriber base	15 years
News archives	10 years

Mastheads are considered to have an indefinite life and are therefore recorded at cost and not amortized. Mastheads are tested for impairment annually by comparing the fair value of the intangible asset to its carrying value.

F) GOODWILL
Goodwill represents amounts paid to acquire businesses in excess of the fair value of net identifiable assets acquired. Goodwill is not subject to amortization. Goodwill is tested for impairment at least annually by comparing the fair value of goodwill to its carrying value.

G) USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

FPLP operates in competitive markets. FPLP has estimated the useful lives of intangible assets and the fair value of goodwill, based on historical customer patterns, industry trends and existing competitive factors. Significant unfavourable long-term changes to these factors could result in a material impairment of the recoverable value and life of intangible assets and fair value of goodwill.

H) PENSION PLANS
Effective November 29, 2001, FPLP established defined benefit and defined contribution pension plans. For the defined benefit plans, the pension expense is determined using the projected benefit method pro rated based on service. For the defined contribution plans, the pension expense is FPLP’s contribution to the plan.

I) LONG-TERM INCENTIVE PLAN
Under the terms of the long-term incentive plan (“LTIP”) 10% to 20% of distributable cash earned by FPLP in excess of an established threshold is contributed to a pool of funds set aside to purchase units of FP Newspapers Income Fund (in the market) for LTIP participants. The cost is accrued as an expense for the period, if distributable cash earned exceeds the thresholds established by the LTIP.

J) OTHER ASSETS
Other assets include financing costs related to the credit facility and subordinated notes which are amortized on a straight-line basis over the three and ten year terms of the related debt.

DECEMBER 31, 2002 AND 2001 (tabular amounts in thousands of dollars)

K) CASH AND CASH EQUIVALENTS
For the purposes of the statements of cash flows, cash includes cash and short-term investments with maturities at the date of purchase of up to one year.

L) FINANCIAL INSTRUMENTS
Derivative financial instruments, namely interest rate swaps and interest rate caps, are utilized to reduce interest rate risk on FPLP's debt. FPLP does not enter into financial instruments for trading or speculative purposes.

Each derivative financial instrument is formally designated as a hedge of a specifically identified debt instrument. FPLP believes the derivative financial instruments are effective as hedges as the term to maturity, the principal amount and the interest rate basis in the derivative instruments all match the terms of the debt instrument being hedged.

Interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based. Interest rate cap agreements involve the entitlement to receive the differential between the capped interest rate and the market rate, when the market rate is greater than the capped rate, on a notional principal amount. The derivative financial instrument benefit or cost is recorded as an adjustment of interest expense on the hedged debt instrument. The related amounts payable to or receivable from counter parties are included as an adjustment to accrued interest.

The cost of an interest rate cap agreement is amortized over the life of the instrument. In the event of early extinguishment of the debt obligation, any realized or unrealized gain or loss from the derivative instrument would be recognized in the statement of operations at the time of extinguishment. In the event of an early termination of interest rate swap agreements, gains and losses are deferred under other current, or non-current, assets or liabilities on the balance sheet and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreement.

M) INCOME TAXES
FPLP is not a taxable entity, and accordingly, no provision for income taxes is included in the financial statements since all income, deductions, gains, losses and credits are reportable on the tax returns of the partners.

3 ACQUISITION
Effective November 29, 2001, FPLP acquired substantially all of the assets and assumed certain liabilities of the Winnipeg Free Press and the Brandon Sun newspaper businesses (the "Manitoba Newspaper Operations" or "MNO") for total consideration of $150,327,000. The acquisition was accounted for as a purchase, and accordingly, the financial statements include the results of the acquired operations since the acquisition date. The acquired assets and assumed liabilities have been recorded at their fair values at the date of acquisition.

DECEMBER 31, 2002 AND 2001 (tabular amounts in thousands of dollars)

NET ASSETS ACQUIRED AT FAIR VALUE	$
Current assets	12,279
Property, plant and equipment	72,742
Intangibles other than goodwill	10,085
	95,106
Less: Liabilities assumed	(9,584)
Net assets acquired, at fair value	85,522
Goodwill	64,805
NET ASSETS ACQUIRED	150,327
CASH CONSIDERATION	150,327

The accompanying supplementary financial information has been prepared from the historical financial records of the MNO and FPLP. For periods prior to November 29, 2001, the operating expenses include an allocation of expenses incurred by the corporate office of the prior owner. These allocations, which took into consideration the personnel, business volume or another appropriate basis of allocation, included charges for newsprint, insurance, employee benefits, information management and certain maintenance contracts.

This supplementary financial information may not necessarily be indicative of results that would have been attained if the MNO had been operated as a separate legal entity or through a limited partnership for periods prior to November 29, 2001. This supplementary financial information should be read in conjunction with the audited combined financial statements of the MNO included in the Final Prospectus of the FP Newspapers Income Fund dated May 16, 2002.

	2002 **$**	**2001** **$**
Revenue	94,640	97,339
Operating expenses, including selling, general and administrative expenses	72,663	74,382
Operating income before amortization and interest	21,977	22,957

This supplementary financial information excludes amortization expense because the basis of accounting for the related assets was different, and therefore not comparable, prior to the November 29, 2001 acquisition of the MNO by FPLP. Similarly, information regarding interest expenses and net income is excluded because it does not provide useful comparative information.

DECEMBER 31, 2002 AND 2001 (tabular amounts in thousands of dollars)

4 PROPERTY, PLANT AND EQUIPMENT

	COST $	ACCUMULATED AMORTIZATION $	2002 NET $	2001 NET $
Land	1,000	–	1,000	1,000
Buildings	7,800	211	7,589	7,784
Machinery and equipment	60,041	3,087	56,954	59,322
Furniture and fixtures	1,558	188	1,370	1,510
Computer hardware and software	3,075	1,016	2,059	2,489
Vehicles	338	122	216	338
	73,812	4,624	69,188	72,443

5 OTHER ASSETS

	2002 $	2001 $
Deferred financing costs	6,142	2,841
Investment – at cost	–	162
	6,142	3,003

6 GOODWILL AND INTANGIBLES

	COST $	ACCUMULATED AMORTIZATION $	2002 NET $	2001 NET $
INTANGIBLES				
Finite life				
Subscriber base	4,600	332	4,268	4,575
News archives	550	60	490	545
	5,150	392	4,758	5,120
Indefinite life				
Mastheads	4,935	–	4,935	4,935
TOTAL INTANGIBLES	10,085	392	9,693	10,055
GOODWILL	64,805	–	64,805	64,805

DECEMBER 31, 2002 AND 2001 (tabular amounts in thousands of dollars)

7 LONG-TERM DEBT

FPLP is a party to a credit facility consisting of a revolving term loan and an operating facility. The $59.6 million term loan matures in May 2005. The operating facility provides for an additional $10 million, with a term ending May 2003. Amounts borrowed under the credit facility will primarily be in the form of bankers' acceptances at varying interest rates and would normally mature over periods of 30 to 90 days. Substantially all of the assets of FPLP have been pledged as security for the credit facility. FPLP is subject to covenants under the terms of the credit facility, including thresholds for leverage and interest coverage, and is subject to certain restrictions under negative covenants. The average effective interest rates paid throughout the year ranged from 4.3% to 6.0%. At December 31, 2002, the effective interest rates on bankers' acceptances outstanding ranged from 4.4% to 4.5%. The interest rate on $10.0 million of the outstanding term loan was fixed at 4.75% through an interest rate swap maturing in June 2005. The interest rate on a further additional $10 million of the outstanding term loan was capped at 5.25% CDOR through an interest rate cap maturing in June 2005. As of December 31, 2002, FPLP had not drawn upon amounts under the operating facility.

The subordinated notes are unsecured and pay interest at 11.5% per annum. The subordinated notes mature on the earlier of May 2012 and the date on which the holder calls or is required to pay amounts equal to and for the sole purpose of paying the cash contribution due in respect of the Class A limited partnership units (note 12).

8 COMMITMENTS AND CONTINGENCIES

A) OPERATING LEASES

FPLP leases machinery and equipment and vehicles under various third-party non-cancellable operating lease agreements with terms of up to five years. The following is a schedule of minimum annual lease payments under the operating leases with initial or remaining non-cancellable terms in excess of one year at December 31, 2002:

	$
2003	79
2004	73
2005	59
2006	42
2007	33
Total minimum lease payments	286

B) LEGAL MATTERS

FPLP is involved in various legal actions arising in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on FPLP's financial position, results of operations or cash flows.

DECEMBER 31, 2002 AND 2001 (tabular amounts in thousands of dollars)

9 PENSION PLANS

Information on FPLP's defined benefit pension plans is as follows:

	2002 $	2001 $
PLAN ASSETS		
Fair value – beginning of year	133	–
Investment loss	(30)	–
Employer contributions	697	57
Employee contributions	754	76
Benefits, refund of contributions and administrative expenses	(24)	–
Fair value – end of year	1,530	133

	2002 $	2001 $
PLAN OBLIGATIONS		
Accrued benefit obligation – beginning of year	132	–
Accrued interest on benefits	107	1
Current service cost	1,521	131
Benefits, refund of contributions	(18)	–
Accrued benefit obligation – end of year	1,742	132

FPLP's accrued pension asset (liability) is determined as follows:

	2002 $	2001 $
Plan surplus (deficit)	(212)	1
Unamortized net actuarial loss	92	–
Accrued plan asset (liability)	(120)	1

DECEMBER 31, 2002 AND 2001 (tabular amounts in thousands of dollars)

FPLP's pension plan expense is determined as follows:

	2002 $	2001 $
Current service cost	1,521	131
Employee contributions	(754)	(76)
Accrued interest on benefits	107	1
Expected return on plan assets	(55)	–
Pension expense – defined benefit plans	819	56
Contribution to defined contribution plans	163	10
Total pension expense	982	66

Significant actuarial assumptions in measuring FPLP's accrued benefit obligations are as follows:

	2002 %	2001 %
Discount rate	6.5	6.5
Expected long-term rate of return on pension plan assets	6.5	6.5
Rate of compensation increase	4.0	4.0

10 LONG-TERM INCENTIVE PLAN

Effective May 28, 2002, the directors, officers and key senior management of FPLP and its affiliates (including the trustees of FP Newspapers Income Fund) will be eligible to participate in FPLP's LTIP. The purpose of the LTIP is to provide eligible participants with compensation opportunities that will encourage ownership of units of FP Newspapers Income Fund, enhance FPLP's ability to attract, retain and motivate key personnel, and reward directors, officers and key senior management for significant performance and cash flow growth. Pursuant to the LTIP, FPLP will set aside a pool of funds based upon the amount by which FPLP's distributable cash exceeds certain threshold amounts. A trustee will then purchase units of FP Newspapers Income Fund in the market with such pool of funds and will hold these units until such time as ownership vests to each participant. The LTIP will be administered by the Compensation and Corporate Governance Committee. The board of directors of FPLP or the Compensation and Corporate Governance Committee will have the power to, among other things: (i) determine those individuals who will participate in the LTIP; and (ii) determine the level of participation of each participant.

The LTIP currently provides for aggregate incentive payments based on the following thresholds:

AMOUNT OF EXCESS DISTRIBUTABLE CASH OF FPLP OVER $19,424,000 PER ANNUM	PROPORTION OF EXCESS DISTRIBUTABLE CASH AVAILABLE FOR INCENTIVE PAYMENTS
Up to $800,000	10%
$800,000 to $2,000,000	15%
Over $2,000,000	20%

DECEMBER 31, 2002 AND 2001 (tabular amounts in thousands of dollars)

The portion of excess distributable cash, if any, will be used to purchase units of FP Newspapers Income Fund in the market that will be held subject to the vesting and other terms of the LTIP. The terms of the LTIP are subject to adjustment by the Compensation and Corporate Governance Committee from time to time. However, in no event will the maximum proportion of excess distributable cash that will be available for incentive payments exceed 20%.

For the period from May 28 to December 31, 2002, FPLP earned distributable cash which was less than the lowest threshold. Therefore no expense was incurred with respect on the LTIP for the period ended December 31, 2002.

11 NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2002 $	2001 $
Accounts receivable	345	(668)
Inventories	(260)	158
Prepaid expenses	(584)	(244)
Accounts payable and accrued liabilities	(353)	1,498
Prepaid subscriptions and deferred revenue	(197)	67
	(1,049)	811

12 PARTNERS' CAPITAL

FPLP may issue an unlimited number of general partner and limited partnership units.

At December 31, 2002, FPLP has issued 7,184,331 general partner units and 6,902,592 Class A limited partnership units held by the following:

	GENERAL PARTNER UNITS	LIMITED PARTNER CLASS A UNITS
FPCN General Partner Inc. – managing general partner	10	–
Canstar Publications Ltd. and R.I.S. Media Ltd. – general partners	7,184,321	–
FP Newspapers Income Fund	–	6,902,592
	7,184,331	6,902,592

FPLP's net income was allocated as follows:

PRIOR TO 2002

- firstly to the general partner in respect of general partner units and Class C limited partner units, the lesser of .1% of the net income or loss and the general partner's proportionate share of the net income or loss based on the general partner's stated capital balance;
- next to the Class B limited partners, the lesser of .01% of the net income or loss and the Class B limited partners' proportionate share of the net income or loss based on the Class B limited partners' stated capital balance; and
- finally, the balance of the net income or loss is allocated to Class A limited partners.

DECEMBER 31, 2002 AND 2001 (tabular amounts in thousands of dollars)

AFTER 2001

- to the general partners in respect of the general partner units and the limited partners in respect of the Class A limited partner units in proportion to the distributions made to the partners in the period.

The Class A limited partnership units together with the subordinated notes are entitled to receive cash distributions equal to 49% of FPLP's distributable cash flow as defined, but determined before deduction of interest on the subordinated notes.

The holders of the Class A limited partnership units are required to make a contribution of $10 per unit for an aggregate contribution of $69,025,920. Contributions were paid as to $72,418 on closing and $1,000,000 on December 31, 2002. In addition, the following future contributions in respect of Class A limited partnership units are required: $1,000,000 on or before December 31, 2003, $2,000,000 on or before each of December 31, 2004 and 2005, $3,000,000 on or before December 31, 2006, $1,000,000 on or before December 31, 2007, and the balance of $58,953,502 on May 28, 2012.

During the year ended December 31, 2002, the following significant capital transactions occurred:
A) On January 4, 2002, FPLP borrowed $100 million from a syndicate of banks under a Reducing Term Facility. Proceeds of the loan were used to return a portion of limited partners' capital contributions.

B) On March 26, 2002, FPLP was reorganized as follows:

- The general partner of FPLP (which had changed its name to FPCN General Partner Inc.) became the Managing General Partner of FPLP and subscribed for 10 general partnership units for a total cash subscription price of $10.
- An unlimited number of new Class A limited partnership units (the "Class A units") was authorized and 10 Class A units were issued to 4029526 Canada Inc., as limited partner in consideration for a cash subscription of $100.
- All of the existing Class C partnership units held by the general partner and the existing Class B limited partnership units were redeemed for cash equal to capital in the aggregate amount of $158,000 contributed for those units.
- Canstar Publications Ltd. and R.I.S. Media Ltd. subscribed for a total of 10,000 general partnership units for a total cash subscription price of $10,000 and were admitted as general partners of FPLP.
- All of the remaining existing limited partnership units (formerly designated as Class A limited partnership units) and capital balances allocable to such units became general partnership units and capital and were transferred upon dissolution of the holder of such units to Canstar Publications Ltd. and R.I.S. Media Ltd.
- A special distribution of $9,157,854, amounting to the net income before amortization of FPLP for the period ending December 31, 2001 and the period ending immediately prior to the issuance of new Class A limited partnership units to FPCN Holdings Trust (a trust of which the sole beneficiary is FP Newspapers Income Fund (the "Fund")), was paid to Canstar Publications Ltd. and R.I.S. Media Ltd., as general partners, immediately before the closing of the transactions described below.

C) On May 28 and June 27, 2002, FPLP issued 6,902,592 Class A limited partnership units and $68,953,502 principal amount of subordinated notes to a wholly-owned trust owned by the Fund for gross proceeds of $69,025,920. The proceeds were used as follows:

DECEMBER 31, 2002 AND 2001 (tabular amounts in thousands of dollars)

	$
To pay financing costs incurred related to the issuance of subordinated notes	4,341
To reduce the Term Facility referred to in A) above	40,400
To return a portion of partners' capital contributions	24,285
	69,026

D) Immediately after the issuance of the Class A units and subordinated notes described above, the 10 Class A units held by 4029526 Canada Inc., as limited partner, were redeemed for cash of $100.

13 RELATED PARTY TRANSACTIONS

FPLP has transactions with related parties in the normal course of operations. Related parties are entities directly or indirectly controlled or significantly influenced by FPLP's controlling partners. All such transactions are conducted at the exchange amount agreed to by the parties.

During the year ended December 31, 2002, total purchases in the form of newsprint from related parties were $7,675,619 (2001 – nil). FPLP also reimbursed related parties for administration costs amounting to $31,000 (2001 – nil). As at December 31, 2002, accounts payable to related parties totalled $1,019,323 (2001 – nil).

14 FINANCIAL INSTRUMENTS

A) FAIR VALUES

The fair value of current assets and liabilities including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the short-term nature of these financial instruments. The fair value of the term loan approximates its carrying value as it is subject to variable interest rates. The fair value of subordinated notes approximates their carrying value as it is estimated that replacement financing would be available at similar rates. The fair value of the interest rate swap is ($345,841) and is based on the amount at which it could be settled on December 31, 2002. The fair value of the interest rate cap agreement on December 31, 2002 was $28,925 and the unamortized book value was $112,924.

B) CREDIT RISK

FPLP, in the normal course of business, is exposed to credit risk from its customers. FPLP's financial assets that are exposed to credit risk consist primarily of accounts receivable. FPLP sells to a large number of customers, broadly dispersed across the geographic region in which it operates. FPLP performs ongoing credit evaluation of its customers to minimize credit risk and usually does not require collateral for accounts receivable.

Credit risks associated with the derivative financial instruments are not considered significant as all counter parties are large chartered Canadian financial institutions.

C) INTEREST RATE RISK

FPLP is exposed to interest rate risk as a significant portion of its term loan is subject to variable interest rates.

FP Newspapers Income Fund Consolidated Financial Statements

AUDITORS' REPORT

February 14, 2003

TO THE UNITHOLDERS OF FP NEWSPAPERS INCOME FUND

We have audited the consolidated balance sheet of FP Newspapers Income Fund as at December 31, 2002 and the consolidated statements of earnings and unitholders' equity and cash flows for the period from May 15, 2002, date of formation, to December 31, 2002. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2002 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants

FUND CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2002
(in thousands of dollars)

ASSETS	**$**
CURRENT ASSETS	
Cash	60
Interest receivable	664
Other receivable	1
Prepaid expenses	17
	742
INVESTMENT IN FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP (note 3)	67,546
	68,288
LIABILITIES AND UNITHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	88
Distribution payable (note 4)	690
	778
DUE TO RELATED PARTIES (note 7)	100
	878
UNITHOLDERS' EQUITY – 6,902,592 UNITS	67,410
	68,288

APPROVED BY THE BOARD OF TRUSTEES

Harvey Secter
Trustee

Ronald N. Stern
Trustee

FUND CONSOLIDATED STATEMENT OF EARNINGS AND UNITHOLDERS' EQUITY

FOR THE PERIOD FROM MAY 15, 2002, DATE OF FORMATION, TO DECEMBER 31, 2002
(in thousands of dollars)

	$
INCOME FROM INVESTMENT IN FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP	
Interest from subordinated notes	4,706
Equity interest from Class A limited partnership units (note 5)	(919)
	3,787
ADMINISTRATION EXPENSES	(126)
NET INCOME FOR THE PERIOD	3,661
UNITHOLDERS' EQUITY – BEGINNING OF PERIOD	–
NET PROCEEDS FROM ISSUANCE OF TRUST UNITS (note 1)	69,026
CASH DISTRIBUTIONS DECLARED DURING THE PERIOD	(5,277)
UNITHOLDERS' EQUITY – END OF PERIOD	67,410
Number of trust units outstanding	6,902,592
Net income per trust unit	0.530

FUND CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM MAY 15, 2002,
DATE OF FORMATION, TO DECEMBER 31, 2002
(in thousands of dollars)

	$
CASH PROVIDED BY (USED IN)	
OPERATING ACTIVITIES	
Net income for the period	3,661
Item not affecting cash	
Equity interest from Class A units of FP Canadian Newspapers Limited Partnership (note 5)	919
	4,580
Net change in non-cash working capital items	
Interest receivable	(664)
Other receivable	(1)
Prepaid expenses	(17)
Accounts payable and accrued liabilities	88
	3,986
INVESTING ACTIVITIES	
Subscription for Class A units in FP Canadian Newspapers Limited Partnership	(72)
Subscription for subordinated notes in FP Canadian Newspapers Limited Partnership	(68,954)
Distributions received on Class A units of FP Canadian Newspapers Limited Partnership	561
	(68,465)
FINANCING ACTIVITIES	
Units issued	69,026
Distributions to unitholders	(4,587)
Loan from related parties	100
	64,539
INCREASE IN CASH	60
Cash – Beginning of period	–
Cash – End of period	60

FUND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002 (tabular amounts in thousands of dollars)

1 DESCRIPTION OF THE FUND

FP Newspapers Income Fund (the "Fund") is a limited purpose trust formed under the laws of the Province of Ontario by a declaration of trust dated May 15, 2002. The Fund commenced operations on May 28, 2002 when it completed an Initial Public Offering selling 6,573,897 trust units at $10 per unit. On June 27, 2002, the Fund sold a further 328,695 trust units at $10 per unit. The total proceeds of $69,025,920 were used to purchase securities of FP Canadian Newspapers Limited Partnership ("FPLP") entitling it to 49% of the distributable cash of FPLP. As the Fund has only existed since May 15, 2002, no comparative figures are presented.

2 ACCOUNTING POLICIES

These consolidated financial statements of the Fund have been prepared by management in accordance with accounting principles generally accepted in Canada and include the accounts of the Fund and its wholly-owned subsidiary, FPCN Holdings Trust.

INVESTMENT

The investment in subordinated notes of FPLP is recorded at cost. Interest income is recorded as revenue as it accrues. The investment in Class A limited partnership units of FPLP is accounted for using the equity method of accounting.

DISTRIBUTIONS

Distributions from the Fund's investment in Class A limited partnership units are recorded when received. Distributions payable by the Fund to its unitholders are recorded when declared.

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 of FPLP.

The investment in FPLP is summarized as follows:

	SUBORDINATED NOTES $	CLASS A LIMITED PARTNERSHIP UNITS $	TOTAL $
Initial subscriptions	68,954	72	69,026
Repayment of subordinated notes	(1,000)	–	(1,000)
Additional contribution	–	1,000	1,000
Equity interest	–	(919)	(919)
Distributions received	–	(561)	(561)
	67,954	(408)	67,546

DECEMBER 31, 2002 (tabular amounts in thousands of dollars)

4 DISTRIBUTION PAYABLE

The Fund declared a distribution payable for December 2002 of $0.10 per unit. The distribution totalling $690,259 is payable January 30, 2003 to unitholders of record on December 30, 2002 and is in respect of the month of December 2002.

5 EQUITY INTEREST FROM CLASS A LIMITED PARTNERSHIP UNITS

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

	$
Net income of FPLP for the period from May 28, 2002 to December 31, 2002	3,022
Plus: Interest on subordinated notes	4,706
Net income before interest on subordinated notes	7,728
49% interest attributable to the Fund	3,787
Less: Interest from subordinated notes	(4,706)
Equity interest from Class A limited partnership units	(919)

6 DISTRIBUTABLE CASH OF FPLP

Distributable cash earned by FPLP during the period from May 28, 2002 to December 31, 2002 is determined as follows:

	$
Operating income before amortization	13,086
Interest income	40
Interest expense on term loan	(1,848)
Capital expenditures	(586)
Distributable cash of FPLP before interest on subordinated notes	10,692
49% attributable to the Fund	5,239
49% attributable to the Fund per unit of the Fund	0.759
Distributions declared by FPLP on securities held by the Fund	
Interest from subordinated notes	4,706
Distributions on Class A units	561
	5,267
Per Fund unit	0.763

DECEMBER 31, 2002 (tabular amounts in thousands of dollars)

The distribution policy of FPLP is to make distributions in approximately equal monthly amounts based on expected operating results for each fiscal year. Based on historical trends, distributions are expected to exceed distributable cash generated in the first and third calendar quarter, and distributable cash generated is expected to exceed distributions in the second and fourth quarter, each year.

7 RELATED PARTY TRANSACTIONS

A) Unionized workers at the Winnipeg Free Press were on strike from October 9, 2002 to October 17, 2002. As a result, the Winnipeg Free Press did not publish for nine days. Trustees of the Fund decided to spread the impact of reduced distributions from FPLP caused by the strike over a longer period and have therefore caused the Fund to enter into a loan agreement with related parties dated October 31, 2002.

The loan agreement provides for an unsecured, non-revolving line of credit of up to $2 million. The loan matures on October 31, 2005 and is non-interest bearing until December 31, 2003. Thereafter, the amounts outstanding under the loan bear interest at rates consistent with FPLP's existing operating line of credit. The loan is provided by Canstar Publications Ltd. and R.I.S. Media Ltd., companies which together control FPLP.

Beginning January 1, 2003, funds borrowed under the line of credit will be repayable out of distributable cash of the Fund to the extent that such distributable cash exceeds 10 cents per unit per month, with any remaining balance due at the end of the three year term. The line of credit may be drawn down by the Fund at any time through December 31, 2003, provided that there is no event of default under FPLP's credit facilities.

At December 31, 2002, the Fund has borrowed $100,000 under the line of credit.

B) During the period, the Fund reimbursed a related party for administration expenses amounting to $8,000.

UNITHOLDER INFORMATION

DIRECTORS AND TRUSTEES

Ronald N. Stern[1, 2]
President, Estrella Group Management Ltd. and Chairman of FP Canadian Newspapers Limited Partnership

Robert Silver[1]
President, Western Glove Works

Rudy Redekop[1]
President & Publisher, FP Canadian Newspapers Limited Partnership

Stephen Dembroski[1, 2]
Former Managing Director, TD Securities Inc.

Larry Philip Fontaine[1]
Chief Commissioner, Indian Claims Commission

Phil de Montmollin[1]
President, Currow & de Montmollin

Harvey Secter[1, 2]
Dean, Faculty of Law, University of Manitoba

OFFICERS

Ronald N. Stern
Chairman

Rudy Redekop
President & Publisher

Kevin Karr
Vice President, Corporate Development & Secretary

Daniel Koshowski
Chief Financial Officer

[1] Director of FP Canadian Newspapers Limited Partnership
[2] Trustee of FP Newspapers Income Fund

AUDIT COMMITTEE
Stephen Dembroski
Harvey Secter
Robert Silver

COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE
Larry Philip Fontaine
Phil de Montmollin
Ronald N. Stern

LISTING INFORMATION
TSX: FP.UN
Units: 6,902,592 outstanding

TRANSFER AGENT
CIBC Mellon Trust Company

AUDITORS
PricewaterhouseCoopers LLP

INVESTOR INQUIRIES
Kevin Karr
Vice President, Corporate Development & Secretary
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Fax: 604.681.8861
Email: kkarr@estrellagroup.com
Website: www.fpnewspapers.com

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FP Newspapers Income Fund
Suite 2900, Box 11583
650 West Georgia Street
Vancouver, BC V6B 4N8

ANNUAL MEETING
The Annual Meeting of Unitholders will be held on June 9th, at 10:00 am at the Winnipeg Free Press, 1355 Mountain Avenue, Winnipeg.