FP NEWSPAPERS INCOME FUND

ANNUAL REPORT 2004

"Studies show that when it comes to purchasing an automobile, major daily newspapers become the medium of choice as consumers funnel down the buying cycle and get closer to making a purchase decision.

As the leading major newspaper in the Winnipeg market, I'm sure you understand the role the Free Press plays in the success of automotive retailers. For the Birchwood Automotive Group, this role is greatly enhanced by the level of service we receive from the Free Press. From creative services and the relevant marketing data you provide, to unique print products or your out of the box thinking, we consider the Free Press to be more of a partner in our business than a supplier.

The Free Press has always been there to listen to us and has shown the flexibility to work towards our objectives. We look forward to many more years of continued support and service."

Steve Chipman

President,
Birchwood
Automotive
Group

"The Winnipeg Free Press, like MTS, is a locally owned and operated company. The newspaper's commitment to the community is demonstrated through its support as a Founding Corporate Partner of the MTS Centre, downtown Winnipeg's new sports and entertainment facility. The Winnipeg Free Press is a market leader, serving the needs of readers and customers – not just in the city, but throughout the province. MTS is proud of its association with the Winnipeg Free Press, and we look forward to continuing this successful partnership in the years ahead."

William C. Fraser

CEO
Manitoba Telecom Services Inc.
(MTS)

"We've used the Brandon Sun as our principal advertising medium for over 70 years. Our advertising strategy is consistent and successful. Kullberg's ads appear weekly in the Sun. My media buy is directed at readers in households with above average incomes. The Brandon Sun delivers that audience for me."

Richard Kullberg

President
Kullberg's Furniture
Brandon

"It is really the people at the Winnipeg Free Press that make the difference. We are dealing with professionals that understand their business and are willing to do what it takes to get the job done. Partnerships like this one have helped us grow our business."

Mark Dufresne

CEO of Dufresne Furniture

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NEWSPAPERS fp INCOME FUND

Winnipeg Free Press

BRANDON SUN

The METRO

The HERALD

The LANCE

The TIMES

The HEADLINER

LETTER TO THE UNITHOLDERS

IT was a challenging year for our publishing businesses, but we have stayed resolutely focused on our core goals: to manage and invest for the long term; to seek and achieve constant improvement in everything we do; and to be prudent in our financial management of the business. We are excited by the opportunities we have to improve our newspapers and other businesses.

The advertising environment was reasonably healthy in the first half of 2004, which saw us grow advertising revenue by 2.8% year-on-year, primarily on the strength of robust flyer distribution growth. However, the market softened considerably in the second half of the year, and we achieved same-store advertising revenue growth of just 1.4% during the final six months.

During the third quarter we completed the acquisition of the community weekly newspapers and advertising distribution businesses from Transcontinental Media. The five free weekly community newspapers serve Winnipeg and surrounding area with an average circulation of over 180,000 copies. Along with the Thunder Bay and Brandon advertising distribution businesses, the combined operations have the capability to deliver advertising materials to 290,000 households weekly. The community newspapers and flyer distribution services are complementary to our larger daily newspaper publishing operations and will provide an additional platform for growth in 2005 and beyond.

In October 2004 we increased the monthly distribution by 2.4% to 10.75 cents per Unit, or an annual rate of $1.29 per Unit. As you will see in greater detail in the Management's Discussion and Analysis section of this report, distributable cash attributable to the Fund totaled $1.41 per Unit in 2004, so our payout ratio remains prudently cautious. From inception on May 28, 2002 to December 31, 2004, we have generated distributable cash attributable to the Fund of $3.55 per Unit, and the Fund has declared distributions of $3.24 per Unit, resulting in a cumulative payout ratio of 91.2%.

WINNIPEG FREE PRESS

We were pleased with many improvements and achievements at the Winnipeg Free Press in 2004. Early in the year, we finalized a contract to print the Manitoba and northwestern Ontario edition of the National Post daily newspaper. This was the primary reason for an 18.1% overall increase in commercial printing revenue, and results in greater utilization of our available printing capacity. During the second quarter, we took the opportunity to sell some surplus components from one of three printing presses in Winnipeg, realizing net proceeds of $0.9 million from this unused equipment.

A dominant theme in 2004, which continued from 2003, was the strong growth in flyer distribution volumes at the Free Press. This sustained growth led to the $0.5 million strategic capital investment in the third quarter for 60 new print rolls for the mailroom. These print rolls are used to process advertising flyer pieces into the daily newspaper and will allow us to more effectively keep up with growth in flyer volumes, reduce labor costs and help reduce the risk of late newspaper delivery. The challenge in 2005 will be to fully achieve cost efficiencies from this investment, and realize revenue rate improvements in this growing advertising segment.

We ended 2004 with healthy growth in classified advertising activity and revenue, and in the fourth quarter launched two new online initiatives to enhance and further grow this revenue source. The Winnipeg Free Press and Workopolis have partnered to bring the Workopolis brand and reach to our employment advertising customers through a combined purchase with their print ad, which provides seven-day exposure on one of Canada's leading employment web sites. The Winnipeg Free Press also introduced an obituary web site called "Passages" which, in addition to including obituary notices found in the printed newspaper, allows individuals to electronically send tributes and condolences along with the ability to make donations to named charities.

BRANDON SUN

We welcomed Ewan Pow as the new Publisher and General Manager of the Brandon Sun in early April. As a long-time resident of Manitoba, Ewan has spent his entire career in the newspaper business. Notable achievements in Brandon last year included the April start-up of the new Computer-to-Plate printing technology project. This $1.2 million investment provides significant improvements in the quality of printed newspaper pages.

Economic conditions in the Brandon region were negatively effected by the US ban on Canadian beef exports, and our team in Brandon did well in keeping revenue losses to a minimum in a competitive market. Late in the year we re-launched the Sunday edition of the Brandon Sun in tabloid format, along with the redesigned extended market product entitled "Sunday Plus". Both products have been well received by readers and advertisers. We also welcomed James O'Connor as the new managing editor in Brandon. James is a veteran journalist who started his career at the Brandon Sun and has held senior management positions in newsrooms with Transcontinental Media as well as Sun Media.

LETTER TO THE UNITHOLDERS

CANSTAR COMMUNITY NEWS LIMITED

On July 13, 2004 we acquired the assets and businesses which are now operated by Canstar Community News Limited, a wholly owned subsidiary of FPLP. Under the leadership of John Proven, many significant changes have been made to strengthen these operations for the long term. In September, we completed the redesign of the five weekly newspapers and integrated the printing of these publications at our Winnipeg and Brandon plants. In the fourth quarter, resources were focused on improving the distribution system of the newly acquired operations, ensuring better quality and delivery performance for our advertisers and readers.

Revenue in the fourth quarter was lower than we expected, and much of the focus during this period was on reviewing the strategic business plan and implementing operational changes. In January 2005, further key management appointments were made, including John Devries as Manager of Distribution Services and Brent Coad as Manager of Sales and Marketing. With strong leadership and a clear vision of their mission, the challenge for 2005 will be to profitably grow revenue at these businesses.

THE YEAR AHEAD

Although the print advertising market is tentative as we begin 2005, we believe we have the right people in place and the right products available to offer our customers compelling value for their advertising dollar. We enter 2005 with strong financial reserves to support our current distribution levels, and we are working hard to improve operating performance and further grow distributable cash. As you review this report, you will see what some of our customers have to say about why they trust our people and our products to help realize their own business goals.

Finally, we would like to thank and acknowledge all our dedicated and creative employees, who continually push to improve our publications and services, to the benefit of our readers, our advertisers and our communities.

Ronald N. Stern
Chairman and Trustee

Rudy Redekop
President

March 23, 2005

FINANCIAL AND OPERATING HIGHLIGHTS

MANITOBA NEWSPAPER OPERATIONS

In millions of dollars	2004(5)	2003	2002(3)	2001	2000
Revenues(1)	$111	$105	$100	$102	$103
EBITDA(2)	$24	$24	$22	$23	$25

FP NEWSPAPERS INCOME FUND(4)

	2004	2003	2002	2001	2000
Distributable cash attributable to the Fund(2)	$9.8 million	$9.5 million	$5.2 million	n/a	n/a
Distributions declared	$8.7 million	$8.4 million	$5.3 million	n/a	n/a
Distributions/unit	$1.265	$1.210	$0.765	n/a	n/a

FINANCIAL AND OPERATING HIGHLIGHTS IN 2004

National Post printing contract completed.

Brandon Sun implemented the computer-to-plate printing technology upgrade.

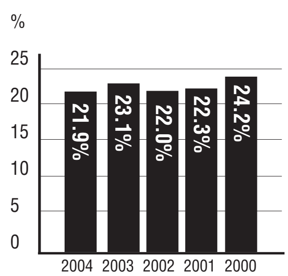
Ewan Pow assumed the position of Publisher at the Brandon Sun in April.

Decision to sell surplus printing equipment at the Winnipeg facility was made during the second quarter.

Acquisition of five weekly Winnipeg newspapers and three distribution businesses in Winnipeg, Brandon and Thunder Bay was completed during the third quarter. John Proven was hired as Publisher and General Manager.

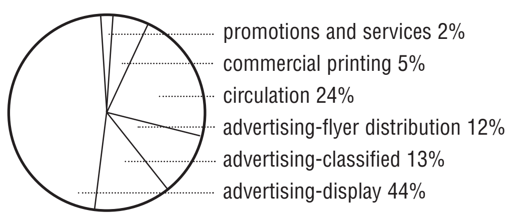
Winnipeg Free Press launched a new internet employment web site with Workopolis.

EBITDA



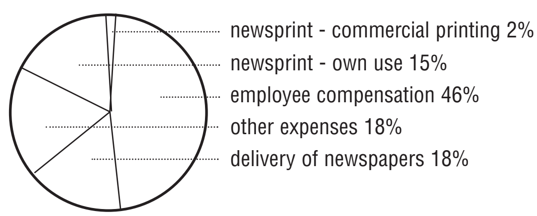
Relatively stable EBITDA(2) margins have been maintained, even with the acquisition of lower-margin weekly community newspapers in 2004.

COMPONENTS OF REVENUE



Advertising revenue makes up 69% of revenue, with display advertising supplying the major share.

OPERATING EXPENSES, EXCLUDING AMORTIZATION



Employee compensation and Winnipeg city-carrier delivery costs are under contract until the 4th quarter of 2005.

(1) Revenue for the years 2000 to 2003 has been restated to reflect a change made in 2004 in the way circulation revenues are recorded. See Note 3 in the consolidated FPLP financial statements.
(2) Management's discussion and analysis provides an explanation of how these financial measures are calculated and provides a reconciliation to the audited consolidated financial statements.
(3) Figures for 2002 include the negative impact of the loss of nine publishing days due to a strike at the Winnipeg Free Press.
(4) The Fund commenced operations on May 28, 2002 and therefore 2002 results reflect only the period from May 28, 2002 to December 31, 2002.
(5) Figures for 2004 include the acquisition of the community newspapers and advertising distribution businesses in the third quarter of 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 23, 2005

Management's Discussion and Analysis provides a review of significant developments that have effected the Fund's performance during 2004. This review is based on financial information contained in the consolidated financial statements. Factors that could effect 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 financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Further information relating to the Fund including the Fund's annual information form 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[1] 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, Ontario and operates them under its wholly owned subsidiary Canstar Community News Limited.

FP NEWSPAPERS INCOME FUND

The consolidated financial statements of the Fund report the results of operations for the years ended December 31, 2004 and 2003. A summary of selected financial information is as follows:

	2004	2003	Period from May 28, 2002 to December 31 2002
	$ in thousands except per unit amounts		
Revenue	5,612	7,426	3,787
Net earnings	5,350	7,133	3,661
Net earnings per unit	0.775	1.033	0.530
Total assets	63,625	66,956	68,288
Distributions declared	8,732	8,352	5,277
Distributions declared per unit	1.265	1.210	0.765

Revenue for the year ended December 31, 2004 was $5,612,000 compared to $7,426,000 in 2003. Included in 2004 revenue was $5,602,000 from its investment in FPLP and interest income in the amount of $10,000 on cash balances. The Fund's income from its investment in FPLP of $5,602,000 consisted of $7,698,000 (2003 - $7,815,000) in interest on the 11.5% subordinated notes issued by FPLP to the Fund and ($2,096,000) (2003 - ($391,000)) representing the Fund's equity interest from its Class A limited partnership units. The Fund incurred $262,000 (2003 - $293,000) in operating expenses, resulting in net earnings of $5,350,000 for the year ended December 31, 2004 and $7,133,000 for the prior year. The decrease in the Fund's net earnings in 2004 is because of the lower income earned on its Class A limited partnership units in FPLP. During the year ended December 31, 2004, FPLP sold some surplus components from one of its three Winnipeg printing presses resulting in a $1.2 million loss. In addition, FPLP decided that certain other surplus components of the same press would be marketed for sale. As at December 31, 2004, these components had not been sold. In accordance with GAAP, these components held for sale were revalued to their estimated fair market value, less costs to sell, resulting in a non-cash accounting loss of $3.0 million. Consequently, the net earnings in FPLP for the year ended December 31, 2004 were lower when compared to the prior year resulting in decreased revenue and net earnings in the Fund in 2004.

Distributable cash attributable to the Fund [1] for the year ended December 31, 2004 was $9.8 million, or $1.415 per unit. The Fund declared distributions of $1.265 per unit during this period resulting in a payout ratio of 89.4%. Since inception on May 28, 2002, the Fund has generated distributable cash attributable to the Fund[1] of $3.553 per unit and declared distributions of $3.239 per unit, resulting in a cumulative payout ratio of 91.2%.

The excess of distributable cash attributable to the Fund[1] over distributions paid by the Fund may be used to pay future distributions, to reduce debt, to fund future capital expenditures or for other general purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Distributions declared to unitholders for the year ended December 31, 2004 were as follows:

Record Date	Payment Date	Amount per Unit
January 30, 2004	February 26, 2004	$0.1050
February 27, 2004	March 30, 2004	$0.1050
March 31, 2004	April 29, 2004	$0.1050
April 30, 2004	May 28, 2004	$0.1050
May 31, 2004	June 29, 2004	$0.1050
June 30, 2004	July 29, 2004	$0.1050
July 30, 2004	August 30, 2004	$0.1050
August 31, 2004	September 29, 2004	$0.1050
September 30, 2004	October 28, 2004	$0.1050
October 29, 2004	November 29, 2004	$0.1050
November 30, 2004	December 30, 2004	$0.1075
December 31, 2004	January 28, 2005	$0.1075
		$1.2650

The distribution policy of the Fund is to make distributions in approximately equal monthly amounts based on expected operating results.

At December 31, 2004 the Fund has 6,902,592 units issued and outstanding (2003 – 6,902,592).

SUMMARY OF QUARTERLY RESULTS

A summary of the Fund's quarterly revenue, net earnings and net earnings per unit for the years ended December 31, 2004 and 2003 is as follows:

	2004	2003
	$ in thousands except per unit amounts	
Revenue		
Quarter 1	1,545	1,470
Quarter 2(*)	210	2,056
Quarter 3	1,477	1,447
Quarter 4	2,380	2,453
Net earnings		
Quarter 1	1,483	1,407
Quarter 2(*)	158	1,995
Quarter 3	1,394	1,372
Quarter 4	2,315	2,359
Net earnings per unit		
Quarter 1	0.215	0.203
Quarter 2(*)	0.023	0.289
Quarter 3	0.202	0.199
Quarter 4	0.335	0.342

(*) Decrease in 2004 primarily due to the sale and write-down of excess press components in FPLP as discussed above.

RESULTS OF OPERATIONS OF FPLP

Selected annual financial information of FPLP is as follows:

	2004	2003	2002
	$ in thousands of dollars		
Revenue	111,238	105,054	99,784(*)
EBITDA(2)	24,334	24,250	21,977(*)
Net earnings	3,736	7,337	7,716(*)
Total assets	157,342	162,995	165,678
Total long-term liabilities(**)	65,730	126,554	127,554

(*) Revenue, EBITDA(2) and net earnings for 2002 were reduced by the loss of nine publishing days in October due to a strike by the unionized employees and carriers at the Winnipeg Free Press.

(**) At December 31, 2004, the term loan in the amount of $59.6 million has been classified as a current liability because it matures in May 2005 whereas in 2003 it was included as part of long-term liabilities. (See "Financial condition of FPLP")

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVENUE

A summary of revenue by major category is as follows:

	2004	2003	2002(*)
	In thousands of dollars		
Advertising	$76,777	$72,115	$67,890
Circulation	26,682	26,455	25,159
Commercial printing	5,981	5,063	5,177
Promotions and services	1,798	1,421	1,558
	$111,238	$105,054	$99,784

(*) Revenue, in 2002 was reduced by the loss of nine publishing days in October due to a strike by the unionized employees and carriers at the Winnipeg Free Press.

Revenue for the year ended December 31, 2004 was $111.2 million compared to $105.1 million, for the prior year. The acquisition of the community newspapers and advertising distribution businesses during the third quarter of 2004 accounted for $3.5 million of this increase. Advertising flyer distribution revenue, excluding the acquired businesses, accounted for $1.5 million of this growth primarily because of increases in the number of pieces delivered. Growth in volumes of flyer advertising pieces is not unique to our markets. Classified revenues, excluding the acquired businesses, increased by $1.1 million in 2004 primarily the result of increased spending in the employment, obituary and real estate categories. Our largest advertising category, display advertising including colour, excluding the acquired businesses, decreased by $1.1 million from 2003 and is primarily the result of a shift of advertising spending by some customers into flyer business. Commercial printing revenues were higher by $0.9 million in 2004 due to increased contract printing volume at both the Winnipeg and Brandon facilities.

OPERATING EXPENSES EXCLUDING AMORTIZATION

Operating expenses excluding amortization by major category is as follows:

	2004	2003	2002(*)
	In thousands of dollars		
Employee compensation	$39,925	$37,077	$35,892
Newsprint – own use	13,335	13,389	11,841
Newsprint – commercial printing	2,130	1,740	1,643
Delivery of newspapers	15,829	14,006	13,298
Other	15,685	14,592	15,133
	$86,904	$80,804	$77,807

(*) Operating expenses excluding amortization for 2002 were lower because of the loss of nine publishing days in October due to a strike by the unionized employees and carriers at the Winnipeg Free Press.

Operating expenses excluding amortization for the year ended December 31, 2004 were $86.9 million, an increase of $6.1 million or 7.5% over 2003. The acquisition of the businesses accounted for $3.3 million or 4.1% of this increase. Employee compensation, excluding the acquired businesses, increased by $1.7 million or 4.6% largely the result of contracted annual increases, additional compensation costs associated with the increased flyer volumes, severance costs and strategic executive appointments made in the second half of 2003. Newsprint expense for FPLP's own publications, excluding the acquired businesses, decreased by $0.2 million or 1.8% primarily the result of lower newsprint prices offset partially by increased usage. Newsprint expense for commercial printing increased by $0.4 million or 22.4% primarily the result of increased usage relating to the National Post printing contract. Delivery costs, excluding the acquired businesses, increased by $0.9 million in 2004 primarily the result of increased distribution costs resulting from increased flyer volumes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

EBITDA(2) for the year ended December 31, 2004 was $24.3 million. EBITDA(2) for the year ended December 31, 2004, excluding the acquired businesses, was $24.2 million compared to $24.3 million for the same period in 2003. EBITDA(2) margin, excluding the acquired businesses, was 22.4% for the year ended December 31, 2004 compared to 23.1% last year.

Amortization of property, plant and equipment decreased from $4.4 million in 2003 to $4.2 million for the year ended December 31, 2004. This reduction is mainly due to the disposal and write-down in value of excess press components and the temporary retirement from service of certain pieces of equipment at the Winnipeg printing plant, partially offset by the additions during the year.

Interest expense on the term credit facility for the year ended December 31, 2004 was $2.8 million, a $0.3 million decrease over the same period last year due to a decrease in effective interest rates on the variable-rate term loan. The average interest rate applicable to the term credit facility during the twelve months ended December 31, 2004 was 4.7% compared to 5.2% for the same period in 2003. Interest expense on the subordinated notes issued May 28, 2002 was $7.7 million for the year ended December 31, 2004 compared to $7.8 million last year. The decrease in subordinated note interest in 2004 is due to a $1.0 million reduction in December 2003 in the principal amount outstanding.

Net earnings for the year ended December 31, 2004 was $3.7 million, and represented 3.4% of revenue compared to $7.3 million or 7.0% of revenue in 2003. As discussed earlier in the analysis of the Fund's results, the reduction in net earnings in 2004 is mainly due to the $1.2 million loss on the sale of excess press components and the $3.0 million non-cash loss relating to the reduction of the carrying value of additional excess press components which are being held for sale at December 31, 2004.

SUMMARY OF QUARTERLY RESULTS

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(2) and net earnings of FPLP by quarter for 2004, 2003 and 2002 were as follows:

	2004	2003	2002
Revenue	In thousands of dollars		
Quarter 1	$25,674	$25,008	$24,820
Quarter 2	27,840	26,904	26,038
Quarter 3	27,283(****)	25,141	23,943
Quarter 4	30,441(****)	28,001	24,983(*)
	$111,238	$105,054	$99,784
EBITDA (2)			
Quarter 1	$5,387	$5,204	$5,139
Quarter 2	6,772	6,501	6,403
Quarter 3	5,167	5,281	4,977
Quarter 4	7,008	7,264	5,458(*)
	$24,334	$24,250	$21,977
Net Earnings (loss)			
Quarter 1	$1,231	$1,073(**)	$2,646
Quarter 2	(1,489)(***)	2,249(**)	3,107
Quarter 3	1,077	983	674
Quarter 4	2,917	3,032	1,289(*)
	$3,736	$7,337	$7,716

(*) The decline in revenue, EBITDA(2) and net earnings in the fourth quarter of 2002 resulted primarily from the loss of nine publishing days at the Winnipeg Free Press due to a strike by unionized employees and newspaper carriers.

(**) The decline in net earnings in the first and second quarters of 2003 is primarily due to the introduction of interest expense on the subordinated notes which were issued during the initial public offering in May of 2002, partly offset by a decline in the interest on the term loan.

(***) The decline in earnings in the second quarter of 2004 was primarily due to the impact of the sale and write-down of excess press components as discussed earlier.

(****) Third quarter 2004 revenue includes $1.7 million and fourth quarter 2004 revenue includes $1.8 million from the community newspapers and advertising distribution businesses acquired during the third quarter of 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL CONDITION OF FPLP

WORKING CAPITAL POSITION

At December 31, 2004, FPLP's current liabilities exceed its current assets because the term loan of $59.6 million has been classified as current since it matures in May 2005. FPLP is in the process of refinancing this term loan, however, no agreement has yet been finalized. Cash and cash equivalents decreased by $4.9 million and accounts receivable increased by $1.4 million from December 31, 2003 primarily due to the acquisition of the community newspapers and advertising distribution businesses on July 13, 2004.

PROPERTY, PLANT AND EQUIPMENT

The decline in property, plant and equipment is primarily due to the sale of surplus components from one of the printing presses at the Winnipeg Free Press and the decision to sell certain other surplus components from the same press. At December 31, 2004, this equipment for sale has not been sold and is recorded separately as an asset on the balance sheet in the amount of $2,289,000. This decrease is partially offset by the additions discussed in the Liquidity and Capital Resources section of FPLP.

GOODWILL

The increase in goodwill in the amount of $6.1 million was part of the acquisition of the community newspapers and advertising distribution businesses, as discussed in the Liquidity and Capital Resources section of FPLP.

LIQUIDITY AND CAPITAL RESOURCES OF FPLP

Cash and cash equivalents decreased by $4.9 million in 2004 compared to an increase of $3.1 million in 2003. Operating activities provided $13.5 million during the year, while $7.7 million was used for investing activities and $10.7 million was used for financing activities.

CASH FLOW FROM OPERATING ACTIVITIES

During the year ended December 31, 2004, cash generated from operating activities was $13.5 million compared to $14.8 million in the prior year. The decrease is mainly attributable to a change in the timing of invoice payments in prior years.

INVESTING ACTIVITIES

Maintenance capital purchases, representing the replacement of capital in order to sustain current business operations, totalled $1.0 million in 2004 compared to $0.4 million last year. In addition to this maintenance capital spending which was largely for technology upgrades, FPLP made a strategic capital investment of $0.5 million in 2004 to acquire 60 new print rolls for the mailroom at the Winnipeg Free Press. These print rolls are used to process advertising flyer pieces into the daily newspaper and allow FPLP to more effectively keep up with the growth in flyer volumes, reduce labour costs and help to reduce the risk of late newspaper delivery.

During 2004 FPLP significantly upgraded the Brandon printing operations through the investment in Computer-to-Plate printing technology. This $1.2 million project was financed through a capital lease with a four-year term and will provide significant improvements in the quality of print work in our Brandon plant.

On July 13, 2004, FPLP acquired all of the assets and assumed specified liabilities of a weekly newspaper publishing business and an advertising distribution business previously operated by Transcontinental Media for total consideration, including acquisition costs of $0.2 million, of $7.2 million. FPLP financed the entire purchase price by drawing on its available operating facility, and during the third quarter repaid the entire amount.

FINANCING ACTIVITIES

Distributions to partners of FPLP for the year ended December 31, 2004 totalled $10.6 million, of which $1.3 million was paid to the Fund as holder of Class A limited partnership units. In 2004, total distributions were down from $11.3 million in 2003 as 2003 included distributions to the general partner units that were deferred from 2002 due to the strike at the Winnipeg Free Press.

CONTRACTUAL OBLIGATIONS

A summary of FPLP's contractual obligations by period are as follows:

		Payments Due by Period			
	Total	Less than 1 year	1-3 Years	4-5 Years	After 5 Years
	In thousands of dollars				
Long-term debt(*)	$59,600	$59,600	-	-	-
Operating leases	364	207	155	2	-
Subordinated notes(**)	64,954	-	-	-	64,954
Capital leases	1,147	317	830	-	-
Other contractual commitments	1,313	131	394	263	525
Total contractual obligations	$127,378	$60,255	$1,379	$265	$65,479

(*) The term loan matures in May 2005. FPLP intends to refinance this loan prior to its maturity and is currently reviewing refinancing options, however, no decisions or commitments have been completed as of the date of this report.

(**) The subordinated notes are owned by the Fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESERVES RELATED TO DISTRIBUTABLE CASH ATTRIBUTABLE TO THE FUND[1]

Under the terms of the Amended and Restated Agreement of Limited Partnership dated May 24, 2002, 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.

During the year ended December 31, 2003, the Managing General Partner determined that it was desirable to establish a reserve for future maintenance capital. A summary of the reserve for maintenance capital for the years ending December 31, 2004 and 2003 is as follows:

	2004	2003
	In thousands of dollars	
Reserve – beginning of year	$641	$ -
Increase in reserve	155	641
Decrease in reserve	(166)	-
Reserve – end of year	$630	$641

During the second quarter of 2004, the Managing General Partner determined that it was desirable to establish a reserve in the amount of $1.0 million for purposes of future strategic capital, acquisitions and/or debt reduction. The amount of the reserve initially established during the second quarter was equal to the net proceeds received on the sale of surplus equipment discussed earlier. During the third quarter of 2004, a strategic capital acquisition was made for mailroom print rolls at the Winnipeg Free Press and this amount has been deducted from the reserve. A summary of the reserve for strategic capital, acquisitions and/or debt reduction is as follows:

	2004
	In thousands of dollars
Reserve – beginning of year	$ -
Increase in reserve	956
Decrease in reserve	(446)
Reserve – end of year	$510

Increases in the reserves are shown as a deduction in determining distributable cash[1] of FPLP. Decreases in the reserves are shown as an increase in the determination of distributable cash[1]. 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.

FINANCIAL INSTRUMENTS

INTEREST RATES

In order to manage its interest rate risk on its variable-rate term loan, FPLP has entered into two interest rate swap agreements and one interest rate cap agreement. The two interest rate swap agreements are for $10 million each and fix the interest rate at 4.75% and 3.99%. The interest rate cap agreement limits the interest payable on a further $10 million of FPLP's term loan at 5.25%.

FPLP's exposure to credit related losses in the event of non performance by counterparties to the above interest rate agreements is mitigated by accepting only major financial institutions as counterparties.

OFF-BALANCE SHEET ARRANGEMENTS

With the exception of interest rate swaps and interest rate cap agreements entered into by FPLP to manage interest rate risks which are designated as hedges (see details of these agreements in notes 7 and 14 of the FPLP Audited Consolidated Financial Statements) there are no other off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

FPLP purchases a portion of its newsprint requirements from Alberta Newsprint Company ("ANC") a joint venture equally owned by a limited partnership controlled by Ronald N. Stern, (Chairman of the Board and Director of FPLP), and West Fraser Mills Ltd. ANC is a supplier of newsprint to a number of other newspaper publishing operations in both Canada and the United States. ANC is one of three qualified suppliers of newsprint to FPLP. Total newsprint purchases from ANC based on actual invoice prices in 2004 were $6.5 million (2003 - $10.8 million). While there is no formal contractual obligation in place with respect to future newsprint purchases, selection of suppliers will continue to be made by management based on criteria approved by the Audit Committee of FPLP. The Audit Committee reviews newsprint purchasing details with management on a regular quarterly basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CRITICAL ACCOUNTING ESTIMATES

FPLP has estimated the fair value and useful life of finite life intangible assets and the fair value of indefinite life intangible assets and goodwill, based on historical customer patterns, industry trends and existing competitive factors. Significant unfavourable changes to these factors could result in a material impairment of the fair value and/or life of these assets.

In performing the annual impairment testing of goodwill and intangibles, a number of assumptions and estimates are made in applying a fair value test. The fair value definition used is the amount at which an asset could be bought or sold in a current transaction between knowledgeable, willing parties. Valuation techniques used include either a market approach or a discounted cash flow ("DCF") approach. The market approach is used where comparable public market data is available. The projections used in the DCF approach represent management's best estimates of expected operating results and use a range of discount rates taking into consideration factors such as the size of the operations and the risk profile.

Had different assumptions or valuation techniques been used in performing the impairment testing, the carrying value of finite life and indefinite life intangibles and goodwill may have been different. FPLP considers the assumptions and techniques used to be reasonable.

NEW ACCOUNTING DEVELOPMENTS

RESTATEMENT OF REVENUE AND OPERATING EXPENSES, EXCLUDING AMORTIZATION
During the year ended December 31, 2004, FPLP retroactively adopted the consensus of the Emerging Issues Committee of the CICA, EIC – 123, "Reporting Revenue Gross as a Principal versus Net as an Agent." Under this EIC, circulation revenues for home delivered subscribers are reported on a gross basis whereas these revenue sources were previously reported net of certain delivery costs. The impact of this change was to increase revenue and operating expenses, excluding amortization by $5,615,000 for the year ended December 31, 2004 and $5,248,000 for 2003. Net earnings were not impacted by this change.

RECENT ACCOUNTING PRONOUNCEMENTS

AcG 15 Consolidation of Variable Interest Entities:
In June 2003, the CICA issued Accounting Guideline 15, Consolidation of Variable Interest Entities, which is effective for annual and interim periods beginning on or after November 1, 2004. The guideline provides guidance in determining when an enterprise applies consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests.

CICA 3860 Financial Instruments – Disclosure and Presentation:
In January 2004, the CICA amended CICA 3860, Financial Instruments – Disclosure and Presentation, to require certain obligations that must or may be settled, at the issuer's option, by a variable number of the issuer's own equity instruments, to be presented as liabilities. These instruments were formerly presented as equity. This amendment is effective for fiscal years beginning on or after November 1, 2004.

CICA 3855 Financial Instruments – Recognition and Measurement:
This new handbook section will be effective for fiscal years beginning on or after October 1, 2006. CICA 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount, either fair value or a cost based measure. The section also provides standards for reporting gains and losses on financial instruments.

CICA 3865 Hedges:
This new handbook section will be effective for fiscal years beginning on or after October 1, 2006. CICA 3865 is an optional application that provides alternative treatments to Section 3855 (discussed above) for entities which choose to designate qualifying transactions as hedges for accounting purposes. It builds on existing Accounting Guideline AcG-13, Hedging Relationships, and Section 1650, Foreign Currency Translation, by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

CICA 1530 Comprehensive Income:
This new handbook section will be effective for fiscal years beginning on or after October 1, 2006. This section provides a new requirement that certain gains and losses are to be temporarily presented outside of net earnings and recognized as 'other comprehensive income'. Comprehensive income is the change in equity of an enterprise during a period from transactions and other events and circumstances from non-owner sources. Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income, but excluded from net earnings.

The adoption of these five accounting pronouncements is not expected to impact the consolidated financial statements of the Fund or FPLP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS RISKS AND UNCERTAINTIES

REVENUE

Advertising revenue, which accounts for 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 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 October 2005. Collective agreements covering unionized employees at the Brandon Sun expire 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 $15.5 million of expenses in 2004. 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. United States dollar dominated expenses are less than $1.0 million per annum and therefore, FPLP has a minimal direct exposure to foreign currency fluctuations. FPLP does have a theoretical exposure to U.S. dollar fluctuations with respect to newsprint purchasing. Although FPLP buys newsprint at Canadian dollar prices, to some degree these prices reflect the U.S. dollar price of newsprint and the prevailing U.S./Canadian exchange rate. However, there is no direct correlation, since U.S. consumption is approximately 10 times Canadian consumption, and Canadian producers supply approximately 60% of U.S. consumption. Because costs of Canadian producers are predominantly Canadian based, the U.S. dollar market price of newsprint is influenced by the U.S./Canadian exchange rate. FPLP pays Canadian market prices for newsprint, which fluctuate with market conditions.

OUTLOOK

REVENUE

Although advertising volumes are very difficult to forecast, some industry forecasters are expecting increased print advertising spending in Canada in 2005, in the 2% - 4% range. However, advertising spending is highly dependent on consumer spending which can change quickly due to a variety of factors. The 2% - 4% advertising revenue growth on a same store basis, is a reasonable 2005 estimate for FPLP. Overall circulation revenue growth is expected to be in the 1% to 2% range primarily resulting from certain subscription rate increases of approximately 3.5% which took effect November 2004. Commercial printing revenues are expected to improve in 2005 partly resulting from a full year of the agreement to print the National Post for the Manitoba and northwestern Ontario markets at our Winnipeg plant.

OPERATING EXPENSES EXCLUDING AMORTIZATION

As a result of the contract settlements at the Winnipeg Free Press, average wage rates will increase by 2.25% for the first 10 months of 2005 compared to 2004. FPLP estimates overall compensation costs will increase between 3% - 4% on a same store basis and the components of the increase include labour wage rate increases, part time costs for handling increased insert volumes and pension and benefit cost increases. Compensation related expenses accounted for 45.9% of 2004 expenses before interest, amortization and taxes, while newsprint and delivery costs accounted for 17.8% and 18.2% respectively. As we have previously reported, the timing of newsprint price increases are difficult to predict. The first quarter 2005 pricing will be approximately 0.7% lower than the same quarter in 2004. Newsprint prices are expected to increase slowly in the second half of 2005. Delivery costs will fluctuate as flyer volumes change and may also be impacted by the October 2005 Winnipeg city carrier collective agreement.

OTHER EXPENSES

Amortization of property, plant and equipment is expected to decrease in 2005 as a result of the decision during 2004 to sell and write-down the value of excess printing press components at our Winnipeg print facility. Interest expense on the term loan is expected to be somewhat higher in 2005, as a greater portion of the term loan may be subject to higher fixed rates of interest. Interest on the subordinated debt will be lower by approximately $0.2 million due to the principal reduction of the debt in December 2004 in the amount of $2.0 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOOTNOTES:

(1) 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 since it provides investors with an indication of the amount of cash available for distribution to unitholders. The calculations are also required by the terms of the partnership agreement governing FPLP and by the terms of the deed of trust governing the Fund. Distributable cash attributable to the Fund is not a defined term under Canadian GAAP and it should not be construed as an alternative to using net earnings or the statement of cash flows as measures of profitability and cash flow. Readers should be cautioned that the method of calculating distributable cash may not be comparable to similar measures presented by other issuers. Management has determined distributable cash attributable to the Fund as follows for the years ended December 31, 2004 and 2003:

	2004	2003
	In thousands except per unit amounts	
EBITDA[(2)]	$24,334	$24,250
Interest income	61	98
Interest expense on term loan and capital leases	(2,865)	(3,114)
Principal repayment of capital leases	(90)	-
Maintenance capital expenditures	(1,017)	(401)
Decrease (increase) in reserve for future maintenance capital	11	(641)
Strategic capital expenditures	(446)	-
(Increase) in reserve for future strategic capital, acquisitions, and/or debt reduction	(510)	-
Proceeds from sale of property, plant and equipment	965	57
Distributable cash of FPLP	$20,443	$20,249
Distributable cash attributable to the Fund:		
49% of FPLP distributable cash	$10,017	$9,922
Administration expenses	(262)	(293)
Loan from related party	-	(100)
Interest income	10	2
Distributable cash attributable to the Fund	$9,765	$9,531
Distributable cash attributable to the Fund – per Unit	$1.415	$1.381

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	2004	**2003**
	In thousands of dollars	
Cash flow from operating activities of FPLP	$13,529	$14,749
Add / (subtract)		
Interest on subordinated notes(*)	7,698	7,815
Net change in non-cash working capital items(**)	303	(1,330)
Maintenance capital expenditures	(1,017)	(401)
Principal repayment of capital leases	(90)	-
Strategic capital expenditures	(446)	-
Decrease (increase) in reserve for future maintenance capital(***)	11	(641)
(Increase) in reserve for future strategic capital, acquisitions, and/or debt reduction(***)	(510)	-
Proceeds from sale of property, plant and equipment(****)	965	57
Distributable cash of FPLP	$20,443	$20,249

(*) Distributable cash of FPLP is determined before deduction of interest on the subordinated notes because 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 statement of cash flows, changes in non-cash working capital are not normally included in the calculation of distributable cash, since 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.

(***) Increases in the reserves for future maintenance capital, strategic capital, acquisitions, and/or debt reduction are shown as a deduction in determining distributable cash. Decreases in the reserves are 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.

(2) EBITDA

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

	2004	**2003**
	In thousands of dollars	
Net earnings for the year	$3,736	$7,337
Add (subtract):		
Amortization of property, plant and equipment	4,171	4,353
Amortization of intangible assets	362	362
Interest	10,563	10,929
Amortization of deferred financing costs	1,382	1,382
Interest income	(61)	(98)
Loss/(gain) on disposal of property, plant and equipment	1,242	(15)
Write-down of equipment held for sale	3,019	-
Future income tax benefit	(80)	-
EBITDA	$24,334	$24,250

FPLP FINANCIAL STATEMENTS

FP Canadian Newspapers Limited Partnership Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

THE accompanying consolidated financial statements of FP Newspapers Income Fund (the "Fund"), the consolidated 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 judgments. 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 controls 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 Directors. 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 and Management's Discussion and Analysis are forwarded to the Trustees and the Directors for their approval.

Ernst & Young LLP, an independent firm of Chartered Accountants, was appointed by the unitholders at the annual meeting to complete the audits of the consolidated financial statements and to provide independent professional opinions.

Ernst & Young LLP has full and free access to the Audit Committee.

Ronald N. Stern

RONALD N. STERN
Chairman

KEVIN KARR
Chief Financial Officer

Winnipeg, Canada, March 23, 2005

AUDITORS' REPORT

TO THE PARTNERS OF FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP

We have audited the consolidated balance sheet of FP Canadian Newspapers Limited Partnership as at December 31, 2004 and the consolidated statements of earnings and cumulative earnings, unitholders' equity and cash flows for the year 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 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, the consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2003 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 13, 2004.

Ernst & Young LLP
Chartered Accountants

Winnipeg, Canada,
February 22, 2005

FPLP CONSOLIDATED BALANCE SHEETS

As at December 31, 2004 and 2003
(in thousands of dollars)

	2004 $	2003 $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	571	5,434
Accounts receivable	12,506	11,088
Inventories	976	988
Prepaid expenses and deposits	1,138	1,395
Future income tax asset	80	-
	15,271	18,905
EQUIPMENT HELD FOR SALE (note 4)	2,289	-
PROPERTY, PLANT AND EQUIPMENT (note 4)	56,365	65,194
DEFERRED FINANCING COSTS	3,378	4,760
INTANGIBLE ASSETS (note 5)	9,179	9,331
GOODWILL (note 15)	70,860	64,805
	157,342	162,995
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	9,289	9,148
Prepaid subscriptions and deferred revenue	2,828	2,798
Current obligations under capital leases (note 6)	270	-
Term loan (note 7)	59,600	-
	71,987	11,946
LONG-TERM LIABILITIES		
Term loan (note 7)	-	59,600
Subordinated notes (note 7)	64,954	66,954
Obligations under capital leases (note 6)	776	-
	65,730	126,554
UNITHOLDERS' EQUITY		
Partnership units (note 8)	34,793	32,793
Cumulative earnings	21,153	17,417
Cumulative distributions	(36,321)	(25,715)
	19,625	24,495
	157,342	162,995

Commitments and contingencies (note 9)
(See accompanying notes)

Approved by the Board of Directors of the managing general partner

Ronald N. Stern,
Director

Harvey Secter,
Director

FPLP CONSOLIDATED STATEMENTS OF EARNINGS AND CUMULATIVE EARNINGS

For the years ended December 31, 2004 and 2003
(in thousands of dollars)

	2004 $	2003 $
Revenue (note 3)	111,238	105,054
Operating expenses, excluding amortization (note 3)	86,904	80,804
	24,334	24,250
Amortization of property, plant and equipment	(4,171)	(4,353)
Amortization of intangible assets	(362)	(362)
Earnings before the undernoted	19,801	19,535
Interest (note 17)	(10,563)	(10,929)
Amortization of deferred financing costs	(1,382)	(1,382)
Interest income	61	98
Unusual item (note 4)	(4,264)	-
Gain on sale of property, plant and equipment	3	15
Net earnings before income taxes	3,656	7,337
Future income tax benefit	80	-
NET EARNINGS FOR THE YEAR	3,736	7,337
CUMULATIVE EARNINGS - BEGINNING OF YEAR	17,417	10,080
CUMULATIVE EARNINGS - END OF YEAR	21,153	17,417

(See accompanying notes)

FPLP CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

For the years ended December 31, 2004 and 2003
(in thousands of dollars)

	GENERAL PARTNER UNITS	LIMITED PARTNER CLASS A UNITS	TOTAL
	$	$	$
UNITHOLDERS' EQUITY - JANUARY 1, 2003	26,620	823	27,443
Net earnings	6,552	785	7,337
Distributions	(10,078)	(1,207)	(11,285)
Contributions	-	1,000	1,000
UNITHOLDERS' EQUITY - DECEMBER 31, 2003	23,094	1,401	24,495
Net earnings	3,290	446	3,736
Distributions	(9,341)	(1,265)	(10,606)
Contributions	-	2,000	2,000
UNITHOLDERS' EQUITY - DECEMBER 31, 2004	17,043	2,582	19,625

(See accompanying notes)

FPLP CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(in thousands of dollars)

	2004 $	2003 $
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net earnings for the year	3,736	7,337
Items not affecting cash		
Amortization	5,915	6,097
Future income tax benefit	(80)	-
Loss/(gain) on disposal of property, plant and equipment (note 4)	1,242	(15)
Write down of equipment (note 4)	3,019	-
	13,832	13,419
Net change in non-cash working capital items (note 12)	(303)	1,330
	13,529	14,749
INVESTING ACTIVITIES		
Acquisition (note 15)	(7,198)	-
Purchases of property, plant and equipment	(1,463)	(401)
Proceeds from sale of property, plant and equipment (note 4)	965	57
	(7,696)	(344)
FINANCING ACTIVITIES		
Distributions to partners	(10,606)	(11,285)
Operating loan advance	7,100	-
Repayment of operating loan	(7,100)	-
Principal repayment of capital leases	(90)	-
	(10,696)	(11,285)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,863)	3,120
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	5,434	2,314
CASH AND CASH EQUIVALENTS - END OF YEAR	571	5,434
Supplemental Cash Flow Information:		
Interest paid during the year	10,421	10,790

(See accompanying notes)

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(tabular amounts in thousands of dollars)

1 DESCRIPTION OF THE BUSINESS

FP Canadian Newspapers Limited Partnership ("FPLP") is a limited partnership formed on August 9, 1999 in accordance with the laws of British Columbia that publishes, prints and distributes daily and weekly newspapers and delivers advertising materials in the Manitoba and Northwestern Ontario markets. The managing general partner of FPLP is FPCN General Partner Inc.

2 SIGNIFICANT ACCOUNTING POLICIES

a) PRINCIPLES OF CONSOLIDATION
The consolidated financial statements include the accounts of FPLP and its wholly owned subsidiary, Canstar Community News Limited. All significant inter company transactions and balances have been eliminated. These financial statements include only the assets, liabilities, revenues and expenses of FPLP and its wholly owned subsidiary and do not include the other assets, liabilities, revenues and expenses, including income taxes, of the partners.

b) REVENUE RECOGNITION
Advertising revenue, net of agency commissions, is recognized when the advertisements are published. Circulation revenue is recognized based on the date of publication which is also the delivery date (note 3). 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 initially 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 hardware and software, furniture and fixtures, and vehicles	3 - 10 years

Expenditures for major renewals and betterments are capitalized, while minor replacements, repairs and maintenance which do not extend the useful lives are charged to operations as incurred.

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. An impairment is recognized in an amount equal to the difference between the carrying value and the fair value.

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(tabular amounts in thousands of dollars)

SIGNIFICANT ACCOUNTING POLICIES, continued

f) IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND FINITE LIFE INTANGIBLES
Impairment of property, plant and equipment and finite life intangibles is recognized when an event or change in circumstances causes the asset's carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is calculated by deducting the fair value of the asset from its carrying value.

g) 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 annually or when indicated by events or changes in circumstances by comparing the fair value of a particular reporting unit to its carrying value. The carrying value of goodwill is written down if the carrying amount of the reporting unit's goodwill exceeds its fair value.

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

FPLP has estimated the useful life of finite life intangible assets and the fair value of indefinite life intangible assets and 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 carrying value and life of intangible assets and reduction in the fair value of goodwill.

Expenses, assets and liabilities related to the defined benefit pension plan are determined actuarially based on estimates including discount rates for obligations, expected long-term rates of return on pension assets and the rate of compensation increases. Actual results may vary from these estimates.

i) 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 and management's estimate of expected plan investment performance, compensation increases, and retirement ages of employees. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the remaining service period of employees active at the date of amendment. The excess of the net actuarial gain or loss over 10% of the greater of the projected obligation and the fair value of the plan assets is amortized over the average remaining service period of active employees. The average remaining service period of employees covered by the defined benefit pension plan is 13.8 years. For the defined contribution plans, the pension expense is FPLP's contribution to the plans.

j) 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.

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(tabular amounts in thousands of dollars)

k) DEFERRED FINANCING COSTS
Deferred financing costs represent fees and costs in connection with obtaining the credit facility and issuing subordinated notes. These deferred costs are amortized on a straight-line basis over the 3 and 10 year terms of the related debt.

l) 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 three months and are recorded at cost, which approximates market value.

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

Each derivative financial instrument is 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 the 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 earnings 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.

n) INCOME TAXES
FPLP is not a taxable entity, and accordingly, no provision for income taxes relating to FPLP is included in the financial statements since all income, deductions, gains, losses and credits are reportable on the tax returns of the partners. FPLP's subsidiary is subject to tax and uses the liability method for accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. FPLP's subsidiary has non-capital losses in the amount of $226,000 which can be used to reduce the company's taxable income in the future. The tax benefit of this loss is estimated at $80,000 and has been recognized as an asset in the consolidated balance sheet of FPLP. The non-capital loss expires in the year ending December 31, 2014.

3 RESTATEMENT OF REVENUE AND OPERATING EXPENSES, EXCLUDING AMORTIZATION

During the year ended December 31, 2004, FPLP retroactively adopted the provisions of the Emerging Issues Committee of the CICA, EIC - 123, “Reporting Revenue Gross as a Principal versus Net as an Agent.” Under the provision, circulation revenues for home delivered subscribers are reported on a gross basis whereas these revenue sources were previously reported net of certain delivery costs. The impact of this change was to increase revenue and operating expenses, excluding amortization by $5,615,000 for the year ended December 31, 2004 and $5,248,000 for the year ended December 31, 2003. Net earnings were not impacted by this change.

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(tabular amounts in thousands of dollars)

4 PROPERTY, PLANT AND EQUIPMENT

	2004		2003	
	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Land	1,000	-	1,000	-
Buildings	7,800	601	7,800	406
Machinery and equipment	52,353	7,666	60,065	6,094
Machinery and equipment under capital leases	1,164	131	-	-
Furniture and fixtures	1,910	591	1,602	229
Computer hardware and software	4,017	3,055	3,385	2,019
Vehicles	405	240	294	204
	68,649	12,284	74,146	8,952
NET CARRYING AMOUNT		56,365		65,194

Included in the December 31, 2004 machinery and equipment cost amount are press components with a net carrying amount of $5,139,000 which are not being amortized because they were temporarily removed from service during 2004.

During the year, FPLP sold certain surplus components of one of its printing presses and realized a loss on disposal of $1,245,000. FPLP also made the decision during the year to sell other surplus printing press components. The value of these components was written down to their estimated fair value less costs to sell of $2,289,000 and the resulting loss on write down of $3,019,000 is included in the 2004 consolidated statement of earnings. Given the limited market for this equipment it is not possible to estimate the timing of future sales of these press components.

5 INTANGIBLE ASSETS

	2004		2003	
	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Finite life				
Subscriber base	4,600	947	4,600	640
News archives	550	169	550	114
	5,150	1,116	5,150	754
Indefinite life				
Mastheads	5,145	-	4,935	-
	10,295	1,116	10,085	754
NET INTANGIBLE ASSETS		9,179		9,331

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(tabular amounts in thousands of dollars)

6 OBLIGATIONS UNDER CAPITAL LEASES

During the year FPLP leased equipment under long-term capital leases. The following is a schedule of future minimum lease payments together with the balance of the obligations under capital leases:

	2004 $	2003 $
2005	317	-
2006	317	-
2007	312	-
2008	201	-
Total minimum lease payments	1,147	-
Amount representing interest (at rates ranging from 5.3% to 6.9%)	(101)	-
Present value of minimum capital lease payments	1,046	-
Less current obligations under capital leases	(270)	-
	776	-

7 TERM LOAN AND SUBORDINATED NOTES

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 and FPLP intends to refinance this loan prior to its maturity. Since the terms of the refinancing have not yet been completed the entire term loan has been classified as a current liability on FPLP's Consolidated Balance Sheet at December 31, 2004. The operating facility provides for an additional $10 million and matures in May 2005. 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 collateral 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 3.5% to 4.4% (2003 - 4.2% to 5.2%). At December 31, 2004, the effective interest rates on bankers' acceptances outstanding ranged from 4.1% to 4.4% (2003 - 4.2% to 4.4%). The interest rate on $20 million of the outstanding term loan was fixed through two interest rate swaps. The swaps are each for $10 million with fixed interest rates of 4.75% maturing in June 2005 and 3.99% maturing in April 2005. The interest rate on an 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, 2004, 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 8).

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(tabular amounts in thousands of dollars)

8 UNITHOLDERS' EQUITY

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

At December 31, 2004 and 2003, 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 earnings are allocated 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 year.

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 in the limited partnership agreement, 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 $2,000,000 on December 31, 2004 and $1,000,000 on December 31, 2003 and 2002. In addition, the following future contributions in respect of Class A limited partnership units are required: $2,000,000 on or before December 31, 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.

9 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, 2004:

	$
2005	207
2006	82
2007	63
2008	10
2009	2
Total minimum lease payments	364

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(tabular amounts in thousands of dollars)

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.

c) SPONSORSHIP AGREEMENT
FPLP has entered into a 10 year sponsorship agreement commencing November 16, 2004 requiring annual payments of $131,250.

10 PENSION PLANS

FPLP has a defined benefit pension plan as well as defined contribution plans. Its defined benefit plan provides benefits based on a set percentage of participants' earnings, the costs of which are shared between the participants and FPLP. Pension benefits are not indexed to the rate of inflation.

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

	2004	**2003**
	$	**$**
PLAN ASSETS		
Fair value - beginning of year	3,300	1,530
Actual return on plan assets	436	316
Employer contributions	1,439	727
Employee contributions	874	801
Benefits paid	(72)	(74)
Fair value - end of year	5,977	3,300
PLAN OBLIGATIONS		
Accrued benefit obligation - beginning of year	3,792	1,816
Interest cost	398	225
Current service cost	2,073	1,688
Benefits paid	(72)	(74)
Actuarial loss	879	137
Accrued benefit obligation - end of year	7,070	3,792

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(tabular amounts in thousands of dollars)

	2004 $	2003 $
PENSION PLANS, continued		
FPLP's accrued pension (liability) is determined as follows:		
Accrued benefit obligation	7,070	3,792
Fair value of plan assets	5,977	3,300
Plan deficit	(1,093)	(492)
Unamortized net actuarial loss	785	59
Unamortized past service costs	63	69
Accrued pension liability	(245)	(364)

The accrued pension liability is included in the accounts payable and accrued liabilities in the consolidated balance sheet.

FPLP's pension plan expense is determined as follows:

	2004 $	2003 $
Current service cost	2,073	1,688
Employee contributions	(874)	(801)
Interest costs	398	225
Actual return on plan assets	(436)	(316)
Actuarial loss on accrued benefit obligation	879	137
Plan amendments	-	75
Costs arising in the period	2,040	1,008
Differences between costs arising in the period and costs recognized in the period in respect of:		
Return on plan assets	142	169
Actuarial gain	(867)	(137)
Plan amendments	6	(69)
Pension expense - defined benefit plan	1,321	971
Employer contributions to defined contribution plans	205	176
Total pension expense	1,526	1,147

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(tabular amounts in thousands of dollars)

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

	2004 %	2003 %
Discount rate	6.00	6.25
Expected long-term rate of return on pension plan assets	7.00	6.50
Rate of compensation increase	3.75	3.75

FPLP measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation report for funding purposes was at December 31, 2003 and the next required valuation is as of December 31, 2004.

Plan assets consist of an investment in a pooled balanced Fund with the following asset mix:

	2004 %	2003 %
Canadian equities	37	38
United States equities	14	13
Non North American equities	11	12
Canadian Government and corporate bonds	36	35
Short term cash	2	2
	100	100

11 LONG-TERM INCENTIVE PLAN

The directors, officers and key management of FPLP and its affiliates (including the trustees of FP Newspapers Income Fund) are 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 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 (as defined in the LTIP plan documents) 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 is administered by the Compensation and Corporate Governance Committee. The Board of Directors of FPLP or the Compensation and Corporate Governance Committee has 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.

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(tabular amounts in thousands of dollars)

LONG-TERM INCENTiVE PLAN, continued

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%

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 year ended December 31, 2004, $112,700 (2003 $nil) was included in operating expenses, excluding amortization for the LTIP plan.

12 NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2004 $	2003 $
Accounts receivable	(341)	64
Inventories	12	98
Prepaid expenses and deposits	274	(97)
Accounts payable and accrued liabilities	(278)	1,128
Prepaid subscriptions and deferred revenue	30	137
	(303)	1,330

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, 2004, total purchases in the form of newsprint from related parties were $6,521,294 (2003 - $10,789,323). FPLP also reimbursed related parties for administration costs amounting to $44,222 (2003 - $26,157). As at December 31, 2004, accounts payable to related parties totalled $827,186 (2003 - $614,205). Total advertising sales to related parties were $35,029 (2003 - $29,786) and at December 31, 2004 accounts receivable from related parties totalled $1,648 (2003-$nil).

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(tabular amounts in thousands of dollars)

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, capital leases and term loan approximate their carrying value due to the short term nature of these financial instruments. The fair value of subordinated notes is not readily determinable due to their unique nature. The fair value of the interest rate swaps as at December 31, 2004 is ($175,493) (2003 - ($477,000)) and is based on the amount at which they could be settled. The fair value of the interest rate cap is $nil (2003 - $1,000) and the unamortized book value was $19,470 (2003 - $66,197).

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 relating to its fixed and floating rate instruments. Fluctuation in interest rates will have an effect on the valuation and repayment of these instruments. Interest rate swap and interest rate cap contracts are used to mitigate this risk.

15 ACQUISITION

On July 13, 2004 FPLP acquired substantially all of the assets and assumed specified liabilities of a weekly newspaper publishing business and an advertising distribution business previously operated by Transcontinental Media, the publishing arm of Transcontinental Inc.

The transaction has been accounted for by the purchase method and the results of operations are included in FPLP's accounts from the date of acquisition. Total consideration, including costs of acquisition was $7,198,000 and was allocated based on the estimated fair values of the assets acquired and liabilities assumed as follows:

Current assets	$1,095
Property, plant and equipment	297
Mastheads	210
Goodwill	6,055
	$7,657
Less current liabilities	(459)
	$7,198

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(tabular amounts in thousands of dollars)

AQUISITION, continued

Consideration:	
Cash	$6,986
Acquisition costs	212
	$7,198

16 GUARANTEES

The managing general partner and FPLP have agreed to indemnify FPLP's current and former directors and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the partnership from making a reasonable estimate of the maximum potential amount it could be required to pay to counter parties. The general partner has $15 million in directors and officers' liability insurance coverage.

17 INTEREST

	2004 $	2003 $
Interest expense is summarized as follows:		
Subordinated notes	7,698	7,815
Term loan	2,845	3,114
Capital lease obligations	20	-
	10,563	10,929

18 SEGMENTED INFORMATION

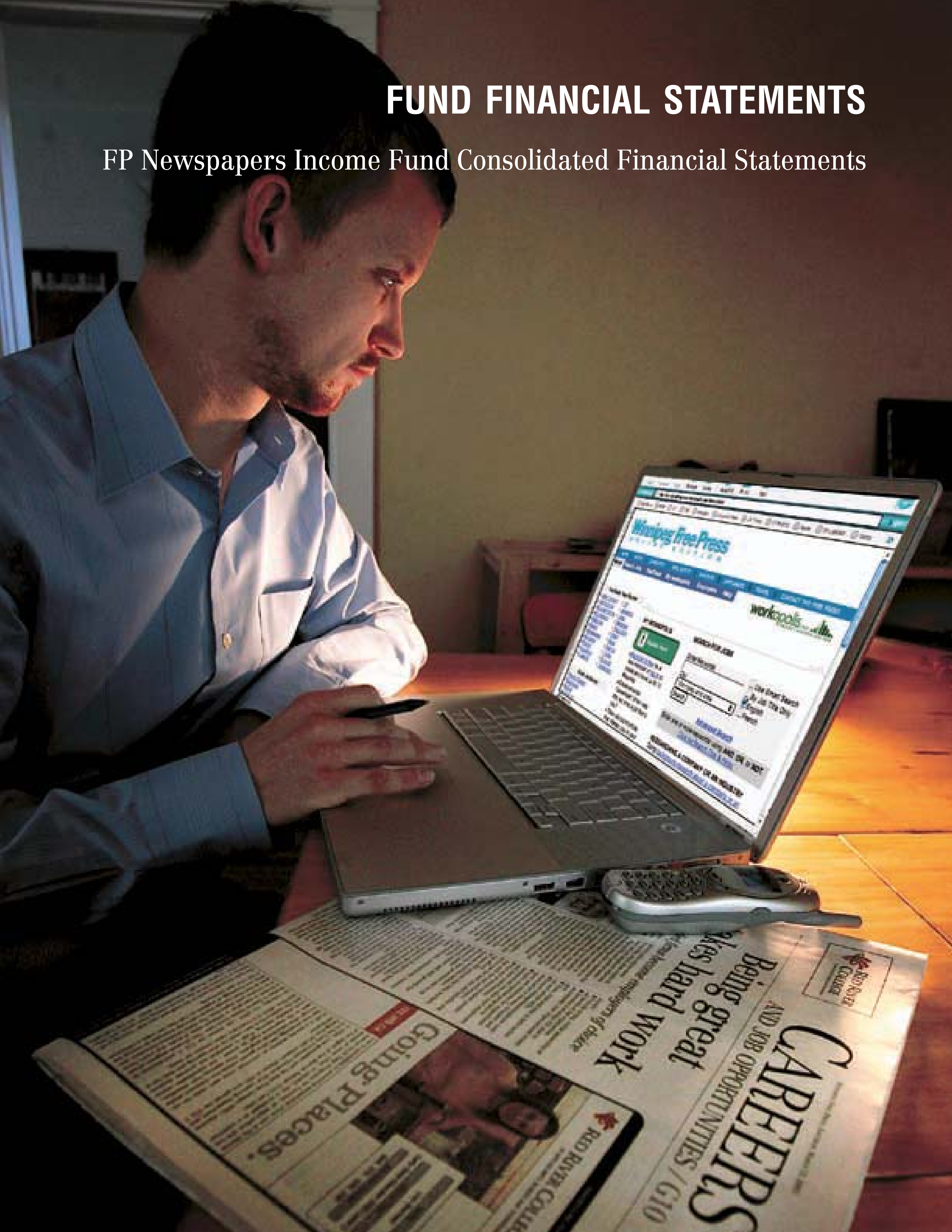
FPLP has determined that it operates in one reportable segment which includes the publishing, printing and distribution of daily and weekly newspapers and advertising materials in Manitoba and Northwestern Ontario.

19 COMPARATIVE FIGURES

Certain of the prior year's figures have been restated for comparative purposes.

FUND FINANCIAL STATEMENTS

FP Newspapers Income Fund Consolidated Financial Statements



AUDITORS' REPORT

TO THE UNITHOLDERS OF FP NEWSPAPERS INCOME FUND

We have audited the consolidated balance sheet of FP Newspapers Income Fund as at December 31, 2004 and the consolidated statements of earnings and cumulative earnings, unitholders' equity and cash flows for the year then ended. These 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, the consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2003 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 13, 2004.

Ernst & Young LLP

Chartered Accountants

Winnipeg, Canada,
February 22, 2005

FUND CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31, 2004 AND 2003
(in thousands of dollars)

	2004 $	2003 $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	384	330
Interest receivable from subordinated notes	633	654
Prepaid expenses	21	24
	1,038	1,008
INVESTMENT IN FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP (note 3)	62,587	65,948
	63,625	66,956
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	74	40
Distribution payable (note 4)	742	725
	816	765
UNITHOLDERS' EQUITY		
Trust units (note 5)	69,026	69,026
Cumulative earnings	16,144	10,794
Cumulative distributions (note 4)	(22,361)	(13,629)
	62,809	66,191
	63,625	66,956

(see accompanying notes)

APPROVED BY THE BOARD OF TRUSTEES

Ronald N. Stern,
Trustee

Harvey Secter,
Trustee

FUND CONSOLIDATED STATEMENTS OF EARNINGS AND CUMULATIVE EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(in thousands of dollars)

	2004	2003
	$	$
EARNINGS FROM INVESTMENT IN FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP		
Interest from subordinated notes	7,698	7,815
Equity interest from Class A limited partnership units (note 3)	(2,096)	(391)
Other interest	10	2
	5,612	7,426
ADMINISTRATION EXPENSES	(262)	(293)
NET EARNINGS FOR THE YEAR	5,350	7,133
CUMULATIVE EARNINGS - BEGINNING OF YEAR	10,794	3,661
CUMULATIVE EARNINGS - END OF YEAR	16,144	10,794
Number of trust units outstanding	6,902,592	6,902,592
Net earnings per trust unit	0.78	1.03

FUND CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(in thousands of dollars)

	2004	2003
	$	$
BALANCE - BEGINNING OF YEAR	66,191	67,410
Net earnings	5,350	7,133
Distributions	(8,732)	(8,352)
BALANCE - END OF YEAR	62,809	66,191

(See accompanying notes)

FUND CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(in thousands of dollars)

	2004 $	2003 $
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net earnings for the year	5,350	7,133
Item not affecting cash		
Equity interest from Class A units of FP Canadian Newspapers Limited Partnership (note 3)	2,096	391
	7,446	7,524
Net change in non-cash working capital items		
Interest receivable from subordinated notes	21	10
Other receivable	-	1
Prepaid expenses	3	(7)
Accounts payable and accrued liabilities	34	(48)
Distributions received on Class A units of FP Canadian Newspapers Limited Partnership (note 3)	1,265	1,207
	8,769	8,687
FINANCING ACTIVITIES		
Distributions to unitholders	(8,715)	(8,317)
Loan from related parties	-	(100)
	(8,715)	(8,417)
INCREASE IN CASH AND CASH EQUIVALENTS	54	270
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	330	60
CASH AND CASH EQUIVALENTS - END OF YEAR	384	330

(see accompanying notes)

FUND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(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, as defined in the partnership agreement, of FPLP.

2 SIGNIFICANT 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.

a) Investment in FP Canadian Newspapers Limited Partnership

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. Under this method, the cost of the investment is increased by the Fund’s proportionate share of FPLP’s earnings and reduced by any distributions paid to the Fund by FPLP.

b) Distributions

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

c) Cash and cash equivalents

Cash equivalents comprise only highly liquid investments which are subject to insignificant risk of changes in value and are recorded at cost, which approximates market value. Cash equivalents at December 31, 2004 consist of an investment in a short term investment fund.

d) Income taxes

Under the terms of the Income Tax Act (Canada), the Fund is not subject to income taxes to the extent that its taxable income and taxable capital gains in a year are paid or payable to its unitholders. Accordingly, no provision for current income taxes for the Fund is made. In addition, the Fund is not subject to the recommendations of the Canadian Institute of Chartered Accountants Handbook section 3465, as the Fund is contractually committed to distribute to its unitholders all or virtually all of its taxable income and taxable capital gains that would otherwise be taxable in the Fund. The Fund intends to continue to meet the requirements under the Income Tax Act applicable to such trusts, and there is no indication that the Fund will fail to meet those requirements.

e) Use of estimates in the preparation of consolidated financial statements

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires the Fund to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

The Fund has determined that the most significant is its investment in FP Canadian Newspapers Limited Partnership. The equity interest from the Fund's Class A limited partnership units depends on the accuracy of the estimates made in the preparation of the consolidated financial statements of FPLP. The actual equity interest may vary from the estimates made in FPLP.

FUND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(in thousands of dollars)

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 partnership units $	Total $
Balance January 1, 2003	67,954	(408)	67,546
Repayment of subordinated notes	(1,000)	-	(1,000)
Additional contribution	-	1,000	1,000
Equity interest	-	(391)	(391)
Distributions received	-	(1,207)	(1,207)
Balance December 31, 2003	66,954	(1,006)	65,948
Repayment of subordinated notes	(2,000)	-	(2,000)
Additional contribution	-	2,000	2,000
Equity interest	-	(2,096)	(2,096)
Distributions received	-	(1,265)	(1,265)
Balance December 31, 2004	64,954	(2,367)	62,587

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

	2004 $	2003 $
Net earnings of FPLP	3,736	7,337
Plus: Interest on subordinated notes	7,698	7,815
Net earnings before interest on subordinated notes	11,434	15,152
49% interest attributable to the Fund	5,602	7,424
Less: Interest from subordinated notes	(7,698)	(7,815)
Equity interest from Class A limited partnership units	(2,096)	(391)

FUND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(tabular amounts in thousands of dollars)

4 CUMULATIVE DISTRIBUTIONS

Cumulative distributions for the years ended December 31, 2004 and 2003 are as follows:

	2004 $	2003 $
Balance beginning of year	13,629	5,277
Distributions declared	8,732	8,352
Balance end of year	22,361	13,629

The Fund declared a distribution payable in respect of the month of December 2004 of $742,029 or $0.1075 per unit and was paid January 28, 2005 to unitholders of record on December 31, 2004.

5 TRUST UNITS

The Declaration of Trust of the Fund provides that an unlimited number of units may be issued. Each unit is transferable and represents an equal undivided beneficial interest in any distributions of the Fund and in the net assets of the Fund in the event of termination or winding up of the Fund. All units have equal rights and privileges. Each unit entitles the holder thereof to participate equally in the allocations and distributions and to one vote at all meetings of Fund unitholders for each unit held. The units issued are not subject to future calls or assessments.

Trust units are redeemable at any time at the option of the holder at a price based on market value as defined in the trust agreement, subject to a maximum of $50,000 in cash redemptions by the Fund in any one month. The limitation may be waived at the discretion of the Trustees of the Fund. Redemption in excess of this amount, assuming no waiving of the limitation, shall be paid by way of a distribution in specie, namely Series 2 notes of the Trust.

6 RELATED PARTY TRANSACTIONS

The Fund has reimbursed related parties for administration expenses amounting to $28,331 (2003 - $29,168) and printing expenses amounting to $nil (2003 - $11,341).

7 GUARANTEES

The Fund has agreed to indemnify its current and former trustees and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the trustees and officers as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which the trustees and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the Fund from making a reasonable estimate of the maximum potential amount it could be required to pay to counter parties. The Fund has $15 million in trustees' and officers' liability insurance coverage.

8 ECONOMIC DEPENDENCE

For purposes of declaring distributions, the Fund is entirely dependent upon interest income and distributions received from FPLP.

UNITHOLDER INFORMATION

DIRECTORS AND TRUSTEES

Ronald N. Stern[1,2,4]
President, Estrella Group Management Ltd.
and Chairman of FP Canadian Newspapers Limited Partnership

Robert Silver[1,3]
President, Western Glove Works

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

Stephen Dembroski[1,2,3]
Private investor

Phil de Montmollin[1,4]
Retired newspaper executive

Harvey Secter[1,2,3,4]
Dean, Faculty of Law, University of Manitoba

Susan Lewis[1]
President, United Way of Winnipeg

OFFICERS

Ronald N. Stern
Chairman

Rudy Redekop
President

Kevin Karr
Vice President, Chief Financial Officer & Secretary

Daniel Koshowski
Vice President Finance and Administration

1. Director of FP Canadian Newspapers Limited Partnership
2. Trustee of FP Newspapers Income Fund
3. Audit Committee member
4. Compensation and Corporate Governance Committee member

ANNUAL MEETING

The Annual Meeting of unitholders will be held on Tuesday May 10, 2005 at 11:00 am at the Winnipeg Free Press, 1355 Mountain Avenue, Winnipeg.

AUDITORS

Ernst & Young LLP

TRANSFER AGENT

CIBC Mellon Trust Company

INVESTOR INQUIRIES

Kevin Karr
Vice President, Chief Financial Officer & Secretary
Ph: 604-646-3782
Email: kkarr@estrellagroup.com
Website: www.fpnewspapers.com

LISTING INFORMATION

TSX: FP.UN
UNITS: 6,902,592 outstanding (at March 23, 2005)

MAILING ADDRESS

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650 West Georgia Street
Vancouver, BC
V6B 4N8

The creative design of the 2004 Annual Report was done by Gordon Preece, the Art Director at the Winnipeg Free Press.