FP NEWSPAPERS INCOME FUND

ANNUAL REPORT 2005

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HOME HEALTH CARE CENTRE
Sportsplex manager Perry Reque has been running the north hill facility since 1992. (BRUCE BUMSTEAD/ BRANDON SUN)
A per-Plex-ing civic issue
To some, it's one of Brandon's hidden gems, tucked away on the north side of the Assiniboine River. To others, it's a white elephant that stalks the North Hill, a perpetual burden on the city's taxpayers that would be better off gone or in private hands.
But no matter what your opinion of the Canada Games Sportsplex, to Sharon Small it's a place that gives everyone —rich and poor, young and old — a place to play.
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A final salute
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JAZZ IT UP
METRO
HERALD
Not even close

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LETTER TO THE UNITHOLDERS

The 2005 year was both challenging and satisfying for our publishing businesses. We continued progressing to meet 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. Key achievements in the year included the renewal of three-year labour agreements in Winnipeg, the addition of two new niche publications to our community newspapers business, and exciting changes in our on-line products. We continue to seek opportunities to further improve our newspaper, on-line and distribution businesses.

While the advertising environment was soft in the first quarter of 2005, due in part to the change in mix of publishing days and the loss of Friday and Saturday publishing days due to 2004 being a leap year and the Good Friday non-publishing day falling in the first quarter, successive quarters strengthened continuously. Reduced spending in the national automotive category in particular, overshadowed growth in other categories on a same store basis. Overall revenue growth, including acquisitions, was $5.7 million or 5.1%, but operating expenses excluding amortization increased $5.9 million or 6.8%. As a result, EBITDA decreased $259,000 or 1.1%.

Distributions during 2005 continued at 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 totalled $1.35 per Unit in 2005, and our payout ratio remains prudently cautious. From inception on May 28, 2002 to December 31, 2005, we have generated distributable cash attributable to the Fund of $4.90 per Unit, and the Fund has declared distributions of $4.53 per Unit, leaving $0.37 per Unit available for future distribution and resulting in a cumulative payout ratio of 92.4%.

On May 5th we re-financed our maturing term debt. As a result, we have now fixed our interest cost on $60 million long-term debt for five years at a rate of 5.20 percent, creating greater stability on this component of cash flows.

WINNIPEG FREE PRESS

We were again pleased with many improvements and achievements at the Winnipeg Free Press in 2005. Early in the year we were pleased to announce the appointment of Bob Cox as Editor of the Winnipeg Free Press and on January 30, 2006 we announced the appointment of Andrew S. Ritchie as Publisher. Mr. Ritchie joined us from the Globe and Mail and has extensive senior management experience obtained both nationally and internationally. Industry recognition by way of editorial awards included a National Newspaper Award received by Randy Turner, a sports columnist, and the receipt of the Will Rogers Humanitarian Award by columnist Lindor Reynolds. Editorial enhancements during the year included the commencement of publishing an electronic version of the newspaper, found at fpnews.ca, making breaking news available at winnipegfreepress.com and the introduction of a daily e-mailed editor's bulletin advising subscribers of major stories that will be appearing in the next day's edition of the daily newspaper.

The Newspaper Audience Databank ("NADbank") again showed the readership of the Winnipeg Free Press to be the highest across all large Canadian cities at 46% weekdays, 58% on Saturday and 43% on Sunday. The average annual circulation as reported by the Audit Bureau of Circulation indicated that the weekday circulation grew by 2% weekdays, held fast on Saturday and grew by 1% on Sunday. In comparison our local competitor decreased 2% weekdays, 1% Saturday and 4% on Sunday.

Following an expected slow start due to the change in mix of publishing days, we ended 2005 with healthy growth in revenue, led by strong gains in classified advertising and flyer distribution revenue. Display advertising was flat in the fourth quarter, after experiencing declines in the first nine months of the year, primarily due to shortfalls in the national automotive category.

BRANDON SUN

Economic conditions in the Brandon region continued to be negatively affected by the US ban on Canadian beef exports in the first half of the year, but responded positively following the re-opening of the border, and by the continued retail expansion. Following the successful launch of "Sunday Plus" in late 2004, the stand-alone Brandon Shopper and News published on Thursday was brought in-house in January of 2006, redesigned and both products were relaunched as Brandon Sun Community News. Also the flyer distribution operation which was previously part of Canstar Community News Limited was integrated into the Brandon Sun operation at the same time in order to achieve both marketing and operational synergies. The Brandon Sun now has the capability to provide total market coverage to approximately 39,000 homes in the Brandon region on a twice-weekly basis. The new products have been well received by readers and advertisers.

LETTER TO THE UNITHOLDERS

CANSTAR COMMUNITY NEWS LIMITED

During 2005 resources continued to be focused on improving the distribution system of the newly acquired operations, ensuring better quality and delivery performance for our advertisers and readers, as well as editorial improvements and sales training.

During the third quarter, Canstar Community News Limited completed the acquisition of Rosebud Publications Ltd., which publishes Uptown, a weekly entertainment newspaper with circulation of approximately 17,000 and a twice-monthly newspaper aimed at age 50-plus readers in Winnipeg which has a circulation of approximately 10,000. During the third quarter the Rosebud operation was re-located into the existing Canstar leased facility and the printing was transferred to the Brandon Sun. Other operational synergies have been achieved in sales and marketing as well as in administration.

THE YEAR AHEAD

The print display advertising market is somewhat encouraging as we begin 2006. The Manitoba economy is performing reasonably well, providing reported GDP growth in 2005 of 2.7%. With continuing efforts to keep our operating cost increases to a minimum, we are well-positioned to improve our financial performance by achieving revenue growth objectives.

With the talent and dedication of our colleagues throughout the organization, we expect further innovation and change which will benefit our Unitholders and the greater communities we serve.

Ronald N. Stern
Chairman & Trustee

Rudy Redekop
President

March 30, 2006

FINANCIAL AND OPERATING HIGHLIGHTS

MANITOBA NEWSPAPER OPERATIONS

In millions of dollars	2005[4,5]	2004[4]	2003	2002[2,3]	2001
Revenues	$117	$111	$105	$100	$102
EBITDA[1]	$24	$24	$24	$22	$23

FP NEWSPAPERS INCOME FUND[3]

Distributable cash attributable to the Fund[1]	$9.3 million	$9.8 million	$9.5 million	$5.2million	n/a
Distributions declared	$8.9 million	$8.7 million	$8.4 million	$5.3million	n/a
Distributions/unit	$1.290	$1.265	$1.210	$0.765	n/a

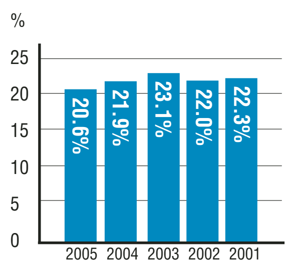
FINANCIAL AND OPERATING HIGHLIGHTS IN 2005

Acquisition by Canstar Community News Limited, a wholly-owned subsidiary of FPLP, of 100% of the shares of Rosebud Publications Ltd., which publishes a weekly entertainment newspaper and a twice-monthly newspaper aimed at age 50-plus readers in Winnipeg.

Completed refinancing of debt. Interest on the five-year $60 million Series A Senior Secured Notes payable is fixed at 5.20%.

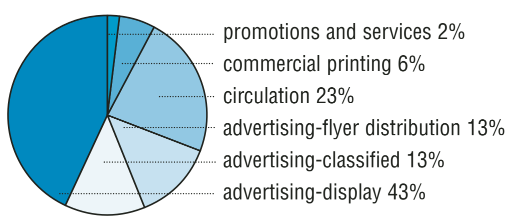
Completed the renewal of labour contracts covering unionized employees and delivery agents at the Winnipeg Free Press during the fourth quarter, and in January 2006 completed the renewal of labour contracts at the Brandon Sun.

EBITDA[1] MARGINS



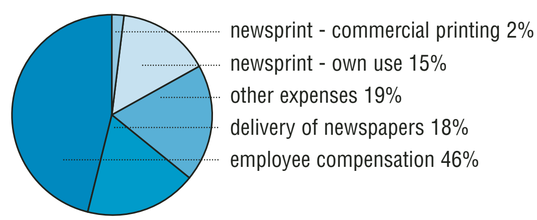
Relatively stable EBITDA[1] margins (EBITDA[1] divided by revenue) have been maintained, even with the acquisition of the lower-margin weekly community newspapers in 2004 and Rosebud Publications Ltd. in 2005.

COMPONENTS OF REVENUE



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

OPERATING EXPENSES, EXCLUDING AMORTIZATION



Renewed labour contracts covering unionized employees and delivery agents at the Winnipeg Free Press during 2005, and labour contracts at the Brandon Sun in January 2006.

(1) 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.
(2) Figures for 2002 include the negative impact of the loss of nine publishing days due to a strike at the Winnipeg Free Press.
(3) The Fund commenced operations on May 28, 2002 and therefore the 2002 results reflect only the period from May 28, 2002 to December 31, 2002.
(4) Figures for 2005 and 2004 include the acquisition of the community newspapers and advertising distribution businesses in the third quarter of 2004.
(5) Figures for 2005 include the acquisition of Rosebud Publications Ltd. in the third quarter of 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 30, 2006

Management's Discussion and Analysis provides a review of significant developments that have affected the Fund's performance during 2005. Factors that could affect future operations are also discussed. These factors may be affected by known and unknown risks and uncertainties that may cause the actual future results to be materially different from those expressed in this discussion.

The following information provides analysis of the operations and financial position of FP Newspapers Income Fund ("Fund") and FP Canadian Newspapers Limited Partnership ("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. On July 21, 2005 FPLP, through its wholly-owned subsidiary, Canstar Community News Limited, acquired 100% of the shares of Rosebud Publications Ltd.

FP NEWSPAPERS INCOME FUND

A summary of selected financial information of the Fund for the last three years is as follows:

	2005	2004	2003
	in thousands except per-unit amounts		
Revenue	8,062	5,612	7,426
Net earnings	7,811	5,350	7,133
Net earnings per unit	1.132	0.775	1.033
Total assets	62,535	63,625	66,956
Distributions declared	8,904	8,732	8,352
Distributions declared per unit	1.290	1.265	1.210

Revenue for the year ended December 31, 2005 was $8,062,000 compared to $5,612,000 in 2004. Included in 2005 revenue was $8,055,000 from its investment in FPLP and interest income in the amount of $7,000 on cash balances. The Fund's income from its investment in FPLP of $8,055,000 consisted of $7,469,000 (2004 - $7,698,000) in interest on the 11.5% subordinated notes issued by FPLP to the Fund and $586,000 (2004 - ($2,096,000)) representing the Fund's equity interest from its Class A limited partnership units. The Fund incurred $251,000 (2004 - $262,000) in operating expenses, resulting in net earnings of $7,811,000 for the year ended December 31, 2005 and $5,350,000 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 $1,200,000 loss. In addition, FPLP decided that certain other surplus components of the same press would be marketed for sale. In accordance with Canadian Generally Accepted Accounting Principles ("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 $3,000,000 included in the 2004 results. Consequently, the net earnings in FPLP for the year ended December 31, 2004 were lower when compared to the 2005 and 2003 years. As at December 31, 2005, these components had not been sold.

Distributable cash attributable to the Fund[1] for the year ended December 31, 2005 was $9,325,000, or $1.351 per unit. The Fund declared distributions of $1.290 per unit during this period resulting in a payout ratio of 95.5%. Since inception on May 28, 2002, the Fund has generated distributable cash attributable to the Fund[1] of $4.904 per Unit and declared distributions of $4.530 per unit, resulting in a cumulative payout ratio of 92.4%.

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, 2005 were as follows:

Record Date	Payment Date	Amount per Unit
January 31, 2005	February 25, 2005	$0.1075
February 28, 2005	March 30, 2005	$0.1075
March 31, 2005	April 28, 2005	$0.1075
April 29, 2005	May 30, 2005	$0.1075
May 31, 2005	June 29, 2005	$0.1075
June 30, 2005	July 28, 2005	$0.1075
July 29, 2005	August 30, 2005	$0.1075
August 31, 2005	September 29, 2005	$0.1075
September 30, 2005	October 28, 2005	$0.1075
October 31, 2005	November 29, 2005	$0.1075
November 30, 2005	December 29, 2005	$0.1075
December 30, 2005	January 30, 2006	$0.1075
		$1.290

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

At December 31, 2005 the Fund has 6,902,592 units issued and outstanding (2004 - 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, 2005, 2004, and 2003 is as follows:

	2005	2004	2003
	$ in thousands except per-unit amounts		
Revenue			
Quarter 1(*)	1,142	1,545	1,470
Quarter 2(**)	2,542	210	2,056
Quarter 3	1,620	1,477	1,447
Quarter 4	2,758	2,380	2,453
Net earnings	**2005**	**2004**	**2003**
Quarter 1(*)	1,078	1,483	1,407
Quarter 2(**)	2,478	158	1,995
Quarter 3	1,556	1,394	1,372
Quarter 4	2,699	2,315	2,359
Net earnings per unit	**2005**	**2004**	**2003**
Quarter 1(*)	0.156	0.215	0.203
Quarter 2(**)	0.359	0.023	0.289
Quarter 3	0.225	0.202	0.199
Quarter 4	0.391	0.335	0.342

* Decrease in 2005 due primarily to lower net earnings of FPLP (See quarterly results in FPLP section).

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

RESULTS OF OPERATIONS OF FPLP

A summary of selected financial information of FPLP for the last three years is as follows:

	2005	2004	2003
	$ in thousands of dollars		
Revenue(*)	116,917	111,238	105,054
Net earnings(**)	8,969	3,736	7,337
Total assets	157,244	157,342	162,995
Total long-term liabilities(***)	123,413	65,730	126,554

* Revenue was impacted by the acquisition of the community newspapers in Winnipeg in July 2004.

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

***At December 31, 2004, the term loan in the amount of $59.6 million was classified as a current liability as it matured in May 2005. During 2005, FPLP completed the refinancing and issued $60.0 million in Notes payable. The term loan in 2003 and Notes payable in 2005 are both included in long-term liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVENUE

A summary of revenue by major category is as follows:

	2005	2004	2003
	In thousands of dollars		
Advertising	$80,936	$76,777	$72,115
Circulation	27,069	26,682	26,455
Commercial printing	6,430	5,981	5,063
Promotions and services	2,482	1,798	1,421
	$116,917	$111,238	$105,054

Revenue for the year ended December 31, 2005 was $116.9 million, an increase of $5.7 million or 5.1% over 2004. The acquisition of the community newspapers and advertising distribution businesses during the third quarter of 2004 and Rosebud Publications Ltd. in July 2005 accounted for $4.5 million or 4.0% of this increase. Advertising revenues, excluding the acquired businesses, was virtually unchanged from 2004. Advertising flyer distribution revenue, excluding the acquired businesses, accounted for $0.8 million or 6.8% of this growth primarily due to a combination of increased volumes and higher rates. Classified revenues, excluding the acquired businesses, increased by $0.7 million or 5.0% in 2005 primarily due to strength in the employment industry categories partially offset by reduced spending in the classified automotive category. Our largest advertising category, display advertising including colour, excluding the acquired businesses, was lower by $1.6 million or 3.3% from 2004 primarily due to lower spending by two national automotive customers. Commercial printing revenues were higher by $0.4 million or 7.5% from 2004 due primarily to the National Post printing contract being in force for all of 2005 compared to approximately 10 months in 2004.

OPERATING EXPENSES EXCLUDING AMORTIZATION

Operating expenses excluding amortization by major category is as follows:

	2005	2004	2003
	In thousands of dollars		
Employee compensation	$42,107	$39,925	$37,077
Newsprint - own use	13,597	13,335	13,389
Newsprint - commercial printing	2,380	2,130	1,740
Delivery of newspapers	17,772	15,829	14,006
Other	16,986	15,685	14,592
	$92,842	$86,904	$80,804

Operating expenses, excluding amortization for the year ended December 31, 2005 were $92.8 million, an increase of $5.9 million or 6.8% over 2004. The acquisition of the community newspapers and advertising distribution businesses in July 2004 and Rosebud Publications Ltd. in July 2005 accounted for $4.4 million or 5.1% of this increase. Employee compensation, excluding the acquired businesses, increased by $0.6 million or 1.5%, largely as a result of annual contracted salary increases that were effective in the fourth quarter of 2004. Newsprint expense for FPLP's own publications, excluding the acquired businesses, was unchanged from last year on unchanged average prices and consumption. Newsprint expense for commercial printing increased by $0.3 million or 11.7%, primarily as a result of increased usage relating to the National Post printing contract. Delivery costs, excluding the acquired businesses, increased $0.5 million in 2005, primarily as a result of a combination of increased flyer delivery costs associated with increased volumes together with contracted carrier delivery increase and higher costs of fuel. Other expenses, excluding the acquired businesses, increased by $0.4 million or 2.8% compared to the same 12 months last year with the largest factor being increased professional services relating to the negotiations of new collective agreements at the Winnipeg Free Press.

MANAGEMENT'S DISCUSSION AND ANALYSIS

EBITDA(2) for the year ended December 31, 2005 was $24.1 million. EBITDA(2) for the year ended December 31, 2005, excluding the acquired businesses, was $23.9 million compared to $24.2 million in 2004. EBITDA(2) divided by revenue, excluding the acquired businesses, was 21.9% for the year ended December 31, 2005 compared to 22.4% last year.

Interest expense on the term credit facility, the series A senior secured notes, the subordinated notes and capital lease obligations for the year ended December 31, 2005 was $10.7 million, a $0.1 increase over last year due to the $0.4 million increase in the amounts borrowed under the notes payable/term loan in the second quarter of 2005 together with an increase in the effective interest rate, partially offset by a decrease in the subordinated note interest resulting from a $2.0 million reduction in December 2004 in the principal amount outstanding.

FPLP's net earnings for the year ended December 31, 2005 was $9.0 million, and represented 7.7% of revenue compared to $3.7 million and 3.4% of revenue in 2004. The lower net earnings in the year ending December 31, 2004 is largely the result of the write-down and loss on sale of surplus equipment of $4.3 million in FPLP in the second quarter of 2004.

SUMMARY OF QUARTERLY RESULTS

Newspaper publishing is, to a certain extent, a seasonal business with a higher proportion of revenues and net earnings occurring during the second and fourth quarters of the calendar year. Revenue, EBITDA(2) and net earnings of FPLP by quarter for 2005, 2004 and 2003 were as follows:

	2005	2004	2003
Revenue	**In thousands of dollars**		
Quarter 1	$26,805(**)	$25,674	$25,008
Quarter 2	30,270(**)	27,840	26,904
Quarter 3	28,005	27,283(**)	25,141
Quarter 4	31,837	30,441(**)	28,001
	$116,917	$111,238	$105,054

EBITDA(2)	**2005**	**2004**	**2003**
Quarter 1	$4,302(***)	$5,387	$5,204
Quarter 2	7,094	6,772	6,501
Quarter 3	5,176	5,167	5,281
Quarter 4	7,503	7,008	7,264
	$24,075	$24,334	$24,250

Net Earnings (loss)	**2005**	**2004**	**2003**
Quarter 1	$485(***)	$1,231	$1,073
Quarter 2	3,320	(1,489)(*)	2,249
Quarter 3	1,420(****)	1,077	983
Quarter 4	3,744(*****)	2,917	3,032
	$8,969	$3,736	$7,337

The distribution policy of FPLP is to make distributions in approximately equal monthly amounts based on expected operating results for each fiscal year.

* The decline in net earnings in the second quarter of 2004 was due to the disposal and write-down in value of excess press components which resulted in a $4.3 million charge against income.

** The increase in revenue is due primarily to the revenue from the community newspapers and advertising distribution businesses acquired during the third quarter of 2004.

*** The decrease in EBITDA(2) and net earnings is due primarily to lower revenues due to two fewer publishing days and an 11.5% decline in Friday/Saturday publishing days.

**** The increase in net earnings is due primarily to lower deferred financing costs resulting from the long-term debt refinancing in the second quarter of 2005 together with lower amortization of property, plant and equipment resulting from the decision to sell excess press components as discussed above.

***** The increase in net earnings is due to higher revenue as well as factors listed under point (****) above.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL CONDITION OF FPLP

WORKING CAPITAL POSITION
At December 31, 2005, FPLP's current assets exceeded its current liabilities by $3.3 million. Cash and cash equivalents increased by $1.1 million and accounts receivable increased by $1.2 million from December 2004, due partly to the acquisitions of Rosebud Publications Ltd. in July 2004 and also due to timing differences with collection of some year-end receivables.

FUTURE INCOME TAXES
The increase of $0.4 million, $0.2 million of which is classified as a current asset, in future income taxes is due to non-capital losses within subsidiaries of FPLP. These losses are carried forward and can be applied as a credit against future taxable income.

GOODWILL
The increase in goodwill in the amount of $0.3 million resulted from the acquisition of Rosebud Publications Ltd. in July 2005.

LIQUIDITY AND CAPITAL RESOURCES OF FPLP

Cash and cash equivalents increased by $1.1 million in 2005 compared to a decrease of $4.9 million in 2004. Operating activities provided $14.0 million during the year, while $1.5 million was used for investing activities and $11.4 million was used for financing activities.

CASH FLOW FROM OPERATING ACTIVITES
During the year ended December 31, 2005, cash generated from operating activities was $14.0 million, compared to $13.5 million in the prior year. The increase is primarily the result of timing differences with respect to collection of year-end receivables and payment of trade payables.

INVESTING ACTIVITIES
Maintenance capital purchases, representing the replacement of capital in order to sustain current business operations, totalled $1.1 million in 2005 compared to $1.0 million last year. In addition to the maintenance capital spending in 2004, was $0.4 million of strategic capital investment for print rolls which are required for handling flyers. During the year ended December 31, 2005, FPLP, through its wholly-owned subsidiary, Canstar Community News Limited, invested $0.4 million to acquire all of the outstanding shares of Rosebud Publications Ltd., which publishes two specialty publications in Winnipeg.

FINANCING ACTIVITIES
During the year ended December 31, 2005, FPLP completed the refinancing of its term loan by a related company, FPCN Media Funding Inc. ("Funding"), issuing $60.0 million Series A Senior Secured Notes payable to The Prudential Insurance Company of America which bear interest at 5.20% per annum and are due on June 5, 2010. The proceeds from these notes were loaned to FPLP by Funding and were used to settle the $59.6 million term loan which matured in May 2005 with the remaining $0.4 million used to pay a portion of the $0.8 million of costs associated with this refinancing.

During the year ended December 31, 2005, Funding also arranged a three-year shelf facility available until May 4, 2008, in the amount of USD $25.6 million (or the Canadian dollar equivalent) whereby Funding may issue additional notes with terms of between five and seven years, bearing interest at rates to be determined at the time of issue, subject to acceptance of such notes by Prudential. These funds may be loaned to FPLP to fund acquisitions and for other general purposes, subject to acceptance by Prudential.

Distributions to partners of FPLP for the year ended December 31, 2005 totalled $10.8 million, of which $1.5 million was paid to the Fund as holder of Class A limited partnership units. The distributions to partners have been determined in accordance with the Amended and Restated Agreement of Limited Partnership dated May 3, 2005. Distributions to partners for the year ended December 31, 2004 totalled $10.6 million, of which $1.3 million was paid to the Fund as holder of the Class A Limited Partnership Units.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTRACTUAL OBLIGATIONS

A summary of FPLP's contractual obligations by period is 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	$60,000	$ -	$ -	$60,000	$ -
Operating leases	1,197	316	757	124	-
Subordinated notes(*)	62,954	-	-	-	62,954
Capital leases	830	317	513	-	-
Other Contractual commitments	1,184	133	394	263	394
Total Contractual obligations	$126,165	$ 766	$1,664	$60,387	$63,348

* The subordinated notes are owned by the Fund.

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

Under the terms of the Amended and Restated Agreement of Limited Partnership dated May 3, 2005, the Managing General Partner is required to determine reserves which are necessary or desirable to withhold from any distributions to Partners, including among other things for capital expenditures and operating expenses.

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, 2005 and 2004 is as follows:

	2005	2004
	In thousands of dollars	
Reserve - beginning of year	$630	$641
Increase in reserve	259	155
Decrease in reserve	(373)	(166)
Reserve - end of year	$516	$630

During the year ended December 31, 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 was equal to the net proceeds received on the sale of surplus equipment in the second quarter of 2004. 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:

	2005	2004
	In thousands of dollars	
Reserve - beginning of year	$510	$ -
Increase in reserve	-	956
Decrease in reserve	(353)	(446)
Reserve - end of year	$157	$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], except to the extent the decrease is applied directly to fund an expenditure which was not included in the determination of distributable cash[1], such as the portion of the debt issue costs described in the following paragraph. 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.

During the year ended December 31, 2005, FPLP incurred $0.8 million in costs related to Funding's issuance of the 5.20% Series A Senior Secured Notes (as discussed above), which will be amortized to expense over the term to maturity on June 5, 2010. For purposes of determining distributable cash, this expenditure has been funded by a $0.4 million increase in long-term debt (as discussed above) and a $0.4 million reduction in the reserve for strategic capital, acquisitions and/or debt reduction.

FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

INTEREST RATES

With the completion of the refinancing of FPLP's variable-rate term loan during the second quarter of 2005 (see Financing Activities), previous interest rate swap agreements and one interest rate cap agreement expired during 2005. At December 31, 2005 there are no off-balance sheet arrangements in place for either the Fund or FPLP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 suppliers of newsprint to FPLP. Total newsprint purchases from ANC based on actual invoice prices in 2005 was $6.0 million (2004 - $6.5 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 quarterly basis.

DISCLOSURE CONTROLS AND PROCEDURES

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") will be making certifications related to the information in the Fund's annual filings (as defined in Multilateral Instrument 52-109) with the securities regulatory authorities. As part of the certification, the CEO and CFO must certify that they are responsible for establishing and maintaining disclosure controls and procedures and have designed such disclosure controls and procedures (or caused such disclosure controls and procedures to be designed under their supervision) to ensure that the material information with respect to the Fund and FPLP is made known to them and that they have evaluated the effectiveness of the Fund's and FPLP's disclosure controls and procedures as of the end of the period covered by these annual filings. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Fund and FPLP in reports filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The Fund's and FPLP's management, including the CEO and CFO, does not expect that disclosure controls will prevent or detect all misstatements due to error or fraud. Because of the inherent limitations in all control systems, an evaluation of control can provide only reasonable, not absolute assurance, that all control issues and instances of fraud or error, if any, have been detected. The Fund and FPLP has adopted or formalized such controls and procedures as it believes are necessary and consistent with its business and internal management and supervisory practices. Evaluation of disclosure controls and procedures as of December 31, 2005, under the supervision of, and with the participation of the CEO and CFO, the Fund's and FPLP's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures. Based on this evaluation, the Fund's and FPLP's CEO and CFO have concluded that, as at December 31, 2005, disclosure controls and procedures were effective.

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

RECENT ACCOUNTING PRONOUNCEMENTS

CICA 3831 Non-monetary Transactions:
This new handbook section applies to all non-monetary transactions initiated in periods beginning on or after January 1, 2006. CICA 3831 establishes standards for the measurement and disclosure of non-monetary transactions. It defines when an exchange of assets is measured at fair value and when an exchange of assets is measured at carrying amount.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

EIC - 156 Accounting by a vendor for consideration given to a customer (including a reseller of the vendor's products):
In September 2005, the Emerging Issue Committee issued EIC - 156, Accounting by a vendor for consideration given to a customer (including a reseller of the vendor's products). This Abstract deals with consideration (including sales incentives) which may be offered by a company to direct or indirect customers, as in sales incentives offered by manufacturers to customers of retailers or other distributors. The scope of this Abstract includes consideration to any purchasers of the products at any point along the distribution chain, regardless of whether the purchaser receiving the consideration is a direct customer. Examples of these arrangements include, but are not limited to, sales incentive offers labelled as discounts, coupons, rebates and "free" products or services, as well as arrangements labelled as slotting fees, co-operative advertising and buydowns.

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

BUSINESS RISKS AND UNCERTAINTIES

REVENUE
Advertising revenue, which accounts for greater than 69% of total revenue, is historically dependent upon general economic conditions and the specific spending plans of high-volume advertisers. Advertising revenue includes in-paper advertising as well as flyer distribution. Daily newspapers have been impacted by the trend by some advertisers to shift spending from in-paper advertising to flyer distribution. 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 2008. Collective agreements covering unionized employees at the Brandon Sun expire December 31, 2008.

EXPENSES
Newspaper publishing is both capital and labour-intensive, and as a result newspapers have relatively high fixed-cost structures and cannot be easily changed in the short-term in response to lower revenues. During periods of declining revenue, significant portions of costs may remain fixed, resulting in decreased earnings. Newsprint is a significant cost for FPLP, accounting for $16.0 million of expenses in 2005. Newsprint costs vary widely from time to time. If newsprint costs rise rapidly, there is no assurance that advertising and circulation revenues can be increased to offset the increased newsprint expense. United States dollar-denominated 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 not a 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 heavily influenced by the U.S./Canadian exchange rate. FPLP pays Canadian market prices for newsprint, which fluctuates with market conditions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OUTLOOK

REVENUE

Advertising revenue is very difficult to forecast because it is the result of specific spending decisions of many customers. FPLP is not providing a forecast of advertising revenue for 2006. Overall circulation revenue growth is expected to be in the 2% to 4% range primarily resulting from subscription rate increases which took effect in November 2005. Commercial printing revenues are expected to improve in 2006 partly resulting from anticipated increased printing volumes together with increased rates due to anticipated higher newsprint costs (see below).

OPERATING EXPENSES EXCLUDING AMORTIZATION

The majority of FPLP's employee compensation costs are subject to contractual labour agreements which were renewed during 2005. FPLP anticipates employee compensation costs, on a same store basis, to be approximately 3% to 4% higher in 2006 due primarily to higher pension expense relating to the defined benefit pension plan as well as filling of previously vacant positions. Compensation-related expenses accounted for 45.4% of 2005 expenses before interest, amortization and taxes, while newsprint and delivery costs accounted for 17.2% and 19.1%, respectively. As we have previously reported, the timing of newsprint price increases is difficult to predict. Newsprint prices in the first quarter of 2006 will be approximately 5.0% higher than the same quarter in 2005. A newsprint price increase of 1% to 2% is anticipated during the second quarter of 2006. If there are no additional increases during the remainder of the year, our average newsprint prices would be approximately 5.0% higher than the average price in 2005. Delivery costs are expected to increase by approximately 3% to 5% due to increased delivery rates included in the collective agreement of the delivery agents for the Winnipeg Free Press together with higher fuel costs.

OTHER EXPENSES

Amortization of property, plant and equipment and interest expense on the notes payable are expected to be similar to the 2005 levels. Interest on the subordinated debt will be lower by approximately $0.2 million due to the principal reduction of the debt in December 2005 in the amount of $2.0 million. Amortization of deferred financing costs is expected to be approximately $0.3 million lower resulting from a lower annual charge associated with the completion of the refinancing of the term debt in the second quarter of 2005 as discussed above.

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 a useful supplemental measure of cash flow, as it provides investors with an indication of the amount of cash available for distribution to unitholders, and because such calculations are required by the terms of the partnership agreement governing FPLP and by the terms of the deed of trust governing the Fund. Distributable cash attributable to the Fund is not a defined term under Canadian GAAP and it should not be construed as an alternative to using net earnings or the statement of cash flows as measures of profitability and cash flow. Readers should be cautioned that the method of calculating distributable cash may not be comparable to similar measures presented by other issuers. Management has determined distributable cash attributable to the Fund as follows for the years ended December 31, 2005 and 2004:

	2005	**2004**
	In thousands except per unit amounts	
EBITDA[2]	$24,075	$24,334
Interest income	30	61
Interest expense on term loan, Series A Senior Secured Notes and capital leases	(3,254)	(2,865)
Principal repayment of capital leases	(270)	(90)
Maintenance capital expenditures	(1,114)	(1,017)
Decrease in reserve for future maintenance capital expenditures	114	11
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	32	965
Current income and capital taxes payable	(85)	-
Distributable cash of FPLP	$19,528	$20,443
Distributable cash attributable to the Fund:		
49% of FPLP distributable cash	$9,569	$10,017
Administration expenses	(251)	(262)
Interest income	7	10
Distributable cash attributable to the Fund	$9,325	$9,765
Distributable cash attributable to the Fund - per Unit	$1.351	$1.415

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:

	2005	2004
	In thousands of dollars	
Cash flow from operating activities of FPLP	$13,995	$13,529
Add / (subtract)		
Interest on subordinated notes(*)	7,469	7,698
Net change in non-cash working capital items(**)	(613)	303
Principal repayment of capital leases	(270)	(90)
Maintenance capital expenditures	(1,114)	(1,017)
Strategic capital expenditures	-	(446)
Decrease in reserve for future maintenance capital(***)	114	11
(Increase) in reserve for future strategic capital, acquisitions, and/or debt reduction(***)	-	(510)
Proceeds from sale of property, plant and equipment(****)	32	965
Current income and capital taxes payable	(85)	-
Distributable cash of FPLP	$19,528	$20,443

* 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, as these changes can often be financed with an available operating line of credit, or represent only a temporary source of cash, due to seasonal fluctuations.

*** 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	2005	**2004**
	In thousands of dollars	
Net earnings for the year	$ 8,969	$ 3,736
Add (subtract):		
Amortization of property, plant and equipment	3,484	4,171
Amortization of intangible assets	362	362
Interest	10,723	10,563
Amortization of deferred financing costs	840	1,382
Interest income	(30)	(61)
(Gain)/loss on disposal of property, plant and equipment	(32)	1,242
Write down on equipment held for sale	-	3,019
Income tax recovery	(241)	(80)
EBITDA	$24,075	$24,334

Further information including FP Newspaper Income Fund's annual information form is available at www.sedar.com

FPLP FINANCIAL STATEMENTS

FP Canadian Newspapers Limited Partnership Consolidated 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 control designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and that financial information is timely and reliable.

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

The Board of Directors of FPCN General Partner Inc. appoints the Audit Committee, and the majority of its members are independent 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 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 30, 2006

AUDITORS' REPORT

TO THE PARTNERS OF FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP

We have audited the consolidated balance sheets of FP Canadian Newspapers Limited Partnership as at December 31, 2005 and 2004 and the consolidated statements of earnings and cumulative earnings, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Winnipeg, Canada,
March 3, 2006

Chartered Accountants

FPLP CONSOLIDATED BALANCE SHEETS

As at December 31, 2005 and 2004
(in thousands of dollars)

	2005 $	2004 $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	1,674	571
Accounts receivable	13,746	12,506
Inventories	1,064	976
Prepaid expenses	838	1,138
Future income taxes (note 4)	222	80
	17,544	15,271
EQUIPMENT HELD FOR SALE (note 3)	2,289	2,289
PROPERTY, PLANT AND EQUIPMENT (note 3)	54,012	56,365
FUTURE INCOME TAXES (note 4)	219	-
DEFERRED FINANCING COSTS	3,290	3,378
INTANGIBLE ASSETS (note 5)	8,827	9,179
GOODWILL (note 15)	71,160	70,860
	157,341	157,342
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	10,879	9,289
Income taxes payable (note 4)	85	-
Prepaid subscriptions and deferred revenue	2,875	2,828
Current obligations under capital leases (note 6)	284	270
Term loan (note 7)	-	59,600
	14,123	71,987
LONG-TERM LIABILITIES		
Subordinated notes (note 7)	62,954	64,954
Notes payable (note 7)	60,000	-
Obligations under capital leases (note 6)	492	776
	123,446	65,730
UNITHOLDERS' EQUITY		
Partnership units (note 8)	36,793	34,793
Cumulative earnings	30,122	21,153
Cumulative distributions	(47,143)	(36,321)
	19,772	19,625
	157,341	157,342

Commitments and contingencies (notes 9 and 17)
(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, 2005 and 2004
(in thousands of dollars)

	2005	2004
	$	$
Revenue	116,917	111,238
Operating expenses, excluding amortization	92,842	86,904
	24,075	24,334
Amortization of property, plant and equipment	(3,484)	(4,171)
Amortization of intangible assets	(362)	(362)
Earnings before the undernoted	20,229	19,801
Interest (note 18)	(10,723)	(10,563)
Amortization of deferred financing costs	(840)	(1,382)
Interest income	30	61
Unusual item (note 3)	-	(4,264)
Gain on sale of property, plant and equipment	32	3
Net earnings before income taxes	8,728	3,656
Income tax (expense) recovery (note 4):		
- Current	(85)	-
- Future	326	80
NET EARNINGS FOR THE YEAR	8,969	3,736
CUMULATIVE EARNINGS - BEGINNING OF YEAR	21,153	17,417
CUMULATIVE EARNINGS - END OF YEAR	30,122	21,153

(See accompanying notes)

FPLP CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

For the years ended December 31, 2005 and 2004
(in thousands of dollars)

	GENERAL PARTNER UNITS $	LIMITED PARTNER CLASS A UNITS $	TOTAL $
UNITHOLDERS' EQUITY - JANUARY 1, 2004	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
Net earnings	7,738	1,231	8,969
Distributions	(9,338)	(1,484)	(10,822)
Contributions	-	2,000	2,000
UNITHOLDERS' EQUITY - DECEMBER 31, 2005	15,443	4,329	19,772

(See accompanying notes)

FPLP CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(in thousands of dollars)

	2005	2004
	$	$
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net earnings for the year	8,969	3,736
Items not affecting cash		
Amortization	4,686	5,915
Future income tax recovery	(326)	(80)
(Gain)/loss on sale of property, plant and equipment (note 3)	(32)	1,242
Write-down of equipment held for sale (note 3)	-	3,019
	13,297	13,832
Net change in non-cash working capital items (note 12)	698	(303)
	13,995	13,529
INVESTING ACTIVITIES		
Acquisitions (note 15)	(366)	(7,198)
Purchases of property, plant and equipment	(1,114)	(1,463)
Proceeds from sale of property, plant and equipment	32	965
	(1,448)	(7,696)
FINANCING ACTIVITIES		
Deferred financing costs	(752)	-
Distributions to partners	(10,822)	(10,606)
Operating loan advance	-	7,100
Principal repayment of capital leases	(270)	(90)
Proceeds on issuance of series A senior secured notes	60,000	-
Repayment of operating loan	-	(7,100)
Repayment of term loan	(59,600)	-
	(11,444)	(10,696)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,103	(4,863)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	571	5,434
CASH AND CASH EQUIVALENTS - END OF YEAR	1,674	571
Supplemental Cash Flow Information:		
Interest paid during the year	10,297	10,421

(See accompanying notes)

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(tabular amounts in thousands of dollars, except per unit amounts)

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 specialty publications, delivers advertising materials in the Manitoba and Northwestern Ontario markets and provides commercial printing services. The managing general partner of FPLP is FPCN General Partner Inc. ("FPGP").

2 SIGNIFICANT ACCOUNTING POLICIES

a) PRINCIPLES OF CONSOLIDATION AND VARIABLE INTEREST ENTITIES

The consolidated financial statements include the accounts of FPLP, Canstar Community News Limited ("Canstar"), and Rosebud Publications Ltd. ("Rosebud"). Rosebud is wholly owned by Canstar, which is wholly owned by FPLP. In addition, the FP Canadian Newspapers Limited Partnership Employee Benefits Plan Trust Fund ("Trust Fund") and FPCN Media Funding Inc. ("Funding") have been determined to be Variable Interest Entities ("VIE"), which also have been consolidated.

In June 2003, Accounting Guideline 15 ("AcG 15"), Consolidation of Variable Interest Entities, of the Canadian Institute of Chartered Accountants, was issued. AcG 15 addresses the consolidation of entities for which clear control through voting interest, cannot be readily determined. It concludes that in the absence of clear control, a company's economic risks and potential rewards is the best evidence of control. An enterprise must consolidate a VIE if the enterprise is its primary beneficiary.

During 2005, FPLP created the Trust Fund, administered by a third party, to act as trustee for the FPLP's Long-Term Incentive Plan ("LTIP"). On July 15, 2005, FPLP funded $97,000 to the Trust Fund for exceeding certain 2004 defined distributable cash threshold amounts, subsequent to which the trustee acquired 8,129 FP Newspapers Income Fund ("the Fund") units on the open market. One third of these units will vest March 31, 2006 and will be distributed to members. The remaining units will be held in trust to be distributed under the terms of the LTIP. FPLP has determined that AcG 15 deems the LTIP to be a VIE requiring consolidation and therefore has consolidated the Trust Fund. FPLP has not guaranteed the value of the units held by the Trust Fund should the market value of the Fund's units decrease from the value at which the Trust Fund acquired the units.

On May 5, 2005 Funding issued $60,000,000 of Series A Senior Secured Notes. These Notes bear interest at the rate of 5.2% per annum, and the balance of accrued interest as at December 31, 2005 is $225,333. FPLP has determined that it is the primary beneficiary of the Notes and therefore has consolidated Funding.

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 subsidiaries 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. 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 replacement cost. 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.

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(tabular amounts in thousands of dollars, except per unit amounts)

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

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 to its carrying value. The carrying value of goodwill is written down if the carrying amount 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 plan, 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 13.4 years. For the defined contribution plans, the pension expense is FPLP's contribution to the plans.

j) 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 5 and 10 year terms of the related debt.

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(tabular amounts in thousands of dollars, except per unit amounts)

k) CASH AND CASH EQUIVALENTS
For the purposes of the statements of cash flows, cash includes cash and short-term investments with maturities at the date of purchase of up to three months and are recorded at cost, which approximates market value.

l) 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. Canstar, a wholly owned subsidiary of FPLP, Rosebud, a wholly owned subsidiary of Canstar, and Funding are subject to tax and both use the liability method for accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

3 PROPERTY, PLANT AND EQUIPMENT

	2005		2004	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	$	$	$	$
Land	1,000	-	1,000	-
Buildings and building improvements	8,033	797	7,800	601
Machinery and equipment	52,485	10,059	52,353	7,666
Machinery and equipment under capital leases	1,164	300	1,164	131
Furniture and fixtures	1,976	896	1,910	591
Computer hardware and software	4,590	3,485	4,017	3,055
Vehicles	515	214	405	240
	69,763	15,751	68,649	12,284
NET CARRYING AMOUNT		54,012		56,365

Included in the December 31, 2005 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.

In the prior year, FPLP made the decision to sell surplus printing press components and realized a loss on disposal of $1,245,000. FPLP also made the decision during the prior 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.

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(tabular amounts in thousands of dollars, except per unit amounts)

4 INCOME TAXES

Canstar and Rosebud have non-capital losses in the approximate amount of $1,082,000 which can be used to reduce future taxable income. The current portion of future income tax assets consist of the following:

	2005 $	2004 $
Future income tax asset related to loss carryforward	441	80
Less: Long term portion of future income tax asset	(219)	-
Current portion of future income tax asset	222	80

The provision (for) recovery of income taxes differs from the expense that would be obtained by applying Canadian statutory tax rates as a result of the following:

	2005 $	2004 $
Net earnings before income taxes	8,728	3,656
Provision for income taxes based on Canadian statutory rate of 36.6%	(3,194)	(1,462)
Income taxed in hands of partners	3,507	1,542
Large corporation tax	(72)	-
Income tax (expense) recovery	241	80

The provision (for) recovery of income taxes consists of the following:

	2005 $	2004 $
Current	(85)	-
Future	326	80
Income tax (expense) recovery	241	80

5 INTANGIBLE ASSETS

	2005		2004	
	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Finite life				
Subscriber base	4,600	1,253	4,600	947
News archives	550	225	550	169
	5,150	1,478	5,150	1,116
Indefinite life				
Mastheads	5,155	-	5,145	-
	10,305	1,478	10,295	1,116
NET INTANGIBLE ASSETS		8,827		9,179

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(tabular amounts in thousands of dollars, except per unit amounts)

6 OBLIGATIONS UNDER CAPITAL LEASES

Future minimum lease payments together with the balance of the obligations under capital leases are as follows:

	2005	**2004**
	$	**$**
2005	-	317
2006	317	317
2007	312	312
2008	201	201
Total minimum lease payments	830	1,147
Amount representing interest at 5.3%	(54)	(101)
Present value of minimum capital lease payments	776	1,046
Less: current obligations under capital lease	(284)	(270)
	492	776

7 NOTES PAYABLE AND SUBORDINATED NOTES

During the year, Funding issued $60 million of its Series A Senior Secured Notes payable to The Prudential Insurance Company of America ("Prudential") which bear interest at 5.20% per annum and are due June 5, 2010. The notes payable are guaranteed, jointly and severally, by FPLP, its subsidiaries and FPGP. The proceeds from the sale of the Senior Secured Notes were loaned by Funding to FPLP and have been applied to settle the term loan which matured May 2005. Substantially all of the assets of FPLP and its subsidiaries are pledged as security on the notes payable.

In addition, Funding has available a three year shelf facility, available until May 4, 2008, in the amount of USD $25.6 million (or the Canadian dollar equivalent) whereby Funding may issue additional notes with terms of between five and seven years, bearing interest at rates to be determined at the time of issue, subject to acceptance of such notes by Prudential. These funds may be loaned to FPLP to fund acquisitions and for other general purposes, subject to acceptance by Prudential.

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 partner units (note 8).

FPLP is subject to covenants under the terms of the Series A Senior Secured Notes, including thresholds for leverage and interest coverage, and is subject to certain restrictions under negative covenants.

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(tabular amounts in thousands of dollars, except per unit amounts)

8 UNITHOLDERS' EQUITY

FPLP may issue an unlimited number of general partner and limited partner units.
The number and contributions of partner units are as follows:

	2005		2004	
	Number of units	**$**	**Number of units**	**$**
Balance at beginning of year:				
FPCN General Partner Inc. - managing general partner	10	10	10	10
Canstar Publications Ltd. and R.I.S. Media Ltd. - general partners	7,184,321	30,711	7,184,321	30,711
FP Newspapers Income Fund - Class A limited partner units	6,902,592	4,072	6,902,592	2,072
Investment in Fund units	-	-	-	-
	14,086,923	34,793	14,086,923	32,793
Transaction during the year:				
Limited Partner Class A contributions	-	2,000	-	2,000
Balance at end of year:				
FPCN General Partner Inc. - managing general partner	10	10	10	10
Canstar Publications Ltd. and R.I.S. Media Ltd. - general partners	7,184,321	30,711	7,184,321	30,711
FP Newspapers Income Fund - Class A limited partner units	6,902,592	6,072	6,902,592	4,072
	14,086,923	36,793	14,086,923	34,793

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.

Under the exchange agreement entered into between the holders of the General Partner units, the Class A Limited Partner Units, and the Fund dated May 28, 2002, each General Partner unit may, at any time, at the option of the holder, be exchanged for an equal number of Fund units, subject to the exchange ratio and other provisions of the exchange agreement.

The Class A limited partner 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.

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(tabular amounts in thousands of dollars, except per unit amounts)

The holders of the Class A limited partner units are required to make a contribution of $10 per unit for an aggregate contribution of $69,025,920. Contributions were paid as to $72,419 on closing, $2,000,000 on December 31, 2004 and 2005, and $1,000,000 on December 31, 2003 and 2002. In addition, the following future contributions in respect of Class A limited partner units are required: $3,450,000 on or before December 31, 2006, $1,050,000 on or before December 31, 2007, and the balance of $58,453,501 on May 28, 2012.

On May 3, 2005 FPLP issued 10,000 Class B limited partner units to Funding for a contribution of $10,000. These units, which are outstanding at December 31, 2005, are eliminated on consolidation.

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, 2005:

	$
2006	316
2007	291
2008	238
2009	228
2010	124
Total minimum lease payments	1,197

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.

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(tabular amounts in thousands of dollars, except per unit amounts)

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:

	2005 $	2004 $
PLAN ASSETS		
Fair value - beginning of year	5,977	3,300
Actual return on plan assets	929	436
Employer contributions	1,462	1,439
Employee contributions	881	874
Benefits paid	(327)	(72)
Fair value - end of year	8,922	5,977
PLAN OBLIGATIONS		
Accrued benefit obligation - beginning of year	7,070	3,792
Interest cost	546	398
Current service cost	2,193	2,073
Benefits paid	(327)	(72)
Actuarial loss	761	879
Accrued benefit obligation - end of year	10,243	7,070

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

	2005	2004
Accrued benefit obligation	10,243	7,070
Fair value of plan assets	8,922	5,977
Plan deficit	(1,321)	(1,093)
Unamortized net actuarial loss	1,100	785
Unamortized past service costs	57	63
Accrued pension liability	(164)	(245)

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(tabular amounts in thousands of dollars, except per unit amounts)

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

FPLP's pension plan expense is determined as follows:

	2005	**2004**
	$	**$**
Current service cost	2,193	2,073
Employee contributions	(881)	(874)
Interest costs	546	398
Actual return on plan assets	(929)	(436)
Actuarial loss on accrued benefit obligation	761	879
Costs arising in the period	1,690	2,040
Differences between costs arising in the period and costs recognized in the period in respect of:		
Return on plan assets	440	142
Actuarial gain	(756)	(867)
Plan amendments	6	6
Pension expense - defined benefit plan	1,380	1,321
Employer contributions to defined contribution plans	225	205
Total pension expense	1,605	1,526

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

	2005	**2004**
	%	**%**
Discount rate	5.10	6.00
Expected long-term rate of return on pension plan assets	6.10	7.00
Rate of compensation increase	2.00	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, 2004 and the next required valuation is as of December 31, 2007.

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

	2005	**2004**
	%	**%**
Canadian equities	34	37
United States equities	14	14
Non North American equities	13	11
Canadian Government and corporate bonds	35	36
Short term cash	4	2
	100	100

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(tabular amounts in thousands of dollars, except per unit amounts)

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 originally defined in the LTIP plan documents and subsequently amended by the compensation and governance committee) 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.

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

Amount of excess distributable cash of FPLP over $20,274,000 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, 2005 $nil (2004 - $112,700) was included in operating expenses excluding amortization for the LTIP plan.

12 NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2005	2004
	$	$
Accounts receivable	(1,125)	(341)
Inventories	(88)	12
Prepaid expenses	302	274
Accounts payable and accrued liabilities	1,477	(278)
Prepaid subscriptions and deferred revenue	47	30
Income taxes payable	85	-
	698	(303)

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(tabular amounts in thousands of dollars, except per unit amounts)

13 RELATED PARTY TRANSACTIONS

FPLP incurs transactions with related parties in the normal course of operations. All related party transactions are with 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, 2005, total purchases in the form of newsprint from related parties were $6,016,743 (2004 - $6,521,294). FPLP also reimbursed related parties for administration costs amounting to $58,363 (2004 - $44,222). As at December 31, 2005, accounts payable to related parties totalled $975,174 (2004 - $827,186), and interest payable to the Fund totalled $633,779 (2004 - $632,675). Total advertising sales to related parties were $125,222 (2004 - $35,029) and at December 31, 2005 accounts receivable from related parties totalled $26,669 (2004 - $1,648).

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, income taxes payable, capital leases, term loan, and notes payable 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.

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.

c) INTEREST RATE RISK

FPLP has reduced its exposure to interest rate risk, by only entering into fixed rate debt contracts.

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(tabular amounts in thousands of dollars, except per unit amounts)

15 ACQUISITIONS

Effective July 21, 2005, Canstar Community News Limited, a wholly owned subsidiary of FPLP, acquired all of the outstanding shares of Rosebud Publications Ltd. which publishes a weekly entertainment newspaper and a twice monthly newspaper targeted at age 50 plus readers both of which are distributed in the Winnipeg market. The acquisition has been accounted for by the purchase method. The total consideration for the acquisition by FPLP, including acquisition costs, amounted to $426,581.

A summary of the fair values of the net assets acquired is as follows:

Current assets	$ 215
Current liabilities	(113)
Property, Plant, and Equipment	15
Goodwill	300
Intangible assets	10
	427
Cash acquired on acquisition	(61)
Net cash outflow on acquisition	$ 366

The results of operations of the acquired business are included in the consolidated financial statements from the acquisition date.

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 was 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
Current liabilities	(459)
Property, Plant, and Equipment	297
Goodwill	6,055
Intangible assets	210
Net cash outflow on acquisition	$ 7,198

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(tabular amounts in thousands of dollars, except per unit amounts)

16 CREDIT FACILITY

FPLP has available a credit facility providing up to $10 million in financing which expires May 4, 2007. Amounts borrowed under the credit facility will have varying interest rates and maturity dates depending on whether the loans are in the form of advances, bankers' acceptances or letters of credit. Substantially all of the assets of FPLP and its subsidiary are pledged as security for the credit facility, in accordance with terms of an inter-creditor agreement between the bank lender and the Series A Senior Secured Note Agent. The balance owing under the credit facility at December 31, 2005 is nil (December 31, 2004 - nil).

17 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 directors' and officers' liability insurance coverage, pursuant to a joint policy covering FPGP, FPLP and FP Newspapers Income Fund, of up to $15 million in joint coverage.

18 INTEREST

	2005 $	2004 $
Interest expense is summarized as follows:		
Subordinated notes	7,469	7,698
Term loan / Notes payable	3,209	2,845
Capital lease obligations	45	20
	10,723	10,563

19 SUBSEQUENT EVENT

In January 2006, voluntary termination offers were accepted by certain employees of FPLP. An expense of approximately $300,000 will be recorded in the first quarter of 2006 relating to these voluntary terminations.

20 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 specialty products, and advertising materials in Manitoba and Northwestern Ontario.

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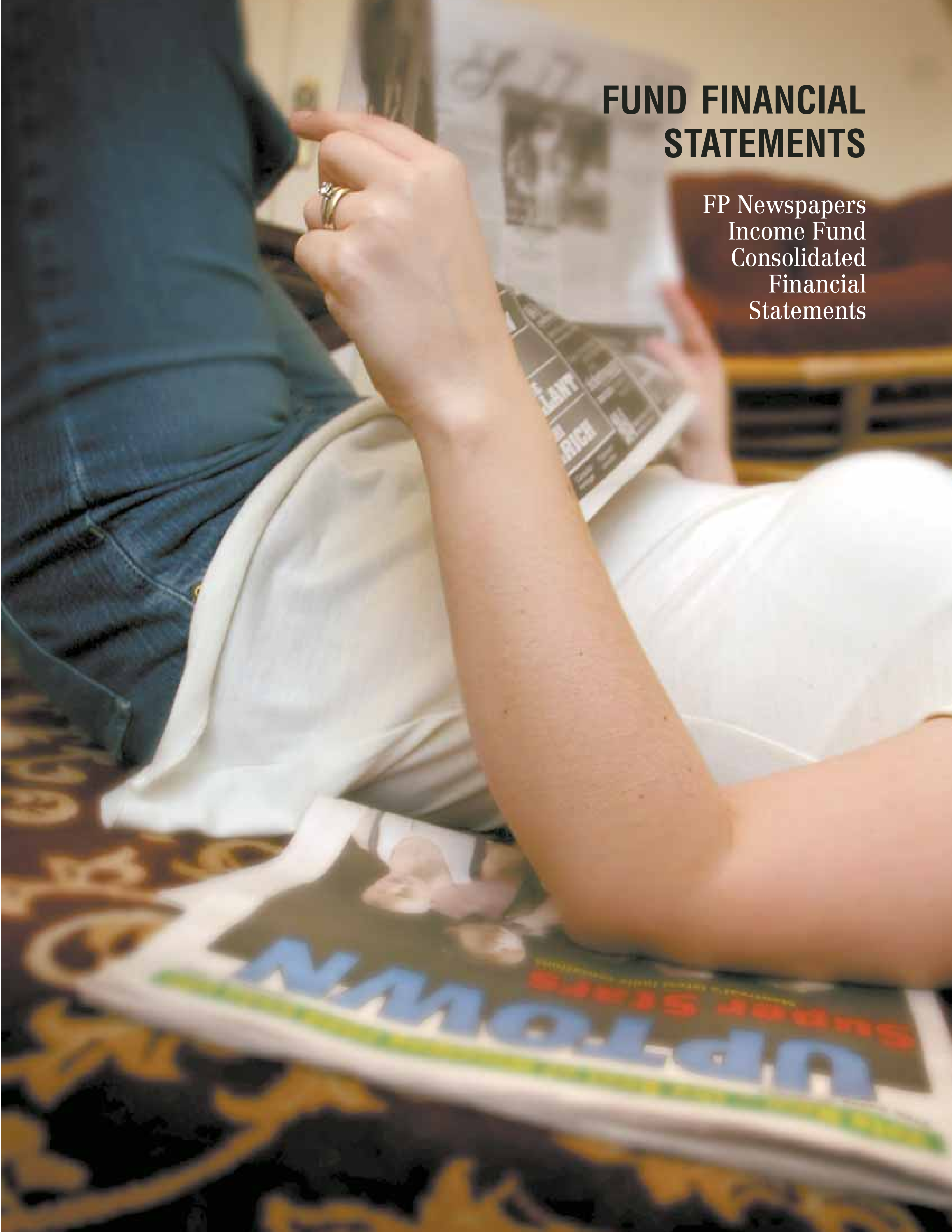
FUND FINANCIAL STATEMENTS

FP Newspapers Income Fund Consolidated Financial Statements



AUDITORS' REPORT

TO THE UNITHOLDERS OF FP NEWSPAPERS INCOME FUND

We have audited the consolidated balance sheets of FP Newspapers Income Fund as at December 31, 2005 and 2004 and the consolidated statements of earnings and cumulative earnings, unitholders' equity and cash flows for the years 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 audits.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Winnipeg, Canada,
March 3, 2006

FUND CONSOLIDATED BALANCE SHEETS

As at December 31, 2005 and 2004
(in thousands of dollars)

	2005 $	2004 $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	184	384
Interest receivable from subordinated notes	634	633
Prepaid expenses	18	21
	836	1,038
INVESTMENT IN FPCN GENERAL PARTNER INC.	10	-
INVESTMENT IN FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP (note 3)	61,689	62,587
	62,535	63,625
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	77	74
Distribution payable (note 4)	742	742
	819	816
UNITHOLDERS' EQUITY		
Trust units (note 5)	69,026	69,026
Cumulative earnings	23,955	16,144
Cumulative distributions (note 4)	(31,265)	(22,361)
	61,716	62,809
	62,535	63,625

(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, 2005 AND 2004

(in thousands of dollars, except per unit amounts)

	2005 $	2004 $
EARNINGS FROM INVESTMENT IN FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP		
Interest from subordinated notes	7,469	7,698
Equity interest from Class A limited partnership units (note 3)	586	(2,096)
Other interest	7	10
	8,062	5,612
ADMINISTRATION EXPENSES	(251)	(262)
NET EARNINGS FOR THE YEAR	7,811	5,350
CUMULATIVE EARNINGS - BEGINNING OF YEAR	16,144	10,794
CUMULATIVE EARNINGS - END OF YEAR	23,955	16,144
Weighted average number of trust units outstanding (note 5)	6,902,592	6,902,592
Net earnings per trust unit	1.13	0.78

FUND CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

(in thousands of dollars)

	2005 $	2004 $
BALANCE - BEGINNING OF YEAR	62,809	66,191
Net earnings	7,811	5,350
Distributions (note 4)	(8,904)	(8,732)
BALANCE - END OF YEAR	61,716	62,809

(See accompanying notes)

FUND CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(in thousands of dollars)

	2005 **$**	**2004** **$**
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net earnings for the year	7,811	5,350
Item not affecting cash		
Equity interest from Class A units of FP Canadian Newspapers Limited Partnership (note 3)	(586)	2,096
Distributions received on Class A units of FP Canadian Newspapers Limited Partnership (note 3)	1,484	1,265
	8,709	8,711
Net change in non-cash working capital items		
Interest receivable from subordinated notes	(1)	21
Prepaid expenses	3	3
Accounts payable and accrued liabilities	3	34
	8,714	8,769
INVESTING ACTIVITIES		
Investment in FPCN General Partner Inc.	(10)	-
	(10)	-
FINANCING ACTIVITIES		
Distributions to unitholders	(8,904)	(8,715)
	(8,904)	(8,715)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(200)	54
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	384	330
CASH AND CASH EQUIVALENTS - END OF YEAR	184	384

(see accompanying notes)

FUND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(tabular amounts in thousands of dollars, except per unit amounts)

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) INVESTMENTS

The investment in subordinated notes of FPLP is recorded at cost. Interest income is recorded as revenue as it accrues. The Fund's investment in the Class A limited partnership units of FPLP and its shares of FPCN General Partner Inc., the managing general partner of FPLP, are 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 earnings and reduced by any distributions and dividends paid to the Fund.

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, 2005 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 required to apply 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 estimate 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, 2005 AND 2004
(tabular amounts in thousands of dollars, except per unit amounts)

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, 2004	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
Repayment of subordinated notes	(2,000)	-	(2,000)
Additional contribution	-	2,000	2,000
Equity interest	-	586	586
Distributions received	-	(1,484)	(1,484)
Balance December 31, 2005	62,954	(1,265)	61,689

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

	2005 $	2004 $
Net earnings of FPLP	8,969	3,736
Plus: Interest on subordinated notes	7,469	7,698
Net earnings before interest on subordinated notes	16,438	11,434
49% interest attributable to the Fund	8,055	5,602
Less: Interest from subordinated notes	(7,469)	(7,698)
Equity interest from Class A limited partnership units	586	(2,096)

FUND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(tabular amounts in thousands of dollars, except per unit amounts)

4 CUMULATIVE DISTRIBUTIONS

Cumulative distributions for the years ended December 31, 2005 and 2004 are as follows:

	2005 $	2004 $
Balance beginning of year	22,361	13,629
Distributions declared	8,904	8,732
Balance end of year	31,265	22,361

The Fund declared a distribution payable in respect of the month of December 2005 of $742,029 or $0.1075 per unit (2004 - $742,029 or $0.1075 per unit) and was paid January 30, 2006 to unitholders of record on December 31, 2005.

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 outstanding are as follows:

	2005		2004	
	Number of units	$	Number of units	$
Balance at beginning and end of year:				
Trust units	6,902,592	$69,026	6,902,592	$69,026

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 $19,495 (2004 - $28,331).

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 trustees' and officers' liability insurance coverage, pursuant to a joint policy covering FPCN General Partner Inc., FPLP and the Fund, of up to $15 million in joint 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 9, 2006 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@sternpartners.com
Website: www.fpnewspapers.com

LISTING INFORMATION

TSX: FP.UN
UNITS: 6,902,592 outstanding (at March 30, 2006)

MAILING ADDRESS

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Suite 2900, P.O. Box 11583
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Vancouver, BC
V6B 4N8

The creative design of the 2005 Annual Report was done by Gordon Preece, the Art Director at the Winnipeg Free Press.