
Winnipeg Free Press
BRANDON SUN
Canstar
Community News Limited
fp
NEWSPAPERS
At the
of
our Community
FP NEWSPAPERS
INCOME FUND
ANNUAL REPORT 2007

Annual Report 2007

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LETTER TO THE UNITHOLDERS

To Our Unitholders

Our businesses serve their communities in many significant ways. Timely, responsible journalism is at the core of this service. This will always be true. Delivering our editorial and advertising content through traditional channels, as well as some very new methods, serves our readers and advertisers throughout our markets. We also believe in building stronger communities through direct support of many external organizations -- from annual efforts such as the United Way to major projects such as the Canadian Museum for Human Rights. We are proud of the impact that we can have in our communities. In this year's annual report we will highlight some of the contributions that we have made. We know our reach and influence assists many causes. We are proud to be able to help make a difference.

Revenue for FP Canadian Newspapers Limited Partnership increased by $3.6 million to $125.9 million representing a 3.0% increase over the prior year. Our largest revenue category, display advertising including colour, accounted for $1.3 million of this increase. There was no large single factor contributing to this growth. Rather, it came from increased spending by a number of our customers. Consistent with prior years, we saw revenue growth from our flyer distribution businesses as well as modest growth in our classified advertising area, largely the result of increased employment advertising. We continue to make significant improvements to our family of web sites and electronic revenue growth was strong, albeit building off a relatively small base. Operating costs benefited significantly from lower newsprint pricing. Overall our operating costs increased by $0.6 million or 0.6% compared with the twelve months ended December 31, 2006.

Distributions during 2007 continued at 10.75 cents per Unit per month, or an annual rate of $1.29 per Unit. Distributable cash attributable to the Fund increased to $1.608 per Unit from $1.434 per Unit last year, resulting in our payout ratio reducing to 80.2% compared with 90.0% last year. From inception on May 28, 2002 to December 31, 2007, we have generated distributable cash attributable to the Fund of $7.95 per Unit and the Fund has declared distributions of $7.11 per Unit, resulting in a cumulative payout ratio of 89.5%.

WINNIPEG FREE PRESS

In 2007, the Winnipeg Free Press moved aggressively to expand its audience beyond its traditional print readers to position the news organization for the future. Bob Cox was named publisher in November after taking on the role on an interim basis in July. Margo Goodhand was appointed editor. Mr. Cox worked with the Free Press executive team to develop key strategic objectives to guide the newspaper as it adjusts to numerous and rapid changes in news media consumption. Those goals are: to preserve and build the quality of the core newspaper and revenues from it; to find the largest possible audience by delivering our content to readers in many different formats; to grow our business with innovative products; to align Free Press operations with other units of FP Canadian Newspapers; to foster a learning culture among employees; and to be good stewards of our community and environment.

In addition to Ms. Goodhand's appointment, a reorganization took place to strengthen the editorial management of the newspaper. Paul Samyn became city editor, returning to Winnipeg from Ottawa where he was the paper's national correspondent. Mia Rabson replaced Mr. Samyn in Ottawa, continuing the paper's long tradition of providing national news viewed through local eyes to the readers of the Winnipeg Free Press. John White became deputy editor of online editorial. Two long-serving managers took on new roles. Pat Flynn moved from deputy editor to focus on editing the travel section and specialty publications. John Sullivan moved from online editor to focus on audience research and development of revenue-generating online content.

The core newspaper, the largest revenue source for the Winnipeg Free Press, continued to expand its reach. Though gains in circulation were modest, the Free Press bucked a Canada-wide trend to fewer readers. It was one of only three large metro newspapers in Canada to see increases in copies sold in the six-month period ending September 30, 2007. The Audit Bureau of Circulations certified the average circulation of the Winnipeg Free Press to be 119,458 (up 1.3% from 2006) from Monday to Friday, 162,997 (up 0.4% from 2006) on Saturdays, and 119,936 (up 4.6%) on Sundays in the six-month period ending September 30, 2007. In the same period, our chief local print competitor saw circulation decreases of 2.8% Monday to Friday, 1.8% on Saturday, and 3.5% on Sunday.

The National Audience Databank (NADBank) estimated in survey results released in 2007 that 71% of Winnipeg residents read the Free Press at least once a week, and 56% read it on Saturdays. This is the highest percentage of readership – by a wide margin – of a daily newspaper in any major Canadian city. The Winnipeg Free Press has placed first in readership percentage in major Canadian metro markets consistently for a number of years. The newspaper with the second highest readership rate got 59% of readers weekly and 35% on Saturdays. These results attest to the consistent quality and loyal readership of the Winnipeg Free Press.

The paper focuses on having excellent local journalists provide comprehensive coverage of local people and events, creating content that cannot be obtained from any other media. This content is increasingly finding audiences outside the printed daily newspaper. In 2007 the Winnipeg Free Press published The Hermetic Code, a book on the mysterious symbols of the Manitoba Legislative Building. The book, based on a series of articles that first appeared in the newspaper, became a best-seller in the province, selling more than 8,400 copies. A Canine Idol contest to select dogs for a Winnipeg Humane Society calendar generated more than 800,000 page views online. The calendar sold several thousand copies.

LETTER TO THE UNITHOLDERS

The audience for Winnipeg Free Press content online grew substantially in 2007. We are quickly developing this new mass medium so that the Winnipeg Free Press is Manitoba's leading source for breaking news and information. There are about 60,000 unique visits to our website each weekday, a number that increases monthly. We recorded 6.7 million page views across all sites in January of 2008. That is 56% higher than the 4.3 million page views in January of 2007. During 2007, the main news website, www.winnipegfreepress.com, was opened free of charge to all users after being a subscriber-only site. The increased traffic has generated significant percentage growth in advertising revenues. Most of the new audience was attracted to the main news site. Because of this trend, the Free Press went through a major reorganization of its editorial department so that unique, breaking news could be provided to web readers on a continuous basis. John White was appointed deputy editor for online.
Mr. White implemented a continuous newsroom where stories are first reported online and only later in the newspaper. The change was made in January of 2008 and resulted immediately in increases in the number of page views and unique visits. The Free Press continues to support a number of other editorial sites, including whatsonwinnipeg.com, an entertainment site, and mikeoncrime.com, a site focusing on crime coverage.

The Free Press also supports a number of classified sites, including passagesmb.com for obituaries, wfpstuff.com for general classifieds, and wfpcelebrations.com for personal announcements. In 2007, Colin Danielson joined the newspaper as director of online business development. Mr. Danielson is currently overseeing efforts to expand our online classified business, focusing initially on sites for auto and homes sales. The combination of online editorial strength and online business development will position the paper well to attract online audience and revenues.

BRANDON SUN

Economic conditions in the Brandon region remained vibrant in 2007. Grain producers enjoyed bountiful crops and high commodity prices in the past year and 2008 shows promise of record prices for wheat and canola. The oil patch, which is located in the southwest part of the Brandon Sun's trading area, continues to boom. Discovery of new pools of oil have led to a record number of wells being drilled in the past two years with more to come in 2008.

Advertising revenue at the Sun continued to show year-over-year increases. The Sun's circulation showed an increase over the previous year, making it one of the few markets in the country to show circulation growth.

In an effort to remain the dominant market leader in advertising, flyer distribution and news dissemination, the Brandon Sun redesigned its core product and Community News Edition, which launched in January 2008.

CANSTAR COMMUNITY NEWS LIMITED

Canstar made a number of improvements to its newspapers and flyer distribution network in 2007. Bryan Metcalfe, the general manager, joined the business in January and led the company through a reorganization which created a number of operational efficiencies, refocusing our business more appropriately for the current market conditions.

Our advertising revenue grew in 2007 primarily due to a growth in national advertising and national distribution revenues.
Late in 2007, we hired Dan Szun as our general sales manager to reorganize the sales team, expand our client base and grow revenues in our classified and local advertising markets.
We will continue to explore new print and distribution product opportunities, as we did in 2007, to attract new clients to our business.

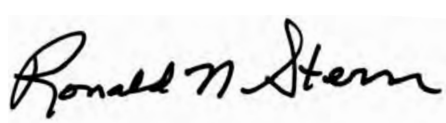
During the first quarter of 2008, management completed the negotiation of initial contract language and wage levels covering 29 Canstar employees in Winnipeg. The new language was incorporated in the existing collective agreement between the Winnipeg Free Press and the Media Union of Manitoba Local 191, which expires on September 30, 2008. Management of Canstar and the Winnipeg Free Press are working on an integration plan to move the majority of Canstar employees to the Mountain Avenue facility in Winnipeg, which is expected to reduce costs and should be completed by the second quarter of 2008.

OUTLOOK

The Manitoba economy continues to look strong as we begin 2008. Capital spending in the province is expected to be well above the Canadian average and employment levels remain high. The relatively low newsprint prices we have enjoyed in recent years are expected to rise during 2008.

We will say farewell to Kevin Karr, our Chief Financial Officer, in April. Kevin has been a senior officer of FP Newspapers Income Fund since its inception in May 2002, and we thank him for his significant contributions to the success of FP Newspapers and wish him well in his future endeavours.

As we begin another year, we are ready for the challenges and opportunities that will present themselves, and look forward to again being at the heart of the communities we serve.



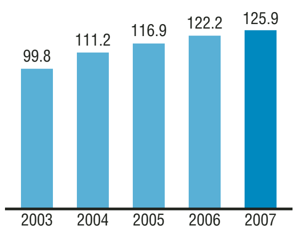
Ronald N. Stern
Chairman & Trustee

March 11, 2008

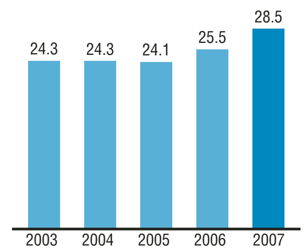
FINANCIAL AND OPERATING HIGHLIGHTS

FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP

REVENUES ($ millions)



EBITDA[1] ($ millions)



FP NEWSPAPERS INCOME FUND

	2003	2004	2005	2006	2007
Distributable cash attributable to the Fund[1]/Unit	$1.381	$1.415	$1.351	$1.434	$1.608
Distributions/Unit	$1.210	$1.265	$1.290	$1.290	$1.290

FINANCIAL AND OPERATING HIGHLIGHTS IN 2007

Advertising revenue growth of 2.8% driven by increases in the display advertising, flyer distribution categories and classified advertising.

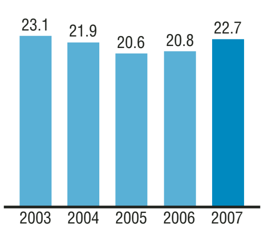
Bob Cox appointed Publisher of the Winnipeg Free Press and Margo Goodhand as its Editor.
Bryan Metcalfe hired as Publisher of Canstar Community News Limited.

Renewed focus on website development leads to 175.9% growth in internet advertising revenues.

Low newsprint prices result in $1.2 million reduction in own-use newsprint expense.

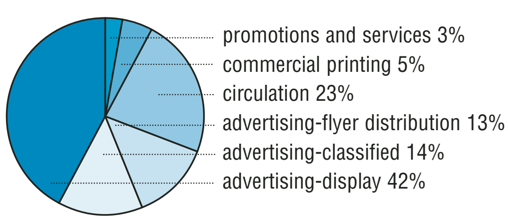
Cumulative payout ratio since inception stands at 89.5%.

EBITDA[1] MARGINS (%)



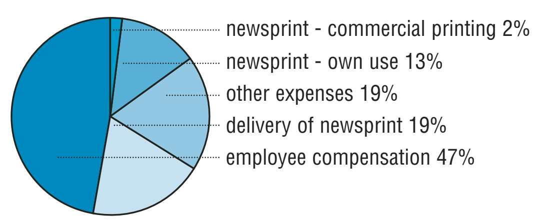
Relatively stable EBITDA[1] margins (EBITDA[1] divided by revenue) have been maintained, even with the acquisition of the lower-margin weekly community newspapers in 2004.

COMPONENTS OF REVENUE



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

OPERATING EXPENSES, EXCLUDING AMORTIZATION



Labour contracts covering unionized employees and delivery agents at the Winnipeg Free Press and Canstar Community News Limited office employees expire in September 2008, and labour contracts at the Brandon Sun expire in December 2008.

(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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 11, 2008

Management's Discussion and Analysis provides a review of significant developments that have affected the Fund's performance during 2007. 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 and FP Canadian Newspapers Limited Partnership 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:

	2007	2006	2005
	In thousands except per Unit amounts		
Revenue	$ 9,939	$ 7,964	$ 8,062
Net earnings	7,968	7,677	7,811
Net earnings per Unit	1.154	1.112	1.132
Total assets	62,384	61,327	62,535
Total long-term liabilities	1,682	-	-
Distributions declared	8,904	8,904	8,904
Distributions declared per Unit	1.290	1.290	1.290

Revenue for the year ended December 31, 2007 was $9,939,000 compared to $7,964,000 in 2006. The Fund's income from its investment in FPLP of $9,928,000 consisted of $6,843,000 (2006 – $7,239,000) in interest on the 11.5% subordinated notes issued by FPLP to the Fund and $3,085,000 (2006 – $721,000) representing the Fund's equity interest from its Class A limited partner Units. The Fund incurred $289,000 (2006 – $287,000) in operating expenses for the year. Due to the substantive enactment of Bill C-52 Budget Implementation Act 2007 (see "Taxation Changes"), the Fund recorded future income tax expense of $1,682,000 (2006 – $0) resulting in net earnings of $7,968,000 for the year ended December 31, 2007 and $7,677,000 for the prior year. The increase in the Fund's net earnings in 2007 is the result of the increased earnings of FPLP, which is primarily due to improved operating results, combined with a 2006 non-cash loss less the impact of the 2007 future tax expense. During 2006, FPLP re-valued the remaining excess press components classified in the balance sheet as held for sale, based on their estimated fair value less costs to sell of $400,000. A non-cash accounting loss of $1,303,000 was recorded in FPLP's statement of earnings for the year ending December 31, 2006. Consequently, the net earnings in FPLP for the year ended December 31, 2006 were slightly lower than would be expected based on the growth in revenues over prior years. As at December 31, 2007, these components had not been sold.

community

"Congratulations, to the Free Press for over 40 years of help. The Spirit of Christmas and Pennies from Heaven make a huge difference to many families in our community."

Kai Madsen
Executive Director
Christmas Cheer Board

MANAGEMENT'S DISCUSSION AND ANALYSIS

Distributions declared to Unitholders for the year ended December 31, 2007 were as follows:

Record Date	Payment Date	Amount per Unit
January 31, 2007	February 27, 2007	$0.1075
February 28, 2007	March 29, 2007	$0.1075
March 30, 2007	April 27, 2007	$0.1075
April 30, 2007	May 30, 2007	$0.1075
May 31, 2007	June 28, 2007	$0.1075
June 29, 2007	July 30, 2007	$0.1075
July 31, 2007	August 30, 2007	$0.1075
August 31, 2007	September 27, 2007	$0.1075
September 28, 2007	October 30, 2007	$0.1075
October 31, 2007	November 29, 2007	$0.1075
November 30, 2007	December 28, 2007	$0.1075
December 31, 2007	January 30, 2008	$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 March 11, 2008, December 31, 2007 and December 31, 2006, the Fund had 6,902,592 Units issued and outstanding.

DISTRIBUTABLE CASH ATTRIBUTABLE TO THE FUND[1]

Cash available for distribution attributable to the Fund[1] was $11,100,000 or $1.608 per Unit for the year ended December 31, 2007. The increase in cash available for distribution attributable to the Fund[1] is primarily due to higher EBITDA[2] in FPLP partially offset by an increase in maintenance capital spending as explained later in this discussion. The Fund declared distributions of $1.290 per Unit during the year, resulting in a payout ratio of 80.2%.

The Fund monitors the cumulative cash available for distribution attributable to the Fund[1] as a factor in determining whether to make an adjustment to the level of monthly distributions. The Fund believes it is prudent to pay out less than 100% of cumulative cash available for distribution attributable to the Fund[1].

Since commencement of the Fund on May 28, 2002 until December 31, 2007 distributable cash attributable to the Fund[1] totals $7.946 per Unit and during that period the Fund declared distributions to Unitholders of $7.110 per Unit. Because the Fund makes an allowance for maintenance capital spending which is estimated to be sufficient to maintain the productive capacity of the business, when calculating distributable cash attributable to the Fund[1], and because cumulative distributions declared are less than the cumulative distributable cash attributable to the Fund[1], the Fund believes there has been no economic "return of capital".

STANDARDIZED DISTRIBUTABLE CASH

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

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

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

HISTORICAL DISTRIBUTIONS PAID ANALYSIS

	2007	2006	2005
	In thousands of dollars		
Cash provided by operating activities	$ 9,051	$ 8,951	$ 8,714
Net earnings	7,968	7,677	7,811
Distributions paid during the period	8,904	8,904	8,904
Excess (short-fall) of cash provided by operating activities over cash distributions paid	$ 147	$ 47	$ (190)
Short-fall of net earnings over cash distributions paid	$ (936)	$ (1,227)	$ (1,093)

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

TAXATION CHANGES

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

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

The Fund will evaluate alternatives as to the best legal structure for its Unitholders, including consideration of a corporate structure. However, at this time in Manitoba, where the Fund indirectly operates substantially all its business, a corporation is subject to a higher overall rate of tax than the 29.5% tax that will apply in 2011 and the 28.0% tax that will apply in 2012 and beyond under the new income trust tax effective January 1, 2011.

As at December 31, 2007, the Fund has a future income tax liability of $1,682,000, based on the Fund's share of FPLP's temporary differences between the accounting and tax basis of FPLP's net assets and the Fund's investment in FPLP, which begin to reverse in 2011 when the new tax becomes effective. The Fund has estimated its future income taxes based on its estimates of results of operations, tax deductions, and distributions in the future. Future income taxes will be recorded each period in the future based on the changes to temporary timing differences and related assumptions. The Fund's estimate of its future income tax liability will vary as do the Fund's assumptions pertaining to the factors described above, and such variations may be material.

Included in the future income tax liability is $201,000 related to the temporary timing differences on mastheads, which are non-amortizing intangible assets. Although the Fund has no reason to believe these temporary timing differences will reverse because the Fund has no reason to believe such balances will be written down for accounting purposes, a future tax liability has nonetheless been recorded in accordance with Canadian GAAP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2007, 2006, and 2005 is as follows:

	2007	2006	2005
	In thousands except per Unit amounts		
Revenue			
Quarter 1 (*)	$1,840	$1,385	$1,142
Quarter 2	2,762	2,597	2,542
Quarter 3 (**)	2,224	1,300	1,620
Quarter 4	3,113	2,682	2,758
Net earnings			
Quarter 1 (*)	1,756	1,319	1,078
Quarter 2 (***)	801	2,506	2,478
Quarter 3 (**)	2,174	1,234	1,556
Quarter 4	3,237	2,618	2,699
Net earnings per Unit			
Quarter 1 (*)	0.254	0.190	0.156
Quarter 2 (***)	0.116	0.363	0.359
Quarter 3 (**)	0.315	0.179	0.225
Quarter 4	0.469	0.380	0.391

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

** Decrease in 2006 primarily due to the write-down of excess press components in FPLP (see "Reclassification and Revaluation of Excess Press Components" under the Financial Condition of FPLP section).

*** Decrease in net earnings and net earnings per unit in 2007 due to the recognition of a future income tax expense based on the new substantively enacted tax (See "Taxation Changes" under the FP Newspapers Income Fund section above).

RESULTS OF OPERATIONS OF FPLP

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

	2007	2006	2005
	In thousands of dollars		
Revenue	$125,862	$122,220	$116,917
Net earnings (*)	13,418	9,006	8,969
Total assets	153,685	154,477	157,341
Total long-term liabilities	115,686	119,701	123,446

* Decrease in 2006, as a proportion of revenue growth is due to the write-down of excess press components in FPLP, as discussed below.

REVENUE

A summary of revenue by major category is as follows:

	2007	2006	2005
	In thousands of dollars		
Advertising	$ 87,055	$ 84,707	$ 80,936
Circulation	29,106	28,314	27,069
Commercial printing	6,535	6,587	6,430
Promotions and services	3,166	2,612	2,482
	$125,862	$122,220	$116,917

Revenue for the twelve months ended December 31, 2007 was $125.9 million, an increase of $3.6 million, or 3.0% compared to last year. Advertising revenues increased by $2.3 million or 2.8% compared to last year. FPLP's largest advertising revenue category, display advertising including colour, increased by $1.3 million or 2.5% largely due to small increases across many customers. Flyer distribution revenues increased by $0.8 million or 4.6% primarily due to a combination of increased volumes together with higher rates. Classified advertising increased by $0.3 million or 1.8% in the twelve months ending December 31, 2007 due primarily to increased employment advertising revenue. Circulation revenue increased by $0.8 million or 2.8% primarily due to rate increases implemented in the fourth quarter of 2006. Promotional and services revenue increased by 21.2% primarily due to increased internet revenues and revenue from the sales of the "Hermetic Code" book which was published during the year.

OPERATING EXPENSES EXCLUDING AMORTIZATION

Operating expenses excluding amortization by major category is as follows:

	2007	2006	2005
	In thousands of dollars		
Employee compensation	$45,356	$43,763	$42,107
Newsprint – own use	12,814	14,020	13,597
Newsprint – commercial printing	1,947	2,392	2,380
Delivery of newspapers	19,052	18,732	17,772
Other	18,176	17,846	16,986
	$97,345	$96,753	$92,842

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating expenses, excluding amortization, in the twelve months ended December 31, 2007 were $97.3 million, an increase of $0.6 million or 0.6% over the same period in 2006. Employee compensation increased by $1.6 million or 3.6% due primarily to wage and salary increases, increases in staff, and increased costs associated with the long-term incentive plan resulting from the increased distributable cash[(1)] generated by FPLP. Newsprint expense for FPLP's own publications decreased by $1.2 million or 8.6%, the result of decreased newsprint prices partially offset by slightly higher consumption. Delivery costs increased by $0.3 million or 1.7% compared to last year, largely the result of contracted annual increases to delivery agents at the Winnipeg Free Press, higher fuel costs and increased flyer volumes. Other expenses increased by $0.3 million or 1.8% over last year primarily due to an increase in professional development costs, consulting fees and costs associated with the increased number of advertising supplements published in 2007.

EBITDA[(2)] for the twelve months ended December 31, 2007 was $28.5 million compared to $25.5 million last year. EBITDA[(2)] divided by revenue was 22.7% and 20.8% for the twelve months ended December 31, 2007 and 2006.

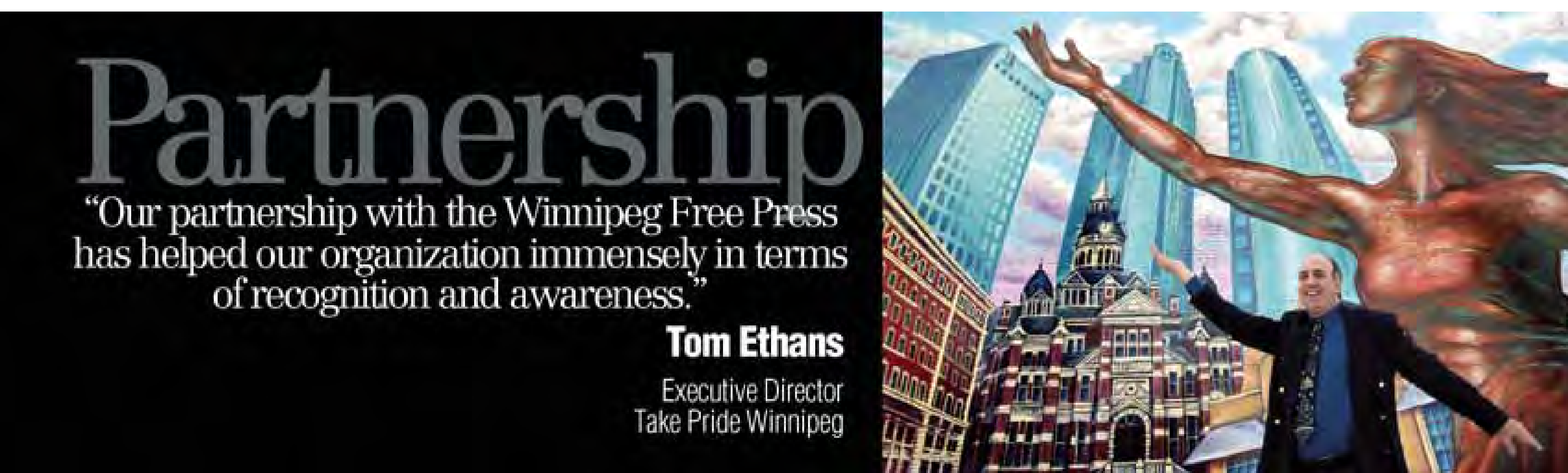
Interest expense on the notes payable, the subordinated notes and capital lease obligations for the twelve months ended December 31, 2007 was $10.6 million compared to $10.5 million last year. Interest expense increased from the prior year, due to the inclusion of amortization of the deferred financing costs accounted for within this category based on FPLP's adoption of CICA Financial Instruments Handbook sections 3855 and 3861 (see "Accounting Policy Change"), partially offset by a reduction in interest expense on the subordinated notes caused by the lower principal amount compared to last year.

FPLP's net earnings for the year ended December 31, 2007 was $13.4 million and represented 10.7% of revenue, compared to $9.0 million and 7.4% of revenue in 2006. The increase in net earnings in 2007 is attributable to increased operating results primarily from increased revenues and lower newsprint costs, as well as a 2006 non-cash charge relating to excess press components at the Winnipeg Free Press (see "Reclassification and Revaluation of Excess Press Components" under the Financial Condition of FPLP section).

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 2007, 2006, and 2005 were as follows:

	2007	2006	2005
Revenue	**In thousands of dollars**		
Quarter 1	$ 29,829	$ 28,582	$ 26,805
Quarter 2	32,224	31,261	30,270
Quarter 3	30,507	29,804	28,005
Quarter 4	33,302	32,573	31,837
	$125,862	$122,220	$116,917
EBITDA[(2)]			
Quarter 1 (*)	$ 5,740	$ 4,746	$ 4,302
Quarter 2	7,611	7,196	7,094
Quarter 3	6,571	5,853	5,176
Quarter 4	8,595	7,672	7,503
	$ 28,517	$ 25,467	$ 24,075
Net Earnings			
Quarter 1 (*)	$ 2,062	$ 1,038	485
Quarter 2	3,925	3,492	3,320
Quarter 3 (**)	2,809	827	1,420
Quarter 4	4,622	3,649	3,744
	$ 13,418	$ 9,006	$ 8,969



MANAGEMENT'S DISCUSSION AND ANALYSIS

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

* Lower EBITDA[(2)] and net earnings in 2005 is primarily due to lower revenues due to two fewer publishing days and an 11.5% decline in Friday/Saturday publishing days.

** Decrease in earnings in the third quarter of 2006 was due to the write-down in value of excess press components held for sale which resulted in a $1.3 million charge against net earnings (see "Reclassification and Revaluation of Excess Press Components" under the Financial Condition of FPLP section).

FINANCIAL CONDITION OF FPLP

WORKING CAPITAL POSITION
Total working capital at December 31, 2007 was $9.4 million, up from $5.0 million at December 31, 2006. The increase in working capital is primarily due to cash flow from operating activities exceeding cash used for capital expenditures and distributions to partners and the resulting increase in the cash balance.

FUTURE INCOME TAXES
The decrease of $0.2 million in future income tax assets is due to the utilization during 2007 of non-capital losses within subsidiaries of FPLP. The remaining losses are carried forward and can be applied as a credit against future taxable income, resulting in deferred tax assets of $0.2 million at December 31, 2007.

RECLASSIFICATION AND REVALUATION OF EXCESS PRESS COMPONENTS
During the third quarter of 2006 FPLP reclassified press components with a carrying value of $0.6 million from the "equipment held for sale" category on the balance sheet to the "property, plant and equipment" category as it is the intention to re-utilize this equipment at a later date. In addition, it was determined that a write-down in value of the remaining "equipment held for sale" in the amount of $1.3 million was required and this write-down was recorded on FPLP's statement of earnings during the third quarter of 2006.

LIQUIDITY AND CAPITAL RESOURCES OF FPLP

Cash and cash equivalents at December 31, 2007 was $9.9 million compared to $3.7 million at December 31, 2006. Cash and cash equivalents may be used to pay future distributions, to reduce debt, to fund future capital expenditures, or for other general purposes. Operating activities provided $20.6 million, while $2.0 million was used for investing activities and $12.5 million was used for financing activities. Cash flow from operations, together with cash balances on hand and unutilized credit facilities, are expected to be sufficient to fund FPLP's operating requirements, capital expenditures and anticipated distributions.

CASH FLOW FROM OPERATING ACTIVITIES
During the year ended December 31, 2007, cash generated from operating activities was $20.6 million, compared to $15.4 million in the prior year. The increase is primarily the result of the timing of receipts from customers and payments to suppliers.

INVESTING ACTIVITIES
Maintenance capital purchases, representing the replacement of capital in order to sustain current business operations, totalled $2.0 million in 2007, compared to $1.4 million last year. In 2007, $0.9 million was invested to upgrade the press control systems in the Winnipeg plant and $0.6 million was invested to upgrade the Winnipeg Free Press editorial production system. There was no strategic capital investment in 2007 compared to the investment for website development costs of $0.2 million in 2006.

FINANCING ACTIVITIES
Distributions to partners of FPLP for the year ended December 31, 2007 totalled $12.1 million, of which $2.4 million was paid to the Fund as holder of Class A limited partner Units. This is compared to $11.5 million last year, of which $1.9 million was paid to the Fund as holder of the Class A limited partner Units. The distributions to partners have been determined in accordance with the Amended and Restated Agreement of Limited Partnership dated May 3, 2005.

HISTORICAL DISTRIBUTIONS PAID ANALYSIS

	2007	**2006**	**2005**
	In thousands of dollars		
Cash provided by operating activities	$20,641	$15,387	$13,995
Net earnings	13,418	9,006	8,969
Distributions paid during the period	12,143	11,527	10,822
Excess of cash provided by operating activities over cash distributions paid	$ 8,498	$ 3,860	$ 3,173
Excess (short-fall) of net earnings over cash distributions paid	$ 1,275	$ (2,521)	$ (1,853)

Cash distributions paid in the twelve months ended December 31, 2006 and 2005 exceeded net earnings and comprehensive income. FPLP does not use net earnings and comprehensive income as a basis in determining the level of distributions to Class A and Class B Unitholders. Distributions are determined in accordance with the agreement of limited partnership. Because amortization charged as an expense in calculating net income in accordance with GAAP has exceeded capital expenditures charged as a reduction of distributable cash in all periods, this result is not unexpected.

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	845	295	514	36	-
Subordinated notes(*)	58,454	-	-	58,454	-
Capital leases	201	201	-	-	-
Other contractual commitments	1,576	331	851	263	131
Total contractual obligations	$121,076	$827	$61,365	$58,753	$131

* 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, 2007 and 2006 is as follows:

	2007	**2006**
	In thousands of dollars	
Reserve – beginning of year	$ 370	$ 516
Increase in reserve	181	104
Decrease in reserve	(203)	(250)
Reserve – end of year	$ 348	$ 370

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 for the years ending December 31, 2007 and 2006 is as follows:

	2007	**2006**
	In thousands of dollars	
Reserve – beginning of year	$ -	$ 157
Increase in reserve	-	-
Decrease in reserve	-	(157)
Reserve – end of year	$ -	$ -

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].

The use of a reserve for maintenance capital in calculating distributable cash attributable to the Fund[1] is intended to provide an allowance for estimated annual capital expenditures required to maintain the productive capacity of the business. The level of the annual allowance for maintenance capital is reviewed periodically

MANAGEMENT'S DISCUSSION AND ANALYSIS

based on historical spending levels and future plans, and adjusted based on reasonable and supportable assumptions. Actual future capital expenditures necessary to maintain the current productive capacity of the business may vary, perhaps materially, from the allowance used in determining distributable cash[1], due to technological change, unexpected equipment failure, changes in customer service expectations and other reasons.

The decrease in 2006 in the reserve for strategic capital, acquisitions and/or debt reduction relates to an investment in website development at the Winnipeg Free Press. There was no strategic capital investment in 2007.

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

PRODUCTIVE CAPACITY MAINTENANCE STRATEGY

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

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

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

DEBT MANAGEMENT STRATEGY

The strategy of FPLP is to refinance the $60 million core long-term debt prior to the June 5, 2010 maturity date, on a non-amortizing basis. The capital assets with the most significant estimated replacement costs are buildings and printing presses, which have very long expected remaining useful lives. If the EBITDA[2] of FPLP continues to grow, it is likely that the future borrowing capacity of FPLP will also grow, thereby reducing the risk that we cannot refinance the core debt at maturity.

DEBT COVENANTS

Under the terms of the $60 million Series A Senior Secured Notes and the $10 million credit facility (undrawn at December 31, 2007), FPLP is subject to various positive and negative covenants which must be maintained in order to avoid an accelerated termination of the agreements. These covenants include certain restrictions on the incurrence of additional debt, requirements to maintain insurance, certain restrictions on the sale of assets, and other requirements and restrictions common to lending agreements of this nature. FPLP is restricted from making distributions which cumulatively exceed by more than $1.4 million the total of distributable cash of FPLP[1] since May 28, 2002. FPLP is required to maintain a ratio of net debt to EBITDA[2] of no greater than 3.5 to 1.0, and a ratio of EBITDA[2] to net external interest expense of no less than 3.0 to 1.0, measured quarterly on a trailing twelve-month basis. Financial amounts used in the calculations are specifically defined in the debt agreements, but are substantially equal to the corresponding terms used in the external financial reports filed by FPLP and the Fund, where applicable, except that the maximum cash balance allowable for the calculation of net debt under the debt agreements is $5.0 million. At December 31, 2007 FPLP was in compliance with all the terms and conditions of its debt agreements. The financial ratios calculated in accordance with the debt agreements for the five most recent twelve-month periods are as follows:

	Net Debt/ EBITDA[2]	EBITDA[2]/ Net Interest
December 31, 2007	1.92	9.59
September 30, 2007	1.99	9.13
June 30, 2007	2.06	8.75
March 31, 2007	2.12	8.51
December 31, 2006	2.23	8.08

FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2007 there are no derivative contracts in place or off-balance sheet arrangements entered into 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 2007 was $5.8 million (2006 – $3.9 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 have adopted or formalized such controls and procedures as each believes are necessary and consistent with its business and internal management and supervisory practices. 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 as of December 31, 2007. Based on this evaluation, the Fund's and FPLP's CEO and CFO have concluded that, as at December 31, 2007, disclosure controls and procedures were effective.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management of the Fund is responsible for designing internal controls over financial reporting for the Fund as defined under Multilateral Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP.

There have been no changes in our internal controls over financial reporting during 2007 that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

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.

civic-minded

"The Brandon Sun is by far the most civic-minded paper that I have seen in all of my travels. Its coverage of University events is like none other and the community is certainly better off because of it."

Louis Visentin
President
Brandon University

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

ACCOUNTING POLICY CHANGE

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

CICA 1535 Capital Disclosures: This new section is required to be implemented for fiscal years beginning on or after October 1, 2007. CICA 1535 requires disclosure of information about the company's objectives, policies and processes for managing capital, and whether the company has complied with any externally-imposed capital requirements. The Fund and FPLP are assessing the impact of this section on their financial statements.

CICA 3862 Financial Instruments – Disclosure: This section replaces the disclosure portion of CICA 3861 Financial Instruments – Disclosure and Presentation and is required to be implemented for fiscal years beginning on or after October 1, 2007. CICA 3862 increases the emphasis on disclosures about risks associated with recognized and unrecognized financial instruments and the associated management method. The section requires the disclosure of the significance of the financial instruments, as well as revising the requirements for the disclosure of qualitative and quantitative information about the company's exposure to risks arising from the financial instruments. The Fund and FPLP are assessing the impact of this section on their financial statements.

CICA 3031 Inventories: This section replaces the existing CICA 3030 Inventories section, and is required to be implemented for fiscal years beginning on or after January 1, 2008. CICA 3031 requires inventories to be measured at the lower of cost and net realizable value, with guidance on the determination of costs, including allocation of overheads and other costs to inventory, and allows reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. The Fund and FPLP do not expect this section to have an impact on the financial statements.

BUSINESS RISKS AND UNCERTAINTIES

REVENUE

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

EMPLOYEE RELATIONS

The majority of FPLP's employees are unionized and their employment is governed by the terms of collective agreements. A work stoppage could restrict or eliminate the ability of FPLP to earn revenue from its publishing business during the stoppage. Collective agreements are now in place with unionized employees at the Winnipeg Free Press and Canstar Community News Limited office employees which expire on September 30, 2008. Collective agreements covering unionized employees at the Brandon Sun expire December 31, 2008. Talks continue on the renewal of the collective agreement covering unionized delivery contractors at Canstar Community News Limited which expired on April 20, 2007.

EXPENSES

Newspaper publishing is both capital and labour-intensive, and as a result newspapers have relatively high fixed-cost structures. During periods of declining revenue, significant portions of costs may remain fixed, resulting in decreased earnings. Newsprint is a significant cost for FPLP, accounting for $14.8 million in 2007, compared to $16.4 million in 2006. 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.

TAXATION CHANGES

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

Additional risk factors are described in the Annual Information Form dated March 11, 2008 which is available at www.sedar.com.

OUTLOOK

REVENUE

Advertising revenue is very difficult to forecast because it is the result of specific spending decisions of many customers. Advertising revenues are expected to grow at 2 to 3% for 2008. Circulation revenues for the year were 2.8% higher than last year, in line with our 1 to 3% forecast. Overall circulation revenue growth is expected to be approximately 1% in 2008 with the growth driven primarily by rate increases implemented during the fourth quarter of 2007 to home-delivered customers. Commercial printing revenues are expected to be relatively unchanged in 2008, with lower revenue due to lower expected newsprint prices offset by new commercial print contracts obtained during 2007.

OPERATING EXPENSES EXCLUDING AMORTIZATION

Employee compensation costs account for approximately 47% of our operating costs before amortization. Most of our employee compensation costs are covered under collective bargaining agreements and we expect employee compensation to be approximately 2 to 4% higher in 2008. Newsprint prices were increased by our suppliers during the first quarter of 2008. Although newsprint prices vary significantly from time to time based primarily on North American supply and demand, our current outlook is for an increase over the course of 2008 and an overall average price estimated to be approximately flat compared to the 2007 levels. Delivery costs are partly dependent on flyer volumes, but in the absence of unexpected volume changes, we expect a 2 to 4% increase in these costs in 2008.

OTHER EXPENSES

Amortization of property, plant & equipment, intangibles and interest expense on the notes payable are expected to be similar to the 2007 levels. Interest on the subordinated debt will be lower by approximately $0.1 million due to the $1.0 million reduction in December 2007 in the principal amount owing.

CAPITAL INITIATIVES

In 2008, we are planning to complete a number of maintenance capital initiatives throughout our business units. In Winnipeg, an upgrade to the editorial system which was started in 2007 will be completed. In addition, at the Free Press an upgrade to the financial accounting system is planned. In addition to these two initiatives, a number of other investments are planned to upgrade our technology across all our business units. The 2008 planned maintenance capital spending level is approximately $1.8 million.

connections

"2007 was a very important year for ACC, with the opening of the college's new campus in Brandon. The Brandon Sun has been with us the whole way, providing great media coverage and supportive advertising to help us connect with community members."

Joel Ward

President
Assiniboine Community College

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOOTNOTES:

(1) DISTRIBUTABLE CASH ATTRIBUTABLE TO THE FUND

The Fund believes that in addition to the disclosure of cash flow from operations, distributable cash attributable to the Fund is an important supplemental measure of cash flow. This measure is a useful supplemental measurement as it provides investors with an indication of the amount of cash available for distribution to Unitholders, and because such calculations are required by the terms of the partnership agreement governing FPLP and by the terms of the deed of trust governing the Fund. Distributable cash attributable to the Fund is not a defined term under Canadian GAAP and it should not be construed as an alternative to using net earnings or the statement of cash flows as measures of profitability and cash flow. Readers are cautioned that our 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 for the 2007 and 2006 years as follows:

	2007	2006
	In thousands except per Unit amounts	
EBITDA[2]	$28,517	$25,467
Interest income	224	78
Interest expense on Notes payable and capital leases, excluding amortization of related deferred financing costs	(3,197)	(3,230)
Principal repayment of capital leases	(318)	(261)
Maintenance capital expenditures	(2,022)	(1,346)
Decrease in reserve for future maintenance capital expenditures	22	146
Strategic capital expenditures	-	(204)
Decrease in reserve for future strategic capital	-	157
Proceeds from sale of property, plant and equipment	33	6
Current income and capital tax expense	(38)	(39)
Distributable cash of FPLP	$23,221	$20,774
Distributable cash attributable to the Fund:		
49% of FPLP distributable cash	$11,378	$10,179
Administration expenses	(289)	(287)
Interest income	11	4
Distributable cash attributable to the Fund	$11,100	$ 9,896
Distributable cash attributable to the Fund – per Unit	$ 1.608	$ 1.434
Distributions declared by the Fund – per Unit	$ 1.290	$ 1.290
Payout Ratio for the year	80.2%	90.0%

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:

	2007	2006
	In thousands of dollars	
Cash flow from operating activities of FPLP	$20,641	$15,387
Add / (subtract)		
Interest on subordinated notes(*)	6,843	7,239
Net change in non-cash working capital items(**)	(1,978)	(350)
Maintenance capital expenditures	(2,022)	(1,346)
Decrease in reserve for future maintenance capital(***)	22	146
Strategic capital expenditures	-	(204)
Decrease in reserve for future strategic capital (***)	-	157
Principal repayment of capital leases	(318)	(261)
Proceeds from sale of property, plant and equipment(****)	33	6
Distributable cash of FPLP	$23,221	$20,774

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

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

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

*** Increase in the reserves for future capital is shown as a deduction in determining distributable cash. A decrease in the reserve is shown as an increase in the determination of distributable cash. Such reserves are non-GAAP measures established and utilized at the discretion of the board of directors of FPLP, and have no impact on the GAAP financial statements.

**** Proceeds from sale of property, plant and equipment is a component of distributable cash, but is not included in cash flow from operating activities because it is classified as an investing activity in the statement of cash flows.

achievement

"Canstar Community Newspapers has been an important partner for Junior Achievement of Manitoba this past year. Canstar has supported our Economics of Staying in School program and Bryan Metcalfe has dedicated many volunteer hours as our Chairman of the Board."

Lisa Cefali - President & CEO Junior Achievement of Manitoba

Photo: Lisa Cefali and Bryan Metcalfe

(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 are cautioned that EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of FPLP's performance. FPLP's method of calculating EBITDA may differ from other issuers and, accordingly, EBITDA may not be comparable to measures used by other issuers. FPLP determines EBITDA for the 2007 and 2006 years as follows:

	2007	**2006**
	In thousands of dollars	
Net earnings for the year	$13,418	$ 9,006
Add (subtract):		
Amortization of property, plant and equipment	4,173	3,748
Amortization of intangible assets	362	362
Interest expense	10,571	10,469
Amortization of deferred financing costs	-	562
Interest income	(224)	(78)
Gain on sale of property, plant and equipment	(18)	(6)
Write down of property, plant and equipment held for sale	-	1,303
Current income tax expense	38	39
Future income tax recovery	197	62
EBITDA	$28,517	$25,467

FPLP FINANCIAL STATEMENTS

FP Canadian Newspapers Limited Partnership
Consolidated Financial Statements

"The Free Press cares deeply about literacy for future generations."

Margo Goodhand

Editor
Winnipeg Free Press

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
Chairman

KEVIN KARR
Chief Financial Officer

Winnipeg, Canada
March 11, 2008

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, 2007 and 2006 and the consolidated statements of earnings, comprehensive income 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, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2007 and 2006 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
February 22, 2008.

FPLP CONSOLIDATED BALANCE SHEETS

As at December 31, 2007 and 2006
(in thousands of dollars)

ASSETS (notes 7 and 15)	**2007**	**2006**
	$	**$**
CURRENT ASSETS		
Cash and cash equivalents	9,920	3,729
Accounts receivable	11,740	13,495
Income tax receivable	-	10
Inventories	1,123	1,021
Prepaid expenses	823	690
Future income taxes (note 4)	182	174
	23,788	19,119
EQUIPMENT HELD FOR SALE (note 3)	-	400
PROPERTY, PLANT AND EQUIPMENT (note 3)	50,634	52,400
FUTURE INCOME TAXES (note 4)	-	205
DEFERRED FINANCING COSTS	-	2,728
INTANGIBLE ASSETS (note 5)	8,103	8,465
GOODWILL	71,160	71,160
	153,685	154,477

LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 10 and 13)	11,017	10,627
Income taxes payable	21	16
Prepaid subscriptions and deferred revenue	3,167	3,114
Current obligations under capital leases (note 6)	197	318
	14,402	14,075
LONG-TERM LIABILITIES		
Subordinated notes (note 7)	56,069	59,504
Notes payable (note 7)	59,617	60,000
Obligations under capital leases (note 6)	-	197
	115,686	119,701
	130,088	133,776
UNITHOLDERS' EQUITY		
Partner Units (note 8)	41,293	40,243
Cumulative earnings	53,117	39,128
Cumulative distributions	(70,813)	(58,670)
	23,597	20,701
	153,685	154,477

Commitments and contingencies (notes 9 and 16)
(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, COMPREHENSIVE INCOME AND CUMULATIVE EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006
(in thousands of dollars)

	2007 $	2006 $
Revenue	125,862	122,220
Operating expenses, excluding amortization	(97,345)	(96,753)
	28,517	25,467
Amortization of property, plant and equipment	(4,173)	(3,748)
Amortization of intangible assets	(362)	(362)
Earnings before the under-noted	23,982	21,357
Interest (note 17)	(10,571)	(10,469)
Amortization of deferred financing costs (note 2)	-	(562)
Interest income	224	78
Gain on sale of property, plant and equipment	18	6
Write-down of equipment held for sale (note 3)	-	(1,303)
Net earnings before income taxes	13,653	9,107
Income tax expense (note 4):		
- Current	(38)	(39)
- Future	(197)	(62)
NET EARNINGS AND COMPREHENSIVE INCOME FOR THE YEAR	13,418	9,006
CUMULATIVE EARNINGS – BEGINNING OF YEAR	39,128	30,122
Transitional amount (note 2)	571	-
ADJUSTED CUMULATIVE EARNINGS – BEGINNING OF YEAR	39,699	30,122
CUMULATIVE EARNINGS – END OF YEAR	53,117	39,128

(See accompanying notes)

FPLP CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006
(in thousands of dollars)

	GENERAL PARTNER UNITS $	LIMITED PARTNER CLASS A UNITS $	TOTAL $
UNITHOLDERS' EQUITY – JANUARY 1, 2006	15,443	4,329	19,772
Net earnings	7,486	1,520	9,006
Distributions	(9,581)	(1,946)	(11,527)
Contributions	-	3,450	3,450
UNITHOLDERS' EQUITY – DECEMBER 31, 2006	13,348	7,353	20,701
Transitional amount (note 2)	508	63	571
ADJUSTED UNITHOLDERS' EQUITY – DECEMBER 31, 2006	13,856	7,416	21,272
Net earnings	10,718	2,700	13,418
Distributions	(9,700)	(2,443)	(12,143)
Contributions	-	1,050	1,050
UNITHOLDERS' EQUITY – DECEMBER 31, 2007	14,874	8,723	23,597

(See accompanying notes)

FPLP CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006
(in thousands of dollars)

	2007 $	2006 $
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net earnings for the year	13,418	9,006
Items not affecting cash		
Amortization of property, plant and equipment and intangible assets	4,535	4,110
Amortization of deferred financing costs	531	562
Future income tax expense	197	62
Gain on sale of property, plant and equipment	(18)	(6)
Write-down of equipment held for sale (note 3)	-	1,303
	18,663	15,037
Net change in non-cash working capital items (note 12)	1,978	350
	20,641	15,387
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(2,022)	(1,550)
Proceeds from sale of property, plant and equipment	33	6
	(1,989)	(1,544)
FINANCING ACTIVITIES		
Distributions to partners	(12,143)	(11,527)
Principal repayment of capital leases	(318)	(261)
	(12,461)	(11,788)
INCREASE IN CASH AND CASH EQUIVALENTS	6,191	2,055
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,729	1,674
CASH AND CASH EQUIVALENTS - END OF YEAR	9,920	3,729
Supplemental Cash Flow Information:		
Interest paid during the year	10,053	10,478
Taxes paid during the year	23	118

(See accompanying notes)

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006
(tabular amounts in thousands of dollars)

1 DESCRIPTION OF THE BUSINESS

FP Canadian Newspapers Limited Partnership ("FPLP") is a limited partnership formed on August 9, 1999 in accordance with the laws of British Columbia that publishes, prints and distributes daily and weekly newspapers and 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 ("CICA"), 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 ("Units") on the open market. One-third of these Units vested on each of March 31, 2006 and March 31, 2007 and were distributed to members. The final third of these units vested on December 31, 2007 and were distributed in January 2008 to members. On March 30, 2007, FPLP funded $50,000 to the Trust Fund for exceeding certain 2006 defined distributable cash threshold amounts, subsequent to which the trustee acquired 4,392 Fund Units on the open market. One-third of these Units will each vest on March 31, 2008, March 31, 2009 and December 31, 2009. 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, 2007 is $225,333 (2006 – $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 consolidated 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, where applicable, 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
Building improvements	10 years
Leasehold improvements	Over remaining term of the lease
Machinery and equipment	7 – 25 years
Computer hardware and software, furniture and fixtures, and vehicles	3 – 10 years

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006
(tabular amounts in thousands of dollars)

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

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

Subscriber base	15 years
News archives	10 years

Mastheads are considered to have an indefinite life and are therefore recorded at cost and not amortized. Mastheads are tested for impairment annually by comparing the fair value of the intangible asset to its carrying value. 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 INTANGIBLE ASSETS
Impairment of property, plant and equipment and finite life intangible assets 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 prorated 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 using the effective interest method over the 5 and 10 year terms of the related debt. Due to the adoption of the new Financial Instruments Sections (as described below), the Subordinated notes and Notes payable consolidated balance sheet lines present their original costs netted with the unamortized portion of their associated deferred costs.

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006
(tabular amounts in thousands of dollars)

k) CASH AND CASH EQUIVALENTS
For the purposes of the consolidated 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 consolidated 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 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.

m) LONG-TERM INCENTIVE PLAN
Under the terms of the LTIP, FPLP establishes an amount to be allocated to eligible participants based on 10% to 20% of distributable cash in excess of an established threshold. The cost is accrued as an expense in the period when it is determined a LTIP payable appears likely.

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

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

FPLP has made the following classifications:
Cash and cash equivalents are classified as "assets held for trading" and are measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in net earnings.

Accounts receivable are classified as "loans and receivables" and are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities, subordinated notes and notes payable are classified as "other financial liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

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

o) RECENT ACCOUNTING PRONOUNCEMENTS
CICA 1535 Capital Disclosures: This new section is required to be implemented for fiscal years beginning on or after October 1, 2007. CICA 1535 requires disclosure of information about the company's objectives, policies and processes for managing capital, and whether the company has complied with any externally imposed capital requirements. The FPLP are assessing the impact of this section on its financial statements.

CICA 3031 Inventories: This section replaces the existing CICA 3030 Inventories section, and is required to be implemented for fiscal years beginning on or after January 1, 2008. CICA 3031 requires inventories to be measured at the lower of cost and net realizable value, with guidance on the determination of costs, including allocation of overheads and other costs to inventory, and allows reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. The FPLP do not expect this section to have an impact on the financial statements.

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006
(tabular amounts in thousands of dollars)

3 PROPERTY, PLANT AND EQUIPMENT

	2007		2006	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	$	$	$	$
Land	1,000	-	1,000	-
Buildings and building improvements	8,061	1,221	8,061	1,005
Leasehold improvements	215	94	215	40
Machinery and equipment	54,091	14,750	52,655	11,994
Machinery and equipment under capital leases	1,164	641	1,164	471
Furniture and fixtures	2,180	1,353	2,180	1,119
Computer hardware and software	6,296	4,600	5,379	3,964
Vehicles	616	330	607	268
	73,623	22,989	71,261	18,861
NET CARRYING AMOUNT		50,634		52,400

During 2006, FPLP reclassified $586,000 of excess press components carried in the equipment held for sale category into property, plant and equipment. This reclassification did not affect the consolidated statement of earnings. FPLP re-valued the remaining excess press components, classified in the consolidated balance sheet as held for sale, to a carrying value of $400,000, based on their estimated fair value less costs to sell. A non-cash accounting loss of $1,303,000 was recorded in FPLP's 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 and in 2007 these assets were reclassified to machinery and equipment.

4 INCOME TAXES

At December 31, 2007, Canstar and Rosebud have non-capital losses in the approximate amount of $656,000 which can be used to reduce future taxable income. The current portion of future income tax assets consist of the following:

	2007	2006
	$	$
Future income tax asset related to loss carryforward	182	379
Less: Long-term portion of future income tax asset	-	(205)
Current portion of future income tax asset	182	174

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

	2007	2006
	$	$
Net earnings before income taxes	13,653	9,107
Provision for income taxes based on Canadian statutory rate of 36.1% (36.6% – 2006)	(4,929)	(3,333)
Income taxed in hands of the partners	4,694	3,246
Large corporation tax	-	(14)
Income tax expense	(235)	(101)

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006
(tabular amounts in thousands of dollars)

The provision for income taxes consists of the following:

	2007	2006
	$	$
Current	(38)	(39)
Future	(197)	(62)
Income tax expense	(235)	(101)

5 INTANGIBLE ASSETS

	2007		2006	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	$	$	$	$
Finite life				
Subscriber base	4,600	1,867	4,600	1,560
News archives	550	335	550	280
	5,150	2,202	5,150	1,840
Indefinite life				
Mastheads	5,155	-	5,155	-
	10,305	2,202	10,305	1,840
NET INTANGIBLE ASSETS		8,103		8,465

6 OBLIGATIONS UNDER CAPITAL LEASES

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

	2007	2006
	$	$
2007	-	336
2008	201	201
Total minimum lease payments	201	537
Amount representing interest at 5.3%	(4)	(22)
Present value of minimum capital lease payments	197	515
Less current obligations under capital lease	(197)	(318)
	-	197

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006
(tabular amounts in thousands of dollars)

7 NOTES PAYABLE AND SUBORDINATED NOTES

During 2005, 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 Series A Senior Secured Notes were loaned by Funding to FPLP and were 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 to the Fund. The subordinated notes mature on the earlier of May 2012 (subject to an extension for an additional 10 year term) and the date on which the Fund calls the subordinated notes, 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.

Due to the adoption of the new Financial Instruments Sections, the carrying value of the subordinated notes and notes payable, on the consolidated balance sheet, have been netted with their respective deferred costs.

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:

	2007		2006	
	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	9,522	6,902,592	6,072
	14,086,923	40,243	14,086,923	36,793
Transactions during the year:				
Limited Partner Class A contributions	-	1,050	-	3,450
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	10,572	6,902,592	9,522
	14,086,923	41,293	14,086,923	40,243

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006
(tabular amounts in thousands of dollars)

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.

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 $1,050,000 on December 31, 2007, $3,450,000 on December 31, 2006, $2,000,000 on December 31, 2005 and 2004, and $1,000,000 on December 31, 2003 and 2002, and $72,419 on closing. In addition, the balance of $58,453,501 in respect of Class A limited partner Units is to be contributed 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, 2007, are eliminated upon consolidation.

9 COMMITMENTS AND CONTINGENCIES

a) OPERATING LEASES

FPLP leases machinery and equipment 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, 2007:

	$
2008	295
2009	289
2010	177
2011	48
2012	36
Total minimum lease payments	845

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, 2007 and 2006
(tabular amounts in thousands of dollars)

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:

	2007	2006
	$	$
PLAN ASSETS		
Fair value - beginning of year	11,989	8,922
Actual return on plan assets	528	1,268
Employer contributions	1,478	1,429
Employee contributions	919	878
Benefits paid	(913)	(508)
Fair value - end of year	14,001	11,989
PLAN OBLIGATIONS		
Accrued benefit obligation - beginning of year	12,576	10,243
Interest cost	772	631
Current service cost	2,451	2,373
Benefits paid	(913)	(508)
Actuarial gain	(789)	(163)
Accrued benefit obligation - end of year	14,097	12,576

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

	2007	2006
Accrued benefit obligation	14,097	12,576
Fair value of plan assets	14,001	11,989
Plan deficit	(96)	(587)
Unamortized net actuarial loss	(253)	263
Unamortized past service costs	45	51
Accrued pension liability	(304)	(273)

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

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006
(tabular amounts in thousands of dollars)

FPLP's pension plan expense is determined as follows:

	2007 $	2006 $
Current service cost	2,451	2,373
Employee contributions	(919)	(878)
Interest costs	772	631
Actual return on plan assets	(528)	(1,268)
Actuarial gain on accrued benefit obligation	(789)	(163)
Costs arising in the period	987	695
Differences between costs arising in the period and costs recognized in the period in respect of:		
Return on plan assets	(273)	669
Actuarial gain	789	168
Plan amendments	6	6
Pension expense – defined benefit plan	1,509	1,538
Employer contributions to defined contribution plans	260	251
Total pension expense	1,769	1,789

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

	2007 %	2006 %
Discount rate	5.60	5.30
Rate of compensation increase	2.00	2.00

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

	2007 %	2006 %
Discount rate	5.30	5.10
Expected long-term rate of return on pension plan assets	6.30	6.10
Rate of compensation increase	2.00	2.00

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 and will be completed in 2008.

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

	2007 %	2006 %
Canadian equities	33	34
United States equities	12	12
Non-North American equities	13	13
Canadian Government and corporate bonds	34	36
Short-term cash	8	5
	100	100

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006
(tabular amounts in thousands of dollars)

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 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, 2007, compensation expense of $448,000 (2006 – $50,000), was included in operating expenses for the LTIP.

12 NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2007 $	2006 $
Accounts receivable	1,755	251
Income taxes receivable	10	(10)
Inventories	(102)	43
Prepaid expenses	(133)	148
Accounts payable and accrued liabilities	390	(252)
Prepaid subscriptions and deferred revenue	53	239
Income taxes payable	5	(69)
	1,978	350

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006
(tabular amounts in thousands of dollars)

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, 2007, total purchases in the form of newsprint from related parties were $5,760,989 (2006 – $3,913,980). FPLP also reimbursed related parties for administration costs amounting to $50,713 (2006 – $87,953). As at December 31, 2007, accounts payable to related parties totalled $855,120 (2006 – $15,783) and interest payable to the Fund totalled $570,923 (2006 – $581,178). Total advertising sales to related parties were $18,170 (2006 – $55,270) and at December 31, 2007, accounts receivable from related parties totalled $10,286 (2006 – $9,954).

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 and obligations under capital leases approximates their carrying value due to the short-term nature of these financial instruments. The $60,000,000 (2006 – $60,000,000) face value of the notes payable are subject to a fixed rate of interest and as such have a fair value of approximately $59,177,000 (2006 – $60,188,000), which is based on rates currently available for debt with similar terms and maturity. 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.

15 CREDIT FACILITY

FPLP has available a credit facility providing up to $10 million in financing which expires May 24, 2009. 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, 2007 is $nil (2006 – $nil).

16 GUARANTEES

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

FPLP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006
(tabular amounts in thousands of dollars)

17 INTEREST

	2007	2006
	$	$
Interest expense is summarized as follows:		
Subordinated notes	6,843	7,239
Amortization of subordinated notes deferred financing costs	386	-
Notes payable	3,179	3,198
Amortization of notes payable deferred financing costs	145	-
Capital lease obligations	18	32
	10,571	10,469

18 SEGMENTED INFORMATION

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

FUND FINANCIAL STATEMENTS

FP Newspapers Income Fund
Consolidated Financial Statements

Winnipeg Free Press layout artist, Christi Schick at a company blood donor clinic.

"The Free Press has always had a tradition of giving back to the community."

Tracy Smith

Assistant Manager, Donor Recruitment
Canadian Blood Services

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, 2007 and 2006 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, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2007 and 2006 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,
February 22, 2008.

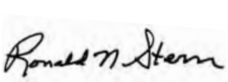
FUND CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31, 2007 AND 2006
(in thousands of dollars)

	2007 **$**	**2006** **$**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	358	221
Interest receivable from subordinated notes	571	581
Due from FPCN Media Funding Inc.	26	26
Prepaid expenses	13	15
	968	843
INVESTMENT IN FPCN GENERAL PARTNER INC.	30	20
INVESTMENT IN FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP (note 3)	61,386	60,464
	62,384	61,327
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	127	96
Distribution payable (note 4)	742	742
	869	838
LONG-TERM LIABILITIES		
Future income taxes (note 8)	1,682	-
	2,551	-
UNITHOLDERS' EQUITY		
Trust Units (note 5)	69,026	69,026
Cumulative earnings	39,880	31,632
Cumulative distributions (note 4)	(49,073)	(40,169)
	59,833	60,489
	62,384	61,327

(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, 2007 and 2006
(in thousands of dollars, except per Unit amounts)

	2007 $	2006 $
EARNINGS FROM INVESTMENT IN FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP		
Interest from subordinated notes	6,843	7,239
Equity interest from Class A limited partner Units (note 3)	3,085	721
Other interest	11	4
	9,939	7,964
Administration expenses	(289)	(287)
NET EARNINGS BEFORE INCOME TAXES	9,650	7,677
Future income tax expense (note 8)	(1,682)	-
NET EARNINGS AND COMPREHENSIVE INCOME FOR THE YEAR	7,968	7,677
CUMULATIVE EARNINGS - BEGINNING OF YEAR	31,632	23,955
Transitional amount (note 2)	280	-
ADJUSTED CUMULATIVE EARNINGS - BEGINNING OF YEAR	31,912	23,955
CUMULATIVE EARNINGS - END OF YEAR	39,880	31,632
Weighted average number of trust Units outstanding (note 5)	6,902,592	6,902,592
Net earnings per trust Unit	1.15	1.11

FUND CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006
(in thousands of dollars)

	2007 $	2006 $
BALANCE – BEGINNING OF YEAR	60,489	61,716
Transitional amount (note 2)	280	-
ADJUSTED BALANCE – BEGINNING OF YEAR	60,769	61,716
Net earnings	7,968	7,677
Distributions to Unitholders (note 4)	(8,904)	(8,904)
BALANCE – END OF YEAR	59,833	60,489

(See accompanying notes)

FUND CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006
(in thousands of dollars)

	2007 $	2006 $
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net earnings for the year	7,968	7,677
Items not affecting cash		
Equity interest from Class A Units of FP Canadian Newspapers Limited Partnership (note 3)	(3,085)	(721)
Future income tax expense	1,682	-
Distributions received on Class A Units of FP Canadian Newspapers Limited Partnership (note 3)	2,443	1,946
	9,008	8,902
Net change in non-cash working capital items		
Interest receivable from subordinated notes	10	53
Due from FPCN Media Funding Inc.	-	(26)
Prepaid expenses	2	3
Accounts payable and accrued liabilities	31	19
	9,051	8,951
INVESTING ACTIVITIES		
Investment in FPCN General Partner Inc.	(10)	(10)
	(10)	(10)
FINANCING ACTIVITIES		
Distributions to Unitholders (note 4)	(8,904)	(8,904)
	(8,904)	(8,904)
INCREASE IN CASH AND CASH EQUIVALENTS	137	37
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	221	184
CASH AND CASH EQUIVALENTS – END OF YEAR	358	221

(see accompanying notes)

FUND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(tabular amounts in thousands of dollars)

1 DESCRIPTION OF THE FUND

FP Newspapers Income Fund (the "Fund") is a limited purpose trust formed under the laws of the Province of Ontario by a Declaration of Trust dated May 15, 2002. The Fund commenced operations on May 28, 2002 when it completed an initial public offering selling 6,573,897 trust Units at $10 per Unit. On June 27, 2002, the Fund sold a further 328,695 trust Units at $10 per Unit. The total proceeds of $69,025,920 were used to purchase securities of FP Canadian Newspapers Limited Partnership ("FPLP") entitling it to 49% of the distributable cash, as defined in the partnership agreement, of FPLP.

2 SIGNIFICANT ACCOUNTING POLICIES

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

a) 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 partner 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 partner 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 with maturities at acquisitions of less than 90 days and which are subject to insignificant risk of changes in value and are recorded at cost, which approximates market value. Cash equivalents at December 31, 2007 and 2006 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 ("CICA") Handbook Section 3465 as it relates to current taxes, 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. The Fund applies the recommendation of CICA Handbook section 3465 as it relates to the calculation of future taxes and temporary differences reversing subsequent to January 1, 2011 (note 8).

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 FPLP. The equity interest from the Fund's Class A limited partner 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, 2007 AND 2006
(tabular amounts in thousands of dollars)

f) CHANGES IN ACCOUNTING POLICIES

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

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

The Fund has made the following classifications:

Cash and cash equivalents are classified as “assets held for trading” and are measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in net earnings.

Interest receivable from subordinated notes and due from FPCN Media Funding Inc. are classified as “loans and receivables” and are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities and distribution payable are classified as “other financial liabilities” and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

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

FUND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(tabular amounts in thousands of dollars)

3 INVESTMENT IN FP CANADIAN NEWSPAPERS LIMITED PARTNERSHIP

On May 28, 2002, FPCN Holdings Trust subscribed for 6,573,897 Class A limited partner 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 partner Units of FPLP and $3,283,500 principal amount of subordinated notes of FPLP. FPCN Holdings Trust holds all of the Class A limited partner 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.

Future repayments of the subordinated notes will be applied as a contribution to the Class A limited partner Units of FPLP.

The investment in FPLP is summarized as follows:

	Subordinated notes $	Class A limited partner Units $	Total $
Balance at January 1, 2006	62,954	(1,265)	61,689
Repayment of subordinated notes	(3,450)	-	(3,450)
Additional contribution	-	3,450	3,450
Equity interest	-	721	721
Distributions received	-	(1,946)	(1,946)
Balance at December 31, 2006	59,504	96	60,464
Transitional amount (note 2)	-	280	280
Adjusted balance at December 31, 2006	59,504	1,240	60,744
Repayment of subordinated notes	(1,050)	-	(1,050)
Additional contribution	-	1,050	1,050
Equity interest	-	3,085	3,085
Distributions received	-	(2,443)	(2,443)
Balance at December 31, 2007	58,454	2,932	61,386

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

	2007 $	2006 $
Net earnings of FPLP	13,418	9,006
Plus: Interest on subordinated notes	6,843	7,239
Net earnings before interest on subordinated notes	20,261	16,245
49% interest attributable to the Fund	9,928	7,960
Less: Interest from subordinated notes	(6,843)	(7,239)
Equity interest from Class A limited partner Units	3,085	721

FUND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(tabular amounts in thousands of dollars)

4 CUMULATIVE DISTRIBUTIONS

Cumulative distributions for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
	$	$
Balance - beginning of year	40,169	31,265
Distributions declared	8,904	8,904
Balance - end of year	49,073	40,169

The Fund declared a distribution payable in respect of the month of December 2007 of $742,029 or $0.1075 per Unit (2006 – $742,029 or $0.1075 per Unit) and was paid January 30, 2008 to Unitholders of record on December 31, 2007.

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:

	2007		2006	
	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 $45,712 (2006 – $6,679).

At December 31, 2007, interest receivable from FPLP totalled $570,923 (2006 – $581,178)

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.

FUND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(tabular amounts in thousands of dollars)

8 FUTURE INCOME TAXES

On June 12, 2007, Bill C-52 Budget Implementation Act 2007 was substantively enacted by the Canadian federal government, which contains legislation to tax publicly traded trusts in Canada. As a result, a new tax will be applied to taxable distributions from Canadian public income trusts. The new tax is not expected to apply until 2011 as a transition period applies to publicly traded trusts that existed prior to November 1, 2006. As a result of this substantive enactment of trust taxation, the Fund recorded a $1,893,000 future income tax expense in the second quarter of 2007. The future income tax liability of $1,682,000 at December 31, 2007 represents the taxable temporary differences of the Fund expected to reverse after 2010, at 29.5% within 2011 and 28.0% within 2012 and forward, which are the rates which will be applicable under the current legislation.

Based on its assets and liabilities as at December 31, 2007, and its share of the assets and liabilities of its investment in FPLP, the Fund has estimated the amount of its temporary differences which were previously not subject to tax, and has estimated the periods in which these differences are expected to reverse. Significant components of the future income tax assets and liabilities as at December 31, 2007 are as follows:
Future income tax liabilities:

Property, plant and equipment and amortizing intangible assets	$ 3,844
Non-amortizing intangible assets	201
Other	130
Total future income tax liabilities	$ 4,175
Future income tax assets:	
Tax value of goodwill	$ 3,000
Tax value in excess of accounting value of investment in FPLP	875
	3,875
Less valuation allowance – goodwill	(507)
Less valuation allowance – investment in FPLP	(875)
Total future income tax assets	2,493
Net future income tax liabilities	$ 1,682

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

9 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, Stern Partners Inc.
and Chairman of FPGP[5]

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

Rudy Redekop[1]
Retired newspaper executive

Stephen Dembroski[1,2,3]
President, Indigenous Inc.

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

Kevin Karr
Vice President, Chief Financial Officer & Secretary

Daniel Koshowski
Vice President, Finance and Administration

Bob Cox
Publisher, Winnipeg Free Press

Laurie Finley
Vice President, Marketing and Advertising Sales, Winnipeg Free Press

ANNUAL MEETING

The Annual Meeting of Unitholders will be held on Wednesday May 7, 2008 at 11:00am at the Winnipeg Free Press, 1355 Mountain Avenue, Winnipeg.

AUDITORS

Ernst & Young LLP

TRANSFER AGENT

CIBC Mellon Trust Company

INVESTOR INQUIRIES

Daniel Koshowski
Vice President, Finance and Administration
Ph: 204-697-7425
Website: www.fpnewspapers.com

LISTING INFORMATION

TSX: FP.UN
UNITS: 6,902,592 outstanding (at March 11, 2008)

MAILING INFORMATION

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

1. Director of FPGP
2. Trustee of FP Newspapers Income Fund
3 Audit Committee member
4. Compensation and Corporate Governance Committee member
5. FPCN General Partner Inc. ("FPGP") is the managing general partner of FP Canadian Newspapers Limited Partnership and the Administrator of FP Newspapers Income Fund

The creative design of the 2007 Annual Report was done by Glenn Hayes, Creative Director at the Winnipeg Free Press.