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**NEWSPAPERS** **INCOME FUND**



**Q2 – 2007**  
**Quarterly Report**  
**June 30, 2007**

**TSX: FP.UN**



**Second Quarter Report  
June 30, 2007  
Report to Unitholders**



Dear Fellow Unitholders:

I am pleased to provide you with a report on the results of our operations and related distributions to Unitholders of FP Newspapers Income Fund (the "Fund") for the quarter ending June 30, 2007. FP Newspapers Income Fund owns securities entitling it to 49 percent of the distributable cash of FP Canadian Newspapers Limited Partnership ("FPLP"), which owns the Winnipeg Free Press and Brandon Sun daily newspapers, Canstar Community News Limited ("Canstar") which operates five weekly newspapers in the Winnipeg area as well as a delivery businesses in Winnipeg and Thunder Bay, and Rosebud Publications Ltd. ("Rosebud"), which publishes a weekly entertainment newspaper and a twice monthly newspaper aimed at age-50 plus readers, both serving the Winnipeg area.

Total revenue for FPLP for the three months ended June 30, 2007 was \$32.2 million, a \$1.0 million or 3.1 percent increase over the same period last year. The increase in revenue is mainly due to growth in display advertising revenue as well as an increase in the promotions and services category. Total EBITDA<sup>(1)</sup> of FPLP for the second quarter was \$7.6 million, a \$0.4 million or 5.8 percent increase from the same quarter last year. The partnership had net earnings of \$3.9 million in the second quarter compared to \$3.5 million in the same quarter last year. The increase in net earnings in the second quarter is mainly the result of increases in EBITDA<sup>(1)</sup>.

The Fund had net earnings of \$0.8 million, or \$0.116 per Unit, during the three months ended June 30, 2007, compared to net earnings of \$2.5 million, or \$0.363 per Unit, in the same quarter last year. The decrease in net earnings in the second quarter is due to the recording of a future income tax expense of \$1.9 million resulting from the June 2007 substantive enactment of Bill C-52 Budget Implementation Act 2007 which contains legislative provisions to tax publicly traded income funds in Canada. Future income tax expense is a non cash item that has no current impact on cash provided by operating activities or the calculation of distributable cash attributable to the Fund<sup>(2)</sup> (see further discussion in "Taxation Changes" section of the management discussion and analysis).

### **Operations**

Advertising revenue in the second quarter was \$22.3 million, a \$0.4 million or 1.9 percent increase over the same quarter last year. Our largest advertising revenue category, display advertising including colour was \$13.3 million for the quarter, an increase of 3.8 percent, compared to \$12.8 million for the same period last year. This increase is primarily due to small amounts of increased spending by a number of national accounts. Promotion and services revenue increased by \$0.3 million or 66.8% compared to the same quarter last year primarily due to increases in internet revenues from banner advertising on our websites, as well as increased revenue from the sale of the Hermetic Code book. Circulation revenue was \$0.2 million or 2.4 percent higher in the second quarter of 2007 largely due to rate increases implemented in the fourth quarter of 2006.

Operating expenses, excluding amortization for the second quarter were \$24.6 million, a 2.3 percent increase from the \$24.1 million in the second quarter last year. Employee compensation costs increased \$0.5 million or 4.8 percent, compared to the second quarter last year primarily due to annual salary increases as well as an increase in the number of staff. Newsprint expense for FPLP's own publications decreased by \$0.2 million or 5.0 percent, as a result of lower newsprint prices. Other costs were \$4.6 million compared to \$4.4 million last year primarily due to an increase in professional development costs and consulting fees.

During the second quarter staff at the Winnipeg Free Press continued to work on two significant capital projects, the upgrade of the electronic controls for our two presses and the upgrade of our editorial information technology systems. The press control project was completed on schedule and on budget in July and through careful planning and hard work by staff and vendors the project was seamless to our readers, even though the upgrade required both of our presses to be down for 6 day periods at alternating times during the process. The editorial systems upgrade project will be continuing throughout the third and fourth quarters.

The National Newspapers Awards banquet was held in Winnipeg in May, during the Canadian Newspapers annual conference, and Free Press reporters Dan Lett and Paul Wiecek received citations of merit. Both employees were recognized for their work which was judged to be in the top three in the country for their respective categories. The evening was co-hosted by two Free Press columnists, Doug Speirs and Brad Oswald.

Efforts continued during the quarter at enhancing and adding to our family of web sites. On July 15 the Free Press launched wfpfaith, a new website intended to create an interesting and enriching online community with a focus on spiritual issues to supplement our Faith pages run weekly in the print edition. This new forum is an opportunity for religious leaders to reach a whole new audience, including shut-ins who can't attend a regular service. In addition to this new site, the Editorial department acquired digital video cameras and sports reporter Ed Tait launched a new online Winnipeg Blue Bomber video report which attracted many interested viewers.

As we announced in July, Andy Ritchie departed as Publisher at the Winnipeg Free Press. A new Publisher will be appointed in due course and Bob Cox has assumed the position of interim Publisher. Margo Goodhand has been appointed interim Editor of the Winnipeg Free Press.

The City of Brandon and the Brandon Sun celebrated their 125<sup>th</sup> anniversaries in the second quarter. The Sun produced a 36 page anniversary supplement in conjunction with other community celebrations. Brandon photographers continue to distinguish themselves, with Colin Corneau and Christopher Pike both earning first and second place awards in the monthly Western Canada News Photographers Association contest.

### **Distributions**

Distributable cash attributable to the Fund<sup>(2)</sup> for the three months ended June 30, 2007 was \$3.0 million, or \$0.437 per Unit compared to \$2.9 million or \$0.418 per Unit last year. For the trailing twelve months ended June 30, 2007, FPLP has generated distributable cash attributable to the Fund<sup>(2)</sup> of \$1.511 per Unit, and the Fund has declared distributions of \$1.290 per Unit, resulting in a payout ratio of 85.4 percent.

The Fund declared distributions to Unitholders of \$0.323 per Unit for the second quarter, unchanged from the second quarter last year.

### **Outlook**

Overall advertising revenue growth in the second quarter was lower than expected at 1.9 percent. The strong first quarter year over year growth reported in the employment category for both display and classified revenue did not continue and this lower spending trend is continuing early into the third quarter. The third and fourth quarters will benefit from lower newsprint prices as a price reduction was announced by suppliers effective June 1. If newsprint prices remain at the current levels for the balance of the year the average price will be approximately 10 percent lower than the prior year.

Ronald N. Stern  
Chairman & Trustee

August 8, 2007

## Management's Discussion and Analysis

### Overview

Management's Discussion and Analysis is as at August 8, 2007 and provides a review of significant developments that have affected the Fund's performance during the period January 1, 2007 to June 30, 2007. This review is based on financial information contained in the consolidated financial statements. Factors that could affect future operations are also discussed. These factors may be affected by known and unknown risks and uncertainties that may cause the actual future results to be materially different from those expressed in this discussion.

The following information provides analysis of the operations and financial position of the Fund and FPLP and should be read in conjunction with the consolidated financial statements and accompanying notes. The interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Further information relating to the Fund is available at [www.sedar.com](http://www.sedar.com).

### Formation and Legal Entities

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

FPLP is a limited partnership formed on August 9, 1999. FPLP acquired the business and assets and assumed certain liabilities of the Winnipeg Free Press and Brandon Sun newspapers effective November 29, 2001. On July 13, 2004, FPLP acquired five weekly newspapers in the Winnipeg area, as well as delivery businesses in Winnipeg, Brandon and Thunder Bay and operates them under its wholly owned subsidiary Canstar Community News Limited ("Canstar"). In January 2006, the Canstar Brandon distribution operation was amalgamated within the Brandon Sun operations. On July 21, 2005 Canstar acquired the shares of Rosebud Publications Ltd. ("Rosebud"), the publisher of a weekly entertainment newspaper and a twice monthly newspaper aimed at age-50 plus readers, serving the Winnipeg area.

### FP Newspapers Income Fund

The Fund is dependent on the operations of FPLP, its sole investment. The Fund's net earnings were \$801,000 and \$2,557,000 for the three and six months ended June 30, 2007 compared to net earnings of \$2,506,000 and \$3,825,000 for the same periods last year. The reduction in net earnings reported in the three and six months ending June 30, 2007 is due to the requirement for the Fund to record a future income tax expense of \$1,893,000 resulting from the substantive enactment of Bill C-52 Budget Implementation Act 2007, which contains legislative provisions to tax publicly traded income trusts in Canada (see "Taxation Changes" for further discussion). Interest income on the 11.5% Subordinated notes issued by FPLP to the Fund was \$1,706,000 and \$3,393,000 for the three and six months ended June 30, 2007 compared to \$1,805,000 and \$3,590,000 in the same periods last year. The Fund's equity interest from its Class A limited partnership Units was \$1,053,000 and \$1,203,000 for the three and six months ended June 30, 2007 compared to \$791,000 and \$389,000 in the same periods last year (see "FP Canadian Newspapers Limited Partnership – Results of Operations" below). Operating expenses incurred by the Fund were \$68,000 and \$152,000 for the three and six months ending June 30, 2007 compared to \$91,000 and \$157,000 in the same periods last year.

The Fund declared distributions to Unitholders of \$2,226,000 or \$0.323 per Unit and \$4,452,000 for the three and six months ended June 30, 2007 which is unchanged from the same periods last year. Cash provided by operating activities of the Fund was \$2,234,000 and \$4,468,000 for the three and six months ended June 30, 2007 and \$2,167,000 and \$4,368,000 for the same periods last year.

### *Distributable Cash Attributable to the Fund<sup>(2)</sup>*

Cash available for distribution attributable to the Fund<sup>(2)</sup> was \$3,013,000 or \$0.437 per Unit and \$5,083,000 or \$0.736 per Unit for the three and six months ended June 30, 2007 compared to \$2,887,000 or \$0.418 per Unit and \$4,550,000 or \$0.659 per Unit in the same periods in the prior year. The increase in cash available for distribution attributable to the Fund<sup>(2)</sup> is primarily due to higher EBITDA<sup>(1)</sup> in FPLP as explained later in this discussion.

The Fund monitors the cumulative cash available for distribution attributable to the Fund<sup>(2)</sup> 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<sup>(2)</sup>.

Since commencement of the Fund on May 28, 2002 until June 30, 2007 distributable cash attributable to the Fund<sup>(2)</sup> totals \$7.074 per Unit and during that period the Fund declared distributions to Unitholders of \$6.466 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<sup>(2)</sup>, and because cumulative distributions declared are less than the cumulative distributable cash attributable to the Fund<sup>(2)</sup>, the Fund believes there has been no economic “return of capital”.

### *Taxation Changes*

On June 12, 2007 proposed legislation that implements a tax on distributions made by FTE’s 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<sup>(2)</sup> on hand at the time the new tax becomes effective, and the distribution policy adopted by the Trustees of the Fund at that time.

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

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

During the second quarter, the Fund recorded a future income tax expense of \$1,893,000, based on the Funds share of FPLP’s temporary differences between the accounting and tax basis of FPLP’s net assets, and the Fund’s investment in FPLP which begin to reverse in 2011 when the new tax becomes effective. The Fund has estimated its future income taxes based on its estimates of results of operations, tax deductions, and distributions in the future. Future income taxes will be recorded each quarter in the future based on the changes to temporary timing differences and related assumptions. The Fund’s estimate of its future income tax liability will vary as do the Fund’s assumptions pertaining to the factors described above, and such variations may be material.

Included in the future income tax liability is \$215,000 related to the temporary timing differences on mastheads which are non-amortizing intangible assets. Although the Fund has no reason to believe these temporary timing differences will reverse because the Fund has no reason to believe such balances will be written down for accounting purposes, a future tax liability has nonetheless been recorded in accordance with Canadian GAAP.

**FP Canadian Newspapers Limited Partnership**  
**Results of Operations**

Revenue:	<u>Three Months</u> <u>Ended June 30,</u>		<u>Six Months</u> <u>Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	In thousands		In thousands	
Advertising	\$ 22,337	\$ 21,916	\$ 42,840	\$ 41,604
Circulation	7,376	7,204	14,469	13,995
Commercial Printing	1,727	1,671	3,285	3,281
Promotions and Services	<u>784</u>	<u>470</u>	<u>1,459</u>	<u>963</u>
	<u>\$ 32,224</u>	<u>\$ 31,261</u>	<u>\$ 62,053</u>	<u>\$ 59,843</u>

Revenue for the three months ended June 30, 2007 was \$32.2 million, an increase of \$1.0 million, or 3.1% compared to the second quarter of 2006. Advertising revenues increased by \$0.4 million or 1.9% compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour increased by \$0.5 million or 3.8%, primarily due to small amounts of increased spending by a number of national accounts. Flyer distribution revenues increased by \$0.1 million or 3.0%, primarily due to increased rates and slightly higher volumes. Classified advertising decreased by \$0.2 million or 3.8% in the second quarter due primarily to decreases in the employment and auto categories. Circulation revenue increased by \$0.2 million or 2.4% primarily due to rate increases implemented in the fourth quarter of 2006 partially offset by targeted discounting to increase unit sales. Promotional and services revenue increased by \$0.3 million or 66.8%, due to an increase in internet revenues primarily from banner advertising on our websites, as well as increased revenue from the sale of the Hermetic Code book.

Revenue for the six months ended June 30, 2007 was \$62.1 million, an increase of \$2.2 million, or 3.7% compared to the same period of 2006. Advertising revenues increased by \$1.2 million or 3.0% compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour increased by \$0.8 million or 3.2%, primarily due to small increases from a number of national accounts together with increased employment related advertising as well as the impact of one additional Saturday publishing day. Flyer distribution revenues increased by \$0.3 million or 4.1%, primarily due to a higher volumes and increased rates. Classified revenues increased by \$0.1 million or 1.6% for the six months ending June 30 compared to the prior year due to strong first quarter employment revenue growth from both rate and volume increases partially offset by lower employment and auto advertising in the second quarter. Circulation revenue increased by \$0.5 million or 3.4% primarily due to rate increases implemented in the fourth quarter of 2006. Promotional and services revenue increased by \$0.5 million or 51.4%, due to an increase in internet revenues from employment advertising and banner advertising on our websites, as well as increased revenue from the sale of the Hermetic Code book.

Operating expenses, excluding amortization:	<u>Three Months</u> <u>Ended June 30,</u>		<u>Six Months</u> <u>Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	In thousands		In thousands	
Employee Compensation	\$ 11,347	\$ 10,822	\$ 22,649	\$ 22,030
Newsprint – Own Use	3,467	3,650	6,722	6,873
Newsprint - Commercial Printing	541	621	1,070	1,210
Delivery of Newspapers	4,709	4,617	9,230	9,036
Other	<u>4,549</u>	<u>4,355</u>	<u>9,031</u>	<u>8,752</u>
	<u>\$ 24,613</u>	<u>\$ 24,065</u>	<u>\$ 48,702</u>	<u>\$ 47,901</u>

Operating expenses, excluding amortization in the three months ended June 30, 2007 were \$24.6 million, an increase of \$0.5 million or 2.3% over the second quarter of 2006. Employee compensation costs increased \$0.5 million or 4.8%, compared to the second quarter last year primarily due to salary increases as well as an increase in staff. Newsprint expense for FPLP's own publications decreased by \$0.2 million or 5.0%, as a result of lower newsprint prices. Delivery costs increased by \$0.1 million or 2.0% compared to the same quarter last year largely the result of contracted rate increases and higher fuel costs. Other expenses increased by \$0.2 million or 4.5% primarily due to an increase in professional development costs and consulting fees.

Operating expenses, excluding amortization in the six months ended June 30, 2007 were \$48.7 million, an increase of \$0.8 million or 1.7% over the same period last year. Employee compensation costs increased \$0.6 million or 2.8%, compared to the same period last year. This percentage increase is lower than our forecasted 2007 full year increase largely due to the cost

of voluntary terminations which occurred in the first quarter of 2006. Newsprint expense for FPLP's own publications decreased by \$0.2 million or 2.2%, as a result of lower newsprint prices. Delivery costs increased by \$0.2 million or 2.1% compared to the same period last year largely the result of increased flyer volumes, higher fuel costs and contracted rate increases. Other expenses increased by \$0.3 million or 3.2% primarily due to increases in professional development costs and consulting fees.

EBITDA<sup>(1)</sup> for the three and six months ended June 30, 2007 was \$7.6 million and \$13.4 million compared to \$7.2 million and \$11.9 million for the same periods in the prior year. EBITDA<sup>(1)</sup> margin was 23.6% and 21.5% for the three and six months ended June 30, 2007 compared to 23.0% and 20.0% in the same periods last year.

Interest expense on the Notes payable, the Subordinated notes and capital lease obligations for the three and six months ended June 30, 2007 was \$2.6 million and \$5.3 million, substantially unchanged from the same periods last year. Interest expense was largely unchanged from the prior year, due to the lower principal amount outstanding on the subordinated notes when compared to the second quarter last year, offset by the amortization of the deferred financing costs being accounted for within this line based on FPLP's adoption of the CICA 3855 and 3861 Financial Instruments Handbook sections (see "Accounting Policy Change" heading below).

FPLP's net earnings were \$3.9 million and \$6.0 million for the three and six months ended June 30, 2007 compared to \$3.5 million and \$4.5 million for the same periods in 2006.

Newspaper publishing is, to a certain extent, a seasonal business with a higher proportion of revenues and operating earnings occurring during the second and fourth quarters of the calendar year. Revenue, EBITDA<sup>(1)</sup> and net earnings of FPLP by quarter for 2005, 2006 and the first and second quarters of 2007 was as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
		In thousands	
<u>Revenue</u>			
Quarter 1	\$ 29,829	\$ 28,582	\$ 26,805
Quarter 2	32,224	31,261	30,270
Quarter 3		29,804	28,005
Quarter 4		<u>32,573</u>	<u>31,837</u>
		<u>\$122,220</u>	<u>\$116,917</u>
<u>EBITDA<sup>(1)</sup></u>			
Quarter 1	\$ 5,740	\$ 4,746	\$ 4,302 <sup>(*)</sup>
Quarter 2	7,611	7,196	7,094
Quarter 3		5,853	5,176
Quarter 4		<u>7,672</u>	<u>7,503</u>
		<u>\$ 25,467</u>	<u>\$ 24,075</u>
<u>Net earnings</u>			
Quarter 1	\$ 2,062	\$ 1,038	\$ 485 <sup>(*)</sup>
Quarter 2	3,925	3,492	3,320
Quarter 3		827 <sup>(**)</sup>	1,420
Quarter 4		<u>3,649</u>	<u>3,744</u>
		<u>\$ 9,006</u>	<u>\$ 8,969</u>

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

<sup>(\*)</sup> Lower EBITDA<sup>(1)</sup> and net earnings in the first quarter of 2005 are primarily due to lower revenues due to two fewer publishing days and an 11.5% decline in Friday/Saturday publishing days.

<sup>(\*\*)</sup> The decline in earnings in the third quarter of 2006 is due to the write-down in value of excess press components held for sale which resulted in a \$1,303,000 charge against net earnings.

### **Working Capital Position of FPLP**

Total working capital at June 30, 2007 was \$6.2 million up from \$3.3 million at June 30, 2006. The increase in working capital is primarily due to the increase in EBITDA<sup>(1)</sup> and the resulting increase in the cash balance.



## Liquidity and Capital Resources of FPLP

Cash and cash equivalents at June 30, 2007 was \$6.6 million compared to \$1.9 million at June 30, 2006. Cash and cash equivalents may be used to pay future distributions, to reduce debt, to fund future capital expenditures, or for other general purposes. Operating activities provided \$5.8 million during the second quarter of 2007, while \$0.5 million was used for investing activities and \$3.1 million was used for financing activities. Cash flow from operations, together with cash balances on hand and unutilized credit facilities, are expected to be sufficient to fund FPLP's operating requirements, capital expenditures and anticipated distributions.

### *Cash Flow from Operating Activities*

During the three and six months ended June 30, 2007, cash generated from operating activities was \$5.8 million and \$10.0 million compared to \$2.0 million and \$6.9 million for the same periods last year. The net change in non-cash working capital in the three and six months ended June 30, 2007 was \$0.7 million and \$1.6 million compared to (\$2.6) million and \$0.2 million for the same periods last year. The net change in non-cash working capital for the three and six month periods is primarily the result of the timing of receipts from customers.

### *Investing Activities*

Total capital purchases, which were all for maintenance capital projects, totalled \$0.5 million and \$1.0 million for the three and six months ended June 30, 2007 compared to \$0.6 million and \$0.9 million in the same periods in the prior year. Maintenance capital spending during the second quarter of 2007 consisted mainly of upgrades to press control systems in the Winnipeg plant and upgrades to the Winnipeg Free Press editorial production system. Maintenance capital spending is expected to be approximately \$2.4 million for the full year. In 2008, maintenance capital is expected to be in the range of \$1.6 million to \$2.0 million.

During the second quarter of 2007 there was no strategic capital spending, which is consistent with the same period last year.

### *Financing Activities*

Distributions to partners of FPLP for the three and six months ended June 30, 2007 totalled \$3.0 million and \$6.0 million, of which \$0.6 million and \$1.2 million was paid to the Fund as holder of Class A limited partnership Units. This is compared to \$2.9 million and \$5.6 million in the same periods in the prior year of which \$0.5 million and \$0.9 million was paid to the Fund as holder of Class A limited partnership units. The distributions to partners have been determined in accordance with the Amended and Restated Agreement of Limited Partnership dated May 3, 2005.

### *Reserves Related to Distributable Cash Attributable to the Fund<sup>(2)</sup>*

Under the terms of the Amended and Restated Agreement of Limited Partnership dated May 3, 2005, the Managing General Partner is required to determine reserves which are necessary or desirable to withhold from any distributions to Partners, including among other things for capital expenditures and operating expenses. A summary of the reserve for maintenance capital for the three and six months ended June 30, 2007 and 2006 is as follows:

	<u>Three Months</u> <u>Ended June 30,</u>		<u>Six Months</u> <u>Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	In thousands		In thousands	
Reserve at beginning of period	\$ 347	\$ 518	\$ 370	\$ 516
Increase in reserve	-	-	-	2
Decrease in reserve	<u>(17)</u>	<u>(250)</u>	<u>(40)</u>	<u>(250)</u>
Reserve at end of period	<u>\$ 330</u>	<u>\$ 268</u>	<u>\$ 330</u>	<u>\$ 268</u>

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

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

During the second quarter of 2004 the Managing General Partner determined that it was desirable to establish a reserve in an amount of \$1.0 million for purposes of future strategic capital, acquisitions and/or debt reduction. The amount of the reserve initially established was equal to the net proceeds received on the sale of surplus equipment in the third quarter of 2004, and was fully utilized in the third quarter of 2006. A summary of the reserve for strategic capital, acquisitions and/or debt reduction for the three and six months ended June 30, 2007 and 2006 is as follows:

	<u>Three Months</u> <u>Ended June 30,</u>		<u>Six Months</u> <u>Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	In thousands		In thousands	
Reserve at beginning of period	\$ -	\$ 157	\$ -	\$ 157
Increase in reserve	-	-	-	-
Decrease in reserve	-	(90)	-	(90)
Reserve at end of period	<u>\$ -</u>	<u>\$ 67</u>	<u>\$ -</u>	<u>\$ 67</u>

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

### ***Change in Accounting Policy***

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

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

### **Business Risks and Uncertainties**

#### ***Revenue***

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

#### ***Employee Relations***

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

### ***Expenses***

Newspaper publishing is both capital and labour intensive, and as a result newspapers have relatively high fixed cost structures. During periods of declining revenue, significant portions of costs may remain fixed, resulting in decreased earnings. Newsprint is a significant cost for FPLP, accounting for \$7.8 million in the first two quarters of 2007. Newsprint costs vary widely from time to time. If newsprint costs rise rapidly, there is no assurance that advertising and circulation revenues can be increased to offset the increased newsprint expense.

### **Outlook**

The outlook for operations is described earlier in this document.

## Non GAAP Measures

### (1) EBITDA

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	In thousands		In thousands	
Net earnings for the period	\$ 3,925	\$ 3,492	\$ 5,987	\$ 4,530
Add (subtract):				
Amortization of property, plant and equipment	1,008	921	2,010	1,803
Amortization of intangible assets	90	90	180	180
Interest	2,638	2,612	5,254	5,217
Amortization of deferred financing costs	-	141	-	281
Interest income	(48)	(15)	(83)	(27)
Gain on sale of property, plant and equipment	-	(4)	(17)	(4)
Current income tax expense (recovery)	(2)	(39)	20	7
Future income tax recovery	-	(2)	-	(45)
EBITDA	<u>\$ 7,611</u>	<u>\$ 7,196</u>	<u>\$ 13,351</u>	<u>\$ 11,942</u>

### (2) Distributable Cash Attributable to the Fund

The Fund believes that in addition to the disclosure of cash flow from operations, distributable cash attributable to the Fund is an important supplemental measure of cash flow. 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 should be cautioned that the method of calculating distributable cash may not be comparable to similar measures presented by other issuers. The Fund uses this measure as a factor to determine whether to adjust the monthly distributions to Unitholders. Management has determined distributable cash attributable to the Fund as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	In thousands		In thousands	
Distributable cash of FPLP:				
EBITDA <sup>(1)</sup>	\$ 7,611	\$ 7,196	\$ 13,351	\$ 11,942
Interest income	48	15	83	27
Interest expense on Notes payable and capital leases, excluding amortization of related deferred financing costs	(804)	(807)	(1,604)	(1,627)
Principal repayment of capital leases	(75)	(71)	(170)	(140)
Maintenance capital expenditures	(517)	(550)	(1,040)	(848)
Decrease in reserve for future maintenance capital	17	250	40	248
Strategic capital expenditures	-	(90)	-	(90)
Decrease in reserve for strategic capital	-	90	-	90
Proceeds from sale of property, plant and equipment	-	4	31	4
Current income and capital taxes recovery (expense)	<u>2</u>	<u>39</u>	<u>(20)</u>	<u>(7)</u>
	<u>\$ 6,282</u>	<u>\$ 6,076</u>	<u>\$ 10,671</u>	<u>\$ 9,599</u>
49% attributable to the Fund	\$ 3,078	\$ 2,977	\$ 5,229	\$ 4,704
Administration expenses	(68)	(91)	(152)	(157)
Interest income	<u>3</u>	<u>1</u>	<u>6</u>	<u>3</u>
Distributable cash attributable to the Fund	<u>\$ 3,013</u>	<u>\$ 2,887</u>	<u>\$ 5,083</u>	<u>\$ 4,550</u>
Distributable cash attributable to the Fund – per Unit	<u>\$ 0.437</u>	<u>\$ 0.418</u>	<u>\$ 0.736</u>	<u>\$ 0.659</u>

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

Distributable Cash of FPLP:

	Last Twelve <u>Months</u>	Since May 28, <u>2002</u>
	In thousands	
EBITDA <sup>(1)</sup>	\$ 26,876	\$ 124,563
Interest income	134	408
Interest expense on Notes payable and capital leases, excluding amortization of related deferred financing costs	(3,207)	(15,897)
Principal repayment of capital leases	(291)	(791)
Maintenance capital expenditures	(1,538)	(5,511)
Increase in reserve for future maintenance capital expenditures	(62)	(330)
Strategic capital expenditures	(114)	(650)
Decrease (increase) in reserve for strategic capital, acquisitions, and/or debt reduction	67	(353)
Proceeds on disposal of property, plant and equipment	33	1,101
Current income and capital tax expense	<u>(52)</u>	<u>(144)</u>
Distributable cash of FPLP	<u>\$ 21,846</u>	<u>\$ 102,396</u>

Distributable Cash Attributable to the Fund:

	Last Twelve <u>Months</u>	Since May 28, <u>2002</u>
	In thousands	
49% of FPLP distributable cash	\$ 10,705	\$ 50,174
Administration expenses	(282)	(1,370)
Interest income	<u>7</u>	<u>28</u>
Distributable cash attributable to the Fund	<u>\$ 10,430</u>	<u>\$ 48,832</u>
Distributable cash attributable to the Fund per Unit	\$1.511	\$7.074
Distributions declared by the Fund per Unit	\$1.290	\$6.466
Payout Ratio	85.4%	91.4%

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

	<u>Three Months</u>		<u>Six Months</u>	
	<u>Ended June 30,</u>		<u>Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	In thousands		In thousands	
Cash flow from operating activities of FPLP	\$ 5,817	\$ 1,994	\$ 10,043	\$ 6,917
Add (subtract):				
Interest on Subordinated notes (*)	1,706	1,805	3,393	3,590
Net change in non-cash working capital items (**)	(666)	2,644	(1,626)	(172)
Maintenance capital expenditures	(517)	(550)	(1,040)	(848)
Decrease in reserve for future maintenance capital (***)	17	250	40	248
Principal repayment of capital leases	(75)	(71)	(170)	(140)
Proceeds from sale of property, plant and equipment (****)	-	4	31	4
Distributable cash of FPLP	<u>\$ 6,282</u>	<u>\$ 6,076</u>	<u>\$ 10,671</u>	<u>\$ 9,599</u>

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

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

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

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

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

**FP Newspapers Income Fund**  
**Consolidated Balance Sheets**  
**(unaudited, in thousands of Canadian dollars)**

	As at June 30, 2007	As at December 31, 2006
<b>ASSETS</b>		
Current Assets :		
Cash and cash equivalents	\$ 227	\$ 221
Interest receivable from Subordinated notes	562	581
Due from FPCN Media Funding Inc.	26	26
Prepaid expenses	8	15
	<u>823</u>	<u>843</u>
Investment in FPCN General Partner Inc.	30	20
Investment in FP Canadian Newspapers Limited Partnership (note 3)	60,745	60,464
	<u>\$ 61,598</u>	<u>\$ 61,327</u>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 89	\$ 96
Distribution payable (note 4)	742	742
	<u>831</u>	<u>838</u>
Long Term Liabilities:		
Future Income Taxes (note 5)	1,893	-
	<u>2,724</u>	<u>838</u>
Unitholders' Equity:		
Trust Units	69,026	69,026
Cumulative earnings (note 2)	34,469	31,632
Cumulative distributions	(44,621)	(40,169)
	<u>58,874</u>	<u>60,489</u>
	<u>\$ 61,598</u>	<u>\$ 61,327</u>

(See accompanying notes)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Earnings from investment in FP Canadian Newspapers Limited Partnership				
Interest from Subordinated notes	\$ 1,706	\$ 1,805	\$ 3,393	\$ 3,590
Equity interest from Class A limited partnership Units (note 3)	1,053	791	1,203	389
Other interest	3	1	6	3
	2,762	2,597	4,602	3,982
Administration expenses	(68)	(91)	(152)	(157)
Future income tax expense (note 5)	(1,893)	-	(1,893)	-
Net earnings and Comprehensive income for the period	\$ 801	\$ 2,506	\$ 2,557	\$ 3,825
Cumulative earnings, beginning of period	33,668	25,274	31,632	23,955
Transitional amount (note 2)	-	-	280	-
Adjusted Cumulative earnings, beginning of period	33,668	25,274	31,912	23,955
Cumulative earnings, end of period	\$ 34,469	\$ 27,780	\$ 34,469	\$ 27,780
Number of trust Units outstanding	6,902,592	6,902,592	6,902,592	6,902,592
Net earnings per trust Unit	\$ 0.116	\$ 0.363	\$ 0.370	\$ 0.554

**FP Newspapers Income Fund**  
**Consolidated Statements of Unitholders' Equity**  
**(unaudited, in thousands of Canadian dollars)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Balance, beginning of period	\$ 60,299	\$ 60,809	\$ 60,489	\$ 61,716
Transitional amount (note 2)	-	-	280	-
Adjusted balance – beginning of period	60,299	60,809	60,769	61,716
Net earnings	801	2,506	2,557	3,825
Distributions to Unitholders	(2,226)	(2,226)	(4,452)	(4,452)
Balance, end of period	\$ 58,874	\$ 61,089	\$ 58,874	\$ 61,089

(See accompanying notes)



**FP Newspapers Income Fund**  
**Consolidated Statements of Cash Flows**  
(unaudited, in thousands of Canadian dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Cash provided by (used in):				
Operating activities:				
Net earnings for the period	\$ 801	\$ 2,506	\$ 2,557	\$ 3,825
Item not affecting cash:				
Equity interest from Class A Units of FP				
Canadian Newspapers Limited Partnership (note 3)	(1,053)	(791)	(1,203)	(389)
Future income tax expense (note 5)	1,893	-	1,893	-
Distributions received on Class A Units of FP				
Canadian Newspapers Limited Partnership (note 3)	624	495	1,202	904
Net change in non-cash working capital items	(31)	(43)	19	28
	2,234	2,167	4,468	4,368
Financing activities:				
Distributions to Unitholders	(2,226)	(2,226)	(4,452)	(4,452)
Investing activities:				
Investment in FPCN General Partner Inc.	(10)	(10)	(10)	(10)
(Decrease) increase in cash and cash equivalents	(2)	(69)	6	(94)
Cash and cash equivalents, beginning of period	229	159	221	184
Cash and cash equivalents, end of period	\$ 227	\$ 90	\$ 227	\$ 90

(See accompanying notes)

**FP Newspapers Income Fund**  
**Notes to Consolidated Financial Statements as at June 30, 2007**  
**(unaudited, tabular amounts in thousands of dollars)**

**1. Basis of presentation**

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

These interim consolidated financial statements of the Fund have been prepared by management in accordance with accounting principles generally accepted in Canada for interim financial statements and include the accounts of the Fund and its wholly-owned subsidiary, FPCN Holdings Trust. However, these interim financial statements do not include all the information and disclosures required for annual financial statements. These statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements of the Fund as at December 31, 2006, except as described below. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto and other financial information contained in the audited consolidated financial statements for the year ended December 31, 2006.

FPLP’s revenues are seasonal. As FPLP is the Fund’s sole investment, the fund’s Equity interest is seasonal as well. The Fund’s equity interest from Class A limited partnership Units is highest in the second and fourth quarters.

**2. Summary of significant accounting policies**

Change in Accounting Policy

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

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

The Fund has made the following classifications:

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

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

### 3. Investment in FP Canadian Newspapers Limited Partnership

On May 28, 2002, FPCN Holdings Trust subscribed for 6,573,897 Class A limited partnership Units of FPLP and \$65,670,000 principal amount of Subordinated notes of FPLP. On June 27, 2002, FPCN Holdings Trust subscribed for a further 328,695 Class A limited partnership Units of FPLP and \$3,283,500 principal amount of Subordinated notes of FPLP. FPCN Holdings Trust holds all of the Class A limited partnership Units of FPLP, which, together with the Subordinated notes, entitles it to 49% of the distributable cash (as defined in the Partnership Agreement) of FPLP.

The investment in FPLP is summarized as follows:

	Subordinated Notes \$	Class A limited partner Units \$	Total \$
Balance at March 31, 2007	59,504	812	60,316
Equity interest in the period	-	1,053	1,053
Distributions received	-	(624)	(624)
Balance at June 30, 2007	59,504	1,241	60,745

The change in equity interest for the three and six months ended June 30, 2007 and 2006 from the Fund's investment in Class A limited partnership Units of FPLP is calculated as follows:

	Three months Ended June 30,		Six months Ended June 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Net earnings of FPLP	\$ 3,925	\$ 3,492	\$ 5,987	\$ 4,530
Plus: Interest on Subordinated notes	1,706	1,805	3,393	3,590
Net earnings before interest on Subordinated notes	\$ 5,631	\$ 5,297	\$ 9,380	\$ 8,120
49% interest attributable to the Fund	2,759	2,596	4,596	3,979
Less: Interest from Subordinated notes	(1,706)	(1,805)	(3,393)	(3,590)
Equity interest from Class A limited partnership Units	\$ 1,053	\$ 791	\$ 1,203	\$ 389

### 4. Distribution Payable

The Fund recorded a distribution payable at June 30, 2007 of \$0.1075 per Unit. The distribution was paid July 30, 2007 to Unitholders of record on June 29, 2007 and is in respect of the month of June 2007.

### 5. Future Income Taxes

On June 12, 2007, Bill C-52 Budget Implementation Act 2007 was substantively enacted by the Canadian federal government, which contains legislation to tax publicly traded trusts in Canada. As a result, a new 31.5 percent 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 \$1.9 million future income tax expense and created a future income tax liability in the second quarter of 2007. The future income tax expense and liability represents the taxable temporary differences of the Fund expected to reverse after 2010, at 31.5 percent, which is the rate that will be applicable in 2011 under the current legislation.

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

Future income tax liabilities:

Property, plant and equipment and amortizing intangible assets	\$ 4,326
Non-amortizing intangible assets	215
Other	141
<u>Total future income tax liabilities</u>	<u>\$ 4,682</u>

Future income tax assets:

Tax value of goodwill	\$ 4,061
Tax value in excess of accounting value of investment in FPLP	972
	<u>5,033</u>
Less valuation allowance – goodwill	(1,272)
Less valuation allowance – investment in FPLP	(972)
	<u>2,789</u>

Net future income tax liabilities \$ 1,893

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

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

	As at June 30, 2007	As at December 31, 2006
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 6,554	\$ 3,729
Accounts receivable	11,155	13,495
Income tax receivable	-	10
Inventories	1,271	1,021
Prepaid expenses	1,229	690
Future income taxes	105	174
	20,314	19,119
Equipment held for sale	400	400
Property, plant and equipment	51,416	52,400
Future income taxes	274	205
Deferred financing costs (note 2)	-	2,728
Intangible assets	8,285	8,465
Goodwill	71,160	71,160
	\$ 151,849	\$ 154,477
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 10,521	\$ 10,627
Income taxes payable	12	16
Prepaid subscriptions and deferred revenue	3,289	3,114
Current obligations under capital leases	295	318
	14,117	14,075
Long-Term Liabilities:		
Notes payable (note 2)	59,544	60,000
Subordinated notes (note 2)	56,918	59,504
Obligations under capital leases	50	197
	116,512	119,701
	130,629	133,776
Unitholders' Equity:		
Partnership Units	40,243	40,243
Cumulative earnings (note 2)	45,686	39,128
Cumulative distributions	(64,709)	(58,670)
	21,220	20,701
	\$ 151,849	\$ 154,477

(See accompanying notes)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenue	\$ 32,224	\$ 31,261	\$ 62,053	\$ 59,843
Operating expenses, excluding amortization	(24,613)	(24,065)	(48,702)	(47,901)
	7,611	7,196	13,351	11,942
Amortization of property, plant and equipment	(1,008)	(921)	(2,010)	(1,803)
Amortization of intangible assets	(90)	(90)	(180)	(180)
Earnings before the under-noted	6,513	6,185	11,161	9,959
Interest (note 5)	(2,638)	(2,612)	(5,254)	(5,217)
Amortization of deferred financing costs (note 2)	-	(141)	-	(281)
Interest income	48	15	83	27
Gain on sale of property, plant and equipment	-	4	17	4
Net earnings before income taxes	3,923	3,451	6,007	4,492
Income tax (expense) recovery:				
- Current	2	39	(20)	(7)
- Future	-	2	-	45
Net earnings and Comprehensive income for the period	3,925	3,492	5,987	4,530
Cumulative earnings – beginning of period	41,761	31,160	39,128	30,122
Transitional amount (note 2)	-	-	571	-
Adjusted Cumulative earnings – beginning of period	41,761	31,160	39,699	30,122
Cumulative earnings – end of period	\$ 45,686	\$ 34,652	\$ 45,686	\$ 34,652

(See accompanying notes)

**FP Canadian Newspapers Limited Partnership**  
**Consolidated Statements of Unitholders' Equity**  
**(unaudited, in thousands of Canadian dollars)**

	<b>General partner Units \$</b>	<b>Class A limited partner Units \$</b>	<b>Total \$</b>
Unitholders' equity – December 31, 2005	\$ 15,443	\$ 4,329	\$ 19,772
Net earnings for the period	881	157	1,038
Distributions paid	(2,303)	(409)	(2,712)
Unitholders' equity – March 31, 2006	14,021	4,077	18,098
Net earnings for the period	2,898	594	3,492
Distributions paid	(2,415)	(495)	(2,910)
Unitholders' equity – June 30, 2006	\$ 14,504	\$ 4,176	\$ 18,680
Net earnings for the period	681	146	827
Distributions paid	(2,445)	(524)	(2,969)
Unitholders' equity – September 30, 2006	\$ 12,740	\$ 3,798	\$ 16,538
Contributions	-	3,450	3,450
Net earnings for the period	3,026	623	3,649
Distributions paid	(2,418)	(518)	(2,936)
Unitholders' equity – December 31, 2006	\$ 13,348	\$ 7,353	\$ 20,701
Transitional amount (note 2)	501	70	571
Adjusted Unitholders' equity – January 1, 2007	\$ 13,849	\$ 7,423	\$ 21,272
Net earnings for the period	1,661	401	2,062
Distributions paid	(2,392)	(578)	(2,970)
Unitholders' equity – March 31, 2007	\$ 13,118	\$ 7,246	\$ 20,364
Net earnings for the period	3,134	791	3,925
Distributions paid	(2,445)	(624)	(3,069)
Unitholders' equity – June 30, 2007	\$ 13,807	\$ 7,413	\$ 21,220

(See accompanying notes)

**FP Canadian Newspapers Limited Partnership**  
**Consolidated Statements of Cash Flows**  
**(unaudited, in thousands of Canadian dollars)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Cash provided by (used in)				
Operating activities:				
Net earnings for the period	\$ 3,925	\$ 3,492	\$ 5,987	\$ 4,530
Items not affecting cash:				
Amortization of property, plant and equipment and intangible assets	1,098	1,011	2,190	1,983
Amortization of deferred financing costs (note 5)	128	141	257	281
Future income tax recovery	-	(2)	-	(45)
Gain on disposal of property, plant and equipment	-	(4)	(17)	(4)
	5,151	4,638	8,417	6,745
Net change in non-cash working capital items	666	(2,644)	1,626	172
	5,817	1,994	10,043	6,917
Investing activities:				
Purchases of property, plant and equipment	(517)	(640)	(1,040)	(938)
Proceeds from sale of property, plant and equipment	-	4	31	4
	(517)	(636)	(1,009)	(934)
Financing activities:				
Distributions to partners	(3,069)	(2,910)	(6,039)	(5,622)
Principal repayment of capital leases	(75)	(71)	(170)	(140)
	(3,144)	(2,981)	(6,209)	(5,762)
Increase in cash and cash equivalents	2,156	(1,623)	2,825	221
Cash and cash equivalents - beginning of period	4,398	3,518	3,729	1,674
Cash and cash equivalents - end of period	\$ 6,554	\$ 1,895	\$ 6,554	\$ 1,895
Supplemental Cash Flow Information:				
Interest paid during the period	\$ 2,527	\$ 2,623	\$ 5,024	\$ 5,212
Taxes paid during the period	3	118	14	118

(See accompanying notes)



**FP Canadian Newspapers Limited Partnership**  
**Notes to Consolidated Financial Statements as at June 30, 2007**  
**(unaudited, tabular amounts in thousands of dollars)**

**1. Basis of presentation**

FP Canadian Newspapers Limited Partnership ("FPLP") is a limited partnership formed on August 9, 1999 in accordance with the laws of British Columbia.

These interim consolidated financial statements include the accounts of FPLP, Canstar Community News Limited ("Canstar"), and Rosebud Publications Ltd. ("Rosebud"). Rosebud is wholly owned by Canstar, which is wholly owned by FPLP. In addition, the FP Canadian Newspapers Limited Partnership Employee Benefits Plan Trust Fund ("Trust Fund") and FPCN Media Funding Inc. ("Funding") have been determined to be Variable Interest Entities ("VIE"), which also have been consolidated. The managing general partner of FPLP is FPCN General Partner Inc. These financial statements include only the assets, liabilities, revenues and expenses of FPLP and its subsidiaries and do not include the other assets, liabilities, revenues and expenses, including income taxes of the partners.

These interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada for interim financial statements and reflect all adjustments which are, in the opinion of management, necessary for fair statement of the results of the interim periods presented. However, these interim financial statements do not include all the information and disclosures required for annual financial statements. The accounting policies used in the preparation of these interim financial statements are the same as those used in the most recent annual financial statements, except as described below. These interim consolidated financial statements should be read in conjunction with the audited financial statements of FPLP for the year ended December 31, 2006.

The Partnership's advertising revenues are seasonal. Revenue and accounts receivable are highest in the second and fourth quarters while expenses are relatively constant.

**2. Summary of significant accounting policies**

Change in Accounting Policy

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

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

FPLP has made the following classifications:

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

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

### 3. Allocation of net income

The amended and restated Agreement of Limited Partnership dated May 3, 2005 sets out the method for allocating net income between the general and limited partner Units. Net income is allocated to the general partner Units and the Class A limited partner Units in proportion to the distributions made to the partners over an annual basis ending December 31 each year. As the allocation is defined using an annual period, quarterly allocations are determined by using a proportionate share of cumulative distributions and cumulative net income to the end of each quarter.

### 4. Employee future benefit plans

The net future benefit plan costs included in operating expenses is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Defined benefit pension plan	<u>\$ 367</u>	<u>\$ 386</u>	<u>\$ 734</u>	<u>\$ 776</u>

### 5. Interest expense

Interest expense is summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Subordinated notes	\$ 1,706	\$ 1,805	\$ 3,393	\$ 3,590
Amortization of Subordinated notes deferred financing costs	92	-	185	-
Notes payable	799	799	1,593	1,610
Amortization of Notes payable deferred financing costs	36	-	72	-
Capital lease obligations	<u>5</u>	<u>8</u>	<u>11</u>	<u>17</u>
	<u>\$ 2,638</u>	<u>\$ 2,612</u>	<u>\$ 5,254</u>	<u>\$ 5,217</u>

### 6. Commitments and Contingencies

FPLP has entered a contract with a systems vendor with respect to an approved capital project comprising an upgrade of the Winnipeg Free Press electronic press controls. As at June 30, 2007, FPLP is committed to make additional payments of \$146,000 to the system vendor.

**Forward-looking statements**

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

**Investor Relations:**

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**Listing:**

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

**Transfer Agent:**

CIBC Mellon Trust Company

**Auditors:**

Ernst & Young LLP, Winnipeg