

fp

NEWSPAPERS INCOME FUND



**Q3 – 2008
Quarterly Report
September 30, 2008**

TSX: FP.UN

**Third Quarter Report
September 30, 2008
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 September 30, 2008. 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, and Canstar Community News Limited ("Canstar") which operates five weekly newspapers, a weekly entertainment newspaper and a twice monthly newspaper aimed at age 50-plus readers in the Winnipeg area, as well as delivery businesses in Winnipeg and Thunder Bay.

Total revenue for FPLP for the three months ended September 30, 2008 was \$31.0 million, a \$0.5 million or 1.5 percent increase over the same period last year. Revenue growth for the quarter was primarily the result of advertising revenue growth in the display advertising including colour category. Total EBITDA⁽¹⁾ of FPLP for the third quarter was \$6.2 million, a \$0.4 million or 5.5 percent decrease from the same quarter last year. The partnership had net earnings of \$2.5 million in the third quarter compared to \$2.8 million in the same quarter last year.

The Fund had net earnings of \$2.0 million, or \$0.286 per Unit, during the three months ended September 30, 2008, compared to net earnings of \$2.2 million, or \$0.315 per Unit, in the same quarter last year. The decrease in net earnings in the third quarter is primarily due to the decrease in the net earnings of FPLP.

Operations

Advertising revenue in the third quarter was \$20.9 million, a \$0.3 million or 1.3 percent increase over the same quarter last year. FPLP's largest advertising revenue category, display advertising including colour, was \$12.4 million for the quarter, an increase of 3.4 percent, compared to \$12.0 million for the same period last year. This increase is primarily due to increased spending in the national automotive category. Classified advertising revenues decreased by \$0.2 million or 3.5 percent, primarily due to a decrease in the employment category partially offset by increases in the real estate category. Flyer distribution revenue remained virtually unchanged compared to the same period last year. Promotions and Services revenue increased by \$0.2 million or 19.3 percent, primarily due to increased internet revenues.

Operating expenses, excluding amortization for the third quarter, were \$24.8 million, a 3.5 percent increase from the \$23.9 million in the same quarter last year. Employee compensation costs increased \$0.1 million or 0.8 percent, compared to the same quarter last year primarily due to annual contracted rate increases partially offset by lower management bonus plan costs. Newsprint expense for FPLP's own publications increased by \$0.2 million or 5.8 percent, as a result of higher newsprint prices partially offset by lower consumption. Delivery costs were \$4.8 million for the quarter, a 4.8 percent increase from the \$4.6 million in the same quarter last year primarily due to increased carrier costs due to contracted rate increases as well as additional costs associated with rising fuel costs.

At the Winnipeg Free Press, the newspaper undertook an ambitious project to identify the Greatest Manitobans through interaction with readers, who were able to nominate candidates and vote for who should be named to the list. The project included in-paper and online contests and stories. A book profiling the Greatest Manitobans chosen by readers will be launched in November.

Increasingly, the Free Press is giving readers direct involvement in coverage. The paper ran a reader-driven campaign to choose a new slogan for city welcome signs, eventually picking "Heart of the Continent." The city chose this slogan soon after the Free Press campaign.

As well, the Free Press gave its readers strong, independent coverage of national and international events. Ottawa reporter Mia Rabson and columnist Dan Lett provided in-depth coverage of the Canadian federal election. Photographer Joe Bryksa travelled to Afghanistan to record the work of soldiers from Shilo who were serving there.

Online, the Free Press continued to develop its breaking news site, www.winnipegfreepress.com. The number of unique monthly visitors to Free Press web sites rose sharply in the third quarter, compared with a year earlier. The sites recorded a total of 741,249 unique visitors in August, up 88 percent over August of 2007.

At the Brandon Sun in the third quarter, a trio of reporters produced a three-part series that looked at how health care is delivered in western Manitoba by the Regional Health Authority. The series was well received by both critics and supporters of the system and was distributed by the Winnipeg Regional Health Authority as an information piece.

The Brandon Sun's annual charitable campaign called Sun Fund for Kids raised \$42,000 to send under-privileged children to summer camp this year, nearly doubling last year's total.

In November, the Audit Bureau of Circulations released the preliminary unaudited circulation results for the six months ending September 30, 2008. The Winnipeg Free Press reported an average weekday circulation increase of 0.3 percent, an average Saturday circulation increase of 0.9 percent and an increase of 0.5 percent in average Sunday circulation. Because the Winnipeg Sun no longer uses the Audit Bureau of Circulations we are not able to provide comparative figures. The Brandon Sun reported a decrease of 3.5 percent in its weekday circulation, a Saturday decrease of 4.2 percent and a Sunday average circulation decrease of 3.2 percent.

Distributions

Distributable cash attributable to the Fund⁽²⁾ for the three months ended September 30, 2008 was \$2.2 million, or \$0.319 per Unit compared to \$2.5 million or \$0.364 per Unit last year. For the trailing twelve months ended September 30, 2008, FPLP has generated distributable cash attributable to the Fund⁽²⁾ of \$1.557 per Unit, and the Fund has declared distributions of \$1.290 per Unit, resulting in a payout ratio of 82.9 percent.

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

Outlook

As a result of the loss of 16 Winnipeg Free Press publishing days and the normally scheduled publications of the Canstar Community News operation, due to a strike by the unionized workers and delivery contractors, the fourth quarter revenue and earnings will be lower than the same period in 2007. Unionized workers were off the job from October 13th to October 29th. Terms of the contract settlement include wage increases of 2 percent in each of the next four years and 1.5 percent for the nine months ending June 30, 2013, as well as benefit plan improvements. All employees are working diligently in efforts to help minimize the long term financial and operational impact of the work stoppage. On October 21, the Trustees temporarily suspended distributions and will continue to monitor the impact of the labour action and will inform Unitholders of future distribution levels as they are determined.

Revenue growth for the third quarter was impacted by the challenging economic conditions and the fourth quarter will see a continuation of lower than expected revenue levels. Newsprint price increases were announced and implemented during the third quarter and further increases were announced for the fourth quarter. We forecast our 4th quarter newsprint prices will be approximately 25 percent higher than the same quarter last year. If our forecast is correct our full year newsprint prices will increase by approximately 3 percent which compares with the forecast in our annual report of flat 2008 full year pricing compared to 2007.

Ronald N. Stern
Chairman & Trustee

November 13, 2008

Management's Discussion and Analysis

Overview

Management's Discussion and Analysis is as at November 13, 2008 and provides a review of significant developments that have affected the Fund's performance in the nine months ended September 30, 2008. This review is based on financial information contained in the consolidated interim 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 most recent audited consolidated financial statements and accompanying notes for the year ended December 31, 2007. The consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), however, the consolidated interim financial statements do not include all the information and disclosures required for annual financial statements.

Further information relating to the Fund 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 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., the publisher of a weekly entertainment newspaper and a twice-monthly newspaper aimed at age-50 plus readers, serving the Winnipeg area, and subsequently was wound up into the operations of Canstar.

FP Newspapers Income Fund

The Fund is dependent on the operations of FPLP, its sole investment. The Fund's net earnings were \$1,977,000 and \$6,352,000 for the three and nine months ended September 30, 2008 compared to net earnings of \$2,174,000 and \$4,731,000 for the same periods last year. Interest income on the 11.5% Subordinated notes issued by FPLP to the Fund was \$1,690,000 and \$5,032,000 for the three and nine months ended September 30, 2008 compared to \$1,725,000 and \$5,118,000 in the same periods last year. The Fund's equity interest from its Class A limited partner Units was \$359,000 and \$1,590,000 for the three and nine months ended September 30, 2008 compared to \$497,000 and \$1,700,000 in the same periods last year. The Fund recorded a future income tax expense of \$12,000 and \$77,000 for the three and nine months ended September 30, 2008, which relates to the on-going requirement to calculate future income taxes resulting from the substantive enactment of Bill C-52 Budget Implementation Act 2007 in the second quarter of 2007, compared to (\$14,000) and \$1,879,000 in the same periods last year. Operating expenses incurred by the Fund were \$64,000 and \$205,000 for the three and nine months ending September 30, 2008 compared to \$64,000 and \$216,000 in the same periods last year.

The Fund declared distributions to Unitholders of \$2,227,000 or \$0.323 per Unit and \$6,679,000 or \$0.969 per Unit for the three and nine months ended September 30, 2008, which is unchanged from the same periods last year. Cash provided by operating activities of the Fund was \$2,238,000 and \$6,758,000 for the three and nine months ended September 30, 2008 compared to \$2,276,000 and \$6,744,000 for the same periods last year.

On October 21, as a result of the loss of the publishing days due to the strike by unionized workers and contractors at the Winnipeg Free Press, the Trustees temporarily suspended distributions and will continue to monitor the impact of the labour action and will inform Unitholders of future distribution levels as they are determined.

Distributable Cash Attributable to the Fund⁽²⁾

Cash available for distribution attributable to the Fund⁽²⁾ was \$2,202,000 or \$0.319 per Unit and \$7,244,000 or \$1.049 per unit for the three and nine months ended September 30, 2008 compared to \$2,512,000 or \$0.364 per Unit and \$7,595,000 or

\$1.100 per unit for the same periods last year. The decrease in cash available for distribution attributable to the Fund⁽²⁾ for the three months ending September 30 is primarily due to the decrease in EBITDA⁽¹⁾ of FPLP, as well as increases in strategic capital purchases in FPLP.

The Fund monitors the cumulative cash available for distribution attributable to the Fund⁽²⁾ for the three months ending September 30, 2008 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⁽²⁾.

Since commencement of the Fund on May 28, 2002 until September 30, 2008 distributable cash attributable to the Fund⁽²⁾ totals \$8.996 per Unit and during that period the Fund declared distributions to Unitholders of \$8.078 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⁽²⁾, and because cumulative distributions declared are less than the cumulative distributable cash attributable to the Fund⁽²⁾, the Fund believes there has been no economic "return of capital".

FP Canadian Newspapers Limited Partnership Results of Operations

Revenue:	Three Months		Nine Months	
	<u>Ended September 30,</u>		<u>Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	In thousands		In thousands	
Advertising	\$ 20,942	\$ 20,680	\$ 64,308	\$ 63,520
Circulation	7,410	7,298	21,930	21,767
Commercial Printing	1,404	1,507	4,504	4,792
Promotions and Services	<u>1,219</u>	<u>1,022</u>	<u>2,640</u>	<u>2,481</u>
	<u>\$ 30,975</u>	<u>\$ 30,507</u>	<u>\$ 93,382</u>	<u>\$ 92,560</u>

Revenue for the three months ended September 30, 2008 was \$31.0 million, an increase of \$0.5 million or 1.5% compared to the same quarter last year. Advertising revenues increased by \$0.3 million or 1.3% compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, was \$12.4 million for the quarter, an increase of 3.4%, compared to \$12.0 million for the same period last year. This increase is primarily due to increased spending in the national automotive category. Classified advertising revenues decreased by \$0.2 million or 3.5%, primarily due to a decrease in the employment category partially offset by increases in the real estate category. Flyer distribution revenue remained virtually unchanged compared to the same period last year. Circulation revenue increased by \$0.1 million or 1.5%, the result of increased revenue from home delivery rate increases in the fourth quarter of 2007. Commercial printing revenue decreased by \$0.1 million or 6.8%, primarily due to lower charges for newsprint usage, slightly offset by increased printing rates. Promotions and Services revenue increased by \$0.2 million or 19.3%, primarily due to increased internet revenues.

Revenue for the nine months ended September 30, 2008 was \$93.4 million, an increase of \$0.8 million or 0.9% compared to the same period last year. Advertising revenues increased by \$0.8 million or 1.2% compared to the same period last year. FPLP's largest advertising revenue category, display advertising including colour, increased by \$0.4 million or 1.2%, due to an increase in the local and national automotive category partially offset by reduced spending in the national financial, telecommunications, and department stores categories. Classified advertising revenues increased by \$0.1 million or 0.7%, primarily due to increases in the obituary and real estate categories partly offset by a decline in the employment category. Flyer distribution revenues increased by \$0.2 million or 2.1%, primarily due to increased rates. Circulation revenue increased by \$0.2 million or 0.7%, due to increased revenue from home delivery rate increases in the fourth quarter of 2007 offset by targeted discounting to increase single copy unit sales. Commercial printing revenue decreased by \$0.3 million or 6.0%, primarily due to lower charges for newsprint usage. Promotions and Services revenue increased by \$0.2 million or 6.4%, primarily due to increased internet revenues partially offset by lower revenue from the Hermetic Code book which was published in the prior year.

Operating expenses, excluding amortization:	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	In thousands		In thousands	
Employee Compensation	\$ 11,187	\$ 11,096	\$ 34,487	\$ 33,744
Newsprint – Own Use	3,285	3,106	9,278	9,828
Newsprint - Commercial Printing	365	417	1,117	1,487
Delivery of Newspapers	4,846	4,624	14,323	13,854
Other	<u>5,080</u>	<u>4,693</u>	<u>14,472</u>	<u>13,725</u>
	<u>\$ 24,763</u>	<u>\$ 23,936</u>	<u>\$ 73,677</u>	<u>\$ 72,638</u>

Operating expenses, excluding amortization in the three months ended September 30, 2008 were \$24.8 million, an increase of \$0.8 million or 3.5% compared to the third quarter last year. Employee compensation costs increased \$0.1 million or 0.8%, compared to the same quarter last year primarily due to annual contracted rate increases partially offset by lower management bonus plan costs. Newsprint expense for FPLP's own publications increased by \$0.2 million or 5.8%, as a result of higher newsprint prices partially offset by slightly lower consumption. Delivery costs increased by \$0.2 million or 4.8% for the quarter compared to the same quarter last year, primarily due to increased carrier costs due to contracted rate increases as well as additional costs associated with rising fuel costs. Other expenses increased by \$0.4 million or 8.2% primarily due to costs associated with new advertising supplements.

Operating expenses, excluding amortization in the nine months ended September 30, 2008 were \$73.7 million, an increase of \$1.0 million or 1.4% compared to the same period last year. Employee compensation costs increased \$0.8 million or 2.2%, compared to the same quarter last year primarily due to annual contracted rate increases and statutory holiday costs for the first annual provincial Louis Riel statutory holiday which fell in February. Newsprint expense for FPLP's own publications decreased by \$0.6 million or 5.6%, primarily due to lower newsprint prices during the first two quarters of 2008. Delivery costs increased \$0.5 million or 3.4%, compared to the same period last year, primarily due to increased carrier costs due to contracted rate increases as well as additional costs associated with one additional statutory holiday. Other expenses increased by \$0.7 million or 5.4% primarily due to costs associated with expensing the remaining months of the Canstar facility lease due to the movement of office employees to the existing Winnipeg Free Press building, as well as extra costs from adding new advertising supplements for the first nine months of 2008 compared to the same period last year.

EBITDA⁽¹⁾ for the three and nine months ended September 30, 2008 was \$6.2 million and \$19.7 million, compared to \$6.6 million and \$20.0 million for the same periods last year. EBITDA⁽¹⁾ margin was 20.1% and 21.1% for the three and nine months ended September 30, 2008, compared to 21.5% and 21.5% in the same periods last year.

Interest expense on the notes payable, the subordinated notes and capital lease obligations for the three and nine months ended September 30, 2008 was \$2.5 million and \$7.4 million compared to \$2.5 million and \$7.5 million in the same periods last year.

Amortization of property, plant and equipment for the three and nine months ended September 30, 2008 was \$1.0 million and \$3.2 million compared to \$1.1 million and \$3.1 million in the same periods last year.

Interest income is higher in the three and nine months ended September 30, 2008 due to higher cash balances.

Income tax expense for the three months ending September 30, 2008, was largely unchanged from the same period last year and for the nine months ended September 30, 2008 was \$0.1 million, which represents future taxes payable by Canstar.

FPLP's net earnings were \$2.5 million and \$8.5 million for the three and nine months ended September 30, 2008 compared to \$2.8 million and \$8.8 million for the same periods last year.

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⁽¹⁾ and net earnings of FPLP by quarter for 2006, 2007 and the first, second and third quarter of 2008 was as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<u>Revenue</u>		In thousands	
Quarter 1	\$ 29,998	\$ 29,829	\$ 28,582
Quarter 2	32,409	32,224	31,261
Quarter 3	30,975	30,507	29,804
Quarter 4		<u>33,302</u>	<u>32,573</u>
		<u>\$125,862</u>	<u>\$122,220</u>
<u>EBITDA⁽¹⁾</u>			
Quarter 1	\$ 6,025	\$ 5,740	\$ 4,746
Quarter 2	7,468	7,611	7,196
Quarter 3	6,212	6,571	5,853
Quarter 4		<u>8,595</u>	<u>7,672</u>
		<u>\$ 28,517</u>	<u>\$ 25,467</u>
<u>Net earnings</u>			
Quarter 1	\$ 2,338	\$ 2,062	\$ 1,038
Quarter 2	3,653	3,925	3,492
Quarter 3	2,492	2,809	827 ^(*)
Quarter 4		<u>4,622</u>	<u>3,649</u>
		<u>\$ 13,418</u>	<u>\$ 9,006</u>

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

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

Working Capital Position of FPLP

Total working capital at September 30, 2008 was \$10.7 million, up from \$6.5 million at September 30, 2007. 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.

Liquidity and Capital Resources of FPLP

Cash and cash equivalents at September 30, 2008 was \$10.7 million compared to \$6.4 million at September 30, 2007. 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 \$3.4 million during the third quarter, 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, 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 nine months ended September 30, 2008, cash generated from operating activities was \$3.4 million and \$12.0 million, compared to \$3.7 million and \$13.7 million for the same periods last year. The net change in non-cash working capital in the three and nine months ended September 30, 2008 was a decrease of \$0.4 million and \$0.5 million compared to a decrease of \$0.4 million and an increase of \$1.2 million for the same periods last year. The net change in non-cash working capital for the three and nine month periods is primarily the result of the timing of receipts from customers and payments to suppliers.

Investing Activities

Capital purchases totalled \$0.5 million and \$1.4 million for the three and nine months ended September 30, 2008, compared to \$0.7 million and \$1.7 million in the same periods last year. Maintenance capital spending, representing the replacement of capital in order to sustain current business operations, for the three and nine months ending September 30, 2008 was \$0.2 million and \$0.7 million compared to \$0.7 million and \$1.7 million for the same periods in the prior year. Maintenance capital spending during the third quarter of 2008 consisted of upgrades to the web content management system at the

Winnipeg Free Press and other technology related items. In 2008, our full year maintenance capital spending is expected to be approximately \$1.2 million, down from our earlier forecast of \$1.8 million.

Strategic capital purchases for the three and nine months ending September 30, 2008 were \$0.3 million and \$0.7 million. The strategic capital spending consisted primarily of the renovations to the Winnipeg Free Press building to accommodate the majority of the Canstar Community News employees, and software which automates the planning and managing of circulation routes which will allow for selective delivery of products to home delivered customers.

Financing Activities

Distributions to partners of FPLP for the three and nine months ended September 30, 2008 totalled \$3.1 million and \$9.2 million, of which \$0.7 million and \$1.9 million was paid to the Fund as holder of Class A limited partner Units. This is compared to \$3.1 million and \$9.1 million, in the same periods last year, of which \$0.6 million and \$1.8 million was paid to the Fund as holder of 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.

Contractual Obligations

There have been no significant changes in contractual obligations since the year ended December 31, 2007.

Reserves Related to Distributable Cash Attributable to the Fund⁽²⁾

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 nine months ended September 30, 2008 and 2007 is as follows:

	<u>Three Months</u>		<u>Nine Months</u>	
	<u>Ended September 30,</u>		<u>Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	In thousands		In thousands	
Reserve at beginning of period	\$ 835	\$ 330	\$ 348	\$ 370
Increase in reserve	329	-	816	-
Decrease in reserve	<u>-</u>	<u>(163)</u>	<u>-</u>	<u>(203)</u>
Reserve at end of period	<u>\$ 1,164</u>	<u>\$ 167</u>	<u>\$ 1,164</u>	<u>\$ 167</u>

Increases in the reserve for maintenance capital are shown as a deduction in determining distributable cash⁽²⁾ of FPLP. Decreases in the reserve for maintenance capital are shown as an increase in determining distributable cash⁽²⁾.

The use of a reserve for maintenance capital in calculating distributable cash attributable to the Fund⁽²⁾ 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⁽²⁾, due to technological change, unexpected equipment failure, changes in customer service expectations and other reasons.

This reserve is a non-GAAP measure established and utilized at the discretion of the board of directors of FPLP, and has 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 lineages, 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 which results in revenue to FPLP.

It is the complex interaction of asset utilization, staffing levels and contracted services which ultimately determine 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 that would 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. The ability to refinance the core debt at maturity will be dependent upon many factors, including the future EBITDA⁽¹⁾ of FPLP and the general conditions in the commercial lending market in the future.

Debt Covenants

Under the terms of the \$60 million Series A Senior Secured Notes, 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⁽²⁾ since May 28, 2002. FPLP is required to maintain a ratio of net debt to EBITDA⁽¹⁾ of no greater than 3.5 to 1.0, and a ratio of EBITDA⁽¹⁾ 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 September 30, 2008 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:

	<u>Net Debt/EBITDA⁽¹⁾</u>	<u>EBITDA⁽¹⁾/Net Interest</u>
September 30, 2008	1.93	9.91
June 30, 2008	1.91	10.01
March 31, 2008	1.90	9.89
December 31, 2007	1.92	9.59
September 30, 2007	1.99	9.13

During the quarter, FPLP cancelled its credit facility providing up to \$10 million in financing.

Related Party Transactions

FPLP purchases a portion of its newsprint from Alberta Newsprint Company (“ANC”), a related party as disclosed under the related party transaction section of FPLP’s Annual Management Discussion and Analysis at December 31, 2007. There have been no changes during 2008 to the process for selection of newsprint suppliers and the quarterly review by the Audit Committee of newsprint purchases. Total newsprint purchases from ANC for the three and nine months ended September 30, 2008 was \$2,649,000 and \$7,255,000 compared to \$1,320,000 and \$4,251,000 for the same periods last year.

Internal Controls over Financial Reporting

There have been no significant changes in internal controls over financial reporting since the year ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, the Fund’s or FPLP’s internal controls over financial reporting.

Critical Accounting Estimates

There have been no significant changes in our critical accounting estimates since the year ended December 31, 2007.

Initial Adoption of New Accounting Pronouncements

Effective January 1, 2008, the Fund and FPLP prospectively adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1535 Capital Disclosures, Section 3862 Financial Instruments – Disclosures and Section 3863 Financial Instruments – Presentation. The adoption of the Capital Disclosure standard resulted in additional disclosure requirements in presenting management’s policies and processes, both qualitatively and quantitatively, in defining and managing its capital, as further discussed in note 4 of the Fund’s interim financial statements and note 5 of FPLP’s interim consolidated financial statements. The adoption of the Financial Instrument – Disclosures and Financial Instruments – Presentation sections enhance the existing disclosures for financial instruments. In particular, section 3862 focuses on the identification of risk exposures and FPLP’s approach to management of these risks, as further discussed in note 6 of FPLP’s interim consolidated financial statements. The comparative interim consolidated financial statements have not been restated.

There was no financial impact to the financial statements as a result of the adopting these new standards.

Future Accounting Developments

In February 2008, the CICA confirmed that International Financial Reporting Standards will be mandatory in Canada, for public companies, for fiscal periods beginning on or after January 1, 2011. The Fund is evaluating the impact of the adoption of these new standards.

Historical Distributions Paid Analysis

FPLP:	<u>Three Months</u> <u>ended</u> <u>September 30,</u> <u>2008</u>	<u>Nine months</u> <u>ended</u> <u>September 30,</u> <u>2008</u>	<u>Twelve Months</u> <u>ended</u> <u>December 31,</u> <u>2007</u>	<u>Twelve Months</u> <u>ended</u> <u>December 31,</u> <u>2006</u>
			In thousands	
Cash provided by operating activities	\$ 3,378	\$ 12,038	\$ 20,641	\$ 15,387
Net earnings	2,492	8,483	13,418	9,006
Distributions paid during the period	3,091	9,232	12,143	11,527
Excess of cash provided by operating activities over cash distributions paid	<u>\$ 287</u>	<u>\$ 2,806</u>	<u>\$ 8,498</u>	<u>\$ 3,860</u>
Excess (short-fall) of net earnings over cash distributions paid	<u>\$ (599)</u>	<u>\$ (749)</u>	<u>\$ 1,275</u>	<u>\$ (2,521)</u>

Cash distributions paid in three of the four periods exceeded net earnings. FPLP does not use net earnings 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, exceeds capital expenditures charged as a reduction of distributable cash in all periods, this result is not unexpected.

FP Fund:	<u>Three Months</u> <u>ended</u> <u>September 30,</u> <u>2008</u>	<u>Nine months</u> <u>ended</u> <u>September 30,</u> <u>2008</u>	<u>Twelve Months</u> <u>ended</u> <u>December 31,</u> <u>2007</u>	<u>Twelve Months</u> <u>ended</u> <u>December 31,</u> <u>2006</u>
			In thousands	
Cash provided by operating activities	\$ 2,238	\$ 6,758	\$ 9,051	\$ 8,951
Net earnings	1,977	6,352	7,968	7,677
Distributions paid during the period	2,227	6,679	8,904	8,904
Excess of cash provided by operating activities over cash distributions paid	<u>\$ 11</u>	<u>\$ 79</u>	<u>\$ 147</u>	<u>\$ 47</u>
Excess (short-fall) of net earnings over cash distributions paid	<u>\$ (250)</u>	<u>\$ (327)</u>	<u>\$ (936)</u>	<u>\$ (1,227)</u>

Cash distributions paid in all periods exceeded net earnings. The Fund does not use net earnings as a basis in determining the level of distributions to Unitholders. Distributions are determined by the Trustees in accordance with Deed of Trust of the

Fund and are primarily dependant upon the amount of interest and distributions received from FPLP. Because amortization charged as an expense in calculating net earnings 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. Cash provided by operating activities exceeded distributions in all periods.

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 strike, like the one that occurred in October 2008 at the Winnipeg Free Press and Canstar Community News, or work stoppage, could restrict or eliminate the ability of FPLP to earn revenue from its publishing business during the strike or stoppage. Contracts are now in place with unionized employees at the Winnipeg Free Press and Canstar which run to June 30, 2013. 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, 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 \$10.4 million during the first three quarters of 2008. 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 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 that of other issuers and, accordingly, EBITDA may not be comparable to measures used by other issuers. FPLP determines EBITDA as follows:

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2008	2007	2008	2007
	In thousands		In thousands	
Net earnings for the period	\$ 2,492	\$ 2,809	\$ 8,483	\$ 8,796
Add (subtract):				
Amortization of property, plant and equipment	1,084	1,070	3,259	3,080
Amortization of intangible assets	90	90	270	270
Interest expense	2,625	2,657	7,842	7,911
Interest income	(74)	(66)	(244)	(149)
Gain on sale of property, plant and equipment	-	-	(3)	(17)
Current income tax expense	8	11	16	31
Future income tax (recovery) expense	(13)	-	82	-
EBITDA	<u>\$ 6,212</u>	<u>\$ 6,571</u>	<u>\$ 19,705</u>	<u>\$ 19,922</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 because 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 distributable cash as calculated by the fund 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		Nine Months	
	Ended September 30,		Ended September 30,	
	2008	2007	2008	2007
	In thousands		In thousands	
Distributable cash of FPLP:				
EBITDA ⁽¹⁾	\$ 6,212	\$ 6,571	\$ 19,705	\$ 19,922
Interest income	74	66	244	149
Interest expense on Notes payable and capital leases, excluding amortization of related deferred financing costs	(788)	(797)	(2,380)	(2,401)
Principal repayment of capital leases	(50)	(75)	(197)	(245)
Maintenance capital expenditures	(171)	(663)	(684)	(1,703)
(Increase) decrease in reserve for future maintenance capital	(329)	163	(816)	203
Strategic capital expenditures	(324)	-	(681)	-
Proceeds from sale of property, plant and equipment	-	-	3	31
Current income and capital taxes expense	(8)	(11)	(16)	(31)
	<u>\$ 4,616</u>	<u>\$ 5,254</u>	<u>\$ 15,178</u>	<u>\$ 15,925</u>
49% attributable to the Fund	\$ 2,262	\$ 2,574	\$ 7,437	\$ 7,803
Administration expenses	(64)	(64)	(205)	(216)
Interest income	4	2	12	8
Distributable cash attributable to the Fund	<u>\$ 2,202</u>	<u>\$ 2,512</u>	<u>\$ 7,244</u>	<u>\$ 7,595</u>
Distributable cash attributable to the Fund – per Unit	<u>\$ 0.319</u>	<u>\$ 0.364</u>	<u>\$ 1.049</u>	<u>\$ 1.100</u>

A summary of distributable cash and distributions declared for the trailing twelve months to September 30, 2008 and for the period from commencement of the Fund on May 28, 2002 to September 30, 2008 is as follows:

Distributable Cash of FPLP:

	Last Twelve <u>Months</u>	Since May 28, <u>2002</u>
	In thousands	
EBITDA ⁽¹⁾	\$ 28,300	\$ 159,434
Interest income	319	793
Interest expense on Notes payable and capital leases, excluding amortization of related deferred financing costs	(3,176)	(19,870)
Principal repayment of capital leases	(270)	(1,136)
Maintenance capital expenditures	(1,003)	(7,177)
Increase in reserve for future maintenance capital expenditures	(997)	(1,164)
Strategic capital expenditures	(681)	(1,331)
Increase in reserve for strategic capital, acquisitions, and/or debt reduction	-	(353)
Proceeds on disposal of property, plant and equipment	5	1,106
Current income and capital tax expense	<u>(23)</u>	<u>(178)</u>
Distributable cash of FPLP	<u>\$ 22,474</u>	<u>\$ 130,124</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	\$ 11,012	\$ 63,761
Administration expenses	(278)	(1,712)
Interest income	<u>15</u>	<u>46</u>
Distributable cash attributable to the Fund	<u>\$ 10,749</u>	<u>\$ 62,095</u>
Distributable cash attributable to the Fund per Unit	\$1.557	\$8.996
Distributions declared by the Fund per Unit	\$1.290	\$8.078
Payout Ratio	82.9%	89.8%

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

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2008	2007	2008	2007
	In thousands		In thousands	
Cash flow from operating activities of FPLP	\$ 3,378	\$ 3,690	\$ 12,038	\$ 13,733
Add (subtract):				
Interest on Subordinated notes (*)	1,690	1,725	5,032	5,118
Net change in non-cash working capital items (**)	422	414	483	(1,212)
Maintenance capital expenditures	(171)	(663)	(684)	(1,703)
(Increase) decrease in reserve for future maintenance capital (***)	(329)	163	(816)	203
Strategic capital expenditures	(324)	-	(681)	-
Principal repayment of capital leases	(50)	(75)	(197)	(245)
Proceeds from sale of property, plant and equipment (****)	-	-	3	31
Distributable cash of FPLP	<u>\$ 4,616</u>	<u>\$ 5,254</u>	<u>\$ 15,178</u>	<u>\$ 15,925</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 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. This reserve is a non-GAAP measure established and utilized at the discretion of the board of directors of FPLP, and has 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 September 30, 2008	As at December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 427	\$ 358
Interest receivable from subordinated notes	551	571
Due from FPCN Media Funding Inc.	26	26
Prepaid expenses	24	13
	1,028	968
Investment in FPCN General Partner Inc.	40	30
Investment in FP Canadian Newspapers Limited Partnership (note 2)	61,034	61,386
	\$ 62,102	\$ 62,384
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 95	\$ 127
Distribution payable (note 3)	742	742
	837	869
Long-Term Liabilities:		
Future income taxes	1,759	1,682
	2,596	2,551
Unitholders' Equity:		
Trust Units	69,026	69,026
Cumulative earnings	46,232	39,880
Cumulative distributions	(55,752)	(49,073)
	59,506	59,833
	\$ 62,102	\$ 62,384

(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 September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Earnings from investment in FP Canadian Newspapers Limited Partnership				
Interest from subordinated notes	\$ 1,690	\$ 1,725	\$ 5,032	\$ 5,118
Equity interest from Class A limited partner Units (note 2)	359	497	1,590	1,700
Other interest	4	2	12	8
	2,053	2,224	6,634	6,826
Administration expenses	(64)	(64)	(205)	(216)
Earnings before income taxes	1,989	2,160	6,429	6,610
Future income tax (expense) recovery	(12)	14	(77)	(1,879)
Net earnings and Comprehensive income for the period	\$ 1,977	\$ 2,174	\$ 6,352	\$ 4,731
Cumulative earnings, beginning of period	44,255	34,469	39,880	31,632
Transitional amount	-	-	-	280
Adjusted cumulative earnings, beginning of period	44,255	34,469	39,880	31,912
Cumulative earnings, end of period	\$ 46,232	\$ 36,643	\$ 46,232	\$ 36,643
Number of trust Units outstanding	6,902,592	6,902,592	6,902,592	6,902,592
Net earnings per trust Unit	\$ 0.286	\$ 0.315	\$ 0.920	\$ 0.685

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Balance – beginning of period	\$ 59,756	\$ 58,874	\$ 59,833	\$ 60,489
Transitional amount	-	-	-	280
Adjusted balance – beginning of period	59,756	58,874	59,833	60,769
Net earnings for the period	1,977	2,174	6,352	4,731
Distributions to Unitholders	(2,227)	(2,227)	(6,679)	(6,679)
Balance – end of period	\$ 59,506	\$ 58,821	\$ 59,506	\$ 58,821

(See accompanying notes)

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

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2008	2007	2008	2007
<hr/>				
Cash provided by (used in):				
Operating activities:				
Net earnings for the period	\$ 1,977	\$ 2,174	\$ 6,352	\$ 4,731
Items not affecting cash:				
Equity interest from Class A Units of FP				
Canadian Newspapers Limited Partnership (note 2)	(359)	(497)	(1,590)	(1,700)
Future income tax (recovery) expense	12	(14)	77	1,879
Distributions received on Class A Units of FP				
Canadian Newspapers Limited Partnership (note 2)	653	624	1,942	1,826
Net change in non-cash working capital items	(45)	(11)	(23)	8
	<hr/>	<hr/>	<hr/>	<hr/>
	2,238	2,276	6,758	6,744
Financing activities:				
Distributions to Unitholders	(2,227)	(2,227)	(6,679)	(6,679)
Investment activities:				
Investment in FPCN General Partner Inc.	-	-	(10)	(10)
Increase in cash and cash equivalents	11	49	69	55
Cash and cash equivalents – beginning of period	416	227	358	221
Cash and cash equivalents – end of period	\$ 427	\$ 276	\$ 427	\$ 276

(See accompanying notes)

FP Newspapers Income Fund
Notes to Consolidated Financial Statements as at September 30, 2008
(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 interim financial 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, 2007, 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, 2007.

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 partner Units is highest in the second and fourth quarters.

2. 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 June 30, 2008	\$ 58,454	\$ 2,874	\$ 61,328
Equity interest in the period	-	359	359
Distributions received	-	(653)	(653)
Balance at September 30, 2008	\$ 58,454	\$ 2,580	\$ 61,034

The change in equity interest for the three and nine months ended September 30, 2008 and 2007 from the Fund’s investment in Class A limited partner Units of FPLP is calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Net earnings of FPLP	\$ 2,492	\$ 2,809	\$ 8,483	\$ 8,796
Plus: Interest on subordinated notes	1,690	1,725	5,032	5,118
Net earnings before interest on subordinated notes	\$ 4,182	\$ 4,534	\$ 13,515	\$ 13,914
49% interest attributable to the Fund	2,049	2,222	6,622	6,818
Less: Interest from subordinated notes	(1,690)	(1,725)	(5,032)	(5,118)
Equity interest from Class A limited partner Units	\$ 359	\$ 497	\$ 1,590	\$ 1,700

3. Distribution payable

The Fund recorded a distribution payable at September 30, 2008 of \$0.1075 per Unit. The distribution was paid October 30, 2008 to Unitholders of record on September 30, 2008 and is in respect of the month of September 2008.

4. Capital management

On January 1, 2008, the Fund adopted CICA Handbook section 1535 Capital Disclosures. This section establishes disclosure requirements for management's policies and processes in defining and managing its capital. There was no financial impact to previously reported financial statements as a result of the implementation of this new standard.

The Fund was established as a limited purpose trust for the sole purpose of investing the proceeds of the initial public offering to purchase securities of FPLP which entitle it to 49% of the distributable cash, as defined in the partner agreement of FPLP. While the Fund does not have a capital management program given its limited purpose, the FPLP's capital management objectives are disclosed in note 5 of its financial statements for the year ended December 31, 2007.

As a result of the Canadian trust taxation passed in June 2007 and effective January 1, 2011, the Fund is subject to certain capital growth restrictions referred to as "normal growth" equity rules. These rules limit the amount of Unitholder's capital that can be issued by the Fund in each of the next three years, based on the fund's market capitalization on October 31, 2006 as follows:

(\$millions)	Annual	Cumulative
Normal growth capital allowed in:		
2008	\$ 50.0	\$ 43.5
2009	50.0	58.0
2010	50.0	72.5

If the maximum equity growth capital allowed is exceeded, the Trust may be subject to trust taxation prior to 2011.

5. Subsequent event

Unionized workers at the Winnipeg Free Press and Canstar Community Newspapers were on strike from October 13, 2008 to October 28, 2008. As a result, sixteen publications of the Winnipeg Free Press were cancelled as well as the publications that would normally take place over this period for the Canstar Community News Limited business. On October 21, 2008, Trustees of the Fund announced the temporary suspension of distributions. The distribution previously announced for the month of September was paid as scheduled on October 30, 2008.

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

	As at September 30, 2008	As at December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 10,684	\$ 9,920
Accounts receivable	10,669	11,740
Inventories	1,590	1,123
Prepaid expenses	1,517	823
Future income taxes	100	182
	<u>24,560</u>	<u>23,788</u>
Property, plant and equipment	48,740	50,634
Investment (note 3)	346	-
Intangible assets	7,833	8,103
Goodwill	71,160	71,160
	<u>\$ 152,639</u>	<u>\$ 153,685</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 10,512	\$ 11,017
Income taxes payable	9	21
Prepaid subscriptions and deferred revenue	3,291	3,167
Current obligations under capital leases	-	197
	<u>13,812</u>	<u>14,402</u>
Long-Term Liabilities:		
Notes payable	59,730	59,617
Subordinated notes	56,386	56,069
	<u>116,116</u>	<u>115,686</u>
	<u>129,928</u>	<u>130,088</u>
Unitholders' Equity:		
Partner Units	41,293	41,293
Cumulative earnings	61,600	53,117
Cumulative distributions	(80,045)	(70,813)
Comprehensive earnings	(137)	-
	<u>22,711</u>	<u>23,597</u>
	<u>\$ 152,639</u>	<u>\$ 153,685</u>

(See accompanying notes)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenue	\$ 30,975	\$ 30,507	\$ 93,382	\$ 92,560
Operating expenses, excluding amortization	(24,763)	(23,936)	(73,677)	(72,638)
	6,212	6,571	19,705	19,922
Amortization of property, plant and equipment	(1,084)	(1,070)	(3,259)	(3,080)
Amortization of intangible assets	(90)	(90)	(270)	(270)
Earnings before the under noted	5,038	5,411	16,176	16,572
Interest expense (note 5)	(2,625)	(2,657)	(7,842)	(7,911)
Interest income	74	66	244	149
Gain on sale of property, plant and equipment	-	-	3	17
Earnings before income taxes	2,487	2,820	8,581	8,827
Income tax (expense) recovery:				
- Current	(8)	(11)	(16)	(31)
- Future	13	-	(82)	-
Net earnings for the period	2,492	2,809	8,483	8,796
Cumulative earnings – beginning of period	59,108	45,686	53,117	39,128
Transitional amount	-	-	-	571
Adjusted cumulative earnings – beginning of period	59,108	45,686	53,117	39,699
Cumulative earnings – end of period	\$ 61,600	\$ 48,495	\$ 61,600	\$ 48,495

Consolidated Statements of Comprehensive Income
(unaudited, in thousands of Canadian dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net earnings for the period	\$ 2,492	\$ 2,809	\$ 8,483	\$ 8,796
Other comprehensive earnings				
Unrealized loss in financial instruments (note 3)	(97)	-	(137)	-
Comprehensive earnings for the period	\$ 2,395	2,809	\$ 8,346	8,796

(See accompanying notes)

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

	General partner Units	Class A limited partner Units	Total
Unitholders' equity – December 31, 2006	\$ 13,348	\$ 7,353	\$ 20,701
Transitional amount	508	63	571
Adjusted Unitholders' equity – January 1, 2007	\$ 13,856	\$ 7,416	\$ 21,272
Net earnings for the period	1,661	401	2,062
Distributions paid	(2,392)	(578)	(2,970)
Unitholders' equity – March 31, 2007	\$ 13,125	\$ 7,239	\$ 20,364
Net earnings for the period	3,134	791	3,925
Distributions paid	(2,445)	(624)	(3,069)
Unitholders' equity – June 30, 2007	\$ 13,814	\$ 7,406	\$ 21,220
Net earnings for the period	2,237	572	2,809
Distributions paid	(2,445)	(624)	(3,069)
Unitholders' equity – September 30, 2007	\$ 13,606	\$ 7,354	\$ 20,960
Contributions	-	1,050	1,050
Net earnings for the period	3,686	936	4,622
Distributions paid	(2,418)	(617)	(3,035)
Unitholders' equity – December 31, 2007	\$ 14,874	\$ 8,723	\$ 23,597
Net earnings for the period	1,850	488	2,338
Distributions paid	(2,414)	(636)	(3,050)
Unitholders' equity – March 31, 2008	\$ 14,310	\$ 8,575	\$ 22,885
Net earnings for the period	2,883	770	3,653
Distributions paid	(2,438)	(653)	(3,091)
Comprehensive earnings	(32)	(8)	(40)
Unitholders' equity – June 30, 2008	\$ 14,723	\$ 8,684	\$ 23,407
Net earnings for the period	1,968	524	2,492
Distributions paid	(2,438)	(653)	(3,091)
Comprehensive earnings	(77)	(20)	(97)
Unitholders' equity – September 30, 2008	\$ 14,176	\$ 8,535	\$ 22,711

(See accompanying notes)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Cash provided by (used in)				
Operating activities:				
Net earnings for the period	\$ 2,492	\$ 2,809	\$ 8,483	\$ 8,796
Items not affecting cash:				
Amortization of property, plant and equipment and intangible assets	1,174	1,160	3,529	3,350
Amortization of deferred financing costs (note 5)	147	135	430	392
Future income tax (recovery) expense	(13)	-	82	-
Gain on disposal of property, plant and equipment	-	-	(3)	(17)
	3,800	4,104	12,521	12,521
Net change in non-cash working capital items	(422)	(414)	(483)	1,212
	3,378	3,690	12,038	13,733
Investing activities:				
Purchases of property, plant and equipment	(495)	(663)	(1,365)	(1,703)
Proceeds from sale of property, plant and equipment	-	-	3	31
Investment	-	-	(483)	-
	(495)	(663)	(1,845)	(1,672)
Financing activities:				
Distributions to partners	(3,091)	(3,069)	(9,232)	(9,108)
Principal repayment of capital leases	(50)	(75)	(197)	(245)
	(3,141)	(3,144)	(9,429)	(9,353)
(Decrease)/Increase in cash and cash equivalents	(258)	(117)	764	2,708
Cash and cash equivalents - beginning of period	10,942	6,554	9,920	3,729
Cash and cash equivalents - end of period	\$ 10,684	\$ 6,437	\$ 10,684	\$ 6,437
Supplemental Cash Flow Information:				
Interest paid during the period	\$ 2,478	\$ 2,520	\$ 7,429	\$ 7,543
Taxes paid during the period	17	(1)	26	13

(See accompanying notes)

FP Canadian Newspapers Limited Partnership
Notes to Consolidated Financial Statements as at September 30, 2008
(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 and Canstar Community News Limited (“Canstar”). 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 consolidated interim 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 consolidated 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 consolidated interim financial statements are the same as those used in the most recent annual consolidated financial statements, except as described below. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of FPLP for the year ended December 31, 2007.

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

2. 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.

3. Investment

During the second quarter, the Trust Fund acquired units of FP Newspapers Income Fund. These units have been classified as “available for sale” and are measured at fair value, as determined by the published price quote. Gains and losses resulting from the periodic revaluation are recorded in other comprehensive earnings. As at September 30, 2008, FPLP holds 37,813 units at the carrying value of \$346,000.

4. Employee future benefit plans

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

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Defined benefit pension plan	<u>\$ 365</u>	<u>\$ 365</u>	<u>\$ 1,065</u>	<u>\$ 1,099</u>

5. Interest expense

Interest expense is summarized as follows:

	Three Months		Nine Months	
	Ended September 30, <u>2008</u>	Ended September 30, <u>2007</u>	Ended September 30, <u>2008</u>	Ended September 30, <u>2007</u>
Subordinated notes	\$ 1,690	\$ 1,725	\$ 5,032	\$ 5,118
Amortization of subordinated notes deferred financing costs	109	99	317	284
Notes payable	788	793	2,376	2,386
Amortization of notes payable deferred financing costs	38	36	113	108
Capital lease obligations	-	4	4	15
	<u>\$ 2,625</u>	<u>\$ 2,657</u>	<u>\$ 7,842</u>	<u>\$ 7,911</u>

6. Capital management

On January 1, 2008, FPLP adopted CICA Handbook section 1535 Capital Disclosures. This section establishes disclosure requirements for management's policies and processes in defining and managing its capital. There was no financial impact to previously reported financial statements as a result of the implementation of this new standard.

FPLP's objective for managing the capital structure is to take advantage of leverage with the prudent use of debt, while maintaining flexibility through additional borrowing capacity. There are no set quantitative targets established for monitoring the capital structure. Management continuously monitors capital markets in the context of the general economic environment, FPLP's financial position and outlook, and strategic development plans. FPLP can alter the mix within the capital structure by repaying debt, increasing debt, adjusting distributions to partners or raising additional equity capital.

FPLP's capital consists of cash and cash equivalents, debt and Unitholders' equity. The components at September 30, 2008 and December 31, 2007 were as follows:

	As at September 30, <u>2008</u>	As at December 31, <u>2007</u>
Notes payable	\$ 59,730	\$ 59,617
Capital leases	-	197
Cash and cash equivalents	<u>(10,684)</u>	<u>(9,920)</u>
External net debt	49,046	49,894
Subordinated notes	56,386	56,069
Unitholders' equity	<u>22,711</u>	<u>23,597</u>
Total capitalization	<u>\$ 128,143</u>	<u>\$ 129,560</u>
External net debt as a percentage of total capitalization	<u>38.3%</u>	<u>38.5%</u>

The notes payable include negative covenants which must be maintained in order to avoid an accelerated termination of the agreement. 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 as defined in this agreement. FPLP is required to maintain a ratio of net debt to earnings, as defined in the agreement, of no greater than 3.5 to 1.0 and a net external interest expense of no less than 3.0 to 1.0 measured quarterly on a trailing 12-month basis. At September 30, 2008, 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 trailing 12-month periods ending September 30, 2008, March 31, 2008 and December 31, 2007 are as follows:

	Net Debt / Earnings as defined under agreement	Earnings as defined under agreement / Net interest
September 30, 2008	1.93	9.91
June 30, 2008	1.91	10.01
March 31, 2008	1.90	9.89
December 31, 2007	1.92	9.59

During the quarter, FPLP cancelled its credit facility providing up to \$10 million in financing.

7. Financial instrument risk management

On January 1, 2008, FPLP adopted CICA Handbook sections 3862 Financial Instruments – Disclosures and 3863 Financial Instruments – Presentation, which enhances existing disclosures for financial instruments. In particular, section 3862 focuses on the identification of risk exposures and FPLP's approach to management of these risks. There was no financial impact to previously reported financial statements as a result of the implementation of these new standards.

FPLP's financial assets and liabilities are comprised of cash and cash equivalents, accounts receivable, investment, accounts payable and accrued liabilities and long-term debt which include subordinated notes and notes payable.

FPLP is exposed to financial risks arising from its financial assets and liabilities. The financial risks include credit risk, interest rate risk and liquidity risk.

Credit Risk

Credit risk is the risk a customer will fail to perform an obligation or fail to pay amounts due causing a financial loss. As FPLP is in the business of publishing newspapers and performing printing services for third parties, included in the accounts receivable are amounts owed from advertisers, circulation customers and commercial print clients. FPLP does not hold collateral as security for these balances. The maximum exposure to credit risk is the carrying value of the financial assets. FPLP's credit risk relating to these accounts receivable is spread over a large number of national and local advertising clients, in addition to many circulation retail customers and third party printing clients. Generally, no single advertising or circulation customer accounts for more than approximately 3.5% of the total accounts receivable at any given point in time. FPLP manages credit risk on a customer by customer basis and establishes a reasonable allowance for non collectible amounts with this allowance netted against the accounts receivable on the balance sheet. While the adequacy of the allowance is reviewed on a regular basis, generally the allowance level will cover all accounts receivable that are greater than ninety days past due.

The age of receivables and allowance for doubtful accounts is as follows:

	As at September 30, <u>2008</u>
Accounts receivable:	
Current	\$ 7,572
Up to three months past due	3,258
Greater than three months past due	<u>302</u>
	11,132
 Allowance for doubtful accounts	 <u>(463)</u>
	<u>\$ 10,669</u>

There are no impaired financial assets as at September 30, 2008.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As FPLP currently has no variable interest long term debt, there is no interest rate risk. The current fixed rate debt facility is scheduled to mature on June 5, 2010 and FPLP's intention is to negotiate the refinancing of this debt and at that time the interest rate and the other terms could be more or less favourable than the existing terms.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. FPLP believes that it has access to sufficient capital through internally generated cashflows and external sources (bank credit markets and debt capital markets) to meet current spending forecasts. Trade payables are due within one year and notes payable are due June 5, 2010. Future repayments of the subordinated notes will be applied as a contribution to the Class A limited partner Units.

8. Subsequent event

On October 13, 2008 unionized workers at the Winnipeg Free Press and Canstar Community Newspapers represented by the Communications, Energy and Paperworkers union Local 191 went on strike. New four year nine month contracts were ratified by the union members on October 28, 2008. As a result, sixteen publications of the Winnipeg Free Press were cancelled as well as the publications that would normally be printed over this period for the weekly Canstar Community News Limited business. Management estimates the financial impact of the strike in October, including lost profits and incremental expenses, to be between \$3.5 and \$4.5 million. The full financial impact of the work interruption beyond October will depend on future advertising and circulation revenues.

Caution Regarding Forward-Looking Statements:

Certain statements in this management's discussion and analysis may constitute forward-looking statements within the meaning of applicable securities laws. Generally, but not always, forward-looking statements will be indicated by words such as "may", "will", "intend", "anticipate", "expect", "believe", "plan" or similar terminology.

Forward-looking statements include statements regarding management's intent, belief or current expectations with respect to market and general economic conditions, future costs and operating performance. They are subject to known and unknown risks and uncertainties that may cause the actual results, performance or achievements of the Fund or FPLP, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

A number of factors may cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, FPLP's ability to effectively manage growth and maintain its profitability, FPLP's ability to operate in a highly competitive industry, FPLP's ability to compete with other forms of media, FPLP's ability to attract advertisers, FPLP's reliance upon key personnel, FPLP's dependence upon particular advertising customer segments, indebtedness incurred in making acquisitions, costs related to capital expenditures, cyclical and seasonal variations in FPLP's revenues, acts of terrorism, the cost of newsprint, the potential for labour disruptions, and the effect of Canadian tax laws. Additional information about these and other factors is discussed under "Risk Factors" in our Annual Information Form dated March 11, 2008.

In addition, although the forward-looking statements contained in this management's discussion and analysis are based upon what management of FPLP believes are reasonable assumptions that the Canadian and Manitoba economies will expand at a moderate pace in 2008 and that inflation will remain relatively low, such assumptions may prove to be incorrect, and actual results may differ materially from management's expectations.

Forward-looking statements speak only as of the date hereof and, except as required by law, the Fund and FPLP assume no obligation to update or revise them to reflect new events or circumstances.

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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