

*Interim consolidated financial statements of*

**YELLOW PAGES INCOME FUND**

*September 30, 2005*

# **YELLOW PAGES INCOME FUND**

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# YELLOW PAGES INCOME FUND

## Interim Consolidated Balance Sheet

(in thousands of Canadian dollars)

	September 30, 2005	December 31, 2004
	(unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 30,578	\$ 186,957
Accounts receivable	130,746	83,672
Prepaid expenses	5,051	1,899
Deferred publication costs	94,870	63,405
Future income taxes	25,866	15,687
	<b>287,111</b>	<b>351,620</b>
DEFERRED PUBLICATION COSTS	6,048	5,399
CAPITAL ASSETS	82,531	58,082
OTHER ASSETS	19,653	10,558
ACCRUED BENEFIT ASSETS	44,759	46,664
INTANGIBLES	1,705,099	1,199,196
GOODWILL	5,285,077	3,268,927
FUTURE INCOME TAXES	46,546	-
	<b>\$ 7,476,824</b>	<b>\$ 4,940,446</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 122,403	\$ 61,271
Distributions payable	37,778	26,376
Deferred revenues	63,198	46,550
Future income taxes	6,829	-
Current portion of long-term debt (Note 5)	1,479	1,673
	<b>231,687</b>	<b>135,870</b>
DEFERRED CREDITS	25,992	16,201
FUTURE INCOME TAXES	49,370	55,459
ACCRUED BENEFIT LIABILITIES	77,237	31,187
LONG-TERM DEBT (Note 5)	2,025,319	1,190,058
	<b>2,409,605</b>	<b>1,428,775</b>
UNITHOLDERS' EQUITY	5,067,219	3,511,671
	<b>\$ 7,476,824</b>	<b>\$ 4,940,446</b>

The accompanying notes are an integral part of these interim consolidated financial statements.

# YELLOW PAGES INCOME FUND

## Interim Consolidated Statements of Earnings

(in thousands of Canadian dollars, except unit information - unaudited)

	For the three- month period ended September 30, 2005	For the three- month period ended September 30, 2004	For the nine- month period ended September 30, 2005	For the nine- month period ended September 30, 2004
Revenues	\$ 260,579	\$ 159,484	\$ 646,713	\$ 470,922
Operating costs	102,014	55,710	257,631	164,582
Income from operations before depreciation and amortization	158,565	103,774	389,082	306,340
Depreciation and amortization	84,899	65,269	151,579	208,717
Income from operations	73,666	38,505	237,503	97,623
Financial charges (Note 9)	22,080	8,430	68,256	32,428
Earnings before income taxes and non-controlling interest	51,586	30,075	169,247	65,195
Recovery of income taxes	(21,090)	(11,293)	(31,386)	(39,572)
Non-controlling interest	-	-	-	36,127
<b>Net earnings</b>	<b>\$ 72,676</b>	<b>\$ 41,368</b>	<b>\$ 200,633</b>	<b>\$ 68,640</b>
Net earnings per unit	\$ 0.15	\$ 0.12	\$ 0.48	\$ 0.24
Weighted average number of units outstanding used in computing earnings per unit (Note 6)	471,647,962	344,067,402	404,381,592	281,621,273
Diluted earnings per unit	\$ 0.15	\$ 0.12	\$ 0.46	\$ 0.24
Weighted average number of units outstanding used in computing diluted earnings per unit (Note 6)	475,259,156	348,590,934	428,983,558	286,288,282

The accompanying notes are an integral part of these interim consolidated financial statements

# YELLOW PAGES INCOME FUND

## Interim Consolidated Statements of Unitholders' Equity

(in thousands of Canadian dollars - unaudited)

For the nine-month  
period ended  
September 30, 2005

	Unitholders' Capital (Note 6)	Stock Based Compensation	Accumulated Earnings	Distributions	Total
Balance, December 31, 2004	\$ 3,719,189	\$ 568	\$ 110,133	\$ (318,219)	\$ 3,511,671
Issuance of units	1,661,279	-	-	-	1,661,279
Restricted units (Note 8)	(1,299)	563	-	-	(736)
Distributions	-	-	-	(305,937)	(305,937)
Obligations under stock options granted (Note 8)	-	309	-	-	309
Net earnings for the period	-	-	200,633	-	200,633
<b>Balance, September 30, 2005</b>	<b>\$ 5,379,169</b>	<b>\$ 1,440</b>	<b>\$ 310,766</b>	<b>\$ (624,156)</b>	<b>\$ 5,067,219</b>

For the nine-month  
period ended  
September 30, 2004

	Unitholders' Capital (Note 6)	Stock Based Compensation	Accumulated Earnings	Distributions	Total
Balance, December 31, 2003, as previously reported	\$ 2,464,600	\$ -	\$ 3,161	\$ (45,280)	\$ 2,422,481
Cumulative effect of adopting new accounting policy	-	17	(17)	-	-
Balance, December 31, 2003 as restated	2,464,600	17	3,144	(45,280)	2,422,481
Issuance of units	1,253,325	-	-	-	1,253,325
Restricted units	(1,257)	-	-	-	(1,257)
Employee unit purchase loans reimbursed	845	-	-	-	845
Distributions	-	-	-	(193,847)	(193,847)
Obligations under stock options granted (Note 8)	-	309	-	-	309
Net earnings for the period	-	-	68,640	-	68,640
<b>Balance, September 30, 2004</b>	<b>\$ 3,717,513</b>	<b>\$ 326</b>	<b>\$ 71,784</b>	<b>\$ (239,127)</b>	<b>\$ 3,550,496</b>

The accompanying notes are an integral part of these interim consolidated financial statements.

**YELLOW PAGES INCOME FUND**  
**Interim Consolidated Statements of Cash Flows**  
(in thousands of Canadian dollars - unaudited)

	For the three- month period ended September 30, 2005	For the three- month period ended September 30, 2004	For the nine- month period ended September 30, 2005	For the nine- month period ended September 30, 2004
<b>OPERATING ACTIVITIES</b>				
Net earnings	\$ 72,676	\$ 41,368	\$ 200,633	\$ 68,640
Items not affecting cash and cash equivalents:				
Depreciation and amortization	84,899	65,269	151,579	208,717
Amortization of deferred financing costs	667	127	1,131	2,325
Non-controlling interest	-	-	-	36,127
Amortization of derivative asset	2,224	-	2,965	-
Non-cash rent expense	1,033	(472)	3,732	3,527
Other non-cash items	1,935	55	6,188	503
Future income taxes	(22,993)	(12,140)	(34,739)	(40,691)
Change in operating assets and liabilities	23,839	(40,273)	6,204	(54,974)
	<b>164,280</b>	<b>53,934</b>	<b>337,693</b>	<b>224,174</b>
<b>INVESTING ACTIVITIES</b>				
Business acquisition (Note 3)	-	-	(2,623,822)	-
Acquisition of capital assets	(6,326)	(6,536)	(22,356)	(17,855)
Proceeds from lease inducements	-	1,000	1,036	6,614
Acquisition of non-controlling interest, net of restricted cash	-	-	-	(535,199)
Restricted cash	-	-	227,622	(178,400)
Acquisition of intangibles	-	-	-	(25)
	<b>(6,326)</b>	<b>(5,536)</b>	<b>(2,417,520)</b>	<b>(724,865)</b>
<b>FINANCING ACTIVITIES</b>				
Issuance of long-term debt	539,000	273,000	2,045,500	1,476,500
Repayment of long-term debt	(574,913)	(273,412)	(1,438,421)	(1,452,828)
Distributions to unitholders	(113,166)	(79,078)	(294,535)	(184,317)
Distributions to non-controlling interest	-	-	-	(46,884)
Proceeds from exercise of options (Note 6)	3,016	518	4,192	5,481
Purchase of restricted units	(152)	(1,257)	(1,299)	(1,257)
Proceeds from reimbursement of employee unit purchase loans	-	131	-	845
Issuance of units, net	(270)	-	1,624,936	713,599
Deferred financing costs	(2,448)	(2,068)	(16,925)	(12,203)
	<b>(148,933)</b>	<b>(82,166)</b>	<b>1,923,448</b>	<b>498,936</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
	<b>9,021</b>	<b>(33,768)</b>	<b>(156,379)</b>	<b>(1,755)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>				
	<b>21,557</b>	<b>77,558</b>	<b>186,957</b>	<b>45,545</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>				
	<b>\$ 30,578</b>	<b>\$ 43,790</b>	<b>\$ 30,578</b>	<b>\$ 43,790</b>

The accompanying notes are an integral part of these interim consolidated financial statements.

# **YELLOW PAGES INCOME FUND**

## **Notes to the Interim Consolidated Financial Statements**

### **September 30, 2005**

(all tabular amounts are in thousands of Canadian dollars, except unit information - unaudited)

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## **1. BASIS OF PRESENTATION**

These unaudited interim consolidated financial statements (the “financial statements”) have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”), and include the accounts of Yellow Pages Income Fund (the “Fund”), YPG Trust, YPG General Partner Inc. (“YPG GP”), YPG LP, YPG Holdings Inc., Yellow Pages Group Co. and those of Yellow Pages Holdings Inc. (formerly Advertising Directory Solutions Holdings Inc. or “ADS”), Yellow Pages Inc. (formerly Advertising Directory Solutions Inc.), 3100653 Nova Scotia Limited (Nova Scotia) and of Advertising Directory Solutions Independent LP (Ontario). These financial statements do not contain all disclosures required by Canadian GAAP for annual financial statements and, accordingly, the financial statements should be read in conjunction with the most recently prepared annual financial statements for the year ended December 31, 2004.

These financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements for the year ended December 31, 2004, with the exception of the following:

### *Variable interest entities*

Effective January 1, 2005, the Fund adopted the Canadian Institute of Chartered Accountants (“CICA”) Accounting Guideline 15 (“AcG-15”), *Consolidation of Variable Interest Entities* (“VIEs”). AcG-15 applies to interim periods beginning on or after November 1, 2004. VIEs are entities in which equity investors do not have controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties. AcG-15 requires the consolidation of a VIE by its primary beneficiary (i.e., the party that receives the majority of the expected residual returns and/or absorbs the majority of the entity’s losses). Management of the Fund conducted a review of the ownership and contractual interest in entities and determined that the adoption of this guideline did not have any impact on the Fund’s consolidated financial statements.

## **2. DESCRIPTION OF THE FUND**

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario on June 25, 2003 by a declaration of trust and amended by amended and restated declarations. The Fund has been created to invest, through YPG Trust, a wholly-owned trust, in partnership units of YPG LP and shares of YPG GP, the general partner of YPG LP. YPG LP, through subsidiaries, operates print and electronic directories advertising businesses (the “directories business”), primarily in the Provinces of British Columbia, Alberta, Ontario and Québec.

On April 1, 2005, the Fund issued 104,100,000 subscription receipts at a price of \$13.45 per subscription receipt for proceeds of \$1.37 billion (net of one half of the underwriters’ fees of \$28 million) pursuant to the filing of a prospectus and placed in escrow by CIBC Mellon Trust pending the closing of the acquisition of ADS (“the Acquisition”) which occurred on May 25, 2005 (See Note 3-Business Acquisition). Each subscription receipt entitled the holder thereof to automatically receive one Unit of the Fund upon closing of the Acquisition, as described in Note 3.

# **YELLOW PAGES INCOME FUND**

## **Notes to the Interim Consolidated Financial Statements**

### **September 30, 2005**

(all tabular amounts are in thousands of Canadian dollars, except unit information - unaudited)

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## **2. DESCRIPTION OF THE FUND (continued)**

In addition, holders of subscription receipts were entitled to receive an amount per subscription receipt equal to the per Unit distribution, if any, actually paid or payable to Unitholders in respect of all record dates occurring between April 1, 2005 and the closing of the Acquisition, as if the subscription receipts had been converted to Units immediately prior to such record dates. On May 25, 2005, these subscription receipts were exchanged for 104,100,000 Units of the Fund for proceeds of \$1.34 billion (net of underwriters' fees of \$56 million) which has been recorded in Unitholders' equity. A private placement of Units also closed on May 25, 2005 through the issuance of 22,727,273 Units for proceeds of \$288 million (net of placement fees of \$12 million). These proceeds combined with new debt financing and cash on hand were used to purchase all of the shares of ADS (See Note 3 – Business Acquisition).

References herein to the Fund represent the financial position, results of operations, cash flows and disclosures of the Fund and its subsidiaries on a consolidated basis. The results of ADS have been consolidated as of May 25, 2005.

## **3. BUSINESS ACQUISITION**

### **Acquisition of ADS**

On May 25, 2005, the Fund purchased all of the outstanding shares of ADS for a purchase price consideration of \$2,626 million (including acquisition related costs of \$76 million). The Acquisition was financed through debt and equity including a private placement of Units of the Fund, and cash on hand.

ADS is the second largest telephone directories publisher in Canada, which publishes directories under the SuperPages™ brand name, and publishes directories in Alberta, British Columbia and in certain parts of Québec where Telus is the incumbent telephone service provider.

The Fund accounted for the Acquisition using the purchase method of accounting. The purchase price was allocated to the net identifiable assets acquired on the basis of their fair values. The purchase price allocations are preliminary and are subject to changes once the final valuations of the assets acquired and the liabilities assumed are completed and the final determination of the costs related to the acquisitions have been made. The fair value of the underlying net identifiable assets of ADS was allocated as follows:

**YELLOW PAGES INCOME FUND**  
**Notes to the Interim Consolidated Financial Statements**  
**September 30, 2005**

(all tabular amounts are in thousands of Canadian dollars, except unit information - unaudited)

**3. BUSINESS ACQUISITION (continued)**

Current assets and liabilities, net (including cash of \$2,089)	<b>\$9,477</b>
Restricted cash (US\$ 180 million)	<b>227,622</b>
Capital assets	<b>13,873</b>
Future income tax assets, net	<b>507</b>
Intangibles	
Trademark	<b>31,500</b>
Non-competition agreement and logo	<b>377,500</b>
Customer contracts	<b>161,600</b>
Customer relationships	<b>63,800</b>
Domain name	<b>6,700</b>
Accrued benefit liabilities	<b>(43,442)</b>
Notes payable (US\$ 180 million)	<b>(227,622)</b>
Net identifiable assets acquired	<b>621,515</b>
Goodwill	<b>2,004,396</b>
Purchase price	<b>\$2,625,911</b>

**Consideration:**

Cash	<b>\$2,550,000</b>
Transaction costs	<b>75,911</b>
	<b>\$2,625,911</b>

**Repayment of ADS notes**

On May 25, 2005, a portion of the consideration paid for the Acquisition was utilized to repay long-term debt of ADS. The Fund deposited US\$ 180 million in escrow with the US National Bank Association as Trustee for a period of 30 days in accordance with the terms of a trust indenture. The funds remained in escrow until June 24, 2005 at which time the funds were released and used to discharge the long-term debt of ADS.

**Restructuring charges and special charges**

In connection with the Acquisition, the Fund recorded a provision for restructuring and special charges of \$24.1 million related to the Acquisition. The Fund has adopted a formal plan to integrate and restructure the acquired business. Consequently, the Fund established provisions related to planned termination of certain employees of the acquired business that are performing functions already available through its existing structure and other restructuring of the acquired business' operations. The other special charges are composed mainly of costs to exit or terminate specific leases and contracts which the Fund intends to modify or terminate. The liabilities related to these costs have been included in the underlying net identifiable assets acquired.

**YELLOW PAGES INCOME FUND**  
**Notes to the Interim Consolidated Financial Statements**  
**September 30, 2005**

(all tabular amounts are in thousands of Canadian dollars, except unit information - unaudited)

**3. BUSINESS ACQUISITION (continued)**

The following table sets forth the restructuring and special charges provision:

	Restructuring charges	Other special charges	Total
Provision	\$14,953	\$9,193	\$24,146
Utilized in 2005:			
Cash	3,878	1,540	5,418
<b>Balance, as at September 30, 2005</b>	<b>\$11,075</b>	<b>\$7,653</b>	<b>\$18,728</b>

**4. EMPLOYEE BENEFIT PLANS**

The net benefit plan cost for the period included the following components:

	For the three-month period ended September 30, 2005		For the three-month period ended September 30, 2004	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Current service cost	\$ 3,031	\$ 758	\$ 1,551	\$ 244
Interest cost on accrued benefit obligation	4,565	677	4,251	644
Expected return on plan assets	(6,017)	(56)	(5,670)	(104)
<b>Net benefit plan cost, recognized</b>	<b>\$ 1,579</b>	<b>\$ 1,379</b>	<b>\$ 132</b>	<b>\$ 784</b>

	For the nine-month period ended September 30, 2005		For the nine-month period ended September 30, 2004	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Current service cost	\$ 7,622	\$ 1,543	\$ 4,653	\$ 732
Interest cost on accrued benefit obligation	13,695	2,032	12,753	1,932
Expected return on plan assets	(18,051)	(169)	(17,010)	(312)
<b>Net benefit plan cost, recognized</b>	<b>\$ 3,266</b>	<b>\$ 3,406</b>	<b>\$ 396</b>	<b>\$ 2,352</b>

**YELLOW PAGES INCOME FUND**  
**Notes to the Interim Consolidated Financial Statements**  
**September 30, 2005**

(all tabular amounts are in thousands of Canadian dollars, except unit information - unaudited)

**5. LONG-TERM DEBT**

	September 30, 2005	December 31, 2004
Term facilities	\$ 800,000	\$ -
Medium Term Notes	1,000,000	1,000,000
Commercial paper facility	220,000	184,000
Obligation under capital leases	6,798	7,731
	<b>2,026,798</b>	1,191,731
Less current portion of long-term debt	1,479	1,673
	<b>\$ 2,025,319</b>	\$ 1,190,058

**New Credit Facilities**

In connection with the Acquisition, the Fund established new credit facilities for YPG Holdings Inc. with a syndicate of banks consisting of the following facilities (collectively, the “New Credit Facilities”):

*Term facilities*

A \$1.0 billion 5-year senior unsecured non-revolving term facility maturing May 25, 2010, composed of two tranches:

- a) \$750.0 million single draw tranche and
- b) \$250.0 million multiple draw tranche that can be drawn until May 25, 2006.

On September 30, 2005, the first tranche was fully drawn and \$50 million was drawn on the second tranche. The second tranche can also be used for general corporate purposes. These facilities bear interest at Bankers’ Acceptance (“BA”) rates plus 0.7%.

*Revolving Facilities*

A \$500 million senior unsecured revolving credit facility composed of two tranches:

- a) \$300.0 million, 364-day revolving credit facility with a two year term-out option, and
- b) \$200.0 million 5-year revolving credit facility maturing May 25, 2010.

On September 30, 2005, the revolving facilities remain undrawn. The revolving facilities are used as back-up for the commercial paper program and for general corporate purposes. These facilities bear interest at BA rates plus 0.7%.

The New Credit Facilities provide for certain restrictive undertakings and covenants to be complied with by the Fund, all of which have been met.

In connection with the issuance of these New Credit Facilities, the Fund incurred financing costs of \$31.7 million of which \$21.3 million was recorded in financial charges in the interim consolidated statement of earnings as the \$1.5 billion subordinated equity bridge facility originally included in the above credit facilities was cancelled as a result of the issuance of units.

# **YELLOW PAGES INCOME FUND**

## **Notes to the Interim Consolidated Financial Statements**

### **September 30, 2005**

(all tabular amounts are in thousands of Canadian dollars, except unit information - unaudited)

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## **5. LONG-TERM DEBT (continued)**

### *Interest rate swaps*

The Fund uses interest rate swaps to manage the combination of fixed and floating interest rates on its long-term debt.

In May 2005, concurrent with the Acquisition, the Fund entered into interest rate swap agreements for a nominal amount totaling \$400.0 million maturing on December 25, 2005 to convert to fixed rate a portion of the drawings under the Term Facility. The Fund pays a fixed interest rate of 1.2% on the swaps and receives a floating rate based on Banker's Acceptance plus a spread of 0.7%. At the same time, the Fund unwound its existing interest rate swap agreements of \$125.0 million. The interest rate swap agreements were originally entered into in November 2004 to convert to floating a portion of the \$250.0 million Series 3 Medium Term Notes. A \$5.2 million gain resulting from the unwinding of the swaps is deferred and will be recognized over the remaining term of the underlying debt which matures on November 18, 2019. The \$5.2 million gain was realized by obtaining a lower than market (1.2%) rate on the fixed leg for the \$400.0 million interest rate swap agreements mentioned above.

As of September 30, 2005, all of the existing interest rate swap agreements were recorded at fair value (\$3.8 million) and are presented in Other assets with changes in fair value recorded in financial charges.

### *Bond Forward Agreements*

In June 2005, the Fund entered into bond forward transactions totaling \$200 million in order to effectively lock in the Government of Canada rate on a portion of an expected issuance of 10 year Medium Term Notes. The Fund entered into additional bond forward agreements in August and September 2005 totaling \$125 million with the same terms as the bond forward transactions mentioned above. The rates on these contracts are between 3.88% and 3.95%. The bond forward agreements were designated as hedges. Any gains or losses are deferred and will be recorded in the consolidated statement of earnings effectively offsetting the corresponding gains or losses on the hedged items.

## **6. UNITHOLDERS' CAPITAL**

The Fund Declaration of Trust provides that an unlimited number of units may be issued. Each unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains (other than net realized capital gains distributed to redeeming Unitholders) or other amounts, and in the net assets of the Fund in the event of termination or winding up of the Fund. All Trust Units are of the same class with equal rights and privileges. The units issued are not subject to future calls or assessments, and entitle the holders thereof to one vote for each whole unit held at all meetings of Unitholders.

**YELLOW PAGES INCOME FUND**  
**Notes to the Interim Consolidated Financial Statements**  
**September 30, 2005**

(all tabular amounts are in thousands of Canadian dollars, except unit information - unaudited)

**6. UNITHOLDERS' CAPITAL (continued)**

Issued and outstanding:

	<b>September 30, 2005</b>	
	<b>Number of Units</b>	<b>Amount</b>
Balance, December 31, 2004	<b>344,330,140</b>	<b>\$ 3,720,446</b>
Units issued (net of issuance costs of \$75.5 million before related income taxes of \$20.7 million)	<b>127,896,667</b>	<b>1,661,279</b>
Total units outstanding	<b>472,226,807</b>	<b>5,381,725</b>
Restricted units (Note 8)	<b>(200,728)</b>	<b>(2,556)</b>
<b>Balance, September 30, 2005</b>	<b>472,026,079</b>	<b>\$ 5,379,169</b>

Units issued are as a result of the transaction described in Note 2 and exercise of stock options described below.

	<b>September 30, 2004</b>	
	<b>Number of Units</b>	<b>Amount</b>
Balance, December 31, 2003	229,692,030	\$ 2,465,460
Units issued	114,509,238	1,253,325
Total units outstanding	344,201,268	3,718,785
Restricted units (Note 8)	(106,567)	(1,257)
Employee unit purchase loans	(3,269)	(15)
Balance, September 30, 2004	344,091,432	\$ 3,717,513

# **YELLOW PAGES INCOME FUND**

## **Notes to the Interim Consolidated Financial Statements**

### **September 30, 2005**

(all tabular amounts are in thousands of Canadian dollars, except unit information - unaudited)

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## **6. UNITHOLDERS' CAPITAL (continued)**

### **Exercise of options**

During the first quarter of 2005, optionholders exercised 86,252 options at an exercise price of \$3.92 per option for cash consideration of \$0.3 million. These options were exercised into 86,252 shares of YPG Holdings Inc. which were automatically exchanged into 86,252 units of the Fund pursuant to the Optionholders' Liquidity Agreement, at an average stated value of approximately \$13.49 per share, which in turn were exchanged into units of YPG LP. This transaction gave rise to an increase in goodwill of \$0.8 million.

During the second quarter of 2005, optionholders exercised 213,786 options at an exercise price of \$3.92 per option for cash consideration of \$0.8 million. These options were exercised into 213,786 shares of YPG Holdings Inc. which were automatically exchanged into 213,786 units of the Fund pursuant to the Optionholders' Liquidity Agreement, at an average stated value of approximately \$13.70 per share, which in turn were exchanged into units of YPG LP. This transaction gave rise to an increase in goodwill of \$2.1 million.

During the third quarter of 2005, optionholders exercised 769,356 options at an exercise price of \$3.92 per option for cash consideration of \$3.1 million. These options were exercised into 769,356 shares of YPG Holdings Inc. which were automatically exchanged into 769,356 units of the Fund pursuant to the Optionholders' Liquidity Agreement, at an average stated value of approximately \$15.41 per share, which in turn were exchanged into units of YPG LP. This transaction gave rise to an increase in goodwill of \$8.8 million.

### **Earnings per unit**

The calculation of basic earnings per unit for the nine-month period ended September 30, 2005 includes a reduction to earnings available to unitholders of \$8.3 million relating to distributions declared on April 30, 2005 pertaining to the subscription receipts.

The calculation of diluted earnings per unit for the nine-month period ended September 30, 2005 includes a reduction to earnings available to unitholders of \$5.1 million relating to the interest earned on the funds held in escrow pertaining to the subscription receipts.

The following table reconciles the weighted average number of units outstanding used in computing basic earnings per units to weighted average number of units outstanding used in computing diluted earnings per unit:

# YELLOW PAGES INCOME FUND

## Notes to the Interim Consolidated Financial Statements

September 30, 2005

(all tabular amounts are in thousands of Canadian dollars, except unit information - unaudited)

### 6. UNITHOLDERS' CAPITAL (continued)

	For the three-month period ended September 30, 2005	For the three-month period ended September 30, 2004	For the nine-month period ended September 30, 2005	For the nine-month period ended September 30, 2004
Weighted average number of units outstanding used in computing basic earnings per unit	471,647,962	344,067,402	404,381,592	281,621,273
Dilutive effect of options	3,413,150	4,488,782	3,831,174	4,655,341
Dilutive effect of subscription receipts	-	-	20,591,209	-
Dilutive effect of restricted units	198,044	34,750	179,583	11,668
Weighted average number of units outstanding used in computing diluted earnings per unit	475,259,156	348,590,934	428,983,558	286,288,282

### 7. DISTRIBUTIONS TO UNITHOLDERS

During the nine-month period ended September 30, 2005, the Fund declared total distributions to Unitholders of \$305.9 million (2004 - \$193.8 million) or \$ 0.7166 per Unit (2004 - \$0.6762).

### 8. STOCK-BASED COMPENSATION PLAN

The Fund's stock-based compensation plans consist of the restricted units of Yellow Pages Income Fund as well as stock options of YPG Holdings Inc.

#### Restricted Unit Plan

The following table summarizes the status of the Restricted Unit Plan:

	For the nine-month period ended September 30, 2005
	Number of restricted units
Outstanding, beginning of period	106,567
Granted	94,161
<b>Outstanding, end of period</b>	<b>200,728</b>
<b>Vested, end of period</b>	<b>-</b>

# YELLOW PAGES INCOME FUND

## Notes to the Interim Consolidated Financial Statements

September 30, 2005

(all tabular amounts are in thousands of Canadian dollars, except unit information - unaudited)

### 8. STOCK-BASED COMPENSATION PLAN (continued)

	For the nine-month period ended September 30, 2004
	<u>Number of restricted units</u>
Outstanding, beginning of period	-
Granted	106,567
<b>Outstanding, end of period</b>	<b>106,567</b>
<b>Vested, end of period</b>	<b>-</b>

There were no restricted units forfeited during the period. During the nine-month period ended September 30, 2005, 94,161 restricted units were granted at an average market price of \$13.79 for a granted incentive amount of \$1.3 million. Pursuant to the terms of the Restricted Unit Plan, \$1.3 million was used to purchase 94,161 Units of the Fund on the open market of the Toronto Stock Exchange, which units are held in escrow. Compensation expense for the three-month and nine-month period ended September 30, 2005 of \$0.2 million and \$0.6 million was recorded in the interim consolidated statements of earnings. There was no compensation expense recorded for the nine-month period ended September 30, 2004.

#### Stock Options

The following table summarizes the status of the stock option program:

	For the nine-month period ended September 30, 2005	
	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	4,176,827	\$ 3.92
Exercised	(1,069,394)	3.92
Cancelled	(75,084)	3.92
<b>Outstanding, end of period</b>	<b>3,032,349</b>	<b>\$ 3.92</b>
<b>Exercisable, end of period</b>	<b>123,718</b>	<b>\$ 3.92</b>

# YELLOW PAGES INCOME FUND

## Notes to the Interim Consolidated Financial Statements

September 30, 2005

(all tabular amounts are in thousands of Canadian dollars, except unit information - unaudited)

### 8. STOCK-BASED COMPENSATION PLAN (continued)

	For the nine-month period ended September 30, 2004	
	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	5,856,797	\$ 3.92
Exercised	(1,398,238)	3.92
Cancelled	(57,792)	3.92
<b>Outstanding, end of period</b>	<b>4,400,767</b>	<b>\$ 3.92</b>
<b>Exercisable, end of period</b>	<b>90,045</b>	<b>\$ 3.92</b>

Compensation expense for the three-month and nine-month period ended September 30, 2005 of \$0.1 million (2004 -\$0.1 million) and \$0.3 million (2004- \$0.3 million) was recorded in the interim consolidated statements of earnings. No options have been granted to employees and non-employees since the inception of the Fund.

# YELLOW PAGES INCOME FUND

## Notes to the Interim Consolidated Financial Statements

### September 30, 2005

(all tabular amounts are in thousands of Canadian dollars, except unit information - unaudited)

## 9. FINANCIAL CHARGES

The significant components of the Fund's financial charges are as follows:

	<b>For the three-month period ended September 30, 2005</b>		<b>For the three-month period ended September 30, 2004</b>		<b>For the nine-month period ended September 30, 2005</b>		<b>For the nine-month period ended September 30, 2004</b>
Interest on Medium							
Term Notes	\$ 12,755	\$	8,733	\$	36,547	\$	15,564
Interest on Term Facilities	6,864		425		9,543		9,630
Interest on Commercial Paper	1,552		1,291		3,859		4,476
Standby fees and other							
financial charges (income)	781		362		(23)		1,141
Interest revenue on funds							
held in escrow	-		-		(5,106)		-
Other non-cash charges related							
to derivatives and swaps	(543)		(2,508)		803		(708)
Amortization of deferred							
financing costs	667		127		1,131		2,325
Financing charges relating							
to the Acquisition	-		-		21,295		-
Foreign exchange loss	4		-		207		-
	<b>\$ 22,080</b>	<b>\$</b>	<b>8,430</b>	<b>\$</b>	<b>68,256</b>	<b>\$</b>	<b>32,428</b>

## 10. GUARANTEES

In the normal course of operations, the Fund has entered into agreements that contain certain features which meet the definition of a guarantee under the guidance provided by CICA Accounting Guideline 14, *Disclosure of Guarantees* and which are customary in the industry.

The Fund has entered into agreements which contain indemnification of its trustees and officers to indemnify them against expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the trustees and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the Fund. The Fund benefits from directors' and officers' liability insurance which is purchased by the Fund. No amount has been accrued in the interim consolidated balance sheet as of September 30, 2005 with respect to this indemnity.

# **YELLOW PAGES INCOME FUND**

## **Notes to the Interim Consolidated Financial Statements**

### **September 30, 2005**

(all tabular amounts are in thousands of Canadian dollars, except unit information - unaudited)

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#### **10. GUARANTEES (continued)**

Pursuant to the Acquisition, the Fund has entered into agreements whereby the Fund agrees to indemnify and hold harmless the Vendor from and against any and all claims, liabilities, costs and expenses arising out of, based upon or related to (i) any breach by the Fund in the performance of its obligations under this Agreement and (ii) any breach of a representation contained herein. Furthermore, agreements entered into by ADS prior to Acquisition contain indemnifications similar to the ones just described. No amount has been accrued in the interim consolidated balance sheet as of September 30, 2005, with respect to these indemnities.

The nature of these guarantees prevents the Fund from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties.

As at September 30, 2005, the Fund has granted irrevocable standby letters of credit totaling \$3.6 million to third parties to indemnify them in the event the Fund does not perform its contractual obligations with respect to a premises lease and employee related credit cards. The Fund has not recorded any liabilities with respect to these guarantees, as it is not expected that any additional payments associated with these guarantees will be required.