

Interim consolidated financial statements of

YELLOW PAGES INCOME FUND

June 30, 2006

YELLOW PAGES INCOME FUND

Table of contents

Interim Consolidated Balance Sheets	1
Interim Consolidated Statements of Earnings.....	2
Interim Consolidated Statements of Unitholders' Equity	3
Interim Consolidated Statements of Cash Flows.....	4
Notes to the Interim Consolidated Financial Statements	5-19

YELLOW PAGES INCOME FUND

Interim Consolidated Balance Sheets

(in thousands of Canadian dollars-unaudited)

	June 30, 2006	December 31, 2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 47,469	\$ 49,420
Accounts receivable	172,777	125,543
Prepaid expenses	6,418	5,743
Deferred publication costs	101,114	100,608
Future income taxes	33,581	16,612
	361,359	297,926
DEFERRED PUBLICATION COSTS	5,179	4,817
CAPITAL ASSETS	116,597	89,267
OTHER ASSETS	22,299	20,267
ACCRUED BENEFIT ASSETS	11,783	17,103
INTANGIBLES	1,933,581	1,641,421
GOODWILL	6,254,435	5,281,404
FUTURE INCOME TAXES	24,700	21,394
	\$ 8,729,933	\$ 7,373,599
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 195,843	\$ 146,993
Distributions payable	43,512	37,780
Other liabilities	-	1,655
Deferred revenues	78,593	76,688
Current portion of long-term debt (Note 5)	1,747	1,411
	319,695	264,527
DEFERRED CREDITS	39,389	30,516
FUTURE INCOME TAXES	135,758	15,400
ACCRUED BENEFIT LIABILITIES	55,373	54,469
LONG-TERM DEBT (Note 5)	2,692,209	2,013,043
	3,242,424	2,377,955
UNITHOLDERS' EQUITY	5,487,509	4,995,644
	\$ 8,729,933	\$ 7,373,599

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 per unit information - unaudited)

	For the three- month period ended June 30, 2006	For the three- month period ended June 30, 2005	For the six- month period ended June 30, 2006	For the six- month period ended June 30, 2005
Revenues	\$ 340,324	\$ 215,285	\$ 636,094	\$ 386,134
Operating costs	157,117	87,713	285,305	155,617
Income from operations before depreciation and amortization	183,207	127,572	350,789	230,517
Depreciation and amortization	42,800	39,812	101,512	66,680
Income from operations	140,407	87,760	249,277	163,837
Financial charges, net (Note 9)	34,001	33,787	61,783	46,176
Earnings before income taxes	106,406	53,973	187,494	117,661
Recovery of income taxes	(7,785)	(10,280)	(11,930)	(10,296)
Net earnings	\$ 114,191	\$ 64,253	\$ 199,424	\$ 127,957
Net earnings per unit	\$ 0.23	\$ 0.14	\$ 0.40	\$ 0.32
Weighted average number of units outstanding used in computing earnings per unit (Note 6)	505,676,976	395,874,517	496,448,841	370,190,951
Diluted earnings per unit	\$ 0.22	\$ 0.13	\$ 0.40	\$ 0.30
Weighted average number of units outstanding used in computing diluted earnings per unit (Note 6)	509,158,665	461,799,207	499,862,283	405,462,260

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 six-month
period ended
June 30, 2006

	Unitholders' Capital (Note 6)	Restricted units	Stock-Based Compensation	Accumulated Earnings	Distributions	Total
Balance, December 31, 2005	\$ 5,381,984	\$ (2,619)	\$ 1,759	\$ 351,966	\$ (737,446)	\$ 4,995,644
Issuance of units	558,934	-	-	-	-	558,934
Restricted units (Note 8)	-	(15,696)	2,995	-	-	(12,701)
Distributions (Note 7)	-	-	-	-	(253,998)	(253,998)
Obligations under stock options granted (Note 8)	-	-	206	-	-	206
Net earnings for the period	-	-	-	199,424	-	199,424
Balance, June 30, 2006	\$ 5,940,918	\$ (18,315)	\$ 4,960	\$ 551,390	\$ (991,444)	\$ 5,487,509

For the six-month
period ended
June 30, 2005

	Unitholders' Capital (Note 6)	Restricted units	Stock-Based Compensation	Accumulated Earnings	Distributions	Total
Balance, December 31, 2004	\$ 3,720,446	\$ (1,257)	\$ 568	\$ 110,133	\$ (318,219)	\$ 3,511,671
Issuance of units	1,649,423	-	-	-	-	1,649,423
Restricted units (Note 8)	-	(1,147)	353	-	-	(794)
Distributions (Note 7)	-	-	-	-	(192,711)	(192,711)
Obligations under stock options granted (Note 8)	-	-	206	-	-	206
Net earnings for the period	-	-	-	127,957	-	127,957
Balance, June 30, 2005	\$ 5,369,869	\$ (2,404)	\$ 1,127	\$ 238,090	\$ (510,930)	\$ 5,095,752

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 June 30, 2006	For the three- month period ended June 30, 2005	For the six- month period ended June 30, 2006	For the six- month period ended June 30, 2005
OPERATING ACTIVITIES				
Net earnings	\$ 114,191	\$ 64,253	\$ 199,424	\$ 127,957
Items not affecting cash and cash equivalents:				
Depreciation and amortization	42,800	39,812	101,512	66,680
Amortization of deferred financing costs	520	286	932	464
Net benefit plans cost	3,027	1,121	6,224	2,348
Other non-cash items	7,878	4,013	10,235	5,345
Future income taxes	(4,527)	(11,244)	(8,571)	(11,746)
Change in operating assets and liabilities	1,577	(10,374)	(33,854)	(17,635)
	165,466	87,867	275,902	173,413
INVESTING ACTIVITIES				
Business acquisitions, net of cash acquired (Note 3)	(768,552)	(2,623,822)	(899,768)	(2,623,822)
Acquisition of capital assets	(15,299)	(8,788)	(27,075)	(16,030)
Proceeds from lease inducements	-	1,036	184	1,036
Restricted cash	-	227,622	-	227,622
Acquisition of intangibles	(2,450)	-	(2,460)	-
	(786,301)	(2,403,952)	(929,119)	(2,411,194)
FINANCING ACTIVITIES				
Issuance of long-term debt	635,500	1,215,500	885,169	1,506,500
Repayment of long-term debt	(27,144)	(576,124)	(209,082)	(863,508)
Distributions to unitholders	(130,185)	(101,104)	(248,266)	(181,369)
Issuance of units, net	(452)	1,625,206	241,629	1,625,206
Proceeds from exercise of options (Note 8)	1,841	838	2,799	1,176
Purchase of restricted units	(1,810)	-	(15,696)	(1,147)
Deferred financing costs	(4,323)	(6,885)	(5,287)	(14,477)
	473,427	2,157,431	651,266	2,072,381
DECREASE IN CASH AND CASH EQUIVALENTS	(147,408)	(158,654)	(1,951)	(165,400)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	194,877	180,211	49,420	186,957
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 47,469	\$ 21,557	\$ 47,469	\$ 21,557
Cash and cash equivalents consist of:				
Cash	\$ 15,869	\$ 21,407	\$ 15,869	\$ 21,407
Short-term investments	31,600	150	31,600	150
	\$ 47,469	\$ 21,557	\$ 47,469	\$ 21,557
Supplemental disclosure				
Interest paid	\$ 29,077	\$ 30,055	\$ 40,258	\$ 31,220
Income taxes paid	\$ 3,160	\$ 734	\$ 5,766	\$ 1,636
Additions to capital assets under capital leases	\$ -	\$ 71	\$ 2,744	\$ 71
Additions to capital assets included in accounts payable and accrued liabilities	\$ 5,333	\$ 2,640	\$ 5,333	\$ 2,640

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

YELLOW PAGES INCOME FUND

Notes to the Interim Consolidated Financial Statements

June 30, 2006

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

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 (the “Trust”), YPG General Partner Inc. (“YPG GP”), YPG LP, YPG Holdings Inc., Yellow Pages Group Co. (“YPG Co.”) and those of Trader Media Corp. (“TMC”) and Classified Media (Canada) Holdings Inc. (“Trader Canada”). 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, 2005.

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, 2005.

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 the 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 online directories, and classified advertising primarily in the Provinces of Québec, Ontario, British Columbia and Alberta.

On January 1, 2006, YPG Holdings Inc. amalgamated with Yellow Pages Holdings Inc., (formerly Advertising Directory Solutions Holdings Inc.”ADS”). YPG Holdings Inc. subsequently sold its 100% interest in Yellow Pages Inc. to Yellow Pages Group Co. Subsequently, Yellow Pages Inc. and Yellow Pages Group Co. were amalgamated.

On February 14, 2006, as partial consideration for the acquisition of TMC, the Fund issued 19,000,000 Exchangeable Units of YPG LP at a price of \$15.85 per Exchangeable Unit. The Exchangeable Units are exchangeable on a one-for-one basis at any time at the option of the holder into fully paid units of the Fund, representing an ownership interest of approximately 4%. The holders of the Exchangeable Units of YPG LP are entitled to receive equivalent distributions to unitholders of the Fund. The Exchangeable Units of YPG LP are subject to lock-up and other restrictions.

YELLOW PAGES INCOME FUND

Notes to the Interim Consolidated Financial Statements

June 30, 2006

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

2. DESCRIPTION OF THE FUND (continued)

On February 27, 2006, the Fund issued 15,000,000 units to the public in exchange for net proceeds of \$242.4 million, after deducting underwriters' fees in the amount of \$10.1 million and other issuance costs of \$1.0 million. The net proceeds were used to repay indebtedness and for general corporate purposes.

On June 8, 2006, the Fund acquired all of the outstanding shares of Trader Canada for a total consideration of \$767.1 million (See Note 3 – Business Acquisitions).

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 TMC have been consolidated as of February 14, 2006. The results of Trader Canada have been consolidated as of June 8, 2006.

3. BUSINESS ACQUISITIONS

a) Acquisition of Trader Canada

On June 8, 2006, the Fund acquired all of the outstanding shares of Trader Canada for a consideration of \$767.1 million (including acquisition related costs of \$5.8 million).

The acquisition was financed through new credit facilities, drawing under existing credit facilities and cash on hand.

Trader Canada publishes 137 publications and nine web sites for the automotive, real estate and general merchandise verticals.

YELLOW PAGES INCOME FUND
Notes to the Interim Consolidated Financial Statements
June 30, 2006

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

3. BUSINESS ACQUISITIONS (continued)

The Fund accounted for the acquisition of Trader Canada 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 acquisition have been made. The preliminary fair value of the underlying net identifiable assets of Trader Canada acquired is allocated as follows:

Current assets and liabilities, net (including bank indebtedness of \$1,495)	\$(20,055)
Capital assets	8,510
Intangibles	
Trademark	150,000
Non-competition agreement and logo	12,500
Customer relationships	32,500
Domain name	7,500
Future income tax liabilities, net	(59,647)
Net identifiable assets acquired	131,308
Goodwill	635,749
Purchase price	\$767,057
Consideration:	
Cash	\$761,227
Transaction costs	5,830
	\$767,057

YELLOW PAGES INCOME FUND

Notes to the Interim Consolidated Financial Statements

June 30, 2006

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

3. BUSINESS ACQUISITIONS (continued)

b) Acquisition of TMC

On February 14, 2006, the Fund acquired all of the outstanding shares of TMC for a consideration of \$443.8 million (including acquisition related costs of \$7.7 million).

The acquisition of TMC was financed through the issuance of Exchangeable Units of YPG LP and drawing under existing credit facilities and cash on hand.

TMC is Ontario's largest publisher of classified advertising and related web sites. It operates in the local print and online classified advertising for the automotive, real estate, employment and general merchandise.

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 fair value of the underlying net identifiable assets of TMC acquired is allocated as follows:

Current assets and liabilities, net (including cash of \$11,457)	\$ (2,903)
Capital assets	8,558
Other assets	33
Intangibles	
Trademark	120,000
Non-competition agreement and logo	10,200
Customer relationships	37,500
Domain name	3,000
Long-term debt	(340)
Future income tax liabilities	(60,763)
Net identifiable assets acquired	115,285
Goodwill	328,538
Purchase price	\$ 443,823

Consideration:

Cash	\$ 135,000
Exchangeable Units of YPG LP	301,150
Transaction costs	7,673
	\$ 443,823

YELLOW PAGES INCOME FUND

Notes to the Interim Consolidated Financial Statements

June 30, 2006

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

4. EMPLOYEE BENEFIT PLANS

The total net benefit plan costs for the three-month and six-month periods ended June 30, 2006 were \$2.4 million (2005 - \$1.1 million) and \$6.1 million (2005 - \$1.7 million) for pension benefits. Other benefits costs totalled \$1.1 million (2005 - \$1.1 million) and \$2.0 million (2005 - \$2.0 million) for the same periods.

5. LONG-TERM DEBT

	June 30, 2006	December 31, 2005
Term facility	\$ 600,000	\$ -
Medium Term Notes	2,050,000	1,800,000
Commercial paper facility	35,500	208,000
Obligations under capital leases	8,246	6,454
Note payable	210	-
	2,693,956	2,014,454
Less current portion of long-term debt	1,747	1,411
	\$ 2,692,209	\$ 2,013,043

New Credit Facilities

In connection with the acquisition of Trader Canada, the Fund established new credit facilities for a total of \$600 million for YPG Holdings Inc. with a syndicate of banks consisting of the following two tranches (collectively, the "Term Facility"):

- (a) \$350 million 5-year non-revolving multiple draw unsecured senior term facility; and
- (b) \$250 million 2-year non-revolving single draw unsecured senior term facility

On June 8, 2006, both Term Facilities were fully drawn. These facilities bear interest at a combination of prime rate and Bankers' Acceptance "BA" rates plus 0.625%.

Medium Term Notes

On February 27, 2006, YPG Holdings Inc. issued additional Series 5 Medium Term Notes and Series 6 Medium Term Notes for combined gross proceeds of \$250.7 million. Details are as follows:

- (a) \$100 million of 6.25% Series 5 Notes maturing on February 15, 2036 priced at \$100.933, for an initial yield to the noteholders of 6.181% compounded semi-annually; and
- (b) \$150 million of 4.65% Series 6 Notes maturing on February 28, 2011 priced at \$99.841, for an initial yield to the noteholders of 4.686% compounded semi-annually.

The proceeds from the issuance of the Medium Term Notes were used to repay part of the amounts outstanding under commercial paper facility and for general corporate purposes.

YELLOW PAGES INCOME FUND

Notes to the Interim Consolidated Financial Statements

June 30, 2006

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

5. LONG-TERM DEBT (continued)

Interest rate swaps

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

In February 2006, the Fund entered into two interest rate swap agreements for a nominal amount of \$75 million each totalling \$150 million to hedge the Series 6 Medium Term Notes. The Fund receives interest on these swaps at 4.65%. The first swap agreement stipulates that the Fund pays a floating rate equal to the Banker's Acceptance plus a spread of 0.28% and the second swap agreement stipulates that the Fund pays a floating rate equal to the Banker's Acceptance plus a spread of 0.35%. The swaps mature on February 28, 2011 matching the maturity date of the underlying debt. As at June 30, 2006, the interest rate swaps met the criteria for hedge accounting.

Swaptions

In December 2005, the Fund entered into interest rate swaption agreements for a nominal amount of \$200 million maturing on June 30, 2006. On June 30, 2006, the counterparties exercised their options to enter into interest rate swap agreements with the Fund. Using hedge accounting, those interest rate swap agreements are converting \$200 million of the \$550 million Series 4 Medium Term Notes to a floating rate. The Fund receives a fixed interest rate of 5.25% on the swaps and pays a floating rate based on Banker's Acceptance plus a spread of 0.7%. As at June 30, 2006 the interest rate swap agreements' fair value of \$8 million is presented in Deferred credits. The interest rate swaps mature on February 15, 2016 matching the underlying debt. As at June 30, 2006, the interest rate swaps met the criteria for hedge accounting.

6. UNITHOLDERS' CAPITAL

The Fund's 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
June 30, 2006

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

6. UNITHOLDERS' CAPITAL (continued)

Issued and outstanding:

	June 30, 2006	
	Number of Units	Amount
Balance, December 31, 2005	472,245,176	\$ 5,381,984
Units issued ⁽¹⁾ (net of issuance costs of \$11.1 million and before related income taxes of \$3.9 million)	34,714,074	558,934
Balance, June 30, 2006 ^{(1),(2)}	506,959,250	\$ 5,940,918

	June 30, 2005	
	Number of Units	Amount
Balance, December 31, 2004	344,330,140	\$ 3,720,446
Units issued (net of issuance costs of \$75.5 million and before related income taxes of \$20.7 million)	127,127,311	1,649,423
Balance, June 30, 2005 ⁽²⁾	471,457,451	\$ 5,369,869

(1) Includes 19,000,000 Exchangeable Units of YPG LP issued as partial consideration of the acquisition of TMC, which are presented as part of Unitholders' capital as the criteria of Emerging Issues Committee Abstract 151 *Exchangeable Securities Issued by Subsidiaries of Income Trust* are met.

(2) Includes 1,148,955 Restricted units (2005 – 190,636) pursuant to the Restricted Unit Plan for a total amount of \$18.3 million (2005 - \$2.4 million)

Units issued are as a result of the transactions described in Notes 2 and 3.

YELLOW PAGES INCOME FUND

Notes to the Interim Consolidated Financial Statements

June 30, 2006

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

6. UNITHOLDERS' CAPITAL (continued)

Exercise of options

During the first quarter of 2006, optionholders exercised 244,449 options at an exercise price of \$3.92 per option for cash consideration of \$1 million. These options were exercised into 244,449 shares of YPG Holdings Inc. which were automatically exchanged into 244,449 units of the Fund pursuant to the Optionholders' Liquidity Agreement, at an average stated value of approximately \$16.44 per share, which in turn were exchanged into units of YPG LP. This transaction gave rise to an increase in goodwill of \$3.1 million.

During the second quarter of 2006, optionholders exercised 469,625 options at an exercise price of \$3.92 per option for cash consideration of \$1.8 million. These options were exercised into 469,625 shares of YPG Holdings Inc. which were automatically exchanged into 469,625 units of the Fund pursuant to the Optionholders' Liquidity Agreement, at an average stated value of approximately \$16.02 per share, which in turn were exchanged into units of YPG LP. This transaction gave rise to an increase in goodwill of \$5.7 million.

Earnings per unit

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:

	For the three- month period ended June 30, 2006	For the three- month period ended June 30, 2005	For the six- month period ended June 30, 2006	For the six- month period ended June 30, 2005
Weighted average number of units outstanding used in computing basic earnings per share	505,676,976	395,874,517	496,448,841	370,190,951
Dilutive effect of options	2,425,532	3,965,571	2,674,234	4,032,767
Dilutive effect of subscription receipts	-	61,773,626	-	31,057,459
Dilutive effect of restricted units	1,056,157	185,493	739,208	181,083
Weighted average number of units outstanding used in computing diluted earnings per share	509,158,665	461,799,207	499,862,283	405,462,260

7. DISTRIBUTIONS TO UNITHOLDERS

During the six-month period ended June 30, 2006, the Fund declared total distributions to Unitholders of \$254.0 million (2005 - \$192.7 million) or \$0.5092 per unit (2005 - \$0.4766).

YELLOW PAGES INCOME FUND

Notes to the Interim Consolidated Financial Statements

June 30, 2006

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

8. STOCK-BASED COMPENSATION PLAN

The Fund's stock-based compensation plans consist of a restricted unit plan and a stock option plan.

Restricted Unit Plan

Pre 2006 grants

On August 30, 2004, YPG Co. established a Restricted Unit Plan (the "RU Plan") to encourage ownership of units, to enhance YPG's ability to attract, motivate and retain key personnel, to reward the participants for significant performance and associated growth in distributable income and to align the interests of the participants and the unitholders of the Fund. Following the creation of the RU Plan, YPG Co. has granted to certain employees an incentive amount. Pursuant to the terms of the RU Plan, an amount equal to the incentive amount was used to purchase units of Yellow Pages Income Fund on the open market of the Toronto Stock Exchange. Employees who participated in the RU Plan were granted units in equal proportions between time-based vesting and performance-based vesting criteria. Time-based units will vest 36 months after the date of determination of the incentive amount. Cash distributions received on the Restricted Units awarded to key executives are reinvested in additional Restricted Units and vest according to the terms of the grant pursuant to which they are paid.

Performance-based restricted units will vest at the earliest of 36 months after the date of determination of the incentive amount and the date of confirmation by the Board of achievement of specified performance targets. The Board will determine, not later than October 31 of the performance period immediately after the end of such performance cycle whether the performance-based vesting condition has been achieved. The performance-based units which have not been achieved shall automatically be forfeited and cancelled. The distribution, from the Fund on such units, net of applicable taxes and contributions to government sponsored plans, will be remitted to the participant when the units become vested.

Upon the termination for cause or resignation, all restricted units not vested shall be forfeited and cancelled. Upon a participant's retirement, termination without cause, death and long-term disability, the time-based units will vest as a pro-rata of the performance cycle completed versus the 36 month period. All performance based restricted units that are not vested on the date of the participant's retirement, termination without cause, death or long-term disability shall be forfeited and cancelled on such date.

The following table summarizes the status of the pre 2006 grants:

	For the six-month period ended June 30, 2006
	Number of restricted units
Outstanding, beginning of period	204,578
Cash distribution reinvested	3,085
Outstanding, end of period	207,663
Vested, end of period	-

YELLOW PAGES INCOME FUND
Notes to the Interim Consolidated Financial Statements
June 30, 2006

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

8. STOCK-BASED COMPENSATION PLAN (continued)

	For the six-month period ended June 30, 2005
	<u>Number of restricted units</u>
Outstanding, beginning of period	106,567
Granted	84,069
Outstanding, end of period	190,636
Vested, end of period	-

There were no restricted units forfeited during the period.

2006 Grants

In the first quarter of 2006, the Fund granted additional Restricted Units pursuant to the RU Plan. These Restricted Units awarded to key executives are performance-based vesting only and no Restricted Units vest unless the Fund achieves a specified performance target at the end of a three-year period. Cash distributions received on the Restricted Units awarded to key executives are reinvested in additional Restricted Units and vest according to the terms of the grant pursuant to which they are paid. The Restricted Units awarded to members of the Board of Directors of YPG GP, the general partner of YPG LP, are time-based vesting only.

The following table summarizes the status of the 2006 grants:

	For the six-month period ended June 30, 2006
	<u>Number of restricted units</u>
Outstanding, beginning of period	-
Granted	499,203
Outstanding, end of period	499,203
Vested, end of period	-

During the six-month period ended June 30, 2006, 499,203 Restricted Units were granted at an average market price of \$16.62. This includes 100,000 Restricted Units granted to Directors. Except for Restricted Units granted to Directors, the number of Restricted Units that vest can potentially reach two times the actual number of Restricted Units awarded if the actual performance reaches the maximum level of the objectives. Consequently, \$15.7 million was used to purchase 941,292 Restricted Units of the Fund on the open market of the Toronto Stock Exchange, which are held in escrow in order to provide for a 200% pay-out subject to adjustment at time of vesting.

Total compensation expense for the three-month and six-month periods ended June 30, 2006 of \$1.6 million (2005 - \$0.2 million) and \$3.0 million (2005 - \$0.4 million) was recorded in the interim consolidated statements of earnings.

YELLOW PAGES INCOME FUND
Notes to the Interim Consolidated Financial Statements
June 30, 2006

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

8. STOCK-BASED COMPENSATION PLAN (continued)

Stock Options

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

	For the six-month period ended June 30, 2006	
	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	3,006,321	\$ 3.92
Exercised	(714,074)	3.92
Cancelled	(108,160)	3.92
Outstanding, end of period	2,184,087	\$ 3.92
Exercisable, end of period	267,082	\$ 3.92

	For the six-month period ended June 30, 2005	
	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	4,176,827	\$ 3.92
Exercised	(300,038)	3.92
Cancelled	(75,084)	3.92
Outstanding, end of period	3,801,705	\$ 3.92
Exercisable, end of period	893,074	\$ 3.92

Compensation expense for the three-month and six-month periods ended June 30, 2006 of \$0.1 million (2005 - \$0.1 million) and \$0.2 million (2005 - \$0.2 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
June 30, 2006

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

9. FINANCIAL CHARGES, NET

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

	For the three- month period ended June 30, 2006	For the three- month period ended June 30, 2005	For the six- month period ended June 30, 2006	For the six- month period ended June 30, 2005
Interest on Medium Term Notes	\$ 27,089	\$ 12,159	\$ 52,207	\$ 23,792
Interest on Term Facilities	1,889	2,679	1,889	2,679
Interest on Commercial paper	154	1,318	1,689	2,307
Standby fees and other financial charges (income), net	(631)	(276)	(1,149)	(804)
Interest revenue on funds held in escrow	-	(5,106)	-	(5,106)
Other charges related to derivatives, financial instruments and swaps	5,089	1,378	6,383	1,346
Amortization of deferred financing costs	520	286	932	464
Financing charges relating to the acquisition	-	21,295	-	21,295
Foreign exchange (gain) loss	(109)	54	(168)	203
	\$ 34,001	\$ 33,787	\$ 61,783	\$ 46,176

10. RESTRUCTURING AND SPECIAL CHARGES

In connection with the acquisitions of ADS, TMC and Trader Canada, the Fund recorded provisions for restructuring and special charges of \$25.2 million, \$21.7 million and \$17.0 million respectively. The Fund has adopted formal plans to integrate and restructure the acquired businesses. Consequently, the Fund established provisions related to planned termination of employment of certain employees of the acquired businesses who 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 were initially included in the underlying net identifiable assets acquired. In addition, during the fourth quarter in 2005, the Fund recorded restructuring charges of \$7.3 million related to an internal reorganization and workforce reduction following the integration of the acquisition of ADS.

YELLOW PAGES INCOME FUND

Notes to the Interim Consolidated Financial Statements

June 30, 2006

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

10. RESTRUCTURING AND SPECIAL CHARGES (continued)

The following table sets forth the restructuring reserve activities and special charges provision related to the acquisitions:

	Restructuring charges	Other special charges	Total
Balance, as at December 31, 2005	\$15,607	\$6,650	\$22,257
Provision related to acquisitions of TMC and Trader Canada	32,893	5,831	38,724
Utilized in 2006:			
Cash	(14,727)	(2,144)	(16,871)
Balance as at June 30, 2006	\$33,773	\$10,337	\$44,110

11. 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 June 30, 2006 with respect to this indemnity.

Pursuant to the acquisitions of TMC and Trader Canada, the Fund has entered into agreements whereby the Fund agrees to indemnify and hold harmless the vendors 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 TMC and Trader Canada prior to the acquisitions contain indemnifications similar to the ones just described. No amount has been accrued in the consolidated balance sheet as of June 30, 2006, 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.

YELLOW PAGES INCOME FUND
Notes to the Interim Consolidated Financial Statements
June 30, 2006

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

12. SEGMENTED INFORMATION

The Fund's reportable segments are strategic business units that offer different products. Following the acquisition of Trader Canada, management has determined that the Fund operates under two reportable segments: Directories and Vertical Media. The Directories segment operates in print and online directories. The Vertical Media segment operates in the specialized print publications and web sites by topic or area of interest. The accounting policies of the segments are the same as those described in the most recent annual financial statements for the year ended December 31, 2005.

The tables below summarize the selected financial information by segment:

	For the three-month period ended June 30, 2006		
	Directories	Vertical Media	Consolidated
Revenues	\$ 286,766	\$ 53,558	\$ 340,324
Operating costs	120,689	36,428	157,117
Income from operations before depreciation and amortization	166,077	17,130	183,207
Depreciation and amortization	35,957	6,843	42,800
Income from operations	\$ 130,120	\$ 10,287	\$ 140,407

	For the six-month period ended June 30, 2006		
	Directories	Vertical Media	Consolidated
Revenues	\$ 566,318	\$ 69,776	\$ 636,094
Operating costs	236,266	49,039	285,305
Income from operations before depreciation and amortization	330,052	20,737	350,789
Depreciation and amortization	91,913	9,599	101,512
Income from operations	\$ 238,139	\$ 11,138	\$ 249,277

	Directories	Vertical Media	Consolidated
Assets	\$ 7,313,943	\$ 1,415,990	\$ 8,729,933
Intangibles	\$ 1,568,897	\$ 364,684	\$ 1,933,581
Goodwill	\$ 5,290,148	\$ 964,287	\$ 6,254,435

YELLOW PAGES INCOME FUND

Notes to the Interim Consolidated Financial Statements

June 30, 2006

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

13. SUBSEQUENT EVENT

On July 6, 2006, YPG Holdings issued \$300 million aggregate principal amount of 5.50% exchangeable unsecured subordinated debentures (the "Exchangeable Debentures"). The Exchangeable Debentures pay interest semi-annually on February 1 and August 1 of each year, commencing February 1, 2007. The Exchangeable Debentures have a maturity date of August 1, 2011 and are exchangeable, at the option of the holder, for units of the Fund at an exchange price of \$20.00 per Unit.

Net proceeds resulting from the sale of the Exchangeable Debentures were used by the Fund to repay \$38 million of the \$350 million, 5 year non-revolving multiple draw unsecured senior term facility and to repay in full the \$250 million, 2 year non-revolving single draw unsecured senior term facility, and for general corporate purposes.

The Exchangeable Debentures will be classified in accordance with their substance and will therefore be recorded in their component parts of equity and liability, respectively.

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.