

INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW PAGES INCOME FUND

September 30, 2007

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Interim Consolidated Balance Sheet

(in thousands of Canadian dollars - unaudited)

| | As at September 30, 2007 | As at December 31, 2006 |
|--|--------------------------|-------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 53,211 | \$ 57,408 |
| Accounts receivable | 216,491 | 182,058 |
| Prepaid expenses | 8,511 | 8,312 |
| Deferred publication costs | 124,720 | 107,014 |
| Future income taxes | 29,596 | 36,232 |
| | 432,529 | 391,024 |
| DEFERRED PUBLICATION COSTS | 9,050 | 6,592 |
| CAPITAL ASSETS | 164,610 | 134,743 |
| OTHER ASSETS (Note 4) | 4,999 | 30,683 |
| DERIVATIVE FINANCIAL INSTRUMENTS | 2,792 | - |
| ACCRUED BENEFIT ASSETS | - | 6,359 |
| INTANGIBLES | 2,069,261 | 2,018,214 |
| GOODWILL | 6,570,022 | 6,394,780 |
| FUTURE INCOME TAXES | 12,369 | 20,852 |
| | \$ 9,265,632 | \$ 9,003,247 |
| LIABILITIES AND UNITHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 198,435 | \$ 208,337 |
| Distributions payable | 48,426 | 48,328 |
| Deferred revenues | 96,515 | 88,930 |
| Current portion of long-term debt (Note 7) | 4,133 | 2,155 |
| | 347,509 | 347,750 |
| DEFERRED CREDITS (Note 6) | 26,505 | 43,948 |
| FUTURE INCOME TAXES | 124,636 | 134,054 |
| ACCRUED BENEFIT LIABILITIES | 64,171 | 55,772 |
| LONG-TERM DEBT (Note 7) | 2,148,620 | 2,301,678 |
| DERIVATIVE FINANCIAL INSTRUMENTS | 1,390 | - |
| EXCHANGEABLE DEBENTURES (Note 8) | 279,384 | 288,501 |
| PREFERRED SHARES (Note 9) | 486,793 | - |
| NON-CONTROLLING INTEREST (Note 3) | 10,878 | - |
| UNITHOLDERS' EQUITY | 5,775,746 | 5,831,544 |
| | \$ 9,265,632 | \$ 9,003,247 |

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

Interim Consolidated Statements of Earnings

For the periods ended September 30,
(in thousands of Canadian dollars, except per unit information - unaudited)

| | Three months | | Nine months | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues | \$ 416,507 | \$ 369,875 | \$ 1,211,858 | \$ 1,005,969 |
| Operating costs | 188,005 | 171,604 | 559,594 | 456,909 |
| Income from operations before depreciation and amortization | 228,502 | 198,271 | 652,264 | 549,060 |
| Depreciation and amortization | 64,746 | 33,632 | 158,758 | 135,144 |
| Income from operations | 163,756 | 164,639 | 493,506 | 413,916 |
| Financial charges, net (Note 13) | 34,164 | 37,696 | 104,080 | 99,479 |
| Earnings before dividends on Preferred shares, income taxes and non-controlling interest | 129,592 | 126,943 | 389,426 | 314,437 |
| Dividends on Preferred shares | 5,654 | - | 10,338 | - |
| Earnings before income taxes and non-controlling interest | 123,938 | 126,943 | 379,088 | 314,437 |
| Provision for (recovery of) income taxes | 1,703 | 7,472 | 7,769 | (4,458) |
| Non-controlling interest | 98 | - | 658 | - |
| Net earnings | \$ 122,137 | \$ 119,471 | \$ 370,661 | \$ 318,895 |
| Basic earnings per unit | \$ 0.23 | \$ 0.23 | \$ 0.70 | \$ 0.63 |
| Weighted average number of units outstanding used in computing basic earnings per unit (Note 10) | 530,752,506 | 516,695,886 | 530,537,607 | 503,272,021 |
| Diluted earnings per unit | \$ 0.22 | \$ 0.23 | \$ 0.67 | \$ 0.63 |
| Weighted average number of units outstanding used in computing diluted earnings per unit (Note 10) | 594,067,440 | 520,008,984 | 583,023,207 | 506,651,648 |

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

Interim Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars - unaudited)

| | For the three-month period ended September 30, 2007 | For the nine-month period ended September 30, 2007 |
|---|--|---|
| Net earnings | \$ 122,137 | \$ 370,661 |
| Other comprehensive loss: | | |
| Net gain on derivatives designated as cash flow hedges in prior periods transferred to earnings in the current period | (56) | (194) |
| Unrealized loss on available for sale financial assets in the current period | (2,522) | (652) |
| Other comprehensive loss | (2,578) | (846) |
| Comprehensive income | \$ 119,559 | \$ 369,815 |

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

Interim Consolidated Statements of Unitholders' Equity

For the nine-month periods ended September 30,
(in thousands of Canadian dollars - unaudited)

| | | | | | | | | 2007 |
|---|--------------------------------------|-----------------|--|---------------------|------------------------|---|---------------------|---------------------|
| | Unitholders' Capital (Note 10) | Warrants | Equity Component of Exchangeable Debentures | Restricted Units | Contributed Surplus | Accumulated Other Comprehen- sive Income | Deficit | Total |
| Balance, December 31, 2006, as previously reported | \$ 6,305,850 | \$ 6,250 | \$ 12,542 | \$ (19,187) | \$ 7,515 | \$ - | \$ (481,426) | \$ 5,831,544 |
| Cumulative effect of adopting new accounting policy (Note 1) | - | - | - | - | - | 2,202 | 537 | 2,739 |
| Balance, January 1, 2007, as restated | 6,305,850 | 6,250 | 12,542 | (19,187) | 7,515 | 2,202 | (480,889) | 5,834,283 |
| Issuance of units | 15,140 | - | - | - | - | - | - | 15,140 |
| Restricted units (Note 12) | - | - | - | (17,069) | 7,071 | - | - | (9,998) |
| Restricted units - vested (Note 12) | - | - | - | 1,508 | (1,508) | - | - | - |
| Distributions (Note 11) | - | - | - | - | - | - | (433,803) | (433,803) |
| Obligations under stock options granted (Note 12) | - | - | - | - | 309 | - | - | 309 |
| Other comprehensive loss | - | - | - | - | - | (846) | - | (846) |
| Net earnings for the period | - | - | - | - | - | - | 370,661 | 370,661 |
| Balance, September 30, 2007 | \$ 6,320,990 | \$ 6,250 | \$ 12,542 | \$ (34,748) | \$ 13,387 | \$ 1,356 | \$ (544,031) | \$ 5,775,746 |
| | | | | | | | | 2006 |
| | Unitholders' Capital (Note 10) | Warrants | Equity Component of Exchangeable Debentures | Restricted Units | Contributed Surplus | | Deficit | Total |
| Balance, December 31, 2005 | \$ 5,381,984 | \$ - | \$ - | \$ (2,619) | \$ 1,759 | \$ (385,480) | \$ 4,995,644 | |
| Issuance of units | 923,280 | - | - | - | - | - | 923,280 | |
| Restricted units (Note 12) | - | - | - | (16,214) | 4,454 | - | (11,760) | |
| Warrants | - | 6,250 | - | - | - | - | 6,250 | |
| Option on Exchangeable debentures | - | - | 12,542 | - | - | - | 12,542 | |
| Distributions (Note 11) | - | - | - | - | - | (388,538) | (388,538) | |
| Obligations under stock options granted (Note 12) | - | - | - | - | 309 | - | 309 | |
| Net earnings for the period | - | - | - | - | - | 318,895 | 318,895 | |
| Balance, September 30, 2006 | \$ 6,305,264 | \$ 6,250 | \$ 12,542 | \$ (18,833) | \$ 6,522 | \$ (455,123) | \$ 5,856,622 | |

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

Interim Consolidated Statements of Cash Flows

For the periods ended September 30,

(in thousands of Canadian dollars - unaudited)

| | Three months | | Nine months | |
|--|------------------|-------------------|------------------|-------------------|
| | 2007 | 2006 | 2007 | 2006 |
| OPERATING ACTIVITIES | | | | |
| Net earnings | \$ 122,137 | \$ 119,471 | \$ 370,661 | \$ 318,895 |
| Items not affecting cash and cash equivalents: | | | | |
| Depreciation and amortization | 64,746 | 33,632 | 158,758 | 135,144 |
| Amortization and write-off of deferred financing costs | 2,097 | 3,279 | 4,280 | 4,211 |
| Accretion on Exchangeable debentures | 564 | 507 | 1,664 | 507 |
| Net benefit plan costs | 3,465 | 1,534 | 10,116 | 7,758 |
| Other non-cash items | 19 | (193) | 4,404 | 10,042 |
| Future income taxes | (893) | 3,163 | 4,166 | (5,408) |
| Non-controlling interest | 98 | - | 658 | - |
| Change in operating assets and liabilities | (4,325) | (7,952) | (39,075) | (41,806) |
| | 187,908 | 153,441 | 515,632 | 429,343 |
| INVESTING ACTIVITIES | | | | |
| Business acquisitions, net of cash acquired (Note 3) | (35) | - | (341,804) | (899,768) |
| Acquisition of capital assets | (17,155) | (11,894) | (55,269) | (38,969) |
| Proceeds from lease inducements | 30 | 1,318 | 1,856 | 1,502 |
| Acquisition of investment | - | - | (5,000) | - |
| Acquisition of intangibles | - | - | (20) | (2,460) |
| | (17,160) | (10,576) | (400,237) | (939,695) |
| FINANCING ACTIVITIES | | | | |
| Issuance of long-term debt | 70,000 | 209,600 | 181,000 | 1,094,769 |
| Repayment of long-term debt | (93,207) | (600,406) | (337,634) | (809,488) |
| Issuance of Exchangeable debentures | - | 300,000 | - | 300,000 |
| Distributions to Unitholders | (144,634) | (132,389) | (433,705) | (380,655) |
| Distributions to non-controlling interest | (280) | - | (280) | - |
| Issuance of units, net | - | 359,684 | - | 601,313 |
| Issuance of warrants | - | 6,250 | - | 6,250 |
| Issuance of Preferred shares | - | - | 500,000 | - |
| Proceeds from exercise of options (Note 10) | 166 | 246 | 4,260 | 3,045 |
| Purchase of restricted units | (659) | (518) | (17,069) | (16,214) |
| Deferred financing costs and other | (1,334) | (12,813) | (16,164) | (18,100) |
| | (169,948) | 129,654 | (119,592) | 780,920 |
| INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS | 800 | 272,519 | (4,197) | 270,568 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 52,411 | 47,469 | 57,408 | 49,420 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 53,211 | \$ 319,988 | \$ 53,211 | \$ 319,988 |
| Cash and cash equivalents consist of: | | | | |
| Cash | \$ 6,263 | \$ 9,763 | \$ 6,263 | \$ 9,763 |
| Short-term investments | 46,948 | 310,225 | 46,948 | 310,225 |
| | \$ 53,211 | \$ 319,988 | \$ 53,211 | \$ 319,988 |

Supplemental disclosure of cash flow information (Note 14)

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

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 LP, YPG General Partner Inc. ("YPG GP"), YPG Holdings Inc., Yellow Pages Group Co. ("YPG Co."), Trader Corporation ("Trader") and those of LesPAC s.e.n.c., ("LesPAC"). 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 consolidated financial statements for the year ended December 31, 2006.

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, 2006, with the exception of the following which have been adopted effective January 1, 2007 on a retrospective basis.

Change in accounting policies

a) Section 3855, *Financial Instruments – Recognition and Measurement*. This section describes the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Under the new standard, financial assets and liabilities are initially recorded at fair value. Subsequently, financial instruments classified as financial assets available for sale, held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value on the balance sheet at each reporting date, whereas other financial instruments are measured at amortized cost using the effective interest method.

The Fund has made the following classifications:

- Cash and cash equivalents are classified as financial assets held for trading and are measured at fair value. Changes in fair value are recorded in net earnings.
- Accounts receivable are classified as loans and receivables and are recorded at amortized cost.
- Accounts payable and accrued liabilities, distributions payable, long-term debt, Exchangeable debentures, and Preferred shares are classified as other liabilities and measured at amortized cost.

Transaction costs

Transaction costs are comprised primarily of legal, accounting, underwriters' fees and other costs directly attributable to the issuance of the respective financial assets and liabilities. Transaction costs are capitalized to the cost of financial assets and liabilities classified as other than held for trading. As a result of this new policy, such costs previously reported as deferred financing costs have been reclassified against long-term debt and Exchangeable debentures and adjusted by a credit of \$0.7 million, net of related income taxes, to the deficit to reflect the utilization of the effective interest method instead of the straight-line method previously applied.

Non-financial and embedded derivatives

In addition, in order to comply with Section 3855, the Fund reviewed all contracts in place to identify non-financial derivatives and embedded derivatives. The Fund has chosen January 1, 2003 as its transition date for embedded derivatives, as permitted by the standard. This had no impact on the consolidated financial statements.

1. Basis of presentation (continued)

Hedging

The Fund uses interest rate derivatives to manage the combination of fixed to floating interest rates on its long-term debt and to manage the interest rate risk for future planned issuances.

- Fair value hedge

The carrying value of the hedged item is adjusted based on the gains or losses attributable to the hedged risk with a corresponding amount in net earnings. The hedging derivative is carried at fair value on the balance sheet with changes in fair value recorded in net earnings.

- Cash flow hedge

The effective portion of the changes in fair value of the hedging item is recognized in "Accumulated Other Comprehensive Income", whereas the ineffective portion is recognized in "Other income". The amounts recognized in "Accumulated Other Comprehensive Income", with respect to cash flow hedges, are reclassified in net earnings in the period or periods during which the hedged item affects net earnings.

The December 31, 2006 amount of the deferred gains on discontinued hedging activities relating to fair value hedges has been reclassified to the related debt, whereas the amount relating to cash flow hedges has been reclassified to Accumulated Other Comprehensive Income.

b) Section 1530, *Comprehensive Income*. This section describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in Unitholders' equity which results from transactions other than those resulting from investments by Unitholders and distributions to Unitholders. These transactions and events include unrealized gains and losses resulting from changes in fair value of certain financial instruments.

c) Section 3865, *Hedges*. The recommendations expand the guidelines outlined in Accounting Guideline 13 ("AcG-13"), *Hedging Relationships*. This Section describes when and how hedge accounting can be applied, as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from the derivative financial instruments in the same period as for those related to the hedged item. On transition, in accordance with Section 3865, the net deferred gain on hedging activities has been reclassified to the carrying amount of the related debt or Accumulated Other Comprehensive Income (net of tax) as appropriate.

The following table summarizes the adjustments made to the consolidated balance sheet as of January 1, 2007, upon the adoption of the new standards.

| Increase (decrease) in: | |
|--|-------------|
| Deferred financing costs (Note 4) | \$ (30,376) |
| Derivative financial instruments - assets | \$ 636 |
| Net deferred gain on hedging activities (Note 6) | \$ (18,963) |
| Long-term debt | \$ (2,265) |
| Exchangeable debentures | \$ (12,516) |
| Future income tax liabilities | \$ 1,265 |
| Deficit | \$ (537) |
| Accumulated Other Comprehensive Income | \$ 2,202 |

d) Section 3251, *Equity*, replaced Section 3250, *Surplus*. It describes standards for the presentation of equity and changes in equity for the reporting period as a result of the application of Section 1530, *Comprehensive Income*.

e) Section 1506, *Accounting Changes*. This Section established criteria to be met in order to change, together with the accounting treatment and disclosure required when there is a change in accounting policies, estimates and correction of errors. The adoption of this Section had no impact on the 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 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 in the Provinces of British Columbia, Alberta, Manitoba, Ontario, Québec, and Atlantic Canada and classified advertising in all the Provinces of Canada.

On April 19, 2007, the Fund acquired a 50% interest in a newly formed partnership, LesPAC, which owns LesPAC.com for a total consideration of \$10.6 million (See Note 3 – Business acquisitions).

On April 30, 2007, the Fund acquired the assets of Aliant Directory Services (“Aliant”) in which the Fund already had a 12.86% ownership, for a total consideration of \$331.2 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 Aliant have been consolidated as of April 30, 2007. The balance sheet and statement of earnings of LesPAC have been consolidated as of April 19, 2007.

3. Business acquisitions

a) Acquisition of Aliant Directory Services

On April 30, 2007, the Fund acquired the assets of Aliant, in which it already had a 12.86% ownership, for a consideration of \$331.2 million (including acquisition related costs of \$3.9 million). Prior to April 30, 2007, the Fund accounted for its 12.86% interest in Aliant using the proportionate consolidation method.

The acquisition of Aliant was financed through drawings under existing credit facilities and cash on hand.

Aliant was the incumbent directory publisher in the four Atlantic provinces and publishes more than 35 directories with a total circulation of 1.8 million copies. The business is included in the Directories segment.

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 Aliant acquired is allocated as follows:

| | |
|--|------------|
| Current assets and liabilities | |
| Accounts receivable | \$ 8,006 |
| Prepaid expenses | 130 |
| Future income tax assets | 436 |
| Accounts payable and accrued liabilities | (3,922) |
| Capital assets | 122 |
| Intangibles | |
| Non-competition agreement and logo | 42,500 |
| Customer contracts | 27,500 |
| Customer relationships | 90,000 |
| Future income tax assets | 4,978 |
| Accrued benefit liabilities | (4,642) |
| Net identifiable assets acquired | 165,108 |
| Goodwill | 166,096 |
| Purchase price | \$ 331,204 |

3. Business acquisitions (continued)

Consideration:

| | |
|-------------------|-------------------|
| Cash | \$ 327,279 |
| Transaction costs | 3,925 |
| | \$ 331,204 |

b) Acquisition of LesPAC

On April 19, 2007, a subsidiary of the Fund acquired a 50% interest in LesPAC for a consideration of \$10.6 million (including acquisition related costs of \$0.1 million). The acquisition of LesPAC was financed with cash on hand. In accordance with AcG-15, *Consolidation of Variable Interest Entities*, the Fund is considered as the primary beneficiary and accordingly, has consolidated the balance sheet and statement of earnings of LesPAC.

LesPAC.com is Quebec's leading classified web site in the generalist category. The business is included in the Vertical Media segment.

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 LesPAC acquired is allocated as follows:

| | |
|--|------------------|
| Current assets and liabilities | |
| Accounts receivable | \$ 775 |
| Prepaid expenses | 54 |
| Accounts payable and accrued liabilities | (411) |
| Capital assets | 280 |
| Intangibles | |
| Trademark | 14,000 |
| Non-competition agreement | 3,800 |
| Customer contracts | 300 |
| Non-controlling interest | (10,500) |
| Future income tax liabilities | (2,603) |
| Net identifiable assets acquired | 5,695 |
| Goodwill | 4,905 |
| Purchase price | \$ 10,600 |

Consideration:

| | |
|-------------------|------------------|
| Cash | \$ 10,500 |
| Transaction costs | 100 |
| | \$ 10,600 |

4. Other assets

| | September 30, 2007 | December 31, 2006 |
|-----------------------------------|--------------------|-------------------|
| Deferred financing costs (Note 1) | \$ - | \$ 30,376 |
| Investment | 4,348 | - |
| Other | 651 | 307 |
| | \$ 4,999 | \$ 30,683 |

During the second quarter of 2007, the Fund made a strategic investment in common shares of Call Genie Inc. ("Call Genie"). Call Genie is a leading provider of enhanced voice enabled mobile local search products and services to wireless carriers, directory assistance providers and directory publishers. The investment is classified as available for sale and is recorded at fair value.

5. Employee benefit plans

The total net benefit plan costs for the three-month and nine-month periods ended September 30, 2007 were \$3.2 million (2006 - \$1.6 million) and \$9.7 million (2006 - \$7.7 million) for pension benefits. Other benefits costs totalled \$0.9 million (2006 - \$0.7 million) and \$2.7 million (2006 - \$2.7 million) for the same periods.

6. Deferred credits

| | September 30, 2007 | December 31, 2006 |
|--|--------------------|-------------------|
| Lease inducements | \$ 26,505 | \$ 24,985 |
| Net deferred gain on hedging activities (Note 1) | - | 18,963 |
| | \$ 26,505 | \$ 43,948 |

7. Long-term debt

| | September 30, 2007 | | | |
|--|---------------------|--------------------------------------|--------------------------|---------------------|
| | Principal amount | Fair value adjustment of hedged item | Deferred financing costs | Total |
| Medium Term Notes | \$ 2,050,000 | \$ 13,767 | \$ (17,382) | \$ 2,046,385 |
| Revolving credit facilities | 70,000 | - | - | 70,000 |
| Commercial paper | 19,000 | - | - | 19,000 |
| Obligations under capital leases | 17,368 | - | - | 17,368 |
| | 2,156,368 | 13,767 | (17,382) | 2,152,753 |
| Less current portion of long-term debt | 4,133 | - | - | 4,133 |
| | \$ 2,152,235 | \$ 13,767 | \$ (17,382) | \$ 2,148,620 |

7. Long-term debt (continued)

| | December 31, 2006 |
|--|---------------------|
| Medium Term Notes | \$ 2,050,000 |
| Commercial paper | 242,800 |
| Obligations under capital leases | 11,033 |
| | 2,303,833 |
| Less current portion of long-term debt | 2,155 |
| | \$ 2,301,678 |

Due to the adoption of the new accounting policies as described in Note 1, the Fund has reclassified the deferred financing costs and deferred gains on fair value hedging relationships to the actual debt for which they were incurred.

8. Exchangeable debentures

| | September 30, 2007 | December 31, 2006 |
|-----------------------------------|--------------------|-------------------|
| Principal amount | \$ 300,000 | \$ 300,000 |
| Equity component | (12,542) | (12,542) |
| Accretion | 2,707 | 1,043 |
| Deferred financing costs (Note 1) | (10,781) | - |
| | \$ 279,384 | \$ 288,501 |

9. Preferred shares

| | September 30, 2007 |
|--------------------------------------|--------------------|
| Shares issued, Series 1 and Series 2 | \$ 500,000 |
| Derivative component | 1,586 |
| Accretion | (36) |
| Deferred financing costs | (14,757) |
| | \$ 486,793 |

a) Series 1

On March 6, 2007, YPG Holdings Inc. issued 12,000,000 Series 1 cumulative redeemable first preferred shares ("Series 1 shares") for net proceeds of \$291 million after deducting underwriters' fees in the amount of \$8 million and other issuance costs of \$1 million.

Voting rights

All of the issued and outstanding Series 1 shares are non-voting, except under special circumstances when the holders are entitled to one vote per share.

Entitlement to dividends

The holders of the Series 1 shares are entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, in an amount equal to \$1.0625 per Series 1 share per annum, payable quarterly.

9. Preferred shares (continued)

Redemption by the issuer

On or after March 31, 2012, YPG Holdings Inc. may, at its option, redeem at par for cash the Series 1 shares, in whole or in part. Also, on or after March 31, 2012, and prior to December 31, 2012, YPG Holdings Inc. may, at its option, exchange the outstanding Series 1 shares, in whole or in part, into freely-tradable units of the Fund. In addition, the Series 1 shares will be redeemable at a premium in cash or exchangeable at the option of YPG Holdings Inc., in whole into Units of the Fund on or after March 31, 2007 provided that any exchange prior to March 31, 2012 shall be limited to circumstances in which the Series 1 shares are entitled to vote separately as a class or series by law or court order. This option meets the definition of an embedded derivative under GAAP and is recorded at fair value on the consolidated balance sheet with changes in fair value recognized in earnings.

Redemption by the holder

On or after December 31, 2012, each preferred share is redeemable, at the option of the holder, at a price equal to \$25.00 per share plus any accrued and unpaid dividends in arrears.

b) Series 2

On June 8, 2007, YPG Holdings Inc. issued 8,000,000 Series 2 cumulative redeemable first preferred shares ("Series 2 shares") for net proceeds of \$193 million after deducting underwriters' fees in the amount of \$6 million and other issuance costs of \$1 million.

Voting rights

All of the issued and outstanding Series 2 shares are non-voting, except under special circumstances when the holders are entitled to one vote per share.

Entitlement to dividends

The holders of the Series 2 shares are entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, in an amount equal to \$1.25 per Series 2 share per annum, payable quarterly.

Redemption by the issuer

On or after June 30, 2012, YPG Holdings Inc. may, at its option, redeem for cash the Series 2 shares, in whole or in part at a decreasing premium until June 30, 2016 and at par thereafter. Also, on or after June 30, 2012, and prior to June 30, 2017, YPG Holdings Inc. may, at its option, exchange the outstanding Series 2 shares, in whole or in part, into freely-tradable Units of the Fund at a decreasing premium until June 30, 2016 and at par thereafter. In addition, the Series 2 shares will be redeemable at a premium in cash or exchangeable at the option of YPG Holdings Inc., in whole into Units of the Fund on or after June 30, 2007 provided that any exchange prior to June 30, 2012 shall be limited to circumstances in which the Series 2 shares are entitled to vote separately as a class or series by law or court order. This option meets the definition of an embedded derivative under GAAP and is recorded at fair value on the consolidated balance sheet with changes in fair value recognized in earnings.

Redemption by the holder

On or after June 30, 2017, each preferred share is redeemable, at the option of the holder, at a price equal to \$25.00 per share plus any accrued and unpaid dividends in arrears.

10. 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.

| | September 30, 2007 | | |
|--|--------------------|-----------|------------------|
| | Number of Units | | Amount |
| Balance, December 31, 2006 | 532,067,956 | \$ | 6,305,850 |
| Units issued | 1,086,627 | | 15,140 |
| Balance, September 30, 2007^{(1),(2)} | 533,154,583 | \$ | 6,320,990 |

| | September 30, 2006 | | |
|--|--------------------|-----------|------------------|
| | Number of Units | | Amount |
| Balance, December 31, 2005 | 472,245,176 | \$ | 5,381,984 |
| Units issued ⁽¹⁾ (net of issuance costs of \$28.1 million and before related income taxes of \$9.3 million) | 59,776,746 | | 923,280 |
| Balance, September 30, 2006^{(1),(2)} | 532,021,922 | \$ | 6,305,264 |

(1) Includes 14,000,000 (2006 - 19,000,000) Exchangeable Units of YPG LP issued as partial consideration of the Trader Media Corp. acquisition, 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 2,335,323 Restricted Units (2006 - 1,184,366) pursuant to the Restricted Unit Plan.

Warrants

| | Number of Warrants | | Amount |
|--|-----------------------|-----------|--------------|
| Balance at December 31, 2006 and September 30, 2007 | 12,500,000 | \$ | 6,250 |

Exercise of options

During the third quarter of 2007, optionholders exercised 42,352 options at an exercise price of \$3.92 per option for cash consideration of \$0.2 million. These options were exercised into 42,352 shares of YPG Holdings Inc. which were automatically exchanged into 42,352 units of the Fund pursuant to the Optionholders' Liquidity Agreement, at an average stated value of approximately \$13.99 per share, which in turn were exchanged into units of YPG LP. This transaction gave rise to an increase in goodwill of \$0.4 million.

During the nine-month period ended September 30, 2007, optionholders exercised 1,086,627 options at an exercise price of \$3.92 per option for cash consideration of \$4.3 million. These options were exercised into 1,086,627 shares of YPG Holdings Inc. which were automatically exchanged into 1,086,627 units of the Fund pursuant to the Optionholders' Liquidity Agreement, at an average stated value of approximately \$13.93 per share, which in turn were exchanged into units of YPG LP. This transaction gave rise to an increase in goodwill of \$10.9 million.

10. Unitholders' capital (continued)

Earnings per unit

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

| | For the three-month periods ended September 30, | | For the nine-month periods ended September 30, | |
|---|--|-------------|---|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Weighted average number of units outstanding used in computing basic earnings per unit | 530,752,506 | 516,695,886 | 530,537,607 | 503,272,021 |
| Dilutive effect of options | 1,019,286 | 2,137,167 | 1,446,529 | 2,493,245 |
| Dilutive effect of Restricted Units | 2,394,379 | 1,175,931 | 2,184,177 | 886,382 |
| Dilutive effect of Preferred shares | 37,425,150 | - | 24,375,090 | - |
| Dilutive effect of Exchangeable debentures | 22,476,119 | - | 24,479,804 | - |
| Weighted average number of units outstanding used in computing diluted earnings per unit | 594,067,440 | 520,008,984 | 583,023,207 | 506,651,648 |

11. Distributions to unitholders

The Fund's distribution policy is to make distributions of its available cash to the maximum extent possible to Unitholders, taking into account the current and prospective performance, amounts to service debt obligations, maintenance capital expenditures, taxes and other items.

During the nine-month period ended September 30, 2007, the Fund declared total distributions to Unitholders of \$433.8 million (2006 - \$388.5 million) or \$0.8175 per unit (2006 - \$0.7667).

12. Stock-based compensation plans

The Fund's stock-based compensation plans consist of the Restricted Unit Plan and a Stock Option Plan.

Restricted Unit Plan

On August 30, 2004, YPG LP, through its general partner YPG GP, established the YPG Co. Restricted Unit Plan (the "RU Plan") to encourage ownership of units, to enhance YPG Co's ability to attract, motivate and retain key personnel, to reward the participants for significant performance and associated growth in distributable cash of the Fund and to align the interests of the participants and the Unitholders of the Fund.

Employees who were awarded units under the RU Plan prior to January 1, 2006 (pre-2006 grants), were granted Restricted Units in equal proportions between time-based vesting and performance-based vesting criteria. During the years 2006 and 2007, YPG LP awarded Restricted Units to key employees for the period from 2006 to 2009 which are performance-based vesting only and also awarded Restricted Units to non-executive directors of YPG GP, the general partner of YPG LP, which are time-based vesting only.

The following table summarizes the status of the grants:

| | For the nine-month period ended September 30, 2007 | |
|-----------------------------------|--|----------------------|
| | Number of Restricted Units | |
| | Pre-2006 Grants | 2006 and 2007 Grants |
| Outstanding, beginning of period | 204,437 | 515,012 |
| Granted | - | 615,252 |
| Vested | (122,160) | - |
| Forfeited | (27,658) | (21,914) |
| Cash distributions reinvested | 11,967 | 55,690 |
| Outstanding, end of period | 66,586 | 1,164,040 |

| | For the nine-month period ended September 30, 2006 | |
|----------------------------------|--|-------------|
| | Number of Restricted Units | |
| | Pre-2006 Grants | 2006 Grants |
| Outstanding, beginning of period | 204,578 | - |
| Granted | - | 499,203 |
| Cash distributions reinvested | 10,415 | 28,081 |
| Outstanding, end of period | 214,993 | 527,284 |

During the nine-month period ended September 30, 2007, an amount of \$8.3 million (2006 - \$8.3 million) representing 615,252 (2006 - 499,203) Restricted units were granted at an average market price of \$13.49 (2006 - \$16.62). Except for pre-2006 grants and 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, \$15.4 million (2006 - \$15.7 million) was used to purchase 1,214,243 (2006 - 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. As at September 30, 2007 there were 53,917 Restricted Units which were not allocated to any specific employee and 1,050,780 (2006 - 442,089) Restricted Units representing the portion which provides for a 200% pay-out. In addition, an amount of \$1.7 million (2006 - \$0.5 million) was used to reinvest in 121,024 (2006 - 35,411) Restricted Units using the proceeds from the distributions on the Restricted Units held in escrow.

Total compensation expense for the three-month and nine-month periods ended September 30, 2007 of \$2.4 million (2006 - \$1.5 million) and \$7.1 million (2006 - \$4.5 million) respectively, was recorded in the interim consolidated statements of earnings.

12. Stock-based compensation plans (continued)

Stock Options

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

| | For the nine-month period ended September 30, 2007 | |
|-----------------------------------|--|--|
| | Number of options | Weighted average exercise price per option |
| Outstanding, beginning of period | 2,055,300 | \$ 3.92 |
| Exercised | (1,086,627) | 3.92 |
| Cancelled | (16,274) | 3.92 |
| Reinstatement | 59,189 | 3.92 |
| Outstanding, end of period | 1,011,588 | \$ 3.92 |
| Exercisable, end of period | 125,342 | \$ 3.92 |

| | For the nine-month period ended September 30, 2006 | |
|----------------------------------|--|--|
| | Number of options | Weighted average exercise price per option |
| Outstanding, beginning of period | 3,006,321 | \$ 3.92 |
| Exercised | (776,746) | 3.92 |
| Cancelled | (113,415) | 3.92 |
| Outstanding, end of period | 2,116,160 | \$ 3.92 |
| Exercisable, end of period | 204,410 | \$ 3.92 |

Compensation expense for the three-month and nine-month periods ended September 30, 2007 of \$0.1 million (2006 - \$0.1 million) and \$0.3 million (2006 - \$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.

13. Financial charges, net

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

| | For the three-month periods ended September 30, | | For the nine-month periods ended September 30, | |
|--|--|------------------|---|------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Interest on Medium Term Notes | \$ 27,200 | \$ 27,056 | \$ 81,403 | \$ 79,263 |
| Interest on Revolving credit facilities | 209 | - | 209 | - |
| Interest on Exchangeable debentures, net of accretion | 4,125 | 3,933 | 12,401 | 3,933 |
| Interest on Term facilities | - | 3,410 | - | 5,299 |
| Interest on Commercial paper | 946 | 372 | 5,065 | 2,061 |
| Standby fees and other financial charges (income), net | 166 | (952) | 198 | (2,101) |
| Other charges related to derivative financial instruments and swaps | (1,206) | - | (1,206) | 6,383 |
| Amortization of deferred financing costs | 2,097 | 1,152 | 4,280 | 2,084 |
| Write-off of deferred financing costs | - | 2,127 | - | 2,127 |
| Accretion on Exchangeable debentures | 564 | 507 | 1,664 | 507 |
| Accretion on Preferred shares | (36) | - | (36) | - |
| Foreign exchange loss (gain) | 99 | 91 | 102 | (77) |
| | \$ 34,164 | \$ 37,696 | \$ 104,080 | \$ 99,479 |

14. Supplemental disclosure of cash flow information

| | For the three-month periods ended September 30, | | For the nine-month periods ended September 30, | |
|--|--|-----------|---|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| Interest paid | \$ 38,264 | \$ 32,878 | \$ 107,127 | \$ 73,136 |
| Dividends on Preferred shares paid | \$ 6,202 | \$ - | \$ 10,149 | \$ - |
| Income taxes (recovered) paid | \$ (1,460) | \$ 4,258 | \$ 1,770 | \$ 10,024 |
| Additions to capital assets under capital leases | \$ 468 | \$ 602 | \$ 9,444 | \$ 3,346 |
| Additions to capital assets included in accounts payable and accrued liabilities | \$ 3,088 | \$ 8,025 | \$ 3,088 | \$ 8,025 |

15. Restructuring and special charges

In connection with the acquisitions of Advertising Directory Solutions Holdings Inc. ("ADS"), Trader, MTS Media ("MTS") and Aliant, the Fund recorded provisions for restructuring and special charges of \$25.8 million, \$38.7 million, \$8.3 million and \$0.9 million, respectively. The Fund has adopted a formal plan 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. During the first six months of 2007, the Fund revised its initial estimates of these provisions. As a result, the allocation of the purchase prices were revised which resulted in a reduction of goodwill of \$9.7 million before related income taxes of \$3.1 million.

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

| | Restructuring charges | Other special Charges | Total |
|---|--------------------------|--------------------------|------------------|
| Balance, as at December 31, 2006 | \$ 26,605 | \$ 13,449 | \$ 40,054 |
| Provision related to the acquisition of Aliant | 452 | 425 | 877 |
| Utilized in 2007: | | | |
| Cash | (11,404) | (1,882) | (13,286) |
| Provisions related to the acquisitions recorded as a reduction of goodwill | (8,499) | (1,221) | (9,720) |
| Balance as at September 30, 2007 | \$ 7,154 | \$ 10,771 | \$ 17,925 |

16. 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 indemnifying 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, 2007 with respect to this indemnity. Pursuant to the acquisitions of ADS, Trader Media Corp. ("TMC"), Classified Media (Canada) Holdings Inc. ("Trader Canada"), MTS, Aliant and LesPAC, 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 these agreements and (ii) any breach of a representation contained herein. Furthermore, agreements entered into by TMC and Trader Canada prior to the acquisition contains indemnifications similar to the ones just described. No amount has been accrued in the interim consolidated balance sheet as of September 30, 2007, 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.

17. Segmented information

The Fund's reportable segments consist of strategic business units that offer different products. Following the acquisition of Trader, management has determined that the Fund operates in two reportable segments: Directories and Vertical Media. The Directories segment operates in print and online directories, and specialized publications. The Vertical Media segment operates in the vertical print publications and web sites by topic or area of interest. The accounting policies of the segments are the same as those used for the consolidated financial statements.

The tables below summarize the selected financial information by segment:

| For the three-month period ended September 30, 2007 | | | |
|--|--------------------|-----------------------|---------------------|
| | Directories | Vertical Media | Consolidated |
| Revenues | \$ 330,505 | \$ 86,002 | \$ 416,507 |
| Operating costs | 131,249 | 56,756 | 188,005 |
| Income from operations before depreciation and amortization | 199,256 | 29,246 | 228,502 |
| Depreciation and amortization | 53,027 | 11,719 | 64,746 |
| Income from operations | \$ 146,229 | \$ 17,527 | \$ 163,756 |

| For the nine-month period ended September 30, 2007 | | | |
|--|--------------------|-----------------------|---------------------|
| | Directories | Vertical Media | Consolidated |
| Revenues | \$ 959,893 | \$ 251,965 | \$ 1,211,858 |
| Operating costs | 386,843 | 172,751 | 559,594 |
| Income from operations before depreciation and amortization | 573,050 | 79,214 | 652,264 |
| Depreciation and amortization | 124,579 | 34,179 | 158,758 |
| Income from operations | \$ 448,471 | \$ 45,035 | \$ 493,506 |

| For the three-month period ended September 30, 2006 | | | |
|--|--------------------|-----------------------|---------------------|
| | Directories | Vertical Media | Consolidated |
| Revenues | \$ 288,956 | \$ 80,919 | \$ 369,875 |
| Operating costs | 116,591 | 55,013 | 171,604 |
| Income from operations before depreciation and amortization | 172,365 | 25,906 | 198,271 |
| Depreciation and amortization | 22,854 | 10,778 | 33,632 |
| Income from operations | \$ 149,511 | \$ 15,128 | \$ 164,639 |

| For the nine-month period ended September 30, 2006 | | | |
|--|--------------------|-----------------------|---------------------|
| | Directories | Vertical Media | Consolidated |
| Revenues | \$ 855,715 | \$ 150,254 | \$ 1,005,969 |
| Operating costs | 354,004 | 102,905 | 456,909 |
| Income from operations before depreciation and amortization | 501,711 | 47,349 | 549,060 |
| Depreciation and amortization | 114,767 | 20,377 | 135,144 |
| Income from operations | \$ 386,944 | \$ 26,972 | \$ 413,916 |

17. Segmented information (continued)

| | September 30, 2007 | | |
|-----------------------------|--------------------|----------------|--------------|
| | Directories | Vertical Media | Consolidated |
| Additions to capital assets | \$ 24,842 | \$ 36,455 | \$ 61,297 |
| Additions to intangibles | \$ - | \$ 20 | \$ 20 |
| Intangibles | \$ 1,732,685 | \$ 336,576 | \$ 2,069,261 |
| Goodwill | \$ 5,606,635 | \$ 963,387 | \$ 6,570,022 |
| Total assets | \$ 7,854,687 | \$ 1,410,945 | \$ 9,265,632 |

| | December 31, 2006 | | |
|-----------------------------|-------------------|----------------|--------------|
| | Directories | Vertical Media | Consolidated |
| Additions to capital assets | \$ 57,126 | \$ 6,772 | \$ 63,898 |
| Additions to intangibles | \$ 2,460 | \$ - | \$ 2,460 |
| Intangibles | \$ 1,671,886 | \$ 346,328 | \$ 2,018,214 |
| Goodwill | \$ 5,430,493 | \$ 964,287 | \$ 6,394,780 |
| Total assets | \$ 7,601,580 | \$ 1,401,667 | \$ 9,003,247 |

18. Effect of new accounting standards not yet implemented

Financial Instruments

The CICA has issued new accounting standards which are effective for fiscal years beginning on or after October 1, 2007.

a) Section 3862, *Financial Instruments – Disclosures*. This section describes the required disclosures related to the significance of financial instruments on the Fund's financial position and performance and the nature and extent of risks arising for financial instruments to which the Fund is exposed and how the Fund manages those risks. This Section complements the principles of recognition, measurement, and presentation of financial instruments of Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3863, *Financial Instruments – Presentation* and Section 3865, *Hedges*.

b) Section 3863, *Financial Instruments – Presentation*. This section establishes standards for presentation of financial instruments and non-financial derivatives. It complements standards of Section 3861, *Financial Instruments – Disclosure and Presentation*.

c) Section 1535, *Capital Disclosures*. This section establishes standards for disclosing information about an entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital.

The Fund is currently evaluating the impact of the adoption of these new sections on the consolidated financial statements.

19. Comparative figures

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