

*Interim consolidated financial statements of*

**YELLOW PAGES INCOME FUND**

*March 31, 2007*

# **YELLOW PAGES INCOME FUND**

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# YELLOW PAGES INCOME FUND

## Interim Consolidated Balance Sheet

(in thousands of Canadian dollars - unaudited)

	As at March 31, 2007	As at December 31, 2006
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 83,093	\$ 57,408
Accounts receivable	190,180	182,058
Prepaid expenses	9,202	8,312
Deferred publication costs	107,188	107,014
Future income taxes	29,860	36,232
	<b>419,523</b>	<b>391,024</b>
DEFERRED PUBLICATION COSTS	6,950	6,592
CAPITAL ASSETS	144,718	134,743
OTHER ASSETS (Note 3)	470	30,683
DERIVATIVE FINANCIAL INSTRUMENTS	274	-
ACCRUED BENEFIT ASSETS	3,727	6,359
INTANGIBLES	1,984,269	2,018,214
GOODWILL	6,397,183	6,394,780
FUTURE INCOME TAXES	14,953	20,852
	<b>\$ 8,972,067</b>	<b>\$ 9,003,247</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 201,366	\$ 208,337
Distributions payable	48,360	48,328
Deferred revenues	84,524	88,930
Current portion of long-term debt (Note 6)	3,097	2,155
	<b>337,347</b>	<b>347,750</b>
DEFERRED CREDITS (Note 5)	24,864	43,948
FUTURE INCOME TAXES	126,734	134,054
ACCRUED BENEFIT LIABILITIES	56,072	55,772
LONG-TERM DEBT (Note 6)	2,056,827	2,301,678
EXCHANGEABLE DEBENTURES (Note 7)	277,103	288,501
PREFERRED SHARES (Note 8)	291,138	-
UNITHOLDERS' EQUITY	5,801,982	5,831,544
	<b>\$ 8,972,067</b>	<b>\$ 9,003,247</b>

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

**YELLOW PAGES INCOME FUND**  
**Interim Consolidated Statements of Earnings**  
**For the three-month periods ended March 31,**  
(in thousands of Canadian dollars, except per unit information - unaudited)

	<b>2007</b>	<b>2006</b>
Revenues	\$ <b>384,241</b>	\$ 295,770
Operating costs	<b>180,798</b>	128,188
Income from operations before depreciation and amortization	<b>203,443</b>	167,582
Depreciation and amortization	<b>44,030</b>	58,712
Income from operations	<b>159,413</b>	108,870
Financial charges, net (Note 12)	<b>35,088</b>	27,782
Earnings before dividends on preferred shares and income taxes	<b>124,325</b>	81,088
Dividends on preferred shares	<b>908</b>	-
Earnings before income taxes	<b>123,417</b>	81,088
Provision for (recovery of) income taxes	<b>2,466</b>	(4,145)
Net earnings	\$ <b>120,951</b>	\$ 85,233
Basic earnings per unit	\$ <b>0.23</b>	\$ 0.17
Weighted average number of units outstanding used in computing earnings per unit (Note 9)	<b>530,480,603</b>	487,118,171
Diluted earnings per unit	\$ <b>0.22</b>	\$ 0.17
Weighted average number of units outstanding used in computing diluted earnings per unit (Note 9)	<b>563,521,694</b>	490,462,608

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

# YELLOW PAGES INCOME FUND

## Interim Consolidated Statement of Comprehensive Income

(in thousands of Canadian dollars - unaudited)

	<b>For the three-month period ended March 31, 2007</b>
<b>Net earnings</b>	<b>\$ 120,951</b>
<b>Other comprehensive loss, net of related income taxes:</b>	
Gains on derivatives designated as cash flow hedges in prior periods transferred to earnings in the current period	<b>(69)</b>
<b>Other comprehensive loss</b>	<b>(69)</b>
<b>Comprehensive income</b>	<b>\$ 120,882</b>

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 three-month  
period ended  
March 31, 2007

	Unitholders' Capital (Note 9)	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	4,624	-	-	-	-	-	-	4,624
Restricted units (Note 11)	-	-	-	(15,617)	2,322	-	-	(13,295)
Distributions (Note 10)	-	-	-	-	-	-	(144,615)	(144,615)
Obligations under stock options granted (Note 11)	-	-	-	-	103	-	-	103
Other comprehensive loss	-	-	-	-	-	(69)	-	(69)
Net earnings for the period	-	-	-	-	-	-	120,951	120,951
<b>Balance, March 31, 2007</b>	<b>\$ 6,310,474</b>	<b>\$ 6,250</b>	<b>\$ 12,542</b>	<b>\$ (34,804)</b>	<b>\$ 9,940</b>	<b>\$ 2,133</b>	<b>\$ (504,553)</b>	<b>\$ 5,801,982</b>

For the three-month  
period ended  
March 31, 2006

	Unitholders' Capital (Note 9)	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	551,409	-	-	-	551,409
Restricted units (Note 11)	-	(13,886)	1,382	-	(12,504)
Distributions (Note 10)	-	-	-	(123,773)	(123,773)
Obligations under stock options granted (Note 11)	-	-	103	-	103
Net earnings for the period	-	-	-	85,233	85,233
<b>Balance, March 31, 2006</b>	<b>\$ 5,933,393</b>	<b>\$ (16,505)</b>	<b>\$ 3,244</b>	<b>\$ (424,020)</b>	<b>\$ 5,496,112</b>

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

**YELLOW PAGES INCOME FUND**  
**Interim Consolidated Statements of Cash Flows**  
**For the three-month periods ended March 31,**  
(in thousands of Canadian dollars - unaudited)

	2007	2006
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 120,951	\$ 85,233
Items not affecting cash and cash equivalents:		
Depreciation and amortization	44,030	58,712
Amortization of deferred financing costs	1,197	412
Accretion on Exchangeable Debentures	549	-
Net benefit plans cost	2,932	3,197
Other non-cash items	1,940	2,357
Future income taxes	3,300	(4,044)
Change in operating assets and liabilities	(22,437)	(35,431)
	<b>152,462</b>	<b>110,436</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of capital assets	(17,804)	(11,776)
Business acquisition, net of cash acquired	-	(131,216)
Proceeds from lease inducements	1,826	184
Acquisition of intangibles	(20)	(10)
	<b>(15,998)</b>	<b>(142,818)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of long-term debt	-	249,669
Repayment of long-term debt	(243,506)	(181,938)
Distributions to Unitholders	(144,583)	(118,081)
Issuance of units, net	-	242,081
Proceeds from exercise of options (Note 9)	1,387	958
Issuance of preferred shares	300,000	-
Purchase of restricted units	(15,617)	(13,886)
Deferred financing costs	(8,460)	(964)
	<b>(110,779)</b>	<b>177,839</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>25,685</b>	<b>145,457</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>57,408</b>	<b>49,420</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 83,093</b>	<b>\$ 194,877</b>

Cash and cash equivalents consist of:

Cash	\$ 13,764	\$ 9,877
Short-term investments	69,329	185,000
	<b>\$ 83,093</b>	<b>\$ 194,877</b>
<b>Supplemental disclosure</b>		
Interest paid	\$ 40,169	\$ 11,181
Income taxes paid	\$ 1,023	\$ 2,606
Capital assets under capital leases	\$ 1,987	\$ 2,744
Additions to capital assets included in accounts payable and accrued liabilities	\$ 6,753	\$ 6,783

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

# YELLOW PAGES INCOME FUND

## Notes to the Interim Consolidated Financial Statements

### March 31, 2007

(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 (the “Trust”), YPG General Partner Inc. (“YPG GP”), YPG LP, YPG Holdings Inc., Yellow Pages Group Co. (“YPG Co.”) and those of Trader Corporation (“Trader”). 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 retroactive basis without restatement.

### *Financial instruments*

The CICA has issued three new accounting standards which were effective for fiscal years beginning on or after October 1, 2006.

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.

# YELLOW PAGES INCOME FUND

## Notes to the Interim Consolidated Financial Statements

### March 31, 2007

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

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## 1. BASIS OF PRESENTATION (continued)

### 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.

### 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 and adjusted by a debit of \$0.2 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.

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.

# YELLOW PAGES INCOME FUND

## Notes to the Interim Consolidated Financial Statements

### March 31, 2007

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

#### 1. BASIS OF PRESENTATION (continued)

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 3)	\$ (30,376)
Derivative financial instruments - assets	\$ 636
Net deferred gain on hedging activities (Note 5)	\$ (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

#### 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, Alberta and Manitoba.

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.

#### 3. OTHER ASSETS

	March 31, 2007	December 31, 2006
Deferred financing costs (Note 1)	\$ -	\$ 30,376
Other	470	307
	\$ 470	\$ 30,683

#### 4. EMPLOYEE BENEFIT PLANS

The total net benefit plan cost for the three-month period ended March 31, 2007 was \$2.9 million (2006 - \$3.7 million) for pension benefits. Other benefits costs totalled \$0.5 million (2006 - \$0.9 million) for the same period.

**YELLOW PAGES INCOME FUND**  
**Notes to the Interim Consolidated Financial Statements**  
**March 31, 2007**

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

**5. DEFERRED CREDITS**

	<b>March 31, 2007</b>	December 31, 2006
Lease inducements	\$ 24,864	\$ 24,985
Net deferred gain on hedging activities (Note 1)	-	18,963
	<b>\$ 24,864</b>	<b>\$ 43,948</b>

**6. LONG-TERM DEBT**

	<b>March 31, 2007</b>			
	<b>Principal amount</b>	<b>Fair value adjustment of hedged item</b>	<b>Deferred financing costs</b>	<b>Total</b>
Medium Term Notes	\$ 2,050,000	\$ 16,079	\$ (18,469)	<b>\$ 2,047,610</b>
Obligations under capital leases	12,104	-	-	<b>12,104</b>
Note payable	210	-	-	<b>210</b>
	2,062,314	16,079	(18,469)	<b>2,059,924</b>
Less current portion of long-term debt	3,097	-	-	<b>3,097</b>
	<b>\$ 2,059,217</b>	<b>\$ 16,079</b>	<b>\$ (18,469)</b>	<b>\$ 2,056,827</b>

	December 31, 2006	
Medium Term Notes	\$	2,050,000
Commercial paper		242,800
Obligations under capital leases		10,823
Note payable		210
		<b>2,303,833</b>
Less current portion of long-term debt		2,155
	<b>\$</b>	<b>2,301,678</b>

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.

**YELLOW PAGES INCOME FUND**  
**Notes to the Interim Consolidated Financial Statements**  
**March 31, 2007**

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

**7. EXCHANGEABLE DEBENTURES**

	<b>March 31, 2007</b>	December 31, 2006
Principal amount	<b>\$ 300,000</b>	\$ 300,000
Equity component	<b>(12,542)</b>	(12,542)
Accretion	<b>1,592</b>	1,043
Deferred financing costs (Note 1)	<b>(11,947)</b>	-
	<b>\$ 277,103</b>	\$ 288,501

**8. PREFERRED SHARES**

	<b>March 31, 2007</b>
Shares issued	<b>\$ 300,000</b>
Deferred financing costs	<b>(8,862)</b>
	<b>\$ 291,138</b>

On March 6, 2007, YPG Holdings Inc. issued 12,000,000 Series 1 cumulative redeemable first preferred shares ("preferred 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 preferred shares at March 31, 2007 were non-voting, except under special circumstances when the holders are entitled to one vote per share.

**Entitlement to dividends**

The holders of the preferred shares will be 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 preferred share per annum, payable quarterly.

**Redemption by the Issuer**

On or after March 31, 2012, YPG Holdings Inc. may, at its option, redeem for cash the preferred shares, in whole or in part. Also, on and after March 31, 2012, and prior to December 31, 2012, YPG Holdings Inc. may, at its option, exchange the outstanding preferred shares, in whole or in part, into freely-tradable Units of the Fund. In addition, the preferred shares will be redeemable 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 preferred shares are entitled to vote separately as a class or series by law or court order.

**YELLOW PAGES INCOME FUND**  
**Notes to the Interim Consolidated Financial Statements**  
**March 31, 2007**

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

**8. PREFERRED SHARES (continued)**

**Redemption by the Holder**

On and 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.

**9. 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.

Issued and outstanding:

	<b>March 31, 2007</b>	
	<b>Number of Units</b>	<b>Amount</b>
Balance, December 31, 2006	<b>532,067,956</b>	<b>\$ 6,305,850</b>
Units issued	<b>354,020</b>	<b>4,624</b>
<b>Balance, March 31, 2007 <sup>(1),(2)</sup></b>	<b>532,421,976</b>	<b>\$ 6,310,474</b>

	<b>March 31, 2006</b>	
	<b>Number of Units</b>	<b>Amount</b>
Balance, December 31, 2005	472,245,176	\$ 5,381,984
Units issued <sup>(1)</sup> (net of issuance costs of \$11.1 million and before related income taxes of \$3.9 million)	34,244,449	551,409
<b>Balance, March 31, 2006 <sup>(1),(2)</sup></b>	<b>506,489,625</b>	<b>\$ 5,933,393</b>

(1) Includes 15,000,000 (2006 - 19,000,000) Exchangeable Units of YPG LP issued as partial consideration of the 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 2,358,068 Restricted units (2006 - 1,034,756) pursuant to the Restricted Unit Plan.

**YELLOW PAGES INCOME FUND**  
**Notes to the Interim Consolidated Financial Statements**  
**March 31, 2007**

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

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

**Warrants**

	<b>Number of Warrants</b>	<b>Amount</b>
<b>Balance at December 31, 2006 and March 31, 2007</b>	<b>12,500,000</b>	<b>\$ 6,250</b>

**Exercise of options**

During the first quarter of 2007, optionholders exercised 354,020 options at an exercise price of \$3.92 per option for cash consideration of \$1.4 million. These options were exercised into 354,020 shares of YPG Holdings Inc. which were automatically exchanged into 354,020 units of the Fund pursuant to the Optionholders' Liquidity Agreement, at an average stated value of approximately \$13.07 per share, which in turn were exchanged into units of YPG LP. This transaction gave rise to an increase in goodwill of \$3.2 million.

**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:

	<b>For the three-month period ended March 31, 2007</b>	<b>For the three-month period ended March 31, 2006</b>
Weighted average number of units outstanding used in computing basic earnings per unit	<b>530,480,603</b>	487,118,171
Dilutive effect of options	<b>1,922,461</b>	2,925,700
Dilutive effect of Restricted Units	<b>1,766,757</b>	418,737
Dilutive effect of preferred shares	<b>6,744,488</b>	
Dilutive effect of Exchangeable Debentures	<b>22,607,385</b>	-
Weighted average number of units outstanding used in computing diluted earnings per unit	<b>563,521,694</b>	490,462,608

**10. 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.

**YELLOW PAGES INCOME FUND**  
**Notes to the Interim Consolidated Financial Statements**  
**March 31, 2007**

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

**10. DISTRIBUTIONS TO UNITHOLDERS (continued)**

During the three-month period ended March 31, 2007, the Fund declared total distributions to Unitholders of \$144.6 million (2006 - \$123.8 million) or \$0.2725 per unit (2006 - \$0.2517).

**11. 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 executives for the period from 2006 to 2008 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:

	<b>For the three-month period ended March 31, 2007</b>	
	<b>Number of Restricted Units</b>	
	<b>Pre-2006 grants</b>	<b>2006 and 2007 Grants</b>
Outstanding, beginning of period	<b>204,437</b>	<b>515,012</b>
Granted	-	<b>601,763</b>
Forfeited	-	<b>(1,299)</b>
Cash distributions reinvested	<b>3,840</b>	<b>9,672</b>
<b>Outstanding, end of period</b>	<b>208,277</b>	<b>1,125,148</b>
<b>Vested, end of period</b>	-	-

**YELLOW PAGES INCOME FUND**  
**Notes to the Interim Consolidated Financial Statements**  
**March 31, 2007**

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

**11. STOCK-BASED COMPENSATION PLANS (continued)**

	For the three-month period ended March 31, 2006	
	Number of Restricted Units	
	Pre-2006 Grants	2006 Grants
Outstanding, beginning of period	204,578	-
Granted	-	455,089
Cash distributions reinvested	-	-
<b>Outstanding, end of period</b>	<b>204,578</b>	<b>455,089</b>
<b>Vested, end of period</b>	<b>-</b>	<b>-</b>

During the quarter, an amount of \$8.1 million representing 601,763 Restricted units were granted at an average market price of \$13.50. 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, \$15.3 million was used to purchase 1,130,264 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 March 31, 2007 there were no Restricted Units which were not allocated to any specific employee and 1,024,643 Restricted Units representing the portion which provides for a 200% pay-out. In addition, an amount of \$0.3 million was used to reinvest in 22,714 Restricted Units using the proceeds from the distributions on the Restricted Units held in escrow.

Total compensation expense for the three-month period ended March 31, 2007 of \$2.3 million (2006 - \$1.4 million) was recorded in the interim consolidated statements of earnings.

**Stock Options**

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

	For the three-month period ended March 31, 2007	
	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	2,055,300	\$ 3.92
Exercised	(354,020)	3.92
Cancelled	(3,312)	3.92
Reinstatement	59,189	3.92
<b>Outstanding, end of period</b>	<b>1,757,157</b>	<b>\$ 3.92</b>
<b>Exercisable, end of period</b>	<b>319,192</b>	<b>\$ 3.92</b>

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**11. STOCK-BASED COMPENSATION PLANS (continued)**

	For the three-month period ended March 31, 2006	
	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	3,006,321	\$ 3.92
Exercised	(244,449)	3.92
Cancelled	-	3.92
<b>Outstanding, end of period</b>	<b>2,761,872</b>	<b>\$ 3.92</b>
<b>Exercisable, end of period</b>	<b>151,603</b>	<b>\$ 3.92</b>

Compensation expense of \$0.1 million (2006 - \$0.1 million) was recorded in the interim consolidated statements of earnings for the three-month period ended March 31, 2007. No options have been granted to employees and non-employees since the inception of the Fund.

**12. FINANCIAL CHARGES, NET**

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

	For the three- month period ended March 31, 2007	For the three- month period ended March 31, 2006
Interest on Medium Term Notes	\$ 27,103	\$ 25,118
Interest on Exchangeable Debentures, net of accretion	4,151	-
Interest on Commercial Paper	2,057	1,535
Standby fees and other financial charges (income), net	8	(518)
Other charges related to derivative financial instruments	-	1,294
Amortization of deferred financing costs	1,197	412
Accretion on Exchangeable Debentures	549	-
Foreign exchange loss (gain)	23	(59)
	<b>\$ 35,088</b>	<b>\$ 27,782</b>

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**13. RESTRUCTURING AND SPECIAL CHARGES**

In connection with the acquisitions of Advertising Directory Solutions Holdings Inc. (“ADS”), Trader, and MTS Media (“MTS”), the Fund recorded provisions for restructuring and special charges of \$25.8 million, \$38.7 million, and \$8.3 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 quarter, the Fund revised its initial estimate of the MTS provision to \$7.1 million. As a result, the allocation of the purchase price was revised which resulted in a reduction of goodwill of \$1.2 million before related income taxes of \$0.4 million.

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

	<b>Restructuring charges</b>	<b>Other special Charges</b>	<b>Total</b>
Balance, as at December 31, 2006	\$ 26,605	\$ 13,449	\$ 40,054
Utilized in 2007:			
Cash	(5,998)	(528)	(6,526)
Provision related to the MTS acquisition recorded as a reduction of goodwill	-	(1,221)	(1,221)
<b>Balance as at March 31, 2007</b>	<b>\$ 20,607</b>	<b>\$ 11,700</b>	<b>\$ 32,307</b>

**14. 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 March 31, 2007 with respect to this indemnity. Pursuant to the acquisitions of ADS, TMC, Trader Canada and MTS, 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 acquisitions contain indemnifications similar to the ones just described. No amount has been accrued in the interim consolidated balance sheet as of March 31, 2007, with respect to these indemnities.

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**14. GUARANTEES (continued)**

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.

**15. SEGMENTED INFORMATION**

The Fund's reportable segments are 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:

	<b>For the three-month period ended March 31, 2007</b>		
	<b>Directories</b>	<b>Vertical Media</b>	<b>Consolidated</b>
Revenues	\$ 308,967	\$ 75,274	\$ 384,241
Operating costs	125,521	55,277	180,798
Income from operations before depreciation and amortization	183,446	19,997	203,443
Depreciation and amortization	32,954	11,076	44,030
Income from operations	\$ 150,492	\$ 8,921	\$ 159,413
			<b>For the three-month period ended March 31, 2006</b>
	<b>Directories</b>	<b>Vertical Media</b>	<b>Consolidated</b>
Revenues	\$ 279,666	\$ 16,104	\$ 295,770
Operating costs	116,213	11,975	128,188
Income from operations before depreciation and amortization	163,453	4,129	167,582
Depreciation and amortization	55,961	2,751	58,712
Income from operations	\$ 107,492	\$ 1,378	\$ 108,870
			<b>March 31, 2007</b>
	<b>Directories</b>	<b>Vertical Media</b>	<b>Consolidated</b>
Additions to capital assets	\$ 11,390	\$ 8,650	\$ 20,040
Intangibles	\$ 1,647,098	\$ 337,171	\$ 1,984,269
Goodwill	\$ 5,432,896	\$ 964,287	\$ 6,397,183
Total assets	\$ 7,598,693	\$ 1,373,374	\$ 8,972,067

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#### 15. SEGMENTED INFORMATION (continued)

	December 31, 2006		
	Directories	Vertical Media	Consolidated
Additions to capital assets	\$ 57,126	\$ 6,772	\$ 63,898
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

#### 16. SUBSEQUENT EVENT

On February 19, 2007, the Fund announced that it had entered into a definitive agreement to acquire the assets of Aliant Directory Services ("Aliant") in which we already had a 12.86% ownership. Aliant is 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 transaction closed on April 30, 2007. As the consummation of the transaction occurred after March 31, 2007, the acquisition has not been accounted for in these interim financial statements.

On April 19, 2007, the Fund announced it had entered into a partnership with LesPac, Quebec's leading classified web site in the generalist category. The Partnership with LesPac.com will bring additional enhanced local content and traffic to our online network of directories and vertical media. It currently reaches more than 1.3 million unique visitors. As the consummation of the transaction had occurred after March 31, 2007, the partnership has not been accounted for in these interim financial statements.

The combined purchase price of these acquisitions is approximately \$340 million and will be financed through existing funding sources.

#### 17. 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*.

# **YELLOW PAGES INCOME FUND**

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### **17. EFFECT OF NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED (continued)**

- 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.

### **18. COMPARATIVE FIGURES**

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