

INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW PAGES INCOME FUND

June 30, 2007

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Interim Consolidated Balance Sheet

(in thousands of Canadian dollars - unaudited)

	As at June 30, 2007	As at December 31, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 52,411	\$ 57,408
Accounts receivable	210,885	182,058
Prepaid expenses	9,752	8,312
Deferred publication costs	108,740	107,014
Future income taxes	28,379	36,232
	410,167	391,024
DEFERRED PUBLICATION COSTS	10,078	6,592
CAPITAL ASSETS	157,411	134,743
OTHER ASSETS (Note 4)	7,612	30,683
DERIVATIVE FINANCIAL INSTRUMENTS	1,586	-
ACCRUED BENEFIT ASSETS	1,123	6,359
INTANGIBLES	2,124,676	2,018,214
GOODWILL	6,568,459	6,394,780
FUTURE INCOME TAXES	14,294	20,852
	\$ 9,295,406	\$ 9,003,247
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 190,676	\$ 208,337
Distributions payable	48,423	48,328
Deferred revenues	89,943	88,930
Current portion of long-term debt (Note 7)	4,018	2,155
	333,060	347,750
DEFERRED CREDITS (Note 6)	26,857	43,948
FUTURE INCOME TAXES	127,080	134,054
ACCRUED BENEFIT LIABILITIES	61,829	55,772
LONG-TERM DEBT (Note 7)	2,169,417	2,301,678
DERIVATIVE FINANCIAL INSTRUMENTS	3,081	-
EXCHANGEABLE DEBENTURES (Note 8)	278,229	288,501
PREFERRED SHARES (Note 9)	486,363	-
NON-CONTROLLING INTEREST (Note 3)	11,060	-
UNITHOLDERS' EQUITY	5,798,430	5,831,544
	\$ 9,295,406	\$ 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 June 30,
(in thousands of Canadian dollars, except per unit information - unaudited)

	Three months		Six months	
	2007	2006	2007	2006
Revenues	\$ 411,110	\$ 340,324	\$ 795,351	\$ 636,094
Operating costs	190,791	157,117	371,589	285,305
Income from operations before depreciation and amortization	220,319	183,207	423,762	350,789
Depreciation and amortization	49,982	42,800	94,012	101,512
Income from operations	170,337	140,407	329,750	249,277
Financial charges, net (Note 13)	34,828	34,001	69,916	61,783
Earnings before dividends on preferred shares, income taxes and non-controlling interest	135,509	106,406	259,834	187,494
Dividends on Preferred shares	3,776	-	4,684	-
Earnings before income taxes and non-controlling interest	131,733	106,406	255,150	187,494
Provision for (recovery of) income taxes	3,600	(7,785)	6,066	(11,930)
Non-controlling interest	560	-	560	-
Net earnings	\$ 127,573	\$ 114,191	\$ 248,524	\$ 199,424
Basic earnings per unit	\$ 0.24	\$ 0.23	\$ 0.47	\$ 0.40
Weighted average number of units outstanding used in computing earnings per unit (Note 10)	530,376,724	505,676,976	530,428,376	496,448,841
Diluted earnings per unit	\$ 0.23	\$ 0.22	\$ 0.45	\$ 0.40
Weighted average number of units outstanding used in computing diluted earnings per unit (Note 10)	584,463,707	509,158,665	574,572,284	499,862,283

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 June 30, 2007	For the six-month period ended June 30, 2007
Net earnings	\$ 127,573	\$ 248,524
Other comprehensive gain (loss), net of related income taxes:		
Net gain on derivatives designated as cash flow hedges in prior periods transferred to earnings in the current period	(69)	(138)
Unrealized gains on available for sale financial assets in the current period (net of income taxes of \$0.3 million)	1,870	1,870
Other comprehensive gain	1,801	1,732
Comprehensive income	\$ 129,374	\$ 250,256

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

Interim Consolidated Statements of Unitholders' Equity

For the six-month periods ended June 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	14,547	-	-	-	-	-	-	14,547
Restricted units (Note 12)	-	-	-	(16,410)	4,714	-	-	(11,696)
Distributions (Note 11)	-	-	-	-	-	-	(289,166)	(289,166)
Obligations under stock options granted (Note 12)	-	-	-	-	206	-	-	206
Other comprehensive gain	-	-	-	-	-	1,732	-	1,732
Net earnings for the period	-	-	-	-	-	-	248,524	248,524
Balance, June 30, 2007	\$ 6,320,397	\$ 6,250	\$ 12,542	\$ (35,597)	\$ 12,435	\$ 3,934	\$ (521,531)	\$ 5,798,430

2006

	Unitholders' Capital (Note 10)	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	558,934	-	-	-	558,934
Restricted units (Note 12)	-	(15,696)	2,995	-	(12,701)
Distributions (Note 11)	-	-	-	(253,998)	(253,998)
Obligations under stock options granted (Note 12)	-	-	206	-	206
Net earnings for the period	-	-	-	199,424	199,424
Balance, June 30, 2006	\$ 5,940,918	\$ (18,315)	\$ 4,960	\$ (440,054)	\$ 5,487,509

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

Interim Consolidated Statements of Cash Flows

For the periods ended June 30,
(in thousands of Canadian dollars - unaudited)

	Three months		Six months	
	2007	2006	2007	2006
OPERATING ACTIVITIES				
Net earnings	\$ 127,573	\$ 114,191	\$ 248,524	\$ 199,424
Items not affecting cash and cash equivalents:				
Depreciation and amortization	49,982	42,800	94,012	101,512
Amortization of deferred financing costs	986	520	2,183	932
Accretion on Exchangeable Debentures	551	-	1,100	-
Net benefit plan costs	3,719	3,027	6,651	6,224
Other non-cash items	2,445	7,878	4,385	10,235
Future income taxes	1,759	(4,527)	5,059	(8,571)
Non-controlling interest	560	-	560	-
Change in operating assets and liabilities	(12,313)	1,577	(34,750)	(33,854)
	175,262	165,466	327,724	275,902
INVESTING ACTIVITIES				
Business acquisitions, net of cash acquired (Note 3)	(341,769)	(768,552)	(341,769)	(899,768)
Acquisition of capital assets	(20,310)	(15,299)	(38,114)	(27,075)
Proceeds from lease inducements	-	-	1,826	184
Acquisition of investment	(5,000)	-	(5,000)	-
Acquisition of intangibles	-	(2,450)	(20)	(2,460)
	(367,079)	(786,301)	(383,077)	(929,119)
FINANCING ACTIVITIES				
Issuance of long-term debt	111,000	635,500	111,000	885,169
Repayment of long-term debt	(921)	(27,144)	(244,427)	(209,082)
Distributions to Unitholders	(144,488)	(130,185)	(289,071)	(248,266)
Issuance of units, net	-	(452)	-	241,629
Issuance of Preferred shares	200,000	-	500,000	-
Proceeds from exercise of options (Note 10)	2,707	1,841	4,094	2,799
Purchase of restricted units	(793)	(1,810)	(16,410)	(15,696)
Deferred financing costs	(6,370)	(4,323)	(14,830)	(5,287)
	161,135	473,427	50,356	651,266
DECREASE IN CASH AND CASH EQUIVALENTS	(30,682)	(147,408)	(4,997)	(1,951)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	83,093	194,877	57,408	49,420
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 52,411	\$ 47,469	\$ 52,411	\$ 47,469
Cash and cash equivalents consist of:				
Cash	\$ 12,420	\$ 15,869	\$ 12,420	\$ 15,869
Short-term investments	39,991	31,600	39,991	31,600
	\$ 52,411	\$ 47,469	\$ 52,411	\$ 47,469

**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 retroactive basis without restatement.

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 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.

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 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 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).

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 \$10.5 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 results 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 remaining 87.14% of the assets of Aliant, in which we 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 purchase price allocations are preliminary and are subject to changes once the final independent valuations of the assets acquired and the liabilities assumed are completed and the final determination of the costs related to acquisition have been made. 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 results 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 purchase price allocations are preliminary and are subject to changes once the final independent valuations of the assets acquired and the liabilities assumed are completed and the final determination of the costs related to acquisition have been made. 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	16,000
Non-competition agreement	3,700
Non-controlling interest	(10,500)
Future income tax liabilities	(3,102)
Net identifiable assets acquired	6,796
Goodwill	3,769
Purchase price	\$ 10,565

Consideration:

Cash	\$ 10,500
Transaction costs	65
	\$ 10,565

4. Other assets

	June 30, 2007	December 31, 2006
Deferred financing costs (Note 1)	\$ -	\$ 30,376
Investment	7,214	-
Other	398	307
	\$ 7,612	\$ 30,683

During the quarter, 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 six-month periods ended June 30, 2007 were \$3.7 million (2006 - \$2.4 million) and \$6.6 million (2006 - \$6.1 million) for pension benefits. Other benefits costs totalled \$1.3 million (2006 - \$1.1 million) and \$1.8 million (2006 - \$2 million) for the same periods.

6. Deferred credits

	June 30, 2007	December 31, 2006
Lease inducements	\$ 26,857	\$ 24,985
Net deferred gain on hedging activities (Note 1)	-	18,963
	\$ 26,857	\$ 43,948

7. Long-term debt

	June 30, 2007			
	Principal amount	Fair value adjustment of hedged item	Deferred financing costs	Total
Medium Term Notes	\$ 2,050,000	\$ 12,402	\$ (17,928)	\$ 2,044,474
Commercial paper	111,000	-	-	111,000
Obligations under capital leases	17,961	-	-	17,961
	2,178,961	12,402	(17,928)	2,173,435
Less current portion of long-term debt	4,018	-	-	4,018
	\$ 2,174,943	\$ 12,402	\$ (17,928)	\$ 2,169,417

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

	June 30, 2007	December 31, 2006
Principal amount	\$ 300,000	\$ 300,000
Equity component	(12,542)	(12,542)
Accretion	2,143	1,043
Deferred financing costs (Note 1)	(11,372)	-
	\$ 278,229	\$ 288,501

9. Preferred shares

	June 30, 2007
Shares issued, Series 1 and Series 2	\$ 500,000
Derivative component	1,586
Deferred financing costs	(15,223)
	\$ 486,363

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 preferred 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 preferred 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.

	June 30, 2007		
	Number of Units		Amount
Balance, December 31, 2006	532,067,956	\$	6,305,850
Units issued	1,044,275		14,547
Balance, June 30, 2007 ^{(1),(2)}	533,112,231	\$	6,320,397

	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

(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 2,411,145 Restricted Units (2006 - 1,148,955) pursuant to the Restricted Unit Plan.

Warrants

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

Exercise of options

During the second quarter of 2007, optionholders exercised 690,255 options at an exercise price of \$3.92 per option for cash consideration of \$2.7 million. These options were exercised into 690,255 shares of YPG Holdings Inc. which were automatically exchanged into 690,255 units of the Fund pursuant to the Optionholders' Liquidity Agreement, at an average stated value of approximately \$14.37 per share, which in turn were exchanged into units of YPG LP. This transaction gave rise to an increase in goodwill of \$7.2 million.

During the six-month period ended June 30, 2007, optionholders exercised 1,044,275 options at an exercise price of \$3.92 per option for cash consideration of \$4.1 million. These options were exercised into 1,044,275 shares of YPG Holdings Inc. which were automatically exchanged into 1,044,275 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 \$10.4 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 June 30,		For the six-month periods ended June 30,	
	2007	2006	2007	2006
Weighted average number of units outstanding used in computing basic earnings per unit	530,376,724	505,676,976	530,428,376	496,448,841
Dilutive effect of options	1,407,765	2,425,532	1,663,691	2,674,234
Dilutive effect of Restricted Units	2,384,498	1,056,157	2,077,334	739,208
Dilutive effect of Preferred shares	27,176,896	-	15,923,079	-
Dilutive effect of Exchangeable Debentures	23,117,824	-	24,479,804	-
Weighted average number of units outstanding used in computing diluted earnings per unit	584,463,707	509,158,665	574,572,284	499,862,283

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 six-month period ended June 30, 2007, the Fund declared total distributions to Unitholders of \$289.2 million (2006 - \$254 million) or \$0.5450 per unit (2006 - \$0.5092).

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 executives 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 six-month period ended June 30, 2007	
	Number of Restricted Units	
	Pre-2006 Grants	2006 and 2007 Grants
Outstanding, beginning of period	204,437	515,012
Granted	-	611,694
Forfeited	-	(6,498)
Cash distributions reinvested	10,911	26,455
Outstanding, end of period	215,348	1,146,663
Vested, end of period	-	-
	For the six-month period ended June 30, 2006	
	Number of Restricted Units	
	Pre-2006 Grants	2006 Grants
Outstanding, beginning of period	204,578	-
Granted	-	499,203
Cash distributions reinvested	3,085	-
Outstanding, end of period	207,663	499,203
Vested, end of period	-	-

During the six-month period ended June 30, 2007, an amount of \$8.2 million (2006 - \$8.3 million) representing 611,694 (2006 - 499,203) Restricted units were granted at an average market price of \$13.50 (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 - \$15.6 million) was used to purchase 1,140,347 (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 June 30, 2007 there were no Restricted Units which were not allocated to any specific employee and 1,049,134 (2006 - 442,089) Restricted Units representing the portion which provides for a 200% pay-out. In addition, an amount of \$1 million (2006 - \$0.1 million) was used to reinvest in 65,708 (2006 - 3,085) Restricted Units using the proceeds from the distributions on the Restricted Units held in escrow.

Total compensation expense for the three-month and six-month periods ended June 30, 2007 of \$2.4 million (2006 - \$1.6 million) and \$4.7 million (2006 - \$3 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 six-month period ended June 30, 2007	
	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	2,055,300	\$ 3.92
Exercised	(1,044,275)	3.92
Cancelled	(16,274)	3.92
Reinstatement	59,189	3.92
Outstanding, end of period	1,053,940	\$ 3.92
Exercisable, end of period	170,761	\$ 3.92

	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

Compensation expense for the three-month and six-month periods ended June 30, 2007 of \$0.1 million (2006 - \$0.1 million) and \$0.2 million (2006 - \$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.

13. Financial charges, net

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

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2007	2006	2007	2006
Interest on Medium Term Notes	\$ 27,100	\$ 27,089	\$ 54,203	\$ 52,207
Interest on Exchangeable Debentures, net of accretion	4,125	-	8,276	-
Interest on Term Facilities	-	1,889	-	1,889
Interest on Commercial paper	2,062	154	4,119	1,689
Standby fees and other financial charges (income), net	24	(631)	32	(1,149)
Other charges related to derivative financial instruments and swaps	-	5,089	-	6,383
Amortization of deferred financing costs	986	520	2,183	932
Accretion on Exchangeable Debentures	551	-	1,100	-
Foreign exchange (gain) loss	(20)	(109)	3	(168)
	\$ 34,828	\$ 34,001	\$ 69,916	\$ 61,783

14. Supplemental disclosure of cash flow information

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2007	2006	2007	2006
Interest paid	\$ 28,694	\$ 29,077	\$ 68,863	\$ 40,258
Dividends on Preferred shares paid	\$ 3,947	-	\$ 3,947	-
Income taxes paid	\$ 2,207	\$ 3,160	\$ 3,230	\$ 5,766
Additions to capital assets under capital leases	\$ 6,989	\$ -	\$ 8,976	\$ 2,744
Additions to capital assets included in accounts payable and accrued liabilities	\$ 2,707	\$ 5,333	\$ 2,707	\$ 5,333

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	(9,637)	(837)	(10,474)
Provisions related to the acquisitions recorded as a reduction of goodwill	(8,499)	(1,221)	(9,720)
Balance as at June 30, 2007	\$ 8,921	\$ 11,816	\$ 20,737

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 June 30, 2007 with respect to this indemnity. Pursuant to the acquisitions of ADS, TMC, 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 June 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 June 30, 2007		
	Directories	Vertical Media	Consolidated
Revenues	\$ 320,421	\$ 90,689	\$ 411,110
Operating costs	130,073	60,718	190,791
Income from operations before depreciation and amortization	190,348	29,971	220,319
Depreciation and amortization	38,598	11,384	49,982
Income from operations	\$ 151,750	\$ 18,587	\$ 170,337

	For the six-month period ended June 30, 2007		
	Directories	Vertical Media	Consolidated
Revenues	\$ 629,388	\$ 165,963	\$ 795,351
Operating costs	255,594	115,995	371,589
Income from operations before depreciation and amortization	373,794	49,968	423,762
Depreciation and amortization	71,552	22,460	94,012
Income from operations	\$ 302,242	\$ 27,508	\$ 329,750

	For the three-month period ended June 30, 2006		
	Directories ⁽¹⁾	Vertical Media	Consolidated
Revenues	\$ 287,093	\$ 53,231	\$ 340,324
Operating costs	121,201	35,916	157,117
Income from operations before depreciation and amortization	165,892	17,315	183,207
Depreciation and amortization	35,952	6,848	42,800
Income from operations	\$ 129,940	\$ 10,467	\$ 140,407

	For the six-month period ended June 30, 2006		
	Directories ⁽¹⁾	Vertical Media	Consolidated
Revenues	\$ 566,759	\$ 69,335	\$ 636,094
Operating costs	237,414	47,891	285,305
Income from operations before depreciation and amortization	329,345	21,444	350,789
Depreciation and amortization	91,913	9,599	101,512
Income from operations	\$ 237,432	\$ 11,845	\$ 249,277

(1) Included in the three-month and six-month periods ended June 30, 2006 Directories segment are the results of the specialized guides that were previously reported as part of the Vertical Media segment. Consequently, for the three-month and six-month periods ended June 30, 2006, revenues of \$0.3 million and \$0.4 million, respectively and operating expenses of \$0.5 million and \$1.1 million, respectively have been reclassified as part of the Directories segment.

17. Segmented information (continued)

	June 30, 2007		
	Directories	Vertical Media	Consolidated
Additions to capital assets	\$ 17,483	\$ 25,537	\$ 43,020
Additions to intangibles	\$ -	\$ 20	\$ 20
Intangibles	\$ 1,776,983	\$ 347,693	\$ 2,124,676
Goodwill	\$ 5,606,208	\$ 962,251	\$ 6,568,459
Total assets	\$ 7,882,398	\$ 1,413,008	\$ 9,295,406

	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.