

Management's Discussion and Analysis

May 8, 2008

This management's discussion and analysis (MD&A) is intended to help the reader understand and assess trends and significant changes in the results of operations and financial condition of Yellow Pages Income Fund and its subsidiaries during the three-month period ended March 31, 2008 and should be read in conjunction with our audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2007, as well as our unaudited interim consolidated financial statements and accompanying notes for the period ended March 31, 2008. Quarterly reports, the annual report and supplementary information can be found under the "financial reports" section of our corporate web site: www.ypg.com. Additional information, including our annual information form (AIF), can be found on SEDAR at www.sedar.com. In this MD&A, the words "we", "us", "our", "the Company", "the Fund" and "YPG" refer to Yellow Pages Income Fund and its subsidiaries (Yellow Pages Group Co. and Trader Corporation), which are reported under the following segments:

- "Directories," which refers to our print and online directories, and our specialized guides; and,
- "Vertical Media," which refers to our print and online vertical publications which are targeted to specific audiences (or verticals) based on topic or area of interest – such as automotive or real estate.

Our reporting structure reflects how we manage our business and how we classify our operations for planning and for measuring our performance.

This MD&A contains assertions about the objectives, strategies, financial condition, results of operations and businesses of YPG. These statements are considered "forward-looking" because they are based on current expectations of our business, on the markets we operate in, and on various estimates and assumptions.

- These forward-looking statements describe our expectations on May 8, 2008.
- Our actual results could be materially different from our expectations if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking statements will materialize.
- Forward-looking statements do not take into account the effect that transactions or non-recurring items, announced or occurring after the statements are made, may have on our business.
- We disclaim any intention or obligation to update any forward-looking statements, except as required by law, even if new information becomes available through future events or for any other reason.
- Risks that could cause our actual results to differ materially from our current expectations are discussed in section 6 – Risks and Uncertainties.

This MD&A is divided into the following sections:

1. Our Business, Mission, Strategy and Capability to Deliver Results
2. Results
3. Liquidity and Capital Resources
4. Distributable Cash
5. Critical Assumptions
6. Risks and Uncertainties
7. Controls and Procedures

1. Our Business, Mission, Strategy and Capability to Deliver Results

Our Business

Yellow Pages Group is a leading media company serving Canadians and Canadian businesses from coast to coast. This section provides an overview of our business, how we strive to manage it and our ongoing priorities.

Directories

We are Canada's largest directories publisher and the exclusive owner of the Yellow Pages™, Pages Jaunes™ and Walking Fingers & Design™ trademarks in Canada. We have been an industry leader since we published our first directory in 1908.

In recent years we have expanded our reach, acquiring directory operations serving British Columbia, Alberta, Manitoba and the four Atlantic Provinces to complement our strong presence in Ontario and Québec. YPG now publishes annually more than 340 different telephone directories with a total circulation of approximately 30 million copies. With approximately 420,000 advertising customers, we manage one of the largest face-to-face sales forces for small and medium-sized enterprises (SMEs) in Canada.

We are the official publisher of directories for Bell Canada (Bell), TELUS Communications Inc. (TELUS), Bell Aliant Regional Communications LP (Bell Aliant), MTS Allstream Inc. and for a number of other incumbent telephone companies that have a leading share in their respective markets.

We also operate the leading online directories in Canada including YellowPages.ca™, Canada411.ca™ as well as the CanadaPlus.ca™ group of city sites. This complementary online presence allows us to package print and online advertising products and offer them on a national basis.

Our directories are delivered into almost every household and business in our markets, and are available online and through a variety of digital options. Our content is rich and diverse which draws consumers to our directories by generating leads, calls, visits and clicks, and in turn attracts yet more advertisers.

Vertical Media

To expand our business into related media, we broadened the scope of our operations by entering the Vertical Media market in 2006. We acquired and are integrating two companies seen as leaders in the vertical business in Canada. These combined businesses were renamed Trader Corporation (Trader) on January 1, 2007. Trader is a national platform of Vertical Media with approximately 200 publications and 20 web sites covering four main product verticals: automotive, real estate, employment, and generalist. Trader is home to such print brands as Auto Trader™, Auto Hebdo^{MC}, The Bargain Finder™, Home Renters' Guide™, Renters News™, and Buy & Sell™. In online, Trader owns Internet destinations such as www.autotrader.ca, www.autohebdo.net, www.homebase.ca, www.visitenet.com, www.buysell.com and lesPAC.com.

Mission and Strategy

Our mission and strategy statements have not changed since the release of our MD&A for the year ended December 31, 2007. Therefore, to review our mission and strategy, please refer to the corresponding sections in the MD&A for the year ended December 31, 2007.

Capability to Deliver Results

Our capabilities to deliver results have not changed since the release of our MD&A for the year ended December 31, 2007. In order to review our capabilities to deliver results, please refer to the corresponding section in the MD&A for the year ended December 31, 2007.

2. Results

This section provides an overview of our financial performance during the first three months of 2008 compared to the same period in 2007. It is also important to note that in order to help investors better understand our performance we rely on several metrics, some of which are not measures recognized by Generally Accepted Accounting Principles (GAAP). Definitions of these metrics are provided following the charts below and are important aspects which should be considered when analyzing our performance.

Overall Performance

- Adjusted Revenues increased by \$30 million or 7.8% over the first quarter of 2007 to \$415.1 million. Revenues increased by \$30.3 million or 7.9% to \$414.6 million in the same period;
- Adjusted EBITDA increased by \$23.7 million or 11.7% over the first quarter of 2007 to \$226.6 million. EBITDA increased by \$24 million or 11.8% to \$227.4 million in the same period; and
- Distributable cash per unit at \$0.35 increased by 12.9% over the first quarter of 2007.

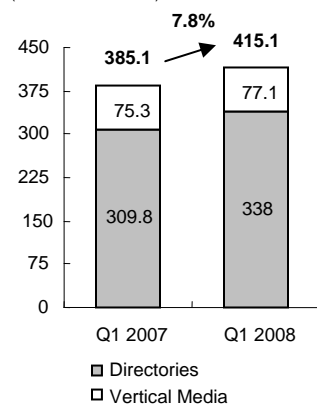
Highlights by Segment¹

(in thousands of Canadian dollars – except unit information)

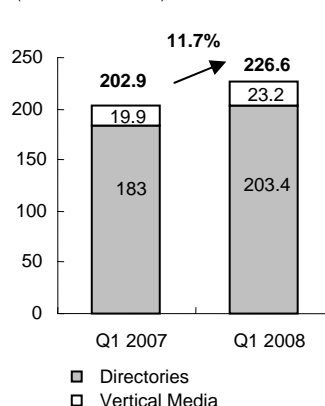
	Three-month periods ended March 31,					
	Directories		Vertical Media		Consolidated	
	2008	2007	2008	2007	2008	2007
Revenues	\$337,431	\$308,967	\$77,140	\$75,274	\$414,571	\$384,241
EBITDA	\$204,176	\$183,446	\$23,217	\$19,997	\$227,393	\$203,443
Cash flow from operating activities					\$145,338	\$152,462
Adjusted Revenues	\$337,989	\$309,854	\$77,140	\$75,274	\$415,129	\$385,128
Adjusted EBITDA	\$203,386	\$182,951	\$23,217	\$19,997	\$226,603	\$202,948
Distributable cash					\$183,019	\$163,992
Distributable cash per unit					\$0.35	\$0.31

¹ We closed the LesPAC s.e.n.c. (Les PAC) acquisition on April 19, 2007, the Aliant Directory Services (Aliant) acquisition on April 30, 2007 and the Vertical Guides Limited Partnership (Vertical Guides LP) acquisition on October 31, 2007. As such, included in the 2007 results are the results of each acquired business from the respective date of acquisition to period end.

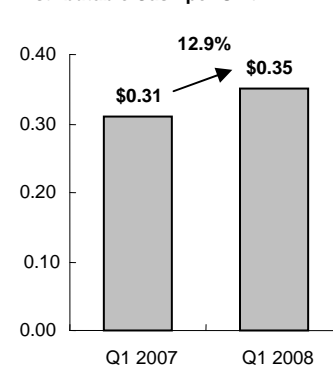
Adjusted Revenues
(in millions of dollars)



Adjusted EBITDA
(in millions of dollars)



Distributable Cash per Unit



Definitions relative to understanding our results

Adjusted Revenues

We provide guidance and report on our revenue, adjusted for comparability purposes (Adjusted Revenues) by removing the effect of purchase accounting related to the acquisitions of Advertising Directory Solutions Holdings Inc. (ADS), and the assets of MTS Media (MTS), Aliant and Vertical Guides LP. Adjusted Revenues is a non-GAAP measure not likely to be comparable to similar measures used by other publicly traded companies. For a reconciliation with Canadian GAAP please refer to Consolidated Operating and Financial Results later in this section.

Adjusted Revenues reflect the level of advertising activity that is generally billed in accordance with contractual terms with our advertisers. It is recognized on a monthly basis over the estimated life of our products. In print directories, it commences with the delivery of the directory; in online it commences with the display date of the advertisement. Amounts billed up front for directories are deferred and recognized over the period for which the corresponding directories are in circulation. Revenues are generally recognized and billed over periods not exceeding twelve months, or in the case of certain alphabetical directories, not exceeding twenty-four months.

Adjusted Income from Operations before Depreciation and Amortization and Impairment of Intangible Assets (Adjusted EBITDA)

We provide guidance and report on our EBITDA (Income from operations before depreciation and amortization and impairment of intangible assets) adjusted for comparability purposes (Adjusted EBITDA). These adjustments include removing the effect of purchase accounting related to the acquisitions of ADS and the assets of MTS, Aliant and Vertical Guides LP. The adjustments also exclude the impact of non-recurring transition expenses relating to acquisitions in the Directories segment. Adjusted EBITDA is a key measure used by management to evaluate performance. Adjusted EBITDA is also used to make decisions relating to our cash distributions to unitholders and to measure compliance with debt covenants. We believe Adjusted EBITDA assists investors in assessing our performance on a consistent basis without regard to impairment of intangible assets – which are non-recurring by nature and without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending on accounting methods or on non-operating factors such as historical cost.

As stated, EBITDA is not a calculation based on GAAP and is not considered an alternative to income from operations or net earnings in the context of measuring YPG's performance. EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other publicly traded companies. For a reconciliation with GAAP, please refer to Consolidated Operating and Financial Results later in this section. EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed on page 19 of this MD&A.

Distributable Cash

Distributable cash is a non-GAAP measure generally used by Canadian income trusts as an indicator of financial performance. It should not be seen as a measurement of liquidity or as a substitute for comparable metrics prepared in accordance with GAAP. Distributable cash is commonly used by investors, management and other stakeholders to evaluate the ongoing performance of YPG. Distributable cash may differ from similar calculations as reported by other companies and should not be considered comparable. For a reconciliation with GAAP, please refer to section 4 – Distributable Cash of this MD&A.

Cash Distributions per Unit

We report on cash distributions per unit because it is a measure of return used by investors. Cash distributions per unit depend on our distributable cash and YPG's distribution policy.

We make monthly cash distributions to unitholders of record on the last business day of each month. For a description of our cash distribution policy, please refer to section 4 of this MD&A.

Performance Relative to Business Strategy

Organic growth

Directories

Customer First

The deployment of call planning in our Calgary center of excellence was completed during the first quarter. The phases deployed nationally in 2007 were business profiles and ad request process. Contract closure will allow for seamless sharing of best practices across the country. This phase was introduced across Québec and Ontario during the first quarter and the roll-out will continue on a regional basis throughout the year.

Enhancement and expansion of Product Services

During the quarter we announced the creation of one complete Lower Mainland residential directory by merging all five current Metro alphabetical directories. The new book being issued in July 2008 will be devoted solely to finding residential information across Greater Vancouver, making it easier to find a person. YPG will also move the Lower Mainland business alphabetical listings and government section from the Metro alphabetical directories into the six existing Lower Mainland Yellow Pages™ directories. These changes are designed to meet consumers and advertisers' needs of finding local and regional information.

Vertical Media

During the first quarter of 2008 we continued progressing with our key initiatives directed at integrating operations across the country and improving productivity through the implementation of new technology and new and harmonized business processes.

The national sales platform once fully deployed will enable the sales, operations and billing teams to share customer information on a common platform. We have completed the roll-out of our national ad-taking system in four provinces of the Western/Central region and recently initiated implementation in the Eastern region.

The digitalization of current processes with a data capture device and a display ad builder is also being implemented progressively across the country and will result in an almost paperless environment. The data capture device will streamline and standardize the current processes for obtaining vehicle information and photos from dealers and the subsequent processing of that data. The implementation is completed in Ontario, British Columbia, Saskatchewan and Manitoba and we are currently in the assessment phase in other regions. The display ad builder will enable sales representatives to renew an existing ad or submit detailed instructions for production to either generate a new ad or make changes to an existing ad through a paperless communication channel. This new workflow process should translate into better value for our customers. The first phase of implementation is near completion in British Columbia and will be initiated in other regions in coming quarters.

The call center project will provide us with state of the art functionality and lead generation capabilities. We have completed the transition of our former call centers into three sites located in Vancouver, Toronto and Montreal which are now all on the same hosted platform. The enhanced functionality will allow improved customer service performance while the lead management system is currently under development.

External Growth

On February 19, 2008, a subsidiary of the Fund acquired the assets of the directory business of TBay Tel (ThunderBay) for a cash consideration of \$17.3 million (including acquisition related costs of \$0.2 million). The acquisition was financed with cash on hand.

ThunderBay is a leading telecommunications company in Thunder Bay and Northern Ontario and publishes the City of Thunder Bay directory which has a circulation of over 120,000 copies. The business is included in the Directories segment.

Consolidated Operating and Financial Results

Consolidated Results

(in thousands of Canadian dollars – except unit information)

	Three-month periods ended March 31,	
	2008	2007
Revenues	\$414,571	\$384,241
Operating costs	187,178	180,798
Income from operations before depreciation and amortization (EBITDA)	227,393	203,443
Depreciation and amortization	55,964	44,030
Income from operations	171,429	159,413
Financial charges, net	34,665	35,088
Earnings before dividends on Preferred shares, income taxes and non-controlling interest	136,764	124,325
Dividends on Preferred shares	5,688	908
Earnings before income taxes and non-controlling interest	131,076	123,417
Provision for income taxes	3,971	2,466
Non-controlling interest	117	-
Net earnings	\$126,988	\$120,951
Basic earnings per unit	\$0.24	\$0.23
Diluted earnings per unit	\$0.22	\$0.22
Revenues	\$414,571	\$384,241
Elimination of purchase accounting impact	558	887
Adjusted Revenues¹	\$415,129	\$385,128
Income from operations before depreciation and amortization (EBITDA)	\$227,393	\$203,443
Elimination of purchase accounting impact	(790)	(495)
Adjusted EBITDA¹	\$226,603	\$202,948
Adjusted EBITDA margin	54.6%	52.7%

¹ Adjusted Revenues and Adjusted EBITDA – The acquisitions of MTS, Aliant and Vertical Guides LP (the “acquisitions”) were accounted for using the purchase method of accounting which resulted in the elimination of deferred revenues and deferred publication costs related to those directories published prior to each acquisition. These deferred revenues along with related deferred publication costs would have been recognized in 2006 through 2010, had the acquisitions not occurred. As a result, reported revenues and expenses are not representative of revenues and expenses that would have otherwise been reported and are not representative of revenues and expenses that will be reported in subsequent periods.

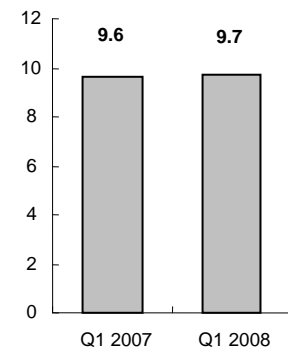
The adjusted results are derived by excluding from the reported amounts the impact of purchase accounting relating to acquisitions in the core Directories segment.

Analysis of Consolidated Operating and Financial Results

Revenues

Revenues increased by \$30.3 million to \$414.6 million during the first quarter of 2008 compared with the same period last year. Of the increase, \$15.6 million is attributable to the contribution of acquired businesses in 2007, excluding their 2008 organic growth. Organic online revenue growth for the first quarter reached 47.7%. Online revenues from the Directories and the Vertical Media segments combined reached \$53.5 million during the first quarter of 2008. Online growth is driven by strong adoption of our online products. Our network of web sites in Directories and Vertical Media attracted 9.7 million unduplicated unique visitors¹ on average during the first quarter of 2008. As of March 31, 2008, the number of YPG customers choosing to advertise both in print and online reached 56% across Canada.

Online Usage – Unduplicated
Unique Visitors
(in millions)



EBITDA

EBITDA increased by \$24 million to \$227.4 million during the first quarter of 2008 compared with the same period last year. The increase for the first quarter is mainly attributable to organic growth in the Directories segment, the contribution from Aliant which was fully integrated into the Directories segment following its acquisition in April 2007 as well as cost efficiencies realized in both segments resulting from our continued cost containment initiatives and investments in new technology.

Cost of sales increased by \$7 million to \$112.7 million during the first quarter of 2008 compared with the same period last year. The increase for the first quarter substantially relates to the acquisition of Aliant.

Gross profit margin increased from 72.5% in the first quarter of 2007 to 72.8% in the first quarter of 2008. The increase for the three-month period ended March 31, 2008 is mainly due to the synergies being realized from the acquisition of Aliant.

General and administrative expenses remained relatively stable at \$74.5 million during the first quarter of 2008 compared with \$75.1 million for the same period last year.

Depreciation and amortization

Depreciation and amortization increased by \$11.9 million to \$56 million during the first quarter of 2008 compared to \$44 million for the same period in 2007. The increase relates to the amortization of certain intangible assets related to the acquisitions of Aliant and LesPAC, offset in part by the lower amortization of intangible assets of Trader and ADS acquired in the first half of 2006 and 2005, respectively.

Financial charges

Financial charges decreased from \$35.1 million in the first quarter of 2007 to \$34.7 million in the first quarter of 2008. The lower financial charges are mainly attributable to lower interest on commercial paper. The effective average interest rate on our debt portfolio as of March 31, 2008 was 5.3%.

¹ Source: comScore Media Metrix Canada

Dividends on preferred shares

Pursuant to the issuance of Preferred Shares Series 1 in March 2007 and of Preferred Shares Series 2 in June 2007, dividends accrued for these preferred shares amounted to \$5.7 million for the first quarter of 2008 and \$0.9 million for the first quarter of 2007. Dividends on the Preferred Shares Series 1 and Series 2 of \$3.2 million and \$2.5 million, respectively, were paid during the first quarter of 2008. See section 3 – Liquidity and Capital Resources – Cumulative Redeemable Preferred Shares.

Provision for income taxes

The combined effective provincial and federal tax rate was 31.6% for the first quarters of 2008 and 2007. The Fund recorded tax expenses of 3% and 2% of earnings for the three-month periods ended March 31, 2008 and 2007, respectively. The Fund's subsidiary, YPG LP, is a limited partnership, and as such, is not subject to income taxes whereas YPG LP's subsidiaries are subject to income tax. The difference between the statutory and the effective tax rates is primarily due to inter-company revenues which are not currently taxable when received by YPG LP. The enactment of the Budget Implementation Act 2007 (Bill C-52) on June 22, 2007 which contained legislation implementing proposed changes to the manner in which publicly-traded income-trusts such as the Fund and the distributions from such entities will be taxed effective in the 2011 taxation year has no impact on YPG's current earnings. The operating activities are being carried on in corporate entities and as such, future income taxes are being calculated on all underlying operating assets and liabilities. For a more complete description of Bill C-52 and its impact on our results, see section 6 – Risk and Uncertainties.

Net earnings

Net earnings increased by \$6 million to reach \$127 million during the first quarter of 2008. In addition to organic growth in the Directories segment, the positive variance for the quarter is due to net earnings generated by the acquisition of Aliant.

Analysis of Adjusted Consolidated Operating and Financial Results

Adjusted Revenues

Adjusted Revenues increased by \$30 million to \$415.1 million in the first quarter of 2008 compared to the same period last year. The portion of the increase for the first quarter attributable to the businesses acquired in 2007 represents \$15.6 million of the variance. The remainder of the variance is mainly due to organic online growth which reached 47.7% during the quarter.

Adjusted EBITDA

Adjusted EBITDA increased by \$23.7 million to \$226.6 million in the first quarter of 2008 compared to the same period last year. This increase is largely due to organic growth in the Directories segment, the contribution from Aliant and cost efficiencies in both segments.

Cost of sales increased by \$6.9 million to \$114.1 million in the first quarter of 2008 compared with the same period last year. The increase substantially relates to the acquisition of Aliant as the 2007 results included only 12.86% of Aliant.

Gross profit margin increased from 72.2% in the first quarter of 2007 to 72.5% in the first quarter of 2008. The increase is mainly attributable to synergies being realized from the acquisition of Aliant.

General and administrative expenses remained relatively stable at \$74.5 million in the first quarter of 2008 compared with \$75.1 million for the same period last year.

Summary of Consolidated Quarterly Results

Quarterly Results

(in thousands of Canadian dollars – except unit information)

	2008	2007				2006		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	\$414,571	\$412,566	\$416,507	\$411,110	\$384,241	\$378,987	\$369,875	\$340,324
Operating costs	187,178	190,670	188,005	190,791	180,798	181,292	171,604	157,117
Income from operations before depreciation and amortization, and impairment of intangible assets (EBITDA)	227,393	221,896	228,502	220,319	203,443	197,695	198,271	183,207
Depreciation and amortization	55,964	66,826	64,746	49,982	44,030	37,096	33,632	42,800
Impairment of intangible assets	-	-	-	-	-	8,000	-	-
Income from operations	171,429	155,070	163,756	170,337	159,413	152,599	164,639	140,407
Financial charges, net	34,665	33,281	34,164	34,828	35,088	34,827	37,696	34,001
Earnings before dividends on Preferred shares, income taxes and non-controlling interest	136,764	121,789	129,592	135,509	124,325	117,772	126,943	106,406
Dividends on Preferred shares	5,688	5,688	5,654	3,776	908	-	-	-
Earnings before income taxes and non-controlling interest	131,076	116,101	123,938	131,733	123,417	117,772	126,943	106,406
Provision for (recovery of) income taxes	3,971	(40,877)	1,703	3,600	2,466	4,734	7,472	(7,785)
Non-controlling interest	117	(70)	98	560	-	-	-	-
Net earnings	\$126,988	\$157,048	\$122,137	\$127,573	\$120,951	\$113,038	\$119,471	\$114,191
Basic earnings per unit	\$0.24	\$0.29	\$0.23	\$0.24	\$0.23	\$0.21	\$0.23	\$0.23
Diluted earnings per unit	\$0.22	\$0.28	\$0.22	\$0.23	\$0.22	\$0.20	\$0.23	\$0.22
Revenues	\$414,571	\$412,566	\$416,507	\$411,110	\$384,241	\$378,987	\$369,875	\$340,324
Elimination of purchase accounting impact	558	806	1,142	1,691	887	1,045	-	126
Adjusted Revenues	\$415,129	\$413,372	\$417,649	\$412,801	\$385,128	\$380,032	\$369,875	\$340,450
Income from operations before depreciation and amortization, and impairment of intangible assets (EBITDA)	\$227,393	\$221,896	\$228,502	\$220,319	\$203,443	\$197,695	\$198,271	\$183,207
Elimination of purchase accounting impact	(790)	(875)	(857)	(886)	(495)	(625)	(515)	(178)
Transition expenses	-	-	-	-	-	-	-	1,029
Adjusted EBITDA	\$226,603	\$221,021	\$227,645	\$219,433	\$202,948	\$197,070	\$197,756	\$184,058
Adjusted EBITDA margin	54.6%	53.5%	54.5%	53.2%	52.7%	51.9%	53.5%	54.1%

Adjusted Revenues reflect sustained organic growth in our Directories segment quarter over quarter for both print and online. In addition, Adjusted Revenues were favourably impacted by the acquisitions of Classified Media (Canada) Holdings Inc. (Trader Canada) on June 8, 2006, MTS on October 2, 2006, LesPAC on April 19, 2007, Aliant on April 30, 2007 and Vertical Guides LP on October 31, 2007. For the fourth quarter of 2007, revenues were lower than the third quarter of 2007 due to the seasonality of certain Vertical Media publications. In the fourth quarter of 2006, this seasonality was offset by the acquisition of MTS.

The Adjusted EBITDA margins in the second half of 2006 were impacted by non-recurring transition expenses of approximately \$9.5 million relating to the integration of acquired businesses in the Vertical Segment. In 2007, the improvement in Adjusted EBITDA margins highlights the synergies realized through the integration of acquired businesses. The decrease in the fourth quarter of each year is attributable to the seasonality of certain Vertical Media publications.

Net earnings were affected by purchase accounting and are not comparable quarter over quarter.

Segmented Information – Directories

Key Performance Indicators

Each year, we set targets to advance our goals and drive results. The targets below have been established through our ongoing planning process.

The tables below provide supplemental information incorporating the results of Aliant in 2007 as if YPG had owned the entity all year in order to better discuss performance on a comparable basis.

Year-over-Year Performance

	2008 Target	Three-month period ended March 31, 2008
Adjusted Revenue growth – On a comparable basis	4% to 5%	4.2%
Adjusted EBITDA growth – On a comparable basis	4% to 7%	5.9%

Adjusted Revenues and Adjusted EBITDA on a comparable basis grew within our 2008 target ranges for the first quarter, at 4.2% and 5.9%, respectively. The adjusted revenue growth reflects the strong performance in our online products as well as continued growth in our print products. The Adjusted EBITDA is a result of our organic growth in revenues, our cost containment efforts and synergies being realized from the integration of Aliant.

Combined Financial Results of YPG and Aliant – Three-month period ended March 31, 2007

(in thousands of Canadian dollars)

	YPG	Aliant¹	Total
Adjusted Revenues	\$309,854	\$14,452	\$324,306
Adjusted EBITDA	\$182,951	\$9,176	\$192,127
Adjusted EBITDA margin	59.0%	63.5%	59.2%

¹ Represents 87.14% of Aliant which YPG did not own in 2007.

Operating and Financial Results

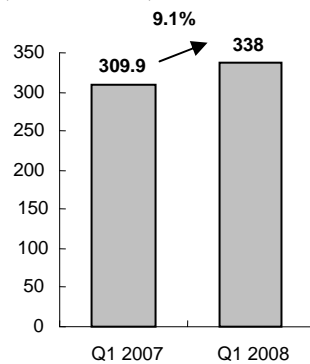
Operating Results¹

(in thousands of Canadian dollars)

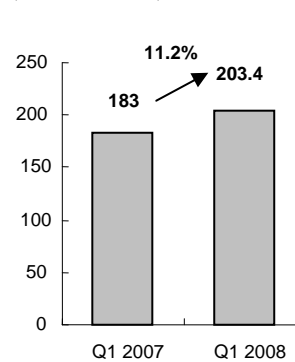
	Three-month periods ended March 31,	
	2008	2007
Revenues	\$337,431	\$308,967
Operating costs	133,255	125,521
Income from operations before depreciation and amortization (EBITDA)	204,176	183,446
Depreciation and amortization	46,400	32,954
Income from operations	\$157,776	\$150,492
Revenues	\$337,431	\$308,967
Elimination of purchase accounting impact	558	887
Adjusted Revenues	\$337,989	\$309,854
Income from operations before depreciation and amortization (EBITDA)	\$204,176	\$183,446
Elimination of purchase accounting impact	(790)	(495)
Adjusted EBITDA	\$203,386	\$182,951

¹ See Note 19 - Segmented Information of the interim consolidated financial statements of the Company for the period ended March 31, 2008.

Adjusted Revenues - Directories
(in millions of dollars)



Adjusted EBITDA - Directories
(in millions of dollars)



Analysis of Operating and Financial Results

Revenues and Adjusted Revenues

Revenues increased by \$28.5 million to \$337.4 million during the first quarter of 2008 compared with the same period last year. Excluding the effect of purchase accounting, Adjusted Revenues increased by \$28.1 million to \$338 million during the first quarter of 2008 compared with the same period last year. Of the increase, \$14.5 million is attributable to the contribution of Aliant. Organic growth amounted to \$13.7 million or 4.2% for the first quarter of 2008.

EBITDA and Adjusted EBITDA

EBITDA increased by \$20.7 million to \$204.2 million in the first quarter of 2008 compared with the same period last year. Excluding the effect of purchase accounting, Adjusted EBITDA increased by \$20.4 million to \$203.4 million in the first quarter of 2008 compared with the same period last year. The increases result from our organic growth in revenues, our cost containment efforts and synergies being realized from our integration of Aliant.

Cost of sales amounted to \$75 million in the first quarter of 2008 compared with \$67.3 million for the same period last year. Excluding the effect of purchase accounting, cost of sales increased in the first quarter of 2008 to \$76.3 million compared with \$68.7 million for the same period last year, mainly due to the acquisition of Aliant and higher direct costs from higher revenues.

Gross profit margin remained relatively stable at 77.8% in the first quarter of 2008 compared to 78.2% for the same period last year. Excluding the effect of purchase accounting, gross profit margin was 77.4% in the first quarter of 2008 compared to 77.8% for the same period last year.

General and administrative expenses in the first quarter of 2008 increased by \$0.1 million to \$58.3 million compared with the same period last year.

Depreciation and amortization

Depreciation and amortization increased from \$33 million in the first quarter of 2007 to \$46.4 million in the first quarter of 2008. The increase in the first quarter compared to the same period last year is due to the acquisition of Aliant offset by the lower amortization of intangible assets of MTS which was acquired in 2006. Excluding the effect of purchase accounting, depreciation and amortization was \$11.1 million for the first quarter of 2008, up slightly from \$9.3 million for the first quarter of 2007.

Segmented Information – Vertical Media

In addition to the results of Trader, this segment includes the results from the new partnership with LesPAC from its date of acquisition on April 19, 2007.

Key Performance Indicators

Each year, we set targets to advance our goals and drive results. The targets below have been established through our ongoing planning process.

The table below provides supplemental information incorporating the results of LesPAC in 2007 as if YPG had owned that entity all year in order to better discuss performance on a comparable basis.

Year-over-Year Performance

	2008 Target	Three-month period ended March 31, 2008
Revenue growth – On a comparable basis	5% to 7%	1.0%
EBITDA growth – On a comparable basis	7% to 9%	13.1%

For the first quarter ended March 31, 2008, revenues on a comparable basis, as if YPG had owned LesPAC from the beginning of the reporting period, grew 1% at a level below our 2008 target range. This level of growth was due to change management following the integration of several technology platforms and the consolidation of call centers. We expect our investment in people and systems will enable us to support national offers, the roll-out of our Trader Dealer Showroom and new online product offerings. We believe these improvements to the business should enable us to progressively improve revenue performance at Trader. Despite pressures on revenue growth, EBITDA grew at a level above our 2008 target range, at 13.1% for the first quarter of 2008 reflecting our realized operating efficiencies and our efforts to contain costs and increase profitability.

Operating and Financial Results

Operating Results¹

(in thousands of Canadian dollars)

	Three-month periods ended March 31,	
	2008	2007
Revenues	\$77,140	\$75,274
Operating costs	53,923	55,277
Income from operations before depreciation and amortization (EBITDA)	23,217	19,997
Depreciation and amortization	9,564	11,076
Income from operations	\$13,653	\$8,921

¹ See Note 19 - Segmented Information of the interim consolidated financial statements of the Company for the period ended March 31, 2008.

Analysis of Operating and Financial Results

Revenues

Revenues from our Vertical Media segment amounted to \$77.1 million in the three-month period ended March 31, 2008 compared to \$75.3 million for the same period last year. Growth is mostly attributable to the Automotive product vertical which represents 65% of total revenues. The portion attributable to the other product verticals is 18% for Real Estate, 14% for Generalist and 3% for Employment and Other.

EBITDA

EBITDA increased by \$3.2 million to \$23.2 million for the three-month period ended March 31, 2008 compared to the same period last year.

Cost of sales decreased to \$37.7 million for the three-month period ended March 31, 2008 compared to \$38.4 million for the same period last year despite the increase in revenues. These results are a reflection of our improved operational efficiency combined with our cost containment.

Gross profit margin was 51.1% for the three-month period ended March 31, 2008 compared to 49% for the same period last year. The improvement is due principally to lower selling and manufacturing costs during the first quarter when compared to the same period last year.

General and administrative expenses amounted to \$16.2 million for the three-month period ended March 31, 2008 compared to \$16.9 million for the same period last year.

Depreciation and amortization

Depreciation and amortization amounted to \$9.6 million for the three-month period ended March 31, 2008 compared to \$11.1 million for the same period last year. Excluding the effect of purchase accounting, depreciation and amortization was \$2.9 million for the three-month period ended March 31, 2008 compared to \$2.4 million for the same period last year. The increase is due to the amortization associated with new systems implementation.

3. Liquidity and Capital Resources

This section examines the Company's capital structure, including the sources of liquidity and the various financial instruments of its debt and preferred shares portfolio.

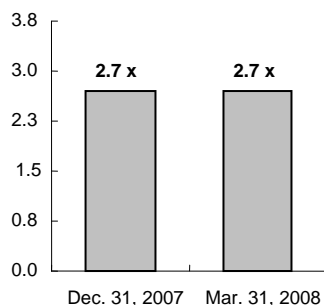
Financial Position

Capital Structure

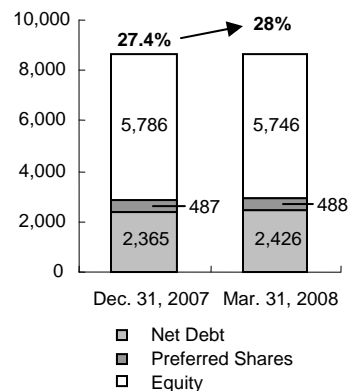
(in thousands of Canadian dollars)

	As at March 31, 2008	As at December 31, 2007
Cash and cash equivalents	\$53,157	\$53,275
Medium Term Notes	2,051,899	2,048,067
Exchangeable Debentures	281,752	280,553
Commercial Paper	115,200	-
Revolving Credit Facilities	13,000	72,000
Obligations under capital leases	17,005	17,528
Long-term debt, including current portion	\$2,478,856	\$2,418,148
Net debt (net of cash and cash equivalents)	\$2,425,699	\$2,364,873
Preferred shares	487,688	487,238
Net debt and Preferred shares (net of cash and cash equivalents)	2,913,387	2,852,111
Unitholders' equity	5,746,219	5,786,180
Total capitalization including Preferred shares	\$8,659,606	\$8,638,291
Net debt to total capitalization	28.0%	27.4%
Net debt and Preferred shares to total capitalization	33.6%	33.0%

**Net Debt to Adjusted EBITDA ¹
Ratio**



**Capital Structure
(in millions of dollars)**
Net debt to total capitalization



¹ Latest twelve month Adjusted EBITDA giving effect to the impact of acquisitions.

As at March 31, 2008, YPG had approximately \$2.4 billion of debt net of cash and cash equivalents, or \$2.9 billion including preferred shares. The net debt and preferred shares position increased slightly during the quarter, reflecting the cash outflow for the acquisition of the directory assets of ThunderBay and the timing of certain payments affecting the first quarter. The net debt to Adjusted EBITDA ratio¹ as of March 31, 2008 was stable when compared to December 31, 2007 at 2.7 times. The net debt and preferred shares to Adjusted EBITDA ratio¹ stands at 3.2 times as of March 31, 2008. The net debt to total capitalization stands at 28.0% compared to 27.4% as of December 31, 2007, and the net debt and preferred shares to total capitalization stands at 33.6% as of March 31, 2008 compared to 33.0% as of December 31, 2007.

Revolving Credit Facilities and Commercial Paper Program

YPG currently has in place a \$700 million senior unsecured revolving credit facility (the Revolving Facility). The Revolving Facility, which is composed of two tranches, was amended on March 30, 2008 to extend the maturity of the first tranche:

- a \$500 million 364-day revolving tranche with a 2-year term-out option now matures in May 2011; and,
- a \$200 million 5-year revolving tranche matures in May 2012.

The total amount of the Revolving Facility can be used as back-up for the commercial paper program and for general corporate purposes. The 364-day tranche can be extended annually, subject to the lender's consent. If not extended, any amount drawn may be converted, at our option, into a 2-year non-revolving term loan.

During 2007, given difficult market conditions in the Canadian money markets affecting commercial paper issuers, the Company decided to draw on the Revolving Facility to replace maturing commercial paper and to fund its short-term liquidity requirements. During the first quarter as market conditions improved, the Company started to re-issue commercial paper in the money markets to fund its liquidity requirements and to repay the drawings under its Revolving Facility. Therefore, as of March 31, 2008, \$13 million was drawn under the Revolving Facility, down from \$72 million at December 31, 2007.

The Revolving Facility is subject to customary terms and conditions including limits on pledging assets without the consent of lenders. This facility is also subject to the maintenance of a maximum ratio of funded debt to Adjusted EBITDA of 4.25 times and a minimum ratio of Adjusted EBITDA to cash interest expense on total debt of 3.5 times.

YPG Holdings Inc., a subsidiary of YPG, maintains a commercial paper program with an authorized limit of \$500 million. The Revolving Facility serves as a back-up facility for the program. As at March 31, 2008, there was \$115.2 million of commercial paper outstanding under the program. No amount was outstanding at December 31, 2007.

YPG was in compliance with all of its debt covenants as at March 31, 2008.

New Revolving Credit Facility

On May 8, 2008, the Company increased its liquidity by entering into a new \$250 million senior unsecured revolving credit facility (the New Revolving Facility). This facility has a 364-day revolving tranche with a 2-year term-out option that matures in May 2011. The tranche can be extended annually, subject to the Lender's consent. If not extended, any amount drawn may be converted, at our option, into a 2-year non-revolving term loan. The New Revolving Facility can be used for general corporate purposes and the financial covenants are the same as the Revolving Facility.

¹ Latest twelve month Adjusted EBITDA giving effect to the impact of acquisitions.

Medium Term Note Program

YPG Holdings Inc. has a total of \$2.1 billion of notes outstanding under its Medium Term Note program with varying maturity dates between 2009 and 2036.

The medium term notes Series 1 in the amount of \$450 million will mature in April 2009. The Company has committed availability under its Revolving Facility and its New Revolving Facility to re-finance these notes upon maturity.

Exchangeable Unsecured Subordinated Debentures

YPG Holdings Inc. has a total of \$300 million of Exchangeable Unsecured Subordinated Debentures outstanding (the Exchangeable Debentures). The Exchangeable Debentures have a maturity date of August 1, 2011 and are exchangeable at any time, at the option of the holder, for units of the Fund at an exchange price of \$20.00 per unit. The Exchangeable Debentures are redeemable at par at the option of YPG Holdings Inc. after August 1, 2009, subject to certain restrictions. The Exchangeable Debentures also provide YPG Holdings Inc. with the option to repay the principal and interest in units of the Fund. An amount of approximately \$13 million, representing the value of the exchange option, has been classified as a component of Unitholders' equity on the balance sheet. There has not been any exchange of the Exchangeable Debentures during the quarter.

Cumulative Redeemable Preferred Shares

YPG Holdings Inc. has two series of cumulative redeemable first preferred shares outstanding. On March 6, 2007, 12,000,000 cumulative redeemable preferred shares, Series 1 (Preferred Shares Series 1) were issued for gross proceeds of \$300 million. A dividend of \$1.0625 per share per annum is payable quarterly on the Preferred Shares Series 1, yielding 4.25% per annum. The Preferred Shares Series 1 are redeemable by the issuer at par for cash on or after March 31, 2012, or by the issuance of units of the Fund between March 31, 2012 and December 31, 2012. The Preferred Shares Series 1 are also retractable for cash at the holder's option on or after December 31, 2012 at a price equal to \$25.00 per share plus any accrued and unpaid dividends in arrears.

On June 8, 2007, 8,000,000 cumulative redeemable preferred shares, Series 2 (the Preferred Shares Series 2) were issued for gross proceeds of \$200 million. A dividend of \$1.25 per share per annum is payable quarterly, yielding 5.0% per annum. The Preferred Shares Series 2 are redeemable by the issuer at a decreasing premium for cash on or after June 30, 2012, or by the issuance of units of the Fund between June 30, 2012 and June 30, 2017. The Preferred Shares Series 2 are also retractable for cash at the holder's option on or after June 30, 2017 at a price equal to \$25.00 per share plus any accrued and unpaid dividends in arrears. An amount of \$3 million and \$1.4 million representing the value of the redemption and exchange option respectively have been classified as a derivative financial instrument on the balance sheet.

Liquidity

On March 31, 2008, cash and cash equivalents amounted to \$53.2 million. This amount does not include any investment in asset-backed commercial paper. In addition to cash and cash equivalents, YPG Holdings Inc. may issue additional notes amounting to \$384.8 million under its commercial paper program and access another \$187 million under its Revolving Facility. Alternatively, if additional notes are not issued under the commercial paper program, YPG Holdings may access the full \$572 million available under the Revolving Facility.

As of May 8, 2008, the Company may also access the full amount under its New Revolving Facility, therefore increasing its total available liquidity by \$250 million.

Unit data

As at May 8, 2008 outstanding unit data was as follows:

Outstanding Unit Data		
	As at May 8, 2008	As at December 31, 2007
Units outstanding	530,606,289	533,188,571
Options outstanding	771,482	977,600

The units are voting and participate equally in the income, losses and capital distributions of the Fund. In February 2006, 19,000,000 Exchangeable Units of YPG LP (exchangeable for units of the Fund) were issued as a partial consideration for the acquisition of Trader Media Corp. (TMC), one of two companies from which we have built our Vertical Media business. During the first half of 2007, 5,000,000 Exchangeable Units of YPG LP were exchanged for an equal number of Units of the Fund. On January 18, 2008, 3,185,000 Exchangeable Units of YPG LP were exchanged for an equal number of Units of the Fund. As a result, on May 8, 2008, 10,815,000 Exchangeable Units of YPG LP remain outstanding. The units are included in the outstanding unit data.

No options were granted following the inception of the Fund.

YPG Holdings Inc. also has a total of \$300 million of Exchangeable Debentures which are exchangeable at any time, at the option of the holder into units of the Fund at an exchange price of \$20.00 per unit.

YPG Holdings Inc. has also issued 12,000,000 Preferred Shares Series 1 for gross proceeds of \$300 million and 8,000,000 Preferred Shares Series 2 for gross proceeds of \$200 million. Both series of preferred shares are redeemable by the issuer under certain conditions through the issuance of units of the Fund.

Normal course issuer bid

On March 28, 2008, the Fund received approval from the Toronto Stock Exchange on its notice of intention to make a normal course issuer bid for its units through the facilities of the Toronto Stock Exchange from April 2, 2008 to no later than April 1, 2009, in accordance with applicable regulations of the Toronto Stock Exchange. Under its normal course issuer bid, the Fund intends to purchase for cancellation up to but no more than 25 million units, representing approximately 5% of its units outstanding.

The Fund's Trustees believe that the current trading price of the units does not reflect the strong fundamentals and future prospects for the business of Yellow Pages Income Fund and that such purchases are in the best interest of the Fund and its unitholders and constitute an appropriate use of our funds. The repurchase of units under the program will be immediately accretive to distributable cash per unit. The Fund will also remain well positioned from a capital structure standpoint with financial leverage remaining at the low end of its publicly stated guidelines.

From the inception of this program to May 8, 2008, the Fund had purchased for cancellation 2,788,400 Units of the Fund at an average price of \$11.06 per unit for an amount of \$30.8 million.

Contractual Obligations and Other Commitments

Contractual obligations

(in thousands of Canadian dollars)

	Payments due for the periods ending December 31				
	Total	9 months	1 – 3 years	4 – 5 years	After 5 years
Long-term debt ^{1,2}	\$2,478,200	\$-	\$900,000	\$128,200	\$1,450,000
Obligations under capital leases	17,005	3,366	9,781	3,505	353
Preferred shares ²	500,000	-	-	300,000	200,000
Operating leases	180,632	18,069	61,734	34,764	66,065
Purchase obligations	30,393	13,212	13,225	956	3,000
Total contractual obligations	\$3,206,230	\$34,647	\$984,740	\$467,425	\$1,719,418

¹ Including Exchangeable Debentures

² Principal amount

Obligations under capital leases

We enter into capital lease agreements for office equipment and software. As of March 31, 2008, minimum payments under these capital leases up to 2014 totalled \$17 million.

Operating leases

We rent our premises and equipment under various operating leases. As of March 31, 2008, minimum payments under these operating leases up to 2019 totalled \$180.6 million.

Purchase obligations

We use the services of outside suppliers to distribute our directories and have entered into long-term agreements with a number of these suppliers. These agreements expire between 2008 and 2038. As at March 31, 2008, we have an obligation to purchase services for \$30.4 million over the next five years and thereafter. Cash from operations will be used to meet these purchase obligations.

Sources and Uses of Cash

Consistent with other directories and media companies active in vertical media, the Company has minimal capital spending requirements combined with low operating costs.

Sources and Uses of Cash

(in thousands of Canadian dollars)

	Three-month periods ended	
	2008	March 31, 2007
Cash flow from operating activities		
Cash flow from operations	\$191,320	\$174,899
Change in operating assets and liabilities	(45,982)	(22,437)
	\$145,338	\$152,462
Cash flow used in investing activities		
Business acquisition	\$(17,250)	\$-
Acquisition of capital assets	(12,128)	(17,804)
Proceeds from lease inducements	-	1,826
Acquisition of intangibles	-	(20)
	\$(29,378)	\$(15,998)
Cash flow used in financing activities		
Issuance of long-term debt	\$55,055	\$-
Repayment of long-term debt	-	(243,506)
Issuance of Preferred shares	-	300,000
Distributions to Unitholders	(149,818)	(144,583)
Other costs	(21,315)	(22,690)
	\$(116,078)	\$(110,779)

Cash flow from operating activities

Cash flow from operating activities decreased by \$7.1 million to reach \$145.3 million during the first quarter of 2008. The change in cash flow from operations reflects the additional EBITDA contribution of \$24 million during the first quarter of 2008. The variance in change in operating assets and liabilities for the quarter is mainly due to the timing of payment of certain accounts payable and accrued liabilities.

The Company generates sufficient cash flow from operations to fund capital expenditures, distributions, working capital requirements and to service its debt obligations. Please refer to Distributable Cash in section 4 to understand the impact of new tax proposals from the Federal Minister of Finance on cash flow from operating activities.

Cash flow used in investing activities

Cash used in investing activities increased from \$16 million in the first quarter of 2007 to \$29.4 million in the first quarter of 2008. During the quarter, we acquired the assets of ThunderBay representing cash outflow of \$17.3 million.

Acquisition of Capital Assets, Net of Lease Inducements

(in thousands of Canadian dollars)

	Three-month periods ended March 31,	
	2008	2007
Transition capital	\$-	\$3,577
Maintenance	5,215	4,911
New initiatives	4,184	3,121
Leasehold improvements, net of lease inducements	333	7,277
Total	\$9,732	\$18,886
Adjustment to reflect expenditures on a cash basis	2,396	(2,908)
Acquisition of capital assets, net of lease inducements	\$12,128	\$15,978

Transition Capital – In relation to the acquisitions of TMC and Trader Canada, amounts were spent in prior years for purposes of integrating the combined Vertical Media businesses. No transition capital expenditures are expected to be incurred in 2008 in relation with those acquisitions.

Maintenance capital expenditures increased slightly from \$4.9 million in the first quarter of 2007 to \$5.2 million in the first quarter of 2008. Higher maintenance capital expenditures reflect spending associated with recent business acquisitions.

Capital spending for new initiatives increased to \$4.2 million for the first quarter of 2008 compared to \$3.1 million for the first quarter of 2007. The increase is due to the implementation of Customer First during the period.

Leasehold Improvements – During the first quarter of 2008 we incurred \$0.3 million of leasehold improvements for our premises in Winnipeg and Burnaby.

Total capital expenditures for the first quarter amounted to \$9.7 million and were in line with expectations.

Cash flow used in financing activities

The higher average number of units outstanding in 2008, combined with an increase in the level of cash distributions per unit, resulted in an increase in distributions to unitholders from \$144.6 million in the first quarter of 2007 to \$149.8 million in the first quarter of 2008.

Off-Balance Sheet Arrangements

(See Notes 21 and 25 of the Consolidated Financial Statements of the Company for the year ended December 31, 2007).

Financial and Other Instruments

(See Note 23 of the Consolidated Financial Statements of the Company for the year ended December 31, 2007).

The Company's financial instruments consist of cash and short-term investments, accounts receivable, other investments, accounts payable, distributions payable, short-term and long-term debt, exchangeable debentures, preferred shares and interest rate derivatives.

Derivative Instruments

We use various derivative financial instruments to manage our exposure to interest rate risks on debt financing. YPG does not hold or use any derivative instruments for speculative trading purposes. We formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in our hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

There were two interest rate swap agreements outstanding on March 31, 2008 for a notional amount of \$75 million each totalling \$150 million to hedge the Series 6 Medium Term Notes. We received interest on these swaps of 4.65% and paid a floating rate equal to the three month Canadian Banker's Acceptance plus a spread of 0.28% and 0.35% respectively. The swaps were to mature on February 28, 2011, matching the maturity date of the underlying debt. As at March 31, 2008, the interest rate swaps met the criteria for hedge accounting.

On April 8, 2008, the Fund terminated the two interest rate swaps for gross proceeds of \$3.3 million, which equalled the carrying value of this derivative financial instrument at that date.

Taking into consideration the debt instruments outstanding, the preferred shares, the cash and the above-mentioned derivative instruments, our fixed-to-floating ratio was 92% fixed rate as at March 31, 2008. While the counterparties of these agreements expose YPG to credit losses in the event of non-performance, we believe that the possibility of incurring such losses is remote. This is due to the creditworthiness of the counterparties, all of whom are highly-rated financial institutions with strong credit ratings.

The Preferred Shares Series 1 and 2 contain options for redemption. These options meet the definition of an embedded derivative. They are recorded at their fair value on the consolidated balance sheet with changes in fair value recognized in earnings.

The carrying value of outstanding interest rate derivatives was \$3.7 million and the carrying value of embedded derivatives was \$4.4 million on March 31, 2008. The carrying value is calculated as is customary in the industry using discounted cash flows with quarter-end market rates. For the first quarter of 2008, we reported an unrealized gain of \$0.1 million (2007 – nil) on derivatives.

4. Distributable Cash

The Fund's primary source of cash for distributions is cash flow from operating activities. A reconciliation between cash flow from operating activities and distributable cash is provided below:

Distributable Cash

(in thousands of Canadian dollars— except unit information)

	Three-month periods ended March 31,	
	2008	2007
Cash flow from operating activities	\$145,338	\$152,462
Operating non-cash items ¹	(5,810)	(5,236)
Change in operating assets and liabilities ²	45,982	22,437
Maintenance capital expenditures ³	(5,215)	(4,911)
Other ⁴	2,724	(760)
Distributable cash	\$183,019	\$163,992
Weighted average number of units outstanding	530,044,365	530,480,603
Distributable cash per unit	\$0.35	\$0.31
Distributions declared	\$149,838	\$144,615
Distributions declared per unit	\$0.28	\$0.27
Payout ratio ⁵	80%	87%

¹ Represents operating items with no impact on current cash flow such as pension expense and employee-related expenses through restricted unit awards. The likelihood of those elements materializing into outflows on a long term basis is such that management believes it should be included in the calculation in order to reflect the cash generated from the ongoing operations.

² Change in operating assets and liabilities is excluded from the calculation as it would introduce cash flow variability and affect underlying cash flow from operating activities.

³ Maintenance capital expenditures refer to capital expenditures that are necessary to sustain current productive capacity. Management believes that maintenance capital expenditures should be funded by cash flow from operating activities. Capital spending for new initiatives are expected to improve future distributable cash and as such are not deducted from cash flow from operating activities. Transition capital is provided for as part of the financing plan of specific business acquisitions and is therefore not funded from distributable cash.

⁴ Includes non-controlling interest related to the LesPAC partnership formed in April 2007, tax related amounts and other amounts that do not reflect the ongoing operations of the business.

⁵ The level of distributions paid is reviewed periodically to take into account the current and prospective performance of the business and other items considered to be prudent. See the section Distribution Policy.

Distributable Cash

(in thousands of Canadian dollars)

	Three-month period ended March 31,		Previously completed fiscal years	
	2008	2007	2006	2005
Cash flow from operating activities	\$145,338	\$695,540	\$601,363	\$497,372
Net earnings	\$126,988	\$527,709	\$431,933	\$241,833
Actual cash distributions declared	\$(149,838)	\$(581,986)	\$(527,879)	\$(419,227)
(Shortfall) excess of cash flows from operating activities over cash distributions declared	\$(4,500)	\$113,554	\$73,484	\$78,145
Shortfall of net earnings over cash distributions declared	\$(22,850)	\$(54,277)	\$(95,946)	\$(177,394)
Impact of purchase accounting on net earnings	\$41,939	\$166,592	\$125,564	\$203,311
Excess of net earnings over cash distributions declared excluding impact of purchase accounting	\$19,089	\$112,315	\$29,618	\$25,917

Distributions declared exceeded net earnings by \$22.9 million for the three-month period ended March 31, 2008. The Fund does not use net earnings as a basis to calculate distributions. Net earnings in accordance with GAAP include expenses which do not affect cash such as amortization of non-compete agreements, customer contracts and customer relationships. As a result of our acquisitions over the past several years, our net earnings have been affected by purchase accounting, resulting in an increased amount of amortization related to the acquired intangibles. The costs of these intangible assets are included in the purchase price but there are no future cash outflows associated with maintaining these intangible assets. If we exclude the impact of purchase accounting, net earnings exceeded distributions declared by \$19.1 million for the three-month period ended March 31, 2008.

Distributions declared exceeded cash flows from operating activities by \$4.5 million for the three-month period ended March 31, 2008. This is mainly due to the payment of certain accounts payable and accrued liabilities.

Cash distributions declared were lower than distributable cash resulting in a payout ratio of 80% for the three-month period ended March 31, 2008. The level of distributions declared is reviewed periodically to take into account the current and prospective performance of the business and other items considered to be prudent.

Distributable cash

Distributable cash increased from \$164 million in the first quarter of 2007 to \$183 million in the first quarter of 2008. The increase is mainly due to organic growth during the quarter and the contribution from Aliant. This was partially offset by dividends paid on preferred shares.

Distributable cash per unit increased from \$0.31 in the first quarter of 2007 to \$0.35 for the first quarter of 2008. This increase represents growth of 12.9% for the first quarter of 2008.

The Fund's cumulative distributable cash since its Initial Public Offering in August of 2003 to March 31, 2008 is approximately \$2.4 billion, or \$5.25 per unit. Total distributions declared during the same period reached approximately \$2.1 billion, or \$4.62 per unit representing a cumulative payout ratio of 88%.

In calculating the Fund's distributable cash, we take into consideration our debt management and our productive capacity maintenance strategies.

Our long-term debt management strategy is to refinance our funded debt at maturity. Our funded debt portfolio currently has an average term of approximately 9 years. We are reasonably assured that we will be able to refinance these obligations given our demonstrated access to capital markets and our commitment to investment grade credit ratings.

We maintain the value of our asset base over time through constant investment in our productive capacity. Such investment, referred to as maintenance capital expenditures, are funded from operational cash flows and deducted from our distributable cash calculation.

Our debt obligations do not currently restrict our ability to pay distributions as long as we are not in default under credit agreements. Our revolving credit facilities do not provide specific limitations on distributions as long as we maintain our investment grade ratings. If we were to become non-investment grade, distributions paid for any given 12-month period would not be allowed to exceed the total distributable cash plus a provision of \$100 million, providing us with significant flexibility.

Furthermore, our Medium Term Note program and our Exchangeable Unsecured Subordinated Debentures, which represent \$2.3 billion of our total long-term debt portfolio as of March 31, 2008, do not provide for any contractual limitations on the distribution of cash.

Distributions declared per unit

Distributions declared per unit increased from \$0.27 in the first quarter of 2007 to \$0.28 in the first quarter 2008 as a result of the increase in distributions per unit on an annualized basis.

Impact of changes to the Canadian Income Tax treatment of income trusts on distributable cash and distributions declared per unit

On October 31, 2006, the Federal Minister of Finance announced that income other than taxable dividends earned by existing publicly-traded income trusts (or other flow-through entities) such as the Fund, would be taxed beginning in 2011 (October 31, 2006 Announcement). To effect this, the Minister introduced Bill C-52 which received Royal Assent on June 22, 2007. The Bill contained what has become known as the "SIFT Rules" to bring these tax changes into force.

During the four-year interim period, income trusts will be subject to growth guidelines issued by the Federal Department of Finance (the Normal Growth Guidelines). Growth will be measured by the amount of equity issued by the Fund, to benefit from the deferred application of the new tax regime to 2011. Please refer to Section 6 – Risks and Uncertainties: Income Tax Matters for more details on the SIFT Rules.

Following the October 31, 2006 Announcement, we reiterated periodically that these measures would not affect our business model or operating plans.

Distribution policy

Distributable cash per unit amounted to \$0.35 in the first quarter of 2008 while distributions declared per unit amounted to \$0.28 in the first quarter of 2008. Strong growth in Distributable Cash has resulted in a constant reduction in our payout ratio from about 95% at the time of the IPO to 80% in the first quarter of 2008, notwithstanding regular increases in cash distributions to unitholders.

Following the October 31, 2006 Announcement, we indicated that we would continue to monitor closely the Fund's payout ratio over the 2007-2010 period. In the periodical review of distributions, we will continue to take into account the current and prospective performance of our business, with the objective of continuing to progressively reduce our payout ratio during the transition period from an income trust to a corporate structure.

We intend to continue to increase cash distributions during the transition period, but at a more moderate pace than in the past. With Distributable Cash per unit expected to grow at sustainable growth rates in excess of cash distributions, the payout ratio is expected to decline to the low 70% range by 2010, which will provide the necessary flexibility to fund cash taxes starting in 2011.

Our objective is to be in a position to maintain the 2010 level of cash distributions to our shareholders in 2011, after a conversion to a corporate structure, despite the cash taxes that will then be payable by YPG. These distributions will then be treated as dividends, providing an additional advantage to taxable investors.

Therefore, we believe that our ability to generate growing free cash flow from operations will provide the necessary flexibility to fund cash income taxes, which should position us well for a successful transition from an income trust to a corporation on or about December 31, 2010.

5. Critical Assumptions

Our critical accounting estimates have not changed since the release of our MD&A for the year ended December 31, 2007. In order to review critical accounting estimates, please refer to the corresponding section in our MD&A for the year ended December 31, 2007.

Change in Accounting Policies

- 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. It also describes the nature and extent of risks arising from financial instruments to which the Fund is exposed during the period and at the consolidated balance sheet date 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 replaces 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.

6. Risks and Uncertainties

The following section examines the major risks and uncertainties that could materially affect YPG's future business results and explains how these risks are managed.

Understanding and managing risks are important parts of YPG's strategic planning process. The Board requires that our senior management identify and properly manage the principal risks related to our business operations. To understand and manage risks at YPG, our Board and senior management analyze risks in three major categories:

1. strategic risks – which are primarily external to the business;
2. financial risks – generally related to matters addressed in the Financial Risk Management Policy and in the Pension Statement of Investment Policy and Procedures; and,
3. operational risks – related principally to risks under the control of management across key functional areas of the organization.

YPG has put in place certain guidelines in order to manage the risks to which it may be exposed. Please refer to the Annual Information Form for a complete description of these risk factors. Our risks and uncertainties have not changed since the release of our MD&A for the year ended December 31, 2007. For more information, please refer to the corresponding section in our MD&A for the year ended December 31, 2007.

7. Controls and Procedures

Management including the President and Chief Executive Officer and the Executive Vice President – Corporate Services and Chief Financial Officer have determined that there were no changes to the internal control over financial reporting during the quarter ended March 31, 2008 that would have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.