

Management Discussion and Analysis of Financial Condition and Results of Operations

The following management discussion and analysis of financial condition and results of operations (MD&A) should be read in conjunction with the September 30, 2003 unaudited consolidated financial statements of Yellow Pages Income Fund (“the Fund”) and YPG LP (“YPG”) and the notes thereto.

The Fund

The Fund is an unincorporated, open-ended limited purpose trust established to invest in YPG. It commenced operations on August 1, 2003 when it completed an initial public offering of 100,000,000 units at \$10 per unit for gross proceeds of \$1 billion. Concurrent with the closing of the public offering and the exchange of a \$16.9 million management interest in YPG LP’s subsidiary for the issuance of an additional 1,692,030 units, the Fund acquired a 30.56% ownership interest in YPG.

This is the first reporting period of the Fund since its inception and as such the financial information is disclosed without comparative figures. The Fund accounts for its investment in YPG using the equity method. Under this method, the Fund’s 30.56% share of the earnings of YPG, adjusted for the amortization of certain intangible assets and other items arising from the purchase price allocation, is reflected in the statement of earnings of the Fund as “Share of earnings from equity investee”.

Results of Operations for the Period from Commencement of Operations, August 1, 2003, to September 30, 2003

The share of earnings from equity investee for the two-month period ended September 30, 2003 amounted to \$0.2 million. Net earnings amounted to \$0.2 million or \$0.002 per unit.

The results of operations of the Fund are entirely dependent on the performance of YPG. To provide additional information on the underlying operations of this investment, the results of operations of YPG are commented upon below.

YPG

YPG is comprised of YPG LP, a limited partnership, and its consolidated subsidiaries. It is Canada’s largest directories publisher and the exclusive owner of the Yellow Pages™, Pages Jaunes™, and Walking Fingers & Design™ trademarks in Canada. YPG, through its predecessor businesses, has been an industry leader since it published its first directory in 1908. It is the official publisher of Bell Canada’s directories in Canada as well as a number of other incumbent telephone company directories that have leading market share in their markets. It also operates the leading online telephone directories in Canada, YellowPages.ca™, Canada411.ca, CanadaTollFree.ca and the CanadaPlus.ca group of city sites. This online presence allows YPG to offer bundled packages of print and online directory advertising products. YPG is the managing partner of Aliant ActiMedia, in which it holds a 12.86% equity interest and which is the incumbent telephone directories publisher in Atlantic Canada.

YPG acquired the directories businesses from affiliates of Bell Canada on November 29, 2002 (the “Acquisition”) and as such the financial information for the three-month and nine-month periods ended September 30, 2003 is disclosed without comparative figures. YPG’s Acquisition was accounted for using the purchase method of accounting. Purchase accounting resulted in the elimination of deferred revenues and deferred publication costs related to those directories that were published prior to the Acquisition. These deferred revenues and deferred publication costs would have been recognized in 2003 had the Acquisition 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 following tabular presentation shows the reconciliation from the reported results under Canadian generally accepted accounting principles (“GAAP”) to the adjusted results had the Acquisition not occurred. The results are derived by excluding from the reported amounts the impact of purchase accounting, transition expenses as they are related to the Acquisition and therefore non-recurring, and certain specific restructuring and special charges.

Three-month period ended September 30, 2003
(in thousands of Canadian dollars)

	Reported	Elimination of purchase accounting impact	Transition expenses	Restructuring and special charges	Adjusted (1)
Revenues	\$154,546	\$6,430			\$160,976
Operating costs	54,691	12,704	(623)		66,772
EBITDA (1)	99,855	(6,274)	623		94,204
Depreciation and amortization	52,222	(50,105)			2,117
Restructuring and special charges	136,136			(136,136)	
(Loss) income from operations	\$(88,503)	\$43,831	\$623	\$136,136	\$92,087

Nine-month period ended September 30, 2003
(in thousands of Canadian dollars)

	Reported	Elimination of purchase accounting impact	Transition expenses	Restructuring and special charges	Adjusted (1)
Revenues	\$450,502	\$26,457			\$476,959
Operating costs	149,135	56,140	(4,482)		200,793
EBITDA (1)	301,367	(29,683)	4,482		276,166
Depreciation and amortization	266,094	(261,958)			4,136
Restructuring and special charges	136,136			(136,136)	
(Loss) income from operations	\$(100,863)	\$232,275	\$4,482	\$136,136	\$272,030

- (1) In order to provide a better understanding of the results, YPG uses the term EBITDA (earnings before interest, taxes, depreciation and amortization). Management defines EBITDA as revenues less operating costs which represents loss from operations before depreciation, amortization, restructuring and special charges. YPG also uses the terms Adjusted Revenues and Adjusted EBITDA (revenues and EBITDA adjusted for certain items indicated above which management believes are reflective of ongoing operations). These terms do not have any standardized meaning prescribed by Canadian GAAP and may not be comparable to similar measures presented by other issuers. Management believes EBITDA, Adjusted Revenues and Adjusted EBITDA to be important measures as they allow management to assess the operating performance of the ongoing business.

Results of Operations for the three-month and nine-month periods ended September 30, 2003

Consolidated revenues for the three-month and the nine-month periods ended September 30, 2003 amounted to \$154.5 million and \$450.5 million, respectively. The increase in revenues throughout the nine-month period of 2003 is mainly attributable to the growth in sales of advertising in the print directories as well as in online directories. Had the Acquisition not occurred, Adjusted Revenues would have been \$6.4 million and \$26.5 million higher than the reported revenues in the third quarter and the nine-month period ended September 30, 2003, respectively.

EBITDA was \$99.9 million representing 64.6% of revenues for the third quarter of 2003 compared to \$301.4 million or 66.9% of revenues for the nine-month period ended September 30, 2003. The variance is partly attributable to the adjustments made in relation to the Acquisition. Had the Acquisition not occurred, Adjusted EBITDA would have represented 58.5% of revenues in the third quarter of 2003 and 57.9% of revenues in the nine months of 2003. YPG's third quarter results benefited from lower manufacturing costs driven by recently implemented supply chain and other cost containment initiatives.

Depreciation and amortization amounted to \$52.2 million and \$266.1 million for the three-month and nine-month periods ended September 30, 2003, respectively. Amortization expense is not consistent on a quarterly basis due to the amortization of customer contracts and customer relationships on a pro rata basis with related revenues.

Restructuring and special charges in the amount of \$136.1 million were recorded during the third quarter of 2003. These charges primarily relate to the refinancing of the November 29, 2002 credit facilities that occurred on August 1, 2003. This amount also included initiatives that were undertaken to improve efficiencies and remain competitive following a thorough review of all aspects of the operations. It consisted of:

- a write-off of \$83.2 million of previously deferred financing costs, \$15.4 million in redemption fees and \$20.1 million due to the settlement of the cross-currency interest rate swaps, all related to the repayment of the old credit facilities.
- a \$6.7 million workforce reduction, the impairment of assets for \$5.6 million and \$5.1 million of other items.

Financial charges for the third quarter of 2003 were \$26.1 million compared with \$107.4 million for the nine-month period ended September 30, 2003. Interest expense decreased in the third quarter as a result of a lower level of borrowings and lower interest rates under the new credit facilities, as described below. There were no foreign exchange gains or losses for the three-month period ended September 30, 2003. The foreign exchange gain of \$17.6 million during the nine-month period resulted from foreign exchange fluctuations before the U.S. dollar dominated long-term debt, which was repaid, was fully hedged on January 24, 2003.

Recovery from income taxes amounted to \$43.9 million for the third quarter of 2003 and \$95.6 million during the nine-month period of 2003. The legal entity YPG LP is a limited partnership and as such is not subject to income taxes whereas its subsidiaries are subject to tax. The tax recovery exceeding the Canadian statutory rate of 35.3% is primarily due to intra-group charges which are not taxable when received by YPG LP.

Net loss amounted to \$70.6 million during the third quarter of 2003 and \$111.1 million for the nine-month period ended September 30, 2003.

Liquidity and Capital Resources

The Fund

On August 1, 2003, the Fund issued 100,000,000 units to the public in exchange for net proceeds of \$950 million after deducting underwriters' fees in the amount of \$50 million which were subsequently reimbursed by YPG. Concurrent with the offering and the exchange of a \$16.9 million management interest in YPG LP's subsidiary for the issuance of an additional 1,692,030 units, the Fund acquired a 30.56% ownership interest in YPG for cash consideration of \$1.0 billion.

August 2003 distributions amounting to \$7.0 million were received from YPG during the two-month period ended September 30, 2003 and distributed to unitholders. The distributions amounted to \$0.0688 per unit.

YPG

For the third quarter of 2003 and the nine-month period ended September 30, 2003, operating activities provided cash of \$12.6 million and \$93.8 million respectively. The reduction in the third quarter compared to previous periods was mainly attributable to an amount of \$46.7 million spent in restructuring and special charges partly offset by lower interest paid. Interest paid amounted to \$37.2 million and \$123.4 million for the three-month and the nine-month periods, respectively.

Investing activities used cash of \$3.2 million for the third quarter and \$8.8 million for the nine-month period of 2003, primarily for capital expenditures, which were intended to improve customer contracts and customer data work flows.

Financing activities provided cash of \$67.6 million during the third quarter of 2003 and used cash of \$37.1 million during the nine-month period ended September 30, 2003. On August 1, 2003, YPG established new term credit facilities of \$1.2 billion maturing on August 1, 2007. In addition, YPG established a \$100 million revolving term facility which remains undrawn. Combined with \$936.9 million of net proceeds from the initial public offering, the proceeds from these financing activities were used to repay the balance of the former credit facilities of \$2.0 billion and to fund the financing costs of the new credit facilities of \$13.8 million. An initial amount of \$106.6 million had been repaid on the former credit facilities during the previous periods.

During the third quarter, YPG paid distributions amounting to \$24.7 million.

Cash and cash equivalents at September 30, 2003 totaled \$85.2 million. On October 15, 2003 YPG paid the distributions declared in September 2003 totaling \$22.9 million and used \$35.0 million of the above mentioned cash balance to partially repay its indebtedness.

On October 24, 2003, YPG established a commercial paper program and associated standby lines of credit with an authorized limit of \$300.0 million. YPG subsequently issued \$265.0 million in Notes and repaid \$300.0 million of the Term B loan facility, for a net reduction of \$35.0 million in indebtedness. Following the implementation of the commercial paper, the repayment of bank borrowings represents a permanent reduction of the term B loan facility.

Distribution policy

The distribution policy of the Fund is to make distributions of its available cash to the maximum extent possible to unitholders. The Fund intends to make equal monthly cash distributions to unitholders of record on the last business day of each month. It is expected that the Board of Directors of YPG and the Trustees of the Fund will periodically review cash distributions taking into account the current and prospective performance of YPG. Other factors to be taken into consideration by the Directors and Trustees include cash amounts required to service debt obligations, maintenance capital expenditures, taxes and other amounts considered to be prudent.

Risks and uncertainties

In order to be successful, YPG must be aware of factors which may affect its business. Entry of competitors into YPG's markets may make it more difficult for YPG to maintain its growth at historical rates. YPG's failure to compete effectively with its current or any future competitors could result in, among other things, reductions in its advertiser base and rates. In addition, Bell Canada provides collection services for YPG with respect to advertisers who are also Bell Canada's customers. YPG uses outside service suppliers to print and bind all its directories. These agreements are for services that are integral to YPG's business. The failure of any of these suppliers to fulfill their contractual obligations could result in a material adverse effect on YPG's business until YPG finds a replacement supplier for those services. This description of risks does not include all possible risks.

Outlook

YPG believes that cash generated from operating activities together with its current financing arrangements will be sufficient to meet ongoing requirements for capital expenditures, investments in working capital and distributions.

Forward-looking Statements

The Quarterly MD&A may contain forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Neither the Fund nor YPG assume responsibility for the accuracy and completeness of the forward-looking statements and do not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.