

MANAGEMENT DISCUSSION AND ANALYSIS

February 17, 2004

Management's Discussion and Analysis (MD&A) is intended to assist in the understanding and assessments of the trends and significant changes in the results of operations and financial condition of YPG LP ("YPG") and Yellow Pages Income Fund (the "Fund"). Past performance may not be indicative of future performance. Our forward-looking statements are subject to risks and uncertainties that may cause the results to differ materially from those contemplated by this discussion. This review should be read in conjunction with our consolidated financial statements and accompanying notes. Quarterly reports, annual reports and supplementary information can be found under "financial reports" on our corporate website at www.ypg.com. Additional information can be found on SEDAR at www.sedar.com. The MD&A is presented in the following sections:

- **Overview of our business**
- **Performance highlights**
- **Non-GAAP measures**
- **Analysis of operating and financial results**
- **Analysis of quarterly results**
- **Financial position**
- **Capital resources and liquidity**
- **Related party transactions**
- **Accounting policies**
- **2004 Outlook**

OVERVIEW OF OUR BUSINESS

The Fund

The Fund was established as an unincorporated, open-ended limited purpose trust to invest in YPG. The Fund commenced operations on August 1, 2003 when we completed an initial public offering (the "Offering") of 100,000,000 units at \$10 per unit for gross proceeds of \$1.0 billion. Concurrent with the closing of the Offering, management exchanged a \$16.9 million interest in a subsidiary of YPG for 1,692,030 units of the Fund, resulting in a 30.56% ownership interest in YPG. On December 17, 2003, we completed a subsequent offering (the "Subsequent Offering") and issued 128,000,000 additional units to the public at \$11.75 per unit for gross proceeds of \$1.5 billion. Upon completion of the Subsequent Offering, the Fund acquired an additional 36.44% ownership interest in YPG and held a 67% ownership interest in YPG. More recently, on February 10, 2004, one of the Limited Partners in YPG exchanged its 11,111,100 units of YPG and common shares of YPG GP Inc. for an equivalent number of units in the Fund. As a result, the Fund holds a 70.25% equity interest in YPG.

YPG

We are Canada's largest directories publisher and the exclusive owner of the Yellow Pages™, Pages Jaunes™, and Walking Fingers & Design™ trademarks in Canada. Through our predecessor businesses, we have been an industry leader since we published our first directory in 1908. We are the official publisher of Bell Canada's directories in Canada as well as for a number of other incumbent telephone company directories that have leading market share in their markets. We are also the managing partner of Aliant ActiMedia, in which we hold a 12.86% equity interest and which is the incumbent telephone directories publisher in Atlantic Canada. Including Aliant ActiMedia, we published 236 different telephone directories in 2003 with a total circulation of 18 million copies.

We also operate 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 us to offer bundled packages of print and online directory advertising products. Our network of Websites catered to an internet audience of over 3.5 million unique visitors in December 2003.

⁽¹⁾See definition of Adjusted revenues, EBITDA, Adjusted EDITDA on page 4

Business Strategy

As mentioned, we are the largest directories publisher and operate the leading online telephone directories in Canada. Our business strategy aims to connect buyers and sellers while further developing our leading directory franchise in Canada through the continued execution of organic growth strategies and the pursuit of external growth opportunities. The Company is also aiming to further grow its stable, recurring and diversified revenue base while sustaining its industry-leading margins and high free cash flow generation.

Since the acquisition of the directories businesses from affiliates of Bell Canada on November 29, 2002 (the "Acquisition"), we have implemented a business strategy to improve our operations and to achieve growth in revenues and profitability. Most notably, we have strengthened our management team and substantially completed our transition from a wholly-owned subsidiary of Bell Canada to a publicly-listed operating entity. Contemporaneously, we have implemented new sales and marketing initiatives, enhanced our competitive position through long-term contracts and other cost savings initiatives, expanded our online presence and reinforced our capital structure for future growth.

Our current focus is to execute our organic growth strategy and to extend our product and service offerings to the benefit of advertisers and users. We may also expand our geographic coverage through selective investments and business acquisitions. We believe that the diversity of our customer base, geographic coverage and product segments enhances the overall stability and potential growth of our earnings and cash flow. Following the Offering in August 2003 and the Subsequent Offering in December, we also believe that we have established a strong currency for future growth. We will consider investments or business acquisitions that will further strengthen our market position while being accretive to cash available for distributions to unitholders.

Strategic Imperatives

The following strategic imperatives have been identified as critical to maximizing the long-term sustainability of our business within our markets:

- Reinforce our position as the leading publisher of directories in Canada;
- Increase the efficiency and productivity of our sales force;
- Improve the effectiveness of our workflows and business processes; and
- Enhance our financial flexibility while reducing our cost of capital.

We believe that the execution of the business strategy as discussed combined with the implementation of initiatives which contribute to our strategic imperatives should result in sustaining strong free cash flow generation.

Distributions to Unitholders

The distribution policy of the Fund is to make distributions of its available cash to the maximum extent possible to unitholders. The Fund makes equal monthly cash distributions to unitholders of record on the last business day of each month, net of estimated cash amounts required for expenses and other obligations of the Fund, potential cash redemptions of units and tax liabilities.

Our Board of Directors and the Trustees of the Fund periodically review cash distributions taking into account our current and prospective performance. Some of the factors considered in making decisions related to distributions include cash amounts to service debt obligations, maintenance capital expenditures, taxes and other items considered to be prudent. In addition, in making decisions relating to distributions, we believe that the underlying trends in revenues and EBITDA⁽¹⁾ should ultimately warrant increases in distributions to levels that we consider sustainable and prudent.

⁽¹⁾See definition of Adjusted revenues, EBITDA, Adjusted EDITDA on page 4

PERFORMANCE HIGHLIGHTS

A significant improvement in the performance of YPG compared to 2002 has been the result of a new business model that was developed following the Acquisition. This section reviews the progress made during 2003 in executing our organic growth strategy. The impact of our improved business model on the results of operations and financial condition in 2003 and our outlook for 2004 are discussed in the remaining pages of this MD&A.

Our approach comprises a wide range of initiatives designed to increase revenues and reduce operating costs while reinforcing the Company's position as the leading publisher of directories both print and online in Canada. Some examples of key initiatives we have undertaken include:

- The maximization of our supply chain through the renegotiation of our printing and distribution outsourcing arrangements;
- The redesign of our core directories;
- The relaunch of neighbourhood directories to expand our market coverage;
- Strategic investment in our brands through broadcast and billboard advertising campaigns;
- Improvements to our sales coverage and pricing models; and
- Initiatives to reduce our workforce and contain costs.

The implementation of these initiatives has enabled YPG to achieve strong operating and financial performance for the year 2003 and we expect this trend to continue into 2004.

We continue to pursue organic growth opportunities such as the launching of premium products and the introduction of the Directory Plus offer. Premium products are advertising options available for both Yellow PagesTM and alphabetical listing telephone directories that allow businesses to advertise in a variety of high-visibility locations on or in a directory. Directory Plus is a print-internet bundle that seamlessly integrates the two media.

During 2003, we undertook a workforce reduction program which followed a thorough review of all aspects of our business and resulted in an internal reorganization eliminating duplication of activities. We also launched a number of projects using the Six Sigma methodology and expect this methodology to help us improve our workflows and business processes over time through rigorous analysis, measurement of costs and benefits related to new initiatives and follow-up to ensure the sustainability of such initiatives.

We have reinforced our capital structure by paying down debt through the Offering of the Fund, the closing of new credit facilities, the implementation of a commercial paper program to diversify funding sources and a follow-on equity offering. As a result, Standard & Poor's (S&P) confirmed that the improvement in credit metrics was sufficient to warrant an upgrade to an investment grade rating of BBB-. Our new Credit Facilities provided for a reduction of 50 basis points in the applicable interest rates upon achievement of a BBB- rating from S&P. The New Credit Facilities were originally rated BBB (high) by DBRS and this rating remains unchanged.

⁽¹⁾See definition of Adjusted revenues, EBITDA, Adjusted EDITDA on page 4

NON-GAAP MEASURES

YPG

We acquired the directories businesses from affiliates of Bell Canada on November 29, 2002. As such, the 2002 comparative results of YPG represent the one-month period from November 30 to December 31, 2002. In order to have a meaningful discussion of the comparative results, the results for the year ended December 31, 2002 combine the historical results of the predecessor business for the eleven months ended November 29, 2002 and YPG's one-month period from November 30, 2002 to December 31, 2002. Such results are not necessarily indicative of what the results for the respective periods would have been had the Acquisition not occurred.

The 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 during the last month of 2002 and 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.

Below are reconciliations of the reported results under Canadian generally accepted accounting principles ("GAAP") to the adjusted results had the Acquisition not occurred. The adjusted results are derived by excluding from the reported amounts the impact of purchase accounting, transition expenses as they relate to the Acquisition and are therefore non-recurring, and certain specific restructuring and special charges.

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 below 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.

Fourth quarter and year ended December 31, 2003

Three-month period ended December 31, 2003 (unaudited)

(in thousands of Canadian dollars)

	Three-month period ended December 31, 2003 (as reported)	Elimination of purchase accounting impact	Transition expenses	Restructuring and special charges	Adjusted⁽¹⁾
Revenues	\$ 162,056	\$ 1,201	\$ -	\$ -	\$163,257
Operating costs	62,607	6,147	(1,678)	-	67,076
EBITDA	99,449	(4,946)	1,678	-	96,181
Depreciation and amortization	21,675	(19,283)	-	-	2,392
Restructuring and special charges	7,979	-	-	(7,979)	-
Income from operations	\$ 69,795	\$ 14,337	\$ 1,678	\$ 7,979	\$ 93,789

⁽¹⁾See definition of Adjusted revenues, EBITDA, Adjusted EBITDA on page 4

Year ended December 31, 2003 (unaudited)

(in thousands of Canadian dollars)

	Year ended December 31, 2003 (as reported)	Elimination of purchase accounting impact	Transition expenses	Restructuring and special charges	Adjusted⁽¹⁾
Revenues	\$612,558	\$27,658	\$ -	\$ -	\$640,216
Operating costs	211,742	62,287	(6,160)	-	267,869
EBITDA	400,816	(34,629)	6,160	-	372,347
Depreciation and amortization	287,769	(281,241)	-	-	6,528
Restructuring and special charges	144,115	-	-	(144,115)	-
(Loss) income from operations	\$(31,068)	\$246,612	\$6,160	\$144,115	\$365,819

The results for the year ended December 31, 2002 were derived by i) adding the predecessor business' eleven-month results ended November 29, 2002 and YPG's one-month results ended December 31, 2002, ii) modifying the method under which we accounted for our 12.86% equity interest in Aliant ActiMedia from consolidation to proportionate consolidation in order to be consistent with the method used in 2003, iii) excluding from the one month reported amounts the impact of purchase accounting and transition expenses as they relate to the Acquisition and are therefore non-recurring and iv) normalizing 2002 results to enhance comparability with 2003 and allow for a meaningful discussion taking into account adjustments that give effect to contractual arrangements negotiated in conjunction with the Acquisition and others that are reflective of ongoing operations following the Acquisition.

Year ended December 31, 2002 (unaudited)

(in thousands of Canadian dollars)

	Year ended December 31, 2002	Aliant ActiMedia conforming adjustments	Elimination of purchase accounting impact	Transition expenses	Normalization adjustments	Adjusted⁽¹⁾
Revenues	\$ 638,365	\$ (40,019)	\$ 2,864	\$ -	\$ 12,148	\$613,358
Operating costs	291,674	(15,110)	8,027	(1,677)	(10,779)	272,135
EBITDA	346,691	(24,909)	(5,163)	1,677	22,927	341,223
Depreciation and amortization	58,083	(102)	(44,372)	-	-	13,609
(Loss) income from operations	\$ 288,608	\$ (24,807)	\$39,209	\$ 1,677	\$ 22,927	\$327,614

⁽¹⁾See definition of Adjusted revenues, EBITDA, Adjusted EDITDA on page 4

ANALYSIS OF OPERATING AND FINANCIAL RESULTS

The Fund

(in thousands of Canadian dollars)

	Three-month period ended December 31, 2003 (unaudited)	Five-month period ended December 31, 2003
Revenues	\$ 25,416	\$ 25,416
Income from operations	4,079	4,039
Share of earnings from equity investee	1,873	2,106
Net earnings	\$ 2,968	\$ 3,161

The Fund was created during 2003 and as such the financial information is disclosed without comparative figures. From inception on August 1, 2003 to December 17, 2003, we accounted for our investment in YPG using the equity method of accounting. 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, was reflected in the statement of earnings of the Fund as "Share of earnings from equity investee".

On December 17, 2003, the Fund acquired an additional 36.44% ownership interest in YPG, increasing its ownership to 67% and becoming the controlling unitholder. Consequently, for the period from December 17 to December 31, 2003 the results of operations of YPG were consolidated with those of the Fund. 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 on below.

YPG

You should refer to the information presented in tabular form in the section entitled "Non-GAAP Measures" of this MD&A for a meaningful discussion on the reported revenues and loss/income from operations. Since we acquired the directories businesses on November 29, 2002, the comparative figures available for the fourth quarter of 2002 represent only one month of operations. We have determined that the most meaningful periods for purposes of this discussion are the fourth quarter and the year ended December 31, 2003.

Revenues

(in thousands of Canadian dollars)

	Three-month period ended December 31, 2003 (unaudited)	One-month period ended December 31, 2002	Year ended December 31, 2003	Year ended December 31, 2002 (unaudited)
Revenues	\$ 162,056	\$ 47,429	\$ 612,558	\$ 638,365
Adjusted revenues ⁽¹⁾ (unaudited)	\$ 163,257	\$ 50,293	\$ 640,216	\$ 613,358

⁽¹⁾See definition of Adjusted revenues, EBITDA, Adjusted EDITDA on page 4

For the year ended December 31, 2003, on a comparable basis, we generated Adjusted revenue growth of 4.4%. The account renewal rate for the year 2003 was 91.3%. The change in the timing of the distribution of certain of our books combined with product improvement and an intensive advertising campaign positively affected our retention.

The increase in revenues is mainly attributable to an increase in advertising revenues in the print directories. We have refocused our efforts on premium products during the year as advertisers took advantage of a limited availability of premium products to provide them with higher value compared to other types of advertisements. Premium products are advertising options that allow businesses to advertise in a variety of high-visibility locations on or in a directory, such as on the cover, spine and tabs.

In a year characterized by an upturn in online advertising and slowing growth of the Canadian Internet population, we managed to increase our online reach in E-directories from 11.8% to 20.7% (Source: comScore Media Metrics Canada). In terms of new products we introduced the DirectoryPlus offer to all our customers, a print/internet bundle that seamlessly integrates the two media. Online advertising revenues increased by \$3.3 million to \$14.5 million in 2003 compared to 2002, representing a 29% increase.

EBITDA⁽¹⁾ (unaudited)

<i>(in thousands of Canadian dollars)</i>				
	Three-month period ended December 31, 2003	One-month period ended December 31, 2002	Year ended December 31, 2003	Year ended December 31, 2002
EBITDA	\$ 99,449	\$ 30,870	\$ 400,816	\$ 346,691
Adjusted EBITDA	\$ 96,181	\$ 27,384	\$ 372,347	\$ 341,223
Adjusted EBITDA margin	58.9%	54.4%	58.2%	55.6%

For the year ended December 31, 2003, on a comparable basis, we improved our Adjusted EBITDA by 9.1%. This is in spite of additional recurring costs related to becoming a publicly-listed entity, the expansion of our management team and the creation of new positions in our stand-alone entity. Our initiatives following the transition of YPG to a stand-alone entity resulted in an improvement in the Adjusted EBITDA margins from 55.6% in 2002 to 58.2% in 2003. Some of the key initiatives undertaken during the year which produced these efficiencies included:

- An intensified focus on cost control;
- The maximization of our supply chain through the renegotiation of our printing and distribution outsourcing arrangements;
- A thorough review of all aspects of our business;
- An internal reorganization to eliminate duplication of activities; and
- The integration of our E-directory business which resulted in the reduction of indirect costs.

⁽¹⁾See definition of Adjusted revenues, EBITDA, Adjusted EDITDA on page 4

Other items

<i>(in thousands of Canadian dollars)</i>	Three-month period ended December 31, 2003 (unaudited)	One-month period ended December 31, 2002	Year ended December 31, 2003	Year ended December 31, 2002 (unaudited)
EBITDA, as reported	\$ 99,449	\$ 30,870	\$ 400,816	\$ 346,691
Depreciation and amortization	21,675	44,689	287,769	58,083
Restructuring and special charges	7,979	-	144,115	-
Income (loss) from operations	69,795	(13,819)	(31,068)	288,608
Financial charges	13,204	36,216	120,592	36,216
Income (loss) before taxes and non-controlling interest	56,591	(50,035)	(151,660)	252,392
Provision for (recovery of) income taxes	2,475	(12,647)	(93,156)	110,942
Non-controlling interest	-	(536)	(1,568)	9,288
Net income (loss)	\$ 54,116	\$ (36,852)	\$ (56,936)	\$ 132,162

Depreciation and amortization

At the time we acquired the directory businesses on November 29, 2002, intangible assets such as Bell Canada's non-compete agreement, customer contracts and customer relationships were recorded at fair value and are amortized over their expected useful lives (see accounting policies). The effect of the Acquisition on the intangibles resulted in an increase in amortization from \$44.3 million in 2002 to \$281.2 million in 2003.

Depreciation expense decreased from \$13.8 million in 2002 to \$6.6 million in 2003. This was mainly due to the transfer to Bell Canada at the time of the Acquisition of a customer listing data management tool.

For the fourth quarter of 2003, amortization expense was significantly lower than the one-month period of 2002 following the amortization in prior periods of intangible assets such as the customer contracts and relationships on a pro-rata basis with related revenues.

Restructuring and special charges

Restructuring and special charges in the amounts of \$136.1 million and \$8.0 million were recorded in the third and fourth quarters of 2003, respectively. These charges relate primarily to the refinancing on August 1, 2003 of the Acquisition credit facilities and also include amounts related to initiatives that were undertaken to improve efficiencies following a thorough review of all aspects of the operations. The restructuring and special charges recognized in 2003 consisted of:

- A write-off of \$83.2 million of previously deferred financing costs, \$15.4 million in redemption fees and a \$20.1 million charge due to the settlement of the cross-currency interest rate swaps, all related to the repayment of the old credit facilities;
- The write-off of \$4.7 million of deferred financing costs, related to the partial repayment of the Term B loan facility of our new credit facilities; and

⁽¹⁾See definition of Adjusted revenues, EBITDA, Adjusted EDITDA on page 4

- A \$9.3 million workforce reduction charge comprised primarily of severances and related benefits as well as impairment charges of \$5.6 million recognized on capital assets and \$5.8 million of other charges taken on other items.

Financial charges

Prior to the Acquisition, the predecessor business did not hold any long-term debt. Consequently, no interest expense was incurred during the period ended November 29, 2002. Subsequent to the Acquisition, however, financing charges for the month ended December 31, 2002 totaled \$17.1 million, or \$205.2 million on an annualized basis. These amounts compare to \$138.2 million in financing charges for the year ended December 31, 2003, comprised of (i) seven months at higher interest rates under the November 29, 2002 credit facilities and (ii) five months from August 1, 2003 onwards at reduced interest rates given the financing activity described in greater detail in our discussion of cash flow from financing activities under Capital Resources and Liquidity. Financing charges for the quarter ended December 31, 2003 was \$13.2 million, or \$52.8 million on an annualized basis. Financing charges decreased in the fourth quarter as a result of a lower level of borrowings and lower interest rates under our new credit facilities and commercial paper program.

Foreign exchange gains of \$17.6 million were incurred in 2003, compared to a foreign exchange loss of \$19.1 million in 2002. These gains and losses resulted from foreign exchange fluctuations associated with the U.S. denominated long-term debt, which was fully hedged beginning on January 24, 2003 through to the repayment date of this debt on August 1, 2003.

Income taxes

The combined provincial and federal tax rates were 35.28% and 37.48% in 2003 and 2002, respectively, while the effective tax rates were 61.4% in 2003 and 25.3% in 2002. 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 variance between the statutory and the effective tax rates in 2003 is primarily due to intercompany revenues which are not taxable when received by YPG LP. Prior to the Acquisition, the predecessor business was not a partnership and therefore was not subject to tax in the same manner.

ANALYSIS OF QUARTERLY RESULTS

As mentioned previously, YPG acquired the directories businesses on November 29, 2002 and as such no quarterly financial information for the fiscal year 2002 is available.

Revenues (unaudited)

<i>(in thousands of Canadian dollars)</i>	Three-month periods ended			
	December 31, 2003	September 30, 2003	June 30, 2003	March 31, 2003
Revenues	\$ 162,056	\$ 154,546	\$ 149,661	\$ 146,295
Elimination of purchase accounting impact	1,201	6,430	9,120	10,907
Adjusted revenues⁽¹⁾	\$ 163,257	\$ 160,976	\$ 158,781	\$ 157,202

⁽¹⁾See definition of Adjusted revenues, EBITDA, Adjusted EDITDA on page 4

Adjusted revenues⁽¹⁾ increased progressively quarter over quarter. Revenues are recognized over the life of the directories and as such, sequential quarterly growth is relatively stable. The slightly higher increase in the third and fourth quarters is mostly attributable to positive revenue trends and lower discounts granted to our advertisers in the second half of the year.

EBITDA⁽¹⁾ (unaudited)

<i>(in thousands of Canadian dollars)</i>	Three-month periods ended			
	December 31, 2003	September 30, 2003	June 30, 2003	March 31, 2003
Income (loss) from operations	\$ 69,795	\$ (88,503)	\$ 3,109	\$ (15,469)
Adjustments to income (loss) from operations:				
Depreciation and amortization	21,675	52,222	95,353	118,519
Restructuring and special charges	7,979	136,136	-	-
EBITDA	99,449	99,855	98,462	103,050
Elimination of purchase accounting impact	(4,946)	(6,274)	(10,056)	(13,353)
Transition expenses	1,678	623	2,283	1,576
Adjusted EBITDA	\$ 96,181	\$ 94,204	\$ 90,689	\$ 91,273
Adjusted EBITDA margins	58.9%	58.5%	57.1%	58.1%

Adjusted EBITDA increased steadily in line with the growth in revenues, except in the three-month period ended June 30, 2003 during which we recorded a higher pension-related expense.

Net income

<i>(in thousands of Canadian dollars)</i>	Three-month periods ended			
	December 31, 2003	September 30, 2003	June 30, 2003	March 31, 2003
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues	\$ 162,056	\$ 154,546	\$ 149,661	\$ 146,295
Income (loss) from operations	69,795	(88,503)	3,109	(15,469)
Income (loss) before taxes and non-controlling interest	56,591	(114,645)	(47,723)	(45,883)
Net income (loss)	\$ 54,116	\$ (70,615)	\$ (22,141)	\$ (18,296)
Total Assets	\$ 2,990,821	\$ 3,034,418	\$ 3,042,817	\$ 3,167,164
Long-term debt and other liabilities	\$ 1,053,992	\$ 1,200,000	\$ 1,965,372	\$ 2,064,001

Restructuring and special charges negatively impacted the third and fourth quarters while lower interest expense positively impacted our fourth quarter results. The amortization of customer contracts and relationships on a pro-rata basis with related revenues combined with the impact of purchase accounting produced an improvement to the net income (loss) quarter over quarter during the year ended December 31, 2003.

⁽¹⁾See definition of Adjusted revenues, EBITDA, Adjusted EDITDA on page 4

FINANCIAL POSITION

The Fund

<i>(in thousands of Canadian dollars)</i>	As at December 31, 2003
Total Assets	\$ 4,462,744

The Fund was created during 2003 and as such the financial information is disclosed without comparative figures. The balance sheet of the Fund is presented on a consolidated basis.

Intangibles and goodwill amounted to approximately \$4 billion as at December 31, 2003, of which \$2.7 billion is goodwill resulting from the acquisition of YPG. Other intangibles include trademarks, the non-competition agreement and logo, customer contracts and relationships, and domain names which were included in the purchase price of the directories businesses on November 29, 2002.

Capital structure <i>(in thousands of Canadian dollars)</i>	As at December 31, 2003
Cash	\$ 45,545
Long-term debt, including short term portion	1,055,106
Total net debt (net of cash and cash equivalents)	1,009,561
Non-controlling interest	585,615
Unitholders' Equity	2,422,481
Total capitalization	\$ 4,017,657
Net debt to total capitalization	25.1%

The capital structure of the Fund reflects the two-step acquisition of a 67% ownership interest in YPG through the issuance of \$2.5 billion in units, beginning with the \$1.0 billion Offering on August 1, 2003, followed by the \$1.5 billion Subsequent Offering which closed on December 17, 2003. A better understanding of the capital structure of the Fund may be obtained from the discussion in the Capital Resources and Liquidity section which follows.

YPG

<i>(in thousands of Canadian dollars)</i>	As at December 31, 2003	As at December 31, 2002
Total Assets	\$ 2,990,821	\$ 3,234,801

Working capital stood at \$82.4 million as at December 31, 2003 compared to a deficiency of \$9.4 million as at December 31, 2002. The current portion of long-term debt on the old credit facilities and the impact of purchase accounting on the deferred publication costs and deferred revenues following the Acquisition on November 29, 2002 account for most of the change.

Intangibles and goodwill as at December 31, 2003 and December 31, 2002 amounted to approximately \$2.7 billion and \$3 billion respectively. The decrease is mainly attributable to the amortization of the intangibles during 2003 which were included in the purchase price of the directories businesses on November 29, 2002.

⁽¹⁾See definition of Adjusted revenues, EBITDA, Adjusted EDITDA on page 4

Capital structure <i>(in thousands of Canadian dollars)</i>		
	As at December 31, 2003	As at December 31, 2002
Cash	\$ 45,545	\$ 37,382
Long-term debt, including short term portion	1,055,106	2,143,688
Total net debt (net of cash and cash equivalents)	1,009,561	2,106,306
Non-controlling interest	-	3,586
Partners' Equity	1,774,730	869,026
Total capitalization	\$ 2,784,291	\$ 2,978,918
Net debt to total capitalization	36.3%	70.7%

The evolution of the capital structure of YPG from December 31, 2002 to December 31, 2003 reflects the substantial reduction in debt achieved through the issuance of limited partnership units of YPG to the Fund on August 1, 2003 and subsequently on December 17, 2003.

CAPITAL RESOURCES AND LIQUIDITY

The Fund

Distributions to unitholders paid and payable amounted to \$31.3 million and \$45.3 million (\$0.3530 per unit) during the three-month and five-month periods ended December 31, 2003, respectively, and were distributed to unitholders. The December distribution of \$16.8 million (\$0.0733 per unit) was paid on January 15, 2004.

Distributions by the Fund are entirely dependent on the distributions and the performance of YPG which follows in the discussion below.

YPG

Since we acquired the directories businesses on November 29, 2002, the only comparative figures available for the fourth quarter of 2002 represent one month of operations. As a result, we believe that the meaningful periods for purposes of a discussion on the Liquidity and Capital Resources of YPG are the fourth quarter and year ended December 31, 2003.

Historically, the predecessor business financed its operations through cash generated from operating activities. Consistent with the other directory publishers, the predecessor business had minimal working capital requirements which, along with low costs for operations, resulted in high levels of free cash flows.

Cash flow from operating activities

<i>(in thousands of Canadian dollars)</i>			
	Three-month period ended December 31, 2003 (unaudited)	Year ended December 31, 2003	One-month period ended December 31, 2002
Cash flows from operations	\$ 85,808	\$ 216,864	\$ 6,414
Change in non cash working capital items	(4,165)	(41,450)	14,901
Cash flows from operating activities	\$ 81,643	\$ 175,414	\$ 21,315

Restructuring and special charges negatively impacted cash generated from operating activities for the fourth quarter and the year 2003 by \$2.9 million and \$49.6 million, respectively.

Interest paid during the three-month period and the year ended December 31, 2003 amounted to \$10.3 million and \$133.7 million, respectively. Lower levels of borrowings resulting from the issuance of partnership units combined with reduced interest rates contributed to improve the cash generated from operating activities during the fourth quarter compared to the year 2003.

⁽¹⁾See definition of Adjusted revenues, EBITDA, Adjusted EDITDA on page 4

Cash flow from investing activities

We acquired the directories businesses from Bell Canada on November 29, 2002 for a cash consideration of approximately \$3 billion. The investing activities for the three months and year ended December 31, 2003 amounted to \$9.4 million and \$18.1 million, respectively and are mainly related to capital expenditures.

Capital expenditures (unaudited) <i>(in thousands of Canadian dollars)</i>	Three-month period ended December 31, 2003	Year ended December 31, 2003	One-month period ended December 31, 2002
Pre-funded	\$ 3,182	\$ 3,182	\$ 397
Maintenance	95	7,911	-
New Initiatives	2,671	2,671	-
Leasehold improvements ⁽¹⁾	3,383	3,383	-
Total	\$ 9,331	\$ 17,147	\$ 397

⁽¹⁾ excludes tenant inducements of \$0.4 million

Pursuant to the Acquisition and the Offering, \$10.0 million was set aside as pre-funded capital for the purpose of transitioning to a stand-alone entity. For the year ended December 31, 2003, pre-funded capital spending amounted to \$3.2 million. Maintenance capital expenditures for ongoing operations, which are expected to average approximately \$10 million per annum over the foreseeable future, amounted to \$7.9 million during the year 2003. Most of the amount spent on new initiatives is related to process improvement projects.

Cash flow from financing activities

<i>(in thousands of Canadian dollars)</i>	Three-month period ended December 31, 2003 (unaudited)	Year ended December 31, 2003	One-month period ended December 31, 2002
Issuance of units, net of issuance costs	\$ 108,635	\$ 1,045,487	\$ 905,878
Issuance of long-term debt	290,000	1,520,000	2,140,000
Repayment of long-term debt	(440,091)	(2,595,237)	-
Distributions	(70,188)	(94,862)	-
Deferred financing costs and other	(329)	(24,492)	(76,150)
Cash flows from financing activities	\$ (111,973)	\$ (149,104)	\$2,969,728

We significantly strengthened our balance sheet in 2003. We began the year with more than \$2.1 billion of outstanding debt (the "Old Credit Facilities"). The \$1.0 billion in proceeds from the Offering which were invested in YPG, combined with new syndicated credit facilities totaling \$1.3 billion (the "New Credit Facilities") negotiated by YPG Holdings Inc., the financing subsidiary of YPG, resulted in a significant reduction in outstanding debt by August 1, 2003.

On October 24, 2003, we launched a commercial paper program and established associated standby lines of credit with an authorized limit of \$300 million for YPG Holdings Inc. The program is rated R-1 (low) by DBRS based on an authorized limit of \$300 million. A back-up credit facility in an amount equal to the authorized limit is in place for ongoing issuance of the short-term promissory notes. Initial proceeds from the program of \$265 million together with available cash of \$35 million were applied to effect a permanent reduction of the Tranche B Facility. As at December 31, 2003, commercial paper issued stood at \$290 million.

⁽¹⁾ See definition of Adjusted revenues, EBITDA, Adjusted EDITDA on page 4

Finally, the Subsequent Offering provided us with additional gross proceeds of \$117.5 million which were applied net of issuance costs to further pay down debt.

Overall, net proceeds from the financing activities described above, combined with excess cash balances from operations, were used to (i) repay the Old Credit Facilities in full on August 1, 2003, (ii) repay \$440 million of the New Credit Facilities in the fourth quarter and (iii) make distributions to the public and private partners of YPG, totaling \$70.2 million and \$94.9 million, respectively, during the three month period and the year ended December 31, 2003.

Cash and cash equivalents at December 31, 2003 totaled \$45.5 million. On January 15, 2004 YPG paid distributions declared in December 2003 totaling \$25.2 million.

Commitments

The following sets forth our contractual obligations, for the next five years and thereafter, as at December 31, 2003:

Contractual obligations (unaudited) <i>(in thousands of Canadian dollars)</i>	Payments due by period					
	2004	2005	2006	2007	2008	Thereafter
Long-term debt	\$ -	\$ 290,000	\$ -	760,000	\$ -	\$ -
Capital lease obligations	1,114	1,125	748	503	546	1,070
Operating leases	5,517	5,400	9,940	5,229	4,819	49,436
Purchase obligations	61,354	61,354	61,354	61,354	51,774	51,774
Total contractual obligations	\$ 67,985	\$ 357,879	\$ 72,042	\$ 827,086	\$ 57,139	\$ 102,280

Long-term Debt

The New Credit Facilities entered into by YPG on August 1, 2003 include the following:

- **Revolving Facility:** Senior unsecured revolving credit facility in an aggregate principal amount of \$100 million (the “Revolving Facility”). The Revolving Facility will mature four years from August 1, 2003, with no required interim commitment reductions. As at December 31, 2003, this facility was undrawn.
- **Term A Facility:** Senior unsecured term loan facility in an aggregate amount of \$750 million (the “Term A Facility”). The Term A Facility will mature four years from August 1, 2003, with no interim amortization or mandatory prepayments and no prepayment penalties.
- **Term B Facility:** Senior unsecured term loan facility originally in an aggregate amount of \$450 million (the “Term B Facility”). The Term B Facility will mature four years from August 1, 2003, with no interim amortization and no prepayment penalties. Proceeds from our commercial paper program launched in October 2003 and the Subsequent Offering, combined with excess cash balances, were applied to reduce the Term B Facility to its current level of \$10 million.

The New Credit Facilities are subject to customary terms and conditions, including limits on pledging assets without the consent of lenders. The New Credit Facilities are also subject to the maintenance of a maximum ratio of funded debt to EBITDA⁽¹⁾ and a minimum ratio of EBITDA⁽¹⁾ to interest expense on total debt. All covenants were in compliance as at December 31, 2003.

⁽¹⁾See definition of Adjusted revenues, EBITDA, Adjusted EDITDA on page 4

Obligations under capital leases

Effective October 1, 2003, we entered into a seven-year lease agreement with an unrelated third party for office equipment. In addition, effective December 2003, we entered into three-year lease agreements with unrelated third parties for software.

Operating leases

On July 10, 2003, we entered into a 14-year lease agreement with an unrelated third party for our new head office premises. The lease commences on January 1, 2004 and stipulates that no future minimum lease payments are required before January 1, 2006.

Purchase obligations

We use outside service suppliers to print and bind all of our directories. For such purposes, we have entered into long-term agreements with third party suppliers. These agreements expire between 2007 and 2009.

Distributable cash

Distributable cash of the Fund is a non-GAAP measure generally used by Canadian open-ended trusts as an indicator of financial performance and it should not be seen as a measure of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. The Fund's distributable cash may differ from similar calculations as reported by other similar entities and accordingly may not be comparable to distributable cash as reported by such entities.

We believe that the Fund's distributable cash calculated from Adjusted EBITDA⁽¹⁾ is the most appropriate measure to help readers evaluate the performance of the Fund.

Distributable cash <i>(in thousands of Canadian dollars)</i>	Three-month period ended December 31, 2003	Year ended December 31, 2003	Year ended December 31, 2002
Adjusted EBITDA	\$ 96,181	\$ 372,347	\$ 341,223
Less ⁽¹⁾			
Maintenance capital expenditures	(95)	(7,911)	(10,000)
Interest	(12,307)	(48,826)	(63,720)
Additional administrative expenses	n/a	n/a	(1,000)
Taxes	135	(599)	(600)
Cash available for distributions	\$ 83,914	\$ 315,011	\$ 265,903
Cash available for distributions per unit ⁽²⁾	\$ 0.245	\$ 0.919	\$ 0.799

⁽¹⁾ Estimated amounts for 2002

⁽²⁾ Based on 332,803,030 units for 2002 assuming the Fund was in existence for the year ended December 31, 2002 and 342,803,030 units for 2003

RELATED PARTY TRANSACTIONS

For the year ended December 31, 2003, we incurred fees related to management, consulting and monitoring of \$1.0 million from Kohlberg Kravis Roberts & Co ("KKR") and placement fees of \$0.5 million from Ontario Teachers' Pension Plan Board ("Teachers"), respectively. These fees are payable annually with an increase of 3% per annum, unless termination of payment is approved by mutual consent. In addition, we incurred advisory fees at the time of the Acquisition in 2002 for \$18.6 million, \$9.0 million and \$3.0 million to KKR, Teachers' and BCE, respectively. No such fees were paid during 2003.

⁽¹⁾ See definition of Adjusted revenues, EBITDA, Adjusted EDITDA on page 4

For the year ended December 31, 2003, we incurred fees to Capstone Consulting LLC, an independent consulting firm that provides services exclusively to KKR and its affiliates, of approximately \$2.4 million for its services to YPG. During the year, Capstone Consulting LLC invested in YPG and received 207,607 options to purchase securities of a subsidiary.

Teachers' held approximately 8.3% of our \$600.0 million senior subordinated Old Credit Facilities, which were repaid on August 1, 2003.

We recorded \$2.7 million in revenues and \$15.3 million in expenses in 2003 (2002 - \$0.9 million and \$1.5 million) from transactions with Bell Canada Group ("Bell") in the normal course of business.

ACCOUNTING POLICIES

The consolidated financial statements are based on the selection and application of accounting policies which require us to make significant estimates and assumptions. We believe that the following accounting policies may involve a higher degree of judgment and complexity in their application, and represent our critical accounting policies.

Critical accounting policies

Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of the net assets of businesses acquired. Goodwill is not amortized but rather is assessed for impairment annually or more frequently if circumstances warrant, on the basis of its fair value. Fair value is determined using discounted expected future cash flows.

Intangibles

Intangibles are recorded at cost. Intangibles with finite lives are amortized as follows:

Non-competition agreement and logo	-	Straight-line over 30 years
Customer contracts	-	Pro rata based on related revenues, not exceeding 11 months
Customer relationships	-	Pro rata based on related revenues, not exceeding 24 months

The trademark and domain names are considered intangible assets with indefinite lives which are not amortized; however, they are assessed for impairment annually or more frequently if circumstances change, on the basis of their fair values. Fair value is determined using discounted expected future cash flows.

Derivative financial instruments

We use derivative financial instruments to manage our interest and foreign exchange risk exposures on debt financing. Our policy is not to utilize derivative financial instruments for trading or speculative purposes.

We formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

We enter into hedges of our foreign currency exposures on foreign currency denominated long-term debt by entering into offsetting cross-currency interest rate swaps, when it is deemed appropriate. We also enter into interest rate swaps to hedge the impact of fluctuating interest rates on our long-term debt.

Gains and losses on the cross-currency interest rate swaps used to hedge long-term debt are accrued under other current or non-current assets or liabilities and recognized in the statement of earnings.

Gains and losses associated with derivative financial instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current or non-current assets or liabilities and recognized in the statement of earnings in the period in which the underlying hedged transaction is recognized. In the event a designated item is sold, extinguished or matures prior to the termination of the related derivative instrument, a gain or loss on such a derivative instrument is recognized in the statement of earnings.

⁽¹⁾See definition of Adjusted revenues, EBITDA, Adjusted EDITDA on page 4

Change in accounting policies

Stock-based compensation plan

Effective August 1, 2003, we adopted the accounting standards of the CICA Handbook Section 3870 “Stock-Based Compensation and Other Stock-Based Payments”. The standard requires recognition of compensation awards granted to employees and others. The standard was applied to awards granted on or after January 1, 2003.

For 2003, we have chosen not to use the fair value method to account for stock options issued to employees under YPG’s stock option program. No compensation expense is recognized for this plan when stock options are granted to employees. Any consideration paid by employees on exercise of stock options is credited to partners’ equity in YPG.

Effective January 1, 2004, we will adopt the amendment to CICA Handbook Section 3870 “Stock-Based Compensation and Other Stock-Based Payments”. The amendment issued in November 2003 requires the expensing of all stock-based compensation awards for fiscal years beginning on or after January 1, 2004 using the fair value method. We have chosen to adopt the amendment using the retroactive without restatement transitional alternative as permitted by the standard.

Critical accounting estimates

The preparation of financial statements in conformity with Canadian GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements. We constantly evaluate these estimates and assumptions.

We base our estimates and assumptions on past experience and other factors that are deemed reasonable under the circumstances. This involves varying degrees of judgment and uncertainty, thus the amounts currently reported in the financial statements could prove to be inaccurate in the future.

Intangibles

Identified intangibles acquired were evaluated on the basis of their fair value based on independent valuations. Certain information inputs in respect to the valuations were based on management’s assumptions. Key assumptions used included projected revenues and EBITDA⁽¹⁾, anticipated market share and projected renewal rates.

Allowance for doubtful accounts

We expect that a certain portion of required customer payments will not be made and maintain an allowance for these doubtful accounts. This allowance is based on our estimation of the likelihood of recovering our accounts receivable. It incorporates current and expected collection trends. If economic conditions, actual results or specific industry trends differ from our expectations, we will adjust our allowance for doubtful accounts and our bad debt expense accordingly. In addition, Bell Canada provides us with customer collection services with respect to advertisers who are also Bell Canada’s customers. We rely on information provided by Bell Canada in determining the portion of required customer payments that will not be made and we maintain an allowance for those accounts.

2004 OUTLOOK

A number of initiatives were developed and implemented since the Acquisition to strengthen our business model and to improve returns to unitholders. Many of the supply-chain, marketing, sales, workforce reduction and consolidation initiatives which were implemented during the course of the year 2003, are expected to fully accrue to the income statement in 2004. We therefore expect to maintain our strong momentum in revenue and EBITDA⁽¹⁾ growth going forward and remain comfortable in our ability to sustain the current level of EBITDA⁽¹⁾ margins and high free cash flow generation.

Revenue growth remains a key priority in 2004. We will continue to adjust our market coverage and pricing strategies while further focusing on the training, productivity and efficiency of our sales force. We expect to achieve this partly through process improvements and new technology, but will also continue to

⁽¹⁾See definition of Adjusted revenues, EBITDA, Adjusted EDITDA on page 4

strategically invest in our market franchise and our brand equity through product promotion and advertising. We believe that this is fundamental to the successful execution of our business plan. This strong differentiation of YPG in the marketplace aims to maintain our leading market share position and the strong end-consumer usage of our directories. We will continue to extend our product and service offerings through premium products and neighbourhoods, and believe that premium products and other product line extensions offer an opportunity for us to grow our business organically. Regarding online properties, our goal is to further increase traffic through the recent upgrading of our search engines while offering print-Internet bundles that seamlessly integrate the print and online media. As a result of our organic growth strategy, we anticipate Adjusted revenues⁽¹⁾ to grow by approximately 3% in 2004.

We are achieving significant cost savings through supply chain, cost containment and other initiatives such as the relocation of our head office in Montreal. Further reductions in our cost base are being realized through business process re-engineering. In late 2003, we began the introduction of Six Sigma, a rigorous methodology that should ensure the long-term sustainability of our new initiatives. The significant changes being undertaken at YPG have resulted in a strong improvement in our operating and financial metrics since the Acquisition. In 2004, we anticipate that EBITDA⁽¹⁾ on a comparable basis, adjusted to eliminate the purchase accounting impact and for transition and non-recurring expenses, should grow between 3% and 5% as we substantially realize benefits from these projects.

Our customer contracts and relationships which were recorded at fair value at the time of the Acquisition were almost fully amortized as at December 31, 2003 and as such the amortization of intangibles will be significantly lower in 2004. We expect maintenance capital expenditures of approximately \$10.0 million for the year 2004 which should result in a similar level of non-cash depreciation charges.

Capital structure

From August 1, 2003 onwards, we have pursued a financing strategy designed to ensure a flexible capital structure allowing us to balance short-term cash requirements and the funding of future growth. The recent upgrade to investment grade is expected to facilitate the continued pursuit of funding diversification with respect to the source and term of our borrowings. As a result, we are presently assessing financing alternatives to our existing bank debt.

Cash Distributions to Unitholders

The cash available for distribution amounted to \$315.0 million or \$0.92 per unit for the year ended December 31, 2003. This compares to \$265.9 million or \$0.799 per unit for 2002. Following the Offering of Yellow Pages Income Fund, the initial annualized monthly distributions to unitholders amounted to \$0.825. Distributions per unit were increased by 6.7% beginning with the November 2003 distribution. For the year ended December 31, 2003, the cash available for distribution reflects maintenance capital spending of \$7.9 million and fourth quarter annualized interest expense of \$48.8 million.

Our distribution policy takes into account the current and prospective performance of YPG, including cash amounts to service debt obligations, maintenance capital expenditures, taxes and other factors considered to be prudent. We are comfortable in our ability to grow distributions by approximately 4% annually.

⁽¹⁾See definition of Adjusted revenues, EBITDA, Adjusted EDITDA on page 4