

INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW PAGES INCOME FUND

September 30, 2010

(unaudited)

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Interim Consolidated Balance Sheet

(in thousands of Canadian dollars – unaudited)

	As at September 30, 2010	As at December 31, 2009 (as adjusted ¹)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 43,967	\$ 36,170
Accounts receivable	220,184	215,356
Prepaid expenses	11,008	6,480
Deferred publication costs and other assets	113,309	130,844
Future income taxes	27,839	28,812
	416,307	417,662
DEFERRED PUBLICATION COSTS	8,157	8,358
FIXED ASSETS	117,992	95,425
OTHER ASSETS	10,126	3,111
INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES (Note 4)	73,074	34,977
DERIVATIVE FINANCIAL INSTRUMENTS	8,359	2,612
INTANGIBLES	2,171,465	2,008,499
GOODWILL	6,484,205	6,342,580
FUTURE INCOME TAXES	14,879	28,382
	\$ 9,304,564	\$ 8,941,606
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 235,374	\$ 210,065
Distributions payable	34,220	34,220
Deferred revenues	121,750	104,662
Derivative financial instruments	-	76
Future income taxes	35,109	34,248
Current portion of long-term debt (Note 6)	2,814	2,254
	429,267	385,525
DEFERRED CREDITS	21,710	23,452
FUTURE INCOME TAXES	190,416	106,253
ACCRUED BENEFIT LIABILITIES	100,225	94,404
DERIVATIVE FINANCIAL INSTRUMENTS	-	719
LONG-TERM DEBT (Note 6)	2,212,974	2,225,720
EXCHANGEABLE AND CONVERTIBLE INSTRUMENTS (Note 7)	319,606	83,886
PREFERRED SHARES (Note 8)	452,934	472,777
EQUITY ATTRIBUTABLE TO OWNERS OF THE FUND	5,184,661	5,224,740
EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS (Note 9)	392,771	324,130
	\$ 9,304,564	\$ 8,941,606

¹ As adjusted per adoption of new accounting policies - see Note 1

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

Interim Consolidated Statements of Earnings

For the periods ended September 30,

(in thousands of Canadian dollars, except per unit information - unaudited)

	Three months		Nine months	
	2010	2009	2010	2009
		(as adjusted ¹)		(as adjusted ¹)
Revenues	\$ 428,570	\$ 408,318	\$ 1,257,083	\$ 1,234,205
Operating costs	202,612	182,109	583,452	560,064
Conversion and rebranding costs	4,441	-	16,042	-
Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges	221,517	226,209	657,589	674,141
Depreciation and amortization	70,139	35,282	168,947	107,404
Acquisition-related costs (Note 14)	2,038	-	25,587	-
Impairment of goodwill	-	315,000	-	315,000
Restructuring and special charges (Note 14)	17,465	-	26,442	20,584
Income (loss) from operations	131,875	(124,073)	436,613	231,153
Financial charges, net (Note 12)	34,150	11,128	99,333	86,085
Gain on deemed disposition of equity investment (Note 2)	-	-	(2,374)	-
Gain on disposal of subsidiary (Note 3)	-	-	(2,338)	-
Earnings (loss) before dividends on Preferred shares, series 1 and 2, income taxes, and share of losses from equity investees	97,725	(135,201)	341,992	145,068
Dividends on Preferred shares, series 1 and 2	5,288	5,588	16,037	16,963
Earnings (loss) before income taxes and share of losses from equity investees	92,437	(140,789)	325,955	128,105
Provision for income taxes	10,943	24,238	37,935	42,729
Share of losses from equity investees	6,789	3,488	11,652	4,899
Net earnings (loss)	\$ 74,705	\$ (168,515)	\$ 276,368	\$ 80,477
Net earnings (losses) attributable to:				
Owners of the Fund	\$ 72,956	\$ (168,792)	\$ 271,525	\$ 79,648
Non-controlling interests related to investments	(4,031)	-	(12,414)	552
Holders of Preferred shares, series 3, 5 and 7	5,780	277	17,257	277
	\$ 74,705	\$ (168,515)	\$ 276,368	\$ 80,477
Basic earnings (loss) per unit	\$ 0.15	\$ (0.33)	\$ 0.54	\$ 0.16
Weighted average number of units outstanding used in computing earnings per unit (Note 10)	501,815,664	510,030,789	503,333,857	511,994,035
Diluted earnings (loss) per unit	\$ 0.12	\$ (0.33)	\$ 0.47	\$ 0.15
Weighted average number of units outstanding used in computing diluted earnings per unit (Note 10)	666,139,635	510,030,789	635,552,526	514,910,239

¹ As adjusted per adoption of new accounting policies - see Note 1

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

Interim Consolidated Statements of Comprehensive Income

For the periods ended September 30,

(in thousands of Canadian dollars – unaudited)

	Three months		Nine months	
	2010	2009	2010	2009
	(as adjusted ¹)		(as adjusted ¹)	
Net earnings (loss)	\$ 74,705	\$ (168,515)	\$ 276,368	\$ 80,477
Other comprehensive income (loss), net of related income taxes:				
Net gain on derivatives designated as cash flow hedges ²	-	16	-	151
Net loss on derivatives designated as cash flow hedges in prior periods transferred to earnings in the period ³	243	1,347	331	1,831
Change in gains and losses on derivatives designated as cash flow hedges	243	1,363	331	1,982
Unrealized gain (loss) on available-for-sale investment in the period ⁴	193	16	(257)	241
Change in unrealized gain (loss) on available-for-sale financial asset	193	16	(257)	241
Unrealized loss on translating financial statements of self-sustaining foreign operations and foreign investees	(6,464)	(7,294)	(2,222)	(13,743)
Unrealized cumulative translation loss on disposition of self-sustaining foreign operations transferred to earnings in the period	-	-	1,172	-
Unrealized cumulative translation loss on deemed disposition of foreign equity investment transferred to earnings in the period	-	-	5,633	-
Change in unrealized (losses) gains on translating financial statements of self-sustaining foreign investments and foreign investees	(6,464)	(7,294)	4,583	(13,743)
Other comprehensive (loss) income	(6,028)	(5,915)	4,657	(11,520)
Total comprehensive income (loss)	\$ 68,677	\$ (174,430)	\$ 281,025	\$ 68,957
Total comprehensive income (loss) attributable to:				
Owners of the Fund	\$ 69,044	\$ (174,707)	\$ 276,890	\$ 68,128
Non-controlling interests related to investments	(6,147)	-	(13,122)	552
Holders of Preferred shares, series 3, 5 and 7	5,780	277	17,257	277
	\$ 68,677	\$ (174,430)	\$ 281,025	\$ 68,957

¹ As adjusted per adoption of new accounting policies - see Note 1

² Net of income taxes of nil (2009 – \$7 for the three-month period and \$66 for the nine-month period ended September 30)

³ Net of income taxes for the three-month period ended September 30, 2010 of \$105 (2009 – \$587) and net of income taxes for the nine-month period ended September 30, 2010 of \$153 (2009 - \$801).

⁴ Net of income taxes of nil (2009 – nil for the three and nine-month periods ended September 30)

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

Interim Consolidated Statements of Equity

For the nine-month period ended September 30,

(in thousands of Canadian dollars – unaudited)

								2010
	Unitholders' Capital (Note 10)	Equity Component of Exchangeable and Convertible Instruments	Restricted Units	Contributed Surplus	Accumulated Other Comprehensive Income (Loss) (Note 15)	Deficit	Equity Attributable to Owners of the Fund	Equity Attributable to Non- controlling interests (Note 9)
Balance, December 31, 2009, as previously reported	\$ 6,062,039	\$ 3,618	\$ (72,898)	\$ 128,226	\$ (2,734)	\$ (893,511)	\$ 5,224,740	\$ -
Effect of adopting new accounting policy (Note 1)	-	-	-	-	-	-	-	324,130
Balance, January 1, 2010, as adjusted	6,062,039	3,618	(72,898)	128,226	(2,734)	(893,511)	5,224,740	324,130
Issuance of units	12	-	-	-	-	-	12	-
Obligations under stock options granted	-	-	-	56	-	-	56	-
Restricted units (Note 11)	-	-	(23,136)	(666)	-	-	(23,802)	-
Restricted units vested (Note 11)	-	-	9,254	(9,254)	-	-	-	-
Issuance of preferred shares, Series 7 (Note 9)	-	-	-	-	-	-	-	9,750
Redemption of exchangeable debentures (Note 7)	-	(3,618)	-	3,618	-	-	-	-
Option on exchangeable and convertible instruments (Note 7)	-	10,139	-	-	-	-	10,139	-
Distributions	-	-	-	-	-	(302,088)	(302,088)	-
Business acquisitions (Note 2)	-	-	-	-	-	-	-	73,054
Increased interest in a subsidiary	-	-	-	(1,286)	-	-	(1,286)	(1,041)
Other comprehensive income	-	-	-	-	5,365	-	5,365	(708)
Net earnings for the period	-	-	-	-	-	276,368	276,368	-
Net loss attributable to non-controlling interests related to investments	-	-	-	-	-	12,414	12,414	(12,414)
Dividends on Preferred shares, Series 3, 5 and 7	-	-	-	-	-	(17,257)	(17,257)	-
Balance, September 30, 2010	\$ 6,062,051	\$ 10,139	\$ (86,780)	\$ 120,694	\$ 2,631	\$ (924,074)	\$ 5,184,661	\$ 392,771

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

Interim Consolidated Statements of Equity

For the nine-month period ended September 30,

(in thousands of Canadian dollars – unaudited)

2009

	Unitholders' Capital (Note 10)	Equity Component of Exchangeable instruments	Restricted Units	Contributed Surplus	Accumulated Other Comprehensive Income (Loss) (Note 15)	Deficit	Equity Attributable to Owners of the Fund	Equity Attributable to Non-controlling interests
Balance, December 31, 2008, as previously reported	\$ 6,144,416	\$ 12,542	\$ (58,303)	\$ 79,575	\$ 9,131	\$ (625,869)	\$ 5,561,492	\$ -
Effect of adopting new accounting policy (Note 1)	-	-	-	-	-	-	-	8,544
Balance, January 1, 2009, as adjusted	6,144,416	12,542	(58,303)	79,575	9,131	(625,869)	5,561,492	8,544
Issuance of units	12	-	-	-	-	-	12	-
Repurchase of units	(3,169)	-	-	1,244	-	-	(1,925)	-
Restricted units (Note 11)	-	-	(28,143)	(1,025)	-	-	(29,168)	-
Restricted units vested (Note 11)	-	-	15,191	(15,191)	-	-	-	-
Issuance of preferred shares, Series 3	-	-	-	-	-	-	-	202,505
Distributions	-	-	-	-	-	(370,568)	(370,568)	(1,634)
Other comprehensive income	-	-	-	-	(11,520)	-	(11,520)	-
Acquisition of non-controlling interest	-	-	-	-	-	-	-	(7,462)
Net earnings for the period	-	-	-	-	-	80,477	80,477	-
Net earnings attributable to non-controlling interests related to investment	-	-	-	-	-	(552)	(552)	552
Dividends on Preferred shares, Series 3	-	-	-	-	-	(277)	(277)	-
Balance, September 30, 2009	\$ 6,141,259	\$ 12,542	\$ (71,255)	\$ 64,603	\$ (2,389)	\$ (916,789)	\$ 5,227,971	\$ 202,505

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

Interim Consolidated Statements of Cash Flows

For the periods ended September 30,

(in thousands of Canadian dollars - unaudited)

	Three months		Nine months	
	2010	2009	2010	2009
		(as adjusted ¹)		(as adjusted ¹)
OPERATING ACTIVITIES				
Net earnings (loss)	\$ 74,705	\$ (168,515)	\$ 276,368	\$ 80,477
Items not affecting cash and cash equivalents:				
Depreciation and amortization	70,139	35,282	168,947	107,404
Impairment of goodwill	-	315,000	-	315,000
Amortization and write-off of deferred financing costs	2,523	3,301	6,669	7,220
Accretion on exchangeable and convertible instruments	249	640	705	1,887
Gain on deemed disposition of equity investment	-	-	(2,374)	-
Gain on disposal of subsidiary before disposition costs	-	-	(5,545)	-
Net benefit plan costs	971	4,652	5,821	12,525
Non-cash derivative financial instruments	(1,786)	(2,713)	(407)	154
Stock compensation expense (recovery)	892	2,537	(610)	(1,025)
Gain on purchase of Preferred shares, series 1 and 2, Exchangeable Debentures and Medium Term Notes, net	(3,804)	(30,285)	(8,921)	(30,506)
Future income taxes	1,918	17,881	14,476	29,961
Share of losses from equity investees	6,789	3,488	11,652	4,899
Other non-cash items	(653)	2,138	(2,774)	(100)
Change in operating assets and liabilities	(9,258)	(14,858)	1,610	23,557
	142,685	168,548	465,617	551,453
INVESTING ACTIVITIES				
Business acquisitions, net of cash acquired and bank indebtedness assumed (Note 2)	(7,255)	-	(95,397)	(25,189)
Acquisition of equity investment	(1,500)	-	(5,100)	(47,698)
Acquisition of intangible assets	(768)	-	(20,713)	(246)
Acquisition of investment	-	-	(1,756)	-
Acquisition of fixed assets	(19,642)	(7,686)	(44,954)	(32,488)
Proceeds from lease inducements	-	175	-	208
	(29,165)	(7,511)	(167,920)	(105,413)
FINANCING ACTIVITIES				
Issuance of long-term debt	22,918	493,000	577,918	1,192,300
Repayment of long-term debt	(77,747)	(571,975)	(236,169)	(1,183,855)
Distributions to unitholders	(100,402)	(102,041)	(302,088)	(386,724)
Distributions to non-controlling interest	-	-	-	(1,634)
Proceeds from exercise of options	-	5	12	12
Repurchase of Preferred shares, series 1 and 2, Exchangeable Debentures and Medium Term Notes	(142,967)	(162,434)	(463,112)	(165,224)
Increased interest in a subsidiary	(2,327)	-	(2,327)	-
Dividends on Preferred shares, series 3, 5 and 7	(5,780)	-	(17,418)	-
Issuance of Preferred shares, series 3	-	207,500	-	207,500
Issuance of convertible debentures	200,000	-	200,000	-
Repurchase of units	-	-	-	(13,382)
Purchase of restricted units (Note 11)	(2,060)	(1,592)	(23,136)	(28,143)
Payments made on derivative financial instruments	-	(1,726)	-	(1,998)
Debt and preferred share issuance and other costs	(9,096)	(11,056)	(23,573)	(15,126)
	(117,461)	(150,319)	(289,893)	(396,274)
Effect of exchange rates changes on cash and cash equivalents denominated in foreign currencies	(720)	(776)	(7)	(1,135)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,661)	9,942	7,797	48,631
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	48,628	63,743	36,170	25,054
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 43,967	\$ 73,685	\$ 43,967	\$ 73,685

Supplemental disclosure of cash flow information (Note 13)

¹ As adjusted per adoption of new accounting policies - see Note 1

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

1. Basis of presentation

These unaudited interim consolidated financial statements (the “financial statements”) have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”), and include the accounts of Yellow Pages Income Fund (the “Fund”), YPG Trust (the “Trust”), YPG LP, YPG General Partner Inc. (“YPG GP”), Yellow Media Inc., Yellow Pages Group Co. (“YPG Co.”), Trader Corporation (“Trader”), LesPAC s.e.n.c. (“LesPAC”), Dealer Dot Com Inc. (“Dealer.com”), Canadian Phone Directories Holdings Inc. (“Canpages”), Enquiro Search Solutions Inc. (“Enquiro”) and those of YPG (USA) Holdings, Inc., and Yellow Pages Group, LLC, (collectively “YPG USA”). These financial statements do not contain all disclosures required by Canadian GAAP for annual financial statements and, accordingly, the financial statements should be read in conjunction with the most recently prepared annual consolidated financial statements for the year ended December 31, 2009.

These financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements for the year ended December 31, 2009, with the exception of the following:

a) Section 1582, *Business Combinations*. Section 1582 provides the Canadian equivalent to International Financial Reporting Standards (“IFRS”) 3 *Business Combinations*. The new recommendations require measuring business acquisitions at the fair value of the acquired business, including the measurement at fair value of items such as non-controlling interests and contingent payment considerations. In addition, business acquisition-related costs including transaction costs and restructuring costs are expensed rather than capitalized.

b) Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling Interests*. Section 1601, together with Section 1602, replace Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements. The requirements in this Section are substantially converged with the portion of Section 1600 which established standards for the preparation of consolidated financial statements. Section 1602 is substantially converged with the portion of IAS 27, *Consolidated and Separate Financial Statements* that establishes standards for accounting for non-controlling interests in a subsidiary subsequent to a business combination. Section 1602 introduces a number of changes, including:

- in the consolidated balance sheets and consolidated statements of equity, non-controlling interests are now presented as a separate component of equity as opposed to a separate item on the balance sheet outside of equity;
- non-controlling interests are no longer recorded as a deduction in calculating net earnings and total comprehensive income. Instead, net earnings and each component of other comprehensive income are attributed to the owners of the Fund and to the non-controlling interests;
- shares owned prior to a change in control on a business acquisition achieved in stages have to be valued at their fair value on the date of acquisition and any gain or loss on those shares needs to be recognized in net earnings;

Basic earnings per unit is computed by dividing net earnings attributable to owners of the Fund by the weighted average number of units outstanding during the period. This calculation is consistent with the calculation of the Basic earnings per unit before adopting this Section. Therefore earnings per unit did not change.

The above sections were not mandatorily applicable for the Fund before the fiscal year beginning on January 1, 2011. However, the Fund has elected to early adopt these sections, as of January 1, 2010, in order to more closely align itself with IFRS and mitigate the impact of adopting IFRS at the changeover date. In accordance with the transitional provisions, these sections have been applied prospectively, with the exception of the presentation requirements for non-controlling interests, which must be applied retrospectively. The adoption of these sections modified the accounting of business combinations realized during the first nine months of 2010 for which acquisition-related costs amounting to \$25.6 million were recorded directly in the consolidated statement of earnings. Furthermore, the adoption of these sections gave rise to the above-mentioned reclassifications of non-controlling interests, including the reclassification as at January 1, 2010 of an amount of \$324.1 million from non-controlling interests to equity.

Certain comparative figures have been reclassified to conform to the current period’s presentation and adoption of new accounting policies.

2. Business acquisitions

During the first quarter of 2010, the Fund completed three business acquisitions.

On January 5, 2010 Trader acquired an additional 10% equity interest in Dealer.com bringing its total equity interest to approximately 30%. Trader has an option to increase its ownership in the privately held company that is currently exercisable. If exercised, this option would provide the Fund with a majority voting interest and the continuing ability to elect the majority of the members of the board of directors of Dealer.com. As such, Trader controls Dealer.com and accordingly the financial position and results of Dealer.com are now consolidated in the Fund’s financial statements from the date of acquisition.

The previously held equity interest of Trader in Dealer.com, which was accounted for under the equity method up to that date, was re-measured at its fair value of \$40.6 million and the gain on deemed disposition was recognized in net earnings. The unrealized cumulative loss on translating the financial statements of Dealer.com to Canadian dollars of \$5.6 million was also recognized in net earnings on the same basis as would be required if Trader had disposed directly of its previously held equity interest. The above transactions generated a net gain of \$2.4 million.

The non-controlling interest in Dealer.com was measured at the non-controlling interest's proportionate share of the fair value of Dealer.com's identifiable net assets. At September 30, 2010, the Fund's interest in equity of Dealer.com was 32%. The business is included in the Vertical Media segment.

On January 8, 2010, the Fund completed the acquisition of all the assets related to the operations of the website Restaurantica.ca ("Restaurantica"), one of Canada's largest growing restaurant and dining communities. Restaurantica was established in 2003 and lists restaurants, bars and cafés' information, with user-generated reviews on these establishments in North America.

On February 9, 2010, the Fund acquired all of the shares of Clear Sky Media Inc. ("Clear Sky Media"), owner of RedFlagDeals.com ("Red Flag Deals"). Red Flag Deals is a leader in providing online promotions and shopping tools to Canadians.

These two acquired businesses are included in the Directories segment.

The acquisitions were financed with drawings under existing credit facilities, issuance of preferred shares, series 7 ("Series 7 shares") and cash on hand.

The Fund accounted for the acquisitions using the acquisition method of accounting. The purchase prices were allocated to the identifiable assets acquired and the liabilities assumed on the basis of their fair values.

The fair values of the identifiable assets acquired and liabilities assumed were allocated as follows:

Current assets and liabilities	
Cash and cash equivalents	\$ 19,752
Accounts receivable	7,582
Prepaid expenses	934
Future income taxes	348
Accounts payable and accrued liabilities	(5,727)
Deferred revenues	(2,997)
Fixed assets	9,262
Intangibles	
Trademarks	29,647
Customer relationships	40,059
Customer contracts	25,284
Domain names	78
Non-competition agreements and logos	1,450
Software	52,067
Long-term debt	(5,352)
Future income tax liabilities	(59,586)
Non-controlling interest	(71,513)
Net identifiable assets acquired	41,288
Reversal of previously owned equity investment	(40,614)
Goodwill (\$1.2 million tax deductible)	36,035
Purchase price	\$ 36,709

Consideration:

Cash	\$ 26,959
Series 7 shares (Note 9)	9,750
Total	\$ 36,709

YELLOW PAGES INCOME FUND

Notes to the Interim Consolidated Financial Statements - September 30, 2010
(all tabular amounts are in thousands of Canadian dollars, except unit information - unaudited)

During the second quarter of 2010, the Fund completed the following acquisition:

On May 25, 2010, the Fund acquired all of the shares of Canpages for a purchase price consideration of \$226.4 million, which includes working capital and other adjustments. The purchase price consideration was comprised of \$84.8 million payable in cash at closing to settle third party debt obligations and the issuance of \$141.6 million of Mandatory Exchangeable Promissory Notes ("Exchangeable Notes") of Yellow Media Inc.

The acquisition of Canpages positions the Fund to better compete in the digital world and will enable the Fund to expand the sales force, online capabilities and advertiser offerings.

The Fund accounted for the acquisition using the acquisition method of accounting. The purchase price was allocated to the identifiable assets acquired and the liabilities assumed on the basis of their fair values.

The acquired business is included in the Directories segment.

The fair values of the identifiable assets acquired and liabilities assumed were allocated as follows:

Current assets and liabilities	
Cash and cash equivalents	\$ 3,912
Accounts receivable	2,523
Prepaid expenses	65
Accounts payable and accrued liabilities	(29,384)
Deferred revenues	(40,407)
Fixed assets	1,328
Intangibles	
Trademarks	40,000
Customer relationships	55,000
Customer contracts	42,500
Non-competition agreements and logos	1,670
Software	3,500
Net identifiable assets acquired	80,707
Goodwill (\$62.9 million tax deductible)	145,702
Purchase price	\$ 226,409

Consideration:

Cash	\$ 84,847
Exchangeable Notes (Note 7)	141,562
Total	\$ 226,409

During the third quarter of 2010, the Fund completed the following acquisitions:

On July 9, 2010, Trader acquired all of the assets of Canadian Driver Communications Inc. ("Canadian Driver"). Canadian Driver is the operator of CanadianDriver.com, an award-winning online automotive magazine that features over 11,000 automotive articles including new car reviews, test drives and automotive news as well as other automotive topics. This acquisition will enable the Fund to provide Canadians with a valuable resource to research their automotive purchases. It will also help the Fund grow its content and audience as well as provide new advertising opportunities for its national advertisers.

The acquired business is included in the Vertical Media segment.

On September 21, 2010, the Fund acquired a 60% equity interest in Enquiro. Enquiro is a leading search engine solutions company. The non-controlling interest in Enquiro was measured at the non-controlling interest's proportionate share of the fair value of Enquiro's identifiable net assets.

The acquired business is included in the Directories segment.

The Fund accounted for the acquisitions using the acquisition method of accounting. The purchase prices were allocated to the identifiable assets acquired and the liabilities assumed on the basis of their fair values. The purchase price allocation is preliminary and is subject to change once the final valuation of the identifiable assets acquired and liabilities assumed is completed.

The fair values of the identifiable assets acquired and liabilities assumed were allocated as follows:

Current assets and liabilities	
Cash and cash equivalents	\$ 459
Accounts receivable	797
Prepaid expenses	83
Accounts payable and accrued liabilities	(957)
Fixed assets	113
Intangibles	
Trademarks	4,350
Customer relationships	548
Customer contracts	170
Non-competition agreements and logos	2,350
Future income taxes	(1,110)
Non-controlling interest	(1,541)
Net identifiable assets acquired	5,262
Goodwill	3,952
Purchase price	\$ 9,214
Consideration:	
Cash	\$ 7,714
Deferred consideration	1,500
Total	\$ 9,214

3. Disposal of subsidiary

On March 29, 2010, the Fund entered into a definitive agreement with HM Capital whereby the Fund would contribute its interest in YPG Directories, LLC in exchange for a 35% minority ownership in a new entity resulting from the combination of YPG Directories, LLC and Ziplocal, LP. The fair value of the Fund's minority ownership was \$75.2 million on the date of acquisition.

The transaction closed on April 15, 2010. The carrying value of the assets and liabilities disposed on April 15, 2010 was \$68.7 million. In relation to this transaction, an unrealized cumulative translation loss on self-sustaining foreign operations of \$1.2 million was realized and transferred to earnings. In addition, the Fund incurred incremental direct costs of \$3 million in relation to the disposal, resulting in a gain of \$2.3 million recorded in the interim consolidated statement of earnings.

The carrying value of assets and liabilities disposed are summarized below:

Current assets ¹	\$ 7,789
Fixed assets	285
Intangibles	18,634
Goodwill	41,767
Future income taxes	6,314
Current liabilities	(6,047)
Total	\$ 68,742

¹ Includes cash of \$0.2 million.

4. Investments in equity accounted investees

On January 5, 2010, Trader acquired an additional 10% equity interest in Dealer.com, as described in Note 2.

On March 9, 2010, YPG Co. acquired a 30% equity interest in 411 Local Search Corp. In connection with this investment, YPG Co. also acquired the 411.ca brand. This brand is included in trademarks. The acquisition was financed with cash on hand and was accounted for using the equity method.

As a result of the transaction discussed in Note 3, the Fund received a 35% minority ownership in a new entity resulting from the combination of YPG Directories, LLC and Ziplocal, LP.

On September 21, 2010, Trader acquired a 30% equity interest in Bignition Services Inc. ("Bignition"). Bignition is a dealer inventory network designed for franchise automobile dealers. Bignition enables dealers to buy, sell and trade vehicles with each other through a real - time dealer inventory network. The acquisition was financed with cash on hand.

The difference between the acquisition cost and the Fund's share of the underlying net book value of the investees' net assets for the equity method investments, at the date of purchase amounted to \$77 million and was assigned to the acquired net identifiable assets based on their fair values. As such, the difference was preliminarily assigned to intangible assets (consisting mainly of trademarks, website and software, non-compete agreements, customer contracts and customer relationships) in the amount of \$53.7 million and will be amortized over their expected useful lives and future income tax liabilities of \$21.2 million. The remaining difference between the acquisition cost and the assigned value in the amount of \$44.5 million is similar to goodwill (equity method goodwill) and is not amortized. The assigned difference between the acquisition costs and the underlying net book values is preliminary and is subject to change once the final evaluation is completed.

5. Employee benefit plans

The total net benefit plan costs for the three-month and nine-month periods ended September 30, 2010 were \$4.2 million (2009 - \$5 million) and \$15.1 million (2009 - \$14 million) for pension benefits. Other benefits costs totalled \$0.7 million (2009 - \$0.6 million) and \$2.1 million (2009 - \$1.7 million) for the same periods.

In the context of new pension regulations enacted in 2009, the Fund will have to make annual contributions to the YPG Pension Plan ("the Plan") for an amount equivalent to the current service contributions of approximately \$10 million to the defined benefit component of the Plan. For the three-month and nine-month periods ended September 30, 2010, \$2.6 million (2009 - nil) and \$7.4 million (2009 - nil) was contributed for pension benefits.

6. Long-term debt

	September 30, 2010			
	Principal amount	Fair value adjustment of hedged item	Deferred financing costs	Total
Medium Term Notes	\$ 1,688,586	\$ 11,859	\$ (14,726)	\$ 1,685,719
Credit facilities	100,000	-	-	100,000
Commercial paper	410,000	-	-	410,000
Note payable	12,869	-	-	12,869
Obligations under capital leases	7,200	-	-	7,200
	2,218,655	11,859	(14,726)	2,215,788
Less current portion of long-term debt	2,814	-	-	2,814
	\$ 2,215,841	\$ 11,859	\$ (14,726)	\$ 2,212,974

	December 31, 2009			
	Principal amount	Fair value adjustment of hedged item	Deferred financing costs	Total
Medium Term Notes	\$ 2,053,345	\$ 10,703	\$ (19,101)	\$ 2,044,947
Credit facilities	100,000	-	-	100,000
Commercial paper	74,000	-	-	74,000
Obligations under capital leases	9,027	-	-	9,027
	2,236,372	10,703	(19,101)	2,227,974
Less current portion of long-term debt	2,254	-	-	2,254
	\$ 2,234,118	\$ 10,703	\$ (19,101)	\$ 2,225,720

Credit facilities

On February 19, 2010, the Fund increased its sources of liquidity by amending and extending the principal facility from \$700 million to \$1 billion. The principal facility now matures on February 18, 2013.

Medium Term Notes

During the first nine months of 2010, Yellow Media Inc. repurchased for cancellation an amount of \$56 million of the Series 3 Medium Term Notes, \$79.3 million of the Series 4 Medium Term Notes, and \$79.4 million of the Series 5 Medium Term Notes for a total cash consideration of \$200.1 million. A gain of \$14.8 million was recorded in net earnings in financial charges.

Yellow Media Inc. redeemed all of its outstanding \$150 million 4.65% Medium Term Notes, Series 6 which were due February 28, 2011. Yellow Media Inc. financed the purchase with drawings under its commercial paper program. Yellow Media Inc. redeemed the Series 6 Medium Term Notes at a redemption price of \$1,041.681 per \$1,000 principal amount in accordance with the terms of the Series 6 Notes and the provisions of the trust indenture dated April 21, 2004 for a total cash consideration of \$156.3 million. A loss of \$5.2 million was recorded in net earnings in financial charges.

The Fund was in compliance with all of its debt covenants as at September 30, 2010.

Interest rate swaps

In February 2010, the Fund entered into two interest rate swaps totalling \$125 million to hedge the Series 8 Medium Term Notes. The Fund receives interest on these swaps at 6.85% and pays a floating rate equal to the three-month Banker's Acceptance plus a spread of 4.3%. The swaps mature December 3, 2013, matching the maturity date of the underlying debt.

As at September 30, 2010, these interest rate swaps met the criteria for hedge accounting.

7. Exchangeable and convertible instruments

	September 30, 2010	December 31, 2009
Principal amount	\$ 341,562	\$ 86,549
Equity component	(10,139)	(3,618)
Accretion	254	2,362
Deferred financing costs	(12,071)	(1,407)
	\$ 319,606	\$ 83,886

The remaining balance of \$86.5 million of Exchangeable Debentures was redeemed by Yellow Media Inc. on August 2, 2010 for a total cash consideration of \$86.5 million excluding accrued interest. The carrying value of the Exchangeable Debentures was \$84.8 million. A loss of \$1.7 million was recorded in net earnings in financial charges. The remaining balance of the conversion option amounting to \$3.6 million related to the purchase was credited to contributed surplus.

In connection with the Canpages acquisition, Yellow Media Inc. issued Mandatory Exchangeable Promissory Notes ("Exchangeable Notes") for a principal amount of \$141.6 million. The Exchangeable Notes bear interest, payable quarterly at an initial rate of 5% subject to step-up provisions over time and mature on December 31, 2014. Commencing on January 1, 2011, the Exchangeable Notes can be exchanged at the option of the holder, for units of the Fund or of the successor thereof upon conversion of the Fund into a corporation. Each quarter, the holders will be entitled to exchange 25% of the principal amount of the Exchangeable Notes, representing a maximum of \$35.4 million. In addition, Yellow Media Inc. may at its option at any time, redeem the Exchangeable Notes in whole or in part at a price equal to their principal amount plus accrued interest. Any remaining Exchangeable Notes will be automatically exchanged into units of the Fund or newly traded securities on December 31, 2014. The number of units or newly traded securities of the successor company the holder will receive in respect of each Exchangeable Note will be determined by dividing the principal amount of the Exchangeable Notes that are to be exchanged by 95% of the market price of the Units or newly traded securities.

On July 8, 2010, Yellow Media Inc. issued convertible unsecured subordinated debentures for a principal amount of \$200 million ("Convertible Debentures"). The Convertible Debentures bear interest payable semi-annually at a rate of 6.25% and mature on October 1, 2017. The Convertible Debentures may be exchanged at any time, at the option of the holder, for units of the Fund at an exchange price of \$8 per unit. On and after October 1, 2013 and prior to October 1, 2015, the Convertible Debentures may be redeemed in whole or in part from time to time at the option of Yellow Media Inc. at a price equal to their principal amount plus accrued and unpaid interest, provided that the current market price of the units preceding the date on which the notice of redemption is given is not less than 125% of the Exchange price. On and after October 1, 2015, the Convertible Debentures may be redeemed in whole or in part from time to time at the option of Yellow Media Inc. at a price equal to their principal amount plus accrued interest. The Fund may also, at its option and subject to certain conditions, elect to satisfy its obligation to repay all or any portion of the principal amounts and interest of the Convertible Debentures that are to be redeemed or repaid at maturity, by issuing Fund units. The number of units a holder will receive in respect of each Convertible Debenture will be determined by dividing the principal amount of the Convertible Debentures that are to be redeemed or repaid at maturity by 95% of the market price of the units.

The conversion option was valued at \$10.1 million at the date of issuance and is included in Unitholders' equity. The liability portion is being accreted such that the liability at maturity will equal the gross proceeds less conversions.

8. Preferred shares

	September 30, 2010	December 31, 2009
Shares issued, Series 1 and Series 2	\$ 459,783	\$ 481,408
Derivative component	1,028	1,161
Deferred financing costs	(7,877)	(9,792)
	\$ 452,934	\$ 472,777

Normal course issuer bid

The Fund received approval from the Toronto Stock Exchange ("TSX") on its notice of intention to make a normal course issuer bid for its preferred shares through the facilities of the TSX initially from June 11, 2009 to June 10, 2010, and then from June 11, 2010 to no later than June 10, 2011, in accordance with applicable rules and regulations of the TSX.

Under its normal course issuer bid, the Fund can purchase for cancellation up to 1,174,691 and 720,000 of its outstanding preferred shares, series 1 ("Series 1 shares") and preferred shares, series 2 ("Series 2 shares"), respectively. During the first nine months of 2010, the Fund had purchased for cancellation 604,748 Series 1 shares of the Fund for a total cash consideration of \$15 million including brokerage fees at an average price of \$24.76 per Series 1 share and 260,250 Series 2 shares of the Fund for a total cash consideration of \$5.2 million including brokerage fees at an average price of \$20.17 per Series 2 share. The carrying value of these Series 1 and Series 2 shares was \$14.9 million and \$6.4 million, respectively. A gain of \$1.1 million was recorded in net earnings in financial charges.

9. Equity attributable to non-controlling interests

	September 30, 2010	December 31, 2009
Preferred shares issued, net of issuance costs and income taxes	\$ 333,880	\$ 324,130
Non-controlling interest related to Dealer.com	57,363	-
Non-controlling interest related to Enquiro	1,528	-
	\$ 392,771	\$ 324,130

On February 9, 2010, in connection with the acquisition of Red Flag Deals, Yellow Media Inc. issued 1,300,000 Series 7 shares at a price of \$7.50 per Series 7 share as payment to the vendors for the acquisition by way of a private placement. The holders of the Series 7 shares are entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors of Yellow Media Inc. in an amount equal to \$0.375 per Series 7 share per annum, yielding 5% per annum, payable quarterly on the third last business day of March, June, September and December of each year. The Series 7 shares are exchangeable into Units of the Fund or of the successor thereof upon conversion of the Fund into a corporation, at a ratio of one preferred share for one unit or newly tradable security. On or after January 1, 2012, 300,000 Series 7 shares may be exchanged subject to certain time-based and performance conditions (Note 2).

10. Unitholders' capital

	September 30, 2010	
	Number of Units	Amount
Balance, December 31, 2009	513,044,685	\$ 6,062,039
Units issued	3,104	12
Balance September 30, 2010 ^{1,2}	513,047,789	\$ 6,062,051

	September 30, 2009	
	Number of Units	Amount
Balance, December 31, 2008	518,301,059	\$ 6,144,416
Units issued	3,021	12
Repurchase of units	(267,300)	(3,169)
Balance September 30, 2009 ^{1,2}	518,036,780	\$ 6,141,259

¹ Includes nil (2009 – 8,715,000) Exchangeable Units of YPG LP issued as partial consideration of the Trader Media Corp. (“TMC”) acquisition, which are presented as part of Unitholders' capital as the criteria of Emerging Issues Committee Abstract 151 Exchangeable Securities Issued by Subsidiaries of Income Trust are met.

² Includes 11,391,605 Restricted Units (2009 – 8,151,641) pursuant to the Restricted Unit Plan.

Normal course issuer bid

During the nine-month period ended September 30, 2009, the Fund purchased for cancellation 267,300 Units of the Fund for a total cost of \$1.9 million including brokerage fees at an average price of \$7.20 per unit. The average carrying value of these Units was \$11.86 per Unit. The difference between the purchase price and the carrying value of the Units of \$1.2 million was credited to Contributed Surplus. There were no such transactions in the first nine months of 2010.

Exercise of options

During the three-month period ended September 30, 2010, optionholders exercised nil (2009 – 1,234) options at an exercise price of \$3.92 per option for cash consideration of \$nil (2009 - \$5 thousand). These options were exercised into nil (2009 – 1,234) shares of Yellow Media Inc. which were automatically exchanged into nil (2009 – 1,234) units of the Fund pursuant to the Optionholders' Liquidity Agreement, at an average stated value of approximately \$3.92 (2009 - \$3.92) per share, which in turn were exchanged into units of YPG LP.

During the nine-month period ended September 30, 2010, optionholders exercised 3,104 (2009 – 3,021) options at an exercise price of \$3.92 per option for cash consideration of \$12 thousand (2009 – \$12 thousand). These options were exercised into 3,104 (2009 – 3,021) shares of Yellow Media Inc. which were automatically exchanged into 3,104 (2009 – 3,021) units of the Fund pursuant to the Optionholders' Liquidity Agreement, at an average stated value of approximately \$3.92 (2009- \$3.92) per share, which in turn were exchanged into units of YPG LP.

Earnings per unit

The following table reconciles the net earnings (loss) attributable to owners of the Fund and the weighted average number of units outstanding used in computing basic earnings (loss) per unit to weighted average number of units outstanding used in computing diluted earnings per unit:

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2010	2009 ¹	2010	2009 ¹
Weighted average number of units outstanding used in computing basic earnings (loss) per unit	501,815,664	510,030,789	503,333,857	511,994,035
Dilutive effect of options	380,882	-	382,428	390,577
Dilutive effect of Restricted Units ²	11,232,798	-	9,702,486	2,525,627
Dilutive effect of Exchangeable Notes	26,897,522	-	12,240,929	-
Dilutive effect of Series 1 Preferred shares	55,301,910	-	52,767,368	-
Dilutive effect of Series 2 Preferred shares	33,986,663	-	32,352,733	-
Dilutive effect of Exchangeable Debentures	-	-	11,787,336	-
Dilutive effect of Convertible Debentures	35,224,196	-	11,870,425	-
Dilutive effect of Series 7 Preferred shares	1,300,000	-	1,114,964	-
Weighted average number of units outstanding used in computing diluted earnings per unit	666,139,635	510,030,789	635,552,526	514,910,239

¹ The Exchangeable Units of YPG LP issued as partial consideration of the TMC acquisition described above are included in the number of units for both basic and diluted earnings per unit for the three-month and nine-month periods ended September 30, 2009.

² Subject to specific pay-out conditions.

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2010	2009	2010	2009
Net earnings (loss) attributable to owners of the Fund	\$ 72,956	\$ (168,792)	\$ 271,525	\$ 79,648
Impact of assumed conversion of Exchangeable Notes, net of applicable taxes	1,262	-	1,450	-
Impact of assumed conversion of Series 1 Preferred shares, net of applicable taxes	3,651	-	10,959	-
Impact of assumed conversion of Series 2 Preferred shares, net of applicable taxes	2,193	-	6,730	-
Impact of assumed conversion of Exchangeable Debentures, net of applicable taxes	-	-	3,874	-
Impact of assumed conversion of Convertible Debentures, net of applicable taxes	2,392	-	2,392	-
Impact of assumed conversion of Series 7 Preferred shares, net of applicable taxes	132	-	339	-
Net earnings adjusted for dilutive effect	\$ 82,586	\$ (168,792)	\$ 297,269	\$ 79,648

For the three-month period ended September 30, 2010, the diluted earnings per unit calculation did not take into consideration the potentially dilutive effect of the Exchangeable debentures since their impact was anti-dilutive.

11. Stock-based compensation plans

The Fund's stock-based compensation plans consist of a Restricted Unit Plan and a Stock Option Plan.

Restricted Unit Plan

During the nine-month period ended September 30, 2010, an amount of \$20.7 million (2009 – \$15.3 million) representing 3,840,009 (2009 – 2,477,233) Restricted Units were granted at an average market price of \$5.39 (2009 – \$6.19). Subject to the conversion of the Fund into a corporation not later than January 3, 2011, half of these Restricted Units will vest on the basis of time and the other half will vest based on the achievement of targets determined by the Board of Trustees. With the exception of the 2010 grants and Restricted Units granted to Directors, the number of Restricted Units that vest can potentially reach up to two-and-a-half times the actual number of Restricted Units awarded if the actual performance reaches the maximum level of the objectives. Consequently, \$17.6 million was used (2009 – \$24.1 million) to purchase 2,689,203 (2009 – 3,849,791) Restricted Units of the Fund on the open market of the Toronto Stock Exchange. In addition, an amount of \$5.5 million (2009 – \$4 million) was used to reinvest in 927,939

(2009 – 704,581) Restricted Units using the proceeds from the distributions on the Restricted Units held in escrow. This includes 246,277 (2009 – 355,529) Restricted Units associated with the portion which provides for up to a 250% pay-out.

The following table summarizes the status of the grants:

September 30, 2010	
Number of Restricted Units	
2008 to 2010 Grants	
Outstanding, beginning of period	4,558,668
Granted	3,840,009
Vested	(572,974)
Forfeited	(1,139,604)
Cash distributions reinvested	681,662
Outstanding, end of period	7,367,761

September 30, 2009	
Number of Restricted Units	
2007 to 2009 Grants	
Outstanding, beginning of period	2,221,443
Granted	2,477,233
Vested	(508,082)
Forfeited	(293,419)
Cash distributions reinvested	349,052
Outstanding, end of period	4,246,227

As at September 30, 2010 there were 1,094,842 (2009 – 275,348) Restricted Units which were not allocated to any specific employee and 2,929,002 (2009 – 3,630,066) Restricted Units representing the portion which provides up to a 250% pay-out. An expense of \$0.9 million and a recovery of \$0.7 million was recorded in the interim consolidated statement of earnings for the three-month and nine-month periods ended September 30, 2010 compared to an expense of \$2.5 million and a recovery of \$1 million for the corresponding periods in 2009.

Stock Options

YPG LP

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

September 30, 2010		
	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	383,986	\$ 3.92
Exercised	(3,104)	3.92
Outstanding, end of period	380,882	\$ 3.92
Exercisable, end of period	380,882	\$ 3.92

September 30, 2009		
	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	394,912	\$ 3.92
Exercised	(3,021)	3.92
Outstanding, end of period	391,891	\$ 3.92
Exercisable, end of period	391,891	\$ 3.92

No options have been granted to employees and non-employees since the inception of the Fund.

12. Financial charges, net

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

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2010	2009	2010	2009
Interest on long-term debt, exchangeable and convertible instruments	\$ 34,107	\$ 36,900	\$ 95,603	\$ 102,169
Standby fees and other financial charges, net	1,782	866	5,184	2,533
(Credits) other charges related to derivative financial instruments	(1,786)	(1,312)	(346)	1,827
Gain on repurchase of Preferred shares, series 1 and 2, Exchangeable Debentures and Medium Term Notes, net	(3,804)	(30,285)	(8,921)	(30,506)
Amortization and write-off of deferred financing costs	2,523	3,301	6,669	7,220
Accretion on exchangeable and convertible instruments and preferred shares	217	608	612	1,790
Foreign exchange loss	1,111	1,050	532	1,052
	\$ 34,150	\$ 11,128	\$ 99,333	\$ 86,085

13. Supplemental disclosure of cash flow information

Supplemental information:

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2010	2009	2010	2009
Interest paid	\$ 39,022	\$ 42,034	\$ 110,422	\$ 113,290
Dividends on Preferred shares, series 1 and 2 paid	\$ 5,294	\$ 5,592	\$ 16,046	\$ 16,967
Issuance of Series 7 shares as partial consideration for a business acquisition	\$ -	\$ -	\$ 9,750	\$ -
Issuance of Exchangeable Notes as partial consideration for a business acquisition	\$ -	\$ -	\$ 141,562	\$ -
Contribution of the Fund's interest in subsidiary for equity investment (Note 4)	\$ -	\$ -	\$ 75,248	\$ -
Income taxes and capital taxes paid	\$ 7,412	\$ 3,412	\$ 21,112	\$ 6,513
Additions to fixed assets under capital leases	\$ -	\$ 459	\$ -	\$ 631
Additions to fixed assets included in accounts payable and accrued liabilities	\$ 5,046	\$ 4,564	\$ 5,046	\$ 4,564

14. Restructuring and special charges

In connection with the acquisitions described in Note 2, the Fund recorded costs of \$2 million for the quarter and \$25.6 million for the nine-month period ended September 30, 2010. For the nine-month period ended September 30, 2010, these amounts include a provision for restructuring and special charges of \$10.1 million. The Fund has adopted formal plans to integrate and restructure the acquired businesses. Consequently, the Fund established provisions related to planned termination of employment of certain employees of the acquired businesses who are performing functions already available through its existing structuring and other restructuring of the acquired businesses' operations.

The Fund also recorded additional restructuring and special charges of \$26.4 million related to an internal reorganization and workforce reduction. The other special charges are composed mainly of costs related to termination of certain contractual commitments

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

	Restructuring charges	Other special charges	Total
Balance as at December 31, 2009	\$ 16,051	\$ 24,811	\$ 40,862
Provision related to the acquisition of Canpages	7,607	2,501	10,108
Provision related to 2010 initiatives	22,888	3,554	26,442
Utilized in 2010:			
Cash	(25,642)	(12,911)	(38,553)
Balance as at September 30, 2010	\$ 20,904	\$ 17,955	\$ 38,859

15. Accumulated other comprehensive income

The components of Accumulated other comprehensive income are as follows:

	September 30, 2010
Net gain on derivatives designated as cash flow hedges, net of income taxes ¹	\$ 1,060
Unrealized gains on translating financial statements of self-sustaining foreign operations	1,410
Unrealized loss on available-for-sale investment	161
Balance September 30, 2010	\$ 2,631

	September 30, 2009
Net loss on derivatives designated as cash flow hedges, net of income taxes ¹	\$ (947)
Unrealized gains on translating financial statements of self-sustaining foreign operations and foreign investees	(1,683)
Unrealized gain on available-for-sale investment	241
Balance September 30, 2009	\$ (2,389)

¹ The net gain on derivatives designated as cash flow hedges in prior periods will be transferred to net earnings over the term of the underlying debt which matures on May 2011, February 2016 and February 2036.

16. Segmented information

The Fund's reportable segments consist of strategic business units that offer different products. Management has determined that the Fund operates in two reportable segments: Directories and Vertical Media. The Directories segment operates in print and online directories, and specialized publications. The Vertical Media segment operates in the vertical print publications and web sites by topic or area of interest. The accounting policies of the segments are the same as those used for the consolidated financial statements. The Fund or chief operating decision maker analyzes the performance of its operating segments based on their income from operations which is not a measure of performance under GAAP; however, management uses this performance measure for assessing the operating performance of its reportable segments.

YELLOW PAGES INCOME FUND

Notes to the Interim Consolidated Financial Statements - September 30, 2010
(all tabular amounts are in thousands of Canadian dollars, except unit information - unaudited)

The tables below summarize the selected financial information by segment:

	For the three-month period ended September 30, 2010		
	Directories	Vertical Media	Consolidated
Revenues	\$ 348,946	\$ 79,624	\$ 428,570
Operating costs	146,014	56,598	202,612
Conversion and rebranding costs	4,441	-	4,441
Income from operations before depreciation and amortization, acquisition-related costs and restructuring and special charges	198,491	23,026	221,517
Depreciation and amortization	47,623	22,516	70,139
Acquisition-related costs	1,960	78	2,038
Restructuring and special charges	15,845	1,620	17,465
Income (loss) from operations	\$ 133,063	\$ (1,188)	\$ 131,875

	For the nine-month period ended September 30, 2010		
	Directories	Vertical Media	Consolidated
Revenues	\$ 1,024,665	\$ 232,418	\$ 1,257,083
Operating costs	418,509	164,943	583,452
Conversion and rebranding costs	16,042	-	16,042
Income from operations before depreciation and amortization, acquisition-related costs and restructuring and special charges	590,114	67,475	657,589
Depreciation and amortization	102,218	66,729	168,947
Acquisition-related costs	25,509	78	25,587
Restructuring and special charges	24,822	1,620	26,442
Income (loss) from operations	\$ 437,565	\$ (952)	\$ 436,613

	For the three-month period ended September 30, 2009		
	Directories	Vertical Media	Consolidated
Revenues	\$ 346,794	\$ 61,524	\$ 408,318
Operating costs	138,662	43,447	182,109
Income from operations before depreciation, amortization and impairment of goodwill	208,132	18,077	226,209
Depreciation and amortization	24,690	10,592	35,282
Impairment of goodwill	-	315,000	315,000
Income (loss) from operations	\$ 183,442	\$ (307,515)	\$ (124,073)

	For the nine-month period ended September 30, 2009		
	Directories	Vertical Media	Consolidated
Revenues	\$ 1,046,653	\$ 187,552	\$ 1,234,205
Operating costs	427,971	132,093	560,064
Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges	618,682	55,459	674,141
Depreciation and amortization	85,716	21,688	107,404
Impairment of goodwill	-	315,000	315,000
Restructuring and special charges	15,161	5,423	20,584
Income (loss) from operations	\$ 517,805	\$ (286,652)	\$ 231,153

September 30, 2010			
	Directories	Vertical Media	Consolidated
Intangibles	\$ 1,754,938	\$ 416,527	\$ 2,171,465
Goodwill	\$ 5,789,529	\$ 694,676	\$ 6,484,205
Total assets	\$ 8,084,035	\$ 1,220,529	\$ 9,304,564

December 31, 2009			
	Directories	Vertical Media	Consolidated
Intangibles	\$ 1,681,391	\$ 327,108	\$ 2,008,499
Goodwill	\$ 5,678,328	\$ 664,252	\$ 6,342,580
Total assets	\$ 7,799,723	\$ 1,141,883	\$ 8,941,606

	For the nine-month periods ended September 30,	
	2010	2009
Additions to fixed assets¹		
Directories	\$ 26,440	\$ 21,858
Vertical Media	\$ 17,833	\$ 9,366
Additions to intangible assets		
Directories ²	\$ 18,825	\$ 246
Vertical Media	\$ 1,888	\$ -

¹ These amounts represent total expenditures for additions to fixed assets, whether they are paid or not. The additions include internally developed software which will be reclassified to intangible assets once they become available for use.

² Excluding future income taxes of \$1.7 million.

17. Effect of new accounting standards not yet implemented

International Financial Reporting Standards

The Accounting Standards Board of Canada ("AcSB") will converge Canadian GAAP for publicly accountable enterprises with IFRS over a transition period that will end effective January 1, 2011 with the adoption of IFRS. The AcSB announced on February 13, 2008 that IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosure requirements. As a result, the Fund has established a changeover plan to convert to these new standards according to the timetable set with these new rules. An implementation team has been created and third party advisors have been engaged to provide training to our staff. The Fund completed the scoping and diagnostic phase and is now in the implementation and review phase.

18. Subsequent events

Conversion to a Corporation

On November 1, 2010, the Fund announced that the plan of arrangement providing for the reorganization of Yellow Pages Income Fund public ownership structure into a dividend-paying publicly listed corporation has been completed. The reorganization became effective on that same day and since then the Company operates as Yellow Media Inc.

Pursuant to the plan of arrangement, all of the units of the Trust were exchanged, on a one-for-one basis, for common shares of Yellow Media Inc.

The units of the Fund were delisted from the Toronto Stock Exchange. Trading of the common shares of Yellow Media Inc. on the Toronto Stock Exchange has commenced on November 1, 2010, under the symbol "YLO".

Credit facility

On October 21, 2010, \$100 million of the private facility was fully repaid and cancelled.