Management's Discussion and Analysis

August 5, 2010

This management's discussion and analysis (MD&A) is intended to help the reader understand and assess trends and significant changes in the results of operations and financial condition of Yellow Pages Income Fund and its subsidiaries for the three and six month periods ended June 30, 2010 and should be read in conjunction with our audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2009, as well as our unaudited interim consolidated financial statements and accompanying notes for the period ended June 30, 2010. Quarterly reports, the annual report and supplementary information can be found under the "Financial Reports" section of our corporate web site: www.ypg.com. Additional information, including our annual information form (AIF), can be found on SEDAR at www.sedar.com. In this MD&A, the words "we", "us", "our", "the Company", "the Fund" and "YPG" refer to Yellow Pages Income Fund and its subsidiaries (including Yellow Media Inc., Yellow Pages Group Co., Canadian Phone Directories Holdings Inc., YPG (USA) Holdings, Inc. and Yellow Pages Group, LLC (collectively YPG USA), Trader Corporation and Dealer Dot Com Inc.), which are reported under the following segments:

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

Forward-looking information

Our reporting structure reflects how we manage our business and how we classify our operations for planning and for measuring our performance. This MD&A contains assertions about the objectives, strategies, financial condition, results of operations and businesses of YPG. These statements are considered "forward-looking" because they are based on current expectations of our business, on the markets we operate in, and on various estimates and assumptions.

- These forward-looking statements describe our expectations on August 5, 2010.
- Our actual results could be materially different from our expectations if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking statements will materialize.
- Forward-looking statements do not take into account the effect that transactions or non-recurring items, announced or occurring after the statements are made, may have on our business.
- We disclaim any intention or obligation to update any forward-looking statements, except as required by law, even if new information becomes available through future events or for any other reason. It is the current practice of the Company to compare performance on a periodic basis with the targets established through our ongoing business planning process.
- Risks that could cause our actual results to differ materially from our current expectations are discussed in Section 7 – Risks and Uncertainties.

Definitions relative to understanding our results

Adjusted Revenues

We report on our revenue, by removing the effect of purchase accounting related to business acquisitions in our Directories segment (Adjusted Revenues). Adjusted Revenues is not a Generally Accepted Accounting Principles (GAAP) measure and is not likely to be comparable to similar measures used by other publicly traded companies. For a reconciliation with Canadian GAAP please refer to Consolidated Operating and Financial Results later in this section.

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

Adjusted Income from Operations before Depreciation and Amortization, Acquisition-related Costs, Impairment of Goodwill and Restructuring and Special Charges (Adjusted EBITDA)

We report on our EBITDA (Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges) by removing the effect of purchase accounting related to acquisitions in the Directories segment. We also remove costs associated with the Fund's contemplated conversion from an income trust to a corporation and the related rebranding costs we will incur throughout 2010 (Adjusted EBITDA). Adjusted EBITDA is a key measure used by management to evaluate performance. Adjusted EBITDA is also used to make decisions relating to our cash distributions to unitholders and to measure compliance with debt covenants. We believe Adjusted EBITDA assists investors in assessing our performance on a consistent basis without regard to restructuring and special charges, acquisition-related costs, conversion and rebranding costs and impairment of goodwill – which are non-recurring in nature and without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending on accounting methods or on non-operating factors such as historical cost.

As stated, EBITDA is not a calculation based on GAAP and is not considered an alternative to income from operations or net (loss) earnings in the context of measuring YPG's performance. EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other publicly traded companies. For a reconciliation with GAAP, please refer to Consolidated Operating and Financial Results in Section 2 of this MD&A. EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed on page 17 of this MD&A.

Distributable Cash

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

Cash Distributions per Unit

We report on cash distributions per unit because it is a measure of return used by investors. Cash distributions per unit depend on our distributable cash and YPG's distribution policy. We make monthly cash distributions to unitholders of record on the last business day of each month. For a description of our cash distribution policy, please refer to Section 4 of this MD&A.

This MD&A is divided into the following sections:

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

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

Yellow Pages Group is Canada's leading performance media and marketing company. Trader is a leader in print and digital vertical media. We are a leader in our two national platforms, Directories and Vertical Media. To review our business, mission, strategy and capability to deliver results, please refer to the corresponding sections in the MD&A for the year ended December 31, 2009.

2. Results

This section provides an overview of our financial performance during the second quarter of 2010 compared to the same period in 2009. It is also important to note that in order to help investors better understand our performance we rely on several metrics, some of which are not measures recognized by GAAP. Definitions of these financial metrics are provided on page 1 and 2 of this MD&A and are important aspects which should be considered when analyzing our performance.

Overall Performance

- Adjusted Revenues decreased by $0.8 million or 0.2% over the second quarter of 2009 to $420.4 million. Revenues increased by $2.8 million or 0.7% to $420.4 million over the second quarter of 2009;
- Adjusted EBITDA decreased by $1.4 million or 0.6% over the second quarter of 2009 to $224.8 million. Income from operations before depreciation and amortization, acquisition-related costs and restructuring and special charges decreased by $4.1 million or 1.8% to $219.9 million in the same period; and
- Distributable cash per unit remained unchanged compared to the second quarter of 2009 at $0.35.

Highlights by Segment [1]

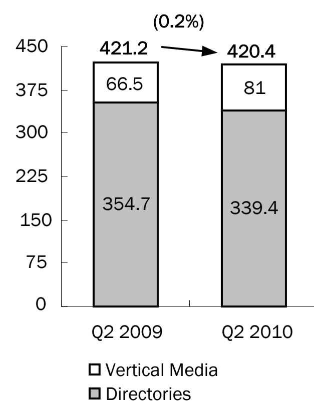
(in thousands of Canadian dollars– except unit information)

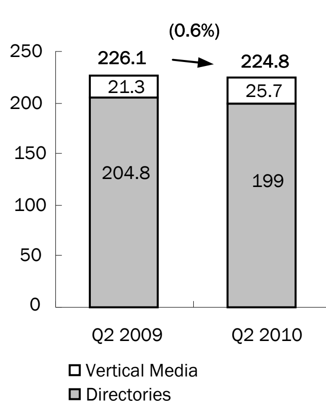
	Three-month periods ended June 30,					
	Directories		Vertical Media		Consolidated	
	2010	2009	2010	2009	2010	2009
Revenues	**$339,424**	$351,060	**$80,958**	$66,474	**$420,382**	$417,534
Income from operations before depreciation and amortization, acquisition-related costs and restructuring and special charges	**$194,196**	$202,750	**$25,746**	$21,319	**$219,942**	$224,069
Basic earnings per unit					**$0.16**	$0.23
Cash flow from operating activities					**$179,393**	$185,487
Adjusted Revenues[2]	**$339,424**	$354,747	**$80,958**	$66,474	**$420,382**	$421,221
Adjusted EBITDA[2]	**$199,014**	$204,802	**$25,746**	$21,319	**$224,760**	$226,121
Distributable cash[3]					**$173,803**	$181,653
Distributable cash per unit					**$0.35**	$0.35

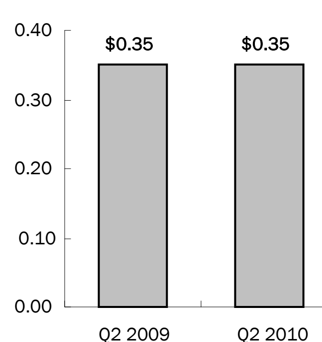
1 We closed the acquisitions of Dealer Dot Com Inc. (Dealer.com) on January 5, 2010, Restaurantica.ca (Restaurantica) on January 8, 2010, Clear Sky Media Inc. (RedFlagDeals.com) on February 9, 2010, and Canadian Phone Directories Holdings Inc. ("Canpages") on May 25, 2010. As such, included in the 2010 results are the results of each acquired business from their respective dates of acquisition.

2 Please refer to definitions relative to understanding our results on page 1 and 2 of this MD&A and Consolidated Results table on page 5 of this MD&A for a reconciliation of Adjusted Revenues and Adjusted EBITDA.

3 Please refer to Section 4 for a reconciliation of Distributable cash.







Performance Relative to Business Strategy

Organic growth

Directories

Enhancement and expansion of products

- User Experience – During the quarter, YPG announced the integration of Facebook Social Plugins that make the user experience more personalized and social on YellowPages.ca. The launch of Urbanizer, a new digital tool, was also announced in the quarter. Urbanizer is an iPhone application, powered by YellowPages.ca that helps consumers discover restaurants in Montreal, Toronto, Vancouver and Ottawa based solely on their mood preferences and social networks. When linked to Facebook Connect, Urbanizer users can share their experiences with friends, tag establishments they have visited and identify them as "favourites";
- Mobile – We continue to focus and invest in the mobile user experience both by continuing to improve the mobile applications and by further leveraging and enhancing our deep local content. During the quarter, YPG marked a key milestone in its digital transformation as the YellowPages.ca mobile application achieved 1 million downloads. In June, YPG also became the first local commercial search provider to build, customize and launch an application for the Apple iPad.

Customer First

The deployment of phase 4 – Contract Closure of the Customer First (CF) project was completed in the second quarter with the roll-out in Western Canada. This final implementation completed the CF project as initially envisioned. CF will now enable the automation of order fulfillment, commission, billing and online publishing on the basis of single national platforms.

Vertical Media

Enhancement and expansion of our product and service offerings

- Continued deployment of Dealer Smart Solutions - In 2010, the roll-out efforts continue for customers not targeted on our initial implementation. There is also an opportunity to continue to grow the customer account through package upgrade and additional components, such as video and Search Engine Marketing ("SEM");
- Expand Dealer Smart Solution to non-passenger vehicles - This product expansion leverages all the successful components of Dealer Smart Solutions but will customize the offering to the specificities of the different segments;

Improve User and Advertiser Experience

- The autoTRADER.ca iPhone mobile application was launched during the quarter. The application provides browsing by make and model, search by keyword and sort by location, price and most recent content, viewing of all listings based on your location, a dealer locator by postal code or proximity-based search using GPS and contact the seller in one touch. The new application leverages the power of autoTRADER.ca listings.
- Trader acquired CanadianDriver.com on July 9, 2010. CanadianDriver.com is an independent new car automotive destination website with rich automotive editorial content and provides a valuable resource to research automotive purchases, providing more content to users and increased advertising opportunities for national advertisers.

External growth

Acquisition of Canadian Phone Directories Holdings Inc.

On May 25, 2010, the Fund acquired Canadian Phone Directories Holdings Inc. ("Canpages") for a purchase price consideration of $226.4 million. Headquartered in Vancouver, Canpages publishes 84 directories for a total circulation of approximately 8 million copies. The company employs about 700 people in Canada of which more than 450 are sales consultants. This acquisition will give the Fund the opportunity to expand its sales force, online capabilities and customer offerings. We also expect to realize a number of benefits from the integration of certain shared services and the potential centralization of suppliers.

Divestiture of YPG Directories, LLC

In addition, on April 15, 2010, a subsidiary of the Fund contributed its interest in YPG Directories, LLC, publisher of Your Community PhoneBook ("YCB") in selected Mid-Atlantic and Southeast American markets in exchange for a 35% minority ownership in a new entity resulting from the business combination of YPG Directories, LLC and Ziplocal, LP (previously Phone Directories, LP). The combined entities will now reach over 300 markets across the United States.

Consolidated Operating and Financial Results

Consolidated Results

(in thousands of Canadian dollars – except unit information)

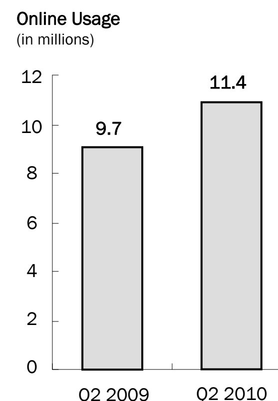
	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2010	2009	2010	2009
Revenues	$420,382	$417,534	$828,513	$825,887
Operating costs	192,490	193,465	380,840	377,955
Conversion and rebranding costs	7,950	-	11,601	-
Income from operations before depreciation and amortization, acquisition-related costs and restructuring and special charges (EBITDA)	219,942	224,069	436,072	447,932
Depreciation and amortization	53,095	34,005	98,808	72,122
Acquisition-related costs	19,934	-	23,549	-
Restructuring and special charges	8,977	20,584	8,977	20,584
Income from operations	137,936	169,480	304,738	355,226
Financial charges, net	30,058	37,401	65,183	74,957
Gain on deemed disposition of equity investment	-	-	(2,374)	-
Gain on disposal of subsidiary	(2,338)	-	(2,338)	-
Earnings before dividends on Preferred shares, series 1 and 2, income taxes, and share of losses from equity investees	110,216	132,079	244,267	280,269
Dividends on Preferred shares, series 1 and 2	5,370	5,687	10,749	11,375
Earnings before income taxes and share of losses from equity investees	104,846	126,392	233,518	268,894
Provision for income taxes	20,341	7,898	26,992	18,491
Share of losses from equity investees	4,599	1,589	4,863	1,411
Net earnings	$79,906	$116,905	$201,663	$248,992
Basic earnings per unit	$0.16	$0.23	$0.39	$0.48
Diluted earnings per unit	$0.14	$0.19	$0.35	$0.40
Revenues	$420,382	$417,534	$828,513	$825,887
Elimination of purchase accounting impact	-	3,687	-	8,876
Adjusted Revenues[1,2]	$420,382	$421,221	$828,513	$834,763
Income from operations before depreciation and amortization, acquisition-related costs and restructuring and special charges (EBITDA)	$219,942	$224,069	$436,072	$447,932
Elimination of purchase accounting impact	(3,132)	2,052	(3,132)	4,094
Conversion and rebranding costs	7,950	-	11,601	-
Adjusted EBITDA[1,2]	$224,760	$226,121	$444,541	$452,026
Adjusted EBITDA margin	53.5%	53.7%	53.7%	54.2%
Total assets			$9,362,921	$9,397,527
Long-term debt			$2,313,184	$2,500,260
Exchangeable Promissory Notes			$128,127	$ -
Exchangeable Debentures			$84,694	$288,070
Preferred Shares			$466,143	$489,499

[1] As adjusted per adoption of new accounting policies as discussed in Section 6 – Critical Assumptions of this MD&A.

[2] Adjusted Revenues and Adjusted EBITDA – The acquisitions in the Directories segment were accounted for using the purchase method of accounting which resulted in the elimination of certain deferred revenues and deferred publication costs related to those directories published prior to each acquisition. These deferred revenues along with related deferred publication costs would have been recognized in 2009 through 2011 had the acquisitions not occurred. As a result, reported revenues and expenses are not representative of revenues and expenses that would have otherwise been reported and are not representative of revenues and expenses that will be reported in subsequent periods. We also remove costs associated with the Fund's contemplated conversion from an income trust to a corporation and the related rebranding costs we will incur throughout 2010.

Analysis of Consolidated Operating and Financial Results

Revenues



Revenues increased to $420.4 million during the second quarter of 2010 compared with $417.5 million for the same period last year and increased to $828.5 million for the six-month period ended June 30, 2010 compared with $825.9 million for the same period last year. If we exclude the impact of purchase accounting, Adjusted Revenues decreased by $0.8 million to $420.4 million in the second quarter of 2010 and by $6.3 million to $828.5 million for the six-month period ended June 30, 2010 compared to the same periods last year. The additional contribution of revenues from Canpages during the quarter was offset by the loss of revenues resulting from the divestiture of YPG USA. Dealer.com contributed approximately $18 million and $34 million of revenues in the three-month and six-month periods ended June 30, 2010, respectively. If we exclude the results from Dealer.com, the decline in organic Adjusted Revenues is due to lower print revenues in both segments. The continuing shift in the media and publishing industries towards more online content continues to place some pressure on our traditional print offerings. Organic online revenue growth for the second quarter reached approximately 16% for the year. The launch of our new digital products should accelerate online growth in the back half of 2010. Online revenues from the Directories and Vertical Media segments combined reached $107.7 million in the second quarter of 2010 and $206.1 million for the six months ended June 30, 2010. Our network of web sites in Directories and Vertical Media attracted 11.4 million unduplicated unique visitors[1] on average during the second quarter of 2010, representing a reach of 46% of the Canadian internet population.

EBITDA

EBITDA decreased by $4.1 million to $219.9 million during the second quarter of 2010 and by $11.9 million to $436.1 million for the six-month period ended June 30, 2010 compared with the same periods last year. During the quarter, we incurred conversion and rebranding costs of $8 million associated with our contemplated conversion from an income trust to a corporation and $11.6 million for the six-month period ended June 30, 2010. If we exclude the impact of purchase accounting and the conversion and rebranding costs, Adjusted EBITDA decreased by $1.4 million to $224.8 million during the second quarter of 2010 and decreased by $7.5 million to $444.5 million for the six-month period ended June 30, 2010 compared with the same periods last year. The decrease for the period is mainly attributable to lower revenues partly compensated by cost containment initiatives.

Cost of sales increased by $3.5 million to $122.6 million during the second quarter of 2010 and decreased by $0.9 million to $233.9 million for the six-month period ended June 30, 2010 compared with the same periods last year. If we exclude the impact of purchase accounting, cost of sales increased by $5 million to $125.7 million during the second quarter of 2010 and decreased by $2.6 million to $237 million for the six-month period ended June 30, 2010 compared with the same periods last year. The increase for the quarter results from the contribution of Dealer.com acquired in the first quarter of 2010. The decrease for the six-month period ended June 30, 2010 is directly related to lower revenues resulting in a reduction in costs of sales in the Directory segment combined with our cost containment initiatives in both segments.

Gross profit margin decreased to 70.8% for the second quarter of 2010 compared to 71.5% for the second quarter of 2009 but was relatively flat at 71.8% for the six-month period ended June 30, 2010 compared to 71.6% for the same period last year. If we exclude the impact of purchase accounting, gross profit margin decreased to 70.1% for the second quarter of 2010 compared to 71.3% for the second quarter of 2009 but was relatively flat at 71.4% for the six-month period ended June 30, 2010 compared to 71.3% for the same period last year. The decreases are due to the lower margins associated with Dealer.com.

General and administrative expenses increased by $3.5 million to $77.9 million during the second quarter of 2010 and by $15.4 million to $158.5 million for the six-month period ended June 30, 2010 compared with the same periods last year. If we exclude the impact of purchase accounting and the conversion and rebranding costs, general and administrative costs decreased by $4.4 million to $69.9 million during the second quarter of 2010 but increased by $3.8 million to $146.9 million for the six-month period ended June 30, 2010 compared with the same periods last year. The decrease for the quarter reflects savings realized through our cost containment initiatives. The increase in general and administrative expenses for the six-month period ended June 30, 2010 is mainly attributable to higher costs in the Vertical Media segment following the acquisition of Dealer.com on January 5, 2010.

Depreciation and amortization

Depreciation and amortization increased to $53.1 million during the second quarter of 2010 compared with $34 million during the same period last year and increased to $98.8 million for the six-month period ended June 30, 2010 compared with $72.1 million during the same period last year. The increase is attributable to higher amortization of certain intangible assets related to the acquisitions of Dealer.com and Canpages.

[1] Source: comScore Media Metrix Canada.

Acquisition-related costs

During the second quarter we recorded acquisition-related costs of $19.9 million and $23.5 million for the six-month period ended June 30, 2010 as a result of our acquisition of Canpages, RedFlagDeals.com, Restaurantica, and 411.ca. This includes $10.4 million of transaction costs and $9.5 million of restructuring and other charges for the three-month period ended June 30, 2010 and $14 million of transaction costs and $9.5 million of restructuring and other charges for the six-month period ended June 30, 2010.

Restructuring and special charges

During the second quarter of 2010 and in connection with the acquisition of Canpages, we recorded restructuring and special charges relating to internal reorganization, workforce reduction, the acceleration of business process changes in our centres of excellence and other items amounting to $9 million. During the second quarter of 2009, we incurred $20.6 million of restructuring and special charges.

Financial charges

Financial charges decreased by $7.3 million to $30.1 million during the second quarter of 2010 and by $9.8 million to $65.2 million for the six-month period ended June 30, 2010 compared with the same periods last year. The decrease is due in part to the gain on repurchase of preferred shares and Medium Term Notes of $2.6 million for the second quarter of 2010 and $5.1 million for the six months ended June 30, 2010. The decrease is also due to the lower interest on exchangeable debentures, a portion of which was repurchased in December 2009, lower charges related to derivative financial instruments and foreign exchange gains. The effective average interest rate on our debt portfolio as of June 30, 2010 remained unchanged at 5.1% compared to June 30, 2009.

Gain on deemed disposition of equity investment

The previously held equity interest of Trader in Dealer.com, which was accounted for under the equity method up to January 5, 2010, 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 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 which was recorded in the first quarter of 2010.

Gain on disposal of subsidiary

During the second quarter of 2010, the Fund contributed its interest in YPG Directories, LLC in exchange for a 35% minority interest in a new entity resulting from the business combination of YPG Directories, LLC and Ziplocal LP. The transaction closed on April 15, 2010, which resulted in a gain on sale of $2.3 million.

Dividends on preferred shares, Series 1 and 2

Dividends on the two series of redeemable preferred shares amounted to $5.4 million for the second quarter of 2010 compared to $5.7 million for the same period last year and $10.8 million for the six-month period ended June 30, 2010 compared to $11.4 million for the same period last year.

Provision for income taxes

The combined statutory provincial and federal tax rate was 29.9% and 30.6% for the three-month periods ended June 30, 2010 and 2009 respectively. The Fund recorded an expense of 19.4% and 6.4% of earnings for the three-month periods ended June 30, 2010 and 2009 respectively and 11.6% and 6.9% of earnings for the six-month periods ended June 30, 2010 and 2009 respectively. The Fund's subsidiary, YPG LP, is a limited partnership, and as such, is not subject to income taxes whereas YPG LP's subsidiaries are subject to income tax. The difference between the statutory and the effective tax rates is primarily due to inter-company revenues which are not currently taxable when received by YPG LP.

The enactment of the Budget Implementation Act 2007 (Bill C-52) on June 22, 2007, which contained legislation implementing proposed changes to the manner in which publicly-traded income trusts such as the Fund and the distributions from such entities will be taxed effective in the 2011 taxation year, has no impact on YPG's current earnings. The operating activities are being carried on in corporate entities and as such, future income taxes are being calculated on all underlying operating assets and liabilities.

Share of losses from equity investees

During the second quarter we recorded our share of losses from our equity investments in the amount of $4.6 million compared to $1.6 million for the same period last year and $4.9 million for the six-month period ended June 30, 2010 compared to $1.4 million for the same period last year. These losses include the amortization of intangible assets in connection with these equity investments.

Net earnings

Net earnings decreased by $37 million to $79.9 million during the second quarter of 2010 and by $47.3 million to $201.7 million for the six-month period ended June 30, 2010 compared with the same periods last year. The decrease is mainly due to higher depreciation

and amortization following the business acquisitions during the quarter as well as the expenses incurred in connection with our contemplated conversion and rebranding efforts and the acquisition-related costs incurred in connection with the acquisitions of Canpages, RedFlagDeals.com, Restaurantica and 411.ca.

Summary of Consolidated Quarterly Results

Quarterly Results

(in thousands of Canadian dollars – except unit information)

	2010					2009[1]		2008[1]
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	$420,382	$408,131	$405,679	$408,318	$417,534	$408,353	$425,559	$426,141
Operating costs	192,490	188,350	186,382	182,109	193,465	184,490	194,020	188,348
Conversion and rebranding costs	7,950	3,651	-	-	-	-	-	-
Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges (EBITDA)	219,942	216,130	219,297	226,209	224,069	223,863	231,539	237,793
Depreciation and amortization	53,095	45,713	35,010	35,282	34,005	38,117	45,872	33,369
Acquisition-related costs	19,934	3,615	-	-	-	-	-	-
Impairment of goodwill	-	-	-	315,000	-	-	-	-
Restructuring and special charges	8,977	-	19,732	-	20,584	-	36,225	-
Income (loss) from operations	137,936	166,802	164,555	(124,073)	169,480	185,746	149,442	204,424
Net earnings (loss)	79,906	121,757	128,405	(168,515)	116,905	132,087	100,672	146,269
Basic earnings (loss) per unit	$0.16	$0.24	$0.25	$(0.33)	$0.23	$0.26	$0.19	$0.28
Diluted earnings (loss) per unit	$0.14	$0.21	$0.21	$(0.33)	$0.19	$0.21	$0.17	$0.25
Revenues	$420,382	$408,131	$405,679	$408,318	$417,534	$408,353	$425,559	$426,141
Elimination of purchase accounting impact	-	-	-	1,761	3,687	5,189	-	15
Adjusted Revenues	$420,382	$408,131	$405,679	$410,079	$421,221	$413,542	$425,559	$426,156
Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges (EBITDA)	$219,942	$216,130	$219,297	$226,209	$224,069	$223,863	$231,539	$237,793
Elimination of purchase accounting impact	(3,132)	-	-	823	2,052	2,042	(115)	(312)
Conversion and rebranding costs	7,950	3,651	-	-	-	-	-	-
Adjusted EBITDA	$224,760	$219,781	$219,297	$227,032	$226,121	$225,905	$231,424	$237,481
Adjusted EBITDA margin	53.5%	53.9%	54.1%	55.4%	53.7%	54.6%	54.4%	55.7%

[1] As adjusted per adoption of new accounting policies as discussed in Section 6 – Critical Assumptions of this MD&A.

Revenues and Adjusted Revenues for the fourth quarter of 2008 and throughout 2009 were lower quarter over quarter due to lower revenues in both segments being negatively impacted by adverse economic conditions and continued pressure on our print products with the exception of the second quarter of 2009 where revenues increased quarter over quarter due to the contribution from YPG USA and the seasonality in the Vertical Media segment. During the first and second quarters of 2010, revenues increased quarter over quarter reflecting the contribution of Dealer.com in our Vertical segment offset by lower print revenues in our Directories and Vertical Media segments. The revenues contributed by Canpages are largely offset by the reduction in revenues following our divestiture of YPG USA in the second quarter.

In 2008 and 2009, our Adjusted EBITDA margins remained relatively stable despite the protracted economic downturn which affected our business in the back half of 2008 and throughout 2009. The negative impact of our lower revenues, especially in the Vertical Media segment was partly compensated by our cost containment initiatives. During the first and second quarters of 2010, we maintained a relatively stable Adjusted EBITDA margin compared to the same periods in the previous year despite lower print revenues in the Directories segment due to our cost containment initiatives.

Net earnings (loss) were affected by the adverse economic conditions during the four quarters of 2009. In addition, successive internal reorganizations resulted in restructuring and special charges impacting the fourth quarter of 2008, the second and fourth quarters of 2009 as well as the second quarter of 2010. Impairment of goodwill also impacted the third quarter of 2009 as well as the gain on repurchase of preferred shares Series 1 and 2, and the loss on the repurchase of exchangeable debentures. For the first and second quarters of 2010, net earnings were affected by purchase accounting relating to the acquisition of Dealer.com and Canpages.

Segmented Information – Directories

Key Performance Indicators

Each year, we set targets to advance our goals and drive results. Our targets were established in August 2009 based on our economic and business outlooks for 2010 at that time. We considered competitive activity in some of our localized markets and our ability to respond to changing market conditions while offering our advertisers new products and services that are intended to position the directory category both print and online. We also considered third party expectations such as the Kelsey Group and the Interactive Advertising Bureau of Canada regarding Canadian advertising trends and changing consumer trends affecting local commercial search.

Despite some encouraging early signs of an economic recovery in some market segments during the first half of 2010, we maintain a cautious outlook in terms of the potential strength and sustainability of an economic recovery. In this environment, we expect revenue growth from our online product offerings to continue, but also expect revenue pressure to remain in our traditional print offerings. Accordingly, our focus remains to position the directory platform through investment in new product introduction and improved market coverage.

Adjusted Revenues declined by 4.3% to $339.4 million for the second quarter of 2010 and by 4.7% to $675.7 million for the six months ended June 30, 2010 due, in part to a lower number of advertisers. As at June 30, 2010, the number of advertisers, excluding Canpages, was 371,000 compared to 395,000 as at June 30, 2009 reflecting a decrease of approximately 6%. Advertiser renewal declined slightly to 88% as at June 30, 2010 compared to 89% as at June 30, 2009. During the last 12 months, YPG acquired 25,000 new advertisers. Although there was a reduction in the number of advertisers, the average revenue per advertiser ("ARPA") grew 3% to $3,500 as at June 30, 2010 compared to $3,400 as at June 30, 2009. As at June 30, 2010, our Revenue Generating Units[1] per advertiser was 1.70 compared to 1.65 for the same period last year. The level of Adjusted Revenues reflects the pressure as a result of more difficult economic and market conditions which impacted the selling efforts over the last 12 months. Our objective of providing our customers with high quality leads through compelling print and online bundles continues to support increased online penetration of the print advertiser base and to drive strong internet revenue growth. Adjusted EBITDA decreased by 2.8% in the second quarter to $199 million and by 3.5% to $400.1 million for the six-month period ended June 30, 2010 as a result of lower revenues offset by our cost containment initiatives.

[1] Revenue Generating Units ("RGU") measure the number of product groups selected by advertisers.

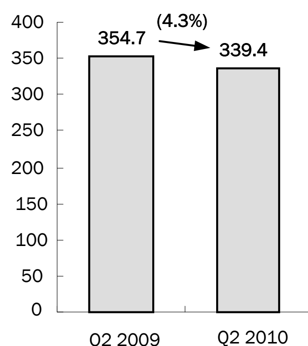
Operating and Financial Results

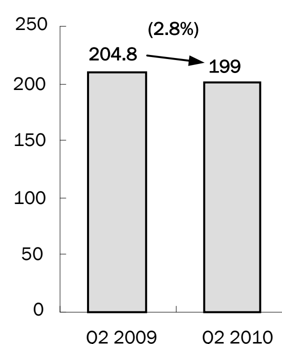
Operating Results[1]

(in thousands of Canadian dollars)

	Three-month period ended June 30,		Six-month period ended June 30,	
	2010	2009	2010	2009
Revenues	$339,424	$351,060	$675,719	$699,859
Operating costs	137,278	148,310	272,495	289,309
Conversion and rebranding costs	7,950	-	11,601	-
Income from operations before depreciation and amortization, acquisition-related costs and restructuring and special charges (EBITDA)	194,196	202,750	391,623	410,550
Depreciation and amortization	30,538	28,764	54,595	61,026
Acquisition-related costs	19,934	-	23,549	-
Restructuring and special charges	8,977	15,161	8,977	15,161
Income from operations	$134,747	$158,825	$304,502	$334,363
Revenues	$339,424	$351,060	$675,719	$699,859
Elimination of purchase accounting impact	-	3,687	-	8,876
Adjusted Revenues	$339,424	$354,747	$675,719	$708,735
Income from operations before depreciation and amortization, acquisition-related costs and restructuring and special charges (EBITDA)	$194,196	$202,750	$391,623	$410,550
Elimination of purchase accounting impact	(3,132)	2,052	(3,132)	4,094
Conversion and rebranding costs	7,950	-	11,601	-
Adjusted EBITDA	$199,014	$204,802	$400,092	$414,644

[1] See Note 17 - Segmented Information of the interim consolidated financial statements of the Company for the period ended June 30, 2010.





Analysis of Operating and Financial Results

Revenues

Revenues decreased by $11.6 million to $339.4 million during the second quarter of 2010 and decreased by $24.1 million to $675.7 million during the six-month period ended June 30, 2010 compared with the same periods last year. Excluding the effect of purchase accounting, Adjusted Revenues decreased by $15.3 million to $339.4 million during the second quarter of 2010 and decreased by $33 million to $675.7 million during six-month period ended June 30, 2010 compared with the same periods last year. For both revenues and Adjusted Revenues, the decline in the quarter and six-month period ended June 30, 2010 is due to the impact of lower advertising sales in our print directories. The contribution from Canpages was offset by the loss of revenues following our divestiture of YPG USA.

As of June 30, 2010, the number of advertisers, excluding Canpages, choosing to advertise both in print and online was 65% across Canada compared to 61% for the corresponding period last year.

EBITDA

EBITDA decreased by $8.6 million to $194.2 million during the second quarter of 2010 and decreased by $18.9 million to $391.6 million during the six-month period ended June 30, 2010 compared with the same periods last year. Excluding the effect of purchase accounting and the conversion and rebranding costs, Adjusted EBITDA decreased by $5.8 million to $199 million during the second quarter of 2010 and decreased by $14.6 million to $400.1 million during the six-month period ended June 30, 2010 compared with the same periods last year. The decreases for the quarter and six-month period ended June 30, 2010 are directly related to lower revenues partly offset by lower direct costs and lower general and administrative expenses.

Cost of sales amounted to $85.9 million in the second quarter of 2010 compared to $87.6 million for the same period last year. In the first six months of 2010, costs of sales amounted to $163.3 million compared to $174.3 million for the same period last year. Excluding the effect of purchase accounting, cost of sales decreased to $89 million in the second quarter of 2010 compared to $89.2 million for the same period last year. In the first six months of 2010, costs of sales amounted to $166.5 million compared to $179.1 million for the same period last year. These decreases are mainly attributable to lower revenues combined with the results of our cost containment efforts including the creation of a centre of excellence in our publishing operations and savings from our supply chain.

Gross profit margin was relatively stable at 74.7% in the second quarter of 2010 compared to 75% for the same period last year and at 75.8% for the six-month period ended June 30, 2010 compared to 75.1% for the same period last year. Excluding the effect of purchase accounting, gross profit margin was 73.8% in the second quarter of 2010 compared to 74.8% for the same period last year and 75.4% for the six-month period ended June 30, 2010 compared to 74.7% for the same period last year. The lower margin for the quarter reflects the higher costs associated with some of our new products introduced earlier in the year. The higher margins for the six-month period ended June 30, 2010 are directly related to the savings we realized in the first quarter from our supply chain.

General and administrative expenses in the second quarter of 2010 decreased by $1.3 million to $59.4 million compared with the same period last year and increased by $5.7 million to $120.8 million during the six-month period ended June 30, 2010 compared with the same periods last year despite conversion and rebranding costs of $8 million and $11.6 million during the three-month and six month periods ended June 30, 2010, respectively. General and administrative expenses were higher in 2009 due to the non-recurring bad debt expenses resulting from the economic downturn.

Depreciation and amortization

Depreciation and amortization increased from $28.8 million in the second quarter of 2009 to $30.5 million in the second quarter of 2010. Over the first six months of 2010, when compared to the same period last year, depreciation and amortization decreased to $54.6 million from $61 million. The increase in the three-month period ended June 30, 2010 compared to the same period last year is due to the amortization related to the acquisition of Canpages. The decrease in the six-month period ended June 30, 2010 compared to the same period last year is due to the lower amortization of intangible assets related to the Bell Aliant acquisition which occurred in 2007, offset by the amortization related to the acquisition of YPG USA. Excluding the effect of purchase accounting, depreciation and amortization was $8.3 million for the second quarter of 2010, down from $10.5 million for the second quarter of 2009 and $17.6 million for the six-month period ended June 30, 2010 compared to $20.6 million for the same period last year.

Acquisition-related costs

During the second quarter we recorded acquisition-related costs of $19.9 million and $23.5 million for the six-month period ended June 30, 2010 as a result of our acquisition of Canpages, RedFlagDeals.com, Restaurantica and 411.ca. This includes $10.4 million of transaction costs and $9.5 million of restructuring and other charges for the three-month period ended June 30, 2010 and $14 million of transaction costs and $9.5 million of restructuring and other charges for the six-month period ended June 30, 2010.

Restructuring and special charges

During the second quarter of 2010, we recorded restructuring and special charges relating to internal reorganization, workforce reduction, the acceleration of business process changes in our centres of excellence and other items amounting to $9 million. During the second quarter of 2009, we incurred $20.6 million of restructuring and special charges.

Segmented Information – Vertical Media

Key Performance Indicators

Each year, we set targets to advance our goals and drive results similarly to the Directories segment. The targets were established in August 2009 based on our economic and business outlooks for 2010 at that time. We considered third party expectations regarding Canadian advertising trends as well as the accelerated migration from print to online advertising solutions for advertisers in our Vertical Media segment.

Despite some encouraging early signs of an economic recovery in some market segments during the first half of 2010, we maintain a cautious outlook in terms of the potential strength and sustainability of an economic recovery. In this environment, we expect revenue growth from our Dealer Smart Solutions to continue, but also expect revenue pressure to remain in our traditional print offerings. Accordingly, our focus remains to position the Vertical Media segment through investment in new product enhancements and expansion of our product and service offerings.

For the second quarter of 2010, revenues increased by 21.8% and EBITDA increased by 20.8%. For the six-month period ended June 30, 2010 revenues increased 21.2% and EBITDA increased by 18.9%. In both cases, the increase was driven by the acquisition of Dealer.com. Organically, revenues decreased by approximately 5% during the second quarter of 2010 and for the six-month period ended June 30, 2010, compared to the same periods last year. In our largest vertical, automotive, representing two-thirds of this segment's revenues, excluding Dealer.com, we have begun seeing positive trends in the marketplace as a result of the Dealer Smart Solutions offering. As at June 30, 2010, 3,200 unique advertisers had subscribed to our Dealer Smart Solutions out of a total of 8,200 commercial vehicle advertisers. Market conditions do, however, remain challenging in the real estate and generalist categories, which represent 19% and 12%, respectively of the segment's revenues, excluding Dealer.com.

Operating and Financial Results

Operating Results[1]

(in thousands of Canadian dollars)

	Three-month period ended June 30,		Six-month period ended June 30,	
	2010	2009	2010	2009
Revenues	$80,958	$66,474	$152,794	$126,028
Operating costs	55,212	45,155	108,345	88,646
Income from operations before depreciation and amortization and restructuring and special charges (EBITDA)	25,746	21,319	44,449	37,382
Depreciation and amortization	22,557	5,241	44,213	11,096
Restructuring and special charges	–	5,423	–	5,423
Income from operations	$3,189	$10,655	$236	$20,863

[1] See Note 17 – Segmented Information of the interim consolidated financial statements of the Company for the period ended June 30, 2010.

Analysis of Operating and Financial Results

Revenues

Revenues from our Vertical Media segment increased by $14.5 million to $81 million during the second quarter of 2010 and increased by $26.8 million to $152.8 million during the six-month period ended June 30, 2010 compared with the same periods last year. Prior to the increase in its investment in Dealer.com, the results of Dealer.com were not consolidated. Dealer.com contributed approximately $18 million of revenues for the quarter and $34 million for the six-month period ended June 30, 2010. If we exclude the contribution from Dealer.com, revenues decreased by approximately 5% for the three and six month periods ended June 30, 2010 due to lower print revenues. Revenues generated by our commercial vehicle advertisers excluding Dealer.com were flat at $33.2 million and $64.1 million for the three-month and six-month periods ended June 30, 2010, respectively compared to $33.1 million and $64.3 million for the same periods last year. The ARPA in the commercial vehicle segment was $4,000 as at June 30, 2010 compared to approximately $3,500 as at June 30, 2009.

EBITDA

EBITDA increased by $4.4 million to $25.7 million during the second quarter of 2010 and increased by $7.1 million to $44.4 million during the six-month period ended June 30, 2010 compared with the same periods last year as a result of higher revenues generated by Dealer.com.

Cost of sales increased by $5.2 million to $36.7 million during the second quarter of 2010 and increased by $10 million to $70.6 million during the six-month period ended June 30, 2010 compared with the same periods last year. The increases are directly related to the contribution in revenues associated with Dealer.com.

Gross profit margin increased to 54.7% for the second quarter of 2010 compared to 52.6% for the same period last year and 53.8% for the six month period ended June 30, 2010 compared to 52% for the same period last year reflecting the benefits associated with our cost containment initiatives.

General and administrative expenses increased to $18.5 million in the second quarter of 2010 compared to $13.7 million for the same period last year. For the six-month period ended June 30, 2010, general and administrative expenses were $37.8 million compared to $28.1 million for the same period last year. The increases for the three-month and six-month periods ended June 30, 2010 are mainly attributable to the acquisition of Dealer.com.

Depreciation and amortization

Depreciation and amortization amounted to $22.6 million in the second quarter of 2010 compared to $5.2 million for the same period last year and to $44.2 million in the six-month period ended June 30, 2010 compared to $11.1 million for the same period last year. The increase for the quarter and the six-month period ended June 30, 2010 relates to the amortization of certain intangible assets related to the acquisition of Dealer.com. Excluding the effect of purchase accounting, depreciation and amortization was $6.8 million in the second quarter of 2010 compared to $4.9 million for the same period last year and to $12.5 million in the six-month period ended June 30, 2010 compared to $10.5 million for the same period last year.

3. Liquidity and Capital Resources

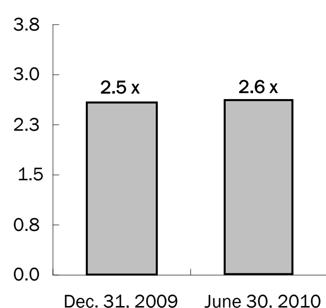
This section examines the Company's capital structure, sources of liquidity and various financial instruments of its debt and preferred share portfolio.

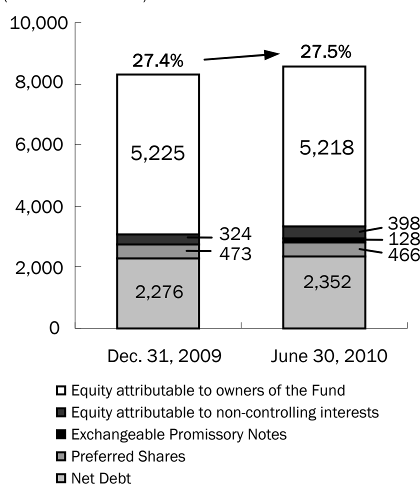
Financial Position

Capital Structure

(in thousands of Canadian dollars)

	As at June 30, 2010	As at December 31, 2009
Cash and cash equivalents	$48,628	$36,170
Medium Term Notes	1,730,660	2,044,947
Exchangeable Debentures	84,694	83,886
Credit facilities	205,000	100,000
Commercial paper	367,000	74,000
Obligations under capital leases and Other	13,081	9,027
Net debt (net of cash and cash equivalents)	$2,351,807	$2,275,690
Exchangeable Promissory Notes	128,127	-
Preferred shares, series 1 and 2	466,143	472,777
Equity attributable to owners of the Fund[1]	5,218,104	5,224,740
Equity attributable to non-controlling interests[1]	398,418	324,130
Total capitalization	$8,562,599	$8,297,337
Net debt to total capitalization	27.5%	27.4%





As at June 30, 2010, YPG had approximately $2.4 billion of debt net of cash and cash equivalents, or $2.8 billion including preferred shares, Series 1 and 2 which was higher than the net debt position as at December 31, 2009. The increase in net debt during the second quarter results from the completion of the acquisition of Canpages on May 25, 2010 offset by positive operating free cash flow. The net debt to Latest Twelve Month Adjusted EBITDA[2] ratio as of June 30, 2010 was 2.6 times compared to 2.5 times as of December 31, 2009. The net debt to total capitalization was at 27.5% compared to 27.4% as of December 31, 2009.

[1] As adjusted for 2009 per adoption of new accounting policies as discussed in Section 6 – Critical Assumptions of this MD&A.
[2] Latest twelve month Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill, and restructuring and special charges removing the effect of purchase accounting related to the acquisitions in the Directories segment ("Latest Twelve Month Adjusted EBITDA").

Canpages Acquisition

During the second quarter of 2010, Yellow Media Inc. finalized the acquisition of Canpages. The purchase price consideration of $226.4 million for the acquisition of Canpages was comprised of $84.8 million payable in cash to settle third party debt obligations and the issuance of $141.6 million of Mandatory Exchangeable Promissory Notes (Exchangeable Notes) of Yellow Media Inc.

Starting in the first quarter of 2011, the Exchangeable Notes will be exchangeable into common shares of Yellow Media Inc., the surviving entity following the conversion to a traditional corporate structure. Each quarter, holders of the Exchangeable Notes will have the right to exchange 25% of the principal amount representing a maximum of $35.4 million of the Exchangeable Notes. Until December 31, 2014, YPG may at its option at any time, redeem all or a portion of the Exchangeable Notes for cash together with accrued and unpaid interest. The Exchangeable Notes rank subordinate to the senior debt of Yellow Media Inc. and bear interest at a fixed initial rate of 5%, payable quarterly in cash, subject to step up provisions over time. The Exchangeable Notes have a final maturity of December 31, 2014. Any remaining Exchangeable Notes will be automatically exchanged into common shares of Yellow Media Inc. on December 31, 2014. An amount of $9.8 million has been classified as a separate component of equity attributable to owners of the Fund.

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. As of June 30, 2010, $105 million was drawn on the principal credit facility.

Medium Term Notes

During the first six months of 2010, Yellow Media Inc. repurchased for cancellation an amount of $56 million of the Series 3 Medium Term Notes, $73.8 million of the Series 4 Medium Term Notes, and $36.1 million of the Series 5 Medium Term Notes for a total cash consideration of $157 million.

Cumulative Redeemable Preferred Shares

On June 8, 2010, Yellow Media Inc. received approval from the Toronto Stock Exchange on its notice of intention to renew its normal course issuer bid for its preferred shares, Series 1 and preferred shares, Series 2 through the facilities of the Toronto Stock Exchange from June 11, 2010 to no later than June 10, 2011, in accordance with applicable rules and regulations of the Toronto Stock Exchange.

Under its normal course issuer bid, Yellow Media Inc. intends to purchase for cancellation up to but not more than 1,174,691 and 720,000 of its outstanding preferred shares, Series 1 and preferred shares, Series 2, respectively, representing 10% of the public float of each series of preferred shares outstanding on June 8, 2010.

For the six months of 2010, Yellow Media Inc. had purchased for cancellation 167,620 preferred shares, Series 1 for a total cash consideration of $4.1 million including brokerage fees at an average price of $24.55 per share and 141,774 preferred shares, Series 2 for a total cash consideration of $2.8 million including brokerage fees at an average price of $19.45 per share. The carrying value of these preferred shares, Series 1 and Series 2 was $4.1 million and $3.5 million, respectively.

Since June 11, 2009, the total cost of repurchasing preferred shares amounted to $20.6 million, including brokerage fees.

Exchangeable Debentures

The remaining balance of Exchangeable Debentures were redeemed by Yellow Media Inc. on August 2, 2010. As of August 5, 2010, no Exchangeable Debentures were outstanding.

Convertible Debentures

On July 8, 2010, Yellow Media Inc. announced the completion of the public offering of $200 million principal amount of 6.25% convertible unsecured subordinated debentures (Convertible Debentures). The Convertible Debentures pay interest semi-annually on April 1 and October 1 of each year commencing October 1, 2010. The Convertible Debentures have a maturity date of October 1, 2017 and are convertible, at the option of the holder, for trust units of the Fund at an exchange price of $8.00 per unit. An amount of $10.1 million will be classified as a separate component of equity attributable to owners of the Fund. Net proceeds resulting from the offering were used to fund the redemption of the outstanding Exchangeable Debentures, and to repay indebtedness under the credit facilities and commercial paper program. The Convertible Debentures have been given a rating of BB+ by S&P and a rating of BBB by DBRS.

YPG was in compliance with all of its debt covenants as at June 30, 2010.

Credit Ratings

DBRS Limited	Standard and Poor's Rating Services
BBB (High) credit rating	BBB-/Stable long-term corporate credit rating
R-1 (low) commercial paper rating	BBB- credit rating for existing credit facilities and medium term notes
BBB convertible subordinated debentures rating	BB+ convertible subordinated debentures rating
Pfd-3 (high) preferred shares rating	P-3 preferred shares rating

Liquidity

As part of its financial policy capital structure guidelines, YPG remains committed to maintaining adequate liquidity at all times. To this end, YPG has access to committed bank lines, and has been proactive in increasing its liquidity and capital resources. As at June 30, 2010, YPG maintained three credit facilities totalling $1.1 billion, providing sufficient liquidity to fund its operations.

On June 30, 2010, cash and cash equivalents amounted to $48.6 million. In addition to cash and cash equivalents, Yellow Media Inc. may issue additional notes amounting to $133 million under its commercial paper program and access another $395 million under its Revolving Facility and its Non-Revolving Facility. Alternatively, if additional notes are not issued under the commercial paper program, Yellow Media Inc. may access the full $528 million available under its Revolving Facility and its Non-Revolving Facility.

Unit data

As at August 5, 2010 outstanding unit data was as follows:

Outstanding Unit Data

	As at June 30 and August 5, 2010	As at December 31, 2009
Units outstanding	513,047,789	513,044,685
Options outstanding	380,882	383,986

At August 5, 2010, no Exchangeable Units of YPG LP remain outstanding.

No options were granted following the inception of the Fund.

Effective July 8, 2010, Yellow Media Inc. also has a total of $200 million of Convertible Debentures which are convertible at any time, at the option of the holder into units of the Fund at an exchange price of $8.00 per unit.

Effective June 23, 2010, Yellow Media Inc. also has Exchangeable Notes that are exchangeable at the option of the holder into common shares of Yellow Media Inc. at the then prevailing market price starting January 1, 2011 and subject to certain conditions.

As at June 30, 2010, there were 11,746,914 preferred shares, Series 1 and 7,200,000 preferred shares, Series 2 outstanding. Both series of preferred shares are redeemable by the issuer under certain conditions through the issuance of units of the Fund.

As at June 30, 2010, there were 1,300,000 Series 7 preferred shares outstanding. This series of 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 subject to certain conditions.

Sources and Uses of Cash

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

Sources and Uses of Cash

(in thousands of Canadian dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2010	2009	2010	2009
Cash flow from operating activities				
Cash flow from operations	$140,359	$162,728	$312,064	$344,490
Change in operating assets and liabilities	39,034	22,759	10,868	38,415
	$179,393	$185,487	$322,932	$382,905
Cash flow used in investing activities				
Business acquisitions, net of cash acquired and bank indebtedness assumed	$(80,935)	$(25,189)	$(88,142)	$(25,189)
Acquisition of equity investment	–	(2,800)	(3,600)	(47,698)
Acquisition of intangible assets	(7,348)	(246)	(19,945)	(246)
Acquisition of investment	(1,756)	–	(1,756)	–
Acquisition of fixed assets	(13,572)	(12,313)	(25,312)	(24,802)
Proceeds from lease inducements	–	–	–	33
	$(103,611)	$(40,548)	$(138,755)	$(97,902)
Cash flow used in financing activities				
Issuance of long-term debt	$145,000	$562,000	$555,000	$699,300
Repayment of long-term debt	(57,607)	(510,836)	(158,422)	(611,880)
Distributions to Unitholders	(100,653)	(134,150)	(201,686)	(284,683)
Repurchase of units	–	–	–	(13,382)
Purchase of Preferred shares, series 1 and 2, and Medium Term Notes	(21,181)	(2,790)	(320,145)	(2,790)
Other	(31,610)	(28,246)	(47,179)	(32,520)
	$(66,051)	$(114,022)	$(172,432)	$(245,955)

Cash flow from operating activities

Cash flow from operating activities decreased from $185.5 million in the second quarter of 2009 to $179.4 million in the second quarter of 2010 and from $382.9 million in the six-month period ended June 30, 2009 to $322.9 million in the same period this year. Cash flow from operations decreased by $22.4 million and $32.4 million for the three-month and six-month periods ended June 30, 2010, respectively. The decrease for the quarter and six months ended June 30, 2010 reflects lower Adjusted EBITDA contribution generated through our operations as a result of lower revenues. The increase in operating assets and liabilities for the second quarter of 2010 was $16.3 million when compared to the same period last year and $27.5 million decrease for the six-month period ended June 30, 2010 compared to the same period last year. These changes are mainly due to the timing of the payment of certain accounts payable and accrued liabilities as reflected on our balance sheet.

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

Cash flow used in investing activities

Cash used in investing activities increased during the second quarter of 2010 from $40.5 million in 2009 to $103.6 million in 2010 and from $97.9 million in the six-month period ended June 30, 2009 to $138.8 million in the same period this year. In the first six months of 2009, the Fund made an investment in Dealer.com, representing a total cash outflow of $44.9 million. It also exercised an option to acquire the remaining 50% interest in LesPAC in which the Fund already had a 50% interest representing a total cash outflow of $25.2 million.

In the first six months of 2010, the Fund acquired an additional 10% interest in Dealer.com and acquired all of the operations of Restaurantica and RedFlagDeals.com for a cash consideration of $7.2 million and made an equity investment for $3.6 million. We also acquired the 411.ca brand in the amount of $12.5 million in connection with the investment we made in 411.ca. In addition, the Fund acquired all of the shares of Canpages for a cash consideration of $80.9 million.

Acquisition of Fixed Assets, Net of Lease Inducements

(in thousands of Canadian dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2010	2009	**2010**	2009
Transition capital	$2,985	$2,254	$4,097	$4,499
Maintenance	3,539	4,256	7,150	7,219
New initiatives	6,475	5,855	13,639	10,408
Leasehold improvements, net of lease inducements	525	613	1,208	711
Total	**$13,524**	**$12,978**	**$26,094**	**$22,837**
Adjustment to reflect expenditures on a cash basis	48	(665)	(782)	1,932
Acquisition of fixed assets, net of lease inducements	**$13,572**	**$12,313**	**$25,312**	**$24,769**

Transition Capital – these expenditures relate to the acquisition of YPG USA. The amount to be deployed related to YPG USA was initially estimated at $10 million. The cumulative amount stands at $15.1 million.

Maintenance capital expenditures decreased from $4.3 million in the second quarter of 2009 to $3.5 million in the second quarter of 2010 and remained stable at $7.2 million for the six-month period ended June 30, 2010 compared with the same period last year.

Capital spending for new initiatives increased to $6.5 million in the second quarter compared with $5.9 million in the second quarter of 2009 and to $13.6 million for the six-month period ended June 30, 2010 compared with $10.4 million for the same period last year. The increase was driven by the launch of new product initiatives such as search engine solutions.

In the second quarter of 2010, we incurred $0.5 million of leasehold improvements related to premises.

Total capital expenditures for the second quarter of 2010 amounted to $13.5 million and were in line with expectations.

Cash flow used in financing activities

Cash used in financing activities decreased by $48 million during the second quarter of 2010 from $114 million for the same period last year and by $73.5 million during the six-month period ended June 30, 2010 from $246 million for the same period last year. The lower level of cash distributions per unit compared to the same quarter last year, combined with a reduced number of units outstanding, resulted in a decrease in distributions to unitholders of $33.5 million in the second quarter of 2010 and by $83 million for the six month period ended June 30, 2010 compared to the same period last year. In addition, the Fund purchased Preferred shares Series 1 and 2 and Medium Term Notes for $21.2 million during the three-month period ended June 30, 2010 and $320.2 million in the six-month period ended June 30, 2010 compared to $2.8 million for the same periods last year.

Financial and Other Instruments

(See Note 24 of the Consolidated Financial Statements of the Company for the year ended December 31, 2009).

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

Derivative Instruments

In August 2009, the Fund entered into three interest rate swaps totalling $130 million to hedge the Series 9 Medium Term Notes. The Fund receives interest on these swaps at 6.5% and pays a floating rate equal to the three-month Banker's Acceptance plus a spread of 4.3%. The swaps mature July 10, 2013, matching the maturity date of the underlying debt.

In February 2010, the Fund also 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 June 30, 2010, the interest rate swaps met the criteria for hedge accounting.

Taking into consideration the debt instruments outstanding, the preferred shares and the cash, our fixed-to-floating ratio was 74% fixed rate as at June 30, 2010. While the counterparties of these agreements expose YPG to credit losses in the event of non-performance, we believe that the possibility of incurring such losses is unlikely. This is due to the creditworthiness of all counterparties, all of whom are highly-rated Canadian chartered banks.

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

The carrying value of outstanding interest rate derivatives was an asset of $1.5 million and the carrying value of embedded derivatives was an asset of $1.7 million on June 30, 2010. The carrying value is calculated as is customary in the industry using discounted cash flows with quarter-end market rates. For the second quarter of 2010, we reported an unrealized gain of $0.7 million (2009 – $0.9 million loss) on derivatives, excluding the loss on derivatives designated as cash flow hedges in prior periods transferred to earnings in the period and payments on interest rate swaps that have discontinued hedge accounting.

4. Distributable Cash

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

Distributable Cash

(in thousands of Canadian dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30	
	2010	2009	2010	2009
Cash flow from operating activities	$179,393	$185,487	$322,932	$382,905
Operating non-cash items[1]	1,316	(2,159)	(2,278)	(3,421)
Change in operating assets and liabilities[2]	(39,034)	(22,759)	(10,868)	(38,415)
Maintenance capital expenditures[3]	(3,539)	(4,256)	(7,150)	(7,219)
Acquisition-related costs[4]	19,934	–	23,549	–
Restructuring and special charges[5]	8,977	20,584	8,977	20,584
Other[6]	6,756	4,756	9,915	7,665
Distributable cash	$173,803	$181,653	$345,077	$362,099
Weighted average number of units outstanding	503,465,369	512,153,331	504,105,534	512,991,928
Distributable cash per unit[7]	$0.35	$0.35	$0.69	$0.70
Distributions declared	$100,653	$118,195	$201,686	$268,527
Distributions declared per unit	$0.20	$0.23	$0.40	$0.52
Payout ratio[8]	57%	66%	58%	74%

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

2 Changes in operating assets and liabilities are not considered a source or use of distributable cash. As a result, it is excluded from the calculation as it would introduce cash flow variability and affect underlying cash flow available for distributions.

Various working capital items, including but not limited to the timing of receivables collected and payment of payables and accruals, can have a significant impact on the determination of free cash flow available for distribution. Accordingly, management excludes the impact of changes in non-cash working capital items to remove the resulting variability of including such amounts in the determination of free cash flow available for distribution. Realized changes in working capital and working capital acquired by way of acquisition are typically funded from excess free cash flow available for distribution or the Fund's cash on hand and available credit facilities.

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

4 Acquisition-related costs are excluded from the calculation as they do not reflect the ongoing operations of the business. Prior to the Fund's early adoption of Section 1582, *Business Combinations* on January 1, 2010, these expenses would have been included in the purchase price of such acquisitions.

5 Restructuring and special charges are excluded from the calculation as they do not reflect the ongoing operations of the business.

6 Includes amounts related to non-controlling interest in Dealer.com and LesPAC, tax related amounts and other amounts that do not reflect the ongoing operations of the business.

7 Please refer to Section 2 – Highlights by Segment for the calculation of Basic earnings per unit.

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

Distributable Cash

(in thousands of Canadian dollars)

	Three-month period ended June 30,	Six-month period ended June 30,	Previously completed fiscal years	
	2010	2010	2009[1]	2008[1]
Cash flow from operating activities	$179,393	$322,932	$750,187	$692,356
Net earnings	$79,906	$201,663	$208,882	$509,966
Actual cash distributions declared	$(100,653)	$(201,686)	$(471,897)	$(599,930)
Excess of cash flows from operating activities over cash distributions declared	**$78,740**	**$121,246**	**$278,290**	**$92,426**
Shortfall of net earnings over cash distributions declared	**$(20,747)**	**$(23)**	**$(263,015)**	**$(89,964)**
Impact of purchase accounting on net earnings	$37,972	$68,761	$397,033	$122,981
Excess of net earnings over cash distributions declared excluding impact of purchase accounting	$17,225	$68,738	$134,018	$33,017

[1] As adjusted per adoption of new accounting policies as discussed in Section 6 – Critical Assumptions of this MD&A.

Distributions exceeded net earnings declared by $20.7 million for the three-month period ended June 30, 2010 and $23 thousand for the six-month period ended June 30, 2010. The Fund does not use net earnings as a basis to calculate distributions. Net earnings in accordance with GAAP include expenses which do not affect cash such as amortization of non-compete agreements, customer contracts and customer relationships, software and impairment of goodwill. As a result of our acquisitions over the past several years, our net earnings have been affected by purchase accounting, resulting in an increased amount of amortization related to the acquired intangibles. The costs of these intangible assets are included in the purchase price but there are no future cash outflows associated with maintaining these intangible assets. If we exclude the impact of purchase accounting, net earnings exceeded distributions declared by $17.2 million and $68.7 million for the three-month and the six-month periods ended June 30, 2010, respectively.

Cash distributions declared were lower than distributable cash resulting in a payout ratio of 57% for the three-month period ended June 30, 2010 and 58% for the six-month period ended June 30, 2010.

Distributable cash

Distributable cash decreased from $181.7 million in the second quarter of 2009 to $173.8 million in the second quarter of 2010 and from $362.1 million in the six-month period ended June 30, 2009 to $345.1 million for the same period this year. The decrease is mainly due to lower EBITDA for the first six months of 2010.

Distributable cash per unit remained unchanged at $0.35 in the second quarter of 2010 compared to the same period last year. For the first six months of 2010, it was $0.69 compared to $0.70 for the same period last year, representing a decrease of 1.4%.

The Fund's cumulative distributable cash since its Initial Public Offering ("IPO") in August of 2003 to June 30, 2010 is approximately $4 billion, or $8.42 per unit. Total distributions declared during the same period reached approximately $3.2 billion, or $6.8 per unit representing a cumulative payout ratio of 80.8%.

In calculating the Fund's distributable cash, we take into consideration our debt management and our productive capacity maintenance strategies. In the periodic review of distributions, we will continue to take into account the current and prospective performance of our business, amounts to service debt obligations, maintenance capital expenditures, taxes and other amounts considered to be prudent.

Our long-term debt management strategy is to refinance our funded debt at maturity. Our funded debt portfolio currently has an average term of approximately 6 years. We are reasonably assured that we will be able to refinance these obligations given our previously demonstrated access to capital markets, our commitment to investment grade credit ratings, and adequate liquidity under our existing credit facilities.

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

Our debt obligations do not restrict our ability to pay distributions as long as we are in compliance with our credit agreements. Our credit facilities do not provide specific limitations on distributions as long as we maintain our investment grade ratings. The agreements also provide for distributions paid for any given 12-month period not to exceed 50% of distributable cash in the event that the Fund becomes non-investment grade.

Furthermore, our Medium Term Note program, Convertible Debentures and Exchangeable Promissory Notes do not provide for any contractual limitations on the distribution of cash.

Distributions declared per unit

Distributions declared per unit was $0.40 in the first six-month period of 2010 compared with $0.52 for the same period in 2009.

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

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

During the four-year interim period, income trusts are subject to growth guidelines issued by the Federal Department of Finance (the Normal Growth Guidelines). Growth is measured by the amount of equity issued by the Fund, to benefit from the deferred application of the new tax regime to 2011. Please refer to Section 7 – Risks and Uncertainties: Income Tax Matters of our MD&A for the year ended December 31, 2009 for more details on the SIFT Rules.

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

5. Outlook

The development and execution of our corporate strategy and operating plans continue to be guided by our vision of being Canada's leading performance media and marketing solutions company, bringing local consumers and businesses together via our network of mobile, web and print properties. Each year, we establish targets to advance our goals and drive results through the execution of initiatives to maximize revenue growth and cash flow generation.

Full year targets are established and communicated to investors once yearly concurrent with the release of our second quarter results. These targets have been established and are periodically reviewed through our ongoing business planning process. For the fiscal year ending December 31, 2011, we are providing guidance on key performance indicators such as growth in consolidated Adjusted Revenues, Adjusted EBITDA and Cash Earnings per unit. We review on a periodic basis through our MD&A our progress in reaching our stated objectives for the full year taking into account changes in the economic environment, direct and indirect competition for our products and other relevant factors.

Our objectives for the fiscal year ending December 31, 2010 were established in August 2009 based on our economic and business outlook at that time. The environment has since improved but our revenues still declined in the second quarter and year-to-date against last year largely due to challenging market conditions in our businesses. The latest economic statistics suggest confidence may be waning and that the economic recovery may be slower than previously anticipated. In our view, Small and Medium Enterprises (SMEs) continue to contain costs and generally lack confidence in terms of making investments in their business.

We believe the growing funnel of new products in Directories and the roll-out of Dealer Smart Solution at Trader should enable us to grow our share of advertiser budgets. In light of the results for the first six months of 2010, and in developing an updated operating framework for the balance of this year and going into 2011, we maintain a cautious outlook in terms of the potential strength and sustainability of the economic recovery. Included in the revised targets for 2010 and the targets for 2011 are the results from Dealer.com and Canpages. We have made the decision to provide targets on a consolidated basis for Adjusted Revenues and Adjusted EBITDA. We have also made certain other assumptions in preparing our business outlook which are provided below.

Consolidated – Key Performance Indicators

Year-over-Year Performance

	Revised 2010 Target	Six-month period ended June 30, 2010	2011 Target
Adjusted Revenues	approx. $1,650 million	$828.5 million	$1,675 to $1,700 million
Adjusted EBITDA	approx. $895 million	$444.5 million	$905 to $915 million
Online Revenue Growth	approx. 20%	18%	approx. 25%
Distributable Cash per unit	$1.40 to $1.43	$0.69	–
Cash Earnings per Share	–	–	$0.95 to $1.00

Assumptions for 2011 targets - Revenues and EBITDA

Macroeconomic and Industry Factors:

- Canadian Gross Domestic Product ("GDP") growth of approximately 2.5%
- Accelerated migration towards online and mobile media
- Ongoing competition from new media players

Directories:

- Increasing penetration of online bundles and further monetization of standalone online products
- Stable advertiser base inclusive of unduplicated Canpages advertisers
- Growing revenue intensity of current advertiser base and broadening of potential advertiser base
- Continued growth in Average Revenue Per Advertiser
- Launch in early 2010 of Search Engine Solutions expected to gain traction in the marketplace
- Launch in late 2010 of websites solutions, electronic coupons and growth initiatives in the national market segment
- Cost containment re-deployed to position YPG for growth through investment in YellowPages.ca™, new product introduction and traffic expansion for our online properties.

Vertical Media:

- Increase in market penetration of Dealer Smart Solutions
- Launch of Dealer Smart Solutions for non-passenger vehicle and real estate verticals
- Continued pressure on paid circulation revenues
- Cost containment initiatives associated with further consolidation of shared services

Directories

As we transform our directories business model, our goal is to protect and grow our revenue base with the introduction of new digital products and solutions that should compensate for revenue pressures in the more traditional print domain. The nature of the directory business model, the relatively low level of ongoing capital spending and cost containment efforts should enable us to achieve a continuing high level of EBITDA conversion and cash flow generation.

The financial performance for the six-month period ended June 30, 2010 reflects continuing pressure on revenues as a result of the continuing challenging market conditions. However operating cost savings and other benefits being realized from our national platform in directories have resulted in enhanced EBITDA and free cash flow generation.

We expect new product introductions such as Search Engine Solutions to contribute to results in the back half of 2010 and more significantly in 2011. Management believes that new product initiatives as well as continued investment in market coverage should allow us to successfully migrate our business online over time. The recently announced acquisition of Canpages coupled with the divestiture of YPG LLC Directories in the US will benefit results for the last six months of 2010 and will be fully reflected in our 2011 results. The acquisition of Canpages is expected to be accretive to our financial performance and should position us to better compete in the digital world, while enabling us to expand our sales force, online capabilities and advertiser offerings.

The three pillars of our organic growth strategy focus on: improving the user experience, growing traffic to our network of properties and extending our services to existing and prospective customers. The continuing transition in the media and publishing industries towards more online and targeted content is driving us to develop new products and solutions that leverage the demand for new media while ensuring that our print products remain a key component of our advertisers' media mix. We continue to maintain our focus on customer acquisition and retention, innovate our online and digital media and introduce comprehensive performance marketing solutions.

Vertical Media

Starting in the third quarter of 2009, we began diversifying our revenue sources through the introduction of Dealer Smart Solutions, an integrated solution for our customers. Dealer Smart Solutions has enabled us to transition to a more stable and predictable revenue model while achieving improved customer retention. The revised 2010 and 2011 targets include the full consolidation of our acquisition of Dealer.com.

Trader's financial performance for the six-month period ended June 30, 2010 continues to reflect pressure on revenues as a result of uncertain economic and market conditions in some market segments. While we are beginning to see positive trends in our largest vertical, automotive (represents two-thirds of this segment's revenues) following the introduction of Dealer Smart Solutions in the marketplace, market conditions remain challenging in the real estate and generalist categories.

The deployment of Dealer Smart Solution to automotive dealers in Ontario was completed in 2009 and roll-out efforts continue to other markets in 2010. In 2011, we believe there are opportunities to continue to grow revenues across Canada through package upgrades and additional product and service components such as video and Search Engine Marketing. In addition, Dealer Smart Solution is being extended to non-passenger vehicles and the real estate vertical, leveraging Dealer Smart Solutions while customizing the offering to these market segments. The launch of integrated solutions in these areas should also allow us to generate new revenue opportunities while accelerating the transition from a print only offer to digital media and broader services.

Online Revenues

Online continues to be the focus of our attention and represents the largest growth opportunity for us. The ongoing transformation to digital media and integrated solutions is driving us to develop new products that address the demand for new media and performance marketing solutions. Online and mobile advertising are expected to represent the key growth engines for both Directories and Vertical Media going forward.

The execution of a successful online roadmap begins by enhancing the advertiser and consumer's experience. Both YPG and Trader recently re-launched their flagship properties, YellowPages.ca and AutoTrader.ca, with feature enhancements that provide consumers with a personalized user interface, enhanced search functionality and improved geo relevancy to help them make more informed buying decisions. The new sites are more intuitive and easier to navigate.

Online growth to date reflects our successful efforts of increasing the proportion of our customers choosing to advertise with us in that space. Our initial approach to online market penetration was to offer traditional print and online bundles to our advertisers, but more recently, we extended our online product offering through services like Search Engine Solutions. These new products and solutions are expected to further improve our online reach and revenue generation as we continue to expand our online platform in 2011.

We expect annualized online revenues for Directories and Vertical Media combined to grow by approximately 25% in 2011.

Distributable Cash per unit and Cash Earnings per share

We remain confident in our ability to achieve Distributable Cash per unit of $1.40 to $1.43 in 2010, taking into account the contribution to results from Dealer.com and the acquisition of Canpages which closed during the second quarter.

As a result of our imminent conversion to a corporate structure on or about November 1, 2010, Distributable Cash per unit will be replaced by Cash Earnings per share as a key performance indicator. Cash Earnings is defined as net earnings plus amortization of intangible assets (net of income taxes).

For 2011, our targeted Cash Earnings per share of $0.95 to $1.00 are premised on a disciplined and focussed execution of our business plan and the successful launch of new products and solutions for both the directories and vertical media platforms.

6. Critical Assumptions

Our critical accounting estimates have not changed since the release of our MD&A for the year ended December 31, 2009. Please refer to the corresponding sections in the MD&A for the year ended December 31, 2009.

Change in Accounting Policies

a) Section 1582, *Business Combinations*. Section 1582 provides the Canadian equivalent to 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 establishes 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 step acquisition 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.

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 half of 2010 for which acquisition-related costs amounting to $23.5 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.

Effect of New Accounting Standards Not Yet Implemented

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian publicly accountable enterprises will be required to adopt IFRS in place of Canadian Generally Accepted Accounting Principles (GAAP) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. Accordingly, the Fund will issue its last financial statements prepared in accordance with Canadian GAAP in 2010. Starting from the first quarter of 2011, the Fund's financial statements will be prepared in accordance with IFRS with 2010 comparative figures and January 1, 2010 ("date of transition") opening balance sheet restated to conform to IFRS.

Financial reporting under IFRS differs from Canadian GAAP in a number of respects, some of which are significant. IFRS on the date of adoption is also expected to differ from current IFRS due to new IFRS standards and pronouncements that are expected to be issued and effective before the changeover date.

The Fund has established a changeover plan in order to transition its financial statement reporting, presentation and disclosure under IFRS to meet the January 1, 2011 deadline. The implementation project consists of three primary phases: Phase 1: Scoping and Diagnostic Phase, Phase 2: Impact Analysis and Design Phase, and Phase 3: Implementation and Review Phase.

Current status of our IFRS changeover plan

We have completed Phase 1 and Phase 2 of our conversion project. As a result of this work, we have identified a number of differences and policy alternatives between Canadian GAAP and IFRS that will modify our financial statements at the date of conversion.

The following describes the major identified differences that could be presented in our reconciliation of net earnings and equity upon transition if the conversion was done as of December 31, 2009 with currently applicable standards. Key IFRS exemption options are subsequently presented.

Notwithstanding the above, the current International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) projects are likely to modify some of the actual IFRS requirements which might therefore ultimately impact the following identified major differences.

Major differences with current accounting policies

Employee Benefits – Past service cost

Canadian GAAP – Past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service period of active employees expected to benefit from the amendment.

IFRS – These costs are amortized on a straight-line basis over the average period until the benefits become vested. To the extent that the amended benefits are already vested, past service costs are recognized immediately.

Impact on the Fund – As at December 31, 2009, the Fund had an unamortized plan amendment balance of $4.9 million attributable to amended benefits already vested after modification to the other benefits plan made in 2005. This balance will need to be reversed against opening retained earnings on date of transition.

Income Taxes – Temporary differences on intangible assets

Canadian GAAP – Future income taxes are calculated from temporary differences that are differences between the tax basis of an asset or liability and its carrying amount in the balance sheet. Under the current Canadian Income Tax Act, "eligible capital expenditures" are deductible for tax purposes to the extent of 75 percent of the cost incurred; Section 3465 – *Income taxes* addresses this specific situation and specifies that for these assets, at any point in time, the tax basis represents the balance in the cumulative eligible capital pool plus 25 percent of the carrying amount.

IFRS – The definition of temporary differences under IFRS is generally consistent with Canadian GAAP. However, IFRS does not provide specific guidance in relation to the determination of the tax basis of eligible capital expenditures such as the one described above. As such, the tax basis of these assets, without taking into consideration the 25 percent adjustment of the carrying amount as allowed under Canadian GAAP, should be compared with the carrying amount in the balance sheet to determine the temporary difference relating to these assets.

Impact on the Fund – As at December 31, 2009, in order to comply with IFRS, the Fund would have had to increase future income tax liabilities by approximately $96 million to account for temporary differences currently excluded on the 25 percent adjustment of the carrying amount of eligible capital expenditures. This increase will be recorded through an opening retained earnings adjustment on date of transition.

Impairment – Grouping of assets

Canadian GAAP – When a long-lived asset does not have identifiable cash flows that are largely independent of those from other assets, that asset must be grouped with other related assets for impairment. This is referred to as the asset group.

IFRS – Grouping of assets should be done when an asset does not have identifiable cash inflows, as opposed to net cash flows, that are independent of those from other assets.

Impact on the Fund – The Fund is still in the process of evaluating the quantitative impact of this difference.

Key IFRS 1 Exemption Options

1. Business combinations – IFRS 3, *Business Combinations*, may be applied retrospectively or prospectively. The retrospective basis would require restatement of all business combinations that occurred prior to the transition date. We will not elect to retrospectively apply IFRS 3 to business combinations that occurred prior to the date of transition and such business combinations will not be restated. Any goodwill arising on such business combinations before the date of transition will not be adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions except as required under IFRS 1.

2. Fair value as deemed cost – IFRS 1 provides a choice between measuring property, plant and equipment at its fair value at the date of transition and using those amounts as deemed cost or on a depreciated cost basis in accordance with IAS 16*, Property, plant and equipment*. We will continue to apply the cost model for property, plant and equipment and will not restate property, plant and equipment to fair value under IFRS. No significant adjustments are expected.

3. Employee benefits – IAS 19, *Employee Benefits*, allows certain actuarial gains and losses to be either deferred and amortized, subject to certain provisions (corridor approach), or immediately recognized through equity. Retrospective application of the corridor approach for recognition of actuarial gains and losses in accordance with IAS 19 would require us to determine actuarial gains and losses from the date benefit plans were established. We will elect to recognize all cumulative actuarial gains and losses that existed at the date of transition in opening retained earnings for all of our employee benefit plans.

Impact on the Fund – As at December 31, 2009, the Fund had unamortized net actuarial losses of $24.4 million for pension benefits and gains of $9.1 million for other benefits. These balances will be recognized in opening retained earnings at the date of transition.

4. Cumulative translation differences – Retrospective application of IFRS would require us to determine cumulative currency translation differences in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, from the date a subsidiary or associate was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at the date of transition after consideration of all other transition adjustments. We will elect to reset all cumulative translation gains and losses to zero in opening retained earnings at the date of transition.

Impact on the Fund – As at December 31, 2009, the Fund had accumulated unrealized losses on translating financial statements of self-sustaining operations and foreign investees of $3.9 million. These balances will be recognized in opening retained earnings at the date of transition.

In light of the actual differences identified relative to our conversion to IFRS, no significant changes to our design of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) are expected.

Other than as described above, we have identified no significant changes in the status of our changeover plan. Please refer to the detailed status table based on recommendations published in October 2008 by the Canadian Performance Reporting Board in our annual December 31, 2009 MD&A.

7. Risks and Uncertainties

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

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

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

YPG has put in place certain guidelines which seek to manage the risks to which it may be exposed. Please refer to the MD&A for the year ended December 31, 2009 for a description of these risk factors. Despite these guidelines, the Company cannot provide assurances that any such efforts will be successful. Our risks and uncertainties have not changed since the release of our MD&A for the year ended December 31, 2009. For more information, please refer to the corresponding section in our MD&A for the year ended December 31, 2009.

8. Controls and Procedures

Management including the President and Chief Executive Officer and the Executive Vice President – Corporate Services and Chief Financial Officer have determined that there were no changes to the internal control over financial reporting during the quarter ended June 30, 2010 that would materially affect or are reasonably likely to materially affect its internal control over financial reporting.