Management's Discussion and Analysis

November 4, 2009

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 nine-month periods ended September 30, 2009 and should be read in conjunction with our audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2008, as well as our unaudited interim consolidated financial statements and accompanying notes for the period ended September 30, 2009. 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 Pages Group Co., Yellow Pages Group, LLC and YPG Directories, LLC (collectively YPG USA), and Trader Corporation), which are reported under the following segments:

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

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

- These forward-looking statements describe our expectations on November 4, 2009.
- 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. 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, Capital Structure and Payout Considerations
6. Critical Assumptions
7. Risks and Uncertainties
8. Controls and Procedures

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

Our Business

Yellow Pages Group is a leading media company serving Canadians and Canadian businesses from coast to coast. We are a national leader in our two national platforms, Directories and Vertical Media, and have a presence in the United States through our YPG Directories in the Mid-Atlantic and the Southeast American markets. This section provides an overview of our business, how we strive to manage it and our ongoing priorities.

Directories

We are Canada's largest directories publisher and the exclusive owner of the Yellow Pages™, Pages Jaunes™ Walking Fingers & Design™ and Canada411™ trademarks in Canada. We have been an industry leader since we published our first directory in 1908. YPG publishes annually more than 340 different telephone directories with a total circulation of approximately 30 million copies. With more than 405,000 advertising customers at December 31, 2008, we manage one of the largest face-to-face sales forces for small and medium-sized enterprises (SMEs) in Canada. We also operate print community directories under the Your Community Phonebook brand name in selected Mid-Atlantic and Southeast American markets.

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

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

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

Vertical Media

We are the Canadian leader in Vertical Media through Trader Corporation. Trader has over 160 publications and 20 web sites covering four main product verticals: automotive, real estate, employment, and generalist.

Trader is the leading Canadian new and used car destination with its AutoTrader.ca™ web site.

Trader is home to such print brands as Auto Trader™, Auto Hebdo^{MC}, The Bargain Finder™, Home Renters' Guide™, Renters News™, and Buy & Sell™. Online, Trader owns Internet destinations such as www.autotrader.ca, www.autohebdo.net, www.homebase.ca, hometrader.ca, www.visitenet.com, www.buysell.com and lesPAC.com.

Mission and Strategy

Our mission and strategy statements have not changed since the release of our MD&A for the year ended December 31, 2008. Therefore, to review our mission and strategy, please refer to the corresponding sections in the MD&A for the year ended December 31, 2008.

Capability to Deliver Results

Our capability to deliver results has not changed since the release of our MD&A for the year ended December 31, 2008. Therefore, to review our capability to deliver results, please refer to the corresponding sections in the MD&A for the year ended December 31, 2008.

2. Results

This section provides an overview of our financial performance during the third quarter of 2009 compared to the same period in 2008. It is also important to note that in order to help investors better understand our performance we rely on several metrics, some of which are not measures recognized by Generally Accepted Accounting Principles (GAAP). Definitions of these metrics are provided following the charts below and are important aspects which should be considered when analyzing our performance.

Overall Performance

- Adjusted Revenues decreased by $16.1 million or 3.8% over the third quarter of 2008 to $410.1 million. Revenues decreased by $17.8 million or 4.2% to $408.3 million in the same period;
- Adjusted EBITDA decreased by $10.4 million or 4.4% over the third quarter of 2008 to $227 million. Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges decreased by $11.6 million or 4.9% to $226.2 million in the same period; and
- Distributable cash per unit decreased by $0.02 over the third quarter of 2008 to $0.35.

Highlights by Segment [1]

(in thousands of Canadian dollars– except unit information)

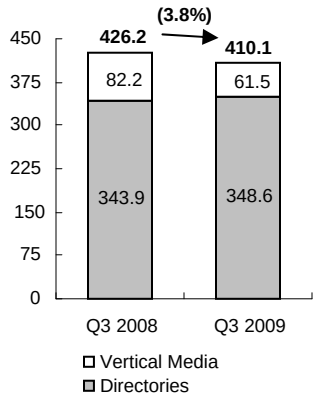
					Three-month periods ended September 30,	
		Directories		Vertical Media		Consolidated
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Revenues	**$346,794**	$343,913	**$61,524**	$82,228	**$408,318**	$426,141
Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges	**$208,132**	$208,320	**$18,077**	$29,473	**$226,209**	$237,793
Basic (loss) earnings per unit					**$(0.33)**	$0.28
Cash flow from operating activities					**$168,548**	$187,528
Adjusted Revenues[2]	**$348,555**	$343,928	**$61,524**	$82,228	**$410,079**	$426,156
Adjusted EBITDA[2]	**$208,955**	$208,008	**$18,077**	$29,473	**$227,032**	$237,481
Distributable cash[3]					**$179,199**	$192,362
Distributable cash per unit					**$0.35**	$0.37

[1] We closed the acquisitions of the assets of Get It Pages on August 6, 2008 and the assets of YPG USA on September 5, 2008. As such, included in the 2008 and 2009 results are the results of each acquired business from the respective date of acquisition. Trader's American operations (Trader US) were divested on October 31, 2008 resulting in the exclusion of those results in the Vertical Media segment from that date.

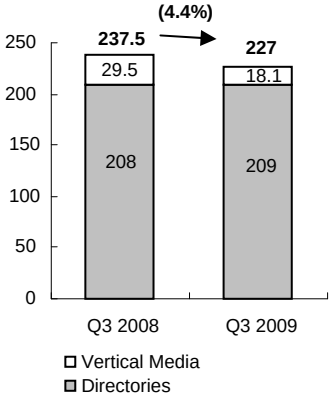
[2] Please refer to definitions relative to understanding our results on page 4 of this MD&A and Consolidated Results table on page 7 of this MD&A for a reconciliation of Adjusted Revenues and Adjusted EBITDA.

[3] Please refer to Section 4 for a reconciliation of Distributable Cash.

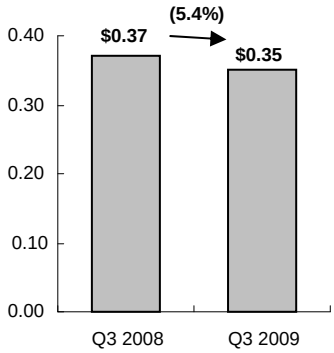
Adjusted Revenues
(in millions of dollars)



Adjusted EBITDA
(in millions of dollars)



Distributable Cash per Unit



Definitions relative to understanding our results

Adjusted Revenues

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

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

Adjusted Income from Operations before Depreciation and Amortization, Impairment of Goodwill and Restructuring and Special charges (Adjusted EBITDA)

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

As stated, EBITDA is not a calculation based on GAAP and is not considered an alternative to income from operations or net (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 later in this section. EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed on page 24 of this MD&A.

Distributable Cash

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

Cash Distributions per Unit

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

Performance Relative to Business Strategy

Organic growth

Directories

Customer First

In our efforts to improve customer facing productivity and experience, we continued to work on our automated client information tools. The deployment of phase 4 - contract closure, is now complete in our Canadian Central and Atlantic regions. We have completed our revised plan, following our expansion in the United States and accordingly, we are currently in the process of preparing the system to roll out contract closure in the Canadian Western region beginning in the first quarter of 2010.

Enhancement and expansion of products

Online growth continued to be strong in the third quarter driven by a consistent focus on expanding the strategy related to directory category bundles and continued innovation in online offerings for both the user and the advertiser.

From a consumer perspective we successfully launched YellowPages.ca™ mobile search applications for the iPhone™, Blackberry® and Google™ Android™ smartphones during the second quarter. These applications provide consumers with a user-friendly tool to easily search for local businesses and people from their mobile devices. During the third quarter, a new version of the application was launched for the iPhone™ featuring advertiser video content. The application now provides full access to merchant content, including video, business, person and reverse phone number look-up, save to your favourites, shares listing results with others via email/SMS, local proximity-based search using GPS and maps and direct connect to voice search.

The user experience was also enhanced with the launch of the new YellowPages.ca™ site in October 2009 featuring a new simplified home page, a new results page with interactive mapping and increased flexibility for users to refine their search. The business profile page has also been redesigned to have a more optimized organization of information. In addition, the platform has been enhanced to further enable geo-relevant searches through improvements in the search algorithm. Users may now search by directory scope or on the basis of landmarks, neighbourhoods or, in the case of mobile search, based on the geo-location of the device they are using. The new platform has also enabled the development of new online placement products that provide greater potential to target local markets.

These product innovations translate into an improved value proposition for our advertisers and enhance our position as Canada's leading local commercial search provider.

Vertical Media

Trader continues to focus on deploying its new ad taking system and new sales tools while progressing in the digitization of sales processes as planned. This deployment also includes sharing and harmonizing best practices in order to increase sales force effectiveness and operating efficiencies.

The roll-out of the new digital ad-taking system and digitization of sales processes have been deployed in Ontario and Western Canada allowing for standardization, productivity gains and ad workflow optimization. The full national rollout is expected to be completed in the first quarter of 2010.

Enhancement and expansion of products

The commercial launch of "Dealer Smart Solutions", which results from our commercial agreement with Dealer Dot Com, Inc. (Dealer.com), is well underway and sales training has been completed in all provinces. The initial rollout of Dealer Smart Solutions has been completed in Ontario and Western Canada. The rollout in Quebec and Atlantic Canada is expected to be completed by the end of the year. Dealer Smart Solutions expands the breadth of Trader's online advertising solutions and leverages the investments we have made in developing best in class inventory management systems. The new offer includes enhanced inventory management, inventory syndication, dealer web site management, search engine optimization and advertising campaign marketing and tracking tools, all of which are dedicated to promoting the dealership and its inventory. Dealer Smart Solutions offers customers unequalled access to best-in-class online solutions under one fully integrated platform, allowing them to maximize their efficiency and reduce their costs.

During the third quarter, LesPAC launched a revamped website with a modernized logo. The user experience has been improved and new advertising offers have been launched. A resale section was also launched during the quarter on HomeTrader.ca. This new category will complement the existing rental and New Home / Condos categories launched earlier this year.

Consolidated Operating and Financial Results

Consolidated Results

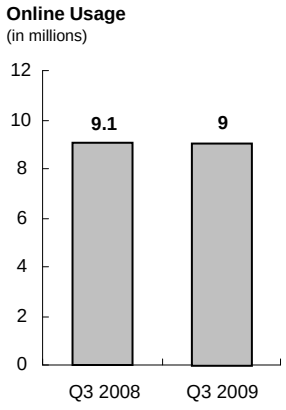
(in thousands of Canadian dollars – except unit information)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2009	**2008**	**2009**	**2008**
Revenues	$408,318	$426,141	$1,234,205	$1,271,154
Operating costs	182,109	188,348	560,064	569,987
Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges (EBITDA)	226,209	237,793	674,141	701,167
Depreciation and amortization	35,282	33,369	107,404	140,193
Impairment of goodwill	315,000	-	315,000	-
Restructuring and special charges	-	-	20,584	-
(Loss) income from operations	(124,073)	204,424	231,153	560,974
Financial charges, net	11,128	34,731	86,085	99,617
Impairment of available-for-sale investment	-	4,357	-	4,357
(Loss) earnings before dividends on Preferred shares, income taxes, share of losses from equity investees and non-controlling interests	(135,201)	165,336	145,068	457,000
Dividends on Preferred shares, Series 1 and 2	5,588	5,688	16,963	17,063
(Loss) earnings before income taxes, share of losses from equity investees and non-controlling interests	(140,789)	159,648	128,105	439,937
Provision for income taxes	24,238	13,379	42,729	30,643
Share of losses from equity investees	3,488	-	4,899	-
(Loss) earnings before non-controlling interests	(168,515)	146,269	80,477	409,294
Non-controlling interest related to investments	-	206	552	557
Dividends on Preferred shares, Series 3	277	-	277	-
Net (loss) earnings	**$(168,792)**	**$146,063**	**$79,648**	**$408,737**
Basic (loss) earnings per unit	$(0.33)	$0.28	$0.16	$0.78
Diluted (loss) earnings per unit	$(0.33)	$0.25	$0.15	$0.72
Revenues	$408,318	$426,141	$1,234,205	$1,271,154
Elimination of purchase accounting impact	1,761	15	10,637	751
Adjusted Revenues[1]	**$410,079**	**$426,156**	**$1,244,842**	**$1,271,905**
Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges (EBITDA)	$226,209	$237,793	$674,141	$701,167
Elimination of purchase accounting impact	823	(312)	4,917	(1,639)
Adjusted EBITDA[1]	**$227,032**	**$237,481**	**$679,058**	**$699,528**
Adjusted EBITDA margin	**55.4%**	**55.7%**	**54.5%**	**55.0%**
Total assets			**$9,031,800**	**$9,359,510**
Total long-term debt			**$2,521,339**	**$2,690,790**

[1] 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 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 2008 and 2009, 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.

Analysis of Consolidated Operating and Financial Results

Revenues



Revenues decreased by $17.8 million to $408.3 million during the third quarter of 2009 and by $36.9 million to $1,234.2 million for the nine-month period ended September 30, 2009, compared with the same periods last year. The continued economic slowdown in Canada has impacted our revenues, especially in the Vertical Media segment. As such our revenues in Vertical Media decreased by $20.7 million during the third quarter of 2009 and by $62.4 million for the nine-month period ended September 30, 2009, compared with the same periods last year. YPG USA contributed $9.8 million of revenues for the third quarter of 2009, and $25.7 million for the nine-month period ended September 30, 2009. Organic online revenue growth reached 25.8% for the third quarter below our growth target of 30% mainly due to lower revenues in both segments. Online revenues from the Directories and Vertical Media segments combined reached $78 million in the third quarter of 2009 and $221.8 million for the nine months period ended September 30, 2009. Online growth is driven by strong adoption of our online products in both of our segments. Our network of web sites in Directories and Vertical Media attracted 9 million unduplicated unique visitors[1] on average during the third quarter of 2009. The continuing shift in the media and publishing industries towards more online content continues to place some pressure on our traditional print offerings especially in the Vertical Media segment.

EBITDA

EBITDA decreased by $11.6 million to $226.2 million during the third quarter of 2009, and by $27 million to $674.1 million for the nine-month period ended September 30, 2009, compared with the same periods last year. The decrease for the period is directly attributable to lower revenues in the Vertical Media segment.

Cost of sales decreased by $4.5 million to $112.4 million during the third quarter of 2009 and by $7.7 million to $341.5 million for the nine-month period ended September 30, 2009, compared with the same periods last year. Direct costs decreased as a result of the decline in revenues in the Vertical Media segment while indirect costs were impacted by cost containment initiatives. The cost reduction was partly offset by the cost incurred by YPG USA which was acquired on September 5, 2008.

Gross profit margin was relatively stable at 72.5% for the third quarter of 2009 compared to 72.6% for the third quarter of 2008 and at 72.3% for the nine-month period ended September 30, 2009 compared to 72.5% for the same period last year.

General and administrative expenses decreased by $1.7 million to $69.7 million during the third quarter of 2009 compared with the same period last year, and decreased by $2.2 million to $218.6 million for the nine-month period ended September 30, 2009. The decrease in general and administrative expenses is mainly attributable to lower costs in the Vertical Media segment following the implementation of our cost containment initiatives. Cost containment initiatives in the Directories segment were offset by costs at YPG USA which was acquired on September 5, 2008.

Depreciation and amortization

Depreciation and amortization remained relatively stable at $35.3 million during the third quarter of 2009 compared with $33.4 million for the same period last year, and decreased by $32.8 million to $107.4 million for the nine-month period ended September 30, 2009. The decrease for the nine-month period ended September 30, 2009 is attributable to lower amortization of certain intangible assets related to the acquisitions of Trader and Aliant which have been fully amortized, offset by the amortization related to the acquisition of YPG USA.

[1] Source: comScore Media Metrix Canada.

Impairment of goodwill

During the third quarter of 2009, we recorded a charge of $315 million related to the impairment of goodwill in our Vertical Media segment. The charge was recorded following the Company's two-step impairment test which concluded that the carrying value of the goodwill exceeded its implied fair value of the reporting unit under the second step of the impairment test. Please refer to Section 6 – Critical Assumptions for a more thorough discussion.

Restructuring and special charges

We did not incur restructuring and special charges during the third quarter of 2009. For the nine-month period ended September 30, 2009, we recorded non-recurring charges relating to an internal reorganization, workforce reduction, the termination of certain contractual obligations and other items amounting to $20.6 million.

Financial charges and dividends on preferred shares

Financial charges decreased by $23.6 million to $11.1 million during the third quarter of 2009 compared with the same period last year, and decreased by $13.5 million to $86.1 million for the nine-month period ended September 30, 2009. The decrease is due to the gain on repurchase of preferred shares and long-term debt of $30.3 million for the third quarter of 2009 and $30.5 million for the nine-month period ended September 30, 2009. The effective average interest rate on our debt portfolio as of September 30, 2009 was 5.6%. Dividends on the two series of redeemable preferred shares amounted to $5.6 million for the third quarter of 2009 and $17 million for the nine-month periods ended September 30, 2009 compared to $5.7 million and $17.1 million for the same periods last year, respectively.

Provision for income taxes

The combined statutory provincial and federal tax rate was 28.3% and 31.6% in 2009 and 2008. The Fund recorded an expense of 17.2% of the loss and an expense of 33.4% of the earnings for the third quarter and the nine-month period ended September 30, 2009, respectively. The difference in the tax rate changes is explained by two items. Firstly, 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. Secondly, the effective rate is impacted by the impairment of goodwill in our Vertical Media segment. Excluding the impact of the impairment, the expense would have been approximately 14% of the loss for the third quarter and 10% of the earnings for the nine-months ended September 30, 2009.

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.

Shares of losses from equity investees

During the third quarter we recorded our share of losses from our equity investments in the amount of $3.5 million. This includes approximately $6.4 million related to amortization of the values assigned to intangible assets recorded accounted for using the equity method.

Net (loss) earnings

Net earnings decreased by $314.9 million to a net loss of $168.8 million during the third quarter of 2009 and by $329.1 million to $79.6 million net earnings for the nine-month period ended September 30, 2009, compared with the same periods last year. The decrease in revenues, the impairment of goodwill and the restructuring and special charges have driven the decrease in net earnings for the nine-month period ended September 30, 2009.

Analysis of Adjusted Consolidated Operating and Financial Results

Adjusted Revenues

Adjusted Revenues decreased by $16.1 million to $410.1 million in the third quarter of 2009 and by $27.1 million to $1,244.8 million for the nine-month period ended September 30, 2009, compared to the same periods last year. The contribution from YPG USA during the third quarter of 2009 was $11.5 million and $36.4 million for the nine-month period ended September 30, 2009. The decline in adjusted revenues is due to lower revenues in the Vertical Media segment.

Adjusted EBITDA

Adjusted EBITDA decreased by $10.4 million to $227 million in the third quarter of 2009, and by $20.5 million to $679.1 million for the nine-month period ended September 30, 2009, compared to the same periods last year. The decrease is largely due to lower revenues in the Vertical Media segment.

Cost of sales decreased by $3.9 million to $113.3 million in the third quarter of 2009, and by $4.3 million to $347.2 million for the nine-month period ended September 30, 2009, compared to the same periods last year. The decrease is due to lower revenues in the Vertical Media segment as well as cost containment initiatives and has been partly offset by the costs incurred by YPG USA which was acquired on September 5, 2008.

Gross profit margin was slightly lower at 72.4% in the third quarter of 2009 compared to 72.5% in the third quarter of 2008. Over the nine-month period ended September 30, 2009, the gross profit margin decreased to 72.1% from 72.4% recorded during the same period last year. The decrease is mainly attributable to lower margins in our US directory publishing operations which were acquired in the third quarter of 2008.

General and administrative expenses decreased by $1.7 million to $69.7 million in the third quarter of 2009 compared to the same period last year and decreased by $2.2 million to $218.6 million for the nine-month period ended September 30, 2009. The decrease in general and administrative expenses is mainly attributable to lower costs in the Vertical Media segment following the implementation of our cost containment initiatives. Cost containment initiatives in the Directories segment were offset by costs at YPG USA which was acquired in the third quarter of 2008.

Summary of Consolidated Quarterly Results

Quarterly Results

(in thousands of Canadian dollars – except unit information)

	2009			2008				2007
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	$408,318	$417,534	$408,353	$425,559	$426,141	$430,442	$414,571	$412,566
Operating costs	182,109	193,465	184,490	194,020	188,348	194,461	187,178	190,670
Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges (EBITDA)	226,209	224,069	223,863	231,539	237,793	235,981	227,393	221,896
Depreciation and amortization	35,282	34,005	38,117	45,872	33,369	50,860	55,964	66,826
Impairment of goodwill	315,000	-	-	-	-	-	-	-
Restructuring and special charges	-	20,584	-	36,225	-	-	-	-
(Loss) income from operations	(124,073)	169,480	185,746	149,442	204,424	185,121	171,429	155,070
Financial charges, net	11,128	37,401	37,556	42,644	34,731	30,221	34,665	33,281
Impairment of available-for-sale investment	-	-	-	418	4,357	-	-	-
(Loss) earnings before dividends on Preferred shares, income taxes, share of losses (earnings) from equity investees and non-controlling interests	(135,201)	132,079	148,190	106,380	165,336	154,900	136,764	121,789
Dividends on Preferred shares, Series 1 and 2	5,588	5,687	5,688	5,687	5,688	5,687	5,688	5,688
(Loss) earnings before income taxes, share of losses (earnings) from equity investees and non-controlling interests	(140,789)	126,392	142,502	100,693	159,648	149,213	131,076	116,101
Provision for (recovery of) income taxes	24,238	7,898	10,593	21	13,379	13,293	3,971	(40,877)
Share of losses (earnings) from equity investees	3,488	1,589	(178)	-	-	-	-	-
(Loss) earnings before non-controlling interests	(168,515)	116,905	132,087	100,672	146,269	135,920	127,105	156,978
Non-controlling interest related to investments	-	78	474	182	206	234	117	(70)
Dividends on Preferred shares, Series 3	277	-	-	-	-	-	-	-
Net (loss) earnings	**$(168,792)**	**$116,827**	**$131,613**	**$100,490**	**$146,063**	**$135,686**	**$126,988**	**$157,048**
Basic (loss) earnings per unit	$(0.33)	$0.23	$0.26	$0.19	$0.28	$0.26	$0.24	$0.29
Diluted (loss) earnings per unit	$(0.33)	$0.19	$0.21	$0.17	$0.25	$0.24	$0.22	$0.28
Revenues	$408,318	$417,534	$408,353	$425,559	$426,141	$430,442	$414,571	$412,566
Elimination of purchase accounting impact	1,761	3,687	5,189	-	15	178	558	806
Adjusted Revenues	**$410,079**	**$421,221**	**$413,542**	**$425,559**	**$426,156**	**$430,620**	**$415,129**	**$413,372**
Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges (EBITDA)	$226,209	$224,069	$223,863	$231,539	$237,793	$235,981	$227,393	$221,896
Elimination of purchase accounting impact	823	2,052	2,042	(115)	(312)	(537)	(790)	(875)
Adjusted EBITDA	**$227,032**	**$226,121**	**$225,905**	**$231,424**	**$237,481**	**$235,444**	**$226,603**	**$221,021**
Adjusted EBITDA margin	**55.4%**	**53.7%**	**54.6%**	**54.4%**	**55.7%**	**54.7%**	**54.6%**	**53.5%**

Adjusted Revenues throughout 2007 and 2008 reflect sustained organic growth in our Directories segment quarter over quarter. In addition, Adjusted Revenues were favourably impacted by the acquisitions of Vertical Guides LP on October 31, 2007 and YPG USA on September 5, 2008. For the fourth quarter 2008, revenues in Vertical Media were lower than the third quarter due to the seasonality of certain Vertical Media publications. In addition, revenues and Adjusted Revenues for the third and fourth quarters of 2008 were lower than the second quarter of 2008 due to lower revenues in the Vertical Media segment being negatively impacted by adverse economic conditions. Revenues for the first, second and third quarters of 2009 reflect continuing pressure on revenues resulting from the economic downturn facing our industry especially in our Vertical Media segment.

In 2007 and 2008, the improvement in Adjusted EBITDA margins highlights the synergies realized through the integration of acquired businesses and our cost containment initiatives. The decrease in the fourth quarter of 2008 is attributable to the seasonality of certain Vertical Media publications. Furthermore the results for the first, second and third quarters of 2009 were negatively impacted by the economic downturn affecting our business, partly compensated by our cost containment initiatives.

Net (loss) earnings were affected by purchase accounting and are not comparable quarter over quarter. In addition, an adjustment to reflect the enactment of lower future income taxes was made during the fourth quarter of 2007, restructuring and special charges were recorded during the fourth quarter of 2008 and the second quarter of 2009, impairment of goodwill was recorded during the third quarter of 2009 as well as a gain on repurchase of preferred shares and long-term debt.

Segmented Information – Directories

Key Performance Indicators

Each year, we set targets to advance our goals and drive results. Our targets were established in August 2008 based on our economic and business outlooks for 2009 at that time. We did not expect the Canadian macroeconomic conditions to deteriorate and persist, or their impact to be as significant. 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 regarding Canadian advertising trends as well as expected migration from print to online advertising solutions for advertisers taking into account changing consumer trends affecting local commercial search.

During the third quarter of 2009, we have continued to observe a more cautious behaviour from advertisers due to the adverse economic conditions they are experiencing. In this environment, we expect revenue growth from our online product offerings to continue, but also expect cyclical revenue pressure to remain in our traditional print offerings. Given the current economic climate we reported in the first quarter that, we did not expect to meet our Revenue and EBITDA targets for the Directories segment in 2009 and as such revised 2009 targets were communicated in our second quarter MD&A. Please refer to Section 5 – Outlook in our second quarter MD&A for a more thorough discussion.

Adjusted Revenues declined organically for the third quarter of 2009 at 1.3% in line with our revised 2009 target range. Adjusted Revenues including revenues from YPG USA grew by 1.3%. The adjusted revenue growth reflects expected pressure in the print category. 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. While directory revenues benefit from some level of diversification across multiple headings and regional geographies, a slowing of the economy and what we believe to be a generalized reduction in advertising spending mitigated revenue growth and impacted EBITDA. Adjusted EBITDA increased by 0.5% in line with our 2009 revised target range. We remain confident about our ability to deliver Adjusted Revenues for 2009 of approximately $1,400 million and Adjusted EBITDA between $825 million to $830 million.

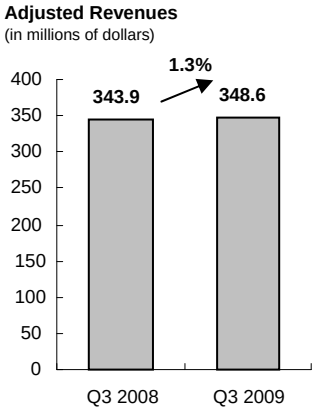
Operating and Financial Results

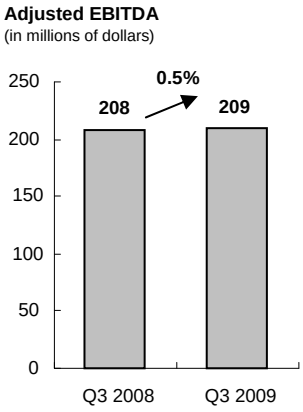
Operating Results[1]

(in thousands of Canadian dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2009	**2008**	**2009**	**2008**
Revenues	**$346,794**	$343,913	**$1,046,653**	$1,021,222
Operating costs	**138,662**	135,593	**427,971**	405,177
Income from operations before depreciation and amortization and restructuring and special charges (EBITDA)	**208,132**	208,320	**618,682**	616,045
Depreciation and amortization	**24,690**	28,085	**85,716**	117,558
Restructuring and special charges	-	-	**15,161**	-
Income from operations	**$183,442**	$180,235	**$517,805**	$498,487
Revenues	**$346,794**	$343,913	**$1,046,653**	$1,021,222
Elimination of purchase accounting impact	**1,761**	15	**10,637**	751
Adjusted Revenues	**$348,555**	$343,928	**$1,057,290**	$1,021,973
Income from operations before depreciation and amortization and restructuring and special charges (EBITDA)	**$208,132**	$208,320	**$618,682**	$616,045
Elimination of purchase accounting impact	**823**	(312)	**4,917**	(1,639)
Adjusted EBITDA	**$208,955**	$208,008	**$623,599**	$614,406

[1] See Note 19 - Segmented Information of the interim consolidated financial statements of the Company for the period ended September 30, 2009.





Analysis of Operating and Financial Results

Revenues and Adjusted Revenues

Revenues increased by $2.9 million to $346.8 million during the third quarter of 2009 and by $25.4 million to reach $1,046.7 million for the nine-month period ended September 30, 2009, compared with the same periods last year. Excluding the effect of purchase accounting, Adjusted Revenues increased by $4.6 million to $348.6 million during the third quarter of 2009, and by $35.3 million to $1,057.3 million for the nine-month period ended September 30, 2009, compared with the same periods last year. From an organic growth perspective, revenues declined by $4.6 million or 1.3% for the third quarter of 2009, and increased by $1.3 million or 0.1% for the nine-month period ended September 30, 2009 driven by continued growth in online revenues and impacted by continued pressure in print revenues. As of September 30, 2009 the number of directories customers choosing to advertise both in print and online was 60.4% across Canada compared to 57.5% for the corresponding period last

year. YPG USA contributed $9.8 million of revenues and $11.5 million of adjusted revenues for the third quarter of 2009 compared to $2.3 million for the same period last year. For the nine-month period ended September 30, 2009, YPG USA contributed $25.7 million of revenues and $36.4 million of adjusted revenues compared to $2.3 million for the same period last year.

EBITDA and Adjusted EBITDA

EBITDA decreased by $0.2 million to $208.1 million in the third quarter of 2009 and increased by $2.6 million to reach $618.7 million for the nine-month period ended September 30, 2009, compared with the same periods last year. Excluding the effect of purchase accounting, Adjusted EBITDA increased by $0.9 million to $209 million in the third quarter of 2009 and by $9.2 million to $623.6 million for the nine-month period ended September 30, 2009, compared with the same periods last year. The increases result mainly from our cost containment initiatives as a result of the creation of a center of excellence for our publishing operations and lower general and administrative expenses.

Cost of sales amounted to $83.2 million in the third quarter of 2009 compared with $77.9 million for the same period last year. In the first nine months of 2009, cost of sales was $252.3 million compared with $230.3 million for the same period last year. Excluding the effect of purchase accounting, cost of sales increased in the third quarter of 2009 to $84.1 million compared with $78.2 million for the same period last year. In the first nine months of 2009, cost of sales increased to $258 million compared to $232.7 million for the same period last year. These increases are due to our new operations in the USA which are partly offset by the results of our cost containment efforts.

Gross profit margin was lower at 76% in the third quarter of 2009 compared to 77.4% for the same period last year and 75.9% for the nine-month period ended September 30, 2009 compared to 77.4% for the same period last year. Excluding the effect of purchase accounting, gross profit margin was 75.9% in the third quarter of 2009 compared to 77.3% for the same period last year and 75.6% for the nine-month period ended September 30, 2009 compared to 77.2% for the same period last year. The lower margins are attributable to the impact of the publishing operations of YPG USA where margins are significantly lower than in Canada.

General and administrative expenses in the third quarter of 2009 decreased by $2.2 million to $55.5 million and remained relatively stable at $175.6 million for the nine-month period ended September 30, 2009, compared with the same periods last year. The decrease for the quarter reflects lower employee related expenses.

Depreciation and amortization

Depreciation and amortization decreased from $28.1 million in the third quarter of 2008 to $24.7 million in the third quarter of 2009. Over the first nine months of 2009, when compared to the same period last year, depreciation and amortization decreased to $85.7 million from $117.6 million. The decrease in the three-month and nine-month periods ended September 30, 2009 compared to the same periods last year is due to the lower amortization of intangible assets of the Bell Aliant and MTS directory businesses which were respectively acquired in 2007 and 2006, offset by the amortization related to the acquisition of YPG USA. Excluding the effect of purchase accounting, depreciation and amortization was $9.4 million for the third quarter of 2009, down from $10.9 million for the third quarter of 2008 and $30 million for the nine-month period ended September 30, 2009 compared to $33.5 million for the same period last year.

Restructuring and special charges

We did not incur restructuring and special charges during the third quarter of 2009. During the nine-month period ended September 30, 2009, we undertook restructuring initiatives to further improve our operational capabilities. As a result of an internal reorganization, workforce reductions and the termination of certain contractual obligations, the Fund recorded restructuring and special charges of $15.2 million during the second quarter.

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 2008 based on our economic and business outlooks for 2009 at that time. We did not expect the Canadian macroeconomic conditions to deteriorate and persist or their impact to be as significant. We considered third party expectations regarding Canadian advertising trends as well as expected migration from print to online advertising solutions for advertisers. In the third quarter, approximately 41% of Vertical Media revenues were generated from online products. However, we continued to experience pressure in our traditional print offerings. Given these results and the current economic climate, we reported in the first quarter that we did not expect to meet our Revenue and EBITDA targets for the Vertical Media segment in 2009, and as such revised 2009 targets were communicated in our second quarter MD&A. Please refer to Section 5 – Outlook in our second quarter MD&A for a more thorough discussion.

For the third quarter, excluding US operations sold in October 2008, publications that were discontinued, and ad centers that were closed in late 2008, revenues declined by 21.1%. The protracted adverse economic conditions which have prevailed throughout the third quarter impacted our ability to generate revenue growth consistent with our revised targets. In our largest vertical, automotive, representing two-thirds of Trader revenues, reduced spending on vehicle advertising reflected the economic environment which impacted vehicle sales as potential buyers limited their spending. In the real estate vertical, representing approximately 18.4% of revenues, advertising continues to be impacted by the reduced activity in the new homes and condos market which is down in all regions across Canada. Despite significant cost savings from our cost containment initiatives, EBITDA decreased by 38.7%, below our revised target range for the third quarter, as a result of the continued revenue shortfall. In light of current revenue and EBITDA trends in the Vertical Media segment and the slower recovery than anticipated in the automotive and real estate industries in general, it is unlikely that we will meet our revised targets for 2009.

Operating and Financial Results

Operating Results[1]

(in thousands of Canadian dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2009	**2008**	**2009**	**2008**
Revenues	**$61,524**	$82,228	**$187,552**	$249,932
Operating costs	**43,447**	52,755	**132,093**	164,810
Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges (EBITDA)	**18,077**	29,473	**55,459**	85,122
Depreciation and amortization	**10,592**	5,284	**21,688**	22,635
Impairment of goodwill	**315,000**	-	**315,000**	-
Restructuring and special charges	**-**	-	**5,423**	-
(Loss) income from operations	**$(307,515)**	$24,189	**$(286,652)**	$62,487

[1] See Note 19 – Segmented Information of the interim consolidated financial statements of the Company for the period ended September 30, 2009.

Analysis of Operating and Financial Results

Revenues

Revenues from our Vertical Media segment amounted to $61.5 million in the three-month period ended September 30, 2009 compared to $82.2 million for the same period last year representing a 25.2% decrease. Revenues for the nine-month period ended September 30, 2009 amounted to $187.6 million compared to $249.9 million for the same period last year, representing a decline of 25%. Excluding the impact of the U.S. operations sold in October 2008, the discontinued publications and ad centers that were closed in late 2008, the revenue decline for the quarter ended September 30, 2009, is attributable to lower revenues across all product verticals and all regions.

Given that the majority of Trader revenues reside in the Vehicle and Real Estate verticals and that these sectors continue to experience significant downward pressure, advertising expenditures have also been correspondingly reduced. Consequently, as a result of the revenue performance, EBITDA contracted in the quarter. Significant cost containment efforts were executed in the latter part of 2008 and in the first half of 2009 which should position us for a future economic recovery.

EBITDA

EBITDA decreased by $11.4 million to $18.1 million for the third quarter of 2009 and decreased by $29.7 million to $55.5 million for the nine-month period ended September 30, 2009, compared to the same periods last year due to lower revenues.

Cost of sales decreased to $29.2 million for the third quarter of 2009 compared to $39 million for the same period last year. For the nine-month period ended September 30, 2009, cost of sales was $89.2 million compared to $118.9 million for the same period last year. These results directly relate to the decline in revenues and are a reflection of our cost containment efforts with respect to our call center operations as well as optimization of circulation and distribution capabilities for our print publications.

Gross profit margin remained unchanged at 52.5% for the third quarter of 2009 compared to the same period last year and remained relatively stable 52.5% for the nine-month period ended September 30, 2009 compared to 52.4% for the same period last year.

General and administrative expenses remained relatively stable at $14.2 million in the third quarter of 2009 compared to $13.7 million for the same period last year. For the nine-month period ended September 30, 2009, general and administrative expenses were $42.9 million compared to $45.9 million for the same period last year. The reduction for the nine-month period ended September 30, 2009 is attributable to our cost containment initiatives.

Depreciation and amortization

Depreciation and amortization amounted to $10.6 million in the third quarter of 2009 compared to $5.3 million for the same period last year and $21.7 million for the nine-month period ended September 30, 2009 compared to $22.6 million for the same period last year. The increase for the quarter relates to the amortization of certain intangible assets. Excluding the effect of purchase accounting, depreciation and amortization was $5 million for the third quarter of 2009 compared to $4.9 million for the same period last year, and $15.6 million for the first nine months of 2009 compared to $12.4 million for the same period last year due to higher amortization of software.

Impairment of goodwill

During the third quarter of 2009, we recorded a charge of $315 million related to impairment of goodwill. The charge was recorded following the Company's two-step impairment test which concluded that the carrying value of the goodwill exceeded its implied fair value of the reporting unit under the second step of the impairment test. Please refer to Section 6 – Critical Assumptions for a more thorough discussion.

Restructuring and special charges

We did not incur restructuring and special charges during the third quarter of 2009. During the nine-month period ended September 30, 2009, we continued to make progress in positioning Trader for future growth and profitability by planning and executing initiatives to optimize our call centres and the circulation and distribution for our print publications. As a result, the Fund recorded restructuring and other special charges of $5.4 million during the second quarter.

3. Liquidity and Capital Resources

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

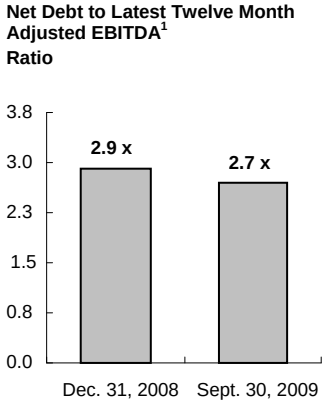
Financial Position

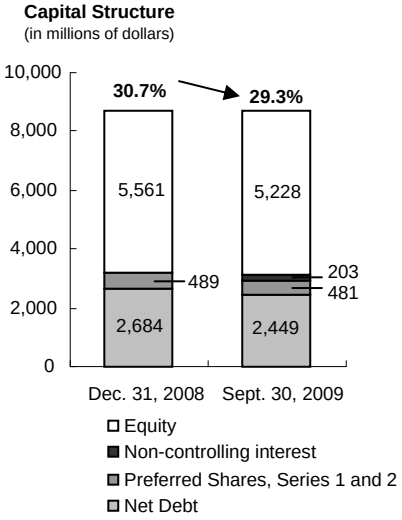
Capital Structure

(in thousands of Canadian dollars)

	As at September 30, 2009	As at December 31, 2008
Cash and cash equivalents	**$73,685**	$25,054
Medium Term Notes	**1,920,917**	2,051,370
Exchangeable Debentures	**289,411**	285,470
Credit facilities	**100,000**	358,700
Commercial paper	**204,500**	-
Obligations under capital leases	**8,255**	13,786
Long-term debt, including current portion	**$2,523,083**	$2,709,326
Net debt (net of cash and cash equivalents)	**$2,449,398**	**$2,684,272**
Preferred shares, Series 1 and 2	**481,494**	489,072
Net debt and Preferred shares, Series 1 and 2 (net of cash and cash equivalents)	**2,930,892**	**3,173,344**
Non-controlling interest[1]	**202,505**	-
Unitholders' equity	**5,227,971**	5,561,492
Total capitalization including Preferred shares	**$8,361,368**	**$8,734,836**
Net debt to total capitalization	**29.3%**	30.7%
Net debt and Preferred shares to total capitalization	**35.1%**	36.3%

[1] Represents 8.3 million Preferred Shares, Series 3 issued in September 2009.





[1] Latest twelve month Income from operations before depreciation and amortization, 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").

As at September 30, 2009, YPG had approximately $2.5 billion of debt net of cash and cash equivalents, or $2.9 billion including preferred shares Series 1 and 2 which was lower than the net debt position as at December 31, 2008. The decrease in net debt and preferred shares Series 1 and 2 during the quarter results from positive operating free cash flow, the repayment of the New Credit Facility, the repurchases of Medium Term Notes and preferred shares series 1 and 2 as well as the issuance of preferred shares series 3. The net debt to Latest Twelve Month Adjusted EBITDA[1] ratio as of September 30, 2009 was 2.7 times, compared to 2.9 times as of December 31, 2008. The net debt and preferred shares to Latest Twelve Month Adjusted EBITDA[1] ratio was at 3.2 times as of September 30, 2009 compared to 3.4 times as of December 31, 2008. The net debt to total capitalization was at 29.3% as of September 30, 2009 compared to 30.7% as of December 31, 2008, while the net debt and preferred shares to total capitalization stood at 35.1% as of September 30, 2009 compared to 36.3% as of December 31, 2008.

Credit Facilities and Commercial Paper Program

As at November 4, 2009, YPG has in place two senior unsecured credit facilities (the Credit Facilities) totalling $800 million consisting of:

- A $700 million unsecured revolving credit facility, which is composed of two tranches (the Principal Revolving Facility):
  - a $500 million 364-day revolving tranche with a 2-year term-out option maturing in May 2012; and
  - a $200 million 5-year revolving tranche maturing in May 2012;
- A $100 million private placement from an institutional investor (the Private Facility) maturing in July 2014.

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

On May 8, 2008, the Company increased its sources of liquidity by entering into a new credit facility which, at that time, provided a $250 million senior unsecured revolving credit facility. On December 19, 2008, the size of the new credit facility was increased to $450 million. On April 21, 2009, the Company used the full amount of the new revolving facility to repay its then maturing $450 million Series 1 Medium Term Notes. The Company did not request an extension of the revolving period on the new revolving facility. Therefore, on May 7, 2009, this facility automatically converted to a 2-year non revolving term loan maturing in May 2011 (the New Credit Facility). On June 25, 2009 and July 22, 2009, the New Credit Facility drawings were repaid in full using a portion of the proceeds from the issuance of Medium Term Notes Series 7, 8 and 9. Please refer to the Medium Term Notes Program section. The New Credit Facility has now been cancelled.

YPG Holdings Inc., a subsidiary of YPG, maintains a commercial paper program with an authorized limit of $500 million. The Principal Revolving Facility serves as a back-up facility for the program. During the third quarter of 2009, the Company continued to take advantage of improved conditions in the Canadian money markets to issue commercial paper to fund its short term liquidity requirements. As at September 30, 2009, there was $204.5 million of commercial paper outstanding (no amount was outstanding at December 31, 2008). As of September 30, 2009, there was no amount drawn under the Principal Revolving Facility, compared to $358.7 million drawn as at December 31, 2008.

On July 24, 2009, the Company drew $100 million on the Private Facility. This term facility was used for general corporate purposes and matures on July 23, 2014.

[1] Latest twelve month Income from operations before depreciation and amortization, 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").

On November 4, 2009, the Company announced its intention to conduct a Substantial Issuer Bid to purchase for cancellation all of its outstanding 5.50% Exchangeable Unsecured Subordinated Debentures. The company expects to fund the purchase with a 364-day $300 million multi-draw non-revolving term loan and the commercial paper program. The Conditions on this special purpose facility are substantially the same as the existing Credit Facilities.

All credit facilities are subject to customary terms and conditions including limits on pledging assets without the consent of lenders. These facilities are also subject to the maintenance of a maximum ratio of funded debt to Latest Twelve Month Adjusted EBITDA[1] of 4.25 times and a minimum ratio of Latest Twelve Month Adjusted EBITDA[1] to cash interest expense on total debt of 3.5 times.

YPG was in compliance with all of its debt covenants as at September 30, 2009.

Medium Term Note Program

YPG Holdings Inc. had a total of $1.9 billion of notes outstanding under its Medium Term Note program as of September 30, 2009 with varying maturity dates between 2011 and 2036. The Medium Term Notes Series 1 in the amount of $450 million matured in April 2009 and were repaid using proceeds from the new revolving facility as described above.

On June 25, 2009, YPG Holdings Inc. issued Medium Term Notes Series 7 for gross proceeds of $260 million maturing on February 2, 2015. These notes bear interest at 7.30% and were issued at par. Of the net proceeds $200 million was used to reduce indebtedness under the New Credit Facility while the balance was used to reduce commercial paper indebtedness as well as for general corporate purposes.

On July 3, 2009, YPG Holdings issued Medium Term Notes Series 8 for gross proceeds of $90 million maturing on December 3, 2013. These notes bear interest at 6.85% and were issued at par. Of the net proceeds $50 million was applied against the New Credit Facility whereas the remainder was used to repay commercial paper indebtedness, and for general corporate purposes.

On July 10, 2009, YPG Holdings Inc. re-opened Medium Term Notes Series 8 for an additional amount of $35 million. Concurrently, Medium Term Notes Series 9 were issued for gross proceeds of $130 million maturing on July 10, 2013. The re-opening of Series 8 was done under the same terms and conditions, whereas the Series 9 notes, bear interest at 6.50% and were issued at par. The entire net proceeds of the July 10, 2009 issuances were used to repay the indebtedness under the New Credit Facility.

Medium Term Notes Series 7, 8 and 9 were issued under our Short Form Base Shelf Prospectus dated June 20, 2008. This prospectus has a life of 25 months and a remaining balance of $485 million. The recent long-term debt issuances are consistent with our past financing practices, our objective being to refinance drawings under our credit facilities and commercial paper program with long-term funded debt or through the issuance of other capital market securities.

Following the issuance of Medium Term Notes Series 7, 8 and 9, the Company remains subject to a maximum ratio of Funded Debt to Latest Twelve Month Adjusted EBITDA[1] of 4.25 times upon the incurrence of additional debt. The Company will be subject to this incurrence test as long as any of Medium Term Notes Series 7, 8 or 9 remain outstanding.

Following the issuance of Medium Term Notes Series 7, 8 and 9, the Company's credit ratings for the Medium Term Notes program remained unchanged at BBB (high) with a stable trend from DBRS Limited, and BBB- with a stable outlook from Standard & Poor's Rating Service.

[1] Latest twelve month Income from operations before depreciation and amortization, 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").

During the second and third quarters of 2009, the Company repurchased for cancellation $2.5 million face value of Medium Term Notes Series 2, maturing in 2014 with a coupon of 5.71%, $30 million face value of Medium Term Notes Series 3, maturing in 2019 with a coupon of 5.85%, $48.3 million face value of Medium Term Notes Series 4, maturing in 2016 with a coupon of 5.25%, and $106.7 million face value of Medium Term Notes Series 5, maturing in 2036 with a coupon of 6.25%.

Exchangeable Unsecured Subordinated Debentures

YPG Holdings Inc. has a total of $300 million of Exchangeable Unsecured Subordinated Debentures outstanding (the Exchangeable Debentures). The Exchangeable Debentures have a maturity date of August 1, 2011 and are exchangeable at any time, at the option of the holder, for units of the Fund at an exchange price of $20.00 per unit. The Exchangeable Debentures are redeemable at par at the option of YPG Holdings Inc. after August 1, 2009, subject to certain restrictions. The Exchangeable Debentures also provide YPG Holdings Inc. with the option to repay the principal and interest in units of the Fund.

On November 4, 2009, the Company authorized a substantial issuer bid to purchase for cancellation all of its outstanding 5.50% Exchangeable Debentures at a purchase price of $1,020 in cash for each $1,000 principal amount of Exchangeable Debentures. The offer to purchase will expire at 5:00 p.m. (Montreal time) on December 14, 2009, unless withdrawn or extended by the Company. The Exchangeable Debentures trade on the Toronto Stock Exchange under the symbol "YPG.DB". On November 4, 2009, there were outstanding Exchangeable Debentures in the aggregate principal amount of $300,000,000.

The offer to purchase is conditional upon a minimum of $120 million principal amount of Exchangeable Debentures being deposited and not withdrawn on the expiration date, representing 40% of the Exchangeable Debentures issued and outstanding. The offer to purchase is also subject to certain other conditions, including regulatory approval. Full particulars of the terms and conditions of the purchase will be contained in the Issuer Bid Circular and related documents which will be filed with applicable securities regulatory authorities in Canada.

The offer to purchase includes the independent formal valuation of Cole & Partners, which based on the scope of their review and subject to the assumptions, restrictions and limitations provided therein, concludes that the fair market value of the Exchangeable Debentures, per $1,000 principal amount (exclusive of accrued interest), at October 15, 2009 ranges from approximately $985.20 to $1,009.70, or a mid-point of $997.45.

Cumulative Redeemable Preferred Shares

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

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

On June 9, 2009, YPG Holdings Inc. received approval from the Toronto Stock Exchange on its notice of intention to make a normal course issuer bid for its preferred shares Series 1 and 2 through the facilities of the Toronto Stock Exchange from June 11, 2009 to June 10, 2010, in accordance with applicable regulations of the Toronto Stock Exchange. Under its normal course issuer bid, the Fund intends to purchase for cancellation up to 1,200,000 and 800,000 of its series of preferred shares outstanding on June 9, 2009. These figures represent 10% of the public float of each series of preferred shares outstanding on June 9, 2009. Since June 11, 2009, 39,500 Preferred Shares Series 1 and 328,632 Preferred Shares series 2 were repurchased at average prices of $22.71 and $17.87, respectively.

The total cost of repurchasing preferred shares in the second and third quarters of 2009 amounted to $6.8 million, including brokerage fees.

Rate Reset Preferred Shares

On September 23, 2009, 7,500,000 cumulative rate reset preferred shares, Series 3 (the Preferred Shares Series 3) were issued for gross proceeds of $187.5 million. On September 28, 2009, an additional 800,000 Preferred Shares Series 3 were issued for gross proceeds of $20 million. A dividend of $1.6875 per share per annum is payable quarterly, yielding 6.75% per annum for the initial five year period ending September 30, 2014. The dividend rate will be reset on September 30, 2014 and every five years thereafter at a rate equal to the 5-year Government of Canada bond yield plus 4.17%. The Series 3 Preferred Shares will be redeemable by the Issuer on or after September 30, 2014, in accordance with their terms. Holders of the Series 3 Preferred Shares will have the right, at their option, to convert their shares into cumulative floating rate preferred shares, series 4, (the "Series 4 Preferred Shares") subject to certain conditions, on September 30, 2014 and on September 30 every five years thereafter. Holders of the Series 4 Preferred Shares will be entitled to receive cumulative quarterly floating dividends at a rate equal to the three-month Government of Canada Treasury Bill yield plus 4.17%.

Net proceeds resulting from the sale of the Series 3 Preferred Shares were used to repay indebtedness under the commercial paper program, and for general corporate purposes.

Liquidity

As part of its 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 September 30, 2009, YPG maintained two credit facilities totalling $800 million, providing sufficient liquidity to fund its operations.

Following the debt issuances in June and July 2009, the remaining balance of $250 million of the New Credit Facility was repaid and cancelled.

On July 24, 2009, the Company drew $100 million on the Private Facility. This term facility was used for general corporate purposes and matures on July 23, 2014.

As a result of these financing activities, the Company currently maintains $800 million of credit facilities. On September 30, 2009, cash and cash equivalents amounted to $73.7 million. In addition to cash and cash equivalents, YPG Holdings Inc. may issue additional notes amounting to $295.5 million under its commercial paper program and access another $200 million under its Principal Revolving Facility. Alternatively, if additional notes are not issued under the commercial paper program, YPG Holdings Inc. may access the full $495.5 million available under its Principal Revolving Facility.

Unit data

As at November 4, 2009 outstanding unit data was as follows:

Outstanding Unit Data

	As at September 30 and November 4, 2009	As at December 31, 2008
Units outstanding	518,036,780	518,301,059
Options outstanding	391,891	394,912

The units are voting and participate equally in the income, losses and capital distributions of the Fund. In February 2006, 19,000,000 Exchangeable Units of YPG LP (exchangeable for units of the Fund) were issued as a partial consideration for the acquisition of Trader Media Corp. (TMC), one of two companies from which we have built our Vertical Media business. As at December 31, 2008, 8,185,000 Exchangeable Units of YPG LP had been exchanged for an equal number of units of the Fund. On March 30, 2009 and on April 9, 2009, 1,000,000 and 1,100,000 Exchangeable Units of YPG LP were exchanged for an equal number of units of the Fund, respectively. As

a result, at November 4, 2009, 8,715,000 Exchangeable Units of YPG LP remain outstanding. The units underlying the outstanding Exchangeable Units of YPG LP are included in the outstanding unit data.

No options were granted following the inception of the Fund.

YPG Holdings Inc. also has a total of $300 million of Exchangeable Debentures which are exchangeable at any time, at the option of the holder into units of the Fund at an exchange price of $20.00 per unit. The Company announced on November 4, 2009 that such Exchangeable Debentures will be subject of a Substantial Issuer Bid (SIB). Please refer to Exchangeable Unsecured Subordinated Debentures in this section.

YPG Holdings Inc. has also issued 12,000,000 Preferred Shares Series 1 for gross proceeds of $300 million and 8,000,000 Preferred Shares Series 2 for gross proceeds of $200 million. Both series of preferred shares are redeemable by the issuer under certain conditions through the issuance of units of the Fund. Under the normal course issuer bid program in effect since June 11, 2009, Preferred Shares Series 1 and 2 were purchased for cancellation in the second and third quarter of 2009. As at September 30, 2009, there were 11,960,500 Preferred Shares Series 1 and 7,671,368 Preferred Shares Series 2 outstanding.

On April 1, 2009, the normal course issuer bid for the units of the Fund expired and was not renewed.

Contractual Obligations and Other Commitments

Contractual obligations
(in thousands of Canadian dollars)

			Payments due for the periods ending December 31		
	Total	**3 months**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Long-term debt[1,2]	$2,531,962	$-	$654,500	$652,500	$1,224,962
Obligations under capital leases	8,255	598	5,823	1,822	12
Preferred shares[2]	490,797	-	299,013	-	191,784
Operating leases	174,183	6,107	67,054	40,180	60,842
Purchase obligations	31,880	5,617	23,138	250	2,875
Total contractual obligations	$3,237,077	$12,322	$1,049,528	$694,752	$1,480,475

[1] Including Exchangeable Debentures

[2] Principal amount

Obligations under capital leases

We enter into capital lease agreements for office equipment and software. As of September 30, 2009, minimum payments under these capital leases up to 2015 totalled $8.3 million.

Operating leases

We rent our premises and equipment under various operating leases. As of September 30, 2009, minimum payments under these operating leases up to 2019 totalled $174.2 million.

Purchase obligations

We use the services of outside suppliers to distribute our directories and have entered into long-term agreements with a number of these suppliers. These agreements expire between 2009 and 2038. As at September 30, 2009, we have an obligation to purchase services for $31.9 million over the next five years and thereafter. Cash from operations will be used to meet these purchase obligations.

Sources and Uses of Cash

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

Sources and Uses of Cash

(in thousands of Canadian dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2009	**2008**	**2009**	**2008**
Cash flow from operating activities				
Cash flow from operations	$183,406	$200,934	$527,896	$590,868
Change in operating assets and liabilities	(14,858)	(13,406)	23,557	(76,163)
	$168,548	**$187,528**	**$551,453**	**$514,705**
Cash flow used in investing activities				
Acquisition of equity investments	$-	$-	$(47,698)	$-
Business acquisitions, net of cash acquired and bank indebtedness assumed	-	(194,125)	(25,189)	(211,375)
Acquisition of fixed assets	(7,686)	(10,908)	(32,488)	(34,823)
Acquisition of intangibles	-	-	(246)	(100)
Proceeds from lease inducements	175	-	208	40
	$(7,511)	**$(205,033)**	**$(105,413)**	**$(246,258)**
Cash flow used in financing activities				
Issuance of long-term debt	$493,000	$219,400	$1,192,300	$324,055
Repayment of long-term debt	(571,975)	(37,775)	(1,183,855)	(55,097)
Distributions to Unitholders	(102,041)	(148,977)	(386,724)	(447,784)
Repurchase of units	-	(44,087)	(13,382)	(98,202)
Other	30,697	(2,418)	(4,613)	(22,406)
	$(150,319)	**$(13,857)**	**$(396,274)**	**$(299,434)**

Cash flow from operating activities

Cash flow from operating activities decreased from $187.5 million in the third quarter of 2008 to $168.5 million in the third quarter of 2009, and increased to $551.5 million in the nine-month period ended September 30, 2009 from $514.7 million in the same period last year. Cash flow from operations decreased by $17.5 million and $63 million for the three-month and nine-month periods ended September 30, 2009, respectively. The decrease for the quarter reflects lower Adjusted EBITDA contribution generated through our operations as a result of lower revenues and higher interest expenses. For the nine-month period ended September 30, 2009, the decrease is mainly the result of lower Adjusted EBITDA, the restructuring and special charge recorded in the second quarter and higher interest expenses. The decrease in operating assets and liabilities for the third quarter of 2009 was $1.5 million when compared to the same period last year and the increase was $99.7 million for the nine-month period ended September 30, 2009 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 decreased during the third quarter of 2009 from $205 million in 2008 to $7.5 million in 2009, and decreased during the nine-month period ended September 30, 2009 from $246.3 million in 2008 to $105.4 million. During the first quarter of 2009, the Fund made an investment in Dealer.com representing a total cash outflow of $44.9 million. During the second quarter of 2009, the Fund exercised its option to acquire the remaining 50% interest in LesPAC in which the Fund already had a 50% ownership representing a total cash outflow of $25.2 million. In 2008, we acquired the directory assets of TbayTel for $17.3 million, and YPG USA and Get It Pages for $194.1 million.

Acquisition of Fixed Assets, Net of Lease Inducements

(in thousands of Canadian dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2009	**2008**	**2009**	**2008**
Transition capital	$1,239	$-	$5,738	$-
Maintenance	3,521	5,280	10,740	15,808
New initiatives	3,861	4,496	14,269	13,957
Leasehold improvements, net of lease inducements	1,627	1,779	2,338	2,860
Total	**$10,248**	**$11,555**	**$33,085**	**$32,625**
Adjustment to reflect expenditures on a cash basis	(2,737)	(647)	(805)	2,158
Acquisition of fixed assets, net of lease inducements	**$7,511**	**$10,908**	**$32,280**	**$34,783**

Transition Capital – Amounts in 2009 relate to the acquisition of YPG USA. No such expenses were incurred in 2008. We expect to deploy Transition Capital related to the YPG USA acquisition up to mid-2010 of approximately $10 million.

Maintenance capital expenditures decreased from $5.3 million in the third quarter of 2008 to $3.5 million in the third quarter of 2009, and to $10.7 million for the nine-month period ended September 30, 2009 compared with $15.8 million for the same period last year. The lower investments reflect reduced spending mainly in the Vertical Media segment.

Capital spending for new initiatives decreased to $3.9 million for the third quarter of 2009 compared with $4.5 million for the third quarter of 2008 and increased to $14.3 million for the nine-month period ended September 30, 2009 compared with $14 million for the same period last year. The increase is due to the launch of new product initiatives such as My Virtual Paper and Dealer Smart Solutions.

During the third quarter of 2009, we incurred $1.6 million of leasehold improvements related to our new premises in Indianapolis.

Total capital expenditures for the third quarter of 2009 amounted to $10.2 million and were in line with expectations.

Cash flow used in financing activities

Cash used in financing activities increased by $136.5 million during the third quarter of 2009 from $13.9 million for the same period last year and increased by $96.8 million for the nine-month period from $299.4 million for the same period. 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 $47 million in the third quarter of 2009, and of $61.1 million in the first nine months of 2009, when compared to the same periods last year.

Off-Balance Sheet Arrangements

(See Notes 21 and 26 of the Consolidated Financial Statements of the Company for the year ended December 31, 2008).

Financial and Other Instruments

(See Note 24 of the Consolidated Financial Statements of the Company for the year ended December 31, 2008).

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

Derivative Instruments

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

In October 2008, the Fund entered into floating-to-fixed interest rate swaps to fix the rate on our floating rate exposure to the Canadian Banker's acceptance rate. The Fund was to pay a fixed rate of interest of 2.25% and receive a floating rate corresponding to the Banker's acceptance rate on an amount of $150 million between November 3, 2008 and May 3, 2009, increasing to $300 million from May 3, 2009 to January 5, 2010. The interest rate swaps are comprised of two tranches: a first tranche of $50 million which increased to $100 million on May 3, 2009, and a second tranche of $100 million which increased to $200 million on May 3, 2009.

On June 1, 2009, the Fund discontinued hedge accounting on the first tranche and on June 19, 2009, the Fund discontinued hedge accounting on the second tranche. The Fund continues to hold the swaps as it continues to have the floating rate exposure under its commercial paper program. Please refer to Note 7 of the Financial Statements for further details.

In February 2009, the Fund entered into additional floating-to-fixed interest rate swaps to fix the rate on its floating rate exposure to the Canadian Banker's acceptance rate. The Fund was to pay a fixed rate of interest of between 0.73% and 0.74% and receive a floating rate corresponding to the Banker's acceptance rate on an amount of $200 million between April 21, 2009 and December 21, 2009. On July 22, 2009, the interest rate swaps were unwound concurrently with the repayment of the New Credit Facility for an amount of $0.3 million.

In August 2009, the Fund also 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. As at September 30, 2009, the interest rate swaps met the criteria for hedge accounting.

Taking into consideration the debt instruments outstanding, the preferred shares, the cash and the above-mentioned derivative instruments, our fixed-to-floating ratio was 98% fixed rate as at September 30, 2009. 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 a liability of $2.1 million and the carrying value of embedded derivatives was an asset of $3.4 million on September 30, 2009. The carrying value is calculated as is customary in the industry using discounted cash flows with quarter-end market rates. For the third quarter of 2009, we reported an unrealized gain of $3 million (2008 – $1 million gain) 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 September 30,		Nine-month periods ended September 30,	
	2009	**2008**	**2009**	**2008**
Cash flow from operating activities	**$168,548**	**$187,528**	**$551,453**	**$514,705**
Operating non-cash items[1]	(7,363)	(5,146)	(10,784)	(16,035)
Change in operating assets and liabilities[2]	14,858	13,406	(23,557)	76,163
Maintenance capital expenditures[3]	(3,521)	(5,280)	(10,740)	(15,808)
Restructuring and special charges[4]	-	-	20,584	-
Other[5]	6,677	1,854	14,342	7,298
Distributable cash	**$179,199**	**$192,362**	**$541,298**	**$566,323**
Weighted average number of units outstanding	510,030,789	519,908,187	511,994,035	525,335,325
Distributable cash per unit[6]	$0.35	$0.37	$1.06	$1.08
Distributions declared	$102,041	$150,252	$370,568	$448,628
Distributions declared per unit	$0.20	$0.29	$0.72	$0.85
Payout ratio[7]	57%	78%	68%	79%

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

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

[6] Please refer to Section 2 – Highlights by Segment for the calculation of Basic (loss) earnings per unit.

[7] 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 September 30, 2009	Nine-month period ended September 30, 2009	Previously completed fiscal years 2008	2007
Cash flow from operating activities	$168,548	$551,453	$692,356	$695,540
Net (loss) earnings	$(168,792)	$79,648	$509,227	$527,709
Actual cash distributions declared	$(102,041)	$(370,568)	$(599,930)	$(581,986)
Excess of cash flows from operating activities over cash distributions declared	**$66,507**	**$180,885**	**$92,426**	**$113,554**
(Shortfall) excess of net (loss) earnings over cash distributions declared	**$(270,833)**	**$(290,920)**	**$(90,703)**	**$(54,277)**
Impact of purchase accounting on net (loss) earnings	$335,837	$376,817	$122,981	$166,592
Excess of net (loss) earnings over cash distributions declared excluding impact of purchase accounting	$65,004	$85,897	$32,278	$112,315

Distributions declared exceeded net loss by $270.8 million for the three-month period ended September 30, 2009. Distributions declared exceeded net earnings by $290.9 million for the nine-month period ended September 30, 2009. The Fund does not use net earnings as a basis to calculate distributions. Net (loss) earnings in accordance with GAAP include expenses which do not affect cash such as amortization of non-compete agreements, customer contracts and customer relationships and 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, which includes the impairment of goodwill, net earnings exceeded distributions declared by $65 million and $85.9 million for the three-month and nine-month periods ended September 30, 2009, respectively.

Cash distributions declared were lower than distributable cash resulting in a payout ratio of 57% for the three-month period ended September 30, 2009, and 68% for the nine-month period ended September 30, 2009. The level of distributions declared is reviewed periodically to take into account the current and prospective performance of the business and other items considered to be prudent.

Distributable cash

Distributable cash decreased from $192.4 million in the third quarter of 2008 to $179.2 million in the third quarter of 2009 and from $566.3 million in the nine-month period ended September 30, 2008 to $541.3 million for the same period this year. The decrease is mainly due to lower EBITDA for the third quarter of 2009.

Distributable cash per unit decreased from $0.37 in the third quarter of 2008 to $0.35 for the third quarter of 2009. For the nine months of 2009, it was $1.06 compared to $1.08 for the same period last year. This decrease represents a retraction of 5.4% for the third quarter of 2009 and 1.9% for the nine-month period ended September 30, 2009.

The Fund's cumulative distributable cash since its Initial Public Offering ("IPO") in August of 2003 to September 30, 2009 is approximately $3.5 billion, or $7.39 per unit. Total distributions declared during the same period reached approximately $2.9 billion, or $6.20 per unit representing a cumulative payout ratio of 84%.

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

Our long-term debt management strategy is to refinance our funded debt at maturity. Our funded debt portfolio currently has an average term of approximately 7 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 revolving 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 the total distributable cash plus a provision of $100 million in the event that the Fund becomes non-investment grade, providing us with significant flexibility.

Furthermore, our Medium Term Note program and our Exchangeable Unsecured Subordinated Debentures, which represent $2.2 billion of our total long-term debt portfolio as of September 30, 2009, do not provide for any contractual limitations on the distribution of cash.

Distributions declared per unit

Distributions declared per unit decreased from $0.85 in the first nine-month period of 2008 to $0.72 for the same period in 2009 as a result of the decrease in distributions per unit on an annualized basis in May 2009.

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.

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 will be subject to growth guidelines issued by the Federal Department of Finance (the Normal Growth Guidelines). Growth will be measured by the amount of equity issued by the Fund, to benefit from the deferred application of the new tax regime to 2011. Please refer to Section 7 – Risks and Uncertainties: Income Tax Matters of our MD&A for the year ended December 31, 2008 for more details on the SIFT Rules.

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

Distribution policy

On May 7, 2009, Yellow Pages Income Fund announced a reduction in cash distributions per unit to unitholders from $1.17 to $0.80 annually. This translates to a monthly cash distribution of $0.0667 per unit. The decision to reduce the level of the payout will provide the Company additional financial flexibility and strengthen its capital structure while still offering an attractive source of income for our investors. In the context of difficult credit market conditions, YPG has been proactive by adopting a prudent approach to managing its liquidity and capital resources.

5. Outlook

Each year, we establish targets to advance our goals and drive results through execution of initiatives to maximize revenue growth and cash flow generation in both our platforms. These targets have been established and are periodically reviewed through our ongoing business planning process. For fiscal 2010, please refer to our corresponding section in the MD&A for the period ended June 30,2009.

6. Critical Assumptions

Our critical accounting estimates have not changed since the release of our MD&A for the year ended December 31, 2008. Please refer to the corresponding sections in the MD&A for the year ended December 31, 2008.

Goodwill Impairment Testing

As disclosed in our financial statements for the quarter ended June 30, 2009, the Fund determined that the deterioration of the economic environment and its continuing negative impact on our Vertical Media segment revenues was an indicator that the goodwill related to the Vertical Media segment should be tested for potential impairment. At the end of the second quarter, the Fund was not able to reasonably estimate the amount of impairment loss, due to the complexity in establishing key assumptions and estimates resulting from recently acquired businesses, significant changes in the business model and go-to-market strategy with Trader provisioning integrated solutions through Dealer Smart Solutions and restructuring initiatives implemented towards the end of the second quarter.

The goodwill impairment test involves a two-step methodology. The first step is accomplished by comparing the fair value of the reporting unit to its carrying value. The Fund determines fair value, by using the "discounted expected future cash flow" model. The process for determining the fair value requires management to make a number of estimates and assumptions such as market conditions, projected future sales, cost of sales, earnings and discount rates. If the carrying value of the reporting unit exceeds its estimated fair value, a second step is required. In the second step, the Company must allocate the fair value of the reporting unit to the reporting unit's net identifiable assets, with any value in excess allocated to goodwill. A goodwill impairment loss would be recognized to the extent that the carrying value of goodwill exceeds its implied fair value. The impairment testing was completed during the third quarter. As a result, an impairment loss of $315 million was recorded in net (loss) earnings for the period.

The goodwill impairment charge is an accounting adjustment only and does not affect our ongoing operations; it is a non-cash write-down having no impact on liquidity, cash flows from operating activities, bank credit agreements, bond indentures or future operations.

Change in Accounting Policies

a) Section 3064, *Goodwill and intangible assets*, replacing Section 3062, *Goodwill and other intangible assets* and Section 3450, *Research and development costs*. This Section, effective January 1, 2009, establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets including intangible assets developed internally. The provisions of this Section were adopted retrospectively. The adoption of this Section did not have a significant impact on the consolidated financial statements of the Fund or on the carrying value of the goodwill, deferred publication costs, internally developed software and other intangible assets.

b) Emerging Issues Committee (EIC) EIC 173, *Credit risk and the fair value of financial assets and financial liabilities.* This Abstract concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities including derivative instruments. This Abstract is to apply to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this Abstract did not have a significant impact to the Fund's financial statements.

Effect of New Accounting Standards Not Yet Implemented

a) 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 in effect in 2011, 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 also is expected to differ from current IFRS due to new IFRS standards and pronouncements that are expected to be issued 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. An implementation team, which is led by finance management, has been created and third party advisors have been engaged to plan for and achieve a smooth transition to IFRS.

The implementation project consists of three primary phases, which in certain cases will be in process concurrently as IFRS is applied to specific areas from start to finish:

Phase 1: Scoping and Diagnostic Phase

This phase involves performing a detailed diagnostic comparing Canadian GAAP to IFRS and identifying key areas that may be impacted by the transition to IFRS. Phase 1 includes:

- Performing a detailed analysis of our actual accounting policies and practices with all relevant IFRS standards and applicable interpretations;
- Identifying the different options available to the Fund at the date of transition as well as the ongoing IFRS policies choices that could be applied to prepare subsequent IFRS financial statements;
- Classifying the differences identified by work streams along with the creation of work teams to analyze and resolve the differences. Work teams are composed of members of our implementation team and include internal stakeholders and IT resources that are trained on their respective subjects.

Phase 2: Impact Analysis and Design Phase

In this phase, each area identified from the scoping and diagnostic phase will be addressed. Phase 2 includes:

- Make accounting policy choices, including those under IFRS 1 choices;
- Determine the changes required to existing accounting policies;
- Determine the changes or additions required to information technology and data systems, internal controls over financial reporting and disclosure controls;
- Develop draft IFRS financial statements.

Phase 3: Implementation and Review Phase

In this last phase, we will implement changes in accounting policies and practices to the different business processes, information systems and internal controls. These changes will be adequately tested before the changeover date to ensure all significant differences have been successfully resolved by the first quarter of 2011.

Current status of our IFRS changeover plan

We have completed the scoping and diagnostic phase of our changeover plan and we are now in the impact analysis and design phase. We have identified a number of differences and policy alternatives between Canadian GAAP and IFRS that will modify our financial statements. During this process, we noted that several of our current accounting policies are consistent with currently applicable IFRS requirements.

Our Phase 2 work has commenced. The efforts and resources allocated to the resolution of each difference are tributary to the scale of the potential impact that the difference can have on our financial statements. Accounting policy choices are currently being analyzed by management and members of the Audit Committee and should be concluded upon by the end of 2009. Issues that need to be resolved before the transition date are being taking care of by work teams specially created for this purpose. The project progress is carefully monitored by the implementation team, who ensures adequate resources are available to meet the different milestones of our plan.

Despite the above, the current International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) projects are likely to significantly modify some of the actual IFRS requirements and could ultimately change our preliminary analysis and modify some of our accounting choices. As such, we carefully monitor the work of the IASB on several different projects including: Financial instruments, Revenue Recognition, Leases, Income Taxes, Liabilities, Fair value Measurement and Post-employment benefits including pension.

At this time, the impact on our future financial position and results of operations is not reasonably determinable or estimable; however, such impact may be material.

The following table summarizes the status of our changeover plan based on the recommendations published in October 2008 by the Canadian Performance Reporting Board with regards to the Pre-2011 communications about IFRS conversion.

	Key Activity	Milestones / Deadlines	Status
Financial statement presentation	▪ Identify differences between IFRS and Canadian GAAP applicable to the Fund ▪ Evaluate and select ongoing IFRS policies ▪ Evaluate and select IFRS 1 choices ▪ Prepare financial statements format ▪ Quantify the effects of changeover to IFRS	Senior management sign off for all items to be completed by the end of 2009. Subsequent changes to IFRS will be analyzed and reviewed on a quarterly basis	Completed the identification of IFRS differences Evaluation and selection of accounting policy alternatives is underway Preparation of draft financial statements is underway
Financial reporting expertise	▪ Provide three levels of training to operating division and head office accounting staff, senior executives and board of directors, including the audit committee. ▪ Level 1 is a general awareness IFRS training. ▪ Level 2 is a detailed training on relevant topics. ▪ Level 3 training is intended to communicate IFRS impacts and solutions proposed.	Level 1 to be completed by the end of the second quarter of 2009 Level 2 to be completed by the end of 2009 Level 3 to be completed by the end of 2010	Level 1 training is completed Level 2 training is completed Level 3 training is underway
IT systems	▪ Identify and address IFRS differences that require changes to financial systems ▪ Evaluate and select methods to address need for parallel processing of 2010 general ledgers and for planning and monitoring purposes	Required financial systems changes and set up of parallel processing to be completed by the end of 2009	Identification of IFRS differences with system impacts is substantially completed Selection of parallel processing solution is completed Implementation of the solution will be completed in the fourth quarter of 2009
Business activities: Financial covenants	▪ Identify impact on financial covenants and business practices ▪ Complete any required renegotiations/changes	Complete required covenants changes, if necessary, by the third quarter of 2010	Process to analyze the contractual implications of IFRS on financing relationships and other arrangements will start in the first quarter of 2010
Business activities: Compensation arrangements	▪ Identify impact on compensation arrangements ▪ Make any required changes	Complete required compensation arrangement changes, if any, by the third quarter of 2010	Process of identifying internal measures of performance affected by GAAP/IFRS differences will start in the first quarter of 2010
Business activities: Capital adequacy	▪ Identify impact on capital adequacy ▪ Make any required changes	Complete capital plan, if necessary, by the third quarter of 2010	Process of identifying issues will start in the first quarter of 2010
Business activities: Customer and supplier contracts	▪ Evaluate impact on customer and supplier agreements ▪ Make any required changes	Complete review of customer / supplier contracts by the end of the first quarter of 2010	Process of identifying issues will start in the fourth quarter of 2009
Control activities: Internal control over financial reporting (ICOFR)	▪ Assess required changes to existing internal control processes and procedures ▪ Design and implement internal controls with respect to one-time changeover adjustments and ongoing changes	Assessment of required changes to be completed by the end of 2009 Revision to actual internal controls and modifications planned for the second quarter of 2010	Assessment of required changes is underway Revision of actual controls will start in 2010
Control activities: Disclosure controls and procedures (DC&P)	▪ For changes to accounting policies and practices identified, assess the DC&P design and effectiveness implications	See ICOFR deadlines above Analysis of impact on key performance indicators to be completed by the end of 2009 by Investors relations special team	MD&A disclosures have begun Investors relations special team created

b) Section 1582*, Business Combinations.* This new Section will be applicable to business combinations for which the acquisition date is on or after the Fund's interim and fiscal year beginning January 1, 2011. Early adoption is permitted. This Section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The Fund has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

c) Section 1601, *Consolidated financial statements*. This new Section will be applicable to financial statements relating to the Fund's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This Section establishes standards for the preparation of consolidated financial statements. The Fund has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

d) Section 1602, *Non-Controlling interests.* This new Section will be applicable to financial statements relating to the Fund's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This Section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Fund has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

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 in order to manage the risks to which it may be exposed. Please refer to the MD&A for the year ended December 31, 2008 for a complete 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, 2008. For more information, please refer to the corresponding section in our MD&A for the year ended December 31, 2008.

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 September 30, 2009 that would materially affect or are reasonably likely to materially affect its internal control over financial reporting.