

Management's Discussion and Analysis

February 11, 2010

This management's discussion and analysis (MD&A) is intended to help the reader understand and assess trends and significant changes in the results of operations and financial condition of Yellow Pages Income Fund and its subsidiaries for the years ended December 31, 2009 and 2008 and should be read in conjunction with our audited consolidated financial statements and accompanying notes. Quarterly reports, the annual report and supplementary information can be found under the "financial reports" section of our corporate web site: www.ypg.com. Additional information, including our annual information form (AIF), can be found on SEDAR at www.sedar.com. In this MD&A, the words "we", "us", "our", "the Company", "the Fund" and "YPG" refer to Yellow Pages Income Fund and its subsidiaries (including Yellow Media Inc. (previously YPG Holdings Inc.), 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 February 11, 2010.
- Our actual results could be materially different from our expectations if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking statements will materialize.
- Forward-looking statements do not take into account the effect that transactions or non-recurring items, announced or occurring after the statements are made, may have on our business.
- We disclaim any intention or obligation to update any forward-looking statements, except as required by law, even if new information becomes available through future events or for any other reason. It is the current practice of the Company to compare performance on a periodic basis with the targets established through our ongoing business planning process.
- Risks that could cause our actual results to differ materially from our current expectations are discussed in Section 7 – Risks and Uncertainties. 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 leader in our two national platforms, Directories and Vertical Media, and have a presence in the United States through YPG Directories in the Mid-Atlantic and the Southeast American markets. This section provides an overview of our business, our current priorities and how we strive to manage our operations.

Directories

YPG is Canada's leading digital and print local commercial search provider.

We operate Canada's leading online local search platforms including YellowPages.caTM and Canada411.caTM, as well as the CanadaPlus.caTM group of city sites. YellowPages.caTM can be accessed on mobile devices, at mobile.yip.ca on cell phones and through mobile applications on BlackBerryTM, Apple iPhoneTM and GoogleTM's AndroidTM.

In addition we are the official directory publisher 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 publish annually more than 340 different telephone directories with a total circulation of approximately 28 million copies.

We also publish print community directories in the United States under the Your Community Phonebook brand name in selected Mid-Atlantic and Southeast American markets.

YPG manages one of the largest face-to-face sales forces for small and medium-sized enterprises (SMEs) in Canada that serves approximately 385,000 advertising customers across the country.

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 and in so doing generates leads, calls, visits and clicks, and in turn attracts yet more advertisers.

YPG is the exclusive owner of the Yellow PagesTM, Pages JaunesTM Walking Fingers & DesignTM and Canada411TM trademarks in Canada.

Vertical Media

We are the Canadian leader in Vertical Media through Trader Corporation (Trader). Trader has over 140 publications and 20 web sites covering four main product verticals: automotive, real estate, generalist, and employment.

Trader is the leading Canadian new and used car destination with its AutoTrader.caTM web site. It also offers a unique integrated online advertising solution dedicated to promote dealership and its inventory.

Trader is home to such print brands as Auto TraderTM, Auto Hebdo^{MC}, The Bargain FinderTM, Home Renters' GuideTM, Renters NewsTM, and Buy & SellTM. Online, Trader owns Internet destinations such as www.autotrader.ca, www.autohebdonet.net, www.homebase.ca, hometrader.ca, www.visitenet.com, www.buysell.com and lesPAC.com.

Mission

Bringing local consumers and businesses together via our network of mobile, web and print properties.

Strategy

We have implemented a business strategy to improve our operations and achieve sustainable growth in revenues and profitability while pursuing two avenues for growth: organic and external.

The three pillars of our organic growth strategy are to: improve the user experience, grow traffic to our network of properties and extend our services to customers.

The continuing transition in the media and publishing industries towards more online and targeted content is driving us to develop new products that leverage the demand for new media while ensuring that our print products remain a key component of our advertisers' media mix.

Organic Growth

Organic growth means creating new opportunities to extend and enhance our existing print, online, mobile product and service offerings. This brings greater value to existing assets, provides new advertising opportunities to our advertisers and gives users new capabilities to find what they need, when and where they need it.

We remain focused on the following areas to drive organic growth:

- Enhancing both YPG and Trader product offerings and solutions in response to evolving consumer and advertiser needs to generate additional revenue streams;
- Securing compelling online and mobile opportunities for our advertisers and users;
- Leveraging relationships with key portals; and
- Exploring new efficiencies in the sales process in both Directories and Vertical Media.

External Growth

External growth means acting on opportunities to create new sources of revenue, largely through acquiring or developing new assets. During the past several years, we have acted decisively and effectively in this area through the acquisition of new directory operations and through our entry into Vertical Media. More recently, we have made more targeted, tuck-in acquisitions and investments to enhance our capability to launch and deliver new products and solutions or increase the depth and breadth of our content to improve consumer experience and therefore increase web traffic to our properties.

Sustainable Profitability

We achieve profitability by maximizing our operating efficiency and constantly reviewing all of our operations with a view to ensuring we maintain a competitive cost structure. Improving our cost structure remains a key priority and will continue to be achieved through:

- Business process redesign;
- Cost containment initiatives; and
- Investment in technology to better support our operations and customer service.

Directories

For a review of developments and performance relative to key priorities identified for 2009, see Section 2 – Results.

Our key priorities for 2010 in our directory business are:

- Enhancement of our product and service offering; and
- Continued focus on customer relationship management through our “Customer First” program.

Enhancement of Product Services

The 2010 growth plan entails building upon the drivers listed below:

- Customer Acquisition – In 2010, focus will remain on customer acquisition efforts as strategies, offers and processes are further refined and optimized;
- Integrated Bundles – In 2010, this broader bundling strategy will continue to provide a means to address customer needs through simplified value added offers. The Showcase bundle was launched in 2008 to enhance the advertisers' value proposition. It is a complete media solution which includes a quarter column print ad, a bold alpha directory listing, the online video product Profile Plus and all the components of Enhanced Directory Plus. The Finder and Builder bundles were launched in 2009 as "lighter" versions of the Showcase bundle and do not contain the online video product. The bundle strategy has been further expanded to include a number of pilots in different markets across the country to test various multimedia bundles;
- User Experience – In October 2009, an enhanced version of YellowPages.ca was released and included a new simplified search page, a new results page and search results that are more geo-relevant. Enhancing user experience will continue to be a priority in 2010 as new versions of the site are released with improved user features and additional content;
- New Online Placement Products – The launch of the enhanced YellowPages.ca platform has also enabled the development of new online placement products that provide greater potential to target local markets. The available product set will be broadened, inclusive of both limited inventory items with guaranteed visibility or high visibility and non-limited inventory placement products;
- Mobile – In 2009, YPG launched YellowPages.ca on mobile applications for iPhone™, Blackberry™ and Google™ Android™ smartphones. In 2010, we will continue to focus and invest in the mobile user experience both by continuing to improve the mobile applications and by further leveraging and enhancing our deep local content; and
- Search Engine Marketing/ Search Engine Optimization – Important steps were taken in 2009 to position YPG for the implementation of search engine marketing (SEM), a marketing approach designed for increasing visibility of advertisers on search engines. We executed a commercial agreement with MDNH, Inc. (Marchex) in October which provides a platform for our new SEM services branded under Search Engine Solutions. The Marchex platform will allow us to take a mass-market approach to the provisioning of SEM and enable the leveraging of industry best practices. SEM is positioned for launch in the first quarter of 2010 and will be initially targeted at our existing customers. The objective of this SEM offer is to capture online advertising share of wallet. SEM will provide a more complete portfolio of products to the Media Account Consultant, enabling the sale of products that provide both presence and performance to advertisers.

Customer First

Customer First has formed the centrepiece of our customer retention and service enhancement activities for the past five years. We operate in a highly competitive environment and the onus is on us to come up with new and better ways of serving customers to ensure they continue to use our products and services. Customer First encompasses two elements:

- A philosophy that defines how we treat our customers, how we recognize their loyalty and the overall attitude we expect our employees to adopt in all their customer interactions – the customer must always be our priority; and
- A computer-based tool that allows us to act on that philosophy and improve service to our customers and add value in tangible and meaningful ways.

This tool enables us to conduct our operations in a virtual paperless environment. The phases of implementation include:

1. *Business profiles* – providing a single source of complete customer profiles and production information combined with real-time claim processing;
2. *Ad request process* – covering the flow of information between the sales organization and both the assignment center and ad production;
3. *Call planning* – addressing sales assignment and call planning via a multi-dimensional view; and
4. *Contract closure* – allowing for value-based pricing.

Phases 1, 2 and 3 of our Customer First tool have been completed. The roll-out of contract closure was completed in the second quarter of 2009 for Central and Atlantic regions. Following our acquisition of YPG USA's directory systems and services in the United States, we reviewed our plan to roll out contract closure to the rest of Canada and we now plan to deploy contract closure in Western Canada beginning in the first quarter of 2010.

Vertical Media

For a review of developments and performance relative to key priorities identified for 2009, see Section 2 – Results.

Our key priorities for 2010 in Vertical Media are:

- Enhancement and expansion of our product and service offerings; and
- Completion of digital ad-taking system.

Enhancement and expansion of our product and service offerings

- Continued deployment of Dealer Smart Solutions - During 2009, we expanded the breadth of Trader's online advertising solutions. In January 2009, Trader entered into a long-term partnership with Dealer.com to deliver enhanced inventory management tools, web site development and management services, lead tracking and search engine marketing optimization solutions for auto dealers in Canada. The Trader value proposition known as Dealer Smart Solutions is a fully integrated, cost effective and one-stop solution that is designed to better promote the dealership and its inventory. The focus of efforts in 2009 was the roll-out of Dealer Smart Solutions to a significant proportion of our vehicle customers (dealerships) across the country. In 2010, roll-out efforts will continue addressing customers not targeted on initial implementation. For customers that have already converted to Dealer Smart Solutions there is also an opportunity to continue to grow the customer account through package upgrade and additional components, such as video and SEM;
- Expand Dealer Smart Solution to non-passenger vehicles - This product expansion will leverage all the successful components of Dealer Smart Solutions but will customize the offering to the specificities of the different segments;
- Increase Penetration of our Real Estate Platform - In 2009, HomeTrader.ca was launched on a national basis. With the economy stabilizing, increased traction is expected from the real estate vertical notably in the New Homes & Condos category;
- Further monetize online content and traffic - The leadership position occupied by AutoTrader.ca nationally continues to provide growth opportunities. There is continued momentum coming from national advertisers who are attracted by the targeted audience AutoTrader.ca delivers;

- Improve User and Advertiser Experience - The introduction of a search engine on AutoTrader.ca is a key step in differentiating the user experience. Additional improvements are planned around personalization, usability and category improvements. On the advertiser side, a more complete suite of products will be launched for private and commercial customers. This will provide sellers new advertising options to promote their products and their business; and
- Reinforce the online and mobile offering by providing value-add functionality for both new and used cars.

Improvement of productivity through investment in technology and business process

During the first quarter of 2010, we intend to complete the roll-out of the digital ad-taking system across the country. This new national customer database will allow for standardization and productivity gains, optimizing our ad workflow.

As we did in prior years, Trader will continue optimizing and harmonizing best practises and initiatives to increase sales force effectiveness and operating efficiencies.

Capability to Deliver Results

This section of our MD&A explains how we are equipped to continue to operate our business on a financially viable and progressive basis.

Capital Resources

YPG generates sufficient cash flow from its operations to fund cash distributions to its unitholders, to support required capital expenditures and to service its debt obligations. Its cash flow, along with its ability to access external capital if necessary, and the availability under its long term committed bank facilities provide sufficient resources to finance its cash requirements in the foreseeable future while maintaining adequate liquidity. Please refer to Section 3 – Liquidity and Capital Resources of this MD&A for an analysis of the company's ability to generate sufficient cash and to access financial resources to meet operating needs in the current market environment. The reader should also refer to Section 4 – Distributable Cash to understand the impact of new tax proposals issued on October 31, 2006 by the Federal Minister of Finance on cash flow from operations.

Non-capital Resources

YPG's critical intangible resources include:

- Strong brands;
- Established relationships with customers;
- Breadth and depth of local content;
- Dedicated and experienced employees; and
- Culture and values that characterize our organization.

Strong Brands

YPG is the exclusive owner of a number of leading brands which have high-recognition value among our various audiences.

Established Relationships with Customers

We employ a sales force of approximately 2,000 people across our two segments, including sales support staff. This large and primarily face-to-face sales force is broken down into various customer segments allowing a more dedicated relationship between the sales force and the SMEs resulting in over 88% of our advertisers renewing their advertising with us each year.

Print and Online Content

The quality of our print and online content generates usage which in turn encourages local and national advertisers to advertise in our print and online properties in both our Directory and our Vertical Media segments.

Employees

Our employees have consistently improved our operations. Despite economic challenges, our employees have executed on the initiatives needed to build an impressive track record and we are confident that they will continue to remain focused on our common objectives.

Culture and Values

We have a performance-based culture. That culture is defined by all of our values and influences our thinking and our actions which drive our desire to compete to win. This focus on performance also dictates the competencies and skills we seek to attract and retain. All our employees are expected to value teamwork and be focused on our customers; they should act with integrity, respect and passion for the job at hand while maintaining open communications.

We believe that our culture and our values form the foundation of this organization and are critical to its sustained success.

2. Results

This section provides an overview of our financial performance in 2009 compared to 2008 and 2008 compared to 2007. 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 Canadian 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 \$46.9 million or 2.8% over the previous year to \$1,650.5 million. Revenues decreased by \$56.8 million or 3.3% to \$1,639.9 million over the previous year;
- Adjusted EBITDA decreased by \$32.6 million or 3.5% over the previous year to \$898.4 million. Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges decreased by \$39.3 million or 4.2% to \$893.4 million over the previous year; and
- Distributable cash per unit decreased by \$0.03 over the previous year to \$1.40.

Highlights by Segment¹

(in thousands of Canadian dollars—except unit information)

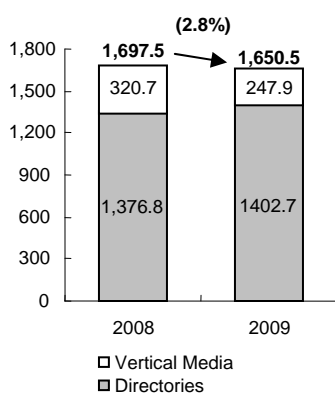
	Directories		Vertical Media		Consolidated	
	2009	2008	2009	2008	2009	2008
Revenues	\$1,392,029	\$1,376,036	\$247,855	\$320,677	\$1,639,884	\$1,696,713
Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges	\$821,904	\$824,508	\$71,534	\$108,198	\$893,438	\$932,706
Basic earnings per unit					\$0.40	\$0.97
Cash flow from operating activities					\$750,187	\$692,356
Adjusted Revenues ²	\$1,402,666	\$1,376,787	\$247,855	\$320,677	\$1,650,521	\$1,697,464
Adjusted EBITDA ²	\$826,821	\$822,754	\$71,534	\$108,198	\$898,355	\$930,952
Distributable cash ³					\$714,281	\$750,870
Distributable cash per unit					\$1.40	\$1.43

¹ We closed the acquisitions of the assets of TBayTel (Thunder Bay) on February 19, 2008, 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 were divested on October 31, 2008 resulting in the exclusion of those results in the Vertical Media segment from that date.

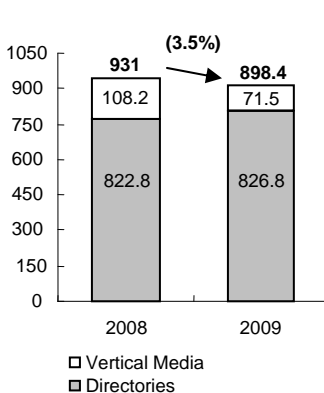
² Please refer to definitions relative to understanding our results on page 9 of this MD&A and Consolidated Results table on page 12 of this MD&A for a reconciliation of Adjusted Revenues and Adjusted EBITDA.

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

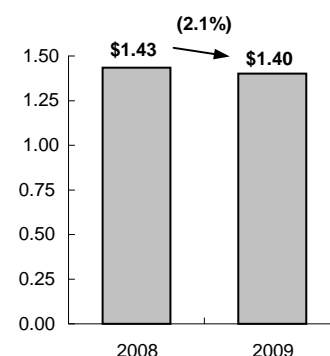
Adjusted Revenues
(in millions of dollars)



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 business 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 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 33 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 – Distributable Cash 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 Customer First, our automated client information tools. The deployment of phase 4 - contract closure, is now complete in our Canadian Central and Eastern 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 fourth 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. Online growth continued to benefit from the Enhanced Directory Plus and Showcase bundles, both of which were originally rolled out in 2008. The bundle strategy was also extended in 2009 with the launch of the Finder and Builder bundles in the first quarter and, more recently, with the piloting of other multimedia bundles in several markets across Canada.

From a consumer perspective we successfully launched and updated YellowPages.ca™ mobile search applications for the iPhone™, Blackberry™ and Google™ Android™ smartphones during the year. 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 of 2009, 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, share listing results with others via email/SMS, local proximity-based search using GPS and maps and direct connect to voice search. In the fourth quarter of 2009, the number of downloaded applications continued to increase at an impressive rate with recurring usage remaining strong and the daily search statistics continuing to build.

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. With the site enhancements, a new suite of placement products has also been developed to optimize the traffic across a broader set of products and pricing to make placement on YellowPages.ca accessible to all advertisers.

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

Improvement of productivity through investment in technology and business processes

Trader continues to focus on deploying its 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 half of 2010.

Enhancement and expansion of products

The commercial launch of "Dealer Smart Solutions", which results from our long-term 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 in process and will be completed in the first quarter of 2010. 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.

External growth

Acquisition of Les PAC

In April 2009, Trader exercised its option to acquire the remaining 50% interest in LesPAC in which Trader already had a 50% interest for a cash consideration of \$25.2 million (including acquisition related costs of \$0.2 million). LesPAC.com is Quebec's leading classified web site in the generalist category.

Partnership with Dealer.com

In January 2009, Trader announced a strategic agreement with Burlington, Vermont-based Dealer.com, a leading provider of online marketing solutions to the vehicle industry. The long-term, exclusive commercial agreement makes Dealer.com's web solutions available to Trader's customer base in Canada served under its AutoTrader™ brand. Concurrent with the agreement, Trader acquired a 20% equity interest in Dealer.com for a cash consideration of US\$35 million, with an option to increase its ownership in the privately held company over time. In January 2010, Trader exercised a portion of its option and raised its equity interest to approximately 30% for an additional consideration of US\$20 million.

This strategic agreement enables Trader to deliver a one-stop integrated solution to Canadian auto dealers, at a time when dealerships of all kinds are looking for opportunities to more effectively manage their inventory levels and advertising spending.

Restaurantica

In January 2010, YPG announced the acquisition of Restaurantica, one of Canada's largest growing restaurant and dining communities. The site lists 400,000 restaurants with over 200,000 user contributed reviews.

Consolidated Operating and Financial Results

Consolidated Results

(in thousands of Canadian dollars – except unit information)

	Years ended December 31,		
	2009	2008	2007
Revenues	\$1,639,884	\$1,696,713	\$1,624,424
Operating costs	746,446	764,007	750,264
Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges (EBITDA)	893,438	932,706	874,160
Depreciation and amortization	142,414	186,065	225,584
Impairment of goodwill	315,000	-	-
Restructuring and special charges	40,316	36,225	-
Income from operations	395,708	710,416	648,576
Financial charges, net	114,600	142,261	137,361
Impairment of available-for-sale investment	-	4,775	-
Earnings before dividends on Preferred shares, income taxes, share of losses from equity investees and non-controlling interests	281,108	563,380	511,215
Dividends on Preferred shares, Series 1 and 2	22,427	22,750	16,026
Earnings before income taxes, share of losses from equity investees and non-controlling interests	258,681	540,630	495,189
Provision for (recovery of) income taxes	42,710	30,664	(33,108)
Share of losses from equity investees	7,089	-	-
Earnings before non-controlling interests	208,882	509,966	528,297
Non-controlling interest related to investments	552	739	588
Dividends on Preferred shares, Series 3 and 5	4,075	-	-
Net earnings	\$204,255	\$509,227	\$527,709
Basic earnings per unit	\$0.40	\$0.97	\$0.99
Diluted earnings per unit	\$0.36	\$0.89	\$0.95
Revenues	\$1,639,884	\$1,696,713	\$1,624,424
Elimination of purchase accounting impact	10,637	751	4,526
Adjusted Revenues¹	\$1,650,521	\$1,697,464	\$1,628,950
Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges (EBITDA)	\$893,438	\$932,706	\$874,160
Elimination of purchase accounting impact	4,917	(1,754)	(3,113)
Adjusted EBITDA¹	\$898,355	\$930,952	\$871,047
Adjusted EBITDA margin	54.4%	54.8%	53.5%
Total assets	\$8,941,606	\$9,366,219	\$9,265,512
Total long-term debt	\$2,309,606	\$2,705,519	\$2,413,732

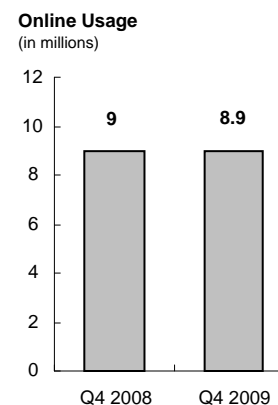
¹ Adjusted Revenues and Adjusted EBITDA – The acquisitions in the Directories segment were accounted for using the purchase method of accounting which resulted in the elimination of deferred revenues and deferred publication costs related to those directories published prior to each acquisition. These deferred revenues along with related deferred publication costs would have been recognized in 2007 through 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

Fiscal 2009 versus 2008

Revenues

Revenues decreased by \$56.8 million to \$1,639.9 million compared to \$1,696.7 million in 2008. The economic slowdown and related reduction in advertising spending in Canada impacted our revenues, especially in the Vertical Media segment. As such, our revenues in Vertical Media decreased by \$72.8 million from \$320.7 million in 2008. Organic online revenue growth reached 24% for the year below our growth target of 30% mainly due to the Vertical Media performance where overall revenue pressure had a dampening effect online. Online revenues from the Directories and Vertical Media segments combined reached \$304.4 million in 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 8.9 million unduplicated unique visitors¹ on average during the fourth 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 \$39.3 million to \$893.4 million compared to \$932.7 million in 2008. The decrease for the year is directly attributable to lower revenues in the Vertical Media segment, which accounts for \$36.7 million of the decrease in EBITDA. The Directories EBITDA decreased by \$2.6 million for the year.

Cost of sales decreased by \$10.9 million to \$453.1 million compared to \$464 million in 2008. 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 costs incurred by YPG USA which was acquired on September 5, 2008.

Gross profit margin was relatively stable at 72.4% in 2009 compared to 72.7% in 2008.

General and administrative expenses decreased by \$6.7 million to \$293.3 million compared to \$300 million in 2008. The decrease in general and administrative expenses is mainly attributable to lower employee-related expenses in the Directories segment and lower costs in both segments following the implementation of our cost containment initiatives. The cost reduction resulting from cost containment initiatives in the Directories segment was offset by costs at YPG USA which was acquired in the third quarter of 2008.

Depreciation and amortization

Depreciation and amortization decreased by \$43.7 million to \$142.4 million in 2009 compared to \$186.1 million in 2008. The decrease is attributable to lower amortization of certain intangible assets related to the acquisitions of Trader and Aliant which have been fully amortized, partly offset by the amortization related to the acquisition of YPG USA.

Impairment of goodwill

During the year, 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.

¹ Source: comScore Media Metrix Canada.

Restructuring and special charges

During the year, we recorded expenses relating to an internal reorganization, workforce reduction, the termination of certain contractual obligations and other items amounting to \$40.3 million. Similar initiatives amounting to \$36.2 million were undertaken in 2008.

Financial charges

Financial charges decreased by \$27.7 million to \$114.6 million compared to \$142.3 million in 2008. The decrease is due to the net gain on repurchase of Preferred shares, Series 1 and 2, long-term debt and exchangeable debentures of \$42.8 million in 2009 partly offset by an increase in interest expense of \$6 million. The increase in interest expense is due to certain debt refinancing with longer-term funded debt which resulted in higher interest rates. The effective average interest rate on our debt portfolio as of December 31, 2009 was 5.8%.

Dividends on Preferred shares, Series 1 and 2

Dividends on the two series of redeemable Preferred shares amounted to \$22.4 million compared to \$22.8 million in 2008.

Provision for income taxes

The combined statutory provincial and federal tax rate was 31.4% and 31.8% in 2009 and 2008, respectively. The Fund recorded an expense of 16.5% of the earnings in 2009 compared to 5.7% in 2008. Excluding the impact of the impairment, the expense would have been approximately 7.4% of the earnings in 2009. The difference between the statutory and the effective tax rates is primarily due to inter-company revenues which are not currently taxable when received by YPG LP. The 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 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 (SIFT Rules) 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. For a more complete description of the SIFT Rules and its impact on our results, see Section 7 – Risk and Uncertainties.

Share of losses from equity investees

In 2009, we recorded our share of losses from our equity investments in the amount of \$7.1 million. This includes approximately \$12.9 million related to amortization of the values assigned to intangible assets recorded accounted for using the equity method.

Dividend on Preferred shares, Series 3 and 5

During the year, the Fund recorded \$4.1 million of dividends on Preferred shares, Series 3 and 5. The Fund issued 8.3 million Preferred shares, Series 3 in September 2009 and 5 million Preferred shares, Series 5 in December 2009.

Net earnings

Net earnings decreased by \$305 million to \$204.3 million in 2009. The decrease results mainly from the impairment of goodwill.

Fiscal 2008 versus 2007

Revenues

Revenues increased by \$72.3 million to \$1,696.7 million compared to \$1,624.4 million in 2007. For the year ended December 31, 2008, the contribution from businesses acquired in 2007 accounted for \$20.9 million, excluding their 2008 organic growth. YPG USA contributed \$12.3 million of revenues for the period from acquisition to December 31, 2008. Online revenues from the Directories and Vertical Media segments combined reached \$246.8 million in 2008, representing growth of 43.5% compared to the previous year.

EBITDA

EBITDA increased by \$58.5 million to \$932.7 million compared to \$874.2 million in 2007. The increase for the year was mainly attributable to organic growth in the Directories segment as well as cost efficiencies realized in both segments resulting from our cost containment initiatives and investment in new technology. The increase for the year was also attributable to the contribution from acquired businesses.

Cost of sales increased by \$20.3 million to \$464 million compared to \$443.6 million in 2007. The increase for the year was directly related to increased revenues and the acquisition of YPG USA on September 5, 2008, and the acquisition of Aliant on April 30, 2007.

Gross profit margin remained stable at 72.7 % in 2008 and in 2007.

General and administrative expenses decreased by \$6.6 million to \$300 million compared to \$306.6 million in 2007. The decrease in general and administrative expenses was mainly attributable to lower costs in the Vertical segment due to cost containment initiatives. In 2007, we also recorded transition expenses following the integration of Trader.

Restructuring and special charges

During the fourth quarter of 2008, we recorded expenses relating to an internal reorganization, workforce reduction, the termination of certain contractual commitments, the acceleration of business process changes in call centers, the discontinuance of under-performing publications, the closure of certain ad centers, and other items amounting to \$36.2 million.

Depreciation and amortization

Depreciation and amortization decreased by \$39.5 million to \$186.1 million in 2008 compared to \$225.6 million in 2007. The decrease related to lower amortization of certain intangible assets related to the acquisitions of Trader, Aliant, MTS and LesPAC which were fully amortized, offset by the amortization related to the acquisition of YPG USA.

Financial charges

Financial charges increased by \$4.9 million to \$142.3 million compared to \$137.4 million in 2007. The variance was mainly due to lower credits related to derivative financial instruments and an increase in the non-cash amortization of deferred financing costs of \$1.4 million. The balance of the variance was related to an increased level of debt to finance acquisitions and to repurchase units under our normal course issuer bid (NCIB) program offset by lower short-term rates compared to 2007. The effective average interest rate on our debt portfolio as of December 31, 2008 was 5.1%.

Dividends on Preferred shares, Series 1 and 2

Dividends on the two series of Preferred shares amounted to \$22.8 million compared to \$16 million in 2007. The Series 1 and Series 2 Preferred shares were issued in March and June 2007, respectively.

Provision for income taxes

The combined statutory provincial and federal tax rate was 31.8% and 31.6% in 2008 and 2007 respectively. The Fund recorded tax expenses of 5.7% of earnings in 2008 compared to a tax recovery of 6.7% of earnings in 2007. 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 was primarily due to inter-company revenues which are not currently taxable when received by YPG LP. In 2008, the provision for income taxes increased compared to the prior year reflecting the utilization of the future income taxes in 2008 combined with 2007 being positively impacted by the enactment of lower future income tax rates.

Net earnings

Net earnings decreased by \$18.5 million to reach \$509.2 million in 2008. The decrease was due to the restructuring and special charges combined with the higher provision for income tax incurred in 2008, offset by an increase in income from operations before restructuring and special charges.

Analysis of Adjusted Consolidated Operating and Financial Results

Fiscal 2009 versus 2008

Adjusted Revenues

Adjusted Revenues decreased by \$47 million to \$1,650.5 million in 2009 compared to \$1,697.5 million last year. The decline in adjusted revenues is due to lower revenues in the Vertical Media segment of \$72.8 million offset by the contribution from YPG USA which was acquired on September 5, 2008.

Adjusted EBITDA

Adjusted EBITDA decreased by \$32.6 million to \$898.4 million compared to \$931 million in 2008. The decrease is largely due to lower revenues in the Vertical Media segment where EBITDA decreased by \$36.7 million. Adjusted EBITDA for the Directories segment increased by \$4.1 million.

Cost of sales decreased by \$7.7 million to \$458.8 million in 2009 compared to \$466.5 million in 2008. 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 72.2% in 2009 compared to 72.5% in 2008. 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 \$6.7 million to \$293.3 million in 2009 compared to \$300 million in 2008. The decrease in general and administrative expenses is mainly attributable to lower employee-related expenses in the Directories segment and lower costs in both segments following the implementation of our cost containment initiatives. The cost reduction resulting from cost containment initiatives in the Directories segment was offset by costs at YPG USA which was acquired in the third quarter of 2008.

Fiscal 2008 versus 2007

Adjusted Revenues

Adjusted Revenues increased by \$68.5 million to \$1,697.5 million in 2008 compared to \$1,629 million last year. The increase for the year was mainly due to organic online growth which reached 43.5%. The contribution from businesses acquired in 2007 amounted to \$20.9 million, excluding their 2008 organic growth. YPG USA contributed \$12.3 million of revenues for the period from acquisition to December 31, 2008.

Adjusted EBITDA

Adjusted EBITDA increased by \$59.9 million to \$931 million compared to \$871 million in 2007. These increases were largely due to organic growth in the Directories segment, cost efficiencies in both segments and contribution of businesses acquired in 2007 and 2008.

Cost of sales increased by \$15.2 million to \$466.5 million in 2008 compared with \$451.3 million in 2007. The increase was directly linked with the increase in revenues. The increase for the year was also attributable to the acquisition of Aliant as the 2007 results included only 12.86% of Aliant for the first four months of 2007.

Gross profit margin remained stable at 72.5% in 2008 compared to 72.3% in 2007.

General and administrative expenses decreased by \$6.6 million to \$300 million in 2008 compared to \$306.6 million in 2007. The decrease in general and administrative expenses was mainly attributable to lower costs in the Vertical segment following our cost containment initiatives.

Summary of Consolidated Quarterly Results

Quarterly Results

(in thousands of Canadian dollars – except unit information)

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	\$405,679	\$408,318	\$417,534	\$408,353	\$425,559	\$426,141	\$430,442	\$414,571
Operating costs	186,382	182,109	193,465	184,490	194,020	188,348	194,461	187,178
Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges (EBITDA)	219,297	226,209	224,069	223,863	231,539	237,793	235,981	227,393
Depreciation and amortization	35,010	35,282	34,005	38,117	45,872	33,369	50,860	55,964
Impairment of goodwill	-	315,000	-	-	-	-	-	-
Restructuring and special charges	19,732	-	20,584	-	36,225	-	-	-
Income (loss) from operations	164,555	(124,073)	169,480	185,746	149,442	204,424	185,121	171,429
Financial charges, net	28,515	11,128	37,401	37,556	42,644	34,731	30,221	34,665
Impairment of available-for-sale investment	-	-	-	-	418	4,357	-	-
Earnings (loss) before dividends on Preferred shares, income taxes, share of losses (earnings) from equity investees and non-controlling interests	136,040	(135,201)	132,079	148,190	106,380	165,336	154,900	136,764
Dividends on Preferred shares, Series 1 and 2	5,464	5,588	5,687	5,688	5,687	5,688	5,687	5,688
Earnings (loss) before income taxes, share of losses (earnings) from equity investees and non-controlling interests	130,576	(140,789)	126,392	142,502	100,693	159,648	149,213	131,076
(Recovery) provision for income taxes	(19)	24,238	7,898	10,593	21	13,379	13,293	3,971
Share of losses (earnings) from equity investees	2,190	3,488	1,589	(178)	-	-	-	-
Earnings (loss) before non-controlling interests	128,405	(168,515)	116,905	132,087	100,672	146,269	135,920	127,105
Non-controlling interest related to investments	-	-	78	474	182	206	234	117
Dividends on Preferred shares, Series 3	3,798	277	-	-	-	-	-	-
Net (loss) earnings	124,607	\$(168,792)	\$116,827	\$131,613	\$100,490	\$146,063	\$135,686	\$126,988
Basic earnings (loss) per unit	\$0.25	\$(0.33)	\$0.23	\$0.26	\$0.19	\$0.28	\$0.26	\$0.24
Diluted earnings (loss) per unit	\$0.21	\$(0.33)	\$0.19	\$0.21	\$0.17	\$0.25	\$0.24	\$0.22
Revenues	\$405,679	\$408,318	\$417,534	\$408,353	\$425,559	\$426,141	\$430,442	\$414,571
Elimination of purchase accounting impact	-	1,761	3,687	5,189	-	15	178	558
Adjusted Revenues	\$405,679	\$410,079	\$421,221	\$413,542	\$425,559	\$426,156	\$430,620	\$415,129
Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges (EBITDA)	\$219,297	\$226,209	\$224,069	\$223,863	\$231,539	\$237,793	\$235,981	\$227,393
Elimination of purchase accounting impact	-	823	2,052	2,042	(115)	(312)	(537)	(790)
Adjusted EBITDA	\$219,297	\$227,032	\$226,121	\$225,905	\$231,424	\$237,481	\$235,444	\$226,603
Adjusted EBITDA margin	54.1%	55.4%	53.7%	54.6%	54.4%	55.7%	54.7%	54.6%

Revenues and Adjusted Revenues for the first and second quarters of 2008 reflected sustained organic growth in our Directories segment quarter over quarter. For the third and fourth quarters of 2008, Revenues and Adjusted Revenues were lower quarter over quarter due to lower revenues in the Vertical Media segment being negatively impacted by adverse economic conditions. This trend continued throughout 2009, reflecting continuing pressure on revenues resulting from the economic downturn facing our industry especially in our Vertical Media segment.

In 2008 and 2009, our Adjusted EBITDA margins remained relatively stable despite the protracted economic downturn which affected our business in the back half of 2008 and in 2009. The negative impact of our lower revenues, especially in the Vertical Media segment was partly compensated for by our cost containment initiatives.

Net (loss) earnings were affected by the adverse economic conditions during the four quarters of 2009. In addition, restructuring and special charges impacted the fourth quarter of 2008 and the second and fourth quarters of 2009. Impairment of goodwill also impacted the third quarter of 2009 as well as the gain on repurchase of preferred shares Series 1 and 2, and the loss on the repurchase of exchangeable debentures.

Analysis of fourth quarter 2009 results

Revenues

Revenues decreased by \$19.9 million to \$405.7 million during the fourth quarter of 2009 compared with the same period last year. The economic slowdown in Canada impacted our revenues, especially in the Vertical Media segment where revenues were lower by \$10.4 million. Despite challenging economic and market conditions, organic online revenue growth for the fourth quarter reached 19%. Online revenues from the Directories and the Vertical Media segments combined reached \$82.6 million during the fourth quarter of 2009 or \$330.4 million annualized. Online growth is driven by strong adoption of our online products in both of our segments.

EBITDA

EBITDA decreased by \$12.2 million to \$219.3 million during the fourth quarter of 2009 compared with the same period last year. The decrease for the period is mainly attributable to lower revenues in both of our segments.

Cost of sales decreased by \$3.2 million to \$111.6 million during the fourth quarter of 2009 compared with the same period last year. Direct costs decreased as a result of the decline in revenues in the Vertical Media segment while indirect costs were positively impacted by cost containment initiatives.

Gross profit margin was lower at 72.5% for the fourth quarter of 2009 compared to 73% for the fourth quarter of 2008. 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 to \$74.8 million during the quarter compared to \$79.2 million in 2008. The decrease in general and administrative expenses is mainly attributable to lower employee-related expenses in the Directories segment.

Depreciation and amortization

Depreciation and amortization decreased from \$45.9 million to \$35 million during the fourth quarter of 2009 compared with the same period last year. The decrease is attributable to lower amortization of certain intangible assets related to the acquisitions of YPG USA which have been fully amortized.

Restructuring and special charges

For the fourth quarter of 2009, we recorded expenses relating to an internal reorganization, the termination of certain contractual obligations and other items amounting to \$19.7 million. Similar initiatives were undertaken in the fourth quarter of 2008 for an amount of \$36.2 million.

Financial charges

Financial charges decreased from \$42.6 million in the fourth quarter of 2008 to \$28.5 million in the fourth quarter of 2009. The decrease is due to the net gain on repurchase of preferred shares, exchangeable debentures and long-term debt of \$12.3 million for the fourth quarter of 2009.

Dividends on preferred shares, Series 1 and 2

Dividends on the two series of preferred shares amounted to \$5.5 million and \$5.7 million for the fourth quarter of 2009 and 2008, respectively.

Provision for income taxes

The combined statutory provincial and federal tax rate was 30.97% in 2009 and 31.8% in 2008. The Fund recorded a tax recovery of 0.02% and tax expenses of 0.02% of earnings for the three-month periods ended December 31, 2009 and 2008, respectively.

Share of losses from equity investees

During the fourth quarter we recorded our share of losses from our equity investments in the amount of \$2.2 million. This includes approximately \$3.6 million related to the amortization of the values assigned to intangible assets accounted for using the equity method.

Net earnings

Net earnings increased by \$24.1 million to \$124.6 million during the fourth quarter of 2009. The increase is due to lower depreciation and amortization, the net gain in the repurchase of preferred shares, Series 1 and 2, exchangeable debentures and long-term debt and lower restructuring and special charges recorded during the fourth quarter of 2009 when compared to the same period last year.

Analysis of adjusted fourth quarter 2009 results

Adjusted Revenues

Adjusted Revenues decreased by \$19.9 million to \$405.7 million during the fourth quarter of 2009 compared with the same period last year. The economic slowdown in Canada impacted our revenues, especially in the Vertical Media segment where revenues were lower by \$10.4 million. Despite challenging economic and market conditions, organic online revenue growth for the fourth quarter reached 19%. Online revenues from the Directories and the Vertical Media segments combined reached \$82.6 million during the fourth quarter of 2009 or \$330.4 million annualized. Online growth is driven by continued strong adoption of our online products in both of our segments.

Adjusted EBITDA

Adjusted EBITDA decreased by \$12.1 million to \$219.3 million in the fourth quarter of 2009 compared to the same period last year. The decrease is mainly attributable to lower revenues in both of our segments.

Cost of sales decreased by \$3.3 million to \$111.6 million in the fourth quarter of 2009 compared with the same period last year. The decrease is due to lower sales-related expenses as a result of lower revenues in the Vertical Media segment as well as cost containment initiatives.

Gross profit margin decreased from 73% in the fourth quarter of 2008 to 72.5% in the fourth quarter of 2009. 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 to \$74.8 million during the quarter compared to \$79.2 million in 2008. The decrease in general and administrative expenses is mainly attributable to lower employee-related expenses in the Directories segment.

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 and changing consumer trends affecting local commercial search.

Throughout 2009, we observed a more cautious behaviour from advertisers due to the adverse economic conditions they are experiencing. In this environment, we expected revenue growth from our online product offerings to continue, but also expected revenue pressure to remain in our traditional print offerings. Given the current economic climate we reported 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 of this MD&A for a more thorough discussion.

Adjusted Revenues declined by 2.7% for the fourth quarter of 2009 and grew by 1.9% for the year ended 2009 when compared to 2008. Adjusted Revenues reached \$1,402.7 million for the year in line with our revised target of approximately \$1,400 million established in the second quarter. The level of 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 decreased by 2.5% for the fourth quarter but increased by 0.5% for the year to reach \$826.8 million. This level of Adjusted EBITDA is in line with our revised targets established in the second quarter to deliver Adjusted EBITDA between \$825 million and \$830 million.

Operating and Financial Results

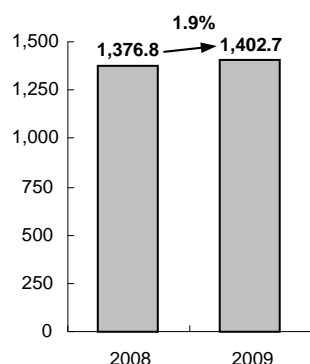
Operating Results¹

(in thousands of Canadian dollars)

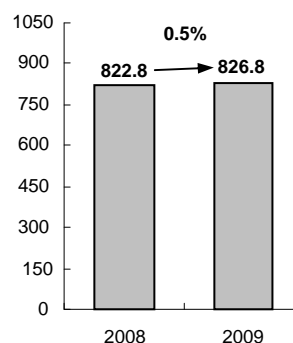
	Three-month periods ended December 31,		Years ended December 31,	
	2009	2008	2009	2008
Revenues	\$345,376	\$354,814	\$1,392,029	\$1,376,036
Operating costs	142,154	146,351	570,125	551,528
Income from operations before depreciation and amortization and restructuring and special charges (EBITDA)	203,222	208,463	821,904	824,508
Depreciation and amortization	24,130	39,818	109,846	157,376
Restructuring and special charges	18,574	24,068	33,735	24,068
Income from operations	\$160,518	\$144,577	\$678,323	\$643,064
Revenues	\$345,376	\$354,814	\$1,392,029	\$1,376,036
Elimination of purchase accounting impact	-	-	10,637	751
Adjusted Revenues	\$345,376	\$354,814	\$1,402,666	\$1,376,787
Income from operations before depreciation and amortization and restructuring and special charges (EBITDA)	\$203,222	\$208,463	\$821,904	\$824,508
Elimination of purchase accounting impact	-	(115)	4,917	(1,754)
Adjusted EBITDA	\$203,222	\$208,348	\$826,821	\$822,754

¹ See Note 27 - Segmented Information of the audited consolidated financial statements of the Company for the year ended December 31, 2009.

Adjusted Revenues
(in millions of dollars)



Adjusted EBITDA
(in millions of dollars)



Analysis of Operating and Financial Results – Year End and Fourth Quarter

Revenues and Adjusted Revenues

Revenues decreased by \$9.4 million to \$345.4 million during the fourth quarter of 2009 and increased by \$16 million to reach \$1,392 million for the year ended December 31, 2009, compared with the same periods last year. Excluding the effect of purchase accounting, Adjusted Revenues decreased by \$9.4 million during the fourth quarter of 2009, and increased by \$25.9 million to \$1,402.7 million for the year ended December 31, 2009, compared with the same periods last year. For both revenues and Adjusted Revenues, the decline in the quarter is due to the impact of lower advertising sales in our print directories while the increase for the year is due to the continued growth in online revenues partly offset by lower print revenues and the contribution from YPG USA which was acquired in September 2008.

As of December 31, 2009 the number of directories customers choosing to advertise both in print and online was 63.3% across Canada compared to 59% for the corresponding period last year.

EBITDA and Adjusted EBITDA

EBITDA decreased by \$5.2 million to \$203.2 million in the fourth quarter of 2009 and by \$2.6 million to \$821.9 million for the year ended December 31, 2009, compared with the same periods last year. Excluding the effect of purchase accounting, Adjusted EBITDA decreased by \$5.1 million to \$203.2 million in the fourth quarter of 2009 and increased by \$4.1 million to \$826.8 million for the year ended December 31, 2009, compared with the same periods last year. The decrease for the quarter is directly related to lower revenues and Adjusted Revenues of \$9.4 million which was partly offset by lower costs. The increase in EBITDA and Adjusted EBITDA for the year is attributable to the contribution of YPG USA, our cost containment initiatives, and lower employee-related expenses partly offset by lower contribution from print revenues.

Cost of sales amounted to \$81.7 million in the fourth quarter of 2009 compared with \$80 million for the same period last year. For the year ended December 31, 2009, cost of sales was \$334 million compared with \$310.3 million for the same period last year. Excluding the effect of purchase accounting, cost of sales increased in the fourth quarter of 2009 to \$81.7 million compared with \$80.1 million for the same period last year. For the year ended December 31, 2009, cost of sales increased to \$339.7 million compared to \$312.8 million for the same period last year. These increases are mainly due to our new operations in the USA which are partly offset by the results of our cost containment efforts including the creation of a centre of excellence in our publishing operations.

Gross profit margin was lower at 76.4% in the fourth quarter of 2009 compared to 77.5% for the same period last year and 76% for the year ended December 31, 2009 compared to 77.4% for the same period last year. Excluding the effect of purchase accounting, gross profit margin was 76.4% in the fourth quarter of 2009 compared to 77.4% for the same period last year and 75.8% for the year ended December 31, 2009 compared to 77.3% 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 fourth quarter of 2009 decreased by \$5.9 million to \$60.5 million and decreased by \$5.1 million to reach \$236.1 million for the year ended December 31, 2009, compared with the same periods last year. The decrease for the quarter and for the year reflects lower employee related expenses.

Depreciation and amortization

Depreciation and amortization decreased from \$39.8 million in the fourth quarter of 2008 to \$24.1 million in the fourth quarter of 2009. For the year ended December 31, 2009, compared to the same period last year, depreciation and amortization decreased to \$109.8 million from \$157.4 million. The decrease for the fourth quarter and for the year ended December 31, 2009 compared to the same periods last year is due to the lower amortization of intangible assets related to the Bell Aliant acquisition which occurred in 2007, offset by the amortization related to the acquisition of YPG USA. Excluding the effect of purchase accounting, depreciation and amortization was \$9.5 million for the fourth quarter of 2009, down from \$11.2 million for the fourth quarter of 2008 and \$39.5 million for the year ended December 31, 2009 compared to \$44.6 million for the same period last year.

Restructuring and special charges

In 2009, we undertook additional restructuring initiatives to further improve our operational capabilities in light of the economic and market conditions. As a result of an internal reorganization, workforce reductions and the termination of certain contractual obligations, the Fund recorded restructuring and special charges of \$18.6 million during the fourth quarter and \$33.7 million for the year ended December 31, 2009. Restructuring initiatives undertaken in 2008, amounted to \$24.1 million during the fourth quarter and the year then ended.

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 the accelerated migration from print to online advertising solutions for advertisers in our Vertical Media segment. In the fourth quarter, approximately 45.8% 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. In the third quarter, we further indicated that it was unlikely that we would meet these revised targets. Please refer to Section 5 – Outlook in our second and third quarter MD&A for a more thorough discussion.

For the fourth quarter, excluding US operations sold in October 2008, publications that were discontinued, and ad centers that were closed in late 2008, revenues declined by 12.3%. The adverse economic conditions which have prevailed throughout the year impacted our ability to generate revenue growth and profitability consistent with our 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 continued to be impacted by the reduced activity in the new homes and condos market. Despite significant cost savings from our cost containment initiatives, EBITDA decreased by 30.3% for the quarter and decreased by 33.9% for the year, as a result of the continued revenue shortfall.

Operating and Financial Results

Operating Results¹

(in thousands of Canadian dollars)

	Three-month periods ended		Years ended	
	December 31,		December 31,	
	2009	2008	2009	2008
Revenues	\$60,303	\$70,745	\$247,855	\$320,677
Operating costs	44,228	47,669	176,321	212,479
Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges (EBITDA)	16,075	23,076	71,534	108,198
Depreciation and amortization	10,880	6,054	32,568	28,689
Impairment of goodwill	-	-	315,000	-
Restructuring and special charges	1,158	12,157	6,581	12,157
Income (loss) from operations	\$4,037	\$4,865	\$(282,615)	\$67,352

¹ See Note 27 – Segmented Information of the audited consolidated financial statements of the Company for the year ended December 31, 2009.

Analysis of Operating and Financial Results – Year end and Fourth Quarter

Revenues

Revenues from our Vertical Media segment amounted to \$60.3 million in the three-month period ended December 31, 2009 compared to \$70.7 million for the same period last year representing a 14.8% decrease. Revenues for the year ended December 31, 2009 amounted to \$247.9 million compared to \$320.7 million for the same period last year, representing a decline of 22.7%. 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 year ended December 31, 2009, is attributable to lower revenues across all product verticals and regions.

EBITDA

EBITDA decreased by \$7 million to \$16.1 million for the three-month period ended December 31, 2009 and by \$36.7 million to \$71.5 million for the year ended December 31, 2009, compared to the same periods last year due to lower revenues. Given that the majority of Trader revenues reside in the Vehicle and Real Estate verticals and that these sectors continue to experience significant downward economic pressure, advertising expenditures have been correspondingly reduced. As a result of this revenue performance, EBITDA contracted in the quarter and during the year. Significant cost containment efforts were executed in the latter part of 2008 and in the first half of 2009 which should position us well for a future economic recovery.

Cost of sales decreased to \$30 million for the fourth quarter of 2009 compared to \$34.8 million for the same period last year. For the year ended December 31, 2009, cost of sales was \$119.1 million compared to \$153.7 million for the same period last year. These results directly relate to the decline in revenues and are also 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 stable at 50.3% for the fourth quarter of 2009 compared to 50.8% for the same period last year and remained relatively stable at 51.9% for the year ended December 31, 2009 compared to 52.1% for the same period last year.

General and administrative expenses increased by \$1.4 million to reach \$14.3 million in the fourth quarter of 2009 compared to \$12.9 million for the same period last year. The increase for the quarter is due to the timing of certain marketing-related expenses and higher bad debts. For the year ended December 31, 2009, general and administrative expenses were \$57.2 million compared to \$58.8 million for the same period last year. The reduction for the year ended December 31, 2009 is attributable to our cost containment initiatives, partly offset by higher bad debt expenses.

Depreciation and amortization

Depreciation and amortization amounted to \$10.9 million in the fourth quarter of 2009 compared to \$6.1 million for the same period last year and \$32.6 million for the year ended December 31, 2009 compared to \$28.7 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 \$5.3 million for the fourth quarter of 2009 compared to \$6 million for the same period last year, and \$20.9 million for the year ended December 31, 2009 compared to \$18.4 million for the same period last year due to higher amortization of software.

Impairment of goodwill

During the year, 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 under the second step of the impairment test. Please refer to Section 6 – Critical Assumptions for a more thorough discussion.

Restructuring and special charges

During the year, 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. The Fund recorded restructuring and special charges of \$1.2 million during the quarter and \$6.6 million for the year ended December 31, 2009. Restructuring initiatives were also undertaken in 2008 and resulted in restructuring and special charges of \$12.2 million during the quarter and the year then ended.

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

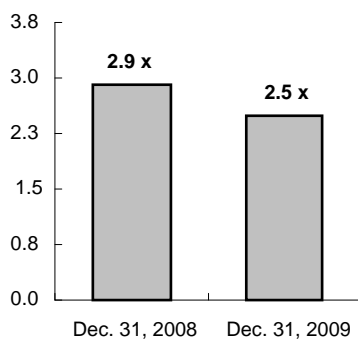
Capital Structure

(in thousands of Canadian dollars)

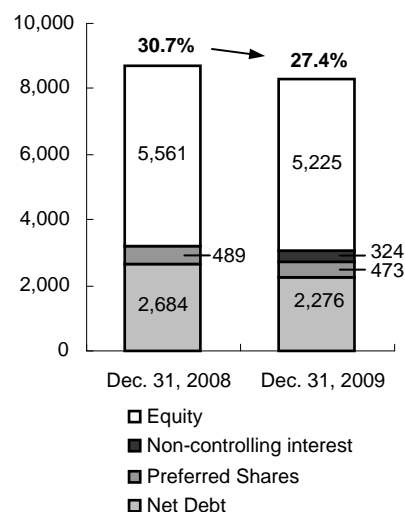
	As at December 31, 2009	As at December 31, 2008
Cash and cash equivalents	\$36,170	\$25,054
Medium Term Notes	2,044,947	2,051,370
Exchangeable Debentures	83,886	285,470
Credit facilities	100,000	358,700
Commercial paper	74,000	-
Obligations under capital leases	9,027	13,786
Long-term debt, including current portion	\$2,311,860	\$2,709,326
Net debt (net of cash and cash equivalents)	\$2,275,690	\$2,684,272
Preferred shares, Series 1 and 2	472,777	489,072
Non-controlling interest ¹	324,130	-
Unitholders' equity	5,224,740	5,561,492
Total capitalization	\$8,297,337	\$8,734,836
Net debt to total capitalization	27.4%	30.7%

¹ Represents 8.3 million and 5.0 million Preferred Shares, Series 3 and 5 issued by Yellow Media Inc. in September and December 2009, respectively.

Net Debt to Latest Twelve Month Adjusted EBITDA¹ Ratio



Capital Structure
(in millions of dollars)



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 December 31, 2009, YPG had approximately \$2.3 billion of debt net of cash and cash equivalents, which was \$408.6 million 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 year 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 and 5. The net debt to Latest Twelve Month Adjusted EBITDA¹ ratio as of December 31, 2009 was 2.5 times, compared to 2.9 times as of December 31, 2008. The net debt to total capitalization was at 27.4% compared to 30.7% as of December 31, 2008.

Credit Facilities and Commercial Paper Program

As at February 11, 2010, 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;
 - a \$200 million 5-year revolving tranche maturing in May 2012;
- A \$100 million private placement from an institutional investor (the Private Facility) maturing July 23, 2014.

Currently, 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). From that date, repayments on the New Credit Facility automatically reduced the limit of the 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.

Yellow Media 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 commercial paper program. During the fourth quarter of 2009, the Company continued to take advantage of improved conditions in the Canadian money markets permitting it to issue commercial paper to fund its short term liquidity requirements. As at December 31, 2009, there was \$74 million of commercial paper outstanding (no amount was outstanding at December 31, 2008). As of December 31, 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. On December 14, 2009, the Company announced that an aggregate of \$213.5 million principal amount was deposited under the offer and it had taken up and accepted for purchase and cancellation all of such deposited Exchangeable Debentures. The substantial issuer bid was financed through cash on hand and the commercial paper program.

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 EBITDA¹ of 4.25 times and a minimum ratio of Latest Twelve Month Adjusted EBITDA¹ to cash interest expense on total debt of 3.5 times.

YPG was in compliance with all of its debt covenants as at December 31, 2009.

Medium Term Note Program

Yellow Media Inc. had a total of \$2 billion of notes outstanding under its Medium Term Note program as of December 31, 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, Yellow Media 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, Yellow Media Inc. 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, Yellow Media Inc. re-opened the 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, offered to retail investors, 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.

On November 18, 2009, Yellow Media Inc. announced its intention to exercise its right to redeem all of its outstanding \$150 million 4.65% Medium Term Notes, Series 6, due February 28, 2011 on the following terms: (i) redemption date: January 15, 2010; (ii) redemption price: \$1,041.681 per \$1,000 principal amount of Series 6 Notes; (iii) accrued and unpaid interest: \$17.836 per \$1,000 principal amount of Series 6 Notes; and (iv) total redemption price and accrued and unpaid interest: \$1,059.517 per \$1,000 principal amount of Series 6 Notes. The redemption price has been determined in accordance with the terms of the Series 6 Notes and the provisions of the trust indenture dated April 21, 2004 governing the Series 6 Notes. Interest accrued on the Series 6 Notes up to, but excluding, the redemption date will be paid on the redemption date. Yellow Media Inc. plans to finance the redemption through its existing commercial paper program. On January 15, 2010, the redemption was successfully completed.

On November 23, 2009, Yellow Media Inc. completed an issuance of \$300 million of 7.75% Medium Term Notes Series 10 due March 2, 2020. The net proceeds of such issuance were used to repay indebtedness under Yellow Media Inc.'s commercial paper program and for general corporate purposes.

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").

The Medium Term Notes Series 7, 8, 9 and 10 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 \$185 million. The recent long-term debt issuances are consistent with our past financing practices, our objective being to refinance drawings under bank credit facilities with longer term funded debt or through the issuance of other capital market securities.

Following the issuance of Medium Term Notes Series 7, 8, 9 and 10, the Company remains subject to a maximum ratio of Funded Debt to Latest Twelve Month Adjusted EBITDA¹ 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, 9 and 10 remain outstanding.

Following the issuance of Medium Term Notes Series 7, 8, 9 and 10, 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.

During 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%, \$72.8 million face value of Medium Term Notes Series 3, maturing in 2019 with a coupon of 5.85%, \$56.3 million face value of Medium Term Notes Series 4, maturing in 2016 with a coupon of 5.25%, and \$230.1 million face value of Medium Term Notes Series 5, maturing in 2036 with a coupon of 6.25%.

Exchangeable Unsecured Subordinated Debentures

On July 6, 2006, Yellow Media Inc. issued 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 Yellow Media Inc. after August 1, 2010, subject to certain restrictions. The Exchangeable Debentures also provide Yellow Media Inc. with the option to repay the principal and interest in units of the Fund. An amount of approximately \$13 million, representing the value of the exchange option, has been classified as a component of Unitholders' equity on the balance sheet.

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 plus accrued interest. The Company secured a committed \$300 million multi-draw term loan to fund the tender offer.

On December 14, 2009, the Company announced that an aggregate of \$213.5 million principal amount had been deposited under the offer and it had taken up and accepted for purchase and cancellation all of such deposited Exchangeable Debentures. Existing liquidity was used to fund the payment thereof. As a result, the Company cancelled the \$300 million committed multi-draw term loan.

Cumulative Redeemable Preferred Shares

Yellow Media 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.

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 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, the Fund received approval from the Toronto Stock Exchange on its notice of intention to make a normal course issuer bid for its first preferred shares 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 outstanding Preferred Shares Series 1 and 2, respectively. These figures represent 10% of the public float of each series of preferred shares outstanding on June 9, 2009. Since June 11, 2009, 85,466 Preferred Shares Series 1 and 658,226 Preferred Shares series 2 were repurchased at average prices of \$22.88 and \$17.86, respectively, including brokerage fees.

The total cost of repurchasing preferred shares amounted to \$13.7 million, including brokerage fees.

Rate Reset Preferred Shares

Yellow Media Inc. has two series of rate reset first preferred shares outstanding.

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 cumulative rate reset preferred shares, Series 3 (the 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 December 31, 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 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%.

On December 7, 2009, 5,000,000 cumulative rate reset preferred shares, Series 5 (the Preferred Shares Series 5) were issued for gross proceeds of \$125 million. A dividend of \$1.7250 per share per annum is payable quarterly, yielding 6.90% per annum for the initial five and one-half year period ending June 30, 2015. The dividend rate will be reset on June 30, 2015 and every five years thereafter at a rate equal to the 5-year Government of Canada bond yield plus 4.26%. The Series 5 Preferred Shares will be redeemable by the Issuer on or after June 30, 2015, in accordance with their terms. Holders of the Series 5 Preferred Shares will have the right, at their option, to convert their shares into cumulative floating rate preferred shares, series 6, (the "Series 6 Preferred Shares") subject to certain conditions, on June 30, 2015 and on June 30 every five years thereafter. Holders of the Series 6 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 4.26%.

Net proceeds resulting from the sale of the Series 3 and 5 Preferred Shares were used to repay indebtedness under the Principal Revolving Facility and commercial paper program, and for general corporate purposes.

Liquidity

As part of its financial policy capital structure guidelines, YPG remains committed to maintaining adequate liquidity at all times. To this end, YPG has access to committed bank lines, and has been proactive in increasing its liquidity and capital resources. As at December 31, 2009, YPG maintained two credit facilities totalling \$800 million, providing sufficient liquidity to fund its operations.

On December 31, 2009, cash and cash equivalents amounted to \$36.2 million. In addition to cash and cash equivalents, Yellow Media Inc. may issue additional notes amounting to \$426 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, Yellow Media Inc. may access the full \$626 million available under its Principal Revolving Facility.

Unit data

As at February 11, 2010 outstanding unit data was as follows:

Outstanding Unit Data		
	As at December 31, 2009 and February 11, 2010	As at December 31, 2008
Units outstanding	513,044,685	518,301,059
Options outstanding	383,986	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. In the fourth quarter of 2009, 5,000,000 Exchangeable Units of YPG LP were repurchased for cancellation by the Company. On December 24, 2009, 1,715,000 Exchangeable Units of YPG LP were exchanged for an equal number of units of the Fund. As a result, at February 11, 2010, 2,000,000 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.

Yellow Media Inc. also has a total of \$86.5 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.

As at December 31, 2009, there were 11,914,534 Preferred Shares Series 1 and 7,341,774 Preferred Shares Series 2 outstanding. Both series of preferred shares are redeemable by the issuer under certain conditions through the issuance of units of the Fund.

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

Pension Obligations

YPG sponsors a registered pension plan with a defined benefit component and a defined contribution component covering substantially all employees of Yellow Pages Group (the "YPG Pension Plan"). The Fund also sponsors a separate defined contribution pension plan covering substantially all employees of Trader (the "Trader Pension Plan").

As at December 31, 2009, the plan assets totalled \$401 million and were invested in a diversified portfolio of Canadian fixed income securities and Canadian and international equity securities. The plan's rate of return on assets for 2009 was 16.4%, 1.5% higher than that of our benchmark portfolio, reflecting the strong capital market returns and the strong performance of our pension managers in 2009. The return of our plan also exceeded its benchmark portfolio by 3% in 2008.

The most recent actuarial valuation of the YPG Pension Plan for funding purposes was performed as at December 31, 2008. This valuation established the amount of contributions the Company is required to make under the YPG Pension Plan from the valuation date until the next valuation, which is due no later than December 31, 2011.

The December 2008 valuation resulted in a going concern surplus of \$25 million and a solvency surplus of \$22 million. For 2010, in the context of new pension regulations enacted in 2009, the Fund will have to make annual contributions to the Plan for an amount equivalent to the current service contributions of approximately \$10 million for the defined benefit component in 2010.

Contractual Obligations and Other Commitments

Contractual obligations

(in thousands of Canadian dollars)

	Payments due for the periods ending December 31			
	Total	1 – 3 years	4 – 5 years	After 5 years
Long-term debt ^{1,2}	\$2,313,894	\$310,549	\$652,500	\$1,350,845
Obligations under capital leases	9,027	6,689	2,326	12
Preferred shares ²	481,408	297,863	-	183,545
Operating leases	169,555	68,149	40,541	60,865
Purchase obligations	24,225	21,100	250	2,875
Total contractual obligations	\$2,998,109	\$704,350	\$695,617	\$1,598,142

¹ Including Exchangeable Debentures

² Principal amount

Obligations under capital leases

We enter into capital lease agreements for office equipment and software. As of December 31, 2009, minimum payments under these capital leases up to 2015 totalled \$9 million.

Operating leases

We rent our premises and equipment under various operating leases. As of December 31, 2009, minimum payments under these operating leases up to 2019 totalled \$169.6 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 2010 and 2038. As at December 31, 2009, we have an obligation to purchase services for \$24.2 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)

	Years ended December 31,	
	2009	2008
Cash flow from operating activities		
Cash flow from operations	\$690,349	\$746,290
Change in operating assets and liabilities	59,838	(53,934)
	\$750,187	\$692,356
Cash flow used in investing activities		
Acquisition of equity investments	\$(47,698)	\$-
Business acquisitions, net of cash acquired and bank indebtedness assumed	(25,189)	(212,125)
Acquisition of fixed assets	(44,428)	(43,423)
Acquisition of intangibles	(246)	(100)
Proceeds from lease inducements	863	266
	\$(116,698)	\$(255,382)
Cash flow used in financing activities		
Issuance of long-term debt	\$1,621,300	\$424,055
Repayment of long-term debt	(1,443,844)	(141,866)
Distributions to unitholders	(488,386)	(599,431)
Repurchase of units	(40,905)	(122,102)
Purchase of Preferred shares, Series 1 and 2, Medium Term Notes and Exchangeable Debentures	(538,492)	-
Issuance of Preferred shares, Series 3 and 5	332,500	-
Other	(63,591)	(25,970)
	\$(621,418)	\$(465,314)

Cash flow from operating activities

Cash flow from operating activities increased by \$57.8 million to \$750.2 million for the year ended December 31, 2009 from \$692.4 million in the same period last year. Cash flow from operations decreased by \$55.9 million for the year ended December 31, 2009 mainly due to lower EBITDA, higher restructuring and special charges recorded during the year and higher interest expense. The change in operating assets and liabilities for the year ended December 31, 2009 increased cash flow by \$59.8 million compared with a decrease of \$53.9 million for the year-end December 31, 2008. The improvement for the year is mainly due to the reduction of accounts receivable balances, prepaid expenses and deferred publication costs throughout the year. In 2008, the variance was 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 Section 4 – Distributable Cash in this MD&A 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 by \$138.7 million during the year from \$255.4 million in 2008 to \$116.7 million in 2009. In 2009, the Fund made an investment in Dealer.com representing a total cash outflow of \$44.9 million. It also exercised an option to acquire the remaining 50% interest in LesPAC in which the Fund already had a 50% interest representing a total cash outflow of \$25.2 million. In 2008, we acquired the directory assets of TBayTel, YPG USA and the shares of Get It Pages for \$212.1 million. In 2009, acquisition of fixed assets net of lease inducements decreased by \$1.1 million compared to 2008 as described below:

Acquisition of Fixed Assets, Net of Lease Inducements

(in thousands of Canadian dollars)

	Years ended December 31,	
	2009	2008
Transition capital	\$8,263	\$4,530
Maintenance	14,264	21,101
New initiatives	21,613	16,450
Leasehold improvements, net of lease inducements	2,069	5,030
Total	\$46,209	\$47,111
Adjustment to reflect expenditures on a cash basis	(2,644)	(3,954)
Acquisition of fixed assets, net of lease inducements	\$43,565	\$43,157

Transition Capital – these expenditures relate to the acquisition of YPG USA. The amount to be deployed relative to the acquisition of YPG USA was initially estimated at \$10 million. The cumulative amount invested to date stands at \$12.8 million. The increase over 2008 is due to the fact that the acquisition was made in the third quarter of 2008 and most of the capital was deployed during 2009.

Maintenance capital expenditures decreased from \$21.1 million in 2008 to \$14.3 million in 2009. The lower level of investment reflects reduced spending mainly in the Vertical Media segment.

Capital spending for new initiatives increased to \$21.6 million for 2009 compared with \$16.5 million for 2008. The increase was driven by the launch of new product initiatives such as Dealer Smart Solutions.

In 2009, we incurred \$2.1 million of leasehold improvements related to new premises.

Total capital expenditures for the year amounted to \$46.2 million and were in line with expectations.

Cash flow used in financing activities

The decrease in the level of cash distributions per unit, combined with a reduced number of units outstanding, resulted in a decrease in distributions to unitholders from \$599.4 million in 2008 to \$488.4 million in 2009. During 2009, the Fund issued Preferred Shares Series 3 and 5 for a combined proceeds of \$332.5 million. In addition, the Fund purchased Preferred Shares Series 1 and 2, Medium term Notes and exchangeable debentures for \$538.5 million.

Off-Balance Sheet Arrangements

(See Notes 21 and 24 of the Consolidated Financial Statements of the Company for the year ended December 31, 2009).

Financial and Other Instruments

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

The Company's financial instruments consist of cash and short-term investments, accounts receivable, other investments, accounts payable, distributions payable, short-term and long-term debt, 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 24 of the Consolidated Financial Statements of the Company for the year ended December 31, 2009 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 will 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 of 6.5% and pays a floating rate equal to the three-month Banker's Acceptance plus an average spread of 4.33%. The swaps mature July 10, 2013, matching the maturity date of the underlying debt. As at December 31, 2009, the interest rate swaps met the criteria for hedge accounting.

Taking into consideration the debt instruments outstanding, the preferred shares, cash and the above-mentioned derivative instruments, our fixed-to-floating ratio was 100% fixed rate as at December 31, 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 remote, 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 \$0.8 million and the carrying value of embedded derivatives was an asset of \$2.6 million on December 31, 2009. The carrying value is calculated as is customary in the industry using discounted cash flows with quarter-end market rates. For the year ended December 31, 2009, we reported unrealized gains of \$1.5 million (2008 – \$0.2 million), 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 .

Accounts receivable

YPG is exposed to credit risk with respect to accounts receivable from customers. Through our billing and collection services agreements, Bell, TELUS, MTS Allstream Inc. and Bell Aliant receive money from customers on behalf of YPG. There are no individual customers that account for 1% or more of revenues and there are no accounts receivable from any one individual customer and certified marketing representative that exceeds 5% of the total balance of accounts receivable at any point in time during the year. Included in trade accounts receivable of \$215.4 million at December 31, 2009 is \$43.7 million (2008 - \$45.8 million) to be remitted by Bell, \$24.6 million (2008 - \$26.7 million) to be remitted by TELUS, \$3.1 million (2008 - \$2.9 million) to be remitted by MTS Allstream Inc. and \$4.5 million (2008 - \$4.4 million) to be remitted by Bell Aliant under their respective billing and collection services agreements.

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 December 31,		Years ended December 31,	
	2009	2008	2009	2008
Cash flow from operating activities	\$198,734	\$177,651	\$750,187	\$692,356
Operating non-cash items ¹	(6,034)	(3,706)	(16,818)	(19,741)
Change in operating assets and liabilities ²	(36,281)	(22,229)	(59,838)	53,934
Maintenance capital expenditures ³	(3,524)	(5,293)	(14,264)	(21,101)
Restructuring and special charges ⁴	19,732	36,225	40,316	36,225
Other ⁵	356	1,899	14,698	9,197
Distributable cash	\$172,983	\$184,547	\$714,281	\$750,870
Weighted average number of units outstanding	506,694,949	517,811,656	510,658,375	523,444,129
Distributable cash per unit ⁶	\$0.34	\$0.36	\$1.40	\$1.43
Distributions declared	\$101,329	\$151,302	\$471,897	\$599,930
Distributions declared per unit	\$0.20	\$0.29	\$0.92	\$1.15
Payout ratio ⁷	59%	81%	66%	80%

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 December 31, 2009	Year ended December 31, 2009	Previously completed fiscal years	
			2008	2007
Cash flow from operating activities	\$198,734	\$750,187	\$692,356	\$695,540
Net earnings	\$124,607	\$204,255	\$509,227	\$527,709
Actual cash distributions declared	\$(101,329)	\$(471,897)	\$(599,930)	\$(581,986)
Excess of cash flows from operating activities over cash distributions declared	\$97,405	\$278,290	\$92,426	\$113,554
Excess (shortfall) of net earnings over cash distributions declared	\$23,278	\$(267,642)	\$(90,703)	\$(54,277)
Impact of purchase accounting on net earnings	\$20,216	\$397,033	\$122,981	\$166,592
Excess of net earnings over cash distributions declared excluding impact of purchase accounting	\$43,494	\$129,391	\$32,278	\$112,315

Net earnings exceeded distributions by \$23.3 million for the three-month period ended December 31, 2009. Distributions declared exceeded net earnings by \$267.6 million for the year ended December 31, 2009. The Fund does not use net earnings as a basis to calculate distributions. Net earnings in accordance with GAAP include expenses which do not affect cash such as amortization of non-compete agreements, customer contracts, customer relationships, acquired 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 \$43.5 million and \$129.4 million for the three-month and year ended December 31, 2009, respectively.

Cash distributions declared were lower than distributable cash resulting in a payout ratio of 59% for the three-month period ended December 31, 2009, and 66% for the year ended December 31, 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 \$750.9 million in the year ended December 31, 2008 to \$714.3 million for the same period this year. The decrease is mainly due to lower EBITDA.

Distributable cash per unit decreased from \$1.43 in 2008 to \$1.40 in 2009. This decrease represents a reduction of 2.1% for 2009 compared to 2008.

The Fund's cumulative distributable cash since its Initial Public Offering ("IPO") in August of 2003 to December 31, 2009 is approximately \$3.7 billion, or \$7.73 per unit. Total distributions declared during the same period reached approximately \$3 billion, or \$6.40 per unit representing a cumulative payout ratio of 83%.

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 6.7 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 \$2.1 billion of our total long-term debt portfolio as of December 31, 2009, do not provide for any contractual limitations on the distribution of cash.

Distributions declared per unit

Distributions declared per unit decreased from \$1.17 in 2008 to \$0.80 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 the SIFT Rules which received Royal Assent on June 22, 2007.

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

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, the 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 payout provides the Company additional financial flexibility and strengthens 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

The development and execution of our corporate strategy and operating plans continue to be guided by our objectives of achieving sustainable organic growth and positive operating leverage. Each year, we establish targets to advance our goals and to drive results through the execution of initiatives to maximize revenue growth and cash flow generation. These full year targets were established and communicated to investors concurrent with the release of our second quarter results.

We expect to continue to measure our progress against annual targets on a quarterly basis. Consistent with our historical practice, we do not intend however to provide quarterly guidance for key performance metrics. Our preference remains to review on a periodic basis through the MD&A our progress in reaching our stated objectives for the full year taking into account changes in the economic environment, local operating and economic conditions, direct and indirect competition for our products and other relevant factors. We acknowledged in August 2009, following the release of our second quarter results, that late 2009 and 2010 would be challenging given our expectation that there would be no sustained economic recovery before early 2010.

Key Performance Indicators 2009 Performance and 2010 Outlook

	Revised 2009 Target	Year ended December 31, 2009
Directories		
Adjusted Revenues	Stable at approx. \$1,400 million	\$1,403 million
Adjusted EBITDA	\$825 to \$830 million	\$827 million
Vertical Media		
Revenues	\$255 to 265 million	\$248 million
EBITDA	\$75 to \$80 million	\$72 million
Consolidated Metrics		
Online organic growth	Approx. 30%	23.9%
Distributable Cash per unit	Stable	(2.1%)

Our objectives for the fiscal year ending December 31, 2010 were established in August 2009 based on our economic and business outlooks at that time. This continues to be our operating framework for 2010 and we will measure our progress in achieving these full year objectives on a quarterly basis. As we do each year, we considered Canadian macroeconomic conditions, the expected evolution of the Canadian GDP, 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. We also considered third party expectations regarding Canadian advertising trends and changing consumer trends affecting local commercial search.

Although we have begun to observe some encouraging signs of stabilization in the economy, we remain cautious about the timing and strength of a full economic recovery and a return to a more normalized revenue environment. In this context, we continue to be selective in terms of funding new initiatives while we continue to contain costs in both of our platforms. We remain steadfast in our paced approach to investing in market coverage, new product introduction and technology in both the Directories and Vertical Media segments, in order to solidify our leadership market positions and to position YPG for sustainable long-term growth. As our 2010 revenues are significantly influenced by the 2009 directory results, there will continue to be some pressure on revenues into the 2010 fiscal year especially in the Directories segment. Accordingly, for 2010 we are focusing on opportunities that should yield benefits in the short-term with a view to supporting improved results in the back half of the year, positioning YPG for a revenue recovery in 2011. The particular areas of focus in the Directories segment are an expanded and more targeted approach to customer acquisition, new integrated bundles, the roll-out of new placement products online and search engine marketing. For the Vertical Media segment, our revenue objectives for 2010 are premised upon

continuing success in the Dealer Smart Solutions roll-out and an improvement in the real estate vertical and the economy, more generally.

Following the restructuring initiatives we undertook in 2008 and 2009, we are also confident in our ability to grow Adjusted EBITDA and distributable cash per unit. We believe these initiatives combined with the recurring, predictable and resilient nature of our revenue sources from a diversified customer base in our Directories segment position us well for an economic recovery. In our Vertical Media segment, visibility is limited due largely to the weekly frequency of most of our publications somewhat compensated by strong online organic growth. Please refer to Section 7 – Risks and Uncertainties for a discussion of the major risks and uncertainties that could materially affect YPG's future business results.

Financial Policy

The Fund's objectives when managing capital are to ensure sufficient liquidity to cover financial obligations and investment requirements, preserve access to low-cost funding, maintain or improve investment grade credit ratings, and deliver stable returns to investors.

To achieve the above objectives, the Fund intends to continue improving its consolidated financial profile with further debt reduction, pursue a prudent financial policy, and maintain a structure that provides flexibility and diversity of funding sources and timing of debt maturities.

Despite the challenges of a year characterized by the most difficult economic environment faced by the Fund since its inception, the Fund expects to achieve stronger credit protection measures going forward through sustained cash flow generation and deleveraging of the balance sheet.

The June 2009 reduction of the Fund payout ratio has already enabled the Fund to achieve a meaningful reduction in financial leverage. This action fits with our strategy of managing risk without compromising the financial flexibility necessary to respond to growth opportunities and deliver returns to investors.

Conversion from an income trust to a corporation

We intend to convert from an income trust to a corporation in late 2010. Throughout 2009, we undertook a number of initiatives to strengthen our capital structure and eliminate refinancing risk well through the conversion to a corporation:

- Since June 2009, \$450.7 million of net debt was reduced through free cash flow generation and preferred equity issuance
- Maintain path to deleveraging through expected free cash flow during the transition period to a corporate structure
- Yellow Media Inc. raised \$1.25 billion in the debt and equity capital markets to refinance upcoming maturities; YPG remains self-funded until May 2013

Consistent with our preliminary dividend policy communicated in May 2009; we have targeted a payout ratio of 60% to 70% of cash earnings per share.

Yellow Media Inc.

As part of our plan to convert from an income trust to a traditional corporate structure, YPG Holdings Inc. has been renamed Yellow Media Inc. The new name builds upon our Company's legacy of delivering placement and performance products to Canadian businesses. It also reflects our expansion in providing turn-key solutions to businesses through our online, mobile and print multimedia platforms. Following the conversion, Yellow Media Inc. will own Yellow Pages Group and Trader.

6. Critical Assumptions

When we prepare our financial statements in accordance with Canadian GAAP, we must make certain estimates and assumptions about our business. These estimates and assumptions in turn affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements.

In this section we provide detailed information on these important estimates and assumptions which are under continuous evaluation by the Company.

Critical Accounting Estimates

We base our estimates and assumptions on past experience and other factors that are deemed reasonable under normal business practices. This involves varying degrees of judgement and uncertainty, thus the amounts currently reported in the financial statements – which we believe to be valid at this time – could prove to be inaccurate in the future.

Business combinations

YPG's acquisitions have been accounted for using the purchase method of accounting. Under the purchase method, the acquiring company adds to its own balance sheet the estimated fair values of the acquired company's assets and liabilities.

There are various assumptions made by YPG in determining the fair values of the acquired companies' assets and liabilities. The most significant assumptions, and those requiring the most judgment, involve the estimated fair values of trademarks. To determine the fair value of these trademarks, we adopted the "relief from royalty approach", a valuation technique based on the concept that the Company owns the trademark, and is therefore not required to pay royalties for its use. The amount of the notional royalty payment is used as a surrogate for income attributable to the trademark. The fair value of the trademark is based upon the present value of the expected after-tax royalty or cash flow stream. Among others, significant assumptions include the determination of royalty rates, discount rate, weighted average cost of capital and anticipated average income tax rates.

Intangibles and goodwill

Intangibles and goodwill represented 22.5% and 70.9% respectively (2008 – 22.4% and 71%), of YPG's consolidated assets as at December 31, 2009. If the Company's estimated useful lives of these assets were incorrect, we could experience increased or reduced charges for amortization of intangible assets that have finite lives in the future. If the future was to adversely differ from management's best estimate of key economic assumptions, and if associated cash flows were to materially decrease, YPG could potentially experience future material impairment charges related to its intangible assets that have indefinite lives. If intangible assets with indefinite lives were determined to have finite lives at some point in the future, YPG could experience increased charges for amortization of intangible assets. Such charges do not result in a cash outflow and would not affect YPG's liquidity.

Recoverability of intangible assets

Any potential intangible asset impairment is identified by comparing the fair value of the indefinite life intangible asset with value as stated – or carried – on our books. If the fair value of the intangible asset exceeds its carrying value, the intangible asset is not considered to be impaired. However, if the reverse is true and the carrying value of the intangible asset exceeds its fair value, it is considered to be impaired. This impairment is defined as the difference between the fair value and the carrying value. This will result in a reduction in the carrying value of the intangible assets on the consolidated balance sheet and in the recognition of a non-cash impairment charge in our operating income metric. Consistent with current industry-specific valuation methods, YPG uses a "discounted expected future cash flow" model in determining the fair value of its intangible assets.

The most significant assumptions underlying the recoverability of intangible assets with indefinite lives include projected revenues and EBITDA, anticipated market share and projected renewal rates. We perform annual impairment tests of our indefinite life intangible assets. In light of the current economic conditions and a decrease in

our unit price, we performed an in-depth review of all assumptions used in our models. We also considered the prevailing conditions in our industries. Based on our analysis, we concluded that no impairment charge was required.

Recoverability of goodwill

Goodwill is not amortized. It is assessed for impairment annually and sometimes more frequently if a change in circumstances indicates that the asset might be impaired. We identify potential goodwill impairment by comparing the fair value of the business to its carrying value on our books. If the carrying value exceeds its fair value, a more detailed goodwill impairment assessment must be undertaken. However, if the reverse is true and the fair value exceeds its carrying value, goodwill is considered not to be impaired. A goodwill impairment loss would be recognized to the extent that the carrying value of goodwill exceeds its implied fair value.

Fair value of goodwill is estimated in the same manner as goodwill is determined at the date of acquisition in a business acquisition. Specifically, goodwill is defined as the excess of the fair value of the business over the fair value of the identifiable net assets of the reporting unit. Any goodwill impairment will result in a reduction in the carrying value of goodwill on the consolidated balance sheet and in the recognition of a non-cash impairment charge in our operating income metric. The Company determines fair value by using a "discounted expected future cash flow" model in accordance with recognized valuation methods. The process of determining these fair values requires management to make a number of estimates and assumptions such as projected future sales, cost of sales, earnings, market conditions and discount rates.

During the year, 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.

The impairment testing was completed during the year. As a result, an impairment loss of \$315 million was recorded in net earnings.

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.

Allowance for doubtful accounts

We expect that a certain portion of required customer payments will not be made – what we refer to as "doubtful accounts". To account for this, we maintain an allowance in our books for these doubtful accounts based on our estimate of the likelihood of recovering certain accounts receivable. It incorporates current and expected collection trends. Accounts receivable represented approximately 36.5% (2008 – 40.6%) of our consolidated tangible assets as at December 31, 2009. If economic conditions change, or actual results or specific industry trends differ from our expectations, we will adjust our allowance for doubtful accounts and our bad debt expense accordingly.

Employee future benefits

YPG provides its eligible employees with pension benefits under various pension plans. Certain actuarial and economic assumptions used in determining pension costs, accrued pension benefit obligations, and pension plan assets require significant judgment.

The accrued benefit obligation and expense are determined by independent actuaries on an annual basis, using the "projected benefit method" pro-rated for service. They are also based on management's best economic and demographic estimates, and on significant actuarial assumptions, including employees' expected years of service, retirement age, and specified benefit levels. The discount rate, which is used to determine the accrued benefit obligation, is based on market interest rates on high-quality, long-term bonds. Market changes could have an impact on the discount rate, resulting in an obligation for YPG to make future contributions to its pension plan that could differ significantly from the current estimates. Future increases in compensation to employees are based on current benefit policies and on economic forecasts. Defined benefit pension costs are also affected by the quantitative methods used to determine estimated returns on pension plan assets.

The expected return on the plan assets is determined by considering long-term historical returns, future estimates of long-term investment returns, and asset allocation. There is no assurance that the plan will be able to earn the assumed rate of return.

The significant actuarial assumptions adopted are consistent with what we have used in the past. They reflect the long-term nature of employee future benefits. Significant changes in assumptions could materially affect our employee benefit obligations, future expenses, and overall financial performance. These changes could be caused, for example, by updated historical information or changes in market conditions.

Any immediate impact is lessened, however, as the net actuarial gains and losses in excess of 10% of the greater of the benefit obligation and the fair value of the plan assets would be amortized over the average remaining service period of active employees covered by the plan.

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) 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 decided to early adopt this new Section as of January 1, 2010. As a result of this decision, business combinations realized after that date will be accounted for in accordance with Section 1582 requirements.

b) 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 decided to early adopt this new Section as of January 1, 2010. The adoption of this Section should not impact the consolidated financial statements of the Fund.

c) 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 decided to early adopt this new Section as of January 1, 2010. As a result of this decision, non-controlling interests in equity of a consolidated subsidiary will now be classified as a component of equity but separate from the equity of the Fund. Furthermore, non-controlling interests in the profit or loss of a consolidated affiliate will be presented as an allocation of earnings.

d) 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 (Canadian 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 involved performing a detailed diagnostic comparing Canadian GAAP to IFRS and identifying key areas that may be impacted by the transition to IFRS. Phase 1 included:

- 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 policy choices that could be applied to prepare subsequent IFRS financial statements; and
- 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 were addressed. Phase 2 included:

- Making accounting policy choices, including those under IFRS 1 choices;
- Determining the changes required to existing accounting policies;
- Determining the changes or additions required to information technology and data systems, internal controls over financial reporting and disclosure controls; and
- Developing 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 Phase 1 and Phase 2 of our conversion project. As a result of this work, we have identified a number of differences and policy alternatives between Canadian GAAP and IFRS that will modify our financial statements at the date of conversion.

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

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

Major differences with current accounting policies

Employee Benefits – Past service cost

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

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

Income Taxes – Temporary differences on intangible assets

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

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

Business Combinations

Canadian GAAP – Business combinations are currently accounted for using Section 1581 – *Business combinations*. The recognition and measurement requirements applicable under this Section differ in a number of ways from the IFRS standards applicable to business combinations. However, the early adoption of Section 1582 – *Business combinations*, as described above, will resolve these differences since this section is converged with IFRS requirements.

Consolidation and non-controlling interests

Canadian GAAP – Section 1600 – *Consolidated financial statements* currently establishes standards for the preparation of consolidated financial statements. This section differs in a number of ways from the IFRS standards applicable for consolidation and non-controlling interests. However, the early adoption of Section 1601 – *Consolidated financial statements* and Section 1602 – *Non-controlling interests*, as described above, will resolve these differences since these sections are converged with IFRS requirements.

Grouping of assets for impairment purposes

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

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

Key IFRS 1 Exemption Options

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

2. Fair value as deemed cost – IFRS 1 provides a choice between measuring property, plant and equipment at its fair value at the date of transition and using those amounts as deemed cost or using the historical valuation under the prior GAAP. We will continue to apply the cost model for property, plant and equipment and will not restate property, plant and equipment to fair value under IFRS. We will use the historical bases under Canadian GAAP as deemed cost under IFRS at Transition Date.

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

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

At this time, the quantitative impact on these differences and elections on our future financial position and results of operations is not reasonably determinable or estimable. However, they should not significantly impact distributable cash given that the majority of these adjustments are not cash related.

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	<ul style="list-style-type: none"> ▪ 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 	<p>Senior management sign off for all items to be completed by the end of 2009.</p> <p>Subsequent changes to IFRS will be analyzed and reviewed on a quarterly basis</p>	<p>Completed the identification of IFRS differences</p> <p>Evaluation and selection of accounting policy alternatives is completed but will continue to be assessed</p> <p>Preparation of draft financial statements is completed</p>
Financial reporting expertise	<ul style="list-style-type: none"> ▪ 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. 	<p>Level 1 to be completed by the end of the second quarter of 2009</p> <p>Level 2 to be completed by the end of 2009</p> <p>Level 3 to be completed by the end of 2010</p>	<p>Level 1 training is completed</p> <p>Level 2 training is completed</p> <p>Level 3 training is underway</p>
IT systems	<ul style="list-style-type: none"> ▪ 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 	<p>Required financial systems changes and set up of parallel processing to be completed by the end of 2009</p>	<p>Identification of IFRS differences with system impacts is completed</p> <p>Selection of parallel processing solution is completed</p> <p>Implementation of the solution is completed</p>
<u>Business activities:</u> Financial covenants	<ul style="list-style-type: none"> ▪ Identify impact on financial covenants and business practices ▪ Complete any required renegotiations/changes 	<p>Complete required covenants changes, if necessary, by the third quarter of 2010</p>	<p>Process to analyze the contractual implications of IFRS on financing relationships and other arrangements will start in the first quarter of 2010</p>
<u>Business activities:</u> Compensation arrangements	<ul style="list-style-type: none"> ▪ Identify impact on compensation arrangements ▪ Make any required changes 	<p>Complete required compensation arrangement changes, if any, by the third quarter of 2010</p>	<p>Process of identifying internal measures of performance affected by GAAP/IFRS differences will start in the first quarter of 2010</p>
<u>Business activities:</u> Capital adequacy	<ul style="list-style-type: none"> ▪ Identify impact on capital adequacy ▪ Make any required changes 	<p>Complete capital plan, if necessary, by the third quarter of 2010</p>	<p>Process of identifying issues will start in the first quarter of 2010</p>
<u>Business activities:</u> Customer and supplier contracts	<ul style="list-style-type: none"> ▪ Evaluate impact on customer and supplier agreements ▪ Make any required changes 	<p>Complete review of customer / supplier contracts by the end of the first quarter of 2010</p>	<p>Process of identifying issues started in the fourth quarter of 2009</p>
<u>Control activities:</u> Internal control over financial reporting (ICOFR)	<ul style="list-style-type: none"> ▪ 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 	<p>Assessment of required changes to be completed by the end of 2009</p> <p>Revision to actual internal controls and modifications planned for the second quarter of 2010</p>	<p>Assessment of required changes is completed</p> <p>Revision of actual controls will start in 2010</p>
<u>Control activities:</u> Disclosure controls and procedures (DC&P)	<ul style="list-style-type: none"> ▪ For changes to accounting policies and practices identified, assess the DC&P design and effectiveness implications 	<p>See ICOFR deadlines above</p> <p>Analysis of impact on key performance indicators (KPI) to be completed by the end of 2009</p>	<p>Investors relations special team created</p> <p>No significant impact on KPI identified to date</p>

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 these risks are managed.

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 Annual Information Form for a complete description of these risk factors. Despite these guidelines, the Company cannot provide assurances that any such efforts will be successful.

Competition

YPG competes with other directory and classified advertising businesses and with other forms of advertising media. This includes newspapers, television, radio, the Internet, magazines, billboards and direct mail advertising.

These competitors may reduce their prices to increase their market share or may be able to offer their services at lower costs than we can. In either case, YPG could be forced to reduce prices or offer and perform other services in order to remain competitive. YPG's failure to compete effectively with its current or future competitors could have a number of impacts such as, a reduction in its advertiser base, lower rates and increased costs. This could have a material adverse effect on our financial condition and on our results of operations.

A significant portion of YPG's organic growth resulted from increased prices for its products and services on an annual basis. There can be no assurance that YPG will be able to continue to increase prices in the future. Entry of competitors into YPG's markets may make it more difficult for us to maintain growth at historical rates through price increases.

The Vertical Media business also faces substantial online competition due to the lower barriers to entry on the Internet. In addition, increased online penetration and the resulting increase in the availability of free classified advertising opportunities may cause a decrease in the total revenues for classified advertising, particularly if the Vertical Media business is unable to find a way to effectively generate revenue from online activities.

We actively monitor and assess our competition and determine our competitiveness within each of our markets. We address this competition by ensuring we best meet customer needs through targeted offers and pricing.

We continuously enhance our value proposition in both segments with initiatives targeting the following objectives:

- Enhancement of our product offerings and extension of our services to customers;
- Improvement of user experience; and
- Growth of traffic to our network of properties.

We also use multimedia campaigns to promote our brand and deliver our message to the market reinforcing the value both our segments offer.

The Vertical Media business faces competition for advantageous retail display placement. In the retail environment, the Vertical Media business competes with all print publications that are co-displayed at any time. Local distribution managers, through frequent contact with third party distributors, retailers and wholesalers, closely monitor the flow of publications to ensure that an adequate number of copies are available for sale or distribution, while minimizing the number of unsold or undistributed copies. In many of Trader's regions, this process has been automated through the use of planning software. The failure of our Vertical Media business to remain competitive and maintain favourable placement of its publications on retailer display racks could have a material adverse effect on the circulation of its publications. We are developing innovative product placement practices, such as the free supply of attractive display racks to retailers, long-term display arrangements with retailers and third-party maintenance of retail display racks.

Decline in overall usage of print directories and vertical media

YPG could be materially adversely affected if the usage of printed telephone directories or vertical publications declines significantly. The development of new technologies and the widespread use of Internet may cause changes in preferences and consumer habits. In particular, this could eventually have a significant influence on printed products, and the decrease in usage will ultimately lead to lower advertising revenues. Since YPG derives a substantial portion of its advertising revenues from printed publications, the new revenues that YPG could draw from online products may not necessarily offset any decline in print revenues, which could have a material adverse effect on our business. The continuing transition in the media and publishing industries towards more online and targeted content is driving us to develop new products that leverage the demand for new media while ensuring that our print products remain a key component of our advertisers' media mix.

Availability of Capital

We may need to refinance our available credit facilities or other debt obligations in the future. In addition, future capital expenditures and potential acquisitions may require additional financing. The global financial markets crisis and the global economic slowdown, which may extend for an undetermined period of time and could continue to deteriorate, may further constrain our ability to meet our future financing requirements, increase our weighted average cost of capital and cause other cost increases from counterparties also faced with liquidity problems and higher cost of capital. Disruptions and high volatility in the capital markets could reduce the amount of capital available or increase the cost of such capital. These risks are mitigated to the extent that we currently maintain committed long term bank facilities for a total amount of \$800 million, continue to benefit from investment grade credit ratings, and due to our strong financial position (with a net indebtedness to Latest Twelve Month Adjusted EBITDA¹ ratio of 2.5 times as at December 31, 2009) and the liquidity provided by cash generated from our operations. Despite such factors, no assurances can be given as to the future availability of capital. If we are unable to obtain such additional financing, when and if required, or to refinance our credit facilities or other debt obligations, or we are only able to obtain such additional financing or refinance these credit facilities or other debt obligations on less favorable and/or more restrictive terms, this could have a material adverse effect on our financial position and on our future growth by limiting acquisitions and capital expenditures, and may also indirectly limit or negatively impact our ability to pay cash distributions.

Interest rate fluctuations

YPG is exposed to fluctuations in short term interest rates on some of its financial obligations bearing variable interest rates. YPG is also exposed to fluctuations in long term interest rates and credit spreads relative to the refinancing of its debt obligations upon their maturity. The interest rate on new long term debt issuances will be based on the prevailing market rates at the time of the refinancing and will depend on the tenor of the new debt issued. Increases in short term interest rates and increases in interest rates on new debt issuances may have a material adverse effect on our earnings.

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").

We manage interest rate exposure by maintaining a balanced schedule of debt maturities, and through a combination of fixed and floating interest rate obligations. YPG monitors market conditions and the impact of interest rate fluctuations on our fixed-to-floating interest rate exposure mix. From time to time, we enter into interest rate swap agreements and other interest rate derivatives in order to manage this exposure.

Pension Contributions

YPG has been benefiting from a contribution holiday since its latest actuarial valuation. We may be required to make contributions to our pension plans in the future depending on various factors including future returns on pension plan assets, long-term interest rates and changes in pension regulations, which may have a negative effect on our liquidity and results of operations.

The funding requirements of our pension plans, resulting from valuations of our pension plan assets and liabilities, depend on a number of factors, including actual returns on pension plan assets, long-term interest rates, plan demographic and pension regulations. Changes in these factors could cause actual future contributions to significantly differ from our current estimates and could require us to make contributions to our pension plans in the future and, therefore, could have a negative effect on our liquidity and results of operations.

There is no assurance that our pension plans will be able to earn their assumed rate of return. A material portion of our pension plans' assets is invested in public equity securities. As a result, the ability of our pension plans to earn the rate of return that we have assumed significantly depends on the performance of capital markets. The market conditions also impact the discount rate used to calculate our solvency obligations and thereby could also significantly affect our cash funding requirements.

YPG's reliance on outsourcing for billing, collection, printing and binding and other services

We have a Billing and Collection Services Agreement with Bell Canada and a Master Billing and Collection Services Agreement with TELUS, a Billing and Collection Services Agreement with MTS Allstream Inc. and a Billing and Collection Service Agreement with Bell Aliant. Through these agreements, our billing is included as a separate line item on the telephone bills of Bell, TELUS, MTS Allstream Inc. and Bell Aliant customers who use our services respectively. Bell Canada, TELUS, MTS Allstream Inc. and Bell Aliant (the Telco Partners) contract with third parties to conduct monthly billing of customers who use them as their local telephone service providers. In addition, the Telco Partners provide collection services for YPG with those advertisers who are also their customers. Additionally, YPG has entered into publishing agreements with each Telco Partner. If YPG fails to perform its obligations under these agreements and the agreements are consequently terminated by such Telco Partner, other agreements with such Telco Partners may also be terminated, including the Bell Canada Trademark License Agreement, the TELUS Trademark License Agreement, the MTS Allstream Inc. Branding and Trademark Agreement and the Bell Aliant Branding and Trademark Agreement, as well as non-competition covenants we benefit from with such Telco Partners.

We have agreements with outside service suppliers to print and distribute our directories and publications. These agreements are for services that are integral to our business.

The failure of the Telco Partners or any of the other suppliers to fulfill their contractual obligations under these agreements could result in a material adverse effect on our business until we could find a replacement supplier for those services.

Advertisers who do not use the Telco Partners as their local telephone provider are billed directly by YPG. Our internal billing and collection services are cost-effective and can be grown as our customer base expands.

Reliance on key brands and trademarks and failure to protect intellectual property rights

YPG relies heavily on its existing brands and trademarks for a significant portion of its revenues. Failure to adequately maintain the strength and integrity of these brands and trademarks, or to develop new brands and trademarks, could adversely affect our results from operations and our financial condition.

It is possible that third parties could infringe upon, misappropriate or challenge the validity of YPG's trademarks or other intellectual property rights. This could have a material adverse effect on our business, our financial condition or our operating results. The actions that YPG takes to protect its trademarks and other proprietary rights may not be adequate. Litigation may be necessary to enforce or protect YPG's intellectual property rights, its trade secrets or to determine the validity and scope of the proprietary rights of others. We cannot ensure that we will be able to prevent infringement of our intellectual property rights or misappropriation of our proprietary information.

Any such infringement or misappropriation could harm any competitive advantage we currently derive, or may derive, from our proprietary rights. Third parties may assert infringement claims against YPG. Any such claims and any resulting litigation could subject YPG to significant liability for damages. An adverse judgement arising from any litigation of this type could require YPG to design around a third party's patent or to license alternative technology from another party. In addition, litigation may be time-consuming and expensive to defend against and could result in the diversion of YPG's time and resources. Any claims from third parties may also result in limitations on YPG's ability to use the intellectual property subject to these claims.

We devote significant resources to the development and protection of our trademarks and take a proactive approach to protecting our brand exclusivity.

Labour relations

Certain non-management employees of YPG are unionized. Current union agreements range between two to four years in duration and are subject to expiration at various dates in the future. If YPG is unable to renew these agreements as they come up for renegotiation from time to time, it could result in work stoppages and other labour disturbances which could have a material adverse effect on our business.

We manage labour relations risk by ensuring that collective agreements' expiration dates are strategically positioned to minimize potential disruptions on both a regional (geographic) or on a functional (sales and clerical) basis. Also, every negotiation process to renew a collective agreement includes a cross-functional team in which all business units are represented. This team has the responsibility to develop and ultimately implement an effective contingency plan that would allow YPG to continue its day to day operations with minimal disruptions in the event of a labour dispute.

Distribution of securities on redemption or termination of the Fund

Upon redemption of Units or termination of the Fund, the Trustees may distribute the Trust Notes directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for the Trust Notes or the Trust Units. In addition, Trust Notes and Trust Units are not freely tradable or listed on any stock exchange.

We believe that the execution of our business strategy combined with the achievement of selected critical initiatives for maximizing the long-term sustainability of our business should result in recurring and sustainable cash flow generation.

Income Tax Matters

In the normal course of the Fund's activities, the tax authorities are carrying out ongoing reviews. In that respect, the Fund is of the view that all expenses claimed by the different entities of the group are reasonable and deductible and that the cost amount and capital cost allowance claims of such entities' depreciable properties have been correctly determined. There is no assurance that the tax authorities may not challenge these positions. Such challenge, if successful, may have an adverse effect on our earnings and may affect the return to unitholders.

On June 22, 2007, Bill C-52 received Royal Assent. The SIFT Rules contained in Bill C-52 are not expected to apply to the Fund until 2011 as the government has allowed a transition for publicly-traded trusts that existed prior to November 1, 2006. To qualify for the interim period, we must continue to comply with the Normal Growth Guidelines regarding equity capital as outlined by the government. The Normal Growth Guidelines provide for a safe harbour amount equal to 20% of the October 31, 2006 Market Capitalization for each of the 2008 to 2010 calendar years. These amounts of safe harbour are cumulative during the interim period. The Fund's October 31, 2006 Market Capitalization was approximately \$7.8 billion. It is therefore assumed, for the purposes of this summary that the Fund will not be subject to the SIFT Rules until January 1, 2011. We intend to fully comply with these guidelines. However, there can be no assurance that the Fund will be able to retain the benefit of the deferred application of the SIFT Rules until 2011. If the Fund is deemed to have undergone undue expansion during the period up to December 31, 2010, as described in the Normal Growth Guidelines, the SIFT Rules would become effective on a date earlier than January 1, 2011.

On June 26, 2007, the Québec Ministère des Finances (MFQ) published Information Bulletin 2007-5 which confirms the MFQ's previously announced intention to harmonize Québec's tax legislation with the SIFT Rules through the implementation of a separate tax regime. Specifically, the MFQ has announced that a SIFT Trust with an establishment in Québec at any time in a taxation year would be subject to a tax at a rate generally equal to the Québec tax rate applicable to corporations. The Budget Implementation Act which received Royal Assent on June 18, 2008, enacted the Federal Budget of February 26, 2008 which provides, among other things, technical changes to the SIFT provincial tax calculation. These changes result in harmonization between the SIFT Rules and the separate Québec tax regime relating to SIFT entities.

8. Controls and Procedures

As a public entity we must take every step to ensure that material information regarding our reports filed or submitted under securities legislation fairly presents the financial information of YPG. Responsibility for this resides with management, including the President and Chief Executive Officer and the Executive Vice President – Corporate Services and Chief Financial Officer. Management is responsible for establishing, maintaining and evaluating disclosure controls and procedures, as well as internal control over financial reporting.

Disclosure Controls and Procedures (DC&P)

The evaluation of the effectiveness of DC&P as defined in National Instrument 52-109 was performed under the supervision of the President and Chief Executive Officer and the Executive Vice President – Corporate Services and Chief Financial Officer. They conclude that these disclosure controls and procedures were adequate and effective, as at December 31, 2009. YPG's management can therefore provide reasonable assurance that it receives material information relating to the company in a timely manner so that it can provide investors with complete and reliable information.

Internal Control over Financial Reporting (ICFR)

Management has designed ICFR to provide reasonable assurance that our financial reporting is reliable and that our consolidated financial statements were prepared in accordance with GAAP. The design and effectiveness of ICFR were evaluated as defined in National Instruments 52-109 under the supervision of the President and Chief Executive Officer and the Executive Vice President – Corporate Services and Chief Financial Officer. Based on the evaluations, they conclude that the ICFR is adequate and effective to provide such assurance as at December 31, 2009.

Management also concluded that during the fourth quarter ended December 31, 2009, no changes were made to ICFR that would have materially affected, or would be reasonably considered to materially affect, these controls.