

Management's Discussion and Analysis

February 10, 2011

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 Media Inc. (previously Yellow Pages Income Fund or the Corporation) and its subsidiaries for the years ended December 31, 2010 and 2009 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", and "YPG" refer to Yellow Media Inc., and its subsidiaries (including Yellow Pages Group Co., Canpages Inc., YPG (USA) Holdings, Inc. and Yellow Pages Group, LLC (collectively YPG USA), Trader Corporation, LesPAC s.e.n.c. (LesPAC), and Dealer Dot Com Inc.), which are reported under the following segments:

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

Yellow Media Inc. was incorporated under the laws of Canada as a wholly-owned subsidiary of Yellow Pages Income Fund (the Fund). The Company entered into a plan of arrangement, which became effective on November 1, 2010.

On November 1, 2010, the Plan of Arrangement became effective resulting in the conversion of YPG's income trust structure into a dividend paying publicly-traded corporation named Yellow Media Inc. Unitholders of the Fund received, for each unit of the Fund held, one common share of Yellow Media Inc.

On that same date, the units of the Fund were delisted from the Toronto Stock Exchange and trading of the common shares of Yellow Media Inc. on the Toronto Stock Exchange under the symbol "YLO".

The conversion was treated as a change in business form and was accounted for as a continuity of interests; as such the carrying amounts of assets, liabilities and unitholders' equity in the consolidated financial statements of the Company immediately before the conversion was the same as the carrying values of Yellow Media Inc. immediately after the conversion. Comparative amounts in this MD&A and future MD&A and financial statements are those of the Fund. Yellow Media Inc. will refer to common shares, shareholders and dividends which were formerly referred to as units, unitholders and distributions under the Fund. Yellow Media Inc.'s conversion from a trust to a corporation had no effect on its strategic or operational objectives.

As part of the conversion, YPG LP was liquidated and dissolved and its assets were distributed to and assumed by YPG General Partner Inc. (YPG GP) and YPG Trust (the Trust) on a pro rata basis. The Trust was then liquidated and dissolved and its assets and liabilities were distributed and assumed by the Fund. The Fund was wound up into Yellow Media Inc. Yellow Media Inc. amalgamated with YPG GP, YPG Holdings Inc., Canpages Holdings and another numbered company (Trusteeco) to form the current Yellow Media Inc.

Forward-looking information

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

These forward-looking statements describe our expectations on February 10, 2011.

- 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. Consistent with our historical practice, we do not intend to provide quarterly guidance for key performance metrics. Our preference remains to review on a periodic basis, through our MD&A, our progress in reaching our stated objectives for the full year taking into account changes in the economic environment, local operating and economic conditions, direct and indirect competition for our products and other relevant factors.
- Risks that could cause our actual results to differ materially from our current expectations are discussed in Section 8 – Risks and Uncertainties.

Definitions relative to understanding our results

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

We report on our EBITDA (Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges). EBITDA is not a calculation based on GAAP and is not considered an alternative to income from operations or net (loss) earnings in the context of measuring YPG's performance. EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other publicly traded companies. For a reconciliation with GAAP, please refer to Consolidated Operating and Financial Results in Section 3 of this MD&A. EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed on page 26 of this MD&A.

Adjusted Earnings

Adjusted earnings is a non-GAAP measure. It is defined as the net income available to shareholders excluding amortization of intangible assets attributable to shareholders, conversion and rebranding costs, acquisition-related costs, restructuring and special charges, other non-recurring items and non-cash financial charges and future income taxes. All adjustments except future income taxes are net of the income tax effect thereon calculated at the statutory income tax rate. Adjusted Earnings is defined 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. Adjusted earnings is used by investors, management and other stakeholders to evaluate the ongoing performance of YPG. Adjusted earnings 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 5 – Adjusted earnings of this MD&A.

Free cash flow

Free cash flow is a non-GAAP measure generally used as an indicator of financial performance. It should not be seen as a substitute for cash flow from operating activities. Free cash flow is defined as cash flow from operating activities, as reported in accordance with GAAP less adjustment for capital expenditures.

Dividends per Common Share

We report dividends per share because it is a measure of return used by investors. Dividends per common share depend on our adjusted earnings and YPG's dividend policy. We make monthly cash dividends to holders of common shares of record on the last business day of each month. For a description of our cash dividend policy, please refer to Section 5 of this MD&A.

This MD&A is divided into the following sections:

1. Our Business, Mission, Strategy and Capability to Deliver Results
2. Conversion From an Income Trust to a Corporation
3. Results
4. Liquidity and Capital Resources
5. Adjusted Earnings
6. Outlook
7. Critical Assumptions
8. Risks and Uncertainties
9. Controls and Procedures

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

Our Business

Yellow Media Inc. is a leading media and marketing solutions company through its network of companies that include Yellow Pages Group (YPG), Trader Corporation (Trader) and Canpages Inc. (Canpages). YPG is Canada's leading performance media and marketing solutions company, serving Canadian businesses and consumers nationwide under its Yellow Pages and Canpages brands. Canpages is Canada's fastest growing local search company. Trader is a national leader offering integrated media and performance solutions in the automotive, real estate and generalist verticals. This section provides an overview of our business, our current priorities and how we strive to manage our operations.

Directories

This business segment is composed of YPG and Canpages.

YPG is Canada's leading digital and print local commercial search provider while Canpages is Canada's fastest growing local search company.

We serve approximately 365,000 local businesses excluding Canpages, through our nation-wide sales force of over 1,460 media consultants. YPG also caters to the country's largest national agencies and advertisers through Mediative, its digital advertising and marketing solutions division.

We own and operate some of Canada's leading properties and publications including Yellow Pages™ directories, Canpages™ directories, YellowPages.ca™, Canada411.ca™ and RedFlagDeals.com. Our online destinations reach over 11 million unique visitors monthly. YellowPages.ca™ can be accessed on mobile devices, at mobile.yip.ca on cellular phones and through mobile applications on BlackBerry™, Apple iPhone™, iPad™ and Google™'s Android™. Our mobile applications for finding local businesses, deals and vehicles have been downloaded over 2 million times.

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 410 different telephone directories with a total circulation of approximately 29 million copies.

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 Pages™, Pages Jaunes™ Walking Fingers & Design™ and Canada411™ trademarks in Canada.

Vertical Media

Trader is a leader in print and digital vertical media in automotive, real estate and generalist verticals. Trader has over 140 publications and 20 web sites.

Trader is the leading Canadian new and used car destination with its AutoTrader.ca™ web site. Trader offers dealers a broad set of services such as inventory management, web solutions, optimization of media spend and lead-generation campaigns. Its flagship site AutoTrader.ca reaches over 2 million unique visitors monthly. Trader's main brands include AutoTrader.ca™, lesPAC.com, CanadianDriver.com, autoHEBDO.net™, BuySell.com™, and Renters Guide.

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.

Our strategy remains to leverage our multiplatform media and marketing solutions, to enhance services to our advertisers, build traffic to our network of properties and improve user experience.

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, with the creation of Mediative, we have made more targeted, smaller scale 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 2010, see Section 3 – Results.

Our key priorities for 2011 in our directory business are:

- Effective go to market, commercialization and support of our recent product introductions;
- Enhancement of our product and service offering to improve advertiser and user experience.

Effective go to market, commercialization and support of our recent product introductions

In 2011, we will remain focused on the support and roll-out of our recent product introductions. This will require continued investment in sales force training and support operations, as well as customer service.

Enhancement of Product Services

The 2011 growth plan entails building upon the drivers listed below:

- Websites – In 2011, we will begin selling Website solutions to advertisers. We believe this will answer a significant need in the market place. We will help small and medium enterprises (SMEs) to create a quality showcase of their business which will offer an engaging experience for their customers online. Advertisers will be able to select from a range of website options and tools flexible enough to fit their business needs;
- National strategy – In 2010, we created Mediative, a company dedicated to serving national agencies and advertisers. Mediative offers unique digital marketing solutions and expertise to national agencies and advertisers. It is the next step in YPG's digital growth strategy and our objective to grow our share of the national advertising market;
- Mobile – YellowPages.ca mobile applications have now been downloaded more than 2 million times. During the month of December, over 20% of our online searches were performed using a mobile device. In 2011, 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;
- Customer Acquisition – In 2011, focus will remain on customer acquisition efforts as strategies, offers and processes are further refined and optimized;
- Canpages – The acquisition of Canpages positions us to better compete in the digital world, expand online capabilities, user features and advertiser offerings and enables us to expand our sales force, improving our sales coverage.

Vertical Media

For a review of developments and performance relative to key priorities identified for 2010, see Section 3 – Results.

Our key priorities for 2011 in Vertical Media are:

- Enhancement and expansion of our product and service offerings; and
- Improve user experience.

Enhancement and expansion of our product and service offerings

- Dealer Smart Solutions – Passenger and non-passenger Vehicles. Trader will continue to extend and leverage Dealer Smart Solutions (DSS) through continued customer conversion and acquisition, package upgrades and increased customer spend (product and service extensions e.g. additional print, SEM, etc). Acquisition of new customers is expected to occur through extension of the approach whereby dealer group principals are approached as opposed to the individual dealerships. Improved acquisition and conversion is expected to occur through a new servicing model that has been developed for the sales organization that better aligns service with customer needs. Finally, a new compensation plan that is effective in January will award sales reps who are able to acquire and migrate customers toward DSS. In addition to these initiatives, other extensions to the DSS solution set are also being evaluated with potential implementation in 2011;

- Real Estate Smart Solution – The real estate vertical has remained largely a print business focused on new homes and condominiums as well as rental categories. In collaboration with Dealer.com, a web site solution has been developed to target the resale category and the agent-broker-banner community, more specifically. The product and price point have been developed on the basis of the needs of this user group and the preliminary plans are to sell this product directly through the Trader sales force as well as through a team of new sales representatives in the Canpages organization who will specialize in real estate.

Improve User and Advertiser Experience

- Website and mobile enhancements are continuing to be developed in order to improve the search engine and user experience through a clean up of the search data and filters.

Capability to Deliver Results

This section of our MD&A explains how we are positioned 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 its dividends to shareholders, 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 4 – 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.

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 including Yellow Pages, Pages Jaunes, Walking Fingers Design and Canada411 trademarks in Canada.

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 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. Conversion From an Income Trust to a Corporation

Path to Conversion

During the first quarter of 2010, the Company announced the details of the Plan of Arrangement which was intended to lead to the conversion of the Company from an income trust to a traditional dividend paying public corporation.

As part of this Plan of Arrangement, the Company obtained an interim order on March 24, 2010 from the Superior Court of Québec.

The interim order of the Court confirmed the calling of an annual and special meeting (the Meeting) of YPG's unitholders on Thursday, May 6, 2010 for the purpose of considering the Plan of Arrangement.

In order to become effective, the Plan of Arrangement required the receipt of all necessary court, regulatory and Toronto Stock Exchange approvals and other customary conditions, along with the approval by at least 66 2/3% of the votes cast by YPG unitholders voting in person or by proxy at the Meeting. This approval was obtained on May 6, 2010, when YPG unitholders adopted by a vote of 99.8% the Plan of Arrangement.

On October 1, 2010, YPG appeared before the Superior Court of Québec in order to obtain a final order with respect to the Plan of Arrangement. A final order approving YPG's Plan of Arrangement was then issued.

On November 1, 2010, the Plan of Arrangement became effective resulting in the conversion of YPG's income trust structure into a dividend paying publicly-traded corporation named Yellow Media Inc. Unitholders of YPG received, for each unit of YPG held, one common share of Yellow Media Inc.

On that same date, the units of the Fund were delisted from the Toronto Stock Exchange and trading of the common shares of Yellow Media Inc. on the Toronto Stock Exchange commenced under the symbol "YLO".

Dividend payments and dividend policy

The monthly dividend for the months of November and December 2010 were maintained at \$0.0667 (\$0.80 annually) per common share of Yellow Media Inc. November and December 2010 dividends were payable to holders of record of common shares on November 30, 2010 and December 31, 2010, respectively, and were paid on December 15, 2010 and January 17, 2011, respectively.

Starting in January 2011, Yellow Media Inc. will pay a monthly dividend of \$0.0542 (\$0.65 annually) per common share of Yellow Media Inc. The first monthly dividend was declared in January for the holders of record as of January 31, 2011 and will be paid on February 15, 2011.

The dividend policy in respect of the common shares of Yellow Media Inc. will be subject to the discretion of the board of directors of Yellow Media Inc. and may vary depending on, among other things, Yellow Media Inc.'s earnings, financial requirements, the satisfaction of solvency tests imposed by the *Canada Business Corporations Act* for the declaration of dividends and other conditions existing at such future time.

Accounting impact of the conversion

The Company followed the guidelines included in Abstract 170 of the Emerging Issues Committee, *Conversion of an unincorporated entity to an incorporated entity* (EIC-170) to reflect the impact of the conversion.

The conversion was treated as a change in business form and was accounted for as a continuity of interests; as such the carrying amounts of assets, liabilities and unitholders' equity in the consolidated financial statements of the Company immediately before the conversion will be the same as the carrying values of Yellow Media Inc. immediately after the conversion. The comparative figures are those of the Fund. The stated capital of Yellow Media Inc. in respect of the common shares was reduced by an amount of \$2 billion and contributed surplus was increased by the same amount.

3. Results

This section provides an overview of our financial performance in 2010 compared to 2009 and 2009 compared to 2008. It is also important to note that in order to help investors better understand our performance we rely on several metrics, some of which are not measures recognized by GAAP. Definitions of these financial metrics are provided on page 2 of this MD&A and are important aspects which should be considered when analyzing our performance.

Overall Performance

- Revenues increased by \$40 million or 2.4% over the previous year to \$1,679.9 million.
- Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges decreased by \$43.1 million or 4.8% to \$850.3 million over the previous year.

Highlights by Segment^{1,2}

(in thousands of Canadian dollars – except share information)

	Directories		Vertical Media		Years ended December 31, Consolidated	
	2010	2009	2010	2009	2010	2009
Revenues	\$1,365,276	\$1,392,029	\$314,584	\$247,855	\$1,679,860	\$1,639,884
Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges (EBITDA)	\$759,333	\$821,904	\$90,982	\$71,534	\$850,315	\$893,438
Basic earnings per share ³ attributable to common shareholders of Yellow Media Inc.					\$0.53	\$0.40
Cash flow from operating activities					\$646,536	\$750,187
Free cash flow ⁴					\$573,666	\$706,622
EBITDA before conversion and rebranding costs					\$898,844	\$893,438

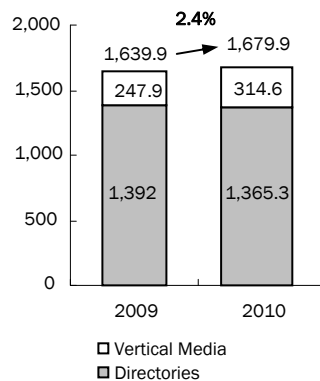
¹ The 2009 comparative figures are those of the Fund. Included in the 2010 figures are the results of the Fund for the period from January 1 to October 31, 2010.

² We closed the acquisitions of Dealer Dot Com Inc. (Dealer.com) on January 5, 2010, Restaurantica.ca (Restaurantica) on January 8, 2010, Clear Sky Media Inc. (RedFlagDeals.com) on February 9, 2010, Canpages Inc. (Canpages) on May 25, 2010, CanadianDriver Communications Inc. (CanadianDriver) on July 9, 2010, Mediative Performance LP (Mediative LP), previously Enquiro Search Solutions Inc. on September 21, 2010, Uptrend Media Inc. (Uptrend Media) on October 20, 2010 and AdSplash Inc. on October 28, 2010. As such, included in the 2010 results are the results of each acquired business from their respective dates of acquisition.

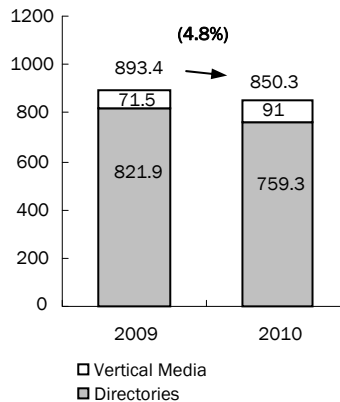
³ Comparative amounts are per Trust unit.

⁴ Please refer to Section 5 for a reconciliation of Adjusted Earnings and free cash flow.

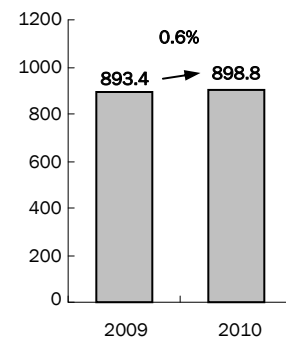
Revenues
(in millions of dollars)



EBITDA
(in millions of dollars)



EBITDA before conversion and rebranding costs
(in millions of dollars)



Performance Relative to Business Strategy

Organic growth

As we position Yellow Media Inc. as Canada's #1 Internet Company and a leading performance media and marketing solutions provider our focus in 2010 was:

- To improve the user experience;
- To grow traffic to our network of properties; and
- To expand our advertiser offering and value proposition.

Directories

- **User Experience** – In 2010, significant effort was invested in enhancing the user experience. Following four releases of upgrades to our flagship online properties, consumers are enjoying an enhanced experience on yellowpages.ca. Early in the year YPG re-launched YellowPages.ca to better reflect the Company's new brand image. The improved site provides consumers with a personalized user interface and local search functionality to help them make more informed buying decisions. Improvements also include the integration of ratings and reviews, video features enhanced with high-definition format and a redesigned full-screen video player with a photo gallery, and the integration of Facebook Social Plugins and YellowPages.ca account that make the user experience more personalized and social on YellowPages.ca;
- **Mobile** – We continue to focus and invest in the mobile user experience both by continuing to improve the mobile applications and by further leveraging and enhancing our deep local content. In March, YPG launched four newly upgraded and rebuilt applications for iPhone™, Blackberry™ and Google™ Android™ smartphones and completed an overhaul of our mobile website <http://m.y.ca>. YellowPages.ca mobile application has now been downloaded more than 2 million times. In 2010, YPG created an application programming interface (API). YellowAPI.com is open to developers across all platforms, allowing them to stream local search content directly from one of Canada's largest and most robust business and person databases. YellowAPI.com is a natural tool of choice for developers as it addresses a real need for relevant and dynamic local content. This in turn allows us to increase the amount of visibility and business leads our advertisers receive because of the relationship they have with us. Also in 2010, YPG and TELUS announced a partnership to optimize the mobile local search experience for millions of Canadians. TELUS will provide a co-branded version of the YellowPages.ca mobile applications to its customers. This partnership not only positively impacts the mobile user experience but benefits businesses advertising within the Yellow Pages Group network by increasing their visibility and growing their client acquisition programs;
- **Enhancement and expansion of products** – YPG's Search Engine Solutions (SES) were launched in 2010. SES is composed of two core offerings: Search Engine Marketing (SEM) and Search Engine Optimization (SEO). YPG's team will work closely with new and existing advertisers to build effective paid-search advertising campaigns tailored to their business needs, objectives and budgets. YPG will also manage these campaigns and keywords across multiple search engines including Google, Yahoo! and Bing. In addition, YPG's SEO solutions will ensure advertisers choose the most cost-effective search phrases for their business to improve their website rankings and ultimately attract new customers right to their door.

Also in 2010, we developed new online placement and content products on yp.ca. The launch of the enhanced YellowPages.ca platform has enabled the development of new online placement and content products that provide greater potential to target local markets. These products were developed with a view to delivering the appropriate user experience and providing value to the advertiser in this context.

During the year YPG launched Deal of the Day on RedFlagDeals.com, representing YPG's entry in the group buying market. This new initiative features a free daily group buying newsletter, offering savings on various products or services. This new online shopping product benefits both deal-savvy consumers and participating businesses that can take advantage of the visibility that our network of properties brings them.

Vertical Media

Enhancement and expansion of our product and service offerings

- **Continued deployment of Dealer Smart Solutions** – In 2010, the roll-out efforts continued for customers not targeted on our initial implementation. There was also an opportunity to continue to grow the customer account through package upgrade and additional components, such as video and SEM;
- **Expansion of Dealer Smart Solutions to non-passenger vehicles (NPV)** – This product expansion leverages all the successful components of Dealer Smart Solutions but will customize the offering to the specificities of the different NPV segments. The initial focus was on targeting existing Trader customers to up-sell from the current print media offerings to the integrated solutions.

Improve User and Advertiser Experience

- During the first quarter of 2010, we completed the roll-out of the digital ad-taking system across the country. We now have one national platform that will allow for standardization and productivity gains, optimizing our ad workflow.
- A new search engine was launched at the beginning of 2010 on AutoTrader.ca and was a key step in differentiating the user experience. Enhancements were developed in order to improve the search engine and user experience through a clean up of the search data and filters. Trader launched a new algorithm on autoTRADER.ca. Vehicle search results are now sorted by "quality" of the ad listing. Each ad is scored against multiple factors ranging from the number of photos to richness of vehicle description, and the most relevant results will be presented to users;
- The autoTRADER.ca iPhone and BlackBerry™ mobile application which was launched during the year has now been downloaded approximately 220,000 times. The application provides browsing by make and model, search by keyword and sort by location, price and most recent content. The application also allows viewing of all listings based on the user's location, a dealer location by postal code or proximity-based search using GPS. In September, Trader launched the BlackBerry™ version of autoTRADER.ca. Just like the iPhone application it provides over 200,000 used vehicle inventory to a new consumer audience. The new applications leverage the power of autoTRADER.ca listings.

External growth

Dealer.com

In 2010, Trader acquired an additional 12% equity interest in Dealer.com bringing its total equity interest to approximately 32%. The results of Dealer.com are now consolidated with those of Trader. Dealer.com is a leading provider of online marketing solutions to the vehicle industry.

RedFlagDeals.com

In February 2010, YPG completed the acquisition of RedFlagDeals.com, a leader in providing online promotions and shopping tools to Canadians. Online coupons and deals are capturing an increasingly important share of consumer-related traffic. Not only are users looking for deals online, but retailers are increasingly using the Internet as a distribution channel for their sales items. With this transaction, YPG is tapping into this market with websites that have established traction in the marketplace, loyal communities, and promotional content to build on. It also offers YPG additional growth potential on mobile devices with an iPhone™ application already available for coupon clipping and price comparison. In September 2010, YPG launched Deal of the Day on RedFlagDeals.com and LesPAC.com, representing YPG's entry in the group buying market. This new initiative features a free daily group buying newsletter, offering savings on various products or services.

411.ca

Also in 2010, YPG purchased the 411.ca URL and domain names and acquired a 30% ownership interest in 411 Local Search Corp. The agreement enables both companies to leverage the online traffic between YPG's leading Canada411.ca™ and YellowPages.ca™ properties, and 411.ca, a fast-growing online directory. This agreement provides enhanced online reach for advertisers

Divestiture of YPG Directories LLC

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

CanadianDriver

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

Canpages Inc.

On May 25, 2010 YPG acquired Canpages Inc. (Canpages). This acquisition has given YPG the opportunity to expand its sales force, online capabilities and customer offerings. The integration of this acquisition is progressing as planned.

Mediative

On October 26, 2010, the Company announced the launch of Mediative, a digital advertising and marketing solutions provider for national agencies and advertisers. Concurrent with the launch of Mediative, the Company announced it had acquired a controlling interest in Enquiro Search Solutions Inc., a leading search engine solutions company, AdSplash Inc., a national retail advertising leader, and Uptrend Media, Canada's leading independent online advertising representation firm. These companies will be integrated into Mediative. YPG also entered into a licensing agreement with Acquisio Inc. for the Canadian rights to the company's flagship search, social and display advertising software platform. YPG holds a 24% ownership interest in Acquisio Inc. since April 2009. Mediative has approximately 150 employees across four Canadian offices: Montreal, Toronto, Kelowna and Vancouver.

Ziplocal

On November 1, 2010, YPG finalized an outsourcing agreement with Ziplocal LP for a period of three years. Under this agreement, YPG will provide publishing, manufacturing and distribution services enabling Ziplocal to benefit from YPG's technology. The agreement may be extended for a period of up to two years under certain conditions.

Consolidated Operating and Financial Results

Consolidated Results¹

(in thousands of Canadian dollars – except share information)

	Years ended December 31,		
	2010	2009 ²	2008 ²
Revenues	\$1,679,860	\$1,639,884	\$1,696,713
Operating costs	781,016	746,446	764,007
Conversion and rebranding costs	48,529	-	-
Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges (EBITDA)	850,315	893,438	932,706
Depreciation and amortization	270,117	142,414	186,065
Acquisition-related costs	30,539	-	-
Impairment of goodwill	-	315,000	-
Restructuring and special charges	33,903	40,316	36,225
Income from operations	515,756	395,708	710,416
Financial charges, net	144,796	114,600	142,261
Impairment of available for-sale-investment	-	-	4,775
Gain on deemed disposition of equity investment	(2,374)	-	-
Gain on disposal of subsidiary	(2,338)	-	-
Earnings before dividends on Preferred shares, series 1 and 2, income taxes, and share of losses from equity investees	375,672	281,108	563,380
Dividends on Preferred shares, series 1 and 2	21,171	22,427	22,750
Earnings before income taxes and share of losses from equity investees	354,501	258,681	540,630
Provision for income taxes	60,527	42,710	30,664
Share of losses from equity investees	19,939	7,089	-
Net earnings	\$274,035	\$208,882	\$509,966
Basic earnings per share ⁴ attributable to common shareholders of Yellow Media Inc.	\$0.53	\$0.40	\$0.97
Diluted earnings per share ⁴ attributable to common shareholders of Yellow Media Inc.	\$0.47	\$0.36	\$0.89
Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges (EBITDA)	\$850,315	\$893,438	\$932,706
Conversion and rebranding costs	48,529	-	-
EBITDA before conversion and rebranding costs³	\$898,844	\$893,438	\$932,706
Total assets	\$9,300,248	\$8,941,606	\$9,366,219
Long-term debt	\$2,218,203	\$2,225,720	\$2,420,049
Exchangeable and convertible instruments	\$319,029	\$83,886	\$285,470
Preferred Shares Series 1 and 2	\$446,725	\$472,777	\$489,072

¹ The 2009 and 2008 comparative figures are those of the Fund. Included in the 2010 figures are the results of the Fund up for the period from January 1 to October 31, 2010.

² As adjusted per adoption of new accounting policies as discussed in Section 7 – Critical Assumptions of this MD&A.

³ We remove costs associated with the conversion from an income trust to a corporation and the related rebranding costs as they do not reflect the ongoing operations of the business.

⁴ Comparative amounts are per Trust unit.

Analysis of Consolidated Operating and Financial Results

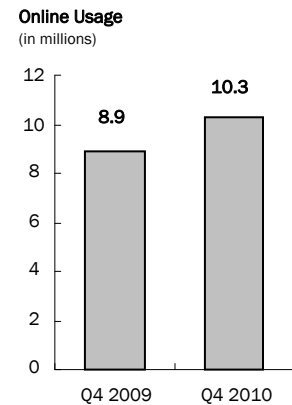
Each year, we set targets to advance our goals and drive results. In addition to macroeconomic factors, we consider competitive activity in some of our localized markets and our ability to respond to changing market conditions while offering our advertisers new products and services that are intended to position both our print and online business in both segments. We also consider third party expectations such as the Kelsey Group and the Interactive Advertising Bureau of Canada regarding Canadian advertising trends and changing consumer trends affecting local commercial search.

In the current environment, we expect revenue growth from our online product offerings to continue, but also expect revenue pressure to remain in our traditional print offerings. Accordingly, our focus remains to position our Directories and Vertical Media platforms through investment in new product introduction and improved market coverage.

Fiscal 2010 versus 2009

Revenues

Revenues increased to \$1,679.9 million during 2010 compared with \$1,639.9 million for 2009. The additional contribution of revenues from Canpages during the year ended December 31, 2010 was partly offset by the loss of revenues resulting from the divestiture of YPG USA. Dealer.com contributed approximately \$78 million of revenues in 2010. If we exclude the results from Dealer.com, organic revenues declined due to lower print revenues in both segments. The continuing shift in the media and publishing industries towards more online content continues to place pressure on our traditional print offerings. Organic online revenue growth for 2010 reached 15.8%. Online revenues from the Directories and Vertical Media segments combined reached \$445.3 million in 2010. Our network of web sites in Directories and Vertical Media attracted 10.3 million unduplicated unique visitors¹ on average during the fourth quarter of 2010, representing a reach of 41.4%¹ of the Canadian internet population.



EBITDA

EBITDA decreased by \$43.1 million to \$850.3 million compared to \$893.4 million in 2009. During the year, we incurred conversion and rebranding costs of \$48.5 million associated with our conversion from an income trust to a corporation. If we exclude these costs, EBITDA increased by \$5.4 million compared to 2009.

Cost of sales increased by \$15.3 million to \$479.5 million compared to \$464.2 million in 2009. The increase for the year ended December 31, 2010 results mainly from the increased costs associated with Dealer.com acquired in the first quarter of 2010. Canpages also contributed additional costs during the year when compared to 2009 as it was acquired in May 2010. This was offset by the lower costs resulting from the divestiture of YPG USA.

Gross profit margin remained stable at 71.5% in 2010 compared to 71.7% in 2009.

General and administrative expenses increased by \$67.7 million to \$350 million compared to \$282.3 million in 2009. The increases in general and administrative expenses for 2010 are mainly attributable to conversion and rebranding costs, as well as, higher costs in the Vertical Media segment following the acquisition of Dealer.com on January 5, 2010, and the higher costs following the acquisition of Canpages on May 25, 2010.

Depreciation and amortization

Depreciation and amortization increased to \$270.1 million during 2010 compared with \$142.4 million in 2009. The increase is mainly attributable to higher amortization of certain intangible assets related to the acquisitions of Dealer.com and Canpages.

Acquisition-related costs

During the year we recorded acquisition-related costs of \$30.5 million as a result of our acquisitions of Canpages, RedFlagDeals.com, Restaurantica, Mediative LP, Uptrend Media, AdSplash, 411.ca and CanadianDriver. This includes \$18.8 million of transaction costs and \$11.7 million of restructuring and other charges.

Restructuring and special charges

During 2010 and in connection with the acquisition of Canpages, we recorded restructuring and special charges relating to internal reorganization, workforce reduction, the acceleration of business process changes in our centres of excellence and other items amounting to \$33.9 million. Similar initiatives amounting to \$40.3 million were undertaken in 2009.

¹ Source: comScore Media Metrix Canada.

Financial charges

Financial charges increased by \$30.2 million to \$144.8 million compared to \$114.6 million in 2009. The increase is due in part to a lower gain on the repurchase of preferred shares, Medium Term Notes, credit facilities and Exchangeable Debentures of \$4.2 million in 2010 compared to a net gain of \$42.8 million in 2009. The effective average interest rate on our debt portfolio as of December 31, 2010 was 5.4% compared to 5.8% as of December 31, 2009.

Gain on deemed disposition of equity investment

The previously held equity interest of Trader in Dealer.com, which was accounted for under the equity method up to January 5, 2010, was re-measured at its fair value of \$40.6 million and the gain on deemed disposition was recognized in net earnings. The unrealized cumulative loss on translating the financial statements of Dealer.com to Canadian dollars was also recognized in net earnings on the same basis as would be required if Trader had disposed directly of its previously held equity interest. The above transactions generated a net gain of \$2.4 million which was recorded in the first quarter of 2010.

Gain on disposal of subsidiary

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

Dividends on preferred shares, Series 1 and 2

Dividends on the two series of redeemable preferred shares amounted to \$21.2 million compared to \$22.4 million in 2009.

Provision for income taxes

The combined statutory provincial and federal tax rate was 29.9% and 31.4% in 2010 and 2009 respectively. The Company recorded an expense of 17.1% of earnings in 2010 compared to 16.5% in 2009. Prior to the conversion from an income trust, the Fund's subsidiary, YPG LP was a limited partnership, and as such, was not subject to income taxes whereas YPG LP's subsidiaries were subject to income tax. The difference between the statutory and the effective tax rates was primarily due to inter-company revenues which were not taxable when received by YPG LP.

Share of losses from equity investees

In 2010 we recorded our share of losses from our equity investments in the amount of \$19.9 million compared to \$7.1 million in 2009. These losses include the amortization of intangible assets amounting to \$22 million (2009 - \$12.9 million) in connection with these equity investments.

Net earnings

Net earnings increased by \$65.2 million to \$274 million in 2010. The increase is mainly due to the impairment of goodwill that occurred in 2009 partly offset by higher depreciation and amortization following the business acquisitions in 2010 as well as the expenses incurred in connection with our conversion and rebranding efforts and the acquisition-related costs incurred in connection with the acquisitions of Canpages, RedFlagDeals.com, Restaurantica, Mediative LP, Uptrend Media, AdSplash, 411.ca and CanadianDriver in 2010.

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. 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.

EBITDA

EBITDA decreased by \$39.3 million to \$893.4 million compared to \$932.7 million in 2008. The decrease for the year was directly attributable to lower revenues in the Vertical Media segment, which accounted for \$36.7 million of the decrease in EBITDA. The Directories EBITDA decreased by \$2.6 million for the year.

¹ Source: comScore Media Metrix Canada.

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 was 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 was 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 ended December 31, 2009, we recorded a charge of \$315 million related to the impairment of goodwill in our Vertical Media segment. The charge was recorded following the Company's two-step impairment test which concluded that the carrying value of the goodwill exceeded its implied fair value of the reporting unit under the second step of the impairment test.

Summary of Consolidated Quarterly Results

Quarterly Results								
<i>(in thousands of Canadian dollars – except share information)</i>								
	2010				2009 ¹			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	\$422,777	\$428,570	\$420,382	\$408,131	\$405,679	\$408,318	\$417,534	\$408,353
Operating costs	197,564	202,612	192,490	188,350	186,382	182,109	193,465	184,490
Conversion and rebranding costs	32,487	4,441	7,950	3,651	-	-	-	-
Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges (EBITDA)	192,726	221,517	219,942	216,130	219,297	226,209	224,069	223,863
Depreciation and amortization	101,170	70,139	53,095	45,713	35,010	35,282	34,005	38,117
Acquisition-related costs	4,952	2,038	19,934	3,615	-	-	-	-
Impairment of goodwill	-	-	-	-	-	315,000	-	-
Restructuring and special charges	7,461	17,465	8,977	-	19,732	-	20,584	-
Income (loss) from operations	79,143	131,875	137,936	166,802	164,555	(124,073)	169,480	185,746
Net (loss) earnings	(2,333)	74,705	79,906	121,757	128,405	(168,515)	116,905	132,087
Basic (loss) earnings per share attributable to common shareholders of Yellow Media Inc.	\$(0.01)	\$0.15	\$0.16	\$0.24	\$0.25	\$(0.33)	\$0.23	\$0.26
Diluted (loss) earnings per share attributable to common shareholders of Yellow Media Inc.	\$(0.01)	\$0.12	\$0.14	\$0.21	\$0.21	\$(0.33)	\$0.19	\$0.21
Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges (EBITDA)	\$192,726	\$221,517	\$219,942	\$216,130	\$219,297	\$226,209	\$224,069	\$223,863
Conversion and rebranding costs	32,487	4,441	7,950	3,651	-	-	-	-
EBITDA before conversion and rebranding costs	\$225,213	\$225,958	\$227,892	\$219,781	\$219,297	\$226,209	\$224,069	\$223,863
EBITDA before conversion and rebranding costs margin	53.3%	52.7%	54.2%	53.9%	54.1%	55.4%	53.7%	54.8%

¹ As adjusted per adoption of new accounting policies as discussed in Section 7 – Critical Assumptions of this MD&A.

Revenues throughout 2009 were lower quarter over quarter due to lower revenues in both segments being negatively impacted by adverse economic conditions and continued pressure on our print products with the exception of the second quarter of 2009 where revenues increased quarter over quarter due to the contribution from YPG USA and the seasonality in the Vertical Media segment.

During 2010, revenues increased quarter over quarter with the exception of the fourth quarter, reflecting the contribution of Dealer.com in our Vertical Media segment partly offset by lower print revenues in our Directories and Vertical Media segments. The revenues contributed by Canpages were partly offset by the reduction in revenues following our divestiture of YPG USA in the second quarter of 2010. The lower revenues in the fourth quarter are attributable to lower print revenues in the Directories segment.

In 2009, our EBITDA margins remained relatively stable despite the protracted economic downturn which affected our business. During 2010, we incurred conversion and rebranding costs resulting in a reduced EBITDA margin. If we exclude these costs, our EBITDA margin was slightly below that of 2009 resulting from lower revenues in both segments. Our cost containment initiatives offset these lower revenues.

Net earnings (loss) were affected by the adverse economic conditions during the four quarters of 2009. In addition, internal reorganizations and cost containment initiatives resulted in restructuring and special charges impacting some of our quarterly results in 2009 and 2010. Impairment of goodwill in our Vertical segment 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. Net earnings for 2010 were affected by depreciation and amortization of intangibles related to the acquisitions of Dealer.com and Canpages. Lastly, net earnings throughout 2010 were impacted by conversion and rebranding costs associated with our conversion from an income trust to a corporation as well as acquisition related costs.

Analysis of fourth quarter results 2010 results

Revenues

Revenues increased to \$422.8 million during the fourth quarter of 2010 compared with \$405.7 million for the same period last year. The additional contribution of revenues from Canpages during the quarter ended December 31, 2010 was partly offset by the loss of revenues resulting from the divestiture of YPG USA. Dealer.com contributed approximately \$23 million of revenues in the three-month ended December 31, 2010. If we exclude the results from recent acquisitions, organic revenues declined due to lower print revenues in both segments. The continuing shift in the media and publishing industries towards more online content continues to place some pressure on our traditional print offerings. Organic online revenue growth for the fourth quarter reached approximately 13%. Online revenues from the Directories and Vertical Media segments combined reached \$123.4 million in the fourth quarter of 2010 or \$493.6 million annualized.

EBITDA

EBITDA decreased by \$26.6 million to \$192.7 million during the fourth quarter of 2010 compared with the same period last year. During the quarter, we incurred conversion and rebranding costs of \$32.5 million mainly associated with our conversion from an income trust to a corporation. If we exclude these costs, EBITDA increased by \$5.9 million for the three-month period ended December 31, 2010 compared with the same period last year.

Cost of sales increased by \$5.6 million to \$120.4 million during the fourth quarter of 2010 compared with the same period last year. The increase for the quarter ended December 31, 2010 results mainly from the increased costs associated with Dealer.com acquired in the first quarter of 2010. Canpages also contributed additional costs during the quarter when compared to the same period last year as it was acquired in May 2010.

Gross profit margin was stable at 71.5% for the fourth quarter of 2010 compared to 71.7% for the fourth quarter of 2009.

General and administrative expenses increased by \$38.1 million to \$109.6 million during the fourth quarter of 2010 compared with the same period last year. The increase in general and administrative expenses for the three-month period ended December 31, 2010 is mainly attributable to conversion and rebranding costs, higher costs in the Vertical Media segment following the acquisition of Dealer.com on January 5, 2010, and the higher costs following the acquisition of Canpages on May 25, 2010.

Depreciation and amortization

Depreciation and amortization increased to \$101.2 million during the fourth quarter of 2010 compared with \$35 million during the same period last year. The increase is attributable to higher amortization of certain intangible assets related to the acquisitions of Dealer.com and Canpages.

Acquisition-related costs

During the fourth quarter we recorded acquisition-related costs of \$5 million as a result of our acquisitions of Canpages, AdSplash, Uptrend Media and Mediative LP. This includes \$3.4 million of transaction costs and \$1.6 million of restructuring and other charges for the three-month period ended December 31, 2010.

Restructuring and special charges

During the fourth quarter of 2010, we recorded restructuring and special charges relating to internal reorganization, workforce reduction, the acceleration of business process changes in our publishing centres of excellence and other items amounting to \$7.5 million.

Financial charges

Financial charges increased by \$17 million to \$45.5 million during the fourth quarter of 2010. The increase is due in part to a lower loss on repurchase of preferred shares, Medium Term Notes, credit facilities and Exchangeable Debentures of \$4.7 million for the three-month period ended December 31, 2010 compared to a net gain of \$12.3 million for the three-month period ended December 31, 2009.

Dividends on preferred shares, Series 1 and 2

Dividends on the two series of redeemable preferred shares amounted to \$5.1 million for the fourth quarter of 2010 compared to \$5.5 million for the same period last year.

Provision for income taxes

The combined statutory provincial and federal tax rate was 29.9% and 31.0% for the three-month periods ended December 31, 2010 and 2009 respectively. The Company recorded an expense of 88.7% of earnings and 0.02% of the loss for the three-month periods ended December 31, 2010 and 2009 respectively. In connection with the disposal of YPG Directories, LLC, Yellow Media Inc reviewed the status of its future tax assets as of December 31, 2010. As a result, a valuation allowance of \$22.9 million was recorded during the fourth quarter. Prior to the conversion from an income trust, the Fund's subsidiary, YPG LP was a limited partnership, and as such, was not subject to income taxes whereas YPG LP's subsidiaries were subject to income tax. The difference between the statutory and the effective tax rates was primarily due to inter-company revenues which were not taxable when received by YPG LP.

Share of losses from equity investees

During the fourth quarter we recorded our share of losses from our equity investments in the amount of \$8.3 million compared to \$2.2 million for the same period last year. These losses include the amortization of intangible assets amounting to \$8.7 million in connection with these equity investments.

Net earnings

Net earnings decreased by \$130.7 million to a net loss of \$2.3 million during the fourth quarter of 2010. The decrease is mainly due to the higher depreciation and amortization following the business acquisitions in 2010 as well as the expenses incurred in connection with our conversion and rebranding efforts and the acquisition-related costs incurred in connection with the acquisitions of Canpages, RedFlagDeals.com, Restaurantica, 411.ca, Mediative LP and CanadianDriver in 2010 partly offset by lower restructuring and special charges.

Segmented Information – Directories

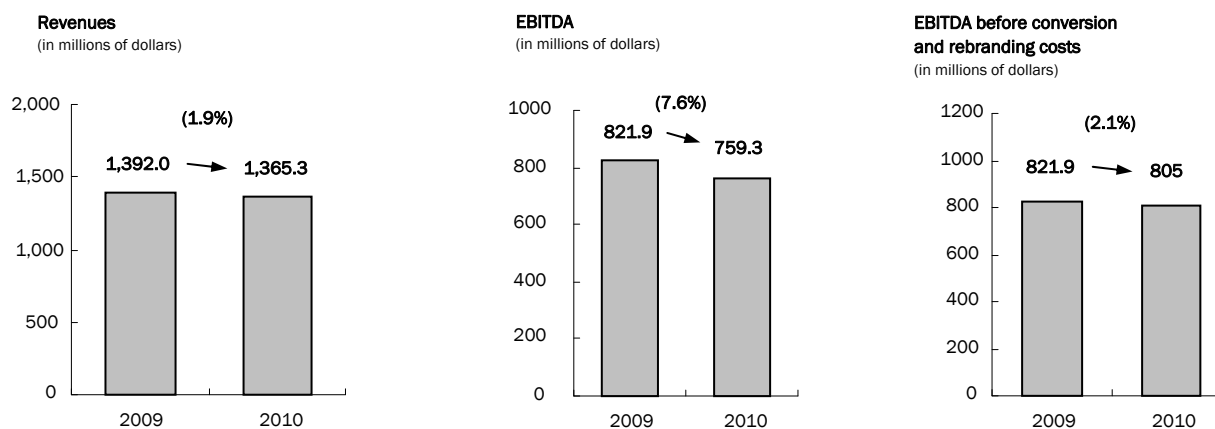
Operating and Financial Results

Operating Results¹

(in thousands of Canadian dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2010	2009	2010	2009
Revenues	\$340,611	\$345,376	\$1,365,276	\$1,392,029
Operating costs	141,805	142,154	560,314	570,125
Conversion and rebranding costs	29,587	-	45,629	-
Income from operations before depreciation and amortization, acquisition-related costs and restructuring and special charges (EBITDA)	169,219	203,222	759,333	821,904
Depreciation and amortization	61,022	24,130	163,240	109,846
Acquisition-related costs	5,200	-	30,709	-
Restructuring and special charges	5,902	18,574	30,724	33,735
Income from operations	\$97,095	\$160,518	\$534,660	\$678,323
Income from operations before depreciation and amortization, acquisition-related costs and restructuring and special charges (EBITDA)	\$169,219	\$203,222	\$759,333	\$821,904
Conversion and rebranding costs	29,587	-	45,629	-
EBITDA before conversion and rebranding costs	\$198,806	\$203,222	\$804,962	\$821,904

¹ See Note 28 - Segmented Information of the audited consolidated financial statements of the Company for the year ended December 31, 2010.



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

Revenues

Revenues decreased slightly to \$340.6 million compared with \$345.4 million for the quarter and decreased by 1.9% to \$1,365.3 million for the year ended December 31, 2010 due in part to a lower number of advertisers. As at December 31, 2010, the number of advertisers, excluding Canpages, was 365,000 compared to 385,000 as at December 31, 2009 reflecting a decrease of approximately 5%. Advertiser renewal was unchanged at 88% as at December 31, 2010 compared to the same period last year. During the last 12 months, YPG acquired 28,000 new advertisers. Although there was a reduction in the number of advertisers, the average revenue per advertiser (ARPA) remained stable at \$3,400 compared to 2009. As at December 31, 2010, our Revenue Generating Units¹ per advertiser was 1.70 compared to 1.68 for the same period last year. The decrease in revenues for the quarter is due to lower print revenues in our Canadian operations and lower revenues resulting from the sale of YPG USA offset by the contribution of Canpages. The decline for the year ended December 31, 2010 is due to the impact of lower advertising sales in our print directories. The level of revenues reflects challenging economic and market conditions which impacted the selling efforts over the last 12 months as well as a shift in advertiser spending and print directory usage. Our objective of providing our customers with high quality leads through

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

attractive print and online bundles continues to support increased online penetration of the print advertiser base and to drive internet revenue growth.

As of December 31, 2010, the number of advertisers, excluding Canpages, choosing to advertise online was 65.2% across Canada compared to 63.3% for the corresponding period last year.

EBITDA

EBITDA decreased by \$34 million to \$169.2 million during the fourth quarter of 2010 and decreased by \$62.6 million to \$759.3 million during the year ended December 31, 2010 compared with the same periods last year. If we exclude the costs associated with our conversion and rebranding, EBITDA decreased by 2.2% in the fourth quarter due to lower revenues. For the year ended December 31, 2010 EBITDA decreased by 2.1% when we exclude conversion and rebranding costs due to lower revenues.

Cost of sales amounted to \$83.7 million in the fourth quarter of 2010 compared to \$84.5 million for the same period last year. For the year ended December 31, 2010, costs of sales amounted to \$335.6 million compared to \$343.7 million for the same period last year. The decrease in the fourth quarter and for the year ended December 31, 2010 is mainly attributable to lower revenues combined with the results of our cost containment efforts including the creation of a centre of excellence in our publishing operations and savings from our supply chain.

Gross profit margin was stable at 75.4% in the fourth quarter of 2010 compared to 75.5% for the same period last year. Gross profit for the year ended December 31, 2010 was also stable at 75.4% compared to 75.3% for the same period last year.

General and administrative expenses in the fourth quarter of 2010 increased by \$30 million to \$87.7 million compared with the same period last year and increased by \$43.9 million to \$270.3 million during the year ended December 31, 2010 compared with the same period last year. The conversion and rebranding costs amounted to \$29.6 million and \$45.6 million during the three-month and the year ended December 31, 2010, respectively. For the quarter and the year ended December 31, 2010, Canpages contributed additional expenses as it was acquired in May 2010.

Depreciation and amortization

Depreciation and amortization increased from \$24.1 million in the fourth quarter of 2009 to \$61 million in the fourth quarter of 2010. For the year ended December 31, 2010 compared to the same period last year, depreciation and amortization increased to \$163.2 million from \$109.8 million. The increase for the fourth quarter and for the year ended December 31, 2010 compared to the same periods last year is due to the amortization related to the acquisition of Canpages and Mediative LP.

Acquisition-related costs

During the fourth quarter of 2010 we recorded acquisition-related costs of \$5.2 million and \$30.7 million for the year ended December 31, 2010. During 2010 we acquired Canpages, RedFlagDeals.com, Restaurantica, Mediative LP, Uptrend Media, AdSplash and 411.ca. This includes \$3.6 million of transaction costs and \$1.6 million of restructuring and other charges for the three-month period ended December 31, 2010 and \$19 million of transaction costs and \$11.7 million of restructuring and other charges for the year ended December 31, 2010.

Restructuring and special charges

During the fourth quarter of 2010, we recorded restructuring and special charges relating to internal reorganization, workforce reduction, and business process changes mainly associated with our newly created publishing centres of excellence amounting to \$5.9 million. During the year ended December 31, 2010, we incurred \$30.7 million of restructuring and special charges.

Segmented Information – Vertical Media

Operating and Financial Results

Operating Results¹

(in thousands of Canadian dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2010	2009	2010	2009
Revenues	\$82,166	\$60,303	\$314,584	\$247,855
Operating costs	55,759	44,228	220,702	176,321
Conversion and rebranding costs	2,900	-	2,900	-
Income from operations before depreciation and amortization, impairment of goodwill, recovery of acquisition-related costs and restructuring and special charges (EBITDA)	23,507	16,075	90,982	71,534
Depreciation and amortization	40,148	10,880	106,877	32,568
Impairment of goodwill	-	-	-	315,000
Recovery of acquisition-related costs	(248)	-	(170)	-
Restructuring and special charges	1,559	1,158	3,179	6,581
Income (loss) from operations	\$(17,952)	\$4,037	\$(18,904)	\$(282,615)
Income from operations before depreciation and amortization, acquisition-related costs, recovery of acquisition-related costs and restructuring and special charges (EBITDA)	\$23,507	\$16,075	\$90,982	\$71,534
Conversion and rebranding costs	2,900	-	2,900	-
EBITDA before conversion and rebranding costs	\$26,407	\$16,075	\$93,882	\$71,534

¹ See Note 28 – Segmented Information of the audited consolidated financial statements of the Company for the year ended December 31, 2010.

Analysis of Operating and Financial Results – Year end and fourth quarter

Revenues

Revenues from our Vertical Media segment increased by \$21.9 million to \$82.2 million during the fourth quarter of 2010 and increased by \$66.7 million to \$314.6 million during the year ended December 31, 2010 compared with the same periods last year. Prior to the increase in our investment in Dealer.com on January 5, 2010, the results of Dealer.com were not consolidated. Dealer.com contributed approximately \$23 million of revenues for the quarter and \$78 million for the year ended December 31, 2010. If we exclude the contribution from Dealer.com, revenues decreased by 1.8% in the fourth quarter and 4.6% for the year ended December 31, 2010 due to lower print revenues. In our largest vertical, automotive, representing in excess of two-thirds of this segment's revenues, excluding Dealer.com, we continue to see positive trends in the marketplace as a result of the Dealer Smart Solutions offering. As at December 31, 2010, 3,400 unique advertisers had subscribed to our Dealer Smart Solutions out of a total of 7,500 commercial vehicle advertisers. Market conditions do, however, remain challenging in the real estate and generalist categories, which represent 19% and 10%, respectively of the segment's revenues, excluding Dealer.com. Revenues generated by our commercial vehicle advertisers excluding Dealer.com were slightly higher at \$33.8 million and \$131.2 million for the three-month and year ended December 31, 2010, respectively, compared to \$33.1 million and \$130.2 million for the same periods last year. The ARPA in the commercial vehicle segment was \$4,500 as at December 31, 2010 compared to approximately \$4,200 as at December 31, 2009, representing a growth of 7% as a result of the roll-out of Dealer Smart Solutions.

EBITDA

EBITDA increased by \$7.4 million to \$23.5 million during the fourth quarter of 2010 and increased by \$19.4 million to \$91 million during the year ended December 31, 2010 compared with the same periods last year as a result of the contribution of Dealer.com.

Cost of sales increased by \$6.4 million to \$36.7 million during the fourth quarter of 2010 and increased by \$23.3 million to \$143.9 million during the year ended December 31, 2010 compared with the same periods last year. The increases are directly related to the contribution in revenues associated with Dealer.com.

Gross profit margin increased to 55.3% for the fourth quarter of 2010 compared to 49.6% for the same period last year and 54.3% for the year ended December 31, 2010 compared to 51.4% for the same period last year reflecting the benefits associated with our optimization of business processes.

General and administrative expenses increased to \$21.9 million in the fourth quarter of 2010 compared to \$13.9 million for the same period last year. For the year ended December 31, 2010, general and administrative expenses were \$79.7 million compared

to \$55.8 million for the same period last year. The increases for the three-month and year ended December 31, 2010 are mainly attributable to the acquisition of Dealer.com.

Depreciation and amortization

Depreciation and amortization amounted to \$40.1 million in the fourth quarter of 2010 compared to \$10.9 million for the same period last year and to \$106.9 million in the year ended December 31, 2010 compared to \$32.6 million for the same period last year. The increase for the quarter and the year ended December 31, 2010 relates to the amortization of certain intangible assets related to the acquisition of Dealer.com.

Acquisition-related costs

We recorded a recovery of acquisition-related costs of \$170 thousand for the year ended December 31, 2010.

Restructuring and special charges

During the year ended December 31, 2010, we recorded restructuring and special charges relating to internal reorganization and workforce reduction amounting to \$1.6 million for the three-month period ended December 31, 2010 and \$3.2 million for the year ended December 31, 2010.

4. Liquidity and Capital Resources

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

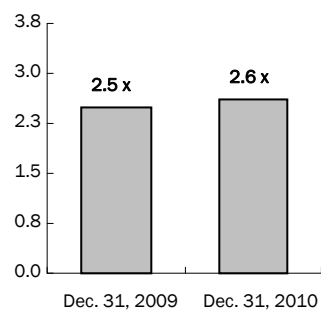
Financial Position

Capital Structure

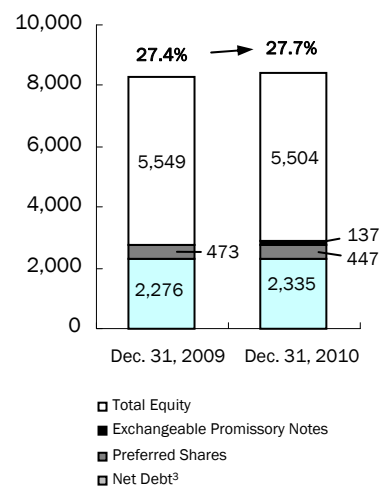
(in thousands of Canadian dollars)

	As at December 31, 2010	As at December 31, 2009
Cash and cash equivalents	\$33,848	\$36,170
Restricted cash	35,477	-
Medium Term Notes	1,656,200	2,044,947
Credit facilities	250,000	100,000
Commercial paper	295,000	74,000
Obligations under capital leases and other	20,672	9,027
Net debt (net of cash and cash equivalents and restricted cash)	\$2,152,547	\$2,191,804
Exchangeable and convertible instruments	319,029	83,886
Preferred shares, series 1 and 2	446,725	472,777
Equity attributable to shareholders of Yellow Media Inc. ⁴	5,450,691	-
Equity attributable to owners of the Fund ¹	-	5,224,740
Equity attributable to non-controlling interests ^{1,4}	52,653	324,130
Total capitalization	\$8,421,645	\$8,297,337
Net debt ³ to total capitalization	27.7%	27.4%

Net Debt to Latest Twelve Months Adjusted EBITDA Ratio^{2,3}



Capital Structure
(in millions of dollars)



¹ As adjusted for 2009 per adoption of new accounting policies as discussed in Section 7 – Critical Assumptions of this MD&A.

² Latest twelve month Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill, restructuring and special charges and conversion and rebranding costs, giving effect to the acquisitions ("Latest Twelve Month EBITDA before conversion and rebranding costs").

³ Net debt including Exchangeable and Convertible Debentures.

⁴ The preferred shares, Series 3 and 5 were classified as non-controlling interest on the 2009 balance sheet as they were shares issued by a subsidiary. As a result of the conversion from an income trust to a corporation on November 1, 2010, the preferred shares, Series 3 and 5, along with the Series 7 issued during the year are now classified in shareholders' equity.

As at December 31, 2010, YPG had approximately \$2.2 billion of net debt, or \$2.9 billion including preferred shares, Series 1 and 2, and Exchangeable and Convertible instruments which was higher than the positions as at December 31, 2009. The increase during the year results from the completion of acquisitions and investments made in the Directories and Vertical segments throughout the year offset by positive operating free cash flow. The net debt¹ to Latest Twelve Month EBITDA before conversion and rebranding² costs ratio as of December 31, 2010 was 2.6 times compared to 2.5 times as of December 31, 2009. The net debt¹ to total capitalization was 27.7% compared to 27.4% as of December 31, 2009.

Credit facilities

As at February 10, 2011, Yellow Media Inc. has in place a senior unsecured credit facility consisting of:

- A \$1 billion facility, which is composed of two tranches (the Principal Facility):
 - a \$750 million revolving tranche maturing in February 2013;
 - a \$250 million non-revolving tranche maturing in February 2013;

On February 19, 2010, the Company increased its sources of liquidity by amending and extending the Principal Facility from \$700 million to \$1 billion. The Principal Facility is composed of a \$750 million revolving tranche and a \$250 million non-revolving tranche. The non-revolving tranche was available by way of single draw only on or before November 1, 2010. The Principal Facility now matures on February 18, 2013. As of December 31, 2010, \$250 million was drawn on the principal credit facility. Proceeds were used to fully repay the \$100 million 5-year term loan (the Private Facility), to fund acquisitions related to the Mediative initiative as well as for general corporate purposes.

Medium Term Notes

Yellow Media Inc. had a total of \$1.7 billion of notes outstanding under its Medium Term Note program as of December 31, 2010 with varying maturity dates between 2013 and 2036.

On January 15, 2010, Yellow Media Inc. redeemed all of its outstanding \$150 million 4.65% Medium Term Notes, Series 6 which were due February 28, 2011. Yellow Media Inc. financed the purchase with drawings under the commercial paper program. Yellow Media Inc. redeemed the Series 6 Medium Term Notes at a redemption price of \$1,041.681 per \$1,000 principal amount in accordance with the terms of the Series 6 Notes and the provisions of the trust indenture dated April 21, 2004 for a total cash consideration of \$156.3 million. A loss of \$5.2 million was recorded in net earnings.

During 2010, Yellow Media Inc. repurchased for cancellation an amount of \$56 million of the Series 3 Medium Term Notes, \$106.4 million of the Series 4 Medium Term Notes, and \$79.4 million of the Series 5 Medium Term Notes for a total cash consideration of \$227.1 million. A gain of \$15 million was recorded in net earnings in financial charges.

Exchangeable Debentures

The remaining balance of Exchangeable Debentures was redeemed by Yellow Media Inc. on August 2, 2010. As of December 31, 2010 no Exchangeable Debentures were outstanding.

Convertible Debentures

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

YPG was in compliance with all of its debt covenants as at December 31, 2010.

Exchangeable Promissory Notes

In connection with the Canpages acquisition, Yellow Media issued \$141.6 million of Mandatory Exchangeable Promissory Notes (the Notes).

¹ Net debt including Exchangeable and Convertible Debentures.

² Latest twelve month Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill, restructuring and special charges and conversion and rebranding costs giving effect to the acquisitions ("Latest Twelve Month EBITDA before conversion and rebranding costs").

Starting in the first quarter of 2011, the Notes are exchangeable into a number of common shares of Yellow Media Inc. based upon a price equal to 95% of the price of the Yellow Media Inc. shares at the time of exchange. Each quarter, holders of the Notes will have the right to exchange 25% of the principal amount representing a maximum of \$35.4 million of the Notes. Until December 31, 2014, YPG may at its option at any time, redeem all or a portion of the Notes for cash together with accrued and unpaid interest. The Notes rank subordinate to the senior debt of Yellow Media Inc. and bear interest at a fixed initial rate of 5%, payable quarterly in cash, subject to step up provisions over time. The Notes have a final maturity of December 31, 2014. Any remaining Notes will be automatically exchanged into common shares of Yellow Media Inc. on December 31, 2014.

On October 15, 2010, the holders of the Notes monetized their investment through a resale of the Notes to a third-party financial institution. In order to facilitate this resale transaction and the orderly conversion of the Notes into common shares during the course of 2011, Yellow Media Inc. entered into a total return swap (TRS) transaction referencing the Notes with the same counterparty for a period ending December 15, 2011. Pursuant to the terms of the TRS, the 5% fixed interest rate under the Notes was converted to the floating rate of interest equal to the three-month Banker's Acceptance plus 1.75%. In addition, under the TRS, the counterparty as a holder of the Notes is expected to exchange 25% of the principal amount into underlying Yellow Media Inc. common shares at 95% of the prevailing market price, to be calculated using a volume weighted average price over a period of up to 20 days. In addition, Yellow Media Inc. may receive or pay under the TRS an adjustment amount to the extent that the value realized by the TRS counterparty on the exchange or redemption of the Notes exceeds or is less than the \$141.6 million principal amount of the Notes.

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 shares of Yellow Media Inc. between March 31, 2012 and December 31, 2012. The Preferred Shares Series 1 are also retractable for cash at the holder's option on or after December 31, 2012 at a price equal to \$25.00 per share plus any accrued and unpaid dividends in arrears.

On June 8, 2007, 8,000,000 cumulative redeemable preferred shares, Series 2 (the Preferred Shares Series 2) were issued for gross proceeds of \$200 million. A dividend of \$1.25 per share per annum is payable quarterly, yielding 5.0% per annum. The Preferred Shares Series 2 are redeemable by the issuer at a decreasing premium for cash on or after June 30, 2012, or by the issuance share of Yellow Media Inc. 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 8, 2010, Yellow Media Inc. received approval from the Toronto Stock Exchange on its notice of intention to renew its normal course issuer bid for its preferred shares, Series 1 and preferred shares, Series 2 through the facilities of the Toronto Stock Exchange from June 11, 2010 to no later than June 10, 2011, in accordance with applicable rules and regulations of the Toronto Stock Exchange.

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

During 2010, Yellow Media Inc. purchased for cancellation 635,714 preferred shares, Series 1 for a total cash consideration of \$15.8 million including brokerage fees at an average price of \$24.78 per share and 501,490 preferred shares, Series 2 for a total cash consideration of \$10.4 million including brokerage fees at an average price of \$20.79 per share. The carrying value of these preferred shares, Series 1 and Series 2 was \$15.7 million and \$12.3 million, respectively. A gain of \$1.8 million was recorded in net earnings in financial charges.

Since June 11, 2009, the total cost of repurchasing preferred shares amounted to \$39.9 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 22, 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.

Cumulative Exchangeable Preferred Shares

On February 9, 2010, in connection with the acquisition of RedFlagDeals.com, Yellow Media Inc. issued 1,300,000 Series 7 shares at a price of \$7.50 per Series 7 share as payment to the vendors for the acquisition by way of a private placement. The holders of the Series 7 shares are entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors of Yellow Media Inc. in an amount equal to \$0.375 per Series 7 share per annum, yielding 5% per annum, payable quarterly on the third last business day of March, June, September and December of each year. The Series 7 shares are exchangeable into common shares of Yellow Media Inc., at the option of the holders of the Series 7 shares and at a ratio of one preferred share for one common share of Yellow Media Inc., regardless of the market price of the common shares of Yellow Media Inc. On or after January 1, 2012, 300,000 Series 7 shares may be exchanged subject to certain time-based and performance conditions.

As at February 10, 2011, 766,667 of the Series 7 shares were exchanged into common shares of Yellow Media Inc. at a ratio of one preferred share for one common share of Yellow Media Inc. There are 533,333 Series 7 shares currently outstanding.

Credit Ratings

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

In December 2010, credit rating agencies Standard and Poor's and DBRS reconfirmed Yellow Media Inc.'s credit ratings.

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, 2010, YPG maintained a credit facility containing two tranches totalling \$1.0 billion, providing sufficient liquidity to fund its operations.

On December 31, 2010, cash and cash equivalents amounted to \$33.8 million. In addition to cash and cash equivalents, Yellow Media Inc. may issue additional notes amounting to \$205 million under its commercial paper program and access another \$250 million under its Principal Facility. Alternatively, if additional notes are not issued under the commercial paper program, Yellow Media Inc. may access the full \$455 million available under its Principal Facility.

In addition to cash and cash equivalents amounting to \$33.8 million, Yellow Media Inc. had \$35.5 million of restricted cash as at December 31, 2010. The amounts were placed in trust in relation with the total return swap ("TRS") entered into on October 15, 2010

Share and Unit data

As at February 10, 2011 outstanding share and unit data was as follows:

Outstanding Share and Unit Data

	As at February 10, 2011	As at December 31, 2010	As at December 31, 2009
Common shares outstanding	516,017,984	516,017,984	-
Units outstanding	-	-	513,044,685
Preferred shares Series 3, 5 and 7 outstanding ¹	13,833,333	13,933,333	-
Options outstanding	380,882	380,882	383,986

¹ The preferred shares, Series 3 and 5 were classified as non-controlling interest on the 2009 balance sheet as they were shares issued by a subsidiary. As a result of the conversion from an income trust to a corporation on November 1, 2010, the preferred shares, Series 3 and 5, along with the Series 7 issued during the year are now classified in shareholders' equity.

On November 1, 2010, the Plan of Arrangement became effective resulting in the conversion of YPG's income trust structure into a dividend paying publicly traded corporation named Yellow Media Inc. Upon completion of the Plan of Arrangement, unitholders of YPG have received, for each unit of YPG held, one common share of Yellow Media Inc.

At November 3, 2010, no Exchangeable Units of YPG LP remain outstanding. YPG LP was liquidated and dissolved in accordance with the Plan of Arrangement.

On November 11, 2010, the Board of Directors of Yellow Media Inc. adopted a new stock option plan (the 2010 Plan). The 2010 Plan is subject to approval by the Shareholders and by the TSX. If approved, the 2010 Plan will permit the Board of Directors to select eligible employees. A maximum of 25 million options may be granted under the 2010 Plan.

The Board of Directors granted, subject to approval, 15,850,000 options from the 2010 Plan. The significant terms and conditions of the options granted are as follows:

- The exercise price is equal to the weighted-average trading prices on the TSX during the five trading days preceding the date on which the options were granted.
- The options vest at the expiration of the third year following the grant date.
- The options expire five years after the grant date.

As at February 10, 2011, Yellow Media Inc. also has a total of \$200 million of Convertible Debentures which are convertible at any time, at the option of the holder into common shares of the Company at an exchange price of \$8.00 per common share.

As at February 10, 2011, Yellow Media Inc. also has Notes that are exchangeable at the option of the holder into common shares of Yellow Media Inc. at the then prevailing market price starting January 1, 2011 and subject to certain conditions.

As at February 10, 2011, there were 11,278,820 preferred shares, Series 1 and 6,840,284 preferred shares, Series 2 outstanding. Both series of preferred shares are redeemable by the issuer under certain conditions through the issuance of shares of the Company.

As at February 10, 2011, there were 533,333 Series 7 preferred shares outstanding. This series of shares are exchangeable into shares of the Corporation, at a ratio of one preferred share for one common share subject to certain conditions.

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	\$2,206,586	\$800,000	\$557,500	\$849,086
Obligations under capital leases ¹	8,414	7,788	626	-
Preferred shares ¹	452,978	281,971	-	171,007
Notes payable ¹	12,258	1,873	1,115	9,270
Exchangeable and convertible instruments ¹	341,562	-	141,562	200,000
Operating leases	171,344	76,161	46,283	48,900
Purchase obligations	91,744	88,745	249	2,750
Total contractual obligations	\$3,284,886	\$1,256,538	\$747,335	\$1,281,013

¹ Principal amount

Obligations under capital leases

We enter into capital lease agreements for office equipment and software. As of December 31, 2010, minimum payments under these capital leases up to 2015 totalled \$8.4 million.

Operating leases

We rent our premises and office equipment under various operating leases. As of December 31, 2010, minimum payments under these operating leases up to 2021 totalled \$171.3 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, 2010, we have an obligation to purchase services for \$91.7 million over the next five years and thereafter. Cash from operations will be used to meet these purchase obligations.

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 Company also sponsors a separate defined contribution pension plan covering substantially all employees of Trader (the Trader Pension Plan).

As at December 31, 2010, the plan assets totalled \$413 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 2010 was 10.9%, 0.2% higher than that of our benchmark portfolio, reflecting the capital market returns and the performance of our pension managers in 2010. The return of our plan also exceeded its benchmark portfolio by 1.5% in 2009.

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 2011, Yellow Media Inc. will have to make annual contributions to the Plan equivalent to the current service contributions of approximately \$7 million for the defined benefit component based on new pension regulations enacted in 2009.

Sources and Uses of Cash

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

Sources and Uses of Cash

(in thousands of Canadian dollars)

	Years ended December 31,	
	2010	2009
Cash flow from operating activities		
Cash flow from operations	\$618,805	\$690,349
Change in operating assets and liabilities	27,731	59,838
	\$646,536	\$750,187
Cash flow used in investing activities		
Business acquisitions, net of cash acquired and bank indebtedness assumed	\$(124,257)	\$(25,189)
Acquisition of equity investments	(6,856)	(47,698)
Acquisition of intangible assets	(24,307)	(246)
Acquisition of fixed assets	(67,408)	(44,428)
Increased interest in a subsidiary	(4,901)	-
Proceeds from lease inducements	-	863
Restricted cash	(35,477)	-
	\$(263,206)	\$(116,698)
Cash flow used in financing activities		
Issuance of long-term debt	\$847,918	\$1,621,300
Repayment of long-term debt	(469,855)	(1,443,844)
Dividends to shareholders	(395,522)	(488,386)
Repurchase of units	-	(40,905)
Repurchase of Preferred shares, series 1 and 2, Exchangeable Debentures, credit facilities, and Medium Term Notes	(501,812)	(538,492)
Issuance of convertible debentures	200,000	-
Issuance of Preferred shares, series 3 and 5	-	332,500
Other	(64,852)	(63,591)
	\$(384,123)	\$(621,418)

Cash flow from operating activities

Cash flow from operating activities decreased from \$750.2 million in the year ended December 31, 2009 to \$646.5 million in 2010. Cash flow from operations decreased by \$71.5 million for the year ended December 31, 2010. During the year, we incurred \$48.5 million relating to conversion and rebranding. In addition, our margins were slightly lower as a result of acquisitions made during the year. The decrease in operating assets and liabilities for the year ended December 31, 2010 was \$32.1 million compared to last year. This change is mainly due to the timing of the payment of certain accounts payable and accrued liabilities as reflected on our balance sheet.

The Company generates sufficient cash flow from operations to fund capital expenditures, dividends, working capital requirements and to service its debt obligations.

Cash flow used in investing activities

Cash used in investing activities increased from \$116.7 million in 2009 to \$263.2 million in the same period this year. In 2009, the Company 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 Company already had a 50% interest representing a total cash outflow of \$25.2 million.

In 2010, the Company acquired an additional 10% interest in Dealer.com, a 60% interest in Mediative LP, all of the shares of Canpages and Uptrend Media and acquired all of the operations of Restaurantica, RedFlagDeals.com, CanadianDriver and AdSplash Inc. for a cash consideration of \$124.3 million. In addition, the Company made equity investments in Ziplocal, 411.ca and Bignition for \$6.9 million. We also acquired the 411.ca brand for an amount of \$12.5 million in connection with the investment we made in 411.ca.

Acquisition of Capital Assets, Net of Lease Inducements

(in thousands of Canadian dollars)

	Years ended December 31,	
	2010	2009
Sustaining	\$29,046	\$16,333
Transition	9,011	8,263
Growth	37,321	21,613
Total	\$75,378	\$46,209
Adjustment to reflect expenditures on a cash basis	(2,508)	(2,644)
Acquisition of capital assets, net of lease inducements	\$72,870	\$43,565

Sustaining capital expenditures amounted to \$29 million for the year ended December 31, 2010 compared to \$16.3 million for the previous year.

Transition capital expenditures relate to the development and implementation of new technology and software aimed at new initiatives as we continue our transformation to a leading internet company. During the year, these amounted to \$9 million compared to \$8.3 million for the previous year.

Total capital expenditures for year amounted to \$75.4 million and were in line with expectations.

Cash flow used in financing activities

Cash used in financing activities decreased by \$237.3 million during 2010 from \$621.4 million for the same period last year as we repaid less debt during the year ended December 31, 2010 compared to the same period last year. The lower level of dividends per share compared to 2009, combined with a reduced number of shares outstanding, resulted in a decrease in dividends to shareholders of \$92.9 million for the year ended December 31, 2010 compared to the same period last year. In addition, the Company repurchased Preferred Shares Series 1 and 2, Medium Term Notes, redeemed the remaining Exchangeable Debentures, and repaid and cancelled private facility for \$501.8 million during the year ended December 31, 2010 compared to \$538.5 million for the same period last year.

Financial and Other Instruments

(See Note 25 of the Consolidated Financial Statements of the Company for the year ended December 31, 2010).

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, investments, accounts payable, dividends payable, short-term and long-term debt, convertible and exchangeable instruments, preferred shares and interest rate derivatives.

Derivative Instruments

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

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

As at December 31, 2010, the interest rate swaps met the criteria for hedge accounting.

Taking into consideration the debt instruments outstanding, the preferred shares and the cash, our fixed-to-floating ratio was 70% fixed rate as at December 31, 2010. While the counterparties of these agreements expose YPG to credit losses in the event of non-performance, we believe that the possibility of incurring such losses is unlikely. This is due to the creditworthiness of all counterparties, all of whom are highly-rated Canadian chartered banks.

On October 15, 2010, the holders of the Notes monetized their investment through a resale of the Notes to a third-party financial institution. In order to facilitate this resale transaction and the orderly conversion of the Notes into common shares during the course of 2011, Yellow Media Inc. entered into a total return swap (TRS) transaction referencing the Notes with the same counterparty for a period ending December 15, 2011. Pursuant to the terms of the TRS, the 5% fixed interest rate under the Notes was converted to the floating rate of interest equal to the three-month Banker's Acceptance plus 1.75%. In addition, under the TRS, the counterparty as a holder of the Notes is expected to exchange 25% of the principal amount into underlying Yellow Media Inc. common shares at 95% of the prevailing market price, to be calculated using a volume weighted average price over a period of up to 20 days. In addition, Yellow Media Inc. may receive or pay under the TRS an adjustment amount to the extent that the value realized by the TRS

counterparty on the exchange or redemption of the Notes exceeds or is less than the \$141.6 million principal amount of the Notes. The TRS is measured at fair value and is marked-to-market through net earnings at each balance sheet date.

The terms and conditions of Preferred Shares Series 1 and 2 provide for redemption at the option of the Company under certain circumstances. These options meet the definition of an embedded derivative. They are recorded at their fair value on the consolidated balance sheet with changes in fair value recognized in earnings.

The carrying value of outstanding interest rate derivatives was an asset of \$1.8 million, the carrying value of the TRS was an asset of \$2.8 million and the carrying value of embedded derivatives was an asset of \$1.5 million on December 31, 2010. 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, 2010, we reported an unrealized gain of \$1 million (2009 - \$1.5 million) on derivatives, excluding the loss on derivatives designated as cash flow hedges in prior periods transferred to earnings in the period, payments on interest rate swaps that have discontinued hedge accounting and payments on TRS.

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 accounted for 1% or more of revenues and there are no accounts receivable from any one individual customer and certified marketing representative that exceeded 5% of the total balance of accounts receivable at any point in time during the year. Included in trade accounts receivable of \$216.8 million at December 31, 2010 is \$39.3 million (2009 - \$43.7 million) to be remitted by Bell, \$23.1 million (2009 - \$24.6 million) to be remitted by TELUS, \$3.0 million (2009 - \$3.1 million) to be remitted by MTS Allstream Inc. and \$4.3 million (2009 - \$4.5 million) to be remitted by Bell Aliant under their respective billing and collection services agreements.

5. Adjusted Earnings

The Company's primary source of cash for dividends is Adjusted Earnings. A reconciliation between net income attributable to shareholders and adjusted earnings is provided below:

Adjusted Earnings

(in thousands of Canadian dollars)

	Three-month period ended December 31, 2010
Net loss attributable to shareholders	\$(483)
Amortization of intangible assets ^{1,6}	65,107
Acquisition-related costs ^{2,6}	3,471
Conversion and rebranding costs ^{4,6}	22,773
Restructuring and special charges ^{3,6}	5,230
Other ^{5,6}	6,560
Future income taxes	16,777
Adjusted earnings	\$119,435
Weighted average number of shares outstanding	502,452,392
Adjusted earnings per share ^{6,7}	\$0.24
Dividends on common shares	\$100,631
Dividends declared per share	\$0.20

¹ Represents amortization of intangible assets attributable to shareholders.

² Acquisition-related costs are excluded from the calculation as they do not reflect the ongoing operations of the business. Prior to the Company's early adoption of Section 1582, *Business Combinations* on January 1, 2010, these expenses would have been included in the purchase price of such acquisitions.

³ Restructuring and special charges are excluded from the calculation as they do not reflect the ongoing operations of the business.

⁴ Conversion and rebranding costs are excluded from the calculation as they do not reflect the ongoing operations of the business.

⁵ Includes amounts relating to other non-recurring items and non-cash financial charges.

⁶ Items are net of income taxes using the combined statutory provincial and federal tax rate of 29.9%.

⁷ Please refer to Section 3 – Highlights by Segment for the calculation of Basic earnings per share.

Free cash flow

Free cash flow

(in thousands of Canadian dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2010	2009	2010	2009
Cash flow from operating activities	\$180,919	\$198,734	\$646,536	\$750,187
Capital expenditures, net of lease inducements	27,916	11,285	72,870	43,565
Free cash flow	\$153,003	\$187,449	\$573,666	\$706,622

Dividends

Dividends

(in thousands of Canadian dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2010	2009	2010	2009
Accumulated dividends, beginning of period ¹	\$3,334,551	\$2,931,134	\$3,032,463	\$2,560,566
Dividends on common shares	\$100,631	\$101,329	\$402,719	\$471,897
Accumulated dividends, end of period ¹	\$3,435,182	\$3,032,463	\$3,435,182	\$3,032,463
Accumulated dividends per share, beginning of period	\$7.00	\$6.20	\$6.40	\$5.48
Dividends declared per share	\$0.20	\$0.20	\$0.80	\$0.92
Accumulated dividends per share, end of period	\$7.20	\$6.40	\$7.20	\$6.40

¹ Amounts prior to November 1, 2010 were distributions of Yellow Pages Income Fund.

Dividends

During the fourth quarter of 2010, Yellow Media Inc. declared and paid its first cash dividend in the amount of \$27.1 million or \$0.80 per common share annually. Dividends payable by Yellow Media Inc. to its shareholders are recorded when declared. Starting in January 2011, the dividend policy of Yellow Media Inc. has been set at \$0.65 annually.

The dividend policy in respect of the common shares of Yellow Media Inc. will be subject to the discretion of the board of directors of Yellow Media Inc. and may vary depending on, among other things, Yellow Media Inc.'s earnings, financial requirements, the satisfaction of solvency tests imposed by the *Canada Business Corporations Act* for the declaration of dividends and other conditions existing at such future time.

On October 21, 2010, Yellow Media Inc. announced its adoption of a Dividend Reinvestment Plan (the Plan). The Plan came into effect concurrently with the Company's previously announced conversion from an income trust to a corporate structure which was completed on November 1, 2010. Under the Plan, holders of common shares of Yellow Media Inc. who are residents of Canada may elect to have cash dividends paid on their common shares reinvested into additional common shares of Yellow Media Inc. commencing with the dividends declared after November 1, 2010. The Plan allows the Company to elect to have the common shares purchased on the open market or issued from treasury. The Plan allows the Company to issue common shares from treasury with a discount from prevailing market prices ranging from 2% to 5%. As at February 10, 2011, under the Plan, the Company intends to have the common shares issued from treasury at a 5% discount from the average market price (as defined under the Plan) of the common shares on the applicable dividend payment date. As of December 31, 2010, participation in the Plan offered by Yellow Media Inc. was at 19%.

6. Outlook

Consolidated – Key Performance Indicators

	Revised 2010 Target	Year ended December 31, 2010
Revenues	approx. \$1,650 million	\$1,679.9 million
EBITDA before conversion and rebranding costs	approx. \$895 million	\$898.8 million
Online Revenue Growth	approx. 20%	15.8%
Distributable cash per share	\$1.40 to \$1.43	\$1.41

The development and execution of our corporate strategy and operating plans continue to be guided by our vision of being Canada's #1 internet company and a leading performance media and marketing solutions company, bringing local consumers and businesses together via our network of mobile, web and print properties. Each year, we establish targets to advance our goals and drive results through the execution of initiatives to maximize revenue growth and cash flow generation.

Our objectives for the fiscal year ending December 31, 2011 were established in August 2010 based on our economic and business outlook at that time. This continues to be our operating framework for 2011 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.

We believe the growing funnel of new products in Directories and the roll-out of Dealer Smart Solution at Trader should enable us to grow our share of advertiser budgets. In light of the results for 2010, and in developing an updated operating framework going into 2011, we maintain a cautious outlook in terms of the potential strength and sustainability of the economic recovery.

Financial Policy

Yellow Media Inc.'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, Yellow Media Inc. 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.

7. 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 22.8% and 70% respectively (2009 – 22.5% and 70.9%), of YPG's consolidated assets as at December 31, 2010. 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 share 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 ended December 31, 2009, Yellow Media Inc. 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 for the year ended December 31, 2009.

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 32.5% (2009 – 36.5%) of our consolidated tangible assets as at December 31, 2010. 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 1582, *Business Combinations*. Section 1582 provides the Canadian equivalent to IFRS 3 "*Business Combinations*". The new recommendations require measuring business acquisitions at the fair value of the acquired business, including the measurement at fair value of items such as non-controlling interests and contingent payment considerations. In addition, business acquisition-related costs including transaction costs and restructuring costs are expensed rather than capitalized.

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

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

Basic earnings per share is computed by dividing net earnings available to common shareholders of Yellow Media Inc. by the weighted average number of shares outstanding during the year. This calculation is consistent with the calculation of the Basic earnings per share before adopting this Section. Therefore, basic earnings per share did not change.

The above sections were not mandatorily applicable for Yellow Media Inc. before the fiscal year beginning on January 1, 2011. However, Yellow Media Inc. has elected to early adopt these sections, as of January 1, 2010, in order to more closely align itself with IFRS and mitigate the impact of adopting IFRS at the changeover date. In accordance with the transitional provisions, these sections have been applied prospectively, with the exception of the presentation requirements for non-controlling interests, which must be applied retrospectively. The adoption of these sections modified the accounting of business combinations realized during the year for which acquisition-related costs amounting to \$30.5 million were recorded directly in the consolidated statement of earnings. Furthermore, the adoption of these sections gave rise to the above-mentioned reclassifications of non-controlling interests, including the reclassification as at January 1, 2010 of an amount of \$324.1 million from non-controlling interests to equity.

Effect of New Accounting Standards Not Yet Implemented

International Financial Reporting Standards (IFRS)

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

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

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

Current status of our IFRS changeover plan

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

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

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

Major differences with current accounting policies

Employee Benefits – Past service cost

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

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

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

Income Taxes – Temporary differences on intangible assets

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

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

Impact on the Company – As at December 31, 2009, in order to comply with IFRS, Yellow Media Inc. would have had to increase future income tax liabilities by approximately \$76.8 million to account for temporary differences currently excluded on the 25 percent adjustment of the carrying amount of eligible capital expenditures. This increase will be recorded through an opening retained earnings adjustment on date of transition.

Impairment – Grouping of assets

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

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

Impact on the Company – As a result of the different asset grouping required under IFRS, intangible assets in the Vertical Media segment were deemed to be impaired by an amount of \$2.1 million as at December 31, 2009. The impairment described above will be recorded through an opening retained earnings adjustment on date of transition. No other impairment of either goodwill or other long-lived assets subject to impairment testing will need to be recorded in the opening balance for both Directories and Vertical Media segments.

Key IFRS 1 Exemption Options

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

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

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

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

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

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

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

8. 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, mobile telecommunication devices, 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 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 continues to decline. The development of new technologies and the widespread use of Internet is causing 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. Economic conditions 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 \$1 billion, continue to benefit from investment grade credit ratings, and due to our strong financial position (with a net indebtedness¹ to Latest Twelve Month EBITDA before conversion and rebranding costs² ratio of 2.6 times as at December 31, 2010) 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.

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

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.

¹ Including exchangeable and convertible debentures

² Latest twelve month Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill, restructuring and special charges and conversion and rebranding costs, giving effect to the acquisitions ("Latest Twelve Month EBITDA before conversion and rebranding costs").

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 our 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.

Income Tax Matters

In the normal course of the Company's activities, the tax authorities are carrying out ongoing reviews. In that respect, Yellow Media Inc. 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 shareholders.

9. 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 concluded that these disclosure controls and procedures were adequate and effective, as at December 31, 2010. 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 concluded that the ICFR is adequate and effective to provide such assurance as at December 31, 2010.

Management also concluded that during the fourth quarter ended December 31, 2010, no changes were made to ICFR that would have materially affected, or would be reasonably considered to materially affect, these controls.