

## INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW PAGES INCOME FUND

**March 31, 2010**

(unaudited)

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## Interim Consolidated Balance Sheet

(in thousands of Canadian dollars – unaudited)

	As at March 31, 2010	As at December 31, 2009 (as adjusted <sup>1</sup> )
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 37,882	\$ 36,170
Accounts receivable	218,905	215,356
Prepaid expenses	8,465	6,480
Deferred publication costs and other assets	115,415	130,844
Assets held for sale (Note 3)	83,539	-
Future income taxes	23,731	28,812
	<b>487,937</b>	<b>417,662</b>
DEFERRED PUBLICATION COSTS	7,212	8,358
FIXED ASSETS	104,484	95,425
OTHER ASSETS (Note 4)	15,741	38,088
DERIVATIVE FINANCIAL INSTRUMENTS	964	2,612
INTANGIBLES	2,114,570	2,008,499
GOODWILL	6,334,193	6,342,580
FUTURE INCOME TAXES	21,714	28,382
	<b>\$ 9,086,815</b>	<b>\$ 8,941,606</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 176,456	\$ 204,325
Distributions payable	34,220	34,220
Deferred revenues	90,398	110,402
Derivative financial instruments	-	76
Liabilities associated with assets held for sale (Note 3)	20,481	-
Future income taxes	33,109	34,248
Current portion of long-term debt (Note 6)	2,512	2,254
	<b>357,176</b>	<b>385,525</b>
DEFERRED CREDITS	22,849	23,452
FUTURE INCOME TAXES	166,094	106,253
ACCRUED BENEFIT LIABILITIES	98,059	94,404
DERIVATIVE FINANCIAL INSTRUMENTS	2,608	719
LONG-TERM DEBT (Note 6)	2,243,884	2,225,720
EXCHANGEABLE DEBENTURES (Note 7)	84,287	83,886
PREFERRED SHARES (Note 8)	466,679	472,777
EQUITY ATTRIBUTABLE TO OWNERS OF THE FUND	5,244,155	5,224,740
EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS (Note 9)	401,024	324,130
	<b>\$ 9,086,815</b>	<b>\$ 8,941,606</b>

<sup>1</sup> As adjusted, see Note 1

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

## Interim Consolidated Statements of Earnings

For the three-month periods ended March 31,

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

	2010	2009
		(as adjusted <sup>1</sup> )
Revenues	\$ 408,131	\$ 408,353
Operating costs	188,350	184,490
Conversion and rebranding costs	3,651	-
Income from operations before depreciation and amortization and acquisition-related costs	216,130	223,863
Depreciation and amortization	45,713	38,117
Acquisition-related costs	3,615	-
Income from operations	166,802	185,746
Financial charges, net (Note 12)	35,125	37,556
Gain on deemed disposition of equity investment	(2,374)	-
Earnings before dividends on Preferred shares, series 1 and 2, income taxes, and share of losses (earnings) from equity investees	134,051	148,190
Dividends on Preferred shares, series 1 and 2	5,379	5,688
Earnings before income taxes and share of losses (earnings) from equity investees	128,672	142,502
Provision for income taxes	6,651	10,593
Share of losses (earnings) from equity investees	264	(178)
<b>Net earnings</b>	<b>\$ 121,757</b>	<b>\$ 132,087</b>
<b>Net earnings (losses) attributable to:</b>		
Owners of the Fund	\$ 120,428	\$ 131,613
Non-controlling interests related to investments	(4,369)	474
Holders of Preferred shares, series 3, 5 and 7	5,698	-
	<b>\$ 121,757</b>	<b>\$ 132,087</b>
Basic earnings per unit	\$ 0.24	\$ 0.26
Weighted average number of units outstanding used in computing earnings per unit (Note 10)	504,752,813	513,839,842
Diluted earnings per unit	\$ 0.21	\$ 0.21
Weighted average number of units outstanding used in computing diluted earnings per unit (Note 10)	619,026,583	661,558,372

<sup>1</sup> As adjusted, see Note 1

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

## Interim Consolidated Statements of Comprehensive Income

For the three-month periods ended March 31,  
(in thousands of Canadian dollars – unaudited)

	2010	2009 (as adjusted <sup>1</sup> )
<b>Net earnings</b>	<b>\$ 121,757</b>	<b>\$ 132,087</b>
<b>Other comprehensive income (loss), net of related income taxes:</b>		
Net loss on derivatives designated as cash flow hedges <sup>2</sup>	-	(392)
Net (gain) loss on derivatives designated as cash flow hedges in prior periods transferred to earnings in the period <sup>3</sup>	(113)	114
Change in gains and losses on derivatives designated as cash flow hedges	(113)	(278)
Unrealized (loss) gain on available-for-sale investment in the period <sup>4</sup> (Note 4)	(96)	48
Change in unrealized (loss) gain on available-for-sale financial asset	(96)	48
Unrealized (loss) gain on translating financial statements of self-sustaining foreign operations and foreign investees	(5,187)	2,679
Unrealized cumulative translation loss on deemed disposition of foreign equity investment transferred to earnings in the period	5,633	-
Change in unrealized gains on translating financial statements of self-sustaining foreign investments and foreign investees	446	2,679
<b>Other comprehensive income</b>	<b>237</b>	<b>2,449</b>
<b>Total comprehensive income</b>	<b>\$ 121,994</b>	<b>\$ 134,536</b>
<b>Total comprehensive income (loss) attributable to:</b>		
Owners of the Fund	\$ 120,665	\$ 134,062
Non-controlling interests related to investments	(4,369)	474
Holders of Preferred shares, series 3, 5 and 7	5,698	-
	<b>\$ 121,994</b>	<b>\$ 134,536</b>

<sup>1</sup> As adjusted, see Note 1

<sup>2</sup> Net of income taxes of nil (2009 – \$171)

<sup>3</sup> Net of income taxes of \$40 (2009 – \$50)

<sup>4</sup> Net of income taxes of nil (2009 - nil)

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

## Interim Consolidated Statements of Equity

For the three-month period ended March 31,  
(in thousands of Canadian dollars - unaudited)

	2010							
	Unitholders' Capital (Note 10)	Equity Component of Exchange- able Debentures	Restricted Units	Contributed Surplus	Accumulated Other Compre- hensive Income (Loss) (Note 15)	Deficit	Equity Attributable to Owners of the Fund	Equity Attribut- able to Non- controlling interests (Note 9)
Balance, December 31, 2009, as previously reported	\$ 6,062,039	\$ 3,618	\$ (72,898)	\$ 128,226	\$ (2,734)	\$ (893,511)	\$ 5,224,740	\$ -
Effect of adopting new accounting policy (Note 1)	-	-	-	-	-	-	-	324,130
Balance, January 1, 2010, as adjusted	6,062,039	3,618	(72,898)	128,226	(2,734)	(893,511)	5,224,740	324,130
Obligations under stock options granted	-	-	-	37	-	-	37	-
Restricted units (Note 11)	-	-	(1,129)	875	-	-	(254)	-
Restricted units vested (Note 11)	-	-	8,711	(8,711)	-	-	-	-
Issuance of preferred shares, Series 7	-	-	-	-	-	-	-	9,750
Distributions	-	-	-	-	-	(101,033)	(101,033)	-
Business acquisitions (Note 2)	-	-	-	-	-	-	-	71,513
Other comprehensive income	-	-	-	-	237	-	237	-
Net earnings for the period	-	-	-	-	-	121,757	121,757	-
Net loss attributable to non-controlling interests related to investments	-	-	-	-	-	4,369	4,369	(4,369)
Dividends on Preferred shares, Series 3, 5 and 7	-	-	-	-	-	(5,698)	(5,698)	-
<b>Balance, March 31, 2010</b>	<b>\$ 6,062,039</b>	<b>\$ 3,618</b>	<b>\$ (65,316)</b>	<b>\$ 120,427</b>	<b>\$ (2,497)</b>	<b>\$ (874,116)</b>	<b>\$ 5,244,155</b>	<b>\$ 401,024</b>

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

## Interim Consolidated Statements of Equity

For the three-month period ended March 31,  
(in thousands of Canadian dollars - unaudited)

	2009								
	Unitholders' Capital (Note 10)	Equity Component of Exchange- able Debentures	Restricted Units	Contributed Surplus	Accumulated Other Compre- hensive Income (Loss) (Note 15)	Deficit	Equity Attributable to Owners of the Fund	Equity Attributable to Non- controlling interests	
Balance, December 31, 2008, as previously reported	\$ 6,144,416	\$ 12,542	\$(58,303)	\$ 79,575	\$ 9,131	\$(625,869)	\$ 5,561,492	\$ -	
Effect of adopting new accounting policy (Note 1)	-	-	-	-	-	-	-	-	8,544
Balance, January 1, 2009, as adjusted	6,144,416	12,542	(58,303)	79,575	9,131	(625,869)	5,561,492	8,544	
Repurchase of units	(3,169)	-	-	1,244	-	-	(1,925)	-	
Restricted units (Note 11)	-	-	(1,251)	(1,500)	-	-	(2,751)	-	
Restricted units vested (Note 11)	-	-	13,204	(13,204)	-	-	-	-	
Distributions	-	-	-	-	-	(150,332)	(150,332)	(862)	
Other comprehensive income	-	-	-	-	2,449	-	2,449	-	
Net earnings for the period	-	-	-	-	-	132,087	132,087	-	
Net earnings attributable to non-controlling interests related to investment	-	-	-	-	-	(474)	(474)	474	
Balance, March 31, 2009	\$ 6,141,247	\$ 12,542	\$(46,350)	\$ 66,115	\$ 11,580	\$(644,588)	\$ 5,540,546	\$ 8,156	

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

## Interim Consolidated Statements of Cash Flows

For the three-month periods ended March 31,  
(in thousands of Canadian dollars - unaudited)

	2010	2009
		(as adjusted <sup>1</sup> )
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 121,757	\$ 132,087
Items not affecting cash and cash equivalents:		
Depreciation and amortization	45,713	38,117
Amortization of deferred financing costs	1,893	1,992
Accretion on Exchangeable Debentures	190	621
Gain on deemed disposition of equity investment	(2,374)	-
Net benefit plan costs	3,655	3,490
Non-cash derivative financial instruments	1,848	1,650
Stock compensation expense (recovery)	912	(1,500)
Gain on purchase of Preferred shares, series 1 and 2, and Medium Term Notes	(2,522)	-
Future income taxes	811	7,610
Share of losses (earnings) from equity investees	264	(178)
Other non-cash items	(442)	(2,127)
Change in operating assets and liabilities	(28,166)	15,656
	<b>143,539</b>	<b>197,418</b>
<b>INVESTING ACTIVITIES</b>		
Business acquisitions, net of cash acquired and bank indebtedness assumed (Note 2)	(7,207)	-
Acquisition of equity investment	(3,600)	(44,898)
Acquisition of intangible assets	(12,597)	-
Acquisition of fixed assets	(11,740)	(12,489)
Proceeds from lease inducements	-	33
	<b>(35,144)</b>	<b>(57,354)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of long-term debt	410,000	137,300
Repayment of long-term debt	(100,815)	(101,044)
Distributions to unitholders	(101,033)	(150,533)
Distributions to non-controlling interest	-	(862)
Purchase of Preferred shares, series 1 and 2, and Medium Term Notes	(298,964)	-
Dividends on Preferred shares, series 3, 5 and 7	(5,858)	-
Repurchase of units	-	(13,382)
Purchase of restricted units (Note 11)	(1,129)	(1,251)
Debt and preferred share issuance and other costs	(8,582)	(2,161)
	<b>(106,381)</b>	<b>(131,933)</b>
Effect of exchange rates changes on cash and cash equivalents denominated in foreign currencies	(302)	136
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,712</b>	<b>8,267</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>36,170</b>	<b>25,054</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 37,882</b>	<b>\$ 33,321</b>
<b>Supplemental disclosure of cash flow information (Note 13)</b>		

<sup>1</sup> As adjusted, see Note 1

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

## 1. Basis of presentation

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

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

a) Section 1582, *Business Combinations*. Section 1582 provides the Canadian equivalent to 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 along with acquisition-created restructuring costs are expensed rather than capitalized.

The Fund has decided to early adopt this new Section as of January 1, 2010. As a result of this adoption, business combinations realized after that date will be accounted for in accordance with Section 1582 requirements. The adoption of Section 1582 materially impacts the accounting for business combinations that occur subsequent to January 1, 2010. Past acquisitions are not restated.

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

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

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

The above sections were not mandatorily applicable for the Fund before the fiscal year beginning on January 1, 2011. However, the Fund has elected to early adopt these sections, as of January 1, 2010, in order to more closely align itself with IFRS and mitigate the impact of adopting IFRS at the changeover date. In accordance with the transitional provisions, these sections have been applied prospectively, with the exception of the presentation requirements for non-controlling interests, which must be applied retrospectively. The adoption of these sections modified the accounting of business combinations realized during the first quarter of 2010 for which acquisition-related costs amounting to \$3.6 million were recorded directly in the consolidated statement of earnings. Furthermore, the adoption of these sections gave rise to the above-mentioned reclassifications of non-controlling interests, including the reclassification as at January 1, 2010 of an amount of \$324.1 million from non-controlling interests to equity.

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

## 2. Business acquisitions

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

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

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

The non-controlling interest in Dealer.com was measured at the non-controlling interest's proportionate share of the fair value of Dealer.com's identifiable net assets. The business is included in the Vertical Media segment.

On January 25, 2010, the Fund completed the acquisition of all the assets related to the operations of the website Restaurantica.ca ("Restaurantica"), one of Canada's largest growing restaurant and dining communities. Restaurantica was established in 2003 and lists approximately 400,000 restaurants, bars and cafés, with more than 200,000 user-generated reviews on these establishments in North America. Restaurantica is a restaurant and dining online search resource, attracting more than 540,000 visits and over 1.7 million pages views each month.

On February 9, 2010, Yellow Media Inc. acquired the shares of Clear Sky Media Inc. ("Clear Sky Media"), owner of RedFlagDeals.com ("Red Flag Deals"). Red Flag Deals is a leader in providing online promotions and shopping tools to Canadians with over 2.2 million unique visitors every month.

These two acquired businesses are included in the Directories segment.

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

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

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

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

**Consideration:**

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

### 3. Assets held for sale and liabilities associated with assets held for sale

On March 29, 2010, the Fund entered into a definitive agreement with HM Capital whereby the Fund would contribute its interest in YPG Directories, LLC in exchange for a 35% minority ownership in a new entity resulting from the business combination of YPG Directories, LLC and Ziplocal, LP.

As provided under GAAP, the Fund presented the assets and liabilities related to YPG Directories, LLC operations as assets held for sale and as liabilities associated with assets held for sale as at March 31, 2010.

The transaction closed on April 15, 2010, for an amount that exceeds the individual carrying values of the assets held for sale and related liabilities. The assets and liabilities held for sale are carried in the interim consolidated balance sheet at carrying value. The Fund ceased recording depreciation and amortization on these assets when they were classified as held for sale, effective March 29, 2010.

The assets and liabilities are summarized below:

Assets held for sale		
Current assets	\$	15,007
Fixed assets		288
Intangibles		18,866
Goodwill		42,288
Future income taxes		7,090
<b>Total</b>	<b>\$</b>	<b>83,539</b>
<hr/>		
Liabilities associated with assets held for sale	\$	20,481

## 4. Other assets

	March 31, 2010	December 31, 2009
Investments – equity method	\$ 5,705	\$ 34,977
Investment – available for sale	550	646
Other	9,486	2,465
	<b>\$ 15,741</b>	<b>\$ 38,088</b>

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

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

The difference between the acquisition cost and the Fund's share of the underlying net book value of the investees' assets for the equity method investment, at the date of purchase amounted to \$0.3 million and was assigned to the acquired net identifiable assets based on their fair values. As such, the difference was assigned to intangible assets (consisting mainly of a non-competition agreement) in the amount of \$0.2 million and will be amortized over its expected useful life. The remaining difference between the acquisition cost and the assigned value in the amount of \$0.1 million is similar to goodwill (equity method goodwill) and is not amortized.

The Fund's share of losses from the equity investees was \$0.3 million.

## 5. Employee benefit plans

The total net benefit plan costs for the three-month period ended March 31, 2010 were \$6.1 million (2009 - \$3.7 million) for pension benefits. Other benefits costs totalled \$0.7 million (2009 - \$0.9 million) for the same period.

In the context of new pension regulations enacted in 2009, the Fund will have to make annual contributions to the YPG Pension Plan ("the Plan") for an amount equivalent to the current service contributions of approximately \$10 million to the defined benefit component of the Plan. For the three-month period ended March 31, 2010, \$1.8 million (2009 – nil) was contributed for pension benefits.

## 6. Long-term debt

	March 31, 2010			
	Principal amount	Fair value adjustment of hedged item	Deferred financing costs	Total
Medium Term Notes	\$ 1,760,508	\$ 5,243	\$ (16,794)	\$ 1,748,957
Credit facilities	100,000	-	-	100,000
Commercial paper	384,000	-	-	384,000
Note payable	5,040	-	-	5,040
Obligations under capital leases	8,399	-	-	8,399
	2,257,947	5,243	(16,794)	2,246,396
Less current portion of long-term debt	2,512	-	-	2,512
	<b>\$ 2,255,435</b>	<b>\$ 5,243</b>	<b>\$ (16,794)</b>	<b>\$ 2,243,884</b>

  

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

### Credit facilities

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

### Medium Term Notes

During the first quarter of 2010, Yellow Media Inc. repurchased for cancellation an amount of \$56 million of the Series 3 Medium Term Notes, \$73.8 million of the Series 4 Medium Term Notes, and \$13 million of the Series 5 Medium Term Notes for a total cash consideration of \$136.9 million. The difference between the purchase price and the carrying value of the Medium Term Notes of \$7 million was recorded in net earnings.

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. The excess between the purchase price and the carrying value of the Medium Term Notes of \$5.2 million was recorded in net earnings.

The Fund was in compliance with all of its debt covenants as at March 31, 2010.

### Interest rate swaps

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

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

## 7. Exchangeable debentures

	March 31, 2010	December 31, 2009
Principal amount	\$ 86,549	\$ 86,549
Equity component	(3,618)	(3,618)
Accretion	2,552	2,362
Deferred financing costs	(1,196)	(1,407)
	<b>\$ 84,287</b>	<b>\$ 83,886</b>

## 8. Preferred shares

	March 31, 2010	December 31, 2009
Shares issued, Series 1 and Series 2	\$ 474,707	\$ 481,408
Derivative component	1,108	1,161
Deferred financing costs	(9,136)	(9,792)
	<b>\$ 466,679</b>	<b>\$ 472,777</b>

### Normal course issuer bid

On June 9, 2009, the Fund received approval from the Toronto Stock Exchange (“TSX”) on its notice of intention to make a normal course issuer bid for its first preferred shares through the facilities of the TSX from June 11, 2009 to June 10, 2010, in accordance with applicable rules of the TSX.

Under its normal course issuer bid, the Fund can purchase for cancellation up to 1,200,000 and 800,000 of its outstanding first preferred shares, series 1 (“Series 1 shares”) and first preferred shares, series 2 (“Series 2 shares”), respectively. For the three-month period ended March 31, 2010, the Fund had purchased for cancellation 126,254 Series 1 shares of the Fund for a total cash consideration of \$3.1 million including brokerage fees at an average price of \$24.55 per Series 1 share and 141,774 Series 2 shares of the Fund for a total cash consideration of \$2.8 million including brokerage fees at an average price of \$19.45 per Series 2 share. The carrying value of these Series 1 and Series 2 shares was \$3.1 million and \$3.5 million, respectively. The difference between the purchase price and the carrying value of the Series 1 and Series 2 shares of \$0.7 million was recorded in net earnings.

## 9. Equity attributable to non-controlling interests

	March 31, 2010	December 31, 2009
Shares issued, net of issuance costs and income taxes	\$ 333,880	\$ 324,130
Non-controlling interest related to Dealer.com	67,144	-
	<b>\$ 401,024</b>	<b>\$ 324,130</b>

On February 9, 2010, in connection with the acquisition of Red Flag Deals, Yellow Media Inc. issued 1,300,000 Series 7 shares at a price of \$7.50 per Series 7 share as payment to the vendors for the acquisition by way of a private placement. The holders of the Series 7 shares are entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors of Yellow Media Inc. in an amount equal to \$0.375 per Series 7 share per annum, yielding 5% per annum, payable quarterly on the third last business day of March, June, September and December of each year. The Series 7 shares are exchangeable into Units of the Fund or of the successor thereof upon conversion of the Fund into a corporation, at the option of the holders of the Series 7 shares and at a ratio of one preferred share for one unit or newly tradable security, regardless of the market price of such Units or newly tradable security of the successor company. Of the 1,300,000 Series 7 shares, 1,000,000 shares are subject to a four month lock up agreement during which the holders cannot transact these shares. The remaining 300,000 Series 7 shares may only be exchanged commencing January 1, 2012, subject to certain time-based and performance conditions (Note 2).

## 10. Unitholders' capital

	March 31, 2010	
	Number of Units	Amount
Balance, December 31, 2009 and March 31, 2010 <sup>1,2</sup>	513,044,685	\$ 6,062,039

  

	March 31, 2009	
	Number of Units	Amount
Balance, December 31, 2008	518,301,059	\$ 6,144,416
Repurchase of units	(267,300)	(3,169)
Balance March 31, 2009 <sup>1,2</sup>	518,033,759	\$ 6,141,247

<sup>1</sup> Includes nil (2009 – 9,815,000) Exchangeable Units of YPG LP issued as partial consideration of the Trader Media Corp. ("TMC") acquisition, which are presented as part of Unitholders' capital as the criteria of Emerging Issues Committee Abstract 151 Exchangeable Securities Issued by Subsidiaries of Income Trust are met.

<sup>2</sup> Includes 8,014,750 Restricted Units (2009 – 3,888,250) pursuant to the Restricted Unit Plan.

### Normal course issuer bid

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

### Earnings per unit

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

	For the three-month periods ended March 31,	
	2010	2009 <sup>1</sup>
Weighted average number of units outstanding used in computing basic earnings per unit	504,752,813	513,839,842
Dilutive effect of options	383,986	394,912
Dilutive effect of Restricted Units <sup>2</sup>	8,291,872	4,205,797
Dilutive effect of Series 7 Preferred shares	742,857	-
Dilutive effect of Series 1 Preferred shares	55,052,803	53,669,183
Dilutive effect of Series 2 Preferred shares	33,742,987	35,779,455
Dilutive effect of Exchangeable Debentures	16,059,265	53,669,183
Weighted average number of units outstanding used in computing diluted earnings per unit	619,026,583	661,558,372

<sup>1</sup> The Exchangeable Units of YPG LP issued as partial consideration of the TMC acquisition described above are included in the number of units for both basic and diluted earnings per unit for the three-month period ended March 31, 2009.

<sup>2</sup> Subject to specific pay-out conditions.

	For the three-month periods ended March 31,	
	2010	2009
Net earnings attributable to owners of the Fund	\$ 120,428	\$ 131,613
Impact of assumed conversion of Exchangeable Debentures, net of applicable taxes	1,152	3,917
Impact of assumed conversion of Series 1 Preferred shares, net of applicable taxes	3,658	3,164
Impact of assumed conversion of Series 2 Preferred shares, net of applicable taxes	2,022	2,356
Impact of assumed conversion of Series 7 Preferred shares, net of applicable taxes	74	-
Net earnings adjusted for dilutive effect	\$ 127,334	\$ 141,050

## 11. Stock-based compensation plans

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

### Restricted Unit Plan

During the three-month period ended March 31, 2010, an amount of \$18.5 million (2009 – \$0.3 million) representing 3,447,762 (2009 – 46,544) Restricted Units were granted at an average market price of \$5.36 (2009 – \$5.56). Subject to the conversion of the Fund into a corporation not later than January 3, 2011, half of these Restricted Units will vest on the basis of time and the other half of these Restricted Units will vest based on the achievement of targets determined by the Board of Trustees. As of March 31, 2010, these units have not been purchased on the open market of the Toronto Stock Exchange. With the exception of the 2010 grants and Restricted Units granted to Directors, the number of Restricted Units that vest can potentially reach up to two-and-a-half times the actual number of Restricted Units awarded if the actual performance reaches the maximum level of the objectives. An amount of \$1.1 million (2009 – \$1.3 million) was used to reinvest in 202,924 (2009 – 180,898) Restricted Units using the proceeds from the distributions on the Restricted Units held in escrow. This includes 76,566 (2009 – 94,683) Restricted Units associated with the portion which provides for up to a 250% pay-out.

The following table summarizes the status of the grants:

	March 31, 2010
	Number of Restricted Units
	2008 to 2010 Grants
Outstanding, beginning of period	4,558,668
Granted	3,447,762
Vested	(536,520)
Forfeited	(102,237)
Cash distributions reinvested	126,358
<b>Outstanding, end of period</b>	<b>7,494,031</b>

  

	March 31, 2009
	Number of Restricted Units
	2007 to 2009 Grants
Outstanding, beginning of period	2,221,443
Granted	46,544
Vested	(394,726)
Forfeited	(109,861)
Cash distributions reinvested	86,215
Outstanding, end of period	1,849,615

As at March 31, 2010 there were 800,379 (2009 – 400,934) Restricted Units which were not allocated to any specific employee and 3,168,102 (2009 – 1,637,701) Restricted Units representing the portion which provides up to a 250% pay-out. An expense of \$0.9 million was recorded in the consolidated statement of earnings for the three-month period ended March 31, 2010 compared to recovery of \$1.5 million for the corresponding period in 2009.

## Stock Options

### YPG LP

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

	March 31, 2010	
	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	383,986	\$ 3.92
Exercised	-	3.92
<b>Outstanding, end of period</b>	<b>383,986</b>	<b>\$ 3.92</b>
<b>Exercisable, end of period</b>	<b>383,986</b>	<b>\$ 3.92</b>

  

	March 31, 2009	
	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	394,912	\$ 3.92
Exercised	-	3.92
Outstanding, end of period	394,912	\$ 3.92
Exercisable, end of period	394,912	\$ 3.92

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

## 12. Financial charges, net

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

	For the three-month periods ended March 31,	
	2010	2009
Interest on long-term debt	\$ 31,427	\$ 33,149
Standby fees and other financial charges, net	1,319	909
Other charges related to derivative financial instruments	1,908	1,650
Gain on purchase of Preferred shares, series 1 and 2 and Medium Term Notes, net	(2,522)	-
Amortization of deferred financing costs	1,893	1,992
Accretion on Exchangeable Debentures and Preferred shares	159	589
Foreign exchange loss (gain)	941	(733)
	<b>\$ 35,125</b>	<b>\$ 37,556</b>

## 13. Supplemental disclosure of cash flow information

Supplemental information:

	For the three-month periods ended March 31,	
	2010	2009
Interest paid	\$ 49,109	\$ 39,433
Dividends on Preferred shares paid	\$ 5,382	\$ 5,688
Issuance of Series 7 shares as partial consideration for a business acquisition	\$ 9,750	\$ -
Income taxes and capital taxes paid	\$ 7,669	\$ 3,731
Additions to fixed assets under capital leases	\$ -	\$ 172
Additions to fixed assets included in accounts payable and accrued liabilities	\$ 6,112	\$ 2,484

Cash and cash equivalents consist of:

	As at March 31,	
	2010	2009
Cash	\$ 37,882	\$ 10,121
Short-term investments	-	23,200
	\$ 37,882	\$ 33,321

## 14. Restructuring and special charges

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

	Restructuring charges	Other special charges	Total
Balance as at December 31, 2009	\$ 16,051	\$ 24,811	\$ 40,862
Utilized in 2010:			
Cash	(4,416)	(2,325)	(6,741)
<b>Balance as at March 31, 2010</b>	<b>\$ 11,635</b>	<b>\$ 22,486</b>	<b>\$ 34,121</b>

## 15. Accumulated other comprehensive income (loss)

The components of Accumulated other comprehensive income (loss) are as follows:

	March 31, 2010
Net gain on derivatives designated as cash flow hedges, net of income taxes <sup>1</sup>	\$ 616
Unrealized losses on translating financial statements of self-sustaining foreign operations	(3,435)
Unrealized gain on available-for-sale investment	322
<b>Balance March 31, 2010</b>	<b>\$ (2,497)</b>
	March 31, 2009
Net loss on derivatives designated as cash flow hedges, net of income taxes <sup>1</sup>	\$ (3,207)
Unrealized gains on translating financial statements of self-sustaining foreign operations and foreign investees	14,739
Unrealized gain on available-for-sale investment	48
<b>Balance March 31, 2009</b>	<b>\$ 11,580</b>

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

## 16. Segmented information

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

The tables below summarize the selected financial information by segment:

	For the three-month period ended March 31, 2010		
	Directories <sup>1</sup>	Vertical Media	Consolidated
Revenues	\$ 336,295	\$ 71,836	\$ 408,131
Operating costs	135,217	53,133	188,350
Conversion and rebranding costs	3,651	-	3,651
Income from operations before depreciation and amortization and acquisition-related costs	197,427	18,703	216,130
Depreciation and amortization	24,057	21,656	45,713
Acquisition-related costs	3,615	-	3,615
Income (loss) from operations	\$ 169,755	\$ (2,953)	\$ 166,802

	For the three-month period ended March 31, 2009		
	Directories <sup>1</sup>	Vertical Media	Consolidated
Revenues	\$ 348,799	\$ 59,554	\$ 408,353
Operating costs	140,999	43,491	184,490
Income from operations before depreciation and amortization	207,800	16,063	223,863
Depreciation and amortization	32,262	5,855	38,117
Income from operations	\$ 175,538	\$ 10,208	\$ 185,746

	March 31, 2010		
	Directories <sup>1</sup>	Vertical Media <sup>2</sup>	Consolidated
Intangibles	\$ 1,668,586	\$ 445,984	\$ 2,114,570
Goodwill	\$ 5,642,424	\$ 691,769	\$ 6,334,193
Total assets	\$ 7,806,807	\$ 1,280,008	\$ 9,086,815

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

<sup>1</sup> Included in the Directories segment are the results of YPG USA. Consequently, \$10.9 million of revenues are included for the three-month period ended March 31, 2010 (2009 - \$7.9 million). Revenues are attributed to countries based on the location of the customer. Also included in the Directories segment is goodwill of \$12.3 million (December 31, 2009 - \$56 million) and capital assets of \$58.4 million at March 31, 2010 (December 31, 2009 - \$86.2 million) relating to YPG USA. Included in the total assets of the Directories segment is \$5.7 million (December 31, 2009 - \$2.4 million) related to the equity-investments.

<sup>2</sup> The amount of investment in the investee subject to significant influence of nil (December 31, 2009 - \$32.6 million) is included in the total assets of the Vertical Media segment.

	For the three-month periods ended March 31,	
	2010	2009
<b>Additions to fixed assets<sup>1</sup></b>		
Directories	\$ 8,653	\$ 5,964
Vertical Media	\$ 2,747	\$ 2,723
<b>Additions to intangible assets</b>		
Directories <sup>2</sup>	\$ 12,500	\$ -
Vertical Media	\$ 97	\$ -

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

<sup>2</sup> Excluding future income taxes of \$1.7 million.

## 17. Effect of new accounting standards not yet implemented

### International Financial Reporting Standards.

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

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

## 18. Subsequent event

On March 29, 2010, the Fund entered into a definitive agreement with HM Capital whereby the Fund would contribute its interest in YPG Directories LLC in exchange for a 35% minority ownership in a new entity resulting from the business combination of YPG Directories LLC and Ziplocal, LP. The transaction closed on April 15, 2010 and therefore, the transaction has not been accounted for in these interim financial statements.

In addition, the Fund reached a definitive agreement to acquire Canadian Phone Directories Holdings Inc. ("Canpages") for a purchase price consideration of approximately \$225 million. The purchase price consideration for the acquisition of Canpages, subject to working capital and other adjustments, will be comprised of \$75 million payable in cash at closing to settle third party debt obligations and the issuance of \$150 million of Mandatory Exchangeable Promissory Notes ("Exchangeable Notes") of Yellow Media Inc. In connection with this agreement, the Fund entered into certain commitments with Canpages.

On May 6, 2010, the Fund announced its intention to repurchase at par the remaining balance of the Exchangeable Debentures on August 1, 2010.