

Management's Discussion and Analysis

May 6, 2010

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

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

Forward-looking information

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

- These forward-looking statements describe our expectations on May 6, 2010.
- Our actual results could be materially different from our expectations if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking statements will materialize.
- Forward-looking statements do not take into account the effect that transactions or non-recurring items, announced or occurring after the statements are made, may have on our business.
- We disclaim any intention or obligation to update any forward-looking statements, except as required by law, even if new information becomes available through future events or for any other reason. It is the current practice of the Company to compare performance on a periodic basis with the targets established through our ongoing business planning process.
- Risks that could cause our actual results to differ materially from our current expectations are discussed in Section 7 – Risks and Uncertainties.

Definitions relative to understanding our results

Adjusted Revenues

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

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

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

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

As stated, EBITDA is not a calculation based on GAAP and is not considered an alternative to income from operations or net (loss) earnings in the context of measuring YPG's performance. EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other publicly traded companies. For a reconciliation with GAAP, please refer to Consolidated Operating and Financial Results in Section 2 of this MD&A. EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed on page 16 of this MD&A.

Distributable Cash

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

Cash Distributions per Unit

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

This MD&A is divided into the following sections:

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

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

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

2. Results

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

Overall Performance

- Adjusted Revenues decreased by \$5.4 million or 1.3% over the first quarter of 2009 to \$408.1 million. Revenues remained relatively stable at \$408.1 million compared to \$408.4 million for the first quarter of 2009;
- Adjusted EBITDA decreased by \$6.1 million or 2.7% over the first quarter of 2009 to \$219.8 million. Income from operations before depreciation and amortization and acquisition-related costs decreased by \$7.7 million or 3.5% to \$216.1 million in the same period; and
- Distributable cash per unit decreased by \$0.01 over the first quarter of 2009 to \$0.34.

Highlights by Segment ¹

(in thousands of Canadian dollars – except unit information)

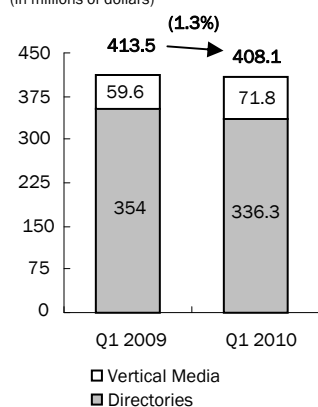
	Three-month periods ended March 31,					
	Directories		Vertical Media		Consolidated	
	2010	2009	2010	2009	2010	2009
Revenues	\$336,295	\$348,799	\$71,836	\$59,554	\$408,131	\$408,353
Income from operations before depreciation and amortization and acquisition-related costs	\$197,427	\$207,800	\$18,703	\$16,063	\$216,130	\$223,863
Basic earnings per unit					\$0.24	\$0.26
Cash flow from operating activities					\$143,539	\$197,418
Adjusted Revenues ²	\$336,295	\$353,988	\$71,836	\$59,554	\$408,131	\$413,542
Adjusted EBITDA ²	\$201,078	\$209,842	\$18,703	\$16,063	\$219,781	\$225,905
Distributable cash ³					\$171,274	\$180,446
Distributable cash per unit					\$0.34	\$0.35

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

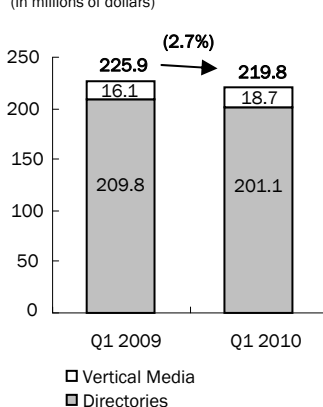
² Please refer to definitions relative to understanding our results on page 1 and 2 of this MD&A and Consolidated Results table on page 6 of this MD&A for a reconciliation of Adjusted Revenues and Adjusted EBITDA.

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

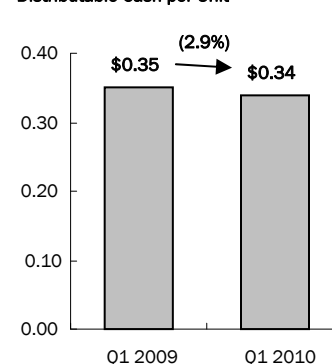
Adjusted Revenues
(in millions of dollars)



Adjusted EBITDA
(in millions of dollars)



Distributable Cash per Unit



Performance Relative to Business Strategy

Organic growth

Directories

Enhancement and expansion of products

- User Experience – YPG re-launched YellowPages.ca to better reflect the company's new brand image. YellowPages.ca features enhancements that provide consumers with a personalized user interface and local search functionality to help them make more informed buying decisions. The resulting site is now easier to navigate and more instinctive. Consumers can employ various filters in their searches, take advantage of an intuitive search feature which automatically populates suggested search terms and locations as you type, and consult links to similar searches conducted by others for additional results. These results are then sorted by location, so businesses closest to the user's inputted location will appear at the top of returned searches. Yellowpages.ca's video features have also been enhanced with high-definition format and a redesigned full-screen video player with a photo gallery. We are moving our online and mobile properties towards a more user-friendly and socially referenced experience. After creating a YellowPages.ca account, people can bookmark businesses, recall previous searches, and post reviews and comments, among a variety of other user-related functions;
- 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.yip.ca>;
- YPG's Search Engine Solutions (SES) were launched in the first quarter. 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. At the centre of YPG's Search Engine Solutions offering will be the ability for advertisers to create a custom leads page with interactive mapping, driving directions, and 'send to friend' capabilities. Businesses will also have the option of setting up call tracking to help measure the number of calls received from YPG leads. Another key component of YPG's Search Engine Solutions offering is the detailed monthly report advertisers will receive to help them optimize their online visibility and increase traffic to their web properties.

Customer First

The deployment of phase 4 - contract closure is in process and will enable the automation of order fulfillment and online publishing. The roll-out began in Western Canada in March 2010 and will be completed by the end of the second quarter of 2010. This final implementation will complete the Customer First project as initially envisioned.

Vertical Media

Enhancement and expansion of our product and service offerings

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

Improve User and Advertiser Experience

- A new search engine was launched in March on AutoTrader.ca and is a key step in differentiating the user experience. Consumers may now define their own search criteria;
- 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.

External growth

Dealer.com

In January, Trader acquired an additional 10% equity interest in Dealer.com bringing its total equity interest to approximately 30%. 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.

Restaurantica

In January, YPG completed the acquisition of Restaurantica, one of Canada's largest growing restaurant and dining communities. This acquisition gives YPG the opportunity to further enhance its local content and meet users' search needs to find trusted recommendations and reviews. Restaurantica (www.restaurantica.com) lists approximately 400,000 restaurants, bars and cafés, with more than 200,000 user-generated reviews on these establishments in North America. With a strong membership base, Restaurantica is a restaurant and dining online search resource, attracting more than 540,000 visits and over 1.7 million page views each month. This acquisition allows YPG to reinforce its commitment to helping consumers make smarter decisions and benefits the 50,000 restaurants across the country who advertise with us.

Clear Sky Media (RedFlagDeals.com)

In February, YPG completed the acquisition of Clear Sky Media Inc., a leader in providing online promotions and shopping tools to Canadians. With 2.2 million unique visitors every month, RedFlagDeals.com attracts an engaged community of savvy shoppers. The acquisition includes three destinations that serve Canadians nationally:

- RedFlagDeals.com, the largest aggregator of discounts and coupons on the web and mobile with hundreds of new deals posted every week;
- PriceCanada.com, a price comparison engine, allowing users to search dozens of online retailers, compare product features and make informed purchases;
- Scarlett Lounge, a source for deals in fashion and beauty for women.

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.

Acquisition of 411.ca

Also in February, 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 that unites two of Canada's largest local search engines provides enhanced online reach for advertisers and a greater experience for users. The addition of the 411.ca site is also expected to add approximately one million new unduplicated unique visitors to YPG's network reach.

Acquisition of Canadian Phone Directories Holdings Inc.

On March 29, 2010, the Fund reached a definitive agreement with HM Capital whereby the Fund would acquire Canadian Phone Directories Holdings Inc. ("Canpages") for a purchase price consideration of approximately \$225 million. Headquartered in Vancouver, Canpages publishes 84 directories for a total circulation of approximately 8 million copies. The company's website, Canpages.ca, attracts more than 3.5 million unique visitors each month. The company employs about 700 people in Canada of which more than 450 are sales consultants. This acquisition will give us the opportunity to expand our sales force, online capabilities and customer offerings. 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. The acquisition of Canpages is subject to regulatory clearance.

Divestiture of YPG Directories LLC

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

Consolidated Operating and Financial Results

Consolidated Results

(in thousands of Canadian dollars – except unit information)

	Three-month periods ended March 31,	
	2010	2009 ¹
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 (EBITDA)	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	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)
Net earnings	\$121,757	\$132,087
Basic earnings per unit	\$0.24	\$0.26
Diluted earnings per unit	\$0.21	\$0.21
Revenues	\$408,131	\$408,353
Elimination of purchase accounting impact	-	5,189
Adjusted Revenues²	\$408,131	\$413,542
Income from operations before depreciation and amortization and acquisition-related costs (EBITDA)	\$216,130	\$223,863
Elimination of purchase accounting impact	-	2,042
Conversion and rebranding costs	3,651	-
Adjusted EBITDA²	\$219,781	\$225,905
Adjusted EBITDA margin	53.9%	54.6%
Total assets	\$9,086,815	\$9,391,552
Total long-term debt	\$2,328,171	\$2,743,353

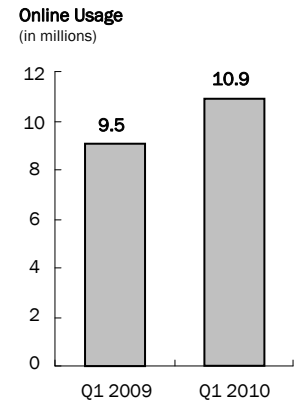
¹ As adjusted per adoption of new accounting policies as discussed in Section 6 – Critical Assumptions of this MD&A.

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

Analysis of Consolidated Operating and Financial Results

Revenues

Revenues stood at \$408.1 million during the first quarter of 2010 compared with \$408.4 million for the same period last year. If we exclude the impact of purchase accounting, Adjusted Revenues decreased by \$5.4 million in the first quarter of 2010 compared to the same period last year. Dealer.com contributed approximately \$15 million of revenues in the first quarter of 2010. If we exclude the results from Dealer.com, the decline in organic Adjusted Revenues is due to lower print revenues in both segments. The continuing shift in the media and publishing industries towards more online content continues to place some pressure on our traditional print offerings. Organic online revenue growth for the first quarter reached approximately 20%, in line with our target. Online revenues from the Directories and Vertical Media segments combined reached \$98.4 million in the first quarter of 2010. Online growth is driven by strong adoption of our online products in both of our segments. Our network of web sites in Directories and Vertical Media attracted 10.9 million unduplicated unique visitors¹ on average during the first quarter of 2010.



EBITDA

EBITDA decreased by \$7.7 million to \$216.1 million during the first quarter of 2010 compared with the same period last year. During the quarter, we incurred conversion and rebranding costs associated with our contemplated conversion from an income trust to a corporation. If we exclude the impact of purchase accounting and the conversion and rebranding costs, Adjusted EBITDA decreased by \$6.1 million to \$219.8 million in the first quarter of 2010 compared to the same period last year. The decrease for the period is mainly attributable to lower revenues partly compensated by cost containment initiatives.

Cost of sales decreased by \$4.4 million to \$111.3 million during the first quarter of 2010 compared with the same period last year. If we exclude the impact of purchase accounting, cost of sales decreased by \$7.5 million during the first quarter of 2010 compared with the same period last year. The decreases are due to lower print revenues and cost containment initiatives.

Gross profit margin increased to 72.7% for the first quarter of 2010 compared to 71.7% for the first quarter of 2009. The increase is directly attributable to our ability to contain costs in light of lower revenues.

General and administrative expenses increased by \$11.9 million to \$80.7 million during the first quarter of 2010 compared with the same period last year. If we exclude the impact of purchase accounting and the conversion and rebranding costs, general and administrative costs increased by \$8.2 million during the first quarter of 2010 compared to the same period last year. The increases in general and administrative expenses is mainly attributable to higher costs in the Vertical Media segment following the acquisition of Dealer.com on January 5, 2010 and conversion and rebranding costs in the Directories segment.

Depreciation and amortization

Depreciation and amortization increased to \$45.7 million during the first quarter of 2010 compared with \$38.1 million during the same period last year. The increase is attributable to higher amortization of certain intangible assets related to the acquisition of Dealer.com.

Acquisition-related costs

During the first quarter we recorded acquisition-related costs of \$3.6 million as a result of our acquisition of 411.ca, Restaurantica and RedFlagDeals.com. We also incurred costs associated with the proposed Canpages transaction announced on March 30, 2010.

Financial charges

Financial charges decreased by \$2.4 million to \$35.1 million during the first quarter of 2010 compared with the same period last year. The decrease is due to the gain on repurchase of preferred shares and long-term debt of \$2.5 million for the first quarter of 2010. The effective average interest rate on our debt portfolio as of March 31, 2010 was 5.1% compared to 4.8% as of March 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.

¹ Source: comScore Media Metrix Canada.

Dividends on preferred shares, Series 1 and 2

Dividends on the two series of redeemable preferred shares amounted to \$5.4 million for the first quarter of 2010 compared to \$5.7 million for the same period last year.

Provision for income taxes

The combined statutory provincial and federal tax rate was 29.9% and 30% for the three-month periods ended March 31, 2010 and 2009 respectively. The Fund recorded an expense of 5.2% and 7.5% of earnings for the three-month periods ended March 31, 2010 and 2009 respectively. The Fund's subsidiary, YPG LP, is a limited partnership, and as such, is not subject to income taxes whereas YPG LP's subsidiaries are subject to income tax. The difference between the statutory and the effective tax rates is primarily due to inter-company revenues which are not currently taxable when received by YPG LP.

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

Shares of losses (earnings) from equity investees

During the first quarter we recorded our share of losses from our equity investments in the amount of \$0.3 million compared to earnings of \$0.2 million for the same period last year.

Net earnings

Net earnings decreased by \$10.3 million to \$121.8 million during the first quarter of 2010. The decrease is mainly due to higher depreciation and amortization following the business acquisitions during the quarter as well the expenses incurred in connection with our contemplated conversion and rebranding efforts and the acquisition-related costs.

Summary of Consolidated Quarterly Results

Quarterly Results

(in thousands of Canadian dollars – except unit information)

	2010		2009 ¹			2008 ¹		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	\$408,131	\$405,679	\$408,318	\$417,534	\$408,353	\$425,559	\$426,141	\$430,442
Operating costs	188,350	186,382	182,109	193,465	184,490	194,020	188,348	194,461
Conversion and rebranding costs	3,651	-	-	-	-	-	-	-
Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges (EBITDA)	216,130	219,297	226,209	224,069	223,863	231,539	237,793	235,981
Depreciation and amortization	45,713	35,010	35,282	34,005	38,117	45,872	33,369	50,860
Acquisition-related costs	3,615	-	-	-	-	-	-	-
Impairment of goodwill	-	-	315,000	-	-	-	-	-
Restructuring and special charges	-	19,732	-	20,584	-	36,225	-	-
Income (loss) from operations	166,802	164,555	(124,073)	169,480	185,746	149,442	204,424	185,121
Net earnings (loss)	121,757	128,405	(168,515)	116,905	132,087	100,672	146,269	135,920
Basic earnings (loss) per unit	\$0.24	\$0.25	\$(0.33)	\$0.23	\$0.26	\$0.19	\$0.28	\$0.26
Diluted earnings (loss) per unit	\$0.21	\$0.21	\$(0.33)	\$0.19	\$0.21	\$0.17	\$0.25	\$0.24
Revenues	\$408,131	\$405,679	\$408,318	\$417,534	\$408,353	\$425,559	\$426,141	\$430,442
Elimination of purchase accounting impact	-	-	1,761	3,687	5,189	-	15	178
Adjusted Revenues	\$408,131	\$405,679	\$410,079	\$421,221	\$413,542	\$425,559	\$426,156	\$430,620
Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges (EBITDA)	\$216,130	\$219,297	\$226,209	\$224,069	\$223,863	\$231,539	\$237,793	\$235,981
Elimination of purchase accounting impact	-	-	823	2,052	2,042	(115)	(312)	(537)
Conversion and rebranding costs	3,651	-	-	-	-	-	-	-
Adjusted EBITDA	\$219,781	\$219,297	\$227,032	\$226,121	\$225,905	\$231,424	\$237,481	\$235,444
Adjusted EBITDA margin	53.9%	54.1%	55.4%	53.7%	54.6%	54.4%	55.7%	54.7%

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

Revenues and Adjusted Revenues for the third and fourth quarters of 2008 were lower quarter over quarter due to lower revenues in the Vertical Media segment being negatively impacted by adverse economic conditions. This trend continued throughout 2009, reflecting continuing pressure on revenues resulting from the economic downturn facing our industry especially in our Vertical Media segment. During the first quarter of 2010, revenues increased quarter over quarter reflecting the contribution of Dealer.com in our Vertical segment offset by lower print revenues in our Directories segment.

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

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

Segmented Information – Directories

Key Performance Indicators

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

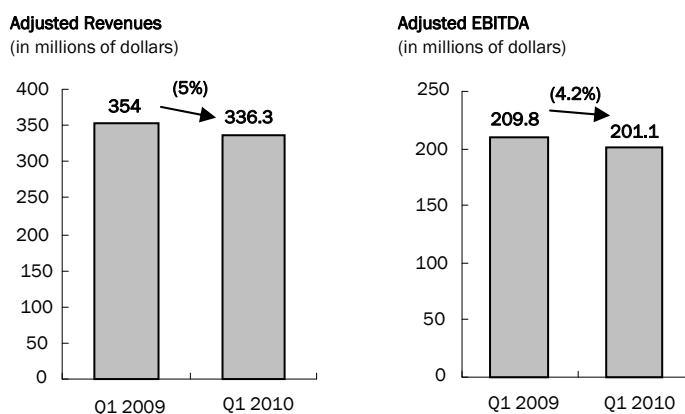
During the first quarter of 2010, we were encouraged by the early signs of an economic recovery in some market segments. However, we maintain a cautious outlook in terms of the potential strength and sustainability of an economic recovery. In this environment, we expected revenue growth from our online product offerings to continue, but also expected revenue pressure to remain in our traditional print offerings as the selling activity associated with these revenues occurred in 2009. Accordingly, our focus remains to position the directory platform through investments in new product introduction.

Adjusted Revenues declined by 5% to \$336.3 million for the first quarter of 2010. The level of Adjusted Revenues reflects expected pressure in the print category given the fact that the selling activity occurred throughout 2009. Our objective of providing our customers with high quality leads through compelling print and online bundles continues to support increased online penetration of the print advertiser base and to drive strong internet revenue growth. Adjusted EBITDA decreased by 4.2% in the first quarter as a result of lower revenues.

Operating and Financial Results

Operating Results ¹ <i>(in thousands of Canadian dollars)</i>	Three-month periods ended	
	2010	2009
Revenues	\$336,295	\$348,799
Operating costs	135,217	140,999
Conversion and rebranding costs	3,651	-
Income from operations before depreciation and amortization and acquisition-related costs (EBITDA)	197,427	207,800
Depreciation and amortization	24,057	32,262
Acquisition-related costs	3,615	-
Income from operations	\$169,755	\$175,538
Revenues	\$336,295	\$348,799
Elimination of purchase accounting impact	-	5,189
Adjusted Revenues	\$336,295	\$353,988
Income from operations before depreciation and amortization and acquisition-related costs (EBITDA)	\$197,427	\$207,800
Elimination of purchase accounting impact	-	2,042
Conversion and rebranding costs	3,651	-
Adjusted EBITDA	\$201,078	\$209,842

¹ See Note 16 - Segmented Information of the interim consolidated financial statements of the Company for the period ended March 31, 2010.



Analysis of Operating and Financial Results

Revenues

Revenues decreased by \$12.5 million to \$336.3 million during first quarter of 2010 compared with the same period last year. Excluding the effect of purchase accounting, Adjusted Revenues decreased by \$17.7 million to \$336.3 million during first quarter of 2010 compared with the same period last year. For both revenues and Adjusted Revenues, the decline in the quarter is due to the impact of lower advertising sales in our print directories.

As of March 31, 2010, the number of directories customers choosing to advertise both in print and online was 64.3% across Canada compared to 60% for the corresponding period last year.

EBITDA

EBITDA decreased by \$10.4 million to \$197.4 million during first quarter of 2010 compared with the same period last year. Excluding the effect of purchase accounting and the conversion and rebranding costs, Adjusted EBITDA decreased by \$8.8 million to \$201.1 million during first quarter of 2010 compared with the same period last year. The decrease for the quarter is directly related to lower revenues partly offset by lower costs driven by our cost containment initiatives.

Cost of sales amounted to \$77.5 million in the first quarter of 2010 compared to \$86.7 million for the same period last year. Excluding the effect of purchase accounting cost of sales decreased to \$77.5 million in the first quarter of 2010 compared to \$89.8 million for the same period last year. These decreases are mainly attributable to lower revenues combined with the results of our cost containment efforts including the creation of a centre of excellence in our publishing operations and savings from our supply chain.

Gross profit margin was higher at 77% in the first quarter of 2010 compared to 75.2% for the same period last year. Excluding the effect of purchase accounting, gross profit margin was 77% in the first quarter of 2010 compared to 74.6% for the same period last year. The higher margins are directly attributable to our ability to contain costs in light of lower revenues following the restructuring activities we initiated in 2009.

General and administrative expenses in the first quarter of 2010 increased by \$7 million to \$61.4 million compared with the same period last year. Conversion and rebranding costs incurred in 2010 amounted to \$3.7 million. The remaining portion of our increase is employee-related.

Depreciation and amortization

Depreciation and amortization decreased from \$32.3 million in the first quarter of 2009 to \$24.1 million in the first quarter of 2010. The decrease for the first quarter compared to the same period last year is due to the lower amortization of intangible assets related to the Bell Aliant acquisition which occurred in 2007, offset by the amortization related to the acquisition of YPG USA. Excluding the effect of purchase accounting, depreciation and amortization was \$9.2 million for the first quarter of 2010, down from \$10.1 million for the first quarter of 2009.

Acquisition-related costs

During the first quarter we recorded acquisition-related costs of \$3.6 million as a result of our acquisition of 411.ca, Restaurantica and RedFlagDeals.com. We also incurred costs associated with the proposed Canpages transaction announced on March 30, 2010.

Segmented Information – Vertical Media

Key Performance Indicators

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

For the first quarter of 2010, revenues increased by 20.6% and EBITDA increased by 16.4% largely driven by the acquisition of Dealer.com. Organically, revenues decreased by approximately 6% compared to the same period. In our largest vertical, automotive, representing two-thirds of this segment's revenues, we have begun seeing positive trends following the introduction of Dealer Smart Solutions in the marketplace. However, market conditions remain challenging in the real estate and generalist categories.

Operating and Financial Results

Operating Results¹

(in thousands of Canadian dollars)

	Three-month period ended March 31,	
	2010	2009
Revenues	\$71,836	\$59,554
Operating costs	53,133	43,491
Income from operations before depreciation and amortization (EBITDA)	18,703	16,063
Depreciation and amortization	21,656	5,855
(Loss) Income from operations	(2,953)	\$10,208

¹ See Note 16 – Segmented Information of the interim consolidated financial statements of the Company for the period ended March 31, 2010.

Analysis of Operating and Financial Results

Revenues

Revenues from our Vertical Media segment increased by \$12.3 million to \$71.8 million in the three-month period ended March 31, 2010 compared with the same period last year. Prior to the increase in its investment in Dealer.com, the results of Dealer.com were not consolidated. Dealer.com contributed approximately \$15 million of revenues for the quarter. If we exclude the contribution from Dealer.com, revenues decreased by approximately \$3 million due to lower print revenues.

EBITDA

EBITDA increased by \$2.6 million to \$18.7 million for the first quarter of 2010 compared to the same period last year as a result of higher revenues generated by Dealer.com.

Cost of sales increased to \$33.9 million for the first quarter of 2010 compared to \$29 million the same period last year. The increase is directly related to the increase in revenues.

Gross profit margin increased to 52.9% for the first quarter of 2010 compared to 51.2% for the same period last year reflecting the benefit associated with our cost containment initiatives.

General and administrative expenses increased to \$19.3 million in the first quarter of 2010 compared to \$14.4 million for the same period last year. The increase for the three-month period ended March 31, 2010 is mainly attributable to the acquisition of Dealer.com.

Depreciation and amortization

Depreciation and amortization amounted to \$21.7 million in the first quarter of 2010 compared to \$5.9 million for the same period last year. The increase for the quarter relates to the amortization of certain intangible assets related to the acquisition of Dealer.com. Excluding the effect of purchase accounting, depreciation and amortization was \$5.7 million for the first quarter of 2010 compared to \$5.6 million for the same period last year.

3. Liquidity and Capital Resources

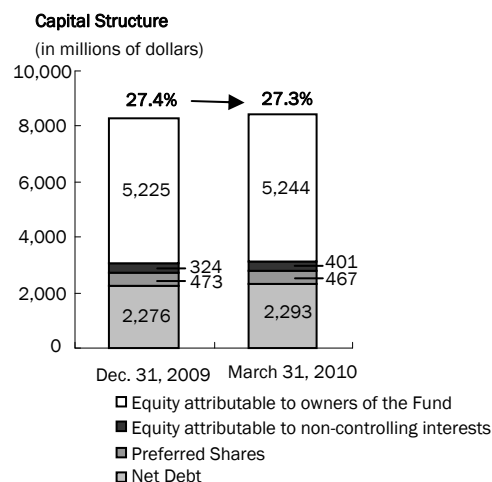
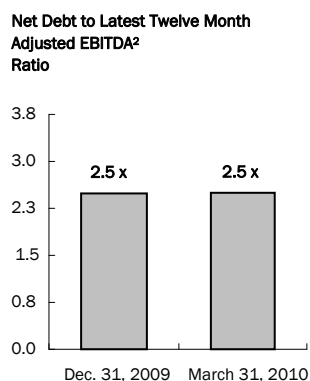
This section examines the Company's capital structure, including the sources of liquidity and the various financial instruments of its debt and preferred share portfolio.

Financial Position

Capital Structure

(in thousands of Canadian dollars)

	As at March 31, 2010	As at December 31, 2009
Cash and cash equivalents	\$37,882	\$36,170
Medium Term Notes	1,748,957	2,044,947
Exchangeable Debentures	84,287	83,886
Credit facilities	100,000	100,000
Commercial paper	384,000	74,000
Obligations under capital leases and Other	13,439	9,027
Long-term debt, including current portion	\$2,330,683	\$2,311,860
Net debt (net of cash and cash equivalents)	\$2,292,801	\$2,275,690
Preferred shares, series 1 and 2	466,679	472,777
Equity attributable to owners of the Fund ¹	5,244,155	5,224,740
Equity attributable to non-controlling interests ¹	401,024	324,130
Total capitalization	\$8,404,659	\$8,297,337
Net debt to total capitalization	27.3%	27.4%



¹ As adjusted for 2009 per adoption of new accounting policies as discussed in Section 6 - Critical Assumptions of this MD&A.

² Latest twelve month Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges removing the effect of purchase accounting related to the acquisitions in the Directories segment ("Latest Twelve Month Adjusted EBITDA").

As at March 31, 2010, YPG had approximately \$2.3 billion of debt net of cash and cash equivalents, which was marginally higher than the net debt position as at December 31, 2009. The increase in net debt and preferred shares, Series 1 and 2 during the quarter results from acquisitions and investments made in the quarter offset by positive operating free cash flow and the repurchases of Medium Term Notes and Preferred Shares Series 1 and 2. The net debt to Latest Twelve Month Adjusted EBITDA¹ ratio as of March 31, 2010 remained unchanged at 2.5 times compared to December 31, 2009. The net debt to total capitalization was at 27.3% compared to 27.4% as of December 31, 2009.

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.

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.

Cumulative Redeemable Preferred Shares

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.

Since June 11, 2009, the total cost of repurchasing preferred shares amounted to \$19.6 million, including brokerage fees.

Exchangeable Debentures

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

Cumulative Exchangeable Preferred Shares

On February 9, 2010, in connection with the acquisition of RedFlagDeals.com, Yellow Media Inc. issued 1,300,000 cumulative exchangeable first preferred shares, Series 7 (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. The Series 7 shares are included in equity attributable to non-controlling interests.

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

¹ Latest twelve month Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges removing the effect of purchase accounting related to the acquisitions in the Directorships segment ("Latest Twelve Month Adjusted EBITDA").

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 exchangeable subordinated debentures rating	BB+ exchangeable subordinated debentures rating
Pfd-3 (high) preferred shares rating	P-3 preferred shares rating

Following the announcement of the definitive agreement to acquire Canpages on March 30, 2010, DBRS Limited and Standard and Poor's Rating Services have confirmed that Yellow Media Inc.'s ratings remain unaffected.

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 March 31, 2010, YPG maintained three credit facilities totalling \$1.1 billion, providing sufficient liquidity to fund its operations.

On March 31, 2010, cash and cash equivalents amounted to \$37.9 million. In addition to cash and cash equivalents, Yellow Media Inc. may issue additional notes amounting to \$116 million under its commercial paper program and access another \$500 million under its Revolving Facility and its Non-Revolving Facility. Alternatively, if additional notes are not issued under the commercial paper program, Yellow Media Inc. may access the full \$616 million available under its Revolving Facility and its Non-Revolving Facility.

Unit data

As at May 6, 2010 outstanding unit data was as follows:

Outstanding Unit Data		
	As at March 31 and May 6, 2010	As at December 31, 2009
Units outstanding	513,044,685	513,044,685
Options outstanding	383,986	383,986

At May 6, 2010, no Exchangeable Units of YPG LP remain outstanding.

No options were granted following the inception of the Fund.

Yellow Media Inc. also has a total of \$86.5 million of Exchangeable Debentures which are exchangeable at any time, at the option of the holder into units of the Fund at an exchange price of \$20.00 per unit.

As at March 31, 2010, there were 11,788,280 Series 1 shares and 7,200,000 Series 2 shares outstanding. Both series of preferred shares are redeemable by the issuer under certain conditions through the issuance of units of the Fund.

Sources and Uses of Cash

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

Sources and Uses of Cash

(in thousands of Canadian dollars)

	Three-month periods ended	
	2010	March 31, 2009
Cash flow from operating activities		
Cash flow from operations	\$171,705	\$181,762
Change in operating assets and liabilities	(28,166)	15,656
	\$143,539	\$197,418
Cash flow used in investing activities		
Business acquisitions, net of cash acquired and bank indebtedness assumed	\$(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
	\$(35,144)	\$(57,354)
Cash flow used in financing activities		
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)
Repurchase of units	-	(13,382)
Purchase of Preferred shares, series 1 and 2, and Medium Term Notes	(298,964)	-
Other	(15,569)	(4,274)
	\$(106,381)	\$(131,933)

Cash flow from operating activities

Cash flow from operating activities decreased from \$197.4 million in the first quarter of 2009 to \$143.5 million in the first quarter of 2010. Cash flow from operations decreased by \$10.1 million for the three-month period ended March 31, 2010. The decrease for the quarter reflects lower Adjusted EBITDA contribution generated through our operations as a result of lower revenues. The decrease in operating assets and liabilities for the first quarter of 2010 was \$43.8 million when compared to the same period last year. These changes are mainly due to the timing of the payment of certain accounts payable and accrued liabilities as reflected on our balance sheet.

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

Cash flow used in investing activities

Cash used in investing activities decreased during the first quarter of 2010 from \$57.4 million in 2009 to \$35.1 million in 2010. During the first quarter of 2009, the Fund made a 20% equity investment in Dealer.com representing a total cash outflow of \$44.9 million. During the first quarter of 2010, the Fund acquired an additional 10% interest in Dealer.com, Restaurantica and RedFlagDeals.com for cash consideration of \$7.2 million and made an equity investment for \$3.6 million. We also acquired the 411.ca brand in the amount of \$12.5 million in connection with the investment we made in 411.ca.

Acquisition of Fixed Assets, Net of Lease Inducements

(in thousands of Canadian dollars)

	Three-month periods ended March 31,	
	2010	2009
Transition capital	\$1,112	\$2,245
Maintenance	3,611	2,963
New initiatives	7,164	4,553
Leasehold improvements, net of lease inducements	683	98
Total	\$12,570	\$9,859
Adjustment to reflect expenditures on a cash basis	(830)	2,597
Acquisition of fixed assets, net of lease inducements	\$11,740	\$12,456

Transition Capital – these expenditures relate to the acquisition of YPG USA. The amount to be deployed related to YPG USA was initially estimated at \$10 million. The cumulative amount invested to date stands at \$13.9 million.

Maintenance capital expenditures increased from \$3 million in the first quarter of 2009 to \$3.6 million in the first quarter of 2010.

Capital spending for new initiatives increased to \$7.2 million in the first quarter compared with \$4.6 million in the first quarter of 2009. The increase was driven by the launch of new product initiatives such as search engine solutions.

In the first quarter of 2010, we incurred \$0.7 million of leasehold improvements related to premises.

Total capital expenditures for the first quarter of 2010 amounted to \$12.6 million and were in line with expectations.

Cash flow used in financing activities

Cash used in financing activities decreased by \$25.6 million during the first quarter of 2010 from \$131.9 million for the same period last year. The lower level of cash distributions per unit compared to the same quarter last year, combined with a reduced number of units outstanding, resulted in a decrease in distributions to unitholders of \$49.5 million in the first quarter of 2010.

Financial and Other Instruments

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

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

Derivative Instruments

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

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

As at March 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 75% fixed rate as at March 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.

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

The carrying value of outstanding interest rate derivatives was a liability of \$2.6 million and the carrying value of embedded derivatives was an asset of \$1 million on March 31, 2010. The carrying value is calculated as is customary in the industry using discounted cash flows with quarter-end market rates. For the first quarter of 2010, we reported an unrealized loss of \$1.6 million (2009 – \$1.4 million) on derivatives, excluding the loss on derivatives designated as cash flow hedges in prior periods transferred to earnings in the period and payments on interest rate swaps that have discontinued hedge accounting.

4. Distributable Cash

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

Distributable Cash

(in thousands of Canadian dollars)

	Three-month periods ended March 31,	
	2010	2009
Cash flow from operating activities	\$143,539	\$197,418
Operating non-cash items ¹	(3,594)	(1,262)
Change in operating assets and liabilities ²	28,166	(15,656)
Maintenance capital expenditures ³	(3,611)	(2,963)
Acquisition-related costs ⁴	3,615	-
Other ⁵	3,159	2,909
Distributable cash	\$171,274	\$180,446
Weighted average number of units outstanding	504,752,813	513,839,842
Distributable cash per unit ⁶	\$0.34	\$0.35
Distributions declared	\$101,033	\$150,332
Distributions declared per unit	\$0.20	\$0.29
Payout ratio ⁷	59%	83%

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

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

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

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

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

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

⁶ Please refer to Section 2 – Highlights by Segment for the calculation of Basic earnings per unit.

⁷ The level of distributions paid is reviewed periodically to take into account the current and prospective performance of the business and other items considered to be prudent. See the section Distribution Policy.

Distributable Cash

(in thousands of Canadian dollars)

	Three-month period ended March 31,		Previously completed fiscal years	
	2010	2009 ¹	2008 ¹	2007 ¹
Cash flow from operating activities	\$143,539	\$750,187	\$692,356	\$695,540
Net earnings	\$121,757	\$208,882	\$509,966	\$528,297
Actual cash distributions declared	\$(101,033)	\$(471,897)	\$(599,930)	\$(581,986)
Excess of cash flows from operating activities over cash distributions declared	\$42,506	\$278,290	\$92,426	\$113,554
Excess (shortfall) of net earnings over cash distributions declared	\$20,724	\$(263,015)	\$(89,964)	\$(53,689)
Impact of purchase accounting on net earnings	\$30,789	\$397,033	\$122,981	\$166,592
Excess of net earnings over cash distributions declared excluding impact of purchase accounting	\$51,513	\$134,018	\$33,017	\$112,903

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

Net earnings exceeded distributions declared by \$20.7 million for the three-month period ended March 31, 2010. The Fund does not use net earnings as a basis to calculate distributions. Net earnings in accordance with GAAP include expenses which do not affect cash such as amortization of non-compete agreements, customer contracts and customer relationships, software and impairment of goodwill. As a result of our acquisitions over the past several years, our net earnings have been affected by purchase accounting, resulting in an increased amount of amortization related to the acquired intangibles. The costs of these intangible assets are included in the purchase price but there are no future cash outflows associated with maintaining these intangible assets. If we exclude the impact of purchase accounting, net earnings exceeded distributions declared by \$51.5 million for the three-month period ended March 31, 2010.

Cash distributions declared were lower than distributable cash resulting in a payout ratio of 59% for the three-month period ended March 31, 2010. The level of distributions declared is reviewed periodically to take into account the current and prospective performance of the business and other items considered to be prudent.

Distributable cash

Distributable cash decreased from \$180.4 million in the first quarter of 2009 to \$171.3 million in the first quarter of 2010. The decrease is mainly due to lower EBITDA for the first quarter of 2010.

Distributable cash per unit decreased from \$0.35 in the first quarter of 2009 to \$0.34 for the first quarter of 2010. This decrease represents a decrease of 2.9% for the first quarter of 2010.

The Fund's cumulative distributable cash since its Initial Public Offering ("IPO") in August of 2003 to March 31, 2010 is approximately \$3.9 billion, or \$8.07 per unit. Total distributions declared during the same period reached approximately \$3.1 billion, or \$6.60 per unit representing a cumulative payout ratio of 82%.

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

Our long-term debt management strategy is to refinance our funded debt at maturity. Our funded debt portfolio currently has an average term of approximately 6.2 years. We are reasonably assured that we will be able to refinance these obligations given our previously demonstrated access to capital markets, our commitment to investment grade credit ratings, and adequate liquidity under our existing credit facilities.

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

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

Furthermore, our Medium Term Note program and our Exchangeable Unsecured Subordinated Debentures, which represent \$1.8 billion of our total long-term debt portfolio as of March 31, 2010, do not provide for any contractual limitations on the distribution of cash.

Distributions declared per unit

Distributions declared per unit was \$0.20 in the first three-month periods of 2010 compared with \$0.29 for the same period in 2009.

In the periodic review of distributions, we will continue to take into account the current and prospective performance of our business, amounts to service debt obligations, maintenance capital expenditures, taxes and other amounts considered to be prudent.

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

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

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

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

5. Outlook

Conversion from an income trust to a corporation

During the first quarter of 2010, the Fund announced the plan of arrangement under the Canada Business Corporations Act, which will result in the conversion of the Fund from an income trust to a traditional corporate structure (the "Plan of Arrangement").

The effective date of the contemplated conversion is expected to be on or about November 1, 2010.

On March 24, 2010 the Fund obtained an interim order in connection with the Fund's Plan of Arrangement 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 at 11:00 a.m. (Montreal time) at Le Windsor, 1170 Peel Street, Montreal for the purpose of considering the Plan of Arrangement.

The Plan of Arrangement is subject to receipt of all required court, regulatory and Toronto Stock Exchange approvals and other customary conditions, and approval by at least 66 2/3% of the votes cast by YPG unitholders voting in person or by proxy at the Meeting. Upon completion of the conversion, unitholders of YPG will receive, for each unit of YPG held, one common share of the resulting public corporation to be named Yellow Media Inc.

The interim order provides that should the Plan of Arrangement be approved by the required majority at the Meeting, YPG will appear before the Court in order to obtain a final order on October 1, 2010, or at such other date before or after October 1, 2010 following notification by news release to YPG unitholders of the date of presentation of the application for a final order at least ten days before such other date.

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

Provided the Plan of Arrangement is approved by YPG unitholders at the Meeting and provided the effective date of the Plan of Arrangement occurs on or about November 1, 2010, the monthly dividend for the months of November and December 2010 will be maintained at \$0.0667 (\$0.80 annually) per common share of Yellow Media Inc. November and December 2010 dividends will be payable to holders of record of common shares on November 30, 2010 and December 31, 2010, respectively, and will be paid on December 15, 2010 and January 17, 2011, respectively.

6. Critical Assumptions

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

Change in Accounting Policies

a) Section 1582, *Business Combinations*. Section 1582 provides the Canadian equivalent to IFRS 3 "*Business Combinations*". The new recommendations require measuring business acquisitions at the fair value of the acquired business, including the measurement at fair value of items such as non-controlling interests and contingent payment considerations. In addition, business acquisition-related costs 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 step acquisition have to be valued at their fair value on the date of acquisition and any gain or loss on those shares needs to be recognized in net earnings.

Basic earnings per unit is computed by dividing net earnings attributable to owners of the Fund by the weighted average number of units outstanding during the period. This calculation is consistent with the calculation of the Basic earnings per unit before adopting this Section.

The above sections were not mandatorily applicable for the Fund before the fiscal year beginning on January 1, 2011. However, the Fund has elected to early adopt these sections, as of January 1, 2010, in order to more closely align itself with IFRS and mitigate the impact of adopting IFRS at the changeover date. In accordance with the transitional provisions, these sections have been applied prospectively, with the exception of the presentation requirements for non-controlling interests, which must be applied retrospectively. The adoption of these sections modified the accounting of business combinations realized during the first 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.

Effect of New Accounting Standards Not Yet Implemented

International Financial Reporting Standards (IFRS)

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

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

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

Current status of our IFRS changeover plan

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

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

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

Major differences with current accounting policies

Employee Benefits – Past service cost

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

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

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

Income Taxes – Temporary differences on intangible assets

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

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

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

Grouping of assets for impairment purposes

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

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

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

Key IFRS 1 Exemption Options

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

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

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

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

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

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

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

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

7. Risks and Uncertainties

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

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

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

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

8. Controls and Procedures

Management including the President and Chief Executive Officer and the Executive Vice President – Corporate Services and Chief Financial Officer have determined that there were no changes to the internal control over financial reporting during the quarter ended March 31, 2010 that would materially affect or are reasonably likely to materially affect its internal control over financial reporting.