

Management's Discussion and Analysis

November 3, 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 Media Inc. (YMI, previously Yellow Pages Income Fund or the Corporation) and its subsidiaries for the three and nine month periods ended September 30, 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 September 30, 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 Media Inc., and its subsidiaries (including Yellow Pages Group Co., Canpages Inc., YPG (USA) Holdings, Inc. and Yellow Pages Group, LLC (collectively YPG USA), Trader Corporation 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 November 3, 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. Consistent with our historical practice, we do not intend to provide quarterly guidance for key performance metrics. Our preference remains to review on a periodic basis, through our MD&A, our progress in reaching our stated objectives for the full year taking into account changes in the economic environment, local operating and economic conditions, direct and indirect competition for our products and other relevant factors.
- Risks that could cause our actual results to differ materially from our current expectations are discussed in Section 8 – Risks and Uncertainties.

Definitions relative to understanding our results

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

We report on our EBITDA (Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges). EBITDA is not a calculation based on GAAP and is not considered an alternative to income from operations or net (loss) earnings in the context of measuring YPG's performance. EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other publicly traded companies. For a reconciliation with GAAP, please refer to Consolidated Operating and Financial Results in Section 3 of this MD&A. EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed on page 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 5 – 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 5 of this MD&A.

This MD&A is divided into the following sections:

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

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

Yellow Pages Group is Canada's leading performance media and marketing solutions company. Trader is a leader in print and digital vertical media. We are a 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. Conversion From an Income Trust to a Corporation

Path to Conversion

During the first quarter of 2010, the Company announced the details of the plan of arrangement entered into under the Canada Business Corporations Act, which was intended to lead to the conversion of the Company from an income trust to a traditional dividend paying public corporation (the Plan of Arrangement).

As part of this Plan of Arrangement, the Company obtained an interim order on March 24, 2010, in connection with the Company'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 for the purpose of considering the Plan of Arrangement.

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

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

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

On that same date, the units of the Fund were delisted from the Toronto Stock Exchange. Trading of the common shares of Yellow Media Inc. on the Toronto Stock Exchange has commenced on November 1, 2010, under the symbol "YLO".

Dividend payments and dividend policy

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.

After these two months, starting in January 2011, Yellow Media Inc. will initially pay a monthly dividend of \$0.0542 (\$0.65 annually) per common share of Yellow Media Inc. 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.

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

Accounting impact of the conversion

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

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

3. Results

This section provides an overview of our financial performance during the third 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 financial 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

- Revenues increased by \$20.3 million or 5% to \$428.6 million over the third quarter of 2009;
- Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges decreased by \$4.7 million or 2.1% to \$221.5 million in the same period; and
- Distributable cash per unit remained unchanged compared to the third quarter of 2009 to \$0.35.

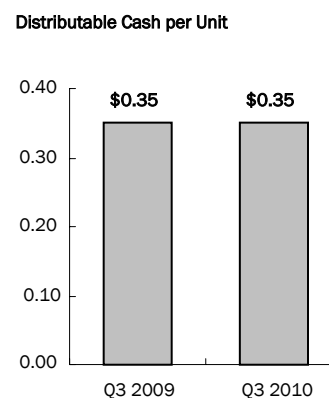
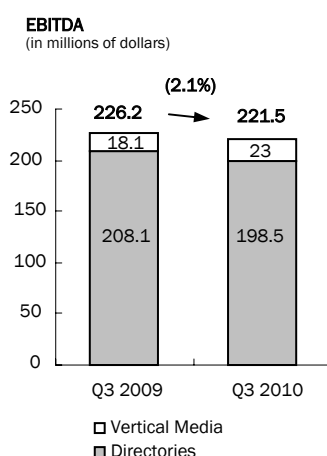
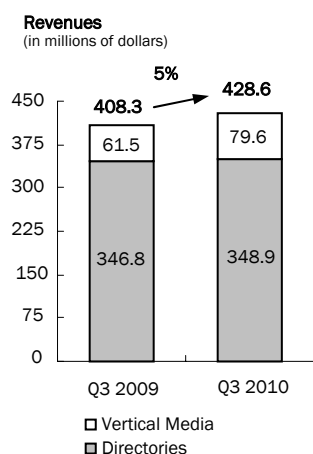
Highlights by Segment¹

(in thousands of Canadian dollars- except unit information)

	Directories		Vertical Media		Consolidated	
	2010	2009	2010	2009	2010	2009
Revenues	\$348,946	\$346,794	\$79,624	\$61,524	\$428,570	\$408,318
Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges	\$198,491	\$208,132	\$23,026	\$18,077	\$221,517	\$226,209
Basic earnings (loss) per unit					\$0.15	(\$0.33)
Cash flow from operating activities					\$142,685	\$168,548
Distributable cash ²					\$176,949	\$179,199
Distributable cash per unit					\$0.35	\$0.35

¹ We closed the acquisitions of Dealer Dot Com Inc. (Dealer.com) on January 5, 2010, Restaurantica.ca (Restaurantica) on January 8, 2010, Clear Sky Media Inc. (RedFlagDeals.com) on February 9, 2010, Canpages Inc. (Canpages) on May 25, 2010, Canadian Driver on July 9, 2010 and Enquiro on September 21, 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 Section 5 for a reconciliation of Distributable cash.



Performance Relative to Business Strategy

Organic growth

Directories

Enhancement and expansion of products

- User Experience – During the quarter, YPG announced further improvements to its flagship online properties, yellowpages.ca and pagesjaunes.ca. These improvements include the launch of Yellow Pages address book which enables the user to create a personalized version of the Yellow Pages online directory. This feature helps the user access their favourite businesses quickly. Also during the quarter, YPG announced the launch of Deal of the Day and Promo du jour on RedFlagDeals.com and LesPAC.com, representing YPG's entry in the group buying market. This new initiative features a free daily group buying newsletter, offering savings on various products or services. This new online shopping product benefits both deal-savvy consumers and participating businesses that can take advantage of the visibility that our network of properties brings them;
- 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. YellowPages.ca mobile application has now been downloaded more than 1.8 million times. During the third quarter, YPG created an application programming interface (API). YellowAPI.com is open to developers across all platforms, allowing them to stream local search content directly from one of Canada's largest and most robust business and person databases. YellowAPI.com is a natural tool of choice for developers as it addresses a real need for relevant and dynamic local content. This in turn allows us to increase the amount of visibility and business leads our advertisers receive because of the relationship they have with us. In September, YPG and TELUS announced a partnership to optimize the mobile local search experience for millions of Canadians. TELUS will provide a co-branded version of the YellowPages.ca mobile applications to its customers. This partnership not only positively impacts the mobile user experience but benefits businesses advertising within the Yellow Pages Group network by increasing their visibility and growing their client acquisition programs.

Vertical Media

Enhancement and expansion of our product and service offerings

- Expansion of Dealer Smart Solutions to non-passenger vehicles (NPV) - This product expansion leverages all the successful components of Dealer Smart Solutions but will customize the offering to the specificities of the different NPV segments. The initial focus was on targeting existing Trader customers to up-sell from the current print media offerings to the integrated solutions. New customer acquisition is expected to grow as our penetration is relatively low and no other comparable solution for the NPV category is available;
- During the quarter Trader entered into an exclusive Canadian partnership with vAuto and Bignition Services Inc. (Bignition) in order to expand its offer to Canadian dealers. Trader will be in a position to help dealers in their decision process of inventory management for stocking, appraisal, pricing and B2B merchandising.

Improve User and Advertiser Experience

- Website enhancements are continuing to be developed in order to improve the search engine and user experience through a clean up of the search data and filters. During the quarter Trader launched a new algorithm on autoTRADER.ca. Vehicle search results are now sorted by "quality" of the ad listing. Each ad is scored against multiple factors ranging from the number of photos to richness of vehicle description, and the most relevant results will be presented to users;
- The autoTRADER.ca iPhone mobile application which was launched last quarter has now been downloaded more than 130,000 times. The application provides browsing by make and model, search by keyword and sort by location, price and most recent content. The application also allows viewing of all listings based on the user's location, a dealer location by postal code or proximity-based search using GPS. In September, Trader launched the Blackberry™ version of autoTRADER.ca. Just like the iPhone application it provides over 200,000 used vehicle inventory to a new consumer audience. The new applications leverage the power of autoTRADER.ca listings.

External growth

Mediative

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

Acquisition of Canpages Inc.

Last quarter, the Fund acquired Canpages Inc. (Canpages). This acquisition has given YPG the opportunity to expand its sales force, online capabilities and customer offerings. The integration of this acquisition is progressing as planned. We expect to realize a number of benefits from the integration of certain shared services and the consolidation of the supply chain.

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

Consolidated Operating and Financial Results

Consolidated Results

(in thousands of Canadian dollars – except unit information)

	Three-month periods ended		Nine-month periods ended	
	September 30,		September 30,	
	2010	2009 ¹	2010	2009 ¹
Revenues	\$428,570	\$408,318	\$1,257,083	\$1,234,205
Operating costs	202,612	182,109	583,452	560,064
Conversion and rebranding costs	4,441	-	16,042	-
Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges (EBITDA)	221,517	226,209	657,589	674,141
Depreciation and amortization	70,139	35,282	168,947	107,404
Acquisition-related costs	2,038	-	25,587	-
Impairment of goodwill	-	315,000	-	315,000
Restructuring and special charges	17,465	-	26,442	20,584
Income (loss) from operations	131,875	(124,073)	436,613	231,153
Financial charges, net	34,150	11,128	99,333	86,085
Gain on deemed disposition of equity investment	-	-	(2,374)	-
Gain on disposal of subsidiary	-	-	(2,338)	-
Earnings (loss) before dividends on Preferred shares, series 1 and 2, income taxes, and share of losses from equity investees	97,725	(135,201)	341,992	145,068
Dividends on Preferred shares, series 1 and 2	5,288	5,588	16,037	16,963
Earnings (loss) before income taxes and share of losses from equity investees	92,437	(140,789)	325,955	128,105
Provision for income taxes	10,943	24,238	37,935	42,729
Share of losses from equity investees	6,789	3,488	11,652	4,899
Net earnings (loss)	\$74,705	\$(168,515)	\$276,368	\$80,477
Basic earnings (loss) per unit	\$0.15	(\$0.33)	\$0.54	\$0.16
Diluted earnings (loss) per unit	\$0.12	(\$0.33)	\$0.47	\$0.15
Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges (EBITDA)	\$221,517	\$226,209	\$657,589	\$674,141
Conversion and rebranding costs	4,441	-	16,042	-
EBITDA before conversion and rebranding costs²	\$225,958	\$226,209	\$673,631	\$674,141
Total assets			\$9,304,564	\$9,031,800
Long-term debt			\$2,212,974	\$2,231,928
Exchangeable and convertible instruments			\$319,606	\$289,411
Preferred Shares			\$452,934	\$481,494

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

² We remove costs associated with the Fund's conversion from an income trust to a corporation and the related rebranding costs as they do not reflect the ongoing operations of the business.

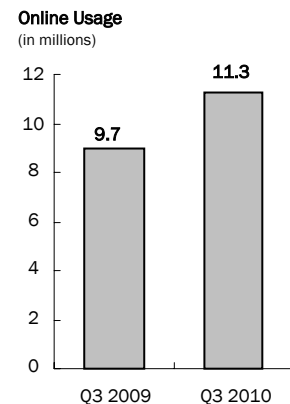
Analysis of Consolidated Operating and Financial Results

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

Despite some encouraging early signs of an economic recovery in some market segments, we maintain a cautious outlook in terms of the potential strength and sustainability of an economic recovery. In this environment, we expect revenue growth from our online product offerings to continue, but also expect revenue pressure to remain in our traditional print offerings. Accordingly, our focus remains positioning our Directories and Vertical Media platforms through investment in new product introduction and improved market coverage.

Revenues

Revenues increased to \$428.6 million during the third quarter of 2010 compared with \$408.3 million for the same period last year and increased to \$1,257.1 million for the nine-month period ended September 30, 2010 compared with \$1,234.2 million for the same period last year. The additional contribution of revenues from Canpages during the quarter ended September 30, 2010 was partly offset by the loss of revenues resulting from the divestiture of YPG USA. Dealer.com contributed approximately \$21 million and \$55 million of revenues in the three-month and nine-month periods ended September 30, 2010, respectively. If we exclude the results from Dealer.com, organic revenues declined due to lower print revenues in both segments. The continuing shift in the media and publishing industries towards more online content continues to place some pressure on our traditional print offerings. Organic online revenue growth for the third quarter reached approximately 15%. Online revenues from the Directories and Vertical Media segments combined reached \$115.7 million in the third quarter of 2010 and \$321.8 million for the nine months ended September 30, 2010. Our network of web sites in Directories and Vertical Media attracted 11.3 million unduplicated unique visitors¹ on average during the third quarter of 2010, representing a reach of 45.3%¹ of the Canadian internet population.



EBITDA

EBITDA decreased by \$4.7 million to \$221.5 million during the third quarter of 2010 and by \$16.6 million to \$657.6 million for the nine-month period ended September 30, 2010 compared with the same periods last year. During the quarter, we incurred conversion and rebranding costs of \$4.4 million associated with our conversion from an income trust to a corporation and \$16 million for the nine-month period ended September 30, 2010. If we exclude these costs, EBITDA remained flat for the three-month and nine-month periods ended September 30, 2010 compared with the same periods last year.

Cost of sales increased by \$10.6 million to \$125.2 million during the third quarter of 2010 and increased by \$9.7 million to \$359.1 million for the nine-month period ended September 30, 2010 compared with the same periods last year. The increase for the quarter and nine-month period ended September 30, 2010 results mainly from the increased costs associated with Dealer.com acquired in the first quarter of 2010. Canpages also contributed additional costs during the quarter when compared to the same period last year as it was acquired in May 2010.

Gross profit margin decreased to 70.8% for the third quarter of 2010 compared to 72% for the third quarter of 2009 but was relatively flat at 71.4% for the nine-month period ended September 30, 2010 compared to 71.7% for the same period last year. The decrease for the quarter is due to slightly lower margins at Canpages.

General and administrative expenses increased by \$14.3 million to \$81.9 million during the third quarter of 2010 and by \$29.7 million to \$240.4 million for the nine-month period ended September 30, 2010 compared with the same periods last year. The increases in general and administrative expenses for the three-month and nine-month periods ended September 30, 2010 are mainly attributable to higher costs in the Vertical Media segment following the acquisition of Dealer.com on January 5, 2010, the higher costs following the acquisition of Canpages on May 25, 2010 as well as conversion and rebranding costs.

Depreciation and amortization

Depreciation and amortization increased to \$70.1 million during the third quarter of 2010 compared with \$35.3 million during the same period last year and increased to \$168.9 million for the nine-month period ended September 30, 2010 compared with \$107.4 million during the same period last year. The increase is attributable to higher amortization of certain intangible assets related to the acquisitions of Dealer.com and Canpages.

¹ Source: comScore Media Metrix Canada.

Acquisition-related costs

During the third quarter we recorded acquisition-related costs of \$2.0 million and \$25.6 million for the nine-month period ended September 30, 2010 as a result of our acquisitions of Canpages, RedFlagDeals.com, Restaurantica, and 411.ca. This includes \$1.4 million of transaction costs and \$0.6 million of restructuring and other charges for the three-month period ended September 30, 2010 and \$15.5 million of transaction costs and \$10.1 million of restructuring and other charges for the nine-month period ended September 30, 2010.

Restructuring and special charges

During the third quarter of 2010 and in connection with the acquisition of Canpages, we recorded restructuring and special charges relating to internal reorganization, workforce reduction, the acceleration of business process changes in our centres of excellence and other items amounting to \$17.5 million. During the nine-month period ended September 30, 2010, we incurred \$26.4 million of restructuring and special charges.

Financial charges

Financial charges increased by \$23 million to \$34.2 million during the third quarter of 2010 and by \$13.2 million to \$99.3 million for the nine-month period ended September 30, 2010 compared with the same periods last year. The increase is due in part to a lower gain on repurchase of preferred shares, Medium Term Notes and Exchangeable Debentures of \$3.8 million for the three-month period ended September 30, 2010 compared to a net gain of \$30.3 million for the three-month period ended September 30, 2009 and a gain of \$8.9 million for the nine-month period ended September 30, 2010 compared to a net gain of \$30.5 for the nine-month period ended September 30, 2009. The effective average interest rate on our debt portfolio as of September 30, 2010 was 5.3% compared to 5.6% as of September 30, 2009.

Gain on deemed disposition of equity investment

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

Gain on disposal of subsidiary

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

Dividends on preferred shares, Series 1 and 2

Dividends on the two series of redeemable preferred shares amounted to \$5.3 million for the third quarter of 2010 compared to \$5.6 million for the same period last year and \$16 million for the nine-month period ended September 30, 2010 compared to \$17 million for the same period last year.

Provision for income taxes

The combined statutory provincial and federal tax rate was 29.9% and 28.3% for the three-month periods ended September 30, 2010 and 2009 respectively. The Company recorded an expense of 11.8% of earnings and 17.2% of the loss for the three-month periods ended September 30, 2010 and 2009 respectively and 11.6% and 33.4% of earnings for the nine-month periods ended September 30, 2010 and 2009 respectively. Prior to the conversion from an income trust, the Fund's subsidiary, YPG LP was a limited partnership, and as such, was not subject to income taxes whereas YPG LP's subsidiaries were subject to income tax. The difference between the statutory and the effective tax rates was primarily due to inter-company revenues which were not taxable when received by YPG LP.

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.

Share of losses from equity investees

During the third quarter we recorded our share of losses from our equity investments in the amount of \$6.8 million compared to \$3.5 million for the same period last year and \$11.7 million for the nine-month period ended September 30, 2010 compared to \$4.9 million for the same period last year. These losses include the amortization of intangible assets in connection with these equity investments.

Net earnings (loss)

Net earnings increased by \$243.2 million to \$74.7 million during the third quarter of 2010 and by \$195.9 million to \$276.4 million for the nine-month period ended September 30, 2010 compared with the same periods last year. The increase is mainly due to the impairment of goodwill that occurred in 2009 offset by higher depreciation and amortization following the business acquisitions in 2010 as well as the expenses incurred in connection with our conversion and rebranding efforts and the acquisition-related costs incurred in connection with the acquisitions of Canpages, RedFlagDeals.com, Restaurantica, 411.ca, Enquiro and Canadian Driver in 2010.

Summary of Consolidated Quarterly Results

Quarterly Results

(in thousands of Canadian dollars – except unit information)

	2010			2009 ¹				2008 ¹
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	\$428,570	\$420,382	\$408,131	\$405,679	\$408,318	\$417,534	\$408,353	\$425,559
Operating costs	202,612	192,490	188,350	186,382	182,109	193,465	184,490	194,020
Conversion and rebranding costs	4,441	7,950	3,651	-	-	-	-	-
Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges (EBITDA)	221,517	219,942	216,130	219,297	226,209	224,069	223,863	231,539
Depreciation and amortization	70,139	53,095	45,713	35,010	35,282	34,005	38,117	45,872
Acquisition-related costs	2,038	19,934	3,615	-	-	-	-	-
Impairment of goodwill	-	-	-	-	315,000	-	-	-
Restructuring and special charges	17,465	8,977	-	19,732	-	20,584	-	36,225
Income (loss) from operations	131,875	137,936	166,802	164,555	(124,073)	169,480	185,746	149,442
Net earnings (loss)	74,705	79,906	121,757	128,405	(168,515)	116,905	132,087	100,672
Basic earnings (loss) per unit	\$0.15	\$0.16	\$0.24	\$0.25	\$(0.33)	\$0.23	\$0.26	\$0.19
Diluted earnings (loss) per unit	\$0.12	\$0.14	\$0.21	\$0.21	\$(0.33)	\$0.19	\$0.21	\$0.17
Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges (EBITDA)	\$221,517	\$219,942	\$216,130	\$219,297	\$226,209	\$224,069	\$223,863	\$231,539
Conversion and rebranding costs	4,441	7,950	3,651	-	-	-	-	-
EBITDA before conversion and rebranding costs	\$225,958	\$227,892	\$219,781	\$219,297	\$226,209	\$224,069	\$223,863	\$231,539
EBITDA margin	51.7%	52.3%	53%	54.1%	55.4%	53.7%	54.8%	54.4%

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

Revenues for the fourth quarter of 2008 and throughout 2009 were lower quarter over quarter due to lower revenues in both segments being negatively impacted by adverse economic conditions and continued pressure on our print products with the exception of the second quarter of 2009 where revenues increased quarter over quarter due to the contribution from YPG USA and the seasonality in the Vertical Media segment. During 2010, revenues increased quarter over quarter reflecting the contribution of Dealer.com in our Vertical Media segment partly offset by lower print revenues in our Directories and Vertical Media segments. The revenues contributed by Canpages are largely offset by the reduction in revenues following our divestiture of YPG USA in the second quarter of 2010. Third quarter results include a full quarter of Canpages and Dealer.com results.

In 2008 and 2009, our EBITDA margins remained relatively stable despite the protracted economic downturn which affected our business in the back half of 2008 and throughout 2009. During 2010, we incurred conversion and rebranding costs resulting in a reduced EBITDA margin. If we exclude these costs, the EBITDA margin is consistent with that of 2009 with the exception of the third quarter of 2010. The negative impact of our lower revenues, especially in the Vertical Media segment was partly compensated by our cost containment initiatives. During the first and second quarters of 2010, we maintained a relatively stable EBITDA margin compared to the same periods in the previous year despite lower print revenues in the Directories segment due to our cost containment initiatives. The acquisition of Canpages in May 2010 results in a slightly lower EBITDA margin for the third quarter of 2010.

Net earnings (loss) were affected by the adverse economic conditions during the four quarters of 2009. In addition, internal reorganizations and cost containment initiatives resulted in restructuring and special charges impacting the fourth quarter of 2008, the second and fourth quarters of 2009 as well as the second and third quarters of 2010. 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, second and third quarters of 2010, net earnings were affected by depreciation and amortization of intangibles related to the acquisition of Dealer.com and Canpages.

Segmented Information – Directories

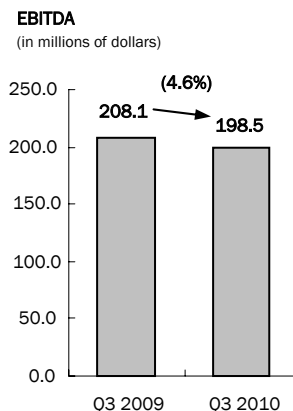
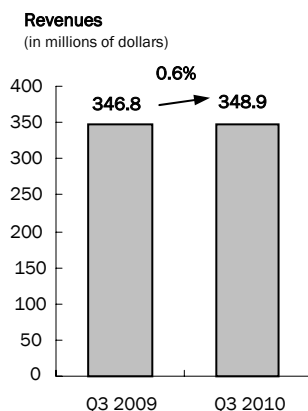
Operating and Financial Results

Operating Results¹

(in thousands of Canadian dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2010	2009	2010	2009
Revenues	\$348,946	\$346,794	\$1,024,665	\$1,046,653
Operating costs	146,014	138,662	418,509	427,971
Conversion and rebranding costs	4,441	-	16,042	-
Income from operations before depreciation and amortization, acquisition-related costs and restructuring and special charges (EBITDA)	198,491	208,132	590,114	618,682
Depreciation and amortization	47,623	24,690	102,218	85,716
Acquisition-related costs	1,960	-	25,509	-
Restructuring and special charges	15,845	-	24,822	15,161
Income from operations	\$133,063	\$183,442	\$437,565	\$517,805
Income from operations before depreciation and amortization, acquisition-related costs and restructuring and special charges (EBITDA)	\$198,491	\$208,132	\$590,114	\$618,682
Conversion and rebranding costs	4,441	-	16,042	-
EBITDA before conversion and rebranding costs	\$202,932	\$208,132	\$606,156	\$618,682

¹ See Note 16 - Segmented Information of the interim consolidated financial statements of the Company for the period ended September 30, 2010.



Analysis of Operating and Financial Results

Revenues

Revenues increased slightly to \$348.9 million compared with \$346.8 million for the quarter but decreased by 2.1% to \$1,024.7 million for the nine months ended September 30, 2010 due in part to a lower number of advertisers. As at September 30, 2010, the number of advertisers, excluding Canpages, was 368,000 compared to 389,000 as at September 30, 2009 reflecting a decrease of approximately 5%. Advertiser renewal was unchanged at 88% as at September 30, 2010 compared to the same period last year. During the last 12 months, YPG acquired 28,000 new advertisers. Although there was a reduction in the number of advertisers, the average revenue per advertiser (ARPA) remained stable at \$3,400 compared to the same period last year. As at September 30, 2010, our Revenue Generating Units¹ per advertiser was 1.70 compared to 1.66 for the same period last year. The increase in revenues for the quarter is due to the contribution of Canpages partially offset by the lower revenues following the sale of YPG USA and lower print revenues. The decline for the nine-month period ended September 30, 2010 is due to the impact of lower advertising sales in our print

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

directories. The level of revenues reflects challenging economic and market conditions which impacted the selling efforts over the last 12 months. Our objective of providing our customers with high quality leads through attractive print and online bundles continues to support increased online penetration of the print advertiser base and to drive strong internet revenue growth.

As of September 30, 2010, the number of advertisers, excluding Canpages, choosing to advertise both in print and online was 65% across Canada compared to 60.4% for the corresponding period last year.

EBITDA

EBITDA decreased by \$9.6 million to \$198.5 million during the third quarter of 2010 and decreased by \$28.6 million to \$590.1 million during the nine-month period ended September 30, 2010 compared with the same periods last year. If we exclude the costs associated with our conversion and rebranding, EBITDA decreased by 2.5% in the third quarter. For the nine-month period ended September 30, 2010 EBITDA decreased by 2% when we exclude conversion and rebranding costs due to lower revenues.

Cost of sales amounted to \$88.6 million in the third quarter of 2010 compared to \$84.9 million for the same period last year. In the first nine months of 2010, costs of sales amounted to \$251.9 million compared to \$259.2 million for the same period last year. The increase in the third quarter is due to costs associated with Canpages and the decrease for the nine-month period ended September 30, 2010 is mainly attributable to lower revenues combined with the results of our cost containment efforts including the creation of a centre of excellence in our publishing operations and savings from our supply chain.

Gross profit margin was lower at 74.6% in the third quarter of 2010 compared to 75.5% for the same period last year due to lower margins at Canpages. Gross profit for the nine-month period ended September 30, 2010 was stable at 75.4% compared to 75.2% for the same period last year.

General and administrative expenses in the third quarter of 2010 increased by \$8.1 million to \$61.9 million compared with the same period last year and increased by \$13.8 million to \$182.6 million during the nine-month period ended September 30, 2010 compared with the same periods last year. The conversion and rebranding costs amounted to \$4.4 million and \$16 million during the three-month and nine-month periods ended September 30, 2010, respectively. For the quarter, Canpages contributed additional expenses as it was acquired in May 2010.

Depreciation and amortization

Depreciation and amortization increased from \$24.7 million in the third quarter of 2009 to \$47.6 million in the third quarter of 2010. Over the first nine months of 2010, when compared to the same period last year, depreciation and amortization increased to \$102.2 million from \$85.7 million. The increase in the three and nine-month periods ended September 30, 2010 compared to the same periods last year is due to the amortization related to the acquisition of Canpages and Enquiro.

Acquisition-related costs

During the third quarter we recorded acquisition-related costs of \$2 million and \$25.5 million for the nine-month period ended September 30, 2010 as a result of our acquisition of Canpages, RedFlagDeals.com, Restaurantica and 411.ca. This includes \$0.6 million of transaction costs and \$1.4 million of restructuring and other charges for the three-month period ended September 30, 2010 and \$15.4 million of transaction costs and \$10.1 million of restructuring and other charges for the nine-month period ended September 30, 2010.

Restructuring and special charges

During the third quarter of 2010, we recorded restructuring and special charges relating to internal reorganization, workforce reduction, and business process changes associated with our newly created centres of excellence and other items amounting to \$15.8 million. During the nine month period ended September 30, 2010, we incurred \$24.8 million of restructuring and special charges.

Segmented Information – Vertical Media

Operating and Financial Results

Operating Results¹

(in thousands of Canadian dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2010	2009	2010	2009
Revenues	\$79,624	\$61,524	\$232,418	\$187,552
Operating costs	56,598	43,447	164,943	132,093
Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges (EBITDA)	23,026	18,077	67,475	55,459
Depreciation and amortization	22,516	10,592	66,729	21,688
Impairment of goodwill	-	315,000	-	315,000
Acquisition-related costs	78	-	78	-
Restructuring and special charges	1,620	-	1,620	5,423
Income (loss) from operations	\$(1,188)	\$(307,515)	\$(952)	\$(286,652)

¹ See Note 16 – Segmented Information of the interim consolidated financial statements of the Company for the period ended September 30, 2010.

Analysis of Operating and Financial Results

Revenues

Revenues from our Vertical Media segment increased by \$18.1 million to \$79.6 million during the third quarter of 2010 and increased by \$44.9 million to \$232.4 million during the nine-month period ended September 30, 2010 compared with the same periods last year. Prior to the increase in our investment in Dealer.com, the results of Dealer.com were not consolidated. Dealer.com contributed approximately \$21 million of revenues for the quarter and \$55 million for the nine-month period ended September 30, 2010. If we exclude the contribution from Dealer.com, revenues decreased by 4.9% in the third quarter and 5.7% for the nine month period ended September 30, 2010 due to lower print revenues. In our largest vertical, automotive, representing two-thirds of this segment's revenues, excluding Dealer.com, we have begun seeing positive trends in the marketplace as a result of the Dealer Smart Solutions offering. As at September 30, 2010, 3,300 unique advertisers had subscribed to our Dealer Smart Solutions out of a total of 7,700 commercial vehicle advertisers. Market conditions do, however, remain challenging in the real estate and generalist categories, which represent 19% and 11%, respectively of the segment's revenues, excluding Dealer.com. Revenues generated by our commercial vehicle advertisers excluding Dealer.com were relatively stable at \$33.3 million and \$97.4 million for the three-month and nine-month periods ended September 30, 2010, respectively, compared to \$32.8 million and \$97.1 million for the same periods last year. The ARPA in the commercial vehicle segment was \$4,300 as at September 30, 2010 compared to approximately \$3,800 as at September 30, 2009, resulting in a growth of 13% as a result of the roll-out of Dealer Smart Solutions.

EBITDA

EBITDA increased by \$4.9 million to \$23 million during the third quarter of 2010 and increased by \$12 million to \$67.5 million during the nine-month period ended September 30, 2010 compared with the same periods last year as a result of the contribution of Dealer.com.

Cost of sales increased by \$7 million to \$36.6 million during the third quarter of 2010 and increased by \$17 million to \$107 million during the nine-month period ended September 30, 2010 compared with the same periods last year. The increases are directly related to the contribution in revenues associated with Dealer.com.

Gross profit margin increased to 54.1% for the third quarter of 2010 compared to 51.9% for the same period last year and 53.9% for the nine month period ended September 30, 2010 compared to 51.9% for the same period last year reflecting the benefits associated with our cost containment initiatives.

General and administrative expenses increased to \$20 million in the third quarter of 2010 compared to \$13.8 million for the same period last year. For the nine-month period ended September 30, 2010, general and administrative expenses were \$57.8 million compared to \$42 million for the same period last year. The increases for the three-month and nine-month periods ended September 30, 2010 are mainly attributable to the acquisition of Dealer.com.

Depreciation and amortization

Depreciation and amortization amounted to \$22.5 million in the third quarter of 2010 compared to \$10.6 million for the same period last year and to \$66.7 million in the nine-month period ended September 30, 2010 compared to \$21.7 million for the same period last year. The increase for the quarter and the nine-month period ended September 30, 2010 relates to the amortization of certain intangible assets related to the acquisition of Dealer.com.

Acquisition-related costs

We recorded acquisition-related costs of \$0.1 million for the three and nine-month periods ended September 30, 2010.

Restructuring and special charges

During the third quarter of 2010, we recorded restructuring and special charges relating to internal reorganization, workforce reduction, the acceleration of business process changes in our centres of excellence and other items amounting to \$1.6 million.

4. Liquidity and Capital Resources

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

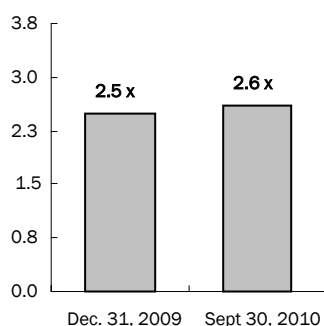
Financial Position

Capital Structure

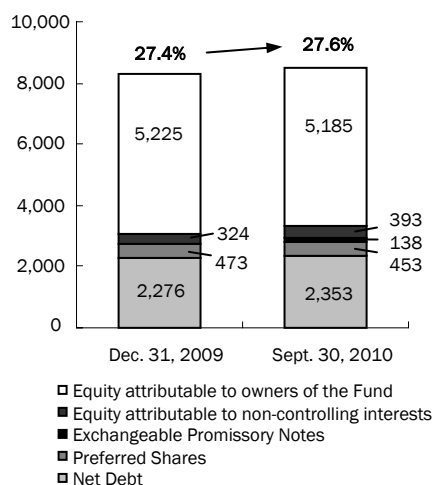
(in thousands of Canadian dollars)

	As at September 30, 2010	As at December 31, 2009
Cash and cash equivalents	\$43,967	\$36,170
Medium Term Notes	1,685,719	2,044,947
Exchangeable Debentures	-	83,886
Convertible Debentures	181,620	-
Credit facilities	100,000	100,000
Commercial paper	410,000	74,000
Obligations under capital leases and Other	20,069	9,027
Net debt (net of cash and cash equivalents)	\$2,353,441	\$2,275,690
Exchangeable Promissory Notes	137,986	-
Preferred shares, series 1 and 2	452,934	472,777
Equity attributable to owners of the Fund ¹	5,184,661	5,224,740
Equity attributable to non-controlling interests ¹	392,771	324,130
Total capitalization	\$8,521,793	\$8,297,337
Net debt to total capitalization	27.6%	27.4%

Net Debt to Latest Twelve Months EBITDA before conversion and rebranding costs² Ratio



Capital Structure
(in millions of dollars)



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, acquisition-related costs, impairment of goodwill, restructuring and special charges and conversion and rebranding costs ("Latest Twelve Month EBITDA before conversion and rebranding costs").

As at September 30, 2010, YPG had approximately \$2.4 billion of net debt, or \$2.9 billion including preferred shares, Series 1 and 2 and Exchangeable Promissory Notes which was higher than the positions as at December 31, 2009. The increase during the third quarter results from the completion of acquisitions and investments made in the Directories and Vertical segments in the first nine months of the year offset by positive operating free cash flow. The net debt to Latest Twelve Month EBITDA before conversion and rebranding costs¹ ratio as of September 30, 2010 was 2.6 times compared to 2.5 times as of December 31, 2009. The net debt to total capitalization was 27.6% compared to 27.4% as of December 31, 2009.

Medium Term Notes

During the first nine months of 2010, Yellow Media Inc. repurchased for cancellation an amount of \$56 million of the Series 3 Medium Term Notes, \$79.3 million of the Series 4 Medium Term Notes, and \$79.4 million of the Series 5 Medium Term Notes for a total cash consideration of \$200.1 million.

Exchangeable Debentures

The remaining balance of Exchangeable Debentures were redeemed by Yellow Media Inc. on August 2, 2010. As of September 30, 2010 no Exchangeable Debentures were outstanding.

Convertible Debentures

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

YPG was in compliance with all of its debt covenants as at September 30, 2010.

Credit facilities

On February 19, 2010, the Company increased its sources of liquidity by amending and extending the principal facility from \$700 million to \$1 billion. The principal facility is composed of a \$750 million revolving tranche and a \$250 million non-revolving tranche. The non-revolving tranche was available by way of single draw only on or before November 1, 2010. The principal facility now matures on February 18, 2013. As of September 30, 2010, no amount was drawn on the principal credit facility. As of November 3, 2010, an amount of \$250 million was drawn on the non-revolving tranche. Proceeds were used to fully repay the \$100 million 5-year revolving term loan (the Private Facility), to fund acquisitions related to the Mediative initiative as well as for general corporate purposes.

Exchangeable Promissory Notes

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

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

On October 15, 2010, the holders of the Notes monetized their investment through a resale of the Notes to a third-party financial institution. In order to facilitate this resale transaction and the orderly conversion of the Notes into common shares during the course of 2011, Yellow Media Inc. entered into a total return swap (TRS) transaction referencing the Notes with the same counterparty for a period ending December 31, 2011. Pursuant to the terms of the TRS, the 5% fixed interest rate under the Notes was converted to the floating rate of interest equal to the three-month Banker's Acceptance plus 1.75%. In addition, under the TRS, the counterparty as a holder of the Notes is expected to exchange 25% of the principal amount into underlying Yellow Media Inc. common shares at 95% of the prevailing market price, to be calculated using a volume weighted average price over a period of up to 20 days. In addition, Yellow Media Inc. may receive or pay under the TRS an adjustment amount to the extent that the value realized by the TRS counterparty on the exchange or redemption of the Notes exceeds or is less than the \$141.6 million principal amount of the Notes.

¹ Latest twelve month Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill, restructuring and special charges and conversion and rebranding costs ("Latest Twelve Month EBITDA before conversion and rebranding costs").

Cumulative Redeemable Preferred Shares

On June 8, 2010, Yellow Media Inc. received approval from the Toronto Stock Exchange on its notice of intention to renew its normal course issuer bid for its preferred shares, Series 1 and preferred shares, Series 2 through the facilities of the Toronto Stock Exchange from June 11, 2010 to no later than June 10, 2011, in accordance with applicable rules and regulations of the Toronto Stock Exchange.

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

For the first nine months of 2010, Yellow Media Inc. purchased for cancellation 604,748 preferred shares, Series 1 for a total cash consideration of \$15 million including brokerage fees at an average price of \$24.76 per share and 260,250 preferred shares, Series 2 for a total cash consideration of \$5.2 million including brokerage fees at an average price of \$20.17 per share. The carrying value of these preferred shares, Series 1 and Series 2 was \$14.9 million and \$6.4 million, respectively.

Since June 11, 2009, the total cost of repurchasing preferred shares amounted to \$33.9 million, including brokerage fees.

Credit Ratings

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

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 September 30, 2010, YPG maintained three credit facilities totalling \$1.1 billion, providing sufficient liquidity to fund its operations.

On September 30, 2010, cash and cash equivalents amounted to \$44 million. In addition to cash and cash equivalents, Yellow Media Inc. may issue additional notes amounting to \$90 million under its commercial paper program and access another \$500 million under its principal facility. Alternatively, if additional notes are not issued under the commercial paper program, Yellow Media Inc. may access the full \$590 million available under its principal facility.

Share and Unit data

As at November 3, 2010 outstanding unit data was as follows:

Outstanding Unit Data	As at November 3, 2010	As at September 30, 2010	As at December 31, 2009
Shares outstanding	513,047,789	-	-
Units outstanding	-	513,047,789	513,044,685
Options outstanding	380,882	380,882	383,986

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

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

No options were granted following the inception of the Fund.

As at November 3, 2010, Yellow Media Inc. also has a total of \$200 million of Convertible Debentures which are convertible at any time, at the option of the holder into common shares of the Company at an exchange price of \$8.00 per common share.

As at November 3, 2010, Yellow Media Inc. also has Notes that are exchangeable at the option of the holder into common shares of Yellow Media Inc. at the then prevailing market price starting January 1, 2011 and subject to certain conditions.

As at November 3, 2010, there were 11,309,786 preferred shares, Series 1 and 7,081,524 preferred shares, Series 2 outstanding. Both series of preferred shares are redeemable by the issuer under certain conditions through the issuance of shares of the Company.

As at November 3, 2010, there were 1,300,000 Series 7 preferred shares outstanding. This series of shares are exchangeable into shares of the Corporation, at a ratio of one preferred share for one common share subject to certain conditions.

Sources and Uses of Cash

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

Sources and Uses of Cash

(in thousands of Canadian dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2010	2009	2010	2009
Cash flow from operating activities				
Cash flow from operations	\$151,943	\$183,406	\$464,007	\$527,896
Change in operating assets and liabilities	(9,258)	(14,858)	1,610	23,557
	\$142,685	\$168,548	\$465,617	\$551,453
Cash flow used in investing activities				
Business acquisitions, net of cash acquired and bank indebtedness assumed	\$(7,255)	\$-	\$(95,397)	\$(25,189)
Acquisition of equity investment	(1,500)	-	(5,100)	(47,698)
Acquisition of intangible assets	(768)	-	(20,713)	(246)
Acquisition of investment	-	-	(1,756)	-
Acquisition of fixed assets	(19,642)	(7,686)	(44,954)	(32,488)
Proceeds from lease inducements	-	175	-	208
	\$(29,165)	\$(7,511)	\$(167,920)	\$(105,413)
Cash flow used in financing activities				
Issuance of long-term debt	\$22,918	\$493,000	\$577,918	\$1,192,300
Repayment of long-term debt	(77,747)	(571,975)	(236,169)	(1,183,855)
Distributions to unitholders	(100,402)	(102,041)	(302,088)	(386,724)
Repurchase of units	-	-	-	(13,382)
Repurchase of Preferred shares, series 1 and 2, and Medium Term Notes	(142,967)	(162,434)	(463,112)	(165,224)
Issuance of convertible debentures	200,000	-	200,000	-
Issuance of preferred shares, series 3	-	207,500	-	207,500
Other	(19,263)	(14,369)	(66,442)	(46,889)
	\$(117,461)	\$(150,319)	\$(289,893)	\$(396,274)

Cash flow from operating activities

Cash flow from operating activities decreased from \$168.5 million in the third quarter of 2009 to \$142.7 million in the third quarter of 2010 and from \$551.5 million in the nine-month period ended September 30, 2009 to \$465.6 million in the same period this year. Cash flow from operations decreased by \$31.5 million and \$63.9 million for the three-month and nine-month periods ended September 30, 2010, respectively. The decrease for the quarter and nine months ended September 30, 2010 reflects lower EBITDA contribution generated through our operations as a result of lower revenues. The increase in operating assets and liabilities for the third quarter of 2010 was \$5.6 million when compared to the same period last year and \$21.9 million decrease for the nine-month period ended September 30, 2010 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 5 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 increased during the third quarter of 2010 from \$7.5 million in 2009 to \$29.2 million in 2010 and from \$105.4 million in the nine-month period ended September 30, 2009 to \$167.9 million in the same period this year. In the first

nine months of 2009, the Company made an investment in Dealer.com, representing a total cash outflow of \$44.9 million. It also exercised an option to acquire the remaining 50% interest in LesPAC in which the Company already had a 50% interest representing a total cash outflow of \$25.2 million.

In the first nine months of 2010, the Company acquired an additional 10% interest in Dealer.com, a 60% interest in Enquiro, all of the shares of Canpages and acquired all of the operations of Restaurantica, RedFlagDeals.com and Canadian Driver for a cash consideration of \$95.4 million. In addition, the Company made equity investments in 411 Local Search Corp (411.ca) and Bignition for \$5.1 million. We also acquired the 411.ca brand for an amount of \$12.5 million in connection with the investment we made in 411.ca.

Acquisition of Fixed Assets, Net of Lease Inducements

(in thousands of Canadian dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2010	2009	2010	2009
Transition capital	\$2,176	\$1,239	\$6,273	\$5,738
Maintenance	3,575	3,521	10,725	10,740
New initiatives	8,183	3,861	21,822	14,269
Building and leasehold improvements, net of lease inducements	8,661	1,627	9,869	2,338
Total	\$22,595	\$10,248	\$48,689	\$33,085
Adjustment to reflect expenditures on a cash basis	(2,953)	(2,737)	(3,735)	(805)
Acquisition of fixed assets, net of lease inducements	\$19,642	\$7,511	\$44,954	\$32,280

Transition capital expenditures relate to the continued transformation of the technology we acquired from the directory assets of Volt Information Sciences, Inc as well as its directory publishing operations (collectively Volt) in September 2008.

Maintenance capital expenditures remained stable at \$3.6 million in the third quarter of 2010 compared to the same period last year and at \$10.7 million for the nine-month period ended September 30, 2010 compared with the same period last year.

Capital spending for new initiatives increased to \$8.2 million in the third quarter compared with \$3.9 million in the third quarter of 2009 and to \$21.8 million for the nine-month period ended September 30, 2010 compared with \$14.3 million for the same period last year. The increase was driven by the launch of new product initiatives such as Search Engine Solutions, Dealer Smart Solutions and Deal of the Day, as well as projects of Dealer.com.

In the third quarter of 2010, we incurred \$8.7 million related to premises of Dealer.com resulting from their acquisition of a building.

Total capital expenditures for the third quarter of 2010 amounted to \$22.6 million and were in line with expectations.

Cash flow used in financing activities

Cash used in financing activities decreased by \$32.9 million during the third quarter of 2010 from \$150.3 million for the same period last year and by \$106.4 million during the nine-month period ended September 30, 2010 from \$396.3 million for the same period last year as we repaid less debt during the quarter and nine-month period ended September 30, 2010 compared to 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 \$1.6 million in the third quarter of 2010 and by \$84.6 million for the nine month period ended September 30, 2010 compared to the same period last year. In addition, the Company purchased Preferred shares Series 1 and 2 and Medium Term Notes and redeemed the remaining Exchangeable Debentures for \$143 million during the three-month period ended September 30, 2010 and \$463.1 million in the nine-month period ended September 30, 2010 compared to \$162.4 million and \$165.2 million for the same periods last year, respectively.

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, convertible debentures, preferred shares and interest rate derivatives.

Derivative Instruments

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

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

As at September 30, 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 76% fixed rate as at September 30, 2010. While the counterparties of these agreements expose YPG to credit losses in the event of non-performance, we believe that the possibility of incurring such losses is unlikely. This is due to the creditworthiness of all counterparties, all of whom are highly-rated Canadian chartered banks.

On October 15, 2010, the holders of the Notes monetized their investment through a resale of the Notes to a third-party financial institution. In order to facilitate this resale transaction and the orderly conversion of the Notes into common shares during the course of 2011, Yellow Media Inc. entered into a total return swap (TRS) transaction referencing the Notes with the same counterparty for a period ending December 31, 2011. Pursuant to the terms of the TRS, the 5% fixed interest rate under the Notes was converted to the floating rate of interest equal to the three-month Banker's Acceptance plus 1.75%. In addition, under the TRS, the counterparty as a holder of the Notes is expected to exchange 25% of the principal amount into underlying Yellow Media Inc. common shares at 95% of the prevailing market price, to be calculated using a volume weighted average price over a period of up to 20 days. In addition, Yellow Media Inc. may receive or pay under the TRS an adjustment amount to the extent that the value realized by the TRS counterparty on the exchange or redemption of the Notes exceeds or is less than the \$141.6 million principal amount of the Notes.

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

The carrying value of outstanding interest rate derivatives was an asset of \$4.6 million and the carrying value of embedded derivatives was an asset of \$3.8 million on September 30, 2010. The carrying value is calculated as is customary in the industry using discounted cash flows with quarter-end market rates. For the third quarter of 2010, we reported an unrealized gain of \$2.1 million (2009 - \$3 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.

5. Distributable Cash

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

Distributable Cash

(in thousands of Canadian dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30	
	2010	2009	2010	2009
Cash flow from operating activities	\$142,685	\$168,548	\$465,617	\$551,453
Operating non-cash items ¹	(850)	(7,363)	(3,128)	(10,784)
Change in operating assets and liabilities ²	9,258	14,858	(1,610)	(23,557)
Maintenance capital expenditures ³	(3,575)	(3,521)	(10,725)	(10,740)
Acquisition-related costs ⁴	2,038	-	25,587	-
Restructuring and special charges ⁵	17,465	-	26,442	20,584
Conversion and rebranding costs ⁶	4,441	-	16,042	-
Other ⁷	5,487	6,677	15,402	14,342
Distributable cash	\$176,949	\$179,199	\$533,627	\$541,298
Weighted average number of units outstanding	501,815,664	510,030,789	503,333,857	511,994,035
Distributable cash per unit ⁸	\$0.35	\$0.35	\$1.06	\$1.06
Distributions declared	\$100,402	\$102,041	\$302,088	\$370,568
Distributions declared per unit	\$0.20	\$0.20	\$0.60	\$0.72
Payout ratio ⁹	57%	57%	57%	68%

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 Company'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 Company's early adoption of Section 1582, *Business Combinations* on January 1, 2010, these expenses would have been included in the purchase price of such acquisitions.

⁵ Restructuring and special charges are excluded from the calculation as they do not reflect the ongoing operations of the business.

⁶ Conversion and rebranding costs are excluded as they do not reflect the ongoing operations of the business.

⁷ 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.

⁸ Please refer to Section 3 – Highlights by Segment for the calculation of Basic earnings per unit.

⁹ The level of distributions paid is reviewed periodically to take into account the current and prospective performance of the business and other items considered to be prudent. See the section Distribution Policy.

Distributable Cash

(in thousands of Canadian dollars)

	Three-month period ended September 30,	Nine-month period ended September 30,	Previously completed fiscal years	
	2010	2010	2009 ¹	2008 ¹
Cash flow from operating activities	\$142,685	\$465,617	\$750,187	\$692,356
Net earnings	\$74,705	\$276,368	\$208,882	\$509,966
Actual cash distributions declared	\$(100,402)	\$(302,088)	\$(471,897)	\$(599,930)
Excess of cash flows from operating activities over cash distributions declared	\$42,283	\$163,529	\$278,290	\$92,426
Shortfall of net earnings over cash distributions declared	\$(25,697)	\$(25,720)	\$(263,015)	\$(89,964)

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

Distributions exceeded net earnings by \$25.7 million for the three-month period ended September 30, 2010 and \$25.7 million for the nine-month period ended September 30, 2010. The Company does not use net earnings as a basis to calculate distributions.

Cash distributions declared were lower than distributable cash resulting in a payout ratio of 57% for the three-month period ended September 30, 2010 and 57% for the nine-month period ended September 30, 2010.

Distributable cash

Distributable cash decreased from \$179.2 million in the third quarter of 2009 to \$176.9 million in the third quarter of 2010 and from \$541.3 million in the nine-month period ended September 30, 2009 to \$533.6 million for the same period this year. The decrease is mainly due to lower EBITDA for the first nine months of 2010.

Distributable cash per unit remained unchanged at \$0.35 in the third quarter of 2010 compared to the same period last year. For the first nine months of 2010, it was unchanged at \$1.06 compared to the same period last year.

The Fund's cumulative distributable cash since its Initial Public Offering (IPO) in August of 2003 to September 30, 2010 is approximately \$4.2 billion, or \$8.79 per unit. Total distributions declared during the same period reached approximately \$3.3 billion, or \$7 per unit representing a cumulative payout ratio of 79.6%.

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

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 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, Convertible Debentures and Notes do not provide for any contractual limitations on the distribution of cash.

Distributions declared per unit

Distributions declared per unit was \$0.60 in the first nine-month period of 2010 compared with \$0.72 for the same period in 2009.

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 8 – 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.

6. Outlook

Each year, we establish targets to advance our goals and drive results through execution of initiatives to maximize revenue growth and cash flow generation in both our platforms. These targets have been established and are periodically reviewed through our ongoing business planning process. For fiscal 2011, please refer to our corresponding section in the MD&A for the period ended June 30, 2010.

7. 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 including transaction costs and restructuring costs are expensed rather than capitalized.

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

- in the consolidated balance sheets and consolidated statements of equity, non-controlling interests are now presented as a separate component of equity as opposed to a separate item on the balance sheet outside of equity;
- non-controlling interests are no longer recorded as a deduction in calculating net earnings and total comprehensive income. Instead, net earnings and each component of other comprehensive income are attributed to the 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 nine months of 2010 for which acquisition-related costs amounting to \$25.6 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, we will issue our last financial statements prepared in accordance with Canadian GAAP in 2010. Starting from the first quarter of 2011, our financial statements will be prepared in accordance with IFRS with 2010 comparative figures and January 1, 2010 (date of transition) opening balance sheet restated to conform to IFRS.

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

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

Current status of our IFRS changeover plan

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

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

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

Major differences with current accounting policies

Employee Benefits – Past service cost

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

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

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

Income Taxes – Temporary differences on intangible assets

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

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

Impact on the Company – As at December 31, 2009, in order to comply with IFRS, we would have had to increase future income tax liabilities by approximately \$96 million to account for temporary differences currently excluded on the 25 percent adjustment of the carrying amount of eligible capital expenditures. This increase will be recorded through an opening retained earnings adjustment on date of transition.

Impairment – Grouping of assets

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

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

Impact on the Company – As a result of the different asset grouping required under IFRS, intangible assets in our Vertical Media segment will need to be impaired by an amount of \$2.4 million as at December 31, 2009. The impairment described above will be recorded through an opening retained earnings adjustment on date of transition. No other impairment of either goodwill or other long-lived assets subject to impairment testing will need to be recorded in the opening balance for both Directories and Vertical Media segments.

Key IFRS 1 Exemption Options

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

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

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

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

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

Impact on the Company – As at December 31, 2009, we 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.

8. Risks and Uncertainties

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

9. Controls and Procedures

Management including the President and Chief Executive Officer and the Executive Vice President – Corporate Services and Chief Financial Officer have determined that there were no changes to the internal control over financial reporting during the quarter ended September 30, 2010 that would materially affect or are reasonably likely to materially affect its internal control over financial reporting.