

CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW PAGES INCOME FUND

December 31, 2009

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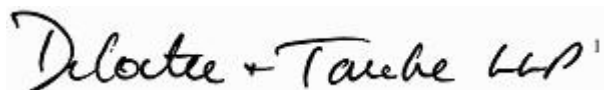
Auditors' Report

To the Unitholders of Yellow Pages Income Fund

We have audited the consolidated balance sheets of Yellow Pages Income Fund (the "Fund") as at December 31, 2009 and 2008 and the consolidated statements of earnings, comprehensive income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Montreal, Québec
February 3, 2010

¹ Chartered accountant auditor permit n° 10800

Consolidated Balance Sheets**As at December 31,**

(in thousands of Canadian dollars)

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 36,170	\$ 25,054
Accounts receivable	215,356	249,786
Prepaid expenses	6,480	11,596
Deferred publication costs and other assets	130,844	140,741
Future income taxes (Note 14)	28,812	43,723
	417,662	470,900
DEFERRED PUBLICATION COSTS	8,358	12,068
FIXED ASSETS (Note 4)	95,425	104,642
OTHER ASSETS (Note 5)	38,088	2,315
DERIVATIVE FINANCIAL INSTRUMENTS	2,612	4,500
INTANGIBLES (Note 6)	2,008,499	2,102,466
GOODWILL (Note 7)	6,342,580	6,648,667
FUTURE INCOME TAXES (Note 14)	28,382	20,661
	\$ 8,941,606	\$ 9,366,219
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 8)	\$ 204,325	\$ 209,284
Distributions payable	34,220	50,709
Deferred revenues	110,402	112,364
Derivative financial instruments	76	-
Future income taxes (Note 14)	34,248	-
Current portion of long-term debt (Note 10)	2,254	3,807
	385,525	376,164
DEFERRED CREDITS	23,452	26,143
FUTURE INCOME TAXES (Note 14)	106,253	117,114
ACCRUED BENEFIT LIABILITIES (Note 9)	94,404	78,197
DERIVATIVE FINANCIAL INSTRUMENTS	719	3,974
LONG-TERM DEBT (Note 10)	2,225,720	2,420,049
EXCHANGEABLE DEBENTURES (Note 11)	83,886	285,470
PREFERRED SHARES (Note 12)	472,777	489,072
NON-CONTROLLING INTEREST (Note 13)	324,130	8,544
COMMITMENTS, CONTINGENCIES AND GUARANTEES (Notes 21 and 26)		
UNITHOLDERS' EQUITY	5,224,740	5,561,492
	\$ 8,941,606	\$ 9,366,219

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

Approved on behalf of the Fund by



Marc L. Reisch, Trustee



Stuart H.B. Smith, Trustee

Consolidated Statements of Earnings**For the years ended December 31,**

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

	2009	2008
Revenues	\$ 1,639,884	\$ 1,696,713
Operating costs	746,446	764,007
Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges	893,438	932,706
Depreciation and amortization	142,414	186,065
Impairment of goodwill (Note 7)	315,000	–
Restructuring and special charges (Note 23)	40,316	36,225
Income from operations	395,708	710,416
Financial charges, net (Note 22)	114,600	142,261
Impairment of available-for-sale investment	–	4,775
Earnings before dividends on Preferred shares, income taxes, share of losses from equity investees and non-controlling interests	281,108	563,380
Dividends on Preferred shares, series 1 and 2	22,427	22,750
Earnings before income taxes, share of losses from equity investees and non-controlling interests	258,681	540,630
Provision for income taxes (Note 14)	42,710	30,664
Share of losses from equity investees	7,089	–
Earnings before non-controlling interests	208,882	509,966
Non-controlling interest related to investments	552	739
Dividends on Preferred shares, series 3 and 5	4,075	–
Net earnings	\$ 204,255	\$ 509,227
Basic earnings per unit	\$ 0.40	\$ 0.97
Weighted average number of units outstanding used in computing earnings per unit (Note 18)	510,658,375	523,444,129
Diluted earnings per unit	\$ 0.36	\$ 0.89
Weighted average number of units outstanding used in computing diluted earnings per unit (Note 18)	612,387,219	614,710,805

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

Consolidated Statements of Comprehensive Income

For the years ended December 31,

(in thousands of Canadian dollars)

	2009	2008
Net earnings	\$ 204,255	\$ 509,227
Other comprehensive income (loss), net of related income taxes:		
Net gains (losses) on derivatives designated as cash flow hedges ¹	151	(4,616)
Net loss (gain) on derivatives designated as cash flow hedges in prior periods transferred to earnings in the year ²	3,507	(306)
Change in gains and losses on derivatives designated as cash flow hedges	3,658	(4,922)
Unrealized gain (loss) on available-for-sale investment in the year ³ (Note 5)	418	(3,414)
Unrealized loss on available-for-sale investment transferred to earnings in the year	-	4,775
Change in unrealized gains and losses on available-for-sale investment	418	1,361
Unrealized (losses) gains on translating financial statements of self-sustaining foreign operations and foreign investees	(15,941)	12,060
Other comprehensive (loss) income	(11,865)	8,499
Comprehensive income	\$ 192,390	\$ 517,726

¹ Net of income taxes of \$66 (2008 – \$2 million).

² Net of income taxes of \$1.4 million (2008 – \$125).

³ Net of income taxes of nil (2008 – nil).

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

Consolidated Statements of Unitholders' Equity

For the years ended December 31, 2009 and 2008

(in thousands of Canadian dollars)

	Unitholders' Capital (Note 15)	Equity Component of Exchangeable Debentures	Restricted Units	Contributed Surplus	Accumulated Other Comprehen- sive Income (Loss) (Note 17)	Deficit	Total
Balance,							
December 31, 2007	\$ 6,321,471	\$ 12,542	\$ (35,397)	\$ 22,098	\$ 632	\$ (535,166)	\$ 5,786,180
Issuance of units (Note 15)	6,422	-	-	-	-	-	6,422
Repurchase of units (Note 19)	(183,477)	-	-	49,918	-	-	(133,559)
Restricted units (Note 19)	-	-	(24,103)	8,756	-	-	(15,347)
Restricted units vested (Note 19)	-	-	1,197	(1,197)	-	-	-
Distributions (Note 16)	-	-	-	-	-	(599,930)	(599,930)
Other comprehensive income	-	-	-	-	8,499	-	8,499
Net earnings for the year	-	-	-	-	-	509,227	509,227
Balance,							
December 31, 2008	6,144,416	12,542	(58,303)	79,575	9,131	(625,869)	5,561,492
Issuance of units (Note 15)	43	-	-	-	-	-	43
Repurchase of units (Note 15)	(82,420)	-	-	52,972	-	-	(29,448)
Purchase of exchangeable debentures (Note 11)	-	(8,924)	-	8,924	-	-	-
Restricted units (Note 19)	-	-	(29,786)	1,946	-	-	(27,840)
Restricted units vested (Note 19)	-	-	15,191	(15,191)	-	-	-
Distributions (Note 16)	-	-	-	-	-	(471,897)	(471,897)
Other comprehensive loss	-	-	-	-	(11,865)	-	(11,865)
Net earnings for the year	-	-	-	-	-	204,255	204,255
Balance,							
December 31, 2009	\$ 6,062,039	\$ 3,618	\$ (72,898)	\$ 128,226	\$ (2,734)	\$ (893,511)	\$ 5,224,740

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

Consolidated Statements of Cash Flows

For the years ended December 31,

(in thousands of Canadian dollars)

	2009	2008
OPERATING ACTIVITIES		
Net earnings	\$ 204,255	\$ 509,227
Items not affecting cash and cash equivalents:		
Depreciation and amortization	142,414	186,065
Impairment of goodwill	315,000	–
Amortization and write-off of deferred financing costs	9,279	7,186
Accretion on Exchangeable Debentures	2,444	2,377
Impairment of available-for-sale investment	–	4,775
Net benefit plan costs	16,207	12,755
Non-cash derivative financial instruments	(368)	(200)
Stock compensation expense	1,946	8,756
Gain on purchase of Preferred shares, series 1 and 2, Medium Term Notes and Exchangeable Debentures	(42,763)	–
Future income taxes (Note 14)	29,774	18,945
Non-controlling interest related to investments	552	739
Dividends on Preferred shares, series 3 and 5	4,075	–
Share of losses from equity investees	7,089	–
Other non-cash items	445	(4,335)
Change in operating assets and liabilities (Note 20)	59,838	(53,934)
	750,187	692,356
INVESTING ACTIVITIES		
Acquisition of equity investments (Note 5)	(47,698)	–
Business acquisitions, net of cash acquired and bank indebtedness assumed (Note 3)	(25,189)	(212,125)
Acquisition of fixed assets	(44,428)	(43,423)
Acquisition of intangibles	(246)	(100)
Proceeds from lease inducements	863	266
	(116,698)	(255,382)
FINANCING ACTIVITIES		
Issuance of long-term debt	1,621,300	424,055
Repayment of long-term debt	(1,443,844)	(141,866)
Distributions to unitholders	(488,386)	(599,431)
Distributions to non-controlling interest	(1,634)	(2,417)
Proceeds from exercise of options (Note 15)	43	2,284
Purchase of Preferred shares, Series 1 and 2, Medium Term Notes and Exchangeable Debentures	(538,492)	–
Issuance of Preferred shares, series 3 and 5 (Note 13)	332,500	–
Dividends on Preferred shares, series 3	(3,722)	–
Repurchase of units (Note 15)	(40,905)	(122,102)
Purchase of restricted units (Note 19)	(29,786)	(24,103)
(Payments made) proceeds received from derivative financial instruments (Note 24)	(3,403)	560
Debt and preferred share issuance and other costs	(25,089)	(2,294)
	(621,418)	(465,314)
Effect of exchange rates changes on cash and cash equivalents denominated in foreign currencies	(955)	119
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,116	(28,221)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	25,054	53,275
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 36,170	\$ 25,054
Supplemental disclosure of cash flow information (Note 20)		

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

1. Description of the Fund

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario on June 25, 2003 by a declaration of trust and amended by amended and restated declarations. The Fund has been created to invest, through the Trust, a wholly-owned trust, in partnership units of YPG LP and shares of YPG GP, the general partner of YPG LP. YPG LP, through subsidiaries, operates print and online directories and classified advertising in all the Provinces of Canada and also operates independent directories in selected Mid-Atlantic and Southeast American markets.

References herein to the Fund represent the financial position, results of operations, cash flows and disclosures of the Fund and its subsidiaries on a consolidated basis.

2. Significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Adoption of new accounting policies

The following standards were adopted effective January 1, 2009.

a) Section 3064, *Goodwill and intangible assets*, replacing Section 3062, *Goodwill and other intangible assets* and Section 3450, *Research and development costs*. This Section, effective January 1, 2009, establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets including intangible assets developed internally. The provisions of this Section were adopted retrospectively. The adoption of this Section did not have a significant impact on the consolidated financial statements of the Fund or on the carrying value of the goodwill, deferred publication costs, internally developed software and other intangible assets.

b) Emerging Issues Committee ("EIC") EIC 173, *Credit risk and the fair value of financial assets and financial liabilities*. This Abstract concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities including derivative instruments. This Abstract is to apply to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this Abstract did not have a significant impact to the Fund's consolidated financial statements.

c) Section 3862, *Financial Instruments – Disclosures*. In June 2009, the CICA amended Section 3862 to improve fair value and liquidity risk disclosures. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs used in a valuation technique are not based on observable market data in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The Fund has also enhanced the liquidity disclosures by including the sources of funding. The additional disclosures required as a result of the adoption of these standards are included in the notes to the consolidated financial statements (Note 24).

Principles of consolidation

The Fund's consolidated financial statements include the accounts of the Trust, YPG LP, YPG GP, Yellow Media Inc. (formerly YPG Holdings Inc.), Yellow Pages Group Co. ("YPG Co."), Snap Guides Inc., Vertical Guides Limited Partnership ("Vertical Guides LP"), Trader Corporation ("Trader"), LesPAC s.e.n.c. ("LesPAC"), and those of YPG (USA) Holdings, Inc., Yellow Pages Group, LLC and YPG Directories, LLC (collectively "YPG USA"). All intercompany transactions and balances have been eliminated.

Cash and cash equivalents

Cash and cash equivalents consist of funds on deposit and, from time to time, highly liquid investments with a purchased maturity of three months or less. Cash and cash equivalents are presented at fair value and changes are recorded in Financial Charges.

Investments

Investments – equity method

The equity method is used to account for investments in companies in which the Fund has significant influence. These investments are presented in Other Assets. The Fund's share of earnings is recorded separately net of income taxes in the Consolidated Statement of Earnings.

Investment – available-for-sale

The investment is recorded at fair value, with changes reported through other comprehensive income in each period. The Fund monitors its investment for other than temporary declines in fair value and charges impairment losses to net earnings when other than a temporary decline in estimated fair value occurs.

Revenues

The Fund recognizes revenue for both segments based on the principles below only when fees charged are fixed or determinable, the Fund's customers understand the specific nature and terms of the agreed-upon transactions and collectibility is reasonably assured.

Directories

Revenues are earned through the sale of telephone directory advertising. Advertising revenues are generally billed, in accordance with the contractual terms with advertisers, and recognized on a monthly basis over the estimated life of the print directory or electronic directory advertising, not exceeding twelve months, or in the case of certain alphabetical directories, not exceeding twenty-four months, commencing with the delivery or display date. Amounts billed up front for the directories are deferred and recognized over the estimated life of the corresponding directories in circulation, not exceeding twelve months, or in the case of certain alphabetical directories, not exceeding twenty-four months.

Vertical Media

Private and commercial classified advertisements and display advertisements are published on a weekly and monthly basis for which revenues are recognized at the time the advertisements are published. Revenues related to advertisements appearing on multiple occasions are deferred and recognized during the period the advertisements are displayed.

Circulation revenues, net of returns, are recognized on a weekly basis at the time the publications are delivered to customers. Circulation revenues are earned primarily upon the delivery of magazines by independent distributors to retail outlets.

Deferred publication costs

Direct and incremental costs incurred for sales, manufacturing and distribution of directories not yet published or displayed are deferred. Upon publication or display, these costs are amortized over the same period in which the related revenues are recognized.

Fixed assets

Fixed assets are recorded at cost and are depreciated over their expected useful lives using the straight-line method as follows:

Office equipment	10 years
Computer equipment	3 years
Other equipment	3 - 12 years
Leasehold improvements	Over the terms of the various leases

Assets under development consist primarily of internally developed software that is not amortized until the assets are available for use at which time they will be reclassified in software and amortized over its expected useful life.

Intangibles

Intangible assets developed internally (consisting of software used by the company) are recognized to the extent the criteria in CICA Section 3064, *Goodwill and Intangible Assets* are met. Development costs for internally generated intangible assets are recognized at cost if and only if the Fund can demonstrate:

- the technical feasibility of completing the asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-developed intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-developed intangible asset can be recognized, development expenditure is charged to the statement of earnings in the period in which it is incurred.

Internally developed intangibles include the cost of software tools and licenses used in the development of the Fund's systems, as well as all directly attributable payroll and consulting costs. These items are not amortized until the assets are available for use.

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Intangible assets acquired in a business combination are identified and recognized separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the date of acquisition.

Intangibles assets are amortized, unless their useful lives are indefinite. Intangibles with finite lives are amortized as follows:

Non-competition agreements and logos	Straight-line over life of agreement
Customer contracts	Pro rata based on related revenues, not exceeding 12 months
Customer relationships	Pro rata based on related revenues, not exceeding 24 months
Trademark related to Advertising Directory Solutions Holdings Inc. (“ADS”)	Straight-line over 6 years
Domain names related to ADS	Straight-line over 18 years
Software	Straight-line over 3 years

Certain trademarks and domain names are considered intangible assets with indefinite lives and are not amortized; however, they are assessed for impairment annually or more frequently if circumstances change, on the basis of their fair values. Fair value is determined using discounted expected future cash flows.

Impairment of long-lived assets

Long-lived assets with finite lives are reviewed when events or changes in circumstances cause their carrying value to exceed the total undiscounted cash flows expected from their use and eventual disposition. The impairment loss is calculated by deducting the fair value of the asset from its carrying value.

Goodwill

Goodwill represents the excess of the cost of an acquired enterprise over the net of the amounts assigned to assets acquired and liabilities assumed less any subsequent writedowns for impairment. Goodwill is not amortized and is assessed for impairment annually on December 31 or more frequently should an event or change in circumstances indicate that the asset might be impaired. Goodwill impairment is assessed based on a comparison of the fair value of a reporting unit to the underlying carrying value of the reporting unit’s net assets, including goodwill. When the carrying amount of the reporting unit exceeds its fair value, a more detailed goodwill impairment assessment must be undertaken. A goodwill impairment loss is recognized to the extent that the carrying value of goodwill exceeds its implied fair value. The implied fair value of goodwill is estimated in the same manner as goodwill is determined at the date of acquisition in a business acquisition, that is, the excess of the fair value of the reporting unit over the fair value of its identifiable assets and liabilities.

Employee benefit plans

The Fund maintains pension plans with defined benefit and defined contribution components which cover substantially all of the employees of the Fund. On April 30, 2007, pursuant to the acquisition of Aliant Directory Services (“Aliant”), YPG Co. became the sponsor of the Aliant defined benefit plan. On December 19, 2008, the merger of the Aliant Actimedia pension plan and the YPG Co. pension plan was approved by pension authorities effective April 30, 2007. The Fund also maintains unfunded supplementary defined benefit pension plans for certain executives and other retirement and post-employment benefits plans which cover substantially all employees of the Fund.

The Fund accrues its obligations for employee benefit plans. The cost of pensions and other retirement benefits earned by employees is actuarially determined using:

- the projected benefit method, pro rated on service;
- a discount rate based on market interest rates on high-quality debt instruments with cash flows that match the timing and amounts of expected benefit payments; and
- management’s best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected healthcare costs.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the remaining service period of active employees with a weighted average of 16 years at period end. The expected return on plan assets is based on the expected long-term rate of return on plan assets

which are measured at fair value. The Fund uses a December 31 measurement date for the plans. A valuation is performed at least every three years to determine the actuarial present value of the accrued pension and other employee future benefits for funding purposes. The latest actuarial valuations were performed as at December 31, 2008 for the pension benefit plans, and as at December 31, 2007 for other retirement and post-employment benefit plans. The next valuations for funding purposes will be performed no later than December 31, 2011 for the pension benefit plan. The next valuation for other retirement and post-employment benefit plans will be performed as at December 31, 2010.

Stock-based compensation plans

The Fund uses the fair value method of accounting for all Restricted Units and stock options granted, as described in Note 19, whereby a compensation expense is recognized over the vesting period of all stock-based compensation awards and where applicable, based on the best available estimates of the outcome of the performance conditions.

Foreign currency translation

Transactions in foreign currencies are translated into Canadian dollars at rates in effect at the date of the transaction. At the balance sheet date, monetary foreign currency assets and liabilities are translated at exchange rates then in effect. The resulting translation gains or losses are recognized in the determination of earnings.

In addition, the Fund complies with section 1651, *Foreign Currency Translation* for its US operations. This section establishes standards for the translation of transactions of a reporting company that are denominated in a foreign currency and financial statements of a foreign operation for incorporation in the financial statements of a reporting company. The self-sustaining operations, with economic activities largely independent of the parent company, are accounted for using the current rate method. Under this method, assets and liabilities of subsidiaries denominated in a foreign currency are translated into Canadian dollars at exchange rates in effect at the balance sheet date. Revenue and expenses are translated at average exchange rates prevailing during the year. Resulting unrealized gains or losses are accumulated and reported as a net change in unrealized gain on translating financial statements of self-sustaining foreign operations in the Consolidated Statements of Comprehensive Income. The accounts of the foreign operation, which is financially or operationally dependent on the parent company, is accounted for using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date, and non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses (other than depreciation and amortization, which are translated at the corresponding asset rates) are translated at average rates for the year. Translation exchange gains or losses of such subsidiaries are reflected in net earnings.

Income taxes

The Fund is a mutual fund trust for income tax purposes. As such, the Fund is currently only taxable on any amount not distributed to Unitholders and income tax liabilities relating to distributions of the Fund are taxed in the hands of the Unitholders. As substantially all taxable income is distributed to the Unitholders, minimal provision for current income taxes on earnings of the Fund is made in the financial statements. On June 12, 2007, the Canadian federal government substantively enacted legislation whereby the income tax rules applicable to publicly traded trusts and partnerships was significantly modified. In particular, income earned by these entities will be taxed in a manner similar to income earned and distributed by a corporation. The legislation is effective for the 2007 taxation year, but the application of the rules is delayed to the 2011 taxation year with respect to trusts that were publicly traded prior to November 1, 2006, within certain guidelines. For the Fund, only temporary differences expected to reverse after January 1, 2011 are taken into account in the determination of the provision for income taxes.

The Fund uses the liability method of tax allocation in accounting for income taxes of its subsidiaries and for the Fund starting on June 12, 2007 for temporary differences expected to reverse on or after January 1, 2011. Under this method, temporary differences between the carrying amount of balance sheet items and their corresponding tax basis result in either future income tax assets or liabilities. Future income taxes are computed using substantively enacted tax rates applicable to the years in which the differences are expected to reverse. Future income tax assets are only recognized to the extent that, in the opinion of management, they will more likely than not be realized. The enactment of the new legislation did not have a significant impact on the Fund's consolidated financial statements.

Leases

Leases are classified as either capital or operating in nature. Capital leases are those which substantially transfer the benefits and risks of ownership to the lessee. Assets acquired under capital leases are amortized over their expected useful lives using the straight-line method. Obligations recorded under capital leases are reduced by the principal portion of lease payments. The imputed interest portion of lease payments is charged to expense.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Significant items requiring the use of management estimates relate to the determination of collectibility of accounts receivable, valuation of intangibles, impairment of assets, pension and other employee benefits, useful lives for amortization, future income taxes, long-term incentive plans, the restructuring and special charges provision, the fair value of financial instruments and purchase price allocations. These estimates are revised periodically. Actual results may differ materially from the above estimates.

Financial Instruments

Financial assets and liabilities are initially recorded at fair value. Subsequently, financial instruments classified as financial assets available for sale, held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value on the balance sheet at each reporting date, whereas other financial instruments are measured at amortized cost using the effective interest method.

The Fund has made the following classifications:

- Cash and cash equivalents are classified as financial assets held for trading and are measured at fair value. Changes in fair value are recorded in net earnings.
- Other than temporary investments will be classified as either financial assets held to maturity and will be measured at amortized cost or as available-for-sale and will be marked-to-market through comprehensive income at each balance sheet date.
- Accounts receivable are classified as loans and receivables and are recorded at amortized cost.
- Accounts payable and accrued liabilities, distributions payable, long-term debt, Exchangeable Debentures, and Preferred shares, Series 1 and 2 are classified as other liabilities and measured at amortized cost.

Transaction costs

Transaction costs are comprised primarily of legal, accounting, underwriters' fees and other costs directly attributable to the issuance of the respective financial assets and liabilities. Transaction costs are capitalized to the cost of financial assets and liabilities classified as other than held for trading.

Non-financial and embedded derivatives

In addition, in order to comply with Section 3855, the Fund reviewed all contracts in place to identify non-financial derivatives and embedded derivatives. The Fund has chosen January 1, 2003 as its transition date for embedded derivatives, as permitted by the standard. This had no impact on the consolidated financial statements.

Hedging

The Fund uses interest rate derivatives to manage the combination of fixed to floating interest rates on its long-term debt and to manage the interest rate risk for future planned issuances.

- Fair value hedge

The carrying value of the hedged item is adjusted based on the gains or losses attributable to the hedged risk with a corresponding amount in net earnings. The hedging derivative is carried at fair value on the balance sheet with changes in fair value recorded in net earnings.

- Cash flow hedge

The effective portion of the changes in fair value of the hedging item is recognized in “Accumulated Other Comprehensive Income”, whereas the ineffective portion is recognized in “Financial Charges”. The amounts recognized in “Accumulated Other Comprehensive Income”, with respect to cash flow hedges, are reclassified in net earnings in the period or periods during which the hedged item affects net earnings.

Hedging relationships

The Fund uses derivative financial instruments to manage its interest risk exposures on debt financing. The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes. The Fund formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Fund generally classifies cash flows from its derivative financial instruments in the same manner as the cash flows from the item that the derivative is hedging. Typically, this is included in cash flows from (used in) operating activities in the consolidated statement of cash flows.

Future accounting changes

The CICA has issued new accounting standards:

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

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosure requirements. As a result, the Fund has established a changeover plan to convert to these new standards according to the timetable set with these new rules. An implementation team has been created and third party advisors have been engaged to provide training to our staff. The Fund completed the scoping and diagnostic phase and is now in the implementation and review phase. At this time, the impact on our future financial position and results of operations is not reasonably determinable or estimable.

b) Section 1582, *Business Combinations*. This new Section will be applicable to business combinations for which the acquisition date is on or after the Fund's interim and fiscal year beginning January 1, 2011. Early adoption is permitted. This Section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The Fund has decided to early adopt this new Section as of January 1, 2010. As a result of this decision, business combinations realized after that date will be accounted for in accordance with Section 1582 requirements.

c) Section 1601, *Consolidated financial statements*. This new Section will be applicable to financial statements relating to the Fund's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This Section establishes standards for the preparation of consolidated financial statements. The Fund has decided to early adopt this new Section as of January 1, 2010. The adoption of this Section should not impact the consolidated financial statements of the Fund.

d) Section 1602, *Non-Controlling interests*. This new Section will be applicable to financial statements relating to the Fund's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This Section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Fund has decided to early adopt this new Section as of January 1, 2010. As a result of this decision, non-controlling interests in equity of a consolidated subsidiary will now be classified as a component of equity but separate from the equity of the Fund. Furthermore, non-controlling interests in the profit or loss of a consolidated affiliate will be presented as an allocation of earnings.

3. Business acquisitions

2009

a) Acquisition of LesPAC

On April 30, 2009, the Fund exercised its option to acquire the remaining 50% interest in LesPAC in which the Fund already had a 50% interest for a cash consideration of \$25.2 million (including acquisition related costs of \$0.2 million). The acquisition of LesPAC was financed with cash on hand.

The Fund accounted for the acquisition of non-controlling interest as a step-purchase. The excess of the purchase price over the net book value of the non-controlling interest acquired was allocated to the net identifiable assets acquired on the basis of their fair value. The Fund's share in the fair value increments of the underlying net identifiable assets of LesPAC acquired was allocated as follows:

Current liabilities		
Accounts payable and accrued liabilities	\$	(296)
Intangibles		
Trademark		1,500
Customer contracts		145
Future income tax liabilities		(526)
Net identifiable assets acquired		823
Non-controlling interest acquired		7,462
Goodwill		16,904
Purchase price	\$	25,189
Consideration:		
Cash	\$	25,000
Transaction costs		189
	\$	25,189

2008

a) Acquisition of TBay Tel Directory Business

On February 19, 2008, a subsidiary of the Fund acquired the assets of the directory business of TBay Tel ("ThunderBay") for a cash consideration of \$17.3 million (including acquisition related costs of \$0.2 million). The acquisition was financed with cash on hand.

ThunderBay publishes the City of Thunder Bay directory for a circulation of over 120,000 copies. The business is included in the Directories segment.

The Fund accounted for the acquisition using the purchase method of accounting. The purchase price was allocated to the net identifiable assets acquired on the basis of their fair values. The fair value of the underlying net identifiable assets of ThunderBay acquired is allocated as follows:

Intangibles	
Non-competition agreement	\$ 3,536
Customer contracts	1,270
Customer relationships	3,798
Net identifiable assets acquired	8,604
Goodwill	8,646
Purchase price	\$ 17,250
Consideration:	
Cash	\$ 17,050
Transaction costs	200
	\$ 17,250

b) Acquisition of Volt Information Sciences Inc.'s Systems and Get It Pages

In August and September of 2008, subsidiaries of the Fund acquired all of the outstanding shares of 613417 Saskatchewan Ltd, doing business as Get It Pages ("Get It Pages") and the directory assets of Volt Information Sciences Inc. as well as its directory publishing operations (collectively "Volt") for a combined cash consideration of \$194.9 million (including acquisition related costs of \$3.4 million). The acquisitions were financed with cash on hand and existing credit facilities.

Get It Pages publishes four directories in Saskatchewan: Battleford, Meadow Lake and area; Prince Albert and area; Yorkton, Melville and area; and Estevan, Weyburn and area. Volt provides systems and services for the production and management of databases as well as the digitization of display advertisements for directory and other media publishers. In addition, the Fund acquired from Volt the publishing operations of Data National, a publisher of independent directories in selected Mid-Atlantic and Southeast American markets. The company publishes print community directories under the Community Phonebook brand name.

The acquired businesses are included in the Directories segment.

The Fund accounted for the acquisitions using the purchase method of accounting. The purchase prices were allocated to the net identifiable assets acquired on the basis of their fair values. The fair values of the underlying net identifiable assets of YPG USA and Get It Pages acquired is allocated as follows:

Current assets and liabilities	
Cash and cash equivalents	\$ 71
Accounts receivable	4,803
Prepaid expenses	145
Deferred publication costs	1,647
Future income tax assets	2,748
Accounts payable and accrued liabilities	(9,870)
Deferred revenues	(6,059)
Fixed assets	2,277
Intangibles	
Acquired software	100,000
Non-competition agreement	2,750
Customer contracts	6,000
Customer relationships	15,000
Trademark	17,000
Net identifiable assets acquired	136,512
Goodwill	58,434
Purchase price	\$ 194,946
Consideration:	
Cash	\$ 191,596
Transaction costs	3,350
	\$ 194,946

4. Fixed assets

	December 31, 2009		
	Cost	Accumulated Depreciation	Net Book Value
Office equipment	\$ 18,411	\$ 8,333	\$ 10,078
Office equipment under capital lease	8,325	3,345	4,980
Computer equipment	35,822	25,060	10,762
Computer equipment under capital lease	6,353	3,081	3,272
Other equipment	7,078	3,840	3,238
Leasehold improvements	46,416	17,338	29,078
Assets under development	34,017	—	34,017
	\$ 156,422	\$ 60,997	\$ 95,425

	December 31, 2008		
	Cost	Accumulated Depreciation	Net Book Value
Office equipment	\$ 18,050	\$ 6,543	\$ 11,507
Office equipment under capital lease	17,609	8,906	8,703
Computer equipment	38,091	24,250	13,841
Computer equipment under capital lease	8,163	3,157	5,006
Other equipment	6,729	2,940	3,789
Leasehold improvements	44,451	12,446	32,005
Assets under development	29,791	–	29,791
	\$ 162,884	\$ 58,242	\$ 104,642

During the year, fixed assets with a cost of \$9.8 million (2008 – \$2.2 million) and an accumulated depreciation of \$9.8 million (2008 – \$2.2 million) were written off. As part of the restructuring and special charges described in Note 23, the Fund also recorded a write down in 2009 of certain fixed assets having a cost of \$11.9 million and accumulated depreciation of \$7.8 million. In addition, internally developed software included in assets under development with a cost of \$29.9 million (2008 – \$41.9 million) were reclassified to software once they became available for use. Depreciation for the year ended December 31, 2009, was \$20.3 million (2008 – \$23.8 million).

5. Other assets

	December 31, 2009	December 31, 2008
Investments – equity method	\$ 34,977	\$ –
Investment – available for sale	646	228
Other	2,465	2,087
	\$ 38,088	\$ 2,315

Investments – equity method

On February 6, 2009, a subsidiary of the Fund acquired an equity interest in Dealer Dot Com Inc. of approximately 20% (“Dealer.com”) for a cash consideration of \$44.9 million (including acquisition related costs of \$1.8 million). The acquisition was financed with cash on hand. During the period from acquisition to December 31, 2009, the Fund’s share of losses from the equity investee was \$6.7 million. The Fund incurred operating costs of \$3.8 million with Dealer.com. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. As at December 31, 2009 \$1.6 million was included in accounts payable and accrued liabilities.

On April 9, 2009, a subsidiary of the Fund acquired a 24% equity interest in a small technology provider for a cash consideration of \$2.8 million (including acquisition related costs of \$0.6 million). The acquisition was financed with cash on hand. During the period from acquisition to December 31, 2009, the Fund’s share of losses from the equity investee was \$0.4 million.

The difference between the acquisition cost and the Fund’s share of the underlying net book value of the investees’ assets for the equity method investments, at the date of purchase amounted to \$45.3 million. The difference was assigned to the acquired net identifiable assets based on their fair values. These differences were assigned to intangible assets (consisting mainly of software, trademark, customer contracts and customer relationships) in the amount of \$36.3 million and will be amortized over their expected useful lives with the exception of the trademark which has an indefinite service life and is not amortized. The difference between the acquisition costs and the assigned values in the amount of \$9 million is similar to goodwill (equity method goodwill) and is not amortized.

Investments – available for sale

The investment in common shares of Call Genie Inc. is classified as an available-for-sale investment and recorded at fair value with unrealized gains and losses recorded in other comprehensive income. The Fund evaluates the

carrying value of the investment in Call Genie and tests for impairment to the extent necessary, due to events or circumstances that occur. During 2008, in light of the prolonged decline in fair value, the Fund concluded a triggering event had occurred requiring an evaluation of the investment for recoverability. As a result of the evaluation, the Fund concluded that \$4.8 million of the investment was impaired. The Fund therefore reduced the carrying value of the investment to equal its estimated fair value and transferred the related unrealized losses accumulated in other comprehensive losses to net earnings as an impairment of an available-for-sale investment of \$4.8 million for the year ended December 31, 2008. During 2009, the increase in the fair value of the investment of \$0.4 million was recorded in other comprehensive income.

6. Intangibles

	December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Trademarks	\$ 1,354,817	\$ —	\$ 1,354,817
Trademark related to ADS	24,500	12,250	12,250
Non-competition agreements and logos	630,393	108,526	521,867
Customer contracts	7,382	7,334	48
Customer relationships	18,943	18,848	95
Domain names	19,050	10,500	8,550
Domain names related to ADS	5,700	950	4,750
Software	211,388	105,266	106,122
	\$ 2,272,173	\$ 263,674	\$ 2,008,499

	December 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
Trademarks	\$ 1,356,002	\$ —	\$ 1,356,002
Trademark related to ADS	24,500	8,167	16,333
Non-competition agreements and logos	643,528	96,530	546,998
Customer contracts	37,148	33,700	3,448
Customer relationships	181,083	172,380	8,703
Domain names	19,050	—	19,050
Domain names related to ADS	5,700	633	5,067
Software	226,335	79,470	146,865
	\$ 2,493,346	\$ 390,880	\$ 2,102,466

During the year, intangibles with a cost of \$246.2 million (2008 – \$580.9 million) and an accumulated amortization of \$246.2 million (2008 – \$580.9 million) were written off. Amortization for the year ended December 31, 2009, was \$122.1 million (2008 – \$162.3 million), including \$10.5 million related to certain domain names.

7. Goodwill

The changes in the book value of goodwill are as follows:

	December 31, 2009		
	Directories	Vertical Media	Total
Balance, beginning of year	\$ 5,685,280	\$ 963,387	\$ 6,648,667
Business acquisitions and other (Note 3)	–	16,904	16,904
Impairment	–	(315,000)	(315,000)
Other	–	(1,039)	(1,039)
Foreign currency translation adjustment	(6,952)	–	(6,952)
Balance, end of year	\$ 5,678,328	\$ 664,252	\$ 6,342,580

	December 31, 2008		
	Directories	Vertical Media	Total
Balance, beginning of year	\$ 5,607,359	\$ 963,387	\$ 6,570,746
Business acquisitions and other (Notes 3 and 15)	71,218	–	71,218
Foreign currency translation adjustment	6,703	–	6,703
Balance, end of year	\$ 5,685,280	\$ 963,387	\$ 6,648,667

During the year, the Fund determined that the deterioration of the economic environment in the vehicle and real estate industries and its continuing negative impact on our Vertical Media segment revenues was an indicator that the goodwill related to the Vertical Media segment should be tested for potential impairment.

The goodwill impairment test involves a two-step methodology. The first step is accomplished by comparing the fair value of the reporting unit to its carrying value. The Fund determines fair value, by using the “discounted expected future cash flow” model. The process for determining the fair value requires management to make a number of estimates and assumptions such as market conditions, projected future sales, cost of sales, earnings and discount rates. If the carrying value of the reporting unit exceeds its estimated fair value, a second step is required. In the second step, the Fund must allocate the fair value of the reporting unit to the reporting unit’s net identifiable assets, with any value in excess allocated to goodwill. A goodwill impairment loss would be recognized to the extent that the carrying value of goodwill exceeds its implied fair value.

The impairment testing was completed during the year and the Fund has determined that the goodwill of the Vertical Media segment was impaired by \$315 million. As a result, an impairment loss was recorded in the consolidated statement of earnings.

8. Accounts payable and accrued liabilities

	December 31, 2009	December 31, 2008
Trade	\$ 58,511	\$ 47,936
Payroll related accruals	18,864	27,773
Publishing related accruals	16,156	11,385
Accrued interest	38,891	37,684
Normal course issuer bid	–	11,457
Other accrued liabilities	15,295	17,757
Income and commodity taxes	15,746	14,233
Restructuring and special charges (Note 23)	40,862	41,059
	\$ 204,325	\$ 209,284

9. Employee benefit plans

The Fund maintains pension plans with defined benefit and defined contribution components which cover substantially all of the employees of the Fund, as described in Note 2. The Fund maintains unfunded supplementary defined benefit pension plans for certain executives and also maintains other retirement and post-employment benefits (“other benefits”) plans which cover substantially all employees of the Fund.

The changes in the accrued benefit obligations and in the fair value of assets and the reconciliation of the funded status of the defined benefit plans to the amount recorded on the consolidated balance sheets for the years ended December 31, 2009 and 2008 were as follows:

	December 31, 2009		December 31, 2008	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Fair value of plan assets, beginning of year	\$ 378,141	\$ –	\$ 476,403	\$ –
Actual return (loss) on plan assets	54,079	–	(60,389)	–
Benefit payments	(29,622)	(2,145)	(37,087)	(2,018)
Transfers from defined benefit to defined contribution component of the plan	(2,963)	–	(2,049)	–
Employer contributions	611	2,145	506	2,018
Employee contributions	709	–	757	–
Fair value of plan assets, end of year	400,955	–	378,141	–
Accrued benefit obligation, beginning of year	394,438	38,079	509,287	54,444
Current service cost	10,797	806	16,181	1,070
Employee contributions	709	–	757	–
Interest cost	29,436	2,834	28,209	2,536
Actuarial losses (gains)	55,027	5,432	(122,909)	(17,953)
Benefit payments	(29,622)	(2,145)	(37,087)	(2,018)
Accrued benefit obligation, end of year	460,785	45,006	394,438	38,079
Funded status - plan deficit	(59,830)	(45,006)	(16,297)	(38,079)
Unamortized plan amendment ¹	–	(4,923)	–	(5,502)
Unamortized net actuarial losses (gains)	24,460	(9,105)	(3,015)	(15,304)
Accrued benefit liabilities, end of year	\$ (35,370)	\$ (59,034)	\$ (19,312)	\$ (58,885)

¹ A modification to the other benefits plan in 2005 resulted in a gain of approximately \$7.5 million which is amortized over the expected average remaining service life of the employees at that time, which was 13 years.

Pension benefits and other benefits are shown as accrued benefit liabilities on the consolidated balance sheets. While all the plans are not considered fully funded for financial reporting purposes, registered plans are funded in accordance with the applicable statutory funding rules and regulations governing the particular plans.

The significant assumptions adopted in measuring the Fund's pension and other benefit obligations as at December 31, 2009 and 2008, were as follows:

	December 31, 2009		December 31, 2008	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
At December 31				
Accrued benefit obligation				
Discount rate, end of year	6.50%	6.50%	7.50%	7.50%
Rate of compensation increase	3.25%	3.50%	3.25%	3.50%
For the years ended December 31				
Net benefit plan costs				
Discount rate, end of preceding year	7.50%	7.50%	5.50%	5.50%
Rate of compensation increase	3.25%	3.50%	3.25%	3.50%
Expected long-term rate of return on plan assets	7.25%	–	7.25%	–
Expected average remaining service life	16 years	15 years	16 years	15 years

For measurement purposes, a 9% annual increase in the per capita cost of covered health care benefits (the health care cost trend rate) was assumed in 2009. The rate of increase of the cost of medication was assumed to gradually decline to 4.5% by 2018 and to remain at that level thereafter. A 4.5% annual increase in per capita cost of covered dental care benefits was assumed in 2009.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

	One-Percentage-Point - Increase	One-Percentage-Point - Decrease
Effect on other benefits – total service and interest costs	\$ 227	\$ (240)
Effect on other benefits – accrued benefit obligation	\$ 1,645	\$ (1,744)

The net benefit plan costs for the years included the following components:

	For the years ended December 31,			
	2009		2008	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Current service cost	\$ 10,797	\$ 806	\$ 16,181	\$ 1,070
Interest cost	29,436	2,834	28,209	2,536
Actual (return) loss on plan assets	(54,079)	–	60,389	–
Actuarial losses (gains)	55,027	5,432	(122,909)	(17,953)
Benefit costs before adjustments	41,181	9,072	(18,130)	(14,347)
Adjustments to recognize long-term nature of employee benefit plan costs:				
Actual loss (return) over expected return on plan assets	27,673	–	(93,933)	–
Difference between annual amortization and plan amendment	–	(579)	–	(579)
Difference between annual amortization and actuarial gains on obligation	(55,148)	(6,199)	122,909	17,310
Net benefit plan costs for the YPG Co. defined benefit plans	\$ 13,706	\$ 2,294	\$ 10,846	\$ 2,384
Net benefit plan costs for the YPG Co. defined contribution plans	2,963	–	2,049	–
Net benefit plan costs for the Trader defined contribution plans	2,193	–	2,487	–
Total net benefit plan costs	\$ 18,862	\$ 2,294	\$ 15,382	\$ 2,384

Plan assets are represented primarily by Canadian and foreign equities, government and corporate bonds, debentures and secured mortgages. Plan assets are held in trust and the asset allocation was as follows as at December 31:

(in percentages - %)	2009	2008
	%	%
Pension Plan		
Asset categories in the Master Trust:		
Cash and other short-term investments	4	4
Publicly traded equity securities	60	50
Publicly traded fixed income securities	32	42
Pending MTS transfer	4	4

The expected return on plan assets is determined by considering long-term historical returns, future estimates of long-term investment returns and asset allocations.

The total cash payments for employee benefit plans and pension benefit plans made by the Fund amounted to \$5 million for 2009 (2008 – \$5 million).

As at December 31, 2009 and December 31, 2008, the publicly traded equity securities did not directly include any units of the Fund.

The Fund's funding policy is to make contributions to its pension plans based on various actuarial cost methods as permitted by pension regulatory bodies. The Fund is responsible to adequately fund the plans. Contributions reflect actuarial assumptions concerning future investment returns, salary projections and future service benefits.

10. Long-term debt

	December 31, 2009			
	Principal amount	Fair value adjustment of hedged item	Deferred financing costs	Total
Medium Term Notes	\$ 2,053,345	\$ 10,703	\$ (19,101)	\$ 2,044,947
Credit facilities	100,000	–	–	100,000
Commercial paper	74,000	–	–	74,000
Obligations under capital leases ¹	9,027	–	–	9,027
	2,236,372	10,703	(19,101)	2,227,974
Less current portion of long-term debt	2,254	–	–	2,254
	\$ 2,234,118	\$ 10,703	\$ (19,101)	\$ 2,225,720

¹ Less imputed interest at varying rates not exceeding 15.6% (2008 – 15.6%).

	December 31, 2008			
	Principal amount	Fair value adjustment of hedged item	Deferred financing costs	Total
Medium Term Notes	\$ 2,050,000	\$ 15,909	\$ (14,539)	\$ 2,051,370
Credit facilities	358,700	–	–	358,700
Obligations under capital leases ¹	13,786	–	–	13,786
	2,422,486	15,909	(14,539)	2,423,856
Less current portion of long-term debt	3,807	–	–	3,807
	\$ 2,418,679	\$ 15,909	\$ (14,539)	\$ 2,420,049

¹ Less imputed interest at varying rates not exceeding 15.6% (2008 – 15.6%).

Medium Term Notes

Medium Term Notes were issued in various series between April 2004 and November 2009. The terms and conditions of these notes are governed by a Trust indenture dated April 2004. Medium Term Notes outstanding as at December 31, 2009 are as follows:

- \$297.5 million of 5.71% Series 2 Notes maturing on April 21, 2014 priced at \$99.985, for an initial yield to the noteholders of 5.71% compounded semi-annually
- \$177.2 million of 5.85% Series 3 Notes maturing on November 18, 2019 priced at par, for an initial yield to the noteholders of 5.85% compounded semi-annually
- \$493.7 million of 5.25% Series 4 Notes maturing on February 15, 2016 priced at \$99.571, for an initial yield to the noteholders of 5.31% compounded semi-annually
- \$19.9 million of 6.25% Series 5 Notes maturing on February 15, 2036 priced at \$99.514, for an initial yield to the noteholders of 6.29% compounded semi-annually
- \$100 million of 6.25% Series 5 Notes maturing on February 15, 2036 priced at \$100.933, for an initial yield to the noteholders of 6.181% compounded semi-annually
- \$150 million of 4.65% Series 6 Notes maturing on February 28, 2011 priced at \$99.841, for an initial yield to the noteholders of 4.686% compounded semi-annually
- \$260 million of 7.3% Series 7 Notes maturing on February 2, 2015 priced at par, for an initial yield to the noteholders of 7.3% compounded semi-annually
- \$125 million of 6.85% Series 8 Notes maturing on December 3, 2013 priced at par, for an initial yield to the noteholders of 6.85% compounded semi-annually
- \$130 million of 6.50% Series 9 Notes maturing on July 10, 2013 priced at par, for an initial yield to the noteholders of 6.50% compounded semi-annually and
- \$300 million of 7.75% Series 10 Notes maturing on March 2, 2020 priced at par, for an initial yield to the noteholders of 7.75% compounded semi-annually

During the year, Yellow Media Inc. issued 7.3% Series 7 Medium Term Notes for gross proceeds of \$260 million, 6.85% Series 8 Medium Term Notes for gross proceeds of \$125 million, 6.5% Series 9 Medium Term Notes for gross proceeds of \$130 million and 7.75% Series 10 Medium Term Notes for gross proceeds of \$300 million. The proceeds from these issuances were used to reduce indebtedness under the New Credit Facility while the balance was used to reduce commercial paper indebtedness as well as for general corporate purposes. In addition, during the year, \$450 million Series 1 Medium Term Notes matured and were repaid. Yellow Media Inc. also repurchased for cancellation an amount of \$2.5 million of the Series 2 Medium Term Notes, \$72.8 million of the Series 3 Medium Term Notes, \$56.3 million of the Series 4 Medium Term Notes and \$230.1 million of the Series 5 Medium Term Notes for a total cash consideration of \$307.1 million. The difference between the purchase price and the carrying value of the Medium Term Notes of \$52.3 million was recorded in net earnings.

All Series of Notes are unsecured and are unconditionally guaranteed by the Fund, YPG Trust, YPG LP, YPG Co., Trader, YPG (USA) Holdings, Yellow Pages Group, LLC and YPG Directories, LLC. as to the payment of principal and interest.

Credit Facilities

The Fund has in place two senior unsecured credit facilities (the “Credit Facilities”) totalling \$800 million consisting of:

- A \$700 million facility (the “Principal Facility”) which is comprised of:
 - a \$500 million 364-day revolving tranche with a 2-year term-out option maturing in May 2012; and,
 - a \$200 million 5-year revolving tranche maturing in May 2012.

The Principal Facility can be used for general corporate purposes and as back-up for the commercial paper program.

- A \$100 million 5-year non-revolving term loan maturing in July 2014 (the “Private Facility”).

The Private Facility can be used for general corporate purposes.

As at December 31, 2009, no amount was drawn on the Principal Facility. The revolving tranche can be extended annually, subject to the lender’s consent. If not extended, any amount drawn may be converted, at the Fund’s option, into a 2-year non-revolving term loan. The Principal Facility bears interest at BA rates plus a spread of 0.575% for the \$200 million tranche and 2.5% for the \$500 million tranche. These spreads are based on a ratings grid.

On May 8, 2008, the Fund increased its sources of liquidity by entering into a new credit facility which, at that time, provided a \$250 million senior unsecured revolving credit facility. On December 15, 2008, the size of the new credit facility was increased to \$450 million. On April 21, 2009, the Fund used the full amount of the new revolving facility to repay its then maturing \$450 million Series 1 Medium Term Notes. The Fund did not request an extension of the revolving period on the new revolving facility. Therefore, on May 7, 2009, this facility automatically converted to a 2-year non revolving term loan maturing in May 2011 (the “New Credit Facility”). From that date, repayments on the New Credit Facility automatically reduced the limit of the facility. In July 2009, the New Credit Facility was fully repaid and cancelled.

On July 23, 2009, the Fund entered into a five year term loan. The Private Facility bears interest at approximately BA rates plus 5%. The proceeds were used for general corporate purposes. As at December 31, 2009, there was \$100 million outstanding on the Private Facility.

The Credit Facilities are unsecured and are unconditionally guaranteed by the Fund, YPG Trust, YPG LP, YPG Co., Trader, YPG (USA) Holdings Inc., Yellow Pages Group, LLC and YPG Directories, LLC as to the payment of principal and interest.

The Credit Facilities are subject to customary terms and conditions including limits on pledging assets without the consent of lenders. These facilities are also subject to the maintenance of a maximum ratio of funded debt to Latest Twelve Month Adjusted EBITDA¹ of 4.25 times and a minimum ratio of Latest Twelve Month Adjusted EBITDA¹ to cash interest expense on total debt of 3.5 times.

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

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

Interest rate swaps

The Fund has entered into interest rate derivative agreements described in Note 24 in order to manage its fixed and variable rate ratio on its long-term debt.

Commercial paper

Yellow Media Inc. maintains a commercial paper program (the “Commercial Paper program”) with an authorized limit of \$500 million. The commercial paper matures up to but not exceeding 365 days from the date of the issue. As at December 31, 2009, there was \$74 million outstanding under the Commercial Paper program. The commercial paper bears interest at approximately BA rates plus an applicable spread and commission.

Obligations under capital leases

The Fund entered into several lease agreements with third parties for office equipment and for software. The obligations under capital leases are secured by a moveable hypothec on the office equipment leased.

Future repayments

Future principal repayments and minimum capital lease payments to be made during the next five years and thereafter, as of December 31, 2009, are as follows:

	Long-term debt ¹	Capital leases
2010	\$ –	\$ 2,898
2011	150,000	2,693
2012	74,000	2,518
2013	255,000	1,660
2014	397,500	822
Thereafter	1,350,845	13
Total principal repayments and future minimum lease payments	2,227,345	10,604
Less imputed interest at varying rates not exceeding 15.6%	–	1,577
	\$ 2,227,345	\$ 9,027

¹ Excludes Exchangeable Debentures (see Note 11)

11. Exchangeable debentures

	December 31, 2009	December 31, 2008
Principal amount	\$ 86,549	\$ 300,000
Equity component	(3,618)	(12,542)
Accretion	2,362	5,653
Deferred financing costs	(1,407)	(7,641)
	\$ 83,886	\$ 285,470

On July 6, 2006, Yellow Media Inc. issued exchangeable unsecured subordinated debentures for a principal amount of \$300 million (“Exchangeable Debentures”). The Exchangeable Debentures bear interest, payable semi-annually at a rate of 5.5% and mature August 1, 2011. The Exchangeable Debentures may be exchanged at any time, at the option of the holder, for units of the Fund at an exchange price of \$20 per unit. On or after August 1, 2009 and prior to August 1, 2010, the Exchangeable Debentures may be redeemed in whole or in part at the option of the Fund at a price equal to their principal amount plus accrued interest thereon, provided that the market price of the units on the date on which notice is given is not less than 125% of the conversion price of \$20 per unit. After August 1, 2010, the Fund has the option to redeem the Exchangeable Debentures in whole or in part at a price equal to their principal amount plus accrued interest. The Fund may also, at its option and subject to certain conditions, elect to satisfy its obligation to repay all or any portion of the principal amounts and interest of the Exchangeable Debentures that are to be redeemed or repaid at maturity, by issuing Fund units. The number of units a holder will receive in respect of each

Exchangeable Debenture will be determined by dividing the principal amount of the Exchangeable Debentures that are to be redeemed or repaid at maturity by 95% of the market price of the units.

The conversion option was valued at \$12.5 million at the date of issuance and is included in Unitholders' equity. The liability portion of the Exchangeable Debentures is being accreted such that the liability at maturity will equal the principal amount.

Accretion of \$2.4 million (2008 – \$2.4 million) is recorded in financial charges for the year ended December 31, 2009 (Note 22).

The Exchangeable Debentures are unconditionally guaranteed on a subordinated basis by the Fund, YPG Trust, YPG LP, YPG Co., Trader, YPG (USA) Holdings, Yellow Pages Group, LLC and YPG Directories, LLC as to the payment of principal and interest.

On November 4, 2009, the Fund authorized a substantial issuer bid ("SIB") to purchase for cancellation all of its outstanding 5.50% Exchangeable Debentures at a purchase price of \$1,020 in cash for each \$1,000 principal amount of Exchangeable Debentures. Under the SIB, \$213.5 million principal amount of Exchangeable Debentures were purchased for a total cash consideration of \$220.7 million, including fees of \$3 million and excluding accrued interest. The carrying value of the Exchangeable Debentures was \$206.7 million. The excess between the purchase price and the carrying value of the Exchangeable Debentures of \$14 million was recorded in net earnings. The portion of the conversion option amounting to \$8.9 million related to the purchase was credited to contributed surplus.

12. Preferred shares

	December 31, 2009	December 31, 2008
Series 1 and 2	\$ 481,408	\$ 500,000
Derivative component	1,161	1,396
Deferred financing costs	(9,792)	(12,324)
	\$ 472,777	\$ 489,072

a) Series 1

On March 6, 2007, Yellow Media Inc. issued 12,000,000 Series 1 cumulative redeemable first preferred shares ("Series 1 shares") for net proceeds of \$291 million after deducting underwriters' fees in the amount of \$8 million and other issuance costs of \$1 million.

Voting rights

All of the issued and outstanding Series 1 shares are non-voting, except under special circumstances when the holders are entitled to one vote per share.

Entitlement to dividends

The holders of the Series 1 shares are entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, in an amount equal to \$1.0625 per Series 1 share per annum, payable quarterly.

Redemption by the issuer

On or after March 31, 2012, Yellow Media Inc. may, at its option, redeem at par for cash the Series 1 shares, in whole or in part. Also, on or after March 31, 2012, and prior to December 31, 2012, Yellow Media Inc. may, at its option, exchange the outstanding Series 1 shares, in whole or in part, into freely-tradable units of the Fund. In addition, the Series 1 shares will be redeemable at a premium in cash or exchangeable at the option of Yellow Media Inc., in whole into Units of the Fund on or after March 31, 2007 provided that any exchange prior to March 31, 2012 shall be limited to circumstances in which the Series 1 shares are entitled to vote separately as a class or series by law or

court order. This option meets the definition of an embedded derivative under GAAP and is recorded at fair value on the consolidated balance sheet with changes in fair value recognized in earnings.

Redemption by the holder

On or after December 31, 2012, each preferred share is redeemable, at the option of the holder, at a price equal to \$25.00 per share plus any accrued and unpaid dividends in arrears.

b) Series 2

On June 8, 2007, Yellow Media Inc. issued 8,000,000 Series 2 cumulative redeemable first preferred shares (“Series 2 shares”) for net proceeds of \$193 million after deducting underwriters’ fees in the amount of \$6 million and other issuance costs of \$1 million.

Voting rights

All of the issued and outstanding Series 2 shares are non-voting, except under special circumstances when the holders are entitled to one vote per share.

Entitlement to dividends

The holders of the Series 2 shares are entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, in an amount equal to \$1.25 per Series 2 share per annum, payable quarterly.

Redemption by the issuer

On or after June 30, 2012, Yellow Media Inc. may, at its option, redeem for cash the Series 2 shares, in whole or in part at a decreasing premium until June 30, 2016 and at par thereafter. Also, on or after June 30, 2012, and prior to June 30, 2017, Yellow Media Inc. may, at its option, exchange the outstanding Series 2 shares, in whole or in part, into freely-tradable Units of the Fund at a decreasing premium until June 30, 2016 and at par thereafter. In addition, the Series 2 shares will be redeemable at a premium in cash or exchangeable at the option of Yellow Media Inc., in whole into Units of the Fund on or after June 30, 2007 provided that any exchange prior to June 30, 2012 shall be limited to circumstances in which the Series 2 shares are entitled to vote separately as a class or series by law or court order. This option meets the definition of an embedded derivative under GAAP and is recorded at fair value on the consolidated balance sheet with changes in fair value recognized in earnings.

Redemption by the holder

On or after June 30, 2017, each preferred share is redeemable, at the option of the holder, at a price equal to \$25.00 per share plus any accrued and unpaid dividends in arrears.

Normal course issuer bid

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

Under its normal course issuer bid, the Fund can purchase for cancellation up to 1,200,000 and 800,000 of its outstanding first preferred shares, series 1 (“Series 1 shares”) and first preferred shares, series 2 (“Series 2 shares”), respectively. As at December 31, 2009, the Fund had purchased for cancellation 85,466 Series 1 shares of the Fund for a total cash consideration of \$1.9 million including brokerage fees at an average price of \$22.88 per Series 1 share and 658,226 Series 2 shares of the Fund for a total cash consideration of \$11.8 million including brokerage fees at an average price of \$17.86 per Series 2 share. The carrying value of these Series 1 and Series 2 shares was \$2.1 million and \$16.1 million, respectively. The difference between the purchase price and the carrying value of the Series 1 and Series 2 shares of \$4.5 million was recorded in net earnings.

13. Non-controlling interest

	December 31, 2009	December 31, 2008
Shares issued, net of issuance costs and income taxes	\$ 324,130	\$ –
Interest in LesPAC	–	8,544
	\$ 324,130	\$ 8,544

Series 3

On September 23, 2009, Yellow Media Inc. issued 7,500,000 Series 3 cumulative rate reset preferred shares (“Series 3 shares”) at a purchase price of \$25.00 per share. On September 28, 2009, Yellow Media Inc. issued an additional 800,000 Series 3 shares pursuant to the exercise of the over allotment option granted to the underwriters for combined net proceeds of \$200.5 million after deducting underwriters’ fees in the amount of \$6 million and other issuance costs of \$1 million and excluding income tax recovery of \$2 million on the fees.

Voting rights

All of the issued and outstanding Series 3 shares are non-voting, except under special circumstances when the holders are entitled to one vote per share.

Entitlement to dividends

The holders of the Series 3 shares are entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, in an amount equal to \$1.6875 per Series 3 share per annum, payable quarterly, for the initial five year period ending September 30, 2014. The dividend rate will be reset on September 30, 2014 and every 5 years thereafter.

Redemption by the issuer

On September 30, 2014, and on September 30 every five years thereafter, Yellow Media Inc. may, at its option, redeem at par for cash the Series 3 shares, in whole or in part.

Conversion at the option of the holder

On September 30, 2014, each preferred share is convertible, at the option of the holder, into Series 4 preferred shares (“Series 4”) on a one to one basis. The Series 4 shares will be entitled to floating rate cumulative preferential cash dividends, as and when declared by the Board of Directors, payable quarterly. The floating quarterly dividend rate will be equal to the sum of the three-month government of Canada Treasury bill yield plus 4.17% per annum.

Series 5

On December 22, 2009, Yellow Media Inc. issued 5,000,000 Series 5 cumulative rate reset preferred shares (“Series 5 shares”) at a purchase price of \$25.00 per share for net proceeds of \$120.3 million after deducting underwriters’ fees in the amount of \$3.7 million and other issuance costs of \$1 million and excluding income tax recovery of \$1.4 million on the fees.

Voting rights

All of the issued and outstanding Series 5 shares are non-voting, except under special circumstances when the holders are entitled to one vote per share.

Entitlement to dividends

The holders of the Series 5 shares are entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, in an amount equal to \$1.725 per Series 5 share per annum, payable quarterly, for the initial five year period ending June 30, 2015. The dividend rate will be reset on June 30, 2015 and every 5 years thereafter.

Redemption by the issuer

On June 30, 2015, and June 30 every five years thereafter, Yellow Media Inc. may, at its option, redeem at par for cash the Series 5 shares, in whole or in part.

Conversion at the option of the holder

On June 30, 2015, each preferred share is convertible, at the option of the holder, into Series 6 preferred shares ("Series 6") on a one to one basis. The Series 6 shares will be entitled to floating rate cumulative preferential cash dividends, as and when declared by the Board of Directors, payable quarterly. The floating quarterly dividend rate will be equal to the sum of the three-month government of Canada Treasury bill yield plus 4.26% per annum.

As these shares were issued by Yellow Media Inc., the Series 3 and 5 shares are classified as non-controlling interest on the balance sheet.

14. Income taxes

A reconciliation of income taxes at Canadian statutory rates with reported income taxes is as follows:

	For the years ended December 31,	
	2009	2008
Earnings before income taxes, share of losses from equity investees and non-controlling interests	\$ 258,681	\$ 540,630
Combined Canadian federal and provincial tax rates	31.39%	31.82%
Income tax expense at statutory rates	\$ 81,200	\$ 172,028
Increase (decrease) resulting from:		
Intercompany interest income earned in non-taxable entities	(135,599)	(157,176)
Other	4,181	4,725
Impairment of goodwill	99,242	–
Non-deductible dividend expense	7,415	7,756
Non-deductible amortization of intangible assets	384	5,219
Net tax impact of foreign activities	(6,960)	622
Effect of enacted future rates on temporary differences	(7,694)	(3,051)
Corporate minimum tax	541	541
Provision for income taxes	\$ 42,710	\$ 30,664

Provision for income taxes for the years ended:

	December 31, 2009	December 31, 2008
Current	\$ 12,395	\$ 11,178
Future	29,774	18,945
Corporate minimum tax	541	541
	\$ 42,710	\$ 30,664

Future income tax assets (liabilities) are attributable to the following items as at:

	December 31, 2009	December 31, 2008
Deferred financing costs and redemption fees	\$ (1,778)	\$ 3,388
Non-capital losses carryforward	–	12,029
Deferred revenues	26,715	35,272
Accrued benefit liabilities	31,817	28,897
Net deferred loss on hedging activities	53	5,772
Accrued liabilities	9,598	15,129
Capital assets and lease inducements	1,088	4,452
Intangibles	(150,800)	(157,669)
Future income tax liabilities, net	\$ (83,307)	\$ (52,730)

Financial statement presentation as at:

	December 31, 2009	December 31, 2008
Current future income tax assets	\$ 28,812	\$ 43,723
Long-term future income tax assets	28,382	20,661
Current future income tax liabilities	(34,248)	–
Long-term future income tax liabilities	(106,253)	(117,114)
Future income tax liabilities, net	\$ (83,307)	\$ (52,730)

15. Unitholders' capital

The Fund's Declaration of Trust provides that an unlimited number of units may be issued. Each unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net earnings, net realized capital gains (other than net realized capital gains distributed to redeeming Unitholders) or other amounts, and in the net assets of the Fund in the event of termination or winding up of the Fund. All Trust units are of the same class with equal rights and privileges. The units issued are not subject to future calls or assessments, and entitle the holders thereof to one vote for each whole unit held at all meetings of Unitholders.

	December 31, 2009	
	Number of Units	Amount
Balance, December 31, 2008	518,301,059	\$ 6,144,416
Units issued	10,926	43
Repurchase of units	(5,267,300)	(82,420)
Balance December 31, 2009 ^{1,2}	513,044,685	\$ 6,062,039

	December 31, 2008	
	Number of Units	Amount
Balance, December 31, 2007	533,188,571	\$ 6,321,471
Units issued	582,688	6,422
Repurchase of units	(15,470,200)	(183,477)
Balance, December 31, 2008 ^{1,2}	518,301,059	\$ 6,144,416

¹ Includes 2,000,000 (2008 – 10,815,000) Exchangeable Units of YPG LP issued as partial consideration of the Trader Media Corp. ("TMC") acquisition, which are presented as part of Unitholders' capital as the criteria of Emerging Issues Committee Abstract 151 *Exchangeable Securities Issued by Subsidiaries of Income Trust* are met.

² Includes 8,455,650 Restricted Units (2008 – 4,497,126) pursuant to the Restricted Unit Plan.

Normal course issuer bid

On March 28, 2008, the Fund received approval from the Toronto Stock Exchange (“TSX”) on its notice of intention to make a normal course issuer bid for its units through the facilities of the TSX from April 2, 2008 to April 1, 2009, in accordance with applicable rules of the TSX. On April 1, 2009, the normal course issuer bid for its units expired and was not renewed.

Under its normal course issuer bid, the Fund could purchase for cancellation up to 25 million of its outstanding units. During the year ended December 31, 2009, the Fund purchased for cancellation 267,300 (2008 – 15,470,200) Units of the Fund for a total cash consideration of \$1.9 million (2008 – \$133.6 million) including brokerage fees. These Units were purchased at an average price of \$7.20 per unit (2008 – \$8.63). The average carrying value of these Units was \$11.86 per Unit. The difference between the purchase price and the carrying value of the Units of \$1.2 million (2008 – \$49.9 million) was credited to Contributed Surplus. An amount of \$11.5 million representing 1,789,600 Units repurchased in the last three days of December 2008 was settled in January 2009.

Purchase of Units

During the year ended December 31, 2009, 5,000,000 Exchangeable Units of YPG LP issued as partial consideration of the TMC acquisition were purchased and cancelled by the Fund for a total cash consideration of \$27.5 million. The Exchangeable Units of YPG LP were presented as part of Unitholders’ capital. These units had a carrying value of \$15.85 per unit. The difference between the purchase price and the carrying value of the units of \$51.7 million was credited to Contributed Surplus.

Exercise of options

During the year ended December 31, 2009, optionholders exercised 10,926 (2008 – 582,688) options at an exercise price of \$3.92 per option for cash consideration of \$43 thousand (2008 – \$2.3 million). These options were exercised into 10,926 (2008 – 582,688) shares of Yellow Media Inc. which were automatically exchanged into 10,926 (2008 – 582,688) units of the Fund pursuant to the Optionholders’ Liquidity Agreement, at an average stated value of approximately \$3.92 (2008 – \$11.02) per share, which in turn were exchanged into units of YPG LP. This transaction gave rise to an increase in goodwill of nil (2008 – \$4.1 million).

16. Distributions to unitholders

The Fund’s distribution policy is to make distributions of its available cash taking into account the current and prospective performance of its business, amounts to service debt obligations, maintenance capital expenditures, taxes and other items considered to be prudent.

Cash distributions are payable monthly to the Unitholders and Exchangeable Unitholders of record on the last business day of each month and are paid on the 15th day of the following month.

During the year ended December 31, 2009, the Fund declared total distributions to Unitholders and Exchangeable Unitholders of \$471.9 million (2008 – \$599.9 million) or \$0.9233 per unit (2008 – \$1.1467).

17. Accumulated other comprehensive income (loss)

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

	December 31, 2009
Net gain on derivatives designated as cash flow hedges, net of income taxes ¹	\$ 729
Unrealized losses on translating financial statements of self-sustaining foreign operations and foreign investees	(3,881)
Unrealized gain on available-for-sale investment	418
Balance December 31, 2009	\$ (2,734)
	December 31, 2008
Net losses on derivatives designated as cash flow hedges, net of income taxes ¹	\$ (2,929)
Unrealized gains on translating financial statements of self-sustaining foreign operations	12,060
Balance December 31, 2008	\$ 9,131

¹ The gains and losses on derivatives designated as cash flow hedges in prior periods will be transferred to net earnings over the term of the underlying debt which matures on January 2010, May 2011, February 2016 and February 2036.

18. Earnings per unit

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

	For years ended December 31,	
	2009	2008
Weighted average number of units outstanding used in computing basic earnings per unit	510,658,375	523,444,129
Dilutive effect of options	392,433	571,432
Dilutive effect of Restricted Units ¹	6,602,795	4,014,311
Dilutive effect of Series 1 Preferred shares	57,253,961	32,505,350
Dilutive effect of Series 2 Preferred shares	37,479,655	21,670,233
Dilutive effect of Exchangeable Debentures	–	32,505,350
Weighted average number of units outstanding used in computing diluted earnings per unit	612,387,219	614,710,805

¹ Subject to specific pay-out conditions.

Earnings per unit

	For the years ended December 31,	
	2009	2008
Net earnings	\$ 204,255	\$ 509,227
Impact of assumed conversion of Exchangeable Debentures, net of applicable taxes	–	15,465
Impact of assumed conversion of Series 1 Preferred shares, net of applicable taxes	12,548	12,625
Impact of assumed conversion of Series 2 Preferred shares, net of applicable taxes	6,166	9,416
Net earnings adjusted for dilutive effect	\$ 222,969	\$ 546,733

The Exchangeable Units of YPG LP issued as partial consideration of the TMC acquisition described above are included in the number of units for both basic and diluted earnings per unit.

For the year ended December 31, 2009, the diluted earnings per unit calculation did not take into consideration the potentially dilutive effect of the Exchangeable Debentures since their impact was anti-dilutive.

19. Stock-based compensation plans

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

Restricted Unit Plan

On August 30, 2004, YPG LP, through its general partner YPG GP, established the YPG Co. Restricted Unit Plan (the "RU Plan") to encourage ownership of units, to enhance YPG Co.'s ability to attract, motivate and retain key personnel, to reward the participants for significant performance and associated growth in distributable cash of the Fund and to align the interests of the participants and the Unitholders of the Fund.

Under the RU Plan, YPG GP, as general partner of YPG LP, may grant to directors and eligible employees either a fixed dollar or fixed unit incentive amount which is then used by the plan custodian to purchase units of Yellow Pages Income Fund on the open market of the Toronto Stock Exchange (the "Restricted Units"). The Restricted Units so awarded may vest pursuant to a time-based or a performance-based criteria as determined by YPG GP. Time-based Restricted Units will vest 36 months after the date of determination of the incentive amount while performance-based Restricted Units will vest at the later of 36 months after the date of determination of the incentive amount and the date of confirmation by the Board of the achievement of the specified performance targets. The Board will determine, not later than October 31 of the year following the end of the performance period whether the performance-based vesting condition has been achieved. The performance-based units which have not achieved the vesting condition shall automatically be forfeited and cancelled.

Cash distributions received on all Restricted Units awarded to eligible employees and directors are reinvested in additional Restricted Units and vest according to the terms of the grant pursuant to which they are paid. Cash distributions received on all Restricted Units awarded to non-executive directors are not reinvested in additional Restricted Units and will be paid according to the terms of the grant pursuant to which they are paid. Unless instructed otherwise by a participant, upon the vesting of the Restricted Units, the plan custodian shall sell the Restricted Units of the participant on the open Market of the Toronto Stock Exchange and remit to the participant the net proceeds from the sale thereof after deducting all applicable taxes and other costs associated therewith.

Upon termination for cause or resignation, all Restricted Units not vested shall be forfeited and cancelled. Upon a participant's retirement, termination without cause, death and long-term disability, the time-based Restricted Units will vest as a pro-rata of the performance cycle completed versus the 36 month period. All performance-based Restricted Units that are not vested on the date of the participant's retirement, termination without cause, death or long-term disability shall be forfeited and cancelled on such date.

The Restricted Units have vesting acceleration provisions under certain circumstances.

Employees who were awarded units under the RU Plan prior to January 1, 2006 (pre-2006 grants) and subsequent to 2008, were granted Restricted Units in equal proportions between time-based vesting and performance-based vesting criteria. During the years 2006 to 2008, YPG LP awarded Restricted Units to key employees which are performance-based and vest between 2009 to 2011. The Fund also awarded Restricted Units to non-executive directors of YPG GP, the general partner of YPG LP, which are time-based vesting only.

During the year ended December 31, 2009, an amount of \$16.9 million (2008 – \$11.3 million) representing 2,775,913 (2008 – 998,841) Restricted Units were granted at an average market price of \$6.09 (2008 – \$11.35). For the 2006 to 2008 grants to key employees, the number of Restricted Units that vest can potentially reach two times the actual number of Restricted Units awarded if the actual performance reaches the maximum level of the objectives. In the case of the 2009 grants to key employees, the number of performance-based Restricted Units that vest can potentially reach two and a half times the actual number of performance-based Restricted Units awarded. Consequently, \$24.1 million (2008 – \$19.8 million) was used to purchase 3,849,791 (2008 – 1,742,404) Restricted Units of the Fund on the open market of the Toronto Stock Exchange, which will be held in escrow in order to provide up to a 250% pay-out subject to adjustment at time of vesting. In addition, an amount of \$5.7 million (2008 – \$4.3 million) was used to reinvest in 1,008,595 (2008 – 471,223) Restricted Units using the proceeds from the distributions on the Restricted Units held in escrow. This includes 479,001 (2008 – 230,725) Restricted Units associated with the maximum pay-out provisions.

The following table summarizes the status of the grants:

		December 31, 2009	
		Number of Restricted Units	
		2007 to 2009 Grants	
Outstanding, beginning of year			2,221,443
Granted			2,775,913
Vested			(508,082)
Forfeited			(460,200)
Cash distributions reinvested			529,594
Outstanding, end of year			4,558,668
Weighted average remaining life			1.96 years
		December 31, 2008	
		Number of Restricted Units	
		Pre-2006 Grants	2006 to 2008 Grants
Outstanding, beginning of year		69,915	1,167,613
Granted		–	998,841
Vested		(68,163)	(16,168)
Forfeited		(2,271)	(168,822)
Cash distributions reinvested		519	239,979
Outstanding, end of period		–	2,221,443
Weighted average remaining life			1.63 years

As at December 31, 2009, there were 166,689 (2008 – 227,652) Restricted Units which were not allocated to any specific employee and 3,730,293 (2008 – 2,048,031) Restricted Units associated with the maximum pay out provisions. Total compensation expense for the year ended December 31, 2009 of \$1.9 million (2008 – \$8.8 million) was recorded in the consolidated statement of earnings.

Stock Options

Employee participants

Prior to the inception of the Fund, certain employees were issued options to purchase common shares of Yellow Media Inc. Employees who participated in the equity plan were granted options in equal proportions between time-based vesting and performance-based vesting criteria. Employees who did not participate in the equity plan only received performance-based options. Time-based options were exercisable as to 20% to 33 1/3 % per year on the anniversary of the grant date in each of the three to five subsequent years. Performance-based options were exercisable as to 20% per year on the anniversary of the grant date in each of the five subsequent years provided that YPG Co. achieves specified performance targets. At December 31, 2007, YPG Co. had achieved the performance targets identified at the time of establishment of the Stock Option Plan and all of the performance-based options became exercisable in 2008.

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

December 31, 2009		
	Number of options	Weighted average exercise price per option
Outstanding, beginning of year	394,912	\$ 3.92
Exercised	(10,926)	3.92
Outstanding, end of year	383,986	\$ 3.92
Exercisable, end of year	383,986	\$ 3.92

December 31, 2008		
	Number of options	Weighted average exercise price per option
Outstanding, beginning of year	977,600	\$ 3.92
Exercised	(582,688)	3.92
Outstanding, end of year	394,912	\$ 3.92
Exercisable, end of year	394,912	\$ 3.92

The following table summarizes information about the stock option program as of December 31, 2009:

Options outstanding and exercisable				
Exercise price per option	Number of options	Weighted average remaining life	Weighted average exercise price	Number of options
\$3.92	383,986	2.54 years	\$3.92	383,986

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

20. Supplemental disclosure of cash flow information

Change in operating assets and liabilities:

	For the years ended December 31,	
	2009	2008
Accounts receivable	\$ 33,908	\$ (19,473)
Prepaid expenses	5,100	(2,359)
Deferred publication costs and other assets	12,226	(15,374)
Accounts payable and accrued liabilities	8,342	(19,528)
Deferred revenues	262	2,800
	\$ 59,838	\$ (53,934)

Supplemental information:

	For the years ended December 31,	
	2009	2008
Interest paid	\$ 142,437	\$ 136,415
Dividends on Preferred shares paid, Series 1 and 2	\$ 22,434	\$ 22,750
Income taxes and capital taxes paid	\$ 10,551	\$ 23,306
Additions to fixed assets under capital leases	\$ 1,891	\$ 773
Additions to fixed assets included in accounts payable and accrued liabilities	\$ 6,183	\$ 6,459

Cash and cash equivalents consist of:

	As at December 31,	
	2009	2008
Cash	\$ 36,170	\$ 10,254
Short-term investments	–	14,800
	\$ 36,170	\$ 25,054

21. Commitments and contingencies

a) The Fund has commitments under various leases for premises, equipment and purchase obligations through long-term distribution agreements for each of the next five years and thereafter, as of December 31, 2009, and in the aggregate of:

2010	\$ 45,245
2011	22,319
2012	21,685
2013	20,530
2014	20,261
Thereafter	63,740
	\$ 193,780

Under certain lease agreements, there are inducements for leasehold improvements. The lease inducements are accounted for as part of deferred credits and amount to \$23.5 million. These lease inducements are recorded as a reduction of rent expense on a straight-line basis over the term of the lease.

b) The Fund has four billing and collection services Agreements. The term of the Billing & Collection Services Agreement with Bell Canada ("Bell") expires on December 31, 2014, with an automatic renewal of two successive one-year periods thereafter unless the Fund provides prior notice not to renew. The agreement with TELUS Communications Inc. ("TELUS") includes automatic renewal for successive one-year periods. The agreement with MTS Allstream Inc. expires on October 2, 2016, with two automatic renewal periods for ten years up to a maximum of 30 years. The agreement with Bell Aliant Regional Communications LP ("Bell Aliant") expires on April 30, 2017, with two automatic renewal periods for ten years.

Pursuant to publication agreements with each of Bell, TELUS, MTS Allstream Inc. and Bell Aliant, YPG Co. produces alphabetical listing telephone directories for each of these companies in order for them to meet their regulatory obligations.

YPG Co. also entered into several other agreements with Bell, TELUS, MTS Allstream Inc. and Bell Aliant, providing for the use of listing information and trademarks for the publications of directories. If YPG Co. materially fails to perform its obligations under the publication agreements mentioned above and as a result they are terminated in accordance with their terms, these other agreements with any of Bell, TELUS, MTS Allstream Inc. or Bell Aliant may also be terminated.

c) The Fund entered into directory printing agreements with its printing suppliers to print, bind and furnish alphabetical, classified and combined directories as well as other publications. It also entered into distribution agreements. These agreements will terminate between 2010 and 2020.

d) The Fund is subject to various claims and proceedings which have been instituted against it during the normal course of business for which certain of the claims are provided for and included in accounts payable and accrued liabilities based on management's best estimate of the likelihood of the outcome. Management believes that the disposition of the matters pending or asserted is not expected to have any material adverse effect on the financial position, results of operations or cash flows of the Fund.

22. Financial charges, net

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

	For the years ended December 31,	
	2009	2008
Interest on Medium Term Notes	\$ 107,992	\$ 107,501
Interest on Credit Facilities	8,589	4,281
Interest on Exchangeable Debentures, net of accretion	15,983	16,500
Interest on Commercial paper	5,664	3,969
Standby fees and other financial charges, net	3,665	1,948
Other (credits) charges related to derivative financial instruments	2,707	(200)
Gain on purchase of Series 1 and 2 shares, Medium Term Notes and Exchangeable Debentures, net	(42,763)	–
Amortization of deferred financing costs	8,164	7,186
Write-off of deferred financing costs	1,115	–
Accretion on Exchangeable Debentures	2,444	2,377
Accretion on Series 2 shares	(128)	(124)
Foreign exchange loss (gain)	1,168	(1,177)
	\$ 114,600	\$ 142,261

23. Restructuring and special charges

In connection with the acquisitions of ADS, Trader, MTS Media ("MTS"), Aliant, and YPG USA, the Fund recorded provisions for restructuring and special charges of \$25.8 million, \$38.7 million, \$8.3 million, \$0.9 million, and US\$6.5 million (CDN\$6.9 million), respectively. The Fund has adopted formal plans to integrate and restructure the acquired businesses. Consequently, the Fund established provisions related to planned termination of employment of certain employees of the acquired businesses who were performing functions already available through its existing structure and other restructuring of the acquired businesses' operations. The other special charges are composed mainly of costs to exit or terminate specific leases and contracts which the Fund intends to modify or terminate, and costs related to decommissioning of the existing technology platforms following the integration of the acquired business' operations. The liabilities related to these costs were initially included in the underlying net identifiable assets acquired. During the fourth quarter of 2008, the Fund recorded charges relating to an internal reorganization, workforce reduction, the termination of certain contractual commitments, the acceleration of business process changes in call centers, the discontinuance of under-performing publications, the closure of certain ad centers and other items in the amount of \$36.2 million. Included in these restructuring and special charges of \$36.2 million are write-off of costs totalling \$3.6 million.

During the year, the Fund recorded additional restructuring and special charges of \$40.3 million related to an internal reorganization, workforce reduction and termination of certain contractual commitments. Included in these restructuring and special charges are write-offs of deferred lease improvements, deferred publication costs, fixed assets under capital leases and other amounts totalling \$3.3 million.

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

	Restructuring charges	Other special charges	Total
Balance as at December 31, 2007	\$ 5,281	\$ 9,837	\$ 15,118
Provision related to restructuring	27,098	9,127	36,225
Provision related to the acquisition of YPG USA	5,496	1,374	6,870
Utilized in 2008:			
Cash	(6,621)	(6,915)	(13,536)
Write-off	–	(3,618)	(3,618)
Balance as at December 31, 2008	31,254	9,805	41,059
Provision related to 2009 initiatives	9,574	30,742	40,316
Utilized in 2009:			
Cash	(24,777)	(12,475)	(37,252)
Write-off	–	(3,261)	(3,261)
Balance as at December 31, 2009	\$ 16,051	\$ 24,811	\$ 40,862

24. Financial risk management

Credit Risk

Credit risk stems primarily from the potential inability of a customer or counterparty to a financial instrument to meet its contractual obligations. The Fund is exposed to credit risk with respect to cash and cash equivalents, accounts receivable from customers and derivative financial instruments. The carrying amount of financial assets represents the Fund's maximum exposure.

Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are placed with creditworthy counterparties. An ongoing review is performed to evaluate changes in the status of counterparties.

The Fund's extension of credit to customers involves considerable judgment. The Fund has established internal controls designed to mitigate credit risk, including a formal credit policy managed by its credit department. New customers, customers increasing their advertising spend by a certain threshold and customers not respecting payment terms are subject to a specific vetting and approval process.

The Fund considers that it has limited exposure to concentration of credit risk with respect to accounts receivable from customers due to its large and diverse customer base operating in numerous industries and its geographic diversity. There are no individual customers that account for 1% or more of revenues and there are no accounts receivable from any one individual customer and certified marketing representative that exceeds 5% of the total balance of accounts receivable at any point in time during the period.

Bell, TELUS, MTS Allstream Inc. and Bell Aliant provide the Fund with customer collection services with respect to advertisers who are also their customers. As such they receive money from customers on behalf of the Fund. The Fund retains the ultimate collection risks on these receivables.

Allowance for doubtful accounts and past due receivables are reviewed by management at each balance sheet reporting date. The Fund updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of accounts receivable balances of each customer taking into account historic collection trends of past due accounts. Accounts receivable are written-off once determined not to be collectable.

Pursuant to their respective terms, accounts receivable are aged as follows as at December 31, 2009:

Current	\$ 133,867
Past due less than 180 days	62,867
Past due over 180 days	18,622
Accounts receivable	\$ 215,356

The Fund's accounts receivable are stated after deducting a provision of \$45.8 million at December 31, 2009. The movements in the provision for doubtful accounts were as follows:

	December 31, 2009
Balance, beginning of year	\$ 40,449
Bad debt expense, net of recovery	45,496
Written-off	(40,169)
Balance, end of year	\$ 45,776

	December 31, 2008
Balance, beginning of year	\$ 35,848
Bad debt expense, net of recovery	30,714
Written-off	(26,113)
Balance, end of year	\$ 40,449

In addition, the Fund is exposed to credit risk if counterparties to its derivative financial instruments fail to meet their obligations. The Fund expects that its counterparties will meet their obligations because they are highly-rated financial institutions that have strong credit ratings.

Interest Rate Risk

The Fund is exposed to interest rate risks through its financial obligations bearing variable interest rates. The interest rates on Yellow Media Inc.'s bank facility, commercial paper issuances, and cash and short-term investments are generally based on the Canadian Banker's Acceptance rate. As of December 31, 2009, including the impact of the financial derivatives described below, the net amount exposed to short-term rates fluctuations was \$32.2 million. Based on this exposure as at December 31, 2009, an assumed 0.5 percentage point increase or decrease in the Banker's Acceptance rate would have an unfavourable impact of \$0.1 million impact on net earnings with an equal but opposite effect for an assumed 0.5 percentage point decrease. The Fund is also exposed to fluctuations in long-term interest rates relative to the refinancing of its debt obligations upon their maturity. The interest rate on new long-term debt issuances will be based on the prevailing rates at the time of the refinancing, and will also depend on the tenor of the new debt issued. The Fund manages interest rate risk exposure by having a balanced schedule of debt maturities, as well as a combination of fixed and floating interest rate obligations and uses interest rate derivative products when appropriate to hedge interest rate risk.

The Fund uses derivative contracts to manage the combination of fixed and floating interest rates on its long-term debt and to manage interest rate risk on planned debt issuances.

On April 8, 2008, the Fund terminated the two interest rate swaps with a notional amount of \$75 million each totalling \$150 million, for gross proceeds of \$3.2 million, which equalled the carrying value of these derivative financial instruments at that date. These interest rate swap agreements were originally entered into in February 2006 to convert the fixed interest rate of the Series 6 Medium Term Notes into floating interest rates. The \$3.2 million was deferred and will be amortized over the term of the underlying debt.

In October 2008, the Fund entered into bond forward transactions totalling \$100 million in order to effectively lock in the 5-year Government of Canada rate on a portion of an expected long-term refinancing. These contracts matured in December 2008 and were at rates varying between 2.73% and 2.77%. In December 2008, the Fund terminated

these bond forwards which resulted in a loss of \$2.7 million. The loss was recorded in Other Comprehensive Income and will be transferred to net earnings over the term of the underlying debt which matures in May 2011.

In October 2008, the Fund entered into floating to fixed interest rate swaps to fix the rate on its floating rate exposure to the Canadian Banker's acceptance rate. The Fund was to pay a fixed rate of interest of 2.25% and receive a floating rate corresponding to the Banker's acceptance rate on an amount of \$150 million between November 3, 2008 and May 3, 2009, increasing to \$300 million from May 3, 2009 to January 5, 2010.

The interest rate swaps are comprised of two tranches:

- the first tranche was a \$50 million interest rate swap that increased to \$100 million on May 3, 2009, and
- the second tranche was a \$100 million interest rate swap that increased to \$200 million on May 3, 2009.

The Fund discontinued hedge accounting on the first tranche effective June 1, 2009. On June 19, 2009, the Fund discontinued hedge accounting on the second tranche. All of the accumulated losses on the interest rate swaps remain in accumulated other comprehensive income and will be reclassified to net earnings over the life of the interest rate swaps which mature January 5, 2010. As the Fund continues to hold these swaps, the difference between their fair value from their date of discontinuance of hedge accounting and their value at the balance sheet date is recognized in earnings.

In February 2009, the Fund entered into floating to fixed interest rate swaps to fix the rate on its floating rate exposure to the Canadian Banker's acceptance rate. The Fund was to pay a fixed rate of interest of between 0.73% and 0.74% and receive a floating rate corresponding to the Banker's acceptance rate on an amount of \$200 million between April 21, 2009 and December 21, 2009. On July 22, 2009, the Fund terminated these interest swaps for a loss of \$0.3 million. The accumulated losses on the interest rate swaps remained in accumulated other comprehensive income and were reclassified to net earnings over the life of the interest rate swaps which matured on December 21, 2009.

In August 2009, the Fund also entered into three interest rate swaps totalling \$130 million to hedge the Series 9 Medium Term Notes. The Fund receives interest on these swaps 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. As at December 31, 2009, the interest rate swaps met the criteria for hedge accounting.

Foreign Exchange Risk

The Fund operates in the United States and is exposed to foreign exchange risk arising from various currency transactions. Foreign exchange transaction risk arises primarily from future commercial transactions that are denominated in a currency that is not the functional currency of the Fund's business unit that is party to the transaction. The Fund is exposed to fluctuations in the US dollar. The effect on net earnings and other comprehensive income from existing US dollar exposures of a 1 point increase or decrease in the Canadian/US dollar exchange rate is not significant.

Liquidity Risk

Liquidity risk is the exposure of the Fund to the risk of not being able to meet its financial obligations as they become due. The Fund manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 25 - Capital Disclosures.

The following are the contractual maturities of the financial liabilities and related capital amounts:

	Payments due for the years ending December 31			
	Total	1 – 3 years	4 – 5 years	After 5 years
Non-derivative financial liabilities				
Long-term debt ^{1,2}	\$2,313,894	\$310,549	\$652,500	\$1,350,845
Obligations under capital leases ²	9,027	6,689	2,326	12
Preferred shares, Series 1 and 2 ²	481,408	297,863	–	183,545
	2,804,329	615,101	654,826	1,534,402
Derivative financial liabilities				
Interest rate swaps				
Inflows	(2,691)	(2,691)	–	–
Outflows	3,284	1,413	1,871	–
	593	(1,278)	1,871	–
Total	\$2,804,922	\$613,823	\$656,697	\$1,534,402

¹ Including Exchangeable Debentures

² Principal amount

On December 31, 2009, cash and cash equivalents amounted to \$36.2 million. In addition Yellow Media Inc. may issue additional notes amounting to \$426 million under its commercial paper program and access another \$200 million under its Credit Facilities. Alternatively, if notes are not issued under the commercial paper program, Yellow Media Inc. may access the full \$626 million available under the Credit Facilities.

Fair values

The fair value is the amount at which a financial instrument could be exchanged between willing parties, based on current markets for instruments with the same risk, principal and remaining maturity. Fair value estimates are based on present value and other valuation techniques using rates that reflect those that the Fund could currently obtain, on the market, for loans with similar terms, conditions and maturities.

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, Credit Facilities and commercial paper is approximately equal to their carrying values due to their short-term maturity.

The fair value of the investment classified as available-for-sale, Exchangeable Debentures and Preferred shares is evaluated based on quoted market prices at the balance sheet date.

Fair values of Medium Term Notes and derivative financial instruments are determined based on market rates prevailing at the balance sheet date and obtained from financial institutions for similar financial instruments.

These estimates are significantly affected by assumptions including the amount and timing of estimated future cash flows and discount rates, all of which reflect varying degrees of risk.

The following schedule represents the carrying values and the fair values of other financial instruments:

	December 31, 2009	
	Carrying Value	Fair Value
Other assets		
– investment – available for sale	\$ 646	\$ 646
Long-term debt due within one year	\$ 2,254	\$ 2,254
Long-term debt	\$ 2,225,720	\$ 2,199,289
Exchangeable Debentures ¹	\$ 83,886	\$ 86,767
Preferred shares, Series 1 and 2	\$ 472,777	\$ 431,281
Derivative financial instruments		
– Redemption option on Preferred shares	\$ 2,612	\$ 2,612
– Interest rate swaps - liabilities		
Short – term	\$ 76	\$ 76
Long – term	\$ 719	\$ 719

	December 31, 2008	
	Carrying Value	Fair Value
Other assets		
– investment – available for sale	\$ 228	\$ 228
Long-term debt due within one year	\$ 3,807	\$ 3,807
Long-term debt	\$ 2,420,049	\$ 2,205,828
Exchangeable Debentures ¹	\$ 285,470	\$ 249,479
Preferred shares, Series 1 and 2	\$ 489,072	\$ 318,000
Derivative financial instruments		
– Redemption option on Preferred shares	\$ 4,500	\$ 4,500
– Interest rate swaps	\$ 3,974	\$ 3,974

¹: The carrying value includes the liability portion of the Exchangeable Debentures

Fair value hierarchy

The following table summarizes the financial instruments measured at fair value in the consolidated balance sheet as at December 31, 2009, classified using the fair value hierarchy described in Note 1:

	Level 1	Level 2	Level 3	Total
Financial asset or liability				
Cash	\$36,170	\$–	\$–	\$36,170
Investment – available for sale	646	–	–	646
Interest rate swaps	–	795	–	795
Redemption option on Preferred shares	–	2,612	–	2,612
Total	\$36,816	\$3,407	\$–	\$40,223

The Fund's available-for-sale investment is comprised of an actively traded equity security and is carried at fair value based on available quoted prices.

The Fund's derivatives transactions are accounted for on a fair value basis and are comprised of non-speculative interest rate swaps to hedge interest rate exposures. These derivatives are valued using either industry standard or internally developed valuation models. Where applicable, these models use market-based observable inputs including interest-rate-yield curves, volatility of certain prices or rates and credit spreads. In certain cases, market-based observable inputs are not available and, in those cases, judgment is used to develop assumptions used to

determine fair values. The Fund currently does not use unobservable inputs that are significant to the fair value measurement in its entirety.

At the beginning of the year, the Fund's valuation techniques used were modified to include credit risk spreads upon adoption of EIC 173, *Credit risk and the fair value of financial assets and financial liabilities*. The adoption of this Abstract did not have a significant impact to the fair values established.

25. Capital disclosures

The Fund's objective in managing capital is to:

- Ensure sufficient liquidity to cover financial obligations and investment requirements;
- Preserve access to low-cost funding;
- Maintain or improve investment grade credit ratings; and
- Deliver stable results to investors.

The Fund actively manages and monitors its capital structure and makes adjustments based on the objectives described above in response to changes in economic conditions and the risk characteristics of the underlying assets.

The primary measure used by the Fund to monitor its financial leverage is its ratio of net debt to Latest Twelve Month Adjusted EBITDA¹. The Fund also uses other financial metrics to monitor its financial leverage including net debt and preferred shares to Latest Twelve Month Adjusted EBITDA¹, Fixed Charges Coverage Ratio and Net Debt to Capitalization.

The Fund's capital is comprised of Net debt and Preferred shares and Unitholders' equity as follows:

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

² Represents 8.3 million and 5 million Preferred Shares, Series 3 and 5 issued in September 2009 and December 2009, respectively (2008 – nil).

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

	For the year ended	
	December 31, 2009	December 31, 2008
Latest Twelve Month Adjusted EBITDA ¹	\$ 898,355	\$ 940,630
Net Debt to Latest Twelve Month Adjusted EBITDA ratio ¹	2.5	2.9

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

26. Guarantees

In the normal course of operations, the Fund has entered into agreements that contain certain features which meet the definition of a guarantee under the guidance provided by CICA Accounting Guideline 14, *Disclosure of Guarantees* and which are customary in the industry.

The Fund has entered into agreements which contain indemnification of its trustees and officers indemnifying them against expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the trustees and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the Fund. The Fund benefits from directors' and officers' liability insurance which is purchased by the Fund. No amount has been accrued in the consolidated balance sheet as of December 31, 2009, with respect to this indemnity.

Pursuant to the acquisitions of Aliant, LesPAC, and YPG USA, the Fund has entered into agreements whereby the Fund agrees to indemnify and hold harmless the vendors from and against any and all claims, liabilities, costs and expenses arising out of, based upon or related to (i) any breach by the Fund in the performance of its obligations under these agreements and (ii) any breach of a representation contained herein. Furthermore, agreements entered into by Trader and its predecessor companies prior to the acquisition contain indemnifications similar to the ones just described. No amount has been accrued in the consolidated balance sheet as December 31, 2009, with respect to these indemnities.

The nature of these guarantees prevents the Fund from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties.

27. Segmented information

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

The tables below summarize the selected financial information by segment:

YELLOW PAGES INCOME FUND

Notes to the Consolidated Financial Statements – December 31, 2009 and 2008
(all tabular amounts are in thousands of Canadian dollars, except unit information)

	For the year ended December 31, 2009		
	Directories ¹	Vertical Media	Consolidated
Revenues	\$ 1,392,029	\$ 247,855	\$ 1,639,884
Operating costs	570,125	176,321	746,446
Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges	821,904	71,534	893,438
Depreciation and amortization	109,846	32,568	142,414
Impairment of goodwill	–	315,000	315,000
Restructuring and special charges	33,735	6,581	40,316
Income (loss) from operations	\$ 678,323	\$ (282,615)	\$ 395,708

	For the year ended December 31, 2008		
	Directories ¹	Vertical Media	Consolidated
Revenues	\$ 1,376,036	\$ 320,677	\$ 1,696,713
Operating costs	551,528	212,479	764,007
Income from operations before depreciation and amortization and restructuring and special charges	824,508	108,198	932,706
Depreciation and amortization	157,376	28,689	186,065
Restructuring and special charges	24,068	12,157	36,225
Income from operations	\$ 643,064	\$ 67,352	\$ 710,416

¹ Included in the Directories segment are the results of YPG USA. Consequently, \$37.2 million (2008 - \$12.3 million) of revenues are included for the year ended December 31, 2009 and were generated in the United States of America. Revenues are attributed to countries based on the location of the customer.

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

	December 31, 2008		
	Directories ¹	Vertical Media ²	Consolidated
Intangibles	\$ 1,768,649	\$ 333,817	\$ 2,102,466
Goodwill	\$ 5,685,280	\$ 963,387	\$ 6,648,667
Total assets	\$ 7,971,215	\$ 1,395,004	\$ 9,366,219

¹ Included in the Directories segment is goodwill of \$56 million (December 31, 2008 – \$63 million) and capital assets of \$86.2 million at December 31, 2009 (December 31, 2008 – \$125.2 million) relating to YPG USA. Included in the total assets of the Directories segment is \$2.4 million (2008 – nil) related to the recent equity-investment acquisition.

² The amount of investment in Dealer.com of \$32.6 million (2008 – nil) is included in the total assets of the Vertical Media segment.

	For the years ended December 31,	
	2009	2008
Additions to fixed assets¹		
Directories	\$ 32,767	\$ 25,732
Vertical Media	\$ 13,276	\$ 17,456
Additions to intangible assets		
Directories	\$ 246	\$ 100
Vertical Media	\$ –	\$ –

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

28. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

29. Subsequent events

Financing

On January 15, 2010 the Fund redeemed all of its outstanding \$150 million 4.65% Medium Term Notes, Series 6 which were due February 28, 2011. The Fund financed the purchase with drawings under the commercial paper program. The Fund redeemed the Series 6 Medium Term Notes at a redemption price of \$1,041.681 per \$1,000 principal amount in accordance with the terms of the Series 6 Notes and the provisions of the trust indenture dated April 21, 2004.

Acquisition

On January 5, 2010 Trader acquired an additional 10% equity interest in Dealer.com for US\$20 million, bringing its total equity interest to approximately 30%. The acquisition was financed with drawings under existing credit facilities and cash on hand. This increase in ownership has not been accounted for in these financial statements.