

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW MEDIA INC.

June 30, 2012

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Interim Condensed Consolidated Statements of Financial Position

(in thousands of Canadian dollars - unaudited)

| | As at June 30, 2012 | As at December 31, 2011 |
|---|---------------------|-------------------------|
| ASSETS | | (audited) |
| CURRENT ASSETS | | |
| Cash | \$ 375,535 | \$ 84,186 |
| Trade receivables | 171,890 | 166,586 |
| Prepaid expenses | 5,577 | 5,017 |
| Deferred publication costs and other assets | 86,981 | 94,770 |
| TOTAL CURRENT ASSETS | 639,983 | 350,559 |
| DEFERRED PUBLICATION COSTS | 8,166 | 7,484 |
| FINANCIAL AND OTHER ASSETS | 16,604 | 14,879 |
| INVESTMENTS IN ASSOCIATES | 1,902 | 3,616 |
| PROPERTY, PLANT AND EQUIPMENT | 39,245 | 46,496 |
| INTANGIBLE ASSETS | 1,627,277 | 1,658,051 |
| GOODWILL (Note 3) | - | 2,967,847 |
| DEFERRED INCOME TAXES | 903 | - |
| TOTAL NON-CURRENT ASSETS | 1,694,097 | 4,698,373 |
| TOTAL ASSETS | \$ 2,334,080 | \$ 5,048,932 |
| LIABILITIES AND EQUITY (DEFICIENCY) | | |
| CURRENT LIABILITIES | | |
| Trade and other payables | \$ 146,265 | \$ 156,482 |
| Current income tax liabilities | 23,320 | 22,974 |
| Provisions | 37,576 | 48,300 |
| Deferred revenues | 48,017 | 54,805 |
| Current portion of long-term debt (Notes 5 and 15) | 395,710 | 102,339 |
| Preferred shares Series 1 (Notes 7 and 15) | 250,428 | 249,713 |
| TOTAL CURRENT LIABILITIES | 901,316 | 634,613 |
| DEFERRED CREDITS | 15,530 | 16,536 |
| DEFERRED INCOME TAXES | 67,205 | 119,305 |
| INCOME TAX LIABILITIES | 34,178 | 43,806 |
| POST-EMPLOYMENT BENEFITS | 315,651 | 298,796 |
| DEFERRED CONSIDERATION | 968 | 6,570 |
| LONG-TERM DEBT (Notes 5 and 15) | 1,405,408 | 1,510,892 |
| CONVERTIBLE INSTRUMENTS (Notes 6 and 15) | 185,323 | 184,214 |
| PREFERRED SHARES SERIES 2 (Notes 7 and 15) | 149,361 | 149,173 |
| TOTAL NON-CURRENT LIABILITIES | 2,173,624 | 2,329,292 |
| TOTAL LIABILITIES | 3,074,940 | 2,963,905 |
| CAPITAL AND RESERVES | 6,395,659 | 6,398,132 |
| DEFICIT | (7,137,348) | (4,313,907) |
| EQUITY (DEFICIENCY) ATTRIBUTABLE TO SHAREHOLDERS | (741,689) | 2,084,225 |
| NON-CONTROLLING INTERESTS | 829 | 802 |
| TOTAL EQUITY (DEFICIENCY) | (740,860) | 2,085,027 |
| TOTAL LIABILITIES AND EQUITY (DEFICIENCY) | \$ 2,334,080 | \$ 5,048,932 |

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

Interim Condensed Consolidated Income Statements

For the periods ended June 30,

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

| | Three months | | Six months | |
|---|------------------|--------------------|-----------------------|--------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenues | \$ 286,484 | \$ 342,738 | \$ 575,557 | \$ 692,110 |
| Operating costs | 141,240 | 166,262 | 284,296 | 325,599 |
| Income from operations before depreciation and amortization, impairment of goodwill, recapitalization and acquisition-related costs and restructuring and special charges | 145,244 | 176,476 | 291,261 | 366,511 |
| Depreciation and amortization | 24,220 | 47,735 | 54,301 | 100,103 |
| Impairment of goodwill (Note 3) | - | - | 2,967,847 | - |
| Recapitalization and acquisition-related costs | 5,487 | 6,233 | 5,487 | 7,036 |
| Restructuring and special charges | - | 11,888 | - | 11,888 |
| Income (loss) from operations | 115,537 | 110,620 | (2,736,374) | 247,484 |
| Financial charges, net (Note 11) | 35,496 | 37,484 | 67,621 | 84,626 |
| Earnings (loss) before dividends on Preferred shares, series 1 and 2, income taxes and impairment and (earnings) losses from investments in associates | 80,041 | 73,136 | (2,803,995) | 162,858 |
| Dividends on Preferred shares, series 1 and 2 | 4,563 | 4,947 | 9,126 | 10,079 |
| Earnings (loss) before income taxes and impairment and (earnings) losses from investments in associates | 75,478 | 68,189 | (2,813,121) | 152,779 |
| Provision (recovery) for income taxes | 7,885 | 34,751 | (9,850) | 41,352 |
| Impairment of investment in associate (net of income taxes) | - | 50,271 | - | 50,271 |
| (Earnings) losses from investments in associates | (101) | 3,865 | (1,713) | 11,401 |
| Net earnings (loss) from continuing operations | 67,694 | (20,698) | (2,801,558) | 49,755 |
| Net earnings (loss) from discontinued operations, net of income taxes (Note 4) | - | 6,448 | - | (98,594) |
| Net earnings (loss) | \$ 67,694 | \$ (14,250) | \$ (2,801,558) | \$ (48,839) |
| Net earnings (loss) attributable to: | | | | |
| Common shareholders of Yellow Media Inc. | \$ 67,654 | (17,965) | (2,801,585) | (51,394) |
| Non-controlling interests ¹ | 40 | 3,715 | 27 | 2,555 |
| | \$ 67,694 | \$ (14,250) | \$ (2,801,558) | \$ (48,839) |
| Basic earnings (loss) per share attributable to common shareholders | | | | |
| From continuing operations | \$ 0.12 | (0.05) | (5.49) | 0.08 |
| Total | \$ 0.12 | (0.05) | (5.49) | (0.12) |
| Weighted average shares outstanding – basic earnings (loss) per share (Note 9) | 512,595,314 | 514,623,616 | 512,595,314 | 512,525,771 |
| Diluted earnings (loss) per share attributable to common shareholders | | | | |
| From continuing operations | \$ 0.09 | (0.05) | (5.49) | 0.07 |
| Total | \$ 0.09 | (0.05) | (5.49) | (0.11) |
| Weighted average shares outstanding – diluted earnings (loss) per share (Note 9) | 747,464,654 | 514,623,616 | 512,595,314 | 559,795,449 |

¹ Included in the net earnings (loss) attributable to non-controlling interests for the three and six-month periods ended June 30, 2012 is \$nil (2011 – earnings of \$3.9 million and \$2.9 million, respectively) related to discontinued operations.

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

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

For the periods ended June 30,

(in thousands of Canadian dollars - unaudited)

| | Three months | | Six months | |
|---|------------------|--------------------|-----------------------|--------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net earnings (loss) | \$ 67,694 | \$ (14,250) | \$ (2,801,558) | \$ (48,839) |
| Other comprehensive (loss) income, net of related income taxes: | | | | |
| Reclassification adjustment on derivatives designated as cash flow hedges in the period ¹ | (59) | 120 | (117) | 247 |
| Unrealized loss on available-for-sale investment in the period ² | (177) | (80) | (290) | (16) |
| Unrealized exchange differences on translating financial statements of foreign operations and foreign associates ³ | - | 90 | - | (4,479) |
| Actuarial losses ⁴ (Note 8) | (21,856) | - | (21,856) | - |
| Other comprehensive (loss) income | (22,092) | 130 | (22,263) | (4,248) |
| Total comprehensive income (loss) | \$ 45,602 | \$ (14,120) | \$ (2,823,821) | \$ (53,087) |
| Total comprehensive income (loss) attributable to: | | | | |
| Common shareholders of Yellow Media Inc. | \$ 45,562 | \$ (18,017) | \$ (2,823,848) | \$ (54,047) |
| Non-controlling interests | 40 | 3,897 | 27 | 960 |
| | \$ 45,602 | \$ (14,120) | \$ (2,823,821) | \$ (53,087) |

¹ Net of income taxes recovery of \$22 (2011 – \$53 expense) for the three-month period and \$43 (2011 – \$110 expense) for the six-month period ended June 30, 2012, respectively.

² Net of income taxes of \$nil for the three and six-month periods ended June 30, 2012 (2011 – \$nil).

³ Unrealized exchange differences on translating financial statements of foreign operations and foreign associates include \$nil (2011 – \$0.4 million gain for the three-month period ended June 30, 2011 and \$2.9 million loss for the six-month period ended June 30, 2011) for discontinued operations and \$nil for continuing operations (2011 - \$0.3 million loss for the three-month period ended June 30, 2011 and \$1.6 million loss for the six-month period ended June 30, 2011).

⁴ Net of income taxes of \$7.8 million for the three and six-month periods ended June 30, 2012 (2011 – \$nil).

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

Interim Condensed Consolidated Statements of Changes in Equity (Deficiency)

For the six-month periods ended June 30,
(in thousands of Canadian dollars - unaudited)

| | Shareholders' Capital | Restricted Shares | Preferred Shares | Compound financial instruments ¹ | Stock-based compensation and other reserves | Reduction of capital reserve |
|------------------------------------|--------------------------|----------------------|---------------------|---|--|---------------------------------|
| Balance, December 31, 2011 | \$ 3,554,715 | \$ (54,974) | \$ 320,687 | \$ 7,423 | \$ 113,693 | \$ 2,457,053 |
| Other comprehensive loss | – | – | – | – | – | – |
| Net loss for the period | – | – | – | – | – | – |
| Total comprehensive loss | – | – | – | – | – | – |
| Stock options (Note 10) | – | – | – | – | 121 | – |
| Restricted shares (Note 10) | – | – | – | – | 289 | – |
| Restricted shares vested (Note 10) | – | – | – | – | – | – |
| Deferred consideration | – | – | – | – | (2,476) | – |
| Balance, June 30, 2012 | \$ 3,554,715 | \$ (54,974) | \$ 320,687 | \$ 7,423 | \$ 111,627 | \$ 2,457,053 |

| | Shareholders' Capital | Restricted Shares | Preferred Shares | Compound financial instruments ¹ | Stock-based compensation and other reserves | Reduction of capital reserve |
|---|--------------------------|----------------------|---------------------|---|--|---------------------------------|
| Balance, December 31, 2010 | \$ 4,079,838 | \$ (78,135) | \$ 328,880 | \$ 7,423 | \$ 139,976 | \$ 2,000,000 |
| Other comprehensive loss | – | – | – | – | – | – |
| Net loss for the period | – | – | – | – | – | – |
| Total comprehensive loss | – | – | – | – | – | – |
| Issuance (exchange of shares) | 60,072 | – | (1,875) | – | – | – |
| Repurchase of shares | (88,419) | – | (3,175) | – | – | (42,947) |
| Stock options (Note 10) | – | – | – | – | 254 | – |
| Restricted shares (Note 10) | – | (2,074) | – | – | (908) | – |
| Restricted shares vested (Note 10) | – | 26,010 | – | – | (26,010) | – |
| Dividends | – | – | – | – | – | – |
| Dividends on Preferred shares, Series 3, 5 and 7 | – | – | – | – | – | – |
| Balance, June 30, 2011 | \$ 4,051,491 | \$ (54,199) | \$ 323,830 | \$ 7,423 | \$ 113,312 | \$ 1,957,053 |

¹ The equity component of the convertible debentures presented above is net of income taxes of \$2.7 million (2011 - \$2.7 million).

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

| | | | | | | | | 2012 |
|-------------------------------|------------------|------------------------------|----------------------|-----------------------|--|---------------------------|---------------------------|------|
| Available for sale investment | Cash flow hedges | Foreign currency translation | Capital and Reserves | Deficit | Equity (Deficiency) attributable to shareholders | Non-controlling interests | Total Equity (Deficiency) | |
| \$ 144 | \$ 989 | \$ (1,598) | \$ 6,398,132 | \$ (4,313,907) | \$ 2,084,225 | \$ 802 | \$ 2,085,027 | |
| (290) | (117) | – | (407) | (21,856) | (22,263) | – | (22,263) | |
| – | – | – | – | (2,801,585) | (2,801,585) | 27 | (2,801,558) | |
| (290) | (117) | – | (407) | (2,823,441) | (2,823,848) | 27 | (2,823,821) | |
| – | – | – | 121 | – | 121 | – | 121 | |
| – | – | – | 289 | – | 289 | – | 289 | |
| – | – | – | – | – | – | – | – | |
| – | – | – | (2,476) | – | (2,476) | – | (2,476) | |
| \$ (146) | \$ 872 | \$ (1,598) | \$ 6,395,659 | \$ (7,137,348) | \$ (741,689) | \$ 829 | \$ (740,860) | |

| | | | | | | | | 2011 |
|-------------------------------|------------------|------------------------------|----------------------|-----------------------|-------------------------------------|---------------------------|---------------------|------|
| Available for sale investment | Cash flow hedges | Foreign currency translation | Capital and Reserves | Deficit | Equity attributable to shareholders | Non-controlling interests | Total Equity | |
| \$ 225 | \$ 1,077 | \$ (2,373) | \$ 6,476,911 | \$ (1,260,974) | \$ 5,215,937 | \$ 52,568 | \$ 5,268,505 | |
| (16) | 247 | (2,884) | (2,653) | – | (2,653) | (1,595) | (4,248) | |
| – | – | – | – | (51,394) | (51,394) | 2,555 | (48,839) | |
| (16) | 247 | (2,884) | (2,653) | (51,394) | (54,047) | 960 | (53,087) | |
| – | – | – | 58,197 | – | 58,197 | – | 58,197 | |
| – | – | – | (134,541) | 85,712 | (48,829) | – | (48,829) | |
| – | – | – | 254 | – | 254 | – | 254 | |
| – | – | – | (2,982) | – | (2,982) | – | (2,982) | |
| – | – | – | – | – | – | – | – | |
| – | – | – | – | (166,985) | (166,985) | – | (166,985) | |
| – | – | – | – | (11,372) | (11,372) | – | (11,372) | |
| \$ 209 | \$ 1,324 | \$ (5,257) | \$ 6,395,186 | \$ (1,405,013) | \$ 4,990,173 | \$ 53,528 | \$ 5,043,701 | |

Interim Condensed Consolidated Statements of Cash Flows

For the six-month periods ended June 30,

(in thousands of Canadian dollars - unaudited)

| | 2012 | 2011 |
|---|-------------------|------------------|
| OPERATING ACTIVITIES | | |
| Net (loss) earnings from continuing operations | \$ (2,801,558) | \$ 49,755 |
| Adjusting items | | |
| Depreciation and amortization | 54,301 | 100,103 |
| Impairment of goodwill | 2,967,847 | – |
| Stock-based compensation expense (reversal) | 526 | (804) |
| Impairment of investment in associate | – | 50,271 |
| (Earnings) losses from investments in associates | (1,713) | 11,401 |
| Other non-cash items | (1,006) | 1,311 |
| Income taxes (recovery) recognized in net earnings (loss) | (9,850) | 41,352 |
| Financial charges recognized in net earnings (loss) | 67,621 | 84,626 |
| Change in operating assets and liabilities | (30,425) | (32,746) |
| Funding of post-employment benefit plans in excess of costs | (14,923) | – |
| Income taxes paid | (43,731) | (34,317) |
| Interest paid | (59,905) | (71,328) |
| | 127,184 | 199,624 |
| INVESTING ACTIVITIES | | |
| Acquisition of intangible assets | (15,306) | (22,475) |
| Acquisition of property, plant and equipment | (1,606) | (8,352) |
| Other | 183 | (1,225) |
| | (16,729) | (32,052) |
| FINANCING ACTIVITIES | | |
| Issuance of long-term debt and commercial paper | 239,000 | 591,000 |
| Repayment of long-term debt and commercial paper | (50,703) | (392,611) |
| Redemption of exchangeable and convertible instruments | – | (106,172) |
| Dividends to shareholders | – | (145,361) |
| Repurchase of Preferred shares, series 1 and 2 and medium term notes | – | (39,997) |
| Repurchase of common shares and Preferred shares, Series 3 and 5 | – | (48,616) |
| Dividends on Preferred shares, series 3, 5 and 7 | – | (11,372) |
| Stock-based compensation (Note 10) | – | (2,074) |
| Deferred consideration | (1,800) | (3,558) |
| Proceeds on settlement of derivative financial instruments | – | 3,819 |
| Other | (5,603) | – |
| | 180,894 | (154,942) |
| Effect of exchange rate changes on cash denominated in foreign currencies | – | (792) |
| NET INCREASE IN CASH | 291,349 | 11,838 |
| CASH FLOWS FROM DISCONTINUED OPERATIONS (Note 4) | – | 6,169 |
| CASH, BEGINNING OF PERIOD | 84,186 | 69,325 |
| CASH, END OF PERIOD | \$ 375,535 | \$ 87,332 |

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

1. Description

Yellow Media Inc. through its subsidiaries, operates print and digital media and marketing solutions in all the Provinces of Canada. References herein to Yellow Media Inc. (or the “Company”) represent the financial position, results of operations, cash flows and disclosures of Yellow Media Inc. and its subsidiaries on a consolidated basis.

Yellow Media Inc.’s registered office is located at 16, Place du Commerce, Montreal, Quebec, Canada, H3E 2A5 and is listed on the Toronto Stock Exchange (“TSX”).

The Board of Directors approved the unaudited interim condensed consolidated financial statements for the three and six-month periods ended June 30, 2012 and authorized their publication on August 9, 2012.

2. Basis of presentation and upcoming revised standards

2.1. Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. The accounting policies and methods of computation applied in these interim condensed consolidated financial statements are the same as those applied by Yellow Media Inc. in its financial statements as at and for the year ended December 31, 2011. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011.

2.2. Standards, interpretations and amendments adopted with no effect on the financial statements

The following revised Standard has been adopted and its adoption has not had any impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements:

IFRS 7 (Revised) – Financial Instruments: Disclosures (Amendments) – Transfer of financial assets

Other amendments to IFRS 7 will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The IFRS 7 Amendments are effective for annual periods beginning on or after July 1, 2011.

IAS 12 (Revised) – Deferred Tax: Recovery of Underlying Assets and SIC-21 (amendments), Income Taxes – Recovery of Revalued Non-Depreciable Assets

The amendment introduces a rebuttable presumption that an investment property measured using the fair value model is recovered entirely through sale unless the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits over time. As a result of the amendments, SIC-21 would no longer apply to investment properties carried at fair value. The IAS 12 amendments are effective for annual reporting periods beginning on or after January 1, 2012.

2.3. Standards, interpretations and amendments to published standards that are issued but not yet effective

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory for Yellow Media Inc.’s accounting periods beginning on or after January 1, 2013. Yellow Media Inc. has not early adopted these standards and has not fully assessed the impact of adopting them. Those which are considered to be relevant to Yellow Media Inc.’s operations are as follows:

IFRS 7 (Revised) – Financial Instruments: Disclosures and IAS 32 – Financial Instruments: Presentation in respect of Offsetting

On December 16, 2011 the International Accounting Standards Board (“IASB”) and Financial Accounting Standards Board (“FASB”) issued common disclosure requirements that are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company’s financial position. The new requirements are set out in Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). The IFRS 7 amendments are effective for annual reporting periods beginning on or after January 1, 2013.

As part of this project the IASB also clarified aspects of IAS 32, Financial Instruments: Presentation. The amendments to IAS 32 address inconsistencies in current practice when applying the requirements. The amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively.

IFRS 9 - Financial Instruments

IFRS 9 is the first phase of the IASB's three phase project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for de-recognition.

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability and the elimination of the cost exemption for derivative liabilities to be settled by delivery of unquoted equity instruments.

IFRS 9 is applied prospectively with transitional arrangements depending on the date of application. The Standard is not applicable until annual periods beginning on or after January 1, 2015, however is available for early adoption.

IFRS 10 – Consolidated Financial Statements

IFRS 10 replaces the consolidation requirements in IAS 27, Consolidated and Separate Financial Statements, and SIC-12 Consolidation - Special Purpose Entities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted, provided IFRS 11, IFRS 12 and the related amendments to IAS 27 and 28 (the "package of five") are adopted at the same time.

IFRS 11 – Joint Arrangements

IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities - Non-Monetary Contributions by Venturer. IFRS 11 requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement. The standard also requires the use of a single method to account for interests in jointly controlled entities, namely the equity method. IFRS 11 is applicable at the same time as IFRS 10.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 is a new standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is applicable at the same time as IFRS 10. In June 2012, the IASB issued amendments to IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, and IFRS 12, Disclosure of Interests in Other Entities which will also be effective for the Company at the time of adoption of these standards for the fiscal year beginning on January 1, 2013.

IFRS 13 – Fair Value Measurement

IFRS 13 is a new standard that defines fair value and requires disclosures about fair value measurements. IFRS 13 is effective for fiscal years beginning on or after January 1, 2013. Earlier application is permitted. It applies prospectively from the beginning of the annual period in which it is adopted.

IAS 1 (Revised) – Presentation of Financial Statements

On June 16, 2011, the IASB issued amendments to IAS 1, Presentation of Financial Statements, which require entities to group together items within Other Comprehensive Income ("OCI") that may be reclassified to the profit or loss section of the income statement and to separately group together items that will not be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that profit or loss and OCI should be presented as either a single statement or two consecutive statements. The amendments are effective for financial years commencing on or after July 1, 2012. In May 2012, the IASB issued further amendments to IAS 1 – Presentation of Financial Statements which are effective for annual periods beginning on or after January 1, 2013 with early application permitted.

IAS 19 (Revised) – Employee Benefits

A revised version of IAS 19 was issued in June 2011 and is effective for financial years beginning on or after January 1, 2013. Early application is permitted. The main change of this revised version is the elimination of the corridor approach, with all changes to the defined benefit obligation and plan assets recognized when they occur.

IAS 16 – Property Plant and Equipment, IAS 32 – Financial Instruments and IAS 34 – Interim Financial Reporting

In May 2012, the IASB also issued amendments to IAS 16, Property, Plant and Equipment, IAS 32, Financial Instruments: Presentation and IAS 34, Interim Financial Reporting which are effective for annual periods beginning on or after January 1, 2013 with early application permitted. These amendments clarify various requirements.

3. Impairment of goodwill

During the first quarter of 2012, several new events and circumstances were identified which indicated that the Company's assets may be impaired. This included a significant change in revenue trends impacting the Company's long-term revenue mix, an updated five-year plan taking into account the lower than expected revenue performance, and external factors such as the sale of AT&T of its directory business.

As a result of these internal and external sources of information, management concluded that there were indicators that the Company's assets may have been impaired, requiring the Company to perform an impairment analysis of its goodwill, intangible and other long-lived assets. Following the completion of an impairment analysis, the Company recorded a goodwill impairment charge of \$2.968 billion during the first quarter of 2012.

Goodwill was tested for impairment at the lowest level within the Company at which the goodwill is monitored for internal management purposes; the Directories segment (group of CGU's), the only reportable segment of the Company.

The recoverable amount resulting in the goodwill impairment charge of \$2.968 billion was determined based on the value-in-use approach using a discounted cash flow model. The significant key assumptions included forecasted cash flows based on financial plans prepared by management covering a five-year period taking into consideration the minimum liquidity requirements of the Company. The discounted cash flow model was established using discount rates ranging from 10% to 20% (pre-tax rates ranging from 12.4% to 25.5%), which assumed a cost of equity between 13% and 14%, a cost of debt between 10% and 10.5% and terminal growth rates ranging from -10% to 3.5%. The forecasted cash flows also incorporated forecasted print revenue rate declines per annum between 14% to 23% and online revenue growth rates per annum between 11% to 27%. As discussed above, this impairment charge was the result of a combination of factors, including a significant change in revenue trends, lower-than-expected growth of online revenues and higher than expected print revenue pressure. It also took into consideration the challenges and the execution risk associated with this business and the industry in which the Company operates in and the inherent difficulties in long-term forecasting as the Company transforms itself. This impairment charge did not affect the Company's operations, its liquidity, its cash flows from operating activities, its bank credit agreement or its note indentures.

The recoverable amount of each CGU was determined based on the value-in-use approach. These calculations used cash flow projections based on financial plans prepared by management covering a five-year period. Cash flows beyond the periods of the plan were extrapolated using the long-term growth rates stated below. The allocation of intangible assets and goodwill as at March 31, 2012 by CGU or group of CGUs, prior to the impairment charge and the key assumptions used for value-in-use calculations for both March 31, 2012 and December 31, 2011 are presented below:

| | March 31, 2012 | | | | | | | |
|--|---------------------------|---------------|------------------|--------------|--------------|--------|----|------------------------|
| | Yellow Pages Group | | Mediative | Other | Total | | | |
| Intangible assets by CGUs | | | | | | | | |
| Trademarks and domain names | \$ | 1,058,309 | \$ | 7,978 | \$ | 24,555 | \$ | 1,090,842 |
| Trademarks and domain names with finite lives | \$ | 7,100 | \$ | - | \$ | 1,298 | \$ | 8,398 |
| Non-competition agreements and logos | \$ | 451,731 | \$ | 7,601 | \$ | 1,383 | \$ | 460,715 |
| Customer - related intangible assets | \$ | - | \$ | 3,036 | \$ | - | \$ | 3,036 |
| Software | \$ | 74,975 | \$ | - | \$ | 3,133 | \$ | 78,108 |
| Goodwill | | n/a | | n/a | | n/a | \$ | 2,967,847 ¹ |
| Key assumptions : | | | | | | | | |
| Terminal growth rate | | | | | | | | |
| March 31, 2012 | | -10% – 2.50% | | 3.50% | | 3.50% | | -10% – 3.50% |
| December 31, 2011 | | 2.50% | | 3.50% | | 3.50% | | 2.50% – 3.50% |
| Discount rate – post-tax | | | | | | | | |
| March 31, 2012 | | 10% – 19% | | 20% | | 16.5% | | 10% – 20% |
| December 31, 2011 | | 11% | | 20% | | 16.5% | | 11% – 20% |
| Discount rate – pre-tax | | | | | | | | |
| March 31, 2012 | | 12.4% – 24.1% | | 25.5% | | 20.7% | | 12.4% – 25.5% |
| December 31, 2011 | | 15% | | 25% | | 21% | | 15% – 25% |

¹ Prior to the impairment charge of \$2.968 billion as discussed above.

As a majority of the intangible assets do not generate cash inflows that are largely independent of those from other assets or group of assets, the Company performs its impairment analysis of its intangible assets at the cash generating unit ("CGU") level. The significant CGUs of the Company are as follows: Yellow Pages Group, Mediative and Other (includes multiple CGUs for which the carrying value of its intangibles and other long-lived assets is not significant in comparison with the Company's total carrying amount of intangible and other long-lived assets).

4. Discontinued operations

Trader Corporation

On March 25, 2011, Yellow Media Inc. announced that it had reached a definitive agreement to sell Trader (the “disposed business”) to funds advised by Apax Partners. On July 28, 2011, the divestiture of the disposed business was completed for proceeds of \$702 million, net of fees, working capital and other adjustments. The purchase price consideration included a note receivable of \$11 million, discounted, which is recorded in Financial and Other Assets in the statements of financial position. The note has a stated value of \$15 million, matures on July 28, 2020 and carries an interest rate of 8%.

As a result of the above, for the three and six-month periods ended June 30, 2011, Yellow Media Inc. classified the results of the disposed businesses, up to the date of disposal, as discontinued operations.

Analysis of net earnings (loss) from discontinued operations for the three and six-month periods ended June 30, 2011 are as follows:

| | Three months | Six months |
|---|-----------------|--------------------|
| Revenues | \$ 67,786 | \$ 128,434 |
| Operating costs | 53,430 | 98,079 |
| Depreciation and amortization | - | 16,065 |
| Other | (565) | (343) |
| Earnings from discontinued operations before income taxes, share of losses from investment in associates and loss on disposal | 14,921 | 14,633 |
| Provision for income taxes | 4,921 | 4,044 |
| Share of losses from investment in associates | 106 | 128 |
| Loss on disposal, net of income taxes recovery of \$6.1 million | 3,446 | 109,055 |
| Net earnings (loss) from discontinued operations | \$ 6,448 | \$ (98,594) |

Cash flows from discontinued operations for the six-month period ended June 30, 2011 are as follows:

| | | |
|---|----|----------|
| Cash from (used in): | | |
| Operating activities | \$ | 26,833 |
| Investing activities | | (20,346) |
| Financing activities | | (318) |
| Net increase in cash from discontinued operations | \$ | 6,169 |

The real estate, employment and LesPAC.com businesses were excluded from the divestiture. Yellow Media Inc. sold the assets of LesPAC.com on November 14, 2011. The real estate and employment business continues to be owned and managed by Yellow Media Inc.

5. Long-term debt

| June 30, 2012 | | | | |
|--|---------------------|---|-----------------------------|---------------------|
| | Principal amount | Fair value adjustment of hedged item | Deferred financing costs | Total |
| Medium term notes | \$ 1,405,505 | \$ 6,688 | \$ (8,088) | \$ 1,404,105 |
| Credit facilities | 394,000 | - | - | 394,000 |
| Obligations under finance leases | 3,013 | - | - | 3,013 |
| | 1,802,518 | 6,688 | (8,088) | 1,801,118 |
| Less current portion of long-term debt | 395,710 | - | - | 395,710 |
| | \$ 1,406,808 | \$ 6,688 | \$ (8,088) | \$ 1,405,408 |

| December 31, 2011 | | | | |
|--|---------------------|---|-----------------------------|---------------------|
| | Principal amount | Fair value adjustment of hedged item | Deferred financing costs | Total |
| Medium term notes | \$ 1,405,505 | \$ 7,964 | \$ (9,386) | \$ 1,404,083 |
| Credit facilities | 205,000 | - | - | 205,000 |
| Obligations under finance leases | 4,148 | - | - | 4,148 |
| | 1,614,653 | 7,964 | (9,386) | 1,613,231 |
| Less current portion of long-term debt | 102,339 | - | - | 102,339 |
| | \$ 1,512,314 | \$ 7,964 | \$ (9,386) | \$ 1,510,892 |

Yellow Media Inc. is required to make quarterly repayments of \$25 million on the outstanding balance of the non-revolving tranche of the credit facilities, commencing in January 2012 through January 2013. The Company began its mandatory repayments of \$25 million in January 2012.

Once the non-revolving facility is repaid it may not be re-borrowed. The maturity date for the repayment of the remainder of the outstanding borrowings under the credit facilities remains February 18, 2013.

As of June 30, 2012, \$155 million was outstanding on the non-revolving tranche of the credit facilities and \$239 million on the revolving tranche. The revolving facilities may be used for general corporate purposes.

Yellow Media Inc. was in compliance with all of its debt covenants as at June 30, 2012.

Please refer to the description of the proposed recapitalization in Note 15 – Subsequent event.

Future repayments

Future principal repayments to be made during the next five years and thereafter ending June 30 are as follows:

| | Long-term debt ¹ |
|------------|-----------------------------|
| 2013 | \$ 394,000 |
| 2014 | 509,733 |
| 2015 | 138,100 |
| 2016 | 319,877 |
| 2017 | - |
| Thereafter | 437,795 |
| | \$ 1,799,505 |

¹ Excludes obligations under finance leases.

6. Convertible instruments

| | June 30, 2012 | December 31, 2011 |
|--------------------------|-------------------|-------------------|
| Principal amount | \$ 200,000 | \$ 200,000 |
| Equity component | (10,139) | (10,139) |
| Accretion | 2,292 | 1,685 |
| Deferred financing costs | (6,830) | (7,332) |
| | \$ 185,323 | \$ 184,214 |

The convertible unsecured subordinated debentures (“Convertible Debentures”) bear interest payable semi-annually at a rate of 6.25% and mature on October 1, 2017. The Convertible Debentures may be exchanged at any time, at the option of the holder, for common shares of Yellow Media Inc. at an exchange price of \$8 per share (the “Exchange price”). On and after October 1, 2013 and prior to October 1, 2015, the Convertible Debentures may be redeemed in whole or in part from time to time at the option of Yellow Media Inc. at a price equal to their principal amount plus accrued and unpaid interest, provided that the current market price of the common shares preceding the date on which the notice of redemption is given is not less than 125% of the Exchange price. On and after October 1, 2015, the Convertible Debentures may be redeemed in whole or in part from time to time at the option of Yellow Media Inc. at a price equal to their principal amount plus accrued interest. Yellow Media Inc. 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 Convertible Debentures that are to be redeemed or repaid at maturity, by issuing common shares of Yellow Media Inc. The number of shares a holder will receive in respect of each Convertible Debenture will be determined by dividing the principal amount of the Convertible Debentures that are to be redeemed or repaid at maturity by 95% of the market price of the common shares. Please refer to the description of the proposed recapitalization in Note 15 – Subsequent event.

7. Preferred shares, Series 1 and 2

| | June 30, 2012 | December 31, 2011 |
|---|-------------------|-------------------|
| Preferred shares, Series 1 and Series 2 | \$ 402,700 | \$ 402,700 |
| Derivative component | 683 | 741 |
| Deferred financing costs | (3,594) | (4,555) |
| | 399,789 | 398,886 |
| Less current portion ¹ | 250,428 | 249,713 |
| | \$ 149,361 | \$ 149,173 |

¹ Relating entirely to Preferred Shares, Series 1

a) Series 1

Redemption by the issuer

On or after March 31, 2012, Yellow Media Inc. may, at its option, redeem at par plus accrued and unpaid dividends (“Redemption price”) 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 common shares of the Company.

These preferred shares are exchangeable into common shares of the Company by dividing the Redemption price by the greater of \$2.00 and 95% of the then applicable weighted average trading price of the common shares.

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

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 plus accrued and unpaid dividends (“Redemption price”). 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 common shares of the Company until June 30, 2016 by dividing the Redemption price by the greater of \$2.00 and 95% of the then applicable weighted average trading price of the common shares. 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 common shares of the Company on or after June 30, 2007.

The redemption option for cash at a decreasing premium is an embedded derivative and is recorded at fair value on the consolidated statements of financial position with changes in fair value recognized in financial charges.

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.

As at June 30, 2012, the accumulated accrued dividends amounted to \$5.4 million and \$3.9 million on Series 1 and Series 2, respectively.

Please refer to the description of the proposed recapitalization in Note 15 – Subsequent event.

8. Post-employment benefits

As a result of a decrease in the discount rate used to measure post-employment obligations from 4.5% to 4.25%, Yellow Media Inc. recorded an actuarial loss of \$21.9 million in other comprehensive income (loss) net of income taxes of \$7.8 million for the three and six-month periods ended June 30, 2012.

9. Shareholders' capital

Common shares

| | June 30, 2012 | |
|---|------------------|---------------|
| | Number of Shares | Amount |
| Balance, December 31, 2011 and June 30, 2012 ¹ | 520,402,094 | \$ 3,554,715 |
| | | June 30, 2011 |
| | Number of shares | Amount |
| Balance, December 31, 2010 | 516,017,984 | \$ 4,079,838 |
| Shares issued pursuant to the dividend reinvestment plan | 4,332,138 | 21,498 |
| Repurchase of common shares | (11,252,884) | (88,419) |
| Exchange of Preferred Shares, Series 7 | 250,000 | 1,875 |
| Conversion of exchangeable notes | 6,255,026 | 35,390 |
| | 515,602,264 | \$ 4,050,182 |
| To be issued pursuant to the dividend reinvestment plan | 522,653 | 1,309 |
| Balance, June 30, 2011 ¹ | 516,124,917 | \$ 4,051,491 |

¹ Includes 7,806,780 Restricted Shares (December 31, 2011 – 7,806,780 and June 30, 2011 – 7,030,563) pursuant to the Restricted Share Plan.

During the six-month period ended June 30, 2012, Yellow Media Inc. declared total dividends to common shareholders of \$nil (\$167 million or \$0.32 per share in 2011).

Preferred shares

| | June 30, 2012 | |
|--|------------------|------------|
| | Number of Shares | Amount |
| Balance, December 31, 2011 and June 30, 2012 | 13,424,153 | \$ 320,687 |

| | June 30, 2011 | |
|--|------------------|------------|
| | Number of Shares | Amount |
| Balance December 31, 2010 | 13,933,333 | \$ 328,880 |
| Repurchase of preferred shares | (130,247) | (3,175) |
| Exchange of Preferred Shares, Series 7 | (250,000) | (1,875) |
| Balance, June 30, 2011 | 13,553,086 | \$ 323,830 |

During the six-month period ended June 30, 2012, Yellow Media Inc. declared total dividends to holders of Series 3, 5 and 7 of \$nil (2011 - \$11.4 million or \$0.84 per Series 3 shares, \$0.86 per Series 5 and \$0.18 per Series 7). As at June 30, 2012, the unpaid and undeclared dividends amounted to \$6.9 million, \$4.2 million and \$72 thousand on Series 3, Series 5 and Series 7, respectively.

Earnings (loss) per share

The following table reconciles the net earnings (loss) attributable to shareholders and the weighted average number of shares outstanding used in computing basic earnings (loss) per share to weighted average number of shares outstanding used in computing diluted earnings (loss) per share:

| | For the three-month periods ended June 30, | | For the six-month periods ended June 30, | |
|---|---|-------------|---|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| Weighted average number of shares outstanding used in computing basic earnings (loss) per share | 512,595,314 | 514,623,616 | 512,595,314 | 512,525,771 |
| Dilutive effect of options | 329,227 | - | - | 380,882 |
| Dilutive effect of Restricted Shares ¹ | 7,806,780 | - | - | 7,725,770 |
| Dilutive effect of Series 7 Preferred shares | 383,333 | - | - | - |
| Dilutive effect of Series 1 Preferred shares | 125,573,400 | - | - | - |
| Dilutive effect of Series 2 Preferred shares | 75,776,600 | - | - | 39,163,026 |
| Dilutive effect of Convertible Debentures ² | 25,000,000 | - | - | - |
| Weighted average number of shares outstanding used in computing diluted earnings (loss) per share | 747,464,654 | 514,623,616 | 512,595,314 | 559,795,449 |

¹ Subject to specific payout conditions.

² Assumed exchange price of \$8 per share at the option of the holder.

As described in Note 15, subject to the closing of the proposed recapitalization, the common shares of the Company will be exchanged for new common shares of the Company.

| | For the three-month periods ended June 30, | | For the six-month periods ended June 30, | |
|---|---|-------------|---|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Net earnings (loss) from continuing operations | \$ 67,694 | \$ (20,698) | \$ (2,801,558) | \$ 49,755 |
| Attributable to non-controlling interest | (40) | 190 | (27) | 357 |
| Dividends to preferred shares series 3, 5 and 7 shareholders | (5,584) | (5,662) | (11,168) | (11,372) |
| Net earnings (loss) from continuing operations available to common shareholders of Yellow Media Inc. used in the computation of basic earnings (loss) per share | 62,070 | (26,170) | (2,812,753) | 38,740 |
| Impact of assumed conversion of Series 1 Preferred shares, net of applicable taxes | 2,931 | - | - | - |
| Impact of assumed conversion of Series 2 Preferred shares, net of applicable taxes | 1,964 | - | - | 1,535 |
| Impact of assumed conversion of Series 7 Preferred shares, net of applicable taxes | 36 | - | - | - |
| Impact of assumed conversion of Convertible Debentures, net of applicable taxes | 2,781 | - | - | - |
| Net earnings (loss) adjusted for dilutive effect | \$ 69,782 | \$ (26,170) | \$ (2,812,753) | \$ 40,275 |

| | For the three-month periods ended June 30, | | For the six-month periods ended June 30, | |
|--|---|-------------|---|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net earnings (loss) attributable to common shareholders of Yellow Media Inc. | \$ 67,654 | \$ (17,965) | \$ (2,801,585) | \$ (51,394) |
| Dividends to preferred shares series 3, 5 and 7 shareholders | (5,584) | (5,662) | (11,168) | (11,372) |
| Net earnings (loss) available to common shareholders of Yellow Media Inc. used in the computation of basic earnings (loss) per share | 62,070 | (23,627) | (2,812,753) | (62,766) |
| Impact of assumed conversion of Series 1 Preferred shares, net of applicable taxes | 2,931 | - | - | - |
| Impact of assumed conversion of Series 2 Preferred shares, net of applicable taxes | 1,964 | - | - | 1,535 |
| Impact of assumed conversion of Series 7 Preferred shares, net of applicable taxes | 36 | - | - | - |
| Impact of assumed conversion of Convertible Debentures, net of applicable taxes | 2,781 | - | - | - |
| Net earnings (loss) adjusted for dilutive effect | \$ 69,782 | \$ (23,627) | \$ (2,812,753) | \$ (61,231) |

Yellow Media Inc. did not calculate the diluted loss per share for the six-month period ended June 30, 2012 and for the three-month period ended June 30, 2011 as the conversion of the dilutive instruments listed above would be anti-dilutive to the loss. For the six-month period ended June 30, 2011, the diluted earnings per share calculation did not take into consideration the potentially dilutive effect of the Series 1 Preferred shares, Series 7 Preferred shares and convertible debentures as their impact was anti-dilutive.

| | For the three-month periods ended June 30, | | For the six-month periods ended June 30, | |
|---|---|----------|---|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net earnings (loss) from discontinued operations | \$ - | \$ 6,448 | \$ - | \$ (98,594) |
| Attributable to non-controlling interest | - | (3,905) | - | (2,912) |
| Net earnings (loss) from discontinued operations available to common shareholders of Yellow Media Inc. used in the computation of basic and diluted earnings (loss) per share | \$ - | \$ 2,543 | \$ - | \$ (101,506) |

| | For the three-month periods ended June 30, | | For the six-month periods ended June 30, | |
|--|---|---------|---|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Basic earnings (loss) per share attributable to common shareholders from discontinued operations | \$ - | \$ 0.01 | \$ - | \$ (0.20) |
| Diluted earnings (loss) per share attributable to common shareholders from discontinued operations | \$ - | \$ 0.01 | \$ - | \$ (0.20) |

The diluted loss per share from discontinued operations is not calculated for the six-month period ended June 30, 2011 as the conversion of the dilutive instruments listed above would be anti-dilutive to the loss.

10. Stock-based compensation plans

The Group's stock-based compensation plans consist of a Restricted Share Plan and Stock Option Plans.

Restricted Share Unit Plan

During the six-month period ended June 30, 2012, no Restricted Shares were granted. During the six-month period ended June 30, 2011, an amount of \$7.5 million representing 1,616,677 Restricted Shares were granted at an average market price of \$4.64. An amount of \$nil (2011 - \$2.1 million) was used to reinvest in nil (2011 - 508,492) Restricted Shares using the proceeds from the dividends on the Restricted Shares held in escrow. In addition, no Restricted Shares which were not allocated to any specific employee were reinvested. This includes nil (2011 - 159,179) Restricted Shares associated with the portion which provides for up to a 250% payout.

The following table summarizes the status of the grants:

| June 30, 2012 | |
|-----------------------------------|------------------|
| Number of Restricted Shares | |
| 2009 to 2011 Grants | |
| Outstanding, beginning of period | 4,576,481 |
| Granted | - |
| Vested | - |
| Forfeited | (3,573,412) |
| Cash dividends reinvested | - |
| Outstanding, end of period | 1,003,069 |

| June 30, 2011 | |
|----------------------------------|-------------|
| Number of Restricted Shares | |
| 2009 to 2010 Grants | |
| Outstanding, beginning of period | 7,337,315 |
| Granted | 1,616,677 |
| Vested | (3,723,692) |
| Forfeited | (1,150,010) |
| Cash distributions reinvested | 349,313 |
| Outstanding, end of period | 4,429,603 |

As at June 30, 2012 there were 5,884,277 (2011 – 605,300) Restricted Shares which were not allocated to any specific employee and 919,434 (2011 – 1,995,660) Restricted Shares representing the portion which provides up to a 250% payout. During the three and six-month periods ended June 30, 2012, an expense of \$0.4 million was recorded in the consolidated income statement (2011 – expense of \$0.7 million and recovery of \$0.9 million for the three and six-month periods ended June 30, 2011, respectively).

Stock Options – 2003 Plan

YPG LP

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

| June 30 2012 | | |
|---|-------------------|--|
| | Number of options | Weighted average exercise price per option |
| Outstanding and exercisable, beginning of period | 380,882 | \$ 3.92 |
| Forfeited | (51,655) | \$ 3.92 |
| Outstanding and exercisable, end of period | 329,227 | \$ 3.92 |

| June 30 2011 | | |
|--|-------------------|--|
| | Number of options | Weighted average exercise price per option |
| Outstanding and exercisable, beginning and end of period | 380,882 | \$ 3.92 |

Stock Options – 2010 Plan

The following table summarizes the status of the 2010 Plan.

| June 30, 2012 | | |
|-----------------------------------|-------------------|--|
| | Number of options | Weighted average exercise price per option |
| Outstanding, beginning of period | 12,100,000 | \$ 6.35 |
| Forfeited | (1,200,000) | \$ 6.35 |
| Outstanding, end of period | 10,900,000 | \$ 6.35 |

| | | June 30, 2011 |
|----------------------------------|-------------------|--|
| | Number of options | Weighted average exercise price per option |
| Outstanding, beginning of period | - | - |
| Granted | 15,850,000 | \$ 6.35 |
| Forfeited | (1,250,000) | \$ 6.35 |
| Outstanding, end of period | 14,600,000 | \$ 6.35 |

An expense of \$0.1 million was recorded for the three and six-month periods ended June 30, 2012 (2011 - \$0.3 million recovery for the three-month period ended June 30, 2011 and \$0.1 million recovery for the six-month period ended June 30, 2011) in relation to this grant.

11. Financial charges, net

The significant components of the financial charges are as follows:

| | For the three-month periods ended June 30, | | For the six-month periods ended June 30, | |
|---|---|------------------|---|------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Interest on long-term debt, exchangeable and convertible instruments | \$ 30,264 | \$ 32,325 | \$ 60,005 | \$ 64,813 |
| Interest on commercial paper | - | 1,009 | - | 2,026 |
| Interest income, standby fees and other financial charges, net | (1,142) | 1,147 | (1,283) | 2,438 |
| Other charges related to derivative financial instruments | - | 5,255 | 7 | 12,298 |
| Gain on repurchase of Preferred shares, series 1 and 2 and medium term notes, net | - | (8,081) | - | (8,081) |
| Amortization and write-off of deferred financing costs | 2,228 | 5,477 | 4,486 | 8,995 |
| Accreted interest on compound financial instruments and note receivable | 215 | 257 | 323 | 505 |
| Accreted interest on retirement benefit obligations | 7,744 | 8,302 | 16,152 | 16,604 |
| Expected return on pension plan assets | (6,792) | (7,028) | (14,037) | (14,056) |
| Revaluation of deferred consideration ¹ | 2,954 | (933) | 2,070 | (933) |
| Foreign exchange loss (gain) | 25 | (246) | (102) | 17 |
| | \$ 35,496 | \$ 37,484 | \$ 67,621 | \$ 84,626 |

¹ Deferred consideration of \$11.1 million is presented in Trade and other payables due to its short-term maturity.

12. Guarantees

In the normal course of operations, Yellow Media Inc. has entered into agreements which are customary in the industry.

Yellow Media Inc. has entered into agreements which contain indemnification of its directors 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 directors 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 Yellow Media Inc. Yellow Media Inc. benefits from directors' and officers' liability insurance which is purchased by Yellow Media Inc. No amount has been accrued in the condensed consolidated statement of financial position as at June 30, 2012, with respect to this indemnity.

Pursuant to the acquisitions of Aliant, YPG USA, the contribution of YPG Directories, LLC to Ziplocal, LP in exchange for a 35% minority interest in such combined entity as well as pursuant to the Share Purchase Agreement for the sale of the shares of Trader Corporation to funds advised by Apax Partners which closed in July 2011, Yellow Media Inc. has entered into agreements whereby Yellow Media Inc. agrees to indemnify and hold harmless the other party from and against any and all claims, liabilities, costs and expenses arising out of, based upon or related to (i) any breach by Yellow Media Inc. in the performance of its obligations under these agreements and (ii) any breach of a representation contained herein. Furthermore, agreements entered into by LesPAC, Trader and its predecessor companies prior to the acquisition and which were transferred as part of the Trader divestiture contain indemnifications similar to the ones just described. No amount has been accrued in the condensed consolidated statement of financial position as at June 30, 2012 with respect to these indemnities.

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

13. Segmented information

The income statement of Yellow Media Inc. up to net earnings (loss) from continuing operations represents the results of the Directories segment. After the completion of the sale of Trader in July 2011, management reassessed its operating segments and concluded that the Directories segment is the only operating segment.

14. Comparative figures

Changes in presentation of income taxes paid and interest paid in the comparative period were made to show these payments on separate lines in the condensed consolidated statements of cash flows to conform to the current period's and December 31, 2011 presentation.

Changes in the presentation of reserves for stock-based compensation, reduction of capital and other were made in the comparative period in the statement of changes in equity to conform to the current period's presentation.

The impairment of investment in associate is presented net of income taxes in the comparative period to conform to the December 31, 2011 presentation.

15. Subsequent event

On July 23, 2012, Yellow Media Inc. announced a recapitalization ("Proposed Recapitalization") transaction aimed at significantly reducing the Company's debt and improving its maturity profile, with new debt first coming due in 2018. The closing of the Proposed Recapitalization is anticipated by the end of September 2012.

The key components of the Proposed Recapitalization are as follows:

- Exchange of the Company's credit facilities and medium term notes (the "Senior Unsecured Debt"), representing \$1.8 billion of the Company's debt, for a combination of:
 - \$750 million of 9% senior secured notes due in 2018;
 - \$100 million of subordinated unsecured exchangeable debentures due in 2022, with interest payable in cash at 8% or in additional debentures at 12%;
 - 82.5% of the new common shares; and
 - \$250 million of cash;

The Company will use an amount equivalent to 70% of Consolidated Excess Cash Flow (as such term will be defined in the Indenture governing the senior secured notes) for the immediately preceding two fiscal quarters of the Company, on a semi-annual basis on the last day of May and November of each year, commencing on May 31, 2013, to redeem the senior secured notes at par from holders on a pro rata basis, subject to a minimum cash balance of \$75 million.

- Holders of existing convertible debentures, preferred shares and common shares of the Company to receive in exchange for their securities a combination of:
 - 17.5% of the new common shares; and
 - Warrants, representing in the aggregate 10% of the new common shares;

If implemented, the Proposed Recapitalization would substantially improve the capital structure and financial position of the Company by reducing the Company's debt by approximately \$1.5 billion (including preferred shares, series 1, preferred shares, series 2, and Convertible Debentures), allowing the Company to operate without debt maturities until 2018 and reducing the annual interest expense by approximately \$45 million. An estimated gain on settlement of debt of approximately \$1.1 billion before related income taxes would be recognised if the Proposed Recapitalization were to be implemented using the latest available financial information and management assumptions.

In connection with the Proposed Recapitalization, Yellow Media Inc. obtained an interim order from the Quebec Superior Court stating that the creditors of Yellow Media Inc. and its subsidiaries cannot declare a default on any contract or other agreement to which Yellow Media Inc. is a party as Yellow Media Inc. and its subsidiaries are parties to the Proposed Recapitalization for which an application to the Court was made under section 192 of the *Canada Business Corporations Act*.

The Proposed Recapitalization is subject to a number of conditions, including debtholder and shareholder approval, the receipt of the final approval of the court and all necessary regulating and stock exchange approvals. For a detailed description of the Proposed Recapitalization please refer to the Company's management proxy circular (the Circular) dated July 30, 2012, which is available on SEDAR at www.sedar.com and on the Company's website at www.ypg.com.