CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW MEDIA INC.

December 31, 2011

Table of contents

Independent Auditor's Report 2
Consolidated Statements of Financial Position 3
Consolidated Income Statements 4
Consolidated Statements of Comprehensive (Loss) Income 5
Consolidated Statements of Changes in Equity 6-7
Consolidated Statements of Cash Flows 8
Notes to the Consolidated Financial Statements 9-61

Independent Auditor's Report

To the Shareholders of Yellow Media Inc.

We have audited the accompanying consolidated financial statements of Yellow Media Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated income statements, statements of comprehensive (loss) income, statements of changes in equity and statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Yellow Media Inc. at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP[1]

February 9, 2012
Montréal, Québec

[1] Chartered accountant auditor permit No. 20293

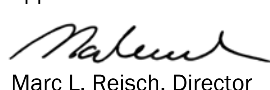
Consolidated Statements of Financial Position

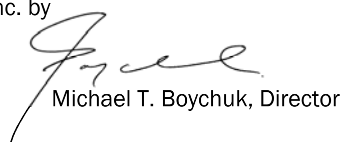
(in thousands of Canadian dollars)

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
ASSETS			
CURRENT ASSETS			
Cash	$ 84,186	$ 69,325	$ 36,170
Trade receivables (Note 25)	166,586	219,026	215,356
Prepaid expenses	5,017	7,298	6,480
Deferred publication costs and other assets	94,770	104,258	130,844
TOTAL CURRENT ASSETS	350,559	399,907	388,850
DEFERRED PUBLICATION COSTS	7,484	9,701	8,358
FINANCIAL AND OTHER ASSETS	14,872	6,845	3,111
INVESTMENTS IN ASSOCIATES (Note 8)	3,616	64,503	34,977
DERIVATIVES (Note 25)	7	6,145	1,817
PROPERTY, PLANT AND EQUIPMENT (Note 9)	46,496	80,743	67,424
INTANGIBLE ASSETS (Note 10)	1,658,051	2,152,000	2,035,341
GOODWILL (Note 10)	2,967,847	6,467,092	6,342,580
DEFERRED INCOME TAXES (Note 17)	–	24,174	31,197
TOTAL NON-CURRENT ASSETS	4,698,373	8,811,203	8,524,805
TOTAL ASSETS	$ 5,048,932	$ 9,211,110	$ 8,913,655
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables (Note 11)	$ 156,482	$ 201,560	$ 153,702
Dividends payable	–	27,820	34,220
Current income tax liabilities	22,974	4,024	6,956
Provisions (Note 12)	48,300	60,341	52,161
Deferred revenues	54,805	80,725	104,662
Commercial paper (Note 14)	–	295,000	74,000
Current portion of long-term debt (Note 14)	102,339	3,669	2,254
Current portion of preferred shares Series 1 (Note 16)	249,713	–	–
TOTAL CURRENT LIABILITIES	634,613	673,139	427,955
DEFERRED CREDITS (Note 24)	16,536	21,165	23,452
DEFERRED INCOME TAXES (Note 17)	119,305	192,030	105,842
INCOME TAX LIABILITIES	43,806	163,870	122,107
POST-EMPLOYMENT BENEFITS (Note 13)	298,796	188,877	104,836
DEFERRED CONSIDERATION (Note 5)	6,570	14,567	–
LONG-TERM DEBT (Note 14)	1,510,892	1,923,203	2,151,720
EXCHANGEABLE AND CONVERTIBLE INSTRUMENTS (Note 15)	184,214	319,029	83,886
PREFERRED SHARES SERIES 1 AND 2 (Note 16)	149,173	446,725	472,777
TOTAL NON-CURRENT LIABILITIES	2,329,292	3,269,466	3,064,620
TOTAL LIABILITIES	2,963,905	3,942,605	3,492,575
CAPITAL AND RESERVES	6,398,132	6,476,911	6,090,067
DEFICIT	(4,313,907)	(1,260,974)	(1,024,817)
EQUITY ATTRIBUTABLE TO SHAREHOLDERS	2,084,225	5,215,937	5,065,250
NON-CONTROLLING INTERESTS	802	52,568	355,830
TOTAL EQUITY	2,085,027	5,268,505	5,421,080
TOTAL LIABILITIES AND EQUITY	$ 5,048,932	$ 9,211,110	$ 8,913,655

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

Approved on behalf of Yellow Media Inc. by





Marc L. Reisch, Director Michael T. Boychuk, Director

Consolidated Income Statements

For the years ended December 31,

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

		2011		2010
Revenues	$	1,328,866	$	1,401,129
Operating costs (Note 21)		649,159		644,021
Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, acquisition-related costs, and restructuring and special charges		679,707		757,108
Depreciation and amortization (Notes 9 and 10)		160,906		180,265
Impairment of goodwill and intangible assets (Note 4)		2,900,000		–
Acquisition-related costs		7,743		30,575
Restructuring and special charges (Note 12)		26,142		31,391
(Loss) income from operations		(2,415,084)		514,877
Financial charges, net (Note 22)		130,582		148,437
Gain on disposal of subsidiary (Note 6)		(6,211)		–
(Loss) earnings before dividends on Preferred shares, series 1 and 2, income taxes and impairment and share of losses from investments in associates		(2,539,455)		366,440
Dividends on Preferred shares, series 1 and 2		19,187		21,171
(Loss) earnings before income taxes and impairment and share of losses from investments in associates		(2,558,642)		345,269
Provision for income taxes (Note 17)		87,149		93,583
Impairment of investment in associate (net of income taxes of $0.2 million) (Note 8)		50,271		–
Share of losses from investments in associates		12,060		19,900
Net (loss) earnings from continuing operations		(2,708,122)		231,786
Net loss from discontinued operations, net of income taxes (Note 7)		(120,877)		(2,380)
Net (loss) earnings	$	(2,828,999)	$	229,406
Net (loss) earnings attributable to:				
Common shareholders of Yellow Media Inc.[1]	$	(2,832,649)	$	226,498
Non-controlling interests[3]		3,650		(16,275)
Holders of Preferred shares, series 3, 5 and 7		–		19,183
	$	(2,828,999)	$	229,406
Basic (loss) earnings per share attributable to common shareholders				
From continuing operations	$	(5.33)	$	0.42
Total	$	(5.58)	$	0.44
Weighted average shares outstanding – basic (loss) earnings per share (Note 19)[2]		511,765,665		503,111,679
Diluted (loss) earnings per share attributable to common shareholders				
From continuing operations	$	(5.33)	$	0.38
Total	$	(5.58)	$	0.40
Weighted average shares outstanding – diluted (loss) earnings per share (Note 19)[2]		511,765,665		640,050,287

[1] Included in the net earnings attributable to common shareholders of Yellow Media Inc. for the year ended December 31, 2010 are net earnings attributable to Owners of the Fund for the period from January 1 until October 31, 2010.

[2] Comparative amounts presented are trust units.

[3] Included in the net earnings (loss) attributable to non-controlling interests for the year ended December 31, 2011 is $4.1 million (2010 – ($16.1 million)) related to discontinued operations.

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

Consolidated Statements of Comprehensive (Loss) Income

For the years ended December 31,

(in thousands of Canadian dollars)

	2011	2010
Net (loss) earnings	$ (2,828,999)	$ 229,406
Other comprehensive income (loss), net of related income taxes:		
Reclassification adjustment on derivatives designated as cash flow hedges in the year[1]	(88)	348
Change in gains and losses on derivatives designated as cash flow hedges	(88)	348
Unrealized loss on available–for–sale investment in the year[2]	(81)	(193)
Change in unrealized loss on available–for–sale financial asset	(81)	(193)
Unrealized exchange differences on translating financial statements of foreign operations and foreign associates[3]	(5,410)	(7,922)
Reclassification adjustment of cumulative translation loss realized upon disposition of foreign operations (Note 7)	4,590	2,924
Change in unrealized exchange differences on translating financial statements of foreign operations and foreign associates	(820)	(4,998)
Actuarial losses[4]	(77,652)	(56,285)
Retirement benefits	(77,652)	(56,285)
Other comprehensive loss	(78,641)	(61,128)
Total comprehensive (loss) income	$ (2,907,640)	$ 168,278
Total comprehensive (loss) income attributable to:		
Common shareholders of Yellow Media Inc.[5]	$ (2,909,695)	$ 167,995
Non-controlling interests	2,055	(18,900)
Holders of Preferred shares, series 3, 5 and 7	–	19,183
	$ (2,907,640)	$ 168,278

[1] Net of income taxes of $28 (2010 – $164).

[2] Net of income taxes of $nil (2010 – $nil).

[3] Unrealized exchange differences on translating financial statements of foreign operations and foreign associates include $3.9 million loss (2010 – $7.8 million loss) for discontinued operations and $1.5 million loss for continuing operations (2010 - $0.1 million loss).

[4] Net of income taxes of $27.1 million (2010 - $19.5 million).

[5] Included in the total comprehensive income attributable to common shareholders for the year ended December 31, 2010 is total comprehensive income attributable to Owners of the Fund until October 31, 2010.

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

Consolidated Statements of Changes in Equity

For the years ended December 31,
(in thousands of Canadian dollars)

	Shareholders' Capital	Restricted Shares	Preferred Shares	Compound financial instruments[1]	Stock-based compensation	Reduction of capital and other reserves
Balance, December 31, 2010	$ 4,079,838	$ (78,135)	$ 328,880	$ 7,423	$ 20,799	$ 2,119,177
Other comprehensive loss	–	–	–	–	–	–
Net loss for the year	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	–
Issuance (exchange) of shares	63,296	–	(1,875)	–	–	–
Reduction of capital (Note 18)	(500,000)	–	–	–	–	500,000
Repurchase of shares (Note 18)	(88,419)	–	(6,318)	–	–	(42,947)
Stock options	–	–	–	–	245	–
Restricted shares (Note 20)	–	(2,899)	–	–	(468)	–
Restricted shares vested (Note 20)	–	26,060	–	–	(26,060)	–
Dividends	–	–	–	–	–	–
Sale of Trader (Note 7)	–	–	–	–	–	–
Dividends on Preferred shares, Series 3, 5 and 7	–	–	–	–	–	–
Balance, December 31, 2011	**$ 3,554,715**	**$ (54,974)**	**$ 320,687**	**$ 7,423**	**$ (5,484)**	**$ 2,576,230**

[1] The equity component of the convertible debentures presented above is net of income taxes of $2.7 million.

	Shareholders' Capital	Restricted Shares	Preferred Shares	Compound financial instruments[1]	Stock-based compensation	Reduction of capital and other reserves
Balance, January 1, 2010	$ 6,030,339	$ (72,898)	$ –	$ 3,618	$ 9,797	$ 118,064
Conversion of exchangeable units of YPG LP	31,700	–	–	–	–	–
Reduction of capital (Note 18)	(2,000,000)	–	–	–	–	2,000,000
Reclassification arising from the conversion to a corporation	–	–	333,880	–	–	–
Issuance (exchange) of shares	17,799	–	(5,000)	–	–	810
Stock options	–	–	–	–	975	–
Restricted shares (Note 20)	–	(14,491)	–	–	19,281	–
Restricted shares vested (Note 20)	–	9,254	–	–	(9,254)	–
Issuance of Preferred Shares, Series 7	–	–	–	–	–	–
Redemption on exchangeable and convertible instruments	–	–	–	(3,618)	–	3,618
Option on exchangeable and convertible instruments	–	–	–	7,423	–	–
Dividends	–	–	–	–	–	–
Business acquisitions (Note 5)	–	–	–	–	–	–
Increased interest in a subsidiary	–	–	–	–	–	(3,315)
Other comprehensive income	–	–	–	–	–	–
Net earnings for the year	–	–	–	–	–	–
Net loss attributable to non-controlling interests	–	–	–	–	–	–
Dividends on Preferred shares, Series 3, 5 and 7	–	–	–	–	–	–
Balance, December 31, 2010	$ 4,079,838	$ (78,135)	$ 328,880	$ 7,423	$ 20,799	$ 2,119,177

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

								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
	(81)	(88)	775	606	(77,652)	(77,046)	(1,595)	(78,641)
	–	–	–	–	(2,832,649)	(2,832,649)	3,650	(2,828,999)
	(81)	(88)	775	606	(2,910,301)	(2,909,695)	2,055	(2,907,640)
	–	–	–	61,421	–	61,421	–	61,421
	–	–	–	–	–	–	–	–
	–	–	–	(137,684)	87,252	(50,432)	–	(50,432)
	–	–	–	245	–	245	–	245
	–	–	–	(3,367)	–	(3,367)	–	(3,367)
	–	–	–	–	–	–	–	–
	–	–	–	–	(207,345)	(207,345)	–	(207,345)
	–	–	–	–	–	–	(53,821)	(53,821)
	–	–	–	–	(22,539)	(22,539)	–	(22,539)
	$ 144	$ 989	$ (1,598)	$ 6,398,132	$ (4,313,907)	$ 2,084,225	$ 802	$ 2,085,027

								2010
	Available for sale investment	Cash flow hedges	Foreign currency translation	Capital and Reserves	Deficit	Equity attributable to shareholders	Non-controlling interests	Total Equity
	$ 418	$ 729	$ –	$ 6,090,067	$ (1,024,817)	$ 5,065,250	$ 355,830	$ 5,421,080
	–	–	–	31,700	–	31,700	(31,700)	–
	–	–	–	–	–	–	–	–
	–	–	–	333,880	–	333,880	(333,880)	–
	–	–	–	13,609	–	13,609	–	13,609
	–	–	–	975	–	975	–	975
	–	–	–	4,790	–	4,790	–	4,790
	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	9,750	9,750
	–	–	–	–	–	–	–	–
	–	–	–	7,423	–	7,423	–	7,423
	–	–	–	–	(402,719)	(402,719)	–	(402,719)
	–	–	–	–	–	–	73,054	73,054
	–	–	–	(3,315)	–	(3,315)	(1,586)	(4,901)
	(193)	348	(2,373)	(2,218)	(56,285)	(58,503)	(2,625)	(61,128)
	–	–	–	–	229,406	229,406	–	229,406
	–	–	–	–	16,275	16,275	(16,275)	–
	–	–	–	–	(22,834)	(22,834)	–	(22,834)
	$ 225	$ 1,077	$ (2,373)	$ 6,476,911	$ (1,260,974)	$ 5,215,937	$ 52,568	$ 5,268,505

Consolidated Statements of Cash Flows

For the years ended December 31,
(in thousands of Canadian dollars)

	2011	2010
OPERATING ACTIVITIES		
Net (loss) earnings from continuing operations	$ (2,708,122)	$ 231,786
Adjusting items		
Depreciation and amortization	160,906	180,265
Impairment of goodwill and intangible assets	2,900,000	–
Gain on disposal of subsidiary	(6,211)	
Post employment benefit costs, net	1,609	3,879
Stock-based compensation (reversal) expense	(565)	21,870
Impairment of investment in associate	50,271	–
Share of losses from investments in associates	12,060	19,900
Other non-cash items	(1,711)	(1,180)
Income taxes recognized in net loss (earnings)	87,149	93,583
Financial charges recognized in net loss (earnings)	130,582	148,437
Change in operating assets and liabilities	(42,637)	33,774
Income taxes paid	(105,203)	(24,836)
Interest paid	(141,555)	(137,871)
	336,573	569,607
INVESTING ACTIVITIES		
Disposal of subsidiary (Note 6)	70,938	–
Disposal of Trader (Note 7)	690,230	–
Disposal of cash related to the sale of Trader	(24,517)	–
Business acquisitions, net of cash acquired and bank indebtedness assumed (Note 5)	(49)	(119,161)
Acquisition of investment in associates	–	(5,356)
Acquisition of intangible assets	(46,686)	(55,063)
Acquisition of property, plant and equipment	(15,565)	(4,178)
Issuance of note	(1,238)	–
Proceeds from lease inducements	852	–
	673,965	(183,758)
FINANCING ACTIVITIES		
Issuance of long-term debt and commercial paper	1,062,000	840,265
Repayment of long-term debt and commercial paper	(1,403,585)	(469,263)
Redemption of exchangeable and convertible instruments	(106,172)	–
Issuance of exchangeable and convertible instruments	–	200,000
Dividends to shareholders	(209,134)	(395,522)
Repurchase of Preferred shares, series 1 and 2, and Medium Term Notes	(266,183)	(501,812)
Repurchase of common shares and Preferred shares, Series 3 and 5	(50,432)	–
Dividends on Preferred shares, series 3, 5 and 7	(22,539)	(22,834)
Stock-based compensation (Note 20)	(2,899)	(16,536)
Deferred consideration	(4,502)	–
Proceeds on derivative financial instruments	3,819	(1,748)
Debt and preferred share issuance and other costs	(2,123)	(23,734)
	(1,001,750)	(391,184)
Effect of exchange rate changes on cash denominated in foreign currencies	(1,862)	(1,529)
NET INCREASE (DECREASE) IN CASH	6,926	(6,864)
CASH FLOWS FROM DISCONTINUED OPERATIONS (Note 7)	7,935	40,019
CASH, BEGINNING OF YEAR	69,325	36,170
CASH, END OF YEAR	$ 84,186	$ 69,325
Supplemental disclosure of cash flow information (Note 23)		

The accompanying notes are an integral part of these 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. 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").

On November 1, 2010, Yellow Pages Income Fund (the "Fund") and Yellow Media Inc. (the "Company") entered into a Plan of arrangement pursuant to which, the parties proposed to implement an arrangement under the Canada Business Corporations Act (the "Plan of Arrangement"). The Plan of Arrangement involved the exchange, on a one-for-one basis of units of the Fund for common shares of Yellow Media Inc. As a result of the Plan of Arrangement, the holders of units of the Fund became the sole shareholders of Yellow Media Inc. The effective date of the Plan of Arrangement was November 1, 2010.

As part of the reorganization, YPG LP was wound up and its assets were distributed to YPG General Partner Inc, ("YPG GP") and YPG Trust (the "Trust") on a pro rata basis. The Trust and the Fund were then wound up and their assets were ultimately distributed to Yellow Media Inc. YPG GP amalgamated with Yellow Media Inc. and other subsidiaries of Yellow Media Inc. to form the existing Yellow Media Inc. The conversion was treated as a change in business form and was accounted for as a continuity of interests; as such the carrying amounts of assets, liabilities and unitholders' equity in the consolidated financial statements of the Fund immediately before the conversion were the same as the carrying values of Yellow Media Inc. immediately after the conversion. Yellow Media Inc. refers to common shares, shareholders and dividends which were formerly referred to as units, unitholders and distributions under the Fund. Comparative amounts in these financial statements are those of the Fund up until November 1, 2010.

The Board of Directors approved the consolidated financial statements for the year ended December 31, 2011 and authorized their publication on February 9, 2012.

2. Adoption of IFRS and upcoming revised standards

2.1. Adoption of IFRS

As a consequence of the adoption of the International Accounting Standards Board's ("IASB") standards and interpretations and the replacement of Canadian Generally Accepted Accounting Principles ("GAAP") by International Financial Reporting Standards ("IFRS") for publicly accountable enterprises, Yellow Media Inc.'s audited consolidated financial statements for the year ended December 31, 2011 were prepared in accordance with IFRS.

IFRS transition (IFRS 1)

The impacts of this change in accounting basis are reported in the reconciliation tables presented in Note 31. Specifically:

- as at January 1, 2010: a reconciliation note on the GAAP and IFRS opening equity;
- as at December 31, 2010 and for the year ended December 31, 2010: a reconciliation note on equity, net earnings and comprehensive income and an explanation of variation in cash flow statements, for the comparison of the GAAP and IFRS annual financial statements.

2.2. 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, 2012. 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

On December 16, 2011 the 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.

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, but 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.

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 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 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.

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.

3. Basis of presentation and significant accounting policies

3.1 Statement of compliance

These consolidated financial statements of Yellow Media Inc. and its subsidiaries were prepared by management in accordance with IFRS, as issued by the IASB. As these financial statements represent Yellow Media Inc.'s initial presentation of its results and financial position under IFRS, they were prepared in accordance with IFRS 1, First-time Adoption of IFRS. These financial statements have been prepared in accordance with the following accounting policies which have been applied consistently to all periods presented throughout the consolidated entities.

3.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value in accordance with IFRS.

3.3 Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of Yellow Media Inc.

3.4 Basis of consolidation

3.4.1 Subsidiaries

Subsidiaries that are directly controlled by Yellow Media Inc. or indirectly controlled by other consolidated subsidiaries are fully consolidated. Subsidiaries are all entities over which Yellow Media Inc. exercises control.

Control is defined as the power to govern, directly or indirectly, the financial and operating policies of an entity so as to obtain economic benefit from its activities. This situation generally implies directly or indirectly holding more than 50% of the voting rights. The existence and effect of potential voting rights that are exercisable or convertible are taken into account in the assessment of control.

Subsidiaries are fully consolidated from the effective date of acquisition up to the effective date of disposal. Inter-company assets and liabilities and transactions between fully consolidated companies are eliminated. Gains and losses on internal transactions with controlled companies are fully eliminated. Accounting policies and methods are modified where necessary to ensure consistency of accounting treatment at the Yellow Media Inc. level.

Changes in Yellow Media Inc.'s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of Yellow Media Inc.'s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to Yellow Media Inc.

When Yellow Media Inc. loses control of a subsidiary, the gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), liabilities of the subsidiary and any non-controlling interests. Amounts previously recognized in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or as initial cost for an investment in an associate or jointly controlled entity.

3.4.2 Associates

Associates are all entities in which Yellow Media Inc. exercises a significant influence over the entity's management and operating and financial policy, without exercising control, and generally implies holding 20% to 50% of the voting rights.

Investments in associates are accounted for using the equity method and initially measured at cost. Subsequently, the share in profits or losses of the associate attributable to equity holders of Yellow Media Inc. is recognized in net earnings and the change in equity attributable to equity holders of Yellow Media Inc. is recognized in equity. Included in the recognized share of net loss is the amortization of the amortizable assets based on their fair values at the acquisition date. When Yellow Media Inc.'s share of losses exceed its interest in an equity-accounted investee, the carrying amount of the investment including any long-term interests that form part thereof, is reduced to zero and the recognition of further losses is discontinued except to the extent that Yellow Media Inc. has an obligation or has made payments on behalf of the investee.

Goodwill related to an associate is included in the carrying amount of the investment.

Gains or losses on internal transactions with equity-accounted associates are eliminated in the amount of Yellow Media Inc.'s investment in these companies, to the extent of Yellow Media Inc.'s interest.

The accounting policies and methods of associates are modified where necessary to ensure consistency of accounting treatment at the Yellow Media Inc. level.

3.4.3 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by Yellow Media Inc. in exchange for control of the acquiree. Acquisition-related costs are recognized in the income statement as incurred. Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs and reflected through net earnings. Changes in the fair value of contingent consideration classified as equity are not recognized.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair value at the acquisition date, with the exception of:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively; and
- liabilities or equity instruments related to the replacement by Yellow Media Inc. of an acquiree's share-based payment awards are measured in accordance with IFRS 2 *Share-based Payment*; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, Yellow Media Inc. reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

The measurement period is the period from the date of acquisition to the date Yellow Media Inc. receives complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

Where a business combination is achieved in stages, Yellow Media Inc.'s previously-held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date Yellow Media Inc. attains control) and the resulting gain or loss, if any, is recognized in the income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

3.4.4 Non-controlling interests

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from Yellow Media Inc.'s equity therein. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the combination.

3.4.5 Discontinued operations

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale. When an operation which is deemed to be a separate major line of business or separate geographical area is classified as a discontinued operation, the comparative income statement and statement of comprehensive income are re-presented as if the operation had been discontinued from the start of the comparative year.

3.4.6 Assets held for sale

Non-current assets and disposal groups that are expected to be sold are classified as held for sale. Immediately before classification, the assets are remeasured at the lower of their previous carrying amount and fair value less costs to sell. Any impairment loss is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in net earnings. Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortized or depreciated and any equity accounted investee is no longer equity accounted.

3.5 Foreign currency

3.5.1 Foreign currency transactions

Foreign currency transactions are converted into the relevant functional currency at market exchange rates applicable at the date of the transactions. Amounts payable or receivable in foreign currencies at the statement of financial position date are converted into the relevant functional currency at market exchange rates at the statement of financial position date. Any currency translation gains and losses that arise are included in the income statement.

3.5.2 Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated in Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated at exchange rates at the dates of transactions.

Foreign currency differences are recognized directly in equity in the foreign currency translation reserve.

Foreign exchange gains or losses arising from a monetary item receivable or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized directly in equity in the foreign currency translation reserve.

On the disposal of a foreign operation, all of the accumulated exchange differences in respect of that operation attributable to Yellow Media Inc. are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognized, but they are not reclassified to profit or loss.

3.6 Cash

Cash consists of funds on deposit and, from time to time, highly liquid investments with a purchased maturity of three months or less.

3.7 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that Yellow Media Inc. will not be able to collect all amounts due according to the original terms of the receivables.

3.8 Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit and loss" ("FVTPL"), "held-to-maturity" investments, "available-for-sale" ("AFS") financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. A financial asset is derecognized if the contractual rights to the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for derecognition.

3.8.1 Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset/liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset/liability, or, where appropriate, a shorter period.

Transactions costs are comprised primarily of legal, accounting, underwriters' fees and other costs directly attributable to the issuance of the financial instruments.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

3.8.2 Financial assets at FVTPL

Financial assets at FVTPL includes financial assets held by Yellow Media Inc. for short-term profit, derivatives not in a qualifying hedging relationship and assets voluntarily classified in this category subject to meeting specified criteria. These assets are measured at fair value, with any resultant gain or loss recognized in the income statement.

In general, transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss are recognized immediately in profit or loss.

3.8.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading purposes or available for sale.

These assets are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Short-term receivables without a stated interest rate are valued at the amount of the original invoice unless the effective interest rate has a material impact.

Cash and trade receivables are included in this category.

3.8.4 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets, other than loans or receivables, with fixed or determinable payments and fixed maturity that Yellow Media Inc. has the positive intention and ability to hold to maturity.

These assets are initially recognized at fair value and subsequently at amortized cost using the effective interest method.

Held-to-maturity investments are presented in non-current financial assets. Other financial assets, with the exception of other investments, are classified in this category.

3.8.5 AFS financial assets

AFS financial assets are non-derivative financial assets that are not included in the aforementioned categories. They are recognized at fair value. Unrealized capital gains or losses are recognized in equity until the disposal of the assets. However, where there is an objective indication of loss in value of an AFS financial asset, the accumulated loss is recognized in income.

For listed securities, fair value corresponds to a market price. For unlisted securities, fair value is determined by reference to recent transactions or using valuation techniques based on reliable and objective indicators. However, when the fair value of a security cannot be reasonably estimated, it is recorded at historical cost.

This category mainly comprises other than temporary investments and marketable securities that do not meet other financial asset definitions.

3.8.6 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

With the exception of AFS equity instruments and debt instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed in the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Yellow Media Inc. does not currently hold any AFS debt instruments.

In respect of AFS equity securities, impairment losses previously recognized in the income statement are not subsequently reversed in the income statement. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

3.9 Deferred publication costs

An intangible asset is recognized for direct and incremental publication costs incurred during the sale, manufacturing and distribution of telephone print directories. The intangible asset represents costs that will be recovered in future periods, when the related directories revenues are recognized. An intangible asset is capitalized when the following conditions are met:

- Yellow Media Inc. has control over the contract for which the costs were incurred;

- the control results from past events;
- future economic benefits are expected to flow to Yellow Media Inc.;
- the asset is identifiable, non-monetary and without physical substance.

Deferred publication costs are initially measured at cost and are amortized over the same period in which the related revenues are recognized.

3.10 Property, plant and equipment

Property, plant and equipment are recognized at cost less accumulated depreciation and impairment losses. The various components of property, plant and equipment are recognized separately when their estimated useful lives and therefore their depreciation periods are significantly different. The cost of an asset includes the expenses that are directly attributable to its acquisition. All other borrowing costs are recognized in profit or loss in the period in which they are incurred. Yellow Media Inc. has not capitalized any borrowing costs during the periods presented.

Subsequent costs are included in the carrying amount of the asset or recognized as a separate component, where necessary, if it is probable that future economic benefits will flow to Yellow Media Inc. and the cost of the asset can be reliably measured. All other repair and maintenance costs are expensed in the year they are incurred.

Depreciation is calculated using the straight-line method, based on the capitalized costs, less any residual value over a period corresponding to the useful life of each asset. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

As at December 31, 2011, the expected useful lives are as follows:

Office equipment	10 years
Computer equipment	3 years
Other equipment	3 – 12 years
Leasehold improvements	Shorter of term of lease or useful life

The residual value, the depreciation method and the useful life of an asset are reviewed annually.

Property, plant and equipment are tested for impairment when an indication of impairment loss exists. When the asset's recoverable amount is less than its net carrying amount, an impairment loss is recognized. Where the recoverable amount of an individual asset does not generate independent cash inflows, Yellow Media Inc. determines the recoverable amount of the cash generating units ("CGU") or group of CGUs to which the asset belongs.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

3.11 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of Yellow Media Inc. at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as an obligation under finance lease that is included with long-term debt.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with Yellow Media Inc.'s general policy on borrowing costs.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a deferred credit. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

3.12 Intangibles assets

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 arise

from legal or contractual rights or are capable of being separated from the acquiree and sold, transferred, licensed or exchanged. The cost of such intangible assets is their fair value at the acquisition date.

Intangible assets developed internally (consisting of software used by the Company) are recognized to the extent the criteria in IAS 38 *Intangible Assets* are met. Development costs for internally generated intangible assets are capitalized at cost if and only if Yellow Media Inc. 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-generated 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-generated intangible asset can be recognized, development expenditures are charged to the income statement in the period in which they are incurred.

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

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. Intangibles assets are amortized, unless their useful lives are indefinite, as follows:

Non-competition agreements and logos	Straight-line over life of agreement
Customer-related intangible assets	Pro rata based on related revenues, not exceeding 24 months
Trademarks	Indefinite or straight-line over 1-6 years
Domain names	Indefinite or straight-line over 18 years
Software	Straight-line over 3 years

The estimated useful life and amortization method are reviewed at the end of each period or annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from the de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is de-recognized.

3.13 Goodwill

Goodwill arising on the acquisition of a subsidiary is recognized as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest (if any) in the entity over the net fair value of the identifiable net assets recognized.

Goodwill is not amortized, but is reviewed for impairment at least annually or sooner if indicators of impairment exist. Any impairment loss is recognized immediately in profit or loss and is not subsequently reversed.

3.14 Impairment of tangible and intangible assets including goodwill

At each reporting date, Yellow Media Inc. determines whether there are any indications that the carrying amounts of its tangible and intangible assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, Yellow Media Inc. estimates the recoverable amount of the CGU to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired. A majority of the Company's intangible assets do not have cash inflows independent of those from other assets and as such are tested within their respective CGUs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in the income statement.

For the purpose of impairment testing of goodwill, goodwill is tested at the reporting segment level (Group of CGUs) which represents the lowest level where goodwill is monitored for internal management purposes. Goodwill is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the Group of CGUs is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of goodwill and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

3.15 Trade and other payables

Trade and other payables, including accruals, are recorded when Yellow Media Inc. is required to make future payments as a result of purchases of assets or services. Trade and other payables are carried at amortized cost.

3.16 Financial liabilities

The valuation of financial liabilities depends on their IAS 39 classification. Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities".

Excluding liability derivatives and financial liabilities accounted for at FVTPL, Yellow Media Inc. recognizes all financial liabilities and particularly debts, trade payables and other liabilities initially at fair value less transaction costs and subsequently at amortized cost, using the effective interest method.

The net carrying amount of financial liabilities that qualify as hedged items as part of fair value hedging relationships are valued at amortized cost and is adjusted to the fair value of the hedged risk.

Financial liabilities designated as FVTPL, other than derivative liabilities, are carried at fair value. Changes in fair value are taken to the income statement. Transaction costs incurred in setting up these financial liabilities are recognized immediately in expenses.

Yellow Media Inc. derecognizes financial liabilities when, and only when, Yellow Media Inc.'s obligations are discharged, cancelled or they expire.

3.17 Provisions

Provisions are recognized when Yellow Media Inc. has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as a financial charge.

3.17.1 Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where Yellow Media Inc. has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

3.17.2 Restructuring

A restructuring provision is recognized when Yellow Media Inc. has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

3.18 Long-term debt

All long-term debts are initially stated at the fair value of consideration received after deduction of issue costs. Debts are subsequently stated at amortized cost. Issue costs are charged to the income statement together with the coupon, as finance

costs, on a constant-yield basis over the term of the debt, or over a shorter period where the lender can require earlier repayment.

3.19 Employee benefits

3.19.1 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the income statement when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

3.19.2 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Yellow Media Inc.'s net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on high quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability adjusted for a spread to reflect any additional credit risk and that are denominated in the currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the income statement.

All actuarial gains and losses at January 1, 2010, the date of transition to IFRSs, were recognized in retained earnings. Yellow Media Inc. recognizes all actuarial gains and losses arising subsequently from defined benefit plans in other comprehensive income. The interest cost and expected return on plan assets of defined benefit plans are included within net financial charges while service costs are recorded in operating expenses.

3.19.3 Other long-term employee benefits

Yellow Media Inc.'s net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related asset is deducted. The discount rate is the yield at the reporting date on high quality corporate bonds that have terms to maturity approximating the terms of the related obligation. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognized in the period in which they arise.

3.19.4 Termination benefits

Termination benefits are recognized as an expense when Yellow Media Inc. is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if Yellow Media Inc. has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

3.19.5 Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid if Yellow Media Inc. has a present legal or constructive obligation to pay this amount as a result of a past service provided by the employee and the obligation can be estimated reliably.

3.19.6 Share-based payment transactions

Yellow Media Inc.'s Restricted Shares and Stock Options granted to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on Yellow Media Inc.'s estimate of equity instruments that will eventually vest. At each statement of financial position date, Yellow Media Inc. revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimate, if any, is recognized in the income statement, with a corresponding adjustment to the equity-settled employee benefits reserve.

3.20 Equity instruments issued by Yellow Media Inc.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by Yellow Media Inc. are recorded at the proceeds received, net of direct issue costs.

Transaction costs incurred by Yellow Media Inc. in issuing, acquiring or reselling its own equity instruments are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

3.21 Operating segments

Disclosure of segment information is reported in a manner consistent with the internal reports regularly reviewed by Yellow Media Inc.'s Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the President and Chief Executive Officer.

3.22 Revenues

Yellow Media Inc.'s revenues are measured at the fair value of the consideration received or receivable after deduction of sales allowances and sales taxes.

Print directory advertising is mostly sold in bundles that can include several related advertising products including online products that are not sold separately. Revenues from print directory advertising as well as revenues from related internet products are recognized in the income statement rateably on a monthly basis from the point at which service is first provided over the life of the contract. Revenues for certain other directories, not sold in bundles, are recognized when the directory is published (publication method).

Revenues from private and commercial classified advertisements and display advertisements are recognized at the time the advertisements are published either on a weekly or monthly basis. Revenues related to advertisements appearing on multiple occasions are recognized over the period the advertisements are displayed.

3.23 Derivative financial instruments

Yellow Media Inc. enters into a variety of derivative financial instruments 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.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each statement of financial position date. The resulting gain or loss is recognized in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Yellow Media Inc. designates certain derivatives as either hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

3.23.1 Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in the income statement.

3.23.2 Hedge accounting

Yellow Media Inc. designates certain hedging instruments, which include derivatives and non-derivatives, as either fair value hedges or cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, Yellow Media Inc. documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Details of the fair values of the derivative instruments used for hedging purposes are presented on an annual basis. Movements in the hedging reserve in equity are detailed in the statement of changes in equity.

3.23.3 Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded immediately in the income statement, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The

change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the income statement relating to the hedged item.

Hedge accounting is discontinued when Yellow Media Inc. revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to the income statement from that date.

3.23.4 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Amounts deferred in equity are transferred to the income statement in the periods when the hedged item is recognized in the income statement, in the same line of the income statement as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when Yellow Media Inc. revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognized immediately in the income statement.

3.24 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

3.25 Taxation

Income tax expense represents the sum of the current and deferred tax.

3.25.1 Current income tax

Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Yellow Media Inc.’s liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

3.25.2 Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where Yellow Media Inc. is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Yellow Media Inc. expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and Yellow Media Inc. intends to settle its tax assets and liabilities on a net basis.

3.25.3 Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside net earnings (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside net earnings, or where they arise from the initial accounting for a business combination. In the case of a business combination, the applicable tax effects are taken into account in the accounting for the business combination.

3.26 Significant estimates and judgements

The preparation of consolidated financial statements requires management to make estimates and assumptions that can affect the carrying amount of certain assets and liabilities, income and expenses, and the information disclosed in the notes to the financial statements. Management reviews these estimates and assumptions on a regular basis to ensure their pertinence with respect to past experience and the current economic situation. Items in future financial statements could differ from current estimates as a result of changes in these assumptions. The impact of changes in accounting estimates is recognized during the period in which the change took place and all affected future periods.

The estimates and judgements made by management that are critical to the determination of the carrying value of assets and liabilities are addressed below.

3.26.1 Intangible assets and goodwill

The values associated with identifiable intangible assets and goodwill involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives. These significant estimates require considerable judgment which could affect Yellow Media Inc.'s future results if the current estimates of future performance and fair values change. These determinations will affect the amount of amortization expense on identifiable intangible assets recognized in future periods.

Yellow Media Inc. assesses impairment by comparing the recoverable amount of an identifiable intangible asset or goodwill with its carrying value. The determination of the recoverable amount involves significant management judgment.

Yellow Media Inc. performs its annual test for impairment of indefinite life intangible assets and goodwill in the fourth quarter in accordance with the policy described in Note 3.14. Goodwill is tested at the operating segment level since this represents the lowest level within Yellow Media Inc. at which the goodwill is monitored for internal management purposes.

3.26.2 Useful lives of property, plant and equipment

Yellow Media Inc. reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. At the end of the current reporting period, the directors determined that the useful lives of property, plant and equipment was adequate.

3.26.3 Held to maturity financial assets

Yellow Media Inc. has reviewed the held-to-maturity financial assets and has confirmed the positive intention and ability to hold those assets to maturity.

3.26.4 Employee future benefits

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Determination of benefit expense requires assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the projected age of employees upon retirement, the expected rate of future compensation and the expected healthcare cost trend rate. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actual results will differ from results which are estimated based on assumptions.

3.26.5 Income Taxes

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of Yellow Media Inc.'s ability to utilize the underlying future tax deductions against future taxable income before they expire. Yellow Media Inc.'s assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of Yellow Media Inc.'s ability to utilize the underlying future tax deductions changes, Yellow Media Inc. would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined.

Yellow Media Inc. is subject to taxation in numerous jurisdictions. Significant judgement is required in determining the consolidated provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Yellow Media Inc. maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Yellow Media Inc. reviews the adequacy of these provisions at each statement of financial position date. However, it is possible that at some future date an additional liability could result from audits by tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

4. Impairment of goodwill and intangible assets

Yellow Media Inc.'s annual impairment analysis for testing goodwill and indefinite life intangible assets is normally performed during the fourth quarter.

As a majority of the intangible assets do not generate cash inflows that are largely independent of those from other assets or groups of assets, the Company performed 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, Canpages, 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).

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).

Following a comprehensive review of its strategic and operating plans completed during the third quarter of 2011, Yellow Media Inc. determined that the recoverability of the carrying value of certain of its assets had to be reviewed for impairment purposes.

As a result of the impairment test, the Company recorded an impairment charge of $2.9 billion for the year ended December 31, 2011. This charge was mainly related to the impairment of goodwill for an amount of $2.88 billion while other intangible assets arising from the acquisition of Canpages, mainly trademarks, non-compete agreements, customer contracts and software were deemed impaired by $20 million.

The recoverable amount resulting in the goodwill impairment charge of $2.88 billion was determined based on the value-in-use approach using a discounted cash flow model. The significant key assumptions include forecasted cash flows based on financial plans approved by management covering a five-year period. The discounted cash flow model was established using a discount rate of 11% (pre-tax rate of 15%), which assumes a cost of equity between 13% and 14% and a cost of debt between 10% and 10.5% and a terminal growth rate in line with historical inflation at 2.50%. This impairment charge is the result of a combination of factors, including the pressure on EBITDA due to the accelerated transition from print to online, the uncertainties surrounding whether new product introductions will compensate for the declining trend in print revenues and the lower margins from recent business acquisitions. This impairment charge does not affect the Company's operations, its liquidity, its cash flows from operating activities, its bank credit agreement or its note indentures.

As at December 31, 2011, the calculated recoverable amount of Yellow Media Inc. would have to decrease by 97 basis points before the associated goodwill would be impaired. Impairment will occur if the terminal growth rate decreases by at least 11 basis points or if the post-tax discount rate is to increase by at least 9 basis points.

The impairment charge of $20 million associated with Canpages' intangible assets was also determined based on the value-in-use approach, using a pre-tax discount rate of 23.7% and a nil terminal growth rate. This charge is the result of a combination of factors, mostly due to the lower margins generated by these operations.

The recoverable amount of each CGU was determined based on the value-in-use approach. These calculations use cash flow projections based on financial plans approved by management covering a five-year period. Cash flows beyond the periods of the approved plans are extrapolated using the long-term growth rates stated below. The allocation of intangible assets and goodwill as at September 30, 2011 by CGU or group of CGUs, prior to the impairment charge and the key assumptions used for value-in-use calculations are presented below:

	Yellow Pages Group	Canpages	Mediative	Other	Total
Intangible assets by CGUs					
Trademarks and domain names	$ 1,058,309	$ –	$ 7,978	$ 40,055	$ 1,106,342
Trademarks and domain names with finite lives	$ 9,300	$ 22,222	$ 308	$ –	$ 31,830
Non-competition agreements and logos	$ 462,757	$ 5,597	$ 8,752	$ 994	$ 478,100
Customer - related intangible assets	$ –	$ 967	$ 5,834	$ –	$ 6,801
Software	$ 72,840	$ 1,359	$ –	$ 3,143	$ 77,342
Goodwill	n/a	n/a	n/a	n/a	$ 5,895,926
Key assumptions :					
Terminal growth rate	2.50%	0%	3.50%	3.50%	2.50%
Discount rate – post-tax	11%	23.7%	19-25%	12%	11%
Discount rate – pre-tax	15%	35%	25-35%	16%	15%

Further to the above and in line with Yellow Media Inc.'s accounting policy, Yellow Media Inc. reperformed its tests of recoverability of goodwill, indefinite life intangible assets (tested at the CGU level) and other long-lived assets as at December 31, 2011 and determined that no further impairment was required. The following table presents the intangible assets and goodwill as at December 31, 2011 by CGU and the key assumptions used in performing value-in-use calculations.

	Yellow Pages Group	Mediative	Other[1]	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	$ 8,200	$ –	$ 6,596	$ 14,796
Non-competition agreements and logos	$ 457,246	$ 8,176	$ 2,324	$ 467,746
Customer - related intangible assets	$ –	$ 4,364	$ –	$ 4,364
Software	$ 76,137	$ –	$ 4,166	$ 80,303
Goodwill	n/a	n/a	n/a	$ 2,967,847
Key assumptions :				
Terminal growth rate	2.50%	3.50%	3.50%	2.50%
Discount rate – post-tax	11%	20%	16.5%	11%
Discount rate – pre-tax	15%	25%	21%	15%

[1] Includes Canpages.

5. Business acquisitions

2011

During 2011, Yellow Media Inc. did not complete any business acquisitions.

2010

Directories

On January 8, 2010, Yellow Media Inc. completed the acquisition of all the assets related to the operations of the website Restaurantica.ca ("Restaurantica"). Restaurantica was established in 2003 and lists restaurants, bars and cafés' information, with user-generated reviews on these establishments in North America.

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

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

On May 25, 2010, Yellow Media Inc. acquired all of the shares of Canpages for a purchase price consideration of $226.4 million, which included working capital and other adjustments. The purchase price consideration was comprised of $84.8 million payable in cash at closing to settle third party debt obligations and the issuance of $141.6 million of Mandatory Exchangeable Promissory Notes ("Exchangeable Notes") of Yellow Media Inc. (Note 15).

On September 21, 2010, Yellow Media Inc. acquired a 60% equity interest in Mediative LP, formerly Enquiro Search Solutions Inc. ("Enquiro"), a leading search engine solutions company. The non-controlling interest in Enquiro was measured at the non-controlling interest's proportionate share of the fair value of Enquiro's identifiable net assets.

On October 20, 2010, Yellow Media Inc. acquired all of the shares of Uptrend, Canada's leading independent online advertising representation firm and on October 28, 2010, Yellow Media Inc. acquired all of the assets of AdSplash Inc. ("Adsplash") a national retail advertising leader.

These acquisitions positioned Yellow Media Inc. to better compete in the digital world and enabled Yellow Media Inc. to expand its sales force, online capabilities and advertiser offerings.

Vertical Media (Note 7)

On January 5, 2010 Trader acquired an additional 10% equity interest in Dealer.com bringing its total equity interest to approximately 30%. Trader had an option to increase its ownership in the privately held company that was exercisable. If exercised, this option would have provided Yellow Media Inc. with a majority voting interest and the continuing ability to elect the majority of the members of the board of directors of Dealer.com. As such, Trader effectively controlled Dealer.com and accordingly the financial position and results of Dealer.com were consolidated in Yellow Media Inc.'s financial statements from the date of acquisition until the disposition of Trader.

The previously held equity interest of Trader in Dealer.com, which was accounted for under the equity method up to that date, was re-measured at its fair value of $40.6 million and the gain on deemed disposition was recognized in net earnings. The above transaction generated a net gain of $8 million which is included in net earnings from discontinued operations.

The non-controlling interest in Dealer.com was measured at the non-controlling interest's proportionate share of the fair value of Dealer.com's identifiable net assets.

On July 9, 2010, Trader acquired all of the assets of CanadianDriver Communications Inc. ("Canadian Driver"). Canadian Driver is the operator of CanadianDriver.com, an award-winning online automotive magazine that features over 11,000 automotive articles including new car reviews, test drives and automotive news as well as other automotive topics.

Yellow Media Inc. accounted for all of the acquisitions using the acquisition method of accounting. The purchase prices were allocated to the identifiable assets acquired and the liabilities assumed on the basis of their fair values.

We incurred costs of $7.7 million during the year ended December 31, 2011, resulting from potential investments. In 2010, we incurred $30.6 million mainly in association with our acquisition of Canpages, RedFlagDeals.com, Restaurantica, Enquiro, UpTrend Media, AdSplash, and 411.ca.

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

For the year ended December 31, 2010	Canpages	Dealer.com	Other	Total
Current assets and liabilities				
Cash	$ 3,912	$ 19,681	$ 1,170	$ 24,763
Trade receivables	10,722	6,459	5,858	23,039
Prepaid expenses	65	925	109	1,099
Trade and other payables	(29,385)	(5,406)	(5,128)	(39,919)
Deferred revenues	(1,730)	(2,997)	–	(4,727)
Property, plant and equipment	1,328	9,028	419	10,775
Intangibles				
Trademarks and domain names	40,000	21,747	16,027	77,774
Customer-related	97,500	65,343	11,128	173,971
Non-competition agreements and logos	1,670	–	11,700	13,370
Software	3,500	52,025	42	55,567
Long-term debt	–	(5,352)	–	(5,352)
Deferred income tax liabilities	(4,983)	(56,702)	(7,561)	(69,246)
Non-controlling interest	–	(71,513)	(1,541)	(73,054)
Net identifiable assets acquired	122,599	33,238	32,223	188,060
Reversal of previously owned equity investment	–	(40,614)	–	(40,614)
Goodwill ($65.9 million tax deductible)	103,810	28,186	37,512	169,508
Purchase price	**$ 226,409**	**$ 20,810**	**$ 69,735**	**$ 316,954**

Consideration

	Canpages	Dealer.com	Other	Total
Cash	$ 84,847	$ 20,810	$ 43,363	$ 149,020
Series 7 shares	–	–	9,750	9,750
Exchangeable Notes	141,562	–	–	141,562
Deferred consideration	–	–	16,622	16,622
Total	**$ 226,409**	**$ 20,810**	**$ 69,735**	**$ 316,954**

Deferred consideration includes payments that are contingent on the basis of time and others that are based on the achievement of specific performance objectives.

During 2011, Yellow Media Inc. paid $4.5 million of the deferred consideration. A reversal of $1.3 million was included in financial charges. Giving effect to the reversal, the deferred consideration outstanding from continuing operations as at December 31, 2011 could reach $11.5 million, undiscounted, if all performance objectives are met.

6. Disposal of subsidiary

On November 14, 2011, Yellow Media Inc. announced that it had sold the assets of LesPAC.com (LesPAC) to Mediagrif Interactive Technologies Inc. for cash proceeds of $70.9 million, net of fees and working capital adjustments. The carrying value of the net assets disposed of on November 14, 2011 was $64.7 million resulting in a gain of $6.2 million recorded in the consolidated income statements.

The carrying value of assets and liabilities disposed are summarized below:

Current assets	$	427
Property, plant and equipment		132
Intangible assets		16,306
Goodwill		48,079
Trade and other payables		(217)
Total	$	64,727

7. Discontinued operations

YPG Directories, LLC

On March 29, 2010, Yellow Media Inc. entered into a definitive agreement with HM Capital whereby Yellow Media Inc. contributed its 100% interest in YPG Directories, LLC in exchange for a 35% minority ownership in a new entity resulting from the business combination of YPG Directories, LLC and Ziplocal, LP ("Ziplocal"). The transaction closed on April 15, 2010.

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 was recorded in Financial and other Assets in the statement of financial position. The note has a stated value of $15 million, matures on July 28, 2020 and carries an interest rate of 8%.

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 as described in Note 6. The real estate and employment business continue to be owned and managed by Yellow Media Inc.

As a result of the above, Yellow Media Inc. reclassified the current and prior period results of the disposed businesses, up to the date of disposal, as discontinued operations.

The carrying value of assets and liabilities of Trader disposed of as at July 28, 2011 are summarized below:

Current assets[1]	$	63,220
Property, plant and equipment		42,450
Other non-current assets		1,382
Intangible assets		355,538
Goodwill[2]		473,544
Trade and other payables		(37,532)
Deferred revenues		(5,614)
Deferred credits		(2,108)
Long-term debt		(13,546)
Deferred income taxes		(95,396)
Non-controlling interest		(53,821)
Cumulative translation amount		4,590
Total	$	732,707

[1] Includes cash of $21.3 million.

[2] Goodwill for discontinued operations is presented net of the impairment charge of $97.4 million recorded upon revaluation of discontinued operations to fair value less costs to sell, as required by IFRS 5.

Analysis of net loss from discontinued operations for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Revenues	$ 148,051	$ 266,228
Operating costs	113,339	187,860
Depreciation and amortization	16,065	90,477
Restructuring and special charges (recovery)	(737)	2,512
Other	456	740
Gain on deemed disposal of investment in associate	–	(8,007)
Gain on disposal of subsidiary	–	(586)
Earnings (loss) from discontinued operations before income taxes, share of losses from investment in associates and loss on disposal	18,928	(6,768)
Provision (recovery) of income taxes	5,331	(4,427)
Share of losses from investment in associates	128	39
Loss on disposal, net of income taxes recovery of $1.4 million	134,346	–
Net loss from discontinued operations	$ (120,877)	$ (2,380)

Cash flows from discontinued operations for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Cash from (used in):		
Operating activities	$ 31,598	$ 76,929
Investing activities	(22,126)	(43,971)
Financing activities	(1,537)	7,061
Net increase in cash from discontinued operations	$ 7,935	$ 40,019

8. Investments in associates

List of associates

As at,	December 31, 2011		December 31, 2010		January 1, 2010	
	Consolidation	% ownership	Consolidation	% ownership	Consolidation	% ownership
Canada						
411 Local Search	Equity method	30	Equity method	30	–	–
Acquisio	Equity method	13	Equity method	24	Equity method	24
Bignition	–	–	Equity method	30	–	–
USA						
Ziplocal	Equity method	35	Equity method	35	–	–

The aggregate amounts of assets, liabilities, revenues and net loss for the investment in associates not adjusted for the percentage ownership held by Yellow Media Inc. is presented below:

For the periods ended,	December 31, 2011	December 31, 2010	January 1, 2010
Total assets	$ 20,537	$ 97,552	$ 35,346
Total liabilities	$ 18,952	$ 148,420	$ 17,535
Revenues	$ 17,929	$ 83,901	$ NA
Net loss	$ (3,425)	$ (18,820)	$ NA

Ziplocal was in default of its debt obligations and had undertaken important restructuring initiatives. And as a result during 2011, Yellow Media Inc. determined that its investment in Ziplocal was impaired and a loss of $50.3 million (net of income taxes of $0.2 million) was recorded to reduce its net investment in Ziplocal to $nil. Consequently, Yellow Media Inc. no longer recognizes its share of losses in Ziplocal.

9. Property, plant and equipment

	For the year ended December 31, 2011				
	Office equipment[1]	Computer equipment[1]	Other equipment	Leasehold improvements	Total
Cost					
As at December 31, 2010	$ 34,109	$ 50,723	$ 26,012	$ 51,234	$ 162,078
Additions[2]	5,144	2,801	9,002	9,524	26,471
Discontinued operations	(3,766)	(22,697)	(31,162)	(18,151)	(75,776)
Disposals, write-offs and transfers	(2,295)	(1,157)	(431)	(2,999)	(6,882)
Translation adjustments	(114)	–	(727)	(20)	(861)
As at December 31, 2011	$ 33,078	$ 29,670	$ 2,694	$ 39,588	$ 105,030
Accumulated depreciation					
As at December 31, 2010	$ 15,799	37,126	5,238	23,172	81,335
Depreciation expense[2]	3,771	5,478	574	4,317	14,140
Discontinued operations	(1,061)	(19,012)	(4,568)	(8,685)	(33,326)
Disposals, write-offs and transfers	(1,145)	(142)	(7)	(2,269)	(3,563)
Translation adjustments	(35)	–	(12)	(5)	(52)
As at December 31, 2011	17,329	23,450	1,225	16,530	58,534
Net book value as at December 31, 2011	**$ 15,749**	**$ 6,220**	**$ 1,469**	**$ 23,058**	**$ 46,496**

	For the year ended December 31, 2010				
	Office equipment[1]	Computer equipment[1]	Other equipment	Leasehold improvements	Total
Cost					
As at January 1, 2010	$ 28,561	$ 44,643	$ 7,092	$ 48,125	$ 128,421
Business acquisitions	1,821	697	7,599	658	10,775
Additions[2]	3,998	5,036	11,371	2,558	22,963
Discontinued operations	(214)	(74)	(3)	(82)	(373)
Disposals, write-offs and transfers	–	425	287	–	712
Translation adjustments	(57)	(4)	(334)	(25)	(420)
As at December 31, 2010	$ 34,109	$ 50,723	$ 26,012	$ 51,234	$ 162,078
Accumulated depreciation					
As at January 1, 2010	$ 11,678	$ 28,141	$ 3,840	$ 17,338	$ 60,997
Depreciation expense[2]	4,162	9,445	1,216	5,843	20,666
Discontinued operations	(27)	(51)	(3)	(7)	(88)
Disposals, write-offs and transfers	–	(407)	192	–	(215)
Translation adjustments	(14)	(2)	(7)	(2)	(25)
As at December 31, 2010	15,799	37,126	5,238	23,172	81,335
Net book value as at December 31, 2010	**$ 18,310**	**$ 13,597**	**$ 20,774**	**$ 28,062**	**$ 80,743**

[1] The net book value of office and computer equipment includes $3.5 million and $nil, respectively of assets held under finance leases (2010 - $3.7 million and $2.3 million, respectively).

[2] Included in the additions and depreciation expense is $10.2 million (2010 - $16.1 million) and $2.3 million (2010 - $9.1 million), respectively for discontinued operations.

10. Intangible assets and goodwill

For the year ended December 31, 2011

	Trademarks and domain names[2]	Non-competition agreements and logos	Customer-related intangible assets	Software[4]	Total Intangible assets	Goodwill
Cost						
As at December 31, 2010	$ 1,466,095	$ 646,859	$ 171,433	$ 346,658	$ 2,631,045	$ 6,467,092
Additions[3]	–	–	–	60,569	60,569	–
Discontinued operations[1]	(284,135)	(22,357)	(60,006)	(120,520)	(487,018)	(570,966)
Impairment (Note 4)	(14,463)	(3,643)	(629)	(1,265)	(20,000)	(2,880,000)
Disposals, write-offs and transfers	(15,500)	(3,800)	(145)	1,303	(18,142)	(48,079)
Translation adjustments	(817)	–	(2,455)	(2,235)	(5,507)	(200)
As at December 31, 2011	$ 1,151,180	$ 617,059	$ 108,198	$ 284,510	$ 2,160,947	$ 2,967,847
Accumulated amortization						
As at December 31, 2010	$ 42,846	134,204	95,032	206,963	479,045	$ –
Amortization expense[3]	19,296	26,791	57,119	59,625	162,831	–
Discontinued operations	(16,600)	(8,212)	(46,211)	(60,457)	(131,480)	–
Disposals, write-offs and transfers	–	(3,470)	(145)	(926)	(4,541)	–
Translation adjustments	–	–	(1,961)	(998)	(2,959)	–
As at December 31, 2011	45,542	149,313	103,834	204,207	502,896	–
Net book value as at December 31, 2011	**$ 1,105,638**	**$ 467,746**	**$ 4,364**	**$ 80,303**	**$ 1,658,051**	**$ 2,967,847**

For the year ended December 31, 2010

	Trademarks and domain names[2]	Non-competition agreements and logos	Customer-related intangible assets	Software[4]	Total Intangible assets	Goodwill
Cost						
As at January 1, 2010	$ 1,404,067	$ 630,393	$ 26,325	$ 241,576	$ 2,302,361	$ 6,342,580
Business acquisitions	77,774	13,370	173,971	55,567	320,682	169,508
Additions[3]	12,616	5,831	200	52,724	71,371	–
Discontinued operations	(16,137)	(2,610)	(20,153)	(377)	(39,277)	(41,767)
Disposals, write-offs and transfers	(10,500)	–	(5,068)	(554)	(16,122)	–
Translation adjustments	(1,725)	(125)	(3,842)	(2,278)	(7,970)	(3,229)
As at December 31, 2010	$ 1,466,095	$ 646,859	$ 171,433	$ 346,658	$ 2,631,045	$ 6,467,092
Accumulated amortization						
As at January 1, 2010	$ 25,800	$ 108,526	$ 26,182	$ 106,512	$ 267,020	$ –
Amortization expense[3]	27,546	26,101	96,539	99,890	250,076	–
Discontinued operations	–	(413)	(20,116)	(114)	(20,643)	–
Disposals, write-offs and transfers	(10,500)	–	(5,068)	1,325	(14,243)	–
Translation adjustments	–	(10)	(2,505)	(650)	(3,165)	–
As at December 31, 2010	42,846	134,204	95,032	206,963	479,045	–
Net book value as at December 31, 2010	$ 1,423,249	$ 512,655	$ 76,401	$ 139,695	$ 2,152,000	$ 6,467,092

[1] Goodwill for discontinued operations is presented gross of the impairment charge of $97.4 million recorded upon revaluation of discontinued operations to fair value less costs to sell, as required by IFRS 5.

[2] Trademarks and domain names with indefinite useful lives amounted to $1,090.8 million (2010 - $1,374.7 million).

[3] Included in the additions and amortization expense is $9.8 million (2010 - $16 million) and $13.8 million (2010 - $81.4 million), respectively for discontinued operations.

[4] Software assets under development amounted to $35 million (2010 - $32 million).

11. Trade and other payables

	December 31, 2011	December 31, 2010	January 1, 2010
Trade	$ 70,979	$ 96,059	$ 67,201
Deposits	8,849	15,428	5,740
Deferred consideration (Note 5)	2,798	2,055	–
Payroll related accruals	8,683	13,837	12,145
Publishing related accruals	12,871	17,917	16,156
Accrued interest	30,434	38,172	38,891
Other accrued liabilities	21,868	18,092	13,569
	$ 156,482	$ 201,560	$ 153,702

12. Provisions

During the year ended December 31, 2011, Yellow Media Inc. recorded restructuring and special charges of $26.1 million. The creation of centers of excellence and the elimination of print publications from our Canpages division resulted in a workforce reduction and the termination of contractual obligations.

In 2010, in connection with acquisitions made during the year, Yellow Media Inc. recorded costs of $30.5 million including a provision for restructuring and special charges of $11.7 million. Yellow Media Inc. had adopted formal plans to integrate and restructure the acquired businesses. Consequently, Yellow Media Inc. established provisions related to planned termination of employment of certain employees of the acquired businesses who were performing functions already available through its existing structuring and other restructuring of the acquired businesses' operations.

During 2010, Yellow Media Inc. also recorded additional restructuring and special charges of $33.9 million related to an internal reorganization, workforce reduction and the termination of certain contractual commitments.

The provision for restructuring and special charges represents the present value of the best estimate of the future outflow of economic benefits that will be required to settle the provision and may vary as a result of new events affecting the severances and charges that will need to be paid. These amounts are expected to be paid mainly in 2012 as the plan is executed.

Other provisions include provisions primarily for vacation and short term incentive plans.

	Provisions for restructuring	Provisions for special charges	Other provisions	Total Provisions
As at January 1, 2010	$ 16,051	$ 24,811	$ 11,299	$ 52,161
Charge[1]	37,538	8,033	9,967	55,538
Reversal (utilized provision)	(30,096)	(14,891)	(3,623)	(48,610)
Reversal (surplus provision)	–	–	(421)	(421)
Business acquisitions	–	–	1,781	1,781
Discontinued operations	–	–	(108)	(108)
As at December 31, 2010	$ 23,493	$ 17,953	$ 18,895	$ 60,341
Charge[1]	19,830	9,938	3,227	32,995
Reversal (utilized provision)	(18,251)	(8,148)	(6,816)	(33,215)
Reversal (surplus provision)[1]	(6,100)	(73)	(1,600)	(7,773)
Discontinued operations	(1,335)	(664)	(2,049)	(4,048)
As at December 31, 2011	$ 17,637	$ 19,006	$ 11,657	$ 48,300

[1] Included in the restructuring and special charges (recovery) is $(0.7) million (2010 - $2.5 million) for discontinued operations.

13. Post-employment benefits

Yellow Media Inc. maintains pension plans with defined benefit and defined contribution components which cover substantially all of the employees of Yellow Media Inc. Yellow Media Inc. 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 Yellow Media Inc.

The changes in the defined benefit obligations and in the fair value of assets and the reconciliation of funded status of the defined benefit plans to the amount recorded on the consolidated statements of financial position as at December 31, 2011 and 2010 were as follows:

	December 31, 2011		December 31, 2010	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Fair value of plan assets, beginning of year	$ 413,755	$ –	$ 400,955	$ –
Expected return on plan assets	28,111	–	28,335	–
Benefit payments	(35,026)	(1,880)	(31,464)	(2,276)
Transfers from defined benefit to defined contribution component of the plan	–	–	(276)	–
Actuarial (loss) gains[1]	(27,664)	–	7,965	–
Employer contributions	10,194	1,880	7,674	2,276
Employee contributions	490	–	566	–
Fair value of plan assets, end of year	389,860	–	413,755	–
Accrued benefit obligation, beginning of year	551,707	50,925	460,785	45,006
Current service cost	12,871	812	12,492	1,061
Employee contributions	490	–	566	–
Interest cost	29,250	2,466	29,829	2,923
Actuarial losses[2]	77,000	41	79,499	4,211
Benefit payments	(35,026)	(1,880)	(31,464)	(2,276)
Defined benefit obligation, end of year	636,292	52,364	551,707	50,925
Net defined benefit obligation	$ (246,432)	$ (52,364)	$ (137,952)	$ (50,925)

[1] Actuarial gains included experience adjustments on plan assets of $28.6 million (2010 - $8 million).

[2] Actuarial losses included experience adjustments on plan liabilities of $23.2 million (2010 - $nil).

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 Yellow Media Inc.'s pension and other benefit obligations as at December 31, 2011 and 2010 were as follows:

	December 31, 2011		December 31, 2010	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Post-employment benefit obligation				
Discount rate, end of year	4.50%	4.50%	5.50%	5.50%
Rate of compensation increase	3.25%	3.50%	3.25%	3.50%
Net benefit plan costs				
Discount rate, end of preceding year	5.50%	5.50%	6.50%	6.50%
Rate of compensation increase	3.25%	3.50%	3.25%	3.50%
Expected long-term rate of return on plan assets	7.0%	–	7.0%	–
Expected average remaining service life (years)	12	13	13	15

For measurement purposes, a 8% annual increase in the per capita cost of covered health care benefits (the health care cost trend rate) was assumed in 2011. The rate of increase of the cost of medication was assumed to gradually decline to 5% by 2026 and to remain at that level thereafter. A 4.50% annual increase in per capita cost of covered dental care benefits was assumed in 2011.

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	$ 152	$ (147)
Effect on other benefits – Post-employment benefit obligation	$ 2,069	$ (2,018)

The net benefit plan costs include the following components:

	For the years ended December 31,			
		2011		2010
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Current service cost[1]	$ 12,871	$ 812	$ 12,492	$ 1,061
Interest cost (Note 22)	29,250	2,466	29,829	2,923
Expected return on plan assets (Note 22)	(28,111)	–	(28,335)	–
Net benefit costs recognized in income statement	14,010	3,278	13,986	3,984
Actuarial losses	104,664	41	71,534	4,211
Net benefit costs recognized in other comprehensive income	104,664	41	71,534	4,211
Total net benefit plan costs for the YPG Co. defined benefit plans	$ 118,674	$ 3,319	$ 85,520	$ 8,195
Net benefit plan costs for the YPG Co. defined contribution plans	3,551	–	2,857	–
Total net benefit plan costs	$ 122,225	$ 3,319	$ 88,377	$ 8,195

[1] Included in operating costs

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, 2011 and 2010 and January 1, 2010:

(in percentages - %)	December 31, 2011	December 31, 2010	January 1, 2010
Asset categories in the Master Trust:			
Cash and other short-term investments	3	3	4
Publicly traded equity securities	62	62	60
Publicly traded fixed income securities	35	35	32
Pending MTS transfer	–	–	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 pension and other benefit plans made by Yellow Media Inc. amounted to $15.6 million for 2011 (2010 – $12.5 million). Total cash payments for pension and other benefit plans expected in 2012 amount to approximately $43 million.

As at December 31, 2011 and 2010 and January 1, 2010, the publicly traded equity securities did not directly include any shares of Yellow Media Inc.

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

Yellow Media Inc.'s expense for provincial, federal and state pensions plans was $7.6 million for the year ended December 31, 2011 (2010 – $6.6 million).

As at December 31, 2011, Yellow Media Inc. had recognized an accumulated balance of $133.9 million, net of income taxes of $46.6 million in actuarial losses in Other Comprehensive Income.

14. Long-term debt

				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[1]	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

				December 31, 2010
	Principal amount	Fair value adjustment of hedged item	Deferred financing costs	Total
Medium Term Notes	$ 1,661,586	$ 8,439	$ (13,825)	$ 1,656,200
Credit facilities	250,000	–	–	250,000
Note payable	12,258	–	–	12,258
Obligations under finance leases[1]	8,414	–	–	8,414
	1,932,258	8,439	(13,825)	1,926,872
Less current portion of long-term debt	3,669	–	–	3,669
	$ 1,928,589	$ 8,439	$ (13,825)	$ 1,923,203

				January 1, 2010
	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
Obligations under finance leases[1]	9,027	–	–	9,027
	2,162,372	10,703	(19,101)	2,153,974
Less current portion of long-term debt	2,254	–	–	2,254
	$ 2,160,118	$ 10,703	$ (19,101)	$ 2,151,720

[1] Less imputed interest at varying rates not exceeding 10.1% (2010 - 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, 2011 are as follows:

- $254.7 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
- $121.2 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
- $319.9 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
- $16.6 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
- $138.1 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 2011, Yellow Media Inc. repurchased for cancellation an amount of $42.8 million of the Series 2 Medium Term Notes, $67.5 million of the Series 4 Medium Term Notes, $23.9 million of the Series 5 Medium Term Notes and $121.9 million of the Series 7 Medium Term Notes for a total cash consideration of $229.3 million. The difference between the purchase price and the carrying value of the Medium Term Notes of $26 million was recorded as a gain in financial charges.

All Series of Notes are unsecured and are unconditionally guaranteed by Yellow Media Inc., YPG Co., Canpages, YPG (USA) Holdings Inc., and Yellow Pages Group, LLC. as to the payment of principal and interest.

Credit facilities

Yellow Media Inc. has in place a senior unsecured credit facility consisting of:

- A $455 million facility (the “credit facility”) which is comprised of:
    - a $250 million revolving tranche maturing in February 2013 and;
    - a $205 million non-revolving tranche maturing in February 2013.

The revolving tranche can be used for general corporate purposes.

On September 28, 2011, Yellow Media Inc. amended its then $1 billion credit facility which consisted of a $750 million revolving tranche and a $250 million non-revolving tranche to a $500 million credit facility.

As at December 31, 2011, the revolving tranche of the credit facility was undrawn and the outstanding balance of the non-revolving tranche amounted to $205 million. Yellow Media Inc. is required to make quarterly repayments of $25 million on the outstanding balance of the non-revolving tranche of the credit facility, commencing in January 2012 through January 2013. This amount may not be re-borrowed once repaid.

The use of available borrowings is subject to certain restrictions and future indebtedness is limited under the amended and currently effective credit facility. Furthermore, there are certain restrictions and limitations on the utilization of future cash proceeds on the disposal of certain assets. The amended facility allows Yellow Media Inc. to repurchase up to $125 million of its Series 8 and Series 9 Medium Term Notes prior to their maturity date in 2013, subject to certain conditions. The amended credit facility also includes restrictions with respect to the incurrence or assumption of indebtedness and liens, the transfer of assets as well as acquisitions and investments. The amended facility restricts on a going forward basis the declaration and payment of common share dividends.

Yellow Media Inc. must meet various covenants under the amended facility including but not limited to the following: a Consolidated Total Debt to Consolidated Latest Twelve Month EBITDA[1] ratio of not more than 3.5 to 1 and a Consolidated Latest Twelve Month EBITDA[1] to Consolidated Interest Expense ratio of not less than 3.5 to 1.

The amended facility bears interest at BA rates plus a spread of 3.5%. This spread is based on a ratings grid. The revolving facility may be used for general corporate purposes. The effective interest rate on the credit facility including interest on commercial paper and commitment fees was 4.4% in 2011.

A portion of the deferred financing fees associated with the original credit facility was written off during the third quarter of 2011. The financing fees associated with the amended credit facility have been deferred and will be amortized over the remaining life of the amended credit facility.

Yellow Media Inc. was in compliance with all of its debt covenants as at December 31, 2011.

Commercial paper

Following our downgrade to a non-investment grade rating, our access to the commercial paper market was discontinued. As at December 31, 2011, no amount was outstanding on the commercial paper program. As at December 31, 2010, there was $295 million outstanding under the Commercial Paper program ($74 million – January 1, 2010). The commercial paper bore interest at approximately BA rates plus an applicable spread and commission.

Obligations under finance leases

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

[1] Latest twelve month Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, acquisition-related costs, conversion and rebranding costs of 2010, restructuring and special charges, giving effect to the acquisitions and divestitures (Latest Twelve Month EBITDA). Latest twelve month EBITDA is a non-IFRS measure and may not be comparable with similar measures used by other publicly traded companies.

Finance lease liabilities are payable as at December 31, 2011 as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	$ 2,513	$ 174	$ 2,339
Between one and five years	1,922	113	1,809
More than five years	–	–	–
	$ 4,435	$ 287	$ 4,148

15. Exchangeable and convertible instruments

	December 31, 2011	December 31, 2010	January 1, 2010
Principal amount	$ 200,000	$ 341,562	$ 86,549
Equity component	(10,139)	(10,139)	(3,618)
Accretion	1,685	533	2,362
Deferred financing costs	(7,332)	(12,927)	(1,407)
	$ 184,214	$ 319,029	$ 83,886

The remaining balance of $86.5 million of Exchangeable Debentures was redeemed by Yellow Media Inc. on August 2, 2010 for a total cash consideration of $86.5 million excluding accrued interest. The carrying value of the Exchangeable Debentures was $84.8 million. A loss of $1.7 million was recorded in net earnings in financial charges. The remaining balance of the conversion option amounting to $3.6 million related to the purchase was credited to other reserves.

In connection with the Canpages acquisition, Yellow Media Inc. issued Mandatory Exchangeable Promissory Notes (“Exchangeable Notes”) for a principal amount of $141.6 million. On February 25, 2011, $35.4 million Exchangeable Notes were exchanged into 6,255,026 shares of Yellow Media Inc. (Note 18). In March 31, 2011 Yellow Media Inc. exercised its redemption right applicable to one quarter of the principal amount of the Exchangeable Notes representing $35.4 million. The principal amount along with the 5% redemption premium stipulated under the total return swap (“TRS”) was paid on April 1, 2011. During the second quarter of 2011, the remaining $70.8 million Exchangeable Notes balance were redeemed before maturity. The principal remaining amounts along with the 5% redemption premium stipulated under the TRS was paid on June 10, 2011 and the TRS was unwound.

On July 8, 2010, Yellow Media Inc. issued convertible unsecured subordinated debentures for a principal amount of $200 million (“Convertible Debentures”). The 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.

The conversion option was valued at $7.4 million (net of income taxes of $2.7 million) at the date of issuance and is included in Equity attributable to the shareholders. The liability portion is being accreted such that the liability at maturity will equal the gross proceeds less conversions.

16. Preferred shares, Series 1 and 2

	December 31, 2011	December 31, 2010	January 1, 2010
Shares issued, Series 1 and Series 2	$ 402,700	$ 452,978	$ 481,408
Derivative component	741	962	1,161
Deferred financing costs	(4,555)	(7,215)	(9,792)
	398,886	446,725	472,777
Less current portion	249,713	–	–
	$ 149,173	$ 446,725	$ 472,777

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 common shares of the Company. 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 or in part into common shares of the Company 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 at a conversion price equal to the greater of $2.00 and 95% of the then applicable weighted average trading price of the common shares. This option is an embedded derivative and is recorded at fair value on the consolidated statement of financial position with changes in fair value recognized in financial charges.

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 common shares of the Company 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 common shares of the Company 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 is an embedded derivative and is recorded at fair value on the consolidated statement 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.

Normal course issuer bid

On May 11, 2011, Yellow Media Inc. received approval from the TSX on its notice of intention to renew its normal course issuer bid for its preferred shares Series 1 and preferred shares Series 2 for the period from June 13, 2011 to no later than May 12, 2012 through the facilities of the TSX, in accordance with applicable rules and regulations of the TSX.

Under its normal course issuer bid, Yellow Media Inc. can purchase for cancellation up to 1,127,882 and 542,406 of its outstanding first preferred shares, Series 1 ("Series 1 shares") and first preferred shares, Series 2 ("Series 2 shares"), respectively. During 2011, Yellow Media Inc. purchased for cancellation, under the current and prior normal course issuer bids, 1,232,948 Series 1 shares of Yellow Media Inc. for a total cash consideration of $25.5 million including brokerage fees and 778,156 Series 2 shares of Yellow Media Inc. for a total cash consideration of $11.3 million including brokerage fees. The carrying value of these Series 1 and Series 2 shares was $30.6 million and $19.1 million, respectively. The difference between the purchase price and the carrying value of the Series 1 and Series 2 shares of $12.8 million was recorded as a gain and included in financial charges. As at December 31, 2011, there were 10,045,872 Series 1 and 6,062,128 Series 2 outstanding.

In order to maximize funds available for debt repayment and reinvestment in the business, Yellow Media Inc. has decided to suspend activity under its normal course issuer bid for its preferred shares, Series 1 and Series 2, as announced on September 28, 2011. This decision is in compliance with the amendments that Yellow Media Inc. agreed to make with respect to its credit facility.

17. Income taxes

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

	For the years ended December 31,	
	2011	2010
(Loss) earnings before income taxes and impairment and share of losses from investments in associates	$ (2,558,642)	$ 345,269
Combined Canadian federal and provincial tax rates	27.90%	29.91%
Income tax (recovery) expense at statutory rates	$ (713,861)	$ 103,270
Increase (decrease) resulting from:		
Intercompany interest income earned in non-taxable entities	–	(43,820)
Impairment of goodwill and intangible assets	745,102	–
Non-deductible dividend expense	7,921	8,503
Other	6,255	(4,273)
Unrecognized tax attributes	32,526	25,188
Writedown of deferred tax assets	8,081	10,513
Difference in the statutory rate applicable to foreign operations	(3,676)	(6,445)
Rate differential on temporary differences	4,801	647
Provision for income taxes	$ 87,149	$ 93,583

The combined applicable statutory tax rate has decreased by approximately 2% resulting mainly from the reduction in the Canadian Federal statutory tax rate.

Provisions for income taxes include the following amounts for the years ended:

	December 31, 2011	December 31, 2010
Current - continuing operations	$ 9,508	$ 49,057
Deferred – continuing operations	77,641	44,526
	$ 87,149	$ 93,583
Current – discontinued operations	$ 6,162	$ 7,481
Deferred - discontinued operations	(2,275)	(11,908)
	$ 3,887	$ (4,427)
	$ 91,036	$ 89,156

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

	Deferred financing costs	Non-capital losses carryforward	Deferred revenues	Post-employ-ment benefits	Derivatives	Accrued liabilities	Property, plant and equipment and lease induce-ments	Exchang eable and Conver-tible Instru-ments	Intangibles	Deferred income tax liabilities, net
December 31, 2010	$ 5,555	$ (9,627)	$ (20,986)	$ (50,526)	$ (900)	$ (10,704)	$ (1,951)	$ 2,716	$ 254,279	$ 167,856
(Benefit) expense to income statement	2,810	(4,241)	5,951	(1,249)	(1,246)	311	8,444	(451)	65,037	75,366
Benefit to other compre-hensive income	–	–	–	(27,053)	–	–	–	–	(28)	(27,081)
Discontinued operations	–	4,453	261	170	–	1,926	(1,544)	–	(100,662)	(95,396)
Translation and other	1	–	–	–	–	–	92	–	(1,533)	(1,440)
December 31, 2011	$ 8,366	$ (9,415)	$ (14,774)	$ (78,658)	$ (2,146)	$ (8,467)	$ 5,041	$ 2,265	$ 217,093	$ 119,305

	Deferred financing costs	Non-capital losses carryforward	Deferred revenues	Post-employment benefits	Deriva-tives	Accrued liabilities	Property, plant and equipment and lease induce-ments	Exchange able and Conver-tible Instru-ments	Intangibles	Deferred income tax liabilities, net
January 1, 2010	$ 1,777	$ (23,010)	$ (26,714)	$ (34,551)	$ (53)	$ (10,422)	$ (1,088)	$ 1,081	$ 167,625	$ 74,645
Acquisitions	–	–	–	–	–	–	(2)	–	69,247	69,245
(Benefit) expense to income statement	3,778	13,383	5,728	688	(1,011)	(380)	(849)	(1,081)	12,362	32,618
Charge to equity	–	–	–	–	–	–	–	2,716	–	2,716
(Benefit) expense to other comprehensive income	–	–	–	(19,460)	164	–	–	–	–	(19,296)
Discontinued operations	–	–	–	2,797	–	98	(12)	–	5,113	7,996
Translation and other	–	–	–	–	–	–	–	–	(68)	(68)
December 31, 2010	$ 5,555	$ (9,627)	$ (20,986)	$ (50,526)	$ (900)	$ (10,704)	$ (1,951)	$ 2,716	$ 254,279	$ 167,856

At December 31, 2011, Yellow Media Inc. has not recognized deferred income tax assets with respect to Canadian operating losses of $58.5 million expiring from 2026 to 2031, foreign operating losses of $38.3 million which expire from 2028 to 2031, Canadian capital losses of $68.9 million which can be utilized indefinitely, and deductible temporary differences of $384.5 million.

18. Shareholders' capital

Common shares

An unlimited number of common shares are authorized to be issued.

	December 31, 2011	
	Number of Shares	Amount
Balance, January 1, 2011	516,017,984	$ 4,079,838
Shares issued pursuant to the dividend reinvestment plan	9,131,968	26,031
Repurchase of common shares under normal course issuer bid	(11,252,884)	(88,419)
Reduction in capital	–	(500,000)
Exchange of Preferred Shares, Series 7	250,000	1,875
Conversion of Exchangeable Notes (Note 15)	6,255,026	35,390
Balance, December 31, 2011[1]	520,402,094	$ 3,554,715

	December 31, 2010	
	Number of shares	Amount
Balance, January 1, 2010	511,044,685	$ 6,030,339
Conversion of Exchangeable Shares of YPG LP	2,000,000	31,700
Shares issued	3,104	12
Capital reduction pursuant to the Plan of Arrangement	–	(2,000,000)
Exchange of Preferred Shares, Series 7	666,667	4,190
Shares issued pursuant to the dividend reinvestment plan	2,303,528	13,597
Balance, December 31, 2010[1]	516,017,984	$ 4,079,838

[1] Includes 7,806,780 Restricted Shares (2010 – 10,300,605) pursuant to the Restricted Share Plan.

During the year ended December 31, 2011, Yellow Media Inc. declared total dividends to common shareholders of $207.3 million or $0.40 per share ($402.7 million or $0.80 per share in 2010).

Dividend reinvestment plan

During 2010, Yellow Media Inc. announced a dividend reinvestment plan (“Drip”) which became effective November 1, 2010. Under the plan, holders of common shares of Yellow Media Inc. who are residents of Canada have elected to have cash dividends paid on their common shares reinvested into additional common shares of Yellow Media Inc. The Drip allowed Yellow Media Inc. to purchase the common shares on the open market or elect to have the common shares issued from treasury. Yellow Media Inc. could issue the common shares from treasury with a discount from prevailing market prices ranging from 2% to 5%. The new amended credit facility restricts the declaration and payment of common share dividends.

Preferred shares

Authorized:

- 8,625,000 Series 3 cumulative rate reset preferred shares
- 8,625,000 Series 4 cumulative floating rate preferred shares
- 5,000,000 Series 5 cumulative rate reset preferred shares
- 5,000,000 Series 6 cumulative floating rate preferred shares
- 1,300,000 Series 7 cumulative exchangeable preferred shares

Issued:

		December 31, 2011
	Number of Shares	Amount
Balance, December 31, 2010	13,933,333	$ 328,880
Repurchase of preferred shares under normal course issuer bid	(259,180)	(6,318)
Exchange of Preferred Shares, Series 7	(250,000)	(1,875)
Balance, December 31, 2011	13,424,153	$ 320,687

		December 31, 2010
	Number of Shares	Amount
Balance, January 1, 2010	–	$ –
Reclassified from non-controlling interest	14,600,000	333,880
Exchange of Preferred Shares, Series 7	(666,667)	(5,000)
Balance, December 31, 2010[1]	13,933,333	$ 328,880

[1] During the first nine months of 2010, the preferred shares, Series 3 and 5 were classified as non-controlling interest.

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.

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.

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.

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.

Series 7

On February 9, 2010, in connection with the acquisition of Red Flag Deals, Yellow Media Inc. issued 1,300,000 Series 7 shares at a price of $7.50 per Series 7 share as payment to the vendors for the acquisition by way of a private placement. The holders of the Series 7 shares are entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors of Yellow Media Inc. in an amount equal to $0.375 per Series 7 share per annum, yielding 5% per annum, payable quarterly on the third last business day of March, June, September and December of each year. The Series 7 shares are exchangeable into shares of Yellow Media Inc. at a ratio of one preferred share for one share of Yellow Media Inc. On or after January 1, 2012, 300,000 Series 7 shares may be exchanged subject to certain time-based and performance conditions (Note 5).

During 2010, 666,667 Series 7 were exchanged into 666,667 common shares of Yellow Media Inc. As at December 31, 2011, there were 383,333 Series 7 shares outstanding (2010 - 633,333).

The Series 3, 5 and 7 shares were initially classified as non-controlling interest on the statement of financial position as they were issued by a subsidiary of the Fund. As a result of the conversion from an income trust to a corporation on November 1, 2010, the Series 3, 5, and 7 are now classified in Shareholders' equity.

During 2011, the holder exchanged 250,000 Series 7 into 250,000 common shares with a carrying value of $1.9 million.

During 2011, Yellow Media Inc. declared dividends to holders of Series 3, 5, and 7 of $22.5 million or $1.6875 per Series 3, $1.725 per Series 5, and $0.375 per Series 7 ($22.8 million in 2010 or $1.6875 per Series 3, $1.725 per Series 5 and $0.375 per Series 7).

Reduction of capital

The stated capital of Yellow Media Inc, in respect of common shares was reduced by $500 million and Reduction of Capital and Other Reserves was increased by the same amount.

Normal course issuer bid

On May 11, 2011, Yellow Media Inc. received approval from the TSX on its notice of intention to make a normal course issuer bid for its common shares, first preferred shares, Series 3 and first preferred shares, Series 5 for the period from May 13, 2011 to no later than May 12, 2012, in accordance with applicable rules and regulations of the TSX.

Under its normal course issuer bid, Yellow Media Inc. could purchase for cancellation up to 51,782,537 of its outstanding common shares, 830,000 of its outstanding first preferred shares, Series 3, and 500,000 of its outstanding first preferred shares, Series 5.

During the year ended December 31, 2011, Yellow Media Inc. purchased for cancellation 11,252,884 common shares of Yellow Media Inc. for a total cash consideration of $46.5 million including brokerage fees. The average carrying value of the common shares was $7.86 per share. The difference between the purchase price and the carrying value of the common shares of $41.9 million was credited to Deficit. In addition, a portion of the reserve related to the share capital reduction recorded in November 2010 under the Plan of Arrangement in the amount of $42.9 million was also credited to Deficit.

During the year ended December 31, 2011, Yellow Media Inc. also purchased for cancellation 179,100 Series 3 shares of Yellow Media Inc. for a total cash consideration of $2.7 million including brokerage fees and 80,080 Series 5 shares of Yellow Media Inc. for a total cash consideration of $1.2 million including brokerage fees. The carrying value of these Series 3 and 5 shares was $4.4 million and $1.9 million, respectively. The difference between the purchase price and the carrying value was credited to Deficit.

In order to maximize funds available for debt repayment and reinvestment in the business, Yellow Media Inc. has decided to suspend activity under its normal course issuer bid for its common, Series 3 and Series 5 shares, as announced on September 28, 2011. This decision is in compliance with the amendments that Yellow Media Inc. agreed to make with respect to its credit facility.

19. Earnings per share

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

	For the years ended December 31,	
	2011	2010[2]
Weighted average number of shares outstanding used in computing basic earnings per share	**511,765,665**	503,111,679
Dilutive effect of options	–	382,039
Dilutive effect of Restricted Shares[1]	–	10,016,622
Dilutive effect of Series 7 Preferred shares	–	1,125,571
Dilutive effect of Series 1 Preferred shares	–	51,890,688
Dilutive effect of Series 2 Preferred shares	–	31,847,677
Dilutive effect of Exchangeable Debentures	–	8,819,220
Dilutive effect of Convertible Debentures	–	17,564,620
Dilutive effect of Exchangeable notes	–	15,292,171
Weighted average number of shares outstanding used in computing diluted (loss) earnings per share	**511,765,665**	640,050,287

[1] Subject to specific payout conditions.

[2] Comparative amounts presented as trust units.

	For the years ended December 31,	
	2011	2010
Net (loss) earnings from continuing operations	$ (2,708,122)	$ 231,786
Attributable to non-controlling interest	490	164
Dividends to preferred shareholders	(22,539)	(22,834)
Net (loss) earnings from continuing operations available to common shareholders of Yellow Media Inc. used in the computation of basic (loss) earnings per share	(2,730,171)	209,116
Impact of assumed conversion of Exchangeable Debentures, net of applicable taxes	–	3,948
Impact of assumed conversion of Series 1 Preferred shares, net of applicable taxes	–	14,503
Impact of assumed conversion of Series 2 Preferred shares, net of applicable taxes	–	8,591
Impact of assumed conversion of Series 7 Preferred shares, net of applicable taxes	–	461
Impact of assumed conversion of Convertible Debentures, net of applicable taxes	–	5,065
Impact of assumed conversion of Exchangeable Notes	–	2,967
Net (loss) earnings adjusted for dilutive effect	$ (2,730,171)	$ 244,651

	For the years ended December 31,	
	2011	2010
Net (loss) earnings attributable to common shareholders of Yellow Media Inc.	$ (2,832,649)	$ 226,498
Dividends to preferred shareholders	(22,539)	(3,651)
Net (loss) earnings available to common shareholders of Yellow Media Inc. used in the computation of basic earnings per share	(2,855,188)	222,847
Impact of assumed conversion of Exchangeable Debentures, net of applicable taxes	–	3,948
Impact of assumed conversion of Series 1 Preferred shares, net of applicable taxes	–	14,503
Impact of assumed conversion of Series 2 Preferred shares, net of applicable taxes	–	8,591
Impact of assumed conversion of Series 7 Preferred shares, net of applicable taxes	–	461
Impact of assumed conversion of Convertible Debentures, net of applicable taxes	–	5,065
Impact of assumed conversion of Exchangeable notes	–	2,967
Net (loss) earnings adjusted for dilutive effect	$ (2,855,188)	$ 258,382

Yellow Media Inc. did not calculate the diluted loss per share for year ended December 31, 2011 because the conversion of the dilutive instruments listed above would be anti-dilutive to the loss.

	For the years ended December 31,	
	2011	2010
Net loss from discontinued operations	$ (120,877)	$ (2,380)
Attributable to non-controlling interest	(4,140)	16,111
Net (loss) earnings from discontinued operations available to common shareholders of Yellow Media Inc. used in the computation of basic and diluted earnings per share	$ (125,017)	$ 13,731

	For the years ended December 31,	
	2011	2010
Basic (loss) earnings per share attributable to common shareholders from discontinued operations	$ (0.24)	$ 0.03
Diluted (loss) earnings per share attributable to common shareholders from discontinued operations	$ (0.24)	$ 0.02

The diluted loss per share from discontinued operations is not calculated for the year ended December 31, 2011 because the conversion of the dilutive instruments listed above would be anti-dilutive.

20. 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

Yellow Media Inc. has established an employee benefit plan known as the Restricted Share Unit Plan (the "RS Plan"). The RS Plan provides certain eligible employees the right to receive shares subject to the terms and conditions of the RS Plan.

Cash dividends received on all Restricted shares awarded to eligible employees and directors were reinvested in additional Restricted Shares and vested according to the terms of the grant pursuant to which they are paid. Cash dividends received on all Restricted Shares awarded to non-executive directors were not reinvested in additional Restricted Shares and were paid according to the terms of the grant pursuant to which they were paid. Unless instructed otherwise by a participant, upon the vesting of the Restricted Shares, the plan custodian shall sell the Restricted Shares of the participant on the open market of the TSX 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 Shares not vested shall be forfeited and cancelled. Upon a participant's retirement, termination without cause, death and long-term disability, the time-based Restricted Shares will vest as a pro-rata of the performance cycle completed versus the 36 month period. All performance-based Restricted Shares 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 shares have vesting acceleration provisions under certain circumstances.

Employees who were awarded shares under the RS Plan subsequent to 2008 were granted Restricted Shares in equal proportion between time-based vesting and performance-based vesting criteria which vest between 2012 and 2014. Yellow Media Inc. also awarded Restricted Shares to non-executive directors of Yellow Media Inc., which are time-based vesting only. In the case of the 2009 and 2011 grants, the number of Restricted Shares that vest could have potentially reached up to two-and-a-half times the actual number of Restricted Shares awarded if the actual performance reached the maximum level of the objectives.

Upon the Fund's conversion to a corporation, the plan was amended to allow for the purchase of Yellow Media Inc. common shares (the "Restricted shares") on the open market.

During the year ended December 31, 2011, an amount of $8 million (2010 - $20.7 million) representing 1,994,552 (2010 – 3,840,009) Restricted Shares were granted at an average market price of $4.02 (2010 - $5.39). An amount of $2.9 million (2010 - $7.2 million) was used to reinvest in 1,246,868 (2010 – 1,196,851) Restricted Shares using the proceeds from the dividends on the Restricted Shares held in escrow. During 2010, an amount of $17.6 million was used to purchase Restricted Shares on the open market of the TSX. In addition, 57,239 Restricted Shares which were not allocated to any specific employee were reinvested. This includes 388,509 (2010 – 319,915) Restricted Shares associated with the portion which provides for up to a 250% payout.

The following table summarizes the status of the grants:

	December 31, 2011
	Number of Restricted Shares
	2009 and 2011 Grants
Outstanding, beginning of year	7,337,315
Granted	1,994,552
Vested	(3,740,692)
Forfeited	(1,930,292)
Cash dividends reinvested	915,598
Outstanding, end of year	**4,576,481**
Weighted average remaining life	**1.09 years**

	December 31, 2010
	Number of Restricted Shares
	2008 to 2010 Grants
Outstanding, beginning of year	4,558,668
Granted	3,840,009
Vested	(572,974)
Forfeited	(1,365,324)
Cash distributions reinvested	876,936
Outstanding, end of year	7,337,315
Weighted average remaining life	0.57 years

During 2010, Yellow Media Inc. sold 1,360,398 Restricted shares which were not allocated to any specific employee at an average market price of $6.09. As a result of this transaction, an amount of $2.1 million, representing the excess of the cost over proceeds, was credited to stock-based compensation.

As at December 31, 2011 there were 1,515,455 (2010 – 50,000) Restricted Shares which were not allocated to any specific employee and 1,714,844 (2010 – 2,913,290) Restricted Shares representing the portion which provides up to a 250% payout. During the year, a recovery of $0.5 million (2010 – expense of $21.3 million) was recorded in the consolidated income statement.

Stock Options – 2003 Plan

YPG LP

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, 2011
	Number of options	Weighted average exercise price per option
Outstanding and exercisable beginning and end of year[1]	380,882	$ 3.92

[1] Weighted average remaining life: 0.54 years as at December 31, 2011.

Compensation expense for the years ended December 31, 2011 and 2010 amounted to $nil.

Stock Options – 2010 Plan

On November 11, 2010, the Board of Directors of Yellow Media Inc. adopted a new stock option plan (the "2010 Plan"). The 2010 Plan was approved by the Shareholders and by the TSX on May 5, 2011. The 2010 Plan permits the Board of Directors to select eligible employees that will qualify for the 2010 Plan. A maximum of 25 million options may be granted under the 2010 Plan.

		December 31, 2011
	Number of options	Weighted average exercise price per option
Outstanding, beginning of year	–	–
Granted	15,850,000	$ 6.35
Forfeited	(3,750,000)	$ 6.35
Outstanding, end of year	**12,100,000**	**$ 6.35**
Exercisable, end of year	**–**	**–**

The fair value of the share options granted during the year is $0.14 per option. Options were valued using a binomial option pricing model. Expected volatility is based on the historical share price volatility over the average expected life of the options granted. Key inputs into the valuation model are:

- Grant date share price: $4.51
- Exercise price: $6.35
- Expected volatility: 31.00%
- Vesting period: 3 year
- Contractual life: 5 year
- Dividend yield: 14.4%
- Risk-free interest rate: 2.55%
- Weighted average remaining life: 4 years

A net recovery of $0.1 million was recorded in 2011 (2010 - $0.5 million) in relation to this grant as options were forfeited during the year.

21. Operating costs

	For the years ended December 31,	
	2011	2010
Salaries, commissions and benefits	$ 303,756	$ 293,609
Supply chain and logistics[1]	131,186	138,325
Other goods and services[2]	129,564	131,194
Information services	45,255	41,308
Bad debt expense	39,398	39,585
	$ 649,159	$ 644,021

[1] Supply chain and logistics relate to external supplier costs for manufacturing and distribution of our print and online products as well as related media costs associated to our Search Engine Solutions.

[2] Other goods and services include promotion and advertising costs, real estate, telecommunications, office services and equipment, consulting services including contractors and professional fees. Operating leases recognized in operating costs during the year amounted to $20.9 million (2010 - $18.5 million).

22. Financial charges, net

The significant components of the financial charges are as follows:

	For the years ended December 31,	
	2011	2010
Interest on long-term debt, exchangeable and convertible instruments	$ 128,227	$ 126,520
Interest on commercial paper	2,273	3,111
Standby fees and other financial charges, net	7,239	6,618
Other charges (credits) related to derivative financial instruments	12,502	(407)
Gain on repurchase of Preferred shares, series 1 and 2 and Medium Term Notes, net	(38,815)	(4,187)
Amortization and write-off of deferred financing costs	15,269	9,903
Accreted interest on compound financial instruments	1,034	860
Accreted interest on retirement benefit obligations	31,716	32,752
Expected return on pension plan assets	(28,111)	(28,335)
Reversal of deferred consideration	(1,252)	–
Foreign exchange loss	500	1,602
	$ 130,582	$ 148,437

23. Supplemental disclosure of cash flow information

	For the years ended December 31,	
	2011	2010
Dividends on Preferred shares Series 1 and 2 paid	$ 19,208	$ 21,179
Issuance of note (Note 7)	$ 11,046	$ –
Issuance of Series 7 shares as partial consideration for a business acquisition	$ –	$ 9,750
Conversion of Exchangeable Notes (Note 15)	$ 35,390	$ –
Additions to property, plant and equipment under finance leases	$ 943	$ 2,569
Additions to property, plant and equipment included in trade and other payables	$ 909	$ 1,123
Additions to intangible assets included in trade and other payables	$ 7,825	$ 3,772

Total cash includes an amount of $nil of restricted cash ($35.5 million as at December 31, 2010, $nil as at January 1, 2010).

24. Commitment and contingencies

a) Yellow Media Inc. 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 at December 31, 2011, and in the aggregate of:

	Operating leases	Other	Total commitments
2012	$ 20,323	$ 83,304	$ 103,627
2013	19,571	369	19,940
2014	19,567	153	19,720
2015	19,512	139	19,651
2016	18,530	128	18,658
Thereafter	24,147	2,750	26,897
	$ 121,650	$ 86,843	$ 208,493

Under certain lease agreements, inducements for leasehold improvements exist. These lease inducements are accounted for as part of deferred credits and amount to $16.5 million. These lease inducements are recorded as a reduction of rent expense on a straight-line basis over the term of the lease.

b) Yellow Media Inc. 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 for two successive one-year periods thereafter unless Yellow Media Inc. 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) Yellow Media Inc. 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 in 2020.

d) Yellow Media Inc. 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 Yellow Media Inc.

25. 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. Yellow Media Inc. is exposed to credit risk with respect to cash, trade receivable from customers and derivative financial instruments. The carrying amount of financial assets represents Yellow Media Inc.'s maximum exposure.

Credit risk associated with cash 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.

Yellow Media Inc.'s extension of credit to customers involves considerable judgment. Yellow Media Inc. 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.

Yellow Media Inc. considers that it has limited exposure to concentration of credit risk with respect to trade 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 trade receivable from any one individual customer and certified marketing representative that exceeds 5% of the total balance of trade receivable at any point in time during the period.

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

Allowance for doubtful accounts and past due receivables are reviewed by management at each statement of financial position reporting date. Yellow Media Inc. updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of trade receivable balances of each customer taking into account historic collection trends of past due accounts. Trade receivables are written-off once determined not to be collectable.

Trade receivables are aged as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Current	$ 104,070	$ 142,353	$ 133,867
Past due less than 180 days	51,350	63,639	62,867
Past due over 180 days	11,166	13,034	18,622
Trade receivable	**$ 166,586**	$ 219,026	$ 215,356

Yellow Media Inc.'s trade receivables are stated after deducting a provision of $39.8 million at December 31, 2011 (2010 - $48.9 million). The movements in the provision for doubtful accounts were as follows:

	December 31, 2011	December 31, 2010
Balance, beginning of year	$ 48,919	$ 45,776
Bad debt expense, net of recovery[1]	39,285	41,619
Discontinued operations and other	(1,181)	6,577
Written-off	(47,184)	(45,053)
Balance, end of year	**$ 39,839**	$ 48,919

[1] Included in bad debt expense is $0.1 million recovery (2010 - $2 million) for discontinued operations.

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

Interest Rate Risk

Yellow Media Inc. 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 at December 31, 2011, including the impact of the financial derivatives described below, the net amount exposed to short-term rates fluctuations was $289.2 million. Based on this exposure as at December 31, 2011, an assumed 0.5 percentage point increase in the Banker's Acceptance rate would have an unfavourable impact of $1.4 million on net earnings with an equal but opposite effect for an assumed 0.5 percentage point decrease. Yellow Media Inc. 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. Yellow Media Inc. 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.

Yellow Media Inc. 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.

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

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

On June 27, 2011, Yellow Media Inc. terminated the above interest rate swaps for gross proceeds of $3.8 million. The $3.8 million will be amortized over the term of the underlying debt.

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

received or paid under the TRS an adjustment amount to the extent that the value realized by the TRS counterparty on the exchange or redemption of the Notes exceeded or was less than the $141.6 million principal amount of the Exchangeable Notes. The TRS was measured at fair value and was marked-to-market through net earnings at each statement of financial position date.

On February 15, 2011, the exchange right was exercised and one quarter of the Exchangeable Promissory Notes was converted into 6.3 million common shares of Yellow Media Inc. Also, since the value realized by the Total Return Swap counterparty on the exchange of the Notes was less than the principal amount of the Notes, Yellow Media Inc. paid an adjustment amount of $4.2 million under the Total Return Swap.

On March 31, 2011 Yellow Media Inc. exercised its redemption right applicable to another quarter of the principal amount of the Notes representing $35.4 million. The principal amount along with the 5% redemption premium stipulated under the Total Return Swap was paid on April 1, 2011.

During the second quarter of 2011, the remaining Exchangeable Notes were redeemed. The remaining principal amount along with the 5% redemption premium stipulated under the Total Return Swap was paid on June 10, 2011 and the Total Return Swap was unwound.

Foreign Exchange Risk

Yellow Media Inc. operates in the United States and is exposed to foreign exchange risk arriving from various currency transactions. Foreign exchange transaction risk arises primarily from commercial transactions that are denominated in a currency that is not the functional currency of Yellow Media Inc.'s business unit that is party to the transaction. Yellow Media Inc. 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 Yellow Media Inc. to the risk of not being able to meet its financial obligations as they become due. Yellow Media Inc. manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 26 - Capital Disclosures.

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

		Payments due for the years following December 31, 2011		
	Total	1 – 3 years	4 – 5 years	After 5 years
Non-derivative financial liabilities[1]				
Deferred consideration	$9,368	$9,368	$–	$–
Long-term debt	1,610,505	714,733	457,977	437,795
Obligations under finance leases	4,148	3,814	334	–
Exchangeable and convertible instruments	200,000	–	–	200,000
Preferred shares, Series 1 and 2	402,700	251,147	–	151,553
Total	**$2,226,721**	**$979,062**	**$458,311**	**$789,348**

[1] Principal amount

On December 31, 2011 cash amounted to $84.2 million. Yellow Media Inc. can access another $250 million under its credit facility.

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 Yellow Media Inc. could currently obtain, on the market, for loans with similar terms, conditions and maturities. The entity's own credit risk and the credit risk of the counterparty was taken into account when determining the fair value of financial assets and financial liabilities including derivative instruments

The fair value of trade 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, Convertible Debentures, Exchangeable Notes and Preferred shares is evaluated based on quoted market prices at the statement of financial position date.

Fair values of Medium Term Notes and derivative financial instruments are determined based on market rates prevailing at the statement of financial position date and compared to those provided by 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, 2011
		Carrying Value		Fair Value
Other assets– investment – available for sale	$	372	$	372
Note receivable	$	11,046	$	11,046
Long-term debt due within one year	$	102,339	$	102,339
Preferred shares, Series 1 – due within one year	$	249,713		18,283
Deferred consideration	$	9,368	$	9,368
Long-term debt	$	1,510,892	$	727,958
Exchangeable and convertible instruments[1]	$	184,214	$	49,878
Preferred shares, Series 2	$	149,173	$	12,246
Derivative financial instruments				
– Redemption option on Preferred shares	$	7	$	7

				December 31, 2010
		Carrying Value		Fair Value
Other assets– investment – available for sale	$	453	$	453
Long-term debt due within one year	$	3,669	$	3,669
Deferred consideration	$	16,622	$	16,622
Commercial paper	$	295,000	$	295,000
Long-term debt	$	1,923,203	$	1,964,324
Exchangeable and convertible instruments[1]	$	319,029	$	344,129
Preferred shares, Series 1 and 2	$	446,725	$	426,984
Derivative financial instruments				
– Redemption option on Preferred shares	$	1,541	$	1,541
– Interest rate swaps				
Long – term	$	1,771	$	1,771
– Total return swaps	$	2,833	$	2,833

1. The carrying value includes the liability portion of the Convertible Debentures

				January 1, 2010
		Carrying Value		Fair Value
Other assets– investment – available for sale	$	646	$	646
Long-term debt due within one year	$	2,254	$	2,254
Commercial paper	$	74,000	$	74,000
Long-term debt	$	2,151,720	$	2,125,289
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

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

Fair value hierarchy

The three levels of fair value hierarchy are as follows:

- 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 following table summarizes the financial instruments measured at fair value in the consolidated statement of financial position as at December 31, 2011, classified using the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Financial asset or liability				
Investment – available for sale	$372	$–	$–	$372
Redemption option on Preferred shares	–	7	–	7
Deferred consideration	–	–	(9,368)	(9,368)
Total	**$372**	**$7**	**$(9,368)**	**$8,989**

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

Yellow Media Inc.'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 and total return swaps. 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. Yellow Media Inc. currently does not use unobservable inputs that are significant to the fair value measurement in its entirety.

26. Capital disclosures

Yellow Media Inc.'s objective in managing capital is to:

- Ensure sufficient liquidity to cover financial obligations and investment requirements;
- Preserve access to funding; and
- Improve credit ratings.

Yellow Media Inc. 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 Yellow Media Inc. to monitor its financial leverage is its ratio of consolidated total debt to consolidated Latest Twelve Month EBITDA[1]. Yellow Media Inc. also uses other financial metrics to monitor its financial leverage including net debt[2] and preferred shares to Latest Twelve Month[1], Fixed Charges Coverage Ratio and Net Debt[2] to Capitalization.

[1] Latest twelve month Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, acquisition-related costs, conversion and rebranding costs of 2010, restructuring and special charges, giving effect to the acquisitions and divestitures (Latest Twelve Month EBITDA). Latest twelve month EBITDA is a non-IFRS measure and may not be comparable with similar measures used by other publicly traded companies. It also includes discontinued operations for the year ended December 31, 2010.

[2] Net debt includes convertible debentures.

Yellow Media Inc.'s capital is comprised of Net debt, Preferred shares, series 1 and 2, Exchangeable and convertible instruments and equity attributable to shareholders of Yellow Media Inc. as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Cash	$ 84,186	$ 69,325	$ 36,170
Medium Term Notes	1,404,083	1,656,200	2,044,947
Credit Facilities	205,000	250,000	100,000
Commercial paper	–	295,000	74,000
Obligations under finance leases and other	4,148	20,672	9,027
Net debt (net of cash)	1,529,045	2,152,547	2,191,804
Exchangeable and convertible instruments	184,214	319,029	83,886
Preferred shares, Series 1 and 2	398,886	446,725	472,777
Equity attributable to shareholders	2,084,225	5,215,937	–
Equity attributable to owners of the Fund	–	–	5,065,250
Equity attributable to non-controlling interests	802	52,568	355,830
Total capitalization	$ 4,197,172	$ 8,186,806	$ 8,169,547
Net debt[2] to total capitalization	40.8%	28.5%	27.9%

	For the year ended	
	December 31, 2011	December 31, 2010
Latest Twelve Month EBITDA[1]	$ 671,909	$ 907,633
Net Debt[2] to Latest Twelve Month EBITDA ratio[1]	2.5	2.6

[1] Latest twelve month Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, acquisition-related costs, conversion and rebranding costs of 2010, restructuring and special charges, giving effect to the acquisitions and divestitures (Latest Twelve Month EBITDA). Latest twelve month EBITDA is a non-IFRS measure and may not be comparable with similar measures used by other publicly traded companies. It also includes discontinued operations for the year ended December 31, 2010.

[2] Net debt includes convertible debentures.

27. 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 consolidated statement of financial position as at December 31, 2011, 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 consolidated statement of financial position as at December 31, 2011 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.

28. Segmented information

During the first quarter of 2011, in light of the disposal of Trader (Note 7), Yellow Media Inc. reviewed the structure of its internal organization and decided to change the composition of its reportable segments in a way that will be better aligned with the way operating results are now reviewed by senior management to make decisions about resources to be allocated to the segments and to assess their performance.

The key changes include the reallocation of the real estate, employment and LesPac businesses to the Directories segment. These businesses were previously included in the Vertical Media segment but were not included in the divestiture of Trader Corporation.

After considering the effect of restating the reportable segments and given the disposition of the Vertical Media segment, the presentation as discontinued operations of the totality of the Vertical Media segment, the income statements of Yellow Media Inc., up to net earnings from discontinued operations, represent the results of the Directories segment. After the completion of the sale of Trader, management reassessed its operating segments and concluded that the Directories segment is the only operating segment.

At December 31, 2011, Yellow Media Inc. had non-current assets other than deferred tax assets held in a foreign country of $30.3 million (2010 - $233.1 million).

29. List of subsidiaries

As at,	December 31, 2011		December 31, 2010		January 1, 2010	
	Consolidation	% ownership	Consolidation	% ownership	Consolidation	% ownership
Canada						
YPG Trust	–	–	–	–	Full consolidation	100
YPG LP	–	–	–	–	Full consolidation	98
YPG GP	–	–	–	–	Full consolidation	100
Yellow Media Inc.	Full consolidation	100	Full consolidation	100	Full consolidation	100
Yellow Pages Group Co.	Full consolidation	100	Full consolidation	100	Full consolidation	100
Snap Guides Inc.	Full consolidation	100	Full consolidation	100	Full consolidation	100
Vertical Guides Limited Partnership	–	–	–	–	Full consolidation	100
Trader Corporation	–	–	Full consolidation	100	Full consolidation	100
Wall2Wall Media Inc.	Full consolidation	100	–	–	–	–
Gestion LesPAC Inc.	–	–	Full consolidation	100	Full consolidation	100
Clear Sky Media Inc.	Full consolidation	100	Full consolidation	100	–	–
Canpages	Full consolidation	100	Full consolidation	100	–	–
7737351 Canada Inc. (formerly LesPAC s.e.n.c.)	Full consolidation	100	Full consolidation	100	Full consolidation	100
USA						
YPG (USA) Holdings, Inc	Full consolidation	100	Full consolidation	100	Full consolidation	100
Yellow Pages Group, LLC	Full consolidation	100	Full consolidation	100	Full consolidation	100
YPG Directories, LLC	–	–	–	–	Full consolidation	100
Dealer Dot Com, Inc.	–	–	Full consolidation	31.73	Equity method	20

30. Related party disclosures

Key management personnel compensation

Remuneration paid to members of the Board of Directors and Yellow Media Inc.'s key management personnel is as follows:

	For the years ended December 31	
	2011	2010
Short-term employee benefits	**$ 2,851**	$ 2,726
Post-employment benefits	**217**	210
Share-based payments	**1,185**	6,439
	$ 4,253	$ 9,375

Short-term employee benefits correspond to the amounts paid during the year. Post-employment benefits and share-based payments correspond to the amounts recorded as expenses.

Other related party transactions

For the years ended December 31,	Transaction value		Balance outstanding	
	2011	2010	2011	2010
Sales of good and services				
Associate[1]	$ 4,177	$ 8,138	$ –	$ 962
Expenses				
Associate	$ 76	$ 1,398	$ 13	$ 4

[1] In 2011, $3.4 million of trade receivable was written off and included in the impairment of investment in associate of $50.3 million.

All outstanding balances with these related parties are based on arm's length prices and are to be settled in cash under standard payment conditions. None of these balances are secured.

31. Transition to IFRS

Yellow Media Inc.'s financial statements for the year ending December 31, 2011 are the first annual financial statements that comply with IFRS and these financial statements were prepared as described in Note 2, including the application of IFRS 1. IFRS 1 requires an entity to make an explicit and unreserved statement of compliance with IFRS in its first annual financial statements prepared under IFRS. Yellow Media Inc. made this statement in its 2011 annual financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which Yellow Media Inc. has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for Yellow Media Inc. was December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first-time IFRS adopters.

Initial Elections upon Adoption

Set forth below are the IFRS 1 elections made by Yellow Media Inc. to convert the GAAP results to IFRS.

IFRS Exemption Options

1. Business combinations – IFRS 3, *Business Combinations*, may be applied retrospectively or prospectively. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. We elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to the Transition Date and such business combinations have not been restated. Any goodwill arising on such business combinations before the Transition Date have not been adjusted from the carrying value previously determined under GAAP as a result of applying these exemptions except as required under IFRS 1. Goodwill was tested for impairment at the date of transition and Yellow Media Inc. concluded that no impairment charge was necessary as of that date.

2. Fair value as deemed cost – IFRS 1 provides a choice between measuring property, plant and equipment or an intangible asset at its fair value at the date of transition and using those amounts as deemed cost. Yellow Media Inc. continued to apply the cost model for property, plant and equipment and intangible asset, as such; Yellow Media Inc. did not restate property, plant and equipment or any intangible assets to fair value under IFRS.

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

4. Cumulative translation differences – Retrospective application of IFRS would have required Yellow Media Inc. to determine cumulative currency translation differences in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, from the date a subsidiary or associate was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at the Transition Date. Yellow Media Inc. elected to reset all cumulative translation gains and losses to zero in opening retained earnings at the Transition Date.

5. Share based payments – IFRS 2, *Share Based Payments*, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. Yellow Media Inc. elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by January 1, 2010.

6. Borrowing Costs – IAS 23 (Revised 2007) requires an entity to capitalize the borrowing costs related to all the qualifying assets for which the commencement date for capitalization is on or after January 1, 2009. Early adoption is permitted. IFRS 1 permits to adopt IAS 23 at the Transition Date if later than January 1, 2009. Yellow Media Inc. elected to use this option, thus borrowing costs related to the qualifying assets for which the commencement date is prior to January 1, 2010 are expensed, and those with a commencement date subsequent to January 1, 2010 will be capitalized.

IFRS Mandatory Exceptions

1. Hedge accounting – Hedge accounting can only be applied prospectively from the Transition Date to transactions that satisfy the hedge accounting criteria in IAS 39 at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. As a result, only hedging relationships that satisfied the hedge accounting criteria as of the Transition Date have been reflected as hedges in Yellow Media Inc.'s IFRS results.

2. Estimates – Hindsight is not used to create or revise estimates. The estimates we previously made under GAAP cannot be revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Reconciliation of GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, net earnings, and comprehensive income for prior periods.

The following represents the reconciliations from GAAP to IFRS for the respective periods noted for equity, net earnings and comprehensive income:

Reconciliation of equity

For the period ended,	December 31, 2010	January 1, 2010
Total equity previously reported under Canadian GAAP	$ 5,503,344	$ 5,548,870
Differences decreasing reported equity:		
A – Employee benefits	(90,158)	(13,186)
B – Intangibles assets	(1,785)	(1,159)
C – Income taxes	(125,329)	(113,445)
D – Revenue recognition	(17,567)	-
Total equity under IFRS	$ 5,268,505	$ 5,421,080

Reconciliation of net earnings

For the year ended December 31, 2010	
Net earnings previously reported under Canadian GAAP	$ 274,035
Differences increasing (decreasing) reported net earnings:	
A – Employee benefits	(1,227)
B – Intangibles assets	(626)
C – Income taxes	(28,628)
D – Revenue recognition	(17,567)
E – Foreign currency translation adjustments	3,881
F – Stock based compensation	(461)
G – Discontinued operations	(3,043)
Net earnings from continued operations under IFRS, before presentation of the sale of Trader as discontinued operations	$ 226,364
Restatement of net earnings to present the sale of Trader as discontinued operations[1]	5,422
Net earnings from continuing operations under IFRS as reported	231,786
Net loss from discontinued operations under IFRS, as reported	(2,380)
Net earnings, as reported	$ 229,406

[1] As explained in Note 7, the sale of Trader meets the criteria of a discontinued operation as per IFRS 5, as such, comparative figures have been restated, after the conversion to IFRS, to reflect this 2011 transaction.

Reconciliation of comprehensive (loss) income

For the year ended December 31, 2010		
Other comprehensive loss previously reported under Canadian GAAP	$	(962)
Differences decreasing reported other comprehensive income:		
A – Employee benefits[1]		(56,285)
E – Foreign currency translation adjustments		(3,881)
Other comprehensive loss under IFRS	$	(61,128)
Net earnings		229,406
Total comprehensive income	$	168,278

[1] Net of income taxes of $19,5 million.

Reconciliation of cash flows

Given that Yellow Media Inc.'s first time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows, no specific reconciliation is presented for cash flows. Changes in presentation of income taxes paid and interest paid were made to show these payments on separate lines.

a. Employee Benefits

PAST SERVICE COST

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

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

Impact on Yellow Media Inc. – As at January 1, 2010, Yellow Media Inc. had an unamortized plan amendment balance of $4.9 million attributable to amended benefits already vested after modification to the other benefits plan made in 2005. This balance was reversed against opening retained earnings at the date of transition. During 2010, Yellow Media Inc. recorded a gain of $1.2 million representing reversal of amortization of these past service costs. This has been reversed in the IFRS income statement.

ACTUARIAL GAINS AND LOSSES

GAAP - Actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized on a systematic and consistent basis, subject to a minimum required amortization based on a "corridor" approach. The "corridor" equals to 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value of plan assets at the beginning of the year. This excess of 10% is amortized as a component of pension expense on a straight-line basis over the expected average service life of active participants. Actuarial gains and losses below the 10% corridor are deferred.

IFRS – As stated in the section entitled "Initial Exemption Options", Yellow Media Inc. applied the exemption in IFRS 1 for actuarial gains and losses. On a going forward basis, Yellow Media Inc. elected to recognize all actuarial gains and losses arising from its defined benefit plan in other comprehensive income.

Impact on Yellow Media Inc. – Unamortized net actuarial losses of $24.4 million for pension benefits and gains of $9.1 million for other benefits existing as at January 1, 2010 have been reversed against opening retained earnings at the date of transition. A charge of $75.7 million representing actuarial losses of 2010 was recorded in other comprehensive income net of income taxes of $19.5 million in the fourth quarter of 2010.

CONSTRUCTIVE OBLIGATION

GAAP – Employee benefits obligations are recognized based on both written and unwritten actions of an entity, with considerations given to company's past practices.

IFRS - More specific guidance is provided under IFRS on the concept of constructive obligation. Constructive obligation may arise from informal practices which if changed would cause unacceptable damage to relationship with employees.

Impact on Yellow Media Inc. – As a result of the above difference, Yellow Media Inc. had to recognize a supplemental provision of $2.8 million as at January 1, 2010. This provision did not vary significantly in 2010.

b. Intangible assets

INTERNALLY GENERATED INTANGIBLE ASSETS

GAAP – Prior to the adoption of Section 3064 *Goodwill and Intangible assets*, which is significantly converged with IFRS, the cost of an internally generated intangible asset was not explicitly defined. Yellow Media Inc. adopted Section 3064 on January 1, 2009; however, transitional provisions at this time were different than upon transition to IFRS.

IFRS – The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management.

Impact on Yellow Media Inc. – As at January 1, 2010, Yellow Media Inc. had expensed a total of $0.9 million of costs related to internally generated assets, mostly software that needed to be capitalized under IFRS. These costs have been capitalized as part of opening retained earnings at the date of transition and are amortized over the remaining useful life of their related assets. During 2010, the supplemental amortization expense related to these costs represented $0.6 million.

IMPAIRMENT – GROUPING OF ASSETS

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

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

Impact on Yellow Media Inc. – As a result of the different asset grouping required under IFRS, intangible assets in the disposed Vertical Media segment were deemed to be impaired by an amount of $2.1 million as at January 1, 2010. The impairment described above was recorded through an opening retained earnings adjustment on the date of transition. No other impairment of either goodwill or other long-lived assets subject to impairment testing was needed in the opening statement of financial position for the Directories segment and the disposed Vertical Media segment.

c. Income Taxes

INCOME TAXES – TEMPORARY DIFFERENCES ON INTANGIBLE ASSETS

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

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

Impact on Yellow Media Inc.– As at January 1, 2010, in order to comply with IFRS, Yellow Media Inc. had to increase deferred income tax liabilities by $76.8 million to account for temporary differences currently excluded on the 25 percent adjustment of the carrying amount of eligible capital expenditures. This increase was recorded through an opening retained earnings adjustment at the date of transition. During 2010, a recovery of $0.2 million was recorded in relation to this adjustment.

INCOME TAXES – UNCERTAIN TAX POSITIONS

GAAP – Uncertain tax positions generally refers to positions taken by Yellow Media Inc. that may be challenged by the tax authorities, and which may result in additional taxes, penalties or interest, in changes in the tax basis of assets or liabilities, or in changes in the amount of available tax loss carry-forwards. Accounting for tax exposures is not specifically addressed under GAAP and a number of alternatives were possible. Yellow Media Inc. accounted for these tax positions under Section 3290 – *Contingencies*. This Section provides general recognition and measurement principles applicable to all contingencies, including tax exposures.

IFRS – Similar to GAAP, the accounting for tax exposures is not specifically addressed in the tax standard, IAS 12 – *Income taxes*. As such, uncertain tax positions are recognized and measured in accordance with IAS 37 – *Provisions*. The recognition and measurement approaches under IAS 37 significantly differ in some aspects from Section 3290, including a lower recognition threshold and different measurement methodologies applicable to certain situations.

Impact on Yellow Media Inc.– As at January 1, 2010, Yellow Media Inc. had to increase deferred income tax liabilities by $39.3 million in order to comply with IAS 37 recognition and measurement criteria. This increase was recorded through an opening retained earnings adjustment at the date of transition. During 2010, Yellow Media Inc. recorded an expense of $34.1 million.

EQUITY PORTION OF EXCHANGEABLE AND CONVERTIBLE DEBENTURES

GAAP – Settlement of a compound financial instrument in accordance with its terms, either through settlement on maturity or conversion, might not result in the incidence of tax to the issuer. As such, when the enterprise is able to settle the instrument without the incidence of tax, the tax basis of the liability component is considered to be the same as its carrying amount and there is no temporary difference.

IFRS - As a result of classifying the liability and equity components of a compound financial instrument according to its substance, the component of a compound financial instrument classified as a liability will be different from the tax basis of the instrument and this creates taxable or deductible amounts that would be included in the determination of taxable income. As such, a temporary difference needs to be recognized.

Impact on Yellow Media Inc. – As at January 1, 2010, in order to comply with IFRS, Yellow Media Inc. had to increase deferred income tax liabilities by $1.1 million to account for temporary differences related to the equity portion of exchangeable debentures. This increase was recorded through an opening retained earnings adjustment at the date of transition. This difference resulted in a recovery of $1.1 million for 2010. Furthermore, upon the issuance of convertible debentures in the third quarter of 2010, an amount of $2.7 million was recorded directly to equity.

Under GAAP we used the residual method to bifurcate compound financial instruments in their debt and equity components by fair valuing the debt component first and allocating the remainder to the equity component. This is in line with the requirements under IFRS.

INCOME TAX EFFECT OF OTHER RECONCILING DIFFERENCES BETWEEN GAAP AND IFRS

Differences from income taxes include the deferred tax effect on earnings of pre-tax differences between GAAP and IFRS described above.

d. Revenue Recognition

GAAP – Under GAAP, all deliverables included in a multiple deliverable arrangement need to be measured and recognized separately if all of the following criteria are met:

- The delivered item has value to the customer on a stand-alone basis;
- There is objective and reliable evidence of the fair value of the undelivered item;
- Delivery or performance of the undelivered item is considered probable and substantially in the control of the vendor;

When the above conditions are not met, revenue is recognized in the same period as that of the last deliverable of the arrangement.

IFRS – Under IFRS, the value of each deliverable to a contract should be recognized separately if an estimated selling price to the component exists and if all significant obligations related to the delivery of the component have been fulfilled.

Impact on Yellow Media Inc. – Revenues from print directories, that do not form part of a multiple deliverable arrangement are recognized when the directory is published (publication method) whereas revenues from print directories in a multiple deliverable arrangement are recognized using the deferral method when the estimated selling price is not determinable. This difference had no impact on equity at the date of transition, but reduced net earnings for the year ended December 31, 2010 by $17.6 million. This reduction includes the recognition of costs related to the print directories revenues recognized.

As a result of the above, Goodwill has been reduced as at December 31, 2010 by $41.9 million as the change in policy under IFRS impacts the purchase price allocation of the acquisition of Canpages in 2010 to remove any deferred revenue relating to this acquisition.

e. Foreign currency translation adjustment

As noted in the section entitled "IFRS Exemption Options," Yellow Media Inc. has applied the one-time exemption to set the foreign currency cumulative translation adjustment ("CTA") to zero as at January 1, 2010. The cumulative translation adjustment balance as at January 1, 2010 of $3.9 million was recognized as an adjustment to opening retained earnings. The application of the exemption had no impact on net opening equity. During 2010, the amount of the foreign currency translation adjustment reversed upon transition to IFRS was reclassified to the statement of earnings. This recycling adjustment under GAAP resulting from the disposals of foreign operations and the foreign associate created a difference between IFRS and GAAP net earnings of $3.9 million for 2010.

f. Stock-based Compensation

FORFEITURES

GAAP – Forfeitures of awards may and are recognized as they occur.

IFRS – Forfeiture estimates are recognized in the current period and revised for actual experience in subsequent periods.

Impact on Yellow Media Inc. – The opening adjustment related to the above difference as at January 1, 2010 of $0.4 million was recognized as an adjustment to opening retained earnings. The application of this difference had no impact on net opening equity. For 2010, the stock based compensation expense was lower by $0.1 million under IFRS.

STOCK OPTIONS

GAAP – Under GAAP, an enterprise becomes contingently obligated to award equity instruments on the grant date.

IFRS – IFRS requires an entity to recognize a compensation cost for the period between when the employees to whom the equity instruments were granted and when the employees began rendering services. In this situation, the entity should estimate the grant date fair value of the equity instruments, for the purposes of recognizing the services received during the period between service commencement date and grant date.

Impact on Yellow Media Inc. – On November 11, 2010, the Board of Directors of Yellow Media Inc. granted, subject to approval by the Shareholders and by the TSX, 15,850,000 options. These options were submitted to the Shareholders at the Annual Shareholders Meeting held on May 5, 2011. Under IFRS, Yellow Media Inc. recorded a compensation cost of $0.5 million in 2010 for this grant.

g. Discontinued Operations

GAAP - To qualify as a discontinued operation an entity may not have any significant continuing involvement in the operations of the entity after the disposal transaction.

IFRS – Continuing involvement with a sold entity does not preclude presentation as a discontinued operation.

Impact on Yellow Media Inc. – The disposal of YPG Directories LLC, a US subsidiary of Yellow Media Inc., as explained in Note 7, meets the definition of a discontinued operation under IFRS and is presented as such in the IFRS financial statements.

h. Presentation adjustments

EXCHANGEABLE UNITS

GAAP – Exchangeable securities issued by a subsidiary of an income trust should be presented on the consolidated statement of financial position of the income trust as debt if classification as debt is appropriate under Section 3863 *Financial instruments - Presentation*. However, if the conditions mentioned in EIC-151, *Exchangeable securities issued by subsidiaries of income trusts*, are met upon issuance, the exchangeable securities can be presented as part of unitholders' equity in the consolidated statement of financial position of the income trust.

IFRS – Exchangeable securities issued by a subsidiary of an income trust that do not meet the definition of a liability should be presented as a non-controlling interest.

Impact on Yellow Media Inc. – To account for the above difference an amount of $31.7 million was reclassified as at January 1, 2010 from unitholders' capital to non-controlling interest. This adjustment was no longer necessary at the end of the first quarter of 2010 since the exchangeable units had then all been converted.

COMMERCIAL PAPER

GAAP – EIC-122 – *Balance sheet classification of callable debt obligations and debt obligations expected to be refinanced* provides guidance on the classification as short-term or long-term of obligations that are callable by the creditor in the next year but for which the debtor does not intend to repay the obligation within one year from the statement of financial position date. EIC-122 specifies that obligations, which by their terms are due within one year from the statement of financial position date, should be classified as a current liability unless the obligation will be refinanced on a long-term basis and the debtor intends to refinance the obligation on a long-term basis and such intent is supported by an ability to consummate the refinancing. In such case, these obligations should be classified as long-term.

IFRS – Under IFRS, an obligation that the entity expects, and has the discretion, to refinance or roll over for at least twelve months after the reporting period should be classified as non-current only if it can be refinanced or rolled over under an existing loan facility with the same lender, on the same or similar terms.

Impact on Yellow Media Inc. – As a result of the above difference, in order to comply with IFRS, Yellow Media Inc. had to reclassify the outstanding obligation under the commercial paper program from long-term to short-term given that this obligation did not meet

the IFRS conditions to be classified as long-term. An amount of $74 million was reclassified to short-term as at January 1, 2010 ($295 million as at December 31, 2010).

DEFERRED TAX

GAAP - Deferred taxes are split between current and non-current components on the basis of either (1) the underlying asset or liability or (2) the expected reversal of items not related to an asset or liability.

IFRS - All deferred tax assets and liabilities are classified as non-current.

OTHER

Under IFRS, investments in equity accounted investees, provisions and current income tax payables have to be presented as a separate line item in the statement of financial position.

Moreover intangible assets as at January 1, 2010 and December 31, 2010 were increased by approximately $28 million and $32 million, respectively, related to a reclassification of software assets under development that were presented in "Fixed Assets" under the GAAP financial statements and are now being recorded in "Intangible Assets" in these IFRS financial statements. The purpose of this reclassification is to more accurately reflect the nature of our assets under development between fixed assets and intangible assets and does not result from an IFRS and GAAP difference.

Long-term income tax liabilities were reclassified from deferred income taxes on the statement of financial position for all the periods being presented. This reclassification has no impact on current liabilities or total liabilities.