INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW MEDIA INC.

September 30, 2012

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Interim Condensed Consolidated Statements of Financial Position

(in thousands of Canadian dollars - unaudited)

	As at September 30, 2012	As at December 31, 2011
ASSETS		(audited)
CURRENT ASSETS		
Cash	$ 380,916	$ 84,186
Trade receivables	165,614	166,586
Prepaid expenses	6,543	5,017
Deferred publication costs and other assets	81,214	94,770
TOTAL CURRENT ASSETS	634,287	350,559
DEFERRED PUBLICATION COSTS	7,738	7,484
FINANCIAL AND OTHER ASSETS	15,927	14,879
INVESTMENTS IN ASSOCIATES	2,028	3,616
PROPERTY, PLANT AND EQUIPMENT	36,391	46,496
INTANGIBLE ASSETS	1,610,628	1,658,051
GOODWILL (Note 3)	–	2,967,847
DEFERRED INCOME TAXES	939	–
TOTAL NON-CURRENT ASSETS	1,673,651	4,698,373
TOTAL ASSETS	$ 2,307,938	$ 5,048,932
LIABILITIES AND EQUITY (DEFICIENCY)		
CURRENT LIABILITIES		
Trade and other payables	$ 117,851	$ 156,482
Current income tax liabilities	33,084	22,974
Provisions	40,301	48,300
Deferred revenues	42,856	54,805
Current portion of long-term debt (Notes 5 and 16)	500,361	102,339
Preferred shares Series 1 (Notes 7 and 16)	250,791	249,713
TOTAL CURRENT LIABILITIES	985,244	634,613
DEFERRED CREDITS	14,666	16,536
DEFERRED INCOME TAXES	62,924	119,305
INCOME TAX LIABILITIES	28,345	43,806
POST-EMPLOYMENT BENEFITS (Note 9)	345,332	298,796
DEFERRED CONSIDERATION	–	6,570
LONG-TERM DEBT (Notes 5 and 16)	1,275,185	1,510,892
CONVERTIBLE INSTRUMENTS (Notes 6 and 16)	185,024	184,214
PREFERRED SHARES SERIES 2 (Notes 7 and 16)	149,458	149,173
TOTAL NON-CURRENT LIABILITIES	2,060,934	2,329,292
TOTAL LIABILITIES	3,046,178	2,963,905
CAPITAL AND RESERVES	6,396,563	6,398,132
DEFICIT	(7,135,653)	(4,313,907)
EQUITY (DEFICIENCY) ATTRIBUTABLE TO SHAREHOLDERS	(739,090)	2,084,225
NON-CONTROLLING INTERESTS	850	802
TOTAL EQUITY (DEFICIENCY)	(738,240)	2,085,027
TOTAL LIABILITIES AND EQUITY (DEFICIENCY)	$ 2,307,938	$ 5,048,932

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

Interim Condensed Consolidated Income Statements

For the periods ended September 30,

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

	Three months		Nine months	
	2012	2011	**2012**	2011
Revenues	**$ 267,711**	$ 323,441	**$ 843,268**	$ 1,015,551
Operating costs	**129,936**	157,443	**414,232**	483,042
Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, recapitalization and acquisition-related costs and restructuring and special charges	**137,775**	165,998	**429,036**	532,509
Depreciation and amortization	**26,597**	37,800	**80,898**	137,903
Impairment of goodwill and intangible assets (Note 3)	**–**	2,900,000	**2,967,847**	2,900,000
Recapitalization and acquisition-related costs	**10,818**	497	**16,305**	7,533
Restructuring and special charges (Note 8)	**26,812**	–	**26,812**	11,888
Income (loss) from operations	**73,548**	(2,772,299)	**(2,662,826)**	(2,524,815)
Financial charges, net (Note 12)	**30,198**	10,314	**97,819**	94,940
Gain on sale of assets	**(641)**	–	**(641)**	–
Earnings (loss) before dividends on Preferred shares, series 1 and 2, income taxes, and impairment and (earnings) losses from investments in associates	**43,991**	(2,782,613)	**(2,760,004)**	(2,619,755)
Dividends on Preferred shares, series 1 and 2	**4,562**	4,545	**13,688**	14,624
Earnings (loss) before income taxes, and impairment and (earnings) losses from investments in associates	**39,429**	(2,787,158)	**(2,773,692)**	(2,634,379)
Provision for income taxes	**15,538**	18,678	**5,688**	60,030
Impairment of investment in associate (net of income taxes)	**–**	–	**–**	50,271
(Earnings) losses from investments in associates	**(126)**	263	**(1,839)**	11,664
Net earnings (loss) from continuing operations	**24,017**	(2,806,099)	**(2,777,541)**	(2,756,344)
Net loss from discontinued operations, net of income taxes (Note 4)	**–**	(19,353)	**–**	(117,947)
Net earnings (loss)	**$ 24,017**	$ (2,825,452)	**$ (2,777,541)**	$ (2,874,291)
Net earnings (loss) attributable to:				
Common shareholders of Yellow Media Inc.	**$ 23,996**	$ (2,826,596)	**$ (2,777,589)**	$ (2,877,990)
Non-controlling interests[1]	**21**	1,144	**48**	3,699
	$ 24,017	$ (2,825,452)	**$ (2,777,541)**	$ (2,874,291)
Basic earnings (loss) per share attributable to common shareholders				
From continuing operations	**$ 0.04**	$ (5.52)	**$ (5.45)**	$ (5.42)
Total	**$ 0.04**	$ (5.56)	**$ (5.45)**	$ (5.66)
Weighted average shares outstanding – basic earnings (loss) per share (Note 10)	**512,610,477**	509,752,238	**512,600,405**	511,591,101
Diluted earnings (loss) per share attributable to common shareholders				
From continuing operations	**$ 0.03**	$ (5.52)	**$ (5.45)**	$ (5.42)
Total	**$ 0.03**	$ (5.56)	**$ (5.45)**	$ (5.66)
Weighted average shares outstanding – diluted earnings (loss) per share (Note 10)	**722,096,484**	509,752,238	**512,600,405**	511,591,101

[1] Included in the net earnings (loss) attributable to non-controlling interests for the three and nine-month periods ended September 30, 2012 is $nil (2011 – earnings of $1.2 million and $4.1 million, respectively) related to discontinued operations.

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

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

For the periods ended September 30,

(in thousands of Canadian dollars - unaudited)

	Three months		Nine months	
	2012	2011	**2012**	2011
Net earnings (loss)	**$ 24,017**	$ (2,825,452)	**$ (2,777,541)**	$ (2,874,291)
Other comprehensive (loss) income, net of related income taxes:				
Reclassification adjustment on derivatives designated as cash flow hedges in the period[1]	**(60)**	(279)	**(177)**	(32)
Unrealized loss on available–for–sale investment in the period[2]	**–**	(112)	**(290)**	(128)
Unrealized exchange differences on translating financial statements of foreign operations and foreign associates[3]	**–**	(931)	**–**	(5,410)
Reclassification adjustment of cumulative translation loss realized upon disposition of foreign operations	**–**	4,590	**–**	4,590
Change in unrealized exchange differences on translating financial statements of foreign operations and foreign associates	**–**	3,659	**–**	(820)
Actuarial losses[4] (Note 9)	**(22,301)**	–	**(44,157)**	–
Other comprehensive (loss) income	**(22,361)**	3,268	**(44,624)**	(980)
Total comprehensive income (loss)	**$ 1,656**	$ (2,822,184)	**$ (2,822,165)**	$ (2,875,271)
Total comprehensive income (loss) attributable to:				
Common shareholders of Yellow Media Inc.	**$ 1,635**	$ (2,823,328)	**$ (2,822,213)**	$ (2,877,375)
Non-controlling interests	**21**	1,144	**48**	2,104
	$ 1,656	$ (2,822,184)	**$ (2,822,165)**	$ (2,875,271)

1 Net of income taxes of $22 (2011 – $115) for the three-month period and $65 (2011 – $5) for the nine-month period ended September 30, 2012, respectively.

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

3 Unrealized exchange differences on translating financial statements of foreign operations and foreign associates include $nil (2011 – $0.9 million loss for the three-month period ended September 30, 2011 and $3.8 million loss for the nine-month period ended September 30, 2011) for discontinued operations and $nil for continuing operations (2011 - $nil for the three-month period ended September 30, 2011 and $1.6 million loss for the nine-month period ended September 30, 2011).

4 Net of income taxes of $8 million and $15.8 million for the three and nine-month periods ended September 30, 2012, respectively (2011 – $nil).

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

Interim Condensed Consolidated Statements of Changes in Equity (Deficiency)

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

	Shareholders' Capital	Restricted Shares	Preferred Shares	Compound financial instruments[1]	Stock-based compensation and other reserves	Reduction of capital reserve
Balance, December 31, 2011	$ 3,554,715	$ (54,974)	$ 320,687	$ 7,423	$ 113,693	$ 2,457,053
Other comprehensive loss	–	–	–	–	–	–
Net loss for the period	–	–	–	–	–	–
Total comprehensive loss	–	–	–	–	–	–
Stock options (Note 11)	–	–	–	–	121	–
Exchange of convertible debentures (Note 6)	899	–	–	(35)	–	–
Restricted shares (Note 11)	–	–	–	–	389	–
Deferred consideration	–	–	–	–	(2,476)	–
Balance, September 30, 2012	**$ 3,555,614**	**$ (54,974)**	**$ 320,687**	**$ 7,388**	**$ 111,727**	**$ 2,457,053**

	Shareholders' Capital	Restricted Shares	Preferred Shares	Compound financial instruments[1]	Stock-based compensation and other reserves	Reduction of capital reserve
Balance, December 31, 2010	$ 4,079,838	$ (78,135)	$ 328,880	$ 7,423	$ 139,976	$ 2,000,000
Other comprehensive loss	–	–	–	–	–	–
Net loss for the period	–	–	–	–	–	–
Total comprehensive loss	–	–	–	–	–	–
Issuance (exchange of shares) (Note 10)	63,296	–	(1,875)	–	–	–
Reduction of capital (Note 10)	(500,000)	–	–	–	–	500,000
Repurchase of shares (Note 10)	(88,419)	–	(6,318)	–	–	(42,947)
Stock options (Note 11)	–	–	–	–	257	–
Restricted shares (Note 11)	–	(2,747)	–	–	(908)	–
Restricted shares vested (Note 11)	–	26,060	–	–	(26,060)	–
Sale of Trader	–	–	–	–	–	–
Dividends (Note 10)	–	–	–	–	–	–
Dividends on Preferred shares, Series 3, 5 and 7	–	–	–	–	–	–
Balance, September 30, 2011	$ 3,554,715	$ (54,822)	$ 320,687	$ 7,423	$ 113,265	$ 2,457,053

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

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

							2012
Available for sale investment	Cash flow hedges	Foreign currency translation	Capital and Reserves	Deficit	Equity (Deficiency) attributable to shareholders	Non-controlling interests	Total Equity (Deficiency)
$ 144	$ 989	$ (1,598)	$ 6,398,132	$ (4,313,907)	$ 2,084,225	$ 802	$ 2,085,027
(290)	(177)	–	(467)	(44,157)	(44,624)	–	(44,624)
–	–	–	–	(2,777,589)	(2,777,589)	48	(2,777,541)
(290)	(177)	–	(467)	(2,821,746)	(2,822,213)	48	(2,822,165)
–	–	–	121	–	121	–	121
–	–	–	864	–	864	–	864
–	–	–	389	–	389	–	389
–	–	–	(2,476)	–	(2,476)	–	(2,476)
$ (146)	$ 812	$ (1,598)	$ 6,396,563	$ (7,135,653)	$ (739,090)	$ 850	$ (738,240)

							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
(128)	(32)	775	615	–	615	(1,595)	(980)
–	–	–	–	(2,877,990)	(2,877,990)	3,699	(2,874,291)
(128)	(32)	775	615	(2,877,990)	(2,877,375)	2,104	(2,875,271)
–	–	–	61,421	–	61,421	–	61,421
–	–	–	–	–	–	–	–
–	–	–	(137,684)	87,252	(50,432)	–	(50,432)
–	–	–	257	–	257	–	257
–	–	–	(3,655)	–	(3,655)	–	(3,655)
–	–	–	–	–	–	–	–
–	–	–	–	–	–	(53,821)	(53,821)
–	–	–	–	(207,345)	(207,345)	–	(207,345)
–	–	–	–	(16,955)	(16,955)	–	(16,955)
$ 97	$ 1,045	$ (1,598)	$ 6,397,865	$ (4,276,012)	$ 2,121,853	$ 851	$ 2,122,704

Interim Condensed Consolidated Statements of Cash Flows

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

	2012	2011
OPERATING ACTIVITIES		
Net loss from continuing operations	$ (2,777,541)	$ (2,756,344)
Adjusting items		
Depreciation and amortization	80,898	137,903
Impairment of goodwill and intangible assets	2,967,847	2,900,000
Recapitalization costs	16,305	–
Stock-based compensation expense (reversal)	626	(1,015)
Impairment of investment in associate	–	50,271
(Earnings) losses from investments in associates	(1,839)	11,664
Other non-cash items	(2,127)	1,696
Income taxes recognized in net loss	5,688	60,030
Financial charges recognized in net loss	97,819	94,940
Change in operating assets and liabilities	(43,577)	(66,060)
Funding of post-employment benefit plans in excess of costs	(16,356)	–
Income taxes paid	(55,949)	(68,922)
Interest paid	(94,970)	(120,554)
	176,824	243,609
INVESTING ACTIVITIES		
Acquisition of intangible assets	(23,741)	(33,380)
Acquisition of property, plant and equipment	(2,906)	(13,777)
Proceeds from sale of assets	1,650	–
Disposal of Trader	–	691,330
Disposal of cash related to the sale of Trader	–	(24,517)
Other	183	(788)
	(24,814)	618,868
FINANCING ACTIVITIES		
Issuance of long-term debt and commercial paper	239,000	857,000
Repayment of long-term debt and commercial paper	(76,059)	(1,102,254)
Redemption of exchangeable and convertible instruments	–	(106,172)
Dividends to shareholders	–	(196,860)
Repurchase of Preferred shares, series 1 and 2 and medium term notes	–	(266,183)
Repurchase of common shares and Preferred shares, Series 3 and 5	–	(50,432)
Dividends on Preferred shares, series 3, 5 and 7	–	(16,955)
Stock-based compensation (Note 11)	–	(2,747)
Deferred consideration	(1,800)	(4,502)
Proceeds on settlement of derivative financial instruments	–	3,819
Recapitalization costs	(16,305)	–
Other	(116)	(1,500)
	144,720	(886,786)
Effect of exchange rate changes on cash denominated in foreign currencies	–	(1,364)
NET INCREASE (DECREASE) IN CASH	296,730	(25,673)
CASH FLOWS FROM DISCONTINUED OPERATIONS (Note 4)	–	8,420
CASH, BEGINNING OF PERIOD	84,186	69,325
CASH, END OF PERIOD	$ 380,916	$ 52,072

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

1. Description

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

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

The Board of Directors approved the unaudited interim condensed consolidated financial statements for the three and nine-month periods ended September 30, 2012 and 2011 and authorized their publication on November 5, 2012.

2. Basis of presentation and upcoming revised standards

2.1. Basis of presentation

The financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company has significant short-term debt maturing and as a result, there are uncertainties that cast significant doubt upon Yellow Media Inc’s ability to continue as a going concern.

To address this uncertainty, Yellow Media Inc. evaluated alternatives to refinancing maturities in 2012 and beyond and on July 23, 2012, announced a recapitalization transaction (“Proposed Recapitalization”) aimed at significantly reducing the Company’s debt and improving its maturity profile, with new debt first coming due in 2018.

On September 6, 2012, Yellow Media Inc. held debtholder and shareholder meetings in Montreal to obtain support for the plan of arrangement under the Canada Business Corporations Act implementing the Proposed Recapitalization. The Proposed Recapitalization has been approved by the requisite majority of its debtholders and shareholders at their respective meetings, with 70.39% of support received from the debtholders and 77.26% of support received from the shareholders. Please refer to the description of the Proposed Recapitalization in Note 16 – Subsequent event.

In the event that the Proposed Recapitalization cannot be implemented, the realization of assets and the discharge of liabilities in the ordinary course of business will be uncertain.

The financial statements do not reflect any adjustments that would be necessary if the going concern basis was not appropriate. If the going concern basis was not appropriate for these financial statements, significant adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses, and the statement of financial position classifications used.

2.2. Statement of compliance

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

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

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

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

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

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

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

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

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

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

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

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

IFRS 9 - Financial Instruments

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

Key requirements of IFRS 9 are described as follows:

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

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

IFRS 10 — Consolidated Financial Statements

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

IFRS 11 — Joint Arrangements

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

IFRS 12 — Disclosure of Interests in Other Entities

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

IFRS 13 — Fair Value Measurement

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

IAS 1 (Revised) – Presentation of Financial Statements

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

IAS 19 (Revised) – Employee Benefits

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

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

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

3. Impairment of goodwill

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

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

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

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

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

(all tabular amounts are in thousands of Canadian dollars, except share information - unaudited)

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

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

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

4. Discontinued operations

Trader Corporation

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

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

Analysis of net loss from discontinued operations for the three and nine-month periods ended September 30, 2011 are as follows:

		Three months		Nine months
Revenues	$	19,617	$	148,051
Operating costs		15,260		113,339
Depreciation and amortization		–		16,065
Other		62		(281)
Earnings from discontinued operations before income taxes, share of losses from investment in associates and loss on disposal		4,295		18,928
Provision for income taxes		1,287		5,331
Share of losses from investment in associates		–		128
Loss on disposal, net of income taxes recovery of $2 million and $5.3 million income taxes for the three and nine-month periods ended September 30, 2011, respectively		22,361		131,416
Net loss from discontinued operations	$	(19,353)	$	(117,947)

(all tabular amounts are in thousands of Canadian dollars, except share information - unaudited)

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

Cash from (used in):	
Operating activities	$ 30,620
Investing activities	(21,663)
Financing activities	(537)
Net increase in cash from discontinued operations	$ 8,420

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

5. Long-term debt

				September 30, 2012
	Principal amount	Fair value adjustment of hedged item	Deferred financing costs	Total
Medium term notes	$ 1,405,505	$ 6,031	$ (7,420)	$ 1,404,116
Credit facilities	369,000	–	–	369,000
Obligations under finance leases	2,430	–	–	2,430
	1,776,935	6,031	(7,420)	1,775,546
Less current portion of long-term debt	500,361	–	–	500,361
	$ 1,276,574	$ 6,031	$ (7,420)	$ 1,275,185

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

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

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

As at September 30, 2012, the current portion of long-term debt includes the outstanding balance of the credit facilities, the series 9 medium term notes maturing on July 10, 2013 and the current portion of the finance leases.

As at September 30, 2012, $130 million was outstanding on the non-revolving tranche of the credit facilities and $239 million on the revolving tranche. The revolving facilities may be used for general corporate purposes.

Pursuant to the safeguard order granted by the Québec Superior Court ("the Court"), Yellow Media Inc.'s obligation to pay any principal or interest accruing on or after September 30, 2012 under its existing credit facilities and medium term notes are suspended until ten (10) days following the judgement of the Court on the final orders sought at the hearing for the final approval of its Proposed Recapitalization, subject to any further order of the Court. Interest accrued as at (and including) September 29, 2012 will be paid to holders of Yellow Media Inc.'s medium term notes on the earlier to occur of: (i) the applicable scheduled interest payment date and (ii) the effective date of the recapitalization. The safeguard order also stated that no creditors shall have any rights to terminate, accelerate, amend or declare in default any contract or other agreement including, without limitation, the Company's credit agreements and indentures governing its medium term notes and convertible debentures, to which the Company or certain of its subsidiaries are a party, due solely to the Company or such subsidiaries being parties to the court proceedings in connection with the Proposed Recapitalization or having made an application to the court under section 192 of the Canada

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Business Corporations Act ("CBCA"). Except for the payments suspended by the foregoing safeguard order, Yellow Media Inc. was in compliance with all of its debt covenants as at September 30, 2012.

Please refer to the description of the Proposed Recapitalization in Note 16 – Subsequent event.

Future repayments

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

	Long–term debt[1]
2013	$ 499,000
2014	379,733
2015	138,100
2016	319,877
2017	–
Thereafter	437,795
	$ 1,774,505

[1] Excludes obligations under finance leases.

6. Convertible instruments

	September 30, 2012	December 31, 2011
Principal amount	$ 200,000	$ 200,000
Exchange of convertible debentures	(930)	–
Equity component	(10,092)	(10,139)
Accretion	2,589	1,685
Deferred financing costs	(6,543)	(7,332)
	$ 185,024	$ 184,214

The convertible unsecured subordinated debentures ("Convertible Debentures") bear interest payable semi-annually at a rate of 6.25% and mature on October 1, 2017. The Convertible Debentures may be exchanged at any time, at the option of the holder, for common shares of Yellow Media Inc. at an exchange price of $8 per share (the "Exchange price"). On and after October 1, 2013 and prior to October 1, 2015, the Convertible Debentures may be redeemed in whole or in part from time to time at the option of Yellow Media Inc. at a price equal to their principal amount plus accrued and unpaid interest, provided that the current market price of the common shares preceding the date on which the notice of redemption is given is not less than 125% of the Exchange price. On and after October 1, 2015, the Convertible Debentures may be redeemed in whole or in part from time to time at the option of Yellow Media Inc. at a price equal to their principal amount plus accrued interest. Yellow Media Inc. may also, at its option and subject to certain conditions, elect to satisfy its obligation to repay all or any portion of the principal amounts and interest of the Convertible Debentures that are to be redeemed or repaid at maturity, by issuing common shares of Yellow Media Inc. The number of shares a holder will receive in respect of each Convertible Debenture will be determined by dividing the principal amount of the Convertible Debentures that are to be redeemed or repaid at maturity by 95% of the market price of the common shares.

During the third quarter of 2012, $0.9 million of Convertible Debentures were exchanged into 116,250 common shares (Note 10). The carrying amount of the Convertible Debentures exchanged was recorded in shareholder's capital. No gain was recognized in the income statement on conversion.

Please refer to the description of the Proposed Recapitalization in Note 16 – Subsequent event.

(all tabular amounts are in thousands of Canadian dollars, except share information - unaudited)

7. Preferred shares, Series 1 and 2

	September 30, 2012	December 31, 2011
Preferred shares, Series 1 and Series 2	$ 402,700	$ 402,700
Derivative component	653	741
Deferred financing costs	(3,104)	(4,555)
	400,249	398,886
Less current portion [1]	250,791	249,713
	$ 149,458	$ 149,173

[1] Relating entirely to Preferred Shares, Series 1

a) Series 1

Redemption by the issuer

On or after March 31, 2012, Yellow Media Inc. may, at its option, redeem at par plus accrued and unpaid dividends (“Redemption price”) for cash the Series 1 shares, in whole or in part. Also, on or after March 31, 2012, and prior to December 31, 2012, Yellow Media Inc. may, at its option, exchange the outstanding Series 1 shares, in whole or in part, into common shares of the Company.

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

Redemption by the holder

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

b) Series 2

Redemption by the issuer

On or after June 30, 2012, Yellow Media Inc. may, at its option, redeem for cash the Series 2 shares, in whole or in part at a decreasing premium until June 30, 2016 and at par thereafter plus accrued and unpaid dividends (“Redemption price”). Also, on or after June 30, 2012, and prior to June 30, 2017, Yellow Media Inc. may, at its option, exchange the outstanding Series 2 shares, in whole or in part, into common shares of the Company until June 30, 2016 by dividing the Redemption price by the greater of $2.00 and 95% of the then applicable weighted average trading price of the common shares. In addition, the Series 2 shares will be redeemable at a premium in cash or exchangeable at the option of Yellow Media Inc., in whole into common shares of the Company on or after June 30, 2007.

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

Redemption by the holder

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

As at September 30, 2012, the accumulated accrued dividends amounted to $8.1 million and $5.7 million on Series 1 and Series 2, respectively, and are recorded in trade and other payables on the consolidated statements of financial position.

Please refer to the description of the Proposed Recapitalization in Note 16 – Subsequent event.

8. Restructuring and special charges

During the three and nine-month periods ended September 30, 2012, Yellow Media Inc. recorded restructuring and special charges of $26.8 million ($nil and $11.9 million for the three and nine-month periods ended September 30, 2011, respectively). These costs were associated with a workforce reduction and the termination and renegotiation of certain contractual obligations. For the three and nine-month periods ended September 30, 2012, Yellow Media Inc. utilized $23.6 million and $40.7 million of the restructuring and special charges provision. These amounts are expected to be paid mainly over the next twelve months.

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9. Post-employment benefits

As a result of a decrease in the discount rate used to measure post-employment obligations from 4.5% to 4%, Yellow Media Inc. recorded a net actuarial loss of $22.3 million and $44.2 million in other comprehensive income (loss) net of income taxes of $8 million and $15.8 million for the three and nine-month periods ended September 30, 2012, respectively.

10. Shareholders' capital

Common shares

	September 30 , 2012	
	Number of Shares	Amount
Balance, December 31, 2011[1]	520,402,094	$ 3,554,715
Exchange of Convertible Debentures (Note 6)	116,250	899
Balance, September 30, 2012[1]	520,518,344	$ 3,555,614

	September 30, 2011	
	Number of shares	Amount
Balance, December 31, 2010	516,017,984	$ 4,079,838
Shares issued pursuant to the dividend reinvestment plan	6,857,466	25,351
Repurchase of common shares	(11,252,884)	(88,419)
Reduction in capital	–	(500,000)
Exchange of Preferred Shares, Series 7	250,000	1,875
Conversion of exchangeable notes	6,255,026	35,390
	518,127,592	$ 3,554,035
To be issued pursuant to the dividend reinvestment plan	2,274,502	680
Balance, September 30, 2011[1]	520,402,094	$ 3,554,715

[1] Includes 7,806,780 Restricted Shares (December 31, 2011 – 7,806,780 and September 30, 2011 – 7,443,709) pursuant to the Restricted Share Plan.

During the nine-month period ended September 30, 2012, Yellow Media Inc. declared total dividends to common shareholders of $nil ($207.3 million or $0.40 per share in 2011).

Preferred shares

	September 30, 2012	
	Number of Shares	Amount
Balance, December 31, 2011 and September 30, 2012	13,424,153	$ 320,687

	September 30, 2011	
	Number of Shares	Amount
Balance December 31, 2010	13,933,333	$ 328,880
Repurchase of preferred shares	(259,180)	(6,318)
Exchange of Preferred Shares, Series 7	(250,000)	(1,875)
Balance, September 30, 2011	13,424,153	$ 320,687

During the nine-month period ended September 30, 2012, Yellow Media Inc. declared total dividends to holders of Series 3, 5 and 7 shares of $nil (2011 - $17 million or $1.27 per Series 3, $1.29 per Series 5 and $0.28 per Series 7 shares). As at September 30, 2012, the unpaid and undeclared dividends amounted to $10.3 million, $6.4 million and $0.1 million on Series 3, Series 5 and Series 7 shares, respectively.

Earnings (loss) per share

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

(all tabular amounts are in thousands of Canadian dollars, except share information - unaudited)

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2012	2011	2012	2011
Weighted average number of shares outstanding used in computing basic earnings (loss) per share	512,610,477	509,752,238	512,600,405	511,591,101
Dilutive effect of stock options	329,227	–	–	–
Dilutive effect of Restricted Shares[1]	7,806,780	–	–	–
Dilutive effect of Series 1 Preferred shares	125,573,400	–	–	–
Dilutive effect of Series 2 Preferred shares	75,776,600	–	–	–
Weighted average number of shares outstanding used in computing diluted earnings (loss) per share	722,096,484	509,752,238	512,600,405	511,591,101

[1] Subject to specific payout conditions.

As described in Note 16, subject to the closing of the proposed recapitalization, the common shares of the Company will be exchanged for new common shares of the Company.

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2012	2011	2012	2011
Net earnings (loss) from continuing operations	$ 24,017	$ (2,806,099)	$ (2,777,541)	$ (2,756,344)
Attributable to non-controlling interest	(21)	84	(48)	441
Dividends to preferred shares series 3, 5 and 7 shareholders	(5,583)	(5,583)	(16,751)	(16,955)
Net earnings (loss) from continuing operations available to common shareholders of Yellow Media Inc. used in the computation of basic earnings (loss) per share	18,413	(2,811,598)	(2,794,340)	(2,772,858)
Impact of assumed conversion of Series 1 Preferred shares, net of applicable taxes	2,934	–	–	–
Impact of assumed conversion of Series 2 Preferred shares, net of applicable taxes	1,965	–	–	–
Net earnings (loss) adjusted for dilutive effect	$ 23,312	$ (2,811,598)	$ (2,794,340)	$ (2,772,858)

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2012	2011	2012	2011
Net earnings (loss) attributable to common shareholders of Yellow Media Inc.	$ 23,996	$ (2,826,596)	$ (2,777,589)	$ (2,877,990)
Dividends to preferred shares series 3, 5 and 7 shareholders	(5,583)	(5,583)	(16,751)	(16,955)
Net earnings (loss) available to common shareholders of Yellow Media Inc. used in the computation of basic earnings (loss) per share	18,413	(2,832,179)	(2,794,340)	(2,894,945)
Impact of assumed conversion of Series 1 Preferred shares, net of applicable taxes	2,934	–	–	–
Impact of assumed conversion of Series 2 Preferred shares, net of applicable taxes	1,965	–	–	–
Net earnings (loss) adjusted for dilutive effect	$ 23,312	$ (2,832,179)	$ (2,794,340)	$ (2,894,945)

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

(all tabular amounts are in thousands of Canadian dollars, except share information - unaudited)

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2012	2011	2012	2011
Net loss from discontinued operations	$ –	$ (19,353)	$ –	$ (117,947)
Attributable to non-controlling interest	–	(1,228)	–	(4,140)
Net loss from discontinued operations available to common shareholders of Yellow Media Inc. used in the computation of basic and diluted loss per share	$ –	$ (20,581)	$ –	$ (122,087)

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2012	2011	2012	2011
Basic loss per share attributable to common shareholders from discontinued operations	$ –	$ (0.04)	$ –	$ (0.24)
Diluted loss per share attributable to common shareholders from discontinued operations	$ –	$ (0.04)	$ –	$ (0.24)

The diluted loss per share from discontinued operations is not calculated for the three and nine-month periods ended September 30, 2011 as the conversion of the dilutive instruments listed above would be anti-dilutive to the loss.

11. Stock-based compensation plans

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

Restricted Share Unit Plan

During the nine-month period ended September 30, 2012, no Restricted Shares were granted. During the nine-month period ended September 30, 2011, an amount of $8 million representing 1,994,552 Restricted Shares were granted at an average market price of $4.02. An amount of $nil (2011 - $2.7 million) was used to reinvest in nil (2011 – 876,796) Restricted Shares using the proceeds from the dividends on the Restricted Shares held in escrow. In addition, 57,239 Restricted Shares which were not allocated to any specific employee were reinvested in 2011. This includes nil (2011 – 287,965) Restricted Shares associated with the portion which provides for up to a 250% payout.

The following table summarizes the status of the grants:

	September 30, 2012
	Number of Restricted Shares
	2009 and 2011 Grants
Outstanding, beginning of period	4,576,481
Granted	–
Vested	–
Forfeited	(3,573,412)
Cash dividends reinvested	–
Outstanding, end of period	**1,003,069**

(all tabular amounts are in thousands of Canadian dollars, except share information - unaudited)

	September 30, 2011
	Number of Restricted Shares
	2009 and 2011 Grants
Outstanding, beginning of period	7,337,315
Granted	1,994,552
Vested	(3,733,692)
Forfeited	(1,803,529)
Cash distributions reinvested	646,070
Outstanding, end of period	4,440,716

As at September 30, 2012, there were 5,884,277 (2011 – 1,362,135) Restricted Shares which were not allocated to any specific employee and 919,434 (2011 – 1,640,858) Restricted Shares representing the portion which provides up to a 250% payout. During the three and nine-month periods ended September 30, 2012, an expense of $0.1 million and $0.5 million was recorded in the consolidated income statement, respectively (2011 – expense of $nil and recovery of $0.9 million for the three and nine-month periods ended September 30, 2011, respectively).

Stock Options – 2003 Plan

YPG LP

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

	September 30, 2012	September 30, 2011
	Number of options[1]	Number of options[1]
Outstanding and exercisable, beginning of period	380,882	380,882
Forfeited	(51,655)	–
Outstanding and exercisable, end of period	329,227	380,882

[1] The weighted average exercise price per option for the outstanding, exercisable and forfeited options disclosed above is $3.92.

Stock Options – 2010 Plan

The following table summarizes the status of the 2010 Plan.

	September 30, 2012	September 30, 2011
	Number of options[1]	Number of options[1]
Outstanding, beginning of period	12,100,000	–
Granted	–	15,850,000
Forfeited	(1,200,000)	(3,750,000)
Outstanding, end of period	10,900,000	12,100,000

[1] The weighted average exercise price per option for the outstanding, granted and forfeited options disclosed above is $6.35.

An expense of $nil and $0.1 million was recorded for the three and nine-month periods ended September 30, 2012, respectively (2011 - $nil for the three-month period ended September 30, 2011 and $0.1 million recovery for the nine-month period ended September 30, 2011) in relation to this grant.

(all tabular amounts are in thousands of Canadian dollars, except share information - unaudited)

12. Financial charges, net

The significant components of the financial charges are as follows:

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2012	2011	2012	2011
Interest on long-term debt, exchangeable and convertible instruments	$ 29,962	$ 35,444	$ 89,967	$ 100,257
Interest on commercial paper	–	186	–	2,212
Interest income, standby fees and other financial charges, net	(1,005)	(402)	(2,288)	2,036
Other charges related to derivative financial instruments	–	172	7	12,470
Gain on repurchase of Preferred shares, series 1 and 2 and medium term notes, net	–	(30,734)	–	(38,815)
Amortization and write-off of deferred financing costs	2,157	4,253	6,643	13,248
Accreted interest on compound financial instruments and note receivable	212	260	535	765
Accreted interest on retirement benefit obligations	7,412	8,303	23,564	24,907
Expected return on pension plan assets	(6,566)	(7,028)	(20,603)	(21,084)
Revaluation of deferred consideration[1]	(2,162)	–	(92)	(933)
Foreign exchange loss (gain)	188	(140)	86	(123)
	$ 30,198	$ 10,314	$ 97,819	$ 94,940

[1] Deferred consideration of $10 million is presented in Trade and other payables due to its short-term maturity.

13. Guarantees

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

Yellow Media Inc. has entered into agreements which contain indemnification of its directors and officers indemnifying them against expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of Yellow Media Inc. Yellow Media Inc. benefits from directors' and officers' liability insurance which is purchased by Yellow Media Inc. No amount has been accrued in the condensed consolidated statement of financial position as at September 30, 2012, with respect to this indemnity.

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

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

14. Segmented information

After the completion of the sale of Trader in July 2011, management reassessed its operating segments and concluded that the Directories segment is the only operating segment.

15. Comparative figures

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

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

16. Subsequent event

The Proposed Recapitalization is subject to the receipt of the final approval of the Court. The hearing on the final order ("the Final Order") of the Court approving the Proposed Recapitalization began on October 15, 2012 and concluded on October 23, 2012. A final ruling by the Court on the Proposed Recapitalization is pending.

The key components of the Proposed Recapitalization are as follows:

- The exchange of the Company's credit facilities and medium term notes (the Senior Unsecured Debt), representing $1.8 billion of the Company's debt, for a combination of:
  - $775 million of 9% senior secured notes due in 2018 (the Senior Secured Notes);
  - $100 million of subordinated unsecured exchangeable debentures due in 2022, with interest payable in cash at 8.0% or in additional debentures at 12% (the 2022 Exchangeable Debentures);
  - 23,062,948 of new common shares issued in connection with the Proposed Recapitalization (New Common Shares), representing 82.5% of the issued and outstanding New Common Shares; and
  - $250 million of cash.
- Holders of existing convertible debentures of the Company will receive, in the aggregate, in exchange for their securities a combination of:
  - $2.5 million of 2022 Exchangeable Debentures
  - 497,852 of New Common Shares representing 1.8% of New Common Shares; and
  - 484,487 10-year warrants (Warrants), representing in the aggregate 1.7% of the New Common Shares
- Holders of existing preferred shares and common shares of the Company will receive, in the aggregate, in exchange for their securities a combination of:
  - 4,394,288 of New Common Shares representing 15.7% of New Common Shares; and
  - 2,511,022 Warrants, representing in the aggregate 9% of the New Common Shares;

Interest on the Senior Secured Notes will be payable in cash quarterly in arrears in equal instalments at 9% per annum on the last day of February, May, August and November of each year. The initial interest payment will be payable on November 30, 2012 and will represent interest accrued from and including September 30, 2012.

Interest on the 2022 Exchangeable Debentures will accrue at a rate of 8% per annum if it is paid in cash, or 12% per annum in the event that Yellow Media Inc. makes a Paid in Kind (PIK) Election to pay any interest in additional 2022 Exchangeable Debentures. Interest on the 2022 Exchangeable Debentures will be payable semi-annually in arrears in equal instalments on the last day of May and November of each year. The initial interest payment will be payable on November 30, 2012 and will represent interest accrued from and including September 30, 2012.

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

On October 17, 2012, Yellow Media Inc. amended the terms of the Proposed Recapitalization such that the interest on the convertible debentures that was due October 1, 2012 was paid on October 19, 2012. The terms of the Proposed Recapitalization initially provided that no accrued or unpaid interest would be paid on the convertible debentures.

For a detailed description of the Proposed Recapitalization please refer to the Company's management proxy circular (the Circular) dated July 30, 2012, which is available on SEDAR at www.sedar.com and on the Company's website at www.ypg.com.