INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW MEDIA INC.

June 30, 2011
(unaudited)

Table of contents

Interim Condensed Consolidated Statements of Financial Position

(in thousands of Canadian dollars – unaudited)

		As at June 30, 2011		As at December 31, 2010
ASSETS				
CURRENT ASSETS				
Cash (Note 16)	$	70,867	$	69,325
Trade receivables		185,781		219,026
Prepaid expenses		7,256		7,298
Deferred publication costs and other assets		98,638		104,258
Assets held for sale (Note 5)		946,193		–
TOTAL CURRENT ASSETS		1,308,735		399,907
DEFERRED PUBLICATION COSTS		8,267		9,701
OTHER FINANCIAL ASSETS		5,240		6,845
INVESTMENTS IN ASSOCIATES (Note 6)		4,275		64,503
DERIVATIVES		211		6,145
PROPERTY, PLANT AND EQUIPMENT		47,773		80,743
INTANGIBLE ASSETS		1,721,311		2,152,000
GOODWILL		5,895,901		6,467,092
DEFERRED INCOME TAXES		20,511		24,174
TOTAL NON-CURRENT ASSETS		7,703,489		8,811,203
TOTAL ASSETS	$	9,012,224	$	9,211,110
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Trade and other payables	$	203,900	$	201,560
Dividends payable		26,637		27,820
Current income tax liabilities		7,818		4,024
Provisions		44,168		60,341
Deferred revenues		67,078		80,725
Liabilities associated with assets held for sale (Note 5)		158,599		–
Commercial paper		108,000		295,000
Current portion of long-term debt (Note 8)		2,294		3,669
TOTAL CURRENT LIABILITIES		618,494		673,139
DEFERRED CREDITS		17,624		21,165
DEFERRED INCOME TAXES		248,843		355,900
POST-EMPLOYMENT BENEFITS		193,936		188,877
DEFERRED CONSIDERATION (Note 4)		9,681		14,567
LONG-TERM DEBT (Note 8)		2,280,097		1,923,203
EXCHANGEABLE AND CONVERTIBLE INSTRUMENTS (Note 9)		183,148		319,029
PREFERRED SHARES (Note 10)		416,700		446,725
TOTAL NON-CURRENT LIABILITIES		3,350,029		3,269,466
TOTAL LIABILITIES		3,968,523		3,942,605
CAPITAL AND RESERVES		6,395,185		6,476,910
DEFICIT		(1,405,012)		(1,260,973)
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF YELLOW MEDIA INC.		4,990,173		5,215,937
NON-CONTROLLING INTERESTS		53,528		52,568
TOTAL EQUITY		5,043,701		5,268,505
TOTAL LIABILITIES AND EQUITY	$	9,012,224	$	9,211,110

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

Interim Condensed Consolidated Income Statements

For the periods ended June 30,

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

	Three months		Six months	
	2011	2010	**2011**	2010
Revenues	**$ 342,738**	$ 360,118	**$ 692,110**	$ 699,802
Operating costs (Note 14)	**166,262**	156,140	**325,599**	297,252
Income from operations before depreciation and amortization, acquisition-related costs, and restructuring and special charges	**176,476**	203,978	**366,511**	402,550
Depreciation and amortization	**47,735**	31,269	**100,103**	55,647
Acquisition-related costs	**6,233**	19,934	**7,036**	23,549
Restructuring and special charges (Note 11)	**11,888**	8,977	**11,888**	8,977
Income from operations	**110,620**	143,798	**247,484**	314,377
Financial charges, net (Note 15)	**37,484**	30,993	**84,626**	67,188
Impairment of investment in associate (Note 6)	**50,475**	–	**50,475**	–
Earnings before dividends on Preferred shares, series 1 and 2, income taxes, and share of losses from investment in associates	**22,661**	112,805	**112,383**	247,189
Dividends on Preferred shares, series 1 and 2	**4,947**	5,370	**10,079**	10,749
Earnings before income taxes and share of losses from investment in associates	**17,714**	107,435	**102,304**	236,440
Provision for income taxes	**34,547**	49,883	**41,148**	58,237
Share of losses from investment in associates	**3,865**	4,599	**11,401**	4,863
Net (loss) earnings from continuing operations	**(20,698)**	52,953	**49,755**	173,340
Net earnings (loss) from discontinued operations, net of income taxes (Note 5)	**6,448**	(971)	**(98,594)**	5,761
Net (loss) earnings	**$ (14,250)**	$ 51,982	**$ (48,839)**	$ 179,101
Net (loss) earnings attributable to:				
Common shareholders of Yellow Media Inc.[1]	**$ (17,965)**	$ 50,217	**$ (51,394)**	$ 176,007
Non-controlling interests[3]	**3,715**	(4,014)	**2,555**	(8,383)
Holders of Preferred shares, series 3, 5 and 7	**–**	5,779	**–**	11,477
	$ (14,250)	51,982	**$ (48,839)**	$ 179,101
Basic (loss) earnings per share attributable to common shareholders of Yellow Media Inc.				
From continuing operations	**$ (0.05)**	$ 0.09	**$ 0.08**	$ 0.32
Total	**$ (0.05)**	$ 0.10	**$ (0.12)**	$ 0.35
Weighted average number of shares outstanding used in computing basic earnings (loss) per share (Note 12)[2]	**514,623,616**	503,465,369	**512,525,771**	504,105,534
Diluted (loss) earnings per share attributable to common shareholders of Yellow Media Inc.				
From continuing operations	**$ (0.05)**	$ 0.09	**$ 0.07**	$ 0.29
Total	**$ (0.05)**	$ 0.09	**$ (0.11)**	$ 0.31
Weighted average number of shares outstanding used in computing diluted (loss) earnings per share (Note 12)[2]	**514,623,616**	616,986,232	**559,795,449**	617,640,121

[1] Included in the net earnings attributable to common shareholders of Yellow Media Inc. for the period ended June 30, 2010 are net earnings attributable to Owners of the Fund.

[2] Comparative amounts presented are trust units.

[3] Included in the net earnings (loss) attributable to non-controlling interests for the three and six-month periods ended June 30, 2011 and 2010 is $3.9 million and $2.9 million, respectively related to discontinued operations (2010 – ($4 million) and ($8.4 million)).

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

Interim Condensed Consolidated Statements of Comprehensive (Loss) Income

For the periods ended June 30,
(in thousands of Canadian dollars – unaudited)

	Three months		Six months	
	2011	2010	2011	2010
Net (loss) earnings	$ (14,250)	$ 51,982	$ (48,839)	$ 179,101
Other comprehensive income (loss), net of related income taxes:				
Reclassification adjustment on derivatives designated as cash flow hedges in the period[1]	120	201	247	88
Change in gains and losses on derivatives designated as cash flow hedges	120	201	247	88
Unrealized loss on available–for–sale investment in the period[2]	(80)	(354)	(16)	(450)
Change in unrealized loss on available–for–sale financial asset	(80)	(354)	(16)	(450)
Unrealized exchange differences on translating financial statements of foreign operations and foreign associates[3]	90	12,353	(4,479)	7,166
Change in unrealized exchange differences on translating financial statements of foreign operations and foreign associates	90	12,353	(4,479)	7,166
Other comprehensive income (loss)	130	12,200	(4,248)	6,804
Total comprehensive (loss) income	$ (14,120)	$ 64,182	$ (53,087)	$ 185,905
Total comprehensive (loss) income attributable to:				
Common shareholders of Yellow Media Inc.[4]	$ (18,017)	$ 61,009	$ (54,047)	$ 181,403
Non-controlling interests	3,897	(2,606)	960	(6,975)
Holders of Preferred shares, series 3, 5 and 7	–	5,779	–	11,477
	$ (14,120)	$ 64,182	$ (53,087)	$ 185,905

1 Net of income taxes of $53 for the three-month period (2010 – $88) and $110 for the six-month period ended June 30, 2011 (2010 – $48).

2 Net of income taxes of $nil ($nil for the three and six-month periods ended June 30, 2010).

3 Unrealized exchange differences on translating financial statements of foreign operations and foreign associates for the three-month period ended June 30, 2011 include $0.4 million gain (2010 – $7.9 million) and $2.9 million loss for the six-month period ended June 30, 2011 (2010 – $2.7. million gain) for discontinued operations.

4 Included in the total comprehensive income (loss) attributable to common shareholders for the period ended June 30, 2010 is total comprehensive income attributable to Owners of the Fund.

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

Interim Condensed Consolidated Statements of Equity

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

	Shareholders' Capital (Note 12)	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	$ 20,798	$ 2,119,177
Issuance (exchange) of shares	60,072	–	(1,875)	–	–	–
Repurchase of shares (Note 12)	(88,419)	–	(3,175)	–	–	(42,947)
Stock options	–	–	–	–	254	–
Restricted shares	–	(2,074)	–	–	(908)	–
Restricted shares vested (Note 13)	–	26,010	–	–	(26,010)	–
Dividends	–	–	–	–	–	–
Other comprehensive loss	–	–	–	–	–	–
Net loss for the period	–	–	–	–	–	–
Dividends on Preferred shares, Series 3, 5 and 7	–	–	–	–	–	–
Balance, June 30, 2011	**$ 4,051,491**	**$ (54,199)**	**$ 323,830**	**$ 7,423**	**$ (5,866)**	**$ 2,076,230**

[1] The equity component of the convertible debentures presented above is net of income taxes of $2.7 million.
[2] The foreign currency translation reserve balance as of June 30, 2011 includes $3.7 million related to assets held for sale.

	Shareholders' Capital (Note 12)	Restricted Shares	Compound financial instruments	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	–	–	–	–
Issuance of Units	12	–	–	–	–
Stock options	–	–	–	40	–
Restricted shares	–	(21,076)	–	(1,554)	–
Restricted shares vested (Note 13)	–	8,793	–	(8,793)	–
Issuance of Preferred Shares, Series 7	–	–	–	–	–
Option on exchangeable and convertible instruments	–	–	9,770	–	–
Dividends	–	–	–	–	–
Business acquisitions (Note 4)	–	–	–	–	–
Other comprehensive income	–	–	–	–	–
Net earnings for the period	–	–	–	–	–
Net loss attributable to non-controlling interests	–	–	–	–	–
Dividends on Preferred shares, Series 3, 5 and 7	–	–	–	–	–
Balance, June 30, 2010	$ 6,062,051	$ (85,181)	$ 13,388	$ (510)	$ 118,064

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

Available for sale investment	Cash flow hedges	Foreign currency translation[2]	Capital and Reserves	Deficit	Total Equity attributable to common shareholders of Yellow Media Inc.	Non-controlling interests	Total Equity
							2011
$ 225	$ 1,077	$ (2,373)	$ 6,476,910	$ (1,260,973)	$ 5,215,937	$ 52,568	$ 5,268,505
–	–	–	58,197	–	58,197	–	58,197
–	–	–	(134,541)	85,712	(48,829)	–	(48,829)
–	–	–	254	–	254	–	254
–	–	–	(2,982)	–	(2,982)	–	(2,982)
–	–	–	–	–	–	–	–
–	–	–	–	(166,985)	(166,985)	–	(166,985)
(16)	247	(2,884)	(2,653)	–	(2,653)	(1,595)	(4,248)
–	–	–	–	(51,394)	(51,394)	2,555	(48,839)
–	–	–	–	(11,372)	(11,372)	–	(11,372)
$ 209	$ 1,324	$ (5,257)	$ 6,395,185	$ (1,405,012)	$ 4,990,173	$ 53,528	$ 5,043,701

Available for sale investment	Cash flow hedges	Foreign currency translation	Capital and Reserves	Deficit	Total Equity attributable to common shareholders of Yellow Media Inc.	Non-controlling interests	Total Equity
							2010
$ 418	$ 729	$ –	$ 6,090,067	$ (1,024,817)	$ 5,065,250	$ 355,830	$ 5,421,080
–	–	–	31,700	–	31,700	(31,700)	–
–	–	–	12	–	12	–	12
–	–	–	40	–	40	–	40
–	–	–	(22,630)	–	(22,630)	–	(22,630)
–	–	–	–	–	–	–	–
–	–	–	–	–	–	9,750	9,750
–	–	–	9,770	–	9,770	–	9,770
–	–	–	–	(201,686)	(201,686)	–	(201,686)
–	–	–	–	–	–	71,513	71,513
(450)	88	5,758	5,396	–	5,396	1,408	6,804
–	–	–	–	179,101	179,101	–	179,101
–	–	–	–	8,383	8,383	(8,383)	–
–	–	–	–	(11,477)	(11,477)	–	(11,477)
$ (32)	$ 817	$ 5,758	$ 6,114,355	$ (1,050,496)	$ 5,063,859	$ 398,418	$ 5,462,277

Interim Condensed Consolidated Statements of Cash Flows

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

	2011	2010
OPERATING ACTIVITIES		
Net earnings from continuing operations	$ 49,755	$ 173,340
Items not affecting cash		
Depreciation and amortization	100,103	55,647
Amortization and write-off of deferred financing costs	8,995	4,146
Impairment of investment in associate	50,475	–
Accretion on compound financial instruments	505	395
Net benefit plan costs	5,059	5,462
Non-cash derivative financial instruments	4,163	1,379
Stock compensation recovery	(804)	(1,556)
Gain on purchase of Preferred shares, series 1 and 2, and Medium Term Notes	(8,081)	(5,117)
Deferred income taxes	29,430	49,479
Share of losses from investment in associates	11,401	4,863
Other non-cash items	(2,355)	(1,856)
Change in operating assets and liabilities	(49,022)	7,284
	199,624	293,466
INVESTING ACTIVITIES		
Business acquisitions, net of cash acquired and bank indebtedness assumed (Note 4)	(24)	(87,012)
Acquisition of investment in associates	–	(3,600)
Acquisition of intangible assets	(22,475)	(34,000)
Acquisition of property, plant and equipment	(8,352)	(3,416)
Issuance of note	(1,238)	–
Acquisition of investment	–	(1,756)
Proceeds from lease inducements	37	–
	(32,052)	(129,784)
FINANCING ACTIVITIES		
Issuance of long-term debt and commercial paper	591,000	555,000
Repayment of long-term debt and commercial paper	(392,611)	(157,632)
Redemption of exchangeable and convertible instruments	(106,172)	–
Dividends to shareholders	(145,361)	(201,686)
Proceeds from exercise of options	–	12
Repurchase of Preferred shares, series 1 and 2, and Medium Term Notes	(39,997)	(320,145)
Repurchase of common shares and Preferred shares, Series 3 and 5	(48,616)	–
Dividends on Preferred shares, series 3, 5 and 7	(11,372)	(11,638)
Restricted shares (Note 13)	(2,074)	(21,076)
Deferred consideration	(3,558)	–
Proceeds on derivative financial instruments	3,819	–
Debt and preferred share issuance and other costs	–	(14,477)
	(154,942)	(171,642)
Effect of exchange rates changes on cash denominated in foreign currencies	(792)	713
NET INCREASE (DECREASE) IN CASH	11,838	(7,247)
CASH FLOWS FROM DISCONTINUED OPERATIONS (Note 5)	6,169	19,705
CASH, BEGINNING OF PERIOD	69,325	36,170
CASH, END OF PERIOD[1]	$ 87,332	$ 48,628
Supplemental disclosure of cash flow information (Note 16)		

Interest paid	$ 71,328	$ 71,274
Income taxes and capital taxes paid	$ 34,465	$ 12,641

[1] Cash as at June 30, 2011 includes $16.5 million representing the cash included in the statement of financial position of Dealer.com grouped with assets held for sale.

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

1. Description

Yellow Media Inc. through subsidiaries, operates print and online directories and performance marketing solutions in all the Provinces of Canada. Also, Yellow Media Inc. operates Trader Corporation (“Trader”), which includes print and online vertical publications as well as performance marketing solutions and Dealer.com, a leading provider of online marketing solutions in the United States. As explained in Note 5, the automotive and generalist verticals of Trader along with Dealer.com were discontinued in the first quarter of 2011. 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 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 the Fund. YPG GP amalgamated with Yellow Media Inc. and other entities of 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 and future financial statements are those of the Fund.

The Board of Directors approved the unaudited interim condensed consolidated financial statements for the six-month period ended June 30, 2011 and authorized their publication on August 4, 2011.

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 unaudited interim condensed consolidated financial statements for the period ended June 30, 2011 were prepared in accordance with the applicable international accounting standards.

IFRS transition (IFRS 1)

The impacts of this change in accounting basis are reported in the reconciliation tables presented in Note 19. Specifically:

- as of June 30, 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 unaudited interim financial statements.

Certain information and footnote disclosures which are considered material to the understanding of Yellow Media Inc.’s interim condensed financial statements and which are normally included in the annual financial statements prepared in accordance with IFRS are provided in the March 31, 2011 interim financial statements, and accordingly, the financial statements should be read in conjunction with the interim condensed consolidated financial statements for the three-month period ended March 31, 2011.

Adopted IFRS base

The financial statements do not take into account:

- draft standards that are still at the exposure draft stage with the International Accounting Standards Board (“IASB”);
- standards published and approved by the IASB, but with an application date post December 31, 2011.

2.2. Standards, interpretations and amendments to published standards that are 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 or later periods. Yellow Media Inc. has not early adopted these standards. Those which are considered to be relevant to Yellow Media Inc.’s operations are as follows:

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. It is applicable to financial assets and requires classification and measurement in either the amortised cost or the fair value category. 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, 2013, but is available for early adoption. Yellow Media Inc. has not fully assessed the impact of adopting IFRS 9; however, it anticipates that its impact will be limited.

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 31 (the "package of five") are adopted at the same time. Yellow Media Inc. has not yet assessed the impact of adopting IFRS 10.

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. Yellow Media Inc. has not yet assessed the impact of adopting IFRS 11.

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. Yellow Media Inc. has not yet assessed the impact of adopting IFRS 12.

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. Yellow Media Inc. has not yet assessed the impact of adopting IFRS 13.

3. Basis of presentation and significant accounting policies

3.1. Statement of compliance

These unaudited interim condensed 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 IAS 34, Interim Financial Reporting and IFRS 1, First-time Adoption of IFRS. These unaudited interim condensed financial statements have been prepared in accordance with the accounting policies Yellow Media Inc. expects to adopt in its annual consolidated financial statements for the year ended December 31, 2011. Those accounting policies are based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that Yellow Media Inc. expects to be applicable at that time.

The Company's accounting policies applied upon conversion to IFRS and IFRS 1 elections made to convert the GAAP results to IFRS have been disclosed in the first unaudited interim condensed consolidated financial statements for the three-month period ended March 31, 2011. There have been no changes to these accounting policies applied or use of IFRS 1 exemptions previously disclosed in the March 31, 2011 statements. These accounting policies have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently throughout the consolidated entities.

4. Business acquisitions

2011

During the first and second quarters of 2011, Yellow Media Inc. did not complete any business acquisition.

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”), one of Canada’s largest restaurant and dining communities. 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 includes 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.

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 position Yellow Media Inc. to better compete in the digital world and will enable Yellow Media Inc. to expand the sales force, online capabilities and advertiser offerings.

Vertical Media

On January 5, 2010 Trader acquired an additional 10% equity interest in Dealer.com bringing its total equity interest to approximately 30%. Trader has an option to increase its ownership in the privately held company that is currently exercisable. If exercised, this option would provide 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 controls Dealer.com and accordingly the financial position and results of Dealer.com are consolidated in Yellow Media Inc.’s financial statements from the date of acquisition.

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 transactions generated a net gain of $8.0 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. At June 30, 2011, Yellow Media Inc.’s interest in equity of Dealer.com was 32%.

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.

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

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

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	108	1,098
Trade and other payables	(29,385)	(5,406)	(5,128)	(39,919)
Deferred revenues	(1,730)	(2,997)	–	(4,727)
Fixed assets	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)	(1,540)	(73,053)
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 the second quarter of 2011, Yellow Media Inc. paid $3.6 million of the deferred consideration. A reversal of $0.9 million was included in financial charges. Giving effect to the reversal, the deferred consideration outstanding from continuing operations as of June 30, 2011 could reach $11.9 million if all performance objectives are met.

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

5. 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. The transaction closed on April 15, 2010.

As a result of the above, Yellow Media Inc. reclassified the results of the disposed business, up to the date of disposal, as 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.

Trader will continue to own and operate leading Canadian automotive and generalist online properties including AutoTrader.ca, Autos.ca, AutoHebdo.net, and Buysell.com, as well as 74 related publications. In addition, Trader will retain its interest of 32% in Dealer.com, the leading US digital solutions provider to the automotive dealer segment.

The real estate, employment and LesPAC.com businesses are excluded from the proposed divestiture. These businesses will continue to be owned and managed by Yellow Media Inc.

As a result of the above, we have reclassified the results of the disposed business as discontinued operations. Accordingly, the prior period’s consolidated income statements and cash flows have been restated to reflect this change and the net assets of the disposed business have been reclassified as held for sale on the interim condensed consolidated statement of financial position as at June 30, 2011.

On July 28, 2011, the divestiture of the disposed business was completed for a net purchase price consideration of $708 million, net of fees, expenses and working capital and other adjustments.

Detailed financial information for discontinued operations

The assets and liabilities classified as held for sale of Trader as of June 30, 2011 are summarized below:

Assets held for sale		
Current assets	$	58,820
Property, plant and equipment		47,079
Other non-current assets		1,375
Intangible assets		351,294
Goodwill		487,625
Total	$	946,193

Liabilities associated with assets held for sale		
Trade and other payables	$	39,926
Deferred revenues		6,522
Deferred credits		2,142
Long-term debt		13,878
Deferred income taxes		96,131
Total	$	158,599

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

Analysis of net earnings from discontinued operations:

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2011	2010	2011	2010
Revenues	$ 67,786	$ 65,744	$ 128,434	$ 134,191
Operating costs	53,430	44,584	98,079	94,535
Depreciation and amortization	–	21,994	16,065	43,500
Acquisition-related costs	58	–	58	–
Recovery of restructuring and special charges	(737)	–	(737)	–
Financial charges	114	169	336	203
Gain on deemed disposal of investment in associate	–	–	–	(8,007)
Gain on disposal of subsidiary	–	(586)	–	(586)
Share of losses from investment in associates	106	–	128	–
Provision (Recovery) of income taxes	4,921	554	4,044	(1,215)
Loss on disposal, net of income taxes of $1.2 million and $7.3 million for the three and six -month periods ended June 30, 2011 respectively	3,446	–	109,055	–
Net earnings (loss) from discontinued operations	**$ 6,448**	$ (971)	**$ (98,594)**	$ 5,761

Cash flows from discontinued operations for the six-month periods ended June 30, 2011 and 2010 are as follows:

	2011	2010
Cash from (used in):		
Operating activities	$ 26,833	$ 29,466
Investing activities	(20,346)	(8,971)
Financing activities	(318)	(790)
Net increase in cash from discontinued operations	$ 6,169	$ 19,705

6. Investments in associates

Yellow Media Inc. was advised during the second quarter of 2011 that Ziplocal, LP (“Ziplocal”) was in default of its debt obligations. In addition, Ziplocal has undertaken important restructuring initiatives. Yellow Media Inc. determined that its investment in Ziplocal was impaired and as a result a loss of $50.5 million was recorded to reduce its net investment in Ziplocal to $nil.

7. Post-employment benefit plans

The total net benefit plan costs for the three-month and six-month period ended June 30, 2011 were $5.2 million ($4.8 million in 2010) and $9.8 million ($10.9 million in 2010) for pension benefits. Other benefits costs totalled $0.3 million ($0.7 million in 2010) and $0.6 million ($1.4 million in 2010) for the same period.

For the three-month and six-month period ended June 30, 2011, a total $3.3 million ($3 million in 2010) and $6.4 million ($4.8 million in 2010) was contributed for pension benefits.

8. Long-term debt

				June 30, 2011
	Principal amount	Fair value adjustment of hedged item	Deferred financing costs	Total
Medium Term Notes	$ 1,643,586	$ 9,990	$ (12,251)	$ 1,641,325
Credit facilities	636,000	–	–	636,000
Obligations under capital leases	5,066	–	–	5,066
	2,284,652	9,990	(12,251)	2,282,391
Less current portion of long-term debt	2,294	–	–	2,294
	$ 2,282,358	$ 9,990	$ (12,251)	$ 2,280,097

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

				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 capital leases	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

Medium Term Notes

During the second quarter of 2011, Yellow Media Inc. repurchased for cancellation an amount of $18 million of the Series 5 Medium Term Notes for a total cash consideration of $15.3 million. The difference between the purchase price and the carrying value of the Medium Term Notes of $2.5 million was recorded as a gain in financial charges.

Yellow Media Inc. was in compliance with all of its debt covenants as at June 30, 2011.

Interest rate swaps

On June 27, 2011, Yellow Media Inc. terminated five interest rate swaps with a notional amount of $255 million, for gross proceeds of $3.8 million. These interest rate swap agreements were originally entered into in August 2009 and February 2010 to convert the fixed interest rate of the Series 8 and Series 9 Medium Term Notes into floating interest rates. The $3.8 million will be amortized over the term of the underlying debt.

9. Exchangeable and convertible instruments

	June 30, 2011	December 31, 2010
Principal amount	$ 200,000	$ 341,562
Equity component	(10,139)	(10,139)
Accretion	1,099	533
Deferred financing costs	(7,812)	(12,927)
	$ 183,148	$ 319,029

On February 25, 2011, $35.4 million Exchangeable Notes were exchanged into 6,255,026 shares of Yellow Media Inc. (Note 12).

On 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 $106.2 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.

10. Preferred shares

	June 30, 2011	December 31, 2010
Shares issued, Series 1 and Series 2	$ 421,606	$ 452,978
Derivative component	830	962
Deferred financing costs	(5,736)	(7,215)
	$ 416,700	$ 446,725

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.

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

Under its normal course issuer bid, Yellow Media Inc. can purchase for cancellation up to 1,127,882 and 684,028 of its outstanding first preferred shares, Series 1 ("Series 1 shares") and first preferred shares, Series 2 ("Series 2 shares"), respectively. During the six-month period ended June 30, 2011, Yellow Media Inc. purchased for cancellation 717,098 Series 1 shares of Yellow Media Inc. for a total cash consideration of $16.5 million including brokerage fees and 537,778 Series 2 shares of Yellow Media Inc. for a total cash consideration of $8.8 million including brokerage fees. The carrying value of these Series 1 and Series 2 shares was $17.8 million and $13.2 million, respectively. The difference between the purchase price and the carrying value of the Series 1 and Series 2 shares of $5.6 million was recorded as a gain and included in financial charges. An amount of $0.6 million representing 20,992 Series 1 shares and 12,502 Series 2 shares repurchased during the last four days of June 2011 was settled in July 2011.

11. Restructuring and special charges

During the quarter, Yellow Media Inc. recorded restructuring and special charges of $11.9 million ($9 million for the same period last year). These costs were associated with a workforce reduction and the termination of contractual obligations. For the three and six-month periods ended June 30, 2011, Yellow Media Inc. utilized $6.4 million and $12.4 million of restructuring and special charges.

12. Shareholders' capital

		June 30, 2011
	Number of Shares	Amount
Balance, January 1, 2011	516,017,984	$ 4,079,838
Shares issued pursuant to the dividend reinvestment plan	4,332,138	21,498
Repurchase of common shares	(11,252,884)	(88,419)
Exchange of Preferred Shares, Series 7	250,000	1,875
Conversion of Exchangeable Notes (Note 9)	6,255,026	35,390
	515,602,264	4,050,182
To be issued pursuant to the dividend reinvestment plan	522,653	1,309
Balance, June 30, 2011[1]	516,124,917	$ 4,051,491

		June 30, 2010
	Number of Units	Amount
Balance, January 1, 2010	511,044,685	$ 6,030,339
Conversion of Exchangeable Shares of YPG LP	2,000,000	31,700
Units issued	3,104	12
Balance, June 30, 2010[1]	513,047,789	$ 6,062,051

[1] Includes 7,030,563 Restricted Shares (2010 – 11,056,853) pursuant to the Restricted Share Plan.

During the six-month period ended June 30, 2011, Yellow Media Inc. declared total dividends to common shareholders of $167 million or $0.32 per share ($201.7 million or $0.40 per unit in 2010).

Exchangeable Shares of YPG LP

On February 22, 2010, 2,000,000 Exchangeable shares of YPG LP were converted into Shares of Yellow Media Inc.

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 may elect to have cash dividends paid on their common shares reinvested into additional common shares of Yellow Media Inc. The Drip allows 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. can issue the common shares from treasury with a discount from prevailing market prices ranging from 2% to 5%.

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

Preferred shares

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

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

During the six-month period ended June 30, 2011, Yellow Media Inc. exchanged 250,000 Preferred Shares, Series 7 into 250,000 common shares with a carrying value of $1.9 million.

During the six-month period ended June 30, 2011, Yellow Media Inc. declared dividends to holders of Series 3, 5, and 7 of $11.4 million or $0.84 per Series 3, $0.86 per Series 5, and $0.18 per Series 7 ($11.5 million in 2010 or $0.84 per Series 3, $0.86 per Series 5 and $0.18 per Series 7).

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 rule 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 six-month period ended June 30, 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, the reserve related to the shares in the amount of $42.9 million was also credited to Deficit.

During the six-month period ended June 30, 2011, Yellow Media Inc. had purchased for cancellation 90,332 Series 3 shares of Yellow Media Inc. for a total cash consideration of $1.6 million including brokerage fees and 39,915 Series 5 shares of Yellow Media Inc. for a total cash consideration of $0.7 million including brokerage fees. The carrying value of these Series 3 and 5 shares was $2.2 million and $1 million respectively. The difference between the purchase price and the carrying value was credited to Deficit. An amount of $0.2 million representing 9,304 Series 3 shares and 5,285 Series 5 shares repurchased during the last four days of June 2011 was settled in July 2011.

Earnings per share

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

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

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2011	2010[2]	2011	2010[2]
Weighted average number of shares outstanding used in computing basic earnings per share	514,623,616	503,465,369	512,525,771	504,105,534
Dilutive effect of options	–	382,451	380,882	383,214
Dilutive effect of Restricted Shares[1]	–	9,550,471	7,725,770	8,924,648
Dilutive effect of Series 7 Preferred shares	–	1,300,000	–	1,021,429
Dilutive effect of Series 1 Preferred shares	–	48,576,019	–	51,606,505
Dilutive effect of Series 2 Preferred shares	–	29,721,362	39,163,026	31,603,624
Dilutive effect of Exchangeable Debentures	–	14,290,857	–	15,118,521
Dilutive effect of Exchangeable notes	–	9,699,703	–	4,876,646
Weighted average number of shares outstanding used in computing diluted earnings per share	514,623,616	616,986,232	559,795,449	617,640,121

1 Subject to specific pay-out conditions.
2 Comparative amounts presented as trust units.

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2011	2010	2011	2010
Net (loss) earnings from continuing operations	$ (20,698)	$ 52,953	$ 49,755	$ 173,340
Attributable to non-controlling interest	190	–	357	–
Dividends to preferred shareholders[1]	(5,662)	(5,779)	(11,372)	(11,477)
Net (loss) earnings from continuing operations available to common shareholders of Yellow Media Inc. used in the computation of basic earnings per share	(26,170)	47,174	38,740	161,863
Impact of assumed conversion of Exchangeable Debentures, net of applicable taxes	–	1,156	–	2,307
Impact of assumed conversion of Series 1 Preferred shares, net of applicable taxes	–	3,650	–	7,308
Impact of assumed conversion of Series 2 Preferred shares, net of applicable taxes	–	2,515	1,535	4,537
Impact of assumed conversion of Series 7 Preferred shares, net of applicable taxes	–	132	–	207
Impact of assumed conversion of Exchangeable Notes	–	188	–	188
Net earnings from continuing operations adjusted for dilutive effect	$ (26,170)	$ 54,815	$ 40,275	$ 176,410

1 Comparative amounts presented as non-controlling interest

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

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2011	2010	2011	2010
Net (loss) earnings attributable to common shareholders of Yellow Media Inc.	$ (17,965)	$ 50,217	$ (51,394)	$ 176,007
Dividends to preferred shareholders[1]	(5,662)	–	(11,372)	–
Net (loss) earnings available to common shareholders of Yellow Media Inc. used in the computation of basic earnings per share	(23,627)	50,217	(62,766)	176,007
Impact of assumed conversion of Exchangeable Debentures, net of applicable taxes	–	1,156	–	2,307
Impact of assumed conversion of Series 1 Preferred shares, net of applicable taxes	–	3,650	–	7,308
Impact of assumed conversion of Series 2 Preferred shares, net of applicable taxes	–	2,515	1,535	4,537
Impact of assumed conversion of Series 7 Preferred shares, net of applicable taxes	–	132	–	207
Impact of assumed conversion of Exchangeable notes	–	188	–	188
Net (loss) earnings adjusted for dilutive effect	$ (23,627)	$ 57,858	$ (61,231)	$ 190,554

[1] Comparative amounts presented as non-controlling interest

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

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2011	2010	2011	2010
Net earnings (loss) from discontinued operations	$ 6,448	$ (971)	$ (98,594)	$ 5,761
Attributable to non-controlling interest	(3,905)	4,014	(2,912)	8,383
Net earnings (loss) from discontinued operations available to common shareholders of Yellow Media Inc. used in the computation of basic and diluted earnings per share	$ 2,543	$ 3,043	$ (101,506)	$ 14,144

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2011	2010	2011	2010
Basic earnings (loss) per share attributable to common shareholders from discontinued operations	$ 0.01	$ 0.01	$ (0.20)	$ 0.03
Diluted earnings (loss) per share attributable to common shareholders from discontinued operations	$ 0.01	$ 0.01	$ (0.20)	$ 0.02

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

13. Stock-based compensation plans

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

Restricted Share Plan

During the six-month period ended June 30, 2011, an amount of $7.5 million (2010 - $20.2 million) representing 1,616,677 Restricted Shares were granted at an average market price of $4.64 (2010 - $5.40). With the exception of the 2010 grants and Restricted Shares granted to Directors, the number of Restricted Shares that vest can potentially reach up to two-and-a-half times the actual number of Restricted Shares awarded if the actual performance reaches the maximum level of the objectives. An amount of $2.1 million (2010 - $3.5 million) was used to reinvest in 508,492 (2010 – 561,487) Restricted Shares using the proceeds from the dividends on the Restricted Shares held in escrow. This includes 159,179 (2010 – 172,337) Restricted Shares associated with the portion which provides for up to a 250% pay-out.

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

The following table summarizes the status of the grants:

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

	June 30, 2010
	Number of Restricted Shares
	2008 to 2010 Grants
Outstanding, beginning of period	4,558,668
Granted	3,744,460
Vested	(541,234)
Forfeited	(847,437)
Cash distributions reinvested	389,150
Outstanding, end of period	7,303,607

As at June 30, 2011 there were 605,300 (2010 – 821,617) Restricted Shares which were not allocated to any specific employee and 1,995,660 (2010 – 2,931,629) Restricted Shares representing the portion which provides up to a 250% pay-out. An expense of $0.7 million (2010 – recovery of $2.4 million) and a recovery of $0.9 million (2010 - $1.5 million) was recorded in the consolidated income statement for the three and six-month periods ended June 30, 2011 and June 30, 2010, respectively.

Stock Options – 2003 Plan

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

		June 30, 2011
	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	380,882	$ 3.92
Exercised	–	3.92
Outstanding and exercisable, end of period	**380,882**	**$ 3.92**

		June 30, 2010
	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	383,986	$ 3.92
Exercised	(3,104)	3.92
Outstanding and exercisable, end of period	380,882	$ 3.92

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.

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

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

The fair value of the share options granted during the period 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%

A recovery of $0.3 million and $0.1 million were recorded in the three-month and six-month periods ended June 30, 2011 in relation to this grant.

14. Operating costs

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2011	2010	2011	2010
Salaries, commissions and benefits	$ 78,553	$ 71,240	$ 155,211	$ 141,480
Supply chain and logistics[1]	24,833	31,530	51,577	58,413
Other goods and services[2]	36,247	31,847	71,893	57,630
Information services	11,631	10,500	22,028	20,241
Bad debt expense	14,998	11,023	24,890	19,488
	$ 166,262	$ 156,140	$ 325,599	$ 297,252

[1] Supply chain and logistics relate to external supplier costs for manufacturing and distribution costs.

[2] Other goods and services include promotion and advertising costs, real estate, telecommunications, office services and equipment, consulting services including contractors and professional fees.

15. Financial charges, net

The significant components of the financial charges are as follows:

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2011	2010	2011	2010
Interest on long-term debt, exchangeable and convertible instruments	$ 32,325	$ 29,492	$ 64,813	$ 60,535
Interest on commercial paper	1,009	577	2,026	961
Standby fees and other financial charges, net	1,147	1,936	2,438	3,221
Other charges (credits) related to derivative financial instruments	5,255	(468)	12,298	1,440
Gain on purchase of Preferred shares, series 1 and 2 and Medium Term Notes, net	(8,081)	(2,595)	(8,081)	(5,117)
Amortization and write-off of deferred financing costs	5,477	2,253	8,995	4,146
Accretion on compound financial instruments	257	236	505	395
Interest cost accretion on retirement benefit obligations	8,302	8,188	16,604	16,376
Expected return on pension plan assets	(7,028)	(7,084)	(14,056)	(14,168)
Reversal of deferred consideration	(933)	–	(933)	–
Foreign exchange (gain) loss	(246)	(1,542)	17	(601)
	$ 37,484	$ 30,993	$ 84,626	$ 67,188

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

16. Supplemental disclosure of cash flow information

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2011	2010	2011	2010
Dividends on Preferred shares paid	$ 4,948	$ 5,370	$ 10,082	$ 10,752
Issuance of Series 7 shares as partial consideration for a business acquisition	$ –	$ –	$ –	$ 9,750
Conversion of Exchangeable Notes (Note 9)	$ –	$ –	$ 35,390	$ –
Additions to property, plant and equipment included in trade and other payables	$ 4,513	$ 419	$ 4,513	$ 419
Additions to intangible assets included in trade and other payables	$ 3,517	$ 3,000	$ 3,517	$ 3,000

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

17. 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 interim condensed consolidated statement of financial position as of June 30, 2011, with respect to this indemnity.

Pursuant to the acquisitions of Aliant, LesPAC, YPG USA, Dealer.com, 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 Trader and its predecessor companies prior to the acquisition and which will be transferred as part of the Trader shares divestiture contain indemnifications similar to the ones just described. No amount has been accrued in the interim condensed consolidated statement of financial position as at June 30, 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.

18. Segmented information

During the first quarter of 2011, in light of the disposal of Trader (Note 5), 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 are not included in the divestiture of Trader Corporation.

Yellow Media Inc. will continue to report results in two reportable segments: Directories and Vertical Media. However, the Vertical Media segment will include solely the automotive and generalist verticals along with Dealer.com to be disposed of as described in Note 5.

The accounting policies of the segments remain the same as those used for the consolidated financial statements.

After considering the effect of restating the reportable segments and given 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.

19. Transition to IFRS

Yellow Media Inc.'s financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS and these interim 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. will make 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. will be 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; we 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 of our 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. We elected to avail ourselves 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, comprehensive income and cash flows for prior periods.

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

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

Reconciliation of equity

For the periods ended,	June 30, 2010
Total shareholders' equity previously reported under Canadian GAAP[1]	$ 5,616,522
Differences increasing (decreasing) reported equity:	
A – Employee benefits	(13,798)
B – Intangibles assets	(1,499)
C – Income taxes	(143,475)
D – Revenue recognition	4,527
Total equity under IFRS	$ 5,462,277

[1] As adjusted by effect of adopting new accounting policy under Canadian GAAP.

Reconciliation of net earnings

For the periods ended June 30, 2010	Three months	Six months
Net earnings previously reported under Canadian GAAP	$ 79,906	$ 201,663
Differences increasing (decreasing) reported net earnings:		
A – Employee benefits	$ (306)	$ (612)
B – Intangibles assets	(169)	(340)
C – Income taxes	(30,095)	(30,030)
D – Revenue recognition	4,527	4,527
E – Foreign currency translation adjustments	(1,752)	3,881
F – Stock based compensation	(129)	12
H – Discontinued operations	(819)	(3,043)
Net earnings from continued operations under IFRS	$ 51,163	$ 176,058
Net earnings from discontinued operations under IFRS	$ 819	$ 3,043

Reconciliation of comprehensive income

For the periods ended June 30, 2010	Three months	Six months
Other comprehensive income previously reported under Canadian GAAP	$ 10,448	$ 10,685
Differences increasing (decreasing) reported other comprehensive income:		
E – Foreign currency translation adjustments	1,752	(3,881)
Other comprehensive under IFRS	$ 12,200	$ 6,804
Net earnings	51,982	179,101
Total comprehensive income	$ 64,182	$ 185,905

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.

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 the second quarter of 2010, Yellow Media Inc. recorded a gain of $0.3 million ($0.6 million for the six-month period ended June 30, 2010) representing reversal of amortization of these past service costs. This expense 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 of January 1, 2010 have been reversed against opening retained earnings at the date of transition. The change in accounting policy for recognition of actuarial gains and losses did not have a significant impact on Yellow Media Inc.'s net earnings in the first and second 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 of January 1, 2010. This provision did not vary significantly in the first and second quarter of 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 of 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 the second quarter of 2010, the supplemental amortization expense related to these costs represented $0.2 million ($0.3 million for the six-month period ended June 30, 2010).

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 our 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 both Directories and Vertical Media segments.

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 the second quarter of 2010, a change of $0.6 million was recorded in relation to this adjustment ($0.6 million for the six-month period ended June 30, 2010).

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 the second quarter of 2010, Yellow Media Inc. recorded an expense of $31.5 million ($31.5 million for the six-month period ended June 30, 2010).

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 had no impact on the results of the first and second quarter of 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.

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. During the second quarter, Yellow Media Inc. recorded a recovery of $4.5 million ($4.5 million for the six-month period ended June 30, 2010). This reduction includes the recognition of costs related to the print directories revenues recognized.

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 of January 1, 2010. The cumulative translation adjustment balance as of January 1, 2010 of $3.8 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 created a difference in IFRS and GAAP net earnings (charge of $1.8 million in the second quarter of 2010, recovery of $3.8 million for the six-month period ended June 30, 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 of 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. During the second quarter of 2010, the stock based compensation expense per IFRS was $0.1 million higher under IFRS than under GAAP ($nil for the six month period ended June 30, 2010).

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. This difference had no impact on net earnings of the first and second quarter of 2011.

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 5, meets the definition of a discontinued operation under IFRS and is presented as such in the IFRS financial statements.

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 of 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 refinance or roll 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 of January 1, 2010 ($295 million as of 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.