Management's Discussion and Analysis

February 9, 2012

This management's discussion and analysis (MD&A) is intended to help the reader understand and assess trends and significant changes in the results of operations and financial condition of Yellow Media Inc. (or the Corporation) and its subsidiaries for the years ended December 31, 2011 and 2010 and should be read in conjunction with our audited consolidated financial statements and accompanying notes. Quarterly reports, the annual report and supplementary information can be found under the "Financial Reports" section of our corporate web site: www.ypg.com. Additional information, including our annual information form (AIF), can be found on SEDAR at www.sedar.com.

The financial information presented herein has been prepared on the basis of International Financial Reporting Standards (IFRS) for financial statements and is expressed in Canadian dollars, unless otherwise stated.

The audited IFRS-related disclosures and values in this MD&A have been prepared using the standards and interpretations currently issued and effective at the end of our first annual IFRS reporting period, December 31, 2011.

The amounts in this MD&A and the accompanying financial statements for the years ended December 31, 2011 and 2010 have been restated to reflect our adoption of IFRS, effective from January 1, 2010. Periods prior to January 1, 2010 have not been restated and are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Please refer to Note 31 of the accompanying consolidated financial statements for a summary of the differences between our consolidated financial statements previously prepared under Canadian GAAP and those under IFRS for the year ended December 31, 2010 and as at January 1, 2010.

On March 25, 2011, Yellow Media Inc. announced that it had reached a definitive agreement to sell the automotive and generalist print and online business of Trader Corporation. The transaction closed on July 28, 2011 for a purchase price consideration of $702 million, net of fees, working capital and other adjustments. The purchase price consideration included a note receivable of $15 million.

As a result of the sale of Trader Corporation, we have reclassified the results of the automotive and generalist print and online business of Trader Corporation as discontinued operations. Accordingly, the current and prior period's consolidated income statement and cash flows have been restated to reflect this change.

Consequently, during the first quarter of 2011, the Company changed the composition of its reportable segments in a manner which is better aligned with the way operating results are now reviewed by senior management to make decisions about resources to be allocated to the segments and to assess their performance. The key changes include the reallocation of the real estate, employment and LesPAC businesses to the Directories segment. These businesses were previously included in the Vertical Media segment but were not part of the divestiture of Trader Corporation. The Company now has only one operating segment.

In this MD&A, the words "we", "us", "our", "the Company", "the Fund" and "YPG" refer to Yellow Media Inc., and its subsidiaries (including Yellow Pages Group Co., Canpages Inc., Wall2Wall Media Inc. (Wall2Wall), YPG (USA) Holdings, Inc. and Yellow Pages Group, LLC (the latter two collectively YPG USA), Trader Corporation and Dealer Dot Com Inc.), which are reported under the following segments:

- "Directories," which refers to our print and online directories as well as performance marketing solutions, real estate and employment publications and LesPAC.com; LesPAC.com was sold on November 14, 2011 and
- "Vertical Media," which refers to the automotive and generalist print and online vertical publications sold to funds advised by Apax Partners as part of the sale of Trader Corporation that was completed on July 28, 2011.

Forward-looking information

Our reporting structure reflects how we manage our business and how we classify our operations for planning and for measuring our performance. This MD&A contains assertions about the objectives, strategies, financial condition, results of operations and businesses of YPG. These statements are considered "forward-looking" because they are based on current expectations of our business, on the markets we operate in, and on various estimates and assumptions.

These forward-looking statements describe our expectations on February 9, 2012.

- Our actual results could be materially different from our expectations if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking statements will materialize.
- Forward-looking statements do not take into account the effect that transactions or non-recurring items, announced or occurring after the statements are made, may have on our business.

- We disclaim any intention or obligation to update any forward-looking statements, except as required by law, even if new information becomes available through future events or for any other reason.
- Risks that could cause our actual results to differ materially from our current expectations are discussed in Section 6 – Risks and Uncertainties.

Definitions relative to understanding our results

Income from Operations before Depreciation and Amortization, Impairment of Goodwill and Intangible assets, Acquisition-related Costs and Restructuring and Special Charges (EBITDA)

We report on our EBITDA (Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, acquisition-related costs, and restructuring and special charges). EBITDA is not a performance measure defined under IFRS and is not considered an alternative to income from operations or net (loss) earnings in the context of measuring YPG's performance. EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other publicly traded companies. EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed on page 23 of this MD&A. Please refer to Note 31 of the accompanying consolidated financial statements for a summary of the differences between our consolidated financial statements previously prepared under Canadian GAAP and those under IFRS for the year ended December 31, 2010.

Adjusted Earnings from Continuing Operations (Adjusted Earnings)

Adjusted earnings is a non-IFRS measure. It is defined as the net (loss) earnings from continuing operations available to common shareholders excluding amortization of intangible assets attributable to shareholders, non-cash financial charges, non-cash income taxes and non-recurring items such as acquisition-related costs, restructuring and special charges, impairment of goodwill and intangible assets, impairment of investment in associate and gain on disposal of subsidiary. All adjustments except non-cash income taxes, impairment of goodwill and intangible assets, and the impairment of investment in associate are net of the income tax effect thereon calculated at the statutory income tax rate. Adjusted Earnings is defined as an indicator of financial performance. It should not be seen as a measurement of liquidity or as a substitute for comparable metrics prepared in accordance with IFRS. Adjusted earnings is used by investors, management and other stakeholders to evaluate the ongoing performance of YPG. Adjusted earnings may differ from similar calculations as reported by other companies and should not be considered comparable. For a reconciliation with IFRS, please refer to Section 4 – Adjusted Earnings from Continuing Operations of this MD&A.

Free cash flow

Free cash flow is a non-IFRS measure generally used as an indicator of financial performance. It should not be seen as a substitute for cash flow from operating activities. Free cash flow is defined as cash flow from operating activities from continuing operations, as reported in accordance with IFRS less an adjustment for capital expenditures. Please refer to Note 31 of the accompanying consolidated financial statements for a summary of the differences between our consolidated financial statements previously prepared under Canadian GAAP and those under IFRS for the year ended December 31, 2010.

Dividends per Common Share

We report dividends per common share because it is a measure of return used by investors. On September 28, 2011, the Company announced the elimination of the dividends on its common shares. Please refer to Section 4 – Adjusted Earnings from Continuing Operations of this MD&A.

This MD&A is divided into the following sections:

1. Our Business, Mission, Strategy and Capability to Deliver Results
2. Results
3. Liquidity and Capital Resources
4. Adjusted Earnings from Continuing Operations
5. Critical Assumptions
6. Risks and Uncertainties
7. Controls and Procedures

1. Our Business, Mission, Strategy and Capability to Deliver Results

Our Business

Yellow Media Inc. is a leading digital company offering media and marketing solutions to small and medium enterprises (SMEs) across Canada. Yellow Media Inc. is also a leader in national digital advertising through Mediative, a digital advertising and marketing solutions-provider to national agencies and advertisers. This section provides an overview of our business and our current priorities.

Directories

This business segment is composed of YPG, Canpages, Wall2Wall and Mediative.

YPG is Canada's leading digital and print local commercial search provider and marketing solutions company while Canpages is a Canadian digital local search company. Wall2Wall manages activities, publications, and services related to the real estate, employment and hospital newsprint and online verticals.

We serve approximately 340,000 local businesses excluding Canpages, through our nation-wide sales force of approximately 1,500 media consultants. YPG also caters to the country's largest national agencies and advertisers through Mediative, its national digital advertising and marketing solutions division.

We own and operate some of Canada's leading properties and publications including Yellow Pages™ directories, YellowPages.ca™, Canada411.ca™, Canpages.ca™ and RedFlagDeals.com™. Our online destinations reach approximately 9 million unique visitors monthly. YellowPages.ca™ can also be accessed on mobile devices through our various mobile applications on BlackBerry™, Apple iPhone™ and iPad™, Windows Mobile™ and Google™'s Android™. Our mobile applications for finding local businesses and deals have been downloaded 3.7 million times.

In addition, we are the official directory publisher for Bell Canada (Bell), TELUS Communications Inc. (TELUS), Bell Aliant Regional Communications LP (Bell Aliant), MTS Allstream Inc. and for a number of other incumbent telephone companies that have a leading share in their respective markets. In 2011, we published more than 400 different print telephone directories with a total circulation of approximately 29 million copies.

Our classified directories are delivered into almost every household and business in our markets, and are available online and through a variety of digital options. Our local content is rich and diverse which draws consumers to our directories and in so doing generates leads, calls, visits and clicks, and in turn attracts yet more advertisers.

We are the exclusive owner of the Yellow Pages™, Pages Jaunes™ Walking Fingers & Design™, as well as the Canada411™ and RedFlagDeals.com™ trademarks in Canada.

Vertical Media

On March 25, 2011, Yellow Media Inc. announced that it had reached a definitive agreement to sell the automotive and generalist print and online business of Trader Corporation. This divestiture was completed on July 28, 2011.

Consequently, during the first quarter of 2011, the Company changed the composition of its reportable segments in a manner which is 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 included the reallocation of the real estate, employment and LesPAC businesses, which were not part of the divestiture of Trader Corporation, to the Directories segment. Vertical Media is therefore no longer a reporting segment.

Mission

Bringing local consumers and businesses together via our network of mobile, web and print properties.

Strategy

We have implemented a business strategy with an intent to reacquire growth in revenues and improve our operations. We continue to invest in order to transform from a print directory business to a digital media and marketing solutions company.

Our strategy remains to leverage our multiplatform media and marketing solutions, to enhance services to our advertisers, build traffic to our network of properties and improve user experience. Our goal is to serve the advertising needs of small and medium enterprises across Canada, by providing the right services and tools to manage and grow their businesses.

We are focusing on key areas, such as:

- Improving our operations with increased focus on sales effectiveness, product fulfillment, billing and customer support;
- Provisioning of new services for our customers with the objective of offering an overall better customer experience and return on investment by driving more quality leads through calls, clicks, forms and emails;
- Improving our value proposition for the consumer by enhancing our content on our online and mobile properties;
- Creating partnerships in traffic and distribution to augment leads to our advertisers; and
- Branding and promotion to raise awareness of our 360° Solution product portfolio and accelerate our brand transformation.

We achieve profitability by maximizing our operating efficiency and constantly reviewing all of our operations with a view to ensuring we maintain a competitive cost structure. Improving our cost structure remains a key priority and will continue to be achieved through:

- Business process redesign;
- Cost containment initiatives; and
- Investment in technology to better support our operations and our transformation.

For a review of developments and performance relative to key priorities identified for 2011, see Section 2 – Results.

Our key priorities for 2012 are to:

- Execute the Yellow Pages 360° Solution sales approach;
- Deliver superior customer value; and
- Lead our industry transformation.

Execution of 360 sales approach

The launch of our new Yellow Pages 360° Solution during 2011 was a key milestone of our business transformation. We now offer the key components of a complete media solution for Canadian businesses. The Yellow Pages 360º Solution is central in enabling our advertisers to be found by qualified buyers with online, mobile and print choices. Our sales professionals are now better equipped to offer the solutions that fit our advertisers' evolving needs.

In 2012 we will be introducing differentiated products and services for larger advertisers, increasing sales support effectiveness through the introduction of improved sales tools and simplified order processing and improving operational execution in fulfilment, billing and support.

Deliver superior customer value

Our first and foremost goal is to serve the needs of our advertisers, enabling them to manage and grow their businesses. In 2012, we will continue to focus on delivering a superior value proposition by expanding our product portfolio to meet large advertiser needs, by increasing digital leads to advertisers and demonstrating value through Yellow Pages Analytics. This performance reporting tool provides valuable insight into advertisers' YPG campaign and allows them to gain access to online, near real-time statistics on visits, clicks, traffic trends and more.

Lead our industry transformation

We have undertaken a significant business transformation from a print company to a leading performance media and marketing solutions provider company and have made progress thus far. In 2012, we will continue to lead this transformation by making the required investments and focusing on key growth avenues. We will invest in our mobile offering, to grow our local lead generation and audience and further capturing local smart shopping. We will evolve our brand promise to include digital capabilities and also grow our national strategy.

Capability to Deliver Results

This section of our MD&A explains how we are positioning the Company to continue to operate on a financially viable and progressive basis.

Capital Resources

YPG generates sufficient cash flow from its operations to support required capital expenditures and to service its debt obligations. Its cash flow, along with the availability under its committed bank facilities provide sufficient resources to finance its cash requirements in the foreseeable future while maintaining adequate liquidity. Please refer to Section 3 – Liquidity and

Capital Resources of this MD&A for an analysis of the company's ability to generate sufficient cash and to meet operating needs in the current market environment.

Non-capital Resources

YPG's critical intangible resources include:

- Strong brands;
- Established relationships with customers;
- Breadth and depth of local content;
- Dedicated and experienced employees; and
- Culture and values that characterize our organization.

Strong Brands

YPG is the exclusive owner of a number of leading brands which have high-recognition value among our various audiences including Yellow Pages, Pages Jaunes, Walking Fingers Design, RedFlagDeals and Canada411 trademarks in Canada.

Established Relationships with Customers

We employ a sales force of approximately 1,500 people, including sales support staff. This large and primarily face-to-face sales force is broken down into various customer segments allowing a more dedicated relationship between the sales force and the SMEs resulting in 87% of our advertisers renewing their advertising with us each year.

Breadth and Depth of Local Content

The quality of our local content generates usage which in turn encourages local and national advertisers to advertise in our print and online properties.

Dedicated and Experienced Employees

Our employees have consistently improved our operations. Despite a challenging environment, our employees have executed on the initiatives needed to position the corporation for transformation and we are confident that they will continue to remain focused on our common objectives.

Culture and Values

We have a performance-based culture. That culture is defined by all of our values and influences our thinking and our actions which drive our desire to compete to win. This focus on performance also dictates the competencies and skills we seek to attract and retain. All our employees are expected to value teamwork and be focused on our customers; they should act with integrity, respect and passion for the job at hand while maintaining open communications.

We believe that our culture and our values form the foundation of our organization and are critical to its sustained success.

2. Results

This section provides an overview of our financial performance in 2011 compared to 2010 and 2010 compared to 2009. It is also important to note that in order to help investors better understand our performance we rely on several metrics, some of which are not measures recognized by IFRS. Definitions of these financial metrics are provided on page 2 of this MD&A and are important aspects which should be considered when analyzing our performance.

Overall Performance

- Revenues decreased by $72.3 million or 5.2% to reach $1,328.9 million compared to the previous year.
- Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, acquisition-related costs and restructuring and special charges (EBITDA) decreased by $77.4 million or 10.2% to $679.7 million compared to the previous year.

Highlights[1,2,3]

(in thousands of Canadian dollars– except share information)

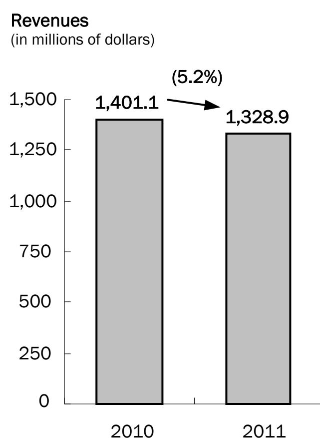
	Years ended December 31, 2011	2010
Revenues	**$1,328,866**	$1,401,129
Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, acquisition-related costs, and restructuring and special charges (EBITDA)	**$679,707**	$757,108
Basic (loss) earnings per share attributable to common shareholders		
From continuing operations	**$(5.33)**	$0.42
Total	**$(5.58)**	$0.44
Cash flows from operating activities from continuing operations	**$336,573**	$569,607
Free cash flow from continuing operations[4]	**$275,174**	$529,211

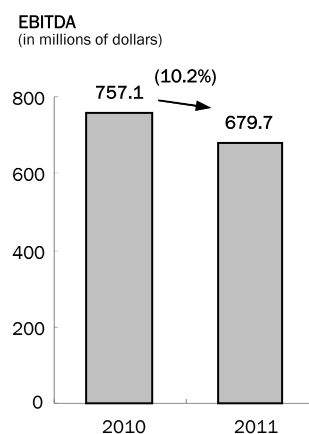
[1] On March 25, 2011, Yellow Media Inc. announced that it had reached a definitive agreement to sell its Vertical Media segment. Consequently, the results of the Vertical Media segment are presented as discontinued operations and excluded from these figures. The transaction closed on July 28, 2011.

[2] Included in the 2010 figures are the results of the Fund. In addition, the 2010 comparatives have been restated to conform to IFRS.

[3] We closed the acquisitions of Canpages Inc. (Canpages) on May 25, 2010, Mediative Performance LP (Mediative LP), previously Enquiro Search Solutions Inc.(Enquiro) on September 21, 2010, Uptrend Media Inc. (Uptrend Media) on October 20, 2010 and AdSplash Inc. on October 28, 2010. As such, included in the 2010 and 2011 results are the results of each acquired business from their respective dates of acquisition. We also disposed of LesPAC on November 14, 2011. As such, included in 2011 are the results of LesPAC up to the date of its divestiture.

[4] Please refer to Section 4 for a reconciliation of free cash flow from continuing operations to IFRS.





Performance Relative to Business Strategy

As we position Yellow Media Inc. as a leading Canadian performance media and marketing solutions provider, our focus in 2011 was:

- To expand our advertiser offering and value proposition with the launch of the new Yellow Pages 360° Solution;
- To improve the user experience and grow traffic to our network of properties; and
- To develop a compelling national strategy with the creation of Mediative.

Enhancement and expansion of products

Yellow Pages 360° Solution — Our primary objective in 2011 was to deliver superior customer value and experience by focusing on the deployment of the Yellow Pages 360º Solution. This unique value proposition is a key element of our digital transformation, enabling advertisers to get unprecedented visibility with online, mobile and print media platforms, and access to various services such as website development, search engine marketing and search engine optimization. The entire sales organization was trained with the new Yellow Pages 360º Solution during the first quarter and started to sell the solution to advertisers across Canada during the second quarter of 2011. Since the launch of the 360º Solution, we have sold close approximately 11,000 websites for SMEs, making us one of the leading website providers in Canada. With results to date encouraging, we believe the Yellow Pages 360° Solution will allow us to grow our average revenue per advertiser and improve advertiser renewal.

Yellow Pages 360º Solution Website — Concurrent with the launch of the Yellow Pages 360° Solution, we launched a business to business Website to present our portfolio of products and services and assist Canadian businesses with their overall marketing needs by providing a comprehensive and integrated multiplatform solution in a simple, direct and interactive way. The site received the grand prize at the Boomerang Awards for best business to business website for a large corporation. This is a strong recognition for the progress made thus far on our digital transformation.

MarketProfiler™ — During the first quarter of 2011, YPG launched MarketProfiler™, the first free automated online tool of its kind in Canada. MarketProfiler™ creates customized reports to help SMEs gain insight into their market, their online performance, their competitors, and on how to improve their online visibility and advertising strategy. We recently received an award from the Relationship Marketing Association for this tool.

User Experience

Online — Significant efforts were made in 2011 to enhance the user experience across our online properties. We redesigned the layout of yp.ca and continued to increase its performance, making it faster and improving the advertiser value by improving product fulfilment and increasing lead generation. New functionalities were also added to yp.ca, and include an improved mapping experience to facilitate local search, and new features such as "What's Nearby" and Deals, allowing users to perform smarter local buying decisions by facilitating the shopping experience. Our network of sites for the quarter reached an average of 9.5 million unduplicated unique visitors representing 38% of the Canadian online population.

Canada411.ca, the country's most frequented and trusted destination to find personal contact information and businesses, was also redesigned and enhanced to include results aggregated from the leading social media networks of Facebook®, Twitter® and LinkedIn®.

Mobile — Our strategy revolves around the continued improvement of the mobile user experience and engagement in order to provide additional value for our advertisers. In 2011, we updated our Yellow Pages application with numerous additional features and functionalities that provide more relevant content to help consumers make better shopping decisions. We provide users with information that includes photos, videos, the advertiser's website, reviews and local deals and promotions.

Our mobile applications have been downloaded 3.7 million times. Our initial strategy was to build traffic on our applications. As we reached critical mass mid-2011, we launched our first two mobile products: Sponsored Placement and Brand Filter. The Sponsored Placement product allows businesses to place themselves at the top of the list for any mobile search list in which their services fit the results, giving them premium placement and visibility. The Brand Filter product enables national businesses to showcase their brand and business information.

In December of this year, our Yellow Pages™ mobile application received the "Best in Mobile" award at the 2011 Digi Awards for location-based services. Our iPhone application continues to rank high among productivity applications in Apple's app store and it was also selected for the second year as part of the Rewind 2011 list of top 100 best applications.

Also in 2011, we launched ShopWise™, a new mobile application for iPhone that pinpoints the most popular deals on products and services within a given geographic location. ShopWise™ will help Canadians shop smarter by allowing them to benefit from deals around them using the largest deals database.

Partnerships — A key component of our digital strategy is to create partnerships in traffic and distribution to augment leads to our advertisers. For example, we continue to support Canadian technology entrepreneurs with our YellowAPI Developer

Program. We currently have over 1,500 developers signed up to the YellowAPI.com portal and we are continually pursuing additional North American partnerships with leading mobile and web properties to bring additional traffic to YPG for the benefit of our advertisers. For example, the Yahoo.ca mobile website began integrating yellowpages.ca results for local searches. We also entered into a partnership with Skype earlier this year, a first of its kind in Canada to connect Skype users to YPG online advertisers for free, which means more incentive to call our advertisers. We also signed a one-year agreement with theweathernetwork.com. They are now carrying the Deal of the Day widget on their cities pages.

National Strategy

Mediative — We launched Mediative a year ago and it is now one of Canada's largest integrated advertising and digital marketing companies. Mediative has extensive experience in developing innovative and unique marketing solutions for national companies. In 2011, we were selected as the top company in Canada in two Performance Solution categories by TopSEOs. TopSEOs is an independent authority on search vendors which evaluates and ranks the best vendors in the Internet Marketing community. Mediative was chosen as the top Enterprise SEO Services as well as Integrated Search Company. Mediative is now serving the marketing needs of some of the biggest brands in North America – brands like WalMart, Futureshop, Sears and Disney among others. It is also one of Canada's leading ad display network, managing the ad inventory of approximately 500 web sites such as Best Buy, Martha Stewart, Sears, FutureShop and Toys 'R Us. Mediative's advertising network reaches over 15 million unique visitors per month.

Consolidated Operating and Financial Results

Consolidated Results[1]

(in thousands of Canadian dollars – except share information)

			Years ended December 31,	
	2011	2010[1]	2010[1,3]	2009[2,3]
Revenues	$1,328,866	$1,401,129	$1,679,860	$1,639,884
Operating costs	649,159	644,021	829,545	746,446
Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, acquisition-related costs, and restructuring and special charges	679,707	757,108	850,315	893,438
Depreciation and amortization	160,906	180,265	270,117	142,414
Impairment of goodwill and intangible assets	2,900,000	–	–	315,000
Acquisition-related costs	7,743	30,575	30,539	–
Restructuring and special charges	26,142	31,391	33,903	40,316
(Loss) income from operations	(2,415,084)	514,877	515,756	395,708
Financial charges, net	130,582	148,437	144,796	114,600
Gain on deemed disposition of equity investment	–	–	(2,374)	–
Gain on disposal of subsidiary	(6,211)	–	(2,338)	–
(Loss) earnings before dividends on Preferred shares, series 1 and 2, income taxes, and impairment and share of losses from investments in associates	(2,539,455)	366,440	375,672	281,108
Dividends on Preferred shares, series 1 and 2	19,187	21,171	21,171	22,427
(Loss) earnings before income taxes and impairment and share of losses from investments in associates	(2,558,642)	345,269	354,501	258,681
Provision for income taxes	87,149	93,583	60,527	42,710
Impairment of investment in associate (net of income taxes of $0.2 million)	50,271	–	–	–
Share of losses from investments in associates	12,060	19,900	19,939	7,089
Net (loss) earnings from continuing operations	(2,708,122)	231,786	274,035	208,882
Net loss from discontinued operations, net of income taxes	(120,877)	(2,380)	–	–
Net (loss) earnings	$(2,828,999)	$229,406	$274,035	$208,882
Basic (loss) earnings per share[2] attributable to common shareholders				
From continuing operations	$(5.33)	$0.42	$0.53	$0.40
Total	$(5.58)	$0.44	$0.53	$0.40
Diluted (loss) earnings per share[2] attributable to common shareholders				
From continuing operations	$(5.33)	$0.38	$0.47	$0.36
Total	$(5.58)	$0.40	$0.47	$0.36
Total assets	$5,048,932	$9,211,110	$9,300,248	$8,941,606
Long-term debt	$1,510,892	$1,923,203	$2,218,203	$2,225,720
Exchangeable and convertible instruments	$184,214	$319,029	$319,029	$83,886
Preferred Shares Series 1 and 2	$149,173	$446,725	$446,725	$472,777

1 Included in the 2010 figures are the results of the Fund.

2 2009 Comparative amounts are per Trust unit.

3 Canadian GAAP and results of Trader are included in the results of continuing operations.

Analysis of Consolidated Operating and Financial Results

The consolidated income statements of Yellow Media Inc. up to net (loss) earnings from continuing operations represent the results of the restated Directories segment given the presentation of the results of the automotive and generalist print and online business of Trader as discontinued operations.

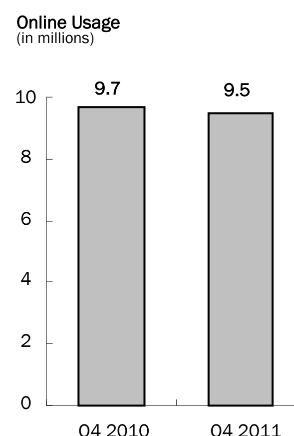
Fiscal 2011 versus 2010

Revenues

Revenues decreased to $1,328.9 million during 2011 compared with $1,401.1 million for 2010. The decrease for the year ended December 31, 2011 is due to lower print revenues in our traditional markets, partly offset by increased online revenues. Canpages' contribution offset lower print revenues in our traditional markets for the first half of 2011 as it was acquired in May 2010. As at December 31, 2011, the number of advertisers, excluding Canpages, was 340,000 compared to 365,000 as at December 31, 2010 reflecting a decrease of 7%. Advertiser renewal dropped slightly to 87% as at December 31, 2011 compared to 88% as at December 31, 2010. During the last 12 months, YPG acquired approximately 24,000 new advertisers. Although there was a reduction in the number of advertisers, the average revenue per advertiser (ARPA) remained stable at approximately $3,400 compared to the same period last year. As at December 31, 2011, our Revenue Generating Units[1] per advertiser was relatively unchanged at 1.68 compared to 1.70 for the same period last year.

As of December 31, 2011, the number of advertisers excluding Canpages, choosing to advertise both in print and online was 63.4% across Canada compared to 65.2% for the corresponding period last year.

Online revenues reached $346.1 million in 2011, representing a growth of 29.6% for 2011. In addition to the introduction of new products, online revenue growth is attributable to revenues from Canpages acquired in May of 2010 and Mediative, our digital and marketing solutions provider for national agencies and advertisers launched in October 2010. Our network of web sites in Directories attracted 9.5 million unduplicated unique visitors[2] on average during the fourth quarter of 2011, representing a reach of 38%[2] of the Canadian internet population.



We expect revenue growth from our online product offerings to continue. However, this growth is not expected to compensate for the declining revenue in our traditional print offerings in the near future. Accordingly, our focus remains positioning our platforms through investment in new product introduction executing on our 360º Solution strategy and improved market coverage.

EBITDA

EBITDA decreased by $77.4 million to $679.7 million during 2011 compared with $757.1 million in 2010. While most of our new online placement products contribute margins similar to those of our print products in our local markets, lower print revenues resulted in decreases in EBITDA.

Cost of sales increased by $27.5 million to $392.5 million during 2011 compared with $365 million in 2010. The increase for the year ended December 31, 2011 results mainly from the increased costs associated with Canpages and our Mediative division acquired during 2010 offset by lower manufacturing costs associated with lower print revenues.

Gross profit margin decreased to 70.5% for 2011 compared to 74% for 2010. The decrease for the year is due to lower margins associated with Canpages, Wall2Wall and our Mediative division.

General and administrative expenses decreased by $22.4 million to $256.7 million for 2011 compared with $279.1 million in 2010. In 2010, we incurred costs related to our conversion and rebranding costs from an income fund to a corporation.

Depreciation and amortization

Depreciation and amortization decreased to $160.9 million from $180.3 million during 2011. The decrease for the year ended December 31, 2011 is mainly attributable to lower amortization of certain intangible assets related to the acquisition of Canpages.

[1] Revenue Generating Units (RGU) measures the number of product groups selected by advertisers.

[2] Source: comScore Media Metrix Canada (excluding LesPAC for the month of December).

Impairment of goodwill and intangible assets

Following a comprehensive review of its strategic and operating plans completed during the third quarter of 2011, Yellow Media Inc. determined that the recoverability of the carrying value of certain of its assets had to be reviewed for impairment purposes. Consequently, as announced on September 28, 2011, we recorded a charge of $2.9 billion related to the impairment of goodwill and intangible assets. 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.

Acquisition-related costs

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

Restructuring and special charges

For the year ended December 31, 2011, we incurred costs of $26.1 million compared to $31.4 million for the same period last year as a result of the creation of centres of excellence and internal reorganizations. These costs were associated with a workforce reduction, elimination of duplicate activities and the termination of certain contractual obligations. In addition, in 2011, we undertook a complete review of our Canpages print directories and have eliminated the publication of certain overlapping directories and will be integrating the Canpages business within YPG.

Financial charges

Financial charges decreased by $17.9 million to $130.6 million during 2011. The decrease for the year ended December 31, 2011 is due to an increased gain on the repurchase of debt instruments partly offset by a redemption premium in connection with a Total Return Swap and higher amortization and write-off of deferred financing costs. The increase in the effective interest rate reflects the suspension of the commercial paper program and the increased cost under the credit facility following our credit ratings downgrade.

Gain on disposal of subsidiary

During 2011, the Company sold the assets of LesPAC.com to Mediagrif Interactive Technologies Inc. for a net purchase price consideration of $70.9 million. The transaction closed on November 14, 2011, which resulted in a gain on sale of $6.2 million.

Dividends on preferred shares, Series 1 and 2

Dividends on the two series of redeemable preferred shares amounted to $19.2 million for 2011 compared to $21.2 million for the same period last year. The decrease is due to a lower level of preferred shares resulting from our share buy-back under our normal course issuer bid.

Provision for income taxes

The combined statutory provincial and federal tax rate was 27.9% and 29.9% for the years ended December 31, 2011 and 2010 respectively. The Company recorded an expense of 3.4% on the loss and an expense of 27.1% of earnings for the years ended December 31, 2011 and 2010 respectively. As the impairment of goodwill and Ziplocal recorded in 2011 are not fully deductible for tax purposes, the Company recorded an expense of $87.1 million for the year, compared with an expense of $93.6 million in 2010. Excluding these items, the effective tax rate in 2011 would have been in line with the statutory rates.

Impairment of investment in associate

During the year, Yellow Media Inc. determined that its investment in Ziplocal LP (Ziplocal) was impaired and as a result a net loss of $50.3 million was recorded to reduce its net investment in Ziplocal to $nil. Ziplocal was in default of its debt obligations and had undertaken important restructuring initiatives.

Share of losses from investments in associates

During 2011 we recorded our share of losses from our investments in 411.ca and Acquisio, in the amount of $12.1 million compared to $19.9 million for the same period last year. The decrease for the year is due to the fact that no share of losses was recorded from our investment in Ziplocal, as this investment was written-off during the second quarter of 2011. These losses include the amortization of intangible assets in connection with these equity investments.

Loss from discontinued operations

On March 25, 2011, Yellow Media Inc. announced that it had reached a definitive agreement to sell Trader Corporation. The transaction closed on July 28, 2011. The real estate, employment and LesPAC.com businesses were excluded from the divestiture. The Company sold the assets of LesPAC.com on November 14, 2011. The real estate and employment businesses continue to be owned and managed by YPG. As a result, we reclassified the results of the automotive and generalist verticals as discontinued operations. Accordingly, the prior period's consolidated income statement and cash flows have been restated to reflect this change.

Included in the results from discontinued operations of the automotive and generalist business are revenues of $148.1 million for the year ended December 31, 2011 compared with $254 million for the same period last year. The results are not comparable as we completed the sale of Trader Corporation on July 28, 2011.

EBITDA from the operations of the automotive and generalist business decreased to $34.7 million for 2011 compared with $74.9 million for the same period last year. The results are not comparable as we completed the sale of Trader Corporation on July 28, 2011.

The net loss from discontinued operations amounted to $120.9 million for 2011. This includes a loss on disposal of $134.3 million (net of income taxes) for the year ended December 31, 2011, which represents the difference between the fair value net of selling costs and the carrying value of net assets sold.

In addition to the above, as a result of the adoption of IFRS, the disposal of YPG Directories, LLC, a US subsidiary, on April 15, 2010 is also presented as a discontinued operation for the year ended December 31, 2010.

Net (loss) earnings

Net earnings decreased by $3,058.4 million to a loss of $2,829 million during 2011. The decrease for the year is mainly due to the impairment of goodwill and intangible assets discussed above. In addition to these elements, the decrease for the year is also due to the impairment of our investment in Ziplocal of $50.3 million and to the loss on disposal associated with our divestiture of Trader Corporation in the amount of $134.3 million (net of income taxes).

Fiscal 2010 versus 2009

The discussion that follows is based on Canadian GAAP figures as reported in our 2010 MD&A.

Revenues

Revenues increased to $1,679.9 million during 2010 compared with $1,639.9 million for 2009. The additional contribution of revenues from Canpages during the year ended December 31, 2010 was partly offset by the loss of revenues resulting from the divestiture of YPG USA. Dealer.com contributed approximately $78 million of revenues in 2010. If we exclude the results from Dealer.com, organic revenues declined due to lower print revenues in both segments. The continuing shift in the media and publishing industries towards more online content continues to place pressure on our traditional print offerings. Organic online revenue growth for 2010 reached 15.8%. Online revenues from the Directories and Vertical Media segments combined reached $445.3 million in 2010. Our network of web sites in Directories and Vertical Media attracted 10.3 million unduplicated unique visitors[1] on average during the fourth quarter of 2010, representing a reach of 41.4%[1] of the Canadian internet population.

EBITDA

EBITDA decreased by $43.1 million to $850.3 million compared to $893.4 million in 2009. In 2010, we incurred conversion and rebranding costs of $48.5 million associated with our conversion from an income trust to a corporation. If we exclude these costs, EBITDA increased by $5.4 million compared to 2009.

Cost of sales increased by $15.3 million to $479.5 million compared to $464.2 million in 2009. The increase for the year ended December 31, 2010 results mainly from the increased costs associated with Dealer.com acquired in the first quarter of 2010. Canpages also contributed additional costs during the year when compared to 2009 as it was acquired in May 2010. This was offset by the lower costs resulting from the divestiture of YPG USA.

Gross profit margin remained stable at 71.5% in 2010 compared to 71.7% in 2009.

General and administrative expenses increased by $67.7 million to $350 million compared to $282.3 million in 2009. The increases in general and administrative expenses for 2010 are mainly attributable to conversion and rebranding costs, as well as, higher costs in the Vertical Media segment following the acquisition of Dealer.com on January 5, 2010, and the higher costs following the acquisition of Canpages on May 25, 2010.

Depreciation and amortization

Depreciation and amortization increased to $270.1 million during 2010 compared with $142.4 million in 2009. The increase is mainly attributable to higher amortization of certain intangible assets related to the acquisitions of Dealer.com and Canpages.

[1] Source: comScore Media Metrix Canada.

Acquisition-related costs

During 2010 we recorded acquisition-related costs of $30.5 million as a result of our acquisitions of Canpages, RedFlagDeals.com, Restaurantica, Mediative LP, Uptrend Media, AdSplash, 411.ca and CanadianDriver. This includes $18.8 million of transaction costs and $11.7 million of restructuring and other charges.

Restructuring and special charges

During 2010 and in connection with the acquisition of Canpages, we recorded restructuring and special charges relating to internal reorganization, workforce reduction, the acceleration of business process changes in our centres of excellence and other items amounting to $33.9 million. Similar initiatives amounting to $40.3 million were undertaken in 2009.

Financial charges

Financial charges increased by $30.2 million to $144.8 million compared to $114.6 million in 2009. The increase is due in part to a lower gain on the repurchase of preferred shares, Medium Term Notes, credit facilities and Exchangeable Debentures of $4.2 million in 2010 compared to a net gain of $42.8 million in 2009. The effective average interest rate on our debt portfolio as of December 31, 2010 was 5.4% compared to 5.8% as of December 31, 2009.

Gain on deemed disposition of equity investment

The previously held equity interest of Trader in Dealer.com, which was accounted for under the equity method up to January 5, 2010, was re-measured at its fair value of $40.6 million and the gain on deemed disposition was recognized in net earnings. The unrealized cumulative loss on translating the financial statements of Dealer.com to Canadian dollars was also recognized in net earnings on the same basis as would be required if Trader had disposed directly of its previously held equity interest. The above transactions generated a net gain of $2.4 million which was recorded in the first quarter of 2010.

Gain on disposal of subsidiary

During 2010, the Company contributed its interest in YPG Directories, LLC in exchange for a 35% minority interest in a new entity resulting from the combination of YPG Directories, LLC and Ziplocal LP. The transaction closed on April 15, 2010, which resulted in a gain on sale of $2.3 million.

Dividends on preferred shares, Series 1 and 2

Dividends on the two series of redeemable preferred shares amounted to $21.2 million compared to $22.4 million in 2009.

Provision for income taxes

The combined statutory provincial and federal tax rate was 29.9% and 31.4% in 2010 and 2009 respectively. The Company recorded an expense of 17.1% of earnings in 2010 compared to 16.5% in 2009. Prior to the conversion from an income trust, the Fund's subsidiary, YPG LP was a limited partnership, and as such, was not subject to income taxes whereas YPG LP's subsidiaries were subject to income tax. The difference between the statutory and the effective tax rates was primarily due to inter-company revenues which were not taxable when received by YPG LP.

Share of losses from equity investees

In 2010 we recorded our share of losses from our equity investments in the amount of $19.9 million compared to $7.1 million in 2009. These losses include the amortization of intangible assets amounting to $22 million (2009 - $12.9 million) in connection with these equity investments.

Net earnings

Net earnings increased by $65.2 million to $274 million in 2010. The increase is mainly due to the impairment of goodwill that occurred in 2009 partly offset by higher depreciation and amortization following the business acquisitions in 2010, as well as the expenses incurred in connection with our conversion and rebranding efforts and the acquisition-related costs incurred in connection with the acquisitions of Canpages, RedFlagDeals.com, Restaurantica, Mediative LP, Uptrend Media, AdSplash, 411.ca and CanadianDriver in 2010.

Summary of Consolidated Quarterly Results

Quarterly Results

(in thousands of Canadian dollars – except share information)

				2011				2010
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	$313,315	$323,441	$342,738	$349,372	$345,378	$355,949	$360,118	$339,684
Operating costs	166,117	157,443	166,262	159,337	184,043	162,726	156,140	141,112
Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, acquisition-related costs and restructuring and special charges (EBITDA)	147,198	165,998	176,476	190,035	161,335	193,223	203,978	198,572
EBITDA margin	47%	51.3%	51.5%	54.4%	46.7%	54.3%	56.6%	58.5%
Depreciation and amortization	23,003	37,800	47,735	52,368	76,269	48,349	31,269	24,378
Impairment of goodwill and intangible assets	–	2,900,000	–	–	–	–	–	–
Acquisition-related costs	210	497	6,233	803	5,066	1,960	19,934	3,615
Restructuring and special charges	14,254	–	11,888	–	6,229	16,185	8,977	–
Income (loss) from operations	109,731	(2,772,299)	110,620	136,864	73,771	126,729	143,798	170,579
Net earnings (loss)	45,292	(2,825,452)	(14,250)	(34,589)	(14,694)	64,999	51,982	127,119
Basic earnings (loss) per share attributable to common shareholders from continuing operations	$0.08	$(5.52)	$(0.05)	$0.13	$(0.03)	$0.12	$0.09	$0.23
Diluted earnings (loss) per share attributable to common shareholders from continuing operations	$0.03	$(5.52)	$(0.05)	$0.11	$(0.03)	$0.10	$0.09	$0.20

During the second quarter of 2010, we acquired Canpages causing revenues to increase. Revenues decreased quarter-over-quarter throughout 2010 and 2011 as a result of continued pressure on our print product. In the first quarter of 2011, revenues increased due to the seasonality associated with the publication of Canpages directories.

Our EBITDA margin decreased progressively during 2010 and 2011, reflecting the decline in print revenues and lower margins associated with Canpages and Mediative acquired in 2010. In the fourth quarter of 2010, our EBITDA margin was lower due to conversion and rebranding costs associated with our conversion to a corporation. During the fourth quarter of 2011, we incurred a non-recurring expense of approximately $6 million as a result of a sales tax assessment.

Internal reorganizations and cost containment initiatives resulted in restructuring and special charges impacting some of our quarterly results in 2010 and 2011. Net earnings for the second half of 2010 and for 2011 were affected by depreciation and amortization of intangible assets related to the acquisition of Canpages. Net earnings throughout 2010 were impacted by conversion and rebranding costs associated with our conversion from an income trust to a corporation as well as acquisition-related costs, most notably in the fourth quarter of 2010. We recorded a loss related to our disposal of Trader Corporation and an impairment of our investment in Ziplocal in the first and second quarters of 2011, respectively. Lastly, during the third quarter of 2011, we recorded a charge of $2.9 billion related to the impairment of goodwill and intangible assets.

Analysis of fourth quarter 2011 results

Revenues

Revenues decreased to $313.3 million during the fourth quarter of 2011 compared with $345.4 million for the same period last year. The decrease for the quarter is due to lower print revenues in our traditional markets, partly offset by increased online revenues.

EBITDA

EBITDA decreased by $14.1 million to $147.2 million during the fourth quarter of 2011 compared with $161.3 million the same period last year. While most of our online products contribute margins similar to those of our print products in our local markets, lower revenues resulted in decreases in EBITDA.

Cost of sales increased by $11.4 million to $103.9 million during the fourth quarter compared with the same period last year. The increase for the quarter is attributable to additional selling expenses in connection with our Mediative division.

Gross profit margin decreased to 66.8% for the fourth quarter of 2011 compared to 73.2% for the fourth quarter of 2010. The decrease for the quarter is due to lower print revenues and lower margins associated with Canpages and our Mediative division.

General and administrative expenses decreased by $29.3 million to $62.2 million for the three-month period ended December 31, 2011 compared with $91.5 million the same period last year. In the fourth quarter of 2010, conversion and rebranding costs of $30 million were incurred. During the fourth quarter of 2011, we incurred a non-recurring expense of approximately $6 million in connection with a sales tax assessment.

Depreciation and amortization

Depreciation and amortization decreased to $23 million from $76.3 million during the fourth quarter of 2011 compared with the same period last year. The decrease for the quarter is due to lower amortization of certain intangible assets of YPG USA and Canpages, which were fully amortized during the quarter.

Acquisition-related costs

We incurred costs of $0.2 million during the three month period ended December 31, 2011, resulting from potential investments. In 2010, we incurred $5.1 million during the fourth quarter. The costs in 2010 were mainly associated with our acquisition of Canpages, AdSplash, Uptrend Media and Mediative LP.

Restructuring and special charges

We incurred $14.3 million of restructuring and special charges during the quarter compared with $6.2 million for the same period last year. The costs incurred in 2011 were associated with a workforce reduction and the termination of contractual obligations as a result of the elimination of the publication of certain overlapping directories and the integration of our Canpages operations into YPG.

Dividends on preferred shares, Series 1 and Series 2

Dividends on the two series of redeemable preferred shares amounted to $4.6 million for the fourth quarter of 2011 compared to $5.1 million for the same period last year.

Provision for income taxes

The combined statutory provincial and federal tax rate was 27.9% and 29.9% for the three-month periods ended December 31 2011 and 2010 respectively. The Company recorded an expense of 20.6% of earnings for the three-month period ended December 31, 2011 and 95% on the earnings for the three-month period ended December 31, 2010. In connection with the disposal of YPG Directories, LLC in 2010, Yellow Media Inc. reviewed the status of its deferred tax assets of 2010. As a result, a valuation allowance of $22.9 million was recorded during the fourth quarter.

Share of losses from equity investees

During the fourth quarter of 2011 we recorded our share of losses from our investments in 411.ca and Acquisio, in the amount of $0.4 million compared to $8.3 million for the same period last year. The decrease for the quarter is due to the fact that no share of losses was recorded from our investment in Ziplocal, as this investment was written-off during the second quarter of 2011. These losses include the amortization of intangible assets in connection with these equity investments.

Net earnings

Net earnings increased by $60 million from a net loss of $14.7 million to net earnings of $45.3 million during the fourth quarter of 2011 compared to the same period last year. The increase for the quarter is mainly due to conversion and rebranding costs incurred in the fourth quarter of 2010.

3. Liquidity and Capital Resources

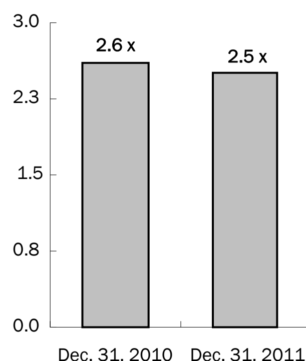
This section examines the Company's capital structure, sources of liquidity and various financial instruments including debt and preferred shares.

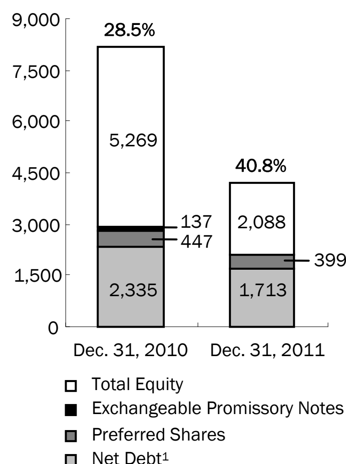
Financial Position

Capital Structure

(in thousands of Canadian dollars)

	As at December 31, 2011	As at December 31, 2010
Cash	$84,186	$69,325
Medium Term Notes	1,404,083	1,656,200
Credit facilities	205,000	250,000
Commercial paper	–	295,000
Obligations under finance leases and other	4,148	20,672
Net debt (net of cash)	$1,529,045	$2,152,547
Exchangeable and convertible debt instruments	184,214	319,029
Preferred shares, series 1 and 2	398,886	446,725
Equity attributable to the shareholders of Yellow Media Inc.	2,084,225	5,215,937
Non-controlling interests	802	52,568
Total capitalization	$4,197,172	$8,186,806
Net debt[1] to total capitalization	40.8%	28.5%





As at December 31, 2011, YPG had approximately $1.5 billion of net debt, or $2.1 billion including preferred shares, Series 1 and 2, and convertible debt instruments. The net debt[1] to Latest Twelve Month EBITDA[2,3] ratio as of December 31, 2011 was 2.5 times. The net debt to total capitalization was 40.8% as of December 31, 2011, compared to 28.5% as of December 31, 2010. Total capitalization was reduced by $4 billion during the year, as a result of the goodwill impairment charge and debt reduction.

[1] Net debt including Convertible Debentures.

[2] Latest twelve month income from operations before depreciation and amortization, impairment of goodwill and intangible assets, acquisition-related costs, conversion and rebranding costs of 2010, restructuring and special charges, giving effect to the acquisitions and divestitures (Latest Twelve Month EBITDA). Latest twelve month EBITDA is a non-IFRS measure and may not be comparable with similar measures used by other publicly traded companies. Please refer to page 2 for a definition of EBITDA and to Note 31 of the accompanying consolidated financial statements for a summary of the differences between our consolidated financial statements previously prepared under Canadian GAAP and those under IFRS for the year ended December 31, 2010.

[3] Includes discontinued operations for the year ended December 31, 2010.

Medium Term Notes

Yellow Media Inc. had a total of $1.4 billion of notes outstanding under its Medium Term Note program as of December 31, 2011 with varying maturity dates between 2013 and 2036.

During 2011, Yellow Media Inc. repurchased for cancellation a total of $256 million of Medium Term Notes consisting of the principal amount of $42.8 million of the Series 2 Medium Term Notes, $67.5 million of the Series 4 Medium Term Notes, $23.9 million of the Series 5 Medium Term Notes and $121.9 million of the Series 7 Medium Term Notes for a total cash consideration of $229.3 million.

Credit facilities and commercial paper program

As at February 9, 2012, Yellow Media Inc. has in place a senior unsecured credit facility consisting of:

- a $250 million revolving tranche maturing in February 2013; and
- a $180 million non-revolving tranche maturing in February 2013.

On September 28, 2011, Yellow Media Inc. announced the amendment of its senior unsecured credit facility. Concurrently, the Company repaid a total amount of $500 million of its bank indebtedness. The amended credit facility is unsecured and bears interest at BA rates plus a spread of 3.5% and/or at prime rate plus a margin of 2.5%.

Yellow Media Inc. is required to make quarterly repayments of $25 million on the outstanding balance of the non-revolving tranche of the principal facility, commencing in January 2012 through January 2013. The Company repaid $45 million of the non-revolving tranche in the fourth quarter of 2011, following the divestiture of LesPAC. In addition, the first quarterly repayment of $25 million was made 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 facility remains February 18, 2013.

Under the amended facility, Yellow Media Inc. must maintain a Consolidated Total Debt to Consolidated Latest Twelve Month EBITDA[1] ratio of not more than 3.5 to 1 and a Consolidated Latest Twelve Month EBITDA[1] to Consolidated Interest Expense ratio of not less than 3.5 to 1.

The Company has also agreed to certain restrictions on the repurchase or redemption of shares and the repurchase or repayment of debt prior to their stipulated maturity dates, subject to certain exceptions, which include the refinancing of such instruments subject to specified conditions. The amended facility allows the Company to repurchase up to $125 million of its Series 8 and Series 9 Medium Term Notes prior to their maturity date in 2013, subject to certain conditions. The credit facility also includes restrictions with respect to the incurrence or assumption of indebtedness and liens, the transfer of assets as well as acquisitions and investments. Going forward, the amended facility restricts the declaration and payment of common share dividends. Refer to Section 4 – Adjusted Earnings from Continuing Operations.

Pursuant to the amendments to Yellow Media Inc.'s credit facility dated September 28, 2011, the Company has agreed not to exercise its right to redeem its Preferred Shares Series 1 for cash. However, the Company retains the right to exercise its exchange rights in respect of the Preferred Shares Series 1. Refer to "Cumulative Redeemable Preferred Shares" in this section.

As of December 31, 2011, $205 million was outstanding on the non-revolving tranche of the credit facility and the revolving tranche was undrawn. The revolving facility may be used for general corporate purposes.

As of February 9, 2012, $180 million was outstanding on the non-revolving tranche of the credit facility. The Company also has drawn $239 million on the revolving tranche and has approximately $280 million of cash as at February 9, 2012.

Following our downgrade to a non-investment grade rating, our access to the commercial paper market was discontinued.

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

[1] Latest twelve month Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, acquisition-related costs, conversion and rebranding costs of 2010, restructuring and special charges, giving effect to the acquisitions and divestitures (Latest Twelve Month EBITDA). Latest twelve month EBITDA is a non-IFRS measure and may not be comparable with similar measures used by other publicly traded companies. Please refer to page 2 for a definition of EBITDA and to Note 31 of the accompanying consolidated financial statements for a summary of the differences between our consolidated financial statements previously prepared under Canadian GAAP and those under IFRS for the year ended December 31, 2010.

Exchangeable Promissory Notes

In connection with the Canpages acquisition in 2010, Yellow Media Inc. issued $141.6 million of Mandatory Exchangeable Promissory Notes (the Notes).

Starting in the first quarter of 2011, the Notes were exchangeable into a number of common shares of Yellow Media Inc. based upon a price equal to 95% of the price of the Yellow Media Inc. shares at the time of exchange. Each quarter, holders of the Notes had the right to exchange 25% of the principal amount representing a maximum of $35.4 million of the Notes. Until December 31, 2014, YPG had the option at any time to redeem all or a portion of the Notes for cash together with accrued and unpaid interest. The Notes ranked subordinate to the senior debt of Yellow Media Inc. and bore interest at a fixed initial rate of 5%, payable quarterly in cash, subject to step up provisions over time. The Notes had a final maturity of December 31, 2014. Any remaining Notes would have been automatically exchanged into common shares of Yellow Media Inc. on December 31, 2014.

On October 15, 2010, the holders of the Notes monetized their investment through a resale of the Notes to a third-party financial institution. In order to facilitate this resale transaction and the orderly conversion of the Notes into common shares during the course of 2011, Yellow Media Inc. entered into a Total Return Swap transaction referencing the Notes with the same counterparty for a period ending December 15, 2011. Pursuant to the terms of the Total Return Swap, the 5% fixed interest rate under the Notes was converted to the floating rate of interest equal to the three-month Banker's Acceptance plus 1.75%. In addition, under the Total Return Swap, the counterparty as a holder of the Notes was expected to exchange 25% of the principal amount into underlying Yellow Media Inc. common shares at 95% of the prevailing market price. In addition, Yellow Media Inc. would have received or paid under the Total Return Swap an adjustment amount to the extent that the value realized by the Total Return Swap counterparty on the exchange or redemption of the Notes exceeded or was less than the $141.6 million principal amount of the Notes.

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

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

During the second quarter of 2011, the remaining Notes were redeemed by Yellow Media Inc. in accordance with the terms of the Notes. The remaining principal amount along with the 5% redemption premium stipulated under the Total Return Swap was completely repaid on June 10, 2011 and the Total Return Swap was unwound.

Convertible Debentures

On July 8, 2010, Yellow Media Inc. announced the completion of the public offering of $200 million principal amount of 6.25% convertible unsecured subordinated debentures (Convertible Debentures). The Convertible Debentures pay interest semi-annually on April 1 and October 1 of each year commencing October 1, 2010. The Convertible Debentures have a maturity date of October 1, 2017 and are convertible, at the option of the holder, for common shares of Yellow Media Inc. at an exchange price of $8.00 per common share. An amount of $10.1 million was classified as a separate component of equity attributable to owners of the Company. Net proceeds resulting from the offering were used to fund the redemption of the outstanding Exchangeable Debentures, and to repay indebtedness under the credit facilities and commercial paper program. The Convertible Debentures have been given a rating of B by S&P and a rating of B(high) by DBRS.

Cumulative Redeemable Preferred Shares

Yellow Media Inc. has two series of cumulative redeemable first preferred shares outstanding. On March 6, 2007, 12,000,000 cumulative redeemable preferred shares, Series 1 (Series 1 Preferred Shares) were issued for gross proceeds of $300 million. Holders of the Series 1 Preferred Shares are entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors of the Company in an amount equal to $1.0625 per Series 1 Preferred Share per annum, payable quarterly, yielding 4.25% per annum. At any time and from time to time on or after March 31, 2012 and prior to December 31, 2012, the Company may, at its option in accordance with the terms of the Series 1 Preferred Shares, exchange the outstanding Series 1 Preferred Shares, in whole or in part, into common shares of the Company at a conversion price equal to the greater of $2.00 and 95% of the then applicable weighted average trading price of the common shares. On and after December 31, 2012, a holder of Series 1 Preferred Shares may require the Company to redeem such Series 1 Preferred Shares for a cash price of $25.00 per Series 1 Preferred Share, together with any accrued and unpaid dividends up to but excluding the date fixed for redemption.

Pursuant to the amendments to Yellow Media Inc.'s credit facility dated September 28, 2011, the Company has agreed not to exercise its right to redeem its Series 1 Preferred Shares for cash. However, the Company retains the right to exercise its exchange rights in respect of the Series 1 Preferred Shares. Refer to "Cumulative Redeemable Preferred Shares" in this section for details.

On June 8, 2007, 8,000,000 cumulative redeemable preferred shares, Series 2 (Series 2 Preferred Shares) were issued for gross proceeds of $200 million. Holders of the Series 2 Preferred Shares are entitled to receive fixed cumulative preferential

cash dividends, if, as and when declared by the Board of Directors of the Company in an amount equal to $1.25 per Series 2 Preferred Share per annum, payable quarterly, yielding 5.0% per annum.

At any time and from time to time on or after June 30, 2012 and prior to June 30, 2017, the Company may, at its option in accordance with the terms of the Series 2 Preferred Shares, exchange the outstanding Series 2 Preferred Shares, in whole or in part, into common shares of the Company at a conversion price equal to the greater of $2.00 and 95% of the then applicable weighted average trading price of the common shares. On and after June 30, 2017, a holder of Series 2 Preferred Shares may require the Company to redeem such Series 2 Preferred Shares for a cash price of $25.00 per Series 2 Preferred Share, together with any accrued and unpaid dividends up to but excluding the date fixed for redemption.

On June 8, 2010, Yellow Media Inc. received approval from the Toronto Stock Exchange (TSX) on its notice of intention to renew its normal course issuer bid for its Series 1 Preferred Shares and Series 2 Preferred Shares through the facilities of the TSX from June 11, 2010 to no later than June 10, 2011, in accordance with applicable rules and regulations of the TSX.

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 Series 1 Preferred Shares and Series 2 Preferred Shares for the period from June 13, 2011 to no later than May 12, 2012 through the facilities of the TSX, in accordance with applicable rules and regulations of the TSX. Under its normal course issuer bid, Yellow Media Inc. was entitled to purchase for cancellation up to 1,127,882 and 542,406 of its outstanding first Series 1 Preferred Shares and Series 2 Preferred Shares, respectively.

Under these two NCIB programs, during 2011, Yellow Media Inc. purchased for cancellation 1,232,948 Preferred Shares Series 1 shares of Yellow Media Inc. for a total cash consideration of $25.5 million including brokerage fees and 778,156 Series 2 Preferred Shares of Yellow Media Inc. for a total cash consideration of $11.3 million including brokerage fees. The carrying value of these Series 1 and Series 2 Preferred Shares was $30.6 million and $19.1 million, respectively.

In order to maximize funds available for debt repayment and reinvestment in the business, Yellow Media Inc. suspended activity under its normal course issuer bid for its Series 1 and Series 2 Preferred Shares. This decision is in compliance with the amendments that Yellow Media Inc. agreed to make with respect to its principal credit facility.

Rate reset Preferred Shares

Yellow Media Inc. has two series of rate reset first preferred shares outstanding.

On September 23, 2009, 7,500,000 cumulative rate reset preferred shares, Series 3 (Series 3 Preferred Shares) were issued for gross proceeds of $187.5 million. On September 28, 2009, an additional 800,000 cumulative rate reset Series 3 Preferred Shares were issued for gross proceeds of $20 million. Holders of the Series 3 Preferred Shares are entitled to receive cumulative preferential cash dividend, if, as and when declared by the Board of Directors of the Company, of $1.6875 per share per annum, payable quarterly, yielding 6.75% per annum for the initial five year period ending December 31, 2014. The dividend rate will be reset on September 30, 2014 and every five years thereafter at a rate equal to the 5-year Government of Canada bond yield plus 4.17%. The Series 3 Preferred Shares will be redeemable by Yellow Media Inc. on or after September 30, 2014, in accordance with their terms. Holders of the Series 3 Preferred Shares will have the right, at their option, to convert their shares into cumulative floating rate preferred shares, series 4 (Series 4 Preferred Shares), subject to certain conditions, on September 30, 2014 and every five years thereafter. Holders of the Series 4 Preferred Shares will be entitled to receive cumulative quarterly floating dividends, if, as and when declared by the Board of Directors of the Company, at a rate equal to the three-month Government of Canada Treasury Bill yield plus 4.17%.

On December 22, 2009, 5,000,000 cumulative rate reset preferred shares, Series 5 (Series 5 Preferred Shares) were issued for gross proceeds of $125 million. Holders of the Series 5 Preferred Shares are entitled to receive a cumulative preferential cash dividend, if, as and when declared by the Board of Directors of the Company, of $1.7250 per share per annum, payable quarterly, yielding 6.90% per annum for the initial five and one-half year period ending June 30, 2015. The dividend rate will be reset on June 30, 2015 and every five years thereafter at a rate equal to the 5-year Government of Canada bond yield plus 4.26%. The Series 5 Preferred Shares will be redeemable by the Issuer on or after June 30, 2015, in accordance with their terms. Holders of the Series 5 Preferred Shares will have the right, at their option, to convert their shares into cumulative floating rate preferred shares, series 6 (Series 6 Preferred Shares), subject to certain conditions, on June 30, 2015 and on June 30 every five years thereafter. Holders of the Series 6 Preferred Shares will be entitled to receive cumulative quarterly floating dividends, if, as and when declared by the Board of Directors of the Company, at a rate equal to the three-month Government of Canada Treasury Bill yield plus 4.26%.

Net proceeds resulting from the sale of the Series 3 and Series 5 Preferred Shares were used to repay indebtedness under the credit facility and commercial paper program, and for general corporate purposes.

Cumulative Exchangeable Preferred Shares

In connection with the acquisition of RedFlagDeals.com, Yellow Media Inc. issued 1,300,000 cumulative redeemable preferred shares, Series 7 (Series 7 Preferred Shares) on February 9, 2010, at a price of $7.50 per Series 7 Preferred Shares as payment to the vendors for the acquisition by way of a private placement. Holders of the Series 7 Preferred Shares are entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors of Yellow Media Inc. in an

amount equal to $0.375 per Series 7 Preferred Shares per annum, yielding 5% per annum, payable quarterly on the third last business day of March, June, September and December of each year. The Series 7 Preferred Shares are exchangeable into common shares of Yellow Media Inc., at the option of the holders of the Series 7 Preferred Shares and at a ratio of one preferred share for one common share of Yellow Media Inc., regardless of the market price of the common shares of Yellow Media Inc. On or after January 1, 2012, 300,000 Series 7 Preferred Shares may be exchanged subject to certain time-based and performance conditions.

As at February 9, 2012, a total of 916,667 of the Series 7 Preferred Shares had been converted into common shares of Yellow Media Inc. at a ratio of one preferred share for one common share of Yellow Media Inc. There are 383,333 Series 7 Preferred Shares currently outstanding.

After careful consideration, the Board of Directors has decided to suspend the dividends on the outstanding Series 1, Series 2, Series 3, Series 5 and Series 7 Preferred Shares.

Credit Ratings

DBRS Limited	Standard and Poor's Rating Services
BB credit rating	BB-/Watch negative corporate credit rating
R-4 commercial paper rating	BB- credit rating for existing credit facilities and medium term notes
B (high) convertible subordinated debentures rating	B convertible subordinated debentures rating
Pfd-4 (low) preferred shares rating	P-4 (low) preferred shares rating

Liquidity

As part of its financial policy and capital structure guidelines, YPG remains committed to maintaining adequate liquidity at all times.

As at December 31, 2011, YPG maintained a credit facility containing two tranches totalling $455 million (of which $205 million was outstanding on the non-revolving tranche of the principal credit facility), providing sufficient liquidity to fund its operations. The revolving facility may be used for general corporate purposes. The revolving and non-revolving tranches both mature on February 18, 2013 and YPG is required to make quarterly repayments of $25 million on the outstanding balance of the non-revolving tranche commencing in January 2012. Refer to "Credit Facilities" in this section.

On December 31, 2011, cash amounted to $84.2 million. The Company's principal source of liquidity is cash generated from operations and is supplemented by borrowings under its credit facility. The Company expects to generate sufficient cash flow from operations to fund capital expenditures, working capital requirements and to service its outstanding debt obligations.

The Company has begun evaluating alternatives to refinance maturities in 2012 and beyond. A broad range of alternatives will be considered and may involve the issuance of secured or unsecured debt, equity or other securities or other transactions. At this time, the Board of directors has decided to suspend the dividends on the outstanding series of preferred shares.

In connection with this review, the Board of directors of Yellow Media has established a committee of independent directors to serve as the Financing Committee of the Board (the "Financing Committee") that will oversee this process with the objective of completing any transaction or transactions during the current fiscal year.

Share data

As at February 9, 2012, outstanding share data was as follows:

Outstanding Share Data			
	As at February 9, 2012	As at December 31, 2011	As at December 31, 2010
Common shares outstanding	520,402,094	520,402,094	516,017,984
Preferred shares Series 3, 5 and 7 outstanding	13,424,153	13,424,153	13,933,333
Options outstanding and exercisable	380,882	380,882	380,882

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 shareholders on May 5, 2011. The 2010 Plan allows the Board of Directors to issue a maximum of 25 million options to eligible employees.

As at December 31, 2011, 12,100,000 options are outstanding with the following terms and conditions:

- The exercise price of $6.35 is equal to the volume weighted-average trading prices of the common shares on the TSX during the five trading days preceding the date on which the options were granted.
- The options vest on the third anniversary of the grant date.
- The options expire five years after the grant date.

As at February 9, 2012, Yellow Media Inc. also has a total of $200 million of Convertible Debentures outstanding which are convertible at any time, at the option of the holder into common shares of the Company at an exchange price of $8.00 per common share.

As at February 9, 2012, there were 10,045,872 preferred shares, Series 1 and 6,062,128 preferred shares, Series 2 outstanding. Both series of preferred shares are redeemable by the issuer under certain conditions through the issuance of common shares of the Company.

As at February 9, 2012, there were 383,333 Series 7 preferred shares outstanding. This series of preferred shares are convertible into common shares of the Corporation, at a ratio of one preferred share for one common share subject to certain conditions.

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 (Series 3 shares) and first preferred shares, Series 5 (Series 5 shares) for the period from May 13, 2011 to no later than May 12, 2012, in accordance with applicable rules and regulations of the TSX.

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

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

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

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

Reduction of capital

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

Contractual Obligations and Other Commitments

Contractual obligations

(in thousands of Canadian dollars)

		Payments due for the periods ending December 31		
	Total	1 – 3 years	4 – 5 years	After 5 years
Long-term debt[1]	$1,610,505	$714,733	$457,977	$437,795
Obligations under finance leases[1]	4,148	3,814	334	–
Preferred shares[1]	402,700	251,147	–	151,553
Exchangeable and convertible instruments[1]	200,000	–	–	200,000
Operating leases	121,650	59,461	38,042	24,147
Other	86,843	83,826	267	2,750
Total contractual obligations	$2,425,846	$1,112,981	$496,620	$816,245

[1] Principal amount

Obligations under finance leases

We enter into finance lease agreements for office equipment and software. As of December 31, 2011, minimum payments under these finance leases up to 2016 totalled $4.1 million.

Operating leases

We rent our premises and office equipment under various operating leases. As of December 31, 2011, minimum payments under these operating leases up to 2021 totalled $121.7 million.

Purchase obligations

We use the services of outside suppliers to distribute our directories and have entered into long-term agreements with a number of these suppliers. These agreements expire between 2012 and 2038. As at December 31, 2011, we have an obligation to purchase services for $86 million over the next five years and thereafter. Cash from operations will be used to meet these purchase obligations.

Pension Obligations

YPG sponsors a pension plan registered with the Canada Revenue Agency and the Financial Services Commission of Ontario with a defined benefit component (the YPG Defined Benefit Plan) and a defined contribution component covering substantially all employees of the Company.

As at December 31, 2011, the YPG Defined Benefit Plan assets totalled $389 million and were invested in a diversified portfolio of Canadian fixed income securities and Canadian and international equity securities. The YPG Defined Benefit Plan's rate of return on assets was 1.1% for 2011, 0.4% lower than that of our benchmark portfolio. The underperformance reflects the difficult and volatile capital market conditions in 2011. The return of our plan exceeded its benchmark by 0.2% in 2010.

The most recent actuarial valuation of the YPG Defined Benefit Plan for funding purpose was performed as at April 30, 2011. The April 2011 valuation resulted in a going concern deficit of $59 million and a solvency deficit of $61 million. This valuation also established the amount of contributions the Company is required to make under the YPG Defined Benefit Plan from April 30, 2011 until the next valuation, which is due no later than April 30, 2014.

In 2012, the Company will have to make annual contributions equivalent to the current service cost (the Annual Employer Cost) of approximately $11 million to the YPG Defined Benefit Plan compared to $8.2 million in 2010. In addition to the Annual Employer Cost, the Company will also fund the deficit with annual contributions of $13.4 million over a five-year period. Both the Annual Employer Cost and the Annual Amortization Payments are effective as at April 30, 2011 and retroactive adjustment payments will be made in the first quarter of 2012.

Sources and Uses of Cash

Consistent with other directories and media companies the Company has relatively minimal capital spending requirements combined with relatively low operating costs.

Sources and Uses of Cash

(in thousands of Canadian dollars)

	Years ended December 31,	
	2011	2010
Cash flows from operating activities from continuing operations		
Cash flows from operations from continuing operations	$379,210	$535,833
Change in operating assets and liabilities	(42,637)	33,774
	$336,573	$569,607
Cash flows from (used) in investing activities from continuing operations		
Disposal of subsidiary	$70,938	$ —
Disposal of Trader	690,230	—
Disposal of cash related to the sale of Trader	(24,517)	—
Business acquisitions, net of cash acquired and bank indebtedness assumed	(49)	(119,161)
Acquisition of investment in associates	—	(5,356)
Acquisition of intangible assets	(46,686)	(55,063)
Acquisition of property, plant and equipment	(15,565)	(4,178)
Issuance of note	(1,238)	—
Proceeds from lease inducements	852	—
	$673,965	$(183,758)
Cash flows used in financing activities from continuing operations		
Issuance of long-term debt and commercial paper	$1,062,000	$840,265
Repayment of long-term debt and commercial paper	(1,403,585)	(469,263)
Redemption of exchangeable and convertible instruments	(106,172)	—
Issuance of exchangeable and convertible instruments	—	200,000
Dividends to shareholders	(209,134)	(395,522)
Repurchase of Preferred shares, series 1 and 2, and Medium Term Notes	(266,183)	(501,812)
Repurchase of common shares and Preferred shares series 3 and 5	(50,432)	—
Other	(28,244)	(64,852)
	$(1,001,750)	$(391,184)

Cash flows from operating activities from continuing operations

Cash flows from operating activities from continuing operations decreased from $569.6 million for the year ended December 31, 2010 to $336.6 million for the year ended December 31, 2011 due to lower revenues in traditional print products. The decrease in operating assets and liabilities for the year ended December 31, 2011 was $76.4 million compared with the same period last year. During the year ended December 31, 2011, we paid income taxes of $105.2 million compared to $24.8 million for the previous year. In addition, working capital fluctuations arose due to Canpages which was acquired in May 2010. The remaining variance is due to the timing of payment of certain accounts payable as well as a decrease in deferred revenues.

Cash flows from (used) in investing activities from continuing operations

Cash used in investing activities from continuing operations decreased from $183.8 million to generate cash flow from investing activities of $674 million in 2011 reflecting the proceeds from the disposal of Trader and LesPAC. In 2011, we did not complete any business acquisitions. In 2010, the Company acquired a 60% interest in Mediative LP, the shares of Uptrend Media and all of the operations of Restaurantica, RedFlagDeals.com, and AdSplash Inc. for a cash consideration of $38.3 million. We also acquired all of the shares of Canpages for a cash consideration of $80.9 million. In addition, the Company made an equity investment in 411.ca for $3.6 million. During 2011, we made acquisitions of intangible assets and property, plant and equipment of $46.1 million and $16.2 million, respectively, which in total, was more than the corresponding amounts of $55.1 million and $4.2 million spent in 2010.

Acquisition of property, plant, equipment and intangible assets, net of lease inducements

(in thousands of Canadian dollars)

	Years ended December 31,	
	2011	2010
Sustaining	$29,619	$13,699
Transition	5,004	9,011
Growth	34,260	19,926
Total	**$68,883**	$42,636
Adjustment to reflect expenditures on a cash basis	(7,484)	(2,240)
Acquisition of property, plant, equipment and intangible assets, net of lease inducements	**$61,399**	$40,396

Sustaining capital expenditures amounted to $29.6 million for the year ended December 31, 2011 compared to $13.7 million for the previous year due to increased activity associated with acquisitions made in 2010. Specifically, during the second quarter of 2011, we invested in leasehold improvements to house our new Mediative division in offices located in Toronto, Montreal and Vancouver.

Transition capital expenditures amounted to $5 million for the year ended December 31, 2011 compared to $9 million for the previous year. The decrease results from the fact that we made no new business acquisitions in 2011.

Growth capital expenditures relate to the development and implementation of new technology and software aimed at new initiatives as we continue our transformation to a leading performance media and marketing solutions provider company. During 2011, these amounted to $34.3 million compared to $19.9 million for the previous year.

Total capital expenditures for 2011 amounted to $68.9 million and were in line with expectations.

Cash flows used in financing activities from continuing operations

Cash used in financing activities from continuing operations increased by $610.6 million to $1,001.8 million during 2011 from $391.2 million for the same period last year. The lower level of dividends per share compared to 2010 resulted in a reduction in the dividend per share paid to shareholders of $186.4 million for 2011 compared to the same period last year. We had a net repayment of long-term debt and commercial paper in 2011 of $341.6 million compared with a net long-term debt and commercial issuance of $371 million in 2010. We had lower levels of repurchases of various debt instruments in 2011. For 2011, we repurchased shares and debt instruments for a consideration of $316.6 million compared to $501.8 million in 2010. In 2011, we also redeemed the remaining $106.2 million of Notes issued in connection with the acquisition of Canpages.

Financial and Other Instruments

(See Note 25 of the Consolidated Financial Statements of the Company for the year ended December 31, 2011).

The Company's financial instruments consist of cash, trade receivables, investments, trade and other payables, dividends payable, short-term and long-term debt, convertible and exchangeable instruments, and preferred shares.

Derivative Instruments

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

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

On June 27, 2011, Yellow Media Inc. terminated the five interest rate swaps mentioned above with a notional amount of $255 million, for gross proceeds of $3.8 million. The $3.8 million will be amortized over the term of the underlying debt. Taking into consideration the debt instruments outstanding, the Series 1 and Series 2 shares and the cash, our fixed-to-floating ratio was 94% fixed rate as at December 31, 2011.

The terms and conditions of Series 1 and Series 2 Preferred Shares provide for redemption at the option of the Company under certain circumstances. These options meet the definition of an embedded derivative. They are recorded at their fair value on the consolidated statement of financial position with changes in fair value recognized in financial charges.

The carrying value of embedded derivatives was an asset of $7 thousand on December 31, 2011. The carrying value is calculated as is customary in the industry using discounted cash flows with quarter-end market rates. We reported a loss of

$3.5 million for the year ended December 31, 2011 (2010 - $1 million gain) on derivatives, excluding the loss on derivatives designated as cash flow hedges in prior periods transferred to earnings in the period and payments on interest rate swaps that have discontinued hedge accounting. In addition, we reported an adjustment amount of $4.2 million and a redemption premium stipulated under the Total Return Swap of $5.3 million for 2011.

4. Adjusted Earnings from Continuing Operations

A reconciliation between net earnings attributable to common shareholders and adjusted earnings is provided below:

Adjusted Earnings from Continuing Operations

(in thousands of Canadian dollars – except share information)

	Years ended December 31,	
	2011	2010
Net (loss) earnings from continuing operations	$ (2,708,122)	$ 231,786
Attributable to non-controlling interest	490	164
Dividends to preferred shareholders	(22,539)	(22,834)
Net (loss) earnings from continuing operations available to common shareholders of Yellow Media Inc.	(2,730,171)	209,116
Amortization of intangible assets[1,3]	116,707	133,696
Impairment of goodwill and intangible assets[5]	2,880,677	–
Acquisition-related costs[2,3]	5,582	21,433
Restructuring and special charges[3]	18,848	22,005
Financial charges[3]	94,150	104,054
Interest paid	(141,555)	(137,871)
Gain on disposal of subsidiary[3]	(4,478)	–
Impairment of investment in associate (net of income taxes of $0.2 million)	50,271	–
Non-cash income taxes	(18,054)	68,747
Adjusted earnings from continuing operations	$ 271,977	$ 421,180
Weighted average number of common shares outstanding	511,765,665	503,111,679
Adjusted earnings per common share from continuing operations[3,4]	$ 0.53	$ 0.84
Dividends on common shares	$ 207,345	$ 402,719
Dividends declared per common share	$ 0.40	$ 0.80
Payout ratio	75%	95%

[1] Represents amortization of intangible assets attributable to shareholders.

[2] Acquisition-related costs are excluded from the calculation as they do not reflect the ongoing operations of the business.

[3] Items are net of income taxes using the combined statutory provincial and federal tax rate of 27.9% (29.9% for 2010).

[4] Please refer to Section 2 – Results for the calculation of Basic earnings per share.

[5] Item is net of income taxes of $19.3 million.

Free cash flow from continuing operations

Free cash flow from continuing operations

(in thousands of Canadian dollars)

	Three-month periods ended December 31		Years ended December 31,	
	2011	2010	2011	2010
Cash flow from operating activities from continuing operations	$92,964	$153,615	$336,573	$569,607
Capital expenditures, net of lease inducements	14,741	13,396	61,399	40,396
Free cash flow from continuing operations	$78,223	$140,219	$275,174	$529,211

Dividends

Dividends

(in thousands of Canadian dollars- except share information)

	Three-month periods ended December 31		Years ended December 31,	
	2011	2010	2011	2010
Accumulated dividends, beginning of period[1]	$3,642,527	$3,334,551	$3,435,182	$3,032,463
Dividends on common shares	—	100,631	207,345	402,719
Accumulated dividends, end of period[1]	$3,642,527	$3,435,182	$3,642,527	$3,435,182
Accumulated dividends per common share, beginning of period	$7.60	$7.00	$7.20	$6.40
Dividends declared per common share	—	0.20	0.40	0.80
Accumulated dividends per common share, end of period	$7.60	$7.20	$7.60	$7.20

[1] Amounts prior to November 1, 2010 were distributions of Yellow Pages Income Fund.

Dividends on Common Shares

On September 28, 2011, the Yellow Media Inc. Board of Directors determined that it was in the best interest of the Company to eliminate future dividends on its common shares.

This decision is in compliance with the amendments that the Company agreed to make to its principal credit agreement and that was announced on September 28, 2011, and will improve the Company's financial profile and capital position. The cash retained from the elimination of dividends will be used to reduce indebtedness and make additional investments to accelerate our digital transformation.

5. Critical Assumptions

When we prepare our financial statements in accordance with IFRS, we must make certain estimates and assumptions about our business. These estimates and assumptions in turn affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements.

In this section we provide detailed information on these important estimates and assumptions which are under continuous evaluation by the Company.

Intangible assets and goodwill

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

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

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

The recoverable amount of the CGUs was determined based on the value-in-use approach using a discounted cash flow model that relies on significant key assumptions, including after-tax cash flows forecasted over an extended period of years, terminal growth rates and discount rates. We use published statistics or seek advice where possible when determining the assumptions we use. Details of Yellow Media Inc.'s impairment reviews are disclosed in Note 4. The recoverable amount of each of the units was greater than its carrying value. Projections of future revenues were a critical estimate in determining fair value.

Employee future benefits

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

Income taxes

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

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

Critical Accounting Policies and Estimates

When we prepare our financial statements in accordance with IFRS, we must make certain estimates and assumptions about our business. These estimates and assumptions in turn affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements.

In this section we provide detailed information on these important estimates and assumptions which are under continuous evaluation by the Company.

New Accounting Standards

Recent Accounting Pronouncements

In February 2008, the Accounting Standards Board (AcSB) confirmed that IFRS will be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011. Our first annual IFRS financial statements are for the year ended December 31, 2011 and include the comparative period of 2010. Please refer to Note 31 of the accompanying financial statements for a summary of the differences between our financial statements previously prepared under Canadian GAAP and to those under IFRS.

Certain new standards, interpretations and amendments to published standards

IFRS 7 (Revised) - Financial Instruments: Disclosures

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

IFRS 9 - Financial Instruments

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

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value.

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability and the elimination of the cost exemption for derivative liabilities to be settled by delivery of unquoted equity instruments.

IFRS 9 is applied prospectively with transitional arrangements depending on the date of application. The Standard is not applicable until annual periods beginning on or after January 1, 2015, but is available for early adoption. Yellow Media Inc. has not fully assessed the impact of adopting IFRS 9.

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. Yellow Media Inc. has not yet assessed the impact of adopting IFRS 10.

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.

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.

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. Yellow Media Inc. has not fully assessed the impact of adopting IAS 19 (Revised).

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. Yellow Media Inc. has not fully assessed the impact of adopting IAS 1 (Revised).

6. Risks and Uncertainties

The following section examines the major risks and uncertainties that could materially affect YPG's future business results and explains how these risks are managed.

Understanding and managing risks are important parts of YPG's strategic planning process. The Board requires that our senior management identify and properly manage the principal risks related to our business operations. To understand and manage risks at YPG, our Board and senior management analyze risks in three major categories:

1. Strategic risks - which are primarily external to the business;
2. Financial risks - generally related to matters addressed in the Financial Risk Management Policy and in the Pension Statement of Investment Policy and Procedures; and,
3. Operational risks - related principally to risks under the control of management across key functional areas of the organization.

YPG has put in place certain guidelines in order to manage the risks to which it may be exposed. Please refer to the Annual Information Form for a complete description of these risk factors. Despite these guidelines, the Company cannot provide assurances that any such efforts will be successful.

Competition

YPG competes with other directory and classified advertising businesses and with other forms of advertising media. This includes newspapers, television, radio, the Internet, mobile telecommunication devices, magazines, billboards and direct mail advertising.

These competitors may reduce their prices to increase their market share or may be able to offer their services at lower costs than we can. In either case, YPG could be forced to reduce prices or offer and perform other services in order to remain competitive. YPG's failure to compete effectively with its current or future competitors could have a number of impacts such as, a reduction in its advertiser base, lower rates and increased costs. This could have a material adverse effect on our financial condition and on our results of operations.

We actively monitor and assess our competition and determine our competitiveness within each of our markets. We address this competition by ensuring we best meet customer needs through targeted offers and pricing.

We continuously enhance our value proposition with initiatives targeting the following objectives:

- Enhancement of our product offerings and extension of our services to customers;
- Improvement of user experience; and
- Growth of traffic to our network of properties.

We also use multimedia campaigns to promote our brand and deliver our message to the market reinforcing the value our segments offer.

Decline in print revenue

YPG could be materially adversely affected if the usage of printed telephone directories decline at a rate higher than anticipated. The development of new technologies and the widespread use of Internet is causing changes in preferences and consumer habits. In particular, this has a significant influence on printed products, and the decrease in usage gradually leads to lower advertising revenues. The continuing transition in the media and publishing industries towards more online and targeted content is driving us to develop new products that leverage the demand for new media while ensuring that our print products remain a key component of our advertisers' media mix.

Furthermore, given this transition from print to online and uncertainties surrounding whether and when new product introductions will compensate for the declining trend in print revenues, if revenue from our online products does not increase significantly, our cash flow, results of operations and financial condition may be adversely affected.

The availability of capital is dependent on the future operating performance of the Corporation's business and the Corporation's ability to refinance its indebtedness.

The ability of the Corporation to make scheduled payments under its indebtedness will depend on, among other things, its future operating performance. There can be no assurance that the Corporation will be able to generate sufficient cash from its operations to pay its debt obligations. Each of these factors is, to a large extent, subject to economic, financial, competitive, operational and other factors, many of which are beyond the Corporation's control.

There can be no assurance that the Corporation will continue to be able to obtain on a timely basis sufficient funds on terms acceptable to the Corporation to provide adequate liquidity and to finance the operating and capital expenditures necessary to

overcome the challenges associated with the transformation of its business and support its business strategy if cash flows from operations and cash on hand are insufficient.

The Corporation may need to refinance its available credit facilities or other debt and there can be no assurance that it will be able to do so or be able to do so on terms as favourable as those presently in place. If the Corporation is unable to refinance these credit facilities or other debt, or is only able to refinance these credit facilities or other debt on less favourable or more restrictive terms, this may have a material adverse effect on the Corporation, its business, results from operations and financial condition.

Failure to generate sufficient funds, whether from operations or debt or equity financings or refinancing transactions, could require the Corporation to delay or abandon some of its anticipated expenditures or to modify its business strategy and could have a material adverse effect on the Corporation, its business, results from operations and financial condition. Furthermore, competitors with greater liquidity or their ability to raise money more easily and on less onerous terms could create a competitive disadvantage for the Corporation.

There can be no assurance that the Corporation's credit ratings will not be further downgraded, which would add to the Corporation's borrowing costs, hamper its ability to attract capital, adversely impact its liquidity, and limit its ability to operate its business, all of which could have a material adverse effect on the Corporation, its business, results from operations and financial condition.

The Corporation's substantial indebtedness could adversely affect its financial health and the Corporation's efforts to refinance or reduce its indebtedness may not be successful.

The Corporation's substantial amount of debt could have material adverse effects on the Corporation, its business, results from operations and financial condition. For example, it could:

- limit the Corporation's ability to obtain additional financing, if needed, for working capital, capital expenditures, acquisitions, debt service requirements or other purposes;
- increase the Corporation's vulnerability to adverse economic and industry conditions;
- require the Corporation to dedicate a substantial portion of its cash flows from operations to make payments on its debt, thereby reducing funds available for operations, future business opportunities or other purposes;
- limit the Corporation's flexibility in planning for, or reacting to, changes in its business and its industry; and
- place the Corporation at a competitive disadvantage compared to its competitors that have less debt.

In addition, the Corporation's credit facilities and other debt contain a number of financial and other restrictive covenants that require the Corporation to meet certain financial ratios and financial condition tests and limit the ability to enter into certain transactions. A failure to comply with the obligations in the credit facilities and other debt could result in a default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the credit facilities or other debt were to be accelerated, there can be no assurance that the Corporation would have sufficient liquidity to repay in full that indebtedness.

The Company has begun evaluating alternatives to refinance maturities in 2012 and beyond. A broad range of alternatives will be considered and may involve the issuance of secured or unsecured debt, equity or other securities or other transactions. The Financing Committee will oversee this process with the objective of completing any transactions during the current fiscal year. The Corporation can provide no assurance that it will be able to complete any such refinancing transactions, or sell assets or complete any other debt reduction initiative that would enable it to reduce its outstanding debt.

The recent downgrades in Yellow Media's credit ratings may increase our borrowing costs.

DBRS Limited ("DBRS") lowered its corporate rating of the Corporation from BBB (high) to BBB on August 4, 2011 and to BB on September 28, 2011. In addition, DBRS revised their rating to R-4 for the Corporation's commercial paper, B (high) for its convertible subordinated debentures rating and Pfd-4 (low) for its preferred shares.

Standard & Poor's Ratings Services ("S&P") lowered its corporate credit rating on the Corporation from 'BBB-' to 'BB+', with a ratings outlook of stable, on August 4, 2011 and to 'BB-' placed under CreditWatch with negative implications on December 4, 2011. In addition, S& P lowered the issue-level rating on the company's senior unsecured debt to 'BB-' from 'BB+'. The agency also lowered its rating on the Corporation's subordinated debt to 'B' from 'BB-'. Finally, S&P reduced the rating on the preferred shares to 'P-4 (Low)' from 'P-4 (High)'.

Because we could potentially rely on external sources of financing to refinance our existing debt or enter into other debt transactions related to our capital structure, the recent downgrades of our debt ratings could increase our borrowing costs or potentially reduce our liquidity and, therefore, adversely affect our results of operations.

Dividends are not expected to be paid with respect to our common stock and preferred shares for the foreseeable future.

We do not anticipate that cash dividends or other distributions will be paid with respect to our common shares or preferred shares in the foreseeable future. In addition, restrictive covenants in our credit agreement, as amended on September 28, 2011, prohibit us from paying dividends to our common shareholders.

Interest rate fluctuations

YPG is exposed to fluctuations in short term interest rates on some of its financial obligations bearing variable interest rates. YPG is also exposed to fluctuations in long term interest rates and credit spreads relative to the refinancing of its debt obligations upon their maturity. The interest rate on new long term debt issuances will be based on the prevailing market rates at the time of the refinancing and will depend on the tenor of the new debt issued. Increases in short term interest rates and increases in interest rates on new debt issuances may have a material adverse effect on our earnings.

We manage interest rate exposure by maintaining a balanced schedule of debt maturities, and through a combination of fixed and floating interest rate obligations. YPG monitors market conditions and the impact of interest rate fluctuations on our fixed-to-floating interest rate exposure mix. From time to time, we enter into interest rate swap agreements and other interest rate derivatives in order to manage this exposure.

Pension Contributions

We may be required to make contributions to our pension plans in the future depending on various factors including future returns on pension plan assets, long-term interest rates and changes in pension regulations, which may have a negative effect on our liquidity and results of operations.

The funding requirements of our pension plans, resulting from valuations of our pension plan assets and liabilities, depend on a number of factors, including actual returns on pension plan assets, long-term interest rates, plan demographic and pension regulations. Changes in these factors could cause actual future contributions to significantly differ from our current estimates and could require us to make contributions to our pension plans in the future and, therefore, could have a negative effect on our liquidity and results of operations.

There is no assurance that our pension plans will be able to earn their assumed rate of return. A material portion of our pension plans' assets is invested in public equity securities. As a result, the ability of our pension plans to earn the rate of return that we have assumed significantly depends on the performance of capital markets. The market conditions also impact the discount rate used to calculate our solvency obligations and thereby could also significantly affect our cash funding requirements.

YPG's reliance on outsourcing for billing, collection, printing and binding and other services

We have a Billing and Collection Services Agreement with Bell Canada and a Master Billing and Collection Services Agreement with TELUS, a Billing and Collection Services Agreement with MTS Allstream Inc. and a Billing and Collection Service Agreement with Bell Aliant. Through these agreements, our billing is included as a separate line item on the telephone bills of Bell, TELUS, MTS Allstream Inc. and Bell Aliant customers who use our services respectively. Bell Canada, TELUS, MTS Allstream Inc. and Bell Aliant (the Telco Partners) contract with third parties to conduct monthly billing of customers who use them as their local telephone service providers. In addition, the Telco Partners provide collection services for YPG with those advertisers who are also their customers. Additionally, YPG has entered into publishing agreements with each Telco Partner. If YPG fails to perform its obligations under these agreements and the agreements are consequently terminated by such Telco Partner, other agreements with such Telco Partners may also be terminated, including the Bell Canada Trademark License Agreement, the TELUS Trademark License Agreement, the MTS Allstream Inc. Branding and Trademark Agreement and the Bell Aliant Branding and Trademark Agreement, as well as non-competition covenants we benefit from with such Telco Partners.

We have agreements with outside service suppliers to print and distribute our directories and publications. These agreements are for services that are integral to our business.

The failure of the Telco Partners or any of the other suppliers to fulfill their contractual obligations under these agreements could result in a material adverse effect on our business until we could find a replacement supplier for those services.

Advertisers who do not use the Telco Partners as their local telephone provider are billed directly by YPG. Our internal billing and collection services are cost-effective and can be grown as our customer base expands.

Reliance on key brands and trademarks and failure to protect intellectual property rights

YPG relies heavily on its existing brands and trademarks for a significant portion of its revenues. Failure to adequately maintain the strength and integrity of these brands and trademarks, or to develop new brands and trademarks, could adversely affect our results from operations and our financial condition.

It is possible that third parties could infringe upon, misappropriate or challenge the validity of YPG's trademarks or our other intellectual property rights. This could have a material adverse effect on our business, our financial condition or our operating

results. The actions that YPG takes to protect its trademarks and other proprietary rights may not be adequate. Litigation may be necessary to enforce or protect YPG's intellectual property rights, its trade secrets or to determine the validity and scope of the proprietary rights of others. We cannot ensure that we will be able to prevent infringement of our intellectual property rights or misappropriation of our proprietary information.

Any such infringement or misappropriation could harm any competitive advantage we currently derive, or may derive, from our proprietary rights. Third parties may assert infringement claims against YPG. Any such claims and any resulting litigation could subject YPG to significant liability for damages. An adverse judgement arising from any litigation of this type could require YPG to design around a third party's patent or to license alternative technology from another party. In addition, litigation may be time-consuming and expensive to defend against and could result in the diversion of YPG's time and resources. Any claims from third parties may also result in limitations on YPG's ability to use the intellectual property subject to these claims.

We devote significant resources to the development and protection of our trademarks and take a proactive approach to protecting our brand exclusivity.

Labour relations

Certain non-management employees of YPG are unionized. Current union agreements range between two to four years in duration and are subject to expiration at various dates in the future. If YPG is unable to renew these agreements as they come up for renegotiation from time to time, it could result in work stoppages and other labour disturbances which could have a material adverse effect on our business.

We manage labour relations risk by ensuring that collective agreements' expiration dates are strategically positioned to minimize potential disruptions on both a regional (geographic) or on a functional (sales and clerical) basis. Also, every negotiation process to renew a collective agreement includes a cross-functional team in which all business units are represented. This team has the responsibility to develop and ultimately implement an effective contingency plan that would allow YPG to continue its day to day operations with minimal disruptions in the event of a labour dispute.

Income Tax Matters

In the normal course of the Company's activities, the tax authorities are carrying out ongoing reviews. In that respect, Yellow Media Inc. is of the view that all expenses claimed by the different entities of the group are reasonable and deductible and that the cost amount and capital cost allowance claims of such entities' depreciable properties have been correctly determined. There is no assurance that the tax authorities may not challenge these positions. Such challenge, if successful, may have an adverse effect on our earnings and may affect the return to shareholders.

Impairment Losses

The Corporation may be subject to impairment losses that would reduce its reported assets and earnings. Goodwill and identifiable intangible assets comprise a substantial portion of the Corporation's total assets. Economic, legal, regulatory, competitive, contractual and other factors may affect the value of goodwill and identifiable intangible assets. If any of these factors impair the value of these assets, accounting rules would require the Corporation to reduce their carrying value and recognize an impairment charge, which would reduce the reported assets and earnings of the Corporation in the year the impairment charge is recognized.

Recent Acquisitions of New Businesses

Acquisitions of new businesses could expose the Corporation to business risks, including difficulties in integrating administrative, financial reporting, and operational systems, difficulties in managing newly acquired operations and improving their operating efficiency, and difficulties in retaining key employees of the acquired operations and diversions of management time and resources. In addition, future acquisitions could result in the incurrence of additional debt, costs, and contingent liabilities. Moreover, expected synergies for acquisitions completed may not materialize.

7. Controls and Procedures

As a public entity we must take every step to ensure that material information regarding our reports filed or submitted under securities legislation fairly presents the financial information of YPG. Responsibility for this resides with management, including the President and Chief Executive Officer and the interim Chief Financial Officer. Management is responsible for establishing, maintaining and evaluating disclosure controls and procedures, as well as internal control over financial reporting.

Disclosure Controls and Procedures (DC&P)

The evaluation of the effectiveness of DC&P as defined in National Instrument 52-109 was performed under the supervision of the President and Chief Executive Officer and the Interim Chief Financial Officer. They concluded that these disclosure controls and procedures were adequate and effective, as at December 31, 2011. YPG's management can therefore provide reasonable assurance that it receives material information relating to the company in a timely manner so that it can provide investors with complete and reliable information.

Internal Control over Financial Reporting (ICFR)

Management has designed ICFR to provide reasonable assurance that our financial reporting is reliable and that our consolidated financial statements were prepared in accordance with IFRS. The design and effectiveness of ICFR were evaluated as defined in National Instruments 52-109 under the supervision of the President and Chief Executive Officer and Interim Chief Financial Officer. Based on the evaluations, they concluded that the ICFR is adequate and effective to provide such assurance as at December 31, 2011.

Management also concluded that during the fourth quarter ended December 31, 2011, no changes were made to ICFR that would have materially affected, or would be reasonably considered to materially affect, these controls.