INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW MEDIA INC.

March 31, 2012

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Interim Condensed Consolidated Statements of Financial Position

(in thousands of Canadian dollars - unaudited)

	As at March 31, 2012	As at December 31, 2011
ASSETS		(audited)
CURRENT ASSETS		
Cash	$ 310,148	$ 84,186
Trade receivables	171,975	166,586
Prepaid expenses	4,729	5,017
Deferred publication costs and other assets	92,831	94,770
TOTAL CURRENT ASSETS	579,683	350,559
DEFERRED PUBLICATION COSTS	7,956	7,484
FINANCIAL AND OTHER ASSETS	19,128	14,879
INVESTMENTS IN ASSOCIATES	1,801	3,616
PROPERTY, PLANT AND EQUIPMENT	41,760	46,496
INTANGIBLE ASSETS	1,641,099	1,658,051
GOODWILL (Note 3)	–	2,967,847
TOTAL NON-CURRENT ASSETS	1,711,744	4,698,373
TOTAL ASSETS	$ 2,291,427	$ 5,048,932
LIABILITIES AND EQUITY (DEFICIENCY)		
CURRENT LIABILITIES		
Trade and other payables	$ 129,781	$ 156,482
Current income tax liabilities	19,200	22,974
Provisions	42,400	48,300
Deferred revenues	50,466	54,805
Current portion of long-term debt (Note 5)	421,034	102,339
Preferred shares Series 1 (Note 7)	250,069	249,713
TOTAL CURRENT LIABILITIES	912,950	634,613
DEFERRED CREDITS	16,020	16,536
DEFERRED INCOME TAXES	83,902	119,305
INCOME TAX LIABILITIES	35,496	43,806
POST-EMPLOYMENT BENEFITS	286,923	298,796
DEFERRED CONSIDERATION	973	6,570
LONG-TERM DEBT (Note 5)	1,405,651	1,510,892
CONVERTIBLE INSTRUMENTS (Note 6)	184,758	184,214
PREFERRED SHARES SERIES 2 (Note 7)	149,266	149,173
TOTAL NON-CURRENT LIABILITIES	2,162,989	2,329,292
TOTAL LIABILITIES	3,075,939	2,963,905
CAPITAL AND RESERVES	6,397,845	6,398,132
DEFICIT	(7,183,146)	(4,313,907)
EQUITY (DEFICIENCY) ATTRIBUTABLE TO SHAREHOLDERS	(785,301)	2,084,225
NON-CONTROLLING INTERESTS	789	802
TOTAL EQUITY (DEFICIENCY)	(784,512)	2,085,027
TOTAL LIABILITIES AND EQUITY (DEFICIENCY)	$ 2,291,427	$ 5,048,932

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

Interim Condensed Consolidated Income Statements

For the three-month periods ended March 31,

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

		2012		2011
Revenues	$	289,073	$	349,372
Operating costs		143,056		159,337
Income from operations before depreciation and amortization, impairment of goodwill and acquisition-related costs		146,017		190,035
Depreciation and amortization		30,081		52,368
Impairment of goodwill (Note 3)		2,967,847		–
Acquisition-related costs		–		803
(Loss) income from operations		(2,851,911)		136,864
Financial charges, net (Note 10)		32,125		47,142
(Loss) earnings before dividends on Preferred shares, series 1 and 2, income taxes and (earnings) losses from investments in associates		(2,884,036)		89,722
Dividends on Preferred shares, series 1 and 2		4,563		5,132
(Loss) earnings before income taxes and (earnings) losses from investments in associates		(2,888,599)		84,590
(Recovery) provision for income taxes		(17,735)		6,601
(Earnings) losses from investments in associates		(1,612)		7,536
Net (loss) earnings from continuing operations		(2,869,252)		70,453
Net loss from discontinued operations, net of income taxes (Note 4)		–		(105,042)
Net loss	$	(2,869,252)	$	(34,589)
Net loss attributable to:				
Common shareholders of Yellow Media Inc.	$	(2,869,239)	$	(33,429)
Non-controlling interests[1]		(13)		(1,160)
	$	(2,869,252)	$	(34,589)
Basic (loss) earnings per share attributable to common shareholders				
From continuing operations	$	(5.61)	$	0.13
Total	$	(5.61)	$	(0.08)
Weighted average shares outstanding – basic (loss) earnings per share (Note 8)		512,595,314		510,404,617
Diluted (loss) earnings per share attributable to common shareholders				
From continuing operations	$	(5.61)	$	0.11
Total	$	(5.61)	$	(0.04)
Weighted average shares outstanding – diluted (loss) earnings per share (Note 8)		512,595,314		665,199,416

[1] Included in the net loss attributable to non-controlling interests for the period ended March 31, 2012 is $nil (2011 – loss of $1 million) related to discontinued operations.

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

Interim Condensed Consolidated Statements of Comprehensive (Loss) Income

For the three-month periods ended March 31,

(in thousands of Canadian dollars - unaudited)

		2012		2011
Net loss	$	(2,869,252)	$	(34,589)
Other comprehensive loss, net of related income taxes:				
Reclassification adjustment on derivatives designated as cash flow hedges in the period[1]		(58)		127
Change in gains and losses on derivatives designated as cash flow hedges		(58)		127
Unrealized (loss) gain on available–for–sale investment in the period[2]		(113)		64
Change in unrealized loss on available–for–sale financial asset		(113)		64
Unrealized exchange differences on translating financial statements of foreign operations and foreign associates[3]		–		(4,569)
Change in unrealized exchange differences on translating financial statements of foreign operations and foreign associates		–		(4,569)
Other comprehensive loss		(171)		(4,378)
Total comprehensive loss	$	(2,869,423)	$	(38,967)
Total comprehensive loss attributable to:				
Common shareholders of Yellow Media Inc.	$	(2,869,410)	$	(36,030)
Non-controlling interests		(13)		(2,937)
	$	(2,869,423)	$	(38,967)

[1] Net of income taxes recovery of $21 (2011 – $57 expense).

[2] Net of income taxes of $nil (2011 – $nil).

[3] Unrealized exchange differences on translating financial statements of foreign operations and foreign associates include $nil (2011 – $3.3 million loss) for discontinued operations and $nil for continuing operations (2011 - $1.3 million loss).

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

Interim Condensed Consolidated Statements of Changes in Equity (Deficiency)

For the three-month periods ended March 31,
(in thousands of Canadian dollars - unaudited)

	Shareholders' Capital	Restricted Shares	Preferred Shares	Compound financial instruments[1]	Stock-based compensation and other reserves	Reduction of capital reserve
Balance, December 31, 2011	$ 3,554,715	$ (54,974)	$ 320,687	$ 7,423	$ 113,693	$ 2,457,053
Other comprehensive loss	–	–	–	–	–	–
Net loss for the period	–	–	–	–	–	–
Total comprehensive loss	–	–	–	–	–	–
Stock options	–	–	–	–	–	–
Restricted shares (Note 9)	–	–	–	–	(116)	–
Restricted shares vested (Note 9)	–	–	–	–	–	–
Balance, March 31, 2012	**$ 3,554,715**	**$ (54,974)**	**$ 320,687**	**$ 7,423**	**$ 113,577**	**$ 2,457,053**

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

	Shareholders' Capital	Restricted Shares	Preferred Shares	Compound financial instruments	Stock-based compensation and other reserves	Reduction of capital reserve
Balance, December 31, 2010	$ 4,079,838	$ (78,135)	$ 328,880	$ 7,423	$ 139,976	$ 2,000,000
Other comprehensive loss	–	–	–	–	–	–
Net loss for the period	–	–	–	–	–	–
Total comprehensive loss	–	–	–	–	–	–
Issuance (exchange of shares)	51,713	–	(750)	–	–	–
Stock options	–	–	–	–	200	–
Restricted shares (Note 9)	–	(1,199)	–	–	(1,598)	–
Restricted shares vested (Note 9)	–	26,010	–	–	(26,010)	–
Dividends	–	–	–	–	–	–
Dividends on Preferred shares, Series 3, 5 and 7	–	–	–	–	–	–
Balance, March 31, 2011	$ 4,131,551	$ (53,324)	$ 328,130	$ 7,423	$ 112,568	$ 2,000,000

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

							2012
Available for sale investment	Cash flow hedges	Foreign currency translation	Capital and Reserves	Deficit	Equity (Deficiency) attributable to shareholders	Non-controlling interests	Total Equity (Deficiency)
$ 144	$ 989	$ (1,598)	$ 6,398,132	$ (4,313,907)	$ 2,084,225	$ 802	$ 2,085,027
(113)	(58)	–	(171)	–	(171)	–	(171)
–	–	–	–	(2,869,239)	(2,869,239)	(13)	(2,869,252)
(113)	(58)	–	(171)	(2,869,239)	(2,869,410)	(13)	(2,869,423)
–	–	–	–	–	–	–	–
–	–	–	(116)	–	(116)	–	(116)
–	–	–	–	–	–	–	–
$ 31	$ 931	$ (1,598)	$ 6,397,845	$ (7,183,146)	$ (785,301)	$ 789	$ (784,512)

							2011
Available for sale investment	Cash flow hedges	Foreign currency translation	Capital and Reserves	Deficit	Equity attributable to shareholders	Non-controlling interests	Total Equity
$ 225	$ 1,077	$ (2,373)	$ 6,476,911	$ (1,260,974)	$ 5,215,937	$ 52,568	$ 5,268,505
64	127	(2,792)	(2,601)	–	(2,601)	(1,777)	(4,378)
–	–	–	–	(33,429)	(33,429)	(1,160)	(34,589)
64	127	(2,792)	(2,601)	(33,429)	(36,030)	(2,937)	(38,967)
–	–	–	50,963	–	50,963	–	50,963
–	–	–	200	–	200	–	200
–	–	–	(2,797)	–	(2,797)	–	(2,797)
–	–	–	–	–	–	–	–
–	–	–	–	(83,464)	(83,464)	–	(83,464)
–	–	–	–	(5,710)	(5,710)	–	(5,710)
$ 289	$ 1,204	$ (5,165)	$ 6,522,676	$ (1,383,577)	$ 5,139,099	$ 49,631	$ 5,188,730

Interim Condensed Consolidated Statements of Cash Flows

For the three-month periods ended March 31,
(in thousands of Canadian dollars - unaudited)

	2012	2011
OPERATING ACTIVITIES		
Net (loss) earnings from continuing operations	$ (2,869,252)	$ 70,453
Adjusting items		
Depreciation and amortization	30,081	52,368
Impairment of goodwill	2,967,847	–
Stock-based compensation expense (reversal)	–	(1,398)
(Earnings) losses from investments in associates	(1,612)	7,536
Other non-cash items	(516)	951
Income taxes (recovery) recognized in net loss	(17,735)	6,601
Financial charges recognized in net loss	32,125	47,142
Change in operating assets and liabilities	(42,736)	(29,931)
Funding of post-employment benefit plans in excess of costs	(13,036)	–
Income taxes paid	(29,823)	(214)
Interest paid	(32,936)	(41,807)
	22,407	111,701
INVESTING ACTIVITIES		
Acquisition of intangible assets	(7,259)	(10,627)
Acquisition of property, plant and equipment	(1,108)	(1,267)
Issuance of note	–	(1,238)
Other	183	13
	(8,184)	(13,119)
FINANCING ACTIVITIES		
Issuance of long-term debt and commercial paper	239,000	305,000
Repayment of long-term debt and commercial paper	(25,345)	(337,164)
Dividends to shareholders	–	(72,097)
Dividends on Preferred shares, series 3, 5 and 7	–	(5,710)
Stock-based compensation (Note 9)	–	(1,199)
Deferred consideration	(1,800)	–
Other	(116)	826
	211,739	(110,344)
Effect of exchange rate changes on cash denominated in foreign currencies	–	(508)
NET INCREASE (DECREASE) IN CASH	225,962	(12,270)
CASH FLOWS FROM DISCONTINUED OPERATIONS (Note 4)	–	(4,051)
CASH, BEGINNING OF PERIOD	84,186	69,325
CASH, END OF PERIOD	$ 310,148	$ 53,004

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

1. Description

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

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

The Board of Directors approved the consolidated financial statements for the three-month period ended March 31, 2012 and authorized their publication on May 7, 2012.

2. Basis of presentation and upcoming revised standards

2.1. Statement of compliance

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

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

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

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

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

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

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

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

On December 16, 2011 the International Accounting Standards Board ("IASB") and Financial Accounting Standards Board ("FASB") issued common disclosure requirements that are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. The new requirements are set out in Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). The IFRS 7 amendments are effective for annual reporting periods beginning on or after January 1, 2013. Other amendments to IFRS 7 will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. An entity shall apply these amendments for annual periods beginning on or after July 1, 2011, however is available for early adoption.

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

IFRS 9 - Financial Instruments

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

Key requirements of IFRS 9 are described as follows:

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

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

IFRS 10 — Consolidated Financial Statements

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

IFRS 11 — Joint Arrangements

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

IFRS 12 — Disclosure of Interests in Other Entities

IFRS 12 is a new standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is applicable at the same time as IFRS 10.

IFRS 13 — Fair Value Measurement

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

IAS 1 (Revised) – Presentation of Financial Statements

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

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.

3. Impairment of goodwill

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

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

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

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

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

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

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

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

4. Discontinued operations

Trader Corporation

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

As a result of the above, for the three-month period ended March 31, 2011, Yellow Media Inc. classified the results of the disposed businesses, up to the date of disposal, as discontinued operations.

Analysis of net loss from discontinued operations for the three-month period ended March 31, 2011 are as follows:

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

Revenues	$	60,648
Operating costs		44,649
Depreciation and amortization		16,065
Other		222
Loss from discontinued operations before income taxes, share of losses from investment in associates and loss on disposal		(288)
Recovery of income taxes		(877)
Share of losses from investment in associates		22
Loss on disposal, net of income taxes recovery of $6.1 million		105,609
Net loss from discontinued operations	$	(105,042)

Cash flows from discontinued operations for the period ended March 31, 2011 are as follows:

		2011
Cash from (used in):		
Operating activities	$	6,436
Investing activities		(303)
Financing activities		(10,184)
Net decrease in cash from discontinued operations	$	(4,051)

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

5. Long-term debt

							March 31, 2012
		Principal amount		**Fair value adjustment of hedged item**		**Deferred financing costs**	**Total**
Medium Term Notes	$	1,405,505	$	7,329	$	(8,740)	$ 1,404,094
Credit facilities		419,000		–		–	419,000
Obligations under finance leases		3,591		–		–	3,591
		1,828,096		7,329		(8,740)	1,826,685
Less current portion of long-term debt		421,034		–		–	421,034
	$	1,407,062	$	7,329	$	(8,740)	$ 1,405,651

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

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

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

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

As of March 31, 2012, $180 million was outstanding on the non-revolving tranche of the credit facility and $239 million on the revolving tranche. The revolving facility may be used for general corporate purposes.

Yellow Media Inc. was in compliance with all of its debt covenants as at March 31, 2012.

Future repayments

Future principal repayments to be made during the next five years and thereafter ending March 31 are as follows:

	Long–term debt[1]
2013	$ 419,000
2014	255,000
2015	392,833
2016	319,877
2017	–
Thereafter	437,795
	$ 1,824,505

[1] Excludes obligations under finance leases.

6. Convertible instruments

	March 31, 2012	December 31, 2011
Principal amount	$ 200,000	$ 200,000
Equity component	(10,139)	(10,139)
Accretion	1,983	1,685
Deferred financing costs	(7,086)	(7,332)
	$ 184,758	$ 184,214

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

7. Preferred shares, Series 1 and 2

	March 31, 2012	December 31, 2011
Shares issued, Series 1 and Series 2	$ 402,700	$ 402,700
Derivative component	712	741
Deferred financing costs	(4,077)	(4,555)
	399,335	398,886
Less current portion [1]	250,069	249,713
	$ 149,266	$ 149,173

[1] Relating entirely to Preferred Shares, Series 1

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

a) Series 1

Redemption by the issuer

On or after March 31, 2012, Yellow Media Inc. may, at its option, redeem at par plus accrued and unpaid dividends ("Redemption price") for cash the Series 1 shares, in whole or in part. Also, on or after March 31, 2012, and prior to December 31, 2012, Yellow Media Inc. may, at its option, exchange the outstanding Series 1 shares, in whole or in part, into common shares of the Company. In addition, the Series 1 shares were redeemable at a premium in cash or exchangeable at the option of Yellow Media Inc., in whole or in part into common shares of the Company on or after March 31, 2007 provided that any exchange prior to March 31, 2012 shall be limited to circumstances in which the Series 1 shares were entitled to vote separately as a class or series by law or court order.

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

Redemption by the holder

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

b) Series 2

Redemption by the issuer

On or after June 30, 2012, Yellow Media Inc. may, at its option, redeem for cash the Series 2 shares, in whole or in part at a decreasing premium until June 30, 2016 and at par thereafter plus accrued and unpaid dividends ("Redemption price"). Also, on or after June 30, 2012, and prior to June 30, 2017, Yellow Media Inc. may, at its option, exchange the outstanding Series 2 shares, in whole or in part, into common shares of the Company until June 30, 2016 by dividing the Redemption price by the greater of $2.00 and 95% of the then applicable weighted average trading price of the common shares. In addition, the Series 2 shares will be redeemable at a premium in cash or exchangeable at the option of Yellow Media Inc., in whole into common shares of the Company on or after June 30, 2007 provided that any exchange prior to June 30, 2012 shall be limited to circumstances in which the Series 2 shares are entitled to vote separately as a class or series by law or court order.

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

Redemption by the holder

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

As at March 31, 2012, the accrued dividends amounted to $2.8 million and $2 million on Series 1 and Series 2 respectively.

8. Shareholders' capital

Common shares

		March 31, 2012
	Number of Shares	**Amount**
Balance, December 31, 2011 and March 31, 2012[1]	**520,402,094**	**$ 3,554,715**

		March 31, 2011
	Number of shares	Amount
Balance, December 31, 2010	516,017,984	$ 4,079,838
Shares issued pursuant to the dividend reinvestment plan	1,961,513	10,768
Exchange of Preferred Shares, Series 7	100,000	750
Conversion of Exchangeable Notes	6,255,026	35,390
	524,334,523	$ 4,126,746
To be issued pursuant to the dividend reinvestment plan	957,316	4,805
Balance, March 31, 2011[1]	525,291,839	4,131,551

[1] Includes 7,806,780 Restricted Shares (December 31, 2011 – 7,806,780 and March 31, 2011 – 6,762,667) pursuant to the Restricted Share Plan.

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

During the three-month period ended March 31, 2012, Yellow Media Inc. declared total dividends to common shareholders of $nil ($83.5 million or $0.16 per share in 2011).

Preferred shares

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

		March 31, 2011
	Number of Shares	Amount
Balance December 31, 2010	13,933,333	$ 328,880
Exchange of Preferred Shares, Series 7	(100,000)	(750)
Balance, March 31, 2011	13,833,333	$ 328,130

During the three-month period ended March 31, 2012, Yellow Media Inc. declared total dividends to holders of Series 3, 5 and 7 of $nil (2011 - $ 5.7 million or $0.42 per Series 3 shares, $0.43 per Series 5 and $0 09 per Series 7). As at March 31, 2012, the unpaid dividends amounted to $3.4 million, $2.1 million and $36 thousand on Series 3, Series 5 and Series 7, respectively.

(Loss) earnings per share

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

	For the three-month periods ended March 31,	
	2012	2011
Weighted average number of shares outstanding used in computing basic (loss) earnings per share	512,595,314	510,404,617
Dilutive effect of options	–	380,882
Dilutive effect of Restricted Shares[1]	–	8,598,016
Dilutive effect of Series 7 Preferred shares	–	582,222
Dilutive effect of Series 1 Preferred shares	–	52,598,095
Dilutive effect of Series 2 Preferred shares	–	31,899,251
Dilutive effect of Convertible Debentures	–	37,307,517
Dilutive effect of Exchangeable notes	–	23,428,816
Weighted average number of shares outstanding used in computing diluted (loss) earnings per share	512,595,314	665,199,416

[1] Subject to specific payout conditions.

	For the three-month periods ended March 31,	
	2012	2011
Net (loss) earnings from continuing operations	$ (2,869,252)	$ 70,453
Attributable to non-controlling interest	13	167
Dividends to preferred shareholders	(5,584)	(5,710)
Net (loss) earnings from continuing operations available to common shareholders of Yellow Media Inc. used in the computation of basic (loss) earnings per share	(2,874,823)	64,910
Impact of assumed conversion of Series 1 Preferred shares, net of applicable taxes	–	3,522
Impact of assumed conversion of Series 2 Preferred shares, net of applicable taxes	–	2,390
Impact of assumed conversion of Series 7 Preferred shares, net of applicable taxes	–	56
Impact of assumed conversion of Convertible Debentures, net of applicable taxes	–	2,626
Impact of assumed conversion of Exchangeable notes	–	1,264
Net (loss) earnings adjusted for dilutive effect	$ (2,874,823)	$ 74,768

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

	For the three-month periods ended March 31,	
	2012	2011
Net loss attributable to common shareholders of Yellow Media Inc.	$ (2,869,239)	$ (33,429)
Dividends to preferred shareholders	(5,584)	(5,710)
Net loss available to common shareholders of Yellow Media Inc. used in the computation of basic loss per share	(2,874,823)	(39,139)
Impact of assumed conversion of Series 1 Preferred shares, net of applicable taxes	–	3,522
Impact of assumed conversion of Series 2 Preferred shares, net of applicable taxes	–	2,390
Impact of assumed conversion of Series 7 Preferred shares, net of applicable taxes	–	56
Impact of assumed conversion of Convertible Debentures, net of applicable taxes	–	2,626
Impact of assumed conversion of Exchangeable notes	–	1,264
Net loss adjusted for dilutive effect	$ (2,874,823)	$ (29,281)

Yellow Media Inc. did not calculate the diluted loss per share for the three-month period ended March 31, 2012 because the conversion of the diluted instruments listed above would be anti-dilutive to the loss.

	For the three-month periods ended March 31,	
	2012	2011
Net loss from discontinued operations	$ –	$ (105,042)
Attributable to non-controlling interest	–	993
Net loss from discontinued operations available to common shareholders of Yellow Media Inc. used in the computation of basic and diluted loss per share	$ –	$ (104,049)

	For the three-month periods ended March 31,	
	2012	2011
Basic loss per share attributable to common shareholders from discontinued operations	$ –	$ (0.20)
Diluted loss per share attributable to common shareholders from discontinued operations	$ –	$ (0.20)

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

9. Stock-based compensation plans

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

Restricted Share Unit Plan

During the three-month period ended March 31, 2012, no Restricted Shares were granted. During the three-month period ended March 31, 2011, an amount of $10.8 million was authorised to be granted to participants of the Plan. An amount of $nil (2011 - $1.2 million) was used to reinvest in nil (2011 – 185,756) Restricted Shares using the proceeds from the dividends on the Restricted Shares held in escrow. In addition, no Restricted Shares which were not allocated to any specific employee were reinvested. This includes nil (2011 – 62,608) Restricted Shares associated with the portion which provides for up to a 250% payout.

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

The following table summarizes the status of the grants:

	March 31, 2012
	Number of Restricted Shares
	2009 to 2011 Grants
Outstanding, beginning of period	4,576,481
Granted	–
Vested	–
Forfeited	(3,489,106)
Cash dividends reinvested	–
Outstanding, end of period	1,087,375

	March 31, 2011
	Number of Restricted Shares
	2009 to 2010 Grants
Outstanding, beginning of period	7,337,315
Granted	–
Vested	(3,723,692)
Forfeited	(906,280)
Cash distributions reinvested	123,148
Outstanding, end of period	2,830,491

As at March 31, 2012 there were 5,734,507 (2011 – 1,850,289) Restricted Shares which were not allocated to any specific employee and 984,898 (2011 – 2,081,887) Restricted Shares representing the portion which provides up to a 250% payout. During the three-month period ended March 31, 2012, no expense was recorded in the consolidated income statement. (2011 – recovery of $1.6 million).

Stock Options – 2003 Plan

YPG LP

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

		March 31, 2012 and 2011
	Number of options	Weighted average exercise price per option
Outstanding and exercisable beginning and end of period	380,882	$ 3.92

Stock Options – 2010 Plan

The following table summarizes the status of the 2010 Plan.

		March 31, 2012
	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	12,100,000	$ 6.35
Granted	–	$ 6.35
Forfeited	(1,200,000)	$ 6.35
Outstanding, end of period	10,900,000	$ 6.35

An amount of $nil was recorded in the first quarter of 2012 (2011 - $0.2 million expense) in relation to this grant.

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

10. Financial charges, net

The significant components of the financial charges are as follows:

	For the three-month periods ended March 31,	
	2012	2011
Interest on long-term debt, exchangeable and convertible instruments	$ 29,741	$ 32,488
Interest on commercial paper	–	1,017
Standby fees and other financial charges, net	(141)	1,291
Other charges related to derivative financial instruments	7	7,043
Amortization and write-off of deferred financing costs	2,258	3,518
Accreted interest on compound financial instruments and note receivable	108	248
Accreted interest on retirement benefit obligations	8,408	8,302
Expected return on pension plan assets	(7,245)	(7,028)
Revaluation of deferred consideration[1]	(884)	–
Foreign exchange (gain) loss	(127)	263
	$ 32,125	$ 47,142

1. Deferred consideration of $5.7 million is presented in Trade and Other Payables due to its short-term maturity.

11. Guarantees

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

Yellow Media Inc. has entered into agreements which contain indemnification of its directors and officers indemnifying them against expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of Yellow Media Inc. Yellow Media Inc. benefits from directors' and officers' liability insurance which is purchased by Yellow Media Inc. No amount has been accrued in the condensed consolidated statement of financial position as at March 31, 2012, with respect to this indemnity.

Pursuant to the acquisitions of Aliant, YPG USA, the contribution of YPG Directories, LLC to Ziplocal, LP in exchange for a 35% minority interest in such combined entity as well as pursuant to the Share Purchase Agreement for the sale of the shares of Trader Corporation to funds advised by Apax Partners which closed in July 2011, Yellow Media Inc. has entered into agreements whereby Yellow Media Inc. agrees to indemnify and hold harmless the other party from and against any and all claims, liabilities, costs and expenses arising out of, based upon or related to (i) any breach by Yellow Media Inc. in the performance of its obligations under these agreements and (ii) any breach of a representation contained herein. Furthermore, agreements entered into by LesPAC, Trader and its predecessor companies prior to the acquisition and which were transferred as part of the Trader divestiture contain indemnifications similar to the ones just described. No amount has been accrued in the condensed consolidated statement of financial position as at March 31, 2012 with respect to these indemnities.

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

12. Segmented information

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

13. Comparative figures

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