ANNUAL REPORT 2011

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.

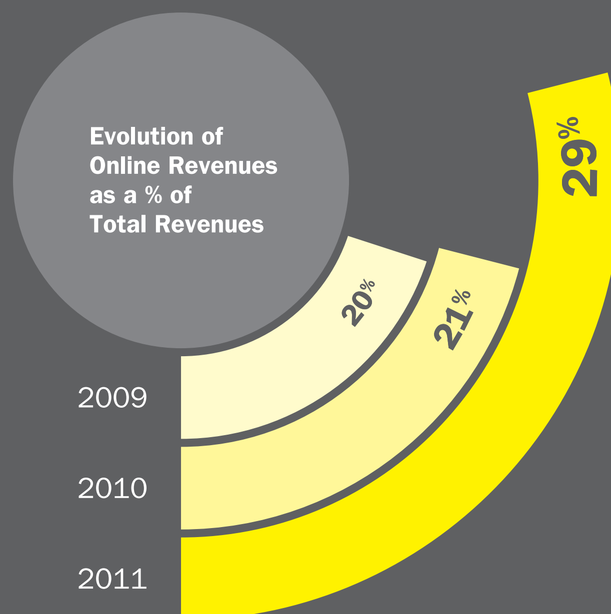
Our strategy is to leverage our multiplatform media and marketing solutions to enhance services to our advertisers, build traffic to our network of properties and improve user experience by focusing on the deployment of the Yellow Pages 360° Solution.

With this comprehensive solution we are strengthening our commitment to help businesses across Canada embrace the new digital space, providing them with the right services and products to manage and grow their businesses.

Financial and Operational Highlights

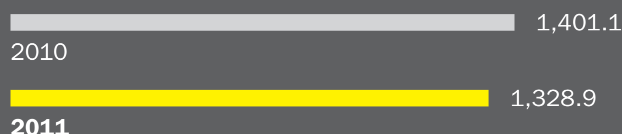
(in millions of Canadian dollars)

	2011
Revenues	1,328.9
EBITDA	679.7
Free Cash Flow from Continuing Operations	275.2
Advertiser Count	340,000
Online advertisers	63%
Reach of Online Canadians	38%
Mobile Downloads	3.7M

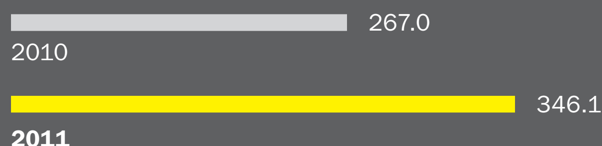


ANNUALIZED
ONLINE REVENUES OF
$360 MILLION

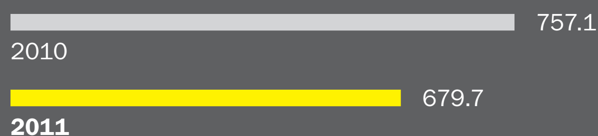
Revenues
(in millions of Canadian dollars)



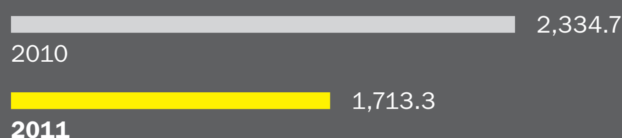
Online Revenues
(in millions of Canadian dollars)



EBITDA
(in millions of Canadian dollars)



Net Debt
(in millions of Canadian dollars)



"WE'RE DETERMINED TO
SERVE
THE NEEDS
OF CANADIAN SMALL AND
MEDIUM BUSINESSES
BY DELIVERING PRODUCTS AND
SERVICES THAT WILL HELP THEM
BETTER MANAGE AND GROW
THEIR BUSINESS."
MARC P. TELLIER
PRESIDENT AND CHIEF EXECUTIVE OFFICER

AS WE FOCUS ON OFFERING EFFECTIVE LOCAL SEARCH TOOLS TO CANADIANS, WE CONTINUE TO GENERATE VALUABLE BUSINESS LEADS TO OUR ADVERTISERS.

Needless to say, 2011 was a difficult year for Yellow Media. While we are encouraged by the progress made towards the execution of our strategy, we recognize the challenges associated with our capital structure and industry transformation.

Our industry continues to adapt to a new reality which stems from changes in how consumers look for information and how they fulfill their shopping needs. Indeed, we are increasingly seeing a shift in usage patterns as consumers' search habits migrate from traditional media to digital alternatives.

While times of change present opportunities, they do not come without challenges or happen overnight. We are building on the changes we have made to our business over the course of the past 10 years including those introduced in 2011 – managed websites, Yellow Pages Analytics™ – as well as YellowAPI and other improvements to our online and mobile properties.

By transforming our business and adapting to new market trends, we continue to offer great value to our advertisers in our products and services.

The launch of Yellow Pages 360° Solution during 2011 marked a key milestone in our digital transformation. For the first time, advertisers have single-point access to our comprehensive suite of products and services. Yellow Pages 360° Solution is an opportunity to not only reposition but also to expand our products and services, significantly increasing our addressable market.

The evolution of our products and services ensures that Yellow Media maximizes business opportunities for its advertisers in the context of changing consumer local search habits, therefore optimizing their return on investment. This business transformation brings relevancy to Yellow Media's product portfolio moving forward and generates growth potential for the Company.

As part of our focus to improve the online user experience and engagement, we are offering more compelling local search alternatives to Canadians across a broad spectrum of print, online and mobile platforms.

OUR CONFIDENCE IN THE FUTURE OF OUR BUSINESS AND OUR STRATEGY IS UNDIMINISHED.

Our objective is to redefine local search by offering timely, complete and relevant content on local merchants on the YellowPages.ca™ website and mobile applications as well as by expanding our distribution channels. For advertisers, this will mean more opportunities to increase their visibility and generate valuable business leads.

We serve the needs of more than 340,000 Canadian advertisers — accounting for approximately one-third of all Canadian businesses. Of these, two-thirds are online. YPG has direct relationships with these advertisers through one of the largest face-to-face sales forces in Canada. We invested in these professionals in 2011, and will continue to enhance their skills and digital knowledge so we can deliver superior value to Canadian advertisers.

One of our main goals continues to be to align our capital structure to our operational objectives in order to ensure financial flexibility to execute our business transformation.

Despite progress in Yellow Media's transformation in 2011, the climate of uncertainty remained. We therefore took actions to protect our business. On July 28, Yellow Media sold Trader Corporation for $702 million, followed by the sale of LesPAC on November 14 for $71 million. Proceeds from these sales are enabling us to focus on our core business, reduce indebtedness and invest in YPG's continuing transformation. We repaid approximately $800 million of debt during the year.

The Company has begun evaluating alternatives to refinance maturities in 2012 and beyond. 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 Company that will oversee this process with the objective of completing any transaction or transactions during the current fiscal year.

The Financing Committee of the Company is comprised of directors Michael T. Boychuk, John R. Gaulding, Anthony G. Miller and Bruce K. Robertson.

"FOR THE FIRST TIME, ADVERTISERS HAVE **SINGLE-POINT ACCESS TO OUR COMPREHENSIVE SUITE OF PRODUCTS AND SERVICES.**"

“MANY NEW CUSTOMERS ARE

FINDING

ME WITH THE YELLOW PAGES MOBILE APP. **I’VE ACTUALLY SEEN A RISE IN THE NUMBER OF RESERVATIONS AND WALK-INS.”**

OUR MOBILE APPLICATIONS HAVE BEEN DOWNLOADED ALMOST 4 MILLION TIMES.

In addition to the creation of the Financing Committee, we are pleased to welcome new directors to our Board. David G. Leith, retired Deputy Chairman of CIBC World Markets and Merchant Banking; Bruce K. Robertson, current Principal at Grandview Capital and Craig Forman, a former executive at EarthLink and Yahoo! have recently joined our Board of Directors.

As we continue our business transformation, it is essential to have the right people and skill sets to support the execution of our digital strategy. Our Board members collectively contribute extensive knowledge in fields such as corporate finance and corporate development and strategy within the technology, media and telecom industries. Their experience will benefit our Company as we continue to lead our industry transformation in Canada.

We will build on the investments we have made in our business and continue to embrace technology in order to adapt our business model to the new digital market reality.

Our business transformation allows us to ensure relevancy of our product and service portfolio moving forward, maximizing business opportunities for our advertisers and in turn generating growth potential for the Company.

Investing to better serve advertisers and consumers
The launch of 360° Solution early in 2011 enabled us to reposition our value proposition. 360° Solution is a comprehensive offer, with all the components of a complete media solution for Canadian businesses. It 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 right solutions that fit our advertisers' evolving needs.

During the year, we further strengthened our offering with mobile placement, which enables advertisers to rank higher on consumers' mobile searches.

As we respond to changes in consumer behaviour, we invested in more powerful mobile search platforms that give our advertisers greater opportunities for visibility. Our mobile applications have been downloaded 3.7 million times and mobile searches continue to grow.

WE PROVIDE BUSINESSES WITH TURN-KEY WEBSITES AND SEARCH ENGINE SOLUTIONS TO OPTIMIZE THEIR ONLINE MARKETING INVESTMENT.

We also focused on website creation and management, as research shows that approximately half of Canadian SMEs don't have a website, and those who do are seeking help to improve or optimize it.

Our network of online sites reaches 38% of Canada's online population. We remain focused on improving the user experience on our digital properties. Our goal is to leverage richer content on local merchants which increases the engagement of online and mobile users ultimately driving increased business leads. In 2011 we invested in YellowPages.ca and ramped-up its performance. It provides great advertiser value through improved fulfillment and lead generation. We also repositioned RedFlagDeals.com, our deals destination site, with richer content to support avid bargain hunters.

Complementing Yellow Pages Group's SME strategy, Mediative continues to serve the needs of national advertisers. Award-winning Mediative is now among North America's largest integrated advertising and digital marketing companies, with a client list that includes some of the world's most-recognized brands.

Focusing on execution
In the year ahead, we will focus on operational excellence to deliver superior customer value. This means delivering on the full potential of 360° Solution, as well as offering a superior consumer experience on all our platforms. We will be investing in our properties to bring more benefits to consumers and grow traffic and business leads to our advertisers. We will introduce differentiated products and services for larger advertisers, increase sales support effectiveness by introducing improved sales tools and simplified order processing, and improve operational execution in fulfillment, billing and support.

Our confidence in Yellow Media's fundamentals and strategy remains strong. We recognize that while our business transformation is well underway, it will be a journey. Nevertheless, we remain committed to creating Canada's industry-leading digital media company.

MARC L. REISCH
Chairman of the Board

MARC P. TELLIER
President and Chief Executive Officer

“TODAY, BEING ON THE WEB ISN’T AN OPTION.

IT’S ESSENTIAL...

SO WHEN CUSTOMERS SEARCH, THEY EASILY FIND ME AND MY SHOWCASE OF PROJECTS.”

WE BRING SUCCESS TO CANADIAN BUSINESSES

CANADIAN ENTREPRENEURS HAVE ENOUGH TO DEAL WITH, TRYING TO RUN A BUSINESS AND KEEP UP WITH HOW TODAY'S ONLINE AND MOBILE CUSTOMERS SEARCH, BROWSE AND BUY.

AT YELLOW PAGES GROUP, WE ARE COMMITTED TO SUPPORTING THEM AND HELPING THEM DEMYSTIFY THE DIGITAL UNIVERSE. WE ARE FOCUSED ON OFFERING THEM SUPERIOR CUSTOMER VALUE WHILE DELIVERING QUALIFIED BUSINESS OPPORTUNITIES.

Our 360° Solution offers a multi-channel approach which complements the challenges SMEs face, bringing single-point access to our entire suite of products and services. No other service provider offers such a comprehensive solution.

YELLOW PAGES 360° SOLUTION OFFERS:

- Targeted print advertising - Print is still a powerful tool for Canadians looking for a business near them, with a monthly average of 42 million searches conducted last year. Print directories are found in 89% of Canadian households.
- Presence on leading Canadian properties and applications such as YellowPages.ca online and mobile.
- Managed website solutions and videos.
- Customized Search Engine Marketing and Optimization — helping advertisers get the best possible result on search engines.
- Access to a broad network and partners as well as to performance reporting through Yellow Pages Analytics which provides advertisers with detailed reports, so they can track and optimize their investment's performance.

The Yellow Pages 360° Solution was launched via an award-winning national ad campaign. It is supported by a business to business website that showcases our portfolio of products and services that helps Canadian businesses with their overall marketing needs. This website was visited over two million times in 2011 and won Grand Prize at the Boomerang awards for best Business to Business website for the second year running.

KEEPING UP WITH MOBILE CANADIANS

Canadians are increasingly mobile, making search and purchase decisions while on the go. Our award-winning apps have been downloaded 3.7 million times. To help SMEs keep up with consumer behaviour, in 2011 we strengthened our mobile offering by:

- Launching Sponsored Placement, which enables advertisers to top search lists made through mobile devices, and Brand Filter, which enables national businesses to showcase their brands alongside relevant searches.
- Introducing ShopWise™ just before the key holiday season. The new iPhone app saves time and money by pinpointing the best and nearest deals.
- Adding new features and richer content, including an innovative deals feature on the YellowPages.ca mobile app that drive more ready-to-buy consumers to advertisers.

YPG apps are drawing strong reviews. YellowPages.ca won “Best in Mobile” at the Digi awards and is listed among Apple’s top apps for the second year running.

INVESTING TO INCREASE BUSINESS LEADS FOR ADVERTISERS

THROUGHOUT 2011, YPG INNOVATED AND INVESTED TO KEEP UP WITH EVOLVING CONSUMER NEEDS, MAKING ITS DIGITAL PLATFORMS MORE ATTRACTIVE TO CANADIAN CONSUMERS… AND THEREFORE TO CANADIAN SMEs.

Our flagship site is now more personalized and easier to navigate, with user accounts, ratings and reviews, HD videos, enhanced maps and social media plug-ins. In late 2011, we launched an innovative deals feature which redefined local search by offering timely and relevant deals linked directly to business search results, based on one of the largest deals database in Canada.

Searching our database of over 12 million personal listings and 1.5 million local business listings is a richer experience than ever, with a completely redesigned site, enhanced with additional features and search functionalities. Canadians now have access to results aggregated from the leading social media networks, to help them refine their search results even more.

We redesigned Canada's number one online destination for deals and shopping tools — a destination that attracts 1.5 million unique visitors each month. Now faster and more intuitive than ever, RedFlagDeals.com sports a new mobile app and one of the country's largest deals databases, leveraging YellowPages.ca, our mobile apps and ShopWise… in addition to setting the stage for future innovations.

MEDIATIVE HITS THE GROUND RUNNING

In the year since its launch, Mediative has emerged as one of North America's largest integrated digital marketing companies.

Its best-in-class digital media strategists and practitioners serve clients and agencies, maximizing the online presence of iconic brands such as WalMart, Future Shop, Best Buy, Disney, Martha Stewart and Toys 'R Us, and managing ad inventory for over 500 websites.

Mediative's digital advertising network reaches more than 15 million unique visitors per month.

In 2011 the respected industry authority, Top SEOs, named Mediative as its top Canadian pick in two Performance Solution categories.

The YellowAPI Developer program was launched this year to provide seed funding and support to app developers who integrate our advertiser database. To date, YellowAPI.com engaged over 1,500 developers and helped to launch over 30 new apps, while nurturing homegrown entrepreneurship and innovation. We are continually pursuing distribution partnerships with leading mobile and web properties to generate more traffic for our advertisers.

A RESPONSIBILITY TO CANADIAN COMMUNITIES

OUR MORE THAN 100-YEAR LEGACY IN SUPPORTING LOCAL BUSINESSES GIVES US A SPECIAL RELATIONSHIP WITH CANADIAN COMMUNITIES. INDEED, IT'S A RELATIONSHIP WE DON'T TAKE FOR GRANTED.

IN 2011, WE DELIVERED ON OUR COMMITMENTS BY LAUNCHING A FREE, EIGHT-CITY SEMINAR SERIES TO HELP BUSINESS OWNERS UNDERSTAND THEIR CHANGING CUSTOMERS — HOW TO HARNESS ONLINE MARKETING AND, ULTIMATELY, HOW TO SUCCEED AND CONTRIBUTE TO A STRONGER LOCAL ECONOMY.

Along with the online and mobile Yellow Pages search tools, the Yellow Pages directory helps consumers find local goods and services in their community thereby supporting local businesses, the pillars of our communities. This fosters a more robust local economy and a healthier national economy.

CONTINUOUSLY IMPROVING OUR ENVIRONMENTAL PERFORMANCE

1992
YPG switched from dyed yellow paper to white paper printed yellow. Directories now entirely recyclable.

1995
Recycled paper included in directory production

2004
YPG Environmental Strategic Plan deployed

2005
Residential directories in major cities now distributed every 24 months

2006
Vegetable-based inks used in directories to facilitate recycling

OUR MANUFACTURING AND DISTRIBUTION **CENTRES REDUCED PAPER CONSUMPTION BY**

22%

FROM 2010 TO 2011 AND BY 44% OVER THE PAST THREE YEARS.

PROVIDING CHOICE TO CANADIANS

With more than 340,000 advertisers, or about one third of all Canadian businesses, including 230,000 online advertisers, YPG has a strong market presence across the country. About 84% of Canadians consumers search our online, mobile or print platforms to find the product, service or business they're looking for.

Giving the changing consumer habits of Canadians who now increasingly turn to digital alternatives such as our YellowPages.ca site or mobile application, we provide choice. We have a customer delivery program enabling Canadians to opt-out of receiving the Yellow Pages print directory. We promote this program directly on the cover of our directories, via social media and other activities.

2008
All office paper 100% recycled and FSC-certified

2009
YPG commits to a 12-step eco initiatives plan, developed with Equiterre

2009
Print directory delivery opt-out program launched

2009
EcoGuide local environmental resource content included in the directories

2009
Employee carpooling program deployed

2010
Residential directories now distributed by request only, in 8 major cities

CORPORATE SOCIAL RESPONSIBILITY

ENVIRONMENTAL STEWARDSHIP

While more Canadians are opting for digital and mobile search tools every day, about two out of three Canadians used at least once a Yellow Pages directory to find a local business search in 2011. Our environmental stewardship therefore focuses on reducing paper consumption while still satisfying the needs of consumers and advertisers. In this respect, we've made excellent progress.

We accomplished this through on-demand distribution of residential directories in large cities in Québec and Ontario to better reflect evolving consumer habits.

What's more, we continuously monitor our greenhouse gas emissions, waste, paper and water consumption and other key performance indicators.

WE'VE REDUCED OUR CARBON FOOTPRINT BY 17% IN 2010

THIS COVERS ALL YPG OPERATIONS, INCLUDING THE FULL LIFE CYCLE OF OUR DIRECTORIES.

ONE STEP AT A TIME

We've also implemented *Changing the World, One Step at a Time*, in partnership with Équiterre, a leading environmental organization. We have completed 25 of the program's 31 initiatives, including offering Canadians a choice about whether to receive a printed directory, and ensuring that all our new desktop computers are energy efficient (Energy Star 5.0).

TOP 100 EMPLOYER

For the sixth year in a row, YPG was chosen as one of the top 100 companies to work for.

This selection was based on our flexible work schedule, how we live our values and educational programs that include more than 500 online courses.

2011
FINANCIAL REVIEW

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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 42 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 21 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)

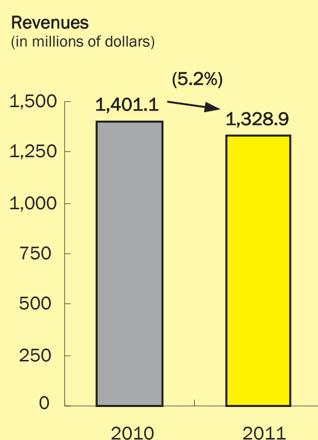
	Years ended December 31, 2011	2010
Revenues	**$ 1,328,866**	$ 1,401,129
Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, acquisition-related costs, and restructuring and special charges (EBITDA)	**$ 679,707**	$ 757,108
Basic (loss) earnings per 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

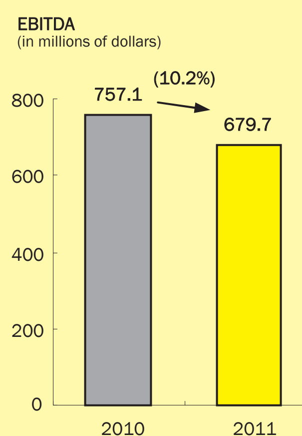
[1] On March 25, 2011, Yellow Media Inc. announced that it had reached a definitive agreement to sell its Vertical Media segment. Consequently, the results of the Vertical Media segment are presented as discontinued operations and excluded from these figures. The transaction closed on July 28, 2011.

[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.

MarketProfilerTM — During the first quarter of 2011, YPG launched MarketProfiler™, the first free automated online tool of its kind in Canada. MarketProfilerTM 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.

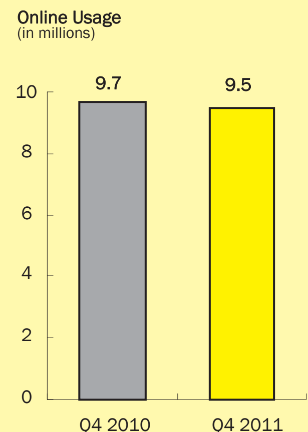
Fiscal 2011 versus 2010

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.

[1] Source: comScore Media Metrix Canada.

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.

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.

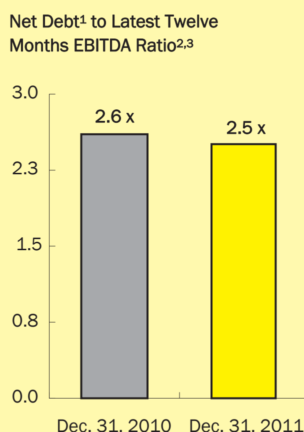
3. Liquidity and Capital Resources

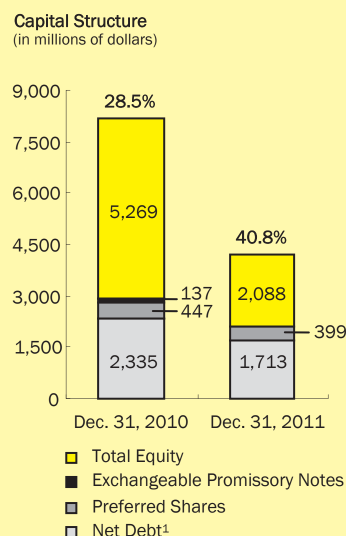
This section examines the Company's capital structure, sources of liquidity and various financial instruments including debt and preferred shares.

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 21 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 21 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	Years ended December 31, 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, 2011	Three-month periods ended December 31, 2010	Years ended December 31, 2011	Years ended December 31, 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.

Management's Report

The accompanying financial statements of Yellow Media Inc. and all information in this annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements are based upon management's best estimates and judgements and have been prepared in conformity with International Financial Reporting Standards. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

To ensure the integrity and objectivity of the data, management maintains internal accounting controls and established policies and procedures designed to ensure reasonable assurance that transactions are recorded and executed in accordance with its authorization, that assets are properly safeguarded and that reliable financial records are maintained. The internal control systems and financial records are subject to review by the external auditors during the examination of the financial statements.

The responsibility of the Board of Directors is pursued principally through the Audit Committee. The Audit Committee, which is composed exclusively of outside directors, meets regularly with the external auditors and with management, to discuss accounting policies and practices, internal control systems, the scope of audit work and to assess reports on audit work performed. The external auditors have direct access to the Audit Committee, with or without the presence of management, to discuss results of their audits and any recommendations they have for improvements in internal controls, the quality of financial reporting and any other matters of interest. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

Ginette Maillé
Chief Financial Officer

Daniel Verret
Vice President and Corporate Controller

Independent Auditor's Report

To the Shareholders of Yellow Media Inc.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Deloitte & Touche LLP[1]

February 9, 2012
Montréal, Québec

[1] Chartered accountant auditor permit No. 20293

Consolidated Statements of Financial Position

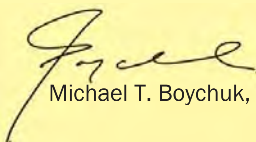
(in thousands of Canadian dollars)

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

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

Approved on behalf of Yellow Media Inc. by

Marc L. Reisch, Director



Michael T. Boychuk, Director

Consolidated Income Statements

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

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

[2] Comparative amounts presented are trust units.

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

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

Consolidated Statements of Comprehensive (Loss) Income

For the years ended December 31, (in thousands of Canadian dollars)	2011	2010
Net (loss) earnings	$ (2,828,999)	$ 229,406
Other comprehensive income (loss), net of related income taxes:		
Reclassification adjustment on derivatives designated as cash flow hedges in the year[1]	(88)	348
Change in gains and losses on derivatives designated as cash flow hedges	(88)	348
Unrealized loss on available–for–sale investment in the year[2]	(81)	(193)
Change in unrealized loss on available–for–sale financial asset	(81)	(193)
Unrealized exchange differences on translating financial statements of foreign operations and foreign associates[3]	(5,410)	(7,922)
Reclassification adjustment of cumulative translation loss realized upon disposition of foreign operations (Note 7)	4,590	2,924
Change in unrealized exchange differences on translating financial statements of foreign operations and foreign associates	(820)	(4,998)
Actuarial losses[4]	(77,652)	(56,285)
Retirement benefits	(77,652)	(56,285)
Other comprehensive loss	(78,641)	(61,128)
Total comprehensive (loss) income	$ (2,907,640)	$ 168,278
Total comprehensive (loss) income attributable to:		
Common shareholders of Yellow Media Inc.[5]	$ (2,909,695)	$ 167,995
Non-controlling interests	2,055	(18,900)
Holders of Preferred shares, series 3, 5 and 7	–	19,183
	$ (2,907,640)	$ 168,278

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

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

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

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

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

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

Consolidated Statements of Changes in Equity

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

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

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

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

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

2011

Available for sale investment	Cash flow hedges	Foreign currency translation	Capital and Reserves	Deficit	Equity attributable to shareholders	Non-controlling interests	Total Equity
$ 225	$ 1,077	$ (2,373)	$ 6,476,911	$ (1,260,974)	$ 5,215,937	$ 52,568	$ 5,268,505
(81)	(88)	775	606	(77,652)	(77,046)	(1,595)	(78,641)
–	–	–	–	(2,832,649)	(2,832,649)	3,650	(2,828,999)
(81)	(88)	775	606	(2,910,301)	(2,909,695)	2,055	(2,907,640)
–	–	–	61,421	–	61,421	–	61,421
–	–	–	–	–	–	–	–
–	–	–	(137,684)	87,252	(50,432)	–	(50,432)
–	–	–	245	–	245	–	245
–	–	–	(3,367)	–	(3,367)	–	(3,367)
–	–	–	–	–	–	–	–
–	–	–	–	(207,345)	(207,345)	–	(207,345)
–	–	–	–	–	–	(53,821)	(53,821)
–	–	–	–	(22,539)	(22,539)	–	(22,539)
$ 144	$ 989	$ (1,598)	$ 6,398,132	$ (4,313,907)	$ 2,084,225	$ 802	$ 2,085,027

2010

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

Consolidated Statements of Cash Flows

For the years ended December 31, (in thousands of Canadian dollars)	2011	2010
OPERATING ACTIVITIES		
Net (loss) earnings from continuing operations	$ (2,708,122)	$ 231,786
Adjusting items		
Depreciation and amortization	160,906	180,265
Impairment of goodwill and intangible assets	2,900,000	–
Gain on disposal of subsidiary	(6,211)	–
Post employment benefit costs, net	1,609	3,879
Stock-based compensation (reversal) expense	(565)	21,870
Impairment of investment in associate	50,271	–
Share of losses from investments in associates	12,060	19,900
Other non-cash items	(1,711)	(1,180)
Income taxes recognized in net loss (earnings)	87,149	93,583
Financial charges recognized in net loss (earnings)	130,582	148,437
Change in operating assets and liabilities	(42,637)	33,774
Income taxes paid	(105,203)	(24,836)
Interest paid	(141,555)	(137,871)
	336,573	569,607
INVESTING ACTIVITIES		
Disposal of subsidiary (Note 6)	70,938	–
Disposal of Trader (Note 7)	690,230	–
Disposal of cash related to the sale of Trader	(24,517)	–
Business acquisitions, net of cash acquired and bank indebtedness assumed (Note 5)	(49)	(119,161)
Acquisition of investment in associates	–	(5,356)
Acquisition of intangible assets	(46,686)	(55,063)
Acquisition of property, plant and equipment	(15,565)	(4,178)
Issuance of note	(1,238)	–
Proceeds from lease inducements	852	–
	673,965	(183,758)
FINANCING ACTIVITIES		
Issuance of long-term debt and commercial paper	1,062,000	840,265
Repayment of long-term debt and commercial paper	(1,403,585)	(469,263)
Redemption of exchangeable and convertible instruments	(106,172)	–
Issuance of exchangeable and convertible instruments	–	200,000
Dividends to shareholders	(209,134)	(395,522)
Repurchase of Preferred shares, series 1 and 2, and Medium Term Notes	(266,183)	(501,812)
Repurchase of common shares and Preferred shares, Series 3 and 5	(50,432)	–
Dividends on Preferred shares, series 3, 5 and 7	(22,539)	(22,834)
Stock-based compensation (Note 20)	(2,899)	(16,536)
Deferred consideration	(4,502)	–
Proceeds on derivative financial instruments	3,819	(1,748)
Debt and preferred share issuance and other costs	(2,123)	(23,734)
	(1,001,750)	(391,184)
Effect of exchange rate changes on cash denominated in foreign currencies	(1,862)	(1,529)
NET INCREASE (DECREASE) IN CASH	6,926	(6,864)
CASH FLOWS FROM DISCONTINUED OPERATIONS (Note 7)	7,935	40,019
CASH, BEGINNING OF YEAR	69,325	36,170
CASH, END OF YEAR	$ 84,186	$ 69,325
Supplemental disclosure of cash flow information (Note 23)		

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

1. Description

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

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

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

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

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

2. Adoption of IFRS and upcoming revised standards

2.1. Adoption of IFRS

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

IFRS transition (IFRS 1)

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

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

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

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory for Yellow Media Inc.'s accounting periods beginning on or after January 1, 2012. Yellow Media Inc. has not early adopted these standards and has not fully assessed the impact of adopting them. Those which are considered to be relevant to Yellow Media Inc.'s operations are as follows:

IFRS 7 (Revised) - Financial Instruments: Disclosures

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

IFRS 9 - Financial Instruments

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

Key requirements of IFRS 9 are described as follows:

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

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

IFRS 10 - Consolidated Financial Statements

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

IFRS 11 - Joint Arrangements

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

IFRS 12 - Disclosure of Interests in Other Entities

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

IFRS 13 - Fair Value Measurement

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

IAS 19 (Revised) – Employee Benefits

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

IAS 1 (Revised) – Presentation of Financial Statements

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

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

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

3. Basis of presentation and significant accounting policies

3.1 Statement of compliance

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Basis of consolidation

3.4.1 Subsidiaries

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

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

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

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

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

3.4.2 Associates

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

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

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

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

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

3.4.3 Business combinations

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

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

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

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

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

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

3.4.4 Non-controlling interests

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

3.4.5 Discontinued operations

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

3.4.6 Assets held for sale

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

3.5 Foreign currency

3.5.1 Foreign currency transactions

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

3.5.2 Foreign operations

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

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

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

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

3.6 Cash

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

3.7 Trade receivables

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

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

3.8 Financial assets

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

3.8.1 Effective interest method

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

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

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

3.8.2 Financial assets at FVTPL

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

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

3.8.3 Loans and receivables

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

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

Cash and trade receivables are included in this category.

3.8.4 Held-to-maturity investments

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

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

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

3.8.5 AFS financial assets

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

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

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

3.8.6 Impairment of financial assets

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

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

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

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

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

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

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

3.9 Deferred publication costs

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

- Yellow Media Inc. has control over the contract for which the costs were incurred;
- the control results from past events;
- future economic benefits are expected to flow to Yellow Media Inc.;
- the asset is identifiable, non-monetary and without physical substance.

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

3.10 Property, plant and equipment

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

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

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

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

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

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

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

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

3.11 Leasing

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

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

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

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

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

3.12 Intangibles assets

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Intangible assets acquired in a business combination are identified and recognized separately from goodwill where they arise from legal or contractual rights or are capable of being separated from the acquiree and sold, transferred, licensed or exchanged. The cost of such intangible assets is their fair value at the acquisition date.

Intangible assets developed internally (consisting of software used by the Company) are recognized to the extent the criteria in IAS 38 *Intangible Assets* are met. Development costs for internally generated intangible assets are capitalized at cost if and only if Yellow Media Inc. can demonstrate:

- the technical feasibility of completing the asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditures are charged to the income statement in the period in which they are incurred.

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

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

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

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

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

3.13 Goodwill

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

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

3.14 Impairment of tangible and intangible assets including goodwill

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

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

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

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

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

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

3.15 Trade and other payables

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

3.16 Financial liabilities

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

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

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

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

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

3.17 Provisions

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

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

3.17.1 Onerous contracts

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

3.17.2 Restructuring

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

3.18 Long-term debt

All long-term debts are initially stated at the fair value of consideration received after deduction of issue costs. Debts are subsequently stated at amortized cost. Issue costs are charged to the income statement together with the coupon, as finance costs, on a constant-yield basis over the term of the debt, or over a shorter period where the lender can require earlier repayment.

3.19 Employee benefits

3.19.1 Defined contribution plans

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

3.19.2 Defined benefit plans

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

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

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

3.19.3 Other long-term employee benefits

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

3.19.4 Termination benefits

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

3.19.5 Short-term benefits

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

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

3.19.6 Share-based payment transactions

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

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

3.20 Equity instruments issued by Yellow Media Inc.

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

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

3.21 Operating segments

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

3.22 Revenues

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

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

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

3.23 Derivative financial instruments

Yellow Media Inc. enters into a variety of derivative financial instruments to manage the combination of fixed to floating interest rates on its long-term debt and to manage the interest rate risk for future planned issuances.

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

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

3.23.1 Embedded derivatives

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

3.23.2 Hedge accounting

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

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

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

3.23.3 Fair value hedges

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

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

3.23.4 Cash flow hedges

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

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

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

3.24 Borrowing costs

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

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

3.25 Taxation

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

3.25.1 Current income tax

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

3.25.2 Deferred tax

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

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

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

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

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

3.25.3 Current and deferred tax for the period

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

3.26 Significant estimates and judgements

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

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

3.26.1 Intangible assets and goodwill

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

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

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

3.26.2 Useful lives of property, plant and equipment

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

3.26.3 Held to maturity financial assets

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

3.26.4 Employee future benefits

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

3.26.5 Income Taxes

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

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

4. Impairment of goodwill and intangible assets

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

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

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

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

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

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

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

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

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

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

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

	Yellow Pages Group	Mediative	Other[1]	Total
Intangible assets by CGUs				
Trademarks and domain names	$ 1,058,309	$ 7,978	$ 24,555	$ 1,090,842
Trademarks and domain names with finite lives	$ 8,200	$ –	$ 6,596	$ 14,796
Non-competition agreements and logos	$ 457,246	$ 8,176	$ 2,324	$ 467,746
Customer - related intangible assets	$ –	$ 4,364	$ –	$ 4,364
Software	$ 76,137	$ –	$ 4,166	$ 80,303
Goodwill	n/a	n/a	n/a	$ 2,967,847
Key assumptions :				
Terminal growth rate	2.50%	3.50%	3.50%	2.50%
Discount rate – post-tax	11%	20%	16.5%	11%
Discount rate – pre-tax	15%	25%	21%	15%

[1] Includes Canpages.

5. Business acquisitions

2011

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

2010

Directories

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

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

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

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

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

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

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

Vertical Media (Note 7)

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

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

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

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

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

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

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

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

Consideration

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

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

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

6. Disposal of subsidiary

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

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

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

7. Discontinued operations

YPG Directories, LLC

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

Trader Corporation

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

The real estate, employment and LesPAC.com businesses were excluded from the divestiture. Yellow Media Inc. sold the assets of LesPAC.com on November 14, 2011 as described in Note 6. The real estate and employment business continue to be owned and managed by Yellow Media Inc.

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

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

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

[1] Includes cash of $21.3 million.

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

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

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

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

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

8. Investments in associates

List of associates

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

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

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

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

9. Property, plant and equipment

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

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

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

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

10. Intangible assets and goodwill

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

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

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

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

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

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

11. Trade and other payables

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

12. Provisions

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

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

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

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

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

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

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

13. Post-employment benefits

Yellow Media Inc. maintains pension plans with defined benefit and defined contribution components which cover substantially all of the employees of Yellow Media Inc. Yellow Media Inc. maintains unfunded supplementary defined benefit pension plans for certain executives and also maintains other retirement and post-employment benefits ("other benefits") plans which cover substantially all employees of Yellow Media Inc.

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

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

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

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

While all the plans are not considered fully funded for financial reporting purposes, registered plans are funded in accordance with the applicable statutory funding rules and regulations governing the particular plans.

The significant assumptions adopted in measuring Yellow Media Inc.'s pension and other benefit obligations as at December 31, 2011 and 2010 were as follows:

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

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

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

	One-Percentage-Point - Increase	One-Percentage- Point - Decrease
Effect on other benefits – total service and interest costs	$ 152	$ (147)
Effect on other benefits – Post-employment benefit obligation	$ 2,069	$ (2,018)

The net benefit plan costs include the following components:

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

[1] Included in operating costs

Plan assets are represented primarily by Canadian and foreign equities, government and corporate bonds, debentures and secured mortgages. Plan assets are held in trust and the asset allocation was as follows as at December 31, 2011 and 2010 and January 1, 2010:

(in percentages - %)	December 31, 2011	December 31, 2010	January 1, 2010
Asset categories in the Master Trust:			
Cash and other short-term investments	3	3	4
Publicly traded equity securities	62	62	60
Publicly traded fixed income securities	35	35	32
Pending MTS transfer	–	–	4

The expected return on plan assets is determined by considering long-term historical returns, future estimates of long-term investment returns and asset allocations.

The total cash payments for pension and other benefit plans made by Yellow Media Inc. amounted to $15.6 million for 2011 (2010 – $12.5 million). Total cash payments for pension and other benefit plans expected in 2012 amount to approximately $43 million.

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

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

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

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

14. Long-term debt

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

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

				January 1, 2010
	Principal amount	Fair value adjustment of hedged item	Deferred financing costs	Total
Medium Term Notes	$ 2,053,345	$ 10,703	$ (19,101)	$ 2,044,947
Credit facilities	100,000	–	–	100,000
Obligations under finance leases[1]	9,027	–	–	9,027
	2,162,372	10,703	(19,101)	2,153,974
Less current portion of long-term debt	2,254	–	–	2,254
	$ 2,160,118	$ 10,703	$ (19,101)	$ 2,151,720

[1] Less imputed interest at varying rates not exceeding 10.1% (2010 - 15.6%).

Medium Term Notes

Medium Term Notes were issued in various series between April 2004 and November 2009. The terms and conditions of these notes are governed by a Trust indenture dated April 2004. Medium Term Notes outstanding as at December 31, 2011 are as follows:

- $254.7 million of 5.71% Series 2 Notes maturing on April 21, 2014 priced at $99.985, for an initial yield to the noteholders of 5.71% compounded semi-annually
- $121.2 million of 5.85% Series 3 Notes maturing on November 18, 2019 priced at par, for an initial yield to the noteholders of 5.85% compounded semi-annually
- $319.9 million of 5.25% Series 4 Notes maturing on February 15, 2016 priced at $99.571, for an initial yield to the noteholders of 5.31% compounded semi-annually
- $16.6 million of 6.25% Series 5 Notes maturing on February 15, 2036 priced at $100.933, for an initial yield to the noteholders of 6.181% compounded semi-annually
- $138.1 million of 7.3% Series 7 Notes maturing on February 2, 2015 priced at par, for an initial yield to the noteholders of 7.3% compounded semi-annually
- $125 million of 6.85% Series 8 Notes maturing on December 3, 2013 priced at par, for an initial yield to the noteholders of 6.85% compounded semi-annually
- $130 million of 6.50% Series 9 Notes maturing on July 10, 2013 priced at par, for an initial yield to the noteholders of 6.50% compounded semi-annually and
- $300 million of 7.75% Series 10 Notes maturing on March 2, 2020 priced at par, for an initial yield to the noteholders of 7.75% compounded semi-annually

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

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

Credit facilities

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

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

The revolving tranche can be used for general corporate purposes.

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

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

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

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

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

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

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

Commercial paper

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

Obligations under finance leases

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

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

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

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

15. Exchangeable and convertible instruments

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

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

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

On July 8, 2010, Yellow Media Inc. issued convertible unsecured subordinated debentures for a principal amount of $200 million ("Convertible Debentures"). The Convertible Debentures bear interest payable semi-annually at a rate of 6.25% and mature on October 1, 2017. The Convertible Debentures may be exchanged at any time, at the option of the holder, for common shares of Yellow Media Inc. at an exchange price of $8 per share (the "Exchange price"). On and after October 1, 2013 and prior to October 1, 2015, the Convertible Debentures may be redeemed in whole or in part from time to time at the option of Yellow Media Inc. at a price equal to their principal amount plus accrued and unpaid interest, provided that the current market price of the common shares preceding the date on which the notice of redemption is given is not less than 125% of the Exchange price. On and after October 1, 2015, the Convertible Debentures may be redeemed in whole or in part from time to time at the option of Yellow Media Inc. at a price equal to their principal amount plus accrued interest. Yellow Media Inc. may also, at its option and subject to certain conditions, elect to satisfy its obligation to repay all or any portion of the principal amounts and interest of the Convertible Debentures that are to be redeemed or repaid at maturity, by issuing common shares of Yellow Media Inc. The number of shares a holder will receive in respect of each Convertible Debenture will be determined by dividing the principal amount of the Convertible Debentures that are to be redeemed or repaid at maturity by 95% of the market price of the common shares.

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

16. Preferred shares, Series 1 and 2

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

a) Series 1

On March 6, 2007, Yellow Media Inc. issued 12,000,000 Series 1 cumulative redeemable first preferred shares ("Series 1 shares") for net proceeds of $291 million after deducting underwriters' fees in the amount of $8 million and other issuance costs of $1 million.

Voting rights

All of the issued and outstanding Series 1 shares are non-voting, except under special circumstances when the holders are entitled to one vote per share.

Entitlement to dividends

The holders of the Series 1 shares are entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, in an amount equal to $1.0625 per Series 1 share per annum, payable quarterly.

Redemption by the issuer

On or after March 31, 2012, Yellow Media Inc. may, at its option, redeem at par for cash the Series 1 shares, in whole or in part. Also, on or after March 31, 2012, and prior to December 31, 2012, Yellow Media Inc. may, at its option, exchange the outstanding Series 1 shares, in whole or in part, into common shares of the Company. In addition, the Series 1 shares will be redeemable at a premium in cash or exchangeable at the option of Yellow Media Inc., in whole or in part into common shares of the Company on or after March 31, 2007 provided that any exchange prior to March 31, 2012 shall be limited to circumstances in which the Series 1 shares are entitled to vote separately as a class or series by law or court order at a conversion price equal to the greater of $2.00 and 95% of the then applicable weighted average trading price of the common shares. This option is an embedded derivative and is recorded at fair value on the consolidated statement of financial position with changes in fair value recognized in financial charges.

Redemption by the holder

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

b) Series 2

On June 8, 2007, Yellow Media Inc. issued 8,000,000 Series 2 cumulative redeemable first preferred shares ("Series 2 shares") for net proceeds of $193 million after deducting underwriters' fees in the amount of $6 million and other issuance costs of $1 million.

Voting rights

All of the issued and outstanding Series 2 shares are non-voting, except under special circumstances when the holders are entitled to one vote per share.

Entitlement to dividends

The holders of the Series 2 shares are entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, in an amount equal to $1.25 per Series 2 share per annum, payable quarterly.

Redemption by the issuer

On or after June 30, 2012, Yellow Media Inc. may, at its option, redeem for cash the Series 2 shares, in whole or in part at a decreasing premium until June 30, 2016 and at par thereafter. Also, on or after June 30, 2012, and prior to June 30, 2017, Yellow Media Inc. may, at its option, exchange the outstanding Series 2 shares, in whole or in part, into common shares of the Company at a decreasing premium until June 30, 2016 and at par thereafter. In addition, the Series 2 shares will be redeemable at a premium in cash or exchangeable at the option of Yellow Media Inc., in whole into common shares of the Company on or after June 30, 2007 provided that any exchange prior to June 30, 2012 shall be limited to circumstances in which the Series 2 shares are entitled to vote separately as a class or series by law or court order. This option is an embedded derivative and is recorded at fair value on the consolidated statement of financial position with changes in fair value recognized in financial charges.

Redemption by the holder

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

Normal course issuer bid

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

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

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

17. Income taxes

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

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

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

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

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

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

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

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

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

18. Shareholders' capital

Common shares

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

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

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

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

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

Dividend reinvestment plan

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

Preferred shares

Authorized:

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

Issued:

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

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

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

Series 3

On September 23, 2009, Yellow Media Inc. issued 7,500,000 Series 3 cumulative rate reset preferred shares ("Series 3 shares") at a purchase price of $25.00 per share. On September 28, 2009, Yellow Media Inc. issued an additional 800,000 Series 3 shares pursuant to the exercise of the over allotment option granted to the underwriters for combined net proceeds of $200.5 million after deducting underwriters' fees in the amount of $6 million and other issuance costs of $1 million and excluding income tax recovery of $2 million on the fees.

Voting rights

All of the issued and outstanding Series 3 shares are non-voting, except under special circumstances when the holders are entitled to one vote per share.

Entitlement to dividends

The holders of the Series 3 shares are entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, in an amount equal to $1.6875 per Series 3 share per annum, payable quarterly, for the initial five year period ending September 30, 2014. The dividend rate will be reset on September 30, 2014 and every 5 years thereafter.

Redemption by the issuer

On September 30, 2014, and on September 30 every five years thereafter, Yellow Media Inc. may, at its option, redeem at par for cash the Series 3 shares, in whole or in part.

Conversion at the option of the holder

On September 30, 2014, each preferred share is convertible, at the option of the holder, into Series 4 preferred shares ("Series 4") on a one to one basis. The Series 4 shares will be entitled to floating rate cumulative preferential cash dividends, as and when declared by the Board of Directors, payable quarterly. The floating quarterly dividend rate will be equal to the sum of the three-month government of Canada Treasury bill yield plus 4.17% per annum.

Series 5

On December 22, 2009, Yellow Media Inc. issued 5,000,000 Series 5 cumulative rate reset preferred shares ("Series 5 shares") at a purchase price of $25.00 per share for net proceeds of $120.3 million after deducting underwriters' fees in the amount of $3.7 million and other issuance costs of $1 million and excluding income tax recovery of $1.4 million on the fees.

Voting rights

All of the issued and outstanding Series 5 shares are non-voting, except under special circumstances when the holders are entitled to one vote per share.

Redemption by the issuer

On June 30, 2015, and June 30 every five years thereafter, Yellow Media Inc. may, at its option, redeem at par for cash the Series 5 shares, in whole or in part.

Entitlement to dividends

The holders of the Series 5 shares are entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, in an amount equal to $1.725 per Series 5 share per annum, payable quarterly, for the initial five year period ending June 30, 2015. The dividend rate will be reset on June 30, 2015 and every 5 years thereafter.

Conversion at the option of the holder

On June 30, 2015, each preferred share is convertible, at the option of the holder, into Series 6 preferred shares ("Series 6") on a one to one basis. The Series 6 shares will be entitled to floating rate cumulative preferential cash dividends, as and when declared by the Board of Directors, payable quarterly. The floating quarterly dividend rate will be equal to the sum of the three-month government of Canada Treasury bill yield plus 4.26% per annum.

Series 7

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

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

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

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

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

Reduction of capital

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

Normal course issuer bid

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

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

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

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

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

19. Earnings per share

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

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

[1] Subject to specific payout conditions.

[2] Comparative amounts presented as trust units.

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

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

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

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

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

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

20. Stock-based compensation plans

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

Restricted Share Unit Plan

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

Cash dividends received on all Restricted shares awarded to eligible employees and directors were reinvested in additional Restricted Shares and vested according to the terms of the grant pursuant to which they are paid. Cash dividends received on all Restricted Shares awarded to non-executive directors were not reinvested in additional Restricted Shares and were paid according to the terms of the grant pursuant to which they were paid. Unless instructed otherwise by a participant, upon the vesting of the Restricted Shares, the plan custodian shall sell the Restricted Shares of the participant on the open market of the TSX and remit to the participant the net proceeds from the sale thereof after deducting all applicable taxes and other costs associated therewith.

Upon termination for cause or resignation, all Restricted Shares not vested shall be forfeited and cancelled. Upon a participant's retirement, termination without cause, death and long-term disability, the time-based Restricted Shares will vest as a pro-rata of the performance cycle completed versus the 36 month period. All performance-based Restricted Shares that are not vested on the date of the participant's retirement, termination without cause, death or long-term disability shall be forfeited and cancelled on such date.

The Restricted shares have vesting acceleration provisions under certain circumstances.

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

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

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

The following table summarizes the status of the grants:

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

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

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

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

Stock Options – 2003 Plan

YPG LP

Prior to the inception of the Fund, certain employees were issued options to purchase common shares of Yellow Media Inc. Employees who participated in the equity plan were granted options in equal proportions between time-based vesting and performance-based vesting criteria. Employees who did not participate in the equity plan only received performance-based options. Time-based options were exercisable as to 20% to 33 1/3 % per year on the anniversary of the grant date in each of the three to five subsequent years. Performance-based options were exercisable as to 20% per year on the anniversary of the grant date in each of the five subsequent years provided that YPG Co. achieves specified performance targets. At December 31, 2007, YPG Co. had achieved the performance targets identified at the time of establishment of the Stock Option Plan and all of the performance-based options became exercisable in 2008.

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

		December 31, 2011
	Number of options	Weighted average exercise price per option
Outstanding and exercisable beginning and end of year[1]	**380,882**	**$ 3.92**

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

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

Stock Options – 2010 Plan

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

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

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

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

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

21. Operating costs

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

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

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

22. Financial charges, net

The significant components of the financial charges are as follows:

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

23. Supplemental disclosure of cash flow information

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

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

24. Commitment and contingencies

a) Yellow Media Inc. has commitments under various leases for premises, equipment and purchase obligations through long-term distribution agreements for each of the next five years and thereafter, as at December 31, 2011, and in the aggregate of:

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

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

b) Yellow Media Inc. has four billing and collection services Agreements. The term of the Billing & Collection Services Agreement with Bell Canada ("Bell") expires on December 31, 2014, with an automatic renewal for two successive one-year periods thereafter unless Yellow Media Inc. provides prior notice not to renew. The agreement with TELUS Communications Inc. ("TELUS") includes automatic renewal for successive one-year periods. The agreement with MTS Allstream Inc. expires on October 2, 2016, with two automatic renewal periods for ten years up to a maximum of 30 years. The agreement with Bell Aliant Regional Communications LP ("Bell Aliant") expires on April 30, 2017, with two automatic renewal periods for ten years.

Pursuant to publication agreements with each of Bell, TELUS, MTS Allstream Inc. and Bell Aliant, YPG Co. produces alphabetical listing telephone directories for each of these companies in order for them to meet their regulatory obligations.

YPG Co. also entered into several other agreements with Bell, TELUS, MTS Allstream Inc. and Bell Aliant, providing for the use of listing information and trademarks for the publications of directories. If YPG Co. materially fails to perform its obligations under the publication agreements mentioned above and as a result they are terminated in accordance with their terms, these other agreements with any of Bell, TELUS, MTS Allstream Inc. or Bell Aliant may also be terminated.

c) Yellow Media Inc. entered into directory printing agreements with its printing suppliers to print, bind and furnish alphabetical, classified and combined directories as well as other publications. It also entered into distribution agreements. These agreements will terminate in 2020.

d) Yellow Media Inc. is subject to various claims and proceedings which have been instituted against it during the normal course of business for which certain of the claims are provided for and included in accounts payable and accrued liabilities based on management's best estimate of the likelihood of the outcome. Management believes that the disposition of the matters pending or asserted is not expected to have any material adverse effect on the financial position, results of operations or cash flows of Yellow Media Inc.

25. Financial risk management

Credit Risk

Credit risk stems primarily from the potential inability of a customer or counterparty to a financial instrument to meet its contractual obligations. Yellow Media Inc. is exposed to credit risk with respect to cash, trade receivable from customers and derivative financial instruments. The carrying amount of financial assets represents Yellow Media Inc.'s maximum exposure.

Credit risk associated with cash is minimized substantially by ensuring that these financial assets are placed with creditworthy counterparties. An ongoing review is performed to evaluate changes in the status of counterparties.

Yellow Media Inc.'s extension of credit to customers involves considerable judgment. Yellow Media Inc. has established internal controls designed to mitigate credit risk, including a formal credit policy managed by its credit department. New customers, customers increasing their advertising spend by a certain threshold and customers not respecting payment terms are subject to a specific vetting and approval process.

Yellow Media Inc. considers that it has limited exposure to concentration of credit risk with respect to trade receivable from customers due to its large and diverse customer base operating in numerous industries and its geographic diversity. There are no individual customers that account for 1% or more of revenues and there are no trade receivable from any one individual customer and certified marketing representative that exceeds 5% of the total balance of trade receivable at any point in time during the period.

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

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

Trade receivables are aged as follows:

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

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

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

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

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

Interest Rate Risk

Yellow Media Inc. is exposed to interest rate risks through its financial obligations bearing variable interest rates. The interest rates on Yellow Media Inc.'s bank facility, commercial paper issuances, and cash and short-term investments are generally based on the Canadian Banker's Acceptance rate. As at December 31, 2011, including the impact of the financial derivatives described below, the net amount exposed to short-term rates fluctuations was $289.2 million. Based on this exposure as at December 31, 2011, an assumed 0.5 percentage point increase in the Banker's Acceptance rate would have an unfavourable impact of $1.4 million on net earnings with an equal but opposite effect for an assumed 0.5 percentage point decrease. Yellow Media Inc. is also exposed to fluctuations in long-term interest rates relative to the refinancing of its debt obligations upon their maturity. The interest rate on new long-term debt issuances will be based on the prevailing rates at the time of the refinancing, and will also depend on the tenor of the new debt issued. Yellow Media Inc. manages interest rate risk exposure by having a balanced schedule of debt maturities, as well as a combination of fixed and floating interest rate obligations and uses interest rate derivative products when appropriate to hedge interest rate risk.

Yellow Media Inc. uses derivative contracts to manage the combination of fixed and floating interest rates on its long-term debt and to manage interest rate risk on planned debt issuances.

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

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

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

On October 15, 2010, the holders of the Exchangeable Notes monetized their investment through a resale of the Notes to a third-party financial institution. In order to facilitate this resale transaction and the orderly conversion of the Exchangeable Notes into common shares during the course of 2011, Yellow Media Inc. entered into a total return swap ("TRS") transaction referencing the Notes with the same counterparty for a period ending December 15, 2011. Pursuant to the terms of the TRS, the 5% fixed interest rate under the Exchangeable Notes was converted to the floating rate of interest equal to the three-month Banker's Acceptance plus 1.75%. In addition, under the TRS, the counterparty as a holder of the Notes was expected to exchange 25% of the principal amount into underlying Yellow Media Inc. common shares at 95% of the prevailing market price, to be calculated using a volume weighted average price over a period of up to 20 days. In addition, Yellow Media Inc. may have received or paid under the TRS an adjustment amount to the extent that the value realized by the TRS counterparty on the exchange or redemption of the Notes exceeded or was less than the $141.6 million principal amount of the Exchangeable Notes. The TRS was measured at fair value and was marked-to-market through net earnings at each statement of financial position date.

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

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

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

Foreign Exchange Risk

Yellow Media Inc. operates in the United States and is exposed to foreign exchange risk arriving from various currency transactions. Foreign exchange transaction risk arises primarily from commercial transactions that are denominated in a currency that is not the functional currency of Yellow Media Inc.'s business unit that is party to the transaction. Yellow Media Inc. is exposed to fluctuations in the US dollar. The effect on net earnings and other comprehensive income from existing US dollar exposures of a 1 point increase or decrease in the Canadian/US dollar exchange rate is not significant.

Liquidity Risk

Liquidity risk is the exposure of Yellow Media Inc. to the risk of not being able to meet its financial obligations as they become due. Yellow Media Inc. manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 26 - Capital Disclosures.

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

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

[1] Principal amount

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

Fair values

The fair value is the amount at which a financial instrument could be exchanged between willing parties, based on current markets for instruments with the same risk, principal and remaining maturity. Fair value estimates are based on present value and other valuation techniques using rates that reflect those that Yellow Media Inc. could currently obtain, on the market, for loans with similar terms, conditions and maturities. The entity's own credit risk and the credit risk of the counterparty was taken into account when determining the fair value of financial assets and financial liabilities including derivative instruments

The fair value of trade receivable, accounts payable and accrued liabilities, Credit Facilities and commercial paper is approximately equal to their carrying values due to their short-term maturity.

The fair value of the investment classified as available–for–sale, Convertible Debentures, Exchangeable Notes and Preferred shares is evaluated based on quoted market prices at the statement of financial position date.

Fair values of Medium Term Notes and derivative financial instruments are determined based on market rates prevailing at the statement of financial position date and compared to those provided by financial institutions for similar financial instruments.

These estimates are significantly affected by assumptions including the amount and timing of estimated future cash flows and discount rates, all of which reflect varying degrees of risk.

The following schedule represents the carrying values and the fair values of other financial instruments:

				December 31, 2011
		Carrying Value		Fair Value
Other assets– investment – available for sale	$	372	$	372
Note receivable	$	11,046	$	11,046
Long-term debt due within one year	$	102,339	$	102,339
Preferred shares, Series 1 – due within one year	$	249,713	$	18,283
Deferred consideration	$	9,368	$	9,368
Long-term debt	$	1,510,892	$	727,958
Exchangeable and convertible instruments[1]	$	184,214	$	49,878
Preferred shares, Series 2	$	149,173	$	12,246
Derivative financial instruments				
– Redemption option on Preferred shares	$	7	$	7

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

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

				January 1, 2010
		Carrying Value		Fair Value
Other assets– investment – available for sale	$	646	$	646
Long-term debt due within one year	$	2,254	$	2,254
Commercial paper	$	74,000	$	74,000
Long-term debt	$	2,151,720	$	2,125,289
Exchangeable Debentures[1]	$	83,886	$	86,767
Preferred shares, Series 1 and 2	$	472,777	$	431,281
Derivative financial instruments				
– Redemption option on Preferred shares	$	2,612	$	2,612
– Interest rate swaps – liabilities				
Short – term	$	76	$	76
Long – term	$	719	$	719

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

Fair value hierarchy

The three levels of fair value hierarchy are as follows:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs used in a valuation technique are not based on observable market data in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

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

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

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

Yellow Media Inc.'s derivatives transactions are accounted for on a fair value basis and are comprised of non-speculative interest rate swaps to hedge interest rate exposures and total return swaps. These derivatives are valued using either industry standard or internally developed valuation models. Where applicable, these models use market-based observable inputs including interest-rate-yield curves, volatility of certain prices or rates and credit spreads. In certain cases, market-based observable inputs are not available and, in those cases, judgment is used to develop assumptions used to determine fair values. Yellow Media Inc. currently does not use unobservable inputs that are significant to the fair value measurement in its entirety.

26. Capital disclosures

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

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

Yellow Media Inc. actively manages and monitors its capital structure and makes adjustments based on the objectives described above in response to changes in economic conditions and the risk characteristics of the underlying assets.

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

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

[2] Net debt includes convertible debentures.

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

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

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

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

[2] Net debt includes convertible debentures.

27. Guarantees

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

Yellow Media Inc. has entered into agreements which contain indemnification of its directors and officers indemnifying them against expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of Yellow Media Inc. Yellow Media Inc. benefits from directors' and officers' liability insurance which is purchased by Yellow Media Inc. No amount has been accrued in the consolidated statement of financial position as at December 31, 2011, with respect to this indemnity.

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

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

28. Segmented information

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

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

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

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

29. List of subsidiaries

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

30. Related party disclosures

Key management personnel compensation

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

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

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

Other related party transactions

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

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

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

31. Transition to IFRS

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

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

Initial Elections upon Adoption

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

IFRS Exemption Options

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

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

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

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

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

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

IFRS Mandatory Exceptions

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

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

Reconciliation of GAAP to IFRS

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

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

Reconciliation of equity

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

Reconciliation of net earnings

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

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

Reconciliation of comprehensive (loss) income

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

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

Reconciliation of cash flows

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

a. Employee Benefits

PAST SERVICE COST

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

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

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

ACTUARIAL GAINS AND LOSSES

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

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

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

CONSTRUCTIVE OBLIGATION

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

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

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

b. Intangible assets

INTERNALLY GENERATED INTANGIBLE ASSETS

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

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

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

IMPAIRMENT – GROUPING OF ASSETS

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

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

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

c. Income Taxes

INCOME TAXES – TEMPORARY DIFFERENCES ON INTANGIBLE ASSETS

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

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

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

INCOME TAXES – UNCERTAIN TAX POSITIONS

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

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

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

EQUITY PORTION OF EXCHANGEABLE AND CONVERTIBLE DEBENTURES

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

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

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

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

INCOME TAX EFFECT OF OTHER RECONCILING DIFFERENCES BETWEEN GAAP AND IFRS

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

d. Revenue Recognition

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

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

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

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

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

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

e. Foreign currency translation adjustment

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

f. Stock-based Compensation

FORFEITURES

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

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

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

STOCK OPTIONS

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

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

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

g. Discontinued Operations

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

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

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

h. Presentation adjustments

EXCHANGEABLE UNITS

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

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

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

COMMERCIAL PAPER

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

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

Impact on Yellow Media Inc. – As a result of the above difference, in order to comply with IFRS, Yellow Media Inc. had to reclassify the outstanding obligation under the commercial paper program from long-term to short-term given that this obligation did not meet the IFRS conditions to be classified as long-term. An amount of $74 million was reclassified to short-term as at January 1, 2010 ($295 million as at December 31, 2010).

DEFERRED TAX

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

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

OTHER

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

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

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

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AUDITORS

Deloitte & Touche LLP

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YLO.PR.B	Series 2 Cumulative Redeemable First Preferred shares
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ANNUAL REPORT

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Ce rapport est également disponible en français. Pour obtenir la version française, veuillez communiquer avec la Société canadienne de transfert d'actions inc. à l'adresse indiquée ci-haut.

LEADERSHIP TEAM

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Ginette Maillé
Chief Financial Officer

François D. Ramsay
Senior Vice President - General Counsel and Secretary

Catherine Caplice
Vice-President - Customer Experience

Doug A. Clarke
Senior Vice President - Sales

Nicolas Gaudreau
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Vice President - Business Solutions

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Vice-President - Performance Marketing & Go-To-Market

Dominique Vallée
Vice President - Sales, Advantage Group and Call Centres Initiative

Daniel Verret
Vice President and Corporate Controller

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Member of the Corporate Governance and Nominating Committee

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Chairman, Gaulding & Co.
Chairman of the Human Resources and Compensation Committee and
Member of the Corporate Governance and Nominating Committee and of the Financing Committee

4
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Member of the Audit Committee and of the Corporate Governance and Nominating Committee

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Marc P. Tellier
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