YellowMedia

YELLOW MEDIA LIMITED

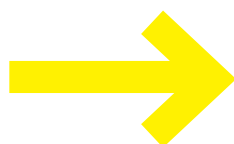
2013 ANNUAL REPORT

FINANCIAL AND OPERATIONAL HIGHLIGHTS

$406 MILLION

DIGITAL REVENUES IN 2013

EVOLUTION OF DIGITAL REVENUES AS A PERCENTAGE OF TOTAL REVENUES [1]



29% IN 2011

38% IN 2012

45% IN 2013

[1] As of the fourth quarter

REVENUES
(IN MILLIONS OF CANADIAN DOLLARS)

DIGITAL REVENUES
(IN MILLIONS OF CANADIAN DOLLARS)

EBITDA
(IN MILLIONS OF CANADIAN DOLLARS)

NET DEBT
(IN MILLIONS OF CANADIAN DOLLARS)

2013 FINANCIAL AND OPERATIONAL HIGHLIGHTS

REVENUES (in millions of Canadian dollars)	$971.8
EBITDA (in millions of Canadian dollars)	$416.1
FREE CASH FLOW (in millions of Canadian dollars)	$274.6
CUSTOMER COUNT	276,000
CUSTOMER PENETRATION - YELLOW PAGES™ 360° SOLUTION	27%
CUSTOMER PENETRATION - DIGITAL	62%
CUSTOMER PENETRATION - MOBILE PLACEMENT	15%
REACH OF ONLINE CANADIANS[2]	26%
ONLINE UNDUPLICATED UNIQUE VISITORS[2]	7.3M
MOBILE DOWNLOADS	OVER 6.5M

[2] All properties, comScore Media Metrix, Q4-2013. Represents desktop traffic only.

CHAIRMAN'S MESSAGE TO SHAREHOLDERS

The past year saw many key milestones and achievements for Yellow Media. We continued to make progress on the digital transformation, as reflected by continued digital revenue growth, healthy free cash flow generation, and ongoing deleveraging. We also invested to strengthen our brand image, enhance our digital properties, grow our offering of products and services for our customer base, deploy our customer acquisition strategy, and further develop our workforce. The Board also appointed a new CEO with strong operational expertise and experience in the digital transformations of traditional media companies.

OUR PROGRESS TO DATE

We ended 2013 with $406.3M in digital revenues. The 10.6% year-over-year growth continues to result from the successful sales execution of our unique value proposition, the Yellow Pages 360º Solution. For the fourth quarter of 2013, digital revenues represented 45% of total revenues.

Our Yellow Pages 360º Solution remains the most comprehensive, full-serve digital and traditional media and marketing solutions in Canada. This offering provides our customers with single point access to online and mobile placement, website fulfillment, social media and search engine solutions, alongside valuable performance reporting tools such as Yellow Pages Analytics.

In today's fragmented digital search environment, our customer base needs to be as visible as possible to generate valuable leads. By providing access to multiple digital products and services, the Yellow Pages 360º Solution offers its customers a complete and diversified marketing portfolio as well as enhanced ROI on their digital marketing campaigns. Penetration of the Yellow Pages 360º Solution among our customer base, defined as those who purchase three product categories or more, has grown to 27.1% at year-end, compared to 16.5% last year.

Online and mobile placement products are currently the most adopted components of our digital solutions offering. Consequently, attracting local audiences towards our digital network of properties is key in generating valuable leads for customers and promoting customer renewal and revenue growth.

Our objective is to grow Yellow Media to become the leading local digital media company in Canada by fostering strong business relationships between Canadian businesses and local consumers, and by developing an unparalleled local media presence across the country. On the online front, the Company recently developed a new search engine, allowing for more user-relevant search results and an improved search response time. We also deployed the Online Merchant Management tool, which promotes a better search experience by eliminating duplicate listings and ensuring that all content available on a Canadian business is found via a unique and stable merchant identifier. The Company's online properties reached 7.3 million unduplicated unique visitors during the fourth quarter of 2013, representing 26% of Canada's online population.

Our network of mobile applications also continues to gain traction. The Yellow Pages application was recognized by the App Store as one of the top 25 most downloaded applications of all time, while ShopWise was selected by the Local Search Association as the New App Gold Award Winner at the 2013 Industry Excellence Awards. In 2013, we launched a real time gas pricing and comparison feature on our Yellow Pages mobile application, and updated our ShopWise application to now provide access to digital versions of flyers and shopping circulars from major retail chains across Canada. Cumulative mobile downloads across our family of applications increased to over 6.5 million at year-end, compared to 5 million last year.

In our commitment to increase traffic and leads to our customers, we continued to extend our partner eco-system to allow clients' business information to be visible outside our network of owned and operated properties. Leading properties such as Yahoo! Canada, CBC, Google, Poynt, TripAdvisor and OpenTable currently use our business listings to populate business searches across their platforms. We also signed an agreement with Facebook, whereby Yellow Pages Group now has the capabilities to use clients' basic business information to automatically generate and update basic Facebook Business Pages.

The past year also saw the launch of a new brand marketing and communications strategy to engage consumers, recapture awareness of the Yellow Pages brand and promote the download and use of the Yellow Pages mobile application. As part of this strategy, the Company launched a national advertising campaign in the spring followed by a six-week advertising blitz in Toronto in June 2013, both focusing on the Yellow Pages mobile application. Advertisements were placed in areas where consumers work, live and play. A second flight of this campaign was also launched in university campuses in Toronto, Montreal and Vancouver. These campaigns proved successful, leading to an increase in mobile downloads and visits alongside a significant lift in brand awareness and perception.

WE CONTINUED TO MAKE PROGRESS ON THE DIGITAL TRANSFORMATION, AS REFLECTED BY CONTINUED DIGITAL REVENUE GROWTH, HEALTHY FREE CASH FLOW GENERATION, AND ONGOING DELEVERAGING.

Aligned with the Company's mission of contributing to healthy, thriving neighbourhoods through support of local businesses, Yellow Pages Group also launched a flagship event to promote local shopping called Shop The Neighbourhood. Held on November 30, 2013 in the Greater Toronto Area, the event involved over 1,800 participating businesses offering over 2,000 deals exclusive to event day to attract consumer participation. The initiative helped build further awareness around the Yellow Pages brand and its relevancy in advocating for small business growth and connecting local consumers with valuable shopping information.

Despite continued growth in digital revenues, consolidated revenues continued to be in decline. Among the challenges we faced in the past year, protecting customer spend remained one of them, as we saw challenges in fully migrating our larger customers' print spend to digital products and services. We also experienced a decline in our customer count, primarily amongst low-spend clients.

To promote revenue growth, we've introduced in-demand premium products and services, alongside improved customer servicing initiatives such as PriorityPlus. We've also instilled an acquisition culture amongst our sales force, re-designed our dedicated acquisition channels and launched new product bundles aimed exclusively at attracting and retaining new customers.

In order to support funding of the digital transformation, the Company also took steps to improve the efficiency of the organization and align its cost structure. In 2013, we started consolidating and replacing legacy publishing systems and IT data centers. We also aligned our workforce with the realities of our digital transformation, transferring resources from legacy operations towards our digital platform, and hired approximately 200 professionals within the domains of information technology and digital media.

In an effort to deliver value to its shareholders, the Company remained active in deleveraging, reducing net debt by over $248 million to reach $533.1 million by year-end. Our healthier capital structure continues to offer us the required financial flexibility to invest in our transformation.

OUTLOOK

While we continue to face challenges in the year ahead, the Board believes Yellow Media has the right strategy and leadership to meet them head on and turn those challenges into opportunities.

To promote overall revenue growth, the Company will continue investing in extending its brand promise, attracting valuable audiences, responding to customer needs, further developing its employees, and improving efficiencies. With profitability in mind, the Company will focus on continued operational realignment, process streamlining and improved technologies.

We will also invest in developing a stronger digital culture, offering training programs, tools and resources to elevate digital literacy and promote change management across all facets of the organization.

Lastly, deleveraging remains a key priority, and the Company will continue using excess cash flow to lower the amount of debt outstanding and deliver additional value to its shareholders.

To lead the next phase of the Company's strategic plan, we recently welcomed Julien Billot as President and Chief Executive Officer of Yellow Media. A veteran of the industry, hailing from Solocal Group (formerly PagesJaunes Groupe, the incumbent local search provider in France), Mr. Billot has a proven track record of successfully executing print to digital transformations in the global media industry. Both the Board and management team look forward to working closely with Mr. Billot on our ongoing transformation.

WE WILL ALSO INVEST IN DEVELOPING A STRONGER DIGITAL CULTURE, OFFERING TRAINING PROGRAMS, TOOLS AND RESOURCES TO ELEVATE DIGITAL LITERACY AND PROMOTE CHANGE MANAGEMENT ACROSS ALL FACETS OF THE ORGANIZATION.

I would also like to say thank you to all Yellow Media employees for their tireless efforts during the year, in both good and trying times. And lastly, thank you to you, our shareholders, for your patience and support in our ongoing stages of digital transformation. We look forward to communicating with you our continued progress on our transformation as it develops.

Robert MacLellan

ROBERT MACLELLAN
CHAIRMAN OF THE BOARD

JULIEN BILLOT
PRESIDENT AND CHIEF EXECUTIVE OFFICER

PRESIDENT AND CEO'S MESSAGE

It is a real honour to join Yellow Media as President and Chief Executive Officer.

I have spent a significant portion of my career working in the media and marketing industry, positioning traditional media businesses to succeed in today's digital age. These mandates were always the most challenging, as I was expected to rapidly and efficiently support business resiliency, growth and profitability within a very complex and competitive environment.

Regardless of these challenges, I continue to believe in the long-term success of our industry. Yellow Media is strongly positioned to spearhead digital transformation, as our national presence and history of serving small businesses remain key assets that cannot be easily replicated by new digital entrants.

The strength and resiliency of Yellow Media are reflected in the fact that amidst print revenue declines and a competitive and fragmented digital environment, the Company operates some of Canada's leading digital local search properties. Yellow Media also offers its customers one of the largest full-serve, comprehensive digital product offerings and access to one of the country's largest teams of sales advisors and campaign managers. With a strengthened capital structure, Yellow Media also has the required financial flexibility to invest and accelerate its digital transformation.

Despite this progress, challenges still lie ahead. While we have one of the longest standing and most recognizable brands in Canada, we must re-educate Canadian consumers and businesses on the evolution of our brand as a champion of neighbourhood economies and local business support. This brand promise will guide our efforts as we tackle other hurdles on our path to transformation.

To promote revenue growth, we also need to focus on providing current and prospective customers with an enhanced ROI. This is achieved by growing and protecting traffic on our owned and operated properties and ensuring our online and mobile platforms retain the majority of public mindshare when it comes to local, needs-based searches. As such, we'll need to focus efforts on providing deep, rich content to attract and retain new audiences.

YELLOW MEDIA IS STRONGLY POSITIONED TO SPEARHEAD DIGITAL TRANSFORMATION, AS OUR NATIONAL PRESENCE AND HISTORY OF SERVING SMALL BUSINESSES REMAIN KEY ASSETS THAT CANNOT BE EASILY REPLICATED BY NEW DIGITAL ENTRANTS.

Customer service and the customer experience will also be an element we focus on in 2014. An emphasis on superior customer service must be implemented across the entire organization. We also need to evolve our products and services to better meet current and prospective customer needs, enhance servicing and fulfillment of these products, and improve our ability to track the success of our clients' marketing campaigns using performance reporting tools. Customer acquisition also remains a key priority, as we strive to gain additional market share in Canada.

WE WILL MAKE INVESTMENTS IN HIRING NEW TALENT AND UPGRADING THE SKILLSETS OF OUR EXISTING WORKFORCE TO BEST SUPPORT OUR TRANSFORMATION.

These initiatives should be undertaken with profitability in mind, and the Company will work to ensure measures are taken to maximize efficiency and contain costs where appropriate. We will therefore develop new technologies to either replace or strengthen existing systems and processes, enabling us to be quicker, more agile and more responsive as a company and as a service provider to our customers and users. We will also make investments in hiring new talent and upgrading the skillsets of our existing workforce to best support our transformation.

These past months, I have been engaged in reviewing the strengths and challenges present in our business operations. I've spent time in each of our offices and with each department at Yellow Media. I've met with our employees across Canada and many of our stakeholders and business partners in order to have a full view of our competitive landscape, strategy, financials and people.

Based on this review and the information I've gathered from various stakeholders, I'm currently in the process of developing a detailed operational roadmap to execute the transformation of our business into a leading digital marketing enterprise. I expect to be able to share my roadmap with you in the near future.

I look forward to meeting and speaking with all of you at our upcoming Annual General Meeting.

Julien Billot

BOARD OF DIRECTORS

JULIEN BILLOT
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

ROBERT F. MACLELLAN
CHAIRMAN OF
NORTHLEAF CAPITAL PARTNERS LTD.
Chairman of the Board

CRAIG FORMAN
EXECUTIVE CHAIRMAN
OF THE BOARD, APPIA INC.
Member of the Corporate Governance and Nominating Committee

DONALD H. MORRISON
COPORATE DIRECTOR
Member of the Audit Committee

DAVID A. LAZZARATO
CORPORATE DIRECTOR
Chairman of the Audit Committee

MARTIN NISENHOLTZ
COPORATE DIRECTOR
Member of the Human Resources and Compensation Committee

DAVID G. LEITH
COPORATE DIRECTOR
Chairman of the Corporate Governance and Nominating Committee and Member of the Audit Committee

KALPANA RAINA
MANAGING PARTNER,
252 SOLUTIONS, LLC
Chairman of the Human Resources and Compensation Committee

JUDITH A. MCHALE
PRESIDENT AND CHIEF EXECUTIVE OFFICER,
CANE INVESTMENTS, LLC
Member of the Corporate Governance and Nominating Committee and of the Human Resources and Compensation Committee

MICHAEL G. SIFTON
MANAGING PARTNER,
BERINGER CAPITAL
Member of the Human Resources and Compensation Committee

A KEY OBJECTIVE OF OURS IS TO GROW YELLOW MEDIA TO BECOME THE LEADING LOCAL DIGITAL MEDIA COMPANY IN CANADA.

MANAGEMENT TEAM

JULIEN BILLOT
PRESIDENT AND CHIEF EXECUTIVE OFFICER

DOUG A. CLARKE
SENIOR VICE PRESIDENT – SALES

NICOLAS GAUDREAU
CHIEF MARKETING OFFICER

LISE R. LAVOIE
CHIEF TALENT OFFICER

GINETTE MAILLÉ
CHIEF FINANCIAL OFFICER

RENÉ POIRIER
CHIEF INFORMATION OFFICER

FRANÇOIS D. RAMSAY
SENIOR VICE PRESIDENT – CORPORATE AFFAIRS AND GENERAL COUNSEL

D. LORNE RICHMOND
VICE PRESIDENT – PRINT OPERATIONS AND SALES SUPPORT

PAUL T. RYAN
CHIEF TECHNOLOGY OFFICER

VÉRONIQUE BERGERON
VICE PRESIDENT – SALES, EASTERN REGION

JAMIE BLUNDELL
VICE PRESIDENT – CUSTOMER EXCELLENCE

JEFF KNISLEY
VICE PRESIDENT – SALES, WESTERN REGION

CHRIS LONG
VICE PRESIDENT – SALES, CENTRAL CANADA

STEPHEN PORT
VICE PRESIDENT – CORPORATE PERFORMANCE

FRANCO SCIANNAMBLO
VICE PRESIDENT – CORPORATE CONTROLLER AND CHIEF ACCOUNTING OFFICER

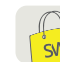
DARBY SIEBEN
PRESIDENT – MEDIATIVE

DOMINIQUE VALLÉE
VICE PRESIDENT – SALES, ADVANTAGE GROUP AND CALL CENTRE INITIATIVES

OUR NETWORK OF PROPERTIES

YellowPages.ca
Available both online and as a mobile application, YellowPages.ca provides users access to current and comprehensive information on local Canadian businesses.

RedFlagDeals.com
Canada's leading provider of online and mobile deals, coupons and shopping tools.



ShopWise.ca
Mobile application offering geo-localized deals and flyers, alongside access to a catalogue of over 7 million products and information on over 600 local and national retailers.

Canada411.ca
One of Canada's most frequented and trusted online destinations for personal contact information.

YellowAPI.com
A public API providing application developers and strategic partners access to 1.5 million verified and regularly updated Canadian business listings.

YellowPages360solution.ca
Integrated marketing, performance boosting and measurement offering for Canadian businesses combining digital and traditional media.

Mediative.com
One of Canada's largest digital advertising and marketing solutions providers to national-scale agencies and advertisers.

Canpages.ca
A search website with an interactive focus on consumers' geographic location and life needs, while also offering access to an extensive database of local real estate listings.

Wall2WallMedia.com
Media solutions company managing activities, publications and services related to real estate.

WE CONTINUE TO MAKE STRATEGIC INVESTMENTS TO BUILD AND SECURE VALUABLE DIGITAL AUDIENCES.

2013 FINANCIAL REVIEW

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MANAGEMENT'S DISCUSSION AND ANALYSIS

February 13, 2014

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 Limited and its subsidiaries for the years ended December 31, 2013 and 2012 and should be read in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2013. 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 reporting period, December 31, 2013.

In this MD&A, the words "we", "us", "our", "the Company", "the Corporation", "Yellow Media" and "YPG" refer to Yellow Media Limited and its subsidiaries (including YPG Financing Inc. (formerly Yellow Media Inc.), Yellow Pages Group Corp., Wall2Wall Media Inc. (Wall2Wall), YPG (USA) Holdings, Inc. and Yellow Pages Group, LLC (the latter two collectively YPG USA)).

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.

Forward-looking information and statements are based on a number of assumptions which may prove to be incorrect. In making certain forward-looking statements, we have assumed that we will succeed in continuing to implement our business plan, that we will be able to attract and retain key personnel in key positions, that we will be able to introduce, sell and provision new products and services, that the directories, digital media and advertising industries into which we sell our products and services will demonstrate strong demand for our products and services, that the decline in print revenues will not accelerate beyond what is currently anticipated, that digital growth will not be slower than what is currently anticipated, that we will be able to acquire new advertisers at the currently anticipated rate, and that general economic conditions will not deteriorate beyond currently anticipated levels. Forward-looking information and statements are also based upon the assumption that none of the identified risk factors that could cause actual results to differ materially from the anticipated or expected results described in the forward-looking information and statements will occur.

When used in this MD&A, such forward-looking statements may be identified by words such as "aim", "anticipate", "believe", "could", "estimate", "expect", "goal", "intend", "objective", "may", "plan", "predict", "seek", "should", "strive", "target", "will", "would" and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as at the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future results or performance, and will not necessarily be accurate indications of whether or not such results or performance will be achieved. A number of factors could cause actual results or performance to differ materially from the results or performance discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Substantial competition could reduce the market share of the Corporation and could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "A higher than anticipated rate of decline in print revenue resulting from changes in preferences and consumer habits could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The inability of the Corporation to successfully enhance and expand its offering of digital and new media products could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The inability of the Corporation to generate sufficient funds from operations, debt financings, equity financings or refinancing transactions 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 efforts to refinance or reduce its indebtedness and could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "Incremental contributions by the Corporation to its pension plans could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "Failure by either the Corporation or the Telco Partners to fulfill the obligations set forth in the agreements between the Corporation and the Telco Partners could result in a material adverse effect on the Corporation, its business, results from operations and financial condition", "Failure by the Corporation to adequately protect and maintain its brands and trade-marks, as well as third party infringement of such, could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "Work stoppages and other labor disturbances could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "Challenge by tax authorities of the Corporation's position on certain income tax matters could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The loss of key relationships or changes in the level or service provided by internet portals, search engines and

individual websites could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The failure of the Corporation's computers and communications systems could have a material adverse effect on the Corporation, its business, results from operations and financial condition" and "The Corporation might be required to record additional impairment charges" of the "Risks and Uncertainties" section of this MD&A. Additional risks and uncertainties not currently known to management or that are currently deemed to be immaterial may also have a material adverse effect on the Corporation's business, financial position or financial performance. Although the forward-looking statements contained in this MD&A are based upon what management of the Corporation believes are reasonable assumptions, the Corporation cannot assure investors that actual results will be consistent with these forward-looking statements and cautions readers not to place undue reliance on them. These forward-looking statements are made as of the date of this MD&A and the Corporation assumes no obligation to update or revise them to reflect new events or circumstances, except as may be required pursuant to securities laws.

DEFINITIONS RELATIVE TO UNDERSTANDING OUR RESULTS

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

We report on our EBITDA (Income from operations before depreciation and amortization, impairment of goodwill, intangible assets and property, plant and equipment, 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 (loss) from operations or net earnings (loss) 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, taxes, interest payments, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed on page 35 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.

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. Free Cash Flow
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 is a Canadian digital media and print company, offering businesses comprehensive media solutions to meet their key marketing objectives and providing consumers with platforms to access reliable local business information. The Company offers small and medium-sized enterprises (SMEs) personalized marketing solutions comprised of digital and traditional marketing products. These include online and mobile priority placement, search engine solutions, websites, social media, videos and print advertising. We also provide national-scale businesses with high-end digital marketing and performance media services. Through our sales force of approximately 1,100 media consultants and sales support staff, the Company serves approximately 276,000 local businesses across Canada.

Yellow Media holds one of the largest database of rich and curated, local business information in Canada. Our advertisers' local business information reaches Canadian audiences via a variety of owned and operated digital and print media, and through various local search networks. We own and operate some of Canada's leading properties and publications including YellowPages.ca™, Canada411.ca™, RedFlagDeals.com™, Canpages.ca™, and Yellow Pages™ print directories, as well as the Yellow Pages, ShopWise and RedFlagDeals mobile search applications. Our mobile applications for finding local businesses and deals have been downloaded over 6.5 million times, and our online destinations reach approximately 7.3 million unique visitors monthly. The Company also owns and operates a public application programing interface (API) known as YellowAPI.com, which contains 1.5 million Canadian business listings and enhanced content on over 270,000 businesses.

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 a number of other incumbent telephone companies that have a leading share in their respective markets. In 2013, we published more than 345 distinct print telephone directories with a total circulation of approximately 17 million copies.

MISSION

We exist to champion the local neighbourhood economy by enabling Canada's businesses and its consumers to connect, interact and build relationships.

STRATEGY

Our objective is to become the leading local digital media company in Canada. We will accomplish this by fostering strong business relationships between Canadian businesses and local consumers, and by developing an unparalleled local media presence across the country.

2013 marked the completion of Yellow Media's first phase of digital transformation. Following the implementation of the recapitalization transaction on December 20, 2012, Yellow Media started 2013 with a stronger balance sheet and the required financial flexibility to pursue its digital transformation.

The Company built a solid digital foundation, investing in the development of new tools, technologies, processes, and products, as well as its brand promise. The Company also invested in its workforce, recruiting over 200 information technology and digital media professionals and implementing dedicated training programs on digital skills upgrade and enhancement. These investments have strengthened its core assets, which include:

- The most comprehensive, full-serve digital and traditional media and marketing solutions offering in Canada;
- One of the largest teams of sales advisors, digital fulfillment professionals and campaign managers in Canada;
- High traffic, owned and operated digital properties (online and mobile);
- One of the largest databases of curated, local Canadian content;
- An extensive network of digital partnerships to help businesses and shoppers connect outside the Company's owned and operated properties; and
- Highly skilled employees.

These factors strongly position Yellow Media as it enters its second phase of transformation, a phase aimed at promoting long-term revenue growth, profitability, and the Company's transformation into a powerful local digital media company.

To effectively leverage its core assets and support Yellow Media's second phase of transformation, the Company has identified the following key areas of focus for 2014:

- Extending its Brand Promise;
- Attracting Valuable Audiences;
- Responding to Advertiser Needs;
- Investing in its Employees; and
- Improving Efficiencies.

Extending its Brand Promise

We remain committed to developing an unparalleled local media presence across the country, promoting the YPG brand as a trusted source of accurate, local business information. In response, the Company will continue launching branding initiatives that encourage the download and use of our mobile applications. These campaigns will target on-the-go Canadians through national television spots, local multi-media advertising, and targeted millennial campaigns across key urban markets. The Company also aims to improve perception amongst current and prospective advertisers, launching multi-media business to business campaigns promoting YPG's products, services and expertise in digital marketing and campaign management.

Attracting Valuable Audiences

The success of our advertisers' marketing campaigns is dependent on how well they can attract valuable audiences. The Company will therefore deliver a more compelling and differentiated user experience by improving the quality, completeness and relevance of the content distributed to its properties and partners, while providing compelling sites and applications for local discovery. In 2014, the Company will launch new versions of its digital properties, supported by more efficient search platforms, new digital experiences, and richer content such as deals, ratings and reviews. It will also invest in key traffic and distribution partnerships, further expanding its partner eco-system and extending YPG' s digital reach to positively contribute to advertisers' return on investment (ROI).

Responding to Advertiser Needs

We remain committed to providing current and prospective advertisers with the industry's most valuable digital marketing campaigns. In 2014, we will revamp and simplify our existing digital product offerings, and respond to the latest digital marketing trends by introducing social engagement and digital display offerings. We will also find and attract new customers through our redesigned acquisition strategy and implement programs, processes and technologies to enhance lead nurturing and improve conversions. To promote advertiser retention and revenue growth, the Company will introduce enhanced performance reporting capabilities across each of its digital products, improve sales tools and processes, and further enhance digital product fulfillment.

Investing in its Employees

Our employees are core components of our digital transformation. In 2014, we will continue investing in our workforce, hiring an additional 200 professionals within the domains of information technology and digital media. The Company will also invest in developing a stronger digital culture, offering training programs, tools and resources to elevate digital literacy and promote change management across all facets of the organization.

Improving Efficiencies

The Company continues to support operational excellence across the organization, building the core platforms and infrastructure to support the high-volume, cost-effective processing of advertiser orders. In 2014, the Company will streamline business processes, consolidate legacy systems and replace existing data centers to improve efficiencies and align the Company's cost structure with its digital reality.

For a review of developments and performance relative to key priorities that were identified for 2013, see Section 2 – Results.

CAPABILITY TO DELIVER RESULTS

This section of our MD&A explains how we are positioning the Company 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 generation and cash on hand 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 media brands;
- Breadth and depth of local content;
- Established relationships with customers;
- Dedicated and experienced employees; and
- Culture and values that characterize our organization.

Strong Media Brands

Our extensive network of properties helps Canadian consumers find valuable information to connect with local businesses and fulfill their shopping needs.

We own and operate some of Canada's leading properties and publications including YellowPages.ca™, Canada411.ca™, RedFlagDeals.com™, Canpages.ca™, and Yellow Pages™ print directories, as well as the Yellow Pages, ShopWise and RedFlagDeals mobile search applications. Our mobile applications for finding local businesses and deals have been downloaded over 6.5 million times.

- YellowPages.ca – Available both online and as a mobile application, YellowPages.ca provides users access to current and comprehensive information on local Canadian businesses;
- ShopWise – Mobile application offering geo-localized deals and flyers, alongside access to a catalogue of over 7 million products and information on over 600 local and national retailers;
- RedFlagDeals.com – Canada's leading provider of online and mobile deals, coupons and shopping tools;
- Canpages.ca – A search website with an interactive focus on consumers' geographic location and life needs, while also offering access to an extensive database of local real estate listings;
- Canada411.ca – One of Canada's most frequented and trusted online destinations for personal contact information; and
- YellowAPI.com – a public API providing application developers and strategic partners access to 1.5 million verified and regularly updated Canadian business listings.

Yellow Media is also the exclusive owner of the Yellow Pages™, Pages Jaunes™ Walking Fingers & Design™, as well as the Canada411™, RedFlagDeals.com™ and Mediative™ trademarks in Canada. Mediative is a digital advertising and marketing solutions provider which offers extensive display, mobile and other location-based marketing solutions to the country's largest national agencies and advertisers.

Breadth and Depth of Local Content

Yellow Media holds one of the largest databases of curated, local business information in the country, helping consumers discover their local neighbourhoods. We remain committed in producing and broadcasting valuable business information. In response, we are presently strengthening the foundation of our existing database, eliminating all out-of-date, duplicate merchant listings. We are also improving the completeness of our content, equipping our Media Account Consultants (MACs), digital support and client servicing teams with new tools and technologies that promote the timely collection and distribution of valuable merchant information.

Established Relationships with Customers

The Company currently employs a sales force of approximately 1,100 people, including sales support staff. This large and primarily face-to-face sales force is broken down into various customer segments, allowing for a more dedicated relationship with our advertisers. The Company has invested heavily in the training of its sales force, transforming its MACs to savvy digital marketing consultants. Our MACs now engage in more frequent touch-points with their clients, and are more active in promoting advertiser retention and acquisition. They are also equipped with enhanced selling tools, processes and technologies to provide advertisers with more valuable digital marketing campaigns.

Dedicated and Experienced Employees

Despite a challenging environment, our employees have executed on the initiatives needed to position and transform the Company and we are confident that they will continue to remain focused on our common objectives. The Company has aligned its workforce with the realities of its digital transformation, transferring resources from its legacy operations towards its digital platform. In 2013, over 200 professionals were hired within the domains of information technology and digital media. The Company also continues to invest in developing a stronger digital culture, offering training programs, tools and resources to elevate digital literacy and promote change management across all facets of the organization.

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 of 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 our sustained success.

2. RESULTS

This section provides an overview of our financial performance in 2013 compared to 2012 and 2011. We present several metrics to help our investors better understand our performance. Some of these metrics are not measures recognized by IFRS. Definitions of these financial metrics are provided on page 14 of this MD&A and are important aspects which should be considered when analyzing our performance.

OVERALL

- Revenues decreased by $136 million or 12.3% to $971.8 million compared to the previous year.
- Income from operations before depreciation and amortization, impairment of goodwill, intangible assets and property, plant and equipment and restructuring and special charges (EBITDA) decreased by $153.3 million or 26.9% to $416.1 million compared to the previous year.

HIGHLIGHTS

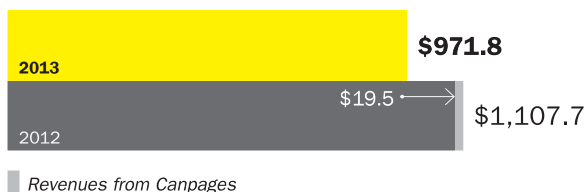
(IN THOUSANDS OF CANADIAN DOLLARS– EXCEPT SHARE INFORMATION)

	Years ended December 31,	
	2013	2012
Revenues	**$ 971,761**	$ 1,107,715
Income from operations before depreciation and amortization, impairment of goodwill, intangible assets and property, plant and equipment and restructuring and special charges (EBITDA)[1]	**$ 416,112**	$ 569,380
Net earnings (loss)[1]	**$ 176,530**	$ (1,962,054)
Basic earnings (loss) per share attributable to common shareholders[1]	**$ 6.34**	$ (70.95)
Cash flows from operating activities	**$ 340,680**	$ 238,573
Free cash flow[2]	**$ 274,551**	$ 198,338

[1] 2012 figures have been revised to reflect the adoption of IAS 19 (Revised), Employee Benefits, effective January 1, 2013, and requiring retrospective application. Please refer to Note 2 of the Consolidated Financial Statements of Yellow Media Limited for the year ended December 31, 2013.

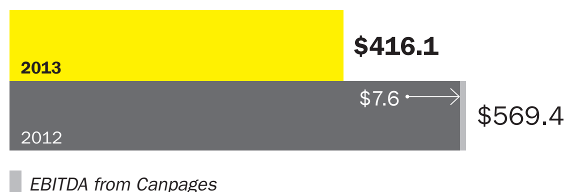
[2] Please refer to Section 4 for a reconciliation of free cash flow.

REVENUES **(12.3%)**
(IN MILLIONS OF CANADIAN DOLLARS)



Revenues from Canpages

EBITDA **(26.9%)**
(IN MILLIONS OF CANADIAN DOLLARS)



EBITDA from Canpages

PERFORMANCE RELATIVE TO BUSINESS STRATEGY

As we reinforced Yellow Media's positioning as a leading Canadian digital media company, our key priorities for 2013 were to provide advertisers with the:

- Right Value – having knowledgeable advisors provide marketing programs that will deliver real value to our advertisers;
- Right Products – offering our advertisers the optimal mix of ever-evolving digital marketing products;
- Right Execution and Customer Experience – delivering flawless execution of our advertisers' marketing campaigns and an overall superior customer experience; and
- Right Consumer Audiences – enabling our advertisers to reach and target local qualified consumers.

Right Value – having knowledgeable advisors provide marketing programs that will deliver superior value to our advertisers

The Yellow Pages 360º Solution is a key element of our digital transformation, positioning the Company as a Canadian leader in digital marketing. This unique value proposition provides advertisers with a comprehensive digital solution, offering products and services such as online and mobile priority placement, search engine solutions, websites, social media, videos and print advertising.

As at December 31, 2013, the penetration of the Yellow Pages 360º Solution offering amongst our advertiser base, which we define as advertisers who purchase three product categories or more, grew to 27.1%. This compares to 16.5% as at December 31, 2012.

Online priority placement remains the Company's highest penetrated digital product offering, with penetration having increased to 47% as at December 31, 2013 compared to 35% at the end of the same period last year.

Mobile advertising remains a key growth driver for YPG, as Canadians become increasingly dependent on their smartphones and tablets to obtain valuable, on-the-go information about businesses and services in and around their neighbourhoods. Mobile priority placement allows advertisers to gain top positioning across YPG's mobile applications, which have currently been downloaded over 6.5 million times. Mobile priority placement remains the Company's fastest growing digital product offering, with advertiser penetration having increased to 15% as at December 31, 2013, compared to 8% at the end of the same period in 2012.

Growth in advertiser penetration across online and mobile placement products is due to the successful sales execution of the Yellow Pages 360º Solution and the Company's efforts in migrating traditional media advertisers towards digital products and services. The same dynamic applies to the advertiser penetration of digital services (website, search engine optimization (SEO) and search engine marketing (SEM) offerings), which grew from 6% last year to 9% as at December 31, 2013. During the first quarter of 2013, Google selected YPG as a Canadian Google AdWords™ Premier SMB Partner, further reinforcing YPG's reputation of driving value to its advertisers through its SEM offerings. Partners in the Premier Google AdWords SMB Partner Program must not only meet the highest standards of excellence for qualification, training and customer service, but also hold strong knowledge of the local search marketing landscape and experience working with SMEs in these areas.

ADVERTISER PENETRATION[1]

	As at December 31,	
	2013	2012
Print	**91.3%**	94.1%
Owned and Operated Digital Media[2]	**61.2%**	60.8%
Online placement	**47.1%**	34.5%
Mobile placement	**14.9%**	8%
Digital Services[3]	**8.7%**	6.5%

[1] *YPG only, excludes Mediative and Wall2Wall.*

[2] *Percentage of YPG advertisers purchasing at least one online placement, mobile placement, legacy, content, and/or video product.*

[3] *Percentage of YPG advertisers purchasing at least one website, SEO, and/or SEM product.*

Growing the advertiser base remains a key driver of revenue growth. Over the last twelve months, YPG acquired approximately 13,600 new advertisers, compared to 11,900 for the twelve-month period ended September 30, 2013 and 16,500 for the year ended December 31, 2012. During the second quarter of 2013, the Company redesigned its acquisition channel and established a more targeted acquisition strategy. Currently being implemented nationwide, this acquisition strategy is centered on increasing advertiser leads and conversions through the development of demand generation initiatives, inbound and outbound call centers, and a dedicated face-to-face national network of specialized MACs.

The Company also launched two new product packages designed exclusively to help prospective advertisers gain a digital media presence at entry-level pricing:

- Business Builder Bundle: provides advertisers with a virtual profile, online priority placement product, mobile priority placement product, and print display ad at a fixed price; and
- Booster Packs: allow advertisers to choose from three levels of digital exposure via packages including a virtual profile, an online priority placement product, and a mobile priority placement product.

Our most recent customer surveys reveal a higher level of satisfaction amongst YPG's clients, due in part to an improved relationship with their MAC. The Company's MACs now engage in more touch-points with their customers, and have access to the right tools to efficiently promote the value of the Company's products and services. During 2013, the Company repatriated and relaunched its Yellow Pages Analytics platform to provide enhanced stability, agility and performance capabilities. This new platform will supply the required foundation for further improvements in 2014, including a simplified user interface and enhanced reporting capabilities across each of the Company's digital products and services. The Company initiated the rollout of a new customer relationship management platform in 2013, providing the foundation to improve sales tools and processes and optimize all sales channels in 2014.

Right Products – offering our advertisers the optimal mix of continuously evolving digital marketing products

During the fourth quarter of 2013, the Company extended its value proposition to advertisers by helping them leverage the power of social media. YPG is now able to use advertisers' basic business content, which includes location, contact information, websites and images, to automatically generate and update basic Facebook® business pages. This basic Facebook® business page creation service is currently being integrated at no extra charge into YPG's existing Virtual Business Profile digital product offering. The Company will further monetize social media solutions in 2014 via the introduction of more comprehensive and customizable social media marketing campaigns.

The Company also launched two new premium digital products in 2013 to support retention efforts and deliver a more sophisticated, customizable, and comprehensive digital offering to its larger clients:

- Digital PowerPlay, which establishes and optimizes a business' digital presence by determining the necessary steps to maximize qualified leads across various digital channels while offering the highest level of service and support; and
- SEM TouchPoint, which provides a customized paid-search ad campaign inclusive of unique access to a dedicated SEM expert and in-depth performance reporting.

Right Execution and Customer Experience – delivering flawless execution of our advertisers' marketing campaigns and an overall superior customer experience

Increased satisfaction amongst YPG's clients was also supported by improved customer service and digital product fulfillment. In 2013, the Company increased training of its customer service agents, enhancing service levels and shortening turnaround times. The Company also enhanced digital product fulfillment, optimizing website production processes and consolidating online publication systems to provide better publishing accuracy.

The Company continued to develop platforms that promote content accuracy and relevancy, improve the user experience and thereby deliver enhanced ROI to its advertisers. The Company launched Online Merchant Management (OMM) during the second quarter of 2013, a tool which assigns a unique Merchant Identifier to every business in Canada. This technology eliminates all stale and duplicate listings, and ensures that each current and prospective advertiser has accurate and rich content available via one single business profile. In an effort to further improve its content collection process, the Company also deployed content capture applications to certain of its MACs, digital support and client servicing teams in 2013. These applications allow our sales and support teams to collect and distribute valuable business information to digital audiences live during sales meetings and calls.

The Company also repatriated and launched a new online and mobile search engine during the year. This new search engine provides users with more relevant and engaging search results, ranking results based on features such as proximity of location, business content, popularity of business, and quality of reviews. YellowPages.ca is also equipped with an enhanced autocomplete service, which allows for quicker results and a reduction in failed searches.

Right Consumer Audiences – enabling our advertisers to reach and target local qualified consumers

Attracting the right consumer audiences is key in promoting ROI for our advertisers' digital marketing campaigns.

As at December 31, 2013, our mobile applications were downloaded over 6.5 million times compared to 5 million times at the same period last year. YPG's mobile applications continued to gain industry recognition in 2013. The Yellow Pages application was highlighted by the App Store as one of the top 25 most downloaded applications of all time, while ShopWise was selected by the Local Search Association as the New App Gold Award Winner at the 2013 Industry Excellence Awards. The Company continued to develop valuable mobile content throughout the year. During the third quarter of 2013, the Company launched a real time gas pricing and comparison feature on its flagship Yellow Pages mobile application. A ShopWise iPad application was launched, alongside a new version of the mobile application, helping Canadians shop more efficiently through a digitally-responsive e-flyer experience and easier-to-find geo-localized deals and savings.

2013 also saw the launch of a brand new marketing and communications strategy to engage consumers, recapture awareness around the Yellow Pages brand and promote the download and use of the Yellow Pages mobile application. The Company completed a six-week multimedia advertising blitz in Toronto from June to August 2013, positioning Yellow Pages as the brand of choice for accurate, local information about the neighbourhoods we live in. This campaign was further extended in the fall of 2013, targeting over 260,000 millennials across university campuses in Montreal, Toronto and Vancouver. These branding initiatives improved the public's perception of Yellow Pages as a digital company, increased brand relevance and contributed to an increase in mobile downloads and visits.

YPG also launched a new event and awareness initiative in Toronto called Shop the Neighbourhood, designed to promote local shopping and the growth and success of local businesses. Consumers were asked to shop locally on November 30, 2013, a weekend when historically Canadians shop in the U.S. for Black Friday or online for Cyber Monday deals. The event attracted over 1,800 local businesses across the Greater Toronto Area, who offered over 2,000 exclusive deals and savings to consumers across our online and mobile applications. The campaign was also supported by various local associations, leading political figures and celebrities.

CONSOLIDATED OPERATING AND FINANCIAL RESULTS

(IN THOUSANDS OF CANADIAN DOLLARS – EXCEPT SHARE AND PER SHARE INFORMATION)

For the years ended December 31,	2013	2012[1]	2011[1,2]
Revenues	$ 971,761	$ 1,107,715	$ 1,328,866
Operating costs	555,649	538,335	650,254
Income from operations before depreciation and amortization, impairment of goodwill, intangible assets and property, plant and equipment, acquisition-related costs and restructuring and special charges	416,112	569,380	678,612
Depreciation and amortization	60,164	104,293	160,906
Impairment of goodwill, intangible assets and property, plant and equipment	–	3,267,847	2,900,000
Acquisition-related costs	–	–	7,743
Restructuring and special charges	23,338	44,923	26,142
Income (loss) from operations	332,610	(2,847,683)	(2,416,179)
Financial charges, net	93,357	155,968	136,605
Gain on settlement of debt	–	(978,589)	–
Gain on disposal of subsidiary	–	–	(6,211)
Earnings (loss) before dividends on Preferred shares, series 1 and 2, income taxes and impairment and earnings (losses) from investments in associates	239,253	(2,025,062)	(2,546,573)
Dividends on Preferred shares, series 1 and 2	–	17,694	19,187
Earnings (loss) before income taxes and impairment and earnings (losses) from investments in associates	239,253	(2,042,756)	(2,565,760)
Provision for (recovery of) income taxes	63,421	(78,809)	85,310
Impairment of investment in an associate, net of income taxes	–	–	50,271
Earnings (losses) from investments in associates	698	1,893	(12,060)
Net earnings (loss) from continuing operations	176,530	(1,962,054)	(2,713,401)
Net loss from discontinued operations, net of income taxes	–	–	(120,877)
Net earnings (loss)	$ 176,530	$ (1,962,054)	$ (2,834,278)
Basic earnings (loss) per share attributable to common shareholders[2]			
From continuing operations	$ 6.34	$ (70.95)	$ (97.85)
Total	$ 6.34	$ (70.95)	$ (102.32)
Diluted earnings (loss) per share attributable to common shareholders[2]			
From continuing operations	$ 5.46	$ (70.95)	$ (97.85)
Total	$ 5.46	$ (70.95)	$ (102.32)
Total assets	$ 1,794,034	$ 1,756,476	$ 5,048,932
Long-term debt (including current portion, excluding exchangeable and convertible debt instruments)	$ 647,468	$ 801,831	$ 1,613,231
Exchangeable and convertible debt instruments	$ 87,934	$ 86,667	$ 184,214
Preferred shares, series 1 and 2 (including current portion)	$ –	$ –	$ 398,886

[1] *Revised to reflect the adoption of IAS 19 (Revised), Employee Benefits, effective January 1, 2013, and requiring retrospective application. Please refer to Note 2 of the Consolidated Financial Statements of Yellow Media Limited for the year ended December 31, 2013.*

[2] *Pursuant to the closing of the recapitalization transaction on December 20, 2012, the common shares of YPG Financing Inc. were exchanged for new common shares of Yellow Media Limited in accordance with the terms of the plan of arrangement implementing the recapitalization transaction. As a result, the weighted average number of common shares outstanding for 2011 and 2012 has been adjusted to reflect the recapitalization.*

ANALYSIS OF CONSOLIDATED OPERATING AND FINANCIAL RESULTS

The consolidated income statements of Yellow Media up to net earnings (loss) from continuing operations represent the results of the restated digital and traditional media solutions segment. The results of the automotive and generalist print and online business of Trader Corporation were presented as discontinued operations in 2011.

FISCAL 2013 VERSUS 2012

Revenues

Revenues decreased by 12.3% to $971.8 million during 2013 compared with $1,107.7 million for 2012. On a comparable basis, when adjusting for the discontinuation of Canpages directories in 2012, revenues decreased by 10.7% during 2013. Revenues remain adversely impacted by lower print revenues, as larger advertisers reduce their print advertising spend, alongside a lower advertiser count amongst smaller, low-spend advertisers.

Digital revenues reached $406.3 million in 2013, representing a growth of 10.6%. On a comparable basis, when adjusting for the discontinuation of Canpages directories in 2012, digital revenues increased by 12.5% during 2013 when compared to the same period last year. During the fourth quarter of 2013, digital revenues represented 45.1% of total revenues, up from 37.7% during the same period in 2012.

Growth in digital revenues continues to result from the ongoing migration of traditional media advertisers towards digital products and services and continued adoption of the Yellow Pages™ 360º Solution across YPG's sales channels. These factors also led to an improvement in Revenue Generating Units[1] (RGU) per advertiser from 1.74 as at December 31, 2012 to 1.81 as at December 31, 2013.

The Company had 276,000 advertisers as at December 31, 2013, compared to 309,000 as at the same period last year. Advertiser renewal rate decreased from 86% last year to 85% for the twelve-month period ended December 31, 2013. During the last twelve months, YPG acquired approximately 13,600 new advertisers, compared to 16,500 for the same period last year. Advertiser acquisition improved slightly versus the twelve-month period ended September 30, 2013, whereby 11,900 new advertisers were acquired. The Company will continue rolling out its redesigned acquisition strategy nationwide and implementing programs, processes and technologies to reach and attract new advertisers, enhance lead nurturing, and improve conversions.

ADVERTISER RENEWAL AND ACQUISITION

	For the years ended December 31	
	2013	2012
Advertiser count[2]	**276,000**	309,000
Client renewal rate[3]	**85%**	86%
New advertisers[2]	**13,600**	16,500

For the year ended December 31, 2013, 81% of renewing advertisers[3] increased or maintained their level of spending compared to 82% in 2012. Advertisers experiencing a decrease in spending are mainly larger advertisers that represented approximately 44% of YPG's revenues for the year ended December 31, 2013. In response, the Company will continue offering these clients enhanced execution of their marketing campaigns and providing them access to premium digital solutions.

[1] *Revenue Generating Units measures the number of product groups selected by YPG advertisers.*

[2] *Excludes the contribution of Wall2Wall and Canpages.*

[3] *YPG advertisers only, excluding the impact of Mediative, Canpages and Wall2Wall advertisers.*

SPENDING DYNAMICS

	For the years ended December 31	
	2013	2012
Amongst Renewing Advertisers[1]		
Increase in spending[2]		
Advertiser distribution	**26%**	51%
% of revenues	**29%**	40%
Stable spending[3]		
Advertiser distribution	**55%**	31%
% of revenues	**27%**	16%
Decrease in spending[4]		
Advertiser distribution	**19%**	18%
% of revenues	**44%**	44%
Average Revenue per Advertiser (ARPA)[5]	**$3,259**	$3,260

[1] *YPG advertisers only, excluding the impact of Mediative, Canpages and Wall2Wall advertisers.*

[2] *Renewing YPG advertisers experiencing an increase in spending over 5%, on a year-over-year basis.*

[3] *Renewing YPG advertisers experiencing an increase in spending between 0% and 5%, on a year-over-year basis.*

[4] *Renewing YPG advertisers experiencing a decrease in spending on a year-over-year basis.*

[5] *Excludes the contribution of Canpages and Wall2Wall.*

OPERATIONAL INDICATORS

	As at December 31,	
	2013	2012
Yellow Pages 360º Solution Penetration[6]	**27.1%**	16.5%
RGU per advertiser[6]	**1.81**	1.74
Digital only advertisers[6]	**23,900**	18,000
Digital revenues (in thousands of Canadian dollars)[7]	**$ 406,311**	$ 367,236

[6] *YPG advertisers only, excluding the impact of Mediative and Wall2Wall advertisers.*

[7] *For the years ended December 31.*

EBITDA

EBITDA decreased by $153.3 million to $416.1 million during 2013 compared with $569.4 million in 2012. The decrease in EBITDA is due to print revenue pressure, as revenue growth from our digital products is not compensating for the loss in print revenues, combined with a lower EBITDA margin. Our EBITDA margin for 2013 was 42.8% compared to 51.4% for 2012. In addition to lower revenues, changes in product mix, investments in the business transformation and employee related expenses were the main contributors to the decrease in EBITDA margin. During the year, we also recorded provisions associated with sales tax assessments.

Cost of sales decreased by $20.2 million to $318.6 million during 2013 compared with $338.8 million for 2012. The decrease for the year results mainly from lower sales costs associated with lower revenues and lower manufacturing costs associated with lower print revenues. These cost savings were partly offset by an increase in provisioning and fulfillment costs of our digital services.

Gross profit margin decreased to 67.2% for 2013 compared to 69.4% for 2012. The decrease is mainly due to a change in product mix which includes lower margins associated with some of our digital service offerings such as websites, SEO and SEM.

General and administrative expenses increased by $37.5 million to $237 million during 2013 compared with $199.5 million for 2012. The increase for the year ended December 31, 2013 is attributable to higher employee related expenses, investments in branding as we continued our Meet the New Neighbourhood advertising campaign, non-recurring provisions related to sales tax assessments and lower non-cash benefit resulting from the amendment to our employees' pension and post-retirement benefit plans. This was partly offset by lower bad debts.

Depreciation and amortization

Depreciation and amortization decreased from $104.3 million to $60.2 million during 2013. The decrease is mainly attributable to lower amortization of certain intangible assets related to the acquisition of Canpages in 2010. These intangibles resulted in a higher amortization expense in 2012 and were fully written off during the previous year. In addition, certain intangible assets and property, plant and equipment had a lower cost base in 2013 due to the impairment of $300 million recorded in the fourth quarter of 2012.

Impairment of goodwill, intangible assets and property, plant and equipment

During the first quarter of 2012, indicators that the Company's assets may have been impaired existed were identified, requiring the Company to perform an impairment test. Also, as a result of the closing of the recapitalization during the fourth quarter of 2012, and the issuance of new debt, shares and warrants pursuant to the recapitalization, and in the context of its annual impairment testing, the Company determined that the recoverability of certain of its assets had to be reviewed for impairment purposes. Consequently, we recorded charges of $3,267.8 million in 2012, related to the impairment of goodwill and certain of our intangible assets and property, plant and equipment. No such charge was recorded during 2013.

Restructuring and special charges

In 2013, we recorded restructuring and special charges of $23.3 million associated with a workforce reduction of approximately 300 employees, the termination and renegotiation of certain contractual obligations and the departure of the former President and Chief Executive Officer (CEO). As announced on March 21, 2013, Marc P. Tellier stepped down as CEO on August 15, 2013 and was entitled to remuneration in accordance with the separation agreement entered into on March 20, 2013. In 2012, we incurred costs of $44.9 million associated with a workforce reduction, a relocation of certain centres of excellence, as well as the termination and renegotiation of certain contractual obligations.

Financial charges

Financial charges decreased by $62.6 million to $93.4 million during 2013 compared with $156 million for 2012. This decrease for the year ended December 31, 2013 is mainly attributable to a lower level of indebtedness and lower deferred financing costs as a result of the December 2012 recapitalization transaction. During 2013, we incurred interest on long-term debt of $79 million and deferred financing costs of $0.1 million compared to interest on long-term debt of $119.3 million and deferred financing costs of $8.4 million for the preceding year. During the year, the Company purchased on the open market $8 million of senior secured notes for a total cash consideration of $8.3 million and exercised its option to redeem $27 million of senior secured notes for a total cash consideration of $28.4 million. A total loss of $1.7 million was recorded in net earnings in financial charges. In 2012, we incurred a charge of $18.5 million related to an option associated with our investment in an associate. No such charge was recorded in 2013. As at December 31, 2013 and 2012, the effective average interest rate on our debt portfolio was 9.1%.

Gain on settlement of debt

During the fourth quarter of 2012, we recorded a gain of $978.6 million on the settlement of debt pursuant to the recapitalization, net of related fees of $69.5 million, write-off of deferred financing costs of $16.3 million, deferred gains of $5.5 million, an equity component of $7.2 million and a derivative component of $0.6 million, associated with our previous debt instruments.

Dividends on Preferred shares, series 1 and 2

Dividends on the two series of redeemable preferred shares amounted to $17.7 million for the year ended December 31, 2012. Pursuant to the December 2012 recapitalization transaction, these preferred shares were cancelled.

Provision for income taxes

The combined statutory provincial and federal tax rate was 26.46% and 26.31% for the years ended December 31, 2013 and 2012, respectively. The Company recorded an expense of $63.4 million for the year compared to a recovery of $78.8 million in 2012. The Company recorded an expense of 26.51% on earnings for the year ended December 31, 2013.

The Company recorded a recovery of 3.9% on the loss for the year ended December 31, 2012. The difference between the effective and the statutory rates in 2012 is due to the gain on settlement of debt offset by the unrecognized capital losses on its investment of subsidiaries and to the impairment charge of $3,267.8 million, which is not fully deductible for tax purposes. Excluding these items, the effective tax rate in 2012 would have been in line with the statutory rate.

Earnings from investments in associates

During 2013, we recorded earnings from our investment in an associate in the amount of $0.7 million compared with $1.9 million for the same period last year. Effective January 1, 2012, we no longer account for our investment in Acquisio using the equity method and we recorded a gain of $2.1 million in 2012 on the revaluation of this investment. Our earnings from our investments in associates include the amortization of intangible assets in connection with these equity investments.

Net earnings (loss)

During 2013, we recorded net earnings of $176.5 million compared with a net loss of $1,962.1 million in 2012. The increase in earnings is mainly due to the impairment of goodwill, certain intangible assets and property, plant and equipment of $3,267.8 million recorded in 2012, offset by the gain on settlement of debt of $978.6 million recorded in 2012, lower depreciation and amortization of $44.1 million, lower restructuring and special charges of $21.6 million, and lower financial charges of $62.6 million, partly offset by a higher provision for income taxes of $142.2 million and lower EBITDA of $153.3 million.

FISCAL 2012 VERSUS 2011

Revenues

Revenues decreased by 16.6% to $1,107.7 million during 2012 compared with $1,328.9 million for 2011. On a comparable basis, revenues decreased by 11.9% during 2012. The decrease for the year ended December 31, 2012 was due to lower print revenues, primarily amongst larger advertisers who reduced their advertising spend, as well as a lower advertiser count. 18% of renewing advertisers[1] experienced a decrease in spending over the twelve-month period ended December 31, 2012, unchanged versus 2011. Advertisers who experienced a decrease in spending were mainly larger advertisers. However, 51% of renewing advertisers[1] experienced an increase in spending over the twelve-month period ended December 31, 2012, as compared to 43% for the corresponding preceding year.

As at December 31, 2012, the number of advertisers, excluding Canpages' advertisers, was 309,000 compared to 340,000 as at December 31, 2011, reflecting a decrease of 9.1%. During the twelve-month period ended December 31, 2012, YPG acquired approximately 17,300 new advertisers versus 23,000 new advertisers for the twelve-month period ended December 31, 2011. Advertiser renewal decreased to 86% as at December 31, 2012 compared to 87% as at December 31, 2011.

Digital revenues reached $367.2 million in 2012, representing a growth of 6.1% in 2012. Excluding the impact of the Canpages, LesPAC, Deal of the Day businesses and YPG USA, digital revenues increased by 15.7% during 2012 when compared to 2011. As at December 31, 2012, the number of advertisers who chose to advertise both in print and online was 61.4% across Canada compared to 63.4% for the corresponding period in 2011. Digital only advertisers at the end of the fourth quarter of 2012 was approximately 18,000 compared to approximately 13,000 as at December 31, 2011. Our network of websites attracted 9 million unduplicated unique visitors[2] on average during the fourth quarter of 2012, representing a reach of 32.3%[2] of the Canadian internet population.

As at December 31, 2012, 35% of our advertisers had purchased an online placement product compared to 19% in 2011. Also, 8% had purchased a mobile placement product compared to 1% in 2011. As at December 31, 2012, our RGU per advertiser increased to 1.74 compared to 1.68 for the same period last year.

EBITDA

EBITDA decreased by $109.2 million to $569.4 million during 2012 compared with $678.6 million in 2011. The decrease in EBITDA was due principally to print revenue pressure, as our new digital products did not compensate for the loss in print revenues. Our EBITDA margin for 2012 was 51.4% compared to 51.1% for 2011. Lower revenues were offset by lower bad debts and general cost containment efforts.

Cost of sales decreased by $54.2 million to $338.8 million during 2012 compared with $393 million for 2011. The decrease for the year resulted mainly from lower sales costs associated with Canpages given the migration of that business within YPG. We also incurred lower selling and manufacturing costs associated with lower print revenues and reduced rates following the renegotiation of supply chain contracts in the third quarter of 2012.

Gross profit margin decreased to 69.4% for 2012 compared to 70.4% for 2011. The decrease was due to a change in product mix, which included lower margins associated with some of our new online service offerings, such as websites, SEO and SEM.

General and administrative expenses decreased by $57.7 million to $199.5 million during 2012 compared with $257.2 million for 2011. The migration of Canpages within YPG resulted in a cost reduction of $14 million for the year ended December 31, 2012. The decrease for the year ended December 31, 2012 was also attributable to lower bad debts of approximately $21 million as well as general cost containment measures including changes to our employees' pension and post-retirement benefits which included a non-cash benefit of $13.3 million.

Depreciation and amortization

Depreciation and amortization decreased from $160.9 million to $104.3 million during 2012. The decrease was mainly attributable to lower amortization of certain intangible assets related to the acquisition of Canpages in 2010. These intangible assets resulted in a higher amortization expense in 2011.

Impairment of goodwill, intangible assets and property, plant and equipment

During the first quarter of 2012, indicators that the Company's assets may have been impaired were identified, which required the Company to perform an impairment test. Also, as a result of the closing of the recapitalization during the fourth quarter of 2012, the issuance of new debt, shares and warrants pursuant to the Recapitalization, and in the context of its annual impairment testing, the Company determined that the recoverability of certain of its assets had to be reviewed for impairment purposes. Consequently, we recorded charges of $3,267.8 million in 2012, related to the impairment of goodwill and certain of our intangible assets and property, plant and equipment.

[1] *YPG advertisers only, excluding the impact of Mediative and Wall2Wall advertisers.*

[2] *Source: comScore Media Metrix Canada.*

During 2011, we recorded a charge of $2,900 million related to the impairment of goodwill and intangible assets. The impairment charges did not affect the Company's operations, its liquidity, its cash flows from operating activities, or its note indentures.

Acquisition-related costs

We incurred costs of $7.7 million in 2011, associated with potential investments. No such costs were incurred in 2012.

Restructuring and special charges

In 2012, we incurred costs of $44.9 million associated with a workforce reduction, a relocation of certain centres of excellence, as well as, the termination and renegotiation of certain contractual obligations. In 2011, we incurred costs of $26.1 million associated with a workforce reduction and the termination of certain contractual obligations resulting from the creation of centers of excellence and the elimination of print publications from the Canpages division.

Financial charges

Financial charges increased by $19.4 million to $156 million during 2012 compared with $136.6 million for 2011. This increase was mainly attributable to a gain recorded on the repurchase of Preferred shares, series 1 and 2 and medium term notes of $38.8 million for the year ended December 31, 2011. Excluding this gain, financial charges decreased by $19.5 million for the year ended December 31, 2012 compared to the same period last year. The decrease for the year was mainly attributable to lower interest expense and a decrease of the amortization of deferred financing costs. The lower interest expense was attributable to a lower level of indebtedness as a result of buyback activities of medium term notes and repayment of commercial paper borrowings as well as repayments under the credit facility in 2011 and 2012. The positive impact of lower levels of indebtedness on interest expense was partly offset by higher borrowing costs resulting from our credit ratings downgrades. The decrease in interest was partly offset by higher charges related to derivative financial instruments of $18.5 million in 2012 compared to $12.5 million in 2011. The charge in 2012 related to an option associated with our investment in an associate while the charge in 2011 related mainly to the settlement of a total return swap. As at December 31, 2012, the effective average interest rate on our debt portfolio was 9.1% following the implementation of the Recapitalization compared to 6.2% as at December 31, 2011.

Gain on settlement of debt

We recorded a net gain of $978.6 million on the settlement of debt pursuant to the recapitalization in 2012.

Dividends on Preferred shares, series 1 and 2

Dividends on the two series of redeemable preferred shares amounted to $17.7 million for 2012 compared to $19.2 million for the same period in 2011. The decrease for the year was due to a lower level of preferred shares which resulted from our share buyback activity under our normal course issuer bid which took place in 2011.

On February 9, 2012, the Company announced that it had suspended the dividend payment on the Preferred shares, series 1 and 2. Due to the nature of the underlying instrument, the Company continued to accrue for the unpaid dividends on the Preferred shares, series 1 and 2.

Provision for income taxes

The combined statutory provincial and federal tax rate was 26.3% and 27.9% for the years ended December 31, 2012 and 2011, respectively. The Company recorded a recovery of $78.8 million for the year compared with an expense of $85.3 million in 2011. The Company recorded a recovery of 3.9% of the loss for the year ended December 31, 2012. The difference between the effective and the statutory rates in 2012 was due to the gain on settlement of debt offset by the unrecognized capital losses on its investment of subsidiaries and to the impairment charge of $3,267.8 million which was not fully deductible for tax purposes. Excluding these items, the effective tax rate in 2012 would have been in line with the statutory rate.

The Company recorded an expense of 3.3% of the loss for the year ended December 31, 2011. The difference between the effective and the statutory rates in 2011 was due to the impairment of goodwill and intangible assets charge of $2,900 million which was not fully deductible for tax purposes as well as the non-deductibility of certain expenses for tax purposes such as the impairment of our investment in Ziplocal, LP (Ziplocal).

Impairment of investment in an associate

During 2011, Ziplocal was in default of its debt obligations and had undertaken important restructuring initiatives. As a result, the Company determined that its investment in Ziplocal was impaired and a net loss of $50.3 million was recorded in the second quarter of 2011, which reduced its net investment in Ziplocal to $nil.

Earnings (losses) from investments in associates

During 2012, we recorded earnings from our investment in an associate in the amount of $1.9 million which includes a gain of $2.1 million related to the revaluation of our investment in Acquisio. Effective January 1, 2012, we no longer account for the Acquisio investment using the equity method. Our (earnings) losses from investments in associates included the amortization of intangible assets acquired in connection with these equity investments. During 2011, we recorded our share of losses from our

investments in associates in the amount of $12.1 million, which included our share of losses from Ziplocal of $10.6 million. No share of losses was recorded from our investment in Ziplocal in 2012 as this investment was written-off as described above.

Net loss from discontinued operations

On March 25, 2011, Yellow Media announced that it had reached a definitive agreement to sell Trader Corporation. The transaction closed on July 28, 2011. The real estate and LesPAC businesses were excluded from the divestiture. As a result, we reclassified the results of the automotive and generalist verticals as discontinued operations.

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.

EBITDA from the operations of the automotive and generalist business was $34.7 million for the year ended December 31, 2011. The net loss from discontinued operations amounted to $120.9 million for 2011. This included a loss on disposal of $134.3 million, net of income taxes, for the year ended December 31, 2011, which represented the difference between the fair value, net of selling costs and the carrying value of net assets sold.

Net loss

The net loss decreased to $1,962.1 million in 2012 compared with $2,834.3 million in 2011. The decrease in the net loss of $872.2 million for the year ended December 31, 2012 was mainly due to the gain on settlement of debt of $978.6 million recorded pursuant to the Recapitalization, a decrease in depreciation and amortization of $56.6 million, a decrease in the provision for income taxes of $164.1 million, the impairment of our Ziplocal investment of $50.3 million and the loss from our divestiture of Trader Corporation of $120.9 million in 2011, offset by lower EBITDA of $109.2 million, a higher impairment charge of goodwill, intangible assets and certain property, plant and equipment of $367.8 million, restructuring and special charges of $18.8 million and financial charges of $19.4 million.

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

QUARTERLY RESULTS

(IN THOUSANDS OF CANADIAN DOLLARS – EXCEPT SHARE AND PER SHARE INFORMATION)

				2013				2012[1]
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	$ 237,951	$ 237,350	$ 243,183	$ 253,277	$ 264,447	$ 267,711	$ 286,484	$ 289,073
Operating costs	146,698	135,203	135,949	137,799	122,770	129,821	141,545	144,199
Income from operations before depreciation and amortization, impairment of goodwill, intangible assets and property, plant and equipment and restructuring and special charges (EBITDA)	91,253	102,147	107,234	115,478	141,677	137,890	144,939	144,874
EBITDA margin	38.3%	43%	44.1%	45.6%	53.6%	51.5%	50.6%	50.1%
Depreciation and amortization	16,106	15,589	14,779	13,690	23,395	26,597	24,220	30,081
Impairment of goodwill, intangible assets and property, plant and equipment	–	–	–	–	300,000	–	–	2,967,847
Restructuring and special charges	13,134	4,011	–	6,193	18,111	26,812	–	–
Income (loss) from operations	62,013	82,547	92,455	95,595	(199,829)	84,481	120,719	(2,853,054)
Gain (loss) on settlement of debt[2]	–	–	–	–	(994,894)	10,818	5,487	–
Net earnings (loss)	30,964	41,775	50,326	53,465	821,850	22,236	65,681	(2,871,821)
Basic earnings (loss) per share attributable to common shareholders[2]	$ 1.11	$ 1.51	$ 1.81	$ 1.91	$ 29.24	$ 0.59	$ 2.15	$ (102.93)
Diluted earnings (loss) per share attributable to common shareholders[2]	$ 0.97	$ 1.30	$ 1.55	$ 1.64	$ 28.50	$ 0.59	$ 2.15	$ (102.93)

1 *Revised to reflect the adoption of IAS 19 (Revised), Employee Benefits, effective January 1, 2013, and requiring retrospective application. Please refer to Note 2 of the Consolidated Financial Statements of Yellow Media Limited for the year ended December 31, 2013.*

2 *Pursuant to the closing of the recapitalization transaction on December 20, 2012, the common shares of YPG Financing Inc. were exchanged for new common shares of Yellow Media Limited in accordance with the terms of the plan of arrangement implementing the recapitalization transaction. As a result, the weighted average number of common shares outstanding for 2012 has been adjusted to reflect the recapitalization.*

Revenues decreased throughout the quarters, as a result of a continued decline of revenues from our print products, partially offset by an increase in revenues of our digital products. Revenues for the fourth quarter of 2013 increased slightly from the previous quarter. This was impacted by non-recurring revenues as well as higher revenues at Mediative associated with the holiday shopping period.

Our EBITDA margin remained relatively stable in the first and second quarters of 2012 but increased in the third quarter of 2012 as we benefited from reduced rates from our supply chain contracts which were renegotiated during the quarter. In the fourth quarter of 2012, first quarter of 2013, and second quarter of 2013, we recorded non-cash benefits of $13.3 million, $2.6 million and $4.6 million, respectively, related to amendments to our pension and post-retirement benefit plans. Our EBITDA margin decreased throughout 2013, primarily reflecting lower print revenues, the loss of margin from a change in product mix, investments made to accelerate our business transformation and employee related expenses. The fourth quarter of 2013 was also negatively impacted by provisions related to a legal dispute and a sales tax assessment.

Workforce reductions and cost containment initiatives resulted in restructuring and special charges impacting some of our quarterly results presented above. Net earnings (loss) for 2012 was affected by depreciation and amortization of intangible assets related to the acquisition of Canpages. The decrease in 2013 of depreciation and amortization is a result of a lower cost base of assets to depreciate and amortize following the $300 million impairment recorded in the fourth quarter of 2012.

During the first and the fourth quarters of 2012, we recorded impairment charges of $2,967.8 million and $300 million, respectively, related to goodwill, certain of our intangible assets and property, plant and equipment.

During the fourth quarter of 2012, we recorded a gain of $978.6 million on the settlement of debt pursuant to the recapitalization, net of related fees of $69.5 million, write-off of deferred financing costs of $16.3 million, deferred gains of $5.5 million, an equity component of $7.2 million and a derivative component of $0.6 million, associated with our previous debt instruments. Upon closing of the recapitalization transaction in the fourth quarter of 2012, $5.5 million and $10.8 million of recapitalization costs recorded in the second and third quarters of 2012, respectively, were reclassified to the gain on settlement of debt. The change in presentation of recapitalization costs and income from operations were made in the prior periods to conform to the December 31, 2013 presentation.

ANALYSIS OF FOURTH QUARTER 2013 RESULTS

Revenues

Revenues decreased to $238 million during the fourth quarter of 2013 compared with $264.4 million for the same period last year. The revenue decrease for the quarter is due to lower print revenues, as larger advertisers reduce their print advertising spend, as well as a lower advertiser count amongst smaller, low-spend advertisers.

Digital revenues for the fourth quarter ended December 31, 2013 grew by 7.7% to $107.4 million, as compared to $99.7 million for the same period last year. Digital revenue growth continues to result from the active migration of traditional media advertisers towards digital products and services and continued adoption of the Yellow PagesTM 360º Solution across YPG's sales channels.

EBITDA

EBITDA decreased by $50.4 million to $91.3 million during the fourth quarter of 2013 compared with $141.7 million for the same period last year. The decrease in EBITDA is due to print revenue pressure, as revenue growth from our digital products is not compensating for the loss in print revenues, combined with a lower EBITDA margin. Our EBITDA margin for the fourth quarter of 2013 was 38.3% compared to 53.6% for the same period in 2012. In addition to lower revenues, pressure on the EBITDA margin results mainly from a change in product mix, as well as investments required to advance the Company's digital transformation. We also recorded a provision related to a legal dispute and a sales tax assessment. The fourth quarter of 2012 included non-cash benefits of approximately $13.3 million associated with changes to our employee pension and post-retirement benefit plans. Excluding the foregoing non-recurring items, our EBITDA margin for the fourth quarter of 2013 decreased to 41.2% compared to 48% for the same period last year, on the same basis.

Cost of sales decreased by $3.7 million to $80.9 million during the fourth quarter of 2013 compared with $84.6 million for the same period last year. The decrease for the quarter results mainly from lower sales costs associated with lower revenues and lower manufacturing costs associated with lower print revenues. These costs savings were partly offset by an increase in provisioning and fulfillment costs of our digital services.

Gross profit margin decreased to 66% for the fourth quarter of 2013 compared to 68% for the fourth quarter of 2012. The decrease is due to a change in product mix, which includes lower margins associated with some of our new online service offerings such as websites, SEO and SEM.

General and administrative expenses increased by $27.6 million to $65.8 million for the three-month period ended December 31, 2013 compared with $38.2 million for the same period last year. The increase for the quarter ended December 31, 2013 is attributable to a lower non-cash benefit resulting from the amendment to our employees' pension and post-retirement benefit plans, non-recurring provisions related to a legal dispute and a sales tax assessment, as well as employee related expenses.

Depreciation and amortization

Depreciation and amortization decreased to $16.1 million during the fourth quarter of 2013 from $23.4 million during the fourth quarter of 2012. The decrease is mainly attributable to lower amortization of certain intangible assets related to the acquisition of Canpages in 2010. These intangibles resulted in a higher amortization expense in 2012 and were fully written off during the previous year. In addition, certain intangible assets and property, plant and equipment had a lower cost base in 2013 due to the impairment of $300 million recorded in the fourth quarter of 2012.

Impairment of goodwill, intangible assets and property, plant and equipment

During the fourth quarter of 2012, management concluded that indicators that the Company's assets may be impaired existed, which required the Company to perform an impairment test. As a result of the impairment test, we recorded an impairment charge of $300 million in the fourth quarter of 2012 related to certain of our intangible assets and property, plant and equipment. No such charge was recorded during the fourth quarter of 2013.

Restructuring and special charges

During the fourth quarter of 2013, we recorded restructuring and special charges of $13.1 million compared with $18.1 million for the same period last year. The charges in the fourth quarter of 2013 relate to a workforce reduction and the termination and renegotiation of certain contractual obligations. To further advance our digital transformation, we eliminated approximately 300 positions across our offices, primarily in domains related to our print and legacy operations, but also including some support functions. The charges in the fourth quarter of 2012 were associated with a workforce relocation, a workforce reduction and the termination and renegotiation of certain contractual obligations.

Financial charges

Financial charges decreased by $27.6 million to $24 million for the three-month period ended December 31, 2013 compared with $51.6 million for the same period last year. The decrease is mainly due to lower level of indebtedness and lower deferred financing costs during the fourth quarter of 2013 as a result of the December 2012 recapitalization transaction. In the fourth quarter of 2012, we incurred a derivative charge of $18.5 million related to an option associated with our investment in an associate. No such charge was recorded during the fourth quarter of 2013.

Gain on settlement of debt

During the fourth quarter of 2012, we recorded a gain of $994.9 million on the settlement of debt pursuant to the recapitalization, net of related fees of $53.2 million, a write-off of deferred financing costs of $16.3 million, deferred gains of $5.5 million, an equity component of $7.2 million and a derivative component of $0.6 million, associated with our previous debt instruments. Upon closing of the recapitalization in the fourth quarter of 2012, $16.3 million of recapitalization costs recorded in the second and third quarters of 2012 were reclassified to the gain on settlement of debt.

Dividends on Preferred shares, series 1 and 2

Dividends on the two series of redeemable preferred shares amounted to $4 million during the fourth quarter of 2012. Pursuant to the December 2012 recapitalization transaction, these preferred shares were cancelled.

Provision for income taxes

The combined statutory provincial and federal tax rate was 26.46% and 26.33% for the three-month periods ended December 31, 2013 and 2012, respectively. The Company recorded an expense of 19% of earnings for the three-month period ended December 31, 2013 compared to a recovery of 11% of earnings for the three-month period ended December 31, 2012. The difference between the effective and the statutory rates in the fourth quarter of 2013 is due to the de-recognition of previously recognized tax attributes on assets of our foreign subsidiaries and non-taxable and non-deductible items. The difference between the effective and the statutory rates for 2012 is due to the gain on settlement of debt which is offset by the unrecognized capital losses on investment of subsidiaries.

Earnings from investments in associates

During the fourth quarter of 2013, we recorded earnings from our investment in an associate in the amount of $0.2 million compared with $0.1 million for the same period last year. Our earnings from investments in associates include the amortization of intangible assets during the fourth quarter of 2012. These intangible assets were fully amortized during the first quarter of 2013.

Net earnings

We recorded net earnings of $31 million during the fourth quarter of 2013 compared with $821.9 million for the same period last year. The decrease for the quarter is mainly due to the gain on the settlement of debt of $994.9 million, offset by the impairment charge related to certain of our intangible assets and property, plant and equipment of $300 million recorded in the fourth quarter of 2012. Also, we recorded a higher provision for income taxes and reported lower EBITDA in the fourth quarter of 2013.

3. LIQUIDITY AND CAPITAL RESOURCES

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

FINANCIAL POSITION

CAPITAL STRUCTURE

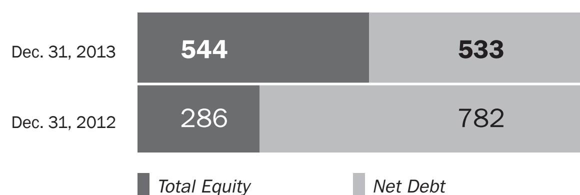
(IN THOUSANDS OF CANADIAN DOLLARS)

	As at December 31, 2013	As at December 31, 2012
Cash and cash equivalents	$ 202,287	$ 106,807
Senior secured notes	$ 646,577	$ 800,000
Obligations under finance leases	891	1,831
Exchangeable debentures	87,934	86,667
Net debt, net of cash and cash equivalents[1]	$ 533,115	$ 781,691
Equity attributable to the shareholders	544,495	285,749
Non-controlling interests	–	411
Total capitalization	$ 1,077,610	$ 1,067,851
Net debt to total capitalization	49.5%	73.2%

NET DEBT[1] TO LATEST TWELVE MONTH EBITDA RATIO[2,3]

CAPITAL STRUCTURE

(IN MILLIONS OF CANADIAN DOLLARS)



As at December 31, 2013, Yellow Media had approximately $533.1 million of net debt. This compares to $781.7 million of net debt as at December 31, 2012.

The net debt to Latest Twelve Month EBITDA[2] ratio as at December 31, 2013 was 1.3 times compared to 1.4 times as at December 31, 2012. The improvement is due to a lower level of indebtedness partially offset by lower EBITDA.

Asset-Based Loan

In August 2013, the Company, through YPG Financing Inc., entered into a five-year $50 million asset-based loan (ABL) expiring in August 2018. The ABL will be used for general corporate purposes. Through the ABL, the Company has access to the funds in the form of prime rate loans, Banker's acceptance (BA) equivalent loans or letters of credit. The ABL has a first priority lien over the receivables of the Company. The ABL is subject to an availability reserve of $5 million if the Company's trailing twelve-month fixed charge coverage ratio is below 1.1 times. As at February 13, 2014, the ABL was fully available and was undrawn. Interest is calculated based either on the BA Rate or the Canadian Prime Rate plus an applicable margin.

The loan agreement governing the ABL contains restrictive covenants, including restrictions on the incurrence of additional indebtedness, the payment of dividends and other payments, investments, the creation of liens, sale and leaseback transactions, mergers, consolidations and sales of assets, and certain transactions with affiliates and its business activities.

As at December 31, 2013, the Company was in compliance with all covenants under the loan agreement governing the ABL.

[1] *Net debt is a non-IFRS measure defined as external debt, net of cash and cash equivalents, as reported in accordance with IFRS.*

[2] *Latest twelve month income from operations before depreciation and amortization, impairment of goodwill, intangible assets and property, plant and equipment and restructuring and special charges, (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 14 for a definition of EBITDA.*

[3] *Latest Twelve Month EBITDA for the prior period was revised to reflect the adoption of IAS 19 (Revised), Employee Benefits, as described in Note 2 of the Consolidated Financial Statements of Yellow Media Limited.*

Senior Secured Notes

On December 20, 2012, the Company, through its subsidiary YPG Financing Inc., issued $800 million of 9.25% senior secured notes (Senior Secured Notes) maturing November 30, 2018. Interest on the Senior Secured Notes is payable in cash, quarterly in arrears, in equal instalments on the last day of February, May, August and November of each year.

As at December 31, 2013, the Company was in compliance with all covenants under the indenture governing the Senior Secured Notes.

During the year, the Company repaid $153.4 million of its Senior Secured Notes.

Mandatory Redemption

Pursuant to the indenture governing the Senior Secured Notes, the Company is required to use an amount equal to 75% of its consolidated Excess Cash Flow for the immediately preceding six-month period ending March 31 or September 30, as applicable, to redeem on a semi-annual basis on the last day of May and November of each year, commencing on May 31, 2013, the Senior Secured Notes at a redemption price equal to 100% of the principal amount thereof from holders on a pro rata basis, subject to the Company maintaining a minimum cash balance of $75 million immediately following the mandatory redemption payment. The $75 million minimum cash balance condition is subject to reduction in certain cases provided in the indenture governing the Senior Secured Notes. Excess Cash Flow, as defined in the indenture governing the Senior Secured Notes, means the aggregate cash flow from operating activities adjusted for, among other things, payments relating to interest, taxes, long-term employee compensation plans, certain pension plan contribution payments and the acquisition of property, plant and equipment and intangible assets. The Company is required to make minimum annual aggregate mandatory redemption payments of $75 million in 2014, $50 million in 2015, or if the redemption payments made in 2014 exceed $75 million, $50 million less such excess redemption payment. The minimum annual aggregate mandatory redemption payments for 2014 and 2015 are not subject to the condition that the Company maintain a minimum cash balance of $75 million immediately following such payments.

For purposes of determining the consolidated Excess Cash Flow, deductions for capital expenditures and information systems/ information technology expenses are each subject to an annual deduction limit of $50 million. Under other circumstances, the Company may also have to make additional repayments on the Senior Secured Notes (refer to the indenture governing the Senior Secured Notes).

The Company made mandatory redemption payments of $26.1 million and $92.4 million on May 31, 2013 and December 2, 2013, respectively.

Optional Redemption

The Company may redeem all or part of the Senior Secured Notes at its option, upon not less than 30 nor more than 60 days prior notice, at a redemption price equal to:

- In the case of a redemption occurring prior to May 31, 2017, 105% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date; or
- In the case of a redemption occurring after May 31, 2017, 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date.

On October 29, 2013, the Company exercised its option to redeem $27 million of Senior Secured Notes at a redemption price of $1,050 per $1,000 principal amount of Senior Secured Notes and accrued and unpaid interest of $15.16 per $1,000 principal amount of Senior Secured Notes for a total cash consideration of $28.4 million. A loss of $1.4 million was recorded in net earnings in financial charges.

Open Market Purchase

During the third quarter of 2013, the Company purchased on the open market $8 million of Senior Secured Notes for a total cash consideration of $8.3 million. A loss of $0.3 million was recorded in net earnings in financial charges.

Exchangeable Debentures

On December 20, 2012, the Company, through its subsidiary YPG Financing Inc., issued $107.5 million of senior subordinated exchangeable debentures (Exchangeable Debentures) due November 30, 2022.

Interest on the Exchangeable Debentures accrues at a rate of 8% per annum if, for the applicable interest period, it is paid in cash or 12% per annum, for the applicable interest period, if the Company makes a Payment in Kind (PIK) election to pay interest in respect of all or any part of the then outstanding Exchangeable Debentures in additional Exchangeable Debentures. Interest on the Exchangeable Debentures is payable semi-annually in arrears in equal instalments on the last day of May and November of each year.

As at December 31, 2013, the Company was in compliance with all covenants under the indenture governing the Exchangeable Debentures.

Exchange Option

The Exchangeable Debentures are exchangeable at the holder's option into common shares at any time at an exchange price per common share equal to $19.04, subject to adjustment for specified transactions.

Optional Redemption

The Company may, at any time on or after the date on which all of the Senior Secured Notes have been paid in full, redeem all or part of the Exchangeable Debentures at its option, upon, not less than 30 nor more than 60 days' prior notice, at a redemption price equal to:

- In the case of a redemption occurring prior to May 31, 2021, 110% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date; or
- In the case of a redemption occurring on or after May 31, 2021, 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date.

CREDIT RATINGS

DBRS LIMITED	STANDARD AND POOR'S RATING SERVICES
B (low)/Issuer rating – stable trend	B/Corporate credit rating – stable outlook
CCC (high)/Credit rating for Senior Secured Notes	B+/Credit rating for Senior Secured Notes
CCC/Credit rating for Exchangeable Debentures	CCC+/Credit rating for Exchangeable Debentures

Liquidity

The Company's principal source of liquidity is cash generated from operations and cash on hand. The Company expects to generate sufficient liquidity to fund capital expenditures, working capital requirements and current obligations, including the mandatory repayments on the Senior Secured Notes. The Company had approximately $211.8 million of cash and cash equivalents as at February 13, 2014.

Share data

As at February 13, 2014, outstanding share data was as follows:

OUTSTANDING SHARE DATA

	As at February 13, 2014	As at December 31, 2013	As at December 31, 2012
Common Shares outstanding	**27,955,339**	27,955,077	27,955,077
Warrants outstanding	**2,995,506**	2,995,506	2,995,506

Exchangeable Debentures

As at December 31, 2013, the Company had a total of $107.5 million of Exchangeable Debentures outstanding.

Options

On December 20, 2012, as part of the implementation of Yellow Media Limited's recapitalization transaction, a new stock option plan (the Stock Option Plan) was adopted. The Stock Option Plan is intended to attract and retain the services of selected employees of Yellow Media Limited who are in a position to make a material contribution to the successful operation of the business, provide meaningful incentive to management to lead Yellow Media Limited through the transition and transformation of its business and to more closely align the interests of management with those of the shareholders of Yellow Media Limited. A maximum of 1,290,612 options may be granted under the Stock Option Plan. On May 6, 2013, 376,000 options were granted to selected employees of Yellow Media Limited (the Participants).

The significant terms and conditions of the options granted are as follows:

- The exercise price is $10.12;
- The options vest 50% in February 2015, 25% in February 2016 and 25% in February 2017;
- The options expire seven years after the grant date; and
- Participants are required to hold 25% of the common shares received pursuant to the exercise of the option until the Participants meet the ownership guidelines.

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

CONTRACTUAL OBLIGATIONS

(IN THOUSANDS OF CANADIAN DOLLARS)

	Payments due for the years following December 31, 2013				
	Total	Less than 1 year	2 – 3 years	4 – 5 years	After 5 years
Long-term debt[1,2]	**$ 646,577**	$ 88,543	$ 36,457	$ 521,577	$ —
Obligations under finance leases[1]	**$ 891**	$ 508	$ 383	$ —	$ —
Exchangeable debentures[1]	**$ 107,500**	$ —	$ —	$ —	$ 107,500
Operating leases	**$ 89,537**	$ 20,832	$ 40,880	$ 24,363	$ 3,462
Other	**$ 179,257**	$ 62,701	$ 107,579	$ 7,977	$ 1,000
Total contractual obligations	$ 1,023,762	$ 172,584	$ 185,299	$ 553,917	$ 111,962

1 *Principal amount.*

2 *The repayment of the Senior Secured Notes may vary subject to the Excess Cash Flow clause.*

Obligations under finance leases

We enter into finance lease agreements for office equipment and software. As at December 31, 2013, minimum payments under these finance leases up to 2016 totalled $0.9 million.

Operating leases

We rent our premises and office equipment under various operating leases. As at December 31, 2013, minimum payments under these operating leases up to 2020 totalled $89.5 million.

Purchase obligations

We use the services of outside suppliers to distribute and print our directories and have entered into long-term agreements with a number of these suppliers. These agreements expire between 2016 and 2038. We also have purchase obligations under service contracts for both operating and capital expenditures. As at December 31, 2013, we have an obligation to purchase services for $178.6 million over the next five years and thereafter. Cash from operations will be used to fund these purchase obligations.

Pension Obligations

YPG sponsors a pension plan registered with the Canada Revenue Agency and the Financial Services Commission of Ontario with defined benefit (DB) and defined contribution (DC) components (the YPG Pension Plan) as well as a DC plan registered with the Régie des Rentes du Québec (the YPG Plan), for the Québec based employees hired on or after January 1, 2006. Both plans together cover substantially all employees of the Company.

As at December 31, 2013, the DB component of the YPG Pension Plan's assets totalled $437 million and were invested in a diversified portfolio of Canadian fixed income securities and Canadian and international equity securities. Its rate of return on assets was 15.6% for 2013, 3.6% ahead of our benchmark portfolio.

The most recent actuarial valuation of the defined benefit component of the YPG Pension Plan for funding purposes was performed as at June 1, 2013. The June 2013 valuation resulted in a solvency deficit of $148 million. This valuation also established the amount of contributions the Company is required to make to the YPG Pension Plan from June 1, 2013 until the next valuation, which is due no later than June 1, 2014.

In 2013, the Company made annual contributions equivalent to the current service cost (the Annual Employer Cost) of $28.5 million, including $11.9 million to fund the deficit. Total cash payments are expected to amount to $40.4 million for 2014, of which $21.7 million will be to fund the deficit.

SOURCES AND USES OF CASH

SOURCES AND USES OF CASH

(IN THOUSANDS OF CANADIAN DOLLARS)

	Years ended December 31, 2013	2012
Cash flows from operating activities		
Cash flows from operations	$ 290,035	$ 283,776
Change in operating assets and liabilities	50,645	(45,203)
	$ 340,680	$ 238,573
Cash flows used in investing activities		
Acquisition of intangible assets and internally-generated software	(54,584)	(35,281)
Acquisition of property, plant and equipment	(11,743)	(5,137)
Business acquisition	(3,581)	–
Proceeds from sale of assets	–	1,650
Other	359	183
	$ (69,549)	$ (38,585)
Cash flows used in financing activities		
Repayment and settlement of long-term debt	$ (118,984)	$ (351,426)
Repurchase of long-term debt	(36,670)	–
Restricted shares	(6,630)	–
Deferred consideration	(5,624)	(1,800)
Recapitalization costs	(6,641)	(63,025)
Issuance of long-term debt	–	239,000
Other	(1,102)	(116)
	$ (175,651)	$ (177,367)

Cash flows from operating activities

Cash flows from operations

Cash flows from operations increased by $6.3 million from $283.8 million for the year ended December 31, 2012 to $290 million for the year ended December 31, 2013, mainly due to lower interest paid of $73.3 million, lower income taxes paid of $47.2 million, a lower funding of pension plans of $8.4 million, as well as lower payments for restructuring and special charges of $28 million offset by lower EBITDA of $153.3 million.

Change in operating assets and liabilities

The change in operating assets and liabilities for the year ended December 31, 2013 generated an inflow of $50.6 million compared with an outflow of $45.2 million for the same period last year. The inflow in 2013 is due principally to a better performance in the collection of our trade receivables. The timing of payment of accounts payable and certain provisions also generated a net inflow during 2013. The payment of sales tax assessments negatively impacted the change in operating assets and liabilities in 2012.

Cash flows used in investing activities

Cash used in investing activities amounted to $69.5 million for the year ended December 31, 2013 compared with $38.6 million for the year ended December 31, 2012. During 2013, we invested in software development and equipment in the amount of $54.6 million and $11.7 million, respectively, which in total was more than the corresponding amounts of $35.3 million and $5.1 million, respectively, spent in 2012.

ACQUISITION OF PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS, NET OF LEASE INDUCEMENTS

(IN THOUSANDS OF CANADIAN DOLLARS)

	Years ended December 31,	
	2013	2012
Sustaining	$ 21,688	$ 20,437
Growth	38,847	22,022
Total	$ 60,535	$ 42,459
Adjustment to reflect expenditures on a cash basis	4,907	(2,224)
Acquisition of property, plant, equipment and intangible assets, net of lease inducements	$ 65,442	$ 40,235

Sustaining capital expenditures are related to the ongoing operations required to maintain the integrity of the infrastructure. It also includes leasehold improvements which we invested in as we re-engineered some premises to accommodate our growing digital fulfillment teams. Sustaining capital expenditures amounted to $21.7 million for the year ended December 31, 2013, compared to $20.4 million for the previous year.

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 media and marketing solutions company. During the year ended December 31, 2013, these amounted to $38.8 million compared to $22 million for the previous year. We spent more in 2013 compared to 2012 as we invested in our new Online Merchant Management (OMM) and Enterprise Tracking and Reporting tools. We also deployed a new call center platform and a new search engine on all our mobile properties.

Total capital expenditures for 2013 amounted to $60.5 million, and we expect to maintain this level of expenditures in 2014.

Cash flows used in financing activities

Cash used in financing activities amounted to $175.7 million during the year ended December 31, 2013 compared to $177.4 million for the same period last year. During the year, we repaid $119 million and repurchased $35 million of the Senior Secured Notes for total consideration of $36.7 million. In January 2012, we drew $239 million on the revolving tranche of the Credit Facility and made three quarterly payments of $25 million on the non-revolving tranche of our Credit Facility. In addition, we made a cash payment of $275 million in connection with the recapitalization transaction in December 2012.

FINANCIAL AND OTHER INSTRUMENTS

(See Note 21 of the Consolidated Financial Statements of the Company for the year ended December 31, 2013).

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, investments in associates, trade and other payables, short-term and long-term debt and Exchangeable Debentures.

Derivative Instruments

We currently have an agreement to purchase the remaining shares of an investment in an associate at a pre-determined multiple. This option qualifies as a derivative liability. Because the option value was greater than the fair value of the remaining shares, we recorded a charge of $18.5 million for the year ended December 31, 2012 in financial charges.

There is no carrying value of embedded derivatives as at December 31, 2013. The carrying value is calculated, as is customary in the industry, using discounted cash flows based on quarter-end market rates.

4. FREE CASH FLOW

FREE CASH FLOW

FREE CASH FLOW

(IN THOUSANDS OF CANADIAN DOLLARS)

	Three-month periods ended December 31,		Years ended December 31,	
	2013	2012	2013	2012
Cash flow from operating activities	$ 88,444	61,749	$ 340,680	$ 238,573
Capital expenditures, net of lease inducements	14,294	13,771	66,129	40,235
Free cash flow	$ 74,150	47,978	$ 274,551	$ 198,338

5. CRITICAL ASSUMPTIONS

When we prepare our consolidated 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, goodwill and property, plant and equipment

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's future results if the current estimates of future performance and fair values change. These determinations may affect the amount of amortization expense on identifiable intangible assets recognized in future periods and impairment of goodwill, intangible assets and property, plant and equipment.

Yellow Media 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. During 2012, it was determined that the recoverable amount of goodwill was $nil. As such, its carrying value was written-off in its entirety.

Yellow Media performed its annual test for impairment of indefinite life intangible assets in accordance with the policy described in Note 3.12 of the Consolidated Financial Statements of Yellow Media Limited for the year ended December 31, 2013.

The recoverable amount of the cash generating units (CGUs) was determined based on the value-in-use approach using a discounted cash flow model which relies on significant key assumptions, including after-tax cash flows forecasted over an extended period of time, 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's impairment reviews are disclosed in Note 4 of the Consolidated Financial Statements of Yellow Media Limited for the year ended December 31, 2013.

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 the 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 may 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's ability to utilize the underlying future tax deductions against future taxable income before they expire. Yellow Media's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of Yellow Media's ability to utilize the underlying future tax deductions changes, Yellow Media 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 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 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 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.

NEW ACCOUNTING STANDARDS

IAS 1 (Revised) — Presentation of Financial Statements

On June 16, 2011, the International Accounting Standards Board (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 income statement and to separately group together items that will not be reclassified to the income statement. The amendments also reaffirm existing requirements that profit or loss and OCI should be presented as either a single statement or two consecutive statements. The amendments are effective for financial years commencing on or after July 1, 2012.

In May 2012, the IASB issued further amendments to IAS 1 — *Presentation of Financial Statements* which are effective for annual periods beginning on or after January 1, 2013 with early application permitted. IAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period. The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

Yellow Media Limited has applied the amendments to IAS 1 on January 1, 2011, in advance of the effective date, as permitted. The amendments have been applied retrospectively, and hence the presentation of items of OCI has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 did not result in any impact on profit or loss, OCI and total comprehensive income.

IAS 19 (Revised) — Employee Benefits

Yellow Media Limited has applied the amendments to IAS 19 (Revised) — *Employee Benefits* effective for financial years beginning on or after January 1, 2013. Under the amendments, the main changes of this revised version are the elimination of the corridor approach and acceleration of past service costs recognition with all changes to the defined benefit obligation and plan assets recognized when they occur. These amendments did not impact the Company's financial results. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with the net interest amount which is calculated by applying the discount rate to the net defined benefit liability or asset and administration fees are now included in service costs. Please refer to Note 2 of the Consolidated Financial Statements of the Company for the year ended December 31, 2013 for a summary of the differences between our financial statements previously prepared and those under IAS 19 (Revised).

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). New required note disclosures have been included in the Company's consolidated financial statements for the year ended December 31, 2013 to comply with the amendments. The IFRS 7 amendments are effective for financial years beginning on or after January 1, 2013 and have been applied retrospectively.

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. New required note disclosures have been included in the Company's consolidated financial statements for the year ended December 31, 2013 to comply with this new standard.

IFRS 13 — Fair Value Measurement

IFRS 13 is a new standard that defines fair value and requires disclosures about fair value measurements. It applies prospectively from the beginning of the annual period in which it is adopted. New required note disclosures have been included in these consolidated financial statements. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in Yellow Media's Consolidated Financial Statements. IFRS 13 is effective for financial years beginning on or after January 1, 2013.

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 and changes the definition of control over an investee. IFRS 11 — *Joint Arrangements*, and IFRS 12 — *Disclosure of Interests in Other Entities* and the related amendments to IAS 27 — *Consolidated and Separate Statements* and IAS 28 — *Investments in Associates* (the "package of five") are adopted at the same time. Yellow Media Limited reviewed its investments in associates and concluded the adoption of IFRS 10 did not have an impact on its consolidated financial statements.

IFRS 11 — Joint Arrangements

IFRS 11 supersedes IAS 31— *Interests in Joint Ventures*, and SIC-13 — *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. 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 joint ventures, namely the equity method.

IAS 32 — Financial Instruments: Presentation in respect of Offsetting

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. As part of this project, the IASB clarified aspects of IAS 32 — *Financial Instruments: Presentation*. The amendments to IAS 32 address inconsistencies in current practice when applying the requirements. The amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively. Yellow Media Limited has not early adopted this standard and has not fully assessed the impact of adopting IAS 32.

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 and November 2013, 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 amendments made to IFRS 9 in November 2013 remove the mandatory effective date from IFRS 9. However, entities may choose to apply IFRS 9 immediately. Yellow Media Limited has not early adopted this standard and has not fully assessed the impact of adopting IFRS 9.

6. RISKS AND UNCERTAINTIES

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

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 across key functional areas of the organization.

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

Substantial competition could reduce the market share of the Corporation and could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation competes with other directory, advertising media and classified advertising businesses and across various media and platforms. This includes the internet, newspapers, television, radio, mobile telecommunication devices, magazines, billboards and direct mail advertising. In particular, the directories business faces substantial competition due to increased online penetration, through the use of online search engines and social networking organizations. The Corporation may not be able to compete effectively with these online competitors, some of which may have greater resources. The Corporation's internet strategy and its directories business may be adversely affected if major search engines build local sales forces or otherwise begin to more effectively reach local businesses for local commercial search services. These competitors may reduce their prices to increase their market share or may be able to offer their services at lower costs than the Corporation can.

The Corporation may be forced to reduce its prices or offer and perform other services in order to remain competitive. The Corporation'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 the Corporation, its business, results from operations and financial condition.

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.

A higher than anticipated rate of decline in print revenue resulting from changes in preferences and consumer habits could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation could be materially adversely affected if the usage of print telephone directories declines 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. The usage of internet-based directory products has increased rapidly. The internet has become increasingly accessible as an advertising medium for businesses of all sizes. Further, the use of the internet, including as a means to transact commerce through wireless devices, has resulted in new technologies and services that compete with traditional advertising mediums. In particular, this has a significant influence on print products, and the decrease in usage gradually leads to lower advertising revenues. References to print business directories may continue to decline as users increasingly turn to digital and interactive media delivery devices for local commercial search information.

The inability of the Corporation to successfully enhance and expand its offering of digital and new media products could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The transition from print to digital causes uncertainties surrounding whether and when new product introductions will compensate for the declining trend in print revenues. If revenue from the Corporation's digital products does not increase significantly, the Corporation's cash flow, results of operations and financial condition will be materially adversely affected.

The Corporation expects to derive a greater portion of its total revenue from its digital and other new media products, as directory usage continues to shift from print directories to digital and other new media products.

The Corporation's transformational expansion towards digital and new media products is subject to a variety of challenges and risks, including the following:

- the Corporation may not continue to grow internet usage on its own sites at the same rate as other providers or may grow at a slower rate than currently anticipated;
- internet usage as a source of information and a medium for advertising may not continue to grow, or may grow at a slower rate than currently anticipated, as a result of factors that the Corporation cannot predict or control;
- the Corporation may incur substantial additional costs and expenses related to investments in its information technology, modifications to existing products and development of new products and this may reduce profit margins in the future;
- the Corporation may be unable to develop and market new products in a timely and efficient manner, as the Corporation's markets are characterised by rapidly changing technology, introductions and enhancements to existing products and shifting advertising customer and end-user demands, including technology preferences;
- the Corporation may be unable to improve its information technology systems so as to efficiently manage increased levels of traffic on the Corporation's websites and provide new services and products;
- the Corporation's focus on its digital and new media products may distract or deter advertising customers from pursuing advertising opportunities in the Corporation's print products;
- the Corporation may be unable to keep apprised of changes to search engines' terms of service or algorithms, which could cause the Corporation's websites, or its advertising customers' websites, to be excluded from or ranked lower in search results or make it more difficult or more expensive for the Corporation to provide search engine marketing and search engine optimisation solutions to its advertising customers;
- the Corporation's advertising customers may be unwilling to pay for digital advertising at the same rates as they had paid for printed directory advertising; and
- the Corporation may be unable to increase the prices of its products and services in the future.

If any of the above-mentioned risks were to occur, the Corporation's digital revenue, as well as its business, results from operations and financial condition could be materially adversely affected.

The continuing transition in the media and publishing industries towards more digital 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.

The inability of the Corporation to generate sufficient funds from operations, debt financings, equity financings or refinancing transactions could have a material adverse effect on the Corporation, its business, results from operations and financial condition

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.

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.

The Corporation's substantial indebtedness could adversely affect its efforts to refinance or reduce its indebtedness and could have a material adverse effect on the Corporation, its business, results from operations and financial condition

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:

- 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;
- place the Corporation at a competitive disadvantage compared to its competitors that have less debt; and
- limit the Corporation's ability to obtain additional financing, if needed, for working capital, capital expenditures, acquisitions, debt service requirements or other purposes.

In addition, the indenture governing the Senior Secured Notes, the indenture governing the Exchangeable Debentures and the ABL contain a number of financial and other restrictive covenants, including restrictions on the incurrence of additional indebtedness, the payment of dividends and other payment restrictions, investments, the creation of liens, sale and leaseback transactions, mergers, consolidations and sales of assets and certain transactions with affiliates and its business activities. A failure to comply with such obligations could result in a default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the indenture governing the Senior Secured Notes, the indenture governing the Exchangeable Debentures or the ABL, as the case may be, were to be accelerated, there can be no assurance that the Corporation would have sufficient liquidity to repay in full that indebtedness.

Incremental contributions by the Corporation to its pension plans could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation is currently and may be required to make incremental contributions to its 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 the Corporation's liquidity and results from operations. The Corporation is currently making incremental contributions to its pensions plans to reduce its actuarial solvency deficits.

The funding requirements of the Corporation's pension plans, resulting from valuations of its 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 the Corporation's current estimates and could require the Corporation to make incremental contributions to its pension plans in the future and, therefore, could have a negative effect on the Corporation's liquidity, business, results from operations and financial condition.

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

Failure by either the Corporation or the Telco Partners to fulfill the obligations set forth in the agreements between the Corporation and the Telco Partners could result in a material adverse effect on the Corporation, its business, results from operations and financial condition

We have a Billing and Collection Services Agreement with Bell Canada (up to 2016), with Telus (up to 2031), with MTS Allstream (up to 2036) and with Bell Aliant (up to 2037). 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 (including in the event that any of them seek protection under Canadian bankruptcy laws), 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.

Failure by the Corporation to adequately protect and maintain its brands and trade-marks, as well as third party infringement of such, could have a material adverse effect on the Corporation, its business, results from operations and financial condition

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.

Work stoppages and other labor disturbances could have a material adverse effect on the Corporation, its business, results from operations and financial condition

Certain non-management employees of YPG are unionized. Current union agreements range between one to five 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. Additionally, if a greater percentage of the Corporation's workforce becomes unionized, this could have a material adverse effect on its business, results from operations and financial condition.

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.

Challenge by tax authorities of the Corporation's position on certain income tax matters could have a material adverse effect on the Corporation, its business, results from operations and financial condition

In the normal course of the Company's activities, the tax authorities are carrying out ongoing reviews. In that respect, the Corporation 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.

The loss of key relationships or changes in the level or service provided by internet portals, search engines and individual websites could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation has entered into agreements with several internet portals, search engines and individual websites to promote its online directories. These agreements make the Corporation's content and customer advertising more easily accessible by these portals, search engines and individual websites. These agreements allow the Corporation to generate a higher volume of traffic than it would on its own as well as generate business leads for its advertisers, while retaining the client relationship. In return, the portals, search engines and individual websites obtain business through the Corporation from advertisers who would not otherwise transact with them. Loss of key relationships or changes in the level of service provided by these internet portals, search engines and individual websites could impact performance of the Corporation's internet marketing solutions. In addition, internet marketing services are provided by many other competitors within the markets the Corporation serves and its clients could choose to work with other, sometimes larger providers of these services, or with other search engines directly.

The failure of the Corporation's computers and communications systems could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation's business activities rely significantly on the efficient and uninterrupted operation of computers and communications systems as well as those of third parties. The Corporation's sales and advertising processing, data storage, production, billing, collection and day-to-day operations could be adversely impaired by the failure of such technology, which could in turn have a material adverse effect on the Corporation, its business, results from operations and financial condition.

In addition, the Corporation's computer and IT systems are vulnerable to damage or interruption from a variety of sources and its disaster recovery systems may be deemed ineffective. Any failure of these systems could impair the Corporation's business. This could have a material adverse effect on the Corporation, its business, results from operations and financial condition.

The company has in place redundant facilities as well as a disaster recovery plan designed to restore the operability of the target system, application, or computer facility infrastructure at an alternate site after an emergency.

The Corporation's inability to attract and retain key personnel could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The success of the Corporation depends on the abilities, experience and personal efforts of senior management of the Corporation, including their ability to retain and attract skilled employees. The Corporation is also dependent on the number and experience of its sales representatives. The loss of the services of such key personnel could have a material adverse effect on the Corporation, its results from operations and financial condition.

We continually invest in our workforce to develop a strong digital culture. We offer training programs, tools and resources to elevate digital literacy and promote change management across all facets of the organization.

The Corporation might be required to record additional impairment charges

In the first quarter of 2012, the Corporation recorded an additional $2,967.8 million goodwill and intangible assets impairment charge. In the fourth quarter of 2012, the Corporation recorded an additional $300 million impairment charge related to certain of its intangible assets and property, plant and equipment. The Corporation may be subject to impairment losses that would reduce its reported assets and earnings. Economic, legal, regulatory, competitive, contractual and other factors may affect the value of 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 additional charge, which would reduce the reported assets and earnings of the Corporation in the year the impairment charge is recognized.

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 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 design and effectiveness of DC&P (a defined in National Instrument 52-109) was performed under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. They concluded that the Company's DC&P were effective, as at December 31, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

The design and effectiveness of ICFR (as defined in Natioal Instruments 52-109) were evaluated under the supervision of the President and Chief Executive Officer and Chief Financial Officer. Based on the evaluations, they concluded that the Company's ICFR was effective, as at December 31, 2013.

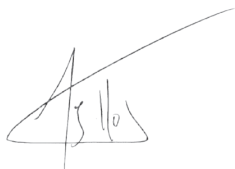
Management also concluded that during the quarter beginning on October 1, 2013 and ended on December 31, 2013, no changes were made to the Company's ICFR that has materially affected, or is reasonably likely to materially affect the Company's ICFR.

MANAGEMENT'S REPORT

The accompanying financial statements of Yellow Media Limited 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.



Julien Billot
President and Chief Executive Officer

Ginette Maillé
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Yellow Media Limited,

We have audited the accompanying consolidated financial statements of Yellow Media Limited, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, and the consolidated income statements, consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, 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 audits 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 Limited as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP[1]

February 13, 2014
Montréal, Québec

[1] CPA auditor, CA, public accountancy permit No. A120501

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

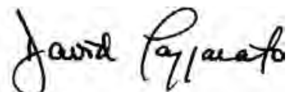
(IN THOUSANDS OF CANADIAN DOLLARS)

	As at December 31, 2013	As at December 31, 2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 202,287	$ 106,807
Trade and other receivables (Note 21)	142,446	174,069
Prepaid expenses	6,835	8,693
Deferred publication costs	71,018	78,078
TOTAL CURRENT ASSETS	422,586	367,647
DEFERRED PUBLICATION COSTS	7,378	6,816
FINANCIAL AND OTHER ASSETS	19,096	16,642
INVESTMENTS IN ASSOCIATES (Note 5)	2,780	2,082
PROPERTY, PLANT AND EQUIPMENT (Note 6)	29,489	27,414
INTANGIBLE ASSETS (Note 7)	1,310,494	1,312,148
DEFERRED INCOME TAXES (Note 13)	2,211	23,727
TOTAL NON-CURRENT ASSETS	1,371,448	1,388,829
TOTAL ASSETS	$ 1,794,034	$ 1,756,476
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade and other payables (Note 8)	$ 78,824	$ 87,935
Income taxes payable	25,782	13,585
Provisions (Note 9)	70,632	52,850
Financial liabilities	18,472	22,033
Deferred revenues	34,145	42,219
Current portion of long-term debt (Note 11)	89,051	100,939
TOTAL CURRENT LIABILITIES	316,906	319,561
PROVISIONS (NOTE 9)	6,031	7,362
DEFERRED CREDITS AND OTHER	14,349	14,197
DEFERRED INCOME TAXES (Note 13)	31,535	10,341
INCOME TAXES PAYABLE	55,419	34,382
POST-EMPLOYMENT BENEFITS (Note 10)	178,948	296,914
LONG-TERM DEBT (Note 11)	558,417	700,892
EXCHANGEABLE DEBENTURES (Note 12)	87,934	86,667
TOTAL NON-CURRENT LIABILITIES	932,633	1,150,755
TOTAL LIABILITIES	1,249,539	1,470,316
CAPITAL AND RESERVES	6,604,971	6,607,114
DEFICIT	(6,060,476)	(6,321,365)
EQUITY ATTRIBUTABLE TO SHAREHOLDERS	544,495	285,749
NON-CONTROLLING INTERESTS	–	411
TOTAL EQUITY	544,495	286,160
TOTAL LIABILITIES AND EQUITY	$ 1,794,034	$ 1,756,476

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

Approved on behalf of Yellow Media Limited by

Robert MacLellan, Director



David A. Lazzarato, Director

CONSOLIDATED INCOME STATEMENTS

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE AND PER SHARE INFORMATION)

	For the years ended December 31,	
	2013	2012
		(Revised – Note 2)
Revenues	$ 971,761	$ 1,107,715
Operating costs (Note 17)	555,649	538,335
Income from operations before depreciation and amortization, impairment of goodwill, intangible assets and property, plant and equipment, and restructuring and special charges	416,112	569,380
Depreciation and amortization (Notes 6 and 7)	60,164	104,293
Impairment of goodwill, intangible assets and property, plant and equipment (Note 4)	–	3,267,847
Restructuring and special charges (Note 9)	23,338	44,923
Income (loss) from operations	332,610	(2,847,683)
Financial charges, net (Note 18)	93,357	155,968
Gain on settlement of debt (Note 1)	–	(978,589)
Earnings (loss) before dividends on Preferred shares, series 1 and 2, income taxes, and earnings from investments in associates	239,253	(2,025,062)
Dividends on Preferred shares, series 1 and 2	–	17,694
Earnings (loss) before income taxes and earnings from investments in associates	239,253	(2,042,756)
Provision for (recovery of) income taxes (Note 13)	63,421	(78,809)
Earnings from investments in associates	698	1,893
Net earnings (loss)	$ 176,530	$ (1,962,054)
Net earnings (loss) attributable to:		
Common shareholders of Yellow Media Limited[1]	$ 176,360	$ (1,961,663)
Non-controlling interests	170	(391)
	$ 176,530	$ (1,962,054)
Basic earnings (loss) per share attributable to common shareholders	$ 6.34	$ (70.95)
Weighted average shares outstanding – basic earnings (loss) per share (Note 15)	27,797,170	27,955,077
Diluted earnings (loss) per share attributable to common shareholders	$ 5.46	$ (70.95)
Weighted average shares outstanding – diluted earnings (loss) per share (Note 15)	33,615,709	27,955,077

[1] *Included in net loss attributable to shareholders of Yellow Media Limited for the year ended December 31, 2012 are net losses attributable to shareholders of YPG Financing Inc. which was succeeded by Yellow Media Limited on December 20, 2012 when the recapitalization transaction was implemented.*

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(IN THOUSANDS OF CANADIAN DOLLARS)

	For the years ended December 31,	
	2013	2012
		(Revised – Note 2)
Net earnings (loss)	$ 176,530	$ (1,962,054)
Other comprehensive income (loss):		
Items that may be reclassified subsequently to net earnings (loss)		
Reclassification adjustment on derivatives designated as cash flow hedges	–	(1,395)
Unrealized loss on available–for–sale investment	–	(372)
Unrealized loss on available–for–sale investment transferred to net loss	–	228
Income taxes relating to items that may be reclassified subsequently	–	406
	–	(1,133)
Items that will not be reclassified subsequently to net earnings (loss)		
Actuarial gains (losses) (Note 10)	117,633	(11,234)
Income taxes relating to items that will not be reclassified subsequently	(31,126)	2,956
	86,507	(8,278)
Other comprehensive income (loss)	86,507	(9,411)
Total comprehensive income (loss)	$ 263,037	$ (1,971,465)
Total comprehensive income (loss) attributable to:		
Common shareholders of Yellow Media Limited[1]	$ 262,867	$ (1,971,074)
Non-controlling interests	170	(391)
	$ 263,037	$ (1,971,465)

[1] *Included in the total comprehensive loss attributable to shareholders of Yellow Media Limited for the year ended December 31, 2012 is total comprehensive loss attributable to shareholders of YPG Financing Inc. which was succeeded by Yellow Media Limited on December 20, 2012 when the recapitalization transaction was implemented.*

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(IN THOUSANDS OF CANADIAN DOLLARS)

For the years ended December 31,

	Shareholders' Capital (Note 14)	Restricted Shares	Warrants	Compound financial instruments[1]	Stock-based compensation and other reserves	Reduction of capital reserve
Balance, December 31, 2012	$ 4,029,869	$ –	$ 1,456	$ 3,633	$ 116,701	$ 2,457,053
Other comprehensive income	–	–	–	–	–	–
Net income for the year	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	–
Stock options (Note 16)	–	–	–	–	403	–
Restricted shares (Note 16)	–	(6,630)	–	–	1,608	–
Dividend to non-controlling interest	–	–	–	–	–	–
Deferred consideration	–	–	–	–	2,476	–
Balance, December 31, 2013	**$ 4,029,869**	**$ (6,630)**	**$ 1,456**	**$ 3,633**	**$ 121,188**	**$ 2,457,053**

	Shareholders' Capital (Note 14)	Restricted Shares	Preferred Shares	Warrants	Compound financial instruments[1]	Stock-based compensation and other reserves	Reduction of capital reserve
Balance, December 31, 2011	$ 3,554,715	$ (54,974)	$ 320,68	$ –	$ 7,423	$ 113,693	$ 2,457,053
Other comprehensive loss	–	–	–	–	–	–	–
Net loss for the year	–	–	–	–	–	–	–
Total comprehensive loss	–	–	–	–	–	–	–
Issuance of new common shares and warrants[2] (Note 14)	153,568	–	–	1,456	–	–	–
Exchange of preferred shares for new common shares[2] (Note 14)	320,687	–	(320,687)	–	–	–	–
Stock options (Note 16)	–	–	–	–	–	1,189	–
Exchange of convertible debentures (Note 1)	899	–	–	–	(35)	–	–
Exchange of convertible debentures[2]	–	–	–	–	(7,388)	–	–
Option on exchangeable debentures[2]	–	–	–	–	3,633	–	–
Restricted shares (Note 16)	–	–	–	–	–	4,295	–
Cancellation of restricted shares[2]	–	54,974	–	–	–	–	–
Deferred consideration	–	–	–	–	–	(2,476)	–
Balance, December 31, 2012	$ 4,029,869	$ –	$ –	$ 1,456	$ 3,633	$ 116,701	$ 2,457,053

[1] *The equity component of the exchangeable and convertible debentures presented above is net of income taxes of $1.3 million (2012 - $1.3 million).*

[2] *Pursuant to the recapitalization transaction described in Note 1.*

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

2013

	Foreign currency translation	Capital and Reserves	Deficit	Equity attributable to shareholders	Non-controlling interests	Total Equity
	$ (1,598)	$ 6,607,114	$ (6,321,365)	$ 285,749	$ 411	$ 286,160
	–	–	86,507	86,507	–	86,507
	–	–	176,360	176,360	170	176,530
	–	–	262,867	262,867	170	263,037
	–	403	–	403	–	403
	–	(5,022)	–	(5,022)	–	(5,022)
	–	–	–	–	(83)	(83)
	–	2,476	(1,978)	498	(498)	–
	$ (1,598)	**$ 6,604,971**	**$ (6,060,476)**	**$ 544,495**	**$ –**	**$ 544,495**

2012

	Available-for-sale investment	Cash flow hedges	Foreign currency translation	Capital and Reserves	Deficit	Equity attributable to shareholders	Non-controlling interests	Total Equity (Revised – Note 2)
	$ 144	$ 989	$ (1,598)	$ 6,398,132	$ (4,313,907)	$ 2,084,225	$ 802	$ 2,085,027
	(144)	(989)	–	(1,133)	(8,278)	(9,411)	–	(9,411)
	–	–	–	–	(1,961,663)	(1,961,663)	(391)	(1,962,054)
	(144)	(989)	–	(1,133)	(1,969,941)	(1,971,074)	(391)	(1,971,465)
	–	–	–	155,024	–	155,024	–	155,024
	–	–	–	–	–	–	–	–
	–	–	–	1,189	–	1,189	–	1,189
	–	–	–	864	–	864	–	864
	–	–	–	(7,388)	7,388	–	–	–
	–	–	–	3,633	–	3,633	–	3,633
	–	–	–	4,295	(539)	3,756	–	3,756
	–	–	–	54,974	(44,366)	10,608	–	10,608
	–	–	–	(2,476)	–	(2,476)	–	(2,476)
	$ –	$ –	$ (1,598)	$ 6,607,114	$ (6,321,365)	**$ 285,749**	**$ 411**	**$ 286,160**

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS OF CANADIAN DOLLARS)

	For the years ended December 31,	
	2013	2012
		(Revised – Note 2)
OPERATING ACTIVITIES		
Net earnings (loss)	$ 176,530	$ (1,962,054)
Adjusting items		
Depreciation and amortization	60,164	104,293
Past service costs	(7,392)	(13,318)
Stock-based compensation expense	2,011	626
Earnings from investments in associates	(698)	(1,893)
Other non-cash items	(46)	(1,955)
Income taxes (recovery) recognized in net earnings (loss)	63,421	(78,809)
Financial charges recognized in net earnings (loss)	93,357	155,968
Impairment of goodwill, intangible assets and property, plant and equipment	–	3,267,847
Gain on settlement of debt, net of unpaid dividends on Preferred shares, series 1 and 2[1]	–	(960,743)
Change in operating assets and liabilities[1]	50,645	(45,203)
Funding of post-employment benefit plans in excess of costs	(4,951)	(13,309)
Income taxes paid, net	(16,231)	(63,456)
Interest paid	(76,130)	(149,421)
	340,680	238,573
INVESTING ACTIVITIES		
Acquisition of intangible assets and internally-generated software	(54,584)	(35,281)
Acquisition of property, plant and equipment	(11,743)	(5,137)
Business acquisition (Note 25)	(3,581)	–
Proceeds from sale of assets	–	1,650
Other	359	183
	(69,549)	(38,585)
FINANCING ACTIVITIES		
Repayment and settlement of long-term debt	(118,984)	(351,426)
Repurchase of long-term debt	(36,670)	–
Restricted shares	(6,630)	–
Deferred consideration	(5,624)	(1,800)
Recapitalization costs	(6,641)	(63,025)
Issuance of long-term debt	–	239,000
Other	(1,102)	(116)
	(175,651)	(177,367)
NET INCREASE IN CASH AND CASH EQUIVALENTS	95,480	22,621
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	106,807	84,186
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 202,287	$ 106,807
Supplemental disclosure of cash flow information (Note 19)		

Cash and cash equivalents consist of:		
Cash	$ 72,287	$ 106,807
Banker's acceptances and treasury bills	130,000	–
	$ 202,287	$ 106,807

[1] *The gain on settlement of debt is shown net of unpaid dividends on the Preferred shares, series 1 and 2 of $17.9 million, which was reclassified from change in operating assets and liabilities.*

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

1. DESCRIPTION

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

Yellow Media Limited's registered head office is located at 16, Place du Commerce, Montréal, Québec, Canada, H3E 2A5 and is listed on the Toronto Stock Exchange ("TSX") under the symbol "Y".

On December 10, 2012, the Company announced that it reached a settlement with the lenders under the credit facility ("Credit Facility") existing at the time. The Québec Superior Court (the "Court") issued its final order and approved the recapitalization transaction ("Recapitalization"), which was aimed at significantly reducing the Company's debt, on December 14, 2012. On December 20, 2012 (the "Effective Date"), the Recapitalization was implemented.

A new corporation, Yellow Media Limited, was formed for the purpose of effecting the Recapitalization. Pursuant to the Recapitalization, Yellow Media Limited issued new common shares ("New Common Shares") and warrants ("Warrants") on behalf of Yellow Media Inc. and became the parent company of Yellow Media Inc. Yellow Media Inc. changed its name to YPG Financing Inc.

The Recapitalization included the exchange of the Company's Credit Facility and medium term notes (the "Medium Term Notes"), for a combination of senior secured notes ("Senior Secured Notes") (Note 11), senior subordinated unsecured exchangeable debentures ("Exchangeable Debentures") (Note 12), New Common Shares and cash. It also included the exchange of the convertible unsecured subordinated debentures ("Convertible Debentures") for a combination of Exchangeable Debentures (Note 12), New Common Shares and Warrants to purchase New Common Shares (Note 14), as well as the exchange of the preferred shares and common shares of YPG Financing Inc. for a combination of New Common Shares and Warrants to purchase New Common Shares (Note 14). The Medium Term Notes, Credit Facility, Convertible Debentures, Preferred Shares, Series 3, 5 and 7 and the common shares of YPG Financing Inc. were cancelled on the Effective Date.

In 2012, Yellow Media Limited recorded a gain on settlement of debt of $978.6 million (before related recovery of income taxes of $25.9 million), net of related fees of $69.5 million pursuant to the Recapitalization.

The carrying amount of the Preferred shares, series 3, 5 and 7 of $320.7 million was reclassified to shareholder's capital upon exchange for New Common Shares. Pursuant to the Recapitalization, the restricted shares were cancelled and the balance of $55 million was reclassified from the restricted shares balance in equity to Deficit, net of income taxes of $10.6 million.

For the terms governing the new securities issued in connection with the Recapitalization, please refer to the indentures governing the Senior Secured Notes, the Exchangeable Debentures and the Warrants dated December 20, 2012, which are available on SEDAR at www.sedar.com.

The Board of Directors (the "Board") approved the consolidated financial statements for the years ended December 31, 2013 and 2012 and authorized their publication on February 13, 2014.

2. REVISED STANDARDS

2.1. REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") INTERPRETATIONS AND AMENDMENTS ADOPTED WITH AN EFFECT ON THE CONSOLIDATED FINANCIAL STATEMENTS

IAS 1 (Revised) – Presentation of Financial Statements

On June 16, 2011, the International Accounting Standards Board ("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 income statement and to separately group together items that will not be reclassified to the income statement. The amendments also reaffirm existing requirements that profit or loss and OCI should be presented as either a single statement or two consecutive statements. The amendments are effective for financial years commencing on or after July 1, 2012.

In May 2012, the IASB issued further amendments to IAS 1 — *Presentation of Financial Statements* which are effective for annual periods beginning on or after January 1, 2013 with early application permitted. IAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period. The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

Yellow Media Limited has applied the amendments to IAS 1 on January 1, 2011, in advance of the effective date, as permitted. The amendments have been applied retrospectively, and hence the presentation of items of OCI has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 did not result in any impact on profit or loss, OCI and total comprehensive income.

IAS 19 (Revised) — Employee Benefits

Yellow Media Limited has applied the amendments to IAS 19 (Revised) — *Employee Benefits* effective for financial years beginning on or after January 1, 2013. Under the amendments, the main changes of this revised version are the elimination of the corridor approach and acceleration of past service costs recognition with all changes to the defined benefit obligation and plan assets recognized when they occur. These amendments did not impact the Company's financial results. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with the net interest amount which is calculated by applying the discount rate to the net defined benefit liability or asset and administration fees are now included in service costs. The effects of these retrospective amendments are illustrated below.

Impact on net earnings (loss):

For the years ended December 31,	2013	2012
Net earnings (loss) before application of amendments to IAS 19	$ 186,363	$ (1,954,005)
Differences (decreasing) increasing net earnings (loss):		
Operating costs	(1,445)	(1,220)
Financial charges, net	(11,926)	(9,703)
Income taxes	3,538	2,874
Net earnings (loss)	$ 176,530	$ (1,962,054)

Impact on basic earnings (loss) per share:

For the years ended December 31,	2013	2012
Basic earnings (loss) per share before application of amendments to IAS 19[1]	$ 6.70	$ (70.66)
Amendments to IAS 19	(0.36)	(0.29)
Basic earnings (loss) per share	$ 6.34	$ (70.95)

Impact on diluted earnings (loss) per share:

For the years ended December 31,	2013	2012
Diluted earnings (loss) per share before application of amendments to IAS 19[1]	$ 5.75	$ (70.66)
Amendments to IAS 19	(0.29)	(0.29)
Diluted earnings (loss) per share	$ 5.46	$ (70.95)

[1] *After consideration for the impact of the implementation of the Recapitalization on the weighted average number of shares outstanding during the prior period.*

Impact on other comprehensive income (loss):

For the years ended December 31,	2013	2012
Other comprehensive income (loss) before application of amendments to IAS 19	$ 73,136	$ (17,460)
Amendments to IAS 19	13,371	8,049
Other comprehensive income (loss)	$ 86,507	$ (9,411)

There is no impact on equity (deficiency) as at December 31, 2012 and January 1, 2012.

Reconciliation of cash flows:

Given that the adoption of IAS 19 (Revised) did not have an impact on the total operating, investing or financing cash flows, no specific reconciliation is presented for cash flows.

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). New required note disclosures have been included in these consolidated financial statements to comply with the amendments. The IFRS 7 amendments are effective for financial years beginning on or after January 1, 2013 and have been applied retrospectively.

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. New required note disclosures have been included in these consolidated financial statements to comply with this new standard.

IFRS 13 — Fair Value Measurement

IFRS 13 is a new standard that defines fair value and requires disclosures about fair value measurements. It applies prospectively from the beginning of the annual period in which it is adopted. New required note disclosures have been included in these consolidated financial statements. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in the consolidated financial statements. IFRS 13 is effective for financial years beginning on or after January 1, 2013.

2.2. REVISED IFRS, INTERPRETATIONS AND AMENDMENTS ADOPTED WITH NO EFFECT ON THE CONSOLIDATED FINANCIAL STATEMENTS

The following revised standards are effective for annual periods beginning on January 1, 2013 and their adoption has not had any impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements:

IFRS 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 and changes the definition of control over an investee. IFRS 11 — *Joint Arrangements*, and IFRS 12 — *Disclosure of Interests in Other Entities* and the related amendments to IAS 27 — *Consolidated and Separate Statements* and IAS 28 — *Investments in Associates* (the “package of five”) are adopted at the same time. Yellow Media Limited reviewed its investments in associates and concluded the adoption of IFRS 10 did not have an impact on its consolidated financial statements.

IFRS 11 — Joint Arrangements

IFRS 11 supersedes IAS 31 — *Interests in Joint Ventures*, and SIC-13 — *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. 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 joint ventures, namely the equity method.

2.3. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE ISSUED BUT NOT YET EFFECTIVE

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory for Yellow Media Limited’s accounting periods beginning on or after January 1, 2014. Those which are considered to be relevant to Yellow Media Limited’s operations are as follows:

IAS 32 — Financial Instruments: Presentation in respect of Offsetting

On December 16, 2011, the IASB and FASB issued common disclosure requirements that are intended to help investors and other users better assess the effect or potential effect of offsetting arrangements on a company's financial position. As part of this project, the IASB clarified aspects of IAS 32 — *Financial Instruments: Presentation*. The amendments to IAS 32 address inconsistencies in current practice when applying the requirements. The amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively. Yellow Media Limited has not early adopted this standard and has not fully assessed the impact of adopting IAS 32.

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 and November 2013, 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 amendments made to IFRS 9 in November 2013 remove the mandatory effective date from IFRS 9. However, entities may choose to apply IFRS 9 immediately. Yellow Media Limited has not early adopted this standard and has not fully assessed the impact of adopting IFRS 9.

3. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

3.1. STATEMENT OF COMPLIANCE

These consolidated financial statements of Yellow Media Limited and its subsidiaries were prepared by management in accordance with IFRS. These financial statements have been prepared in accordance with the following significant 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 basis except for the revaluation of certain assets and liabilities (including derivative instruments) at fair value as explained in the policies below.

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 Limited.

3.4. BASIS OF CONSOLIDATION

3.4.1. Subsidiaries

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

Subsidiaries are fully consolidated from the effective date of acquisition up to the effective date of disposal. Intercompany 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 Limited level.

When Yellow Media Limited 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 value of the assets, liabilities of the subsidiary and any non-controlling interests. Amounts previously recognized in OCI in relation to the subsidiary are accounted for (i.e. reclassified to net earnings (loss) or transferred directly to deficit) in the same manner as would be required if the relevant assets or liabilities were disposed of.

3.4.2. Associates

Associates are all entities over which Yellow Media Limited has 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 are initially measured at cost. Subsequently, the share in profits or losses of the associate attributable to equity holders of Yellow Media Limited is recognized in net earnings. Included in the recognized share of net earnings is the amortization of the amortizable assets based on their fair value at the acquisition date. When Yellow Media Limited's share of losses exceed its interest in an equity-accounted investee, the carrying value 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 Limited has an obligation or has made payments on behalf of the investee.

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 Limited 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. 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.

Where a business combination is achieved in stages, Yellow Media Limited's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (the date Yellow Media Limited attains control) and the resulting gain or loss, if any, is recognized in the income statement.

3.5. CASH AND CASH EQUIVALENTS

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

3.6. TRADE RECEIVABLES

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less a provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that Yellow Media Limited will not be able to collect all amounts due according to the original terms of the receivables.

3.7. FINANCIAL ASSETS

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or 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 de-recognized if the contractual rights to the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for de-recognition. Cash and cash equivalents and trade and other receivables are included in the loans and receivables category.

3.7.1. 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.

3.7.2. 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 when 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 assets, such as trade and other receivables, assets that are assessed not to be impaired individually, are subsequently assessed for impairment on a collective basis.

3.8. 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 as well as the sale, provisioning and fulfillment of digital products and services. 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 Limited 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 Limited; and
- 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.

3.9. 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 depreciated 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 the income statement in the period in which they are incurred. Yellow Media Limited has not capitalized any borrowing costs during the periods presented.

Subsequent costs are included in the carrying value of the asset or recognized as a separate component, where necessary, if it is probable that future economic benefits will flow to Yellow Media Limited 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, when shorter, the term of the relevant lease.

As at December 31, 2013, 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 at a minimum, 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 value, an impairment loss is recognized. Where the recoverable amount of an individual asset does not generate independent cash inflows, Yellow Media Limited determines the recoverable amount of the cash generating units ("CGUs") or group of CGUs to which the asset belongs.

3.10. 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 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 Limited'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 incentives to enter into operating leases are received, 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.

3.11. INTANGIBLES ASSETS

Intangible assets acquired through 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 not acquired through a business combination are reported at cost less accumulated amortization and accumulated impairment losses.

Internally-generated intangible assets, 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 Limited 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 expenditures 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-generated intangible assets include the cost of software tools and licenses used in the development of Yellow Media Limited'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 reporting period or annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is de-recognized 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 value of the asset, are recognized in the income statement when the asset is de-recognized.

3.12. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS INCLUDING GOODWILL

At each reporting date, Yellow Media Limited determines whether there are any indications that the carrying values 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 Limited estimates the recoverable amount of the CGU or group of CGUs to which the asset belongs. A CGU is a business operation.

Intangible assets with indefinite useful lives, intangible assets not yet available for use and goodwill 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 of disposal 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 (or CGU) 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 value, the carrying value of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in the income statement.

For the purpose of impairment testing of goodwill, goodwill was tested at the operating segment level (group of CGUs) which represents the lowest level where goodwill is monitored for internal management purposes.

If the recoverable amount of a CGU or group of CGUs is less than the carrying value, the impairment loss is allocated first to reduce the carrying value of goodwill and then to the other assets of the unit pro-rata on the basis of the carrying value of each asset in the unit. The Company does not reduce the carrying value of an asset below the highest of its fair value less costs of disposal and its value in use.

3.13. TRADE AND OTHER PAYABLES

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

3.14. FINANCIAL LIABILITIES

The valuation of financial liabilities depends on their classification. Financial liabilities are classified as either financial liabilities “at FVTPL” or “other financial liabilities”.

Excluding derivative liabilities and financial liabilities accounted for at FVTPL, Yellow Media Limited recognizes all financial liabilities, specifically debt instruments, trade payables and other liabilities, initially at fair value less transaction costs and subsequently at amortized cost, using the effective interest method.

Financial liabilities designated as FVTPL are carried at fair value. Changes in fair value are recorded in the income statement. Transaction costs incurred in setting up these financial liabilities are recognized immediately as expenses in the income statement.

Yellow Media Limited de-recognizes financial liabilities when, and only when, Yellow Media Limited’s obligations are discharged, cancelled or expire.

3.15. PROVISIONS

Provisions are recognized when Yellow Media Limited 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 reporting 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.

3.15.1. Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where Yellow Media Limited 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.

3.15.2. Restructuring

A restructuring provision is recognized when Yellow Media Limited 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.

3.16. LONG-TERM DEBT

All long-term debt instruments are initially stated at the fair value of the consideration received after deduction of issue costs. Debt instruments 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 instrument, or over a shorter period where the lender can require earlier repayment.

3.17. EMPLOYEE BENEFITS

3.17.1. 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.

3.17.2. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Yellow Media Limited'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. The fair value of any plan assets is deducted from the obligation. 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 benefit method prorated on service.

Yellow Media Limited recognizes all actuarial gains and losses arising subsequently from defined benefit plans in OCI. Remeasurement, comprising actuarial gains and losses, the effects of changes to the asset ceiling, if applicable, and the return on plan assets, excluding net interest on the defined benefit obligation, is reflected immediately in the statement of financial position with a charge or credit recognized in OCI. Remeasurement recognized in OCI is reflected immediately in retained earnings and will not be classified to the income statement. Past service costs are recognized in the income statement in the period a plan amendment is announced to employees. The net interest amount, which is calculated by applying the discount rate to the net defined liability or asset of defined benefit plans, is included within net financial charges while service costs are recorded in operating expenses.

3.17.3. Other long-term employee benefits

Yellow Media Limited'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.

3.17.4. Termination benefits

Termination benefits are recognized as an expense when Yellow Media Limited can no longer withdraw the offer of those benefits, or if earlier, when there is no realistic possibility of withdrawal from a formal detailed plan to either terminate employment before the normal retirement date, or from providing 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 Limited 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.

3.17.5. 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 Limited 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.

3.17.6. Share-based payment transactions

Yellow Media Limited's restricted share units, performance share units, deferred share units and stock options granted to employees and directors are measured at the fair value of the equity instruments at the grant date.

The restricted share units, performance share units and deferred share units granted may be settled in cash or equity at the Company's option. If the restricted share unit and performance share unit plan and the deferred share unit plan are funded, eligible employees and directors will receive, upon vesting of the instruments, common shares. The funded portion of these plans is treated as equity-settled instruments and recorded accordingly in equity. In the event these plans are unfunded, Yellow Media Limited will pay to the eligible employees and directors, upon vesting of the instruments, an amount in cash. The unfunded portion of these plans is treated as cash-settled instruments and recorded as a liability. At each reporting period, the liability is remeasured at fair value with any changes recorded in operating costs.

The fair value determined at the grant date of the share-based instruments is expensed on a straight-line basis over the vesting period, based on Yellow Media Limited's estimate of share-based instruments that will eventually vest. At each reporting period, Yellow Media Limited revises its estimate of the number of share-based 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 reserve.

3.18. EQUITY INSTRUMENTS ISSUED BY YELLOW MEDIA LIMITED

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 Limited are recorded at the proceeds received, net of direct issue costs.

Transaction costs incurred by Yellow Media Limited 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.

3.19. OPERATING SEGMENTS

Disclosure of segment information is reported in a manner consistent with the internal reports regularly reviewed by Yellow Media Limited'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. The Company currently operates under one segment.

3.20. REVENUES

Yellow Media Limited'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 sold in bundles that can include several related online advertising products. Print products are not sold separately. Revenues from print directory advertising as well as revenues from related online 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 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.

3.21. DERIVATIVE FINANCIAL INSTRUMENTS

Yellow Media Limited enters from time to time into a variety of derivative financial instruments to manage interest rate risk on its long-term debt and to manage the risk of fluctuations in the share price of its common shares affecting its stock-based compensation plans.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured 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 the income statement depends on the nature of the hedge relationship.

Yellow Media Limited 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).

3.21.1. 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.

3.22. 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. The Company currently has not capitalized any borrowing costs.

3.23. TAXATION

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

3.23.1. 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 Limited's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

3.23.2. Deferred tax

Deferred tax is recognized on differences between the carrying values of assets and liabilities in the consolidated 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 Limited 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 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 value of deferred tax assets is reviewed at each reporting date and reduced to the extent 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 reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Yellow Media Limited 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 Limited intends to settle its tax assets and liabilities on a net basis.

3.23.3. Current and deferred tax for the period

Current and deferred taxes are recognized as an expense or income in the income statement, except when they relate to items that are recognized outside net earnings (whether in OCI 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.

3.24. SIGNIFICANT ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements requires management to make estimates and assumptions that can affect the carrying value of certain assets and liabilities, income and expenses, and the information disclosed in the notes to the consolidated 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.

Significant estimates

Intangible assets

The valuations associated with measuring the recoverability of identifiable intangible assets for impairment analysis purposes involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates, terminal growth rates and asset lives. These significant estimates could affect Yellow Media Limited's future results if the current estimates of future performance and fair values change.

Yellow Media Limited assesses impairment by comparing the recoverable amount of a CGU or group of CGUs to which an identifiable intangible asset belongs, with its carrying value. The determination of the recoverable amount involves significant management estimates.

Yellow Media Limited performs its annual test for impairment of indefinite life intangible assets in the fourth quarter in accordance with the policy described in Note 3.12.

Useful lives of intangible assets and property, plant and equipment

Yellow Media Limited reviews the estimated useful lives of its intangible assets and property, plant and equipment at the end of each reporting period. At the end of the current reporting period, management determined that the useful lives of its intangible assets and property, plant and equipment were adequate.

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 the net benefit costs (recovery) requires assumptions such as the discount rate to measure defined benefit obligations and expected return on plan assets, the projected age of employees upon retirement, the expected rate of future compensation and the expected healthcare cost trend rate. Actual results may 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 Limited's ability to utilize the underlying future tax deductions against future taxable income before they expire. Yellow Media Limited's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of Yellow Media Limited's ability to utilize the underlying future tax deductions changes, Yellow Media Limited 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.

Significant judgements

Uncertain tax provisions

Yellow Media Limited 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 Limited 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 Limited 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, INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

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

2013

During the fourth quarter of 2013, in the context of its annual impairment testing, the Company completed its impairment analysis and assessed the recoverability of its assets allocated to its CGUs. The Company calculated the recoverable amounts of its CGUs using valuation methods which were consistent with those used in prior periods. The recoverable amounts were determined based on the value in use approach using a discounted cash flow model.

The significant key assumptions included in the forecasted cash flows are based on the Company's business plan taking into consideration growth and product mix trends. The cash flows are based on the 2014 budget approved by the Board of Directors and projected over a five-year period. Applicable terminal growth rates were applied. The forecasted cash flows also incorporated forecasted print revenue declines per annum between 20% and 25% and online revenue growth rates between 6% and 11% for the Yellow Pages Group CGU.

As a result of the impairment analysis, the Company determined that the recoverable amounts of if its CGUs exceeded their carrying values and accordingly, no impairment charge was recognized.

2012

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

As a result of these internal and external sources of information, management performed an impairment analysis. Following the completion of the impairment analysis, the Company recorded a goodwill impairment charge of $2,967.8 million during the first quarter of 2012, reducing the balance of goodwill to $nil.

Goodwill was tested for impairment at the lowest level within the Company at which the goodwill is monitored for internal management purposes; the digital and traditional media solutions segment (Group of CGUs), the only operating segment of the Company.

During the fourth quarter of 2012, as a result of the closing of the Recapitalization and in the context of its annual impairment testing, the Company completed its impairment analysis and assessed the recoverability of its assets allocated to its CGUs. As a result of the impairment analysis, the Company determined that the carrying amounts of if its CGUs exceeded their recoverable amounts and accordingly, the Company recorded an impairment charge of $300 million, which was applied to certain intangible assets and property, plant and equipment.

The impairment charges did not affect the Company's operations, its liquidity, its cash flows from operating activities, its Senior Secured Notes or its Exchangeable Debentures indentures.

Carrying values and assumptions

Cash flows beyond the periods of the plan were extrapolated using the terminal growth rates stated in the table below. The allocation of the carrying value of the intangible assets as at December 31, 2013 and 2012 by CGU or group of CGUs, prior to the impairment charge and the key assumptions used for the value in use calculations for the December 31, 2013, December 31, 2012 and March 31, 2012 impairment analyses are presented below:

			December 31, 2013
	Yellow Pages Group	Other	Total
Carrying value of intangible assets by CGU			
Trademarks and domain names	$ 876,823	$ 2,022	$ 878,845
Trademarks and domain names with finite lives	$ 2,879	$ 4,167	$ 7,046
Non-competition agreements and logos	$ 341,501	$ 520	$ 342,021
Customer-related intangible assets	$ –	$ 442	$ 442
Software	$ 81,036	$ 1,104	$ 82,140
Total carrying value of intangible assets by CGU	**$ 1,302,239**	**$ 8,255**	**$ 1,310,494**

				December 31, 2012[1]		
	Yellow Pages Group		Other		Total	
Carrying value of intangible assets by CGU						
Trademarks and domain names	$	1,060,842	$	17,385	$	1,078,227
Trademarks and domain names with finite lives	$	3,800	$	8,333	$	12,133
Non-competition agreements and logos	$	435,192	$	6,255	$	441,447
Software	$	68,246	$	1,705	$	69,951
Total carrying value of intangible assets by CGU	$	1,568,080	$	33,678	$	1,601,758

[1] *Prior to impairment charge of $300 million as discussed above, of which $289.6 million was applied to intangible assets.*

			December 31, 2013 and 2012
	Yellow Pages Group	**Other**	**Total**
Key assumptions :			
Terminal growth rate			
December 31, 2013	-15% to 4.5%	5%	-15% to 5%
December 31, 2012	-15% to 2.5%	-15% to 2.5%	-15% to 2.5%
March 31, 2012	-10% to 2.5%	3.5%	-10% to 3.5%
Discount rate – post-tax			
December 31, 2013	10% to 20%	13.9%	10% to 20%
December 31, 2012	11% to 19%	11% to 19%	11% to 19%
March 31, 2012	10% to 19%	16.5% to 20%	10% to 20%
Discount rate – pre-tax			
December 31, 2013	16.6% to 26.7%	17.3%	16.6% to 26.7%
December 31, 2012	13.6% to 24.1%	13.6% to 24.1%	13.6% to 24.1%
March 31, 2012	12.4% to 24.1%	20.7% to 25.5%	12.4% to 25.5%

Sensitivity to changes in assumptions

The table below shows the percentages by which each key assumption must change in isolation in order for the estimated recoverable amount to equal to its carrying value:

	December 31, 2013
	Yellow Pages Group
Key assumptions :	
Terminal growth rate	-1%
Discount rate – post-tax	1%
Revenue decline per annum	-1% to -6%

5. INVESTMENTS IN ASSOCIATES

List of associates:

As at		December 31, 2013		December 31, 2012	
	Principal Activity	Consolidation	% ownership	Consolidation	% ownership
Canada					
411 Local Search Corp.	Online search engine	Equity method	30	Equity method	30
USA					
Ziplocal, LP	Printing of directories	Equity method	35	Equity method	35

Shareholders of 411 Local Search Corp. ("411") have the ability to exercise a put option (derivative liability) requiring the Company to acquire the remaining 70% interest of 411 at a price which is based on a fixed multiple of adjusted earnings before interest, income taxes, depreciation and amortization for the year ending March 31, 2013 or 2014. The fair value of this derivative liability amounted to $18.5 million as at December 31, 2012, resulting in a charge to the income statement. The fair value remains unchanged as at December 31, 2013. As at December 31, 2013, 411 had not exercised this option. The Company may exercise its call option to purchase the remaining interest during a specified period of time in 2014. The Company also had this call option during a specified period of time in 2013. The fair value of this derivative is $nil as at December 31, 2012 and 2013. As at December 31, 2013, the Company had not exercised this option.

The net earnings (loss) for the investment in associates, excluding Ziplocal, LP ("Ziplocal") not adjusted for the percentage ownership held by Yellow Media Limited amounted to $2.4 million for the year ended December 31, 2013 (2012 – $(0.2 million)).

In 2011, Ziplocal was in default of its debt obligations and had undertaken important restructuring initiatives. As a result, Yellow Media Limited 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, which reduced its net investment in Ziplocal to $nil. Consequently, Yellow Media Limited no longer recognizes its share of losses in Ziplocal.

6. PROPERTY, PLANT AND EQUIPMENT

					2013
	Office equipment[1]	Computer equipment	Other equipment	Leasehold improvements	**Total**
Cost					
As at December 31, 2012	$ 29,550	$ 18,362	$ 1,510	$ 29,048	**$ 78,470**
Additions	1,123	6,798	159	2,105	**10,185**
Disposals, write-offs and transfers	(234)	(832)	–	–	**(1,066)**
As at December 31, 2013	$ 30,439	$ 24,328	$ 1,669	$ 31,153	**$ 87,589**
Accumulated depreciation					
As at December 31, 2012	$ 20,966	$ 13,076	$ 891	$ 16,123	**$ 51,056**
Depreciation expense	2,172	2,876	93	2,957	**8,098**
Disposals, write-offs and transfers	(213)	(841)	–	–	**(1,054)**
As at December 31, 2013	$ 22,925	$ 15,111	$ 984	$ 19,080	**$ 58,100**
Net book value as at December 31, 2013	**$ 7,514**	**$ 9,217**	**$ 685**	**$ 12,073**	**$ 29,489**

					2012
	Office equipment[1]	Computer equipment	Other equipment	Leasehold improvements	Total
Cost					
As at December 31, 2011	$ 33,078	$ 29,670	$ 2,694	$ 39,588	$ 105,030
Additions	504	4,167	356	1,800	6,827
Impairment (Note 4)	(3,201)	(1,177)	(565)	(5,447)	(10,390)
Disposals, write-offs and transfers	(831)	(14,298)	(975)	(6,893)	(22,997)
As at December 31, 2012	$ 29,550	$ 18,362	$ 1,510	$ 29,048	$ 78,470
Accumulated depreciation					
As at December 31, 2011	$ 17,329	$ 23,450	$ 1,225	$ 16,530	$ 58,534
Depreciation expense	4,545	3,826	240	6,275	14,886
Disposals, write-offs and transfers	(908)	(14,200)	(574)	(6,682)	(22,364)
As at December 31, 2012	$ 20,966	$ 13,076	$ 891	$ 16,123	$ 51,056
Net book value as at December 31, 2012	$ 8,584	$ 5,286	$ 619	$ 12,925	$ 27,414

[1] The net book value of office equipment includes $0.5 million of assets held under finance leases (2012 - $1.1 million).

7. INTANGIBLE ASSETS

					2013
	Trademarks and domain names[1]	Non-competition agreements and logos	Customer-related intangible assets	Software[2]	**Total Intangible assets**
Cost					
As at December 31, 2012	$ 951,184	$ 536,102	$ 108,198	$ 134,960	**$ 1,730,444**
Additions	–	–	785	51,288	**52,073**
Disposals, write-offs and transfers	(161)	–	(96,870)	(5,611)	**(102,642)**
As at December 31, 2013	$ 951,023	$ 536,102	$ 12,113	$ 180,637	**$ 1,679,875**
Accumulated amortization					
As at December 31, 2012	$ 60,705	$ 175,612	$ 108,198	$ 73,781	**$ 418,296**
Amortization expense	4,427	18,469	343	28,827	**52,066**
Disposals, write-offs and transfers	–	–	(96,870)	(4,111)	**(100,981)**
As at December 31, 2013	$ 65,132	$ 194,081	$ 11,671	$ 98,497	**$ 369,381**
Net book value as at December 31, 2013	**$ 885,891**	**$ 342,021**	**$ 442**	**$ 82,140**	**$ 1,310,494**

					2012
	Trademarks and domain names[1]	Non-competition agreements and logos	Customer-related intangible assets	Software[2]	Total Intangible assets
Cost					
As at December 31, 2011	$ 1,151,180	$ 617,059	$ 108,198	$ 284,510	$ 2,160,947
Additions	–	–	–	33,528	33,528
Impairment (Note 4)	(199,881)	(80,957)	–	(8,772)	(289,610)
Disposals, write-offs and transfers	(115)	–	–	(174,306)	(174,421)
As at December 31, 2012	$ 951,184	$ 536,102	$ 108,198	$ 134,960	$ 1,730,444
Accumulated amortization					
As at December 31, 2011	$ 45,542	$ 149,313	$ 103,834	$ 204,207	$ 502,896
Amortization expense	15,163	26,299	4,364	43,581	89,407
Disposals, write-offs and transfers	–	–	–	(174,007)	(174,007)
As at December 31, 2012	$ 60,705	$ 175,612	$ 108,198	$ 73,781	$ 418,296
Net book value as at December 31, 2012	$ 890,479	$ 360,490	$ –	$ 61,179	$ 1,312,148

[1] *Trademarks and domain names with indefinite useful lives amounted to $878.8 million (2012 - $879.0 million).*

[2] *Software assets under development amounted to $25.3 million (2012 - $25.4 million).*

8. TRADE AND OTHER PAYABLES

As at	**December 31, 2013**	December 31, 2012
Trade	**$ 44,085**	$ 58,271
Accrued interest	**5,717**	2,753
Payroll related	**3,146**	1,722
Current portion of long-term incentive plans	**2,067**	–
Publishing related	**10,103**	10,261
Other accrued liabilities	**13,706**	14,928
	$ 78,824	$ 87,935

9. PROVISIONS

During the year ended December 31, 2013, Yellow Media Limited recorded restructuring and special charges of $23.3 million. These costs were associated with workforce reductions and the termination and renegotiation of certain contractual obligations. During the year ended December 31, 2012, Yellow Media Limited recorded restructuring and special charges of $44.9 million. These costs were associated with a workforce reduction, relocation of centers of excellence and the termination and renegotiation of certain contractual obligations.

The provisions for restructuring and special charges represent the present value of the best estimate of the future outflow of economic benefits that will be required to settle the provisions and may vary as a result of new events affecting the severances and charges that will need to be paid.

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 December 31, 2012	$ 12,413	$ 22,910	$ 24,889	$ 60,212
Charge[1]	21,020	2,330	35,520	58,870
Utilized provision	(12,086)	(5,478)	(23,047)	(40,611)
Surplus provision	–	–	(1,808)	(1,808)
As at December 31, 2013	$ 21,347	$ 19,762	$ 35,554	$ 76,663
Less current portion	18,951	16,127	35,554	70,632
Non-current portion	**$ 2,396**	**$ 3,635**	**$ –**	**$ 6,031**

	Provisions for restructuring	Provisions for special charges	Other provisions	Total Provisions
As at December 31, 2011	$ 17,637	$ 19,006	$ 11,657	$ 48,300
Charge[1]	16,569	27,681	18,118	62,368
Utilized provision	(21,793)	(23,777)	(3,252)	(48,822)
Surplus provision	–	–	(1,634)	(1,634)
As at December 31, 2012	$ 12,413	$ 22,910	$ 24,889	$ 60,212
Less current portion	12,175	15,786	24,889	52,850
Non-current portion	$ 238	$ 7,124	$ –	$ 7,362

[1] Included in the restructuring and special charges are $(12 thousand) (2012 - $673 thousand) of other costs not affecting the provision.

10. POST-EMPLOYMENT BENEFITS

Yellow Media Limited maintains pension plans with defined benefit and defined contribution components which cover substantially all of the employees of Yellow Media Limited. Yellow Media Limited 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 of its employees.

The defined benefit plans typically expose the Company to actuarial risks such as: investment, interest rate, longevity and salary risks.

Investment risk	The present value of the defined benefit plan obligation is calculated using a discount rate determined by reference to high quality corporate bond yields; if the actual return on plan assets is below the assumed rate, it will create a plan deficit. Currently, the defined benefit plan has a relatively balanced investment in equity securities and debt instruments. Due to the long-term nature of the defined benefit plan obligation, the pension committee considers it appropriate that a reasonable portion of the plan assets should be invested in equity instruments to leverage the return generated by the fund.
Interest risk	A decrease in the bond interest rate will increase the defined benefit plan obligation, particularly on a solvency basis. Although this will be partially offset by an increase in the return of the defined benefit plan’s investments, the impact may be material as pension liabilities are sensitive to variations in interest rates.
Longevity risk	The present value of the defined benefit plan liability is calculated based on assumptions regarding mortality rates of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the defined benefit obligation.
Salary risk	The present value of the defined benefit plan obligation is calculated by reference to the projected salaries of plan participants. As such, a higher salary increase than projected of the plan participants will increase the defined benefit plan’s liability.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out by Morneau Shepell, Fellows of the Canadian Institute of Actuaries and Society of Actuaries, as at December 31, 2013. The present value of the defined benefit obligation and the related current service cost and past service costs, were measured using the projected benefit method prorated on service.

The changes in the defined benefit obligations and in the fair value of assets and the reconciliation of the funded status of the defined benefit plans to the amount recorded on the consolidated statements of financial position as at December 31, 2013 and 2012 were as follows:

	December 31, 2013		December 31, 2012	
	Pension Benefits[1]	Other Benefits	Pension Benefits[1]	Other Benefits
Fair value of plan assets, beginning of year	$ 406,554	$ –	$ 389,860	$ –
Employer contributions	19,991	2,073	30,796	1,975
Employee contributions	803	–	390	–
Interest income	15,901	–	17,466	–
Return on plan assets excluding interest income (actuarial gains)	43,478	–	17,926	–
Benefit payments	(47,274)	(2,073)	(48,664)	(1,975)
Administration costs	(1,445)	–	(1,220)	–
Fair value of plan assets, end of year	$ 438,008	$ –	$ 406,554	$ –
Accrued benefit obligation, beginning of year	$ 651,238	$ 52,230	$ 636,292	$ 52,364
Current service cost	14,802	866	17,201	1,041
Employee contributions	803	–	390	–
Benefit payments	(47,274)	(2,073)	(48,664)	(1,975)
Interest cost	25,829	2,082	28,618	2,359
Past service costs	(3,297)	(4,095)	(8,027)	(5,291)
Actuarial (gains) losses due to:				
Experience adjustments	(6,046)	(5,506)	(13,583)	–
Changes in demographic assumptions	11,401	1,163	–	–
Changes in financial assumptions	(70,792)	(4,375)	39,011	3,732
Defined benefit obligation, end of year	$ 576,664	$ 40,292	$ 651,238	$ 52,230
Net defined benefit obligation	$ (138,656)	$ (40,292)	$ (244,684)	$ (52,230)

[1] *Including unfunded supplementary defined benefit pension plans.*

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 Limited's pension and other benefit obligations as at December 31, 2013 and 2012 were as follows:

	December 31, 2013		December 31, 2012	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Post-employment benefit obligation				
Discount rate, end of year	4.75%	4.75%	4.00%	4.00%
Rate of compensation increase	3.00%	3.00%	3.25%	3.50%
Net benefit plan costs				
Discount rate, end of preceding year	4.00%	4.00%	4.50%	4.50%
Rate of compensation increase	3.25%	3.25%	3.25%	3.50%
Weighted average duration (years)	15	13	17	15

For measurement purposes, a 7.0% annual increase in the per capita cost of covered medical care benefits (the medical care cost trend rate) was assumed in 2013. The rate of increase of the cost of medical care was assumed to gradually decline to 4.5% by 2028 and to remain at that level thereafter. A 4.5% annual increase in per capita cost of covered dental care benefits was assumed in 2012 and thereafter.

The following table shows how the defined benefit obligation as at December 31, 2013 would have been affected by changes that were reasonably possible at that date in each significant actuarial assumption:

	Pension benefits	Other benefits
Discount rate, end of year – 4.50% instead of 4.75%	$ 22,534	$ 1,219
Rate of compensation increase – 3.25% in 2014 and 3.50% thereafter, instead of 3.00% in 2014 and 3.25% thereafter	$ 3,299	$ –
Health care cost trend rates – medical: 8.0% in 2013 reducing to 5.5% over 15 years instead of 7.0% in 2013 reducing to 4.5% over 15 years; dental: 5.5% instead of 4.5%	$ N/A	$ 1,322

The net benefit plan costs included in the income statements are the following components:

	For the years ended December 31,			
	2013		2012	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Current service cost[1]	$ 14,802	$ 866	$ 17,201	$ 1,041
Administration costs[1]	1,445	–	1,220	–
Past service costs[1]	(3,297)	(4,095)	(8,027)	(5,291)
Service cost	$ 12,950	$ (3,229)	$ 10,394	$ (4,250)
Interest cost (Note 18)	$ 25,829	$ 2,082	$ 28,618	$ 2,359
Interest income (Note 18)	(15,901)	–	(17,466)	–
Net interest on the net defined benefit obligation	$ 9,928	$ 2,082	$ 11,152	$ 2,359
Net benefit costs (recovery) recognized in the income statement	$ 22,878	$ (1,147)	$ 21,546	$ (1,891)
Actuarial (gains) losses recognized in other comprehensive income	$ (108,915)	$ (8,718)	$ 7,502	$ 3,732
Total net benefit plan (recovery) costs for the Yellow Pages Group Corp. ("YPG Co.") defined benefit plans	$ (86,037)	$ (9,865)	$ 29,048	$ 1,841
Net benefit plan costs for the YPG Co. defined contribution plans[1]	6,438	–	4,288	–
Total net benefit plan (recovery) costs	$ (79,599)	$ (9,865)	$ 33,336	$ 1,841

[1] *Included in operating costs.*

During the years ended December 31, 2012 and 2013, the Company amended the retirement and post-employment benefit plans for certain groups of employees. These amendments were made prospectively and applied only to certain groups of employees and included among other items for the affected employees, the elimination of post-retirement benefits, the elimination of post-retirement indexing for future service, the introduction of employee contributions and the reduction of short-term disability coverage. Certain of these amendments resulted in negative past service costs in the amount of $7.4 million (2012 - $13.3 million).

On May 31, 2013, the plan was split administratively into two plans:

- a plan that applies to all defined benefit plan and defined contribution plan members except Quebec-based defined contribution plan members; and
- a plan that applies to all Quebec-based defined contribution plan members.

This split has no impact on the benefits of current active or retired members.

Plan assets include primarily 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, 2013 and 2012:

(in percentages - %)	December 31, 2013	December 31, 2012
Fair value of the plan assets:		
Canadian bonds and debentures	27.5	29.0
Canadian common stocks	12.5	13.5
Global common stocks	10.0	9.5
Pooled fund units		
Canadian pooled equity funds	19.0	18.0
Global pooled equity funds	22.0	21.0
Canadian pooled fixed-income funds	6.5	6.0
Pooled mortgage funds	1.5	2.0
Pooled money market fund	–	1.0
Short-term notes and treasury bills	0.5	–
Cash and cash equivalents	0.5	–

As at December 31, 2013 and 2012, the publicly traded equity securities did not directly include any shares of Yellow Media Limited.

The total cash payments for pension and other benefit plans made by Yellow Media Limited amounted to $28.5 million for 2013 (2012 – $37.1 million). Total cash payments for pension and other benefit plans expected in 2014 amount to approximately $40.4 million.

Yellow Media Limited'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 Limited is responsible to adequately fund the plans. Contributions reflect actuarial assumptions concerning future investment returns, salary projections and future service benefits.

Yellow Media Limited's expense for provincial, federal and state pension plans was $7.3 million for the year ended December 31, 2013 (2012 – $6.7 million).

As at December 31, 2013, Yellow Media Limited had recognized an accumulated balance of $55.7 million, net of income taxes of $18.3 million, in actuarial losses in OCI.

11. LONG-TERM DEBT

The long-term debt is comprised of the following:

As at	December 31, 2013	December 31, 2012
Senior Secured Notes	$ 646,577	$ 800,000
Obligations under finance leases	891	1,831
	$ 647,468	$ 801,831
Less current portion[1]	89,051	100,939
Non-current portion	$ 558,417	$ 700,892

[1] The current portion of the repayment of the Senior Secured Notes may vary subject to the Excess Cash Flow clause.

ASSET-BASED LOAN

In August 2013, the Company, through YPG Financing Inc., entered into a five-year $50 million asset-based loan ("ABL") expiring in August 2018. The ABL will be used for general corporate purposes. Through the ABL, the Company has access to the funds in the form of prime rate loans, Banker's acceptance ("BA") equivalent loans or letters of credit. The ABL has a first priority lien over the receivables of the Company. The ABL is subject to an availability reserve of $5 million if the Company's trailing 12-month fixed charge coverage ratio is below 1.1 times. As at December 31, 2013, the ABL was fully available and was undrawn. Interest is calculated based either on the BA Rate or the Canadian Prime Rate plus an applicable margin.

The loan agreement governing the ABL contains restrictive covenants, including restrictions on the incurrence of additional indebtedness, the payment of dividends and other payment restrictions, investments, the creation of liens, sale and leaseback transactions, mergers, consolidations and sales of assets, and certain transactions with affiliates and its business activities.

As at December 31, 2013, the Company was in compliance with all covenants under the loan agreement governing the ABL.

SENIOR SECURED NOTES

On December 20, 2012, the Company through its subsidiary, YPG Financing Inc., issued $800 million of 9.25% Senior Secured Notes maturing November 30, 2018. Interest on the Senior Secured Notes is payable in cash, quarterly in arrears and in equal instalments at 9.25% per annum on the last day of February, May, August and November of each year.

The Senior Secured Notes are unconditionally guaranteed on a senior secured basis by Yellow Media Limited and all of its Restricted Subsidiaries (as such term is defined in the indenture governing the Senior Secured Notes).

The Senior Secured Notes and each Senior Secured Note guarantee are secured by a first priority lien, subject to certain permitted liens, in the collateral, which consists of all of the property of Yellow Media Limited and the Restricted Subsidiaries, whether owned on the Effective Date or thereafter acquired, other than certain excluded property.

The indenture governing the Senior Secured Notes contains restrictive covenants, including restrictions on the incurrence of additional indebtedness, the payment of dividends and other payment restrictions, investments, the creation of liens, sale and leaseback transactions, mergers, consolidations and sales of assets, and certain transactions with affiliates and its business activities. The indenture does not contain the obligation to maintain financial ratios. Financial ratio restrictions only apply upon incurrence of additional indebtedness and other transactions (other than the ABL).

As at December 31, 2013 and 2012, the Company was in compliance with all covenants under the indenture governing the Senior Secured Notes.

Mandatory Redemption

Pursuant to the indenture governing the Senior Secured Notes, the Company is required to use an amount equal to 75% of its consolidated Excess Cash Flow for the immediately preceding six-month period ending March 31 or September 30, as applicable, to redeem on a semi-annual basis on the last day of May and November of each year, commencing on May 31, 2013, the Senior Secured Notes at a redemption price equal to 100% of the principal amount thereof from holders on a pro rata basis, subject to the Company maintaining a minimum cash balance of $75 million immediately following the mandatory redemption payment. Excess Cash Flow, as defined in the indenture governing the Senior Secured Notes, means the aggregate cash flow from operating activities adjusted for, among other things, payments relating to interest, taxes, long-term employee compensation plans, certain pension plan contribution payments and the acquisitions of property, plant, equipment and intangible assets.

The Company is required to make minimum annual aggregate mandatory redemption payments of $75 million in 2014, $50 million in 2015, or if the redemption payments made in 2014 exceed $75 million, $50 million less such excess redemption payment. The minimum annual aggregate mandatory redemption payments for 2014 and 2015 are not subject to the condition that the Company maintain a minimum cash balance of $75 million immediately following such payments.

For purposes of determining the consolidated Excess Cash Flow, deductions for capital expenditures and information systems/ information technology expenses are each subject to an annual deduction limit of $50 million. Under other circumstances, the Company may also have to make additional repayments on the Senior Secured Notes (refer to the indenture governing the Senior Secured Notes).

Optional Redemption

The Company may redeem all or part of the Senior Secured Notes at its option at any date, upon not less than 30 nor more than 60 days prior notice, at a redemption price equal to:

- In the case of a redemption occurring prior to May 31, 2017, 105% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date; or
- In the case of a redemption occurring on or after May 31, 2017, 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date.

On May 31, 2013 and December 2, 2013, Yellow Media Limited made mandatory redemption payments on the Senior Secured Notes of $26.1 million and $92.4 million, respectively. On September 25, 2013, Yellow Media Limited purchased on the open market $8 million of the Senior Secured Notes for a total cash consideration of $8.3 million. A loss of $0.3 million was recorded in net earnings in financial charges. On October 29, 2013, Yellow Media Limited exercised its option to redeem $27 million of Senior Secured Notes for a total cash consideration of $28.4 million. A loss of $1.4 million was recorded in net earnings in financial charges.

OBLIGATIONS UNDER FINANCE LEASES

The Company 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.

Finance lease liabilities payable as at December 31, 2013 are as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	$ 551	$ 43	$ 508
Between one and five years	396	13	383
	$ 947	$ 56	$ 891

12. EXCHANGEABLE DEBENTURES

As at	December 31, 2013	December 31, 2012
Face value of Exchangeable Debentures	$ 107,500	$ 107,500
Less unaccreted interest	(19,566)	(20,833)
	$ 87,934	$ 86,667

On December 20, 2012, the Company through its subsidiary YPG Financing Inc., issued $107.5 million of senior subordinated Exchangeable Debentures due November 30, 2022. Interest on the Exchangeable Debentures accrues at a rate of 8% per annum if for the applicable interest period, it is paid in cash, or 12% per annum if the Company makes a Payment in Kind (“PIK”) election to pay interest in respect of all or any part of the then outstanding Exchangeable Debentures in additional Exchangeable Debentures. Interest on the Exchangeable Debentures is payable semi-annually in arrears, and in equal instalments on the last day of May and November of each year. The initial fair value on December 20, 2012 of the Exchangeable Debentures was $91.6 million.

The Exchangeable Debentures are senior subordinated and unsecured obligations of YPG Financing Inc. The Exchangeable Debentures are unconditionally guaranteed on a subordinated unsecured basis by Yellow Media Limited and all of its Restricted Subsidiaries (as such term is defined in the indenture governing the Exchangeable Debentures).

The indenture governing the Exchangeable Debentures contains restrictive covenants, including restrictions on the incurrence of additional indebtedness, the payment of dividends and other payment restrictions, investments, the creation of liens, sale and leaseback transactions, mergers, consolidations and sales of assets and certain transactions with affiliates. The indenture does not contain the obligation to maintain financial ratios. Financial ratio restrictions only apply upon incurrence of indebtedness and other transactions.

As at December 31, 2013 and 2012, the Company was in compliance with all covenants under the indenture governing the Exchangeable Debentures.

Exchange Option

The Exchangeable Debentures are exchangeable at the holder’s option into New Common Shares at any time at an exchange price per New Common Share equal to $19.04, subject to adjustment for specified transactions.

The conversion option was valued at $3.6 million, net of income taxes of $1.3 million, at the date of issuance and is included in Equity. The liability portion is being accreted such that the liability at maturity equals the principal amount less exchanges.

Optional Redemption

The Company may, at any time on or after the date on which all of the Senior Secured Notes have been paid in full, redeem all or part of the Exchangeable Debentures at its option at a redemption price equal to:

- in the case of a redemption occurring prior to May 31, 2021, 110% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date; or
- in the case of a redemption occurring on or after May 31, 2021, 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date.

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

13. INCOME TAXES

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

	For the years ended December 31, 2013	2012
		(Revised – Note 2)
Earnings (loss) before income taxes and share of earnings from investments in associates	$ 239,253	$ (2,042,756)
Combined Canadian federal and provincial tax rates[1]	26.46%	26.31%
Income tax expense (recovery) at statutory rates	$ 63,306	$ (537,449)
Increase (decrease) resulting from:		
Unrecognized tax attributes of the current year	3,332	7,850
Recognition of previously unrecognized tax attributes	(3,312)	(15,393)
Difference in the statutory rate applicable to foreign operations	(1,026)	(2,922)
Rate differential on temporary differences	(300)	1,938
Derivative financial instruments	–	4,274
Gain on settlement of debt	–	(282,848)
Impairment of goodwill, intangible assets and property, plant and equipment	–	738,925
Non-deductible dividend expense	–	4,655
Other	1,421	2,161
Provision for (recovery of) income taxes	**$ 63,421**	$ (78,809)

[1] *The combined applicable statutory tax rate increased by 0.15% resulting mainly from the increase in the British Columbia and New Brunswick statutory tax rate.*

Provision for (recovery of) income taxes includes the following amounts for the years ended:

	December 31, 2013	December 31, 2012
		(Revised – Note 2)
Current	$ 48,241	$ 48,603
Deferred	15,180	(127,412)
	$ 63,421	$ (78,809)

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

	Deferred financing costs	Non-capital losses carry forward	Deferred revenues	Post-employment benefits	Accrued liabilities	Property, plant and equipment and lease inducements	Exchangeable Debentures	Intangible assets	Deferred income tax (assets) liabilities, net
December 31, 2012	$ (11,112)	$ (3,954)	$ (11,726)	$ (77,362)	$ (9,941)	$ (920)	$ 5,599	$ 96,030	$ (13,386)
Expense (benefit) to income statement	6,347	(103)	2,257	(2,582)	(3,186)	(3,878)	(340)	16,665	15,180
Expense to other comprehensive income	–	–	–	31,126	–	–	–	–	31,126
Other	–	–	–	–	–	–	–	(3,596)	(3,596)
December 31, 2013	**$ (4,765)**	**$ (4,057)**	**$ (9,469)**	**$ (48,818)**	**$ (13,127)**	**$ (4,798)**	**$ 5,259**	**$ 109,099**	**$ 29,324**

	Deferred financing costs	Non-capital losses carry forward	Deferred revenues	Post-employ-ment benefits	Fair value adjustment of hedged item	Accrued liabilities	Property, plant and equipment and lease induce-ments	Exchang-eable and Conver-tible Deben-tures	Intangible assets	Deferred income tax liabilities (assets), net
December 31, 2011	$ 8,366	$ (9,415)	$ (14,774)	$ (78,658)	$ (2,146)	$ (8,467)	$ 5,041	$ 2,265	$ 217,093	$ 119,305
(Benefit) expense to income statement	(19,478)	5,461	3,048	7,126	2,552	(1,474)	(5,961)	1,999	(117,811)	(124,538)
Charge to equity	–	–	–	–	–	–	–	1,335	–	1,335
Benefit to other compre-hensive income	–	–	–	(5,830)	(406)	–	–	–	–	(6,236)
Other	–	–	–	–	–	–	–	–	(3,252)	(3,252)
December 31, 2012	$ (11,112)	$ (3,954)	$ (11,726)	$ (77,362)	$ –	$ (9,941)	$ (920)	$ 5,599	$ 96,030	$ (13,386)

As at December 31, 2013, the Company had not recognized deferred income tax assets with respect to foreign operating losses of $84.3 million which expire from 2028 to 2033, Canadian capital losses of $1.7 million which can be utilized indefinitely, and deductible temporary differences of $285 million.

14. SHAREHOLDERS' CAPITAL

COMMON SHARES

An unlimited number of New Common Shares are authorized to be issued.

	December 31, 2013 and 2012	
	Number of Shares	Amount
Balance, December 31, 2011	520,402,094	$ 3,554,715
Exercise of conversion option on Convertible Debentures prior to the Recapitalization (Note 1)	116,250	899
Exchange of Convertible Debentures[1]	99,535,000	–
Cancellation of common shares[1]	(620,053,344)	–
Issuance of New Common Shares to settle prior debt[1]	24,567,901	153,568
Issuance of New Common Shares to prior common shareholders[1]	2,564,647	–
Exchange of preferred shares series 3, 5 and 7 for New Common Shares[1]	822,529	320,687
Balance, December 31, 2012 and 2013	27,955,077	$ 4,029,869

[1] *Pursuant to the Recapitalization.*

Pursuant to the Recapitalization, the common shares of YPG Financing Inc. were cancelled on December 20, 2012.

WARRANTS

As described in Note 1 – Description, pursuant to the Recapitalization, the Company issued a total of 2,995,506 Warrants.

Each Warrant is transferable and entitles the holder to purchase one New Common Share at an exercise price of $28.16 per Warrant payable in cash at any time on or prior to December 20, 2022. The fair value of the Warrants on the Effective Date was $1.5 million.

The fair value of the Warrants was calculated using a binomial option pricing model with the following assumptions:

Risk free interest rate	2.27%
Expected life	10 years
Expiry date	December 20, 2022
Expected volatility	33.5%

15. EARNINGS (LOSS) PER SHARE

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

	For the years ended December 31,	
	2013	2012
Weighted average number of shares outstanding used in computing basic earnings (loss) per share	**27,797,170**	27,955,077
Dilutive effect of restricted share units and performance share units	**157,907**	–
Dilutive effect of stock options	**14,624**	–
Dilutive effect of Exchangeable Debentures	**5,646,008**	–
Weighted average number of shares outstanding used in computing diluted earnings (loss) per share	**33,615,709**	27,955,077

Pursuant to the closing of the Recapitalization approved by the Court, the common shares of YPG Financing Inc. were exchanged for New Common Shares of the Company. As a result, the weighted average number of shares outstanding for the prior period has been adjusted to reflect the Recapitalization.

	For the years ended December 31,	
	2013	2012
		(Revised - Note 2)
Net earnings (loss) attributable to common shareholders of Yellow Media Limited	**$ 176,360**	$ (1,961,663)
Dividends to preferred shares, Series 3, 5 and 7 shareholders	**–**	(21,606)
Net earnings (loss) available to common shareholders of Yellow Media Limited used in the computation of basic and diluted loss per share	**$ 176,360**	$ (1,983,269)
Impact of assumed conversion of Exchangeable Debentures, net of applicable taxes	**7,244**	–
Net earnings (loss) adjusted for dilutive effect	**$ 183,604**	$ (1,983,269)

For the year ended December 31, 2013, the diluted earnings per share calculation did not take into consideration the potentially dilution effect of the warrants (refer to Note 14 – Shareholders' capital) as they are not dilutive. Yellow Media Limited did not calculate the diluted loss per share for the year ended December 31, 2012 as the conversion of the warrants, stock options and Exchangeable Debentures would not be dilutive to the loss.

16. STOCK-BASED COMPENSATION PLANS

2013

Yellow Media Limited's stock-based compensation plans consist of restricted share units, performance share units, deferred share units and stock options of Yellow Media Limited.

Restricted Share Unit and Performance Share Unit Plan

On May 6, 2013, Yellow Media Limited adopted a restricted share unit and performance share unit plan (the "RSU and PSU Plan") to reward the key employees and officers of Yellow Media Limited (the "Participants"). Following the implementation of the RSU and PSU Plan, Yellow Media Limited granted to Participants a number of restricted share units ("RSUs") and/or performance share units ("PSUs"), as applicable. The RSUs are time-based awards and will vest upon the continuous employment of the Participants for a period of 36 months starting from the date of the grant; or such other period not exceeding 36 months determined by the Board of Directors. The PSUs are performance-based awards and will vest upon confirmation by the Board of Directors of the achievement of specified performance targets and upon the continuous employment of the Participants for a period of 36 months starting from the date of the grant; or such other period not exceeding 36 months determined by the Board of Directors. The PSUs for which the performance targets have not been achieved shall automatically be forfeited and cancelled.

Pursuant to the terms of the RSU and PSU Plan, if the RSU and PSU Plan is funded, Participants will receive, upon vesting of the RSUs and PSUs, common shares of the Company. In the event the RSU and PSU Plan is unfunded, Yellow Media Limited will pay to the Participant an amount in cash, equivalent to the number of RSUs or PSUs that have vested.

The number of PSUs that vest could potentially reach up to one-and-a-half times the actual number of PSUs awarded if the actual performance reaches the maximum level of performance targets.

During the year ended December 31, 2013, 65,883 PSUs were set aside for a possible payout of up to 150%.

During the year ended December 31, 2013, 454,482 common shares of Yellow Media Limited were purchased on the open market of the TSX by the trustee appointed under the RSU and PSU Plan at a cost of $6.6 million and are restricted for the purpose of funding of the RSU and PSU Plan.

The following table summarizes the status of the RSU and PSU grants during the year ended December 31, 2013:

	December 31, 2013	
	Number of RSUs and PSUs	
	RSUs	PSUs
Outstanding, beginning of period	–	–
Granted	300,871	140,669
Vested	–	–
Forfeited	(48,216)	(8,893)
Outstanding, end of period	252,655	131,776
Weighted average remaining life	2 years	2 years

Deferred Share Unit Plan

On June 12, 2013, as part of the implementation of a revised Board of Directors compensation structure, Yellow Media Limited adopted a deferred share unit plan (the "DSU Plan") and Directors of Yellow Media Limited were granted a one-time deferred share unit ("DSU") award, such grant representing a total amount of 58,536 DSUs. The 58,536 DSUs vested immediately upon being granted. The Company shall settle the vested DSUs in cash or in common shares of the Company at its discretion when a Director leaves the Board.

Subsequent grants were awarded to Directors of Yellow Media Limited for a total amount of 42,021 DSUs which vested over a period of up to six months, and ended on December 31, 2013.

During the year ended December 31, 2013, an expense of $3.7 million was recorded in the consolidated income statement in relation to the RSU and PSU Plan as well as the DSU Plan. As at December 31, 2013, a liability of $2.1 million related to the DSU Plan is recorded in trade and other payables.

Stock Options

On December 20, 2012, as part of the implementation of Yellow Media Limited's Recapitalization transaction, a new stock option plan (the "Stock Option Plan") was adopted. The Stock Option Plan is intended to attract and retain the services of selected employees of Yellow Media Limited who are in a position to make a material contribution to the successful operation of the business, provide meaningful incentive to management to lead Yellow Media Limited through the transformation of its business and to more closely align the interests of management with those of the shareholders of Yellow Media Limited. A maximum of 1,290,612 options may be granted under the Stock Option Plan. On May 6, 2013, 376,000 options were granted to selected employees of Yellow Media Limited. These options vest 50% in February 2015, 25% in February 2016 and 25% in February 2017.

	December 31, 2013	
	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	–	–
Granted	376,000	$ 10.12
Forfeited	–	–
Outstanding, end of period	376,000	$ 10.12
Exercisable, end of period	–	–

The fair value of the options granted during the year is $3.67 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: $8.66
- Exercise price: $10.12
- Expected volatility: 40%
- Contractual life: 7 years
- Risk-free interest rate: 1.94%
- Weighted average remaining life: 6.3 years

An expense of $0.4 million was recorded during the year ended December 31, 2013 in relation to the Stock Option Plan.

2012

In 2012, the Company's stock-based compensation plans consisted of a Restricted Share Unit Plan and a Stock Option Plan.

Restricted Share Unit Plan

The Company had established an employee benefit plan known as the Restricted Share Unit Plan (the "RS Plan"). The RS Plan provided certain eligible employees the right to receive shares subject to the terms and conditions of the RS Plan.

During the year ended December 31, 2012, no restricted shares were granted under the RS Plan.
Pursuant to the Recapitalization approved by the Court, the holders of the restricted shares surrendered their restricted shares for the payment in cash of the volume weighted average trading price ("VWAP") of the underlying shares. All restricted shares were subsequently cancelled. The RS Plan and all rights under the RS Plan were terminated and cancelled.

A total expense of $4.3 million was recorded for the year ended December 31, 2012.

Stock Options – 2003 Plan

Pursuant to the Recapitalization, the 2003 Plan and all outstanding options granted thereunder were cancelled for no consideration.

17. OPERATING COSTS

	For the years ended December 31,	
	2013	2012
Salaries, commissions and benefits[1]	**$ 281,567**	$ 274,960
Supply chain and logistics[2]	**105,798**	110,191
Other goods and services[3]	**108,851**	91,311
Information systems	**44,964**	43,716
Bad debt expense	**14,469**	18,157
	$ 555,649	$ 538,335

[1] The prior period has been revised to reflect the adoption of IAS 19 (Revised), Employee Benefits, as described in Note 2.

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

[3] 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 $19.8 million (2012 - $19.8 million).

18. FINANCIAL CHARGES, NET

The significant components of the financial charges are as follows:

	For the years ended December 31,	
	2013	2012
Interest on long-term debt, Exchangeable Debentures and Convertible Debentures	**$ 79,017**	$ 119,329
Net interest on retirement benefit obligations[1]	**12,010**	13,511
Interest income, standby fees and other financial charges, net	**(680)**	(3,328)
Loss on repurchase of the Senior Secured Notes	**1,670**	–
Amortization and write-off of deferred financing costs	**84**	8,442
Increase in derivative financial instruments	**–**	18,479
Other, net	**1,256**	(465)
	$ 93,357	$ 155,968

[1] The prior period has been revised to reflect the adoption of IAS 19 (Revised), Employee Benefits, as described in Note 2.

19. SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION

The following are non-cash transactions:

	For the years ended December 31,	
	2013	2012
Additions to property, plant and equipment included in trade and other payables	**$ 1,005**	$ 2,575
Additions to intangible assets included in trade and other payables	**$ 4,134**	$ 6,072
Additions to property, plant and equipment under finance leases	**$ –**	$ 24
Issuance of Senior Secured Notes	**$ –**	$ 800,000
Issuance of Exchangeable Debentures	**$ –**	$ 107,500
Extinguishment of Medium Term Notes	**$ –**	$ 1,404,127
Extinguishment of Credit Facility	**$ –**	$ 344,000
Extinguishment of Preferred shares, series 1 and 2	**$ –**	$ 400,644
Issuance of New Common Shares pursuant to the Recapitalization	**$ –**	$ 153,568
Conversion of Convertible Debentures	**$ –**	$ 899

20. COMMITMENT AND CONTINGENCIES

a) Yellow Media Limited has commitments under various leases for premises, equipment, purchase and service contract obligations for both operating and capital expenditures for each of the next five years and thereafter, as at December 31, 2013, and in the aggregate of:

	Operating leases	Other	Total commitments
2014	$ 20,832	$ 62,701	**$ 83,533**
2015	20,910	59,171	**80,081**
2016	19,970	48,408	**68,378**
2017	17,189	4,906	**22,095**
2018	7,174	3,071	**10,245**
Thereafter	3,462	1,000	**4,462**
	$ 89,537	$ 179,257	**$ 268,794**

Under certain lease agreements, inducements for leasehold improvements exist. These lease inducements are accounted for as part of deferred credits and amount to $12.5 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 Limited has four billing and collection services agreements. The term of the Billing and 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 Limited provides prior notice not to renew. The agreement with TELUS Communications Inc. ("TELUS") expires up to 2031 and 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, Yellow Media Limited produces alphabetical listing telephone directories for each of these companies in order for them to meet their regulatory obligations.

The Company 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 the Company 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. These agreements will terminate in 2038.

c) Yellow Media Limited 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.

d) Yellow Media Limited 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 trade and other payables 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, financial performance or cash flows of Yellow Media Limited.

21. 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 Limited is exposed to credit risk with respect to cash, cash equivalents, trade receivables from customers, and a note receivable. The carrying value of financial assets represents Yellow Media Limited's maximum exposure.

Credit risk associated with cash and cash equivalents 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 Limited's extension of credit to customers involves judgment. Yellow Media Limited 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 Limited considers that it has limited exposure to concentration of credit risk with respect to trade receivables 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 receivables from any one individual customer and certified marketing representative that exceeds 5% of the total balance of trade receivables at any point in time during the year.

Bell, TELUS, MTS Allstream Inc. and Bell Aliant provide Yellow Media Limited 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 Limited. Yellow Media Limited retains the ultimate collection risk on these receivables.

Allowance for doubtful accounts and past due receivables are reviewed by management at each statement of financial position date. Yellow Media Limited 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 collectible. Subsequent recoveries of amounts previously written off are credited to the income statement.

In 2011, Yellow Media Limited sold Trader Corporation. The purchase price consideration included a note receivable of $15 million. The note receivable matures in 2020. Interest and principal on the note receivable is subordinated to the senior debt of Trader Corporation.

The components of trade and other receivables are as follows:

	December 31, 2013	December 31, 2012
Trade receivables		
Current	$ 81,449	$ 76,916
Past due less than 180 days	33,341	58,328
Past due over 180 days	4,373	5,246
Trade receivables	$ 119,163	$ 140,490
Other receivables [1]	$ 23,283	$ 33,579
Trade and other receivables	$ 142,446	$ 174,069

[1] *Other receivables is mainly comprised of sales tax receivables and a loan receivable associated with a forward contract.*

Yellow Media Limited's trade receivables are stated after deducting an allowance for doubtful accounts of $21.1 million as at December 31, 2013 (2012 - $23.8 million). The movements in the allowance for doubtful accounts were as follows:

As at	December 31, 2013	December 31, 2012
Balance, beginning of year	$ 23,812	$ 39,839
Bad debt expense, net of recovery	14,469	18,157
Written-off	(17,159)	(34,184)
Balance, end of year	$ 21,122	$ 23,812

In addition, Yellow Media Limited is exposed to credit risk if counterparties to its derivative financial instruments fail to meet their obligations.

MARKET RISK

(i) Interest Rate Risk

Yellow Media Limited is exposed to interest rate risks resulting from fluctuations in interest rates on cash equivalents that earn interest at market rates and on its ABL with rates which are generally based on the Canadian BA rate. Yellow Media Limited does not use derivative instruments to reduce its exposure to interest rate risk. As at December 31, 2013, the ABL was undrawn. The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the necessary liquidity to conduct its day-to-day operations.

Yellow Media Limited may also be 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. There are no upcoming maturities that will require refinancing. Changes in interest rates will also affect the fair value of future cash flows of Yellow Media Limited's fixed rate debt. As interest rates on the Senior Secured Notes and Exchangeable Debentures are fixed, the Company is not exposed to interest rate fluctuation risk.

(ii) Foreign Exchange Risk

Yellow Media Limited is exposed to foreign exchange risk arising from various currency transactions, which are not significant. Foreign exchange transaction risk arises primarily from commercial transactions that are denominated in a currency that is not the functional currency of Yellow Media Limited's business unit that is party to the transaction. Yellow Media Limited is exposed to fluctuations in the U.S. dollar. The effect on net earnings and OCI from existing U.S. dollar exposures of a one point increase or decrease in the Canadian/U.S. dollar exchange rate is not significant.

Liquidity Risk

Liquidity risk is the exposure of Yellow Media Limited to the risk of not being able to meet its financial obligations as they become due.

Yellow Media Limited manages this risk by maintaining detailed cash forecasts and long-term operating and strategic plans. The management of liquidity requires a constant monitoring of expected cash inflows and outflows which is achieved through a detailed forecast of the Company's liquidity position to ensure adequacy and efficient use of cash resources.

The Company is required to make minimum annual aggregate mandatory redemption payments of $75 million in 2014, $50 million in 2015, or if the redemption payments made in 2014 exceed $75 million, $50 million less such excess redemption payments. These requirements will be met through internally-generated cash, cash on hand and drawings on the ABL.

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

	Payments due for the years following December 31, 2013				
	Total	Less than 1 year	2 – 3 years	4 – 5 years	After 5 years
Non-derivative financial liabilities					
Long-term debt[1,2]	$ 646,577	$ 88,543	$ 36,457	$ 521,577	$ –
Obligations under finance leases[1]	891	508	383	–	–
Exchangeable Debentures[1]	107,500	–	–	–	107,500
Trade and other payables	78,824	78,824	–	–	–
Provisions	76,663	70,632	5,034	927	70
Total	**$ 910,455**	**$ 238,507**	**$ 41,874**	**$ 522,504**	**$ 107,570**

[1] *Principal amount.*

[2] *The repayment of the Senior Secured Notes may vary subject to the Excess Cash Flow clause.*

Fair values

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The fair value of cash and cash equivalents, trade and other receivables, trade and other payables, and the current portion of provisions is approximately equal to their carrying values due to their short-term maturity.

The fair value of the Senior Secured Notes and the Exchangeable Debentures is evaluated based on quoted market prices at the statement of financial position date. The fair value of the note receivable is based on valuation techniques using interest rates that the Company could currently obtain on the market for similar terms, conditions and maturities.

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 not measured at fair value on the statement of financial position:

					December 31, 2013
	Level		Carrying Value		Fair Value
Note receivable[1]	3	$	11,707	$	13,361
Long-term debt due within one year	1	$	89,051	$	93,035
Long-term debt	1	$	558,417	$	583,529
Exchangeable Debentures	1	$	87,934	$	119,605

[1] *The note receivable is included in Financial and other assets in the Consolidated Statement of Financial Position.*

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, 2013, classified using the fair value hierarchy:

		Level 1		Level 2		Level 3		Total
Financial asset or liability								
Investment – available for sale	$	–	$	–	$	3,520	$	3,520
Put option (financial liability)		–		–		(18,472)		(18,472)
Total	**$**	**–**	**$**	**–**	**$**	**(14,952)**	**$**	**(14,952)**

Yellow Media Limited's AFS investment is comprised of a privately held equity security and is carried at fair value based on estimates that are based on market rates prevailing at the statement of financial position date.

The following table represents the reconciliation of Level 3 fair value measurements:

						2013
		Investment – available-for-sale		Put option – financial liability		Total
As at December 31, 2012	$	3,520	$	(18,479)	$	(14,959)
Other		–		7		7
As at December 31, 2013	**$**	**3,520**	**$**	**(18,472)**	**$**	**(14,952)**

						2012
		Investment – available-for-sale		Put option – financial liability		Total
As at December 31, 2011	$	–	$	–	$	–
Addition		–		(18,479)		(18,479)
Reclassification from investment in associate to available-for-sale		1,337		–		1,337
Gain on revaluation		2,183		–		2,183
As at December 31, 2012	$	3,520	$	(18,479)	$	(14,959)

The fair value of the put option is the difference between the price to acquire the remaining ownership interest in an associate, which is based on a fixed multiple of adjusted earnings, income taxes, depreciation and amortization, and the fair value of the investment in an associate, using similar assumptions as those used for the online products of Yellow Pages Group, as described in Note 4 – Impairment of goodwill, intangible assets and property, plant and equipment. Actual performance of the investment in an associate or changes in its fair value may affect the fair value of the put option.

22. CAPITAL DISCLOSURES

Yellow Media Limited's objective in managing capital is to ensure sufficient liquidity to cover financial obligations and investment requirements. Reducing debt and associated interest charges is one of the Company's primary financial goals which will improve its financial flexibility and support the implementation of its strategic objectives.

Yellow Media Limited 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 and the Company's working capital requirements.

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

Yellow Media Limited's capital is comprised of Net debt, Exchangeable Debentures and equity attributable to shareholders of Yellow Media Limited as follows:

As at	December 31, 2013	December 31, 2012
Cash and cash equivalents	$ 202,287	$ 106,807
Senior Secured Notes	$ 646,577	$ 800,000
Exchangeable Debentures	87,934	86,667
Obligations under finance leases	891	1,831
Net debt, net of cash	$ 533,115	$ 781,691
Equity attributable to shareholders	544,495	285,749
Non-controlling interests	–	411
Total capitalization	$ 1,077,610	$ 1,067,851
Net debt to total capitalization	49.5%	73.2%

	For the years ended December 31,	
	2013	2012
		(Revised – Note 2)
Latest Twelve Month EBITDA[1,2]	$ 416,112	$ 569,380
Net Debt to Latest Twelve Month EBITDA ratio[1]	1.3	1.4

[1] *Latest twelve month income from operations before depreciation and amortization, impairment of goodwill, intangible assets and property, plant and equipment, and restructuring and special charges ("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.*

[2] *Latest Twelve Month EBITDA for the prior period was revised to reflect the adoption of IAS 19 (Revised), Employee Benefits, as described in Note 2 – Revised Standards.*

23. GUARANTEES

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

Yellow Media Limited 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 Limited. Yellow Media Limited benefits from directors' and officers' liability insurance which it has purchased. No amount has been accrued in the consolidated statement of financial position as at December 31, 2013 with respect to this indemnity.

Pursuant to the acquisitions of Aliant, YPG USA, the contribution of YPG Directories, LLC to Ziplocal 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 Limited had entered into agreements whereby Yellow Media Limited agreed 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 Limited in the performance of its obligations under these agreements and (ii) any breach of a representation contained therein. Furthermore, agreements entered into by LesPAC, Trader Corporation 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, 2013 with respect to these indemnities.

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

24. SEGMENTED INFORMATION

The Company operates in a single business segment which is to provide Canadian advertisers with digital and traditional media solutions.

As at December 31, 2013, Yellow Media Limited had non-current assets, other than deferred tax assets, held in a foreign country (United States of America) of $4.2 million (2012 - $4.9 million).

25. LIST OF SUBSIDIARIES

As at	December 31, 2013		December 31, 2012	
	Consolidation	% ownership	Consolidation	% ownership
Canada				
YPG Financing Inc.	Full consolidation	100	Full consolidation	100
Yellow Pages Group Corp.	Full consolidation	100	Full consolidation	100
Mediative G.P. Inc.[1]	–	–	Full consolidation	60
Mediative Performance L.P.[1]	–	–	Full consolidation	60
Wall2Wall Media Inc.	Full consolidation	100	Full consolidation	100
USA				
YPG (USA) Holdings, Inc.	Full consolidation	100	Full consolidation	100
Yellow Pages Group, LLC	Full consolidation	100	Full consolidation	100

[1] *During the second quarter of 2013, the Company acquired the remaining 40% of Mediative G.P. Inc. and Mediative Performance L.P. in exchange for cash consideration of $3.6 million. These entities were integrated within Yellow Pages Group Corp. and subsequently dissolved in 2013.*

26. RELATED PARTY DISCLOSURES

KEY PERSONNEL COMPENSATION

Yellow Media Limited's key personnel have authority and responsibility for planning, directing and controlling the Company's activities and consist of Yellow Media Limited's executive team and the Board of Directors.

Total compensation expense for key personnel, and the composition thereof, is as follows:

	For the years ended December 31	
	2013	2012[1]
Salary, fees and other short-term employee benefits	**$ 5,968**	$ 6,130
Post-employment benefits	**457**	(1,011)
Stock-based compensation	**2,060**	4
Termination benefits	**5,555**	670
	$ 14,040	$ 5,793

[1] *During 2013, management reassessed its key management personnel. The prior period has been revised to reflect this change in composition.*

OTHER RELATED PARTY TRANSACTIONS

For the years ended December 31,	Transaction value		Balance outstanding	
	2013	2012	**2013**	2012
Sales of good and services				
Associate	**$ 3,479**	$ 6,207	**$ 662**	$ 900

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.

27. COMPARATIVE FIGURES

Yellow Media Limited reclassified $7.4 million of provisions as at December 31, 2012 from current to non-current liabilities, as well as $1.7 million of trade and other receivables to financial and other assets as they are due beyond twelve months from the statement of financial position date.

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AUDITORS

Deloitte LLP

SHARES AND OTHER SECURITIES LISTED ON THE TORONTO STOCK EXCHANGE

Y	Common Shares
YPG.DB	Senior Subordinated Unsecured Exchangeable Debentures
Y.WT	Warrants

TRANSFER AGENT

Canadian Stock Transfer Company Inc.
2001 University Street, Suite 1600
Montréal, Québec H3A 2A6
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