

yellow media limited.

annual report 2012 /

2012 financial review /

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management's discussion and analysis.

February 5, 2013

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, 2012 and 2011 and should be read in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2012. 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, 2012.

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)). After the completion of the sale of Trader Corporation in July 2011, management reassessed its operating segments and concluded that the "Directories" segment is the Company's only operating segment, which refers to our print and online directories as well as performance marketing solutions and real estate publications.

On December 20, 2012 (the Effective Date), Yellow Media Limited implemented a recapitalization transaction (Recapitalization).

The 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 key components of the Recapitalization are as follows:

- The exchange of the Company's credit facility (Credit Facility) and medium term notes (Medium Term Notes) (collectively the Senior Unsecured Debt), representing \$1,772.7 million of the Company's debt, for a combination of:
 - \$800 million of 9.25% senior secured notes maturing in 2018 (the Senior Secured Notes);
 - \$100 million of senior subordinated unsecured exchangeable debentures due in 2022, with interest payable in cash at 8.0% or in additional debentures at 12.0% (the Exchangeable Debentures);
 - 23,062,943 New Common Shares, representing 82.5% of the issued and outstanding New Common Shares; and
 - \$275 million of cash.
- The exchange of the existing convertible debentures for a combination of:
 - \$7.5 million of Exchangeable Debentures;
 - 497,852 New Common Shares representing 1.8% of the New Common Shares; and
 - 484,487 10-year Warrants to purchase New Common Shares at the exercise price of \$28.16, representing in the aggregate 1.7% of the New Common Shares.
- The exchange of the existing preferred shares and common shares of the Company for a combination of:
 - 4,394,282 of New Common Shares representing 15.7% of the New Common Shares; and
 - 2,511,019 10-year Warrants to purchase New Common Shares at the exercise price of \$28.16, representing in the aggregate 9% of the New Common Shares.

Please refer to Section 3 – Liquidity and Capital Resources of this MD&A for a description of the Recapitalization.

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 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 online growth will not be slower than what is currently anticipated 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.

management's discussion and analysis.

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 of 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 legislation.

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 23 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 leading media and marketing solutions company offering its services to small and medium enterprises (SMEs) across Canada. The Company offers businesses personalized marketing consulting services and exposure to marketing products, including print, online and mobile Yellow Pages, websites and search solutions. Our advertisers' local business information is published, marketed and distributed via a variety of both owned and operated properties, and through other local search networks. Yellow Media is also a leader in national digital advertising through Mediative, a digital advertising and marketing solutions provider to national agencies and advertisers. This section provides an overview of our business and our current priorities.

We serve approximately 309,000 local businesses, through our nation-wide sales force of approximately 1,100 media consultants, including sales support staff.

We own and operate some of Canada's leading properties and publications including Yellow Pages™ directories, YellowPages.ca™, Canada411.ca™, Canpages.ca™ and RedFlagDeals.com™. Our online destinations reach approximately 9 million unique visitors monthly. YellowPages.ca™ can also be accessed on mobile devices through our various mobile applications on BlackBerry™, Apple iPhone™ and iPad™, Windows Mobile™ and Android™. The Company owns and operates additional mobile search applications including ShopWise, Urbanizer, and RedFlagDeals, alongside a public application programming interface (API) in YellowAPI.com. YellowAPI contains a list of 1.5 million Canadian businesses and enhanced content on over 300,000 businesses. Our mobile applications for finding local businesses and deals have been downloaded over 5 million times.

In addition, we are the official directory publisher for Bell Canada (Bell), TELUS Communications Inc. (TELUS), Bell Aliant Regional Communications LP (Bell Aliant), MTS Allstream Inc. and for a number of other incumbent telephone companies that have a leading share in their respective markets. In 2012, we published more than 375 different print telephone directories with a total circulation of approximately 18 million copies.

Our local content is rich and diverse, which draws consumers to our directories and in so doing generates leads, calls, visits and clicks for advertisers.

Mission

As we exist to champion the new neighbourhood economy, our mission is to connect people and businesses like never before. As such, we strive to actively contribute to the success of every local merchant we partner with and offer each of our business partners valuable marketing programs that fit their specific needs and objectives.

Strategy

Our strategy remains to leverage our multiplatform media and marketing solutions, to enhance services to our advertisers, build traffic to our network of properties and improve user experience. Our focus is to continue transforming from a print directory business to a leading technology and digital media company offering marketing solutions to SMEs across Canada. As such, our goal is to become:

- the #1 local destination for consumers in Canada;
- the partner of choice for small and medium sized businesses in Canada; and
- the leading digital company in Canada.

As we invest further in our transformation, we will continue to maximize our operating efficiency and constantly review our cost structure to remain competitive.

For a review of developments and performance relative to key priorities that were identified for 2012, see Section 2 – Results.

Our key priorities for 2013 are directly related to our customer promise, which aims to deliver:

- 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

The Yellow Pages 360° Solution is central in enabling our advertisers to be reached by the right consumers, enabling them to manage and grow their businesses. To promote successful execution of the Yellow Pages 360° Solution, we will enhance existing sales tools and training and provide advertisers with knowledgeable advisors capable of building valuable marketing programs. In 2013, we will also continue demonstrating value through Yellow Analytics. This performance reporting tool provides valuable insight into advertisers' campaigns and allows them to gain access to online statistics on visits, clicks, traffic trends and more.

management's discussion and analysis.

Right Products

Our advertisers are entitled to the optimal mix of products to meet their needs for smarter neighbourhood marketing. In 2013, we will be introducing differentiated products and services to our different segments of advertisers with a continued focus on our local high-end advertisers. We will also introduce new mobile placement products and industrialize our Digital PowerPlay™ offering. Digital PowerPlay™ establishes and optimizes a business' digital presence by determining the necessary steps to maximize qualified leads across various digital channels while offering our highest level of service and support to our customers. As 94% of our advertisers continue to advertise in our print products, we will also continue to assess new print product alternatives and implement new book formats.

Right Execution and Customer Experience

Our advertisers deserve a flawless execution of their marketing campaigns and an overall superior customer experience. Our strategy to improve our execution and customer experience is to leverage new technology to ensure we have sustainable, scalable, and efficient solutions in place. In 2013, we plan on implementing new enterprise workflows to deliver operational excellence in product fulfillment. A new sales front-end and a simplified tool set will also be deployed to improve the efficiency of our sales force.

Right Consumer Audiences

The success of our advertisers lies in their ability to attract qualified local customers. In 2013, we will extend our brand promise through mass communication campaigns and grow consumer audiences through strategic investments in traffic and distribution. We will evolve our mobile and search engine optimization offerings as well as our digital tools and platforms to build engaging digital experiences and enable consumers to discover their neighbourhood and make smarter purchasing decisions, whenever and wherever they are.

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

Strong Brands

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

Established Relationships with Customers

We employ 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 a more dedicated relationship between the sales force and the SMEs resulting in 86% of our advertisers renewing their advertising with us this year.

Breadth and Depth of Local Content

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

Dedicated and Experienced Employees

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

Culture and Values

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

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

2. Results /

This section provides an overview of our financial performance in 2012 compared to 2011 and 2010. It is also important to note that in order to help investors better understand our performance we rely on several metrics, some of which are not measures recognized by IFRS. Definitions of these financial metrics are provided on page 2 of this MD&A and are important aspects which should be considered when analyzing our performance.

Overall

- Revenues decreased by \$221.2 million or 16.6% to \$1,107.7 million compared to the previous year. If we exclude the results of Canpages, LesPAC.com (LesPAC), YPG USA and our Deal of the Day products, which are entities or lines of businesses we no longer operate in, revenues decreased by 11.9% compared to the previous year.
- 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) decreased by \$109.1 million or 16.1% to \$570.6 million compared to the previous year. If we exclude the results of Canpages, LesPAC, YPG USA and our Deal of the Day products, EBITDA decreased by 15% compared to the previous year.

Highlights^{1,2,3}

(in thousands of Canadian dollars - except share information)

	Years ended December 31,	
	2012	2011
Revenues	\$ 1,107,715	\$ 1,328,866
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)	\$ 570,600	\$ 679,707
Net loss	\$ (1,954,005)	\$ (2,828,999)
Basic loss per share attributable to common shareholders ⁴		
From continuing operations	\$ (70.66)	\$ (97.66)
Total	\$ (70.66)	\$ (102.14)
Cash flows from operating activities from continuing operations	\$ 238,573	\$ 336,573
Free cash flow from continuing operations ³	\$ 198,338	\$ 275,174

¹ On March 25, 2011, the Company announced that it had reached a definitive agreement to sell Trader Corporation. Consequently, the results of the Vertical Media segment are presented as discontinued operations. The transaction closed on July 28, 2011.

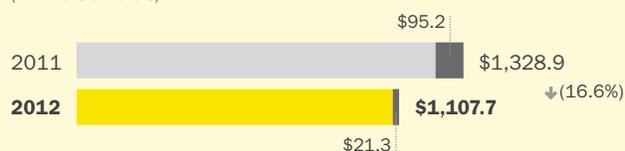
² We also disposed of the assets of LesPAC on November 14, 2011. As such, the results of LesPAC are included in the 2011 results up to the date of its divestiture.

³ Please refer to Section 4 for a reconciliation of free cash flow from continuing operations.

⁴ As previously described, pursuant to the closing of the Recapitalization approved by the Court, the common shares of the Company were exchanged for New Common Shares of the Company. As a result, the weighted average number of shares outstanding during the period and for prior periods has been adjusted to reflect the Recapitalization.

Revenues

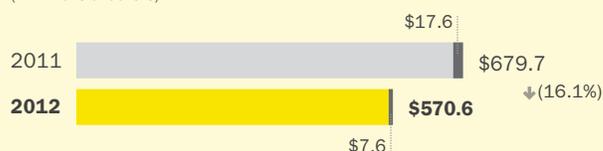
(in millions of dollars)



Revenues from Canpages, LesPAC, Deal of the Day and YPG USA

EBITDA

(in millions of dollars)



EBITDA from Canpages, LesPAC, YPG USA and Deal of the Day

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Performance Relative to Business Strategy

As we reinforced Yellow Media's position as a leading digital media, marketing solutions and technology company, our key priorities for 2012 were to:

- Execute the Yellow Pages 360° Solution Sales Approach;
- Deliver Superior Customer Value; and
- Lead our Industry Transformation.

Execute the Yellow Pages 360° Solution Sales Approach

Yellow Pages 360° Solution is a unique value proposition and a key element of our digital transformation. It is a complete suite of products and services along with marketing support to meet the local performance marketing needs of our advertisers. It enables advertisers to get visibility with online, mobile and print media platforms, and access to various services such as website development, search engine marketing (SEM), search engine optimization (SEO) and Yellow Pages™ Analytics.

As at December 31, 2012, the penetration of our 360° Solution offering, which we define as advertisers who subscribe to 3 product categories or more, amongst our advertiser base was 16.5% compared to 5.5% at the end of the same period last year.

Mobile products continue to be a key component of the Yellow Pages 360° Solution, having reached a penetration of 8.0% in the fourth quarter of 2012 compared to 1.1% for the same period last year. As at December 31, 2012, the Company had approximately 24,600 Canadian SMEs purchasing mobile products, representing approximately 46,600 mobile units. Through our growing suite of online and mobile applications, we continue to find new ways to engage consumer audiences and enhance visibility and awareness of local businesses and services across Canada.

In early October 2012, we launched a new advertising campaign focusing on the consumer's neighbourhood. The objective behind the advertising campaign was to communicate our role in fuelling a rebirth of local neighborhoods by connecting consumers and businesses in new ways. The marketing campaign promotes the brand's digital capabilities and is aimed at making consumers and business owners aware of our various digital-friendly tools.

Deliver Superior Customer Value

Our first and foremost goal is to serve the needs of our advertisers, enabling them to manage and grow their businesses. A primary focus in 2012 was to continue to deliver a superior value proposition by expanding our product portfolio to meet the needs of large advertisers, increasing digital leads to advertisers and demonstrating value through Yellow Pages™ Analytics.

In 2012, we focused on strategically managing our largest customer accounts across the country through the High Priority Accounts (HPA) management process. The HPA management process, which began in the first quarter of 2012, is meant to mitigate revenue risk and optimize revenue growth of larger advertisers through a differentiated product and servicing model. A comprehensive profiling methodology was put in place to guide the evaluation of account needs and opportunities. The profiling includes a review of Yellow Pages™ Analytics results, website audits and competitive rankings, SEM estimates, social media and Google Places reviews. The profiling is followed by the definition of an appropriate strategy, which is determined by the sales representative, sales manager and performance marketing advisor. The HPA management process is now fully deployed across the country and is made up of approximately 30 managers who serve our larger customers and work in tandem with the dedicated HPA servicing support team that is responsible for managing the fulfillment, reporting and post-sale servicing of these larger advertisers. This dedicated team is comprised of a cross functional group including sales support, production, content management, creative design, quality assurance, results reporting and customer service.

Also during the year, we launched a new product line called Digital PowerPlay™. Digital PowerPlay™ establishes and optimizes a business' digital presence by determining the necessary steps to maximize qualified leads across various digital channels while offering our highest level of service and support to our customers. Digital PowerPlay™ was launched in our top tier sales channel, which serves our largest local customers. We are planning to pilot Digital PowerPlay™ in our mid-tier sales channels in the coming months.

Lead our Industry Transformation

We are in the midst of a significant business transformation from a print directory business to a leading technology and digital company offering media and marketing solutions to SMEs across Canada and have continued to make progress throughout 2012.

Online – We remain focused on increasing traffic and improving the user experience across our online properties. Online visits on YPG's network of sites reached 103.4 million visits during the fourth quarter of 2012, compared to 98.4 million visits for the same period last year. During 2012, the Company improved the SEO of YellowPages.ca to ensure increased indexation on search engines. YPG also launched a redesigned Canpages.ca website based on the concept of "Life Around Me." The website proposes a new user experience, focusing on the user's geographic location and life needs within the context of a local search.

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YellowAPI.com – As at December 31, 2012, over 2,500 developers had signed up to use our platform compared to 1,500 at the same period last year. These developers work on creating new digital applications using YPG's business database. Since its initial launch in late 2010, YellowAPI.com has embodied YPG's digital leadership and gained vast industry recognition. YellowAPI plays a key role in the Canadian developer community, notably by participating in organizations such as HackDays (hackdays.ca), which brings together innovative developers across Canada. YellowAPI contains a list of 1.5 million Canadian businesses and enhanced content on over 300,000 businesses. In the fourth quarter of 2012, YPG and Yahoo! Canada announced they had expanded their six-year partnership to provide Yahoo! Canada users with an enhanced local search experience due in large part to YPG's YellowAPI technology. Partnering with Yahoo! Canada enables YPG to extend its advertisers' reach on a platform that is outside its network of properties.

Mobile – Our business transformation revolves around the continued improvement of the mobile user experience in order to provide additional value for our advertisers. As at December 31, 2012, our mobile applications were downloaded more than 5.0 million times compared to 3.7 million times as at the end of last year.

In November 2012, YPG was awarded "Best in Digital Advertising" at the 2012 Digi Awards for its Scratch 'N Win mobile lottery contest, which promoted the deals feature on the YellowPages.ca™ mobile application. This marks the second Digi Award for YPG, having won "Best in Mobile" at last year's event for its location-based services on the YellowPages.ca™ mobile application. The YellowPages.ca™ mobile application was also included in Apple's "Best of 2012" list.

During the year, we further improved our ShopWise application, introducing new functionalities as well as an enhanced design. These latest innovations, which were launched just in time for Black Friday, included the integration of a product catalogue featuring more than seven million items, and a list of 600 local and national retailers. The data stems from a partnership with Shoptoit, Canada's leading shopping search engine.

In an effort to further enhance its mobile offering to advertisers, the Company launched two new mobile products during the fourth quarter of 2012, Mobile Sponsored Placement Prestige and Mobile Placement Leader. Mobile Sponsored Placement Prestige secures maximum, exclusive visibility for business listings by offering larger displays and ensuring listings appear in the top spot of mobile search results. Mobile Placement Leader positions business listings to appear in the top five search results.

Mediative – Mediative is a digital marketing company providing performance services and access to media platforms to national advertisers. During the year, Mediative enhanced its location-based offering with the launch of a flexible mobile advertising network enabling advertisers to reach consumers based on their intent to buy. In addition to providing broad and flexible local-based targeting options to multiple ad exchanges, Mediative also offers a premium network of more than 20 mobile-enabled sites and applications to help marketers reach specific audiences.

management's discussion and analysis.

Consolidated Operating and Financial Results

(in thousands of Canadian dollars – except share and per share information)

	Years ended December 31,		
	2012 ²	2011	2010 ¹
Revenues	\$ 1,107,715	\$ 1,328,866	\$ 1,401,129
Operating costs	537,115	649,159	644,021
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	570,600	679,707	757,108
Depreciation and amortization	104,293	160,906	180,265
Impairment of goodwill, intangible assets and property, plant and equipment	3,267,847	2,900,000	–
Acquisition-related costs	–	7,743	30,575
Restructuring and special charges	44,923	26,142	31,391
(Loss) income from operations	(2,846,463)	(2,415,084)	514,877
Financial charges, net	146,265	130,582	148,437
Gain on settlement of debt	(978,589)	–	–
Gain on disposal of subsidiary	–	(6,211)	–
(Loss) earnings before dividends on Preferred shares, series 1 and 2, income taxes and impairment and (earnings) losses from investments in associates	(2,014,139)	(2,539,455)	366,440
Dividends on Preferred shares, series 1 and 2	17,694	19,187	21,171
(Loss) earnings before income taxes and impairment and (earnings) losses from investments in associates	(2,031,833)	(2,558,642)	345,269
(Recovery of) provision for income taxes	(75,935)	87,149	93,583
Impairment of investment in associate (net of income taxes)	–	50,271	–
(Earnings) losses from investments in associates	(1,893)	12,060	19,900
Net (loss) earnings from continuing operations	(1,954,005)	(2,708,122)	231,786
Net loss from discontinued operations, net of income taxes	–	(120,877)	(2,380)
Net (loss) earnings	\$ (1,954,005)	\$ (2,828,999)	\$ 229,406
Basic (loss) earnings per share attributable to common shareholders ³			
From continuing operations	\$ (70.66)	\$ (97.66)	\$ 7.48
Total	\$ (70.66)	\$ (102.14)	\$ 7.97
Diluted (loss) earnings per share attributable to common shareholders ³			
From continuing operations	\$ (70.66)	\$ (97.66)	\$ 7.48
Total	\$ (70.66)	\$ (102.14)	\$ 7.97
Total assets	\$ 1,756,476	\$ 5,048,932	\$ 9,211,110
Commercial paper	–	–	295,000
Long-term debt (including short-term portion)	\$ 801,831	\$ 1,613,231	\$ 1,926,872
Exchangeable and Convertible instruments	\$ 86,667	\$ 184,214	\$ 319,029
Preferred Shares Series 1 and 2 (including short-term portion)	\$ –	\$ 398,886	\$ 446,725

¹ Included in the 2010 figures are the results of Yellow Pages Income Fund, a predecessor of the Company.

² Included in net loss attributable to shareholders of Yellow Media for the year ended December 31, 2012 are net losses attributable to shareholders of YPG Financing Inc. for the period of January 1 until December 19, 2012.

³ As previously described, pursuant to the closing of the Recapitalization approved by the Court, the common shares of the Company were exchanged for New Common Shares of the Company. As a result, the weighted average number of shares outstanding during the period and for prior periods has been adjusted to reflect the Recapitalization.

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Analysis of Consolidated Operating and Financial Results

The consolidated income statements of Yellow Media up to net (loss) earnings from continuing operations represent the results of the restated Directories segment given the presentation of the results of the automotive and generalist print and online business of Trader Corporation as discontinued operations in 2011.

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 is due to lower print revenues, primarily amongst larger advertisers who are reducing their advertising spend. 18% of renewing advertisers¹ experienced a decrease in spending over the last twelve months, unchanged versus last year. Advertisers experiencing a decrease in spending are mainly larger advertisers, as we need to further adjust our digital product and service offering to better meet their advertising needs. However, 51% of renewing advertisers¹ experienced an increase in spending over the last twelve months, as compared to 43% last 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 last 12 months, YPG acquired approximately 17,000 new advertisers versus 23,000 new advertisers last year. Advertiser renewal decreased to 86% as at December 31, 2012 compared to 87% as at December 31, 2011. The average revenue per advertiser (ARPA) decreased to \$3,300 during 2012, as compared to \$3,400 in 2011.

Online revenues reached \$367.2 million in 2012, representing a growth of 6.1% in 2012. Excluding the impact of the Canpages, LesPAC and Deal of the Day businesses and YPG USA business, online revenues increased by 15.7% during 2012 when compared to the same period last year. As at December 31, 2012, the number of advertisers choosing to advertise both in print and online was 61.4% across Canada compared to 63.4% for the corresponding period last year. Online only advertisers at the end of the fourth quarter of 2012 reached approximately 18,000 compared to approximately 13,000 as at December 31, 2011. Our network of websites attracted 9 million unduplicated unique visitors² on average during the fourth quarter of 2012, representing a reach of 32.3%² of the Canadian internet population.

Although online revenue growth is not expected to compensate for the declining revenue in our traditional print offerings in the near future, our 360° Solution strategy is showing positive signs. 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% last year. As at December 31, 2012, our Revenue Generating Units³ (RGU) per advertiser increased to 1.74 compared to 1.68 for the same period last year. The increase demonstrates the progress we are making through our 360° Solution strategy (defined as advertisers who subscribe to three product categories or more).

EBITDA

EBITDA decreased by \$109.1 million to \$570.6 million during 2012 compared with \$679.7 million in 2011. The decrease in EBITDA is due principally to print revenue pressure, as our new digital products are not compensating for the loss in print revenues. Our EBITDA margin for 2012 was 51.5% 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 results 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.

Gross profit margin decreased to 69.4% for 2012 compared to 70.4% for 2011. 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 decreased by \$57.8 million to \$198.4 million during 2012 compared with \$256.2 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 is also attributable to lower bad debts of approximately \$21.1 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.

¹ Renewing advertisers exclude Mediative, Canpages and Wall2Wall.

² Source: comScore Media Metrix Canada.

³ Revenue Generating Units measures the number of product groups selected by advertisers.

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Depreciation and amortization

Depreciation and amortization decreased from \$160.9 million to \$104.3 million during 2012. The decrease is 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, management concluded that indicators that the Company's assets may have been impaired existed, requiring the Company to perform an impairment test. Also, as a result of the closing of the Recapitalization during the fourth quarter of 2012, (refer to Section 3 – Liquidity and Capital Resources), 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. The newly established fair value is now consistent with the valuation of the new debt instruments and share price as of December 31, 2012.

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 \$15.7 million to \$146.3 million during 2012 compared with \$130.6 million for 2011. This increase is 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 \$23.1 million for the year ended December 31, 2012 compared to the same period last year. The decrease for the year is mainly attributable to lower interest expense and a decrease of the amortization of deferred financing costs. The lower interest expense is 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 relates to an option associated with our investment in an associate while the charge in 2011 relates 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 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 in the fourth quarter of 2012, \$16.3 million of recapitalization costs recorded in the second and third quarters of 2012 were reclassified to gain on settlement of debt.

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 last year. The decrease for the year is due to a lower level of preferred shares resulting 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 suspended the dividend payment on preferred shares, Series 1 and Series 2. Due to the nature of the underlying instrument, the Company continued to accrue for the unpaid dividends on preferred shares, Series 1 and Series 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 \$75.9 million for the year compared with an expense of \$87.1 million in 2011. The Company recorded a recovery of 3.7% of the loss for the year ended December 31, 2012. The difference between the effective and the statutory rates in 2012 is due to a gain on settlement of debt offset by the unrecognized capital losses on investment of subsidiaries and to an 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.

management's discussion and analysis.

The Company recorded an expense of 3.4% of the loss for the year ended December 31, 2011. The difference between the effective and the statutory rates in 2011 is due to the impairment of goodwill and intangible assets charge of \$2,900 million which is 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 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 to reduce 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 include the amortization of intangible assets 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 \$1,954 million in 2012 compared with \$2,829 million in 2011. The decrease in the net loss of \$875 million for the year ended December 31, 2012 is 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 \$163.1 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 \$109.1 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 \$15.7 million.

Fiscal 2011 versus 2010

Revenues

Revenues decreased to \$1,328.9 million during 2011 compared with \$1,401.1 million for 2010. The decrease for the year ended December 31, 2011 was due to lower print revenues in our traditional markets, partly offset by increased online revenues. Canpages' contribution offset lower print revenues in our traditional markets for the first half of 2011 as it was acquired in May 2010. As at December 31, 2011, the number of advertisers, excluding Canpages, was 340,000 compared to 365,000 as at December 31, 2010 reflecting a decrease of 7%. Advertiser renewal dropped slightly to 87% as at December 31, 2011 compared to 88% as at December 31, 2010. During 2011, YPG acquired approximately 23,000 new advertisers. Although there was a reduction in the number of advertisers, the ARPA remained stable at approximately \$3,400 compared to the same period last year. As at December 31, 2011, our RGUs per advertiser was relatively unchanged at 1.68 compared to 1.70 for the same period last year.

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

Online revenues reached \$346.1 million in 2011, representing a growth of 29.6% for 2011. In addition to the introduction of new products, online revenue growth in 2011 was attributable to revenues from Canpages acquired in May of 2010, and Mediative, our digital and marketing solutions provider for national agencies and advertisers launched in October 2010. Our network of web sites in Directories attracted 9 million unduplicated unique visitors¹ on average during the fourth quarter of 2011, representing a reach of 36%¹ of the Canadian internet population.

¹ Source: comScore Media Metrix Canada. (excluding LesPAC).

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EBITDA

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

Cost of sales increased by \$28 million to \$393 million during 2011 compared with \$365 million in 2010. The increase for the year ended December 31, 2011 resulted mainly from the increased costs associated with Canpages and our Mediative division acquired during 2010, offset by lower manufacturing costs associated with lower print revenues.

Gross profit margin decreased to 70.4% for 2011 compared with 74% for 2010. The decrease for the year is due to lower margins associated with Canpages, Wall2Wall and our Mediative division.

General and administrative expenses decreased by \$22.9 million to \$256.2 million for 2011 compared with \$279.1 million in 2010. In 2010, we incurred costs related to our conversion and rebranding from an income fund to a corporation.

Depreciation and amortization

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

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

Following a comprehensive review of its strategic and operating plans completed during the third quarter of 2011, Yellow Media determined that the recoverability of the carrying value of certain of its assets had to be reviewed for impairment purposes. Consequently, as announced on September 28, 2011, we recorded a charge of \$2,900 million related to the impairment of goodwill and intangible assets. This impairment charge did not affect the Company's operations, its liquidity, its cash flows from operating activities, its bank credit agreement or its note indentures.

Acquisition-related costs

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

Restructuring and special charges

For the year ended December 31, 2011, we incurred restructuring and special charges of \$26.1 million as a result of the creation of centres of excellence and internal reorganizations compared to \$31.4 million for the same period last year. The costs incurred in 2010 were associated with a workforce reduction, elimination of duplicate activities and the termination of certain contractual obligations. In addition, in 2011, we undertook a complete review of our Canpages print directories and, as a result thereof, we have since eliminated the publication of certain overlapping directories and have integrated the Canpages business within YPG in 2012.

Financial charges

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

Gain on disposal of subsidiary

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

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Dividends on preferred shares, Series 1 and 2

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

Provision for income taxes

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

Impairment of investment in associate

During 2011, Yellow Media determined that its investment in Ziplocal was impaired and as a result, a net loss of \$50.3 million was recorded to reduce its net investment in Ziplocal to \$nil. Ziplocal was in default of its debt obligations and had undertaken important restructuring initiatives.

Share of losses from investments in associates

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

Loss from discontinued operations

On March 25, 2011, Yellow Media 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. The Company sold the assets of LesPAC on November 14, 2011. The real estate business continues to be owned and managed by YPG. 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 compared with \$254 million for the same period last year. The results are not comparable as we completed the sale of Trader Corporation on July 28, 2011.

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

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

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

Net (loss) earnings

Net earnings decreased by \$3,058.4 million to a net loss of \$2,829 million for the year ended December 31, 2011. The decrease for the year was mainly due to the impairment of goodwill and intangible assets of \$2,900 million discussed above. In addition to these elements, the decrease for the year is also due to the impairment of our investment in Ziplocal of \$50.3 million and to the loss on disposal associated with our divestiture of Trader Corporation in the amount of \$134.3 million (net of income taxes).

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Summary of Consolidated Quarterly Results

Quarterly Results								
(in thousands of Canadian dollars – except share and per share information)								
	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	\$ 264,447	\$ 267,711	\$ 286,484	\$ 289,073	\$ 313,315	\$ 323,441	\$ 342,738	\$ 349,372
Operating costs	122,883	129,936	141,240	143,056	166,117	157,443	166,262	159,337
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)	141,564	137,775	145,244	146,017	147,198	165,998	176,476	190,035
EBITDA margin	53.5%	51.5%	50.7%	50.5%	47%	51.3%	51.5%	54.4%
Depreciation and amortization	23,395	26,597	24,220	30,081	23,003	37,800	47,735	52,368
Impairment of goodwill, intangible assets and property, plant and equipment	300,000	–	–	2,967,847	–	2,900,000	–	–
Acquisition-related costs	–	–	–	–	210	497	6,233	803
Restructuring and special charges	18,111	26,812	–	–	14,254	–	11,888	–
(Loss) income from operations	(199,942)	84,366	121,024	(2,851,911)	109,731	(2,772,299)	110,620	136,864
Gain on settlement of debt ²	(994,894)	10,818	5,487	–	–	–	–	–
Net earnings (loss)	823,536	24,017	67,694	(2,869,252)	45,292	(2,825,452)	(14,250)	(34,589)
Basic earnings (loss) per share attributable to common shareholders from continuing operations ¹	\$ 29.30	\$ 0.66	\$ 2.22	\$ (102.84)	\$ 1.53	\$ (100.58)	\$ (0.94)	\$ 2.32
Diluted earnings (loss) per share attributable to common shareholders from continuing operations ¹	\$ 28.56	\$ 0.66	\$ 2.22	\$ (102.84)	\$ 1.53	\$ (100.58)	\$ (0.94)	\$ 2.32

¹ As previously described, pursuant to the closing of the Recapitalization approved by the Court, the common shares of the Company were exchanged for New Common Shares of the Company. As a result, the weighted average number of shares outstanding during the period and for prior periods has been adjusted to reflect the Recapitalization.

² Upon closing of the Recapitalization 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, have been reclassified to 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 current period's presentation.

Revenues decreased throughout the quarters, as the revenues associated with our print products continue to decline partly offset by increases in our online products.

Our EBITDA margin decreased progressively throughout the quarters of 2011, reflecting the decline in print revenues and lower margins associated with Canpages and Mediative. During the fourth quarter of 2011, we incurred a non-recurring expense of approximately \$6 million as a result of a sales tax assessment. Our EBITDA margin in the first and second quarters of 2012 remained relatively flat but increased in the third quarter as we benefited from reduced rates from our supply chain contracts which were renegotiated in July 2012. In the fourth quarter of 2012, we recorded a non-cash benefit of \$13.3 million related to the amendments in our pension and post-retirement benefit plans.

management's discussion and analysis.

Internal reorganizations and cost containment initiatives resulted in restructuring and special charges impacting some of our quarterly results in 2011 and 2012. Net earnings for 2011 were affected by depreciation and amortization of intangible assets related to the acquisition of Canpages. We recorded a loss related to our disposal of Trader Corporation and an impairment of our investment in Ziplocal in the first and second quarters of 2011, respectively. In addition, during the third quarter of 2011, the first quarter of 2012 and the fourth quarter of 2012, we recorded impairment charges of \$2,900 million, \$2,967.8 million and \$300 million, respectively, related to the impairment of goodwill, certain of our intangible assets and property, plant and equipment.

Upon closing of the Recapitalization 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 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 current period's presentation.

Analysis of fourth quarter 2012 results

Revenues

Revenues decreased to \$264.5 million during the fourth quarter of 2012 compared with \$313.3 million for the same period last year. The decrease for the quarter is due to lower print revenues in our traditional markets, partly offset by increased online revenues.

EBITDA

EBITDA decreased by \$5.6 million to \$141.6 million during the fourth quarter of 2012 compared with \$147.2 million the same period last year, due principally to overall revenue pressure net of associated costs partly offset by lower general and administrative expenses.

Cost of sales decreased by \$19.8 million to \$84.6 million during the fourth quarter of 2012 compared with \$104.4 million for the same period last year. The decrease for the quarter is attributable to lower manufacturing costs due to lower print volumes and reduced rates following our renegotiation of supply chain contracts in the third quarter of 2012. We also incurred lower selling expenses due to lower revenues.

Gross profit margin increased to 68% for the fourth quarter of 2012 compared to 66.7% for the fourth quarter of 2011. The increase is due to the reduced rates from our supply chain contracts offset by lower margins associated with some of our new online service offerings such as websites, SEO and SEM.

General and administrative expenses decreased by \$23.4 million to \$38.3 million for the three-month period ended December 31, 2012 compared with \$61.7 million for the same period last year. During the quarter, we announced amendments to our employees' pension and post-retirement benefits which resulted in a non-cash benefit of approximately \$13.3 million recorded in the quarter. The decrease for the quarter is also attributable to lower bad debts as well as general costs containment measures. Lastly, during the fourth quarter of 2011, we incurred a non-recurring expense of approximately \$6 million in connection with a sales tax assessment.

Depreciation and amortization

Depreciation and amortization remained stable at \$23.4 million during the fourth quarter of 2012 compared with \$23 million the same period last year.

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

Following 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. 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. The newly established fair value is now consistent with the valuation of the new debt instruments and share price as at December 31, 2012.

Acquisition-related costs

During the fourth quarter of 2011, we incurred costs of \$0.2 million associated with potential investments. No such costs were incurred during the same period in 2012.

Restructuring and special charges

We incurred \$18.1 million of restructuring and special charges during the fourth quarter of 2012 compared with \$14.3 million for the same period last year. The costs incurred during the fourth quarter of 2012 were associated with a workforce relocation, a workforce reduction and the termination and renegotiation of certain contractual obligations. The costs incurred during the fourth quarter of 2011 were associated with a workforce reduction and the termination of contractual obligations as a result of the elimination of the publication of certain overlapping directories and the integration of our Canpages operations into YPG.

management's discussion and analysis.

Financial charges

Financial charges increased by \$12.8 million to \$48.4 million for the three-month period ended December 31, 2012 compared with \$35.6 million for the same period last year. The increase is mainly due to a derivative charge of \$18.5 million related to an option associated with our investment in an associate, offset by lower interest expense.

Gain on settlement of debt

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 gain on settlement of debt.

Dividends on preferred shares, Series 1 and Series 2

Dividends on the two series of redeemable preferred shares amounted to \$4 million for the fourth quarter of 2012 compared to \$4.6 million for the same period last year.

As announced on February 9, 2012, the Company suspended the dividend payment on preferred shares, Series 1 and Series 2. Due to the nature of the underlying instrument, the Company continued to accrue for the unpaid dividends on preferred shares, Series 1 and Series 2, up to December 20, 2012.

Provision for income taxes

The combined statutory provincial and federal tax rate was 26.3% and 27.9% for the three-month periods ended December 31 2012 and 2011 respectively. The Company recorded a recovery of 11% of earnings for the three-month period ended December 31, 2012 compared to an expense of 20.6% of earnings for the three-month period ended December 31, 2011. The difference between the effective and the statutory rates for 2012 is due to a gain on settlement of debt which is offset by the unrecognized capital losses on investment of subsidiaries. For the three-month period ended December 31, 2011, the difference between the effective and the statutory rates is due to the derecognition of previously recognized tax attributes on assets of our foreign subsidiaries.

(Earnings) losses from investments in associates

During the fourth quarter of 2012, we recorded our share of earnings from our investment in an associate in the amount of \$0.1 million compared to \$0.4 million loss for the same period last year. These earnings/losses include the amortization of intangible assets in connection with these equity investments.

Net earnings

Net earnings increased by \$778.2 million to \$823.5 million during the fourth quarter of 2012 compared with \$45.3 million for the same period last year. The increase for the quarter is mainly due to the gain on the settlement of debt of \$994.9 million, a decrease in the provision for income taxes of \$108.7 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.

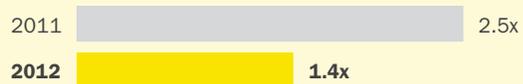
3. Liquidity and Capital Resources /

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

Financial Position

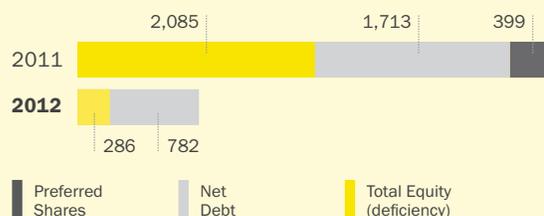
Capital Structure		
<i>(in thousands of Canadian dollars)</i>		
	As at December 31, 2012	As at December 31, 2011
Cash	\$ 106,807	\$ 84,186
Senior Secured Notes	800,000	–
Medium Term Notes	–	1,404,083
Credit Facility	–	205,000
Obligations under finance leases	1,831	4,148
Exchangeable Debentures	86,667	–
Convertible debentures	–	184,214
Net debt (net of cash)	\$ 781,691	\$ 1,713,259
Preferred shares, series 1 and 2	–	398,886
Equity attributable to the shareholders	285,749	2,084,225
Non-controlling interests	411	802
Total capitalization	\$ 1,067,851	\$ 4,197,172
Net debt to total capitalization	73.2%	40.8%

Net Debt to Latest Twelve Months EBITDA Ratio¹



Capital Structure

(in millions of dollars)



¹ Latest twelve month 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, giving effect to the divestitures (Latest Twelve Month EBITDA). Latest twelve month EBITDA is a non-IFRS measure and may not be comparable with similar measures used by other publicly traded companies. Please refer to page 2 for a definition of EBITDA.

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As at December 31, 2012, Yellow Media had approximately \$781.7 million of net debt. This compares to \$1,713.3 million of net debt and \$2,112.1 million of net debt and preferred shares, series 1 and 2 at December 31, 2011.

The net debt to Latest Twelve Month EBITDA¹ ratio as at December 31, 2012 was 1.4 times compared to 2.5 times as at December 31, 2011. The improvement is due to a lower level of indebtedness following the implementation of the Recapitalization partially offset by lower EBITDA.

Recapitalization

On July 23, 2012, the Company announced the Recapitalization aimed at significantly reducing the Company's debt and improving its maturity profile, with debt first maturing in 2018.

On September 6, 2012, the Company held debtholder and shareholder meetings to obtain support for the plan of arrangement under the *Canada Business Corporations Act* (CBCA) implementing the Recapitalization. The Recapitalization was approved by the requisite majority of its debtholders and shareholders at their respective meetings, with 70.39% of support received from the debtholders and 77.26% of support received from the shareholders.

The hearing on the final order (the Final Order) of the Québec Superior Court (the Court) approving the Recapitalization concluded on October 23, 2012. On December 10, 2012, the Company announced that it reached a settlement with the lenders under the Credit Facility. The Court issued its Final Order and approved the Recapitalization on December 14, 2012.

The Recapitalization was implemented on December 20, 2012 and became effective on that date.

The Recapitalization included the adoption of a new stock option plan (the New Stock Option Plan), which was implemented upon the closing of the Recapitalization. The New Stock Option Plan will allow the Board of Directors of Yellow Media Limited (the Board) or a committee thereof, to select eligible employees to whom awards can be made, to specify the number of options which in each case are awarded, to determine the New Option Period applicable to each award and to impose any other conditions relating to the awards that the Board or a committee thereof deems appropriate.

The New Stock Option Plan will result in the issuance of up to 1,290,612 New Common Shares, representing 4.6% of the issued and outstanding New Common Shares. As at the date hereof, no options have been granted under the New Stock Option Plan.

For a detailed description of 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.

Medium Term Notes

Immediately prior to the Recapitalization, YPG Financing Inc. (formerly Yellow Media Inc.) had a total of \$1,404.1 million of Medium Term Notes outstanding under its Medium Term Note program with varying maturity dates between 2013 and 2036.

Pursuant to the Recapitalization, the Medium Term Notes were exchanged for, in the aggregate, \$634.6 million of Senior Secured Notes, \$81.9 million of Exchangeable Debentures, 18,884,350 of New Common Shares of Yellow Media (representing 67.55% of the issued and outstanding New Common Shares) and \$204.7 million of cash. In addition, the Company agreed to pay all accrued interest up to and excluding December 20, 2012, to holders of the Company's Medium Term Notes.

All of the outstanding Medium Term Notes were cancelled on the Effective Date.

Credit facility

Prior to the Recapitalization, YPG Financing Inc. (formerly Yellow Media Inc.) had in place a senior unsecured credit facility (Credit Facility) consisting of:

- a \$250 million revolving tranche maturing in February 2013; and
- a \$130 million non-revolving tranche maturing in February 2013.

Pursuant to the Recapitalization, the Company's Credit Facility, of which \$369 million was drawn, was exchanged for, in the aggregate, \$165.4 million of Senior Secured Notes, \$18.1 million of Exchangeable Debentures, 4,178,593 of New Common Shares (representing 14.95% of the issued and outstanding New Common Shares) and \$70.3 million of cash, which included the \$25 million mandatory repayment of October 1, 2012. In addition, the Company agreed to pay all accrued interest up to and excluding December 20, 2012, on the Credit Facility.

The Credit Facility was cancelled on the Effective Date.

¹ Latest twelve month 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, giving effect to the divestitures (Latest Twelve Month EBITDA). Latest twelve month EBITDA is a non-IFRS measure and may not be comparable with similar measures used by other publicly traded companies. Please refer to page 2 for a definition of EBITDA.

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Convertible Debentures

During the third quarter of 2012, \$0.9 million of convertible debentures were exchanged into 116,250 common shares.

Immediately prior to the Recapitalization, YPG Financing Inc. (formerly Yellow Media Inc.) had a total of \$199.1 million principal amount outstanding of 6.25% convertible unsecured subordinated debentures (Convertible Debentures). The Convertible Debentures had a maturity date of October 1, 2017 and were convertible, at the option of the holder, for common shares of the Company at an exchange price of \$8.00 per common share. An amount of \$7.4 million (net of income taxes of \$2.7 million) was classified as a separate component of equity attributable to owners of the Company.

Pursuant to the Recapitalization, the Company's Convertible Debentures were exchanged for, in the aggregate, \$7.5 million of Exchangeable Debentures, 497,852 New Common Shares (representing 1.8% of the issued and outstanding New Common Shares) and 484,487 Warrants. The Company agreed to pay all interest accruing up to and excluding December 20, 2012 on the Convertible Debentures.

All of the outstanding Convertible Debentures were cancelled on the Effective Date.

Cumulative Redeemable Preferred Shares

Immediately prior to the Recapitalization, YPG Financing Inc. (formerly Yellow Media Inc.) had two series of cumulative redeemable preferred shares outstanding. The principal amounts were:

- \$251.1 million preferred shares, Series 1 and;
- \$151.6 million preferred shares, Series 2.

Pursuant to the Recapitalization, the preferred shares, Series 1, were exchanged for, in the aggregate, 628,090 New Common Shares (representing 2.2% of the issued and outstanding New Common Shares) and 358,909 Warrants. The preferred shares, Series 2 were exchanged for, in the aggregate, 379,016 New Common Shares (representing 1.4% of the issued and outstanding New Common Shares) and 216,581 Warrants. The Recapitalization provided that no cumulative or unpaid dividends would be paid in respect of the preferred shares, Series 1 and Series 2. The preferred shares, Series 1 and 2 were cancelled on the Effective Date.

Rate Reset Preferred Shares

Immediately prior to the Recapitalization, YPG Financing Inc. (formerly Yellow Media Inc.) had two series of cumulative rate reset preferred shares outstanding. The principal amounts were:

- \$203 million preferred shares, Series 3 and;
- \$123 million preferred shares, Series 5.

Pursuant to the Recapitalization, the preferred shares, Series 3 were exchanged for, in the aggregate, 507,737 New Common Shares (representing 1.8% of the issued and outstanding New Common Shares) and 290,135 Warrants. The preferred shares, Series 5 were exchanged for, in the aggregate, 307,604 New Common Shares (representing 1.1% of the issued and outstanding New Common Shares) and 175,774 Warrants. The Recapitalization provided that no cumulative or unpaid dividends would be paid in respect of the preferred shares, Series 3 and Series 5.

The preferred shares, Series 3 and Series 5 were cancelled on the Effective Date.

Cumulative Exchangeable Preferred Shares

Immediately prior to the Recapitalization, the Company, had \$2.9 million cumulative exchangeable preferred shares, Series 7 outstanding.

Pursuant to the Recapitalization, the preferred shares, Series 7 were exchanged for, in the aggregate, 7,188 New Common Shares (representing 0.03% of the issued and outstanding New Common Shares) and 4,107 Warrants. The Recapitalization provided that no cumulative or unpaid dividends be paid in respect of the preferred shares, Series 7.

The preferred shares, Series 7 were cancelled on the Effective Date.

Financial Instruments Issued upon Implementation of the Recapitalization

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 in equal instalments at 9.25% per annum on the last day of February, May, August and November of each year. The initial interest payment will be payable on February 28, 2013, and will represent interest accrued from and including December 20, 2012, to, but excluding, February 28, 2013.

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The Senior Secured Notes are unconditionally guaranteed on a senior secured basis by Yellow Media 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 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, 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 indebtedness and other transactions.

As at December 31, 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 (i) \$100 million for the combined payments due on May 31, 2013 and November 30, 2013, (ii) \$75 million for the combined payments due on May 31, 2014 and November 30, 2014, and (iii) \$50 million for the combined payments due on May 31, 2015 and November 30, 2015.

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, 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.

Exchangeable Debentures

On December 20, 2012, the Company, through its subsidiary YPG Financing Inc., issued \$107.5 million of 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 in equal instalments on the last day of May and November of each year. The initial interest payment is payable on May 31, 2013, and will represent interest accrued from and including December 20, 2012, to, but excluding, May 31, 2013.

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 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, 2012, the Company was in compliance with all covenants under the indenture governing the Exchangeable Debentures.

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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 capital 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.

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 \$134 million of cash as at February 4, 2013.

Share data

As at February 5, 2013, outstanding share data was as follows:

Outstanding Share Data			
	As at February 5, 2013	As at December 31, 2012	As at December 31, 2011 ¹
New Common Shares outstanding	27,955,077	27,955,077	–
Common shares outstanding	–	–	520,402,094
Warrants outstanding	2,995,506	2,995,506	–
Preferred shares Series 3, 5 and 7 outstanding	–	–	13,424,153
Options outstanding and exercisable	–	–	380,882

¹ These figures do not reflect the Recapitalization.

Shares

Pursuant to the Recapitalization, the existing common shares of YPG Financing Inc. were cancelled and exchanged for 2,564,647 New Common Shares and 1,465,513 Warrants.

Warrants

On December 20, 2012, 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.

Exchangeable Debentures

As at December 31, 2012, the Company had a total of \$107.5 million of Exchangeable Debentures outstanding.

Contractual Obligations and Other Commitments

Contractual obligations						
<i>(in thousands of Canadian dollars)</i>						
	Payments due for the periods ending December 31					
	Total	Less than 1 year	2 – 3 years	4 – 5 years	After 5 years	
Long-term debt ^{1,2}	\$ 800,000	\$ 100,000	\$ 125,000	\$ –	\$ 575,000	
Obligations under finance leases ¹	\$ 1,831	\$ 939	\$ 759	\$ 133	\$ –	
Exchangeable and convertible debentures ¹	\$ 107,500	\$ –	\$ –	\$ –	\$ 107,500	
Operating leases	\$ 106,388	\$ 20,101	\$ 40,610	\$ 35,792	\$ 9,885	
Other	\$ 52,068	\$ 48,859	\$ 331	\$ 253	\$ 2,625	
Total contractual obligations	\$ 1,067,787	\$ 169,899	\$ 166,700	\$ 36,178	\$ 695,010	

¹ Principal amount.

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

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Obligations under finance leases

We enter into finance lease agreements for office equipment and software. As at December 31, 2012, minimum payments under these finance leases up to 2016 totalled \$1.8 million.

Operating leases

We rent our premises and office equipment under various operating leases. As at December 31, 2012, minimum payments under these operating leases up to 2021 totalled \$106.4 million.

Purchase obligations

We use the services of outside suppliers to distribute our directories and have entered into long-term agreements with a number of these suppliers. These agreements expire between 2013 and 2038. As at December 31, 2012, we have an obligation to purchase services for \$52 million over the next five years and thereafter. Cash from operations will be used to meet these purchase obligations.

Pension Obligations

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

As at December 31, 2012, the YPG Defined Benefit Plan assets totalled \$405.5 million and were invested in a diversified portfolio of Canadian fixed income securities and Canadian and international equity securities. The YPG Defined Benefit Plan's rate of return on assets was 9.7% for 2012, 2% ahead of our benchmark portfolio.

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

In 2012, the Company made annual contributions equivalent to the current service cost (the Annual Employer Cost) of approximately \$8.5 million to the YPG Defined Benefit Plan. In 2013, the Company will continue to fund the Annual Employer Cost. In addition to the Annual Employer Cost, the Company also funds the deficit with annual contributions of \$13.4 million over a five-year period. Both the Annual Employer Cost and the Annual Amortization Payments were effective as at April 30, 2011 and the retroactive adjustment payments were made in the first quarter of 2012.

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Sources and Uses of Cash

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

Sources and Uses of Cash			
<i>(in thousands of Canadian dollars)</i>			
	Years ended December 31,		
	2012		2011
Cash flows from operating activities from continuing operations			
Cash flows from operations from continuing operations	\$	265,930	\$ 379,210
Change in operating assets and liabilities		(27,357)	(42,637)
	\$	238,573	\$ 336,573
Cash flows (used in) from investing activities from continuing operations			
Acquisition of intangible assets	\$	(35,281)	\$ (46,686)
Acquisition of property, plant and equipment		(5,137)	(15,565)
Proceeds from sale of assets		1,650	–
Disposal of Trader Corporation		–	690,230
Disposal of cash related to the sale of Trader Corporation		–	(24,517)
Disposal of subsidiary		–	70,938
Other		183	(435)
	\$	(38,585)	\$ 673,965
Cash flows used in financing activities from continuing operations			
Issuance of long-term debt and commercial paper	\$	239,000	\$ 1,062,000
Repayment of long-term debt and commercial paper		(351,426)	(1,403,585)
Redemption of exchangeable and convertible instruments		–	(106,172)
Dividends to shareholders		–	(209,134)
Repurchase of Preferred Shares, Series 1 and 2 and medium term notes		–	(266,183)
Repurchase of common shares and Preferred shares, Series 3 and 5		–	(50,432)
Recapitalization costs		(63,025)	–
Other		(1,916)	(28,244)
	\$	(177,367)	\$ (1,001,750)

Cash flows from operating activities from continuing operations

Cash flows from operating activities from continuing operations decreased by \$98 million to \$238.6 million from \$336.6 million for the year ended December 31, 2011, due to lower EBITDA resulting mainly from lower revenues from our traditional print products. The change in operating assets and liabilities for the year ended December 31, 2012 was \$27.4 million compared with \$42.6 million in the same period last year. The improvement is due to a decrease in deferred publication costs resulting from lower revenues. Also during 2012, the net change in deferred revenues was lower relative to 2011 which impacted our cash flows positively.

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

Cash used in investing activities from continuing operations amounted to \$38.6 million during the year ended December 31, 2012 while \$674 million of cash was generated from investing activities during 2011. In July of 2011, we sold Trader Corporation for proceeds of \$690.2 million and in November 2011 we sold LesPAC for \$70.9 million. During 2012, we invested in software and equipment for \$35.3 million and \$5.1 million, respectively, which in total, was less than the corresponding amounts of \$46.7 million and \$15.6 million spent in 2011.

Acquisition of property, plant, equipment and intangible assets, net of lease inducements			
<i>(in thousands of Canadian dollars)</i>			
	Years ended December 31,		
	2012		2011
Sustaining	\$	20,437	\$ 29,619
Transition		–	5,004
Growth		22,022	34,260
Total	\$	42,459	\$ 68,883
Adjustment to reflect expenditures on a cash basis		(2,224)	(7,484)
Acquisition of property, plant, equipment and intangible assets, net of lease inducements	\$	40,235	\$ 61,399

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Sustaining capital expenditures amounted to \$20.4 million for the year ended December 31, 2012, compared to \$29.6 million for the previous year. The decrease for the year ended December 31, 2012, is due to a decrease in leasehold improvements. In 2011, we invested in our new Mediative division's offices in Toronto, Montréal and Vancouver.

Given there was no recent business acquisition, no investments were made in transition capital expenditures during the year ended December 31, 2012 compared to \$5 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 technology and digital company offering media and marketing solutions to SMEs across Canada. During the year ended December 31, 2012, these amounted to \$22 million compared to \$34.3 million for the previous year. We spent less in 2012 compared to 2011 as we focused on developing an updated technological plan to ensure our successful transformation.

Total capital expenditures for 2012 amounted to \$42.5 million. We expect to increase the level of capital expenditure in the coming quarters as we focus on our critical initiatives to accelerate our transformation.

Cash flows used in financing activities from continuing operations

Cash used in financing activities from continuing operations amounted to \$177.4 million during the year ended December 31, 2012 compared to \$1,001.8 million for the same period last year. We drew \$239 million on the revolving tranche of the Credit Facility in January 2012, made the three quarterly payments of \$25 million on the non-revolving tranche of our Credit Facility. In addition, we paid \$275 million in connection with the Recapitalization in 2012. During 2011, we had a net repayment of long-term debt and commercial paper of \$341.6 million. No dividends were paid during 2012, as a result of the elimination of dividends on common shares and suspension of dividends on the preferred shares, Series 3, 5, and 7. During 2011, we also repurchased preferred shares, Series 1 and 2 and Medium Term Notes of \$266.2 million, repurchased common shares and preferred shares, Series 3 and 5 of \$50.4 million, and redeemed \$106.2 million of exchangeable notes. We did not repurchase any debt instruments or shares in 2012 and we did not pay any dividends to shareholders in 2012.

Financial and Other Instruments

(See Note 24 of the Consolidated Financial Statements of the Company for the year ended December 31, 2012).

The Company's financial instruments consist of cash, trade receivables, investments, trade and other payables, short-term and long-term debt and exchangeable debentures.

Derivative Instruments

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

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

On June 27, 2011, the Company terminated the five interest rate swaps mentioned above with a notional amount of \$255 million, for gross proceeds of \$3.8 million. The \$3.8 million was to be amortized over the term of the underlying debt. Following the implementation of the Recapitalization, the derivative amortized gain was written-off.

Taking into consideration the debt instruments outstanding, our fixed-to-floating ratio was 100% fixed rate as at December 31, 2012, on a gross debt basis.

As at December 31, 2012, the Company had no hedging obligations outstanding. As at December 31, 2012, there is no fair value adjustment of hedged items to be amortized over the term of the existing underlying debt.

The terms and conditions of the preferred shares, Series 1 and 2 provided for redemption at the option of the Company under certain circumstances. These options met the definition of an embedded derivative. They were recorded at their fair value on the consolidated statement of financial position with changes in fair value recognized in financial charges. With the implementation of the Recapitalization, the preferred shares, Series 1 and 2 were cancelled.

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 is greater than the fair value of the remaining shares, we reported a charge of \$18.5 million for the year ended December 31, 2012. In 2011, we reported a charge of \$3.5 million on derivatives, excluding the loss on derivatives designated as cash flow hedges in prior periods transferred to earnings in the period and payments on interest rate swaps that have discontinued hedge accounting. In addition, we reported an adjustment amount of \$4.2 million and a redemption premium stipulated under a Total Return Swap of \$5.3 million for 2011.

There is no carrying value of embedded derivatives as at December 31, 2012. The carrying value is calculated, as is customary in the industry, using discounted cash flows with quarter-end market rates.

4. Free cash flow /

Free cash flow from continuing operations

Free cash flow from continuing operations				
<i>(in thousands of Canadian dollars)</i>				
	Three-month periods ended December 31,		Years ended December 31,	
	2012	2011	2012	2011
Cash flow from operating activities from continuing operations	\$ 61,749	\$ 92,964	\$ 238,573	\$ 336,573
Capital expenditures, net of lease inducements	13,771	14,741	40,235	61,399
Free cash flow from continuing operations	\$ 47,978	\$ 78,223	\$ 198,338	\$ 275,174

Dividends on Common Shares

On September 28, 2011, the Board determined that it was in the best interest of the Company to eliminate future dividends on its common shares. This decision was in compliance with the amendments that the Company agreed to make to its principal credit agreement and that was announced on September 28, 2011.

The indentures governing the Senior Secured Notes and the Exchangeable Debentures prohibit the payment of dividends, subject to certain exceptions contained in such indentures.

5. Critical Assumptions /

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

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

Intangible assets, 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 value changes. These determinations 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 completely.

Yellow Media performed its annual test for impairment of indefinite life intangible assets and goodwill in accordance with the policy described in Note 3.13 of the Consolidated Financial Statements. Goodwill was tested at the operating segment level since this represents the lowest level within Yellow Media at which the goodwill is monitored for internal management purposes.

The recoverable amount of the cash generating units (CGUs) was determined based on the value-in-use approach using a discounted cash flow model that relies on significant key assumptions, including after-tax cash flows forecasted over an extended period of years, terminal growth rates and discount rates. We use published statistics or seek advice where possible when determining the assumptions we use. Details of Yellow Media's impairment reviews are disclosed in Note 4 of the Consolidated Financial Statements.

Employee future benefits

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

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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 balance sheet date. However, it is possible that at some future date an additional liability could result from audits by tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

New Accounting Standards

IAS 1 (Revised) – Presentation of Financial Statements

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

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 other comprehensive income 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, other comprehensive income and total comprehensive income.

IFRS 7 (Revised) – Financial Instruments: Disclosures (Amendments) – Transfer of financial assets

Other amendments to IFRS 7 allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The IFRS 7 amendments are effective for annual periods beginning on or after July 1, 2011. The Standard has been adopted and its adoption has not had any impact on the amounts reported in these financial statements.

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

The amendment introduces a rebuttable presumption that an investment property measured using the fair value model is recovered entirely through sale unless the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits over time. As a result of the amendments, SIC-21 would no longer apply to investment properties carried at fair value. The IAS 12 amendments are effective for annual reporting periods beginning on or after January 1, 2012. The Standard has been adopted and its adoption has not had any impact on the amounts reported in these financial statements.

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

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

management's discussion and analysis.

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

Key requirements of IFRS 9 are described as follows:

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

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

IFRS 10 – Consolidated Financial Statements

IFRS 10 replaces the consolidation requirements in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation - Special Purpose Entities*. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted provided IFRS 11, *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. Based on a preliminary assessment, Yellow Media does not expect any significant impact on the financial statements upon adoption.

IFRS 11 – Joint Arrangements

IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturer*. IFRS 11 requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement. The standard also requires the use of a single method to account for interests in joint ventures, namely the equity method. IFRS 11 is applicable at the same time as IFRS 10. Based on a preliminary assessment, Yellow Media does not expect any significant impact on the financial statements upon adoption.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 is a new standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is applicable at the same time as IFRS 10. In June 2012, the IASB issued amendments to IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, and IFRS 12, *Disclosure of Interests in Other Entities* which will also be effective for the Company at the time of adoption of these standards for the fiscal year beginning on January 1, 2013. Based on a preliminary assessment, Yellow Media expects to disclose additional information related to its consolidated subsidiaries and interests in associates upon adoption.

IFRS 13 – Fair Value Measurement

IFRS 13 is a new standard that defines fair value and requires disclosures about fair value measurements. IFRS 13 is effective for fiscal years beginning on or after January 1, 2013. Earlier application is permitted. It applies prospectively from the beginning of the annual period in which it is adopted. The new requirements will result in additional disclosures about all assets and liabilities measured at fair value on the financial statements upon adoption.

IAS 19 (Revised) – Employee Benefits

A revised version of IAS 19 was issued in June 2011 and is effective for financial years beginning on or after January 1, 2013. Early application is permitted. The main change of this revised version is the elimination of the corridor approach, with all changes to the defined benefit obligation and plan assets recognized when they occur. Furthermore, the interest cost and expected return on plan assets are replaced with the net interest amount which is calculated by applying the discount rate to the net defined benefit liability or asset.

The amendments require retroactive application. Based on the preliminary assessment, when Yellow Media will apply the amendments for the first time for the periods in the year ending December 31, 2013, the net financial charges for the year ended December 31, 2012 will increase by \$10.9 million with the corresponding adjustment being recognized in the post-employment benefits obligation. The amendments will also enhance disclosure requirements for the Company's defined benefit plans.

management's discussion and analysis.

IAS 16 – Property Plant and Equipment, IAS 32 – Financial Instruments and IAS 34 – Interim Financial Reporting

In May 2012, the IASB also issued amendments to IAS 16, *Property, Plant and Equipment*, IAS 32, *Financial Instruments: Presentation* and IAS 34, *Interim Financial Reporting* which are effective for annual periods beginning on or after January 1, 2013 with early application permitted. These amendments clarify various requirements. Based on a preliminary assessment, Yellow Media does not expect any significant impact on the financial statements upon application of these amendments.

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 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.

management's discussion and analysis.

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.

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

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.

management's discussion and analysis.

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 Note and the indenture governing the Exchangeable Debentures 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. 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 or the indenture governing the Exchangeable Debentures, 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 their 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.

management's discussion and analysis.

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.

management's discussion and analysis.

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 Corporation might be required to record additional impairment charges

In the third quarter of 2011, the Corporation recorded a \$2,900 million goodwill and intangible assets impairment charge. 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 (as 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, 2012.

Internal Control over Financial Reporting (ICFR)

The design and effectiveness of ICFR (as defined in National 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, 2012.

Management also concluded that during the quarter beginning on October 1, 2012 and ended on December 31, 2012, 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.



Ginette Maillé
Chief Financial Officer



Daniel Verret
Vice President and Principal Accounting Officer

To the Shareholders of Yellow Media Limited,

We have audited the accompanying consolidated financial statements of Yellow Media Limited, successor of Yellow Media Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, and the consolidated income statements, statements of comprehensive (loss) income, statements of changes in equity and 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, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

The image shows a handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, slightly slanted style. The word "Deloitte" is written in a larger, more prominent script, and "LLP" is written in a smaller, simpler font to the right of it.

February 5, 2013
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, 2012	As at December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash	\$ 106,807	\$ 84,186
Trade and other receivables (Note 24)	175,783	166,586
Prepaid expenses	8,693	5,017
Deferred publication costs	78,078	94,770
TOTAL CURRENT ASSETS	369,361	350,559
DEFERRED PUBLICATION COSTS	6,816	7,484
FINANCIAL AND OTHER ASSETS	14,928	14,879
INVESTMENTS IN ASSOCIATES (Note 7)	2,082	3,616
PROPERTY, PLANT AND EQUIPMENT (Note 8)	27,414	46,496
INTANGIBLE ASSETS (Note 9)	1,312,148	1,658,051
GOODWILL (Note 9)	-	2,967,847
DEFERRED INCOME TAXES (Note 16)	23,727	-
TOTAL NON-CURRENT ASSETS	1,387,115	4,698,373
TOTAL ASSETS	\$ 1,756,476	\$ 5,048,932
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade and other payables (Note 10)	\$ 87,935	\$ 156,482
Current income tax liabilities	13,585	22,974
Provisions (Note 11)	60,212	48,300
Financial liabilities	22,033	-
Deferred revenues	42,219	54,805
Current portion of long-term debt (Note 13)	100,939	102,339
Preferred shares Series 1 (Note 15)	-	249,713
TOTAL CURRENT LIABILITIES	326,923	634,613
DEFERRED CREDITS	14,197	16,536
DEFERRED INCOME TAXES (Note 16)	10,341	119,305
INCOME TAX LIABILITIES	34,382	43,806
POST-EMPLOYMENT BENEFITS (Note 12)	296,914	298,796
DEFERRED CONSIDERATION	-	6,570
LONG-TERM DEBT (Note 13)	700,892	1,510,892
EXCHANGEABLE AND CONVERTIBLE DEBENTURES (Note 14)	86,667	184,214
PREFERRED SHARES SERIES 2 (Note 15)	-	149,173
TOTAL NON-CURRENT LIABILITIES	1,143,393	2,329,292
TOTAL LIABILITIES	1,470,316	2,963,905
CAPITAL AND RESERVES	6,607,114	6,398,132
DEFICIT	(6,321,365)	(4,313,907)
EQUITY ATTRIBUTABLE TO SHAREHOLDERS	285,749	2,084,225
NON-CONTROLLING INTERESTS	411	802
TOTAL EQUITY	286,160	2,085,027
TOTAL LIABILITIES AND EQUITY	\$ 1,756,476	\$ 5,048,932

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

For the years ended December 31,

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

	2012	2011
Revenues	\$ 1,107,715	\$ 1,328,866
Operating costs (Note 20)	537,115	649,159
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	570,600	679,707
Depreciation and amortization (Notes 8 and 9)	104,293	160,906
Impairment of goodwill, intangible assets and property, plant and equipment (Note 4)	3,267,847	2,900,000
Acquisition-related costs	-	7,743
Restructuring and special charges (Note 11)	44,923	26,142
Loss from operations	(2,846,463)	(2,415,084)
Financial charges, net (Note 21)	146,265	130,582
Gain on settlement of debt (Note 1)	(978,589)	-
Gain on disposal of subsidiary (Note 5)	-	(6,211)
Loss before dividends on Preferred shares, series 1 and 2, income taxes, and impairment and (earnings) losses from investments in associates	(2,014,139)	(2,539,455)
Dividends on Preferred shares, series 1 and 2	17,694	19,187
Loss before income taxes and impairment and (earnings) losses from investments in associates	(2,031,833)	(2,558,642)
(Recovery of) provision for income taxes (Note 16)	(75,935)	87,149
Impairment of investment in associate (net of income taxes) (Note 7)	-	50,271
(Earnings) losses from investments in associates	(1,893)	12,060
Net loss from continuing operations	(1,954,005)	(2,708,122)
Net loss from discontinued operations, net of income taxes (Note 6)	-	(120,877)
Net loss	\$ (1,954,005)	\$ (2,828,999)
Net (loss) earnings attributable to:		
Common shareholders of Yellow Media Limited ¹	\$ (1,953,614)	\$ (2,832,649)
Non-controlling interests ²	(391)	3,650
	\$ (1,954,005)	\$ (2,828,999)
Basic loss per share attributable to common shareholders		
From continuing operations	\$ (70.66)	\$ (97.66)
Total	\$ (70.66)	\$ (102.14)
Weighted average shares outstanding – basic loss per share (Note 18)	27,955,077	27,955,077
Diluted loss per share attributable to common shareholders		
From continuing operations	\$ (70.66)	\$ (97.66)
Total	\$ (70.66)	\$ (102.14)
Weighted average shares outstanding – diluted loss per share (Note 18)	27,955,077	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 Yellow Media Inc. for the period of January 1 until December 19, 2012.

² Included in the net earnings (loss) attributable to non-controlling interests for the year ended December 31, 2012 is \$nil (2011 – earnings of \$4.1 million) related to discontinued operations.

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

Consolidated Statements of Comprehensive (Loss) Income

For the years ended December 31,

(in thousands of Canadian dollars)

	2012	2011
Net loss	\$ (1,954,005)	\$ (2,828,999)
Other comprehensive (loss) income:		
Items that may be subsequently reclassified to net loss		
Reclassification adjustment on derivatives designated as cash flow hedges	(1,395)	(116)
Unrealized loss on available-for-sale investment	(372)	(81)
Unrealized loss on available-for-sale investment transferred to net loss	228	-
Change in unrealized loss on available-for-sale investment	(144)	(81)
Unrealized exchange differences on translating financial statements of foreign operations and foreign associates ²	-	(5,410)
Reclassification adjustment of cumulative translation loss realized upon disposition of foreign operations	-	4,590
Change in unrealized exchange differences on translating financial statements of foreign operations and foreign associates	-	(820)
Income taxes relating to items that may be reclassified subsequently	406	28
	(1,133)	(989)
Items that will not be reclassified subsequently to net loss		
Actuarial losses (Note 12)	(22,157)	(104,705)
Income taxes relating to items that will not be reclassified subsequently	5,830	27,053
	(16,327)	(77,652)
Other comprehensive loss	(17,460)	(78,641)
Total comprehensive loss	\$ (1,971,465)	\$ (2,907,640)
Total comprehensive (loss) income attributable to:		
Common shareholders of Yellow Media Limited ¹	\$ (1,971,074)	\$ (2,909,695)
Non-controlling interests	(391)	2,055
	\$ (1,971,465)	\$ (2,907,640)

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 Yellow Media Inc. for the period of January 1 until December 19, 2012.

² Unrealized exchange differences on translating financial statements of foreign operations and foreign associates include \$nil (2011 - \$3.9 million loss) for discontinued operations and \$nil for continuing operations (2011 - \$1.5 million loss).

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

Consolidated Statements of Changes in Equity

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

	Shareholders' Capital	Restricted Shares	Preferred Shares	Warrants	Compound financial instruments ¹	Stock-based compensation and other reserves	Reduction of capital reserve
Balance, December 31, 2011	\$ 3,554,715	\$ (54,974)	\$ 320,687	\$ –	\$ 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 17)	153,568	–	–	1,456	–	–	–
Exchange of preferred shares for new common shares ² (Note 17)	320,687	–	(320,687)	–	–	–	–
Stock options (Note 19)	–	–	–	–	–	1,189	–
Exchange of convertible debentures (Note 14)	899	–	–	–	(35)	–	–
Exchange of convertible debentures ²	–	–	–	–	(7,388)	–	–
Option on exchangeable debentures ² (Note 14)	–	–	–	–	3,633	–	–
Restricted shares (Note 19)	–	–	–	–	–	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

	Shareholders' Capital	Restricted Shares	Preferred Shares	Compound financial instruments ¹	Stock-based compensation and other reserves	Reduction of capital reserve
Balance, December 31, 2010	\$ 4,079,838	\$ (78,135)	\$ 328,880	\$ 7,423	\$ 139,976	\$ 2,000,000
Other comprehensive loss	–	–	–	–	–	–
Net loss for the year	–	–	–	–	–	–
Total comprehensive loss	–	–	–	–	–	–
Issuance (exchange of shares) (Note 17)	63,296	–	(1,875)	–	–	–
Reduction of capital (Note 17)	(500,000)	–	–	–	–	500,000
Repurchase of shares (Note 17)	(88,419)	–	(6,318)	–	–	(42,947)
Stock options (Note 19)	–	–	–	–	245	–
Restricted shares (Note 19)	–	(2,899)	–	–	(468)	–
Restricted shares vested (Note 19)	–	26,060	–	–	(26,060)	–
Sale of Trader Corporation	–	–	–	–	–	–
Dividends	–	–	–	–	–	–
Dividends on Preferred shares, Series 3, 5 and 7	–	–	–	–	–	–
Balance, December 31, 2011	\$ 3,554,715	\$ (54,974)	\$ 320,687	\$ 7,423	\$ 113,693	\$ 2,457,053

¹ The equity component of the exchangeable and convertible debentures presented above is net of income taxes of \$1.3 million (2011 - \$2.7 million).

² Pursuant to the recapitalization transaction described in Note 1.

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

2012

Available for sale investment	Cash flow hedges	Foreign currency translation	Capital and Reserves	Deficit	Equity attributable to shareholders	Non-controlling interests	Total Equity
\$ 144	\$ 989	\$ (1,598)	\$ 6,398,132	\$ (4,313,907)	\$ 2,084,225	\$ 802	\$ 2,085,027
(144)	(989)	–	(1,133)	(16,327)	(17,460)	–	(17,460)
–	–	–	–	(1,953,614)	(1,953,614)	(391)	(1,954,005)
(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

2011

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

Consolidated Statements of Cash Flows

For the years ended December 31,

(in thousands of Canadian dollars)

	2012	2011
OPERATING ACTIVITIES		
Net loss from continuing operations	\$ (1,954,005)	\$ (2,708,122)
Adjusting items		
Depreciation and amortization	104,293	160,906
Impairment of goodwill, intangible assets and property, plant and equipment	3,267,847	2,900,000
Gain on disposal of subsidiary	–	(6,211)
Gain on settlement of debt	(978,589)	–
Past service costs	(13,318)	–
Stock-based compensation expense (reversal)	626	(565)
Impairment of investment in associate	–	50,271
(Earnings) losses from investments in associates	(1,893)	12,060
Other non-cash items	(1,955)	(102)
(Recovery) income taxes recognized in net loss	(75,935)	87,149
Financial charges recognized in net loss	146,265	130,582
Change in operating assets and liabilities	(27,357)	(42,637)
Funding of post-employment benefit plans in excess of costs	(14,529)	–
Income taxes paid	(63,456)	(105,203)
Interest paid	(149,421)	(141,555)
	238,573	336,573
INVESTING ACTIVITIES		
Acquisition of intangible assets	(35,281)	(46,686)
Acquisition of property, plant and equipment	(5,137)	(15,565)
Proceeds from sale of assets	1,650	–
Disposal of Trader Corporation	–	690,230
Disposal of cash related to the sale of Trader Corporation	–	(24,517)
Disposal of subsidiary	–	70,938
Other	183	(435)
	(38,585)	673,965
FINANCING ACTIVITIES		
Issuance of long-term debt and commercial paper	239,000	1,062,000
Repayment and settlement of long-term debt and commercial paper	(351,426)	(1,403,585)
Redemption of exchangeable and convertible instruments	–	(106,172)
Dividends to shareholders	–	(209,134)
Repurchase of Preferred shares, Series 1 and 2 and medium term notes	–	(266,183)
Repurchase of common shares and Preferred shares, Series 3 and 5	–	(50,432)
Dividends on Preferred shares, Series 3, 5 and 7	–	(22,539)
Stock-based compensation	–	(2,899)
Deferred consideration	(1,800)	(4,502)
Proceeds on settlement of derivative financial instruments	–	3,819
Recapitalization costs	(63,025)	–
Other	(116)	(2,123)
	(177,367)	(1,001,750)
Effect of exchange rate changes on cash denominated in foreign currencies	–	(1,862)
NET INCREASE IN CASH	22,621	6,926
CASH FLOWS FROM DISCONTINUED OPERATIONS (Note 6)	–	7,935
CASH, BEGINNING OF YEAR	84,186	69,325
CASH, END OF YEAR	\$ 106,807	\$ 84,186
Supplemental disclosure of cash flow information (Note 22)		

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

1. Description /

Yellow Media Limited, successor of Yellow Media Inc., 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, results of operations, 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 July 23, 2012, the Company announced a recapitalization transaction (“Recapitalization”) aimed at significantly reducing the Company’s debt and improving its maturity profile, with the new debt first maturing in 2018.

On September 6, 2012, the Company held debtholder and shareholder meetings to obtain support for the plan of arrangement under the *Canada Business Corporations Act* (“CBCA”) implementing the Recapitalization. The Recapitalization was approved by the requisite majority of its debtholders and shareholders at their respective meetings, with 70.39% of support received from the debtholders and 77.26% of support received from the shareholders.

The hearing on the final order (the “Final Order”) of the Québec Superior Court (the “Court”) approving the Recapitalization began on October 15, 2012 and concluded on October 23, 2012. On December 10, 2012, the Company announced that it reached a settlement with the lenders under the Credit Facility. The Court issued its Final Order and approved the Recapitalization on December 14, 2012.

On December 20, 2012 (the “Effective Date”), the Recapitalization transaction 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 key components of the Recapitalization were as follows:

- The exchange of the Company’s credit facility (“Credit Facility”) and medium term notes (the “Medium Term Notes”), (collectively the “Senior Unsecured Debt”) representing \$1,772.7 million of the Company’s debt, for a combination of:
 - \$800 million of 9.25% senior secured notes maturing in 2018 (“Senior Secured Notes”) (Note 13);
 - \$100 million of senior subordinated unsecured exchangeable debentures due in 2022, with interest payable in cash at 8.0% or in additional debentures at 12.0% (“Exchangeable Debentures”) (Note 14);
 - 23,062,943 New Common Shares, representing 82.5% of the issued and outstanding New Common Shares; and
 - \$275 million of cash.
- The exchange of the existing 6.25% convertible unsecured subordinated debentures (“Convertible Debentures”) for a combination of:
 - \$7.5 million of Exchangeable Debentures (Note 14);
 - 497,852 of New Common Shares representing 1.8% of New Common Shares; and
 - 484,487 10-year Warrants to purchase New Common Shares at the exercise price of \$28.16 (Note 17).
- The exchange of the existing preferred shares and common shares of the Company for a combination of:
 - 4,394,282 of New Common Shares representing 15.7% of New Common Shares; and
 - 2,511,019 10-year Warrants to purchase New Common Shares at the exercise price of \$28.16 (Note 17).

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 gain on settlement of debt was measured as the difference between the carrying value of the Medium Term Notes, Credit Facility, Convertible Debentures, and Preferred Shares, Series 1 and 2 (collectively the “Previous Debtholders”) and the fair value of the consideration issued to the Previous Debtholders at the Effective Date. The equity component related to the Convertible Debentures of \$7.4 million, net of income taxes, was credited to deficit.

The fair values of the Senior Secured Notes, Exchangeable Debentures and New Common Shares which formed part of the consideration issued to the Previous Debtholders were \$800 million, \$86.7 million and \$153.6 million, respectively. The fair values of the Senior Secured Notes and Exchangeable Debentures were determined using a discounted cash flow approach where the interest rate utilized for discounting purposes is determined according to an analysis of the yield to maturity of comparable instruments of a peer group of issuers. The fair value of the conversion option relating to the Exchangeable Debentures was \$3.6 million (net of income taxes of \$1.3 million) at the date of issuance and is included in Equity. The fair value of the Warrants of \$1.5 million was calculated using the present value of the cash flows resulting from the exercise of the Warrants under various probable levels of the stock price determined utilizing a binomial tree of the stock price.

In addition, Yellow Media Limited agreed to pay all accrued interest up to (and excluding) the Effective Date of the Recapitalization to holders of the Company's Medium Term Notes, Convertible Debentures and to the lenders under the Credit Facility in the aggregate amount of \$34.7 million. The Recapitalization provided that no cumulative or unpaid dividends would be paid in respect of the Preferred Shares, Series 1 and 2.

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).

The Medium Term Notes, Credit Facility, Convertible Debentures and Preferred Shares, Series 1, 2, 3, 5 and 7 and the existing common shares were cancelled on the Effective Date.

For a detailed description of 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 year ended December 31, 2012 and 2011 and authorized their publication on February 5, 2013.

2. Revised standards /

2.1. Revised International Financial Reporting Standards ("IFRS") interpretations and amendments adopted with effect on the 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 profit or loss section of the income statement and to separately group together items that will not be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that profit or loss and OCI should be presented as either a single statement or two consecutive statements. The amendments are effective for financial years commencing on or after July 1, 2012.

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 other comprehensive income 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, other comprehensive income and total comprehensive income.

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

The following revised standards have been adopted 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 7 (Revised) – *Financial Instruments: Disclosures (Amendments) – Transfer of financial assets*

Other amendments to IFRS 7 allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The IFRS 7 Amendments are effective for annual periods beginning on or after July 1, 2011.

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

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

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

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory for Yellow Media Limited's accounting periods beginning on or after January 1, 2013. Those which are considered to be relevant to Yellow Media Limited's operations are as follows:

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

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

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

Key requirements of IFRS 9 are described as follows:

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

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

IFRS 10 – *Consolidated Financial Statements*

IFRS 10 replaces the consolidation requirements in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation - Special Purpose Entities*. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted provided IFRS 11, *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. Based on a preliminary assessment, Yellow Media Limited does not expect any significant impact on the financial statements upon adoption.

IFRS 11 – *Joint Arrangements*

IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturer*. IFRS 11 requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement. The standard also requires the use of a single method to account for interests in joint ventures, namely the equity method. IFRS 11 is applicable at the same time as IFRS 10. Based on a preliminary assessment, Yellow Media Limited does not expect any significant impact on the financial statements upon adoption.

IFRS 12 – *Disclosure of Interests in Other Entities*

IFRS 12 is a new standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is applicable at the same time as IFRS 10. In June 2012, the IASB issued amendments to IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, and IFRS 12, *Disclosure of Interests in Other Entities* which will also be effective for the Company at the time of adoption of these standards for the fiscal year beginning on January 1, 2013. Based on a preliminary assessment, Yellow Media Limited expects to disclose additional information related to its consolidated subsidiaries and interests in associates upon adoption.

IFRS 13 – Fair Value Measurement

IFRS 13 is a new standard that defines fair value and requires disclosures about fair value measurements. IFRS 13 is effective for fiscal years beginning on or after January 1, 2013. Earlier application is permitted. It applies prospectively from the beginning of the annual period in which it is adopted. The new requirements will result in additional disclosures about all assets and liabilities measured at fair value on the financial statements upon adoption.

IAS 19 (Revised) – Employee Benefits

A revised version of IAS 19 was issued in June 2011 and is effective for financial years beginning on or after January 1, 2013. Early application is permitted. The main change of this revised version is the elimination of the corridor approach, with all changes to the defined benefit obligation and plan assets recognized when they occur. Furthermore, the interest cost and expected return on plan assets are replaced with the net interest amount which is calculated by applying the discount rate to the net defined benefit liability or asset.

The amendments require retroactive application. Based on the preliminary assessment, when Yellow Media Limited will apply the amendments for the first time for the periods in the year ending December 31, 2013, the net financial charges for the year ended December 31, 2012 will increase by \$10.9 million with the corresponding adjustment being recognized in the post-employment benefits obligation. The amendments will also enhance disclosure requirements for the Company's defined benefit plans.

IAS 16 – Property Plant and Equipment, IAS 32 – Financial Instruments and IAS 34 – Interim Financial Reporting

In May 2012, the IASB also issued amendments to IAS 16, Property, Plant and Equipment, IAS 32, Financial Instruments: Presentation and IAS 34, Interim Financial Reporting which are effective for annual periods beginning on or after January 1, 2013 with early application permitted. These amendments clarify various requirements. Based on a preliminary assessment, Yellow Media Limited does not expect any significant impact on the financial statements upon application of these amendments.

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 by 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. Inter-company assets and liabilities and transactions between fully consolidated companies are eliminated. Gains and losses on internal transactions with controlled companies are fully eliminated. Accounting policies and methods are modified where necessary to ensure consistency of accounting treatment at the Yellow Media 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 amount of the assets, liabilities of the subsidiary and any non-controlling interests. Amounts previously recognized in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to 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 in which Yellow Media Limited exercises a significant influence over the entity's management and operating and financial policy, without exercising control, and generally implies holding 20% to 50% of the voting rights.

Investments in associates are accounted for using the equity method and 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 loss is the amortization of the amortizable assets based on their fair values at the acquisition date. When Yellow Media Limited's share of losses exceed its interest in an equity-accounted investee, the carrying amount of the investment including any long-term interests that form part thereof, is reduced to zero and the recognition of further losses is discontinued except to the extent that Yellow Media 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 (i.e. the date Yellow Media Limited attains control) and the resulting gain or loss, if any, is recognized in the income statement.

3.4.4 Discontinued operations

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

3.5 Cash

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

3.6 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 and loss" ("FVTPL"), "held-to-maturity" investments, "available-for-sale" ("AFS") financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. A financial asset is derecognized if the contractual rights to the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for derecognition. The Company has a note receivable from the sale of Trader Corporation which is classified as loans and receivables and included in the caption financial and other assets. This asset was initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Cash and trade receivables are included in this category as well.

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 where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial assets, such as trade 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. 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 recognized separately when their estimated useful lives and, therefore, their depreciation periods are significantly different. The cost of an asset includes the expenses that are directly attributable to its acquisition. All other borrowing costs are recognized in profit or loss in the period in which they are incurred. Yellow Media Limited has not capitalized any borrowing costs during the periods presented.

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

As at December 31, 2012, 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 amount, 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 ("CGU") 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 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 lease incentives are received to enter into operating leases, such incentives are recognized as a deferred credit. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

3.11 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.

Intangible assets developed internally (consisting of software used by the Company) are recognized to the extent the criteria in IAS 38, *Intangible Assets* are met. Development costs for internally-generated intangible assets are capitalized at cost if, and only if, Yellow Media 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 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-recognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from the derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is de-recognized.

3.12 Goodwill

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

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

3.13 Impairment of tangible and intangible assets including goodwill

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

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

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

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

For the purpose of impairment testing of goodwill, goodwill is tested at the operating segment level (Group of CGUs) which represents the lowest level where goodwill is monitored for internal management purposes. Goodwill is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

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

3.14 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.

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

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

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

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

3.16.1 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.

3.16.2 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.

3.17 Long-term debt

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

3.18 Employee benefits

3.18.1 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.

3.18.2 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. Any unrecognized past service costs and the fair value of any plan assets are 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 unit credit method.

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

Yellow Media Limited recognizes all actuarial gains and losses arising subsequently from defined benefit plans in other comprehensive income. The interest cost and expected return on plan assets of defined benefit plans are included within net financial charges while service costs are recorded in operating expenses.

3.18.3 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.

3.18.4 Termination benefits

Termination benefits are recognized as an expense when Yellow Media Limited is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if Yellow Media 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.

3.18.5 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.

3.18.6 Share-based payment transactions

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

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

Pursuant to the Recapitalization approved by the Court, the holders of the Restricted Shares surrendered their restricted shares in consideration for the payment in cash of the market price of the underlying shares measured as the volume weighted average trading price ("VWAP") of the underlying shares for the five trading days immediately preceding the day before the Effective Date. All restricted Shares were subsequently cancelled. In addition, the Stock Options Plans were cancelled pursuant to the Recapitalization. All rights under these plans were terminated, extinguished and cancelled.

3.19 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.

3.20 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.

3.21 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.

3.22 Derivative financial instruments

Yellow Media Limited entered from time to time into a variety of derivative financial instruments to manage interest rate risk on its long-term debt.

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

Yellow Media Limited designated 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).

3.22.1 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.

3.22.2 Hedge accounting

Yellow Media Limited designated certain hedging instruments, which included derivatives and non-derivatives, as either fair value hedges or cash flow hedges.

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

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

3.23 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.

3.24 Taxation

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

3.24.1 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 statement of financial position date.

3.24.2 Deferred tax

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where Yellow Media 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 amount of deferred tax assets is reviewed at each statement of financial position 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 statement of financial position date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Yellow Media 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.

3.24.3 Current and deferred tax for the period

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

3.25 Significant estimates and judgements

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

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

Significant estimates

Intangible assets and goodwill

The values associated with identifiable intangible assets and goodwill involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates, 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. These determinations will affect the amount of amortization expense on identifiable intangible assets recognized in future periods.

Yellow Media Limited assesses impairment by comparing the recoverable amount of a CGU or group of CGUs to which an identifiable intangible asset or goodwill 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 and goodwill in the fourth quarter in accordance with the policy described in Note 3.13. Goodwill is tested at the operating segment level since this represents the lowest level within Yellow Media Limited at which the goodwill is monitored for internal management purposes.

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 was 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 benefit expense requires assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the projected age of employees upon retirement, the expected rate of future compensation and the expected healthcare cost trend rate. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actual results will differ from results which are estimated based on assumptions.

Income taxes

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of Yellow Media 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 /

2012

First quarter

During the first quarter of 2012, several new events and circumstances were identified which indicated that the Company's assets may be impaired. 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's directory business.

As a result of these internal and external sources of information, management concluded that there were indicators that the Company's assets may have been impaired, requiring the Company to perform an impairment analysis. Following the completion of an impairment analysis during the first quarter of 2012, the Company recorded a goodwill impairment charge of \$2,967.8 million.

Goodwill was tested for impairment at the lowest level within the Company at which the goodwill is monitored for internal management purposes; the Directories segment (Group of CGUs), the only operating segment of the Company. A CGU is a business operation.

The recoverable amount resulting in the goodwill impairment charge of \$2,967.8 million was determined based on the value in use approach using a discounted cash flow model. The significant key assumptions included forecasted cash flows based on updated financial plans prepared by management covering a five-year period taking into consideration the minimum liquidity requirements of the Company.

Fourth quarter

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. 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.

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 applied, to certain intangible assets and property, plant and equipment.

The recoverable amount was determined based on the value in use approach using a discounted cash flow model. The significant key assumptions included forecasted cash flows based on updated financial plans prepared by management covering a three-year period taking into consideration recent growth and product mix trends.

The discounted cash flow models for the first and fourth quarter of 2012 were established using discount rates ranging from 10% to 20% (pre-tax rates ranging from 12.4% to 25.5%) and 11% to 19% (pre-tax ranging from 13.6% to 24.1%) respectively, which assumed a cost of equity between 12.5% and 13.5%, a cost of debt between 7% and 8% and terminal growth rates ranging from -15% to 3.5%. The forecasted cash flows also incorporated forecasted print revenue rate declines per annum between 14% to 26% and online revenue growth rates per annum between 10% to 27%. The impairment charges did not affect the Company's operations, its liquidity, its cash flows from operating activities, or its Senior Note or Exchangeable Debenture indentures.

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 amount of intangible assets with indefinite useful lives).

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

	December 31, 2012 ¹		
	Yellow Pages Group	Other	Total
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
Key assumptions :			
Terminal growth rate			
December 31, 2012	-15% – 2.50%	-15% – 2.50%	-15% – 2.50%
March 31, 2012	-10% – 2.50%	3.50%	-10% – 3.50%
Discount rate – post-tax			
December 31, 2012	11% – 19%	11% – 19%	11% – 19%
March 31, 2012	10% – 19%	16.5% – 20%	10% – 20%
Discount rate – pre-tax			
December 31, 2012	13.6% – 24.1%	13.6% – 24.1%	13.6% – 24.1%
March 31, 2012	12.4% – 24.1%	20.7% – 25.5%	12.4% – 25.5%

¹ Prior to impairment charge of \$300 million as discussed above.

2011

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

As a result of the impairment test, the Company recorded an impairment charge of \$2,900 million for the year ended December 31, 2011. This charge was mainly related to the impairment of goodwill for an amount of \$2,880 million while other intangible assets arising from the acquisition of Canpages, mainly trademarks, non-compete agreements, customer contracts and software were deemed impaired by \$20 million.

The recoverable amount resulting in the goodwill impairment charge of \$2,880 million was determined based on the value in use approach using a discounted cash flow model. The significant key assumptions included forecasted cash flows based on financial plans approved by management covering a five-year period. The discounted cash flow model was established using a discount rate of 11% (pre-tax rate of 15%), which assumed a cost of equity between 13% and 14% and an after-tax cost of debt between 7% and 8% and a terminal growth rate in line with historical inflation at 2.50%. This impairment charge was the result of a combination of factors, including the pressure on 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 due to the accelerated transition from print to online, the uncertainties surrounding whether new product introductions would compensate for the declining trend in print revenues and the lower margins from business acquisitions.

5. Disposal of subsidiary /

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

6. Discontinued operations /

Trader Corporation

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

As a result of the above, Yellow Media Limited classified the results of the disposed business, up to the date of disposal, as discontinued operations.

An analysis of net loss from discontinued operations for the year ended December 31, 2011 is as follows:

	2011
Revenues	\$ 148,051
Operating costs	113,339
Depreciation and amortization	16,065
Recovery of restructuring and special charges	(737)
Other	456
Earnings from discontinued operations before income taxes, share of losses from investment in associates and loss on disposal	18,928
Provision for income taxes	5,331
Share of losses from investment in associates	128
Loss on disposal, net of income taxes recovery of \$1.4 million	134,346
Net loss from discontinued operations	\$ (120,877)

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

Cash from (used in):	
Operating activities	\$ 31,598
Investing activities	(22,126)
Financing activities	(1,537)
Net increase in cash from discontinued operations	\$ 7,935

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

7. Investments in associates /

List of associates:

As at	December 31, 2012		December 31, 2011	
	Consolidation	% ownership	Consolidation	% ownership
Canada				
411 Local Search	Equity method	30	Equity method	30
USA				
Ziplocal, LP	Equity method	35	Equity method	35

Shareholders of 411 Local Search (“411”) have the ability in fiscal 2013 to exercise a put option requiring the Company to acquire the remaining 70% interest of 411 at a price based on a fixed multiple of adjusted earnings before interest, income taxes, depreciation and amortization for the most recent year end. The fair value of this derivative liability increased to \$18.5 million as at December 31, 2012, resulting in a charge to the income statement. The Company may also exercise its call option to purchase the remaining interest during a specified period of time in 2013 and 2014. The fair value of this derivative is \$nil as at December 31, 2012.

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

For the periods ended	December 31, 2012		December 31, 2011	
Total assets	\$	8,208	\$	20,537
Total liabilities	\$	4,747	\$	18,952
Revenues	\$	15,238	\$	17,929
Net loss	\$	(202)	\$	(3,425)

In 2011, Ziplocal, LP (“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 to reduce its net investment in Ziplocal to \$nil. Consequently, Yellow Media Limited no longer recognizes its share of losses in Ziplocal.

8. Property, plant and equipment /

						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 ²	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 ²	4,392	3,813	240	4,511		12,956
Disposals, write-offs and transfers	(755)	(14,187)	(574)	(4,918)		(20,434)
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

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

¹ The net book value of office equipment includes \$1.1 million of assets held under finance leases (2011 - \$3.5 million).

² Included in the additions and depreciation expense is \$nil (2011 - \$10.2 million) and \$nil (2011 - \$2.3 million), respectively, for discontinued operations.

9. Intangible assets and goodwill /

							2012
	Trademarks and domain names ¹	Non- competition agreements and logos	Customer- related intangible assets	Software ²	Total Intangible assets	Goodwill	
Cost							
As at December 31, 2011	\$ 1,151,180	\$ 617,059	\$ 108,198	\$ 284,510	\$ 2,160,947	\$ 2,967,847	
Additions ³	–	–	–	33,528	33,528	–	
Impairment (Note 4)	(199,881)	(80,957)	–	(8,772)	(289,610)	(2,967,847)	
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 ³	15,163	26,299	4,364	43,163	88,989	–	
Disposals, write-offs and transfers	–	–	–	(173,589)	(173,589)	–	
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	\$ –	
							2011
	Trademarks and domain names ¹	Non- competition agreements and logos	Customer- related intangible assets	Software ²	Total Intangible assets	Goodwill	
Cost							
As at December 31, 2010	\$ 1,466,095	\$ 646,859	\$ 171,433	\$ 346,658	\$ 2,631,045	\$ 6,467,092	
Additions ³	–	–	–	60,569	60,569	–	
Discontinued operations ⁴	(284,135)	(22,357)	(60,006)	(120,520)	(487,018)	(570,966)	
Impairment (Note 4)	(14,463)	(3,643)	(629)	(1,265)	(20,000)	(2,880,000)	
Disposals, write-offs and transfers	(15,500)	(3,800)	(145)	1,303	(18,142)	(48,079)	
Translation adjustments	(817)	–	(2,455)	(2,235)	(5,507)	(200)	
As at December 31, 2011	\$ 1,151,180	\$ 617,059	\$ 108,198	\$ 284,510	\$ 2,160,947	\$ 2,967,847	
Accumulated amortization							
As at December 31, 2010	\$ 42,846	\$ 134,204	\$ 95,032	\$ 206,963	\$ 479,045	\$ –	
Amortization expense ³	19,296	26,791	57,119	59,625	162,831	–	
Discontinued operations	(16,600)	(8,212)	(46,211)	(60,457)	(131,480)	–	
Disposals, write-offs and transfers	–	(3,470)	(145)	(926)	(4,541)	–	
Translation adjustments	–	–	(1,961)	(998)	(2,959)	–	
As at December 31, 2011	\$ 45,542	\$ 149,313	\$ 103,834	\$ 204,207	\$ 502,896	\$ –	
Net book value as at December 31, 2011	\$ 1,105,638	\$ 467,746	\$ 4,364	\$ 80,303	\$ 1,658,051	\$ 2,967,847	

¹ Trademarks and domain names with indefinite useful lives amounted to \$879 million (2011 - \$1,090.8 million).

² Software assets under development amounted to \$25.4 million (2011 - \$35 million).

³ Included in the additions and amortization expense is \$nil (2011 - \$9.8 million) and \$nil (2011 - \$13.8 million), respectively for discontinued operations.

⁴ Goodwill for discontinued operations is presented gross of the impairment charge of \$nil (2011 - \$97.4 million) recorded upon revaluation of discontinued operations to fair value less costs to sell, as required by IFRS 5.

10. Trade and other payables /

	December 31, 2012	December 31, 2011
Trade	\$ 58,271	\$ 70,979
Deposits	2,845	8,849
Deferred consideration	5,609	2,798
Payroll related accruals	1,722	8,683
Publishing related accruals	4,976	12,871
Accrued interest	2,753	30,282
Other accrued liabilities	11,759	22,020
	\$ 87,935	\$ 156,482

11. Provisions /

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.

During 2011, Yellow Media Limited recorded restructuring and special charges of \$26.1 million. The creation of centers of excellence and the elimination of print publications from the Canpages division resulted in a workforce reduction and the termination of 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. These amounts are expected to be paid mainly in 2013 as the plan is executed.

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

	Provisions for restructuring		Provisions for special charges		Other provisions	Total Provisions
As at December 31, 2010	\$	23,493	\$	17,953	\$ 18,895	\$ 60,341
Charge		19,830		9,938	3,227	32,995
Utilized provision		(18,251)		(8,148)	(6,816)	(33,215)
Surplus provision		(6,100)		(73)	(1,600)	(7,773)
Discontinued operations		(1,335)		(664)	(2,049)	(4,048)
As at December 31, 2011	\$	17,637	\$	19,006	\$ 11,657	\$ 48,300
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

¹ Included in the restructuring and special charges are \$0.7 million of other costs not affecting the provision.

12. 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 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, 2012 and 2011 were as follows:

	December 31, 2012		December 31, 2011	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Fair value of plan assets, beginning of year	\$ 389,860	\$ -	\$ 413,755	\$ -
Expected return on plan assets	27,169	-	28,111	-
Benefit payments	(48,664)	(1,975)	(35,026)	(1,880)
Actuarial gains (losses) ¹	7,003	-	(27,664)	-
Employer contributions	30,796	1,975	10,194	1,880
Employee contributions	390	-	490	-
Fair value of plan assets, end of year	\$ 406,554	\$ -	\$ 389,860	\$ -
Accrued benefit obligation, beginning of year	\$ 636,292	\$ 52,364	\$ 551,707	\$ 50,925
Current service cost	17,201	1,041	12,871	812
Past service costs	(8,027)	(5,291)	-	-
Employee contributions	390	-	490	-
Interest cost	28,618	2,359	29,250	2,466
Actuarial losses ²	25,428	3,732	77,000	41
Benefit payments	(48,664)	(1,975)	(35,026)	(1,880)
Defined benefit obligation, end of year	651,238	52,230	636,292	52,364
Net defined benefit obligation	\$ (244,684)	\$ (52,230)	\$ (246,432)	\$ (52,364)

¹ Actuarial gains included experience adjustments on plan assets of \$7 million (2011 - \$28.6 million).

² Actuarial losses included experience adjustments on plan liabilities of \$13.6 million (2011 - \$23.2 million).

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, 2012 and 2011 were as follows:

	December 31, 2012		December 31, 2011	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Post-employment benefit obligation				
Discount rate, end of year	4.00%	4.00%	4.50%	4.50%
Rate of compensation increase	3.25%	3.50%	3.25%	3.50%
Net benefit plan costs				
Discount rate, end of preceding year	4.50%	4.50%	5.50%	5.50%
Rate of compensation increase	3.25%	3.50%	3.25%	3.50%
Expected long-term rate of return on plan assets	7.00%	-	7.00%	-
Expected average remaining service life (years)	12	13	12	13

For measurement purposes, a 7.8% annual increase in the per capita cost of covered health care benefits (the health care cost trend rate) was assumed in 2012. The rate of increase of the cost of medication was assumed to gradually decline to 5% by 2026 and to remain at that level thereafter. A 4.5% annual increase in per capita cost of covered dental care benefits was assumed in 2012.

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

	One-Percentage-Point - Increase	One-Percentage-Point - Decrease
Effect on other benefits – total service and interest costs	\$ 165	\$ (159)
Effect on other benefits – Post-employment benefit obligation	\$ 2,066	\$ (2,009)

The net benefit plan costs included in the statement of operations are the following components:

	For the years ended December 31,			
	2012		2011	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Current service cost ¹	\$ 17,201	\$ 1,041	\$ 12,871	\$ 812
Interest cost (Note 21)	28,618	2,359	29,250	2,466
Expected return on plan assets (Note 21)	(27,169)	-	(28,111)	-
Past service costs ¹	(8,027)	(5,291)	-	-
Net benefit costs (recovery) recognized in income statement	10,623	(1,891)	14,010	3,278
Actuarial losses	18,425	3,732	104,664	41
Net benefit costs recognized in other comprehensive income	18,425	3,732	104,664	41
Total net benefit plan costs for the Yellow Pages Group Corp. ("YPG Co.") defined benefit plans	\$ 29,048	\$ 1,841	\$ 118,674	\$ 3,319
Net benefit plan costs for the YPG Co. defined contribution plans ¹	4,288	-	3,551	-
Total net benefit plan costs	\$ 33,336	\$ 1,841	\$ 122,225	\$ 3,319

¹ Included in operating costs.

During the year, the Company amended the retirement and post-employment benefit plans. These amendments include among other items, the elimination of post-retirement benefits for all current eligible employees, the elimination of indexing for future contributions, 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 \$13.3 million.

Plan assets are represented primarily by Canadian and foreign equities, government and corporate bonds, debentures and secured mortgages. Plan assets are held in trust and the asset allocation was as follows as at December 31, 2012 and 2011:

(in percentages - %)	December 31, 2012	December 31, 2011
Asset categories in the Master Trust:		
Cash and other short-term investments	2	3
Publicly traded equity securities	61	62
Publicly traded fixed income securities	37	35

As at December 31, 2012 and 2011, the publicly traded equity securities did not directly include any shares of Yellow Media Limited.

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

The total cash payments for pension and other benefit plans made by Yellow Media Limited amounted to \$37.1 million for 2012 (2011 - \$15.6 million). Total cash payments for pension and other benefit plans expected in 2013 amount to approximately \$32.6 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 \$6.7 million for the year ended December 31, 2012 (2011 - \$7.6 million).

As at December 31, 2012, Yellow Media Limited had recognized an accumulated balance of \$150.2 million, net of income taxes of \$52.4 million in actuarial losses in Other Comprehensive Income.

13. Long-term debt /

The long-term debt is comprised of the following:

	December 31, 2012
	Total
Senior Secured Notes	\$ 800,000
Obligations under finance leases	1,831
	801,831
Less current portion of long-term debt ¹	100,939
	\$ 700,892

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

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

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 initial interest payment will be payable on February 28, 2013 and will represent interest accrued from and including December 20, 2012, to, but excluding, February 28, 2013.

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, 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 indebtedness and other transactions.

As at December 31, 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 \$100 million for the combined payments due on May 31, 2013 and November 30, 2013, \$75 million for the combined payments due on May 31, 2014 and November 30, 2014 and \$50 million for the combined payments due on May 31, 2015 and November 30, 2015.

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.

Medium Term Notes

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

Pursuant to the Recapitalization, all of the outstanding Medium Term Notes were cancelled on the Effective Date. Please refer to the description of the Recapitalization in Note 1 – Description.

Credit facilities

The Company had in place a senior unsecured credit facility consisting of:

A \$380 million facility (the “Credit Facility”) which was comprised of:

- a \$250 million revolving tranche maturing in February 2013; and
- a \$130 million non-revolving tranche maturing in February 2013.

During the year, the Company was required to make quarterly repayments of \$25 million on the outstanding balance of the non-revolving tranche of the Credit Facility, commencing in January 2012 through the Effective Date of the Recapitalization; \$75 million of repayments were made.

The maturity date for the repayment of the remainder of the outstanding borrowings under the credit facilities was February 18, 2013.

Immediately prior to the Recapitalization, an amount of \$369 million was drawn on the Credit Facility. Pursuant to the Recapitalization and the Termination and Settlement Agreement entered into with the lenders under the Company’s Credit Facility, the Credit Facility was cancelled on the Effective Date. Please refer to the description of the Recapitalization in Note 1 – Description.

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, 2012 are as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	\$ 1,017	\$ 78	\$ 939
Between one and five years	933	41	892
	\$ 1,950	\$ 119	\$ 1,831

14. Exchangeable and convertible debentures /

	December 31, 2012	December 31, 2011
Liability component	\$ 91,635	\$ 200,000
Equity component	(4,968)	(10,139)
Accretion	-	1,685
Deferred financing costs	-	(7,332)
	\$ 86,667	\$ 184,214

Exchangeable Debentures

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 interest payment is payable on May 31, 2013 and will represent interest accrued from and including December 20, 2012 to, but excluding, May 31, 2013. 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, 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 capital 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 will be 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.

Please refer to the description of the Recapitalization in Note 1 – Description.

Convertible Debentures

During the third quarter of 2012, \$0.9 million of Convertible Debentures were exchanged into 116,250 common shares (Note 17). The carrying amount of the Convertible Debentures exchanged was recorded in shareholder’s capital along with the pro rata share of the equity component carrying value. No gain was recognized in the income statement on conversion.

Pursuant to the Recapitalization, all of the Convertible Debentures were cancelled on the Effective Date. Please refer to the description of the Recapitalization in Note 1 – Description.

15. Preferred shares, Series 1 and 2 /

	December 31, 2012	December 31, 2011
Preferred shares, Series 1 and Series 2	\$ -	\$ 402,700
Derivative component	-	741
Deferred financing costs	-	(4,555)
	-	398,886
Less current portion ¹	-	249,713
	\$ -	\$ 149,173

¹ Relating entirely to Preferred Shares, Series 1.

During 2011, the Company purchased for cancellation, under the prior normal course issuer bids, 1,232,948 Preferred Shares, Series 1 of the Company for a total cash consideration of \$25.5 million including brokerage fees and 778,156 Preferred Shares, Series 2 of the Company for a total cash consideration of \$11.3 million including brokerage fees. The carrying value of these Preferred Shares, Series 1 and Series 2 was \$30.6 million and \$19.1 million, respectively. The difference between the purchase price and the carrying value of the Preferred Shares, Series 1 and Series 2 of \$12.8 million was recorded as a gain and included in financial charges.

Pursuant to the Recapitalization, all of the outstanding Preferred Shares, Series 1 and 2 were cancelled on the Effective Date. Please refer to the description of the Recapitalization in Note 1 – Description.

16. Income taxes /

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

	For the years ended December 31,	
	2012	2011
Loss before income taxes and impairment and share of (earnings) losses from investments in associates	\$ (2,031,833)	\$ (2,558,642)
Combined Canadian federal and provincial tax rates ¹	26.31%	27.90%
Income tax recovery at statutory rates	\$ (534,575)	\$ (713,861)
Increase (decrease) resulting from:		
Gain on settlement of debt	(282,848)	-
Impairment of goodwill, intangible assets and property, plant and equipment	738,925	745,102
Non-deductible dividend expense	4,655	7,921
Derivative financial instruments	4,274	-
Other	2,161	6,255
Unrecognized tax attributes of the current year	7,850	32,526
Recognition of previously unrecognized tax attributes	(15,393)	-
Writedown of deferred tax assets	-	8,081
Difference in the statutory rate applicable to foreign operations	(2,922)	(3,676)
Rate differential on temporary differences	1,938	4,801
(Recovery of) provision for income taxes	\$ (75,935)	\$ 87,149

¹ The combined applicable statutory tax rate has decreased by 1.59% resulting mainly from the reduction in the Canadian Federal statutory tax rate.

(Recovery of) provision for income taxes includes the following amounts for the years ended:

	December 31, 2012	December 31, 2011
Current – continuing operations	\$ 48,603	\$ 9,508
Deferred – continuing operations	(124,538)	77,641
	\$ (75,935)	\$ 87,149
Current – discontinued operations	\$ -	\$ 6,162
Deferred – discontinued operations	-	(2,275)
	\$ -	\$ 3,887
	\$ (75,935)	\$ 91,036

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

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

As at December 31, 2012, the Company has not recognized deferred income tax assets with respect to Canadian operating losses of \$71.6 million expiring from 2026 to 2030, foreign operating losses of \$59.7 million which expire from 2028 to 2032, Canadian capital losses of \$42.5 million which can be utilized indefinitely, and deductible temporary differences of \$291.1 million.

17. Shareholders' capital /

Common shares

An unlimited number of New Common Shares are authorized to be issued and an unlimited number of preferred shares issuable in series are also authorized.

	December 31, 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 14)	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	27,955,077	\$ 4,029,869

	December 31, 2011	
	Number of shares	Amount
Balance, December 31, 2010	516,017,984	\$ 4,079,838
Shares issued pursuant to the dividend reinvestment plan	9,131,968	26,031
Repurchase of common shares	(11,252,884)	(88,419)
Reduction in capital	-	(500,000)
Exchange of Preferred Shares, Series 7	250,000	1,875
Conversion of mandatory exchangeable promissory notes ("Exchangeable Notes")	6,255,026	35,390
Balance, December 31, 2011 ²	520,402,094	\$ 3,554,715

¹ Pursuant to the Recapitalization.

² Includes nil Restricted Shares (2011 – 7,806,780) pursuant to the Restricted Share Plan.

During the year ended December 31, 2012, Yellow Media Limited declared total dividends to common shareholders of \$nil (\$207.3 million or \$0.40 per share in 2011).

Pursuant to the Recapitalization the existing common shares of YPG Financing Inc. were cancelled. Please refer to the description of the Recapitalization in Note 1 – Description.

Warrants

Pursuant to the Recapitalization approved by the Court, 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%

Preferred shares

	December 31, 2012	
	Number of Shares	Amount
Balance, December 31, 2011	13,424,153	\$ 320,687
Exchange of Preferred Shares series, 3, 5 and 7 pursuant to the Recapitalization	(13,424,153)	(320,687)
Balance, December 31, 2012	-	\$ -

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

During 2011, the stated capital of the Company in respect of common shares was reduced by \$500 million and the Reduction of Capital Reserve was increased by the same amount.

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

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

Pursuant to the Recapitalization all of the outstanding Preferred Shares, Series 3, 5 and 7 were cancelled on the Effective Date. Please refer to the description of the Recapitalization in Note 1 – Description.

18. Loss per share /

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

	For the years ended December 31,	
	2012	2011
Weighted average number of shares outstanding used in computing basic loss per share	27,955,077	27,955,077
Dilutive effect of Warrants	-	-
Dilutive effect of Exchangeable Debentures	-	-
Weighted average number of shares outstanding used in computing diluted loss per share	27,955,077	27,955,077

As described in Note 1, pursuant to the closing of the Recapitalization approved by the Court, the common shares of the Company were exchanged for New Common Shares of the Company. As a result, the weighted average number of shares outstanding during the period and for prior periods has been adjusted to reflect the Recapitalization.

	For the years ended December 31,	
	2012	2011
Net loss from continuing operations	\$ (1,954,005)	\$ (2,708,122)
Attributable to non-controlling interest	391	490
Dividends to preferred shares, Series 3, 5 and 7 shareholders	(21,606)	(22,539)
Net loss from continuing operations available to common shareholders of Yellow Media Limited used in the computation of basic and diluted loss per share	\$ (1,975,220)	\$ (2,730,171)

	For the years ended December 31,	
	2012	2011
Net loss attributable to common shareholders of Yellow Media Limited	\$ (1,953,614)	\$ (2,832,649)
Dividends to preferred shares, Series 3, 5 and 7 shareholders	(21,606)	(22,539)
Net loss attributable to common shareholders of Yellow Media Limited used in the computation of basic and diluted loss per share	\$ (1,975,220)	\$ (2,855,188)

Yellow Media Limited did not calculate the diluted loss per share for the years ended December 31, 2012 and 2011 as the conversion of the dilutive instruments listed above would be anti-dilutive to the loss.

	For the years ended December 31,	
	2012	2011
Net loss from discontinued operations	\$ -	\$ (120,877)
Earnings attributable to non-controlling interest	-	(4,140)
Net loss from discontinued operations available to common shareholders of Yellow Media Limited used in the computation of basic and diluted loss per share	\$ -	\$ (125,017)

	For the years ended December 31,	
	2012	2011
Basic loss per share attributable to common shareholders from discontinued operations	\$ -	\$ (4.47)
Diluted loss per share attributable to common shareholders from discontinued operations	\$ -	\$ (4.47)

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

19. Stock-based compensation plans /

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

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. During the year ended December 31, 2011, an amount of \$8 million representing 1,994,552 Restricted Shares were granted at an average market price of \$4.02. An amount of \$nil (2011 - \$2.9 million) was used to reinvest in nil (2011 - 1,246,868) Restricted Shares using the proceeds from the dividends on the Restricted Shares held in escrow. In addition, 57,239 Restricted Shares which were not allocated to any specific employee were reinvested in 2011. This included nil (2011 - 388,509) Restricted Shares associated with the portion which provided for up to a 250% payout.

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 VWAP of the underlying shares. As a result, \$0.1 million was paid in 2013. All Restricted Shares were subsequently cancelled. The RS Plan and all rights under the RS Plan were terminated, extinguished, and cancelled. An accelerated expense of \$3.8 million was included in the gain on settlement of debt.

A total expense of \$4.3 million was recorded for the year ended December 31, 2012 (2011 - \$0.5 million recovery).

The following table summarizes the status of the grants:

	December 31, 2012
	Number of Restricted Shares
	2009 and 2011 Grants
Outstanding, beginning of year	4,576,481
Forfeited	(3,573,412)
Cancelled pursuant to the Recapitalization	(1,003,069)
Outstanding, end of year	-
Weighted average remaining life	-

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

Stock Options – 2003 Plan

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

	December 31, 2012	December 31, 2011
	Number of options	Number of options
Outstanding and exercisable, beginning of year	380,882	380,882
Cancelled pursuant to the Recapitalization	(380,882)	-
Outstanding and exercisable, end of year	-	380,882

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

Stock Options – 2010 Plan

The following table summarizes the status of the 2010 Plan.

	December 31, 2012	December 31, 2011
	Number of options	Number of options
Outstanding, beginning of year	12,100,000	-
Granted	-	15,850,000
Forfeited	-	(3,750,000)
Cancelled pursuant to the Recapitalization	(12,100,000)	-
Outstanding, end of year	-	12,100,000
Exercisable, end of year	-	-

The fair value of the share options granted during 2011 was \$0.14 per option. Options were valued using a binomial option pricing model. Expected volatility was based on the historical share price volatility over the average expected life of the options granted. Key inputs into the valuation model were:

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

Pursuant to the Recapitalization, the 2010 Plan and all outstanding options granted thereunder were cancelled for no consideration. An accelerated expense of \$1.1 million was included in the gain on settlement of debt. A total expense of \$1.2 million was recorded for the year ended December 31, 2012 (2011 - \$0.1 million recovery).

20. Operating costs /

	For the years ended December 31,	
	2012	2011
Salaries, commissions and benefits	\$ 273,740	\$ 303,756
Supply chain and logistics ¹	110,191	131,186
Other goods and services ²	91,311	129,564
Information systems	43,716	45,255
Bad debt expense	18,157	39,398
	\$ 537,115	\$ 649,159

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

² Other goods and services include promotion and advertising costs, real estate, telecommunications, office services and equipment, consulting services including contractors and professional fees. Operating leases recognized in operating costs during the year amounted to \$19.8 million (2011 - \$20.9 million).

21. Financial charges, net /

The significant components of the financial charges are as follows:

	For the years ended December 31,	
	2012	2011
Interest on long-term debt, exchangeable and convertible instruments	\$ 119,329	\$ 128,227
Interest on commercial paper	-	2,273
Interest income, standby fees and other financial charges, net	(3,328)	7,239
Other charges related to derivative financial instruments	18,479	12,502
Gain on repurchase of Series 1 shares and Series 2 shares and medium term notes, net	-	(38,815)
Amortization and write-off of deferred financing costs	8,442	15,269
Accreted interest on long-term debt, compound financial instruments and note receivable	717	1,034
Accreted interest on retirement benefit obligations	30,977	31,716
Expected return on pension plan assets	(27,169)	(28,111)
Revaluation of deferred consideration	(874)	(1,252)
Other	(308)	500
	\$ 146,265	\$ 130,582

22. Supplemental disclosure of cash information /

The following are non-cash transactions:

	For the years ended December 31,	
	2012	2011
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 Series 1 and Series 2 shares	\$ 400,644	\$ -
Issuance of New Common Shares pursuant to the Recapitalization	\$ 153,568	\$ -
Conversion of Convertible Debentures	\$ 899	\$ -
Dividends on Series 1 shares and Series 2 shares paid	\$ -	\$ 19,208
Issuance of note receivable	\$ -	\$ 11,046
Conversion of Exchangeable Notes	\$ -	\$ 35,390
Additions to property, plant and equipment under finance leases	\$ 24	\$ 943
Additions to property, plant and equipment included in trade and other payables	\$ 2,575	\$ 909
Additions to intangible assets included in trade and other payables	\$ 6,072	\$ 7,825

23. Commitments and contingencies /

a) Yellow Media Limited has commitments under various leases for premises, equipment and purchase obligations through long-term distribution agreements for each of the next five years and thereafter, as at December 31, 2012, and in the aggregate of:

	Operating leases	Other	Total commitments
2013	\$ 20,101	\$ 48,859	\$ 68,960
2014	20,290	173	20,463
2015	20,320	158	20,478
2016	19,392	128	19,520
2017	16,400	125	16,525
Thereafter	9,885	2,625	12,510
	\$ 106,388	\$ 52,068	\$ 158,456

Under certain lease agreements, inducements for leasehold improvements exist. These lease inducements are accounted for as part of deferred credits and amount to \$14.2 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 & 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”) includes automatic renewal for successive one-year periods. The agreement with MTS Allstream Inc. expires on October 2, 2016, with two automatic renewal periods for ten years up to a maximum of 30 years. The agreement with Bell Aliant Regional Communications LP (“Bell Aliant”) expires on April 30, 2017, with two automatic renewal periods for ten years.

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

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 accounts payable and accrued liabilities based on management’s best estimate of the likelihood of the outcome. Management believes that the disposition of the matters pending or asserted is not expected to have any material adverse effect on the financial position, financial performance or cash flows of Yellow Media Limited.

24. 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, trade receivable from customers and derivative financial instruments. The carrying amount of financial assets represents Yellow Media Limited’s maximum exposure.

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

Yellow Media 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 receivable from customers due to its large and diverse customer base operating in numerous industries and its geographic diversity. There are no individual customers that account for 1% or more of revenues and there are no trade 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 period.

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 risks on these receivables.

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

The components of trade and other receivables are as follows:

	December 31, 2012	December 31, 2011
Trade receivables		
Current	\$ 76,916	\$ 105,592
Past due less than 180 days	58,328	49,171
Past due over 180 days	5,246	9,456
Trade receivables	\$ 140,490	\$ 164,219
Other receivables ¹	\$ 35,293	\$ 2,367
Trade and other receivables	\$ 175,783	\$ 166,586

¹ Other receivables is mainly comprised of sales tax receivables and interest on a note receivable.

Yellow Media Limited's trade receivables are stated after deducting an allowance for doubtful accounts of \$23.8 million at December 31, 2012 (2011 - \$39.8 million). The movements in the allowance for doubtful accounts were as follows:

	December 31, 2012	December 31, 2011
Balance, beginning of year	\$ 39,839	\$ 48,919
Bad debt expense, net of recovery ¹	18,157	39,285
Discontinued operations and other	-	(1,181)
Written-off	(34,184)	(47,184)
Balance, end of year	\$ 23,812	\$ 39,839

¹ Included in bad debt expense is \$nil (2011 - \$0.1 million recovery) for discontinued operations.

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 and short-term investments that earn interest at market rates. Yellow Media Limited does not use derivative instruments to reduce its exposure to interest rate risk. It 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.

(ii) Foreign Exchange Risk

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

Liquidity Risk

Liquidity risk is the exposure of Yellow Media 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 consolidated liquidity requires a constant monitoring of expected cash inflows and outflows which is achieved through a detailed forecast of the Company's consolidated liquidity position to ensure adequacy and efficient use of cash resources.

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

	Payments due for the years following December 31, 2012				
	Total	Less than 1 year	2 – 3 years	4 – 5 years	After 5 years
Non-derivative financial liabilities					
Deferred consideration	\$ 5,609	\$ 5,609	\$ –	\$ –	\$ –
Long-term debt ^{1,2}	800,000	100,000	125,000	–	575,000
Obligations under finance leases ¹	1,831	939	759	133	–
Exchangeable debentures ¹	107,500	–	–	–	107,500
Total	\$ 914,940	\$ 106,548	\$ 125,759	\$ 133	\$ 682,500

¹ Principal amount.

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

As at December 31, 2012, cash amounted to \$106.8 million.

Fair values

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

The fair value of trade and other receivables and trade and other payables is approximately equal to their carrying values due to their short-term maturity.

The fair value of the investment classified as AFS, note receivable, Senior Secured Notes and Exchangeable Debentures is evaluated based on quoted market prices at the statement of financial position date.

Fair values of the derivative financial instruments are determined based on market rates prevailing at the statement of financial position date.

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

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

	December 31, 2012	
	Carrying Value	Fair Value
Other assets – investment – AFS ¹	\$ 3,520	\$ 3,520
Note receivable ¹	\$ 11,408	\$ 11,408
Deferred consideration	\$ 5,609	\$ 5,609
Put options (Financial liabilities)	\$ 22,033	\$ 22,033
Long-term debt due within one year	\$ 100,939	\$ 100,939
Long-term debt	\$ 700,892	\$ 700,892
Exchangeable debentures	\$ 86,667	\$ 86,667

¹ The aggregate of these assets of \$14.9 million as at December 31, 2012 is included in Financial and other assets on the Consolidated Statements of Financial Position.

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

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

Fair value hierarchy

The three levels of fair value hierarchy are as follows:

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

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

The following table summarizes the financial instruments measured at fair value in the consolidated statement of financial position as at December 31, 2012, 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 (Derivative liability)	–	–	(18,479)	(18,479)
Total	\$ –	\$ –	\$ (14,959)	\$ (14,959)

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.

25. 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 total debt to consolidated Latest Twelve Month EBITDA¹. Yellow Media Limited also uses other financial metrics to monitor its financial leverage including net debt to Latest Twelve Month EBITDA¹, 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:

	December 31, 2012	December 31, 2011
Cash	\$ 106,807	\$ 84,186
Senior Secured Notes	800,000	–
Medium Term Notes	–	1,404,083
Exchangeable Debentures	86,667	–
Convertible Debentures	–	184,214
Credit Facility	–	205,000
Obligations under finance leases	1,831	4,148
Net debt (net of cash)	781,691	1,713,259
Series 1 shares and Series 2 shares	–	398,886
Equity attributable to shareholders	285,749	2,084,225
Non-controlling interests	411	802
Total capitalization	\$ 1,067,851	\$ 4,197,172
Net debt to total capitalization	73.2%	40.8%

	For the year ended	
	December 31, 2012	December 31, 2011
Latest Twelve Month EBITDA ¹	\$ 570,600	\$ 671,909
Net Debt to Latest Twelve Month EBITDA ratio ¹	1.4	2.5

¹ Latest twelve month 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, giving effect to the acquisitions and divestitures ("Latest Twelve Month EBITDA"). Latest twelve month EBITDA is a non-IFRS measure and may not be comparable with similar measures used by other publicly traded companies.

26. 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 condensed consolidated statement of financial position as at December 31, 2012, 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 herein. 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 condensed consolidated statement of financial position as at December 31, 2012 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.

27. Segmented information /

After the completion of the sale of Trader Corporation in July 2011, management reassessed its operating segments and concluded that the Directories segment is the only operating segment.

As at December 31, 2012, Yellow Media Limited had non-current assets other than deferred tax assets held in a foreign country of \$4.9 million (2011 - \$30.3 million).

28. List of subsidiaries /

As at	December 31, 2012		December 31, 2011	
	Consolidation	% ownership	Consolidation	% ownership
Canada				
YPG Financing Inc.	Full consolidation	100	Full consolidation	100
Yellow Pages Group Corp.	Full consolidation	100	Full consolidation	100
Snap Guides Inc. ¹	-	-	Full consolidation	100
Mediative G.P. Inc.	Full consolidation	60	Full consolidation	60
Mediative Performance L.P.	Full consolidation	60	Full consolidation	60
Wall2Wall Media Inc.	Full consolidation	100	Full consolidation	100
Clear Sky Media Inc. ¹	-	-	Full consolidation	100
Canpages Inc. ¹	-	-	Full consolidation	100
7737351 Canada Inc. (formerly LesPAC s.e.n.c.) ¹	-	-	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 These entities were dissolved in 2012.

29. Related party disclosures /

Key management personnel compensation

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

	For the years ended December 31	
	2012	2011
Salary, fees and other short-term employee benefits	\$ 3,913	\$ 3,111
Post-employment benefits	(1,147)	266
Share-based payments	4	1,185
	\$ 2,770	\$ 4,562

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

Other related party transactions

For the years ended December 31,	Transaction value		Balance outstanding	
	2012	2011	2012	2011
Sales of good and services				
Associate ¹	\$ 6,207	\$ 4,177	\$ -	\$ -
Expenses				
Associate	\$ -	\$ 76	\$ -	\$ 13

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

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

30. Comparative figures /

Changes in the presentation of reserves for stock-based compensation, reduction of capital and other were made in the comparative year in the statement of changes in equity to conform to the current year's presentation.

corporate information /

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