CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW MEDIA LIMITED (successor of "Yellow Media Inc.")

December 31, 2012

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Independent Auditor's Report

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.

Deloitte LLP[1]

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)

	Deferred financing costs	Non-capital losses carryforward	Deferred revenues	Post-employ-ment benefits	Fair value adjustment of hedge item	Accrued liabilities	Property, plant and equipment and lease induce-ments	Exchang-eable and Conver-tible Deben-tures	Intangible assets	Deferred income tax liabilities, net
December 31, 2010	$ 5,555	$ (9,627)	$ (20,986)	$ (50,526)	$ (900)	$ (10,704)	$ (1,951)	$ 2,716	$ 254,279	$ 167,856
(Benefit) expense to income statement	2,810	(4,241)	5,951	(1,249)	(1,246)	311	8,444	(451)	65,037	75,366
Benefit to other compre-hensive 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. Commitment 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 arriving from various currency transactions. Foreign exchange transaction risk arises primarily from commercial transactions that are denominated in a currency that is not the functional currency of Yellow Media 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 EBITDA[1]. Yellow Media Limited also uses other financial metrics to monitor its financial leverage including net debt to Latest Twelve Month EBITDA[1], Fixed Charges Coverage Ratio and Net Debt to Capitalization.

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

	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.