Management's Discussion and Analysis

February 5, 2013

This management's discussion and analysis (MD&A) is intended to help the reader understand and assess trends and significant changes in the results of operations and financial condition of Yellow Media Limited and its subsidiaries for the years ended December 31, 2012 and 2011 and should be read in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2012. Quarterly reports, the annual report and supplementary information can be found under the "Financial Reports" section of our corporate web site: www.ypg.com. Additional information, including our annual information form (AIF), can be found on SEDAR at www.sedar.com.

The financial information presented herein has been prepared on the basis of International Financial Reporting Standards (IFRS) for financial statements and is expressed in Canadian dollars, unless otherwise stated.

The audited IFRS-related disclosures and values in this MD&A have been prepared using the standards and interpretations currently issued and effective at the end of our reporting period, December 31, 2012.

In this MD&A, the words "we", "us", "our", "the Company", "the Corporation", "Yellow Media" and "YPG" refer to Yellow Media Limited and its subsidiaries (including YPG Financing Inc. (formerly Yellow Media Inc.), Yellow Pages Group Corp., Wall2Wall Media Inc. (Wall2Wall), YPG (USA) Holdings, Inc. and Yellow Pages Group, LLC (the latter two collectively YPG USA)). After the completion of the sale of Trader Corporation in July 2011, management reassessed its operating segments and concluded that the "Directories" segment is the Company's only operating segment, which refers to our print and online directories as well as performance marketing solutions and real estate publications.

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

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

The key components of the Recapitalization are as follows:

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

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

Forward-looking information

Our reporting structure reflects how we manage our business and how we classify our operations for planning and for measuring our performance. This MD&A contains assertions about the objectives, strategies, financial condition, results of operations and businesses of YPG. These statements are considered "forward-looking" because they are based on current expectations of our business, on the markets we operate in, and on various estimates and assumptions.

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

When used in this MD&A, such forward-looking statements may be identified by words such as "aim", "anticipate", "believe", "could", "estimate", "expect", "goal", "intend", "objective", "may", "plan", "predict", "seek", "should", "strive", "target", "will", "would" and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future results or performance, and will not necessarily be accurate indications of whether or not such results or performance will be achieved. A number of factors could cause actual results or performance to differ materially from the results or performance discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Substantial competition could reduce the market share of the Corporation and could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "A higher than anticipated rate of decline in print revenue resulting from changes in preferences and consumer habits could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The inability of the Corporation to successfully enhance and expand its offering of digital and new media products could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The inability of the Corporation to generate sufficient funds from operations, debt financings, equity financings or refinancing transactions could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The Corporation's substantial indebtedness could adversely affect its efforts to refinance or reduce its indebtedness and could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "Incremental contributions by the Corporation to its pension plans could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "Failure by either the Corporation or the Telco Partners to fulfill the obligations set forth in the agreements between the Corporation and the Telco Partners could result in a material adverse effect on the Corporation, its business, results from operations and financial condition", "Failure by the Corporation to adequately protect and maintain its brands and trade-marks, as well as third party infringement of such, could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "Work stoppages and other labor disturbances could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "Challenge by tax authorities of the Corporation's position on certain income tax matters could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The loss of key relationships or changes in the level or service provided by internet portals, search engines and individual websites could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The failure of the Corporation's computers and communications systems could have a material adverse effect on the Corporation, its business, results from operations and financial condition" and "The Corporation might be required to record additional impairment charges" of the "Risks and Uncertainties" section of this MD&A. Additional risks and uncertainties not currently known to management or that are currently deemed to be immaterial may also have a material adverse effect on the Corporation's business, financial position or financial performance. Although the forward-looking statements contained in this MD&A are based upon what management of the Corporation believes are reasonable assumptions, the Corporation cannot assure investors that actual results will be consistent with these forward-looking statements and cautions readers not to place undue reliance on them. These forward-looking statements are made as of the date of this MD&A, and the Corporation assumes no obligation to update or revise them to reflect new events or circumstances, except as may be required pursuant to securities legislation.

Definitions relative to understanding our results

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

We report on our EBITDA (Income from operations before depreciation and amortization, impairment of goodwill, intangible assets and property, plant and equipment, acquisition-related costs, and restructuring and special charges). EBITDA is not a performance measure defined under IFRS and is not considered an alternative to income (loss) from operations or net earnings (loss) in the context of measuring YPG's performance. EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other publicly traded companies. EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, taxes, interest payments, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed on page 24 of this MD&A.

Free cash flow

Free cash flow is a non-IFRS measure generally used as an indicator of financial performance. It should not be seen as a substitute for cash flow from operating activities. Free cash flow is defined as cash flow from operating activities from continuing operations, as reported in accordance with IFRS less an adjustment for capital expenditures.

This MD&A is divided into the following sections:

1. Our Business, Mission, Strategy and Capability to Deliver Results
2. Results
3. Liquidity and Capital Resources
4. Free Cash Flow
5. Critical Assumptions
6. Risks and Uncertainties
7. Controls and Procedures

1. Our Business, Mission, Strategy and Capability to Deliver Results

Our Business

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

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

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

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

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

Mission

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

Strategy

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

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

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

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

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

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

Right Value

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

Right Products

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

Right Execution and Customer Experience

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

Right Consumer Audiences

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

Capability to Deliver Results

This section of our MD&A explains how we are positioning the Company to operate on a financially viable and progressive basis.

Capital Resources

YPG generates sufficient cash flow from its operations to support required capital expenditures and to service its debt obligations. Its cash flow generation and cash on hand provide sufficient resources to finance its cash requirements in the foreseeable future while maintaining adequate liquidity. Please refer to Section 3 – Liquidity and Capital Resources of this MD&A for an analysis of the Company's ability to generate sufficient cash and to meet operating needs in the current market environment.

Non-capital Resources

YPG's critical intangible resources include:

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

Strong Brands

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

Established Relationships with Customers

We employ a sales force of approximately 1,100 people, including sales support staff. This large and primarily face-to-face sales force is broken down into various customer segments allowing a more dedicated relationship between the sales force and the SMEs resulting in 86% of our advertisers renewing their advertising with us this year.

Breadth and Depth of Local Content

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

Dedicated and Experienced Employees

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

Culture and Values

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

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

2. Results

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

Overall

- Revenues decreased by $221.2 million or 16.6% to $1,107.7 million compared to the previous year. If we exclude the results of Canpages, LesPAC.com (LesPAC), YPG USA and our Deal of the Day products, which are entities or lines of businesses we no longer operate in, revenues decreased by 11.9% compared to the previous year.
- Income from operations before depreciation and amortization, impairment of goodwill, intangible assets and property, plant and equipment, acquisition-related costs and restructuring and special charges (EBITDA) decreased by $109.1 million or 16.1% to $570.6 million compared to the previous year. If we exclude the results of Canpages, LesPAC, YPG USA and our Deal of the Day products, EBITDA decreased by 15% compared to the previous year.

Highlights[1,2,3]

(in thousands of Canadian dollars– except share information)

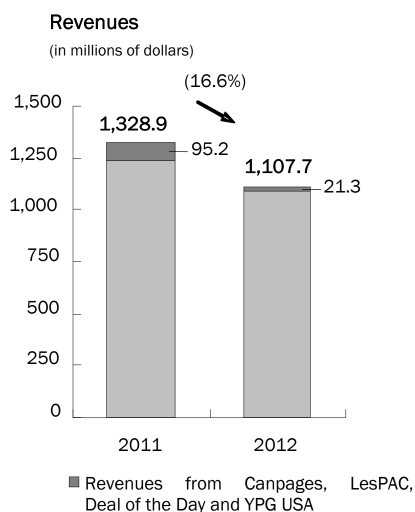
	Years ended December 31,	
	2012	2011
Revenues	$ 1,107,715	$ 1,328,866
Income from operations before depreciation and amortization, impairment of goodwill intangible assets and property, plant and equipment, acquisition-related costs and restructuring and special charges (EBITDA)	$ 570,600	$ 679,707
Net loss	$ (1,954,005)	$ (2,828,999)
Basic loss per share attributable to common shareholders[4]		
From continuing operations	$ (70.66)	$ (97.66)
Total	$ (70.66)	$ (102.14)
Cash flows from operating activities from continuing operations	$ 238,573	$ 336,573
Free cash flow from continuing operations[3]	$ 198,338	$ 275,174

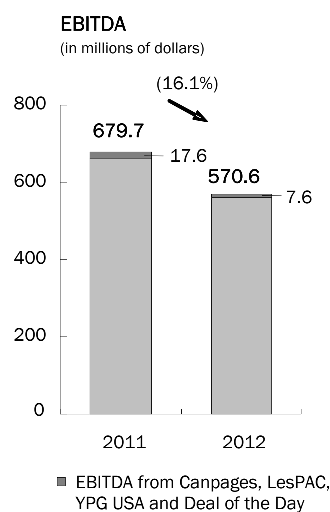
[1] On March 25, 2011, the Company announced that it had reached a definitive agreement to sell Trader Corporation. Consequently, the results of the Vertical Media segment are presented as discontinued operations. The transaction closed on July 28, 2011.

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

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

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





Performance Relative to Business Strategy

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

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

Execute the Yellow Pages 360° Solution Sales Approach

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

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

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

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

Deliver Superior Customer Value

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

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

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

Lead our Industry Transformation

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

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

YellowAPI.com – As at December 31, 2012, over 2,500 developers had signed up to use our platform compared to 1,500 at the same period last year. These developers work on creating new digital applications using YPG's business database. Since its initial launch in late 2010, YellowAPI.com has embodied YPG's digital leadership and gained vast industry recognition. YellowAPI plays a

key role in the Canadian developer community, notably by participating in organizations such as HackDays (hackdays.ca), which brings together innovative developers across Canada. YellowAPI contains a list of 1.5 million Canadian businesses and enhanced content on over 300,000 businesses. In the fourth quarter of 2012, YPG and Yahoo! Canada announced they had expanded their six-year partnership to provide Yahoo! Canada users with an enhanced local search experience due in large part to YPG's YellowAPI technology. Partnering with Yahoo! Canada enables YPG to extend its advertisers' reach on a platform that is outside its network of properties.

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

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

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

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

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

Consolidated Operating and Financial Results

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

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

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

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

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

Analysis of Consolidated Operating and Financial Results

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

Fiscal 2012 versus 2011

Revenues

Revenues decreased by 16.6% to $1,107.7 million during 2012 compared with $1,328.9 million for 2011. On a comparable basis, revenues decreased by 11.9% during 2012. The decrease for the year ended December 31, 2012 is due to lower print revenues, primarily amongst larger advertisers who are reducing their advertising spend. 18% of renewing advertisers[1] experienced a decrease in spending over the last twelve months, unchanged versus last year. Advertisers experiencing a decrease in spending are mainly larger advertisers, as we need to further adjust our digital product and service offering to better meet their advertising needs. However, 51% of renewing advertisers[1] experienced an increase in spending over the last twelve months, as compared to 43% last year.

As at December 31, 2012, the number of advertisers, excluding Canpages' advertisers, was 309,000 compared to 340,000 as at December 31, 2011, reflecting a decrease of 9.1%. During the last 12 months, YPG acquired approximately 17,000 new advertisers versus 23,000 new advertisers last year. Advertiser renewal decreased to 86% as at December 31, 2012 compared to 87% as at December 31, 2011. The average revenue per advertiser (ARPA) decreased to $3,300 during 2012, as compared to $3,400 in 2011.

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

Although online revenue growth is not expected to compensate for the declining revenue in our traditional print offerings in the near future, our 360º Solution strategy is showing positive signs. As at December 31, 2012, 35% of our advertisers had purchased an online placement product compared to 19% in 2011. Also, 8% had purchased a mobile placement product compared to 1% last year. As at December 31, 2012, our Revenue Generating Units[3] (RGU) per advertiser increased to 1.74 compared to 1.68 for the same period last year. The increase demonstrates the progress we are making through our 360° Solution strategy (defined as advertisers who subscribe to three product categories or more).

EBITDA

EBITDA decreased by $109.1 million to $570.6 million during 2012 compared with $679.7 million in 2011. The decrease in EBITDA is due principally to print revenue pressure, as our new digital products are not compensating for the loss in print revenues. Our EBITDA margin for 2012 was 51.5% compared to 51.1% for 2011. Lower revenues were offset by lower bad debts and general cost containment efforts.

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

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

General and administrative expenses decreased by $57.8 million to $198.4 million during 2012 compared with $256.2 million for 2011. The migration of Canpages within YPG resulted in a cost reduction of $14 million for the year ended December 31, 2012. The decrease for the year ended December 31, 2012 is also attributable to lower bad debts of approximately $21.1 million as well as general cost containment measures including changes to our employees' pension and post-retirement benefits which included a non-cash benefit of $13.3 million.

[1] Renewing advertisers exclude Mediative, Canpages and Wall2Wall.
[2] Source: comScore Media Metrix Canada.
[3] Revenue Generating Units measures the number of product groups selected by advertisers.

Depreciation and amortization

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

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

During the first quarter of 2012, management concluded that indicators that the Company's assets may have been impaired existed, requiring the Company to perform an impairment test. Also, as a result of the closing of the Recapitalization during the fourth quarter of 2012, (refer to Section 3 – Liquidity and Capital Resources), and the issuance of new debt, shares and warrants, pursuant to the Recapitalization, and in the context of its annual impairment testing, the Company determined that the recoverability of certain of its assets had to be reviewed for impairment purposes. Consequently, we recorded charges of $3,267.8 million in 2012, related to the impairment of goodwill and certain of our intangible assets and property, plant and equipment. The newly established fair value is now consistent with the valuation of the new debt instruments and share price as of December 31, 2012.

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

Acquisition-related costs

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

Restructuring and special charges

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

Financial charges

Financial charges increased by $15.7 million to $146.3 million during 2012 compared with $130.6 million for 2011. This increase is mainly attributable to a gain recorded on the repurchase of preferred shares, Series 1 and 2 and Medium Term Notes of $38.8 million for the year ended December 31, 2011. Excluding this gain, financial charges decreased by $23.1 million for the year ended December 31, 2012 compared to the same period last year. The decrease for the year is mainly attributable to lower interest expense and a decrease of the amortization of deferred financing costs. The lower interest expense is attributable to a lower level of indebtedness as a result of buyback activities of Medium Term Notes and repayment of commercial paper borrowings as well as repayments under the Credit Facility in 2011 and 2012. The positive impact of lower levels of indebtedness on interest expense was partly offset by higher borrowing costs resulting from our credit ratings downgrades. The decrease in interest was partly offset by higher charges related to derivative financial instruments of $18.5 million in 2012 compared to $12.5 million in 2011. The charge in 2012 relates to an option associated with our investment in an associate while the charge in 2011 relates mainly to the settlement of a total return swap. As at December 31, 2012, the effective average interest rate on our debt portfolio was 9.1% following the implementation of the Recapitalization compared to 6.2% as at December 31, 2011.

Gain on settlement of debt

We recorded a gain of $978.6 million on the settlement of debt pursuant to the Recapitalization, net of related fees of $69.5 million, write-off of deferred financing costs of $16.3 million, deferred gains of $5.5 million, an equity component of $7.2 million and a derivative component of $0.6 million, associated with our previous debt instruments. Upon closing of the Recapitalization in the fourth quarter of 2012, $16.3 million of recapitalization costs recorded in the second and third quarters of 2012 were reclassified to gain on settlement of debt.

Dividends on preferred shares, Series 1 and 2

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

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

Provision for income taxes

The combined statutory provincial and federal tax rate was 26.3% and 27.9% for the years ended December 31, 2012 and 2011, respectively. The Company recorded a recovery of $75.9 million for the year compared with an expense of $87.1 million in 2011. The Company recorded a recovery of 3.7% of the loss for the year ended December 31, 2012. The difference between the effective and the statutory rates in 2012 is due to a gain on settlement of debt offset by the unrecognized capital losses on investment of subsidiaries and to an impairment charge of $3,267.8 million which is not fully deductible for tax purposes. Excluding these items, the effective tax rate in 2012 would have been in line with the statutory rate.

The Company recorded an expense of 3.4% of the loss for the year ended December 31, 2011. The difference between the effective and the statutory rates in 2011 is due to the impairment of goodwill and intangible assets charge of $2,900 million which is not fully deductible for tax purposes as well as the non-deductibility of certain expenses for tax purposes such as the impairment of our investment in Ziplocal, LP (Ziplocal).

Impairment of investment in associate

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

(Earnings) losses from investments in associates

During 2012, we recorded earnings from our investment in an associate in the amount of $1.9 million which includes a gain of $2.1 million related to the revaluation of our investment in Acquisio. Effective January 1, 2012, we no longer account for the Acquisio investment using the equity method. Our (earnings) losses from investments in associates include the amortization of intangible assets in connection with these equity investments. During 2011, we recorded our share of losses from our investments in associates in the amount of $12.1 million, which included our share of losses from Ziplocal of $10.6 million. No share of losses was recorded from our investment in Ziplocal in 2012 as this investment was written-off as described above.

Net loss from discontinued operations

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

Included in the results from discontinued operations of the automotive and generalist business are revenues of $148.1 million for the year ended December 31, 2011.

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

Net loss

The net loss decreased to $1,954 million in 2012 compared with $2,829 million in 2011. The decrease in the net loss of $875 million for the year ended December 31, 2012 is mainly due to the gain on settlement of debt of $978.6 million recorded pursuant to the Recapitalization, a decrease in depreciation and amortization of $56.6 million, a decrease in the provision for income taxes of $163.1 million, the impairment of our Ziplocal investment of $50.3 million and the loss from our divestiture of Trader Corporation of $120.9 million in 2011, offset by lower EBITDA of $109.1 million, a higher impairment charge of goodwill, intangible assets and certain property, plant and equipment of $367.8 million, restructuring and special charges of $18.8 million and financial charges of $15.7 million.

Fiscal 2011 versus 2010

Revenues

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

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

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

EBITDA

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

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

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

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

Depreciation and amortization

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

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

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

Acquisition-related costs

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

Restructuring and special charges

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

Financial charges

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

Gain on disposal of subsidiary

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

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

Dividends on preferred shares, Series 1 and 2

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

Provision for income taxes

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

Impairment of investment in associate

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

Share of losses from investments in associates

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

Loss from discontinued operations

On March 25, 2011, Yellow Media announced that it had reached a definitive agreement to sell Trader Corporation. The transaction closed on July 28, 2011. The real estate and LesPAC businesses were excluded from the divestiture. The Company sold the assets of LesPAC on November 14, 2011. The real estate business continues to be owned and managed by YPG. As a result, we reclassified the results of the automotive and generalist verticals as discontinued operations.

Included in the results from discontinued operations of the automotive and generalist business are revenues of $148.1 million for the year ended December 31, 2011 compared with $254 million for the same period last year. The results are not comparable as we completed the sale of Trader Corporation on July 28, 2011.

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

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

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

Net (loss) earnings

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

Summary of Consolidated Quarterly Results

Quarterly Results

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

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

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

[2] Upon closing of the Recapitalization in the fourth quarter of 2012, $5.5 million and $10.8 million of recapitalization costs recorded in the second and third quarters of 2012, respectively, have been reclassified to gain on settlement of debt. The change in presentation of recapitalization costs and income from operations were made in the prior periods to conform to the current period's presentation.

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

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

Internal reorganizations and cost containment initiatives resulted in restructuring and special charges impacting some of our quarterly results in 2011 and 2012. Net earnings for 2011 were affected by depreciation and amortization of intangible assets

related to the acquisition of Canpages. We recorded a loss related to our disposal of Trader Corporation and an impairment of our investment in Ziplocal in the first and second quarters of 2011, respectively. In addition, during the third quarter of 2011, the first quarter of 2012 and the fourth quarter of 2012, we recorded impairment charges of $2,900 million, $2,967.8 million and $300 million, respectively, related to the impairment of goodwill, certain of our intangible assets and property, plant and equipment.

Upon closing of the Recapitalization in the fourth quarter of 2012, $5.5 million and $10.8 million of recapitalization costs recorded in the second and third quarters of 2012, respectively, were reclassified to gain on settlement of debt. The change in presentation of recapitalization costs and income from operations were made in the prior periods to conform to the current period's presentation.

Analysis of fourth quarter 2012 results

Revenues

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

EBITDA

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

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

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

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

Depreciation and amortization

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

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

Following the closing of the Recapitalization during the fourth quarter of 2012, and the issuance of new debt, shares and warrants, pursuant to the Recapitalization, and in the context of its annual impairment testing, the Company determined that the recoverability of certain of its assets had to be reviewed for impairment purposes. As a result of the impairment test, we recorded an impairment charge of $300 million in the fourth quarter of 2012 related to certain of our intangible assets and property, plant and equipment. The newly established fair value is now consistent with the valuation of the new debt instruments and share price as at December 31, 2012.

Acquisition-related costs

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

Restructuring and special charges

We incurred $18.1 million of restructuring and special charges during the fourth quarter of 2012 compared with $14.3 million for the same period last year. The costs incurred during the fourth quarter of 2012 were associated with a workforce relocation, a workforce reduction and the termination and renegotiation of certain contractual obligations. The costs incurred during the fourth quarter of 2011 were associated with a workforce reduction and the termination of contractual obligations as

a result of the elimination of the publication of certain overlapping directories and the integration of our Canpages operations into YPG.

Financial charges

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

Gain on settlement of debt

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

Dividends on preferred shares, Series 1 and Series 2

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

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

Provision for income taxes

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

(Earnings) losses from investments in associates

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

Net earnings

Net earnings increased by $778.2 million to $823.5 million during the fourth quarter of 2012 compared with $45.3 million for the same period last year. The increase for the quarter is mainly due to the gain on the settlement of debt of $994.9 million, a decrease in the provision for income taxes of $108.7 million, offset by the impairment charge related to certain of our intangible assets and property, plant and equipment of $300 million recorded in the fourth quarter of 2012.

3. Liquidity and Capital Resources

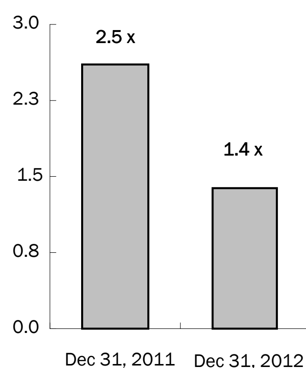
This section examines the Company's capital structure, sources of liquidity and various financial instruments including its debt instruments.

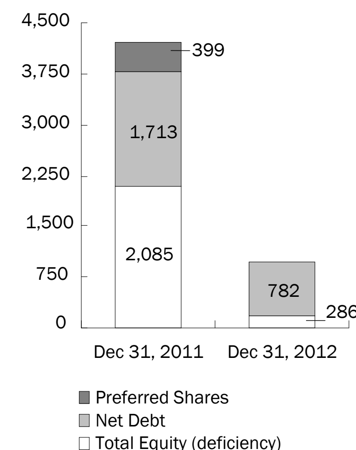
Financial Position

Capital Structure

(in thousands of Canadian dollars)

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





[1] Latest twelve month income from operations before depreciation and amortization, impairment of goodwill, intangible assets and property, plant and equipment, acquisition-related costs and restructuring and special charges, giving effect to the divestitures (Latest Twelve Month EBITDA). Latest twelve month EBITDA is a non-IFRS measure and may not be comparable with similar measures used by other publicly traded companies. Please refer to page 2 for a definition of EBITDA.

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

The net debt to Latest Twelve Month EBITDA[1] ratio as at December 31, 2012 was 1.4 times compared to 2.5 times as at December 31, 2011. The improvement is due to a lower level of indebtedness following the implementation of the Recapitalization partially offset by lower EBITDA.

Recapitalization

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

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

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

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

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

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

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

Medium Term Notes

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

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

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

Credit facility

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

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

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

The Credit Facility was cancelled on the Effective Date.

[1] Latest twelve month income from operations before depreciation and amortization, impairment of goodwill, intangible assets and property, plant and equipment, acquisition-related costs and restructuring and special charges, giving effect to the divestitures (Latest Twelve Month EBITDA). Latest twelve month EBITDA is a non-IFRS measure and may not be comparable with similar measures used by other publicly traded companies. Please refer to page 2 for a definition of EBITDA.

Convertible Debentures

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

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

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

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

Cumulative Redeemable Preferred Shares

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

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

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

Rate Reset Preferred Shares

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

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

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

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

Cumulative Exchangeable Preferred Shares

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

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

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

Financial Instruments Issued upon Implementation of the Recapitalization

Senior Secured Notes

On December 20, 2012, the Company, through its subsidiary YPG Financing Inc., issued $800 million of 9.25% Senior Secured Notes maturing November 30, 2018.

Interest on the Senior Secured Notes is payable in cash quarterly in arrears in equal instalments at 9.25% per annum on the last day of February, May, August and November of each year. The initial interest payment will be payable on

February 28, 2013, and will represent interest accrued from and including December 20, 2012, to, but excluding, February 28, 2013.

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

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

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

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

Mandatory Redemption

Pursuant to the indenture governing the Senior Secured Notes, the Company is required to use an amount equal to 75% of its consolidated Excess Cash Flow for the immediately preceding six-month period ending March 31 or September 30, as applicable, to redeem on a semi-annual basis on the last day of May and November of each year, commencing on May 31, 2013, the Senior Secured Notes at a redemption price equal to 100% of the principal amount thereof from holders on a pro rata basis, subject to the Company maintaining a minimum cash balance of $75 million immediately following the mandatory redemption payment. Excess Cash Flow, as defined in the indenture governing the Senior Secured Notes, means the aggregate cash flow from operating activities adjusted for, among other things, payments relating to interest, taxes, long-term employee compensation plans, certain pension plan contribution payments and the acquisitions of property, plant, equipment and intangible assets. The Company is required to make minimum annual aggregate mandatory redemption payments of (i) $100 million for the combined payments due on May 31, 2013 and November 30, 2013, (ii) $75 million for the combined payments due on May 31, 2014 and November 30, 2014, and (iii) $50 million for the combined payments due on May 31, 2015 and November 30, 2015.

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

Optional Redemption

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

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

Exchangeable Debentures

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

Interest on the Exchangeable Debentures accrues at a rate of 8% per annum if, for the applicable interest period, it is paid in cash or 12% per annum if the Company makes a Payment in Kind (PIK) election to pay interest in respect of all or any part of the then outstanding Exchangeable Debentures in additional Exchangeable Debentures. Interest on the Exchangeable Debentures is payable semi-annually in arrears in equal instalments on the last day of May and November of each year. The initial interest payment is payable on May 31, 2013, and will represent interest accrued from and including December 20, 2012, to, but excluding, May 31, 2013..

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

The indenture governing the Exchangeable Debentures contains restrictive covenants, including restrictions on the incurrence of additional indebtedness, the payment of dividends and other payment restrictions, investments, the creation of liens, sale

and leaseback transactions, mergers, consolidations and sales of assets and certain transactions with affiliates. The indenture does not contain the obligation to maintain financial ratios. Financial ratio restrictions only apply upon incurrence of indebtedness and other transactions.

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

Exchange Option

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

Optional Redemption

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

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

Liquidity

The Company's principal source of liquidity is cash generated from operations and cash on hand. The Company expects to generate sufficient liquidity to fund capital expenditures, working capital requirements and current obligations, including the mandatory repayments on the Senior Secured Notes. The Company had approximately $134 million of cash as at February 4, 2013.

Share data

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

Outstanding Share Data

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

[1] These figures do not reflect the Recapitalization.

Shares

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

Warrants

On December 20, 2012, the Company issued a total of 2,995,506 Warrants.

Each Warrant is transferable and entitles the holder to purchase one New Common Share at an exercise price of $28.16 per Warrant payable in cash at any time on or prior to December 20, 2022.

Exchangeable Debentures

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

Contractual Obligations and Other Commitments

Contractual obligations

(in thousands of Canadian dollars)

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

1 Principal amount.

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

Obligations under finance leases

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

Operating leases

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

Purchase obligations

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

Pension Obligations

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

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

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

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

Sources and Uses of Cash

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

Sources and Uses of Cash

(in thousands of Canadian dollars)

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

Cash flows from operating activities from continuing operations

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

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

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

Acquisition of property, plant, equipment and intangible assets, net of lease inducements

(in thousands of Canadian dollars)

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

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

Given there was no recent business acquisition, no investments were made in transition capital expenditures during the year ended December 31, 2012 compared to $5 million for the previous year.

Growth capital expenditures relate to the development and implementation of new technology and software aimed at new initiatives as we continue our transformation to a leading technology and digital company offering media and marketing solutions to SMEs across Canada. During the year ended December 31, 2012, these amounted to $22 million compared to $34.3 million for the previous year. We spent less in 2012 compared to 2011 as we focused on developing an updated technological plan to ensure our successful transformation.

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

Cash flows used in financing activities from continuing operations

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

Financial and Other Instruments

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

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

Derivative Instruments

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

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

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

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

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

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

We currently have an agreement to purchase the remaining shares of an investment in an associate at a pre-determined multiple. This option qualifies as a derivative liability. Because the option value is greater than the fair value of the remaining shares, we reported a charge of $18.5 million for the year ended December 31, 2012. In 2011, we reported a charge of $3.5 million on derivatives, excluding the loss on derivatives designated as cash flow hedges in prior periods transferred to earnings in the period and payments on interest rate swaps that have discontinued hedge accounting. In addition, we reported an adjustment amount of $4.2 million and a redemption premium stipulated under a Total Return Swap of $5.3 million for 2011.

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

4. Free cash flow

Free cash flow from continuing operations

Free cash flow from continuing operations

(in thousands of Canadian dollars)

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

Dividends on Common Shares

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

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

5. Critical Assumptions

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

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

Intangible assets, goodwill and property, plant and equipment

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

Yellow Media assesses impairment by comparing the recoverable amount of an identifiable intangible asset or goodwill with its carrying value. The determination of the recoverable amount involves significant management judgment. During 2012, it was determined that the recoverable amount of goodwill was $nil. As such, its carrying value was written-off completely.

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

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

Employee future benefits

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

Income taxes

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

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

New Accounting Standards

IAS 1 (Revised) – Presentation of Financial Statements

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

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

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

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

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

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

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

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

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

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

IFRS 9 – Financial Instruments

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

Key requirements of IFRS 9 are described as follows:

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

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

IFRS 10 – Consolidated Financial Statements

IFRS 10 replaces the consolidation requirements in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation - Special Purpose Entities*. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted provided IFRS 11, *Joint Arrangements*, and IFRS 12, *Disclosure of Interests in Other Entities* and the related amendments to IAS 27, *Consolidated and Separate Statements* and IAS 28, *Investments in Associates* (the "package of five") are adopted at the same time. Based on a preliminary assessment, Yellow Media does not expect any significant impact on the financial statements upon adoption.

IFRS 11 – Joint Arrangements

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

IFRS 12 – Disclosure of Interests in Other Entities

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

IFRS 13 – Fair Value Measurement

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

IAS 19 (Revised) – Employee Benefits

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

The amendments require retroactive application. Based on the preliminary assessment, when Yellow Media will apply the amendments for the first time for the periods in the year ending December 31, 2013, the net financial charges for the year ended December 31, 2012 will increase by $10.9 million with the corresponding adjustment being recognized in the post-

employment benefits obligation. The amendments will also enhance disclosure requirements for the Company's defined benefit plans.

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

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

6. Risks and Uncertainties

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

Understanding and managing risks are important parts of YPG's strategic planning process. The Board requires that our senior management identify and properly manage the principal risks related to our business operations. To understand and manage risks at YPG, our Board and senior management analyze risks in three major categories:

1. Strategic risks - which are primarily external to the business;
2. Financial risks - generally related to matters addressed in the Financial Risk Management Policy and in the Pension Statement of Investment Policy and Procedures; and,
3. Operational risks - related principally to risks across key functional areas of the organization.

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

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

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

The Corporation may be forced to reduce its prices or offer and perform other services in order to remain competitive. The Corporation's failure to compete effectively with its current or future competitors could have a number of impacts such as a reduction in its advertiser base, lower rates and increased costs. This could have a material adverse effect on the Corporation, its business, results from operations and financial condition.

We actively monitor and assess our competition and determine our competitiveness within each of our markets. We address this competition by ensuring we best meet customer needs through targeted offers and pricing.

We continuously enhance our value proposition with initiatives targeting the following objectives:

- Enhancement of our product offerings and extension of our services to customers;
- Improvement of user experience; and
- Growth of traffic to our network of properties.

We also use multimedia campaigns to promote our brand and deliver our message to the market reinforcing the value our segments offer.

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

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

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

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

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

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

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

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

The continuing transition in the media and publishing industries towards more digital and targeted content is driving us to develop new products that leverage the demand for new media while ensuring that our print products remain a key component of our advertisers' media mix.

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

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

The ability of the Corporation to make scheduled payments under its indebtedness will depend on, among other things, its future operating performance. There can be no assurance that the Corporation will be able to generate sufficient cash from its operations to pay its debt obligations. Each of these factors is, to a large extent, subject to economic, financial, competitive, operational and other factors, many of which are beyond the Corporation's control.

There can be no assurance that the Corporation will continue to be able to obtain on a timely basis sufficient funds on terms acceptable to the Corporation to provide adequate liquidity and to finance the operating and capital expenditures necessary to overcome the challenges associated with the transformation of its business and support its business strategy if cash flows from operations and cash on hand are insufficient.

Failure to generate sufficient funds, whether from operations or debt or equity financings or refinancing transactions, could require the Corporation to delay or abandon some of its anticipated expenditures or to modify its business strategy and could have a material adverse effect on the Corporation, its business, results from operations and financial condition. Furthermore, competitors with greater liquidity or their ability to raise money more easily and on less onerous terms could create a competitive disadvantage for the Corporation.

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

The Corporation's substantial amount of debt could have material adverse effects on the Corporation, its business, results from operations and financial condition. For example, it could:

- increase the Corporation's vulnerability to adverse economic and industry conditions;
- require the Corporation to dedicate a substantial portion of its cash flows from operations to make payments on its debt, thereby reducing funds available for operations, future business opportunities or other purposes;
- limit the Corporation's flexibility in planning for, or reacting to, changes in its business and its industry;
- place the Corporation at a competitive disadvantage compared to its competitors that have less debt; and
- limit the Corporation's ability to obtain additional financing, if needed, for working capital, capital expenditures, acquisitions, debt service requirements or other purposes.

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

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

The Corporation is currently and may be required to make incremental contributions to its pension plans in the future depending on various factors including future returns on pension plan assets, long-term interest rates and changes in pension regulations, which may have a negative effect on the Corporation's liquidity and results from operations. The Corporation is currently making incremental contributions to its pensions plans to reduce their actuarial solvency deficits.

The funding requirements of the Corporation's pension plans, resulting from valuations of its pension plan assets and liabilities, depend on a number of factors, including actual returns on pension plan assets, long-term interest rates, plan demographic and pension regulations. Changes in these factors could cause actual future contributions to significantly differ from the Corporation's current estimates and could require the Corporation to make incremental contributions to its pension plans in the future and, therefore, could have a negative effect on the Corporation's liquidity, business, results from operations and financial condition.

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

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

We have a Billing and Collection Services Agreement with Bell Canada (up to 2016), with Telus (up to 2031), with MTS Allstream (up to 2036) and with Bell Aliant (up to 2037). Through these agreements, our billing is included as a separate line item on the telephone bills of Bell, TELUS, MTS Allstream Inc. and Bell Aliant customers who use our services respectively. Bell Canada, TELUS, MTS Allstream Inc. and Bell Aliant (the Telco Partners) contract with third parties to conduct monthly billing of customers who use them as their local telephone service providers. In addition, the Telco Partners provide collection services for YPG with those advertisers who are also their customers. Additionally, YPG has entered into publishing agreements with each Telco Partner. If YPG fails to perform its obligations under these agreements and the agreements are consequently terminated by such Telco Partner, other agreements with such Telco Partners may also be terminated, including the Bell Canada Trademark License Agreement, the TELUS Trademark License Agreement, the MTS Allstream Inc. Branding and Trademark Agreement and the Bell Aliant Branding and Trademark Agreement, as well as non-competition covenants we benefit from with such Telco Partners.

We have agreements with outside service suppliers to print and distribute our directories and publications. These agreements are for services that are integral to our business.

The failure of the Telco Partners or any of the other suppliers to fulfill their contractual obligations under these agreements (including in the event that any of them seek protection under Canadian bankruptcy laws), could result in a material adverse effect on our business until we could find a replacement supplier for those services.

Advertisers who do not use the Telco Partners as their local telephone provider are billed directly by YPG. Our internal billing and collection services are cost-effective and can be grown as our customer base expands.

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

YPG relies heavily on its existing brands and trademarks for a significant portion of its revenues. Failure to adequately maintain the strength and integrity of these brands and trademarks, or to develop new brands and trademarks, could adversely affect our results from operations and our financial condition.

It is possible that third parties could infringe upon, misappropriate or challenge the validity of YPG's trademarks or our other intellectual property rights. This could have a material adverse effect on our business, our financial condition or our operating results. The actions that YPG takes to protect its trademarks and other proprietary rights may not be adequate. Litigation may be necessary to enforce or protect YPG's intellectual property rights, its trade secrets or to determine the validity and scope of the proprietary rights of others. We cannot ensure that we will be able to prevent infringement of our intellectual property rights or misappropriation of our proprietary information.

Any such infringement or misappropriation could harm any competitive advantage we currently derive, or may derive, from our proprietary rights. Third parties may assert infringement claims against YPG. Any such claims and any resulting litigation could subject YPG to significant liability for damages. An adverse judgement arising from any litigation of this type could require YPG to design around a third party's patent or to license alternative technology from another party. In addition, litigation may be time-consuming and expensive to defend against and could result in the diversion of YPG's time and resources. Any claims from third parties may also result in limitations on YPG's ability to use the intellectual property subject to these claims.

We devote significant resources to the development and protection of our trademarks and take a proactive approach to protecting our brand exclusivity.

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

Certain non-management employees of YPG are unionized. Current union agreements range between one to five years in duration and are subject to expiration at various dates in the future. If YPG is unable to renew these agreements as they come up for renegotiation from time to time, it could result in work stoppages and other labour disturbances which could have a material adverse effect on our business. Additionally, if a greater percentage of the Corporation's workforce becomes unionized, this could have a material adverse effect on its business, results from operations and financial condition.

We manage labour relations risk by ensuring that collective agreements' expiration dates are strategically positioned to minimize potential disruptions on both a regional (geographic) or on a functional (sales and clerical) basis. Also, every negotiation process to renew a collective agreement includes a cross-functional team in which all business units are represented. This team has the responsibility to develop and ultimately implement an effective contingency plan that would allow YPG to continue its day to day operations with minimal disruptions in the event of a labour dispute.

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

In the normal course of the Company's activities, the tax authorities are carrying out ongoing reviews. In that respect, the Corporation is of the view that all expenses claimed by the different entities of the group are reasonable and deductible and that the cost amount and capital cost allowance claims of such entities' depreciable properties have been correctly determined. There is no assurance that the tax authorities may not challenge these positions. Such challenge, if successful, may have an adverse effect on our earnings and may affect the return to shareholders.

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

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

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

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

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

The Corporation might be required to record additional impairment charges

In the third quarter of 2011, the Corporation recorded a $2,900 million goodwill and intangible assets impairment charge. In the first quarter of 2012, the Corporation recorded an additional $2,967.8 million goodwill and intangible assets impairment charge. In the fourth quarter of 2012, the Corporation recorded an additional $300 million impairment charge related to certain of its intangible assets and property, plant and equipment. The Corporation may be subject to impairment losses that would reduce its reported assets and earnings. Economic, legal, regulatory, competitive, contractual and other factors may affect the value of identifiable intangible assets. If any of these factors impair the value of these assets, accounting rules would require the Corporation to reduce their carrying value and recognize an additional charge, which would reduce the reported assets and earnings of the Corporation in the year the impairment charge is recognized.

7. Controls and Procedures

As a public entity, we must take every step to ensure that material information regarding our reports filed or submitted under securities legislation fairly presents the financial information of YPG. Responsibility for this resides with management, including the President and Chief Executive Officer and the Chief Financial Officer. Management is responsible for establishing, maintaining and evaluating disclosure controls and procedures, as well as internal control over financial reporting.

Disclosure Controls and Procedures (DC&P)

The evaluation of the design and effectiveness of DC&P (as defined in National Instrument 52-109) was performed under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. They concluded that The Company's DC&P were effective, as at December 31, 2012.

Internal Control over Financial Reporting (ICFR)

The design and effectiveness of ICFR (as defined in National Instruments 52-109) were evaluated under the supervision of the President and Chief Executive Officer and Chief Financial Officer. Based on the evaluations, they concluded that the Company's ICFR was effective, as at December 31, 2012.

Management also concluded that during the quarter beginning on October 1, 2012 and ended on December 31, 2012, no changes were made to the Company's ICFR that has materially affected, or is reasonably likely to materially affect the Company's ICFR.