

CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW MEDIA INC. (PREVIOUSLY YELLOW PAGES INCOME FUND)

December 31, 2010

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Independent Auditor's Report

To the shareholders of Yellow Media Inc.

We have audited the accompanying consolidated financial statements of Yellow Media Inc. (previously Yellow Pages Income Fund), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of earnings, comprehensive income, equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

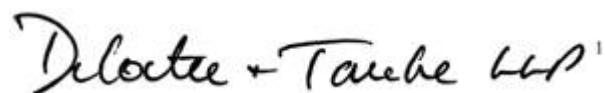
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Yellow Media Inc. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



February 9, 2011
Montréal, Québec

¹Chartered accountant auditor permit No. 10800

Consolidated Balance Sheets

As at December 31,

(in thousands of Canadian dollars)

	2010	2009
		(as adjusted ¹)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 33,848	\$ 36,170
Restricted cash (Note 4)	35,477	-
Accounts receivable	216,768	215,356
Prepaid expenses	7,298	6,480
Deferred publication costs and other assets	109,322	130,844
Future income taxes (Note 16)	40,657	28,812
	443,370	417,662
DEFERRED PUBLICATION COSTS	9,701	8,358
FIXED ASSETS (Note 6)	112,445	95,425
OTHER ASSETS	6,845	3,111
INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES (Note 7)	64,503	34,977
DERIVATIVE FINANCIAL INSTRUMENTS (Note 25)	6,145	2,612
INTANGIBLES (Note 8)	2,123,776	2,008,499
GOODWILL (Note 9)	6,508,984	6,342,580
FUTURE INCOME TAXES (Note 16)	24,479	28,382
	\$ 9,300,248	\$ 8,941,606
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 10)	\$ 263,170	\$ 210,065
Dividends payable	27,820	34,220
Deferred revenues	112,839	104,662
Derivative financial instruments (Note 25)	-	76
Future income taxes (Note 16)	71,064	34,248
Current portion of long-term debt (Note 12)	3,669	2,254
	478,562	385,525
DEFERRED CREDITS	21,165	23,452
FUTURE INCOME TAXES (Note 16)	197,179	106,253
ACCRUED BENEFIT LIABILITIES (Note 11)	101,474	94,404
DERIVATIVE FINANCIAL INSTRUMENTS (Note 25)	-	719
DEFERRED CONSIDERATION (Note 3)	14,567	-
LONG-TERM DEBT (Note 12)	2,218,203	2,225,720
EXCHANGEABLE AND CONVERTIBLE INSTRUMENTS (Note 13)	319,029	83,886
PREFERRED SHARES (Note 14)	446,725	472,777
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF YELLOW MEDIA INC.	5,450,691	-
EQUITY ATTRIBUTABLE TO OWNERS OF THE FUND	-	5,224,740
EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS (Note 15)	52,653	324,130
	\$ 9,300,248	\$ 8,941,606

¹ As adjusted per adoption of new accounting policies - see Note 2

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

Approved on behalf of Yellow Media Inc. by



Marc L. Reisch, Director



Stuart H.B. Smith, Director

Consolidated Statements of Earnings

For the years ended December 31,

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

	2010	2009
		(as adjusted ¹)
Revenues	\$ 1,679,860	\$ 1,639,884
Operating costs	781,016	746,446
Conversion and rebranding costs	48,529	-
Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and restructuring and special charges	850,315	893,438
Depreciation and amortization	270,117	142,414
Acquisition-related costs (Note 24)	30,539	-
Impairment of goodwill	-	315,000
Restructuring and special charges (Note 24)	33,903	40,316
Income from operations	515,756	395,708
Financial charges, net (Note 23)	144,796	114,600
Gain on deemed disposition of equity investment (Note 3)	(2,374)	-
Gain on disposal of subsidiary (Note 5)	(2,338)	-
Earnings before dividends on Preferred shares, series 1 and 2, income taxes, and share of losses from equity investees	375,672	281,108
Dividends on Preferred shares, series 1 and 2	21,171	22,427
Earnings before income taxes and share of losses from equity investees	354,501	258,681
Provision for income taxes (Note 16)	60,527	42,710
Share of losses from equity investees	19,939	7,089
Net earnings	\$ 274,035	\$ 208,882
Net earnings attributable to:		
Shareholders of Yellow Media Inc. ²	\$ 271,042	\$ 204,255
Non-controlling interests related to investments	(16,190)	552
Holders of Preferred shares, series 3, 5 and 7	19,183	4,075
	\$ 274,035	\$ 208,882
Basic earnings per share attributable to common shareholders of Yellow Media Inc.	\$ 0.53	\$ 0.40
Weighted average number of shares outstanding used in computing earnings per share (Note 19) ³	503,111,679	510,658,375
Diluted earnings per share attributable to common shareholders of Yellow Media Inc.	\$ 0.47	\$ 0.36
Weighted average number of share outstanding used in computing diluted earnings per share (Note 19) ³	640,050,287	612,387,219

¹ As adjusted per adoption of new accounting policies - see Note 2

² Included in the net earnings attributable to shareholders of Yellow Media Inc. for the year ended December 31, 2010 are net earnings attributable to Owners of the Fund for the period from January 1 until October 31, 2010.

³ Comparative amounts presented are trust units.

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

Consolidated Statements of Comprehensive Income

For the years ended December 31,

(in thousands of Canadian dollars)

	2010	2009
		(as adjusted ¹)
Net earnings	\$ 274,035	\$ 208,882
Other comprehensive income (loss), net of related income taxes:		
Net gain on derivatives designated as cash flow hedges ²	-	151
Net loss on derivatives designated as cash flow hedges in prior periods transferred to earnings in the year ³	348	3,507
Change in gains and losses on derivatives designated as cash flow hedges	348	3,658
Unrealized (loss) gain on available-for-sale investment in the year ⁴	(193)	418
Change in unrealized (loss) gain on available-for-sale financial asset	(193)	418
Unrealized loss on translating financial statements of self-sustaining foreign operations and foreign investees	(7,922)	(15,941)
Unrealized cumulative translation loss on disposition of self-sustaining foreign operations transferred to earnings in the year	1,172	-
Unrealized cumulative translation loss on deemed disposition of foreign equity investment transferred to earnings in the year	5,633	-
Change in unrealized gains on translating financial statements of self-sustaining foreign operations and foreign investees	(1,117)	(15,941)
Other comprehensive loss	(962)	(11,865)
Total comprehensive income	\$ 273,073	\$ 197,017
Total comprehensive income attributable to:		
Shareholders of Yellow Media Inc. ⁵	\$ 272,705	\$ 192,390
Non-controlling interests related to investments	(18,815)	552
Holders of Preferred shares, series 3, 5 and 7	19,183	4,075
	\$ 273,073	\$ 197,017

¹ As adjusted per adoption of new accounting policies - see Note 2

² Net of income taxes of nil (2009 - \$66)

³ Net of income taxes of \$164 (2009 - \$1.4 million)

⁴ Net of income taxes of nil (2009 - nil)

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

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

Consolidated Statements of Equity

For the years ended December 31, 2010 and 2009

(in thousands of Canadian dollars)

	2010									
	Share Capital					Accumulated Other Comprehensive Income (Loss)		Equity Attributable to Shareholders of Yellow Media Inc.		Equity Attributable to Non- controlling interests (Note 15)
	Common shares (Note 17)	Preferred Shares (Note 17)	Equity Component of Exchangeable and Convertible Instruments	Restricted shares	Contributed Surplus	Income (Loss) (Note 18)	Deficit	to Shareholders of Yellow Media Inc.	to Non- controlling interests (Note 15)	
Balance, December 31, 2009	\$ 6,062,039	\$ -	\$ 3,618	\$ (72,898)	\$ 128,226	\$ (2,734)	\$ (893,511)	\$ 5,224,740	\$ -	
Effect of adopting new accounting policy (Note 2)	-	-	-	-	-	-	-	-	324,130	
Balance, January 1, 2010, as adjusted	\$ 6,062,039	\$ -	\$ 3,618	\$ (72,898)	\$ 128,226	\$ (2,734)	\$ (893,511)	\$ 5,224,740	\$ 324,130	
Issuance of preferred shares, Series 7 (Note 17)	-	-	-	-	-	-	-	-	9,750	
Reclassification arising from the conversion to a corporation (Note 17)	-	333,880	-	-	-	-	-	333,880	(333,880)	
Reduction of capital (Note 17)	(2,000,000)	-	-	-	2,000,000	-	-	-	-	
Issuance (exchange) of shares	17,799	(5,000)	-	-	810	-	-	13,609	-	
Obligations under stock options granted	-	-	-	-	442	-	-	442	-	
Restricted shares (Note 20)	-	-	-	(14,491)	19,352	-	-	4,861	-	
Restricted shares - vested (Note 20)	-	-	-	9,254	(9,254)	-	-	-	-	
Redemption of exchangeable debentures (Note 13)	-	-	(3,618)	-	3,618	-	-	-	-	
Option on exchangeable and convertible instruments (Note 13)	-	-	10,139	-	-	-	-	10,139	-	
Business acquisitions (Note 3)	-	-	-	-	-	-	-	-	73,054	
Increased interest in a subsidiary	-	-	-	-	(3,315)	-	-	(3,315)	(1,586)	
Other comprehensive income	-	-	-	-	-	1,663	-	1,663	(2,625)	
Dividends on common shares	-	-	-	-	-	-	(402,719)	(402,719)	-	
Net earnings for the year	-	-	-	-	-	-	274,035	274,035	-	
Net loss attributable to non-controlling interests related to investments	-	-	-	-	-	-	16,190	16,190	(16,190)	
Dividends on Preferred shares, Series 3, 5 and 7	-	-	-	-	-	-	(22,834)	(22,834)	-	
Balance, December 31, 2010	\$ 4,079,838	\$ 328,880	\$ 10,139	\$(78,135)	\$ 2,139,879	\$ (1,071)	\$ (1,028,839)	\$ 5,450,691	\$ 52,653	

Consolidated Statements of Equity

For the years ended December 31, 2010 and 2009

(in thousands of Canadian dollars)

	2009							
	Unitholders' Capital (Note 17)	Equity Component of Exchangeable Debentures	Restricted Units	Contributed Surplus	Accumulated Other Comprehensive Income (Loss) (Note 18)	Deficit	Equity Attributable to Owners of the Fund	Equity Attributable to Non- controlling interests (Note 15)
Balance, December 31, 2008	\$ 6,144,416	\$ 12,542	\$ (58,303)	\$ 79,575	\$ 9,131	\$ (625,869)	\$ 5,561,492	\$ -
Issuance of units	43	-	-	-	-	-	43	-
Restricted units (Note 20)	-	-	(29,786)	1,946	-	-	(27,840)	-
Restricted units vested (Note 20)	-	-	15,191	(15,191)	-	-	-	-
Repurchase of units (Note 17)	(82,420)	-	-	52,972	-	-	(29,448)	-
Redemption of exchangeable debentures	-	(8,924)	-	8,924	-	-	-	-
Distributions	-	-	-	-	-	(471,897)	(471,897)	-
Other comprehensive income	-	-	-	-	(11,865)	-	(11,865)	-
Net earnings for the year	-	-	-	-	-	204,255	204,255	-
Balance, December 31, 2009	\$ 6,062,039	\$ 3,618	\$ (72,898)	\$ 128,226	\$ (2,734)	\$ (893,511)	\$ 5,224,740	\$ -
Effect of adopting new accounting policy (Note 2)	-	-	-	-	-	-	-	324,130
Balance, January 1, 2010, as adjusted	\$ 6,062,039	\$ 3,618	\$ (72,898)	\$ 128,226	\$ (2,734)	\$ (893,511)	\$ 5,224,740	\$ 324,130

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

Consolidated Statements of Cash Flows**For the years ended December 31,**

(in thousands of Canadian dollars)

	2010	2009
		(as adjusted ¹)
OPERATING ACTIVITIES		
Net earnings	\$ 274,035	\$ 208,882
Items not affecting cash and cash equivalents:		
Depreciation and amortization	270,117	142,414
Impairment of goodwill	-	315,000
Amortization and write-off of deferred financing costs	9,903	9,279
Accretion on exchangeable and convertible instruments	983	2,444
Gain on deemed disposition of equity investment	(2,374)	-
Gain on disposal of subsidiary before disposition costs	(5,545)	-
Net benefit plan costs	7,070	16,207
Non-cash derivative financial instruments	(739)	(368)
Stock compensation expense	21,851	1,946
Gain on purchase of Preferred shares, series 1 and 2, Exchangeable Debentures, credit facilities and Medium Term Notes, net	(4,187)	(42,763)
Future income taxes	31,253	29,774
Share of losses from equity investees	19,939	7,089
Other non-cash items	(3,501)	445
Change in operating assets and liabilities	27,731	59,838
	646,536	750,187
INVESTING ACTIVITIES		
Business acquisitions, net of cash acquired and bank indebtedness assumed (Note 3)	(124,257)	(25,189)
Acquisition of equity investments	(6,856)	(47,698)
Acquisition of intangible assets	(24,307)	(246)
Acquisition of fixed assets	(67,408)	(44,428)
Increased interest in a subsidiary	(4,901)	-
Proceeds from lease inducements	-	863
Restricted cash (Note 4)	(35,477)	-
	(263,206)	(116,698)
FINANCING ACTIVITIES		
Issuance of long-term debt	847,918	1,621,300
Repayment of long-term debt	(469,855)	(1,443,844)
Dividends to shareholders	(395,522)	(488,386)
Distributions to non-controlling interest	-	(1,634)
Proceeds from exercise of options	12	43
Repurchase of Preferred shares, series 1 and 2, Exchangeable Debentures, credit facilities and Medium Term Notes	(501,812)	(538,492)
Dividends on Preferred shares, series 3, 5 and 7	(22,834)	(3,722)
Issuance of Preferred shares, series 3 and 5	-	332,500
Issuance of convertible debentures (Note 13)	200,000	-
Repurchase of units	-	(40,905)
Restricted shares (Note 20)	(16,548)	(29,786)
Payments made on derivative financial instruments	(1,748)	(3,403)
Debt and preferred share issuance and other costs	(23,734)	(25,089)
	(384,123)	(621,418)
Effect of exchange rates changes on cash and cash equivalents denominated in foreign currencies	(1,529)	(955)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,322)	11,116
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	36,170	25,054
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 33,848	\$ 36,170
Supplemental disclosure of cash flow information (Note 21)		

¹ As adjusted per adoption of new accounting policies - see Note 2

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

1. Description

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

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

Yellow Media Inc., through subsidiaries, operates print and online directories, classified advertising and performance marketing solutions in all the Provinces of Canada. Also, Yellow Media Inc. operates Dealer.com, a leading provider of online marketing solutions in the United States.

References herein to Yellow Media Inc. represent the financial position, results of operations, cash flows and disclosures of Yellow Media Inc. and its subsidiaries on a consolidated basis.

2. Significant accounting policies

Basis of presentation

These consolidated financial statements (the “financial statements”) have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”).

Adoption of new accounting policies

The following standards were adopted effective January 1, 2010.

a) Section 1582, *Business Combinations*. Section 1582 provides the Canadian equivalent to International Financial Reporting Standards (“IFRS”) 3 *Business Combinations*. The new recommendations require measuring business acquisitions at the fair value of the acquired business, including the measurement at fair value of items such as non-controlling interests and contingent payment considerations. In addition, business acquisition-related costs including transaction costs and restructuring costs are expensed rather than capitalized.

b) Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling Interests*. Section 1601, together with Section 1602, replace Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements. The requirements in this Section are substantially converged with the portion of Section 1600 which established standards for the preparation of consolidated financial statements. Section 1602 is substantially converged with the portion of IAS 27, *Consolidated and Separate Financial Statements* that establishes standards for accounting for non-controlling interests in a subsidiary subsequent to a business combination. Section 1602 introduces a number of changes, including:

- in the consolidated balance sheets and consolidated statements of equity, non-controlling interests are now presented as a separate component of equity as opposed to a separate item on the balance sheet outside of equity;
- non-controlling interests are no longer recorded as a deduction in calculating net earnings and total comprehensive income. Instead, net earnings and each component of other comprehensive income are attributed to the shareholders of the Company and to the non-controlling interests; and
- shares owned prior to a change in control on a business acquisition achieved in stages have to be valued at their fair value on the date of acquisition and any gain or loss on those shares needs to be recognized in net earnings.

Basic earnings per share is computed by dividing net earnings available to common shareholders of Yellow Media Inc. by the weighted average number of shares outstanding during the year. This calculation is consistent with the calculation of the Basic earnings per share before adopting this Section. Therefore basic earnings per share did not change.

The above sections were not mandatorily applicable for Yellow Media Inc. before the fiscal year beginning on January 1, 2011. However, Yellow Media Inc. has elected to early adopt these sections, as of January 1, 2010, in order to more closely align itself with IFRS and mitigate the impact of adopting IFRS at the changeover date. In accordance with the transitional provisions, these sections

have been applied prospectively, with the exception of the presentation requirements for non-controlling interests, which must be applied retrospectively. The adoption of these sections modified the accounting of business combinations realized during the year for which acquisition-related costs amounting to \$30.5 million were recorded directly in the consolidated statement of earnings. Furthermore, the adoption of these sections gave rise to the above-mentioned reclassifications of non-controlling interests, including the reclassification as at January 1, 2010 of an amount of \$324.1 million from non-controlling interests to equity.

Certain comparative figures have been reclassified to conform to the current period's presentation and adoption of new accounting policies.

Principles of consolidation

Yellow Media Inc.'s consolidated financial statements include the accounts of Yellow Pages Group Co. ("YPG Co."), Trader Corporation ("Trader"), LesPAC s.e.n.c. ("LesPAC"), Dealer Dot Com Inc. ("Dealer.com"), Canadian Phone Directories Holdings Inc. ("Canpages"), Mediative Performance LP ("Mediative LP"), UpTrend Media Inc. ("Uptrend"), and those of YPG (USA) Holdings, Inc., and Yellow Pages Group, LLC, (collectively "YPG USA"). All intercompany transactions and balances have been eliminated.

Cash and cash equivalents

Cash and cash equivalents consist of unrestricted funds on deposit and, from time to time, highly liquid investments with a purchased maturity of three months or less. Cash and cash equivalents are presented at fair value and changes are recorded in Financial Charges.

Investments in equity accounted investees

The equity method is used to account for investments in companies in which Yellow Media Inc. has significant influence. Yellow Media Inc.'s share of earnings is recorded separately net of income taxes in the Consolidated Statement of Earnings.

Investments

Investment – available-for-sale

The investment is recorded at fair value, with changes reported through other comprehensive income in each period. Yellow Media Inc. monitors its investment for other than temporary declines in fair value and charges impairment losses to net earnings when other than a temporary decline in estimated fair value occurs. These investments are presented in Other Assets.

Revenues

Yellow Media Inc. recognizes revenue for both reporting segments based on the principles below only when fees charged are fixed or determinable, Yellow Media Inc.'s customers understand the specific nature and terms of the agreed-upon transactions and collectibility is reasonably assured.

Directories

Revenues are earned through the sale of directory advertising and performance marketing solutions. Advertising revenues are generally billed, in accordance with the contractual terms with advertisers, and recognized on a monthly basis over the estimated life of the print directory or online directory advertising, not exceeding twelve months, or in the case of certain alphabetical directories, not exceeding twenty-four months, commencing with the delivery or display date. Amounts billed up front for the directories are deferred and recognized over the estimated life of the corresponding directories in circulation, not exceeding twelve months, or in the case of certain alphabetical directories, not exceeding twenty-four months.

Vertical Media

Private and commercial classified advertisements, display advertisements and performance marketing solutions are published on a weekly and monthly basis for which revenues are recognized at the time the advertisements are published or displayed. Revenues related to advertisements appearing on multiple occasions are deferred and recognized during the period the advertisements are displayed.

Circulation revenues, net of returns, are recognized on a weekly basis at the time the publications are delivered to customers. Circulation revenues are earned primarily upon the delivery of magazines by independent distributors to retail outlets.

Deferred publication costs

Direct and incremental costs incurred for sales, manufacturing and distribution of directories not yet published or displayed are deferred. Upon publication or display, these costs are amortized over the same period in which the related revenues are recognized.

Fixed assets

Fixed assets are recorded at cost and are depreciated over their expected useful lives using the straight-line method as follows:

Office equipment	10 years
Computer equipment	3 years
Other equipment	3 - 12 years
Leasehold improvements	Over the terms of the various leases
Building	40 years

Assets under development consist primarily of internally developed software that is not amortized until the assets are available for use at which time they will be reclassified in software and amortized over their expected useful life.

Intangibles

Intangible assets developed internally (consisting of software used by the Company) are recognized to the extent the criteria in CICA Section 3064, *Goodwill and Intangible Assets* are met. Development costs for internally generated intangible assets are recognized at cost if and only if Yellow Media Inc. can demonstrate:

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

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

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

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Intangible assets acquired in a business combination are identified and recognized separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the date of acquisition.

Intangible assets are amortized, unless their useful lives are indefinite. Intangibles with finite lives are amortized as follows:

Non-competition agreements and logos	Straight-line over life of agreement
Customer contracts	Pro rata based on related revenues, not exceeding 12 months
Customer relationships	Pro rata based on related revenues, not exceeding 24 months
Trademarks with finite lives	Straight-line over 1-6 years
Domain names with finite lives	Straight-line over 18 years
Software	Straight-line over 3 years

Certain trademarks and domain names are considered intangible assets with indefinite lives and are not amortized; however, they are assessed for impairment annually or more frequently if circumstances change, on the basis of their fair values. Fair value is determined using discounted expected future cash flows.

Impairment of long-lived assets

Long-lived assets with finite lives are reviewed when events or changes in circumstances cause their carrying value to exceed the total undiscounted cash flows expected from their use and eventual disposition. The impairment loss is calculated by deducting the fair value of the asset from its carrying value.

Goodwill

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

Goodwill is not amortized and is assessed for impairment annually on December 31 for the Directories segment and June 30 for the Vertical Media segment or more frequently should an event or change in circumstances indicate that the asset might be impaired. Goodwill impairment is assessed based on a comparison of the fair value of a reporting unit to the underlying carrying value of the reporting unit's net assets, including goodwill. When the carrying amount of the reporting unit exceeds its fair value, a more detailed goodwill impairment assessment must be undertaken. A goodwill impairment loss is recognized to the extent that the carrying value of goodwill exceeds its implied fair value.

Employee benefit plans

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

Yellow Media Inc. accrues its obligations for employee benefit plans. The cost of pensions and other retirement benefits earned by employees is actuarially determined using:

- the projected benefit method, pro rated on service;
- a discount rate based on market interest rates on high-quality debt instruments with cash flows that match the timing and amounts of expected benefit payments; and
- management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected healthcare costs.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the remaining service period of active employees with a weighted average of 13 years at year end. The expected return on plan assets is based on the expected long-term rate of return on plan assets which are measured at fair value. Yellow Media Inc. uses a December 31 measurement date for the plans. A valuation is performed at least every three years to determine the actuarial present value of the accrued pension and other employee future benefits for funding purposes. The latest actuarial valuations were performed as at December 31, 2008 for the pension benefit plans, and as at December 31, 2007 for other retirement and post-employment benefit plans. The next valuations for funding purposes will be performed no later than December 31, 2011 for the pension benefit plan. The next valuation for other retirement and post-employment benefit plans will be performed as at December 31, 2010.

Stock-based compensation plans

Yellow Media Inc. uses the fair value method of accounting for all Restricted shares and stock options granted, as described in Note 20, whereby a compensation expense is recognized over the vesting period of all stock-based compensation awards and where applicable, based on the best available estimates of the outcome of the performance conditions.

Foreign currency translation

Transactions in foreign currencies are translated into Canadian dollars at rates in effect at the date of the transaction. At the balance sheet date, monetary foreign currency assets and liabilities are translated at exchange rates then in effect. The resulting translation gains or losses are recognized in the determination of earnings.

In addition, Yellow Media Inc. complies with section 1651, *Foreign Currency Translation* for its US operations. This section establishes standards for the translation of transactions of a reporting company that are denominated in a foreign currency and financial statements of a foreign operation for incorporation in the financial statements of a reporting company. The self-sustaining operations, with economic activities largely independent of the parent company, are accounted for using the current rate method. Under this method, assets and liabilities of subsidiaries denominated in a foreign currency are translated into Canadian dollars at exchange rates in effect at the balance sheet date. Revenue and expenses are translated at average exchange rates prevailing during the year. Resulting unrealized gains or losses are accumulated and reported as a net change in unrealized gain on translating financial statements of self-sustaining foreign operations in the Consolidated Statements of Comprehensive Income. The accounts of the foreign operation, which is financially or operationally dependent on the parent company, is accounted for using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date, and non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses (other than depreciation and amortization, which are translated at the corresponding asset rates) are translated at average rates for the year. Translation exchange gains or losses of such subsidiaries are reflected in net earnings.

Income taxes

Yellow Media Inc. uses the liability method of tax allocation in accounting for income taxes of its subsidiaries. Under this method, temporary differences between the carrying amount of balance sheet items and their corresponding tax basis result in either future income tax assets or liabilities. Future income taxes are computed using substantively enacted tax rates applicable to the years in which the differences are expected to reverse. Future income tax assets are only recognized to the extent that, in the opinion of management, they will more likely than not be realized.

Leases

Leases are classified as either capital or operating in nature. Capital leases are those which substantially transfer the benefits and risks of ownership to the lessee. Assets acquired under capital leases are amortized over their expected useful lives using the straight-line method. Obligations recorded under capital leases are reduced by the principal portion of lease payments. The imputed interest portion of lease payments is charged to expense.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Significant items requiring the use of management estimates relate to the determination of collectibility of accounts receivable, valuation of intangibles, impairment of assets, pension and other employee benefits, useful lives for amortization, income taxes, long-term incentive plans, the restructuring and special charges provision, the fair value of financial instruments and purchase price allocations. These estimates are revised periodically. Actual results may differ from the above estimates.

Financial Instruments

Financial assets and liabilities are initially recorded at fair value. Subsequently, financial instruments classified as financial assets available for sale, held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value on the balance sheet at each reporting date, whereas other financial instruments are measured at amortized cost using the effective interest method. When financial instruments are not part of a hedging relationship, they are measured at fair value and the mark-to-market is recorded in net earnings.

Yellow Media Inc. has made the following classifications:

- Cash and cash equivalents and restricted cash are classified as financial assets held for trading and are measured at fair value. Changes in fair value are recorded in net earnings;
- Other than temporary investments will be classified as either financial assets held to maturity and will be measured at amortized cost or as available-for-sale and will be marked-to-market through comprehensive income at each balance sheet date;
- Accounts receivable are classified as loans and receivables and are recorded at amortized cost; and
- Accounts payable and accrued liabilities, dividends payable, long-term debt, notes payable, convertible and exchangeable instruments and Preferred shares, Series 1 and 2 are classified as other liabilities and measured at amortized cost.

Transaction costs

Transaction costs are comprised primarily of legal, accounting, underwriters' fees and other costs directly attributable to the issuance of the respective financial liabilities. Transaction costs are capitalized to the cost of financial liabilities and are amortized based on the effective interest method over the term of the instrument.

Hedging

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

- Fair value hedge
The carrying value of the hedged item is adjusted based on the gains or losses attributable to the hedged risk with a corresponding amount in net earnings. The hedging derivative is carried at fair value on the balance sheet with changes in fair value recorded in net earnings.
- Cash flow hedge
The effective portion of the changes in fair value of the hedging item is recognized in "Accumulated Other Comprehensive Income", whereas the ineffective portion is recognized in "Financial Charges". The amounts recognized in "Accumulated Other Comprehensive Income", with respect to cash flow hedges, are reclassified in net earnings in the period or periods during which the hedged item affects net earnings.

Hedging relationships

Yellow Media Inc. uses derivative financial instruments to manage its interest risk exposures on debt financing. Yellow Media Inc.'s policy is not to utilize derivative financial instruments for trading or speculative purposes. When hedge accounting is applied, Yellow Media Inc. formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Yellow Media Inc. generally classifies cash flows from its derivative financial instruments in the same manner as the cash flows from the item that the derivative is hedging. Typically, this is included in cash flows from (used in) operating activities in the consolidated statement of cash flows.

Future accounting changes

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian publicly accountable enterprises would be required to adopt IFRS in place of Canadian Generally Accepted Accounting Principles ("Canadian GAAP") for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. Accordingly, the December 31, 2010 financial statements of Yellow Media Inc.'s are the last financial statements prepared in accordance with Canadian GAAP. Starting from the first quarter of 2011, our financial statements will be prepared in accordance with IFRS with 2010 comparative figures and January 1, 2010 (date of transition) opening balance sheet restated to conform to IFRS.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosure requirements. Yellow Media Inc. has completed Phase 1 and Phase 2 of our conversion plan and is currently completing Phase 3, the implementation and review phase of the conversion.

3. Business acquisitions

2010

Directories

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

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

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

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

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

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

These acquisitions position Yellow Media Inc. to better compete in the digital world and will enable Yellow Media Inc. to expand the sales force, online capabilities and advertiser offerings.

Vertical Media

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

The previously held equity interest of Trader in Dealer.com, which was accounted for under the equity method up to that date, was re-measured at its fair value of \$40.6 million and the gain on deemed disposition was recognized in net earnings. The unrealized cumulative loss on translating the financial statements of Dealer.com to Canadian dollars of \$5.6 million was also recognized in net earnings on the same basis as would be required if Trader had disposed directly of its previously held equity interest. The above transactions generated a net gain of \$2.4 million.

The non-controlling interest in Dealer.com was measured at the non-controlling interest’s proportionate share of the fair value of Dealer.com’s identifiable net assets. At December 31, 2010, Yellow Media Inc.’s interest in equity of Dealer.com was 32%.

On July 9, 2010, Trader acquired all of the assets of CanadianDriver Communications Inc. (“Canadian Driver”). Canadian Driver is the operator of CanadianDriver.com, an award-winning online automotive magazine that features over 11,000 automotive articles including new car reviews, test drives and automotive news as well as other automotive topics. This acquisition will enable Yellow Media Inc. to provide Canadians with a valuable resource to research their automotive purchases. It will also help Yellow Media Inc. grow its content and audience as well as provide new advertising opportunities for its national advertisers.

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

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

YELLOW MEDIA INC.

Notes to the Consolidated Financial Statements - December 31, 2010 and 2009
(all tabular amounts are in thousands of Canadian dollars, except share information)

	Canpages	Dealer.com	Other	Total
Current assets and liabilities				
Cash and cash equivalents	\$ 3,912	\$ 19,681	\$ 1,170	\$ 24,763
Accounts receivable	2,524	6,459	5,858	14,841
Prepaid expenses	65	925	108	1,098
Future income taxes	-	348	-	348
Accounts payable and accrued liabilities	(29,385)	(5,406)	(5,128)	(39,919)
Deferred revenues	(40,407)	(2,997)	-	(43,404)
Fixed assets	1,328	9,028	419	10,775
Intangibles				
Trademarks	40,000	21,747	15,950	77,697
Customer relationships	55,000	40,059	3,012	98,071
Customer contracts	42,500	25,284	8,116	75,900
Domain names	-	-	77	77
Non-competition agreements and logos	1,670	-	11,700	13,370
Software	3,500	52,025	42	55,567
Long-term debt	-	(5,352)	-	(5,352)
Future income tax liabilities	-	(57,049)	(7,561)	(64,610)
Non-controlling interest	-	(71,514)	(1,540)	(73,054)
Net identifiable assets acquired	80,707	33,238	32,223	146,168
Reversal of previously owned equity investment	-	(40,614)	-	(40,614)
Goodwill (\$65.9 million tax deductible)	145,702	28,186	37,512	211,400
Purchase price	\$ 226,409	\$ 20,810	\$ 69,735	\$ 316,954

Consideration:

	Canpages	Dealer.com	Other	Total
Cash	\$ 84,847	\$ 20,810	\$ 43,363	\$ 149,020
Series 7 shares (Note 17)	-	-	9,750	9,750
Exchangeable Notes (Note 13)	141,562	-	-	141,562
Deferred consideration	-	-	16,622	16,622
Total	\$ 226,409	\$ 20,810	\$ 69,735	\$ 316,954

Deferred consideration includes payments that are contingent on the basis of time and others that are based on the achievement of specific performance objectives. The amount recorded represents the acquisition-date fair value of the deferred consideration and could reach \$19 million if all performance objectives are met.

Impact of acquisitions on the results of Yellow Media Inc.

Had these business combinations been effected January 1, 2010, the revenue of Yellow Media Inc. would have been \$1,728.6 million and the net earnings for the year would have been \$221.9 million. The net earnings include approximately \$49 million of amortization of intangibles. Excluding amortization of intangibles, management of Yellow Media Inc. considers these proforma numbers to represent an approximate measure of the performance on an annualized basis and to provide a reference point for comparison in future periods.

2009

a) Acquisition of LesPAC

On April 30, 2009, Yellow Media Inc. exercised its option to acquire the remaining 50% interest in LesPAC in which Yellow Media Inc. already had a 50% interest for a cash consideration of \$25.2 million (including acquisition related costs of \$0.2 million). The acquisition of LesPAC was financed with cash on hand.

Yellow Media Inc. accounted for the acquisition of non-controlling interest as a step-purchase. The excess of the purchase price over the net book value of the non-controlling interest acquired was allocated to the net identifiable assets acquired on the basis of their fair value. Yellow Media Inc.'s share in the fair value increments of the underlying net identifiable assets of LesPAC acquired was allocated as follows:

Current liabilities	
Accounts payable and accrued liabilities	\$ (296)
Intangibles	
Trademark	1,500
Customer contracts	145
Future income tax liabilities	(526)
Net identifiable assets acquired	823
Non-controlling interest acquired	7,462
Goodwill	16,904
Purchase price	\$ 25,189
Consideration:	
Cash	\$ 25,000
Transaction costs	189
Total	\$ 25,189

4. Restricted cash

Restricted cash consists of bank account balances held in trust bearing interest at 1.2% as at December 31, 2010. The amounts were placed in trust in relation with the total return swap ("TRS") entered into on October 15, 2010 as described in Note 25.

5. Disposal of subsidiary

On March 29, 2010, Yellow Media Inc. entered into a definitive agreement with HM Capital whereby Yellow Media Inc. would contribute its interest in YPG Directories, LLC in exchange for a 35% minority ownership in a new entity resulting from the combination of YPG Directories, LLC and Ziplocal, LP. The fair value of Yellow Media Inc.'s minority ownership was \$75.2 million on the date of acquisition. The investment in Ziplocal, LP is accounted for using the equity method.

The transaction closed on April 15, 2010. The carrying value of the assets and liabilities disposed on April 15, 2010 was \$68.7 million. In relation to this transaction, an unrealized cumulative translation loss of \$1.2 million was realized and transferred to earnings. In addition, Yellow Media Inc. incurred incremental direct costs of \$3 million in relation to the disposal, resulting in a gain of \$2.3 million recorded in the consolidated statement of earnings.

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

Current assets ¹	\$	7,789
Fixed assets		285
Intangibles		18,634
Goodwill		41,767
Future income taxes		6,314
Current liabilities		(6,047)
Total	\$	68,742

¹ Includes cash of \$0.2 million.

6. Fixed assets

December 31, 2010			
	Cost	Accumulated Depreciation	Net Book Value
Building	\$ 18,264	\$ 173	\$ 18,091
Office equipment	25,562	11,137	14,425
Office equipment under capital lease	8,400	4,719	3,681
Computer equipment	42,463	33,395	9,068
Computer equipment under capital lease	6,269	3,927	2,342
Other equipment	7,305	4,812	2,493
Leasehold improvements	50,402	23,172	27,230
Assets under development	35,115	-	35,115
	\$ 193,780	\$ 81,335	\$ 112,445

December 31, 2009			
	Cost	Accumulated Depreciation	Net Book Value
Office equipment	\$ 18,411	\$ 8,333	\$ 10,078
Office equipment under capital lease	8,325	3,345	4,980
Computer equipment	35,822	25,060	10,762
Computer equipment under capital lease	6,353	3,081	3,272
Other equipment	7,078	3,840	3,238
Leasehold improvements	46,416	17,338	29,078
Assets under development	34,017	-	34,017
	\$ 156,422	\$ 60,997	\$ 95,425

During the year, fixed assets with a cost of nil (2009 - \$9.8 million) and an accumulated amortization of nil (2009 - \$9.8 million) were written off. During 2009, as part of the restructuring and special charges described in Note 24, Yellow Media Inc. also recorded a write down of certain fixed assets having a cost of \$11.9 million and accumulated depreciation of \$7.8 million. In addition, internally developed software included in assets under development with a cost of \$42.3 million (2009 - \$29.9 million) were reclassified to software once they became available for use. Depreciation for the year ended December 31, 2010, was \$20.6 million (2009 - \$20.3 million).

7. Investments in equity accounted investees

On January 5, 2010, Trader acquired an additional 10% equity interest in Dealer.com, as described in Note 3.

On March 9, 2010, YPG Co. acquired a 30% equity interest in 411 Local Search Corp. In connection with this investment, YPG Co. also acquired the 411.ca brand. This brand is included in trademarks. The acquisition was financed with cash on hand.

As a result of the transaction discussed in Note 5, Yellow Media Inc. received a 35% minority ownership in a new entity resulting from the combination of YPG Directories, LLC and Ziplocal, LP.

On September 21, 2010, Trader acquired a 30% equity interest in Bignition Services Inc. (“Bignition”). Bignition is a dealer inventory network designed for franchise automobile dealers. Bignition enables dealers to buy, sell and trade vehicles with each other through a real-time dealer inventory network. The acquisition was financed with cash on hand.

These acquisitions were accounted for using the equity method.

The difference between the acquisition cost and Yellow Media Inc.’s share of the underlying net book value of the investees’ net assets for the equity method investments, at the date of purchase amounted to \$76.8 million and was assigned to the acquired net identifiable assets based on their fair values. As such, the difference was preliminarily assigned to intangible assets (consisting mainly of trademarks, website and software, non-compete agreements, customer contracts and customer relationships) in the amount of \$53.7 million and will be amortized over their expected useful lives and future income tax liabilities of \$21.2 million. The remaining difference between the acquisition cost and the assigned value in the amount of \$44.3 million is similar to goodwill (equity method goodwill) and is not amortized. The assigned difference between the acquisition costs and the underlying net book values is preliminary and is subject to change once the final evaluation is completed.

8. Intangibles

December 31, 2010			
	Cost	Accumulated Amortization	Net Book Value
Trademarks	\$ 1,369,744	\$ -	\$ 1,369,744
Trademarks with finite lives	83,600	39,479	44,121
Non-competition agreements and logos	646,859	134,195	512,664
Customer contracts	74,930	59,691	15,239
Customer relationships	96,503	35,341	61,162
Domain names	8,743	-	8,743
Domain names with finite lives	5,700	1,267	4,433
Software	312,391	204,721	107,670
	\$ 2,598,470	\$ 474,694	\$ 2,123,776

December 31, 2009			
	Cost	Accumulated Amortization	Net Book Value
Trademarks	\$ 1,354,817	\$ -	\$ 1,354,817
Trademark with finite lives	24,500	12,250	12,250
Non-competition agreements and logos	630,393	108,526	521,867
Customer contracts	7,382	7,334	48
Customer relationships	18,943	18,848	95
Domain names	19,050	10,500	8,550
Domain names with finite lives	5,700	950	4,750
Software	211,388	105,266	106,122
	\$ 2,272,173	\$ 263,674	\$ 2,008,499

During the year, intangibles with a cost of \$15.6 million (2009 – \$246.2 million) and an accumulated amortization of \$15.6 million (2009 – \$246.2 million) were written off. In addition, intangibles with a cost of \$39.3 million and accumulated amortization of \$20.7 million were disposed of in relation to the transaction described in Note 5. Amortization for the year ended December 31, 2010, was \$249.5 million (2009 – \$122.1 million, including \$10.5 million related to certain domain names).

9. Goodwill

The changes in the book value of goodwill are as follows:

	December 31, 2010		
	Directories	Vertical Media	Total
Balance, beginning of year	\$ 5,678,328	\$ 664,252	\$ 6,342,580
Business acquisitions (Note 3)	180,665	30,735	211,400
Disposal (Note 5)	(41,767)	-	(41,767)
Foreign currency translation adjustment	(1,986)	(1,243)	(3,229)
Balance, end of year	\$ 5,815,240	\$ 693,744	\$ 6,508,984

	December 31, 2009		
	Directories	Vertical Media	Total
Balance, beginning of year	\$ 5,685,280	\$ 963,387	\$ 6,648,667
Business acquisitions (Note 3)	-	16,904	16,904
Impairment	-	(315,000)	(315,000)
Other	-	(1,039)	(1,039)
Foreign currency translation adjustment	(6,952)	-	(6,952)
Balance, end of year	\$ 5,678,328	\$ 664,252	\$ 6,342,580

During the year ended December 31, 2009, Yellow Media Inc. determined that the deterioration of the economic environment in the vehicle and real estate industries and its continuing negative impact on Vertical Media segment revenues was an indicator that the goodwill related to the Vertical Media segment should be tested for potential impairment.

The impairment testing was completed during the year and Yellow Media Inc. determined that the goodwill of the Vertical Media segment was impaired by \$315 million. As a result, an impairment loss was recorded in the consolidated statement of earnings for the year ended December 31, 2009.

10. Accounts payable and accrued liabilities

	December 31, 2010	December 31, 2009
Trade	\$ 84,257	\$ 58,511
Deposits	15,428	5,740
Deferred consideration	2,055	-
Payroll related accruals	26,258	18,864
Publishing related accruals	17,917	16,156
Accrued interest	38,172	38,891
Other accrued liabilities	21,811	15,295
Income and commodity taxes	15,826	15,746
Restructuring and special charges (Note 24)	41,446	40,862
	\$ 263,170	\$ 210,065

11. Employee benefit plans

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

The changes in the accrued benefit obligations and in the fair value of assets and the reconciliation of funded status of the defined benefit plans to the amount recorded on the consolidated balance sheets for the years ended December 31, 2010 and 2009 were as follows:

	December 31, 2010		December 31, 2009	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Fair value of plan assets, beginning of year	\$ 400,955	\$ -	\$ 378,141	\$ -
Actual return on plan assets	36,300	-	54,079	-
Benefit payments	(31,464)	(2,276)	(29,622)	(2,145)
Transfers from defined benefit to defined contribution component of the plan	(276)	-	(2,963)	-
Employer contributions	7,674	2,276	611	2,145
Employee contributions	566	-	709	-
Fair value of plan assets, end of year	413,755	-	400,955	-
Accrued benefit obligation, beginning of year	460,785	45,006	394,438	38,079
Current service cost	12,492	1,061	10,797	806
Employee contributions	566	-	709	-
Interest cost	29,829	2,923	29,436	2,834
Actuarial losses	79,499	4,211	55,027	5,432
Benefit payments	(31,464)	(2,276)	(29,622)	(2,145)
Accrued benefit obligation, end of year	551,707	50,925	460,785	45,006
Funded status - plan deficit	(137,952)	(50,925)	(59,830)	(45,006)
Unamortized plan amendment ¹	-	(4,344)	-	(4,923)
Unamortized net actuarial losses (gains)	95,994	(4,247)	24,460	(9,105)
Accrued benefit liabilities, end of year	\$ (41,958)	\$ (59,516)	\$ (35,370)	\$ (59,034)

¹ A modification to the other benefits plan in 2005 resulted in a gain of approximately \$7.5 million which is amortized over the expected average remaining service life of the employees at that time, which was 13 years.

Pension benefits and other benefits are shown as accrued benefit liabilities on the consolidated balance sheets. While all the plans are not considered fully funded for financial reporting purposes, registered plans are funded in accordance with the applicable statutory funding rules and regulations governing the particular plans.

The significant assumptions adopted in measuring Yellow Media Inc.'s pension and other benefit obligations as at December 31, 2010 and 2009, were as follows:

	December 31, 2010		December 31, 2009	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
At December 31				
Accrued benefit obligation				
Discount rate, end of year	5.50%	5.50%	6.50%	6.50%
Rate of compensation increase	3.25%	3.50%	3.25%	3.50%
For the years ended December 31				
Net benefit plan costs				
Discount rate, end of preceding year	6.50%	6.50%	7.50%	7.50%
Rate of compensation increase	3.25%	3.50%	3.25%	3.50%
Expected long-term rate of return on plan assets	7.0%	-	7.25%	-
Expected average remaining service life	13 years	15 years	16 years	15 years

For measurement purposes, a 8.50% annual increase in the per capita cost of covered health care benefits (the health care cost trend rate) was assumed in 2010. The rate of increase of the cost of medication was assumed to gradually decline to 4.50% by 2018 and to remain at that level thereafter. A 4.50% annual increase in per capita cost of covered dental care benefits was assumed in 2010.

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

	One-Percentage- Point - Increase	One-Percentage- Point - Decrease
Effect on other benefits – total service and interest costs	\$ 232	\$ (251)
Effect on other benefits – accrued benefit obligation	\$ 1,831	\$ (1,941)

The net benefit plan costs for the years included the following components:

	For the years ended December 31,			
	2010		2009	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Current service cost	\$ 12,492	\$ 1,061	\$ 10,797	\$ 806
Interest cost	29,829	2,923	29,436	2,834
Actual return on plan assets	(36,300)	-	(54,079)	-
Actuarial losses	79,499	4,211	55,027	5,432
Benefit costs before adjustments	85,520	8,195	41,181	9,072
Adjustments to recognize long-term nature of employee benefit plan costs:				
Actual loss over expected return on plan assets	7,965	-	27,673	-
Difference between annual amortization and plan amendment	-	(579)	-	(579)
Difference between annual amortization and actuarial losses on obligation	(79,499)	(4,858)	(55,148)	(6,199)
Net benefit plan costs for the YPG Co. defined benefit plans	\$ 13,986	\$ 2,758	\$ 13,706	\$ 2,294
Net benefit plan costs for the YPG Co. defined contribution plans	2,857	-	2,963	-
Net benefit plan costs for the Trader defined contribution plans	2,489	-	2,193	-
Total net benefit plan costs	\$ 19,332	\$ 2,758	\$ 18,862	\$ 2,294

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

(in percentages - %)	2010	2009
	%	%
Pension Plan		
Asset categories in the Master Trust:		
Cash and other short-term investments	3	4
Publicly traded equity securities	62	60
Publicly traded fixed income securities	35	32
Pending MTS transfer	-	4

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

The total cash payments for pension and other benefit plans made by Yellow Media Inc. amounted to \$15 million for 2010 (2009 – \$5 million).

As at December 31, 2010 and December 31, 2009, the publicly traded equity securities did not directly include any shares of Yellow Media Inc.

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

12. Long-term debt

December 31, 2010				
	Principal amount	Fair value adjustment of hedged item	Deferred financing costs	Total
Medium Term Notes	\$ 1,661,586	\$ 8,439	\$ (13,825)	\$ 1,656,200
Credit facilities	250,000	-	-	250,000
Commercial paper	295,000	-	-	295,000
Notes payable	12,258	-	-	12,258
Obligations under capital leases ¹	8,414	-	-	8,414
	2,227,258	8,439	(13,825)	2,221,872
Less current portion of long-term debt	3,669	-	-	3,669
	\$ 2,223,589	\$ 8,439	\$ (13,825)	\$ 2,218,203

December 31, 2009				
	Principal amount	Fair value adjustment of hedged item	Deferred financing costs	Total
Medium Term Notes	\$ 2,053,345	\$ 10,703	\$ (19,101)	\$ 2,044,947
Credit facilities	100,000	-	-	100,000
Commercial paper	74,000	-	-	74,000
Obligations under capital leases ¹	9,027	-	-	9,027
	2,236,372	10,703	(19,101)	2,227,974
Less current portion of long-term debt	2,254	-	-	2,254
	\$ 2,234,118	\$ 10,703	\$ (19,101)	\$ 2,225,720

¹ Less imputed interest at varying rates not exceeding 15.6% (2009- 15.6%)

Medium Term Notes

Medium Term Notes were issued in various series between April 2004 and November 2009. The terms and conditions of these notes are governed by a Trust indenture dated April 2004. Medium Term Notes outstanding as at December 31, 2010 are as follows:

- \$297.5 million of 5.71% Series 2 Notes maturing on April 21, 2014 priced at \$99.985, for an initial yield to the noteholders of 5.71% compounded semi-annually
- \$121.2 million of 5.85% Series 3 Notes maturing on November 18, 2019 priced at par, for an initial yield to the noteholders of 5.85% compounded semi-annually
- \$387.4 million of 5.25% Series 4 Notes maturing on February 15, 2016 priced at \$99.571, for an initial yield to the noteholders of 5.31% compounded semi-annually
- \$40.5 million of 6.25% Series 5 Notes maturing on February 15, 2036 priced at \$100.933, for an initial yield to the noteholders of 6.181% compounded semi-annually
- \$260 million of 7.3% Series 7 Notes maturing on February 2, 2015 priced at par, for an initial yield to the noteholders of 7.3% compounded semi-annually
- \$125 million of 6.85% Series 8 Notes maturing on December 3, 2013 priced at par, for an initial yield to the noteholders of 6.85% compounded semi-annually
- \$130 million of 6.50% Series 9 Notes maturing on July 10, 2013 priced at par, for an initial yield to the noteholders of 6.50% compounded semi-annually and
- \$300 million of 7.75% Series 10 Notes maturing on March 2, 2020 priced at par, for an initial yield to the noteholders of 7.75% compounded semi-annually

During the year, Yellow Media Inc. repurchased for cancellation an amount of \$56 million of the Series 3 Medium Term Notes, \$106.4 million of the Series 4 Medium Term Notes, and \$79.4 million of the Series 5 Medium Term Notes for a total cash consideration of \$227.1 million. A gain of \$15 million was recorded in net earnings in financial charges.

In addition, Yellow Media Inc. redeemed all of its outstanding \$150 million Series 6 Medium Term Notes which were due February 28, 2011. Yellow Media Inc. financed the purchase with drawings under its commercial paper program. Yellow Media Inc. redeemed the Series 6 Medium Term Notes at a redemption price of \$1,041.681 per \$1,000 principal amount in accordance with

the terms of the Series 6 Notes and the provisions of the trust indenture dated April 21, 2004 for a total cash consideration of \$156.3 million. A loss of \$5.2 million was recorded in net earnings in financial charges.

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

Credit facilities

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

- A \$1 billion facility (the "Principal Facility") which is comprised of:
 - a \$750 million revolving tranche maturing in February 18, 2013; and
 - a \$250 million non-revolving tranche maturing in February 18, 2013.

The Principal Facility can be used for general corporate purposes and as back-up for the commercial paper program.

On February 19, 2010, Yellow Media Inc. increased its sources of liquidity by amending and extending the Principal Facility from \$700 million to \$1 billion. The Principal Facility now matures on February 18, 2013.

As at December 31, 2010, \$250 million was drawn on the Principal Facility. The Principal Facility bears interest at BA rates plus a spread of 2.5%. This spread is based on a ratings grid.

The Principal Facility is unsecured and is unconditionally guaranteed by Yellow Media Inc., YPG Co., CanPages, Trader, YPG (USA) Holdings Inc., and Yellow Pages Group, LLC as to the payment of principal and interest.

The Principal Facility is subject to customary terms and conditions including limits on pledging assets without the consent of lenders. This facility is also subject to the maintenance of a maximum ratio of funded debt to Latest Twelve Month EBITDA before conversion and rebranding costs¹ of 4.25 times and a minimum ratio of Latest Twelve Month EBITDA before conversion and rebranding costs¹ to cash interest expense on total debt of 3.5 times.

On July 23, 2009, Yellow Media Inc. entered into a \$100 million five year term loan bearing interest at BA rates plus 5%. The proceeds were used for general corporate purposes. On October 21, 2010, the private facility was fully repaid and cancelled.

Yellow Media Inc. was in compliance with all of its debt covenants as at December 31, 2010.

Interest rate swaps

Yellow Media Inc. has entered into interest rate derivative agreements described in Note 25 in order to manage its fixed and variable rate ratio on its long-term debt.

Commercial paper

Yellow Media Inc. maintains a commercial paper program (the "Commercial Paper program") with an authorized limit of \$500 million. The commercial paper matures up to but not exceeding 365 days from the date of the issue. As at December 31, 2010, there was \$295 million outstanding under the Commercial Paper program. The commercial paper bears interest at approximately BA rates plus an applicable spread and commission.

Notes payable

Yellow Media Inc. has notes payable bearing interest at various rates not exceeding 6.9% which expire between 2017 and 2030.

Obligations under capital leases

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

Future repayments

Future principal repayments and minimum capital lease and notes payable payments to be made during the next five years and thereafter, as of December 31, 2010, are as follows:

¹ Latest twelve month Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill, restructuring and special charges and conversion and rebranding costs, giving effect to acquisitions ("Latest Twelve Month EBITDA before conversion and rebranding costs")

	Long-term debt ¹	Capital leases and Notes Payable
2011	\$ -	\$ 4,750
2012	-	4,519
2013	800,000	2,783
2014	297,500	1,907
2015	260,000	942
Thereafter	849,086	9,319
Total principal repayments and future minimum lease payments	2,206,586	24,220
Less imputed interest at varying rates not exceeding 15.6%	-	3,548
	\$ 2,206,586	\$ 20,672

¹ Excludes exchangeable and convertible instruments (see Note 13)

13. Exchangeable and convertible instruments

	December 31, 2010	December 31, 2009
Principal amount	\$ 341,562	\$ 86,549
Equity component	(10,139)	(3,618)
Accretion	533	2,362
Deferred financing costs	(12,927)	(1,407)
	\$ 319,029	\$ 83,886

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

In connection with the Canpages acquisition, Yellow Media Inc. issued Mandatory Exchangeable Promissory Notes ("Exchangeable Notes") for a principal amount of \$141.6 million. The Exchangeable Notes bear interest, payable quarterly at an initial rate of 5% subject to step-up provisions up to 7% in 2012 and mature on December 31, 2014. Commencing on January 1, 2011, the Exchangeable Notes can be exchanged at the option of the holder, for shares of Yellow Media Inc. Each quarter, the holders will be entitled to exchange 25% of the principal amount of the Exchangeable Notes, representing a maximum of \$35.4 million. In addition, Yellow Media Inc. may at its option at any time, redeem the Exchangeable Notes in whole or in part at a price equal to their principal amount plus accrued interest. Any remaining Exchangeable Notes will be automatically exchanged into shares of Yellow Media Inc. on December 31, 2014. The number of common shares of Yellow Media Inc. the holder will receive in respect of each Exchangeable Note will be determined by dividing the principal amount of the Exchangeable Notes that are to be exchanged by 95% of the market price of the common shares of Yellow Media Inc.

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

The conversion option was valued at \$10.1 million at the date of issuance and is included in Shareholders' equity. The liability portion is being accreted such that the liability at maturity will equal the gross proceeds less conversions.

14. Preferred shares

	December 31, 2010	December 31, 2009
Shares issued, Series 1 and Series 2	\$ 452,978	\$ 481,408
Derivative component	962	1,161
Deferred financing costs	(7,215)	(9,792)
	\$ 446,725	\$ 472,777

a) Series 1

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

Voting rights

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

Entitlement to dividends

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

Redemption by the issuer

On or after March 31, 2012, Yellow Media Inc. may, at its option, redeem at par for cash the Series 1 shares, in whole or in part. Also, on or after March 31, 2012, and prior to December 31, 2012, Yellow Media Inc. may, at its option, exchange the outstanding Series 1 shares, in whole or in part, into shares of the Corporation. In addition, the Series 1 shares will be redeemable at a premium in cash or exchangeable at the option of Yellow Media Inc., in whole into shares of the Corporation on or after March 31, 2007 provided that any exchange prior to March 31, 2012 shall be limited to circumstances in which the Series 1 shares are entitled to vote separately as a class or series by law or court order. This option meets the definition of an embedded derivative under GAAP and is recorded at fair value on the consolidated balance sheet with changes in fair value recognized in earnings.

Redemption by the holder

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

b) Series 2

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

Voting rights

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

Entitlement to dividends

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

Redemption by the issuer

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

Redemption by the holder

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

Normal course issuer bid

Yellow Media Inc. received approval from the Toronto Stock Exchange (“TSX”) on its notice of intention to make a normal course issuer bid for its preferred shares through the facilities of the TSX initially from June 11, 2009 to June 10, 2010, and then from June 11, 2010 to no later than June 10, 2011, in accordance with applicable rules and regulations of the TSX.

Under its normal course issuer bid, Yellow Media Inc. can purchase for cancellation up to 1,174,691 and 720,000 of its outstanding preferred shares, series 1 (“Series 1 shares”) and preferred shares, series 2 (“Series 2 shares”), respectively. For the year ended December 31, 2010, Yellow Media Inc. had purchased for cancellation 635,714 Series 1 shares of Yellow Media Inc. for a total cash consideration of \$15.8 million including brokerage fees at an average price of \$24.78 per Series 1 share and 501,490 Series 2 shares of Yellow Media Inc. for a total cash consideration of \$10.4 million including brokerage fees at an average price of \$20.79 per Series 2 share. The carrying value of these Series 1 and Series 2 shares was \$15.7 million and \$12.3 million, respectively. A gain of \$1.8 million was recorded in net earnings in financial charges.

15. Equity attributable to non-controlling interests

	December 31, 2010	December 31, 2009
		(as adjusted)
Preferred shares issued, net of issuance costs and income taxes	\$ -	\$ 324,130
Non-controlling interest related to Dealer.com	51,276	-
Non-controlling interest related to Mediative LP	1,377	-
	\$ 52,653	\$ 324,130

The preferred shares, Series 3 and 5 were classified as non-controlling interest on the 2009 balance sheet as they were shares issued by a subsidiary of the Fund. As a result of the conversion from an income trust to a corporation on November 1, 2010, the preferred shares, Series 3 and 5 along with the Series 7 issued during the year are now classified in shareholders' equity. Dividends declared on these preferred shares were included in net earnings attributable to the holder of the preferred shares series 3, 5 and 7 up until the date of conversion.

16. Income taxes

On November 1, 2010, Yellow Media Inc. converted from a publicly traded income trust to a publicly traded corporation by way of the Plan of Arrangement. As a result, for the year ended December 31, 2010, Yellow Media Inc.'s income tax expense was calculated on the basis of it being a corporation from the date of the Plan of Arrangement. For the year ended December 31, 2009, the income tax expense was calculated on the basis of it being a publicly traded income trust in accordance with legislation applicable to certain trusts.

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

	For the years ended December 31,	
	2010	2009
Earnings before income taxes, share of losses from equity investees	\$ 354,501	\$ 258,681
Combined Canadian federal and provincial tax rates	29.91%	31.39%
Income tax expense at statutory rates	\$ 106,031	\$ 81,200
Increase (decrease) resulting from:		
Intercompany interest income earned in non-taxable entities	(77,904)	(135,599)
Valuation allowance	35,701	-
Other	(6,005)	5,106
Impairment of goodwill	-	99,242
Non-deductible dividend expense	8,503	7,415
Net tax impact of foreign activities	(6,445)	(6,960)
Effect of enacted future rates on temporary differences	646	(7,694)
Provision for income taxes	\$ 60,527	\$ 42,710

Provision for income taxes for the years ended:

	December 31, 2010	December 31, 2009
Current	\$ 29,274	\$ 12,936
Future	31,253	29,774
	\$ 60,527	\$ 42,710

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

	December 31, 2010	December 31, 2009
Deferred financing costs and redemption fees	\$ (5,556)	\$ (1,778)
Non-capital losses carryforward	18,461	31,847
Deferred revenues	20,986	26,715
Accrued benefit liabilities	28,635	31,817
Net deferred loss on hedging activities	900	53
Accrued liabilities	9,879	9,598
Capital assets and lease inducements	1,951	1,088
Intangibles	(278,363)	(182,647)
Future income tax liabilities, net	\$ (203,107)	\$ (83,307)

Financial statement presentation as at:

	December 31, 2010	December 31, 2009
Current future income tax assets	\$ 40,657	\$ 28,812
Long-term future income tax assets	24,479	28,382
Current future income tax liabilities	(71,064)	(34,248)
Long-term future income tax liabilities	(197,179)	(106,253)
Future income tax liabilities, net	\$ (203,107)	\$ (83,307)

At December 31, 2010, the Corporation had foreign operating losses of \$20.9 million which expire from 2028 to 2030. The Corporation also had Canadian operating losses of \$138.6 million which expire from 2027 to 2030 and capital losses of \$42.5 million which can be utilized indefinitely. Future income tax assets of \$18.5 million were recognized in relation to Canadian operating losses.

17. Share capital

Conversion to a corporation

During the first quarter of 2010, the Company announced the details of the Plan of arrangement entered into under the Canada Business Corporations Act, which was intended to lead to the conversion of the Company from an income trust to a traditional dividend paying public corporation.

As part of this Plan of Arrangement, the Company obtained an interim order on March 24, 2010, in connection with the Company's Plan of Arrangement from the Superior Court of Québec.

The interim order of the Court confirmed the calling of an annual and special meeting (the Meeting) of the Fund's unitholders on Thursday, May 6, 2010 for the purpose of considering the Plan of Arrangement.

In order to become effective, the Plan of Arrangement required the receipt of all necessary court, regulatory and TSX approvals and other customary conditions, along with the approval by at least 66 2/3% of the votes cast by the Fund's unitholders voting in person or by proxy at the Meeting. This approval was obtained on May 6, 2010, when the Fund's unitholders adopted by a vote of 99.8% the Plan of Arrangement.

On October 1, 2010, the Fund appeared again before the Superior Court of Québec in order to obtain a final order with respect to the Plan of Arrangement. A final order approving the Fund's Plan of Arrangement was then issued.

On November 1, 2010, the Plan of Arrangement became effective resulting in the conversion of the Fund's income trust structure into a dividend paying publicly-traded corporation named Yellow Media Inc. Unitholders of the Fund received, for each unit of the Fund held, one common share of Yellow Media Inc. A total of 513,047,789 common shares were exchanged.

On that same date, the units of the Fund were delisted from the TSX. Trading of the common shares of Yellow Media Inc. on the TSX has commenced on November 1, 2010, under the symbol "YLO".

The Company followed the guidelines included in Abstract 170 of the Emerging Issues Committee, *Conversion of an unincorporated entity to an incorporated entity* (EIC-170) to reflect the impact of the conversion.

The conversion was treated as a change in business form and was accounted for as a continuity of interests; as such the carrying amounts of assets, liabilities and unitholders' equity in the consolidated financial statements of the Company immediately before the Conversion were the same as the carrying values of Yellow Media Inc. immediately after the conversion. The stated capital of Yellow Media Inc. in respect of the common shares was reduced by an amount of \$2 billion and contributed surplus was increased by the same amount.

Common shares

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

	2010	
	Number of Shares	Amount
Balance November 1, 2010	-	\$ -
Exchange of the Fund's units for Yellow Media Inc. shares pursuant to the Plan of Arrangement	513,047,789	6,062,051
Capital reduction pursuant to the Arrangement	-	(2,000,000)
Exchange of Preferred shares, Series 7	666,667	4,190
Shares issued pursuant to the dividend reinvestment plan	1,201,327	7,072
	514,915,783	\$ 4,073,313
To be issued pursuant to the dividend reinvestment plan	1,102,201	6,525
Balance December 31, 2010¹	516,017,984	\$ 4,079,838

Units

	2010	
	Number of Units	Amount
Balance, December 31, 2009	513,044,685	\$ 6,062,039
Units issued	3,104	12
Balance November 1, 2010	513,047,789	6,062,051
Exchange of the Fund's units for Yellow Media Inc. shares pursuant to the Plan of Arrangement	(513,047,789)	(6,062,051)
Unitholders' capital - closing balance	-	\$ -

	2009	
	Number of Units	Amount
Balance, December 31, 2008	518,301,059	\$ 6,144,416
Units issued	10,926	43
Repurchase of units	(5,267,300)	(82,420)
Balance December 31, 2009 ¹	513,044,685	\$ 6,062,039

¹ Includes 10,300,605 Restricted shares (2009 - 8,455,650 units) pursuant to the Restricted Share Plan.

Normal course issuer bid

During the year ended December 31, 2009, the Fund purchased for cancellation 267,300 Units of the Fund for a total cost of \$1.9 million including brokerage fees at an average price of \$7.20 per unit. The average carrying value of these Units was \$11.86 per unit. The difference between the purchase price and the carrying value of the Units of \$1.2 million was credited to Contributed Surplus. There were no such transactions in 2010.

Repurchase of Units

During the year ended December 31, 2009, 5,000,000 Exchangeable Units of YPG LP issued as partial consideration of the TMC acquisition were purchased and cancelled by Yellow Media Inc. for a total cash consideration of \$27.5 million. The Exchangeable Units of YPG LP were presented as part of Unitholders' capital. These units had a carrying value of \$15.85 per unit. The difference between the purchase price and the carrying value of the units of \$51.7 million was credited to Contributed Surplus.

Exercise of options

During the year ended December 31, 2010, optionholders exercised 3,104 (2009 - 10,926) options at an exercise price of \$3.92 per option for cash consideration of \$12 thousand (2009 - \$43 thousand). These options were exercised into 3,104 (2009 - 10,926) shares of Yellow Media Inc. at an average stated value of approximately \$3.92 (2009 - \$3.92) per share.

Dividend reinvestment plan

During the year, Yellow Media Inc. announced a dividend reinvestment plan ("Drip") which became effective November 1, 2010. Under the plan, holders of common shares of Yellow Media Inc. who are residents of Canada may elect to have cash dividends paid on their common shares reinvested into additional common shares of Yellow Media Inc. The Drip allows Yellow Media Inc. to

purchase the common shares on the open market or elect to have the common shares issued from treasury. Yellow Media Inc. can issue the common shares from treasury with a discount from prevailing market prices ranging from 2% to 5%.

As at December 31, 2010, participation in the Drip offered by Yellow Media Inc. was at 19%.

Preferred shares

Authorized:

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

Issued:

	Number of shares	Amount
Balance, December 31, 2009	-	\$ -
Reclassified from non-controlling interest	14,600,000	333,880
Exchange of Preferred shares, series 7	(666,667)	(5,000)
Balance December 31, 2010	13,933,333	\$ 328,880

Series 3

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

Voting rights

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

Entitlement to dividends

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

Redemption by the issuer

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

Conversion at the option of the holder

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

Series 5

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

Voting rights

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

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

Redemption by the issuer

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

Entitlement to dividends

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

Conversion at the option of the holder

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

Series 7

On February 9, 2010, in connection with the acquisition of Red Flag Deals, Yellow Media Inc. issued 1,300,000 Series 7 shares at a price of \$7.50 per Series 7 share as payment to the vendors for the acquisition by way of a private placement. The holders of the Series 7 shares are entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors of Yellow Media Inc. in an amount equal to \$0.375 per Series 7 share per annum, yielding 5% per annum, payable quarterly on the third last business day of March, June, September and December of each year. The Series 7 shares are exchangeable into shares of Yellow Media Inc. at a ratio of one preferred share for one share of Yellow Media Inc. On or after January 1, 2012, 300,000 Series 7 shares may be exchanged subject to certain time-based and performance conditions (Note 3).

During the year, 666,667 Series 7 were exchanged into 666,667 common shares of Yellow Media Inc. At December 31, 2010, there were 633,333 Series 7 shares outstanding.

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

18. Accumulated other comprehensive income

The components of Accumulated other comprehensive income are as follows:

	December 31, 2010
Net gain on derivatives designated as cash flow hedges, net of income taxes ¹	\$ 1,077
Unrealized losses on translating financial statements of self-sustaining foreign operations and foreign investees	(2,373)
Unrealized gain on available-for-sale investment	225
Balance December 31, 2010	\$ (1,071)

	December 31, 2009
Net gain on derivatives designated as cash flow hedges, net of income taxes ¹	\$ 729
Unrealized losses on translating financial statements of self-sustaining foreign operations and foreign investees	(3,881)
Unrealized gain on available-for-sale investment	418
Balance December 31, 2009	\$ (2,734)

¹ The net gain on derivatives designated as cash flow hedges in prior periods will be transferred to net earnings over the term of the underlying debt which matures on May 2011, February 2016 and February 2036.

19. Earnings per share

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

	For the years ended December 31,	
	2010	2009 ^{1,2}
Weighted average number of shares outstanding used in computing basic earnings per share	503,111,679	510,658,375
Dilutive effect of options	382,039	392,433
Dilutive effect of Restricted Shares ³	10,016,622	6,602,795
Dilutive effect of Exchangeable Notes	15,292,171	-
Dilutive effect of Series 1 Preferred shares	51,890,688	57,253,961
Dilutive effect of Series 2 Preferred shares	31,847,677	37,479,655
Dilutive effect of Exchangeable Debentures	8,819,220	-
Dilutive effect of Convertible Debentures	17,564,620	-
Dilutive effect of Series 7 Preferred shares	1,125,571	-
Weighted average number of shares outstanding used in computing diluted earnings per share	640,050,287	612,387,219

¹ The Exchangeable Units of YPG LP issued as partial consideration of the TMC acquisition described above are included in the number of units for both basic and diluted earnings per unit for the year ended December 31, 2009.

² Comparative amounts presented are trust units.

³ Subject to specific pay-out conditions.

	For the years ended December 31,	
	2010	2009
Net earnings attributable to shareholders of Yellow Media Inc.	\$ 271,042	\$ 204,255
Dividends to preferred shareholders	3,651	-
Net earnings available to common shareholders of Yellow Media Inc.	267,391	204,255
Impact of assumed conversion of Exchangeable Notes, net of applicable taxes	2,967	-
Impact of assumed conversion of Series 1 Preferred shares, net of applicable taxes	14,503	12,548
Impact of assumed conversion of Series 2 Preferred shares, net of applicable taxes	8,591	6,166
Impact of assumed conversion of Exchangeable Debentures, net of applicable taxes	3,948	-
Impact of assumed conversion of Convertible Debentures, net of applicable taxes	5,065	-
Impact of assumed conversion of Series 7 Preferred shares, net of applicable taxes	461	-
Net earnings adjusted for dilutive effect	\$ 302,926	\$ 222,969

For the year ended December 31, 2009, the diluted earnings per share calculation did not take into consideration the potentially dilutive effect of the Exchangeable debentures since their impact was anti-dilutive.

20. Stock-based compensation plans

Yellow Media Inc.'s stock-based compensation plans consist of a Restricted Share Plan and a Stock Option Plan.

Restricted Share Plan

Pursuant to the Plan of Arrangement, all Restricted Units previously issued under the Restricted Unit Plan were amended such that the holder thereof will have the right to receive common shares instead of units, on a one-to-one basis and on the same terms and continue to be governed by the same terms under the Restricted Share Plan (the "RS Plan").

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

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

The Restricted shares have vesting acceleration provisions under certain circumstances.

Employees who were awarded units under the RS Plan subsequent to 2008, were granted Restricted Shares in equal proportions between time-based vesting and performance-based vesting criteria. During the years 2007 to 2009, Restricted Shares awarded to eligible employees were performance-based and vest between 2010 and 2012. Yellow Media Inc. also awarded Restricted Shares to non-executive directors of Yellow Media Inc., which are time-based vesting only. In the case of the 2009 grants, the number of Restricted Shares that vest could potentially reach up to two-and-a-half times the actual number of Restricted Shares awarded if the actual performance reaches the maximum level of the objectives.

Upon the Fund's conversion to a corporation, the plan was amended to allow for the purchase of Yellow Media Inc. common shares (the "Restricted shares") on the open market. In addition, participants of the plan will receive Yellow Media Inc. common shares rather than units of the Fund upon vesting of their respective rights.

During the year ended December 31, 2010, an amount of \$20.7 million (2009 - \$16.9 million) representing 3,840,009 (2009 - 2,775,913) Restricted shares were granted at an average market price of \$5.39 (2009 - \$6.09). Half of these Restricted Shares vested upon conversion of the Fund into a corporation and the other half would vest based on the achievement of targets determined by the Board of Directors. Consequently, \$17.6 million was used (2009 - \$24.1 million) to purchase 2,689,203

(2009 – 3,849,791) Restricted Shares of Yellow Media Inc. on the open market of the TSX. In addition, an amount of \$7.2 million (2009 – \$5.7 million) was used to reinvest in 1,196,851 (2009 – 1,008,595) Restricted Shares using the proceeds from the distributions on the Restricted Shares held in escrow. This includes 319,915 (2009 – 479,001) Restricted Shares associated with the portion which provides for up to a 250% pay-out.

The following table summarizes the status of the grants:

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

December 31, 2009	
Number of Restricted Shares	
2007 to 2009 Grants	
Outstanding, beginning of year	2,221,443
Granted	2,775,913
Vested	(508,082)
Forfeited	(460,200)
Cash distributions reinvested	529,594
Outstanding, end of year	4,558,668
Weighted average remaining life	1.96 years

During the year, Yellow Media Inc. sold 1,360,398 Restricted Shares which were not allocated to any specific employee at an average market price of \$6.09. As a result of this transaction, an amount of \$2.1 million, representing the excess of the cost over proceeds, was credited to contributed surplus.

As at December 31, 2010 there were 50,000 (2009 – 166,689) Restricted Shares which were not allocated to any specific employee and 2,913,290 (2009 – 3,730,293) Restricted Shares representing the portion which provides up to a 250% pay-out. An expense of \$21.4 million (2009 - \$1.9 million) was recorded in the consolidated net earnings.

Stock Options

YPG LP

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

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

December 31, 2010		
	Number of options	Weighted average exercise price per option
Outstanding, beginning of year	383,986	\$ 3.92
Exercised	(3,104)	3.92
Outstanding, end of year	380,882	\$ 3.92
Exercisable, end of year	380,882	\$ 3.92

	December 31, 2009	
	Number of options	Weighted average exercise price per option
Outstanding, beginning of year	394,912	\$ 3.92
Exercised	(10,926)	3.92
Outstanding, end of year	383,986	\$ 3.92
Exercisable, end of year	383,986	\$ 3.92

The following table summarizes information about the stock option program as of December 31, 2010.

Options outstanding and exercisable				
Exercise price per option	Number of options	Weighted average remaining life	Weighted average exercise price	Number of options
\$3.92	380,882	1.54 years	\$3.92	380,882

Yellow Media Inc.

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

On November 11, 2010, the Board of Directors granted subject to approval, 15,850,000 options from the 2010 Plan. The significant terms and conditions of the options granted are as follows:

- The exercise price is equal to the weighted-average trading prices on the TSX during the five trading days preceding the date on which the options were granted.
- The options vest at the expiration of the third year following the grant date.
- The options expire five years after the grant date.

21. Supplemental disclosure of cash flow information

Change in operating assets and liabilities:

	For the years ended December 31	
	2010	2009
Accounts receivable	\$ 12,273	\$ 33,908
Prepaid expenses	145	5,100
Deferred publication costs and other assets	17,111	12,226
Accounts payable	27,358	8,342
Deferred revenues	(29,156)	262
	\$ 27,731	\$ 59,838

Supplemental information:

	For the years ended December 31,	
	2010	2009
Interest paid	\$ 138,293	\$ 142,437
Dividends on Preferred shares, series 1 and 2 paid	\$ 21,179	\$ 22,434
Issuance of common shares pursuant to the Drip	\$ 13,597	-
Issuance of Series 7 shares as partial consideration for a business acquisition	\$ 9,750	-
Issuance of Exchangeable Notes as partial consideration for a business acquisition	\$ 141,562	-
Contribution of Yellow Media Inc.'s interest in subsidiary for equity investment (Note 5)	\$ 75,248	-
Income taxes and capital taxes paid	\$ 33,903	\$ 10,551
Additions to fixed assets under capital leases	\$ 2,569	\$ 1,891
Additions to fixed assets included in accounts payable and accrued liabilities	\$ 6,233	\$ 6,183

22. Commitments and contingencies

a) Yellow Media Inc. has commitments under various leases for premises, equipment and purchase obligations through long-term distribution agreements for each of the next five years and thereafter, as of December 31, 2010, and in the aggregate of:

2011	\$ 114,796
2012	25,783
2013	24,327
2014	23,553
2015	22,979
Thereafter	51,650
	\$ 263,088

Under certain lease agreements, there are inducements for leasehold improvements. The lease inducements are accounted for as part of deferred credits and amount to \$21.2 million. These lease inducements are recorded as a reduction of rent expense on a straight-line basis over the term of the lease.

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

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

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

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

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

23. Financial charges, net

The significant components of Yellow Media Inc.'s financial charges are as follows:

	For the years ended December 31,	
	2010	2009
Interest on long-term debt, exchangeable and convertible instruments	\$ 130,050	\$ 138,228
Standby fees and other financial charges, net	6,842	3,665
(Credits) other charges related to derivative financial instruments	(407)	2,707
Gain on repurchase of Preferred shares, series 1 and 2, Exchangeable Debentures, credit facilities, and Medium Term Notes, net	(4,187)	(42,763)
Amortization and write-off of deferred financing costs	9,903	9,279
Accretion on exchangeable and convertible instruments and preferred shares	860	2,316
Foreign exchange loss	1,735	1,168
	\$ 144,796	\$ 114,600

24. Restructuring and special charges

In connection with the acquisitions made during the year, Yellow Media Inc. recorded costs of \$30.5 million for the year ended December 31, 2010 including a provision for restructuring and special charges of \$11.7 million. Yellow Media Inc. has adopted formal plans to integrate and restructure the acquired businesses. Consequently, Yellow Media Inc. established provisions related to planned termination of employment of certain employees of the acquired businesses who are performing functions already available through its existing structuring and other restructuring of the acquired businesses' operations.

During the year, Yellow Media Inc. also recorded additional restructuring and special charges of \$33.9 million related to an internal reorganization and workforce reduction. The other special charges are composed mainly of costs related to termination of certain contractual commitments

The following table sets forth the restructuring reserve activities and special charges provision:

	Restructuring charges	Other special charges	Total
Balance as at December 31, 2008	\$ 31,254	\$ 9,805	\$ 41,059
Provision related to 2009 initiatives	9,574	30,742	40,316
Utilized in 2009:			
Cash	(24,777)	(12,475)	(37,252)
Write-off	-	(3,261)	(3,261)
Balance as at December 31, 2009	\$ 16,051	\$ 24,811	\$ 40,862
Provision related to the acquisition of Canpages	8,207	3,461	11,668
Provision related to 2010 initiatives	29,331	4,572	33,903
Utilized in 2010:			
Cash	(30,096)	(14,891)	(44,987)
Balance as at December 31, 2010	\$ 23,493	\$ 17,953	\$ 41,446

25. Financial risk management

Credit Risk

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

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

Yellow Media Inc.'s extension of credit to customers involves considerable judgment. Yellow Media Inc. has established internal controls designed to mitigate credit risk, including a formal credit policy managed by its credit department. New customers,

customers increasing their advertising spend by a certain threshold and customers not respecting payment terms are subject to a specific vetting and approval process.

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

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

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

Pursuant to their respective terms, accounts receivable are aged as follows as at December 31, 2010:

Current	\$	140,095
Past due less than 180 days		63,639
Past due over 180 days		13,034
Accounts receivable	\$	216,768

Yellow Media Inc.'s accounts receivable are stated after deducting a provision of \$48.9 million at December 31, 2010. The movements in the provision for doubtful accounts were as follows:

	December 31, 2010	
Balance, beginning of year	\$	45,776
Bad debt expense, net of recovery		48,196
Written-off		(45,053)
Balance, end of year	\$	48,919

	December 31, 2009	
Balance, beginning of year	\$	40,449
Bad debt expense, net of recovery		45,496
Written-off		(40,169)
Balance, end of year	\$	45,776

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

Interest Rate Risk

Yellow Media Inc. is exposed to interest rate risks through its financial obligations bearing variable interest rates. The interest rates on Yellow Media Inc.'s bank facility, commercial paper issuances, and cash and short-term investments are generally based on the Canadian Banker's Acceptance rate. As of December 31, 2010, including the impact of the financial derivatives described below, the net amount exposed to short-term rates fluctuations was \$872.2 million. Based on this exposure as at December 31, 2010, an assumed 0.5 percentage point increase in the Banker's Acceptance rate would have an unfavourable impact of \$4.4 million on net earnings with an equal but opposite effect for an assumed 0.5 percentage point decrease. Yellow Media Inc. is also exposed to fluctuations in long-term interest rates relative to the refinancing of its debt obligations upon their maturity. The interest rate on new long-term debt issuances will be based on the prevailing rates at the time of the refinancing, and will also depend on the tenor of the new debt issued. Yellow Media Inc. manages interest rate risk exposure by having a balanced schedule of debt maturities, as well as a combination of fixed and floating interest rate obligations and uses interest rate derivative products when appropriate to hedge interest rate risk.

YELLOW MEDIA INC.

Notes to the Consolidated Financial Statements - December 31, 2010 and 2009
(all tabular amounts are in thousands of Canadian dollars, except share information)

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

In August 2009, Yellow Media Inc. entered into three interest rate swaps totalling \$130 million to hedge the Series 9 Medium Term Notes. Yellow Media Inc. receives interest on these swaps at 6.5% and pays a floating rate equal to the three-month Banker's Acceptance plus a spread of 4.3%. The swaps mature July 10, 2013, matching the maturity date of the underlying debt. As at December 31, 2010, the interest rate swaps met the criteria for hedge accounting.

In February 2010, Yellow Media Inc. also entered into two interest rate swaps totalling \$125 million to hedge the Series 8 Medium Term Notes. Yellow Media Inc. receives interest on these swaps at 6.85% and pays a floating rate equal to the three-month Banker's Acceptance plus a spread of 4.3%. The swaps mature December 3, 2013, matching the maturity date of the underlying debt. As at December 31, 2010, the interest rate swaps met the criteria for hedge accounting.

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

Foreign Exchange Risk

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

Liquidity Risk

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

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

	Payments due for the years ending December 31			
	Total	1 – 3 years	4 – 5 years	After 5 years
Non-derivative financial liabilities¹				
Long-term debt	\$2,206,586	\$800,000	\$557,500	\$849,086
Obligations under capital leases	8,414	7,788	626	-
Notes payable	12,258	1,873	1,115	9,270
Exchangeable and convertible instruments	341,562	-	141,562	200,000
Preferred shares, Series 1 and 2	452,978	281,971	-	171,007
	3,021,798	1,091,632	700,803	1,229,363
Derivative financial liabilities				
Interest rate swaps				
Inflows	(2,770)	(2,770)	-	-
Outflows	919	919	-	-
Total Return Swaps				
Inflows	(2,513)	(2,513)	-	-
	(4,364)	(4,364)	-	-
Total	\$3,017,434	\$1,087,268	\$700,803	\$1,229,363

¹ Principal amount

On December 31, 2010, cash and cash equivalents amounted to \$33.8 million. In addition Yellow Media Inc. may issue additional notes amounting to \$205 million under its commercial paper program and access another \$250 million under its Principal Facility. Alternatively, if notes are not issued under the commercial paper program, Yellow Media Inc. may access the full \$455 million available under the Principal Facility. In addition to cash and cash equivalents amounting to \$33.8 million, Yellow Media Inc. had \$35.5 million of restricted cash as at December 31, 2010.

Fair values

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

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

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

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

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

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

	December 31, 2010	
	Carrying Value	Fair Value
Other assets		
- investment - available for sale	\$ 453	\$ 453
Long-term debt due within one year	\$ 3,669	\$ 3,669
Long-term debt	\$ 2,218,203	\$ 2,259,324
Exchangeable and convertible instruments ¹	\$ 319,029	\$ 344,129
Preferred shares, Series 1 and 2	\$ 446,725	\$ 426,984
Derivative financial instruments		
- Redemption option on Preferred shares	\$ 1,541	\$ 1,541
- Interest rate swaps		
Long - term	\$ 1,771	\$ 1,771
- Total return swaps	\$ 2,833	\$ 2,833
	December 31, 2009	
	Carrying Value	Fair Value
Other assets		
- investment - available for sale	\$ 646	\$ 646
Long-term debt due within one year	\$ 2,254	\$ 2,254
Long-term debt	\$ 2,225,720	\$ 2,199,289
Exchangeable Debentures ¹	\$ 83,886	\$ 86,767
Preferred shares, Series 1 and 2	\$ 472,777	\$ 431,281
Derivative financial instruments		
- Redemption option on Preferred shares	\$ 2,612	\$ 2,612
- Interest rate swaps - liabilities		
Short - term	\$ 76	\$ 76
Long - term	\$ 719	\$ 719

¹ The carrying value includes the liability portion of the Convertible Debentures (2009 - Exchangeable Debentures)

Fair value hierarchy

The three levels of fair value hierarchy are as follows:

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

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

The following table summarizes the financial instruments measured at fair value in the consolidated balance sheet as at December 31, 2010, classified using the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Financial asset or liability				
Cash and cash equivalents	\$33,848	\$–	\$–	\$33,848
Restricted Cash	35,477	–	–	35,477
Investment – available for sale	453	–	–	453
Interest rate swaps	–	1,771	–	1,771
Total Return swap	–	2,833	–	2,833
Redemption option on Preferred shares	–	1,541	–	1,541
Total	\$69,778	\$6,145	\$–	\$75,923

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

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

26. Capital disclosures

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

- Ensure sufficient liquidity to cover financial obligations and investment requirements;
- Preserve access to low-cost funding;
- Maintain or improve investment grade credit ratings; and
- Deliver stable results to investors.

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

The primary measure used by Yellow Media Inc. to monitor its financial leverage is its ratio of net debt³ to Latest Twelve Month EBITDA before conversion and rebranding costs². Yellow Media Inc. also uses other financial metrics to monitor its financial leverage including net debt³ and preferred shares to Latest Twelve Month EBITDA before conversion and rebranding costs², Fixed Charges Coverage Ratio and Net Debt³ to Capitalization.

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

	December 31, 2010	December 31, 2009 (as adjusted)
Cash and cash equivalents	\$ 33,848	\$ 36,170
Restricted cash	35,477	-
Medium Term Notes	1,656,200	2,044,947
Credit Facilities	250,000	100,000
Commercial paper	295,000	74,000
Obligations under capital leases and other	20,672	9,027
Net debt (net of cash and cash equivalents and restricted cash)	2,152,547	2,191,804
Exchangeable and convertible instruments	319,029	83,886
Preferred shares, Series 1 and 2	446,725	472,777
Equity attributable to shareholders of Yellow Media Inc. ¹	5,450,691	-
Equity attributable to owners of the Fund	-	5,224,740
Equity attributable to non-controlling interests ¹	52,653	324,130
Total capitalization	\$ 8,421,645	\$ 8,297,337
Net debt ³ to total capitalization	27.7%	27.4%

¹ The Series 3 and 5 shares were classified as non-controlling interest on the 2009 balance sheet as they were shares issued by a subsidiary of the Fund. As a result of the conversion from an income trust to a corporation on November 1, 2010, the preferred shares 3 and 5 along with Series 7 issued during the year are now classified in shareholders' equity.

	December 31, 2010	December 31, 2009 For the year ended
Latest Twelve Month EBITDA before conversion and rebranding costs ²	\$ 907,633	\$ 898,355
Net Debt ³ to Latest Twelve Month EBITDA before conversion and rebranding costs ratio ²	2.6	2.5

27. Guarantees

In the normal course of operations, Yellow Media Inc. has entered into agreements that contain certain features which meet the definition of a guarantee under the guidance provided by CICA Accounting Guideline 14, *Disclosure of Guarantees* and which are customary in the industry.

Yellow Media Inc. has entered into agreements which contain indemnification of its directors and officers indemnifying them against expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of Yellow Media Inc. Yellow Media Inc. benefits from directors' and officers' liability insurance which is purchased by Yellow Media Inc. No amount has been accrued in the consolidated balance sheet as of December 31, 2010, with respect to this indemnity.

Pursuant to the acquisitions of Aliant, LesPAC, YPG USA, Dealer.com and the contribution of YPG Directories, LLC to Ziplocal, LP in exchange for a 35% minority interest in such combined entity, Yellow Media Inc. has entered into agreements whereby Yellow Media Inc. agrees to indemnify and hold harmless the other party from and against any and all claims, liabilities, costs and expenses arising out of, based upon or related to (i) any breach by Yellow Media Inc. in the performance of its obligations under these agreements and (ii) any breach of a representation contained herein. Furthermore, agreements entered into by Trader and its predecessor companies prior to the acquisition contain indemnifications similar to the ones just described. No amount has been accrued in the consolidated balance sheet as at December 31, 2010 with respect to these indemnities.

² Latest twelve month Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill, restructuring and special charges and conversion and rebranding costs, giving effect to acquisitions ("Latest Twelve Month EBITDA before conversion and rebranding costs")

³ Including Exchangeable and convertible debentures

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

28. Segmented information

Yellow Media Inc.'s reportable segments consist of strategic business units that offer different products. Management has determined that Yellow Media Inc. operates in two reportable segments: Directories and Vertical Media. The Directories segment operates in print and online directories, and performance marketing solutions. The Vertical Media segment operates in the vertical print publications and web sites by topic or area of interest performance marketing solutions. The accounting policies of the segments are the same as those used for the consolidated financial statements. Yellow Media Inc. or chief operating decision maker analyzes the performance of its operating segments based on their income from operations which is not a measure of performance under GAAP; however, management uses this performance measure for assessing the operating performance of its reportable segments.

The tables below summarize the selected financial information by segment:

	For the year ended December 31, 2010 ¹		
	Directories	Vertical Media	Consolidated
Revenues	\$ 1,365,276	\$ 314,584	\$ 1,679,860
Operating costs	560,314	220,702	781,016
Conversion and rebranding costs	45,629	2,900	48,529
Income from operations before depreciation and amortization, acquisition-related costs and restructuring and special charges	759,333	90,982	850,315
Depreciation and amortization	163,240	106,877	270,117
Acquisition-related costs (recovery)	30,709	(170)	30,539
Restructuring and special charges	30,724	3,179	33,903
Income (loss) from operations	\$ 534,660	\$ (18,904)	\$ 515,756

	For the year ended December 31, 2009 ¹		
	Directories	Vertical Media	Consolidated
Revenues	\$ 1,392,029	\$ 247,855	\$ 1,639,884
Operating costs	570,125	176,321	746,446
Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges	821,904	71,534	893,438
Depreciation and amortization	109,846	32,568	142,414
Impairment of goodwill	-	315,000	315,000
Restructuring and special charges	33,735	6,581	40,316
Income (loss) from operations	\$ 678,323	\$ (282,615)	\$ 395,708

¹ Included in the Directories segment are the results of YPG USA and in the Vertical Media segment are the results of Dealer.com. Consequently, \$111.3 million of revenues are included for the year ended December 31, 2010 (2009 - \$37.2 million) and were generated in the United States of America. Revenues are attributed to countries based on the location of the customer.

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(all tabular amounts are in thousands of Canadian dollars, except share information)

	December 31, 2010		
	Directories ¹	Vertical Media ²	Consolidated
Intangibles	\$ 1,738,078	\$ 385,698	\$ 2,123,776
Goodwill	\$ 5,815,240	\$ 693,744	\$ 6,508,984
Total assets	\$ 8,080,430	\$ 1,219,818	\$ 9,300,248

	December 31, 2009		
	Directories ¹	Vertical Media ²	Consolidated
Intangibles	\$ 1,681,391	\$ 327,108	\$ 2,008,499
Goodwill	\$ 5,678,328	\$ 664,252	\$ 6,342,580
Total assets	\$ 7,799,723	\$ 1,141,883	\$ 8,941,606

¹ Included in the Directories segment is goodwill of \$12.3 million (December 31, 2009 - \$56 million) and capital assets of \$36.6 million at December 31, 2010 (December 31, 2009 - \$86.2 million) relating to YPG USA. Included in the total assets of the Directories segment is \$63 million (December 31, 2009 - \$2.4 million) related to the equity investments.

² Included in the Vertical Media segment is goodwill of \$26.9 million (December 31, 2009 - nil) and capital assets of \$99.3 million at December 31, 2010 (December 31, 2009 - \$nil) relating to Dealer.com. Included in the total assets of the Vertical Media segment is \$1.5 million (December 31, 2009 - \$32.6 million) related to the equity investments.

	For the years ended December 31,	
	2010	2009
Additions to fixed assets¹		
Directories	\$ 41,796	\$ 32,767
Vertical Media	\$ 28,231	\$ 13,276
Additions to intangible assets		
Directories ²	\$ 18,940	\$ 246
Vertical Media	\$ 5,367	\$ -

¹ These amounts represent total expenditures for additions to fixed assets, whether they are paid or not. The additions include internally developed software which will be reclassified to intangible assets once they become available for use.

² Excluding future income taxes of \$1.7 million.