Management's Discussion and Analysis /

August 8, 2013

This management's discussion and analysis (MD&A) is intended to help the reader understand and assess trends and significant changes in the results of operations and financial condition of Yellow Media Limited and its subsidiaries for the three and six-month periods ended June 30, 2013 and should be read in conjunction with our audited consolidated financial statements and management's discussion and analysis for the year ended December 31, 2012 as well as our unaudited interim condensed financial statements and accompanying notes for the period ended June 30, 2013. Quarterly reports, the annual report and supplementary information can be found under the "Financial Reports" section of our corporate web site: www.ypg.com. Additional information, including our annual information form (AIF), can be found on SEDAR at www.sedar.com.

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

Forward-looking information

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

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

When used in this MD&A, such forward-looking statements may be identified by words such as "aim", "anticipate", "believe", "could", "estimate", "expect", "goal", "intend", "objective", "may", "plan", "predict", "seek", "should", "strive", "target", "will", "would" and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future results or performance, and will not necessarily be accurate indications of whether or not such results or performance will be achieved. A number of factors could cause actual results or performance to differ materially from the results or performance discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Substantial competition could reduce the market share of the Corporation and could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "A higher than anticipated rate of decline in print revenue resulting from changes in preferences and consumer habits could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The inability of the Corporation to successfully enhance and expand its offering of digital and new media products could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The inability of the Corporation to generate sufficient funds from operations, debt financings, equity financings or refinancing transactions could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The Corporation's substantial indebtedness could adversely affect its efforts to refinance or reduce its indebtedness and could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "Incremental contributions by the Corporation to its pension plans could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "Failure by either the Corporation or the Telco Partners to fulfill the obligations set forth in the agreements between the Corporation and the Telco Partners could result in a material adverse effect on the Corporation, its business, results from operations and financial condition", "Failure by the Corporation to adequately protect and maintain its brands and trade-marks, as well as third party infringement of such, could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "Work stoppages and other labor disturbances could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "Challenge by tax authorities of the Corporation's position on certain income tax matters could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The loss of key relationships or changes in the level or service provided by internet portals, search engines and individual websites could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The failure of the Corporation's computers and communications systems could have a material adverse effect on the Corporation, its business, results from operations and financial condition" and "The Corporation might be required to record additional impairment charges" of the "Risks and Uncertainties" section of our MD&A for the year ended December 31, 2012. Additional risks and uncertainties not currently known to management or that are currently deemed to be immaterial may also have a material adverse effect on the Corporation's business, financial position or financial performance. Although the forward-looking statements contained in this MD&A are based upon what management of the

Corporation believes are reasonable assumptions, the Corporation cannot assure investors that actual results will be consistent with these forward-looking statements and cautions readers not to place undue reliance on them. These forward-looking statements are made as of the date of this MD&A and the Corporation assumes no obligation to update or revise them to reflect new events or circumstances, except as may be required pursuant to securities laws.

Definitions relative to understanding our results

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

We report on our EBITDA (Income from operations before depreciation and amortization, impairment of goodwill, intangible assets and property, plant and equipment, acquisition-related costs and restructuring and special charges). EBITDA is not a performance measure defined under International Financial Reporting Standards (IFRS) and is not considered an alternative to income (loss) from operations or net earnings (loss) in the context of measuring YPG's performance. EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other publicly traded companies. EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, taxes, interest payments, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed on page 15 of this MD&A.

Free cash flow

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

This MD&A is divided into the following sections:

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

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

Yellow Media is a leading media and marketing solutions company offering its services to small and medium enterprises (SMEs) across Canada. The Company offers businesses personalized marketing consulting services and exposure to marketing products, including print, online and mobile Yellow Pages, websites and search engine solutions. Our advertisers' local business information is published, marketed and distributed via a variety of both owned and operated properties, and through other local search networks. Yellow Media is also a leader in national digital advertising through Mediative. To review our business, mission, strategy and capability to deliver results, please refer to the corresponding sections in the MD&A for the year ended December 31, 2012.

2. Results /

This section provides an overview of our financial performance during the second quarter of 2013 compared to the same period in 2012. It is also important to note that, in order to help investors better understand our performance, we rely on several metrics, some of which are not measures recognized by IFRS. Definitions of these financial metrics are provided on page 2 of this MD&A and are important aspects which should be considered when analyzing our performance.

Overall

- Revenues decreased by $43.3 million or 15.1% to $243.2 million compared to the second quarter of 2012. If we exclude the results of Canpages, revenues decreased by 11.2% compared to the same period last year.
- Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges (EBITDA) decreased by $37.7 million or 26% to $107.2 million compared to the second quarter of 2012. If we exclude the results of Canpages, EBITDA decreased by 22.3% compared to the same period last year.

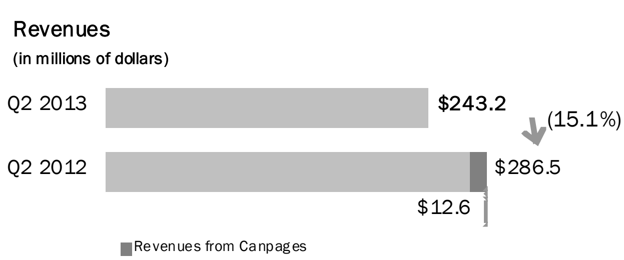
Highlights

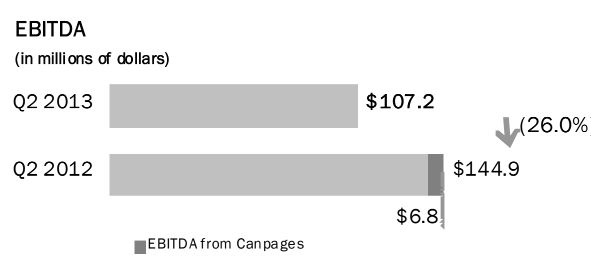
(in thousands of Canadian dollars– except per share information)

	Three-month periods ended June 30,	
	2013	2012
Revenues	$ 243,183	$ 286,484
Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges (EBITDA)	$ 107,234	$ 144,939
Net earnings	$ 50,326	$ 65,681
Basic earnings per share attributable to common shareholders[1]	$ 1.81	$ 2.15
Cash flows from operating activities	$ 86,457	$ 104,777
Free cash flow[2]	$ 68,463	$ 96,232

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

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





Performance Relative to Business Strategy

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

The Yellow Pages 360º Solution is the most comprehensive full-serve digital and traditional media and marketing solutions offering in Canada. Backed by a team of seasoned marketing experts and the Company's national presence, the Yellow Pages 360º Solution helps Canadian advertisers generate valuable business leads to manage and grow their business.

By providing visibility across owned and operated properties, alongside access to various digital products and services, the Yellow Pages 360º Solution helps advertisers address the following performance marketing objectives:

- Boost Sales; by helping advertisers generate qualified leads through online priority placement, mobile priority placement and print advertising across YPG's network of properties;
- Go Digital; whereby advertisers can build a digital presence through websites, virtual business profiles across YPG's network of digital properties and those of its partners, and videos; and
- Extend Online Reach; whereby advertisers can boost visibility on popular search engines through investment in search engine optimization (SEO) and search engine marketing (SEM).

As at June 30, 2013, the penetration of the Yellow Pages 360º Solution offering amongst our advertiser base, which we define as advertisers who purchase three product categories or more, grew to 21.1%. This compares to 11.2% at the end of the same period last year.

The decline in advertiser penetration within Owned and Operated Digital Media reflects the loss of advertisers purchasing online products as we migrate these advertisers from Directory Plus legacy products to other digital products. Online priority placement remains the highest penetrated digital offering amongst the Company's products and services. Online priority placement penetration increased to 40% as at June 30, 2013, as compared to 28% in 2012. This increase is due to the successful sales execution of the Yellow Pages 360º Solution, alongside online priority placement products' ability to generate valuable business leads for advertisers. During the second quarter of 2013, YPG's network of sites reached 8.7 million unduplicated unique visitors, representing 31% of Canada's online population.

Mobile priority placement and digital services are the fastest growing components of the Yellow Pages 360º Solution. Advertiser penetration of mobile priority placement increased to 10% as at June 30, 2013 compared to 5% in 2012. Advertiser penetration of digital services, which include website, SEO and SEM offerings, also grew from 5% to 8%. The growth in advertiser penetration amongst these products is due to the successful sales execution of the Yellow Pages 360º Solution, alongside the launch of new mobile and premium digital products in 2012.

Advertiser Penetration[1]

	As at June 30,	
	2013	2012
Print	**93%**	95%
Owned and Operated Digital Media[2,3]	**60%**	61%
Online placement	**40%**	28%
Mobile placement	**10%**	5%
Digital Services[4]	**8%**	5%

1 Excludes Mediative, Canpages and Wall2Wall.

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

3 Decline in advertiser penetration within Owned and Operated Digital Media reflects the loss of advertisers purchasing online products as we migrate these advertisers from Directory Plus legacy products to other digital products.

4 Percentage of YPG advertisers purchasing at least one website, SEO, and/or SEM product.

Our Yellow Pages Analytics performance reporting tool remains an integral component of the Yellow Pages 360º Solution. Through Yellow Pages Analytics, advertisers can monitor the return on investment (ROI) of their traditional and/or digital marketing campaigns in real-time through statistics such as calls, visits, clicks and traffic trends. During the second quarter of 2013, the Company launched a new Yellow Pages Analytics platform providing enhanced stability, agility and performance capabilities. Our new internal platform supplies the foundation for further improvements, including a simplified user interface, enhanced reporting capabilities, and new tools and insights to better demonstrate advertiser ROI. In an effort to further promote advertiser value, YPG encourages Media Account Consultants (MACs) to access the Yellow Pages Analytics tool when meeting with current and prospective advertisers. Adoption of the Yellow Pages Analytics tool amongst MACs increased to 97% at the end of the second quarter of 2013, as compared to 86% at the end of 2012.

The decline in new advertisers continues to have an adverse impact on overall revenues. Over the last 12 months, YPG acquired approximately 12,400 advertisers, compared to approximately 20,000 for the same period last year. In order to attract a higher volume of valuable advertisers and protect its revenue base, the Company established a dedicated acquisition strategy during the second quarter of 2013.

The Company's dedicated acquisition strategy is centered on increasing advertiser leads and conversions through the following key initiatives:

- Inbound: The Company has invested in advertising campaigns, both traditional and online, to raise advertiser awareness around YPG's products and services and increase traffic towards its Yellow Pages 360º Solution Business to Business (B2B) website (http://www.yellowpages360solution.ca/en/index.htm). An inbound call center has also been established to support incoming leads from the Yellow Pages 360º Solution B2B website.
- Outbound Call Center: An outbound call center has been created to target prospective, smaller-spend advertisers.
- Face-to-Face Network: Larger-spend advertisers are currently being serviced by over 100 specialized face-to-face MACs across Canada. To increase the number of account visits and conversions, face-to-face MACs have started working in tandem with appointment setters who assign accounts based on each MAC's specialization.
- New Product Offerings: The Company recently launched two new entry-level product packages aimed at helping prospective advertisers gain a digital presence. They include:
    - Business Builder Bundle, which provides a virtual profile, online priority placement product, mobile priority placement product, and print display ad at a fixed price; and
    - Booster Packs, which allow advertisers to choose from three levels of digital exposure via packages including a virtual profile, an online priority placement product, and a mobile priority placement product.

The Company's acquisition strategy is showing encouraging results to date. To ensure continual improvement of sales and marketing efforts, the Company will support advertiser acquisition initiatives through investments in training, technology, and product development.

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

In order to support retention efforts amongst its larger clients, increase loyalty and optimize revenue growth from these advertisers, the Company established the PriorityPlus program in early 2012. PriorityPlus offers a more attentive and specialized service by providing high-spend advertisers with dedicated account teams, a thorough evaluation of account needs and opportunities, and effective execution of their digital and traditional marketing strategy. In conjunction with PriorityPlus, the Company continues to offer high-end advertisers premium products designed to optimize their digital and traditional media presence.

PriorityPlus is now fully deployed across Canada and is made up of approximately 230 sales managers and MACs. This compares to approximately 30 managers and MACs as at March 31, 2013. Results to date remain positive as the number of advertisers receiving the PriorityPlus service and purchasing high-end products continues to increase.

Mediative – Mediative, a division of Yellow Pages Group Corp., is a leading North American digital media advertising company, offering extensive display advertising, location-based marketing solutions, creative digital marketing campaign services, and a full-suite of performance services to national agencies and advertisers. Mediative delivers performance services to more than 60 businesses globally and spans over 500 online properties through 125 partners and over 30 sites/applications on its mobile network.

During the second quarter of 2013, Mediative launched Mediative Places, a scalable full-service location-based marketing campaign which allows marketers to optimize their local presence and connect with on-the-go customers based on their needs and location. Through Mediative Places, marketers are offered (1) a fully implemented SEO service to ensure their websites are visible when customers search locally (2) a social management platform to optimize local user engagement and help attract customers to check-in to business locations and (3) a hyperlocal marketing strategy targeting consumers on mobile devices within a 100-metre radius of a given location. With Mediative also offering one of the most targeted geo-fencing capabilities in Canada, advertiser ad campaigns are currently being tailored to target consumers based on location, time of day, weather, and/or other environmental factors.

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

The Company continues to develop tools and technologies to provide advertisers enhanced fulfillment of their marketing campaigns, an improved customer experience and higher ROI. Through new tools and technologies, our national sales team will be equipped with enhanced information and functionalities to best present, promote and sell YPG's portfolio of products and services.

During the second quarter of 2013, the Company deployed the Online Merchant Management (OMM) tool to promote the delivery of accurate and reliable data to advertisers, users and partners. OMM will assign a unique and stable Merchant Identifier to every business in Canada, ensuring that current and prospective advertisers have accurate and rich content available via one single business profile.

During the second quarter of 2013, the Company also signed an agreement with Salesforce.com, the world's largest provider of customer relationship management (CRM) software. Salesforce.com will become the Company's new CRM system, providing the foundation required to develop sales tools and customer support systems to promote sales effectiveness and efficiency.

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

Attracting the right consumer audiences is key in promoting the success of our advertisers. Our online properties, which include YellowPages.ca, Canada411.ca, RedFlagDeals.com, and Canpages.ca, continue to be a trusted source of local business information for Canadian consumers. YPG's network of sites reached 8.7 million unduplicated unique visitors during the second quarter of 2013, representing 31% of Canada's online population.

The continued improvement of YPG's network of properties is critical in growing and engaging digital audiences. During the second quarter of 2013, the Company developed a new search algorithm designed to optimize performance on YellowPages.ca, both online and mobile. The new algorithm enables YellowPages.ca to provide more relevant search results, thereby optimizing merchant ROI. Ranking of search results are now dependent on features most relevant to the user, including proximity of location, business content, popularity of business, and quality of reviews. YellowPages.ca is now also equipped with an enhanced auto-complete service, which allows for quicker results and reduced failed searches.

As at June 30, 2013, our mobile applications were downloaded more than 5.9 million times compared to 4.3 million times at the same period last year. Further industry recognition was also received, with the Yellow Pages application highlighted by the Apple Store as one of the top 25 most downloaded applications of all time.

Our YellowAPI network allows advertisers' business information and content to be made accessible outside our network of owned and operated properties. Launched in September 2010, YellowAPI is one of the largest databases in the country with over 1.5 million Canadian business listings. The YellowAPI network currently enrols a community of 2,800 developers who work to create various mobile applications using YPG's business information. YellowAPI also powers local search in Canada through partnerships with leading search engines and applications such as Yahoo! Canada on web and mobile, Poynt and Telus. In addition, YPG maintains a strategic relationship with Google to provide local listings and has agreements in place for data exchange with TripAdvisor and OpenTable.

As part of its brand re-positioning ad campaign, the Company recently launched a six-week advertising blitz in Toronto. Initiated in June 2013, the campaign was designed to build awareness of the Yellow Pages brand amongst the key millennial generation demographic and promote the download and use of the Yellow Pages mobile application. Advertisements were placed in newspapers, transit shelters and stations, restaurants, fitness centers, night projections and outdoor billboards, alongside online, mobile and social media sites. Brand takeovers were also staged at restaurant and pub patios within the downtown Toronto area and popular millennial hangouts. The volume of the campaign was designed to expose individuals to the Yellow Pages brand, on a daily basis, in and around areas they live, work and play.

Consolidated Operating and Financial Results

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

	Three-month periods ended June 30, 2013	Three-month periods ended June 30, 2012[1]	Six-month periods ended June 30, 2013	Six-month periods ended June 30, 2012[1]
Revenues	$ 243,183	$ 286,484	$ 496,460	$ 575,557
Operating costs	135,949	141,545	273,748	285,744
Income from operations before depreciation and amortization, impairment of goodwill and restructuring and special charges	107,234	144,939	222,712	289,813
Depreciation and amortization	14,779	24,220	28,469	54,301
Impairment of goodwill	–	–	–	2,967,847
Restructuring and special charges	–	–	6,193	–
Income (loss) from operations	92,455	120,719	188,050	(2,732,335)
Financial charges, net	22,448	37,922	46,271	72,262
Loss on settlement of debt	–	5,487	–	5,487
Earnings (loss) before dividends on Preferred shares, series 1 and 2, income taxes and earnings from investments in associates	70,007	77,310	141,779	(2,810,084)
Dividends on Preferred shares, series 1 and 2	–	4,563	–	9,126
Earnings (loss) before income taxes and earnings from investments in associates	70,007	72,747	141,779	(2,819,210)
Provision for (recovery of) income taxes	19,737	7,167	38,154	(11,357)
Earnings from investments in associates	(56)	(101)	(166)	(1,713)
Net earnings (loss)	$ 50,326	$ 65,681	$ 103,791	$ (2,806,140)
Basic earnings (loss) per share attributable to common shareholders[2]	$ 1.81	$ 2.15	$ 3.71	$ (100.78)
Diluted earnings (loss) per share attributable to common shareholders[2]	$ 1.55	$ 2.15	$ 3.19	$ (100.78)
Total assets			$ 1,802,851	$ 2,334,080
Long-term debt (including short-term portion, excluding convertible debt instruments)			$ 775,248	$ 1,801,118
Convertible debt instruments			$ 87,305	$ 185,323
Preferred Shares, Series 1 and 2 (including short-term portion)			$ –	$ 399,789

1 Revised to reflect the adoption of IAS 19 (Revised).

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

Analysis of Consolidated Operating and Financial Results

Revenues

Revenues decreased to $243.2 million during the second quarter of 2013 compared with $286.5 million for the same period last year and decreased to $496.5 million for the six-month period ended June 30, 2013 compared with $575.6 million for the same period last year. On a comparable basis, excluding the results of Canpages, revenues decreased by 11.2% during the second quarter of 2013 and by 10.7% for the six-month period ended June 30, 2013. The decrease for the three and six-month periods ended June 30, 2013 is due to lower print revenues partly offset by higher digital revenues.

Digital revenues reached $98.4 million in the second quarter of 2013 and $197.3 million for the six-month period ended June 30, 2013, representing a growth of 9.7% and 12.4%, respectively. Excluding the impact of Canpages, digital revenues increased by 12.8% during the second quarter of 2013 when compared to the same period last year and by 16.4% for the six-month period ended June 30, 2013. Digital revenue growth was negatively affected by the loss of a large Mediative account in March 2013. Growth in digital revenues is due to the successful execution of the Yellow Pages 360º Solution sales approach across our sales channels and the launch of new mobile and premium digital products in 2012. These factors also led to an improvement in Revenue Generating Units[1](RGU) per advertiser from 1.71 as at June 30, 2012 to 1.76 in 2013.

At this time, print revenue decline is not being offset by digital revenue growth. This is primarily due to a decrease in spending amongst our larger advertisers, and a decline in the acquisition of advertisers.

The Company experienced challenges in migrating print revenues towards digital products and services, particularly amongst its larger clients. 19% of renewing advertisers[2] experienced a decrease in spending over the last twelve months. In addition to Priority Plus, the Company continues to offer high-end advertisers premium products designed to optimize their digital and traditional media presence.

Spending Dynamics

	Twelve-month periods ended June 30,	
	2013	2012
Amongst Renewing Advertisers[2]		
Increase in spending[3]		
Advertiser distribution	**36%**	47%
% of revenues	**32%**	39%
Stable spending[4]		
Advertiser distribution	**45%**	35%
% of revenues	**23%**	15%
Decrease in spending[5]		
Advertiser distribution	**19%**	18%
% of revenues	**45%**	46%
Average Revenue per Advertiser (ARPA)[6]	**$3,257**	$3,311

As at June 30, 2013, the number of advertisers was 291,000 compared to 326,000 as at June 30, 2012. During the last 12 months, YPG acquired approximately 12,400 new advertisers compared to approximately 20,000 new advertisers for the same period last year. The recent deployment of our new acquisition strategies is aimed at increasing advertiser leads and conversions.

Advertiser Renewal and Acquisition

	Twelve-month periods ended June 30,	
	2013	2012
Advertiser count[6]	**291,000**	326,000
Client renewal rate[6]	**85%**	87%
New advertisers	**12,400**	20,000

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

2 Renewing advertisers exclude Mediative, Canpages and Wall2Wall advertisers.

3 Renewing YPG advertisers experiencing an increase in spending over 5%, on a year over year basis.

4 Renewing YPG advertisers experiencing an increase in spending between 0% and 5%, on a year over year basis.

5 Renewing YPG advertisers experiencing a decrease in spending on a year over year basis.

6 Excludes the contribution of Canpages and Wall2Wall.

Operational Indicators

	As at June 30,	
	2013	2012
Yellow Pages 360° Solution Penetration[1,2]	**21.1%**	11.2%
RGU per advertiser[1]	**1.76**	1.71
Digital only advertisers[1,2]	**19,687**	16,500
Digital revenues (in thousands of Canadian dollars)[3]	**$98,407**	$89,691

1 Excludes the contribution of Canpages and Wall2Wall.

2 Excludes the contribution of Mediative.

3 For the three-month period ended June 30.

EBITDA

EBITDA decreased by $37.7 million to $107.2 million during the second quarter of 2013 compared with $144.9 million for the same period in 2012 and decreased by $67.1 million to $222.7 million for the six-month period ended June 30, 2013 compared with $289.8 million for the same period last year. The decrease in EBITDA is due principally to print revenue pressure, as revenue growth from our digital products is not compensating for the loss in print revenues. Our EBITDA margin for the second quarter of 2013 was 44.1% compared to 50.6% for the same period in 2012 and was 44.9% for the six-month period ended June 30, 2013 compared with 50.4% for the same period last year. Change in product mix and investments in the business transformation contributed to the decrease in EBITDA margin.

Cost of sales decreased by $9.7 million to $79.9 million during the second quarter of 2013 compared with $89.6 million for the same period in 2012 and decreased by $15.6 million to $158.9 million during the six-month period ended June 30, 2013 compared with $174.5 million for the same period last year. The decrease for the quarter and six-month period ended June 30, 2013 results mainly from lower sales costs associated with lower print revenues. Savings in our manufacturing costs associated with lower print revenues and reduced rates following the renegotiation of supply chain contracts were partly offset by an increase in provisioning and fulfillment costs of our digital services.

Gross profit margin decreased to 67.1% for the second quarter of 2013 compared to 68.7% for the same period last year and decreased to 68% for the six-month period ended June 30, 2013 compared to 69.7% for the same period last year. The decrease is due to a change in product mix, which includes lower margins associated with some of our digital service offerings, such as websites, SEO and SEM.

General and administrative expenses increased by $4.1 million to $56 million during the second quarter of 2013 compared with $51.9 million for the same period in 2012 and increased by $3.6 million to $114.9 million during the six-month period ended June 30, 2013 compared with $111.3 million for the same period last year. The increase for the three-month period ended June 30, 2013 is attributable to our investment in branding as we continued our Meet the New Neighborhood ad campaign. The increase in the six-month period ended June 30, 2013 is also attributable to our ad campaign and a sales tax assessment, offset by lower bad debts as well as a non-cash benefit resulting from the amendment to our employees' pension and post-retirement benefits.

Depreciation and amortization

Depreciation and amortization decreased to $14.8 million in the second quarter of 2013 from $24.2 million during the second quarter of 2012 and to $28.5 million for the six-month period ended June 30, 2013 compared with $54.3 million for the same period last year. The decrease is mainly attributable to lower amortization of certain intangible assets related to the acquisition of Canpages in 2010. These intangibles resulted in a higher amortization expense in 2012 and were fully written off during the previous year. In addition, property, plant and equipment and intangible assets had a lower cost base due to the impairment recorded in the fourth quarter of 2012.

Impairment of goodwill

During the first quarter of 2012, management concluded that indicators that the Company's assets may be impaired existed, requiring the Company to perform an impairment test. As a result of the impairment test, we recorded a goodwill impairment charge of $2,967.8 million in the first quarter of 2012. No such charge was recorded in the six-month period ended June 30, 2013.

Restructuring and special charges

During the first quarter of 2013, we recorded restructuring and special charges of $6.2 million. The majority of this amount relates to the departure of the President and Chief Executive Officer (CEO). As announced on March 21, 2013, Marc P. Tellier will be stepping down as CEO no later than August 15, 2013 and is entitled to remuneration in accordance with his employment agreement entered into in 2002.

Financial charges

Financial charges decreased by $15.5 million to $22.4 million during the second quarter of 2013 compared with $37.9 million for the same period in 2012 and decreased by $26 million to $46.3 million during the six-month period ended June 30, 2013 compared with $72.3 million for the same period last year. This decrease is mainly attributable to a lower level of indebtedness and the elimination of deferred financing costs as a result of the December 2012 recapitalization transaction. As at June 30, 2013, the effective average interest rate on our debt portfolio was 9.1% compared to 6.2% as at June 30, 2012.

Loss on settlement of debt

During the three and six-month period ended June 30, 2012, we incurred costs of $5.5 million in connection with the recapitalization transaction.

Dividends on preferred shares, Series 1 and 2

Dividends on the two series of redeemable preferred shares amounted to $4.6 million during the second quarter of 2012 and $9.1 million for the six-month period ended June 30, 2012. Pursuant to the December 2012 recapitalization transaction, these preferred shares were cancelled.

Provision for income taxes

The combined statutory provincial and federal tax rate was 26.4% and 26.3% for the three and six-month periods ended June 30, 2013 and 2012, respectively. The Company recorded an expense of 28.2% and 26.9% of earnings for the three and six-month periods ended June 30, 2013, respectively. The difference between the effective and the statutory rates in the second quarter of 2013 is due to the non-deductibility of certain payments for tax purposes. In the second quarter of 2013, an additional deferred income tax liability was recorded due to the increase of the statutory tax rate of the province of British Columbia.

The Company recorded an expense of 9.8% on the earnings and a recovery of 0.4% on the loss for the three and six-month periods ended June 30, 2012, respectively. The difference between the effective and the statutory rates in 2012 was due to the impairment of goodwill which was not fully deductible for tax purposes. In addition, in the second quarter of 2012, a deferred income tax asset was recognized as a result of a corporate reorganization and an additional deferred income tax liability was recorded due to the increase of the statutory tax rate of the province of Ontario.

Earnings from investments in associates

During the second quarter of 2013 and 2012, we recorded earnings from our investment in an associate in the amount of $0.1 million for each year and $0.2 million for the six-month period ended June 30, 2013 compared with $1.7 million for the same period in 2012. Effective January 1, 2012, we no longer account for the Acquisio investment using the equity method and we recorded a gain of $2.1 million in the first quarter of 2012 on the revaluation of this investment. Our earnings from investments in associates include the amortization of intangible assets in connection with these equity investments.

Net earnings (loss)

Net earnings decreased to $50.3 million in the second quarter of 2013 compared with net earnings of $65.7 million in the second quarter of 2012. The decrease in the quarter is due to lower EBITDA of $37.7 million, offset by lower depreciation and amortization of $9.4 million and lower financial charges of $15.5 million. For the six-month period ended June 30, 2013, net earnings increased to $103.8 million compared with a net loss of $2,806.1 million for the six-month period ended June 30, 2012. The increase for the six-month period ended June 30, 2013 is mainly due to the impairment of goodwill of $2,967.8 million recorded in the first quarter of 2012 partly offset by lower EBITDA.

Summary of Consolidated Quarterly Results

Quarterly Results

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

	2013		2012[1]				2011[1]	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	$ 243,183	$ 253,277	$ 264,447	$ 267,711	$ 286,484	$ 289,073	$ 313,315	$ 323,441
Operating costs	135,949	137,799	122,770	129,821	141,545	144,199	169,435	156,490
Income from operations before depreciation and amortization, impairment of goodwill, intangible assets and property, plant and equipment, acquisition-related costs and restructuring and special charges (EBITDA)	107,234	115,478	141,677	137,890	144,939	144,874	143,880	166,951
EBITDA margin	44.1%	45.6%	53.6%	51.5%	50.6%	50.1%	45.9%	51.6%
Depreciation and amortization	14,779	13,690	23,395	26,597	24,220	30,081	23,003	37,800
Impairment of goodwill, intangible assets and property, plant and equipment	–	–	300,000	–	–	2,967,847	–	2,900,000
Acquisition-related costs	–	–	–	–	–	–	210	497
Restructuring and special charges	–	6,193	18,111	26,812	–	–	14,254	–
Income (loss) from operations	92,455	95,595	(199,829)	84,481	120,719	(2,853,054)	106,413	(2,771,346)
(Gain) loss on settlement of debt	–	–	(994,894)	10,818	5,487	–	–	–
Net earnings (loss)	50,326	53,465	821,850	22,236	65,681	(2,871,821)	40,972	(2,825,618)
Basic earnings (loss) per share attributable to common shareholders[2]	$ 1.81	$ 1.91	$ 29.24	$ 0.59	$ 2.15	$ (102.93)	$ 1.37	$ (100.58)
Diluted earnings (loss) per share attributable to common shareholders[2]	$ 1.55	$ 1.64	$ 28.50	$ 0.59	$ 2.15	$ (102.93)	$ 1.37	$ (100.58)

[1] Revised to reflect the adoption of IAS 19 (Revised).

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

Revenues decreased throughout the quarters, as a result of a continued decline of revenues from our print products, partially offset by an increase in revenues of our digital products.

Our EBITDA margin decreased progressively throughout the quarters of 2011, reflecting the decline in print revenues and lower margins associated with Canpages and Mediative. During the fourth quarter of 2011, we incurred a non-recurring expense of approximately $6 million as a result of a sales tax assessment. Our EBITDA margin remained relatively stable in the first and second quarter of 2012 but increased in the third quarter of 2012 as we benefited from reduced rates from our supply chain contracts which were renegotiated during the quarter. In the fourth quarter of 2012, first quarter of 2013 and second quarter of 2013, we recorded a non-cash benefit of $13.3 million, $2.6 million, and $4.6 million, respectively, related to amendments to our pension and post-retirement benefit plans. For the first two quarters of 2013, our EBITDA margin decreased, reflecting the loss of margin from a change in product mix and investments made to accelerate our business transformation as well as an increase in provisioning and fulfillment costs of our digital services.

Internal reorganizations and cost containment initiatives resulted in restructuring and special charges impacting some of our quarterly results in 2011 and 2012 as well as the first quarter of 2013. Net earnings for 2011 and 2012 were affected by depreciation and amortization of intangible assets related to the acquisition of Canpages. The decrease in 2013 is a result of a lower cost base of assets to depreciate and amortize following the $300 million impairment recorded in the fourth quarter of 2012.

In addition, during the third quarter of 2011, the first quarter of 2012 and the fourth quarter of 2012, we recorded impairment charges of $2,900 million, $2,967.8 million and $300 million, respectively, related to the goodwill, certain of our intangible assets and property, plant and equipment.

Upon closing of the recapitalization transaction in the fourth quarter of 2012, $5.5 million and $10.8 million of recapitalization costs recorded in the second and third quarters of 2012, respectively, were reclassified to gain on settlement of debt. The change in presentation of recapitalization costs and income from operations were made in the prior periods to conform to the December 31, 2012 presentation.

3. Liquidity and Capital Resources /

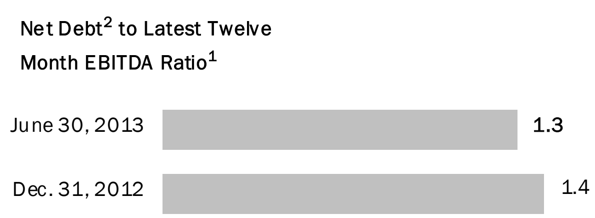
This section examines the Company's capital structure, sources of liquidity and various financial instruments including its debt instruments.

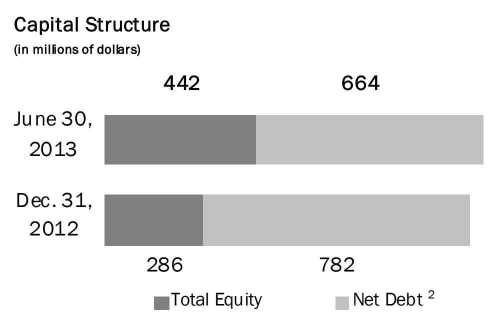
Financial Position

Capital Structure

(in thousands of Canadian dollars)

	As at June 30, 2013	As at December 31, 2012
Cash and cash equivalents	$ 198,377	$ 106,807
Senior secured notes	773,927	800,000
Obligations under finance leases	1,321	1,831
Exchangeable debentures	87,305	86,667
Net debt (net of cash and cash equivalents)[2]	$ 664,176	$ 781,691
Equity attributable to the shareholders	442,393	285,749
Non-controlling interests	–	411
Total capitalization	$ 1,106,569	$ 1,067,851
Net debt to total capitalization	60%	73.2%





Asset-Based Loan

In August 2013, the Company through YPG Financing Inc., entered into a five-year $50 million, asset-based loan (ABL) expiring in August 2018. The ABL will be used for general corporate purposes. The ABL has a first priority lien over the receivables of the Company. The ABL is subject to an availability reserve of $5 million if the Company's trailing 12-month fixed charge coverage ratio is below 1.1x. As at August 7, 2013, the ABL was fully available and was undrawn. Interest is calculated based either on the BA Rate or the Canadian Prime Rate plus an applicable margin.

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

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

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

Senior Secured Notes

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

Interest on the Senior Secured Notes is payable in cash, quarterly in arrears, in equal instalments on the last day of February, May, August and November of each year.

As at June 30, 2013, the Company was in compliance with all covenants under the indenture governing the Senior Secured Notes.

Mandatory Redemption

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

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

The Company made a mandatory redemption payment of $26.1 million on May 31, 2013, and has sufficient financial liquidity to meet the minimum aggregate mandatory redemption payment of $100 million in 2013.

Optional Redemption

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

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

Exchangeable Debentures

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

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

As at June 30, 2013, the Company was in compliance with all covenants under the indenture governing the Exchangeable Debentures.

Exchange Option

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

Optional Redemption

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

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

Credit Ratings

DBRS Limited	Standard and Poor's Rating Services
B (low)/Issuer rating – stable trend	B/Corporate credit rating – stable outlook
CCC (high)/Credit rating for Senior Secured Notes	B+/Credit rating for Senior Secured Notes
CCC/Credit rating for Exchangeable Debentures	CCC+/Credit rating for Exchangeable Debentures

On May 17, 2013, Dominion Bond Rating Service (DBRS) assigned their first issuer and debt security ratings post the December 20, 2012 recapitalization transaction. DBRS ratings range from "AAA" to "D" and may be modified by the addition of subcategories (high) or (low) except for "AAA" and "D". The absence of such designation indicates the rating is in the middle of the category.

The "B (low)" rating is the sixteenth of twenty-six ratings used by DBRS. A debt instrument that is rated in the "B" category rating by DBRS means for DBRS that the issuer is currently highly speculative with high uncertainty in regards to the capacity to meet financial obligations.

The "CCC (high)" and "CCC" ratings are the seventeenth and eighteenth, respectively, of twenty-six ratings used by DBRS. The financial instruments under this category are very highly speculative with danger of defaulting on financial obligations. There is little difference between these three categories, although "CC" and "C" ratings are normally applied to obligations that are seen as highly likely to default, or subordinated to obligations rated in the "CCC" to "B" range. Obligations in respect of which default has not technically taken place but is considered inevitable may be rated in the "C" category.

Liquidity

The Company's principal source of liquidity is cash generated from operations and cash on hand. The Company expects to generate sufficient liquidity to fund capital expenditures, working capital requirements and current obligations, including the mandatory principal repayments on the Senior Secured Notes. The Company had approximately $213 million of cash and cash equivalents as at August 7, 2013.

Share data

As at August 8, 2013, outstanding share data was as follows:

Outstanding Share Data			
	As at August 8, 2013	As at June 30, 2013	As at December 31, 2012
Common shares outstanding	27,955,077	27,955,077	27,955,077
Warrants outstanding	2,995,506	2,995,506	2,995,506

Exchangeable Debentures

As at August 8, 2013, the Company had a total of $107.5 million of Exchangeable Debentures outstanding.

Options

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

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

- The exercise price is $10.12
- The options vest on the third anniversary of the grant date
- The options expire seven years after the grant date

Sources and Uses of Cash

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

Sources and Uses of Cash

(in thousands of Canadian dollars)

	Six-month periods ended June 30,	
	2013	2012
Cash flows from operating activities		
Cash flows from operations	$ 149,013	$ 157,609
Change in operating assets and liabilities	24,032	(30,425)
	$ 173,045	$ 127,184
Cash flows used in investing activities		
Acquisition of intangible assets	$ (29,193)	$ (15,306)
Acquisition of property, plant and equipment	(7,748)	(1,606)
Business acquisition	(3,581)	–
Other	198	183
	$ (40,324)	$ (16,729)
Cash flows (used in) from financing activities		
Deferred consideration	$ (5,624)	$ (1,800)
Recapitalization costs	(6,629)	(5,487)
Repayment of long-term debt	(26,360)	(50,703)
Issuance of long-term debt	–	239,000
Other	(2,538)	(116)
	$ (41,151)	$ 180,894

Cash flows from operating activities

Cash flows from operating activities increased by $45.9 million from $127.2 million for the six-month period ended June 30, 2012 to $173 million in the first six months of 2013, due to lower interest paid of $23.6 million, lower income taxes paid of $22.4 million and a lower funding of pension plans of $10.2 million offset by lower EBITDA of $67.1 million. In addition, the change in operating assets and liabilities for the six-month period ended June 30, 2013 generated an inflow of $24 million compared with an outflow of $30.4 million in the same period last year. The variance in the change in operating assets and liabilities is due principally to a payment of a sales tax assessment in 2012 and a better performance in the collection of our accounts receivable.

Cash flows used in investing activities

Cash used in investing activities amounted to $40.3 million during the six-month period ended June 30, 2013 compared with $16.7 million during the same period last year. During the first six months of 2013, we invested in software development and equipment for $29.2 million and $7.7 million, respectively, which was more than the corresponding amounts of $15.3 million and $1.6 million spent during the same period last year. The increase is associated with our investments to transform our business.

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

(in thousands of Canadian dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2013	2012	2013	2012
Sustaining	**$ 6,004**	$ 4,420	**$ 13,480**	$ 8,821
Growth	**9,647**	3,980	**19,581**	8,468
Total	**$ 15,651**	$ 8,400	**$ 33,061**	$ 17,289
Adjustment to reflect expenditures on a cash basis	**2,343**	145	**3,058**	(560)
Acquisition of property, plant, equipment and intangible assets, net of lease inducements	**$ 17,994**	$ 8,545	**$ 36,119**	$ 16,729

Sustaining capital expenditures are related to ongoing operations to maintain the integrity of the infrastructure. It also includes leasehold improvements in which we invested in as we re-engineered some premises to accommodate our growing digital fulfillment teams.

Growth capital expenditures relate to the development and implementation of new technology and software aimed at new initiatives as we continue our transformation to a leading performance media and marketing solutions company.

Total capital expenditures for the second quarter of 2013 amounted to $15.7 million. As part of our digital transformation, we invested in our new Online Merchant Management (OMM) tool which was deployed in the second quarter of 2013. We also invested in our new Enterprise Tracking and Reporting (ETR) tools.

The total capital expenditures for 2013 is expected to be between $55 and $60 million.

Cash flows (used in) from financing activities

Cash flows used in financing activities amounted to $41.2 million during the six-month period ended June 30, 2013 while $180.9 million of cash was generated from financing activities for the same period last year. During the first six months of 2013, we repaid $26.1 million of the Senior Secured Notes. In addition, we paid $6.6 million of costs associated with our recapitalization and $5.6 million relative to deferred payment obligations arising from acquisitions made in 2010 when we acquired Mediative. In the first six months of 2012, we drew $239 million on the revolving tranche of the credit facility. The credit facility was cancelled pursuant to the recapitalization transaction on December 20, 2012.

Financial and Other Instruments

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

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

Derivative Instruments

We currently have an agreement to purchase the remaining shares of an investment in an associate at a pre-determined multiple (purchase option). This purchase option qualifies as a derivative liability.

There is no carrying value of embedded derivatives as at June 30, 2013. The carrying value is calculated, as is customary in the industry, using discounted cash flows with quarter-end market rates.

4. Free Cash Flow /

Free cash flow
(in thousands of Canadian dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2013	2012	2013	2012
Cash flow from operating activities	$ 86,457	$ 104,777	$ 173,045	$ 127,184
Capital expenditures, net of lease inducements	17,994	8,545	36,904	16,729
Free cash flow	$ 68,463	$ 96,232	$ 136,141	$ 110,455

5. Critical Assumptions /

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

Our critical assumptions and accounting estimates have not changed since the release of our MD&A for the year ended December 31, 2012, with the exception of the discount rate used to measure the post employment benefit obligation. These critical assumptions and estimates relate to intangible assets and goodwill, employee future benefits and income taxes. Please refer to Section 5 – Critical Assumptions of our December 31, 2012 annual MD&A.

New Accounting Standards

IAS 19 (Revised) — *Employee Benefits*

Yellow Media Limited has applied the amendments to IAS 19 (Revised) — *Employee Benefits* effective for financial years beginning on or after January 1, 2013. Under the amendments, the main changes of this revised version are the elimination of the corridor approach and acceleration of past service costs recognition, with all changes to the defined benefit obligation and plan assets recognized when they occur. These amendments did not impact the Company's financial results. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with the net interest amount which is calculated by applying the discount rate to the net defined benefit liability or asset and administration fees are now included in service costs. Please refer to Note 2 of the accompanying interim condensed financial statements for the three and six-month periods ended June 30, 2013 for a summary of the differences between our financial statements previously prepared and those under IAS 19 (Revised).

IFRS 7 (Revised) — *Financial Instruments: Disclosures*

On December 16, 2011, the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) issued common disclosure requirements that are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. The new requirements are set out in *Disclosures-Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7). The IFRS 7 amendments are effective for annual reporting periods beginning on or after January 1, 2013. New required interim note disclosures have been included in our interim condensed consolidated financial statements for the second quarter of 2013.

IFRS 13 — *Fair Value Measurement*

IFRS 13 is a new standard that defines fair value and requires disclosures about fair value measurements. IFRS 13 is effective for fiscal years beginning on or after January 1, 2013. Earlier application is permitted. It applies prospectively from the beginning of the annual period in which it is adopted. New required interim note disclosures have been included in our interim condensed consolidated financial statements for the second quarter of 2013..

IFRS 10 — *Consolidated Financial Statements*

IFRS 10 replaces the consolidation requirements in IAS 27 — *Consolidated and Separate Financial Statements*, and SIC-12 — *Consolidation - Special Purpose Entities*. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted provided IFRS 11 — *Joint Arrangements*, and IFRS 12 — *Disclosure of Interests in Other Entities* and the related amendments to IAS 27 — *Consolidated and Separate Statements* and IAS 28 — *Investments in Associates* (the "package of five") are adopted at the same time. Yellow Media Limited reviewed its investments in associates and concluded the adoption of IFRS 10 did not have an impact on our interim condensed consolidated financial statements for the second quarter of 2013.

IFRS 11 — *Joint Arrangements*

IFRS 11 supersedes IAS 31 — *Interests in Joint Ventures*, and SIC-13 — *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. IFRS 11 requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement. The standard also requires the use of a single method to account for interests in joint ventures, namely the equity method. IFRS 11 is applicable at the same time as IFRS 10. The standard has been adopted and its adoption has not had any impact on the disclosures made in our interim condensed consolidated financial statements for the second quarter of 2013.

IFRS 12 — *Disclosure of Interests in Other Entities*

IFRS 12 is a new standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is applicable at the same time as IFRS 10. In June 2012, the IASB issued amendments to IFRS 10 – *Consolidated Financial Statements*, IFRS 11 -- *Joint Arrangements*, and IFRS 12 — *Disclosure of Interests in Other Entities* which will also be effective for the Company at the time of adoption of these standards for the fiscal year beginning on January 1, 2013. The standard has been adopted and its adoption has not had any impact on the disclosures made in our interim condensed consolidated financial statements for the second quarter of 2013.

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

In May 2012, the IASB also issued amendments to IAS 16 — *Property, Plant and Equipment* and IAS 32 — *Financial Instruments: Presentation* which are effective for annual periods beginning on or after January 1, 2013, with early application permitted. These amendments clarify various requirements. IAS 34 — *Interim Financial Reporting* added new disclosure requirements. The standard has been adopted and its adoption has not had any impact on the disclosures made in our interim condensed consolidated financial statements for the second quarter of 2013.

IAS 32 — *Financial Instruments: Presentation in respect of Offsetting*

On December 16, 2011, the IASB and FASB issued common disclosure requirements that are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position.

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

IFRS 9 — *Financial Instruments*

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

Key requirements of IFRS 9 are described as follows:

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

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

6. Risks and Uncertainties /

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

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

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

YPG has put in place certain guidelines in order to seek to manage the risks to which it may be exposed. Please refer to the Risks and Uncertainties section of our MD&A for the year ended December 31, 2012 and our Annual Information Form for a complete description of these risk factors, including, for example, "Substantial competition could reduce the market share of the Corporation and could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "A higher than anticipated rate of decline in print revenue resulting from changes in preferences and consumer habits could have a material adverse effect on the Corporation, its business, results from operations and financial condition" and "The inability of the Corporation to generate sufficient funds from operations, debt financings, equity financings or refinancing transactions could have a material adverse effect on the Corporation, its business, results from operations and financial condition". Despite these guidelines, the Company cannot provide assurances that any such efforts will be successful. Our risks and uncertainties have not changed since the release of our MD&A for the year ended December 31, 2012. For more information, please refer to the corresponding section in our MD&A for the year ended December 31, 2012.

7. Controls and Procedures /

There were no changes to the Corporation's internal controls over financial reporting that occurred during the period beginning on January 1, 2013 and ended on June 30, 2013 that have materially affected or are reasonably likely to materially affect the Corporation's internal controls over financial reporting.