# Management's Discussion and Analysis

February 13, 2014

This management's discussion and analysis (MD&A) is intended to help the reader understand and assess trends and significant changes in the results of operations and financial condition of Yellow Media Limited and its subsidiaries for the years ended December 31, 2013 and 2012 and should be read in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 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.

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

The audited IFRS-related disclosures and values in this MD&A have been prepared using the standards and interpretations currently issued and effective at the end of our reporting period, December 31, 2013.

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 currently 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 at the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future results or performance, and will not necessarily be accurate indications of whether or not such results or performance will be achieved. A number of factors could cause actual results or performance to differ materially from the results or performance discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Substantial competition could reduce the market share of the Corporation and could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "A higher than anticipated rate of decline in print revenue resulting from changes in preferences and consumer habits could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The inability of the Corporation to successfully enhance and expand its offering of digital and new media products could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The inability of the Corporation to generate sufficient funds from operations, debt financings, equity financings or refinancing transactions could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The Corporation's substantial indebtedness could adversely affect its efforts to refinance or reduce its indebtedness and could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "Incremental contributions by the Corporation to its pension plans could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "Failure by either the Corporation or the Telco Partners to fulfill the obligations set forth in the agreements between the Corporation and the Telco Partners could result in a material adverse effect on the Corporation, its business, results from operations and financial condition", "Failure by the Corporation to adequately protect and maintain its brands and trade-marks, as well as third party infringement of such, could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "Work stoppages and other labor disturbances could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "Challenge by tax authorities of the Corporation's position on certain income tax matters could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The loss of key relationships or changes in the level or service provided by internet portals, search engines and individual websites could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The failure of the Corporation's computers and communications systems could have a material adverse effect on the Corporation, its business, results from operations and financial condition" and "The Corporation might be required to record additional impairment charges" of the "Risks and Uncertainties" section of this MD&A. Additional risks and uncertainties not currently known to management or that are currently deemed to be immaterial may also have a material adverse effect on the Corporation's business, financial position or financial performance. Although the forward-looking statements contained in this MD&A are based upon what management of the Corporation believes are reasonable assumptions, the Corporation cannot assure investors that actual results will be consistent with these forward-looking statements and cautions readers not to place undue reliance on them. These forward-looking statements are made as of the date of this MD&A and the Corporation assumes no obligation to update or revise them to reflect new events or circumstances, except as may be required pursuant to securities 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 IFRS and is not considered an alternative to income (loss) from operations or net earnings (loss) in the context of measuring YPG's performance. EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other publicly traded companies. EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, taxes, interest payments, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed on page 24 of this MD&A.

*Free cash flow*

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

This MD&A is divided into the following sections:

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

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

## Our Business

Yellow Media is a Canadian digital media and print company, offering businesses comprehensive media solutions to meet their key marketing objectives and providing consumers with platforms to access reliable local business information. The Company offers small and medium-sized enterprises (SMEs) personalized marketing solutions comprised of digital and traditional marketing products. These include online and mobile priority placement, search engine solutions, websites, social media, videos and print advertising. We also provide national-scale businesses with high-end digital marketing and performance media services. Through our sales force of approximately 1,100 media consultants and sales support staff, the Company serves approximately 276,000 local businesses across Canada.

Yellow Media holds one of the largest database of rich and curated, local business information in Canada. Our advertisers' local business information reaches Canadian audiences via a variety of owned and operated digital and print media, and through various local search networks. We own and operate some of Canada's leading properties and publications including YellowPages.ca™, Canada411.ca™, RedFlagDeals.com™, Canpages.ca™, and Yellow Pages™ print directories, as well as the Yellow Pages, ShopWise and RedFlagDeals mobile search applications. Our mobile applications for finding local businesses and deals have been downloaded over 6.5 million times, and our online destinations reach approximately 7.3 million unique visitors monthly. The Company also owns and operates a public application programing interface (API) known as YellowAPI.com, which contains 1.5 million Canadian business listings and enhanced content on over 270,000 businesses.

In addition, we are the official directory publisher for Bell Canada (Bell), TELUS Communications Inc. (TELUS), Bell Aliant Regional Communications LP (Bell Aliant), MTS Allstream Inc. and a number of other incumbent telephone companies that have a leading share in their respective markets. In 2013, we published more than 345 distinct print telephone directories with a total circulation of approximately 17 million copies.

## Mission

We exist to champion the local neighbourhood economy by enabling Canada's businesses and its consumers to connect, interact and build relationships.

## Strategy

Our objective is to become the leading local digital media company in Canada. We will accomplish this by fostering strong business relationships between Canadian businesses and local consumers, and by developing an unparalleled local media presence across the country.

2013 marked the completion of Yellow Media's first phase of digital transformation. Following the implementation of the recapitalization transaction on December 20, 2012, Yellow Media started 2013 with a stronger balance sheet and the required financial flexibility to pursue its digital transformation.

The Company built a solid digital foundation, investing in the development of new tools, technologies, processes, and products, as well as its brand promise. The Company also invested in its workforce, recruiting over 200 information technology and digital media professionals and implementing dedicated training programs on digital skills upgrade and enhancement. These investments have strengthened its core assets, which include:

- The most comprehensive, full-serve digital and traditional media and marketing solutions offering in Canada;
- One of the largest teams of sales advisors, digital fulfillment professionals and campaign managers in Canada;
- High traffic, owned and operated digital properties (online and mobile);
- One of the largest databases of curated, local Canadian content;
- An extensive network of digital partnerships to help businesses and shoppers connect outside the Company's owned and operated properties; and
- Highly skilled employees.

These factors strongly position Yellow Media as it enters its second phase of transformation, a phase aimed at promoting long-term revenue growth, profitability, and the Company's transformation into a powerful local digital media company.

To effectively leverage its core assets and support Yellow Media's second phase of transformation, the Company has identified the following key areas of focus for 2014:

- Extending its Brand Promise;
- Attracting Valuable Audiences;
- Responding to Advertiser Needs;
- Investing in its Employees; and
- Improving Efficiencies.

*Extending its Brand Promise*

We remain committed to developing an unparalleled local media presence across the country, promoting the YPG brand as a trusted source of accurate, local business information. In response, the Company will continue launching branding initiatives that encourage the download and use of our mobile applications. These campaigns will target on-the-go Canadians through national television spots, local multi-media advertising, and targeted millennial campaigns across key urban markets. The Company also aims to improve perception amongst current and prospective advertisers, launching multi-media business to business campaigns promoting YPG's products, services and expertise in digital marketing and campaign management.

*Attracting Valuable Audiences*

The success of our advertisers' marketing campaigns is dependent on how well they can attract valuable audiences. The Company will therefore deliver a more compelling and differentiated user experience by improving the quality, completeness and relevance of the content distributed to its properties and partners, while providing compelling sites and applications for local discovery. In 2014, the Company will launch new versions of its digital properties, supported by more efficient search platforms, new digital experiences, and richer content such as deals, ratings and reviews. It will also invest in key traffic and distribution partnerships, further expanding its partner eco-system and extending YPG' s digital reach to positively contribute to advertisers' return on investment (ROI).

*Responding to Advertiser Needs*

We remain committed to providing current and prospective advertisers with the industry's most valuable digital marketing campaigns. In 2014, we will revamp and simplify our existing digital product offerings, and respond to the latest digital marketing trends by introducing social engagement and digital display offerings. We will also find and attract new customers through our redesigned acquisition strategy and implement programs, processes and technologies to enhance lead nurturing and improve conversions. To promote advertiser retention and revenue growth, the Company will introduce enhanced performance reporting capabilities across each of its digital products, improve sales tools and processes, and further enhance digital product fulfillment.

*Investing in its Employees*

Our employees are core components of our digital transformation. In 2014, we will continue investing in our workforce, hiring an additional 200 professionals within the domains of information technology and digital media. The Company will also invest in developing a stronger digital culture, offering training programs, tools and resources to elevate digital literacy and promote change management across all facets of the organization.

*Improving Efficiencies*

The Company continues to support operational excellence across the organization, building the core platforms and infrastructure to support the high-volume, cost-effective processing of advertiser orders. In 2014, the Company will streamline business processes, consolidate legacy systems and replace existing data centers to improve efficiencies and align the Company's cost structure with its digital reality.

For a review of developments and performance relative to key priorities that were identified for 2013, see Section 2 – *Results.*

## Capability to Deliver Results

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

*Capital Resources*

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

*Non-capital Resources*

YPG's critical intangible resources include:

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

*Strong Media Brands*

Our extensive network of properties helps Canadian consumers find valuable information to connect with local businesses and fulfill their shopping needs.

We own and operate some of Canada's leading properties and publications including YellowPages.ca™, Canada411.ca™, RedFlagDeals.com™, Canpages.ca™, and Yellow Pages™ print directories, as well as the Yellow Pages, ShopWise and RedFlagDeals mobile search applications. Our mobile applications for finding local businesses and deals have been downloaded over 6.5 million times.

- YellowPages.ca – Available both online and as a mobile application, YellowPages.ca provides users access to current and comprehensive information on local Canadian businesses;
- ShopWise – Mobile application offering geo-localized deals and flyers, alongside access to a catalogue of over 7 million products and information on over 600 local and national retailers;
- RedFlagDeals.com – Canada's leading provider of online and mobile deals, coupons and shopping tools;
- Canpages.ca – A search website with an interactive focus on consumers' geographic location and life needs, while also offering access to an extensive database of local real estate listings;
- Canada411.ca – One of Canada's most frequented and trusted online destinations for personal contact information; and
- YellowAPI.com – a public API providing application developers and strategic partners access to 1.5 million verified and regularly updated Canadian business listings.

Yellow Media is also the exclusive owner of the Yellow Pages™, Pages Jaunes™ Walking Fingers & Design™, as well as the Canada411™, RedFlagDeals.com™ and Mediative™ trademarks in Canada. Mediative is a digital advertising and marketing solutions provider which offers extensive display, mobile and other location-based marketing solutions to the country's largest national agencies and advertisers.

*Breadth and Depth of Local Content*

Yellow Media holds one of the largest databases of curated, local business information in the country, helping consumers discover their local neighbourhoods. We remain committed in producing and broadcasting valuable business information. In response, we are presently strengthening the foundation of our existing database, eliminating all out-of-date, duplicate merchant listings. We are also improving the completeness of our content, equipping our Media Account Consultants (MACs), digital support and client servicing teams with new tools and technologies that promote the timely collection and distribution of valuable merchant information.

*Established Relationships with Customers*

The Company currently employs a sales force of approximately 1,100 people, including sales support staff. This large and primarily face-to-face sales force is broken down into various customer segments, allowing for a more dedicated relationship with our advertisers. The Company has invested heavily in the training of its sales force, transforming its MACs to savvy digital marketing consultants. Our MACs now engage in more frequent touch-points with their clients, and are more active in promoting advertiser retention and acquisition. They are also equipped with enhanced selling tools, processes and technologies to provide advertisers with more valuable digital marketing campaigns.

Dedicated and Experienced Employees

Despite a challenging environment, our employees have executed on the initiatives needed to position and transform the Company and we are confident that they will continue to remain focused on our common objectives. The Company has aligned its workforce with the realities of its digital transformation, transferring resources from its legacy operations towards its digital platform. In 2013, over 200 professionals were hired within the domains of information technology and digital media. The Company also continues to invest in developing a stronger digital culture, offering training programs, tools and resources to elevate digital literacy and promote change management across all facets of the organization.

*Culture and Values*

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

# 2. Results /

This section provides an overview of our financial performance in 2013 compared to 2012 and 2011. We present several metrics to help our investors better understand our performance. Some of these metrics 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 $136 million or 12.3% to $971.8 million compared to the previous year.
- Income from operations before depreciation and amortization, impairment of goodwill, intangible assets and property, plant and equipment and restructuring and special charges (EBITDA) decreased by $153.3 million or 26.9% to $416.1 million compared to the previous year.

### Highlights

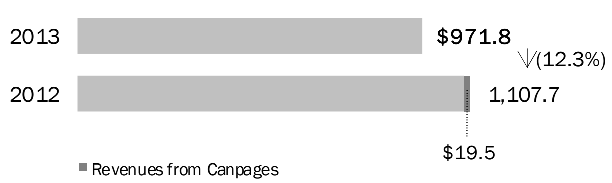
*(in thousands of Canadian dollars– except share information)*

| | Years ended December 31, | |
|---|---|---|
| | **2013** | 2012 |
| Revenues | **$ 971,761** | $ 1,107,715 |
| Income from operations before depreciation and amortization, impairment of goodwill, intangible assets and property, plant and equipment and restructuring and special charges (EBITDA)[1] | **$ 416,112** | $ 569,380 |
| Net earnings (loss)[1] | **$ 176,530** | $ (1,962,054) |
| Basic earnings (loss) per share attributable to common shareholders[1] | **$ 6.34** | $ (70.95) |
| Cash flows from operating activities | **$ 340,680** | $ 238,573 |
| Free cash flow[2] | **$ 274,551** | $ 198,338 |

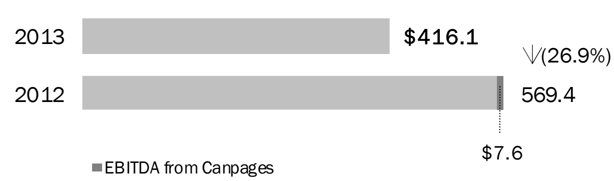
1 2012 figures have been revised to reflect the adoption of IAS 19 (Revised), *Employee Benefits*, effective January 1, 2013, and requiring retrospective application. Please refer to Note 2 of the Consolidated Financial Statements of Yellow Media Limited for the year ended December 31, 2013.

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

**Revenues**
(in millions of dollars)




**EBITDA**
(in millions of dollars)



## Performance Relative to Business Strategy

As we reinforced Yellow Media's positioning as a leading Canadian digital media company, our key priorities for 2013 were to provide advertisers with the:

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

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

The Yellow Pages 360º Solution is a key element of our digital transformation, positioning the Company as a Canadian leader in digital marketing. This unique value proposition provides advertisers with a comprehensive digital solution, offering products and services such as online and mobile priority placement, search engine solutions, websites, social media, videos and print advertising.


As at December 31, 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 27.1%. This compares to 16.5% as at December 31, 2012.

Online priority placement remains the Company's highest penetrated digital product offering, with penetration having increased to 47% as at December 31, 2013 compared to 35% at the end of the same period last year.

Mobile advertising remains a key growth driver for YPG, as Canadians become increasingly dependent on their smartphones and tablets to obtain valuable, on-the-go information about businesses and services in and around their neighbourhoods. Mobile priority placement allows advertisers to gain top positioning across YPG's mobile applications, which have currently been downloaded over 6.5 million times. Mobile priority placement remains the Company's fastest growing digital product offering, with advertiser penetration having increased to 15% as at December 31, 2013, compared to 8% at the end of the same period in 2012.

Growth in advertiser penetration across online and mobile placement products is due to the successful sales execution of the Yellow Pages 360º Solution and the Company's efforts in migrating traditional media advertisers towards digital products and services. The same dynamic applies to the advertiser penetration of digital services (website, search engine optimization (SEO) and search engine marketing (SEM) offerings), which grew from 6% last year to 9% as at December 31, 2013. During the first quarter of 2013, Google selected YPG as a Canadian Google AdWords™ Premier SMB Partner, further reinforcing YPG's reputation of driving value to its advertisers through its SEM offerings. Partners in the Premier Google AdWords SMB Partner Program must not only meet the highest standards of excellence for qualification, training and customer service, but also hold strong knowledge of the local search marketing landscape and experience working with SMEs in these areas.

### Advertiser Penetration[1]

| | As at December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Print | **91.3%** | 94.1% |
| Owned and Operated Digital Media[2] | **61.2%** | 60.8% |
| Online placement | **47.1%** | 34.5% |
| Mobile placement | **14.9%** | 8% |
| Digital Services[3] | **8.7%** | 6.5% |

[1] YPG only, excludes Mediative and Wall2Wall.

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

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

Growing the advertiser base remains a key driver of revenue growth. Over the last twelve months, YPG acquired approximately 13,600 new advertisers, compared to 11,900 for the twelve-month period ended September 30, 2013 and 16,500 for the year ended December 31, 2012. During the second quarter of 2013, the Company redesigned its acquisition channel and established a more targeted acquisition strategy. Currently being implemented nationwide, this acquisition strategy is centered on increasing advertiser leads and conversions through the development of demand generation initiatives, inbound and outbound call centers, and a dedicated face-to-face national network of specialized MACs.

The Company also launched two new product packages designed exclusively to help prospective advertisers gain a digital media presence at entry-level pricing:

- Business Builder Bundle: provides advertisers with a virtual profile, online priority placement product, mobile priority placement product, and print display ad at a fixed price; and

- Booster Packs: 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.

Our most recent customer surveys reveal a higher level of satisfaction amongst YPG's clients, due in part to an improved relationship with their MAC. The Company's MACs now engage in more touch-points with their customers, and have access to the right tools to efficiently promote the value of the Company's products and services. During 2013, the Company repatriated and relaunched its Yellow Pages Analytics platform to provide enhanced stability, agility and performance capabilities. This new platform will supply the required foundation for further improvements in 2014, including a simplified user interface and enhanced reporting capabilities across each of the Company's digital products and services. The Company initiated the rollout of a new customer relationship management platform in 2013, providing the foundation to improve sales tools and processes and optimize all sales channels in 2014.

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

During the fourth quarter of 2013, the Company extended its value proposition to advertisers by helping them leverage the power of social media. YPG is now able to use advertisers' basic business content, which includes location, contact information, websites and images, to automatically generate and update basic Facebook® business pages. This basic Facebook® business page creation service is currently being integrated at no extra charge into YPG's existing Virtual Business Profile digital product offering. The Company will further monetize social media solutions in 2014 via the introduction of more comprehensive and customizable social media marketing campaigns.

The Company also launched two new premium digital products in 2013 to support retention efforts and deliver a more sophisticated, customizable, and comprehensive digital offering to its larger clients:

- Digital PowerPlay, which establishes and optimizes a business' digital presence by determining the necessary steps to maximize qualified leads across various digital channels while offering the highest level of service and support; and

- SEM TouchPoint, which provides a customized paid-search ad campaign inclusive of unique access to a dedicated SEM expert and in-depth performance reporting.

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

Increased satisfaction amongst YPG's clients was also supported by improved customer service and digital product fulfillment. In 2013, the Company increased training of its customer service agents, enhancing service levels and shortening turnaround times. The Company also enhanced digital product fulfillment, optimizing website production processes and consolidating online publication systems to provide better publishing accuracy.

The Company continued to develop platforms that promote content accuracy and relevancy, improve the user experience and thereby deliver enhanced ROI to its advertisers. The Company launched Online Merchant Management (OMM) during the second quarter of 2013, a tool which assigns a unique Merchant Identifier to every business in Canada. This technology eliminates all stale and duplicate listings, and ensures that each current and prospective advertiser has accurate and rich content available via one single business profile. In an effort to further improve its content collection process, the Company also deployed content capture applications to certain of its MACs, digital support and client servicing teams in 2013. These applications allow our sales and support teams to collect and distribute valuable business information to digital audiences live during sales meetings and calls.

The Company also repatriated and launched a new online and mobile search engine during the year. This new search engine provides users with more relevant and engaging search results, ranking results based on features such as proximity of location, business content, popularity of business, and quality of reviews. YellowPages.ca is also equipped with an enhanced autocomplete service, which allows for quicker results and a reduction in failed searches.

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

Attracting the right consumer audiences is key in promoting ROI for our advertisers' digital marketing campaigns.

As at December 31, 2013, our mobile applications were downloaded over 6.5 million times compared to 5 million times at the same period last year. YPG's mobile applications continued to gain industry recognition in 2013. The Yellow Pages application was highlighted by the App Store as one of the top 25 most downloaded applications of all time, while ShopWise was selected by the Local Search Association as the New App Gold Award Winner at the 2013 Industry Excellence Awards. The Company continued to develop valuable mobile content throughout the year. During the third quarter of 2013, the Company launched a real time gas pricing and comparison feature on its flagship Yellow Pages mobile application. A ShopWise iPad application was launched, alongside a new version of the mobile application, helping Canadians shop more efficiently through a digitally-responsive e-flyer experience and easier-to-find geo-localized deals and savings.

2013 also saw the launch of a brand new marketing and communications strategy to engage consumers, recapture awareness around the Yellow Pages brand and promote the download and use of the Yellow Pages mobile application. The Company completed a six-week multimedia advertising blitz in Toronto from June to August 2013, positioning Yellow Pages as the brand of choice for accurate, local information about the neighbourhoods we live in. This campaign was further extended in the fall of 2013, targeting over 260,000 millennials across university campuses in Montreal, Toronto and Vancouver. These branding initiatives improved the public's perception of Yellow Pages as a digital company, increased brand relevance and contributed to an increase in mobile downloads and visits.

YPG also launched a new event and awareness initiative in Toronto called Shop the Neighbourhood, designed to promote local shopping and the growth and success of local businesses. Consumers were asked to shop locally on November 30, 2013, a weekend when historically Canadians shop in the U.S. for Black Friday or online for Cyber Monday deals. The event attracted over 1,800 local businesses across the Greater Toronto Area, who offered over 2,000 exclusive deals and savings to consumers across our online and mobile applications. The campaign was also supported by various local associations, leading political figures and celebrities.

## Consolidated Operating and Financial Results

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

| For the years ended December 31, | 2013 | 2012[1] | 2011[1,2] |
|---|---|---|---|
| Revenues | $ 971,761 | $ 1,107,715 | $ 1,328,866 |
| Operating costs | 555,649 | 538,335 | 650,254 |
| 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 | 416,112 | 569,380 | 678,612 |
| Depreciation and amortization | 60,164 | 104,293 | 160,906 |
| Impairment of goodwill, intangible assets and property, plant and equipment | – | 3,267,847 | 2,900,000 |
| Acquisition-related costs | – | – | 7,743 |
| Restructuring and special charges | 23,338 | 44,923 | 26,142 |
| Income (loss) from operations | 332,610 | (2,847,683) | (2,416,179) |
| Financial charges, net | 93,357 | 155,968 | 136,605 |
| Gain on settlement of debt | – | (978,589) | – |
| Gain on disposal of subsidiary | – | – | (6,211) |
| Earnings (loss) before dividends on Preferred shares, series 1 and 2, income taxes and impairment and earnings (losses) from investments in associates | 239,253 | (2,025,062) | (2,546,573) |
| Dividends on Preferred shares, series 1 and 2 | – | 17,694 | 19,187 |
| Earnings (loss) before income taxes and impairment and earnings (losses) from investments in associates | 239,253 | (2,042,756) | (2,565,760) |
| Provision for (recovery of) income taxes | 63,421 | (78,809) | 85,310 |
| Impairment of investment in an associate, net of income taxes | – | – | 50,271 |
| Earnings (losses) from investments in associates | 698 | 1,893 | (12,060) |
| Net earnings (loss) from continuing operations | 176,530 | (1,962,054) | (2,713,401) |
| Net loss from discontinued operations, net of income taxes | – | – | (120,877) |
| **Net earnings (loss)** | $ 176,530 | $ (1,962,054) | $ (2,834,278) |
| Basic earnings (loss) per share attributable to common shareholders[2] | | | |
| From continuing operations | $ 6.34 | $ (70.95) | $ (97.85) |
| Total | $ 6.34 | $ (70.95) | $ (102.32) |
| Diluted earnings (loss) per share attributable to common shareholders[2] | | | |
| From continuing operations | $ 5.46 | $ (70.95) | $ (97.85) |
| Total | $ 5.46 | $ (70.95) | $ (102.32) |
| **Total assets** | $ 1,794,034 | $ 1,756,476 | $ 5,048,932 |
| **Long-term debt (including current portion, excluding exchangeable and convertible debt instruments)** | $ 647,468 | $ 801,831 | $ 1,613,231 |
| **Exchangeable and convertible debt instruments** | $ 87,934 | $ 86,667 | $ 184,214 |
| **Preferred shares, series 1 and 2 (including current portion)** | $ – | $ – | $ 398,886 |

1 Revised to reflect the adoption of IAS 19 (Revised), *Employee Benefits*, effective January 1, 2013, and requiring retrospective application. Please refer to Note 2 of the Consolidated Financial Statements of Yellow Media Limited for the year ended December 31, 2013.

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 2011 and 2012 has been adjusted to reflect the recapitalization.

## Analysis of Consolidated Operating and Financial Results

The consolidated income statements of Yellow Media up to net earnings (loss) from continuing operations represent the results of the restated digital and traditional media solutions segment. The results of the automotive and generalist print and online business of Trader Corporation were presented as discontinued operations in 2011.

*Fiscal 2013 versus 2012*

*Revenues*

Revenues decreased by 12.3% to $971.8 million during 2013 compared with $1,107.7 million for 2012. On a comparable basis, when adjusting for the discontinuation of Canpages directories in 2012, revenues decreased by 10.7% during 2013. Revenues remain adversely impacted by lower print revenues, as larger advertisers reduce their print advertising spend, alongside a lower advertiser count amongst smaller, low-spend advertisers.

Digital revenues reached $406.3 million in 2013, representing a growth of 10.6%. On a comparable basis, when adjusting for the discontinuation of Canpages directories in 2012, digital revenues increased by 12.5% during 2013 when compared to the same period last year. During the fourth quarter of 2013, digital revenues represented 45.1% of total revenues, up from 37.7% during the same period in 2012.

Growth in digital revenues continues to result from the ongoing migration of traditional media advertisers towards digital products and services and continued adoption of the Yellow Pages™ 360º Solution across YPG's sales channels. These factors also led to an improvement in Revenue Generating Units[1] (RGU) per advertiser from 1.74 as at December 31, 2012 to 1.81 as at December 31, 2013.

The Company had 276,000 advertisers as at December 31, 2013, compared to 309,000 as at the same period last year. Advertiser renewal rate decreased from 86% last year to 85% for the twelve-month period ended December 31, 2013. During the last twelve months, YPG acquired approximately 13,600 new advertisers, compared to 16,500 for the same period last year. Advertiser acquisition improved slightly versus the twelve-month period ended September 30, 2013, whereby 11,900 new advertisers were acquired. The Company will continue rolling out its redesigned acquisition strategy nationwide and implementing programs, processes and technologies to reach and attract new advertisers, enhance lead nurturing, and improve conversions.

### Advertiser Renewal and Acquisition

| | For the years ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Advertiser count[2] | **276,000** | 309,000 |
| Client renewal rate[3] | **85%** | 86% |
| New advertisers[2] | **13,600** | 16,500 |

For the year ended December 31, 2013, 81% of renewing advertisers[3] increased or maintained their level of spending compared to 82% in 2012. Advertisers experiencing a decrease in spending are mainly larger advertisers that represented approximately 44% of YPG's revenues for the year ended December 31, 2013. In response, the Company will continue offering these clients enhanced execution of their marketing campaigns and providing them access to premium digital solutions.

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

[2] Excludes the contribution of Wall2Wall and Canpages.

[3] YPG advertisers only, excluding the impact of Mediative, Canpages and Wall2Wall advertisers.

## Spending Dynamics

| | For the years ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Amongst Renewing Advertisers[1] | | |
| Increase in spending[2] | | |
| Advertiser distribution | 26% | 51% |
| % of revenues | 29% | 40% |
| Stable spending[3] | | |
| Advertiser distribution | 55% | 31% |
| % of revenues | 27% | 16% |
| Decrease in spending[4] | | |
| Advertiser distribution | 19% | 18% |
| % of revenues | 44% | 44% |
| Average Revenue per Advertiser (ARPA)[5] | $3,259 | $3,260 |

1 YPG advertisers only, excluding the impact of Mediative, Canpages and Wall2Wall advertisers.

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

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

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

5 Excludes the contribution of Canpages and Wall2Wall.

## Operational Indicators

| | As at December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Yellow Pages 360º Solution Penetration[6] | 27.1% | 16.5% |
| RGU per advertiser[6] | 1.81 | 1.74 |
| Digital only advertisers[6] | 23,900 | 18,000 |
| Digital revenues (in thousands of Canadian dollars)[7] | $ 406,311 | $ 367,236 |

6 YPG advertisers only, excluding the impact of Mediative and Wall2Wall advertisers.

7 For the years ended December 31.

### *EBITDA*

EBITDA decreased by $153.3 million to $416.1 million during 2013 compared with $569.4 million in 2012. The decrease in EBITDA is due to print revenue pressure, as revenue growth from our digital products is not compensating for the loss in print revenues, combined with a lower EBITDA margin. Our EBITDA margin for 2013 was 42.8% compared to 51.4% for 2012. In addition to lower revenues, changes in product mix, investments in the business transformation and employee related expenses were the main contributors to the decrease in EBITDA margin. During the year, we also recorded provisions associated with sales tax assessments.

Cost of sales decreased by $20.2 million to $318.6 million during 2013 compared with $338.8 million for 2012. The decrease for the year results mainly from lower sales costs associated with lower revenues and lower manufacturing costs associated with lower print revenues. These cost savings were partly offset by an increase in provisioning and fulfillment costs of our digital services.

Gross profit margin decreased to 67.2% for 2013 compared to 69.4% for 2012. The decrease is mainly 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 $37.5 million to $237 million during 2013 compared with $199.5 million for 2012. The increase for the year ended December 31, 2013 is attributable to higher employee related expenses, investments in branding as we continued our Meet the New Neighbourhood advertising campaign, non-recurring provisions related to sales tax assessments and lower non-cash benefit resulting from the amendment to our employees' pension and post-retirement benefit plans. This was partly offset by lower bad debts.

### *Depreciation and amortization*

Depreciation and amortization decreased from $104.3 million to $60.2 million during 2013. 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, certain intangible assets and property, plant and equipment had a lower cost base in 2013 due to the impairment of $300 million recorded in the fourth quarter of 2012.

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

During the first quarter of 2012, indicators that the Company's assets may have been impaired existed were identified, requiring the Company to perform an impairment test. Also, as a result of the closing of the recapitalization during the fourth quarter of 2012, and the issuance of new debt, shares and warrants pursuant to the recapitalization, and in the context of its annual impairment testing, the Company determined that the recoverability of certain of its assets had to be reviewed for impairment purposes. Consequently, we recorded charges of $3,267.8 million in 2012, related to the impairment of goodwill and certain of our intangible assets and property, plant and equipment. No such charge was recorded during 2013.

*Restructuring and special charges*

In 2013, we recorded restructuring and special charges of $23.3 million associated with a workforce reduction of approximately 300 employees, the termination and renegotiation of certain contractual obligations and the departure of the former President and Chief Executive Officer (CEO). As announced on March 21, 2013, Marc P. Tellier stepped down as CEO on August 15, 2013 and was entitled to remuneration in accordance with the separation agreement entered into on March 20, 2013. In 2012, we incurred costs of $44.9 million associated with a workforce reduction, a relocation of certain centres of excellence, as well as the termination and renegotiation of certain contractual obligations.

*Financial charges*

Financial charges decreased by $62.6 million to $93.4 million during 2013 compared with $156 million for 2012. This decrease for the year ended December 31, 2013 is mainly attributable to a lower level of indebtedness and lower deferred financing costs as a result of the December 2012 recapitalization transaction. During 2013, we incurred interest on long-term debt of $79 million and deferred financing costs of $0.1 million compared to interest on long-term debt of $119.3 million and deferred financing costs of $8.4 million for the preceding year. During the year, the Company purchased on the open market $8 million of senior secured notes for a total cash consideration of $8.3 million and exercised its option to redeem $27 million of senior secured notes for a total cash consideration of $28.4 million. A total loss of $1.7 million was recorded in net earnings in financial charges. In 2012, we incurred a charge of $18.5 million related to an option associated with our investment in an associate. No such charge was recorded in 2013. As at December 31, 2013 and 2012, the effective average interest rate on our debt portfolio was 9.1%.

*Gain on settlement of debt*

During the fourth quarter of 2012, we recorded a gain of $978.6 million on the settlement of debt pursuant to the recapitalization, net of related fees of $69.5 million, write-off of deferred financing costs of $16.3 million, deferred gains of $5.5 million, an equity component of $7.2 million and a derivative component of $0.6 million, associated with our previous debt instruments.

*Dividends on Preferred shares, series 1 and 2*

Dividends on the two series of redeemable preferred shares amounted to $17.7 million for the year ended December 31, 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 26.46% and 26.31% for the years ended December 31, 2013 and 2012, respectively. The Company recorded an expense of $63.4 million for the year compared to a recovery of $78.8 million in 2012. The Company recorded an expense of 26.51% on earnings for the year ended December 31, 2013.

The Company recorded a recovery of 3.9% on the loss for the year ended December 31, 2012. The difference between the effective and the statutory rates in 2012 is due to the gain on settlement of debt offset by the unrecognized capital losses on its investment of subsidiaries and to the impairment charge of $3,267.8 million, which is not fully deductible for tax purposes. Excluding these items, the effective tax rate in 2012 would have been in line with the statutory rate.

*Earnings from investments in associates*

During 2013, we recorded earnings from our investment in an associate in the amount of $0.7 million compared with $1.9 million for the same period last year. Effective January 1, 2012, we no longer account for our investment in Acquisio using the equity method and we recorded a gain of $2.1 million in 2012 on the revaluation of this investment. Our earnings from our investments in associates include the amortization of intangible assets in connection with these equity investments.

*Net earnings (loss)*

During 2013, we recorded net earnings of $176.5 million compared with a net loss of $1,962.1 million in 2012. The increase in earnings is mainly due to the impairment of goodwill, certain intangible assets and property, plant and equipment of $3,267.8 million recorded in 2012, offset by the gain on settlement of debt of $978.6 million recorded in 2012, lower depreciation and amortization of $44.1 million, lower restructuring and special charges of $21.6 million, and lower financial charges of $62.6 million, partly offset by a higher provision for income taxes of $142.2 million and lower EBITDA of $153.3 million.

*Fiscal 2012 versus 2011*

*Revenues*

Revenues decreased by 16.6% to $1,107.7 million during 2012 compared with $1,328.9 million for 2011. On a comparable basis, revenues decreased by 11.9% during 2012. The decrease for the year ended December 31, 2012 was due to lower print revenues, primarily amongst larger advertisers who reduced their advertising spend, as well as a lower advertiser count. 18% of renewing advertisers[1] experienced a decrease in spending over the twelve-month period ended December 31, 2012, unchanged versus 2011. Advertisers who experienced a decrease in spending were mainly larger advertisers. However, 51% of renewing advertisers[1] experienced an increase in spending over the twelve-month period ended December 31, 2012, as compared to 43% for the corresponding preceding year.

As at December 31, 2012, the number of advertisers, excluding Canpages' advertisers, was 309,000 compared to 340,000 as at December 31, 2011, reflecting a decrease of 9.1%. During the twelve-month period ended December 31, 2012, YPG acquired approximately 17,300 new advertisers versus 23,000 new advertisers for the twelve-month period ended December 31, 2011. Advertiser renewal decreased to 86% as at December 31, 2012 compared to 87% as at December 31, 2011.

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

As at December 31, 2012, 35% of our advertisers had purchased an online placement product compared to 19% in 2011. Also, 8% had purchased a mobile placement product compared to 1% in 2011. As at December 31, 2012, our RGU per advertiser increased to 1.74 compared to 1.68 for the same period last year.

*EBITDA*

EBITDA decreased by $109.2 million to $569.4 million during 2012 compared with $678.6 million in 2011. The decrease in EBITDA was due principally to print revenue pressure, as our new digital products did not compensate for the loss in print revenues. Our EBITDA margin for 2012 was 51.4% compared to 51.1% for 2011. Lower revenues were offset by lower bad debts and general cost containment efforts.

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

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

General and administrative expenses decreased by $57.7 million to $199.5 million during 2012 compared with $257.2 million for 2011. The migration of Canpages within YPG resulted in a cost reduction of $14 million for the year ended December 31, 2012. The decrease for the year ended December 31, 2012 was also attributable to lower bad debts of approximately $21 million as well as general cost containment measures including changes to our employees' pension and post-retirement benefits which included a non-cash benefit of $13.3 million.

*Depreciation and amortization*

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

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

During the first quarter of 2012, indicators that the Company's assets may have been impaired were identified, which required the Company to perform an impairment test. Also, as a result of the closing of the recapitalization during the fourth quarter of 2012, the issuance of new debt, shares and warrants pursuant to the Recapitalization, and in the context of its annual impairment testing, the Company determined that the recoverability of certain of its assets had to be reviewed for impairment purposes.

[1] YPG advertisers only, excluding the impact of Mediative and Wall2Wall advertisers.

[2] Source: comScore Media Metrix Canada.

Consequently, we recorded charges of $3,267.8 million in 2012, related to the impairment of goodwill and certain of our intangible assets and property, plant and equipment.

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

*Acquisition-related costs*

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

*Restructuring and special charges*

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

*Financial charges*

Financial charges increased by $19.4 million to $156 million during 2012 compared with $136.6 million for 2011. This increase was mainly attributable to a gain recorded on the repurchase of Preferred shares, series 1 and 2 and medium term notes of $38.8 million for the year ended December 31, 2011. Excluding this gain, financial charges decreased by $19.5 million for the year ended December 31, 2012 compared to the same period last year. The decrease for the year was mainly attributable to lower interest expense and a decrease of the amortization of deferred financing costs. The lower interest expense was attributable to a lower level of indebtedness as a result of buyback activities of medium term notes and repayment of commercial paper borrowings as well as repayments under the credit facility in 2011 and 2012. The positive impact of lower levels of indebtedness on interest expense was partly offset by higher borrowing costs resulting from our credit ratings downgrades. The decrease in interest was partly offset by higher charges related to derivative financial instruments of $18.5 million in 2012 compared to $12.5 million in 2011. The charge in 2012 related to an option associated with our investment in an associate while the charge in 2011 related mainly to the settlement of a total return swap. As at December 31, 2012, the effective average interest rate on our debt portfolio was 9.1% following the implementation of the Recapitalization compared to 6.2% as at December 31, 2011.

*Gain on settlement of debt*

We recorded a net gain of $978.6 million on the settlement of debt pursuant to the recapitalization in 2012.

*Dividends on Preferred shares, series 1 and 2*

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

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

*Provision for income taxes*

The combined statutory provincial and federal tax rate was 26.3% and 27.9% for the years ended December 31, 2012 and 2011, respectively. The Company recorded a recovery of $78.8 million for the year compared with an expense of $85.3 million in 2011. The Company recorded a recovery of 3.9% of the loss for the year ended December 31, 2012. The difference between the effective and the statutory rates in 2012 was due to the gain on settlement of debt offset by the unrecognized capital losses on its investment of subsidiaries and to the impairment charge of $3,267.8 million which was not fully deductible for tax purposes. Excluding these items, the effective tax rate in 2012 would have been in line with the statutory rate.

The Company recorded an expense of 3.3% of the loss for the year ended December 31, 2011. The difference between the effective and the statutory rates in 2011 was due to the impairment of goodwill and intangible assets charge of $2,900 million which was not fully deductible for tax purposes as well as the non-deductibility of certain expenses for tax purposes such as the impairment of our investment in Ziplocal, LP (Ziplocal).

*Impairment of investment in an associate*

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

*Earnings (losses) from investments in associates*

During 2012, we recorded earnings from our investment in an associate in the amount of $1.9 million which includes a gain of $2.1 million related to the revaluation of our investment in Acquisio. Effective January 1, 2012, we no longer account for the

Acquisio investment using the equity method. Our (earnings) losses from investments in associates included the amortization of intangible assets acquired in connection with these equity investments. During 2011, we recorded our share of losses from our investments in associates in the amount of $12.1 million, which included our share of losses from Ziplocal of $10.6 million. No share of losses was recorded from our investment in Ziplocal in 2012 as this investment was written-off as described above.

*Net loss from discontinued operations*

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

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

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

*Net loss*

The net loss decreased to $1,962.1 million in 2012 compared with $2,834.3 million in 2011. The decrease in the net loss of $872.2 million for the year ended December 31, 2012 was mainly due to the gain on settlement of debt of $978.6 million recorded pursuant to the Recapitalization, a decrease in depreciation and amortization of $56.6 million, a decrease in the provision for income taxes of $164.1 million, the impairment of our Ziplocal investment of $50.3 million and the loss from our divestiture of Trader Corporation of $120.9 million in 2011, offset by lower EBITDA of $109.2 million, a higher impairment charge of goodwill, intangible assets and certain property, plant and equipment of $367.8 million, restructuring and special charges of $18.8 million and financial charges of $19.4 million.

## Summary of Consolidated Quarterly Results

### Quarterly Results

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

| | 2013 | | | | 2012[1] | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Revenues | $ 237,951 | $ 237,350 | $ 243,183 | $ 253,277 | $ 264,447 | $ 267,711 | $ 286,484 | $ 289,073 |
| Operating costs | 146,698 | 135,203 | 135,949 | 137,799 | 122,770 | 129,821 | 141,545 | 144,199 |
| Income from operations before depreciation and amortization, impairment of goodwill, intangible assets and property, plant and equipment and restructuring and special charges (EBITDA) | 91,253 | 102,147 | 107,234 | 115,478 | 141,677 | 137,890 | 144,939 | 144,874 |
| EBITDA margin | 38.3% | 43% | 44.1% | 45.6% | 53.6% | 51.5% | 50.6% | 50.1% |
| Depreciation and amortization | 16,106 | 15,589 | 14,779 | 13,690 | 23,395 | 26,597 | 24,220 | 30,081 |
| Impairment of goodwill, intangible assets and property, plant and equipment | – | – | – | – | 300,000 | – | – | 2,967,847 |
| Restructuring and special charges | 13,134 | 4,011 | – | 6,193 | 18,111 | 26,812 | – | – |
| Income (loss) from operations | 62,013 | 82,547 | 92,455 | 95,595 | (199,829) | 84,481 | 120,719 | (2,853,054) |
| Gain (loss) on settlement of debt[2] | – | – | – | – | (994,894) | 10,818 | 5,487 | – |
| Net earnings (loss) | 30,964 | 41,775 | 50,326 | 53,465 | 821,850 | 22,236 | 65,681 | (2,871,821) |
| Basic earnings (loss) per share attributable to common shareholders[2] | $ 1.11 | $ 1.51 | $ 1.81 | $ 1.91 | $ 29.24 | $ 0.59 | $ 2.15 | $ (102.93) |
| Diluted earnings (loss) per share attributable to common shareholders[2] | $ 0.97 | $ 1.30 | $ 1.55 | $ 1.64 | $ 28.50 | $ 0.59 | $ 2.15 | $ (102.93) |

1 Revised to reflect the adoption of IAS 19 (Revised), *Employee Benefits*, effective January 1, 2013, and requiring retrospective application. Please refer to Note 2 of the Consolidated Financial Statements of Yellow Media Limited for the year ended December 31, 2013.

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 2012 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. Revenues for the fourth quarter of 2013 increased slightly from the previous quarter. This was impacted by non-recurring revenues as well as higher revenues at Mediative associated with the holiday shopping period.

Our EBITDA margin remained relatively stable in the first and second quarters 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 non-cash benefits of $13.3 million, $2.6 million and $4.6 million, respectively, related to amendments to our pension and post-retirement benefit plans. Our EBITDA margin decreased throughout 2013, primarily reflecting lower print revenues, the loss of margin from a change in product mix, investments made to accelerate our business transformation and employee related expenses. The fourth quarter of 2013 was also negatively impacted by provisions related to a legal dispute and a sales tax assessment.

Workforce reductions and cost containment initiatives resulted in restructuring and special charges impacting some of our quarterly results presented above. Net earnings (loss) for 2012 was affected by depreciation and amortization of intangible assets related to the acquisition of Canpages. The decrease in 2013 of depreciation and amortization 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.

During the first and the fourth quarters of 2012, we recorded impairment charges of $2,967.8 million and $300 million, respectively, related to goodwill, certain of our intangible assets and property, plant and equipment.

During the fourth quarter of 2012, we recorded a gain of $978.6 million on the settlement of debt pursuant to the recapitalization, net of related fees of $69.5 million, write-off of deferred financing costs of $16.3 million, deferred gains of $5.5 million, an equity component of $7.2 million and a derivative component of $0.6 million, associated with our previous debt instruments. Upon closing of the recapitalization 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 the 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, 2013 presentation.

*Analysis of fourth quarter 2013 results*

*Revenues*

Revenues decreased to $238 million during the fourth quarter of 2013 compared with $264.4 million for the same period last year. The revenue decrease for the quarter is due to lower print revenues, as larger advertisers reduce their print advertising spend, as well as a lower advertiser count amongst smaller, low-spend advertisers.

Digital revenues for the fourth quarter ended December 31, 2013 grew by 7.7% to $107.4 million, as compared to $99.7 million for the same period last year. Digital revenue growth continues to result from the active migration of traditional media advertisers towards digital products and services and continued adoption of the Yellow Pages™ 360º Solution across YPG's sales channels.

*EBITDA*

EBITDA decreased by $50.4 million to $91.3 million during the fourth quarter of 2013 compared with $141.7 million for the same period last year. The decrease in EBITDA is due to print revenue pressure, as revenue growth from our digital products is not compensating for the loss in print revenues, combined with a lower EBITDA margin. Our EBITDA margin for the fourth quarter of 2013 was 38.3% compared to 53.6% for the same period in 2012. In addition to lower revenues, pressure on the EBITDA margin results mainly from a change in product mix, as well as investments required to advance the Company's digital transformation. We also recorded a provision related to a legal dispute and a sales tax assessment. The fourth quarter of 2012 included non-cash benefits of approximately $13.3 million associated with changes to our employee pension and post-retirement benefit plans. Excluding the foregoing non-recurring items, our EBITDA margin for the fourth quarter of 2013 decreased to 41.2% compared to 48% for the same period last year, on the same basis.

Cost of sales decreased by $3.7 million to $80.9 million during the fourth quarter of 2013 compared with $84.6 million for the same period last year. The decrease for the quarter results mainly from lower sales costs associated with lower revenues and lower manufacturing costs associated with lower print revenues. These costs savings were partly offset by an increase in provisioning and fulfillment costs of our digital services.

Gross profit margin decreased to 66% for the fourth quarter of 2013 compared to 68% for the fourth quarter of 2012. The decrease is due to a change in product mix, which includes lower margins associated with some of our new online service offerings such as websites, SEO and SEM.

General and administrative expenses increased by $27.6 million to $65.8 million for the three-month period ended December 31, 2013 compared with $38.2 million for the same period last year. The increase for the quarter ended December 31, 2013 is attributable to a lower non-cash benefit resulting from the amendment to our employees' pension and post-retirement benefit plans, non-recurring provisions related to a legal dispute and a sales tax assessment, as well as employee related expenses.

*Depreciation and amortization*

Depreciation and amortization decreased to $16.1 million during the fourth quarter of 2013 from $23.4 million during the fourth quarter of 2012. 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, certain intangible assets and property, plant and equipment had a lower cost base in 2013 due to the impairment of $300 million recorded in the fourth quarter of 2012.

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

During the fourth quarter of 2012, management concluded that indicators that the Company's assets may be impaired existed, which required the Company to perform an impairment test. As a result of the impairment test, we recorded an impairment charge of $300 million in the fourth quarter of 2012 related to certain of our intangible assets and property, plant and equipment. No such charge was recorded during the fourth quarter of 2013.

*Restructuring and special charges*

During the fourth quarter of 2013, we recorded restructuring and special charges of $13.1 million compared with $18.1 million for the same period last year. The charges in the fourth quarter of 2013 relate to a workforce reduction and the termination and renegotiation of certain contractual obligations. To further advance our digital transformation, we eliminated approximately 300 positions across our offices, primarily in domains related to our print and legacy operations, but also including some support functions. The charges in the fourth quarter of 2012 were associated with a workforce relocation, a workforce reduction and the termination and renegotiation of certain contractual obligations.

*Financial charges*

Financial charges decreased by $27.6 million to $24 million for the three-month period ended December 31, 2013 compared with $51.6 million for the same period last year. The decrease is mainly due to lower level of indebtedness and lower deferred financing costs during the fourth quarter of 2013 as a result of the December 2012 recapitalization transaction. In the fourth quarter of 2012, we incurred a derivative charge of $18.5 million related to an option associated with our investment in an associate. No such charge was recorded during the fourth quarter of 2013.

*Gain on settlement of debt*

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

*Dividends on Preferred shares, series 1 and 2*

Dividends on the two series of redeemable preferred shares amounted to $4 million during the fourth quarter of 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 26.46% and 26.33% for the three-month periods ended December 31, 2013 and 2012, respectively. The Company recorded an expense of 19% of earnings for the three-month period ended December 31, 2013 compared to a recovery of 11% of earnings for the three-month period ended December 31, 2012. The difference between the effective and the statutory rates in the fourth quarter of 2013 is due to the de-recognition of previously recognized tax attributes on assets of our foreign subsidiaries and non-taxable and non-deductible items. The difference between the effective and the statutory rates for 2012 is due to the gain on settlement of debt which is offset by the unrecognized capital losses on investment of subsidiaries.

*Earnings from investments in associates*

During the fourth quarter of 2013, we recorded earnings from our investment in an associate in the amount of $0.2 million compared with $0.1 million for the same period last year. Our earnings from investments in associates include the amortization of intangible assets during the fourth quarter of 2012. These intangible assets were fully amortized during the first quarter of 2013.

*Net earnings*

We recorded net earnings of $31 million during the fourth quarter of 2013 compared with $821.9 million for the same period last year. The decrease for the quarter is mainly due to the gain on the settlement of debt of $994.9 million, offset by the impairment charge related to certain of our intangible assets and property, plant and equipment of $300 million recorded in the fourth quarter of 2012. Also, we recorded a higher provision for income taxes and reported lower EBITDA in the fourth quarter of 2013.

# 3. Liquidity and Capital Resources /

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

## Financial Position

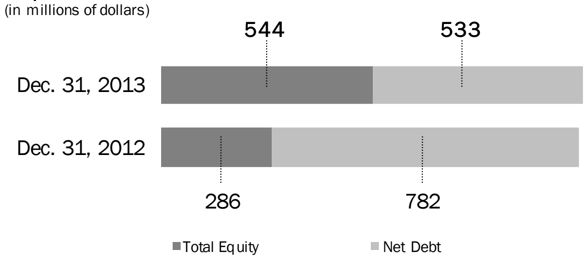
### Capital Structure

*(in thousands of Canadian dollars)*

| | As at December 31, 2013 | As at December 31, 2012 |
|---|---|---|
| Cash and cash equivalents | $ 202,287 | $ 106,807 |
| Senior secured notes | $ 646,577 | $ 800,000 |
| Obligations under finance leases | 891 | 1,831 |
| Exchangeable debentures | 87,934 | 86,667 |
| **Net debt, net of cash and cash equivalents[1]** | $ 533,115 | $ 781,691 |
| Equity attributable to the shareholders | 544,495 | 285,749 |
| Non-controlling interests | – | 411 |
| **Total capitalization** | $ 1,077,610 | $ 1,067,851 |
| Net debt to total capitalization | 49.5% | 73.2% |

**Net Debt[1] to Latest Twelve Month EBITDA Ratio[2,3]**


**Capital Structure**
(in millions of dollars)




As at December 31, 2013, Yellow Media had approximately $533.1 million of net debt. This compares to $781.7 million of net debt as at December 31, 2012.

The net debt to Latest Twelve Month EBITDA[2] ratio as at December 31, 2013 was 1.3 times compared to 1.4 times as at December 31, 2012. The improvement is due to a lower level of indebtedness partially offset by lower EBITDA.

*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. Through the ABL, the Company has access to the funds in the form of prime rate loans, Banker's acceptance (BA) equivalent loans or letters of credit. 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 twelve-month fixed charge coverage ratio is below 1.1 times. As at February 13, 2014, 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 payments, investments, the creation of liens, sale and leaseback transactions, mergers, consolidations and sales of assets, and certain transactions with affiliates and its business activities.

As at December 31, 2013, the Company was in compliance with all covenants under the loan agreement governing the ABL.

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

2 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.

3 Latest Twelve Month EBITDA for the prior period was revised to reflect the adoption of IAS 19 (Revised), Employee Benefits, as described in Note 2 of the Consolidated Financial Statements of Yellow Media Limited.

*Senior Secured Notes*

On December 20, 2012, 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 December 31, 2013, the Company was in compliance with all covenants under the indenture governing the Senior Secured Notes.

During the year, the Company repaid $153.4 million of its 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 adjusted for, among other things, payments relating to interest, taxes, long-term employee compensation plans, certain pension plan contribution payments and the acquisition of property, plant and equipment and intangible assets. The Company is required to make minimum annual aggregate mandatory redemption payments of $75 million in 2014, $50 million in 2015, or if the redemption payments made in 2014 exceed $75 million, $50 million less such excess redemption payment. The minimum annual aggregate mandatory redemption payments for 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. Under other circumstances, the Company may also have to make additional repayments on the Senior Secured Notes (refer to the indenture governing the Senior Secured Notes).

The Company made mandatory redemption payments of $26.1 million and $92.4 million on May 31, 2013 and December 2, 2013, respectively.

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.

On October 29, 2013, the Company exercised its option to redeem $27 million of Senior Secured Notes at a redemption price of $1,050 per $1,000 principal amount of Senior Secured Notes and accrued and unpaid interest of $15.16 per $1,000 principal amount of Senior Secured Notes for a total cash consideration of $28.4 million. A loss of $1.4 million was recorded in net earnings in financial charges.

Open Market Purchase

During the third quarter of 2013, the Company purchased on the open market $8 million of Senior Secured Notes for a total cash consideration of $8.3 million. A loss of $0.3 million was recorded in net earnings in financial charges.

*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 December 31, 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 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 |

*Liquidity*

The Company's principal source of liquidity is cash generated from operations and cash on hand. The Company expects to generate sufficient liquidity to fund capital expenditures, working capital requirements and current obligations, including the mandatory repayments on the Senior Secured Notes. The Company had approximately $211.8 million of cash and cash equivalents as at February 13, 2014.

*Share data*

As at February 13, 2014, outstanding share data was as follows:

| Outstanding Share Data | As at February 13, 2014 | As at December 31, 2013 | As at December 31, 2012 |
|---|---|---|---|
| Common Shares outstanding | **27,955,339** | 27,955,077 | 27,955,077 |
| Warrants outstanding | **2,995,506** | 2,995,506 | 2,995,506 |

*Exchangeable Debentures*

As at December 31, 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 Participants).

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

- The exercise price is $10.12;
- The options vest 50% in February 2015, 25% in February 2016 and 25% in February 2017;
- The options expire seven years after the grant date; and
- Participants are required to hold 25% of the common shares received pursuant to the exercise of the option until the Participants meet the ownership guidelines.

## Contractual Obligations and Other Commitments

### Contractual obligations

*(in thousands of Canadian dollars)*

| | Total | | Payments due for the years following December 31, 2013 | | | |
|---|---|---|---|---|---|---|
| | **Total** | Less than 1 year | 2 – 3 years | 4 – 5 years | After 5 years |
| Long-term debt[1,2] | $ 646,577 | $ 88,543 | $ 36,457 | $ 521,577 | $ — |
| Obligations under finance leases[1] | $ 891 | $ 508 | $ 383 | $ — | $ — |
| Exchangeable debentures[1] | $ 107,500 | $ — | $ — | $ — | $ 107,500 |
| Operating leases | $ 89,537 | $ 20,832 | $ 40,880 | $ 24,363 | $ 3,462 |
| Other | $ 179,257 | $ 62,701 | $ 107,579 | $ 7,977 | $ 1,000 |
| **Total contractual obligations** | $ 1,023,762 | $ 172,584 | $ 185,299 | $ 553,917 | $ 111,962 |

1 Principal amount.

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

#### *Obligations under finance leases*

We enter into finance lease agreements for office equipment and software. As at December 31, 2013, minimum payments under these finance leases up to 2016 totalled $0.9 million.

#### *Operating leases*

We rent our premises and office equipment under various operating leases. As at December 31, 2013, minimum payments under these operating leases up to 2020 totalled $89.5 million.

#### *Purchase obligations*

We use the services of outside suppliers to distribute and print our directories and have entered into long-term agreements with a number of these suppliers. These agreements expire between 2016 and 2038. We also have purchase obligations under service contracts for both operating and capital expenditures. As at December 31, 2013, we have an obligation to purchase services for $178.6 million over the next five years and thereafter. Cash from operations will be used to fund these purchase obligations.

#### *Pension Obligations*

YPG sponsors a pension plan registered with the Canada Revenue Agency and the Financial Services Commission of Ontario with defined benefit (DB) and defined contribution (DC) components (the YPG Pension Plan) as well as a DC plan registered with the Régie des Rentes du Québec (the YPG Plan), for the Québec based employees hired on or after January 1, 2006. Both plans together cover substantially all employees of the Company.

As at December 31, 2013, the DB component of the YPG Pension Plan's assets totalled $437 million and were invested in a diversified portfolio of Canadian fixed income securities and Canadian and international equity securities. Its rate of return on assets was 15.6% for 2013, 3.6% ahead of our benchmark portfolio.

The most recent actuarial valuation of the defined benefit component of the YPG Pension Plan for funding purposes was performed as at June 1, 2013. The June 2013 valuation resulted in a solvency deficit of $148 million. This valuation also established the amount of contributions the Company is required to make to the YPG Pension Plan from June 1, 2013 until the next valuation, which is due no later than June 1, 2014.

In 2013, the Company made annual contributions equivalent to the current service cost (the Annual Employer Cost) of $28.5 million, including $11.9 million to fund the deficit. Total cash payments are expected to amount to $40.4 million for 2014, of which $21.7 million will be to fund the deficit.

## Sources and Uses of Cash

### Sources and Uses of Cash

*(in thousands of Canadian dollars)*

| | Years ended December 31, | |
|---|---|---|
| | 2013 | 2012 |
| **Cash flows from operating activities** | | |
| Cash flows from operations | $ 290,035 | $ 283,776 |
| Change in operating assets and liabilities | 50,645 | (45,203) |
| | $ 340,680 | $ 238,573 |
| **Cash flows used in investing activities** | | |
| Acquisition of intangible assets and internally-generated software | (54,584) | (35,281) |
| Acquisition of property, plant and equipment | (11,743) | (5,137) |
| Business acquisition | (3,581) | — |
| Proceeds from sale of assets | — | 1,650 |
| Other | 359 | 183 |
| | $ (69,549) | $ (38,585) |
| **Cash flows used in financing activities** | | |
| Repayment and settlement of long-term debt | $ (118,984) | $ (351,426) |
| Repurchase of long-term debt | (36,670) | — |
| Restricted shares | (6,630) | — |
| Deferred consideration | (5,624) | (1,800) |
| Recapitalization costs | (6,641) | (63,025) |
| Issuance of long-term debt | — | 239,000 |
| Other | (1,102) | (116) |
| | $ (175,651) | $ (177,367) |

***Cash flows from operating activities***

Cash flows from operations

Cash flows from operations increased by $6.3 million from $283.8 million for the year ended December 31, 2012 to $290 million for the year ended December 31, 2013, mainly due to lower interest paid of $73.3 million, lower income taxes paid of $47.2 million, a lower funding of pension plans of $8.4 million, as well as lower payments for restructuring and special charges of $28 million offset by lower EBITDA of $153.3 million.

Change in operating assets and liabilities

The change in operating assets and liabilities for the year ended December 31, 2013 generated an inflow of $50.6 million compared with an outflow of $45.2 million for the same period last year. The inflow in 2013 is due principally to a better performance in the collection of our trade receivables. The timing of payment of accounts payable and certain provisions also generated a net inflow during 2013. The payment of sales tax assessments negatively impacted the change in operating assets and liabilities in 2012.

***Cash flows used in investing activities***

Cash used in investing activities amounted to $69.5 million for the year ended December 31, 2013 compared with $38.6 million for the year ended December 31, 2012. During 2013, we invested in software development and equipment in the amount of $54.6 million and $11.7 million, respectively, which in total was more than the corresponding amounts of $35.3 million and $5.1 million, respectively, spent in 2012.

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

*(in thousands of Canadian dollars)*

| | Years ended December 31, | |
|---|---|---|
| | **2013** | 2012 |
| Sustaining | $ 21,688 | $ 20,437 |
| Growth | 38,847 | 22,022 |
| **Total** | $ 60,535 | $ 42,459 |
| Adjustment to reflect expenditures on a cash basis | 4,907 | (2,224) |
| **Acquisition of property, plant, equipment and intangible assets, net of lease inducements** | $ 65,442 | $ 40,235 |

Sustaining capital expenditures are related to the ongoing operations required to maintain the integrity of the infrastructure. It also includes leasehold improvements which we invested in as we re-engineered some premises to accommodate our growing digital fulfillment teams. Sustaining capital expenditures amounted to $21.7 million for the year ended December 31, 2013, compared to $20.4 million for the previous year.

Growth capital expenditures relate to the development and implementation of new technology and software aimed at new initiatives as we continue our transformation to a leading media and marketing solutions company. During the year ended December 31, 2013, these amounted to $38.8 million compared to $22 million for the previous year. We spent more in 2013 compared to 2012 as we invested in our new Online Merchant Management (OMM) and Enterprise Tracking and Reporting tools. We also deployed a new call center platform and a new search engine on all our mobile properties.

Total capital expenditures for 2013 amounted to $60.5 million, and we expect to maintain this level of expenditures in 2014.

*Cash flows used in financing activities*

Cash used in financing activities amounted to $175.7 million during the year ended December 31, 2013 compared to $177.4 million for the same period last year. During the year, we repaid $119 million and repurchased $35 million of the Senior Secured Notes for total consideration of $36.7 million. In January 2012, we drew $239 million on the revolving tranche of the Credit Facility and made three quarterly payments of $25 million on the non-revolving tranche of our Credit Facility. In addition, we made a cash payment of $275 million in connection with the recapitalization transaction in December 2012.

## Financial and Other Instruments

(See Note 21 of the Consolidated Financial Statements of the Company for the year ended December 31, 2013).

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, investments in associates, trade and other payables, short-term and long-term debt and Exchangeable Debentures.

*Derivative Instruments*

We currently have an agreement to purchase the remaining shares of an investment in an associate at a pre-determined multiple. This option qualifies as a derivative liability. Because the option value was greater than the fair value of the remaining shares, we recorded a charge of $18.5 million for the year ended December 31, 2012 in financial charges.

There is no carrying value of embedded derivatives as at December 31, 2013. The carrying value is calculated, as is customary in the industry, using discounted cash flows based on quarter-end market rates.

# 4. Free cash flow /

*Free cash flow*

### Free cash flow

*(in thousands of Canadian dollars)*

| | Three-month periods ended December 31, | | Years ended December 31, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Cash flow from operating activities | $ **88,444** | 61,749 | $ **340,680** | $ 238,573 |
| Capital expenditures, net of lease inducements | **14,294** | 13,771 | **66,129** | 40,235 |
| Free cash flow | $ **74,150** | 47,978 | $ **274,551** | $ 198,338 |

# 5. Critical Assumptions /

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

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

*Intangible assets, goodwill and property, plant and equipment*

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

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

Yellow Media performed its annual test for impairment of indefinite life intangible assets in accordance with the policy described in Note 3.12 of the Consolidated Financial Statements of Yellow Media Limited for the year ended December 31, 2013.

The recoverable amount of the cash generating units (CGUs) was determined based on the value-in-use approach using a discounted cash flow model which relies on significant key assumptions, including after-tax cash flows forecasted over an extended period of time, terminal growth rates and discount rates. We use published statistics or seek advice where possible when determining the assumptions we use. Details of Yellow Media's impairment reviews are disclosed in Note 4 of the Consolidated Financial Statements of Yellow Media Limited for the year ended December 31, 2013.

*Employee future benefits*

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

*Income taxes*

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

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

## New Accounting Standards

### IAS 1 (Revised) — *Presentation of Financial Statements*

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

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

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

### 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 Consolidated Financial Statements of the Company for the year ended December 31, 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 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). New required note disclosures have been included in the Company's consolidated financial statements for the year ended December 31, 2013 to comply with the amendments. The IFRS 7 amendments are effective for financial years beginning on or after January 1, 2013 and have been applied retrospectively.

### 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. New required note disclosures have been included in the Company's consolidated financial statements for the year ended December 31, 2013 to comply with this new standard.

### IFRS 13 — Fair Value Measurement

IFRS 13 is a new standard that defines fair value and requires disclosures about fair value measurements. It applies prospectively from the beginning of the annual period in which it is adopted. New required note disclosures have been included in these consolidated financial statements. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in Yellow Media's Consolidated Financial Statements. IFRS 13 is effective for financial years beginning on or after January 1, 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 and changes the definition of control over an investee. 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 its consolidated financial statements.

### 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.

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 Limited has not early adopted this standard and has not fully assessed the impact of adopting IAS 32.

IFRS 9 — *Financial Instruments*

IFRS 9 is the first phase of the IASB's three phase project to replace IAS 39 — *Financial Instruments: Recognition and Measurement*. IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9, amended in October 2010 and November 2013, includes the requirements for the classification and measurement of financial liabilities and for de-recognition.

Key requirements of IFRS 9 are described as follows:

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

IFRS 9 is applied prospectively with transitional arrangements depending on the date of application. The amendments made to IFRS 9 in November 2013 remove the mandatory effective date from IFRS 9. However, entities may choose to apply IFRS 9 immediately. 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 "Risk Factors" section of our AIF for a complete description of these risk factors. Despite these guidelines, the Company cannot provide assurances that any such efforts will be successful.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The company has in place redundant facilities as well as a disaster recovery plan designed to restore the operability of the target system, application, or computer facility infrastructure at an alternate site after an emergency.

**The Corporation's inability to attract and retain key personnel could have a material adverse effect on the Corporation, its business, results from operations and financial condition**

The success of the Corporation depends on the abilities, experience and personal efforts of senior management of the Corporation, including their ability to retain and attract skilled employees. The Corporation is also dependent on the number and experience of its sales representatives. The loss of the services of such key personnel could have a material adverse effect on the Corporation, its results from operations and financial condition.

We continually invest in our workforce to develop a strong digital culture. We offer training programs, tools and resources to elevate digital literacy and promote change management across all facets of the organization.

**The Corporation might be required to record additional impairment charges**

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

# 7. Controls and Procedures /

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

## Disclosure Controls and Procedures (DC&P)

The evaluation of the design and effectiveness of DC&P (as defined in National Instrument 52-109) was performed under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. They concluded that the Company's DC&P were effective, as at December 31, 2013.

## Internal Control over Financial Reporting (ICFR)

The design and effectiveness of ICFR (as defined in National Instruments 52-109) were evaluated under the supervision of the President and Chief Executive Officer and Chief Financial Officer. Based on the evaluations, they concluded that the Company's ICFR was effective, as at December 31, 2013.

Management also concluded that during the quarter beginning on October 1, 2013 and ended on December 31, 2013, no changes were made to the Company's ICFR that has materially affected, or is reasonably likely to materially affect the Company's ICFR.