MANAGEMENT'S DISCUSSION AND ANALYSIS

May 8, 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 three-month period ended March 31, 2014 and should be read in conjunction with our audited consolidated financial statements and management's discussion and analysis for the year ended December 31, 2013 as well as our unaudited interim condensed financial statements and accompanying notes for the period ended March 31, 2014. Quarterly reports, the annual report and supplementary information can be found under the "Financial Reports" section of our corporate web site: www.ypg.com. Additional information, including our annual information form (AIF), can be found on SEDAR at www.sedar.com.

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

FORWARD-LOOKING INFORMATION

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

Forward-looking information and statements are based on a number of assumptions which may prove to be incorrect. In making certain forward-looking statements, we have assumed that we will succeed in continuing to implement our business plan, that we will be able to attract and retain key personnel in key positions, that we will be able to introduce, sell and provision new products and services, that the directories, digital media and advertising industries into which we sell our products and services will demonstrate strong demand for our products and services, that we will be able to grow traffic across our owned and operated digital properties at the currently anticipated rate, that the decline in print revenues will not materially accelerate beyond what is currently anticipated, that digital growth will not be materially slower than what is currently anticipated, that we will be able to acquire new customers 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 trademarks, 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 digital portals, search engines, individual websites, mobile manufacturers and Operating Systems providers 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", "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 inability of the Company to develop IT platforms required to execute the Return to Growth Plan", "The Corporation might be required to record additional impairment charges", "The inability of the Corporation to attract and retain customers could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "A higher than anticipated proportion of revenues coming from the Corporation's digital products with lower margin, such as websites, search engine optimization (SEO) and search engine marketing (SEM), could have a material effect on the Corporation, its business, financial condition and results from operations" and "The Corporation's business depends on the usage of its online and mobile properties and failure to grow traffic across the Corporation's digital properties could impair its ability to grow revenues and expand its business" 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 at 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 Intangible Assets and Property, Plant and Equipment and Restructuring and Special Charges (EBITDA)

We report on our EBITDA (Income from operations before depreciation and amortization, impairment of intangible assets and property, plant and equipment 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 in the context of measuring Yellow Media'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 14 of this MD&A.

Free cash flow

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

This MD&A is divided into the following sections:

1. Our Business, Mission, Strategy and Capability to Deliver Results
2. Results
3. Liquidity and Capital Resources
4. Free Cash Flow
5. Outlook
6. Critical Assumptions
7. Risks and Uncertainties
8. 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, digital display advertising, 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 270,000 local businesses across Canada.

Yellow Media holds one of the largest database of rich and curated, local business information in Canada. Our customers' 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 YP.ca™, Canada411.ca™, RedFlagDeals.com™, Canpages.ca™, and Yellow Pages™ print directories, as well as the YP, ShopWise and RedFlagDeals mobile search applications. During the first quarter of 2014, our desktop and mobile properties for finding local businesses and deals attracted over 94.1 million total visits. 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.

To review our business, mission, strategy and capability to deliver results, please refer to the corresponding sections in the MD&A for the year ended December 31, 2013.

2. RESULTS

This section provides an overview of our financial performance during the first quarter of 2014 compared to the same period in 2013. 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

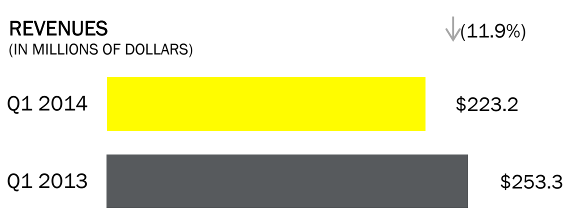
- Revenues decreased by $30.1 million or 11.9% to $223.2 million compared to the first quarter of 2013.
- Income from operations before depreciation and amortization and restructuring and special charges (EBITDA) decreased by $20.9 million or 18.1% to $94.6 million compared to the first quarter of 2013.

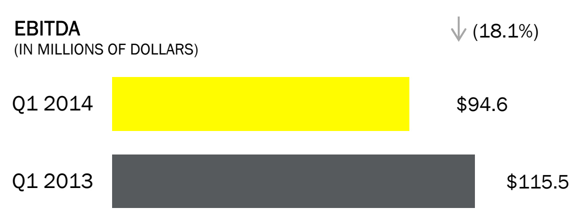
HIGHLIGHTS

(IN THOUSANDS OF CANADIAN DOLLARS– EXCEPT SHARE INFORMATION)

	Three-month periods ended March 31,	
	2014	2013
Revenues	$ 223,203	$ 253,277
Income from operations before depreciation and amortization and restructuring and special charges (EBITDA)	$ 94,621	$ 115,478
Net earnings	$ 39,222	$ 53,465
Basic earnings per share attributable to common shareholders	$ 1.43	$ 1.91
Cash flows from operating activities	$ 10,910	$ 86,588
Free cash flow[1]	$ (3,298)	$ 67,678

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





PERFORMANCE RELATIVE TO BUSINESS STRATEGY

The Company's mission remains to champion the local neighbourhood economy by enabling Canada's businesses and its consumers to connect, interact and build relationships. In conjunction, Yellow Media strives to become Canada's leading local digital company, fostering strong business relationships between SMEs and consumers nationally. The realization of this objective will come in multiple, distinct phases.

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

Supported by a healthier capital structure, the Company's first phase of transformation was focused on building the digital foundation required to best meet its long-term objective. This was accomplished through targeted investments in branding, user and customer experiences, its employees, and particularly in the development of new technologies, processes and systems.

Yellow Media is currently executing the second phase of its digital transformation. The investments made in 2013 currently provide Yellow Media with the foundation required to sustain a leadership position among digital media and marketing solutions providers. By leveraging these investments, as well as its strengthened digital foundation, the Company's goal in the second phase is to develop its brand and media assets, enhance its go-to-market strategy, and ultimately, gain a leadership position within Canada's local digital advertising industry (refer to section 5 - Outlook).

To ensure successful execution of the second phase of transformation, the Company has identified the following key areas of investment for 2014:

- Extend the Brand Promise - Launch targeted advertising campaigns to increase digital brand awareness among user and customer audiences, as well as underscore the brand's digital transformation;

- Attract Valuable Audiences - Deliver a valuable user experience by improving the quality, completeness and relevance of its content while providing compelling digital properties aimed at addressing local neighborhood discovery;

- Respond to Customer Needs – Provide valuable digital solutions, an improved sales experience, superior execution of clients' marketing campaigns, as well as enhanced customer service to promote customer retention and acquisition;

- Invest in Employees - Support the Company's digital transformation by attracting and retaining the required expertise in IT and digital media, while providing the necessary training to increase digital skillsets across the organization; and

- Improve Efficiencies - Implement technologies that will optimize processes, streamline business operations, and, ultimately, promote profitability.

Extend the Brand Promise

We remain committed to developing an unparalleled local media presence across the country, promoting the YP brand to both businesses and consumers as a digital leader within the local neighborhood. During the first quarter of 2014, the Company launched targeted business-to-business digital advertising and radio campaigns to introduce the value of its digital solutions to prospective customers. This campaign was further supplemented with an ongoing bi-weekly e-mail marketing initiative, informing SMEs of the latest digital marketing trends as well as the solutions it offers to help them thrive in today's neighbourhood economy.

In April 2014, the Company repositioned its flagship digital search property from "yellowpages.ca" to "YP.ca". This repositioning is aimed at boosting brand recognition, revitalizing the brand and signaling the Company's digital capabilities. The introduction of the YP acronym to identify Yellow Media's flagship properties is innovative, easier to remember and reflective of the Company's focus on digital transformation. At the same time, the YP acronym remains linked to the Company's 100-year brand heritage of connecting businesses and consumers nationwide. In conjunction with this repositioning, the Company launched a television and digital campaign across Canada to stimulate usage and traffic across its YP mobile platform. Not only does this campaign introduce Canadians to the new YP brand, it also highlights the various enhancements made on the YP mobile application to provide shoppers with richer, more relevant content and an improved user experience (refer to Attract Valuable Audiences section).

Attract Valuable Audiences

The success of our customers' marketing campaigns is dependent on how well they can attract valuable audiences. During the first quarter of 2014, total digital visits, which measures the number of visits made across our YP, RedFlagDeals and ShopWise desktop and mobile properties, grew to 94.1 million. This compares to 93.8 million visits for the same period last year.

The Company plans to expand the reach of its audience by delivering users a more compelling and differentiated local search experience. Recently launched and supported by an enhanced search engine, the redesigned YP online and mobile properties provide users with more relevant search results, quick access to trending local search themes, improved mapping functionalities, the ability to easily discover deals and popular merchants in and around their neighborhoods, as well as faster response times.

Numerous initiatives have also been introduced to improve the quality and completeness of the content distributed across Yellow Media's online and mobile platforms. Yellow Media continues to deploy the Online Merchant Management tool in order to eliminate all stale, obsolete and duplicate information from its database of business listings. The Company has also created 250,000 more targeted business categories, added richer information and geocode capabilities to a greater number of national and local merchant pages and continues to roll out Merchant Content Collection Applications across its national sales force to promote the real time collection and publishing of customer information.

Responding to Customer Needs

Local SMEs continue to search for a trusted, one-stop-shop provider to fully manage their digital marketing campaigns and help them generate valuable business leads. The Yellow Pages 360º Solution remains the most comprehensive full-serve digital and traditional media and marketing solutions offering in Canada. Backed by one of the largest teams of sales advisors and digital fulfillment professionals in Canada, the Yellow Pages 360º Solution helps Canadian SMEs attract consumers through online, mobile and print media placement, customized search engine solutions, website services, social media presence, and digital display advertising.

As at March 31, 2014, the penetration of the Yellow Pages 360º Solution offering amongst our customer base, which we define as customers who purchase three product categories or more, grew to 29.9%. This compares to 18.9% as at March 31, 2013.

The successful sales execution of the Yellow Pages 360º Solution continues to promote the active migration of print customers towards the Company's digital products and services. Online priority placement remains the Company's highest penetrated digital product offering, with customer penetration having increased from 37% last year to 50% as at March 31, 2014. Mobile priority placement is presently the Company's fastest growing digital product offering, as Canadians increasingly rely on their mobile phones and tablets to fulfill their shopping needs. Customer penetration of mobile priority placement increased to 18% as at March 31, 2014, as compared to 9% at the end of the same period in 2013.

Digital services continue to demonstrate growth, with customer penetration increasing from 7% last year to 9% as at March 31, 2014. The Company remains committed to providing SMEs with the industry's most valuable, diversified and comprehensive digital services. During the first quarter of 2014, the Company launched Smart Digital Display, a display advertising solution designed to strengthen businesses' local brand awareness. This solution helps SMEs build an online presence by exposing their digital banner ads to local online audiences that are ready to buy. By leveraging its consumer intelligence database, Smart Digital Display builds top-of-mind awareness and ensures that local SMEs' display advertisements target relevant shoppers from the time they show interest in our clients to the moment a final purchasing decision is made.

The Company also launched a social media solution to help SMEs establish and maintain visibility on Facebook. Currently being rolled out to customers in Ontario and Western Canada, and anticipated to be launched nationally by June 2014, this solution provides customers with professional Facebook Page creation, as well as the optimization of their social media presence via content generation and Facebook Ad campaign management.

CUSTOMER PENETRATION[1]

	Three-month periods ended March 31,	
	2014	2013
Print	**90.3%**	93.7%
Owned and Operated Digital Media[2]	**61.2%**	60.6%
Online priority placement	**50.0%**	37.3%
Mobile priority placement	**17.8%**	8.8%
Legacy	**10.2%**	25.2%
Digital Services[3]	**9.1%**	7.2%

[1] *YPG only, excludes Mediative and Wall2Wall.*

[2] *Percentage of YPG customers purchasing at least one Online priority placement, Mobile priority placement, Virtual Business Profile, HD Video, and/or Legacy product.*

[3] *Percentage of YPG customers purchasing at least one Website, SEO, SEM, Facebook Solution, and/or Smart Digital Display product.*

The Company's customer count totalled 270,000 as at March 31, 2014, compared to 300,000 customers at the same time last year. Growing the total customer count remains a key factor in promoting long-term revenue growth. For the trailing twelve-month period ended March 31, 2014, YPG acquired 16,500 new customers, compared to 15,200 for the year ended December 31, 2013 and 16,400 for the trailing twelve-month period ended March 31, 2013. Throughout 2013, the Company established a more targeted acquisition strategy, redesigning its acquisition channel and introducing new digital bundles to increase customer leads and conversions. A new Customer Relationship Management platform was also implemented across the Company's acquisition call centers during the first quarter of 2014. This new platform supports effective leads nurturing and management by automating the routing and assignment of incoming leads to the most specialized sales advisor.

The customer renewal rate declined slightly to reach 85% as at March 31, 2014, as compared to 86% for the same period last year. In an effort to improve customer service and retention, the Company has recently enhanced its billing process. Invoices and customer account statements are now clearer, easier-to-follow and provide comprehensive pricing information on individual products and services purchased by the customer. The Company has also launched an online payment portal, providing customers with a faster and more efficient way to manage and pay their invoices.

CUSTOMER RENEWAL AND ACQUISITION

	Twelve-month periods ended March 31,	
	2014	2013
Customer count[1]	270,000	300,000
Customer renewal rate[2]	85%	86%
New customers[2]	16,500	16,400

[1] *Excludes the contribution of Wall2Wall.*

[2] *YPG only, excludes Mediative, Wall2Wall and Canpages.*

Invest in Employees

Yellow Media is developing the right talent and expertise to ensure the successful execution of its second phase of digital transformation. The Company continued growing and developing its information technology and digital media teams by hiring an additional 70 professionals during the first quarter of 2014. To promote increased digital literacy throughout the organization, Yellow Media now offers employees access to over 3,000 online courses and learning videos, as well as more specialized training programs in the fields of digital publishing, web design and development and programming.

Improve Efficiencies

The Company continues to promote operational excellence across the organization, building core platforms and infrastructure to support cost-effective fulfillment. Yellow Media recently enhanced its digital fulfillment processes by automating the creation of Virtual Business Profiles. The Company has also implemented a new Technical Order Manager platform to provide its digital fulfillment teams with clearer visibility and more efficient assignment of existing and incoming customer orders.

The streamlining of operational processes is a key factor supporting Yellow Media's long-term profitability. The Company recently decommissioned and replaced its legacy back-end publishing system, boosting publishing accuracy to a record high of 99.9%. The Company's back-end publishing system powers its owned and operated digital properties and supports customer return on investment (ROI) by providing end-users with relevant and reliable merchant data. The Company has also started simplifying and standardizing its legacy architecture to promote cost optimization, taking steps to consolidate legacy print fulfillment operations as well as its Canadian IT data centers.

CONSOLIDATED OPERATING AND FINANCIAL RESULTS

(IN THOUSANDS OF CANADIAN DOLLARS – EXCEPT SHARE AND PER SHARE INFORMATION)

	Three-month periods ended March 31,	
	2014	2013
Revenues	$ 223,203	$ 253,277
Operating costs	128,582	137,799
Income from operations before depreciation and amortization and restructuring and special charges	94,621	115,478
Depreciation and amortization	18,204	13,690
Restructuring and special charges	3,115	6,193
Income from operations	73,302	95,595
Financial charges, net	19,412	23,823
Earnings before income taxes and earnings from investments in associates	53,890	71,772
Provision for income taxes	14,912	18,417
Earnings from investments in associates	244	110
Net earnings	$ 39,222	$ 53,465
Basic earnings per share attributable to common shareholders	$ 1.43	$ 1.91
Diluted earnings per share attributable to common shareholders	$ 1.22	$ 1.64
Total assets	$ 1,777,706	$ 1,790,388
Long-term debt (including current portion, excluding exchangeable debentures)	$ 647,328	$ 801,577
Exchangeable debentures	$ 88,250	$ 86,987

ANALYSIS OF CONSOLIDATED OPERATING AND FINANCIAL RESULTS

Revenues

Revenues decreased by 11.9% to $223.2 million during the first quarter of 2014 compared with $253.3 million for the same period last year. Revenues remain adversely impacted by lower print revenues, as larger customers reduce their print advertising spend, alongside a lower customer count amongst smaller, low-spend customers. During the first quarter of 2014, print revenues continued to decline as anticipated, decreasing 22.7% year-over-year reaching $119.3 million.

For the first quarter of 2014, digital revenues for our core YPG operations, which exclude the impact of Mediative and Wall2Wall, increased by 10.6% year-over-year. Consolidated digital revenues reached $104 million in the first quarter of 2014, representing a growth of 5.1%, which were negatively impacted by the loss of a national account at Mediative during the second quarter of 2013. During the first quarter of 2014, consolidated digital revenues represented 46.6% of total revenues, up from 39.1% during the same period in 2013.

Growth in digital revenues continues to result from the ongoing migration of traditional media customers towards digital products and services and continued adoption of the Yellow Pages™ 360º Solution across the Company's sales channels. As at March 31, 2014, the penetration of the Yellow Pages 360º Solution offering amongst our customer base grew to 29.9% as compared to 18.9% as at March 31, 2013. These factors also led to an improvement in Revenue Generating Units[1,2] (RGU) per customer from 1.75 in the first quarter of 2013 to 1.83 in the first quarter of 2014.

Growing the customer count is a key driver of revenue growth. The Company had 270,000 customers as at March 31, 2014, compared to 300,000 as at the same period last year. Customer renewal rate decreased slightly from 86% last year to 85% for the twelve-month period ended March 31, 2014. During the last twelve months, YPG acquired approximately 16,500 new customers, compared to 16,400 for the same period last year. Customer acquisition also improved versus the year ended December 31, 2013, whereby 15,200 new customers were acquired. The Company will continue to invest in promoting customer acquisition and retention in order to grow its customer base (refer to section 5 - Outlook).

For the trailing twelve-month period ended March 31, 2014, 81% of renewing customers[3,4] increased or maintained their level of spending. Customers experiencing a decrease in spending are mainly larger customers that represented approximately 44% of YPG's revenues for the first quarter ended March 31, 2014. In response, the Company will continue offering these customers enhanced execution of their marketing campaigns and providing them access to premium digital solutions.

SPENDING DYNAMICS

	Twelve-month periods ended March 31,	
	2014	2013
Amongst Renewing Customers[1]		
Increase in spending[3]		
Customer distribution	**26%**	43%
% of revenues	**29%**	37%
Stable spending[4]		
Customer distribution	**55%**	38%
% of revenues	**27%**	20%
Decrease in spending[5]		
Customer distribution	**19%**	19%
% of revenues	**44%**	43%
Average Revenue per Customer (ARPC)[6]	**$3,244**	$3,259

1 *YPG customers only, excluding the impact of Mediative and Wall2Wall customers.*
2 *Revenue Generating Units measures the number of product groups selected by YPG customers.*
3 *Renewing YPG customers experiencing an increase in spending over 5%, on a year-over-year basis.*
4 *Renewing YPG customers experiencing an increase in spending between 0% and 5%, on a year-over-year basis.*
5 *Renewing YPG customers experiencing a decrease in spending on a year-over-year basis.*
6 *Excludes the contribution of Wall2Wall.*

OPERATIONAL INDICATORS

	As at March 31,	
	2014	2013
Yellow Pages 360º Solution Penetration[7]	**29.9%**	18.9%
RGU per customer[7]	**1.83**	1.75
Digital only customers[7]	**26,100**	18,800
Digital revenues (in thousands of Canadian dollars)[8]	**$ 103,952**	$ 98,937

7 *YPG customers only, excluding the impact of Mediative and Wall2Wall customers.*
8 *For the three-month periods ended March 31.*

EBITDA

EBITDA decreased by $20.9 million to $94.6 million during the first quarter of 2014 compared with $115.5 million for the same period in 2013. The decrease in EBITDA is due mainly 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 first quarter of 2014 was 42.4% compared to 45.6% for the first quarter of 2013. In addition to lower revenues, changes in product mix and investments related to the Return to Growth Plan (refer to section 5 – Outlook) were the main contributors to the decrease in EBITDA margin, partially offset by lower bad debts and a non-recurring benefit associated with the outcome of a litigation.

Cost of sales decreased by $4.4 million to $74.8 million during the first quarter of 2014 compared with $79.2 million for the same period in 2013. 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 cost savings were partly offset by an increase in provisioning and fulfillment costs of our growing digital services.

Gross profit margin decreased to 66.5% for the first quarter of 2014 compared to 68.7% for the same period last year. 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, search engine optimization (SEO) and search engine marketing (SEM) as well as our fixed print cost in the context of a decline in print revenues.

General and administrative expenses decreased by $4.8 million to $53.8 million during the first quarter of 2014 compared with $58.6 million for the same period in 2013. The decrease for the quarter ended March 31, 2014 is primarily attributable to lower bad debts as well as a non-recurring benefit associated with the outcome of a litigation, offset by investments related to the Return to Growth Plan (refer to section 5 – Outlook).

Depreciation and amortization

Depreciation and amortization increased from $13.7 million in the first quarter of 2013 to $18.2 million during the first quarter of 2014. The increase is due to increased capital expenditures in connection with the deployment of platforms as the Company continues its business transformation.

Restructuring and special charges

During the first quarter of 2014, we recorded restructuring and special charges of $3.1 million related primarily to the termination of certain lease obligations as well as internal reorganizations. The majority of the $6.2 million charge recorded during the first quarter of 2013 related to the separation package of the Company's former President and Chief Executive Officer.

Financial charges

Financial charges decreased by $4.4 million to $19.4 million during the first quarter of 2014 compared with $23.8 million for the same period in 2013. This decrease is mainly attributable to a lower level of indebtedness as at March 31, 2014. As at March 31, 2014 and 2013, the effective average interest rate on our debt portfolio was 9.1%.

Provision for income taxes

The combined statutory provincial and federal tax rates were 26.5% and 26.3% for the three-month periods ended March 31, 2014 and 2013, respectively. The Company recorded an expense of 27.7% and 25.7% of earnings for the three-month periods ended March 31, 2014 and 2013, respectively. The difference between the effective and the statutory rates in the first quarter of 2014 is due to certain expenses that are not deductible for tax purposes. For the first quarter of 2013, the difference between the effective and statutory rates is due to the deductibility of certain payments for tax purposes. Excluding these items, the effective tax rates for the three-month periods ended March 31, 2014 and 2013 would have been in line with the statutory rates.

Earnings from investments in associates

During the first quarter of 2014, we recorded earnings from our investments in associates in the amount of $0.2 million compared with $0.1 million for the same period last year. Our earnings from our investments in associates for the first quarter of 2013 included the amortization of intangible assets in connection with these equity investments.

Net earnings

We recorded net earnings of $39.2 million during the first quarter of 2014 compared with $53.5 million for the same period last year. The decrease for the quarter is mainly due to a reported lower EBITDA in the first quarter of 2014.

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

QUARTERLY RESULTS

(IN THOUSANDS OF CANADIAN DOLLARS – EXCEPT SHARE AND PER SHARE INFORMATION)

	2014				2013			2012[1]
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	$ 223,203	$ 237,951	$ 237,350	$ 243,183	$ 253,277	$ 264,447	$ 267,711	$ 286,484
Operating costs	128,582	146,698	135,203	135,949	137,799	122,770	129,821	141,545
Income from operations before depreciation and amortization, impairment of intangible assets and property, plant and equipment and restructuring and special charges (EBITDA)	94,621	91,253	102,147	107,234	115,478	141,677	137,890	144,939
EBITDA margin	42.4%	38.3%	43%	44.1%	45.6%	53.6%	51.5%	50.6%
Depreciation and amortization	18,204	16,106	15,589	14,779	13,690	23,395	26,597	24,220
Impairment of intangible assets and property, plant and equipment	–	–	–	–	–	300,000	–	–
Restructuring and special charges	3,115	13,134	4,011	–	6,193	18,111	26,812	–
Income (loss) from operations	73,302	62,013	82,547	92,455	95,595	(199,829)	84,481	120,719
(Gain) loss on settlement of debt	–	–	–	–	–	(994,894)	10,818	5,487
Net earnings	39,222	30,964	41,775	50,326	53,465	821,850	22,236	65,681
Basic earnings per share attributable to common shareholders[2]	$ 1.43	$ 1.11	$ 1.51	$ 1.81	$ 1.91	$ 29.24	$ 0.59	$ 2.15
Diluted earnings per share attributable to common shareholders[2]	$ 1.22	$ 0.97	$ 1.30	$ 1.55	$ 1.64	$ 28.50	$ 0.59	$ 2.15

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 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 and investments made to support our business transformation. The fourth quarter of 2013 was also negatively impacted by non-recurring provisions related to a legal dispute and a sales tax assessment. Our EBITDA margin sequentially increased in the first quarter of 2014 mainly due to a non-recurring benefit associated with the outcome of a litigation.

Workforce reductions and cost containment initiatives resulted in restructuring and special charges impacting certain of our quarterly results presented above. Net earnings 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 compared to 2012 was also due to a lower cost base of assets to depreciate and amortize following the $300 million impairment recorded in the fourth quarter of 2012. The increase in depreciation and amortization quarter-over-quarter starting in the second quarter of 2013 is due to increased capital expenditures in connection with the deployment of platforms as the Company continues its business transformation.

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.

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

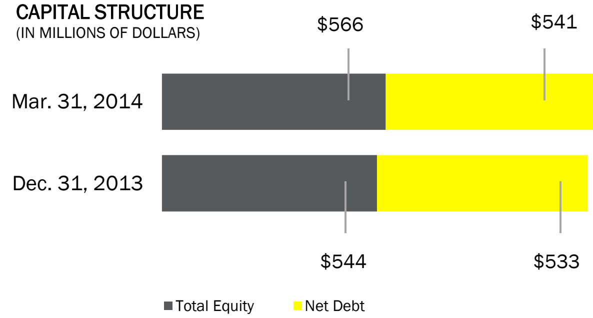
CAPITAL STRUCTURE

(IN THOUSANDS OF CANADIAN DOLLARS)

	As at March 31, 2014	As at December 31, 2013
Cash and cash equivalents	$ 194,420	$ 202,287
Senior secured notes	$ 646,577	$ 646,577
Obligations under finance leases	751	891
Exchangeable debentures	88,250	87,934
Net debt, net of cash and cash equivalents[1]	$ 541,158	$ 533,115
Equity attributable to the shareholders	565,928	544,495
Total capitalization	$ 1,107,086	$ 1,077,610
Net debt to total capitalization	48.9%	49.5%

NET DEBT[1] TO LATEST TWELVE MONTH EBITDA RATIO[2]

CAPITAL STRUCTURE
(IN MILLIONS OF DOLLARS)



As at March 31, 2014, Yellow Media had $541.2 million of net debt, compared to $533.1 million as at December 31, 2013.

The net debt to Latest Twelve Month EBITDA[2] ratio as at March 31, 2014 was 1.4 times compared to 1.3 times as at December 31, 2013. The increase is mainly due to 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 May 8, 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.

1 *Net debt is a non-IFRS measure defined as long-term 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 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.*

As at March 31, 2014, the Company was in compliance with all covenants under the loan agreement governing the ABL.

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.

The Company repaid $153.4 million of its Senior Secured Notes in 2013.

As at March 31, 2014, the Company was in compliance with all covenants under the indenture governing the Senior Secured Notes.

Mandatory Redemption

Pursuant to the indenture governing the Senior Secured Notes, the Company is required to use an amount equal to 75% of its consolidated Excess Cash Flow for the immediately preceding six-month period ending March 31 or September 30, as applicable, to redeem on a semi-annual basis on the last day of May and November of each year, commencing on May 31, 2013, the Senior Secured Notes at a redemption price equal to 100% of the principal amount thereof from holders on a pro rata basis, subject to the Company maintaining a minimum cash balance of $75 million immediately following the mandatory redemption payment. The $75 million minimum cash balance condition is subject to reduction in certain cases provided in the indenture governing the Senior Secured Notes. Excess Cash Flow, as defined in the indenture governing the Senior Secured Notes, means the aggregate cash flow from operating activities 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 anticipates making a mandatory redemption payment of $73.5 million on June 2, 2014 and has sufficient financial liquidity to meet the mandatory annual aggregate mandatory redemption payments of $75 million in 2014.

Optional Redemption

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

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

Exchangeable Debentures

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

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

As at March 31, 2014, 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.

During the first quarter of 2014, $15 thousand of exchangeable debentures at face value were exchanged for 787 common shares of Yellow Media Limited with a fair value of $19 thousand. A loss of $6 thousand was recorded in net earnings in financial charges.

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 $199.2 million of cash and cash equivalents as at May 7, 2014.

Share data

As at May 8, 2014, outstanding share data was as follows:

OUTSTANDING SHARE DATA

	As at May 8, 2014	As at March 31, 2014	As at December 31, 2013
Common Shares outstanding	27,955,864	27,955,864	27,955,077
Exchangeable Debentures outstanding[1]	5,645,221	5,645,221	5,646,008
Warrants outstanding	2,995,506	2,995,506	2,995,506

[1] *As at May 8, 2014, Yellow Media had $107,485,000 principal amount of Exchangeable Debentures outstanding, which amount is exchangeable into 5,645,221 Common Shares of Yellow Media Limited at an exchange price of $19.04, subject to adjustment for specified transactions pursuant to the indenture governing the Exchangeable Debentures.*

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 (the Participants) 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 the Participants. The options have an exercise price of $10.12 and vest 50% in February 2015, 25% in February 2016 and 25% in February 2017.

On February 25, 2014, 183,200 options were granted to the Participants. The options have an exercise price of $24.65 and vest 50% in February 2016, 25% in February 2017 and 25% in February 2018.

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.

SOURCES AND USES OF CASH

(IN THOUSANDS OF CANADIAN DOLLARS)

	Three-month periods ended March 31,	
	2014	2013
Cash flows from operating activities		
Cash flows from operations	$ 24,492	$ 80,858
Change in operating assets and liabilities	(13,582)	5,730
	$ 10,910	$ 86,588
Cash flows used in investing activities		
Acquisition of intangible assets and internally-generated software	$ (13,069)	$ (14,827)
Acquisition of property, plant and equipment	(1,139)	(4,083)
Other	–	161
	$ (14,208)	$ (18,749)
Cash flows used in financing activities		
Purchase of restricted shares	$ (4,429)	$ –
Repayment of long-term debt	(140)	(141)
Deferred consideration	–	(5,624)
Recapitalization costs	–	(4,223)
	$ (4,569)	$ (9,988)

Cash flows from operating activities

Cash flows from operations

Cash flows from operations decreased by $56.4 million from $80.9 million for the three-month period ended March 31, 2013 to $24.5 million for the first quarter of 2014, mainly due to lower cash EBITDA of $26.7 million, higher income taxes paid of $18.4 million as Yellow Media was not required to pay income tax installments in 2013 and higher restructuring and special charges payments of $9.3 million primarily related to the November 2013 workforce realignment.

Change in operating assets and liabilities

The change in operating assets and liabilities for the three-month period ended March 31, 2014 generated an outflow of $13.6 million compared with an inflow of $5.7 million for the same period last year. The outflow in 2014 is due principally to the payment of the 2013 variable compensation partially offset by an improved collection experience of our trade receivables.

Cash flows used in investing activities

Cash used in investing activities amounted to $14.2 million for the three-month period ended March 31, 2014 compared with $18.7 million for the same period last year. During the first quarter of 2014, we invested in software development and IT equipment in the amount of $13.1 million and $1.1 million, respectively, which in total was less than the corresponding amounts of $14.8 million and $4.1 million, respectively, spent during the same period last year. The decrease year-over-year is due to the timing of investments in our initiatives.

ACQUISITION OF PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS, NET OF LEASE INDUCEMENTS

(IN THOUSANDS OF CANADIAN DOLLARS)

	Three-month periods ended March 31,	
	2014	2013
Sustaining	$ 1,907	$ 7,476
Growth	10,544	9,934
Total	$ 12,451	$ 17,410
Adjustment to reflect expenditures on a cash basis	1,757	715
Acquisition of property, plant, equipment and intangible assets, net of lease inducements	$ 14,208	$ 18,125

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 during the first quarter of 2013 as we reengineered some premises to accommodate our growing digital fulfillment teams. Sustaining capital expenditures amounted to $1.9 million for the three-month period ended March 31, 2014, compared to $7.5 million for the same period last 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 become a leading local digital advertising company in Canada. During the first quarter of

2014, these amounted to $10.5 million compared to $9.9 million for the same period last year. During the first quarter of 2014, our capital expenditures were mainly composed of investments in our sales tools and in the consolidation of our legacy print publishing platforms. We remain focused on promoting process streamlining and business efficiencies, improving our performance reporting tools, and enhancing the user experience on our flagship YP online and mobile platforms.

The total capital expenditures for 2014 are expected to range between $85 and $90 million. This increase, as compared to our previously disclosed guided figure, is primarily related to the development of IT platforms to support growth and digital audiences, customer acquisition, customer retention and new product introduction.

Cash flows used in financing activities

Cash used in financing activities amounted to $4.6 million during the three-month period ended March 31, 2014 compared to $10 million for the same period last year. During the first quarter of 2014, we purchased common shares of Yellow Media Limited to fund the Restricted Share Unit and Performance Share Unit Plan at a cost of $4.4 million. During the first quarter of 2013, we paid $4.2 million of costs associated with our 2012 recapitalization and $5.6 million relative to earn-outs to former owners of acquired businesses.

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, 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.

There is no carrying value of embedded derivatives as at March 31, 2014. 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

(IN THOUSANDS OF CANADIAN DOLLARS)

	Three-month periods ended March 31,	
	2014	2013
Cash flow from operating activities	$ 10,910	$ 86,588
Capital expenditures, net of lease inducements	14,208	18,910
Free cash flow	$ (3,298)	$ 67,678

5. OUTLOOK

THE RETURN TO GROWTH PLAN

The Return to Growth Plan is a key building block in the Company's digital transformation. The Return to Growth Plan is designed to allow Yellow Media to gain a leadership position within Canada's local digital advertising market, and increase customer count and traffic to its properties to promote revenue growth and profitability. Over the long-term, successful execution of the Return to Growth Plan is expected to enhance Yellow Media's competitive positioning in the Canadian market, improve its relationship with Canadian customers and consumers, and provide the Company with a strengthened platform onto which it can develop new businesses and enter new markets.

The Return to Growth Plan has been established to efficiently guide the Company as it executes the second phase of its digital transformation. The Return to Growth Plan serves to leverage the investments made in 2013, as well as the Company's strengthened digital foundation, to develop its brand and media assets, enhance its go-to-market strategy and, ultimately, achieve revenue growth by 2018.

Successful execution of the Return to Growth Plan will be promoted through enhanced focus on the following pillars of transformation:

- Extending the Brand Promise - The Company will invest to strengthen its brand image with a focus on changing legacy perceptions and boosting awareness of its digital media platforms and digital solutions. A simplified brand architecture will be implemented, leveraging the YP acronym to allow users and customers to better understand the Company's offerings while also positioning Yellow Media as a differentiated digital player within the local neighborhood economy.

National multi-media campaigns will be deployed to increase usage of its properties and promote customer acquisition. In addition, the Company will expand its Shop The Neighbourhood corporate social responsibility campaign across Canada in further support of local shopping and the growth and success of small businesses in the neighborhood.

- Strengthening its Media Assets – Investments will be made across the Company's owned and operated digital platforms to attract and grow digital audiences. Improved content such as articles, recommendations, merchant playlists, and deals/product databases will continue to be added onto the YP online and mobile properties to help users best fulfill their shopping needs. The Company will also develop new verticals to deliver a more targeted search experience and expand Yellow Media's share of business search in underpenetrated categories such as shopping, restaurants, real-estate and leisure. As it invests to improve its media assets, the Company will maintain an enhanced focus on evolving its mobile and tablet properties and providing shoppers with a better on-the-go local search experience.
- Enhancing its Go-to-Market Strategy – The Company will evolve its suite of digital products and services by introducing simplified and more verticalized offerings, as well as performance-based solutions that best leverage the power of its owned and operated digital properties. The Company aims to increase its share of the local SME market, anticipating to return to a growth in customer count by 2017 through improved customer acquisition and retention efforts. Customer acquisition will be supported by building a larger sales team as well as the implementation of technologies, processes and training programs to improve leads management and promote an acquisition-centric sales culture throughout the organization. On the customer retention front, Yellow Media will enhance customer satisfaction by improving basic service levels while introducing more personalized levels of customer service to its clients. In addition, Meditative will invest to strengthen its offerings to national agencies, customers and retailers. They will also engage in research, development and innovation within digital marketing to help support Yellow Media's ongoing transformation.

The Return to Growth Plan will support the Company's second phase of digital transformation, targeting consolidated revenue growth by 2018. Digital revenues are anticipated to surpass print revenues in 2015 and grow at high single-digit annual rates thereafter. As print revenue stabilization remains challenging to forecast, the Company will continue to optimize the profitability of the print platform through redesigned offers, targeted directory distribution as well as the streamlining of operational processes.

Proper execution of the Return to Growth Plan will require the Company to make incremental operating expenses and capital expenditures over the short to medium term:

- EBITDA margins will remain under pressure relative to 2013, as additional investments will be made during the remainder of 2014 and 2015 to strengthen the brand promise, improve the user experience, and, ultimately grow and maintain digital audiences.
- Annual capital expenditures will increase to approximately $85 to $90 million in 2014 and $70 to $75 million in 2015, allowing for the development of IT platforms and systems to support growth in digital audiences, customer acquisition, customer retention and new product introduction.

Based on the successful execution of the Return to Growth Plan, Yellow Media anticipates stabilizing profitability by 2018 and developing a strengthened financial profile. Upon returning to consolidated revenue growth, Yellow Media's EBITDA margins are expected to stabilize between 30% and 35% while capital expenditures are projected to be maintained at approximately 5% of consolidated revenues. Yellow Media will also maintain a strong focus on debt repayment, and continue generating sufficient cash flow from its operations to support required capital expenditures and service all future debt obligations.

The Company has put in place an internal Transformation Office to ensure proper execution and implementation of the Return to Growth Plan. The Transformation Office will report directly to the Chief Executive Officer, and take full ownership of all detailed plans and interlocks, lead and deliver upon all projects supporting the Return to Growth Plan, while also ensuring timely execution and proper risk mitigation. By promoting the Company's development into a leading local digital advertising company, successful completion of the Return to Growth Plan will provide Yellow Media with a strengthened platform onto which it can start new digital businesses, provide new digital offerings, and, ultimately, meet its objective of becoming Canada's leading local digital company.

As part of establishing the above outlook, the Company made a number of assumptions, including the assumptions described in the section Forward-Looking Information of this MD&A as well as the following assumptions:

- Economic conditions in Canada remain stable.
- Canadian local digital advertising market growth at 10% per year.
- Print decline rates stabilize.
- Our investments in branding will evolve legacy perceptions and boost awareness of our media platforms.
- Investments in new content and digital experiences across our owned and operated properties will attract, grow and maintain digital audiences.
- The introduction of performance-based solutions will leverage the power of our owned and operated digital properties and protect profitability.

- The adoption of an acquisition-centric and customer-centric culture throughout the organization will allow the Company to return to growth in customer count.
- Cost reductions will be achieved through productivity initiatives and continued streamlining of our legacy platforms.

The Company cautions that the assumptions used to prepare the outlook, although currently reasonable, may prove to be incorrect or inaccurate. Accordingly, our actual results could differ materially from our expectations as set forth in this Outlook section.

The outlook provided above constitutes forward-looking statements and is based on a number of assumptions and subject to a number of risks, including, but not limited to, the risks and uncertainties related to the execution by Yellow Media of its Return to Growth Plan and the risks referred to in the section Forward-Looking Information of this MD&A. There can be no assurance that the Return to Growth Plan will be successfully completed by Yellow Media. The inability of Yellow Media to successfully complete the Return to Growth Plan could have a material adverse effect on Yellow Media, its business, results from operations and financial condition. The outlook provided above should be read in conjunction with the section Forward-Looking Information beginning on page 1 of this MD&A.

6. 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.

Our critical assumptions and accounting estimates have not changed since the release of our MD&A for the year ended December 31, 2013. These critical assumptions and estimates relate to intangible assets, goodwill and property, plant and equipment, employee future benefits and income taxes. Please refer to Section 5 – Critical Assumptions of our MD&A for the year ended December 31, 2013.

ACCOUNTING STANDARDS

The following revised standards are effective for annual periods beginning on January 1, 2014 and their adoption has not had any impact on the amounts reported in the interim condensed consolidated financial statements for the three-month period ended March 31, 2014 but may affect the accounting for future transactions or arrangements:

IFRIC 21 — Levies

On May 20, 2013, the International Accounting Standards Board (IASB) issued IFRIC 21 — *Levies*, an interpretation on the accounting for levies imposed by governments. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The interpretation includes guidance illustrating how the interpretation should be applied. IFRIC 21 requires retrospective application.

IAS 32 — Financial Instruments: Presentation in respect of Offsetting

On December 16, 2011, the IASB and Financial Accounting Standards Board (FASB) issued common disclosure requirements that are intended to help investors and other users 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*. IAS 32 amendments require retrospective application.

Amendments to IAS 36 — Impairment, Recoverable Amount Disclosures for Non-Financial Assets

On May 29, 2013, the IASB issued *Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36*). These narrow-scope amendments to IAS 36 — *Impairment of Assets*, address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. These amendments require retrospective application.

Amendments to IAS 39 — Financial Instruments: Recognition and Measurement: Novation of Derivatives and Continuation of Hedge Accounting

On June 27, 2013 the IASB issued *Amendments to IAS 39 — Financial Instruments: Recognition and Measurement: Novation of Derivatives and Continuation of Hedge Accounting*. These narrow-scope amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). Similar relief will be included in IFRS 9 — *Financial Instruments*. The amendments require retrospective application.

Standards, interpretations and amendments to published standards that are issued but not yet effective

IFRS 9 — Financial Instruments

This new standard replaces the requirements in IAS 39 — *Financial Instruments: Recognition and Measurement* for classification and measurement of financial assets and liabilities. IFRS 9 is the first part of a multi-phase project to replace IAS 39. The IASB intends to make further changes in financial instruments accounting, and has separated its project to amend IFRS 9 into three phases: classification and measurement, impairment methodology and hedge accounting. IFRS 9 introduces new requirements for classifying and measuring financial assets, new requirements on accounting for financial liabilities and includes a new general hedge accounting model. The IASB intends to expand IFRS 9 to add new requirements for impairment of financial assets measured at amortized cost and include limited amendments to the classification and measurement requirements.

The current version of IFRS 9 does not include a mandatory effective date but is available for early adoption. An effective date will be added when all phases of the project are complete and a final version of IFRS 9 is issued. At its February 2014 meeting, the IASB tentatively decided that the mandatory effective date of IFRS 9 would be no earlier than annual periods beginning on or after January 1, 2018. Yellow Media Limited continues to actively monitor this standard and to evaluate the impact this standard will have on the presentation of its consolidated financial statements.

7. RISKS AND UNCERTAINTIES

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

Understanding and managing risks are important parts of the Company'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 the Company's risks, 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.

The Company has put in place certain guidelines in order to seek to manage the risks to which it may be exposed. Please refer to the Risks and Uncertainties section of our MD&A for the year ended December 31, 2013 and our Annual Information Form for a complete description of these risk factors to which the Company may be exposed, including, for example, "Substantial competition could reduce the market share of the Corporation and could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "A higher than anticipated rate of decline in print revenue resulting from changes in preferences and consumer habits could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "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". Despite these guidelines, the Company cannot provide assurances that any such efforts will be successful. Our risks and uncertainties have not changed since the release of our MD&A for the year ended December 31, 2013. For more information, please refer to the corresponding section in our MD&A for the year ended December 31, 2013.

8. CONTROLS AND PROCEDURES

There were no changes to the Corporation's internal controls over financial reporting that occurred during the period beginning on January 1, 2014 and ended on March 31, 2014 that have materially affected or are reasonable likely to materially affect the Corporation's internal controls over financial reporting.