

Management's Discussion and Analysis

November 3, 2011

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 Inc. (or the Corporation) and its subsidiaries for the three and nine month periods ended September 30, 2011 and should be read in conjunction with our audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2010, as well as our unaudited interim condensed consolidated financial statements and accompanying notes for the period ended September 30, 2011. 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 interim financial statements and is expressed in Canadian dollars, unless otherwise stated.

The unaudited IFRS-related disclosures and values in this MD&A have been prepared using the standards and interpretations currently issued and expected to be effective at the end of our first annual IFRS reporting period, which will be December 31, 2011.

The amounts in this MD&A and the accompanying interim financial statements for the three and nine-month periods ended September 30, 2010 have been restated to reflect our adoption of IFRS, effective from January 1, 2010. Periods prior to January 1, 2010 have not been restated and are prepared in accordance with Canadian GAAP. Please refer to Note 20 of the accompanying interim condensed consolidated financial statements for a summary of the differences between our consolidated financial statements previously prepared under Canadian GAAP and those under IFRS for the period ended September 30, 2010.

On March 25, 2011, Yellow Media Inc. announced that it had reached a definitive agreement to sell the automotive and generalist print and online business of Trader Corporation. On June 29, 2011, the Federal Minister of Industry approved the sale to funds advised by Apax Partners under the Investment Canada Act. The transaction closed on July 28, 2011 for a purchase price consideration of \$701 million, net of fees, working capital and other adjustments. The purchase price consideration included a note receivable of \$15 million.

Consequently, during the first quarter of 2011, the Company changed the composition of its reportable segments in a manner which is better aligned with the way operating results are now reviewed by senior management to make decisions about resources to be allocated to the segments and to assess their performance. The key changes include the reallocation of the real estate, employment and LesPac businesses to the Directories segment. These businesses were previously included in the Vertical Media segment but were not part of the divestiture of Trader Corporation.

Furthermore, and also as a result of the sale of Trader Corporation, we have reclassified the results of the automotive and generalist print and online business of Trader Corporation as discontinued operations. Accordingly, the current and prior period's consolidated income statement and cash flows have been restated to reflect this change.

In this MD&A, the words "we", "us", "our", "the Company", "the Fund" and "YPG" refer to Yellow Media Inc., and its subsidiaries (including Yellow Pages Group Co., Canpages Inc., YPG (USA) Holdings, Inc. and Yellow Pages Group, LLC (the latter two collectively YPG USA), Trader Corporation and Dealer Dot Com Inc.), which are reported under the following segments:

- "Directories," which refers to our print and online directories as well as performance marketing solutions, real estate and employment publications and LesPAC.com; and
- "Vertical Media," which refers to the automotive and generalist print and online vertical publications sold to funds advised by Apax Partners as part of the sale of Trader Corporation that was completed on July 28, 2011.

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.

These forward-looking statements describe our expectations on November 3, 2011.

- Our actual results could be materially different from our expectations if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking statements will materialize.
- Forward-looking statements do not take into account the effect that transactions or non-recurring items, announced or occurring after the statements are made, may have on our business.
- We disclaim any intention or obligation to update any forward-looking statements, except as required by law, even if new information becomes available through future events or for any other reason.
- Risks that could cause our actual results to differ materially from our current expectations are discussed in Section 6 – Risks and Uncertainties.

Definitions relative to understanding our results

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

We report on our EBITDA (Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, 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 from operations or net (loss) earnings 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, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed on page 15 of this MD&A.

Adjusted Earnings from Continuing Operations (Adjusted Earnings)

Adjusted earnings is a non-IFRS measure. It is defined as the net (loss) earnings from continuing operations available to common shareholders excluding amortization of intangible assets attributable to shareholders, non-cash financial charges, non-cash income taxes and non-recurring items such as acquisition-related costs, restructuring and special charges, impairment of goodwill and intangible assets, and impairment of investment in associate. All adjustments except non-cash income taxes and impairment of goodwill and intangible assets are net of the income tax effect thereon calculated at the statutory income tax rate. Adjusted Earnings is defined as an indicator of financial performance. It should not be seen as a measurement of liquidity or as a substitute for comparable metrics prepared in accordance with IFRS. Adjusted earnings is used by investors, management and other stakeholders to evaluate the ongoing performance of YPG. Adjusted earnings may differ from similar calculations as reported by other companies and should not be considered comparable. For a reconciliation with IFRS, please refer to Section 4 – Adjusted Earnings from Continuing Operations 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.

Dividends per Common Share

We report dividends per common share because it is a measure of return used by investors. On September 28, 2011, the Company announced the elimination of the dividends on its common shares. Please refer to Section 4 – Adjusted Earnings from Continuing Operations of this MD&A.

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. Adjusted Earnings from Continuing Operations
5. Critical Assumptions
6. Risks and Uncertainties
7. Controls and Procedures

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

Yellow Media Inc. is a leading media and marketing solutions company through its network of companies that include Yellow Pages Group Co. (YPG) and Canpages Inc. (Canpages). Yellow Media Inc. is Canada's leading performance media and marketing solutions company, serving Canadian businesses and consumers nationwide under its Yellow Pages and Canpages brands. 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, 2010.

2. Results

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

Overall Performance

- Revenues decreased by \$32.5 million or 9.1% to reach \$323.4 million compared to the third quarter of 2010.
- Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, acquisition-related costs and restructuring and special charges (EBITDA) decreased by \$27.2 million or 14.1% to \$166 million compared to the third quarter of 2010.

Highlights^{1,2,3}

(in thousands of Canadian dollars- except share information)

	Three-month periods ended September 30,	
	2011	2010
Revenues	\$323,441	\$355,949
Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, acquisition-related costs, and restructuring and special charges (EBITDA)	\$165,998	\$193,223
Basic (loss) earnings per share ⁴ attributable to common shareholders of Yellow Media Inc.		
From continuing operations	\$(5.52)	\$0.12
Total	\$(5.56)	\$0.13
Cash flows from operating activities from continuing operations	\$43,985	\$122,526
Free cash flow ⁵	\$28,117	\$114,612

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

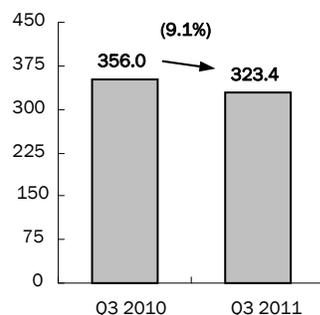
² Included in the 2010 figures are the results of the Fund. In addition, the 2010 comparatives have been restated to conform to IFRS.

³ We closed the acquisitions of Canpages Inc. (Canpages) on May 25, 2010, Mediative Performance LP (Mediative LP), previously Enquiro Search Solutions Inc. on September 21, 2010, Uptrend Media Inc. (Uptrend Media) on October 20, 2010 and AdSplash Inc. on October 28, 2010. As such, included in the 2010 and 2011 results are the results of each acquired business from their respective dates of acquisition.

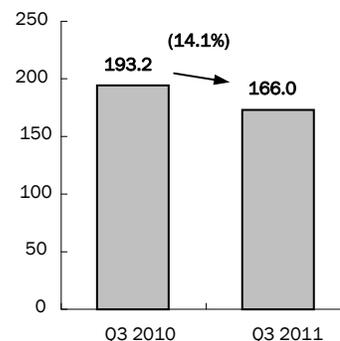
⁴ Comparative amounts are per Trust unit.

⁵ 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

Directories

Enhancement and expansion of products

Yellow Pages 360° Solution — During the third quarter of 2011, we have reinforced Yellow Media Inc.'s position as a leading performance media and marketing solutions provider by focusing on the deployment of the Yellow Pages 360° Solution. This unique value proposition is a key element of our digital transformation, enabling qualified buyers to get unprecedented visibility with online, mobile and print media platforms, and access to various services such as website development, search engine marketing and search engine optimization. As part of our 360° Solution, we recently introduced Yellow Pages Analytics™, a detailed reporting platform, offering Yellow Pages Group advertisers access to enhanced reporting and providing them with valuable insight on the performance of their media campaign.

YellowPages.ca — Our network of sites reach over 9.4 million¹ unduplicated unique visitors representing over 37% of the Canadian online population. In order to improve the performance of YellowPages.ca, upgrades were completed during the third quarter, resulting in increased traffic throughout September.

Mobile — Our strategy revolves around the continued improvement of the mobile user experience and engagement in order to provide additional value for our advertisers. We continue to leverage our local content and add richer and deeper business content on Canadian merchants in order to increase engagement from Canadian mobile users. Our mobile applications have been downloaded more than 3 million times with YellowPages.ca mobile business searches now representing over 30% of YPG's overall digital searches. Following the second quarter launch of our new mobile products, we have successfully sold approximately 10,000 mobile placement products. These products are designed to increase the visibility of our advertisers, allowing businesses to place themselves at the top of any mobile search list where their services best fit the user's search criteria.

Mediative — We launched Mediative a year ago and it is now one of North America's largest integrated advertising and digital marketing companies. Mediative has extensive experience in developing innovative and unique marketing solutions for national companies. During the quarter the company was selected as the top company in Canada in two Performance Solution categories by TopSEOs. TopSEOs is an independent authority on search vendors which evaluates and ranks the best vendors in the Internet Marketing community. Mediative was chosen as the top Enterprise SEO Services as well as Integrated Search company. Mediative is now serving the marketing needs of some of the biggest brands in North America – brands like WalMart, FutureShop, Sears and Disney among others. It is also one of Canada's leading ad display network, managing the ad inventory of over 600 web sites such as Best Buy, Martha Stewart, Sears, FutureShop and Toys 'R Us.

Partnerships — We continue to support Canadian technology entrepreneurs with our YellowAPI Developer Program. We currently have over 1,250 developers signed up to the YellowAPI.com portal and we are continually pursuing additional North American partnerships with leading mobile and web properties to bring additional traffic to YPG for the benefit of our advertisers.

¹ Source: comScore Media Metrix Canada.

Consolidated Operating and Financial Results

Consolidated Results¹

(in thousands of Canadian dollars – except share information)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2011	2010	2011	2010
Revenues	\$323,441	\$355,949	\$1,015,551	\$1,055,751
Operating costs	157,443	162,726	483,042	459,978
Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, acquisition-related costs, and restructuring and special charges	165,998	193,223	532,509	595,773
Depreciation and amortization	37,800	48,349	137,903	103,996
Impairment of goodwill and intangible assets	2,900,000	–	2,900,000	–
Acquisition-related costs	497	1,960	7,533	25,509
Restructuring and special charges	–	16,185	11,888	25,162
(Loss) income from operations	(2,772,299)	126,729	(2,524,815)	441,106
Financial charges, net	10,314	35,182	94,940	102,370
Impairment of investment in associate	–	–	50,475	–
(Loss) earnings before dividends on Preferred shares, series 1 and 2, income taxes, and share of losses from investment in associates	(2,782,613)	91,547	(2,670,230)	338,736
Dividends on Preferred shares, series 1 and 2	4,545	5,288	14,624	16,037
(Loss) earnings before income taxes and share of losses from investment in associates	(2,787,158)	86,259	(2,684,854)	322,699
Provision for income taxes	18,678	13,912	59,826	72,149
Share of losses from investment in associates	263	6,750	11,664	11,613
Net (loss) earnings from continuing operations	(2,806,099)	65,597	(2,756,344)	238,937
Net (loss) earnings from discontinued operations, net of income taxes	(19,353)	(598)	(117,947)	5,163
Net (loss) earnings	\$(2,825,452)	\$64,999	\$(2,874,291)	\$244,100
Basic (loss) earnings per share ² attributable to common shareholders of Yellow Media Inc.				
From continuing operations	\$(5.52)	\$0.12	\$(5.42)	\$0.44
Total	\$(5.56)	\$0.13	\$(5.66)	\$0.48
Diluted (loss) earnings per share ² attributable to common shareholders of Yellow Media Inc.				
From continuing operations	\$(5.52)	\$0.10	\$(5.42)	\$0.39
Total	\$(5.56)	\$0.11	\$(5.66)	\$0.42
Total assets			\$5,122,405	\$9,236,687
Long-term debt			\$1,597,077	\$1,802,974
Exchangeable and convertible instruments			\$183,671	\$319,606
Preferred Shares Series 1 and 2			\$398,443	\$452,934

¹ Included in the 2010 figures are the results of the Fund.

² Comparative amounts are per Trust unit.

Analysis of Consolidated Operating and Financial Results

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

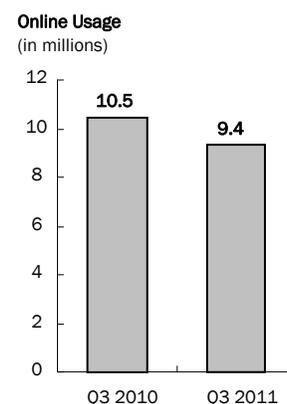
Revenues

Revenues decreased to \$323.4 million during the third quarter of 2011 compared with \$356 million for the same period last year and decreased to \$1,015.6 million for the nine-month period ended September 30, 2011 compared with \$1,055.8 million for the same period last year. The decrease for the quarter and the nine-month period ended September 30, 2011 is due to lower print revenues in our traditional markets, partly offset by increased online revenues. During the quarter, we also published fewer directory titles at Canpages which will be published in the fourth quarter. Its contribution also offset lower print revenues in our traditional markets for the first half of 2011 as it was acquired in May 2010. As at September 30, 2011, the number of advertisers, excluding Canpages, was 348,000 compared to 368,000 as at September 30, 2010 reflecting a decrease of 5.4%. Advertiser renewal remained stable at 87.3% as at September 30, 2011 compared to 87.5% as at September 30, 2010. During the last 12 months, YPG acquired 27,000 new advertisers. Although there was a reduction in the number of advertisers, the average revenue per advertiser (ARPA) remained relatively stable at approximately \$3,400 compared to the same period last year. As at September 30, 2011, our Revenue Generating Units¹ per advertiser was relatively unchanged at 1.68 compared to 1.70 for the same period last year.

As of September 30, 2011, the number of advertisers excluding Canpages, choosing to advertise both in print and online was 64% across Canada compared to 65% for the corresponding period last year.

Online revenues reached \$87.3 million in the third quarter of 2011 and \$256.3 million for the nine-month period ended September 30, 2011, representing a growth of 26.4% for the third quarter and 32.5% for the nine-month period ended September 30, 2011. In addition to the introduction of new products, online revenue growth is attributable to revenues from Canpages acquired in May of 2010 and Mediative, our digital and marketing solutions provider for national agencies and advertisers launched in October 2010. Our network of web sites in Directories attracted 9.4 million unduplicated unique visitors² on average during the third quarter of 2011, representing a reach of 37.4%² of the Canadian internet population.

We expect revenue growth from our online product offerings to continue, but also expect declining revenue in our traditional print offerings. Accordingly, our focus remains positioning our Directories platform through investment in new product introduction such as the Yellow Pages 360° Solution and improved market coverage.



EBITDA

EBITDA decreased by \$27.2 million to \$166 million during the third quarter of 2011 and decreased to \$532.5 million for the nine-month period ended September 30, 2011 compared with \$595.8 million the same period last year. While some of our new placement products contribute margins similar to those of our print products in our local markets, lower revenues and higher costs associated with Mediative and Canpages, resulted in decreases in EBITDA.

Cost of sales decreased by \$3.6 million to \$95.2 million during the third quarter of 2011 and increased by \$16.1 million to \$288.5 million for the nine-month period ended September 30, 2011 compared with the same periods last year. The decrease for the quarter is attributable to lower manufacturing costs as a result of lower print revenues. The increase for the nine-month period ended September 30, 2011 results mainly from the increased costs associated with Canpages acquired in the second quarter of 2010 offset by lower manufacturing costs associated with lower print revenues. We also incurred additional selling expenses in connection with our Mediative division.

Gross profit margin decreased to 70.6% for the third quarter of 2011 compared to 72.2% for the third quarter of 2010 and decreased to 71.6% for the nine-month period ended September 30, 2011 compared with 74.2% for the same period last year. The decrease for the quarter is due to lower margins associated with Canpages and our Mediative division.

General and administrative expenses remained relatively stable at \$62.2 million for the three-month period ended September 30, 2011 compared with \$63.9 million the same period last year but increased by \$7 million to \$194.5 million for the nine-month period ended September 30, 2011. The increase for the nine-month period ended September 30, 2011 is due to higher costs associated with Canpages and a higher level of bad debt incurred during the second quarter of 2011.

¹ Revenue Generating Units (RGU) measure the number of product groups selected by advertisers.

² Source: comScore Media Metrix Canada.

Depreciation and amortization

Depreciation and amortization decreased to \$37.8 million from \$48.3 million during the third quarter of 2011 and increased from \$104 million to \$137.9 million for the nine-month period ended September 30, 2011 compared with the same periods last year. The decrease for the quarter is due to lower amortization of certain intangible assets of YPG USA and Canpages, which were fully amortized during the quarter. The increase for the nine-month period ended September 30, 2011 is mainly attributable to higher amortization of certain intangible assets related to the acquisition of Canpages.

Impairment of goodwill and intangible assets

Following a comprehensive review of its strategic and operating plans completed during the third quarter of 2011, Yellow Media Inc. determined that the recoverability of the carrying value of certain of its assets had to be reviewed for impairment purposes. Consequently, as announced on September 28, 2011, we recorded a charge of \$2.9 billion related to the impairment of goodwill and intangible assets. This impairment charge does not affect the Company's operations, its liquidity, its cash flows from operating activities, its bank credit agreement or its note indentures.

Acquisition-related costs

We incurred costs of \$0.5 million and \$7.5 million during the three and nine-month periods ending September 30, 2011, respectively, resulting from potential investments. In 2010, we incurred \$2 million and \$25.5 million for the three-month and nine-month periods respectively. The costs in 2010 were mainly associated with our acquisition of Canpages.

Restructuring and special charges

We did not incur restructuring and special charges during the quarter compared with \$16.2 million for the same period last year. For the nine-month period ended September 30, 2011, we incurred costs of \$11.9 million compared to \$25.2 million for the same period last year. These costs were associated with a workforce reduction and the termination of contractual obligations.

Impairment of investment in associate

During the second quarter of 2011, Yellow Media Inc. determined that its investment in Ziplocal LP ("Ziplocal") was impaired and as a result a loss of \$50.5 million was recorded to reduce its net investment in Ziplocal to \$nil. Ziplocal was in default of its debt obligations and had undertaken important restructuring initiatives.

Financial charges

Financial charges decreased by \$24.9 million to \$10.3 million during the third quarter of 2011 and decreased to \$94.9 million for the nine-month period ended September 30, 2011 compared with \$102.4 million in the same period last year. The decrease for the quarter and the nine-month period ended September 30, 2011 is due to an increased gain on the purchase of debt instruments partly offset by a redemption premium in connection with a Total Return Swap and higher amortization and write-off of deferred financing costs. The effective average interest rate on our debt portfolio as of September 30, 2011 was 6.1% compared to 5.3% as of September 30, 2010.

Dividends on preferred shares, Series 1 and 2

Dividends on the two series of redeemable preferred shares amounted to \$4.5 million for the third quarter of 2011 compared to \$5.3 million for the same period last year and \$14.6 million for the nine-month period ended September 30, 2011 compared to \$16 million for the same period last year.

Provision for income taxes

The combined statutory provincial and federal tax rate was 27.9% and 29.9% for the three-month periods ended September 30, 2011 and 2010 respectively. The Company recorded an expense of 0.7% on the loss for the three-month period ended September 30, 2011 and 16.1% of earnings for the three-month period ended September 30, 2010 and an expense of 2.2% on the loss for the nine-month period ended September 30, 2011 and 22.4% of earnings for the nine-month period ended September 30, 2010. The decrease in the effective tax rate for the nine-month period ended September 30, 2011 is mainly due to the non-deductibility of certain expenses for tax purposes including the impairment of goodwill and Ziplocal.

Share of losses from investment in associates

During the third quarter of 2011 we recorded our share of losses from our investments in 411.ca and Acquisio, in the amount of \$0.3 million compared to \$6.8 million for the same period last year and \$11.7 million for the nine-month period ended September 30, 2011 compared to \$11.6 million for the same period last year. The decrease for the quarter is due to the fact that no share of losses was recorded from our investment in Ziplocal, as this investment was written-off during the second quarter of 2011. These losses include the amortization of intangible assets in connection with these equity investments.

Net (loss) earnings from discontinued operations

On March 25, 2011, Yellow Media Inc. announced that it had reached a definitive agreement to sell Trader Corporation. The transaction closed on July 28, 2011. The real estate, employment and LesPAC.com businesses were excluded from the divestiture. These businesses continue to be owned and managed by YPG. As a result, we reclassified the results of the automotive and generalist verticals as discontinued operations. Accordingly, the prior period's consolidated income statement and cash flows have been restated to reflect this change.

Included in the results from discontinued operations of the automotive and generalist business are revenues of \$19.6 million for the third quarter of 2011 compared with \$65 million for the same period last year and \$148.1 million for the nine-month period ended September 30, 2011 compared with \$187 million for the same period last year. The results are not comparable as we completed the sale of Trader Corporation on July 28, 2011.

EBITDA from the operations of the automotive and generalist business decreased to \$4.4 million for the third quarter of 2011 compared with \$18.9 million for the same period last year and \$34.7 million for the nine-month period ended September 30, 2011 compared with \$55 million for the same period last year. The results are not comparable as we completed the sale of Trader Corporation on July 28, 2011.

The net loss from discontinued operations amounted to \$19.4 million for the three-month period ended September 30, 2011 and \$117.9 million for the nine-month period ended September 30, 2011. This includes a loss on disposal of \$22.4 million and \$131.4 million (net of income taxes) for the three and nine-month periods ended September 30, 2011 respectively, which represents the difference between the fair value net of selling costs and the net assets sold.

In addition to the above, as a result of the adoption of IFRS, the disposal of YPG Directories, LLC, a US subsidiary, on April 15, 2010 is also presented as a discontinued operation for the quarter and nine-month period ended September 30, 2010.

Net (loss) earnings

Net earnings decreased by \$2,890.5 million to a loss of \$2,825.5 million during the third quarter of 2011 and by \$3,118.4 million to a loss of \$2,874.3 million for the nine-month period ended September 30, 2011 compared to the same periods last year. The decrease for the quarter is mainly due to the impairment of goodwill and intangible assets discussed above. In addition to these elements, the decrease for the nine-month period ended September 30, 2011 is also due to the impairment of our investment in Ziplocal of \$50.5 million and to the loss on disposal associated with our divestiture of Trader Corporation in the amount of \$131.4 million (net of income taxes).

Summary of Consolidated Quarterly Results

Quarterly Results

(in thousands of Canadian dollars – except share information)

	IFRS							Canadian GAAP
	2011			2010				2009
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	\$323,441	\$342,738	\$349,372	\$345,378	\$355,949	\$360,118	\$339,684	\$360,145
Operating costs	157,443	166,262	159,337	184,043	162,726	156,140	141,112	152,080
Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, acquisition-related costs and restructuring and special charges (EBITDA)	165,998	176,476	190,035	161,335	193,223	203,978	198,572	208,065
EBITDA margin	51.3%	51.5%	54.4%	46.7%	54.3%	56.6%	58.5%	57.8%
Depreciation and amortization	37,800	47,735	52,368	76,269	48,349	31,269	24,378	29,906
Impairment of goodwill and intangible assets	2,900,000	–	–	–	–	–	–	–
Acquisition-related costs	497	6,233	803	5,066	1,960	19,934	3,615	–
Restructuring and special charges	–	11,888	–	6,229	16,185	8,977	–	18,817
(Loss) income from operations	(2,772,299)	110,620	136,864	73,771	126,729	143,798	170,579	159,342
Net (loss) earnings	(2,825,452)	(14,250)	(34,589)	(14,694)	64,999	51,982	127,119	128,405
Basic (loss) earnings per share attributable to common shareholders of Yellow Media Inc. from continuing operations	\$(5.52)	\$(0.05)	\$0.13	\$(0.03)	\$0.12	\$0.09	\$0.23	\$0.24
Diluted (loss) earnings per share attributable to common shareholders of Yellow Media Inc. from continuing operations	\$(5.52)	\$(0.05)	\$0.11	\$(0.03)	\$0.10	\$0.09	\$0.20	\$0.21

In the first quarter of 2010, revenues decreased due to the disposal of YPG USA and lower print revenues. During the second quarter of 2010, we acquired Canpages causing revenues to increase. Revenues decreased quarter-over-quarter throughout 2010 and 2011 as a result of continued pressure on our print product. In the first quarter of 2011, revenues increased due to the seasonality associated with the publication of directories at Canpages. During the third quarter of 2011, the decline in revenues was also attributable to the lower number of directories published by Canpages.

Our EBITDA margin decreased progressively during 2010 and 2011, reflecting the decline in print revenues and lower margins associated with Canpages and Mediative acquired in 2010. In the fourth quarter of 2010, our EBITDA margin was lower due to conversion and rebranding costs associated with our conversion to a corporation. During the first quarter of 2011, our margin increased to a level similar to the third quarter of 2010. However, in the second and third quarters of 2011 our EBITDA margin decreased reflecting the impact of lower revenues combined with lower margins associated with our Mediative division and Canpages.

Internal reorganizations and cost containment initiatives resulted in restructuring and special charges impacting some of our quarterly results in 2009, 2010 and 2011. Net earnings for the second half of 2010 and for 2011 were affected by depreciation and amortization of intangible assets related to the acquisition of Canpages. Net earnings throughout 2010 were impacted by conversion and rebranding costs associated with our conversion from an income trust to a corporation as well as acquisition-related costs, most notably in the fourth quarter of 2010. We recorded a loss related to our disposal of Trader Corporation and an impairment of our investment in Ziplocal in the first and second quarters of 2011, respectively. Lastly, during the third quarter of 2011, we recorded a charge of \$2.9 billion related to the impairment of goodwill and intangible assets.

3. Liquidity and Capital Resources

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

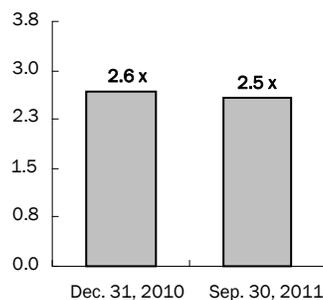
Financial Position

Capital Structure

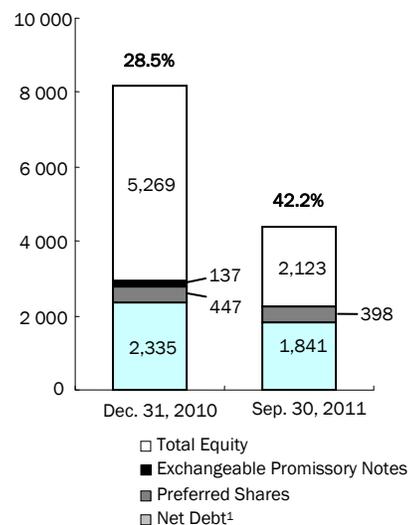
(in thousands of Canadian dollars)

	As at September 30, 2011	As at December 31, 2010
Cash	\$52,072	\$69,325
Medium Term Notes	1,404,074	1,656,200
Credit facilities	266,000	250,000
Commercial paper	35,000	295,000
Obligations under capital leases and other	4,226	20,672
Net debt (net of cash)	\$1,657,228	\$2,152,547
Exchangeable and convertible debt instruments	183,671	319,029
Preferred shares, series 1 and 2	398,443	446,725
Equity attributable to the shareholders of Yellow Media Inc.	2,121,853	5,215,937
Non-controlling interests	851	52,568
Total capitalization	\$4,362,046	\$8,186,806
Net debt ¹ to total capitalization	42.2%	28.5%

Net Debt¹ to Latest Twelve Months EBITDA Ratio^{2,3}



Capital Structure
(in millions of dollars)



As at September 30, 2011, YPG had approximately \$1.7 billion of net debt, or \$2.2 billion including preferred shares, Series 1 and 2, and convertible debt instruments. The net debt¹ to Latest Twelve Month EBITDA^{2,3} ratio as of September 30, 2011 was 2.5 times. The net debt to total capitalization was 42.2% as of September 30, 2011, compared to 28.5% as of December 31, 2010. Total capitalization was reduced by \$2.9 billion during the quarter, as a result of the goodwill impairment charge.

¹ Net debt including Convertible Debentures.

² Latest twelve month income from operations before depreciation and amortization, impairment of goodwill and intangible assets, acquisition-related costs, conversion and rebranding costs of 2010, restructuring and special charges, giving effect to the acquisitions (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 Includes discontinued operations for the year ended December 31, 2010.

Medium Term Notes

Yellow Media Inc. had a total of \$1.4 billion of notes outstanding under its Medium Term Note program as of September 30, 2011 with varying maturity dates between 2013 and 2036.

During the first nine months of 2011, Yellow Media Inc. repurchased for cancellation the principal amount of \$42.8 million of the Series 2 Medium Term Notes, \$67.5 million of the Series 4 Medium Term Notes, \$23.9 million of the Series 5 Medium Term Notes and \$121.9 million of the Series 7 Medium Term Notes for a total cash consideration of \$229.3 million.

Credit facilities

On September 28, 2011, Yellow Media Inc. announced the amendment of its principal senior unsecured credit facility. Concurrently, the Company repaid a total amount of \$500 million of its bank indebtedness. The amended Principal Facility is of \$500 million, which is composed of:

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

The amended credit facility is unsecured and bears interest at BA rates plus a spread of 3.5%. In addition, Yellow Media Inc. is required to make five quarterly repayments of \$25 million on the outstanding balance of the non-revolving tranche of the principal facility, commencing in January 2012 through January 2013. This amount may not be re-borrowed once repaid. The maturity date for the repayment of the remainder of the outstanding borrowings under the facility remains February 18, 2013.

Under the amended facility, Yellow Media Inc. must maintain a Consolidated Total Debt to Consolidated Latest Twelve Month EBITDA¹ ratio of not more than 3.5 to 1 and a Consolidated Latest Twelve Month EBITDA¹ to Consolidated Interest Expense ratio of not less than 3.5 to 1. As at September 30, 2011, Yellow Media Inc. has respected all its ratios.

The Company has also agreed to certain restrictions on the repurchase or redemption of shares and the repurchase or repayment of debt prior to their stipulated maturity dates, subject to certain exceptions and, which include the refinancing of such instruments subject to specified conditions. The amended facility allows the Company to repurchase up to \$125 million of its Series 8 and Series 9 Medium Term Notes prior to their maturity date in 2013, subject to certain conditions. The credit facility also includes restrictions with respect to the incurrence or assumption of indebtedness and liens, the transfer of assets as well as acquisitions and investments. The amended facility restricts going forward the declaration and payment of common share dividends. See the section "Dividends on Common Shares".

Pursuant to the amendments to Yellow Media Inc.'s credit facility dated September 28, 2011, the Company has agreed not to exercise its right to redeem its Preferred Shares Series 1 for cash. However, the Company retains the right to exercise its exchange rights in respect of the Preferred Shares Series 1. See the section "Cumulative Redeemable Preferred Shares".

Our Second Amended and Restated Credit Agreement dated September 28, 2011 can be found on SEDAR at www.sedar.com.

As of September 30, 2011, \$266 million was drawn on the principal credit facility. The non-revolving tranche was fully drawn and \$16 million was drawn on the revolving facility. The revolving facility may be used for general corporate purposes.

Following our downgrade to a non-investment grade rating, our access to the commercial paper market was eliminated. As a result, the current balance of \$35 million of commercial paper outstanding as of September 30, 2011, will be repaid when it comes due in November.

YPG was in compliance with all of its debt covenants as at September 30, 2011.

Exchangeable Promissory Notes

In connection with the Canpages acquisition, Yellow Media Inc. issued \$141.6 million of Mandatory Exchangeable Promissory Notes (the Notes).

Starting in the first quarter of 2011, the Notes were exchangeable into a number of common shares of Yellow Media Inc. based upon a price equal to 95% of the price of the Yellow Media Inc. shares at the time of exchange. Each quarter, holders of the Notes had the right to exchange 25% of the principal amount representing a maximum of \$35.4 million of the Notes. Until December 31, 2014, YPG had the option at any time to redeem all or a portion of the Notes for cash together with accrued and unpaid interest. The Notes ranked subordinate to the senior debt of Yellow Media Inc. and bore interest at a fixed initial rate of 5%, payable quarterly in cash, subject to step up provisions over time. The Notes had a final maturity of December 31, 2014. Any remaining Notes would have been automatically exchanged into common shares of Yellow Media Inc. on December 31, 2014.

¹ Latest twelve month Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, acquisition-related costs, conversion and rebranding costs of 2010, restructuring and special charges, giving effect to the acquisitions (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.

On October 15, 2010, the holders of the Notes monetized their investment through a resale of the Notes to a third-party financial institution. In order to facilitate this resale transaction and the orderly conversion of the Notes into common shares during the course of 2011, Yellow Media Inc. entered into a Total Return Swap transaction referencing the Notes with the same counterparty for a period ending December 15, 2011. Pursuant to the terms of the Total Return Swap, the 5% fixed interest rate under the Notes was converted to the floating rate of interest equal to the three-month Banker's Acceptance plus 1.75%. In addition, under the Total Return Swap, the counterparty as a holder of the Notes was expected to exchange 25% of the principal amount into underlying Yellow Media Inc. common shares at 95% of the prevailing market price. In addition, Yellow Media Inc. would have received or paid under the Total Return Swap an adjustment amount to the extent that the value realized by the Total Return Swap counterparty on the exchange or redemption of the Notes exceeded or was less than the \$141.6 million principal amount of the Notes.

On February 15, 2011, the exchange right was exercised and one quarter of the Exchangeable Promissory Notes was converted into 6.3 million common shares of Yellow Media Inc. Also, since the value realized by the Total Return Swap counterparty on the exchange of the Notes was less than the principal amount of the Notes, Yellow Media Inc. paid an adjustment amount of \$4.2 million under the Total Return Swap.

On March 31, 2011 Yellow Media Inc. exercised its redemption right applicable to another quarter of the principal amount of the Notes representing \$35.4 million. The principal amount along with the 5% redemption premium stipulated under the Total Return Swap was paid on April 1, 2011.

During the second quarter of 2011, the remaining Exchangeable Notes were redeemed. The remaining principal amount along with the 5% redemption premium stipulated under the Total Return Swap was paid on June 10, 2011 and the Total Return Swap was unwound.

Cumulative Redeemable Preferred Shares

On June 8, 2010, Yellow Media Inc. received approval from the Toronto Stock Exchange (TSX) on its notice of intention to renew its normal course issuer bid for its preferred shares, Series 1 and preferred shares, Series 2 through the facilities of the TSX from June 11, 2010 to no later than June 10, 2011, in accordance with applicable rules and regulations of the TSX.

On May 11, 2011, Yellow Media Inc. received approval from the TSX on its notice of intention to renew its normal course issuer bid for its preferred shares Series 1 and preferred shares Series 2 for the period from June 13, 2011 to no later than May 12, 2012 through the facilities of the TSX, in accordance with applicable rules and regulations of the TSX. Under its normal course issuer bid, Yellow Media Inc. can purchase for cancellation up to 1,127,882 and 542,406 of its outstanding first preferred shares, Series 1 (Series 1 shares) and first preferred shares, Series 2 (Series 2 shares), respectively.

Under these two NCIB programs, during the nine-month period ended September 30, 2011, Yellow Media Inc. purchased for cancellation 1,232,948 Series 1 shares of Yellow Media Inc. for a total cash consideration of \$25.5 million including brokerage fees and 778,156 Series 2 shares of Yellow Media Inc. for a total cash consideration of \$11.3 million including brokerage fees. The carrying value of these Series 1 and Series 2 shares was \$30.6 million and \$19.1 million, respectively.

In order to maximize funds available for debt repayment and reinvestment in the business, Yellow Media Inc. has decided to suspend activity under its normal course issuer bid for its preferred shares, Series 1 and Series 2, as announced on September 28, 2011. This decision is in compliance with the amendments that Yellow Media Inc. agreed to make with respect to its principal credit facility.

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

At any time and from time to time on or after March 31, 2012 and prior to December 31, 2012, the Company may, at its option in accordance with the terms of the Preferred Shares Series 1, exchange the outstanding Preferred Shares Series 1, in whole or in part, into common shares of the Company at a conversion price equal to the greater of \$2.00 and 95% of the then applicable weighted average trading price of the common shares. On and after December 31, 2012, a holder of Preferred Shares Series 1 may require the Company to redeem such Preferred Shares Series 1 for a cash price of \$25.00 per Preferred Share Series 1, together with any accrued and unpaid dividends up to but excluding the date fixed for redemption.

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

At any time and from time to time on or after June 30, 2012 and prior to June 30, 2017, the Company may, at its option in accordance with the terms of the Preferred Shares Series 2, exchange the outstanding Preferred Shares Series 2, in whole or in part, into common shares of the Company at a conversion price equal to the greater of \$2.00 and 95% of the then applicable weighted average trading price of the common shares. On and after June 30, 2017, a holder of Preferred Shares Series 2 may require the Company to redeem such Preferred Shares Series 2 for a cash price of \$25.00 per Preferred Share Series 2, together with any accrued and unpaid dividends up to but excluding the date fixed for redemption.

Cumulative Exchangeable Preferred Shares

As at November 3, 2011, a total of 916,667 of the Series 7 preferred shares had been converted into common shares of Yellow Media Inc. at a ratio of one preferred share for one common share of Yellow Media Inc. There are 383,333 Series 7 preferred shares currently outstanding.

Credit Ratings

DBRS Limited	Standard and Poor's Rating Services
BB /negative credit rating	BB+/Stable long-term corporate credit rating
R-4 commercial paper rating	BB+ credit rating for existing credit facilities and medium term notes
B (high) convertible subordinated debentures rating	B+ convertible subordinated debentures rating
Pfd-4 (low) preferred shares rating	P-4 (high) preferred shares rating

Liquidity

As part of its financial policy and capital structure guidelines, YPG remains committed to maintaining adequate liquidity at all times.

As at September 30, 2011, YPG maintained a credit facility containing two tranches totalling \$500 million, (of which \$266 million was drawn on the principal credit facility) providing sufficient liquidity to fund its operations,. The non-revolving tranche was fully drawn and \$16 million was drawn on the revolving facility. The revolving facility may be used for general corporate purposes. The revolving and non-revolving tranches both mature on February 18, 2013 and YPG will make quarterly repayments of \$25 million on the outstanding balance of the non-revolving tranche commencing in January 2012. See the section "Credit Facilities".

On September 30, 2011, cash amounted to \$52.1 million. The Company's principal source of liquidity is cash generated from operations and is supplemented by borrowings under its credit facility. The Company expects to generate sufficient cash flow from operations to fund capital expenditures, working capital requirements and to service its outstanding debt obligations.

Share data

As at November 3, 2011 outstanding share data was as follows:

Outstanding Share Data	As at November 3, 2011	As at September 30, 2011	As at December 31, 2010
Common shares outstanding	520,402,094	520,402,094	516,017,984
Preferred shares Series 3, 5 and 7 outstanding	13,424,153	13,424,153	13,933,333
Options outstanding and exercisable	380,882	380,882	380,882

On November 11, 2010, the Board of Directors of Yellow Media Inc. adopted a new stock option plan (the 2010 Plan). The 2010 Plan was approved by shareholders on May 5, 2011. The 2010 Plan allows the Board of Directors to issue a maximum of 25 million options to eligible employees.

As at September 30, 2011, 12,100,000 options are outstanding with the following terms and conditions:

- The exercise price of \$6.35 is equal to the volume weighted-average trading prices of the common shares on the TSX during the five trading days preceding the date on which the options were granted.
- The options vest on the third anniversary of the grant date.
- The options expire five years after the grant date.

As at November 3, 2011, Yellow Media Inc. also has a total of \$200 million of Convertible Debentures outstanding which are convertible at any time, at the option of the holder into common shares of the Company at an exchange price of \$8.00 per common share.

As at November 3, 2011, there were 10,045,872 preferred shares, Series 1 and 6,062,128 preferred shares, Series 2 outstanding. Both series of preferred shares are redeemable by the issuer under certain conditions through the issuance of common shares of the Company.

As at November 3, 2011, there were 383,333 Series 7 preferred shares outstanding. This series of preferred shares are convertible into common shares of the Corporation, at a ratio of one preferred share for one common share subject to certain conditions.

Normal course issuer bid

On May 11, 2011, Yellow Media Inc. received approval from the TSX on its notice of intention to make a normal course issuer bid for its common shares, first preferred shares, Series 3 ("Series 3 shares") and first preferred shares, Series 5 ("Series 5 shares") for the period from May 13, 2011 to no later than May 12, 2012, in accordance with applicable rule and regulations of the TSX.

Under its normal course issuer bid, Yellow Media Inc. may purchase for cancellation up to 51,782,537 of its outstanding common shares, 830,000 of its outstanding Series 3 shares and 500,000 of its outstanding Series 5 shares.

During the nine-month period ended September 30, 2011, Yellow Media Inc. purchased for cancellation 11,252,884 common shares of Yellow Media Inc. for a total cash consideration of \$46.5 million including brokerage fees. The average carrying value of the common shares was \$7.86 per share. The difference between the purchase price and the carrying value of the common shares of \$41.9 million was credited to Deficit. In addition, a portion of the reserve related to the share capital reduction recorded in November 2010 under the Plan of Arrangement in the amount of \$42.9 million was also credited to Deficit.

During the nine-month period ended September 30, 2011, Yellow Media Inc. purchased for cancellation 179,100 Series 3 shares of Yellow Media Inc. for a total cash consideration of \$2.7 million including brokerage fees and 80,080 Series 5 shares of Yellow Media Inc. for a total cash consideration of \$1.2 million including brokerage fees. The carrying value of these Series 3 shares and Series 5 shares was \$4.4 million and \$1.9 million respectively. The difference between the purchase price and the carrying value was credited to Deficit.

In order to maximize funds available for debt repayment and reinvestment in the business, Yellow Media Inc. has decided to suspend activity under its normal course issuer bid for its common and Series 3 shares and Series 5 shares, as announced on September 28, 2011. This decision is in compliance with the amendments that Yellow Media Inc. agreed to make with respect to its principal credit facility.

Reduction of capital

The stated capital of Yellow Media Inc. in respect of common shares was reduced by \$500 million and Reduction of Capital and Other Reserves was increased by the same amount.

Sources and Uses of Cash

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

Sources and Uses of Cash

(in thousands of Canadian dollars)

	Nine-month periods ended	
	2011	September 30, 2010
Cash flows from operating activities from continuing operations		
Cash flows from operations from continuing operations	\$309,669	\$405,370
Change in operating assets and liabilities	(66,060)	10,622
	\$243,609	\$415,992
Cash flows from (used) in investing activities from continuing operations		
Disposal of Trader	\$691,330	\$ —
Disposal of cash related to the sale of Trader	(24,517)	—
Business acquisitions, net of cash acquired and bank indebtedness assumed	(49)	(90,300)
Acquisition of investment in associates	—	(3,600)
Acquisition of intangible assets	(33,380)	(41,556)
Acquisition of property, plant and equipment	(13,777)	(4,174)
Issuance of note	(1,238)	—
Acquisition of investment	—	(1,756)
Proceeds from lease inducements	499	—
	\$618,868	\$(141,386)
Cash flows used in financing activities from continuing operations		
Issuance of long-term debt and commercial paper	\$857,000	\$577,918
Repayment of long-term debt and commercial paper	(1,102,254)	(234,958)
Redemption of exchangeable and convertible instruments	(106,172)	—
Issuance of exchangeable and convertible instruments	—	200,000
Dividends to shareholders	(196,860)	(302,088)
Repurchase of Preferred shares, series 1 and 2, and Medium Term Notes	(266,183)	(463,112)
Repurchase of common shares and Preferred shares series 3 and 5	(50,432)	—
Other	(21,885)	(66,442)
	\$(886,786)	\$(288,682)

Cash flows from operating activities from continuing operations

Cash flows from operating activities from continuing operations decreased from \$416 million for the nine-month period ended September 30, 2010 to \$243.6 million for the nine-month period ended September 30, 2011. Lower core revenues and lower margins associated with Canpages and Mediative impacted our cash flows from continuing operations. The decrease in operating assets and liabilities for the nine-month period ended September 30, 2011 was \$76.7 million compared with the same period last year. During the nine-month period ended September 30, 2011, we paid income taxes of approximately \$68.9 million compared to \$16.9 million for the nine-month period ended September 30, 2010. In addition, working capital fluctuations arose due to Canpages which was acquired in May 2010. The remaining variance is due to the timing of payment of certain accounts payable as well as a decrease in deferred revenues.

The Company expects to generate sufficient cash flow from operations to fund capital expenditures, working capital requirements and to service its outstanding debt obligations.

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

Cash used in investing activities from continuing operations decreased from \$141.4 million to a cash flow from investing activities of \$618.9 million in the nine-month period ended September 30, 2011 reflecting the proceeds from the disposal of Trader. In 2011, we did not complete any business acquisitions. In 2010, the Company acquired a 60% interest in Mediative LP and all of the operations of Restaurantica and RedFlagDeals.com for a cash consideration of \$9.4 million. We also acquired all of the shares of Canpages for a cash consideration of \$80.9 million. In addition, the Company made an equity investment in 411.ca for \$3.6 million. During 2011, we made acquisitions of intangible assets and property, plant and equipment of \$33.4 million and \$13.8 million, respectively, which in total, was more than the corresponding amounts of \$41.6 million and \$4.2 million spent in 2010.

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

(in thousands of Canadian dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2011	2010	2011	2010
Sustaining	\$5,559	\$3,601	\$22,502	\$9,795
Transition	858	2,176	4,071	6,273
Growth	9,278	3,308	24,859	11,534
Total	\$15,695	\$9,085	\$51,432	\$27,602
Adjustment to reflect expenditures on a cash basis	173	(1,171)	(4,774)	(602)
Acquisition of property, plant, equipment and intangible assets, net of lease inducements	\$15,868	\$7,914	\$46,658	\$27,000

Sustaining capital expenditures amounted to \$5.6 million for the three-month period ended September 30, 2011 compared to \$3.6 million for the same period in the previous year and \$22.5 million for the nine-month period ended September 30, 2011 compared to \$9.8 million for the same period last year due to increased activity associated with acquisitions made in 2010. Specifically, during the second quarter of 2011, we invested in leasehold improvements to house our new Mediative division in offices located in Toronto, Montreal and Vancouver.

Transition capital expenditures amounted to \$0.9 million for the three-month period ended September 30, 2011 compared to \$2.2 million for the same period in the previous year and \$4.1 million for the nine-month period ending September 30, 2011 compared with \$6.3 million for the same period last year. The decreases result from the fact that we made no new business acquisitions in 2011.

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 online media company. During the third quarter of 2011, these amounted to \$9.3 million compared to \$3.3 million for the same period in the previous year and \$24.9 million for the nine-month period ended September 30, 2011 compared to \$11.5 million for the same period last year.

Total capital expenditures for the third quarter of 2011 amounted to \$15.7 million and were in line with expectations.

Cash flows used in financing activities from continuing operations

Cash used in financing activities from continuing operations increased by \$598.1 million to \$886.8 million during the nine-month period ended September 30, 2011 from \$288.7 million for the same period last year. The lower level of dividends per share compared to 2010 resulted in a decrease in dividends to shareholders of \$105.2 million for the nine-month period ended September 30, 2011 compared to the same period last year. Although we had a net repayment of long-term debt and commercial paper in 2011 of \$245.3 million compared with a net issuance of \$343 million in 2010, we also had lower levels of repurchases of various debt instruments in 2011. For the nine-month period ended September 30, 2011, we repurchased shares and debt instruments of \$316.6 million compared to \$463.1 million in 2010. Also, during the year we redeemed the remaining \$106.2 million of Notes issued in connection with the acquisition of Canpages.

Financial and Other Instruments

(See Note 25 of the Consolidated Financial Statements of the Company for the year ended December 31, 2010).

The Company's financial instruments consist of cash, trade receivables, investments, trade and other payables, dividends payable, short-term and long-term debt, convertible and exchangeable instruments, and preferred shares.

Derivative Instruments

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

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

On June 27, 2011, Yellow Media Inc. terminated the five interest rate swaps above mentioned with a notional amount of \$255 million, for gross proceeds of \$3.8 million. The \$3.8 million will be amortized over the term of the underlying debt. Taking into consideration the debt instruments outstanding, the Series 1 and Series 2 shares and the cash, our fixed-to-floating ratio was 89% fixed rate as at September 30, 2011.

The terms and conditions of Series 1 and Series 2 shares provide for redemption at the option of the Company under certain circumstances. These options meet the definition of an embedded derivative. They are recorded at their fair value on the consolidated statement of financial position with changes in fair value recognized in earnings.

The carrying value of embedded derivatives was an asset of \$39 thousand on September 30, 2011. The carrying value is calculated as is customary in the industry using discounted cash flows with quarter-end market rates. We reported a loss of \$0.2 million and \$3.5 million for the three and nine-month periods ended September 30, 2011, respectively (2010 - \$2.1 million gain and \$1.2 million gain) on derivatives, excluding the loss on derivatives designated as cash flow hedges in prior periods transferred to earnings in the period and payments on interest rate swaps that have discontinued hedge accounting. In addition, we reported an adjustment amount of \$4.2 million during the nine-month period ended September 30, 2011 and a redemption premium stipulated under the Total Return Swap of \$5.3 million for the nine-month period ended September 30, 2011.

4. Adjusted Earnings from Continuing Operations

A reconciliation between net earnings attributable to common shareholders and adjusted earnings is provided below:

Adjusted Earnings from Continuing Operations

(in thousands of Canadian dollars – except share information)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2011	2010	2011	2010
Net (loss) earnings from continuing operations	\$ (2,806,099)	\$ 65,597	\$ (2,756,344)	\$ 238,937
Attributable to non-controlling interest	84	13	441	13
Dividends to preferred shareholders	(5,583)	(5,780)	(16,955)	(17,257)
Net (loss) earnings from continuing operations available to common shareholders of Yellow Media Inc.	(2,811,598)	59,830	(2,772,858)	221,693
Amortization of intangible assets ^{1,3}	25,359	25,917	102,286	64,894
Impairment of goodwill and intangible assets ⁵	2,880,677	—	2,880,677	—
Acquisition-related costs ^{2,3}	358	1,374	5,431	17,882
Restructuring and special charges ³	—	11,346	8,571	17,639
Financial charges ³	7,436	24,663	68,451	71,761
Interest paid	(49,226)	(38,915)	(120,554)	(110,189)
Impairment of investment in associate ³	—	—	36,392	—
Non-cash income taxes	(15,927)	9,134	(9,096)	55,233
Adjusted earnings from continuing operations	\$ 37,079	\$ 93,349	\$ 199,300	\$ 338,913
Weighted average number of common shares outstanding	509,752,238	501,815,664	511,591,101	503,333,857
Adjusted earnings per common share from continuing operations ^{3,4}	\$ 0.07	\$ 0.19	\$ 0.39	\$ 0.67
Dividends on common shares	\$ 40,360	\$ 100,402	\$ 207,345	\$ 302,088
Dividends declared per common share	\$ 0.08	\$ 0.20	\$ 0.40	\$ 0.60
Payout ratio	114%	105%	103%	90%

¹ Represents amortization of intangible assets attributable to shareholders.

² Acquisition-related costs are excluded from the calculation as they do not reflect the ongoing operations of the business.

³ Items are net of income taxes using the combined statutory provincial and federal tax rate of 27.9% (29.9% for 2010).

⁴ Please refer to Section 2 – Results for the calculation of Basic earnings per share.

⁵ Item is net of income taxes of \$19.3 million.

Free cash flow from continuing operations

Free cash flow from continuing operations

(in thousands of Canadian dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2011	2010	2011	2010
Cash flow from operating activities from continuing operations	\$43,985	\$122,526	\$243,609	\$415,992
Capital expenditures, net of lease inducements	15,868	7,914	46,658	27,000
Free cash flow from continuing operations	\$28,117	\$114,612	\$196,951	\$388,992

Dividends

Dividends

(in thousands of Canadian dollars- except share information)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2011	2010	2011	2010
Accumulated dividends, beginning of period ¹	\$3,602,167	\$3,234,149	\$3,435,182	\$3,032,463
Dividends on common shares	40,360	100,402	207,345	302,088
Accumulated dividends, end of period ¹	\$3,642,527	\$3,334,551	\$3,642,527	\$3,334,551
Accumulated dividends per common share, beginning of period	\$7.52	\$6.80	\$7.20	\$6.40
Dividends declared per common share	\$0.08	\$0.20	\$0.40	\$0.60
Accumulated dividends per common share, end of period	\$7.60	\$7.00	\$7.60	\$7.00

¹: Amounts prior to November 1, 2010 were distributions of Yellow Pages Income Fund.

Dividends on Common Shares

On September 28, 2011, the Yellow Media Inc. Board of Directors determined that it is in the best interest of the Company to eliminate future dividends on its common shares.

This decision is in compliance with the amendments that the Company agreed to make to its principal credit agreement and that was announced on September 28, 2011, and will improve the Company's financial profile and capital position. The cash retained from the elimination of dividends will be used to reduce indebtedness and make additional investments to accelerate our digital transformation.

5. Critical Assumptions

Critical Accounting Policies and Estimates

In our 2010 annual consolidated financial statements and notes thereto, as well as in our 2010 Annual MD&A, we have identified the accounting policies and estimates that are critical to the understanding of our business operations and our results of operations. On January 1, 2011, with the adoption of IFRS, the critical accounting policies and significant judgements and estimates have been updated to conform to this adoption. Please refer to our interim condensed consolidated financial statement for the three-month period ended March 31, 2011 for details on the IFRS accounting policies adopted under IFRS and a detailed discussion regarding our significant judgements and estimates.

New Accounting Standards

Recent Accounting Pronouncements

In February 2008, the Accounting Standards Board (AcSB) confirmed that IFRS will be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011. Our first annual IFRS financial statements will be for the year ending December 31, 2011 and will include the comparative period of 2010. Please refer to Note 20 of the accompanying financial statements for a summary of the differences between our financial statements previously prepared under Canadian GAAP and to those under IFRS.

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. It is applicable to financial assets and requires classification and measurement in either the amortised cost or the fair value category. IFRS 9 is applied prospectively with transitional arrangements depending on the date of application. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. Yellow Media Inc. has not fully assessed the impact of adopting IFRS 9; however, it anticipates that its impact will be limited.

IFRS 10 - Consolidated Financial Statements

IFRS 10 replaces the consolidation requirements in IAS 27, Consolidated and Separate Financial Statements, and SIC-12 Consolidation - Special Purpose Entities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted, provided IFRS 11, IFRS 12 and the related amendments to IAS 27 and 31 (the "package of five") are adopted at the same time. Yellow Media Inc. has not yet assessed the impact of adopting IFRS 10.

IFRS 11 - Joint Arrangements

IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities - Non-Monetary Contributions by Venturer. IFRS 11 requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement. The standard also requires the use of a single method to account for interests in jointly controlled entities, namely the equity method. IFRS 11 is applicable at the same time as IFRS 10. Yellow Media Inc. has not yet assessed the impact of adopting IFRS 11.

IFRS 12 - Disclosure of Interests in Other Entities

IFRS 12 is a new standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is applicable at the same time as IFRS 10. Yellow Media Inc. has not yet assessed the impact of adopting IFRS 12.

IFRS 13 - Fair Value Measurement

IFRS 13 is a new standard that defines fair value and requires disclosures about fair value measurements. IFRS 13 is effective for fiscal years beginning on or after January 1, 2013. Earlier application is permitted. It applies prospectively from the beginning of the annual period in which it is adopted. Yellow Media Inc. has not yet assessed the impact of adopting IFRS 13.

IAS 19 (Revised) - Employee Benefits

A revised version of IAS 19 was issued in June 2011 and is effective for financial years beginning on or after January 1, 2013. Early application is permitted. The main change of this revised version is the elimination of the corridor approach, with all changes to the defined benefit obligation and plan assets recognized when they occur. Yellow Media Inc. has not fully assessed the impact of adopting IAS 19 (Revised); however, it anticipates that its impact will be limited.

IAS 1 (Revised) - Presentation of Financial Statements

On June 16, 2011, the IASB issued amendments to IAS 1, Presentation of Financial Statements, which require entities preparing financial statements in accordance with IFRSs to group together items within Other Comprehensive Income ("OCI") that may be

reclassified to the profit or loss section of the income statement and to separately group together items that will not be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that profit or loss and OCI should be presented as either a single statement or two consecutive statements. The amendments are effective for financial years commencing on or after July 1, 2012. Yellow Media Inc. has not fully assessed the impact of adopting IAS 1(Revised).

6. Risks and Uncertainties

The following section examines the major risks and uncertainties that could materially affect YPG's future business results and explains how YPG seeks to manage these risks.

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 under the control of management across key functional areas of the organization.

YPG has put in place certain guidelines which seek to manage the risks to which it may be exposed. Please refer to the MD&A for the year ended December 31, 2010 for a description of these risk factors. 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, 2010. For more information, please refer to the corresponding section in our MD&A for the year ended December 31, 2010.

7. Controls and Procedures

Management including the President and Chief Executive Officer and the Interim Chief Financial Officer have determined that there were no changes to the Corporation's internal controls over financial reporting during the quarter ended September 30, 2011 that have materially affected or are reasonably likely to materially affect, its internal controls over financial reporting.