Management's Discussion and Analysis

May 5, 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-month period ended March 31, 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 March 31, 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-month period ended March 31, 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 18 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 three-month period ended March 31, 2010 and for the year ended December 31, 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.

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 are not included in the divestiture of Trader Corporation.

Furthermore, and also as a result of the definitive agreement to sell Trader Corporation, we have reclassified the results of the automotive and generalist print and online business of Trader Corporation as discontinued operations. Accordingly, the prior period's consolidated income statement and cash flows have been restated to reflect this change and the net assets of the automotive and generalist print and online business of Trader Corporation have been reclassified as assets and liabilities held for sale on the interim condensed consolidated balance sheet as at March 31, 2011.

Comparative figures for 2010 have been reclassified to reflect the above changes.

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 our automotive and generalist print and online vertical publications.

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 May 5, 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. Consistent with our historical practice, we do not intend to provide quarterly guidance for key performance metrics. Our preference remains to review on a periodic basis, through our MD&A, our progress in reaching our stated objectives for the full year taking into account changes in the economic environment, local operating and economic conditions, direct and indirect competition for our products and other relevant factors.
- 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, Acquisition-related Costs and Restructuring and Special Charges (EBITDA)

We report on our EBITDA (Income from operations before depreciation and amortization, 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 12 of this MD&A.

Adjusted Earnings from Continuing Operations (Adjusted Earnings)

Adjusted earnings is a non-IFRS measure. It is defined as the net earnings from continuing operations available to common shareholders excluding amortization of intangible assets attributable to shareholders, non-cash financial charges, deferred income taxes and non-recurring items such as acquisition-related costs, and restructuring and special charges. All adjustments except deferred income taxes 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. Dividends per common share depend on our adjusted earnings and YPG's dividend policy. We make monthly cash dividends to holders of common shares of record on the last business day of each month. For a description of our cash dividend policy, please refer to Section 4 of this MD&A.

This MD&A is divided into the following sections:

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), Trader Corporation (Trader) 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. Trader is a national leader offering integrated media and performance solutions in the automotive and generalist verticals. 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 first 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 pages 1 and 2 of this MD&A and are important aspects which should be considered when analyzing our performance.

Overall Performance

- Revenues increased by $9.7 million or 2.9% to reach $349.4 million compared to the first quarter of 2010.
- Income from operations before depreciation and amortization and acquisition-related costs (EBITDA) decreased by $8.5 million or 4.3% to $190 million compared to the first quarter of 2010.

Highlights[1,2,3]

(in thousands of Canadian dollars– except share information)

	Three-month periods ended March 31,	
	2011	2010
Revenues	$349,372	$339,684
Income from operations before depreciation and amortization and acquisition-related costs (EBITDA)	$190,035	$198,572
Basic (loss) earnings per share[4] attributable to common shareholders of Yellow Media Inc.		
From continuing operations	$0.13	$0.23
Total	$(0.08)	$0.25
Cash flows from operating activities from continuing operations	$111,701	$127,689
Free cash flow[5]	$99,844	$118,516

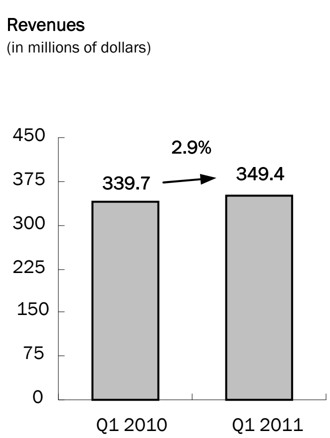
1 On March 25, 2011, Yellow Media Inc. announced that it had reached a definitive agreement to sell its Vertical Media segment. Consequently, the results of the Vertical Media segment are presented as discontinued operations.

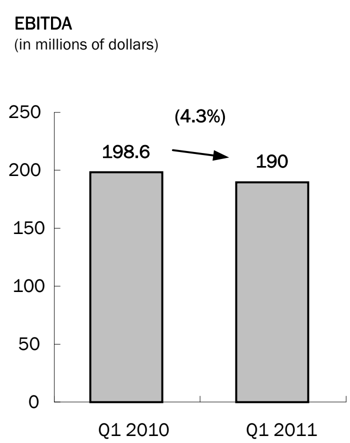
2 Included in the 2010 figures are the results of the Fund. In addition, the 2010 comparatives have been restated to conform to IFRS.

3 We closed the acquisitions of Restaurantica.ca (Restaurantica) on January 8, 2010, Clear Sky Media Inc. (RedFlagDeals.com) on February 9, 2010, Canpages Inc. (Canpages) on May 25, 2010, CanadianDriver Communications Inc. (CanadianDriver) on July 9, 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.





Performance Relative to Business Strategy

Organic growth

Directories

Enhancement and expansion of products

- Yellow Pages 360° Solution – As we position Yellow Media Inc. as Canada's #1 Internet Company and a leading performance media and marketing solutions provider, our foremost objective in 2011 is to deliver an unprecedented customer value and experience through our new 360º sales approach. This unique value proposition is at the heart of our business transformation. The Yellow Pages 360º Solution is central in enabling our advertisers to be found by qualified buyers with online, mobile and print choices like never before. In the first quarter of 2011, we have concluded training of our entire sales organization with the new Yellow Pages 360º Solution. Our sales professionals are now better equipped to offer the right solutions that fit our advertisers' evolving needs, from mobile, online and print Yellow Pages, to websites, search engine marketing, search engine solutions and Deal of the Day™;
- Market Profiler – During the first quarter of 2011, YPG launched MarketProfiler™, the first free automated online tool of its kind in Canada. With MarketProfiler™, YPG will help small and medium-sized businesses (SMEs) gain new customers by giving them a snapshot of consumer media consumption in their market. MarketProfiler gives insight on how consumers use media in a selected market when searching for local businesses, how a website performs compared to those of competitors and how to improve online visibility;
- User Experience – From a user standpoint, we have been improving and will continue to improve features and functionality on our key online properties. In the first quarter of 2011, we have redesigned the layout of the site yp.ca and most recently added an improved mapping experience to facilitate local search and have also added a new feature called "What's nearby". This new functionality helps users perform smarter local buying decisions by facilitating the shopping experience. YPG also focused on increasing the performance of Yellowpages.ca™ making it faster and improving the advertiser value by improving fulfillment and increasing lead generation;
- Mobile – We continue to focus and invest in the mobile user experience both by continuing to improve the mobile applications and by further leveraging and enhancing our deep local content. As a result of our efforts in the last year, YPG's mobile applications have now been downloaded more than 2.2 million times and the number of mobile business searches now represents 30% of YPG's digital searches. We continue to develop partnerships and distribution agreements to generate more leads and business opportunities for our advertisers. During the first quarter of 2011, the Yahoo.ca mobile website started to integrate yellowpages.ca results for local searches.

Consolidated Operating and Financial Results

Consolidated Results[1]

(in thousands of Canadian dollars – except share information)

	Three-month periods ended March 31,	
	2011	2010
Revenues	$349,372	$339,684
Operating costs	159,337	141,112
Income from operations before depreciation and amortization and acquisition-related costs	190,035	198,572
Depreciation and amortization	52,368	24,378
Acquisition-related costs	803	3,615
Income from operations	136,864	170,579
Financial charges, net	47,142	36,195
Earnings before dividends on Preferred shares, series 1 and 2, income taxes, and share of losses from investment in associates	89,722	134,384
Dividends on Preferred shares, series 1 and 2	5,132	5,379
Earnings before income taxes and share of losses from investment in associates	84,590	129,005
Provision for income taxes	6,601	8,354
Share of losses from investment in associates	7,536	264
Net earnings from continuing operations	70,453	120,387
Net (loss) earnings from discontinued operations, net of income taxes	(105,042)	6,732
Net (loss) earnings	$(34,589)	$127,119
Basic (loss) earnings per share[2] attributable to common shareholders of Yellow Media Inc.		
From continuing operations	$0.13	$0.23
Total	$(0.08)	$0.25
Diluted (loss) earnings per share[2] attributable to common shareholders of Yellow Media Inc.		
From continuing operations	$0.11	$0.20
Total	$(0.04)	$0.21
Total assets	$9,048,311	$9,061,380
Long-term debt	$1,908,679	$1,859,884
Exchangeable and convertible instruments	$251,205	$84,287
Preferred Shares Series 1 and 2	$447,207	$466,679

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

Each year, we set targets to advance our goals and drive results. We consider competitive activity in some of our localized markets and our ability to respond to changing market conditions while offering our advertisers new products and services that are intended to position both our print and online business in both segments. We also consider third-party expectations such as the Kelsey Group and the Interactive Advertising Bureau of Canada regarding Canadian advertising trends and changing consumer trends affecting local commercial search.

We continue to maintain a cautious outlook in terms of the potential strength and sustainability of an economic recovery. In this environment, 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 and improved market coverage.

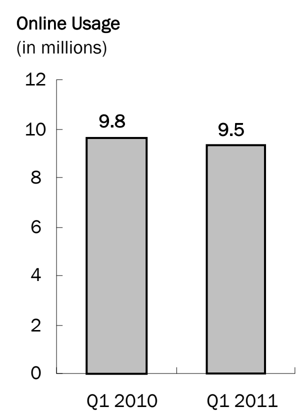
Given the presentation of the results of the automotive and generalist print and online business of Trader as discontinued operations, the income statements of Yellow Media Inc. up to net earnings from continuing operations represent the results of the restated Directories segment.

Revenues

Revenues increased to $349.4 million during the first quarter of 2011 compared with $339.7 million for the same period last year. Higher online revenues, as well as, the additional contribution of revenues from Canpages during the quarter was partly offset by lower revenues in our traditional print markets. The continuing shift in the media and publishing industries towards more online content continues to place some pressure on our traditional print offerings. As at March 31, 2011, the number of advertisers, excluding Canpages, was 358,000 compared to 377,000 as at March 31, 2010 reflecting a decrease of approximately 5%. Advertiser renewal was unchanged at 88% as at March 31, 2011 compared to the same period last year although we did note a slight improvement quarter over quarter. During the last 12 months, YPG acquired 28,000 new advertisers. Although there was a reduction in the number of advertisers, the average revenue per advertiser (ARPA) remained stable at approximately $3,500 compared to the same period last year. As at March 31, 2011, our Revenue Generating Units[1] per advertiser was unchanged at 1.70 compared to the same period last year. It should be noted that this figure does not consider the impact of our recently launched Yellow Pages 360° Solution.

As of March 31, 2011, the number of advertisers, excluding Canpages, choosing to advertise both in print and online was 65.2% across Canada compared to 64.3% for the corresponding period last year.

Online revenues reached $83.2 million in the first quarter of 2011, representing a growth of 39%. Our network of web sites in Directories attracted 9.5 million unduplicated unique visitors[2] on average during the first quarter of 2011, representing a reach of 37.8%[2] of the Canadian internet population.



EBITDA

EBITDA decreased by $8.5 million to $190 million during the first quarter of 2011 compared with the same period last year. The decrease results mainly from lower margins associated with our Mediative division and Search Engine Solutions.

Cost of sales increased by $18.1 million to $97.5 million during the first quarter of 2011 compared with the same period last year. The increase for the quarter ended March 31, 2011 results mainly from the increased costs associated with Canpages acquired in the second quarter of 2010. We also incurred additional selling expenses in connection with our Mediative division and our Search Engine Solutions.

Gross profit margin decreased to 72.1% for the first quarter of 2011 compared to 76.6% for the first quarter of 2010. The decrease for the quarter is due to the lower margins associated with Canpages, as well as our Mediative division.

General and administrative expenses remained relatively flat at $61.8 million during the first quarter of 2011 compared with $61.7 million for the same period last year.

Depreciation and amortization

Depreciation and amortization increased to $52.4 million during the first quarter of 2011 compared with $24.4 million during the same period last year. The increase is mainly attributable to higher amortization of certain intangible assets related to the acquisition of Canpages.

1 Revenue Generating Units (RGU) measure the number of product groups selected by advertisers.
2 Source: comScore Media Metrix Canada.

Acquisition-related costs

Although we did not make any acquisitions during the first quarter of 2011, we did incur some costs related to several acquisitions made in 2010.

Financial charges

Financial charges increased by $10.9 million to $47.1 million during the first quarter of 2011 compared with the same period last year. The increase is due to the adjustment amount and the 5% redemption premium in connection with the Total Return Swap (TRS). The effective average interest rate on our debt portfolio as of March 31, 2011 was 5.4% compared to 5.1% as of March 31, 2010.

Dividends on preferred shares, Series 1 and 2

Dividends on the two series of redeemable preferred shares amounted to $5.1 million for the first quarter of 2011 compared to $5.4 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 March 31, 2011 and 2010 respectively. The Company recorded an expense of 7.8% and 6.5% of earnings for the three-month periods ended March 31, 2011 and 2010 respectively.

Share of losses from investment in associates

During the first quarter we recorded our share of losses from our investments in Ziplocal, 411.ca and Acquisio, in the amount of $7.5 million compared to $0.3 million associated with our investments in 411.ca and Acquisio for the same period last year. The increase is attributable to the investment in Ziplocal made during 2010. 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 for a purchase price of $745 million subject to working capital and other adjustments. Closing of the contemplated transaction is expected to occur in June 2011, subject to regulatory approvals and other customary conditions.

Trader owns and operates leading Canadian automotive and generalist online properties including AutoTrader.ca, Autos.ca, AutoHebdo.net, and Buysell.com, as well as 74 related publications. In addition, Trader owns an interest of 32% in Dealer.com, the leading US digital solutions provider to the automotive dealer segment.

The real estate, employment and LesPAC.com businesses are excluded from the proposed divestiture. These businesses will continue to be owned and managed by YPG.

As a result of the above, we have 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 and the net assets have been reclassified as held for sale on the consolidated statement of financial position as at March 31, 2011.

Included in the results from discontinued operations of the automotive and generalist business are revenues of $60.6 million for the first quarter of 2011 compared with $57.7 million for the same period last year. The increase is due to higher revenues generated by Dealer.com.

EBITDA from the operations of the automotive and generalist business increased by $0.8 million to $16 million during the first quarter of 2011 compared with the same period last year as a result of the contribution of Dealer.com.

The net loss from discontinued operations amounted to $105 million. This includes a loss on disposal of $105.6 million (net of income taxes) which represents the difference between the fair value less costs to sell and the net assets to be disposed of.

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 ended March 31, 2010.

Net earnings (loss)

Net earnings decreased by $161.7 million to a net loss of $34.6 million during the first quarter of 2011 compared with the same period last year. The decrease is due to the loss on disposal associated with our planned divestiture of Trader in the amount of $105.6 million (net of income taxes). We also incurred additional depreciation and amortization expense of $28 million and a higher share of losses from investment in associates of $7.3 million.

Summary of Consolidated Quarterly Results

Quarterly Results

(in thousands of Canadian dollars – except share information)

	IFRS					Canadian GAAP		
	2011				2010			2009
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	$349,372	$345,378	$355,949	$360,118	$339,684	$360,145	$361,961	$367,891
Operating costs	159,337	184,043	162,726	156,140	141,112	152,080	149,385	155,013
Income from operations before depreciation and amortization, acquisition-related costs and restructuring and special charges (EBITDA)	190,035	161,335	193,223	203,978	198,572	208,065	212,576	212,878
EBITDA margin	54.4%	46.7%	54.3%	56.7%	58.5%	57.8%	58.7%	57.9%
Depreciation and amortization	52,368	76,269	48,349	31,269	24,378	29,906	30,405	29,238
Acquisition-related costs	803	5,066	1,960	19,934	3,615	–	–	–
Restructuring and special charges	–	6,229	16,185	8,977	–	18,817	–	16,300
Income from operations	136,864	73,771	126,729	143,798	170,579	159,342	182,171	167,340
Net (loss) earnings	(34,589)	(14,694)	64,999	51,982	127,119	128,405	(168,515)	116,905
Basic (loss) earnings per share attributable to common shareholders of Yellow Media Inc. from continuing operations	$0.13	$(0.03)	$0.13	$0.09	$0.23	$0.24	$0.28	$0.23
Diluted (loss) earnings per share attributable to common shareholders of Yellow Media Inc. from continuing operations	$0.11	$(0.03)	$0.11	$0.09	$0.20	$0.21	$0.28	$0.19

Revenues throughout 2009 were relatively stable. 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. During the second quarter of 2010, revenues decreased quarter-over-quarter given the continued pressure on our print product and seasonality of certain directories at Canpages. In the first quarter of 2011, revenues increased due to the seasonality associated with the publication of directories at Canpages.

In 2009, our EBITDA margins remained relatively stable despite the economic downturn which affected our business. During the second and third quarters of 2010, our EBITDA margin decreased progressively reflecting lower margins associated with Canpages and our Search Engine Solutions. In the fourth quarter of 2010, our EBITDA margin was lower due to conversion and rebranding costs associated with our conversion to a corporation. In the first quarter of 2011, the margin returned to a level comparable with the third quarter of 2010.

Net earnings (loss) were affected by the adverse economic conditions during the four quarters of 2009. In addition, internal reorganizations and cost containment initiatives resulted in restructuring and special charges impacting some of our quarterly results in 2009 and 2010. Impairment of goodwill in our Vertical Media segment also impacted the third quarter of 2009 as well as the gain on repurchase of preferred shares Series 1 and 2, and the loss on the repurchase of Exchangeable Debentures. Net earnings for 2010 were affected by depreciation and amortization of intangibles related to the acquisitions of Dealer.com and Canpages. Lastly, 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. Also, in the first quarter of the 2011, we recorded a loss related to our planned disposal of Trader.

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.

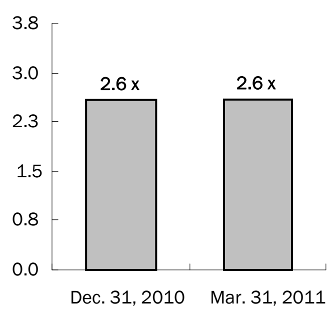
Financial Position

Capital Structure

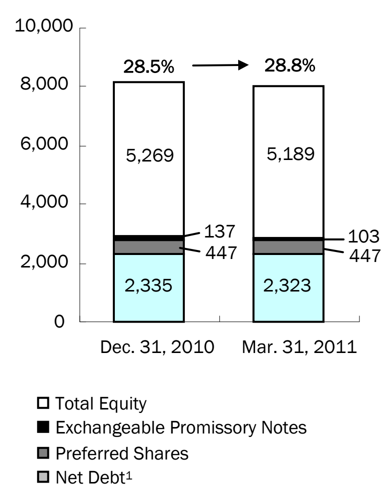
(in thousands of Canadian dollars)

	As at March 31, 2011	As at December 31, 2010
Cash and cash equivalents	$33,981	$69,325
Medium Term Notes	1,655,226	1,656,200
Credit facilities	250,000	250,000
Commercial paper	263,000	295,000
Obligations under capital leases and other	5,833	20,672
Net debt (net of cash and cash equivalents)	$2,140,078	$2,152,547
Exchangeable and convertible instruments	285,494	319,029
Preferred shares, series 1 and 2	447,207	446,725
Equity attributable to the shareholders of Yellow Media Inc.	5,139,099	5,215,937
Non-controlling interests	49,631	52,568
Total capitalization	$8,061,509	$8,186,806
Net debt[1] to total capitalization	28.8%	28.5%

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



Capital Structure
(in millions of dollars)



[1] Net debt including Convertible Debentures.

[2] Latest twelve month Income from operations before depreciation and amortization, 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.

As at March 31, 2011, YPG had approximately $2.1 billion of net debt, or $2.9 billion including preferred shares, Series 1 and 2, and Exchangeable and Convertible instruments. Net debt was slightly down in the quarter reflecting positive free cash flow from operations from continuing operations of approximately $99.8 million. The net debt[1] to Latest Twelve Month EBITDA[2,3] ratio as of March 31, 2011 was 2.6 times. The net debt[1] to total capitalization was 28.8% as of March 31, 2011, compared to 28.5% as of December 31, 2010.

Medium Term Notes

Yellow Media Inc. had a total of $1.7 billion of notes outstanding under its Medium Term Note program as of March 31, 2011 with varying maturity dates between 2013 and 2036.

Credit facilities

The Principal Facility is composed of a $750 million revolving tranche and a $250 million non-revolving tranche. The non-revolving tranche was available by way of single draw only on or before November 1, 2010. The Principal Facility matures on February 18, 2013. As of March 31, 2011, $250 million was drawn on the principal credit facility. Currently, the Revolving Facility serves as a back-up to the commercial paper program and may be used for general corporate purposes.

YPG was in compliance with all of its debt covenants as at March 31, 2011.

Exchangeable Promissory Notes

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

Starting in the first quarter of 2011, the Notes are 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 will have the right to exchange 25% of the principal amount representing a maximum of $35.4 million of the Notes. Until December 31, 2014, YPG may at its option at any time, redeem all or a portion of the Notes for cash together with accrued and unpaid interest. The Notes rank subordinate to the senior debt of Yellow Media Inc. and bear interest at a fixed initial rate of 5%, payable quarterly in cash, subject to step up provisions over time. The Notes have a final maturity of December 31, 2014. Any remaining Notes will be automatically exchanged into common shares of Yellow Media Inc. on December 31, 2014.

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 TRS transaction referencing the Notes with the same counterparty for a period ending December 15, 2011. Pursuant to the terms of the TRS, the 5% fixed interest rate under the Notes was converted to the floating rate of interest equal to the three-month Banker's Acceptance plus 1.75%. In addition, under the TRS, the counterparty as a holder of the Notes is expected to exchange 25% of the principal amount into underlying Yellow Media Inc. common shares at 95% of the prevailing market price, to be calculated using a volume weighted average price over a period of up to 20 days. In addition, Yellow Media Inc. may receive or pay under the TRS an adjustment amount to the extent that the value realized by the TRS counterparty on the exchange or redemption of the Notes exceeds or is less than the $141.6 million principal amount of the Notes.

On February 15, 2011, the exchange right was exercised and one quarter of the Exchangeable Promissory Notes was converted into equity. A new note in the amount of $106 million was issued and 6.3 million common shares of Yellow Media Inc. were issued. Also, since the value realized by the TRS 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 TRS.

On March 31, 2011 Yellow Media Inc. exercised its redemption right applicable to one quarter of the principal amount of the Notes representing $35.4 million. The principal amount along with the 5% redemption premium stipulated under the TRS was paid on April 1, 2011. As of May 5, 2011, $70.8 million principal amount of Notes remain outstanding.

[1] Net debt including Exchangeable and Convertible Debentures

[2] Latest twelve month Income from operations before depreciation and amortization, acquisition-related costs, impairment of goodwill and 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.

Cumulative Convertible Preferred Shares

As at May 5, 2011, a total of 916,667 of the Series 7 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 shares currently outstanding.

Credit Ratings

DBRS Limited	Standard and Poor's Rating Services
BBB (High) credit rating	BBB-/Stable long-term corporate credit rating
R-1 (low) commercial paper rating	BBB- credit rating for existing credit facilities and medium term notes
BBB convertible subordinated debentures rating	BB+ convertible subordinated debentures rating
Pfd-3 (high) preferred shares rating	P-3 preferred shares rating

On March 25, 2011, following the announced agreement to sell the automotive and generalist assets of Trader Corporation, Standard and Poor's and DBRS reconfirmed Yellow Media Inc.'s credit ratings.

Liquidity

As part of its financial policy capital structure guidelines, YPG remains committed to maintaining adequate liquidity at all times. To this end, YPG has access to committed bank lines, and has been proactive in increasing its liquidity and capital resources. As at March 31, 2011, YPG maintained a credit facility containing two tranches totalling $1.0 billion, providing sufficient liquidity to fund its operations.

On March 31, 2011, cash amounted to $34 million. In addition to cash, Yellow Media Inc. may issue additional notes amounting to $237 million under its commercial paper program and access another $250 million under its Principal Facility. Alternatively, if additional notes are not issued under the commercial paper program, Yellow Media Inc. may access the full $487 million available under its Principal Facility.

Yellow Media Inc. had $35.6 million of restricted cash as at March 31, 2011. The amounts were placed in trust in relation with the TRS entered into on October 15, 2010.

Share data

As at May 5, 2011 outstanding share data was as follows:

Outstanding Share Data

	As at May 5, 2011	As at March 31, 2011	As at December 31, 2010
Common shares outstanding	525,441,839	525,291,839	516,017,984
Preferred shares Series 3, 5 and 7 outstanding	13,683,333	13,833,333	13,933,333
Options outstanding	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 is subject to approval by the Shareholders. If approved, the 2010 Plan will allow the Board of Directors to issue a maximum of 25 million options to eligible employees.

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

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

As at May 5, 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 May 5, 2011, Yellow Media Inc. also has $70.8 million of Notes outstanding that are exchangeable at the option of the holder into common shares of Yellow Media Inc. at 95% of the prevailing market price at that time starting January 1, 2011 and subject to certain conditions.

As at May 5, 2011, there were 11,278,820 preferred shares, Series 1 and 6,840,284 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 May 5, 2011, there were 383,333 Series 7 preferred shares outstanding. This series of preferred shares are exchangeable into shares of the Corporation, at a ratio of one preferred share for one common share subject to certain conditions.

Sources and Uses of Cash

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

Sources and Uses of Cash

(in thousands of Canadian dollars)

	Three-month periods ended March 31,	
	2011	2010
Cash flows from operating activities from continuing operations		
Cash flows from operations from continuing operations	$143,649	$154,838
Change in operating assets and liabilities	(31,948)	(27,149)
	$111,701	$127,689
Cash flows used in investing activities from continuing operations		
Business acquisitions, net of cash acquired and bank indebtedness assumed	$(24)	$(6,149)
Acquisition of investment in associates	–	(3,600)
Acquisition of intangible assets	(10,627)	(19,856)
Acquisition of property, plant and equipment	(1,267)	(1,817)
Issuance of note	(1,238)	–
Proceeds from lease inducements	37	–
	$(13,119)	$(31,422)
Cash flows used in financing activities from continuing operations		
Issuance of long-term debt and commercial paper	$305,000	$410,000
Repayment of long-term debt and commercial paper	(337,164)	(100,371)
Dividends to shareholders	(72,097)	(101,033)
Repurchase of Preferred shares, series 1 and 2, and Medium Term Notes	–	(298,964)
Other	(6,083)	(15,569)
	$(110,344)	$(105,937)

Cash flows from operating activities from continuing operations

Cash flows from operating activities from continuing operations decreased from $127.7 million in the first quarter of 2010 to $111.7 million in the first quarter of 2011. Cash flow from operations from continuing operations decreased by $11.2 million for the three-month period ended March 31, 2011 mainly due to lower EBITDA generated during the quarter. Lower margins associated with our Mediative division and our Search Engine Solutions impacted our cash flow during the quarter. The decrease in operating assets and liabilities for the three-month period ended March 31, 2011 was $4.8 million compared with the same period last year.

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

Cash flows used in investing activities from continuing operations

Cash used in investing activities from continuing operations decreased during the first quarter of 2011 from $31.4 million in first quarter of 2010 to $13.1 million in 2011 reflecting a lower level of activity in 2011. In 2010, the Company acquired an additional 10% interest in Dealer.com and acquired all of the operations of Restaurantica and RedFlagDeals.com, for a cash consideration of $7.2 million. In addition during the first quarter of 2010, the Company made an investment in an associate for $3.6 million and acquired the 411.ca brand in the amount of $12.5 million in connection with the investments we made in 411.ca.

Acquisition of Capital Assets, Net of Lease Inducements

(in thousands of Canadian dollars)

	Three-month periods ended March 31,	
	2011	2010
Sustaining	$5,036	$3,432
Transition	1,341	1,112
Growth	7,905	5,131
Total	**$14,282**	**$9,675**
Adjustment to reflect expenditures on a cash basis	(2,425)	(502)
Acquisition of capital assets, net of lease inducements	**$11,857**	**$9,173**

Sustaining capital expenditures amounted to $5 million for the three-month period ended March 31, 2011 compared to $3.4 million for the same period in the previous year due to increased activity associated with acquisitions made in 2010.

Transition capital expenditures remained relatively stable at $1.3 million for the three-month period ended March 31, 2011 compared to $1.1 million for the same period in the previous year.

Growth capital expenditures relate to the development and implementation of new technology and software aimed at new initiatives as we continue our transformation to a leading online company. During the first quarter of 2011, these amounted to $7.9 million compared to $5.1 million for the same period in the previous year.

Total capital expenditures for the period amounted to $11.9 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 $4.4 million to $110.3 million during the first quarter of 2011 from $105.9 million for the same period last year as we repaid more debt compared to the same period last year. The lower level of dividends per share compared to 2010 resulted in a decrease in dividends to shareholders of $28.9 million for the three-month period ended March 31, 2011 compared to the same period last year.

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 and cash equivalents, trade receivables, investments, trade and other payables, dividends payable, short-term and long-term debt, convertible and exchangeable instruments, preferred shares and interest rate derivatives.

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.

As at March 31, 2011, the interest rate swaps met the criteria for hedge accounting.

Taking into consideration the debt instruments outstanding, the preferred shares and the cash, our fixed-to-floating ratio was 71% fixed rate as at March 31, 2011. While the counterparties of these agreements expose YPG to credit losses in the event of non-performance, we believe that the possibility of incurring such losses is unlikely. This is due to the creditworthiness of all counterparties, all of whom are highly-rated Canadian chartered banks.

On October 15, 2010, the holders of the Notes monetized their investment through a resale of the Notes to a 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 (TRS) transaction referencing the Notes with the same counterparty for a period ending December 31, 2011. Pursuant to the terms of the TRS, 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 TRS, the counterparty as a holder of the Notes is expected to exchange 25% of the principal amount into underlying Yellow Media Inc. common shares at 95% of the prevailing market price, to be calculated using a volume weighted average price over a period of up to 20 days. In addition, Yellow Media Inc. may receive or pay under the TRS an adjustment amount to the extent that the value realized by the TRS counterparty on the exchange or redemption of the Notes exceeds or is less than the $141.6 million principal amount of the Notes.

The terms and conditions of Preferred Shares Series 1 and 2 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 balance sheet with changes in fair value recognized in earnings.

The carrying value of outstanding interest rate derivatives was an asset of $0.4 million, the carrying value of the TRS was a liability of $4.3 and the carrying value of embedded derivatives was an asset of $1 million on March 31, 2011. The carrying value is calculated as is customary in the industry using discounted cash flows with quarter-end market rates. For the first quarter of 2011, we reported an unrealized loss of $1.4 million (2010 – $1.6 million) 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 and a $1.8 million redemption premium stipulated under the TRS.

4. Adjusted Earnings from Continuing Operations

The Company's primary source of cash for dividends is Adjusted Earnings. 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 period ended March 31,	
	2011	2010
Net earnings from continuing operations	$ 70,453	$ 120,387
Attributable to non-controlling interest	167	–
Dividends to preferred shareholders	(5,710)	(5,698)
Net earnings from continuing operations available to common shareholders of Yellow Media Inc.	64,910	114,689
Amortization of intangible assets[1,4]	40,533	15,282
Acquisition-related costs[2,4]	579	2,534
Other[3,4]	8,901	777
Deferred income taxes	2,052	3,647
Adjusted earnings from continuing operations	$116,975	$136,929
Weighted average number of common shares outstanding	510,404,617	504,752,813
Adjusted earnings per common share from continuing operations[4,5]	$0.23	$0.27
Dividends on common shares	$83,464	$101,033
Dividends declared per common share	$0.16	$0.20
Payout ratio	70%	74%

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 Includes amounts relating to other non-recurring items and non-cash financial charges.
4 Items are net of income taxes using the combined statutory provincial and federal tax rate of 27.9% (29.9% for 2010).
5 Please refer to Section 2 – Results for the calculation of Basic earnings per share.

Free cash flow from continuing operations

Free cash flow from continuing operations

(in thousands of Canadian dollars)

	Three-month periods ended March 31,	
	2011	2010
Cash flow from operating activities from continuing operations	$111,701	$127,689
Capital expenditures, net of lease inducements	11,857	9,173
Free cash flow from continuing operations	$99,844	$118,516

Dividends

Dividends

(in thousands of Canadian dollars- except share information)

	Three-month periods ended March 31,	
	2011	2010
Accumulated dividends, beginning of period[1]	$3,435,182	$3,032,463
Dividends on common shares	83,464	101,033
Accumulated dividends, end of period[1]	$3,518,646	$3,133,496
Accumulated dividends per common share, beginning of period	$7.20	$6.40
Dividends declared per common share	$0.16	$0.20
Accumulated dividends per common share, end of period	$7.36	$6.60

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

Dividends in Common Shares

Dividends payable by Yellow Media Inc. to its shareholders are recorded when declared. Starting in January 2011, the dividend policy of Yellow Media Inc. has been set at $0.65 annually per common share.

The dividend policy in respect of the common shares of Yellow Media Inc. will be subject to the discretion of the board of directors of Yellow Media Inc. and may vary depending on, among other things, Yellow Media Inc.'s earnings, financial requirements, the satisfaction of solvency tests imposed by the Canada Business Corporations Act for the declaration of dividends and other conditions existing at such future time.

On October 21, 2010, Yellow Media Inc. announced its adoption of a Dividend Reinvestment Plan (the Plan). The Plan came into effect concurrently with the Company's previously announced conversion from an income trust to a corporate structure which was completed on November 1, 2010. Under the Plan, holders of common shares of Yellow Media Inc. who are residents of Canada may elect to have cash dividends paid on their common shares reinvested into additional common shares of Yellow Media Inc. commencing with the dividends declared after November 1, 2010. The Plan allows the Company to elect to have the common shares purchased on the open market or issued from treasury. The Plan allows the Company to issue common shares from treasury with a discount from prevailing market prices ranging from 2% to 5%. As at February 10, 2011, under the Plan, the Company intends to have the common shares issued from treasury at a 5% discount from the average market price (as defined under the Plan) of the common shares on the applicable dividend payment date. As of March 31, 2011, participation in the Plan offered by Yellow Media Inc. was approximately 17%.

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 Note 3 of the accompanying interim financial statements 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. Starting with this report, we have provided unaudited condensed consolidated quarterly financial information in accordance with IFRS including comparative figures for 2010. Please refer to Note 18 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 as at January 1, 2010, for the three-month period ended March 31, 2010, and for the year ended December 31, 2010.

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.

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 Executive Vice President – Corporate Services and Chief Financial Officer have determined that there were no changes to the Corporation's internal controls over financial reporting during the quarter ended March 31, 2011 that have materially affected or are reasonably likely to materially affect, its internal controls over financial reporting.