Management's Discussion and Analysis

August 9, 2012

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 and six-month periods ended June 30, 2012 and should be read in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2011 as well as our unaudited interim condensed consolidated financial statements and accompanying notes for the period ended June 30, 2012. Quarterly reports, the annual report and supplementary information can be found under the "Financial Reports" section of our corporate web site: www.ypg.com. Additional information, including our annual information form (AIF), can be found on SEDAR at www.sedar.com.

In this MD&A, the words "we", "us", "our", "the Company" and "YPG" refer to Yellow Media Inc., and its subsidiaries (including Yellow Pages Group Corp., Canpages Inc., Wall2Wall Media Inc. (Wall2Wall), YPG (USA) Holdings, Inc. and Yellow Pages Group, LLC (the latter two collectively YPG USA)). After the completion of the sale of Trader Corporation in July 2011, management reassessed its operating segments and concluded that the "Directories" segment is the Company's only operating segment, which refers to our print and online directories as well as performance marketing solutions and real estate 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.

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

When used in this MD&A, such statements may be identified by words such as "aim", "anticipate", "believe", "could", "estimate", "expect", "goal", "intend", "objective", "may", "plan", "predict", "seek", "should", "strive", "target", "will", "would" and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future results or performance, and will not necessarily be accurate indications of whether or not such results or performance will be achieved. A number of factors could cause actual results or performance to differ materially from the results or performance discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Competition", "Decline in Print Revenue", "The availability of capital is dependent on the future operating performance of the Corporation's business and the Corporation's ability to refinance its indebtedness", "The Corporation's substantial indebtedness could adversely affect its financial health and the Corporation's efforts to refinance or reduce its indebtedness may not be successful", "No Dividends for the Foreseeable Future", "Interest Rate Fluctuations", "Pension Contributions", "Reliance on Telco Partners and Other Suppliers", "Reliance on Key Brands and Trade-Marks and Failure to Protect Intellectual Property Rights", "Labour Relations", "Income Tax Matters", "Impairment Losses", "Acquisitions of New Businesses", "Advances in Communications Technologies", "Reliance on Key Personnel", "Pricing", "Prolonged Economic Downturn in Principal Markets", "Restrictive Covenants in Indebtedness of the Corporation", "Sales of Advertising to National Accounts", "Reliance on Search Engines and Portals", "Reliance on Technology", "Regulatory" and "Environmental Compliance" of the "Risks and Uncertainties" section of our MD&A for the year ended December 31, 2011. Additional risks and uncertainties not currently known to Management or that are currently deemed to be immaterial may also have a material adverse effect on the Corporation's business, financial position or financial performance. Furthermore, there may be additional risks associated with the proposed recapitalization announced on July 23, 2012 (the Proposed Recapitalization). Although the forward-looking statements contained in this MD&A are based upon what management of the Corporation believes are reasonable assumptions, the Corporation cannot assure investors that actual results will be consistent with these forward-looking statements and cautions readers not to place undue reliance on them. These forward-looking statements are made as of the date of this MD&A, and the Corporation assumes no obligation to update or revise them to reflect new events or circumstances, except as may be required pursuant to securities legislation.

Definitions relative to understanding our results

Income from Operations before Depreciation and Amortization, Impairment of Goodwill and Intangible assets, Recapitalization and 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, recapitalization and acquisition-related costs, and restructuring and special charges). EBITDA is not a performance measure defined under International Financial Reporting Standards (IFRS) and is not considered an alternative to income (loss) from operations or net earnings (loss) in the context of measuring YPG's performance. EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other publicly traded companies. EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed on page 16 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 (loss) from continuing operations available to common shareholders excluding amortization of intangible assets attributable to shareholders, non-cash financial charges, income taxes and non-recurring items such as recapitalization and acquisition-related costs, impairment of goodwill, restructuring and special charges, gain on investment and impairment of investment in associate. 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. Outlook
6. Critical Assumptions
7. Risks and Uncertainties
8. Controls and Procedures

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

Yellow Media Inc. is a leading digital company offering media and marketing solutions to small and medium enterprises (SMEs) across Canada. Yellow Media Inc. is also a leader in national digital advertising through Mediative, a digital advertising and marketing solutions-provider to national agencies and advertisers. 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, 2011.

2. Results

This section provides an overview of our financial performance during the second quarter of 2012 compared to the same period in 2011. It is also important to note that in order to help investors better understand our performance we rely on several metrics, some of which are not measures recognized by IFRS. Definitions of these financial metrics are provided on page 2 of this MD&A and are important aspects which should be considered when analyzing our performance.

Overall

- Revenues decreased by $56.3 million or 16.4% to $286.5 million compared to the second quarter of 2011. If we exclude the results of Canpages, LesPAC and YPG USA, revenues decreased by 13.5% compared to the same period last year.
- Income from operations before depreciation and amortization, impairment of goodwill, recapitalization and acquisition-related costs and restructuring and special charges (EBITDA) decreased by $31.2 million or 17.7% to $145.2 million compared to the second quarter of 2011. If we exclude the results of Canpages, LesPAC and YPG USA, EBITDA decreased by 18.5% compared to the same period last year.

Highlights[1,2,3]

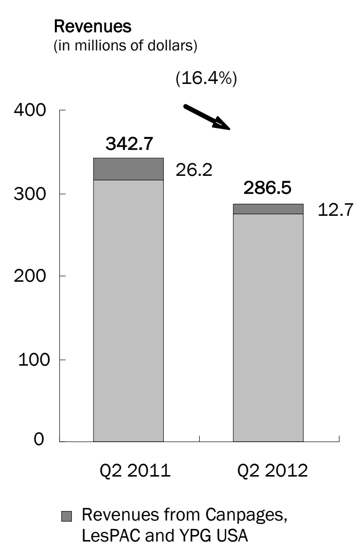
(in thousands of Canadian dollars– except share information)

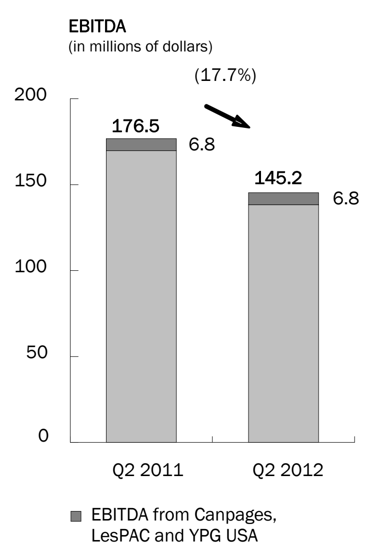
	Three-month periods ended June 30,	
	2012	2011
Revenues	$ 286,484	$ 342,738
Income from operations before depreciation and amortization, impairment of goodwill, recapitalization and acquisition-related costs and restructuring and special charges (EBITDA)	$ 145,244	$ 176,476
Net earnings (loss)	$ 67,694	$ (14,250)
Basic earnings (loss) per share attributable to common shareholders		
From continuing operations	$ 0.12	$ (0.05)
Total	$ 0.12	$ (0.05)
Cash flows from operating activities from continuing operations	$ 104,777	$ 87,923
Free cash flow from continuing operations[3]	$ 96,232	$ 68,990

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

[2] We also disposed of LesPAC on November 14, 2011. As such, the results of LesPAC are included in the 2011 results up to the date of its divestiture.

[3] Please refer to Section 4 for a reconciliation of free cash flow from continuing operations.





Performance Relative to Business Strategy

Execute the Yellow Pages 360° Solution Sales Approach

Yellow Pages 360º Solution is a unique value proposition and a key element of our digital transformation. It is a complete suite of products and services along with marketing support for the local performance marketing needs of our advertisers. It enables advertisers to get visibility with online, mobile and print media platforms, and access to various services such as website development, search engine marketing, search engine optimization and Yellow Analytics. As of June 30, 2012 the penetration of our 360º Solution offering, which we define as advertisers who subscribe to 3 product categories or more, amongst our advertiser base was 11.2% compared to 2.9% at the end of the same period last year and compared to a target of 10% for 2012. In addition, we have become one of the leading website providers in Canada with approximately 13,000 websites sold to SMEs in the last twelve months compared to approximately 6,000 websites sold at the end of the same period last year.

Mobile continues to be a key component of the Yellow Pages 360º Solution. As at June 30, 2012, the Company had over 16,800 Canadian SMEs subscribed to mobile products, representing approximately 29,700 mobile units.

Deliver Superior Customer Value

Our first and foremost goal is to serve the needs of our advertisers, enabling them to manage and grow their businesses. In 2012, we plan on continuing to focus on delivering a superior value proposition by expanding our product portfolio to meet large advertiser needs, increasing digital leads to advertisers and demonstrating value through Yellow Analytics.

During the second quarter of 2012, we continued to focus on strategically managing our largest customer accounts across the country through the High Priority Account ("HPA") management process. The HPA management process, which began in the first quarter of 2012, is meant to mitigate revenue risk and optimize revenue growth of larger advertisers through a differentiated servicing model. A comprehensive profiling methodology was put in place to guide the evaluation of account needs and opportunities. The profiling includes a review of Yellow Analytics results, website audit and competitive ranking, search engine marketing estimate, social media and Google Places review. After the profiling is completed, the sales representative, sales manager and performance marketing advisor define the appropriate selling strategy.

Also during the quarter, we continued to expand our Diamond sales channel throughout our Central and Eastern sales regions. Our Diamond sales channel caters to larger advertisers. At the beginning of 2012, our Diamond sales channel included 8 sales managers while this number is projected to reach more than 30 at the end of 2012 (including senior diamond managers who will supervise the sales managers and HPA dedicated sales managers). In parallel, we extended the dedicated HPA servicing support team that is responsible for managing the fulfillment, reporting and post-sale servicing of these larger advertisers. This dedicated team is comprised of a cross functional group including sales support, production, content management, creative design, quality assurance, results reporting and customer service.

Lead our Industry Transformation

We are in the midst of a significant business transformation from a print directory company to a leading performance media and marketing solutions provider company.

Online – YPG's network of sites reached over 8.8 million unduplicated unique visitors during the second quarter of 2012, representing 32% of Canada's online population compared to approximately 8.3 million and approximately 33% respectively for the same period last year. We remain focused on improving the user experience on our online properties. In the second quarter of 2012, we launched the redesigned Canpages.ca website that proposes a brand new user experience based on the concept of "Life Around Me". "Life Around Me" focuses on the user's geographic location and life needs, within the context of a local search. From now on, consumers will benefit from a search by distance experience to save time and money while shopping locally and advertisers will gain additional visibility on Canpages.ca. Similarly, advertisers will benefit from a broader product set through Yellow Pages Group 360º Solution.

YellowAPI.com — During the second quarter of 2012, we reached 2,000 developer sign-ups on the platform. These developers work on creating new digital applications using YPG's business database. A notable addition of applications powered by YellowAPI.com is Wikitude (wikitude.com), an early pioneer and one of the leading innovators in mobile location-based services and augmented reality experiences for smart-phones and tablets. Since its initial launch in late 2010, YellowAPI.com has embodied YPG's digital leadership and gained industry recognition and plays a key role in the Canadian developer community, notably by supporting organisations such as HackDays (hackdays.ca), which brings together innovative developers across Canada.

Mobile — Our business transformation revolves around the continued improvement of the mobile user experience and engagement in order to provide additional value for our advertisers. Our mobile applications have been downloaded 4.3[1] million times compared to 2.2 million times at the same period last year. During the second quarter, we enhanced the ShopWise mobile application, which was first launched in the last quarter of 2011 and is now available on all major smartphone platforms. Shopwise uses geolocation to pinpoint the most popular deals on products and services nearby a given location. This shopping application complements other mobile applications within the YPG network, which are a major driving force of the Company's ongoing digital transformation. Shopwise is now also offered in French to the residents of the province of Québec.

Mediative — Mediative is a digital marketing company providing performance services and access to media platforms to national companies. Mediative has extensive experience in developing innovative and unique marketing solutions by taking a consultative approach. Reaching approximately 15 million unique visitors per month, Mediative matches advertisers with the websites of premium online brands.

As our industry continues to evolve and adapt to a new digital reality, our objective will be to continue to offer a compelling value proposition to help both our current and future advertisers succeed in the digital world.

[1] Cumulative total of downloads from all sources where YPG applicaions are available.

Consolidated Operating and Financial Results

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

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2012	2011	2012	2011
Revenues	$ 286,484	$ 342,738	$ 575,557	$ 692,110
Operating costs	141,240	166,262	284,296	325,599
Income from operations before depreciation and amortization, impairment of goodwill, recapitalization and acquisition-related costs and restructuring and special charges	145,244	176,476	291,261	366,511
Depreciation and amortization	24,220	47,735	54,301	100,103
Impairment of goodwill	–	–	2,967,847	–
Recapitalization and acquisition-related costs	5,487	6,233	5,487	7,036
Restructuring and special charges	–	11,888	–	11,888
Income (loss) from operations	115,537	110,620	(2,736,374)	247,484
Financial charges, net	35,496	37,484	67,621	84,626
Earnings (loss) before dividends on Preferred shares, series 1 and 2, income taxes and impairment and (earnings) losses from investments in associates	80,041	73,136	(2,803,995)	162,858
Dividends on Preferred shares, series 1 and 2	4,563	4,947	9,126	10,079
Earnings (loss) before income taxes and impairment and (earnings) losses from investments in associates	75,478	68,189	(2,813,121)	152,779
Provision (recovery) for income taxes	7,885	34,751	(9,850)	41,352
Impairment of investment in associate (net of income taxes)	–	50,271	–	50,271
(Earnings) losses from investments in associates	(101)	3,865	(1,713)	11,401
Net earnings (loss) from continuing operations	67,694	(20,698)	(2,801,558)	49,755
Net earnings (loss) from discontinued operations, net of income taxes	–	6,448	–	(98,594)
Net earnings (loss)	$ 67,694	$ (14,250)	$ (2,801,558)	$ (48,839)
Basic earnings (loss) per share attributable to common shareholders				
From continuing operations	$ 0.12	$ (0.05)	(5.49)	$ 0.08
Total	$ 0.12	$ (0.05)	(5.49)	$ (0.12)
Diluted earnings (loss) per share attributable to common shareholders				
From continuing operations	$ 0.09	$ (0.05)	(5.49)	$ 0.07
Total	$ 0.09	$ (0.05)	(5.49)	$ (0.11)
Total assets			$ 2,334,080	$ 9,012,224
Long-term debt (including short-term portion)			$ 1,801,118	$ 2,282,391
Convertible instruments			$ 185,323	$ 183,148
Preferred Shares Series 1 and 2 (including short-term portion)			$ 399,789	$ 416,700

Analysis of Consolidated Operating and Financial Results

The consolidated income statements of Yellow Media Inc. up to net earnings (loss) 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.

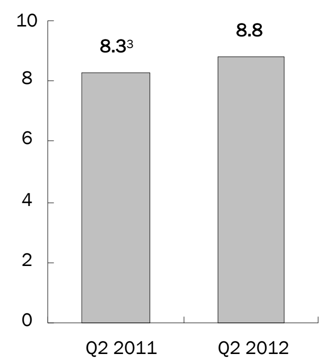
Revenues

Revenues decreased to $286.5 million during the second quarter of 2012 compared with $342.7 million for the same period last year and decreased to $575.6 million for the six-month period ended June 30, 2012 compared with $692.1 million for the same period last year. On a comparable basis, revenues decreased by 13.5% during the second quarter. The decrease for the three and six-month periods ended June 30, 2012 is due to lower print revenues, especially in urban markets where revenues declined at a much higher rate than rural markets. As at June 30, 2012, the number of advertisers, excluding Canpages, was 326,000 compared to 354,000 as at June 30, 2011 reflecting a decrease of 8%. Advertiser renewal dropped slightly to 87% as at June 30, 2012 compared to 88% as at June 30, 2011. During the last 12 months, YPG acquired approximately 20,000 new advertisers. The average revenue per advertiser (ARPA) decreased to $3,300 during the second quarter of 2012 compared with $3,500 during the same period in 2011. The lower ARPA results from print revenue pressure associated with our larger advertisers who are reducing their advertising spend, as we need to adjust our digital product and service portfolio to meet their advertising needs. As at June 30, 2012, our Revenue Generating Units[1] per advertiser increased to 1.71 compared to 1.69 for the same period last year.

As of June 30, 2012, the number of advertisers excluding Canpages, choosing to advertise both in print and online was 62% across Canada compared to 65% for the corresponding period last year. Online only advertisers at the end of the second quarter of 2012 reached approximately 16,500 compared to approximately 10,000 as of June 30, 2011.

Online revenues reached $89.7 million in the second quarter of 2012, representing a growth of 4.4%. Excluding the impact of the Canpages business, the LesPAC divestiture and YPG USA, online revenues increased by 11% during the second quarter of 2012 when compared to the same period last year. Our network of websites attracted 8.8 million unduplicated unique visitors[2] on average during the second quarter of 2012, representing a reach of 32%[2] of the Canadian internet population.

Online Usage
(in millions)



[3] Excluding LesPAC

Online revenue growth is not expected to compensate for the declining revenue in our traditional print offerings in the near future. Accordingly, our focus remains positioning our platforms through investment in new product introduction aimed at our larger advertisers, executing on our 360º Solution strategy and improved market coverage.

EBITDA

EBITDA decreased by $31.2 million to $145.2 million during the second quarter of 2012 compared with $176.5 million for the same period last year and decreased to $291.3 million for the six-month period ended June 30, 2012 compared with $366.5 million for the same period last year. While our new online placement products contribute margins similar to those of our print products in our local markets, lower print revenues resulted in lower consolidated EBITDA, as our new online products are not compensating for the loss in print revenues. Our EBITDA margin for the second quarter of 2012 was 50.7% compared to 51.5% for the same period last year and was 50.6% for the six-month period ended June 30, 2012 compared with 53% for the same period last year.

Cost of sales decreased by $6.5 million to $89.4 million during the second quarter of 2012 compared with $95.8 million for the same period last year and decreased to $174.1 million for the six-month period ended June 30, 2012 compared with $193.4 million for the same period last year. The decrease for the quarter and six-month period ended June 30, 2012 results mainly from lower manufacturing and distribution costs associated with lower print revenues. We also incurred lower sales costs associated with Canpages given the migration of that business within YPG. During the month of June 2012, we printed our last directory under the Canpages brand.

Gross profit margin decreased to 68.8% for the second quarter of 2012 compared to 72% for the same period last year and decreased to 69.7% for the six-month period ended June 30, 2012 compared with 72.1% for the same period last year. The decrease is due to lower print revenues and lower margins associated with our Mediative division given the high publisher commissions associated with their business model.

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

[2] Source: comScore Media Metrix Canada.

General and administrative expenses decreased by $18.6 million to $51.9 million during the three-month period ended June 30, 2012 compared with $70.5 million for the same period last year and decreased by $22.1 million to $110.2 million for the six-month period ended June 30, 2012, mainly due to lower bad debts. The improved performance results from additional collection efforts made especially in Western Canada where we have seen the most improvements. Also, we incurred conversion and rebranding costs in excess of $2 million and $6 million for the three and six-month periods ended June 30, 2011 respectively. The migration of Canpages within YPG also helped reduce costs by $3.7 million and $6 million for the three and six month period ended June 30, 2012, respectively.

Depreciation and amortization

Depreciation and amortization decreased from $47.7 million to $24.2 million during the second quarter of 2012 and decreased from $100.1 million to $54.3 million for the six-month period ended June 30, 2012 compared with the same periods last year. The decrease is mainly attributable to lower amortization of certain intangible assets related to the acquisition of Canpages in 2010. These intangibles resulted in a higher amortization expense in 2011.

Impairment of goodwill

During the first quarter of 2012, management concluded that indicators that the Company's assets may have been impaired existed, requiring the Company to perform an impairment test. As a result of the impairment test, we recorded a goodwill impairment charge of $2.968 billion. The impairment charge did not affect the Company's operations, its liquidity, its cash flows from operating activities, its bank agreement or its note indentures.

Recapitalization and acquisition-related costs

During the three-month period ended June 30, 2012, we incurred costs of $5.5 million in connection with the Proposed Recapitalization. Please refer to the description of the Proposed Recapitalization in Section 5 – Outlook of this MD&A. We incurred costs of $6.2 million and $7 million for the three and six-month periods ended June 30, 2011, respectively, associated with acquisitions made during 2010.

Financial charges

Financial charges decreased by $2 million to $35.5 million during the second quarter of 2012 and decreased by $17 million for the six-month period ended June 30, 2012 to $67.6 million compared with $84.6 million in the same period last year. The decrease for the quarter and the six-month period ended June 30, 2012 is mainly attributed to a derivative charge incurred in 2011 relative to the settlement of a total return swap and the related write-off of deferred financing costs. The decrease is also attributable to a lower level of indebtedness as a result of buyback activities of Medium Term Notes and the repayment of the non-revolving tranche of the credit facilities and commercial paper in 2011, offset by higher interest rates in 2012 and a gain on the purchase of debt instruments during the second quarter of 2011. The positive impact of lower levels of indebtedness on interest expense was partly offset by higher borrowing costs resulting from our credit ratings downgrade as well as a charge to the revaluation of deferred consideration. As at June 30, 2012, the effective average interest rate on our debt portfolio was 6.2% compared to 5.2% as at June 30, 2011.

Dividends on preferred shares, Series 1 and 2

Dividends on the two series of redeemable preferred shares amounted to $4.6 million during the second quarter compared to $4.9 million for the same period last year and $9.1 million for the six-month period ended June 30, 2012 compared with $10.1 million for the same period last year. The decrease for the three and six-month periods ending June 30, 2012 is due to a lower level of preferred shares resulting from our share buybacks under our normal course issuer bid activities which took place in 2011.

As announced on February 9, 2012, the Company suspended the dividend payment on preferred shares Series 1 and Series 2. Due to the nature of the underlying instrument, the Company will continue to accrue for the unpaid dividends on preferred shares Series 1 and Series 2. Please refer to Note 7 of the unaudited interim condensed consolidated financial statements.

Provision for income taxes

The combined statutory provincial and federal tax rate was 26.3% and 27.9% for the three and six-month periods ended June 30, 2012 and 2011, respectively. The Company recorded an expense of 10.4% and 51% of earnings for the three-month periods ended June 30, 2012 and 2011, respectively. In the second quarter of 2012, a deferred income tax asset was recognized due to a corporate reorganization and an additional deferred income tax liability was recorded due to the increase of the statutory tax rate of the province of Ontario. The Company recorded a recovery of 0.3% on the loss and an expense of 27.1% of earnings for the six-month period ended June 30, 2012 and 2011, respectively. The higher rate for 2011 is due to the non-deductibility of certain expenses for tax purposes. The impairment of goodwill recorded in the first quarter of 2012 is not fully deductible for tax purposes.

Impairment of investment in associate

During the second quarter of 2011, Ziplocal was in default of its debt obligations and had undertaken important restructuring initiatives. As a result, Yellow Media Inc. determined that its investment in Ziplocal LP (Ziplocal) was impaired and as a result a net loss of $50.3 million was recorded to reduce its net investment in Ziplocal to $nil.

(Earnings) losses from investments in associates

During the second quarter of 2012 we recorded earnings from our investment in 411.ca, in the amount of $0.1 million and earnings of $1.7 million for the six-month period ended June 30, 2012. During the second quarter of 2011, we recorded our share of losses from our investment in Ziplocal, 411.ca and Acquisio, in the amount of $3.9 million and $11.4 million for the six-month period ended June 30, 2011. No share of losses were recorded from our investment in Ziplocal in 2012, as this investment was written-off during the second quarter of 2011 as detailed above. Effective January 1, 2012, we no longer account for the Acquisio investment using the equity method and we recorded a gain of $2.1 million in the first quarter of 2012 on the revaluation of this investment. Our (earnings) losses from investments in associates include the amortization of intangible assets in connection with these equity investments.

Net earnings (loss) 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. As a result, we reclassified the results of the automotive and generalist verticals as discontinued operations.

Included in the results from discontinued operations of the automotive and generalist business are revenues of $67.8 million for the three-month period ended June 30, 2011 and $128.4 million for the six-month period ended June 30, 2011.

EBITDA from the operations of the automotive and generalist business was $14.4 million for the second quarter of 2011 and $30.4 million for the six-month period ended June 30, 2011. The net earnings from discontinued operations amounted to $6.4 million for the three-month period ended June 30, 2011 and $98.6 million loss for the six-month period ended June 30, 2011. This included a loss on disposal of $3.4 million and $109.1 million (net of income taxes) for the three and six-month periods ended June 30, 2011, respectively, which represented the difference between the fair value net of selling costs and the carrying value of net assets sold.

Net earnings (loss)

Net earnings increased to $67.7 million during the second quarter of 2012 compared with a $14.3 million loss during the second quarter of 2011 and decreased to a loss of $2,801.6 million for the six-month period ended June 30, 2012 compared with a loss of $48.8 million for the same period last year. The increase for the quarter is due to the fact that no impairment of investment in associate was recorded during the quarter compared with $50.3 million last year as well as lower depreciation and amortization of $23.5 million. The decrease in the loss for the six-month period ended June 30, 2012 is mainly due to the impairment of goodwill discussed above.

Summary of Consolidated Quarterly Results

Quarterly Results

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

	2012		2011				2010	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	$ **286,484**	$ 289,073	$ 313,315	$ 323,441	$ 342,738	$ 349,372	$ 345,378	$ 355,949
Operating costs	**141,240**	143,056	166,117	157,443	166,262	159,337	184,043	162,726
Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, recapitalization and acquisition-related costs and restructuring and special charges (EBITDA)	**145,244**	146,017	147,198	165,998	176,476	190,035	161,335	193,223
EBITDA margin	**50.7%**	50.5%	47%	51.3%	51.5%	54.4%	46.7%	54.3%
Depreciation and amortization	**24,220**	30,081	23,003	37,800	47,735	52,368	76,269	48,349
Impairment of goodwill and intangible assets	**–**	2,967,847	–	2,900,000	–	–	–	–
Recapitalization and acquisition-related costs	**5,487**	–	210	497	6,233	803	5,066	1,960
Restructuring and special charges	**–**	–	14,254	–	11,888	–	6,229	16,185
Income (loss) from operations	**115,537**	(2,851,911)	109,731	(2,772,299)	110,620	136,864	73,771	126,729
Net earnings (loss)	**67,694**	(2,869,252)	45,292	(2,825,452)	(14,250)	(34,589)	(14,694)	64,999
Basic earnings (loss) per share attributable to common shareholders from continuing operations	$ **0.12**	$ (5.61)	$ 0.08	$ (5.52)	$ (0.05)	$ 0.13	$ (0.03)	$ 0.12
Diluted earnings (loss) per share attributable to common shareholders from continuing operations	$ **0.09**	$ (5.61)	$ 0.03	$ (5.52)	$ (0.05)	$ 0.11	$ (0.03)	$ 0.10

Revenues decreased throughout the quarters, as a result of a continued decline of our sales print product. In the first quarter of 2011, revenues increased due to the seasonality associated with the publication of Canpages directories.

Our EBITDA margin decreased progressively throughout the quarters for 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 fourth quarter of 2011, we incurred a non-recurring expense of approximately $6 million as a result of a sales tax assessment.

Internal reorganizations and cost containment initiatives resulted in restructuring and special charges impacting some of our quarterly results in 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 also incurred expenses associated with our proposed recapitalization of $5.5 million during the current quarter. 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 and the first quarter of 2012, we recorded charges of $2.9 billion and $2.968 billion, respectively, related to the impairment of goodwill.

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.

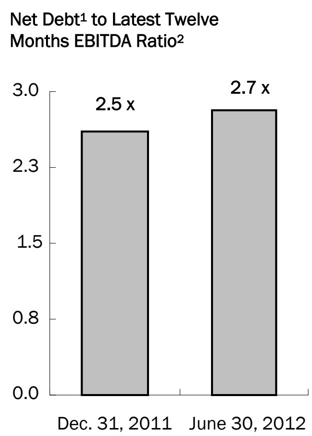
On July 23, 2012, the Company announced the proposed Recapitalization transaction which the Company intends to implement pursuant to a court approved plan of arrangement under section 192 of the *Canada Business Corporations Act (the CBCA)*. Please refer to the description of the proposed recapitalization in Section 5 – Outlook of this MD&A.

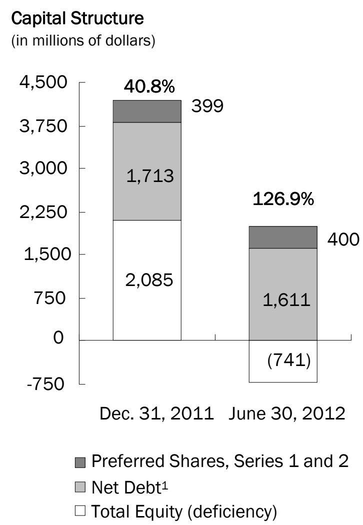
Financial Position

Capital Structure

(in thousands of Canadian dollars)

	As at June 30, 2012	As at December 31, 2011
Cash	$ 375,535	$ 84,186
Medium Term Notes	1,404,105	1,404,083
Credit facilities	394,000	205,000
Obligations under finance leases	3,013	4,148
Net debt (net of cash)	$ 1,425,583	$ 1,529,045
Convertible instruments	185,323	184,214
Preferred shares, series 1 and 2	399,789	398,886
Equity (deficiency) attributable to the shareholders	(741,689)	2,084,225
Non-controlling interests	829	802
Total capitalization	$ 1,269,835	$ 4,197,172
Net debt[1] to total capitalization	126.9%	40.8%





As at June 30, 2012, Yellow Media Inc. had approximately $1.4 billion of net debt, or $2 billion including preferred shares, Series 1 and 2, and convertible instruments. The net debt[1] to Latest Twelve Month EBITDA[2] ratio as of June 30, 2012 was 2.7 times compared to 2.5 times as of December 31, 2011 due to lower EBITDA. The net debt to total capitalization was 126.9% as of June 30, 2012, compared to 40.8% as of December 31, 2011. The change is due to the impairment of goodwill of $2.968 billion recorded during the first quarter of 2012.

[1] Net debt including Convertible Debentures.

[2] Latest twelve month income from operations before depreciation and amortization, impairment of goodwill and intangible assets, recapitalization and acquisition-related costs and restructuring and special charges, giving effect to the divestitures (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.

Medium Term Notes

Yellow Media Inc. had a total of $1.4 billion of notes outstanding under its Medium Term Note program as at June 30, 2012 with varying maturity dates between 2013 and 2036.

Please refer to the description of the proposed recapitalization in Section 5 – Outlook of this MD&A.

Credit facilities

As at August 9, 2012, Yellow Media Inc. has in place a senior unsecured credit facility consisting of:

- a $250 million revolving tranche maturing in February 2013; and
- a $130 million non-revolving tranche maturing in February 2013.

On September 28, 2011, Yellow Media Inc. announced the amendment of its senior unsecured credit facility. Concurrently, the Company repaid a total amount of $500 million of its bank indebtedness. The amended credit facility is unsecured and bears interest at BA rates plus a spread of 3.5% and/or at prime rate plus a margin of 2.5%.

Yellow Media Inc. is required to make quarterly repayments of $25 million on the outstanding balance of the non-revolving tranche of the credit facility, commencing in January 2012 through January 2013. The Company began its mandatory repayments of $25 million in January 2012. A second quarterly mandatory repayment was made in April 2012 and a third one in July 2012.

Once the non-revolving facility is repaid it may not be re-borrowed. The maturity date for the repayment of the remainder of the outstanding borrowings under the credit facility remains February 18, 2013.

Under the amended facility, Yellow Media Inc. must maintain a Consolidated Total Debt to Consolidated Latest Twelve Month EBITDA[1] ratio of not more than 3.5 to 1 and a Consolidated Latest Twelve Month EBITDA[1] to Consolidated Interest Expense ratio of not less than 3.5 to 1.

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, 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. Going forward, the amended facility restricts the declaration and payment of common share dividends. Refer to Section 4 – Adjusted Earnings from Continuing Operations.

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. Refer to "Cumulative Redeemable Preferred Shares" in this section.

As of June 30, 2012, $155 million was outstanding on the non-revolving tranche of the credit facility and $239 million was drawn on the revolving tranche. The revolving facility may be used for general corporate purposes.

As of August 9, 2012, $130 million was outstanding on the non-revolving tranche of the credit facility and $239 million was drawn on the revolving tranche. The Company has approximately $325 million of cash as at August 8, 2012.

The Company was in compliance with all of its debt covenants as at June 30, 2012.

Please refer to the description of the proposed recapitalization in Section 5 – Outlook of this MD&A.

Convertible Debentures

Yellow Media Inc. had a total of $200 million of convertible debentures outstanding as at June 30, 2012. The convertible debentures have a maturity date of October 1, 2017 and bear interest at 6.25% which is payable semi-annually.

Please refer to the description of the proposed recapitalization in Section 5 – Outlook of this MD&A.

[1] Latest twelve month Income from operations before depreciation and amortization, impairment of goodwill and intangible assets, recapitalization and acquisition-related costs and restructuring and special charges, giving effect to the divestitures (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.

Cumulative Redeemable Preferred Shares

a) Series 1

Redemption by the issuer

On or after March 31, 2012, Yellow Media Inc. may, at its option, redeem at par plus accrued and unpaid dividends (Redemption price) for cash the Series 1 shares, in whole or in part. Also, on or after March 31, 2012, and prior to December 31, 2012, Yellow Media Inc. may, at its option, exchange the outstanding Series 1 shares, in whole or in part, into common shares of the Company. These preferred shares are exchangeable into common shares of the Company by dividing the Redemption price by the greater of $2.00 and 95% of the then applicable weighted average trading price of the common shares.

Redemption by the holder

On or after December 31, 2012, each preferred share is redeemable, at the option of the holder, at a price equal to $25.00 per share plus any accrued and unpaid dividends in arrears.

b) Series 2

Redemption by the issuer

On or after June 30, 2012, Yellow Media Inc. may, at its option, redeem for cash the Series 2 shares, in whole or in part at a decreasing premium until June 30, 2016 and at par thereafter plus accrued and unpaid dividends (Redemption price). Also, on or after June 30, 2012, and prior to June 30, 2017, Yellow Media Inc. may, at its option, exchange the outstanding Series 2 shares, in whole or in part, into common shares of the Company. These preferred shares are exchangeable into common shares of the Company by dividing the applicable Redemption price by the greater of $2.00 and 95% of the then applicable weighted average trading price of the common shares. In addition, in certain cases the Series 2 shares are redeemable at a decreasing premium in cash or exchangeable at the option of Yellow Media Inc., in whole into common shares of the Company on or after June 30, 2007.

The redemption option for cash at a decreasing premium is an embedded derivative and is recorded at fair value on the consolidated statements of financial position with changes in fair value recognized in financial charges.

Redemption by the holder

On or after June 30, 2017, each preferred share is redeemable, at the option of the holder, at a price equal to $25.00 per share plus any accrued and unpaid dividends in arrears.

As at June 30, 2012, there are 10,045,872 preferred shares Series 1 and 6,062,128 preferred shares Series 2 outstanding.

Please refer to the description of the proposed recapitalization in Section 5 – Outlook of this MD&A.

Rate Reset Preferred Shares

Yellow Media Inc. has two series of cumulative rate reset first preferred shares outstanding as at June 30, 2012. There are 8,120,900 preferred shares Series 3 and 4,919,920 preferred shares Series 5 currently outstanding.

Please refer to the description of the proposed recapitalization in Section 5 – Outlook of this MD&A.

Cumulative Exchangeable Preferred Shares

As at August 9, 2012, 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.

On February 9, 2012, Yellow Media announced the suspension of the dividends on preferred shares Series 1, Series 2, Series 3, Series 5 and Series 7. The last dividend was declared on November 3, 2011 for payment on December 28, 2011. The accumulated accrued and unpaid dividends on preferred shares Series 1 and Series 2 amounted to $5.4 million and to $3.9 million, respectively since the last dividend payment. The unpaid and undeclared dividends on preferred shares Series 3, Series 5 and Series 7 amounted to $6.9 million, $4.2 million and $72 thousand, respectively since the last dividend payment.

Please refer to the description of the proposed recapitalization in Section 5 – Outlook of this MD&A.

Credit Ratings

DBRS Limited	Standard and Poor's Rating Services
C (high)/Issuer rating – under review with negative implications	CC/Corporate credit rating – negative outlook
C (high)/Senior unsecured credit rating – under review with negative implications	CC/Credit rating for existing credit facilities and medium term notes
C (low)/Convertible subordinated debentures rating – under review with negative implications	C/Convertible subordinated debentures rating
Pfd-5 (low) /Preferred shares rating – under review with negative implications	D/Preferred shares rating

Liquidity

YPG remains committed to maintaining adequate liquidity at all times.

As at June 30, 2012, the Company maintained a credit facility containing two tranches totalling $405 million (of which $155 million was outstanding on the non-revolving tranche of the principal credit facility - Refer to "Credit Facilities" in this section). The revolving and non-revolving tranches both mature on February 18, 2013 and YPG is required to make quarterly repayments of $25 million on the outstanding balance of the non-revolving tranche through February 2013. The quarterly repayments were made in January, April and July 2012. Refer to "Credit Facilities" in this section. In addition, the Company had cash of $375.5 million as at June 30, 2012 and approximately $325 million as at August 8, 2012. This provides sufficient liquidity to the Company to fund its operations.

The Company's principal source of liquidity is cash generated from operations and cash on hand. The Company expects to generate sufficient cash flow from operations to fund capital expenditures, working capital requirements and current obligations.

Share data

As at August 9, 2012, outstanding share data was as follows:

Outstanding Share Data

	As at August 9, 2012	As at June 30, 2012	As at December 31, 2011
Common shares outstanding	520,402,094	520,402,094	520,402,094
Preferred shares Series 3, 5 and 7 outstanding	13,424,153	13,424,153	13,424,153
Options outstanding and exercisable	329,227	329,227	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 June 30, 2012, 10,900,000 options are outstanding with the following terms and conditions:

- The exercise price of $6.35 is equal to the volume weighted-average trading price 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 August 9, 2012, 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 August 9, 2012, 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 August 9, 2012, 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.

Please refer to the description of the proposed recapitalization in Section 5 – Outlook of this MD&A.

Sources and Uses of Cash

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

Sources and Uses of Cash

(in thousands of Canadian dollars)

	Six-month periods ended June 30,	
	2012	2011
Cash flows from operating activities from continuing operations		
Cash flows from operations from continuing operations	$ 157,609	$ 232,370
Change in operating assets and liabilities	(30,425)	(32,746)
	$ 127,184	$ 199,624
Cash flows used in investing activities from continuing operations		
Acquisition of intangible assets	(15,306)	(22,475)
Acquisition of property, plant and equipment	(1,606)	(8,352)
Other	183	(1,225)
	$ (16,729)	$ (32,052)
Cash flows from (used) in financing activities from continuing operations		
Issuance of long-term debt and commercial paper	$ 239,000	$ 591,000
Repayment of long-term debt and commercial paper	(50,703)	(392,611)
Redemption of exchangeable and convertible instruments	–	(106,172)
Dividends to shareholders	–	(145,361)
Repurchase of Preferred Shares, Series 1 and 2 and medium term notes	–	(39,997)
Repurchase of common shares and Preferred shares, Series 3 and 5	–	(48,616)
Other	(7,403)	(13,185)
	$ 180,894	$ (154,942)

Cash flows from operating activities from continuing operations

Cash flows from operating activities from continuing operations decreased from $199.6 million for the six-month period ended June 30, 2011 to $127.2 million in 2012, of which approximately $75.2 million is due to lower EBITDA resulting from lower revenues from our traditional print products. The change in operating assets and liabilities for the six-month period ended June 30, 2012 was $30.4 million compared with $32.7 million in the same period last year. The variance is due to the timing of payment of certain accounts payable as well as a decrease in deferred revenues.

Cash flows used in investing activities from continuing operations

Cash used in investing activities from continuing operations decreased from $32.1 million during the six-month period ended June 30, 2011 to $16.7 million in 2012. During the first six months of 2012, we invested in software and equipment for $15.3 million and $1.6 million, respectively, which in total, was less than the corresponding amounts of $22.5 million and $8.4 million spent during the same period last year.

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

(in thousands of Canadian dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2012	2011	**2012**	2011
Sustaining	**$ 4,420**	$ 11,907	**$ 8,821**	$ 16,943
Transition	**–**	1,872	**–**	3,213
Growth	**3,980**	7,676	**8,468**	15,581
Total	**$ 8,400**	$ 21,455	**$ 17,289**	$ 35,737
Adjustment to reflect expenditures on a cash basis	**145**	(2,522)	**(560)**	(4,947)
Acquisition of property, plant, equipment and intangible assets, net of lease inducements	**$ 8,545**	$ 18,933	**$ 16,729**	$ 30,790

Sustaining capital expenditures amounted to $4.4 million for the three-month period ended June 30, 2012 compared to $11.9 million for the same period in the previous year and $8.8 million for the six-month period ended June 30, 2012 compared to $16.9 million for the same period last year.

Given there was no recent business acquisition, no investments were made in transition capital expenditures during the three and six-month periods ended June 30, 2012 compared to $1.9 million and $3.2 million for the three and six-month periods last year, respectively.

Growth capital expenditures relate to the development and implementation of new technology and software aimed at new initiatives as we continue our transformation to a leading performance media and marketing solutions company. During the second quarter of 2012, these amounted to $4 million compared to $7.7 million for the same period in the previous year and $8.5 million for the six-month period ended June 30, 2012 compared to $15.6 million for the same period last year.

Total capital expenditures for the second quarter of 2012 amounted to $8.4 million. We expect to increase the level of capital expenditure in the coming quarters as we focus on our critical initiatives to enhance our transformation.

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

Cash from financing activities from continuing operations amounted to $180.9 million during the six-month period ended June 30, 2012 while $154.9 million of cash was used in financing activities for the same period last year. We drew $239 million on the revolving tranche of the credit facility and made the two quarterly payments of $25 million on the non-revolving tranche of our credit facilities during the first six months of 2012. During the first six months of 2011 we had a net issuance of long-term debt and commercial paper of $198.4 million. No dividends were paid during the first six months of 2012, as a result of the elimination of dividends on common shares and suspension of dividends on the preferred shares, Series 3, 5, and 7. During 2011, we also repurchased preferred shares, Series 1 and 2 and medium term notes of $40 million, repurchased common shares and preferred shares, Series 3 and 5 of $48.6 million, and redeemed $106.2 million of exchangeable notes. We did not have any repurchases or redemptions in 2012.

Financial and Other Instruments

(See Note 25 of the Consolidated Financial Statements of the Company for the year ended December 31, 2011).

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 received interest on these swaps at 6.5% and paid a floating rate equal to the three-month Banker's Acceptance plus a spread of 4.3%. The swaps were to 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 received interest on these swaps at 6.85% and paid a floating rate equal to the three-month Banker's Acceptance plus a spread of 4.3%. The swaps were to 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 mentioned above 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 preferred shares and cash, our fixed-to-floating ratio was 99% fixed rate as at June 30, 2012.

As at June 30, 2012, $6.7 million representing the fair value adjustment of hedged items will be amortized over the term of the existing underlying debt.

The terms and conditions of the Series 2 Preferred 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 financial charges.

There was no carrying value of embedded derivatives as at June 30, 2012. The carrying value is calculated as is customary in the industry using discounted cash flows with quarter-end market rates. We reported $nil and a loss of $7 thousand for the three and six-month periods ended June 30, 2012 on derivatives (2011 - $1.9 million and $3.3 million, respectively), 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, during the first six months of 2011, we reported an adjustment amount of $4.2 million and a redemption premium stipulated under a Total Return Swap of $5.3 million.

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 and per share information)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2012	2011	2012	2011
Net earnings (loss) from continuing operations	$ 67,694	$ (20,698)	$ (2,801,558)	$ 49,755
Attributable to non-controlling interest	(40)	190	(27)	357
Dividends to preferred shares series 3,5 and 7 shareholders	(5,584)	(5,662)	(11,168)	(11,372)
Net earnings (loss) from continuing operations available to common shareholders of Yellow Media Inc.	62,070	(26,170)	(2,812,753)	38,740
Amortization of intangible assets[1]	20,840	50,477	45,547	106,695
Impairment of goodwill	–	–	2,967,847	–
Recapitalization and acquisition-related costs[2]	5,487	6,233	5,487	7,036
Restructuring and special charges	–	11,888	–	11,888
Financial charges	35,496	37,484	67,621	84,626
Interest paid	(26,969)	(29,521)	(59,905)	(71,328)
Gain on investment (net of income taxes of $0.1 million)	–	–	(2,090)	–
Impairment of investment in associate (net of income taxes of $0.2 million)	–	50,271	–	50,271
Income taxes	(6,023)	648	(53,581)	7,035
Adjusted earnings from continuing operations	$ 90,901	$ 101,310	$ 158,173	$ 234,963
Weighted average number of common shares outstanding	512,595,314	514,623,616	512,595,314	512,525,771
Adjusted earnings per common share from continuing operations[3]	$ 0.18	$ 0.20	$ 0.31	$ 0.46
Dividends on common shares	$ –	$ 83,521	$ –	$ 166,985
Dividends declared per common share	$ –	$ 0.16	$ –	$ 0.32
Payout ratio	–%	80%	–%	70%

[1] Represents amortization of intangible assets attributable to common shareholders.

[2] Recapitalization and acquisition-related costs are excluded from the calculation as they do not reflect the ongoing operations of the business.

[3] 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 June 30,		Six-month periods ended June 30,	
	2012	2011	2012	2011
Cash flow from operating activities from continuing operations	$ 104,777	$ 87,923	$ 127,184	$ 199,624
Capital expenditures, net of lease inducements	8,545	18,933	16,729	30,790
Free cash flow from continuing operations	$ 96,232	$ 68,990	$ 110,455	$ 168,834

Dividends

Dividends

(in thousands of Canadian dollars- except share information)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2012	2011	2012	2011
Accumulated dividends, beginning of period	$ 3,642,527	$ 3,518,646	$ 3,642,527	$ 3,435,182
Dividends on common shares	–	83,521	–	166,985
Accumulated dividends, end of period	$ 3,642,527	$ 3,602,167	$ 3,642,527	$ 3,602,167
Accumulated dividends per common share, beginning of period	$ 7.60	$ 7.36	$ 7.60	$ 7.20
Dividends declared per common share	–	0.16	–	0.32
Accumulated dividends per common share, end of period	$ 7.60	$ 7.52	$ 7.60	$ 7.52

Dividends on Common Shares

On September 28, 2011, the Yellow Media Inc. Board of Directors determined that it was 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 (Refer to "Credit Facilities" in Section 3).

5. Outlook

On February 9, 2012, the Company announced that it had begun evaluating alternatives to refinance maturities in 2012 and beyond. A broad range of alternatives were considered. In connection with this review, the Board of directors of Yellow Media established a committee of independent directors to serve as the Financing Committee of the Board (the Financing Committee) to oversee the process with the objective of completing any transaction or transactions during the current fiscal year.

Proposed Recapitalization

On July 23, 2012, the Company announced a recapitalization transaction (the Proposed Recapitalization) aimed at significantly reducing the Company's debt and improving its maturity profile, with new debt first coming due in 2018. The Proposed Recapitalization will allow the Company to pursue its business transformation to become a leading performance media and marketing solutions provider.

The closing of the Proposed Recapitalization is anticipated by the end of September 2012.

The Company intends to implement the Proposed Recapitalization pursuant to a plan of arrangement under the CBCA.

The key components of the Proposed Recapitalization are as follows:

- The exchange of the Company's credit facilities and medium term notes (the Senior Unsecured Debt), representing $1.8 billion of the Company's debt, for a combination of:
    - $750 million of 9% senior secured notes due in 2018 (the Senior Secured Notes);
    - $100 million of subordinated unsecured exchangeable debentures due in 2022, with interest payable in cash at 8.0% or in additional debentures at 12% (the 2022 Exchangeable Debentures);
    - 82.5% of new common shares issued in connection with the Proposed Recapitalization (New Common Shares); and
    - $250 million of cash;

The Company will use an amount equivalent to 70% of Consolidated Excess Cash Flow (as such term will be defined in the Indenture governing the Senior Secured Notes) for the immediately preceding two fiscal quarters of the Company, on a semi-annual basis on the last day of May and November of each year, commencing on May 31, 2013, to redeem the Senior Secured Notes at par from holders on a pro rata basis, subject to the Company maintaining a minimum cash balance of $75 million.

- Holders of existing convertible debentures, preferred shares and common shares of the Company will receive, in the aggregate, in exchange for their securities a combination of:
    - 17.5% of New Common Shares; and
    - 10-year warrants (Warrants), representing in the aggregate 10% of the New Common Shares;

The Company proposed this Recapitalization initiative to align its capital structure with its operating strategy. The Proposed Recapitalization will ensure the necessary financial flexibility to pursue the Company's ongoing transformation in order to enhance long-term value for stakeholders. Upon completion of the Proposed Recapitalization, the Company will have debt of approximately $850 million consisting of $750 million of Senior Secured Notes maturing in 2018 and $100 million of 2022 Exchangeable Debentures. Annual interest expense will also be reduced by approximately $45 million.

The Company will pay any accrued and unpaid interest as at the effective date under the existing credit facilities and medium term notes. Any accrued and unpaid interest on the existing convertible debentures and dividends on the preferred shares, Series 1 and 2 will be extinguished without further payment as of the effective date.

As part of the court's interim order, the court ordered that, until the earlier of (i) the issuance of a final ruling on the final order to be sought in connection with the proposed Recapitalization, or (ii) October 15, 2012, no creditors shall have any rights to terminate, accelerate, amend or declare in default any contract or other agreement including, without limitation, the Company's credit agreements and indentures governing its medium term notes and convertible debentures, to which the Company or certain of its subsidiaries are a party, due solely to the Company or such subsidiaries being parties to the court proceedings in connection with the proposed Recapitalization or having made an application to the court under section 192 of the CBCA.

The Proposed Recapitalization is subject to a number of conditions, including debtholder and shareholder approval, the receipt of the final approval of the court and all necessary regulating and stock exchange approvals. For a detailed description of the Proposed Recapitalization please refer to the Company's management proxy circular (the Circular) dated July 30, 2012, which is available on SEDAR at www.sedar.com and on the Company's website at www.ypg.com.

Update on Transformation

Yellow Media Inc. is making progress in transforming its business to become Canada's leading performance media and marketing solutions company. Our mission is to bring consumers and businesses together through our network of mobile, web and print properties. We continue to focus on building the necessary platforms, enhancing our existing online services, growing our mobile offerings and developing key partnerships in order to achieve our business objectives.

As we further advance our digital transformation, and based on current revenue trends, we expect our revenues from digital sources to represent more than 50% of total revenues by the end of 2014. We also expect EBITDA margins to stabilize at approximately 40% at that time, while continuing to generate sufficient cash flow to reinvest in our business and pay down debt.

6. Critical Assumptions

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

Our critical assumptions and accounting estimates have not changed since the release of our MD&A for the year ended December 31, 2011. These critical assumptions and estimates relate to intangible assets and goodwill, employee future benefits and income taxes. Please refer to Section 5 – Critical Assumptions of our December 31, 2011 annual MD&A.

New Accounting Standards

IFRS 7 (Revised) — Financial Instruments: Disclosures (Amendments) — Transfer of financial assets

Other amendments to IFRS 7 will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The IFRS 7 Amendments are effective for annual periods beginning on or after July 1, 2011.

IAS 12 (Revised) — Deferred Tax: Recovery of Underlying Assets and SIC-21 (amendments), Income Taxes—Recovery of Revalued Non-Depreciable Assets

The amendment introduces a rebuttable presumption that an investment property measured using the fair value model is recovered entirely through sale unless the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits over time. As a result of the amendments, SIC-21 would no longer apply to investment properties carried at fair value. The IAS 12 amendments are effective for annual reporting periods beginning on or after January 1, 2012. The Standard has been adopted and its adoption has not had any impact on the amounts reported in these financial statements.

IFRS 7 (Revised) — Financial Instruments: Disclosures and IAS 32 – Financial Instruments: Presentation in respect of Offsetting

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

As part of this project the IASB also clarified aspects of IAS 32, Financial Instruments: Presentation. The amendments to IAS 32 address inconsistencies in current practice when applying the requirements. The amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively.

IFRS 9 – Financial Instruments

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

Key requirements of IFRS 9 are described as follows:

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

IFRS 9 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, 2015, however is available for early adoption. Yellow Media Inc. has not fully assessed the impact of adopting IFRS 9.

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 28 (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. In June 2012, the IASB issued amendments to IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, and IFRS 12, Disclosure of Interests in Other Entities which will also be effective for the Company at the time of adoption of these standards for the fiscal year beginning on January 1, 2013. 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 1 (Revised) – Presentation of Financial Statements

On June 16, 2011, the IASB issued amendments to IAS 1, Presentation of Financial Statements, which require entities to group together items within Other Comprehensive Income ("OCI") that may be reclassified to the 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. In May 2012, the IASB issued further amendments to IAS 1 – Presentation of Financial Statements which are effective for annual periods beginning on or after January 1, 2013 with early application permitted. Yellow Media Inc. has not fully assessed the impact of adopting IAS 1 (Revised).

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).

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

In May 2012, the IASB also issued amendments to IAS 16, Property, Plant and Equipment, IAS 32, Financial Instruments: Presentation and IAS 34, Interim Financial Reporting which are effective for annual periods beginning on or after January 1, 2013 with early application permitted. These amendments clarify various requirements. Yellow Media Inc. has not fully assessed the impact of adopting these amendments.

7. Risks and Uncertainties

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

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

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

YPG has put in place certain guidelines in order to seek to manage the risks to which it may be exposed. Please refer to the Annual Information Form for a complete description of these risk factors, including, for example, "Decline in Print Revenue", "The availability of capital is dependent on the future operating performance of the Corporation's business and the Corporation's ability to refinance its indebtedness", and "The Corporation's substantial indebtedness could adversely affect its financial health and the Corporation's efforts to refinance or reduce its indebtedness may not be successful". Despite these guidelines, the Company cannot provide assurances that any such efforts will be successful. For more information, please refer to the corresponding section in our MD&A for the year ended December 31, 2011. For a description of the risk factors relating to the Proposed Recapitalization, please refer to the Company's management proxy circular dated July 30, 2012, which is available on SEDAR at www.sedar.com and on the Company's website at www.ypg.com.

The following list outlines some of the risks associated with the Proposed Recapitalization:

The consummation of the Proposed Recapitalization may not occur

The Corporation will not complete the Proposed Recapitalization unless and until all conditions precedent to the Proposed Recapitalization, some of which are not under the Corporation's control, are satisfied or waived. See the Circular's section on "Certain Legal and Regulatory Matters — Conditions to the Recapitalization Becoming Effective". Even if the Proposed Recapitalization is completed, it may not be completed on the schedule described in the Circular. Accordingly, Lenders, Noteholders, Debentureholders and Shareholders participating in the Proposed Recapitalization may have to wait longer than expected to receive their Senior Secured Notes, 2022 Exchangeable Debentures, New Common Shares, Warrants and cash payment, as applicable. In addition, if the Proposed Recapitalization is not completed on the schedule described in the Circular, the Corporation may incur additional expenses. Further, while the Corporation intends to seek to effect the Proposed Recapitalization pursuant to the CBCA, there can be no assurance that the Proposed Recapitalization will be successfully completed pursuant to the CBCA. If it is determined that it is unlikely that the Corporation will be able to implement the Proposed Recapitalization under the CBCA, the Corporation may pursue the Proposed Recapitalization under an alternative statutory procedure. Although the Consenting Creditors have agreed to vote in favour of the Proposed Recapitalization, there can be no assurance that other creditors, securityholders or third parties will not seek to challenge, oppose or delay the

Proposed Recapitalization, or the ability to implement the Proposed Recapitalization under the CBCA, nor can there be any assurance that such parties would not be successful in such challenge, opposition or delay.

The Proposed Recapitalization may not improve the financial condition of the Corporation

The Recapitalization is intended to provide the Corporation with financial flexibility. However, the foregoing is contingent on many assumptions that may prove to be incorrect, including without limitation:

- the ability of the Corporation to succeed in continuing to implement its business plan;
- that the directories, digital media and advertising industries into which the Corporation sells its products and services will demonstrate strong demand for the Corporation's products and services;
- that the decline in print revenues will not accelerate beyond what is currently anticipated;
- that online growth will not be slower than what is currently anticipated;
- that general economic conditions will not deteriorate beyond currently anticipated levels;
- that the Corporation's consolidated sales and relationships with suppliers, advertisers, users, customers, purchasers and contractors will not be materially adversely affected while the Proposed Recapitalization is underway or as a result of such Proposed Recapitalization; and
- the Corporation's continued ability to manage costs.

Should any of those assumptions not materialize, the Proposed Recapitalization may not have the effect of providing the Corporation with the financial flexibility expected or required to implement its business plan.

The Proposed Recapitalization will have dilutive effects on holders of Existing Common Shares

The Proposed Recapitalization contemplates the exchange of a portion of the Credit Facilities and Medium Term Notes for, among others, New Common Shares and 2022 Exchangeable Debentures and the exchange of the convertible debentures, the existing preferred shares and the existing common shares for New Common Shares and Warrants, which will have the effect of diluting the equity currently held by holders of Existing Common Shares. Furthermore, the Board of Directors of Yellow Media Ltd. (New Yellow Media) will be able to issue an unlimited number of New Common Shares for such consideration and on such terms and conditions as will be established by the Board of Directors of New Yellow Media without the approval of any holders of New Common Shares, except as may be required by law. Shareholders and holders of New Common Shares in general will have no pre-emptive rights in connection with such further issuances. Shareholders and holders of New Common Shares in general may therefore incur significant dilution in respect of New Common Shares owned following the Proposed Recapitalization.

Lenders, Noteholders and Debentureholders will lose their contractual rights and remedies available in the agreements and indentures governing the Existing Credit Facilities, the Existing Notes and the Existing Debentures

By exchanging a portion of the Credit Facility Debt, Noteholder Debt or Debentureholder Debt, as applicable, for New Common Shares pursuant to the Proposed Recapitalization, Lenders, Noteholders and Debentureholders will be changing the nature of a portion of their investment from debt to equity. Equity carries certain risks that are not applicable to debt. The agreements and indentures governing the Existing Credit Facilities, the Existing Notes and the Existing Debentures provide a variety of contractual rights and remedies to Lenders, Noteholders and Debentureholders, including the right to receive interest and repayment of the Credit Facility Debt, Noteholder Debt and Debentureholder Debt upon maturity. These rights will not be available to Lenders, Noteholders and Debentureholders in respect of their New Common Shares. Claims of holders of New Common Shares will be subordinated in priority to the claims of creditors in the event of an insolvency, winding up, or other distribution of the assets of New Yellow Media.

The non-implementation of the Proposed Recapitalization could create liquidity risks

If the Proposed Recapitalization is not implemented and business operations of the Corporation continue at their current levels, the Corporation may not be able to generate sufficient cash flows to service, repay or refinance its outstanding indebtedness when it matures without raising additional capital. In the current market conditions and the Corporation's financial condition, the Corporation can give no assurance that additional capital will be available on favourable terms, or at all. Further, if the Corporation defaults under the terms of certain of its indebtedness, the debtholders thereunder may accelerate the maturity of their obligations, which could cause cross-defaults or cross-acceleration under its obligations. The Corporation's inability to obtain additional capital, if and when needed, could have a material adverse effect on the Corporation, its business, results from operations and financial condition.

The Corporation could be required to pursue other alternatives that could have a more negative effect on the Corporation and its stakeholders, including the sale of core assets or non-consensual proceedings under creditor protection legislation

In the event that the Proposed Recapitalization is not implemented:

- the Corporation's net debt will not be reduced and the associated net reduction in debt service costs would not be achieved;

- the Corporation's requirement to repay the $1,775 million payable as principal amounts in respect of the Affected Unsecured Debt would not be eliminated;

- no liquidity will be available under the Existing Credit Facilities as they are currently almost fully drawn and mature in February 2013; in addition, the Existing Notes, Series 2, 8 and 9 mature in 2013 and 2014 and replacement financing may not be available; and

- the Corporation's cash flow from operations and available liquidity may be insufficient to provide adequate funds to finance its operations and the Corporation may eventually be unable to meet its obligations as they generally become due.

In the event that the Proposed Recapitalization is not implemented, the Corporation may be required to pursue other alternatives that could have a more negative effect on the Corporation and its stakeholders, including non-consensual proceedings under creditor protection legislation.

8. Controls and Procedures

Management including the President and Chief Executive Officer and the Chief Financial Officer have determined that there were no changes to the Corporation's internal controls over financial reporting during the quarter ended June 30, 2012 that have materially affected or are reasonably likely to materially affect, its internal controls over financial reporting.