INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW MEDIA LIMITED

September 30, 2014

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(IN THOUSANDS OF CANADIAN DOLLARS - UNAUDITED)

As at	September 30, 2014	December 31, 2013
ASSETS		(audited)
CURRENT ASSETS		
Cash and cash equivalents	$ 183,720	$ 202,287
Trade and other receivables	133,532	142,446
Prepaid expenses	7,889	6,835
Deferred publication costs	68,918	71,018
Income taxes receivable	913	–
TOTAL CURRENT ASSETS	394,972	422,586
NON-CURRENT ASSETS		
Deferred publication costs	7,714	7,378
Financial and other assets (Note 12)	4,301	19,096
Investments in associates (Notes 3 and 4)	–	2,780
Property, plant and equipment	28,152	29,489
Intangible assets	1,317,437	1,310,494
Deferred income taxes	6,650	2,211
TOTAL NON-CURRENT ASSETS	1,364,254	1,371,448
TOTAL ASSETS	$ 1,759,226	$ 1,794,034
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade and other payables	$ 93,181	$ 78,824
Income taxes payable	–	25,782
Provisions	59,658	70,632
Financial liability (Note 12)	–	18,472
Deferred revenues	29,208	34,145
Current portion of long-term debt (Note 5)	78,427	89,051
TOTAL CURRENT LIABILITIES	260,474	316,906
NON-CURRENT LIABILITIES		
Provisions	2,937	6,031
Deferred credits and other	9,546	14,349
Deferred income taxes	30,181	31,535
Income taxes payable	48,944	55,419
Post-employment benefits (Note 8)	243,997	178,948
Long-term debt (Note 5)	495,096	558,417
Exchangeable debentures (Note 6)	88,606	87,934
TOTAL NON-CURRENT LIABILITIES	919,307	932,633
TOTAL LIABILITIES	1,179,781	1,249,539
CAPITAL AND RESERVES	6,598,581	6,604,971
DEFICIT	(6,019,136)	(6,060,476)
TOTAL EQUITY	579,445	544,495
TOTAL LIABILITIES AND EQUITY	$ 1,759,226	$ 1,794,034

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS

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

For the three and nine-month periods ended September 30,	2014	2013	2014	2013
Revenues	$ 218,427	$ 237,350	$ 662,209	$ 733,810
Operating costs	143,165	135,203	411,065	408,951
Income from operations before depreciation and amortization, and restructuring and special charges	75,262	102,147	251,144	324,859
Depreciation and amortization	19,723	15,589	56,073	44,058
Restructuring and special charges (Note 7)	2,746	4,011	12,645	10,204
Income from operations	52,793	82,547	182,426	270,597
Financial charges, net (Note 11)	16,009	23,098	54,874	69,369
Earnings before income taxes and earnings from investments in associates	36,784	59,449	127,552	201,228
Provision for income taxes	10,242	18,029	34,415	56,183
Earnings from investments in associates	–	355	178	521
Net earnings	$ 26,542	$ 41,775	$ 93,315	$ 145,566
Net earnings attributable to:				
Common shareholders of Yellow Media Limited	$ 26,542	$ 41,775	$ 93,315	$ 145,396
Non-controlling interests	–	–	–	170
	$ 26,542	$ 41,775	$ 93,315	$ 145,566
Basic earnings per share attributable to common shareholders	$ 0.98	$ 1.51	$ 3.43	$ 5.22
Weighted average shares outstanding – basic earnings per share (Note 9)	26,955,327	27,745,677	27,185,781	27,857,092
Diluted earnings per share attributable to common shareholders	$ 0.84	$ 1.30	$ 2.93	$ 4.49
Weighted average shares outstanding – diluted earnings per share (Note 9)	33,714,343	33,601,085	33,736,059	33,601,085

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(IN THOUSANDS OF CANADIAN DOLLARS – UNAUDITED)

For the three and the nine-month periods ended September 30,	2014	2013	2014	2013
Net earnings	$ 26,542	$ 41,775	$ 93,315	$ 145,566
Other comprehensive (loss) income:				
Items that may be reclassified subsequently to net earnings				
Reclassification adjustment of accumulated foreign currency translation loss realized upon disposition of investment in associate (Note 4)	–	–	1,598	–
Items that will not be reclassified subsequently to net earnings				
Actuarial (losses) gains (Note 8)	(40,909)	29,639	(70,743)	102,750
Income taxes relating to items that will not be reclassified subsequently to net earnings	10,853	(7,834)	18,768	(27,094)
	(30,056)	21,805	(51,975)	75,656
Other comprehensive (loss) income	(30,056)	21,805	(50,377)	75,656
Total comprehensive (loss) income	$ (3,514)	$ 63,580	$ 42,938	$ 221,222
Total comprehensive (loss) income attributable to:				
Common shareholders of Yellow Media Limited	$ (3,514)	$ 63,580	$ 42,938	$ 221,052
Non-controlling interests	–	–	–	170
	$ (3,514)	$ 63,580	$ 42,938	$ 221,222

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(IN THOUSANDS OF CANADIAN DOLLARS – UNAUDITED)

For the nine-month periods ended September 30,

	Shareholders' capital (Note 9)	Restricted shares	Warrants	Compound financial instruments[1]	Stock-based compensation and other reserves	Reduction of capital reserve
Balance, December 31, 2013	$ 4,029,869	$ (6,630)	$ 1,456	$ 3,633	$ 121,188	$ 2,457,053
Other comprehensive income (loss)	–	–	–	–	–	–
Net earnings for the period	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	–
Stock options (Note 10)	–	–	–	–	927	–
Restricted shares redeemed	–	86	–	–	(86)	–
Restricted shares (Note 10)	–	(12,450)	–	–	3,093	–
Exchange of exchangeable debentures (Note 6)	442	–	–	(14)	14	–
Balance, September 30, 2014	**$ 4,030,311**	**$ (18,994)**	**$ 1,456**	**$ 3,619**	**$ 125,136**	**$ 2,457,053**

	Shareholders' capital	Restricted shares	Warrants	Compound financial instruments[1]	Stock-based compensation and other reserves	Reduction of capital reserve
Balance, December 31, 2012	$ 4,029,869	$ –	$ 1,456	$ 3,633	$ 116,701	$ 2,457,053
Other comprehensive income	–	–	–	–	–	–
Net earnings for the period	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	–
Stock options (Note 10)	–	–	–	–	252	–
Restricted shares (Note 10)	–	(2,405)	–	–	298	–
Dividend to non-controlling interests	–	–	–	–	–	–
Deferred consideration	–	–	–	–	2,476	–
Balance, September 30, 2013	$ 4,029,869	$ (2,405)	$ 1,456	$ 3,633	$ 119,727	$ 2,457,053

[1] *The equity component of the exchangeable debentures presented above is net of income taxes of $1.3 million (2013 - $1.3 million).*

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

2014

Foreign currency translation (Notes 4 and 11)	Capital and Reserves	Deficit	Equity attributable to shareholders	Total Equity
$ (1,598)	$ 6,604,971	$ (6,060,476)	$ 544,495	$ 544,495
1,598	1,598	(51,975)	(50,377)	(50,377)
–	–	93,315	93,315	93,315
1,598	1,598	41,340	42,938	42,938
–	927	–	927	927
–	–	–	–	–
–	(9,357)	–	(9,357)	(9,357)
–	442	–	442	442
$ –	$ 6,598,581	$ (6,019,136)	$ 579,445	$ 579,445

2013

Foreign currency translation	Capital and Reserves	Deficit	Equity attributable to shareholders	Non-controlling interests	Total Equity
$ (1,598)	$ 6,607,114	$ (6,321,365)	$ 285,749	$ 411	$ 286,160
–	–	75,656	75,656	–	75,656
–	–	145,396	145,396	170	145,566
–	–	221,052	221,052	170	221,222
–	252	–	252	–	252
–	(2,107)	–	(2,107)	–	(2,107)
–	–	–	–	(83)	(83)
–	2,476	(1,978)	498	(498)	–
$ (1,598)	$ 6,607,735	$ (6,102,291)	$ 505,444	$ –	$ 505,444

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS OF CANADIAN DOLLARS – UNAUDITED)

For the nine-month periods September 30,	2014	2013
OPERATING ACTIVITIES		
Net earnings	$ 93,315	$ 145,566
Adjusting items		
Depreciation and amortization	56,073	44,058
Restructuring and special charges (Note 7)	12,645	10,204
Stock-based compensation expense	3,987	1,907
Earnings from investments in associates	(178)	(521)
Income taxes recognized in net earnings	34,415	56,183
Financial charges recognized in net earnings	54,874	69,369
Past service costs (Note 8)	–	(7,317)
Other non-cash items	(8,760)	2,507
Change in operating assets and liabilities	11,583	22,675
Funding of post-employment benefit plans in excess of costs	(11,863)	(4,554)
Restructuring and special charges paid (Note 7)	(21,023)	(13,732)
Income taxes paid, net	(51,544)	(19,837)
Interest paid	(47,583)	(54,272)
	125,941	252,236
INVESTING ACTIVITIES		
Additions to intangible assets	(44,059)	(40,989)
Acquisition of property, plant and equipment	(5,456)	(11,044)
Business acquisition, net of cash acquired (Note 3)	(22,698)	(3,581)
Proceeds from the settlement of a note receivable (Note 12)	14,100	–
Other	–	359
	(58,113)	(55,255)
FINANCING ACTIVITIES		
Repayment of long-term debt	(73,945)	(26,476)
Purchase of restricted shares (Note 10)	(12,450)	(2,405)
Repurchase of long-term debt	–	(8,320)
Deferred consideration	–	(5,624)
Recapitalization costs	–	(6,641)
Other	–	(528)
	(86,395)	(49,994)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(18,567)	146,987
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	202,287	106,807
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 183,720	$ 253,794
Cash and cash equivalents consist of:		
Cash	$ 163,720	$ 78,794
Banker’s acceptances, term deposits and treasury bills	20,000	175,000
	$ 183,720	$ 253,794

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

1. DESCRIPTION

Yellow Media Limited, through its subsidiaries, operates print and digital media properties and offers marketing solutions in all the Provinces of Canada. References herein to Yellow Media Limited (or the "Company") represent the financial position, financial performance, cash flows and disclosures of Yellow Media Limited and its subsidiaries on a consolidated basis.

Yellow Media Limited's registered head office is located at 16, Place du Commerce, Montréal, Québec, Canada, H3E 2A5, and the Company is listed on the Toronto Stock Exchange ("TSX") under the symbol "Y".

The Board of Directors (the "Board") approved the unaudited interim condensed consolidated financial statements for the three and nine-month periods ended September 30, 2014 and 2013 and authorized their publication on November 12, 2014.

2. BASIS OF PRESENTATION AND UPCOMING REVISED STANDARDS

2.1. STATEMENT OF COMPLIANCE

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 — *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. The accounting policies and methods of computation applied in these interim condensed consolidated financial statements are the same as those applied by Yellow Media Limited in its consolidated financial statements as at and for the year ended December 31, 2013, except for the impact of the adoption of the standards, interpretations and amendments described below. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013.

2.2. STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED WITH AN EFFECT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

There are no new standards, interpretations and amendments adopted in the current period with an effect on the interim condensed consolidated financial statements.

2.3. STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED WITH NO EFFECT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following revised standards are effective for annual periods beginning on January 1, 2014 and their adoption has not had any impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements:

IFRIC 21 — *Levies*

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

IAS 32 — *Financial Instruments: Presentation in respect of Offsetting*

On December 16, 2011, the IASB and Financial Accounting Standards Board ("FASB") issued common disclosure requirements that are intended to help investors and other users better assess the effect or potential effect of offsetting arrangements on a company's financial position. As part of this project, the IASB clarified aspects of IAS 32 — *Financial Instruments: Presentation*. IAS 32 amendments require retrospective application.

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

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

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

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

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE INFORMATION - UNAUDITED)

2.4. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE ISSUED BUT NOT YET EFFECTIVE

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory for Yellow Media Limited's accounting periods beginning on or after January 1, 2015. The new standards which are considered to be relevant to Yellow Media Limited's operations are as follows:

IFRS 9 — *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 — *Financial Instruments*. IFRS 9 replaces the requirements in IAS 39 — *Financial Instruments: Recognition and Measurement* for classification and measurement of financial assets and liabilities. The new standard introduces a single classification and measurement approach for financial instruments, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements and results in a single impairment model being applied to all financial instruments. IFRS 9 also modified the hedge accounting model to incorporate the risk management practices of an entity.

Additional disclosures will also be required under the new standard. The new standard will come into effect for annual periods beginning on or after January 1, 2018 with early adoption permitted. Yellow Media Limited continues to evaluate the impact this standard will have on its consolidated financial statements.

IFRS 15 — *Revenue from Contracts with Customers*

This new standard outlines a single comprehensive model for companies to use when accounting for revenue arising from contracts with customers. It supersedes the IASB's current revenue recognition standards, including IAS 18 — *Revenue* and related interpretations. The core principle of IFRS 15 is that a company recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. IFRS 15 may result in substantial changes to the timing of revenue recognition for some companies.

This new standard is effective for annual reporting periods beginning on or after January 1, 2017 with earlier adoption permitted. For comparative amounts, companies have the option of using either retrospective application (with certain practical expedients) or a modified approach that is set out in the new standard. Yellow Media Limited continues to evaluate the impact this standard will have on its consolidated financial statements.

3. BUSINESS ACQUISITION

2014

On June 1, 2014, Yellow Media Limited acquired the remaining shares of 411 Local Search Corp. ("411") that it did not hold as a result of the exercise of a put option by the other shareholders of 411 requiring the Company to acquire the remaining 70% interest in 411 for a purchase price of $22.7 million, net of cash acquired of $3.6 million. 411 is the operator of 411.ca, an online search engine to find people and local businesses in Canada. The acquisition was financed with cash on hand.

The following table summarizes the transaction and the purchase price allocation:

		June 1, 2014
Cash purchase consideration for 70% ownership	$	26,340
Previously held equity investment at fair value		4,377
Reversal of financial liability (Note 12)		(16,128)
Fair value for 100% ownership	$	14,589
Fair value of business acquired		
Cash acquired	$	3,642
Trade and other receivables		667
Prepaid expenses		94
Property, plant and equipment		516
Intangible assets		10,636
Deferred income tax assets		3,936
Trade and other payables		(1,151)
Deferred revenues		(1,590)
Deferred income tax liabilities		(2,161)
	$	14,589

The previously held equity investment in 411, which was accounted for under the equity method up to the acquisition date, was re-measured at its fair value of $4.4 million and resulted in a gain of $1.4 million. The related financial liability of $18.5 million was also re-measured at its fair value as at the acquisition date to $16.1 million, and resulted in a gain of $2.3 million (refer to Note 12 – Fair value). The gain of $3.6 million, net of transaction costs of $0.1 million was included in financial charges for the nine month period ended September 30, 2014 (refer to Note 11 – Financial charges, net).

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE INFORMATION - UNAUDITED)

4. INVESTMENTS IN ASSOCIATES

In May 2014, Yellow Media Limited disposed of its 35% share ownership in Ziplocal, LP ("Ziplocal") for $nil consideration. The carrying value of this investment was $nil as at the date of disposal. Upon disposal, Yellow Media reclassified an accumulated foreign currency translation loss of $1.6 million from equity to financial charges (refer to Note 11 – Financial charges, net).

5. LONG-TERM DEBT

The long-term debt is comprised of the following:

As at		September 30, 2014		December 31, 2013
Senior secured notes	$	573,062	$	646,577
Obligations under finance leases		461		891
	$	573,523	$	647,468
Less current portion[1]		78,427		89,051
Non-current portion	$	495,096	$	558,417

[1] *The current portion of the senior secured notes may vary subject to the Excess Cash Flow and Mandatory Redemption Payment clause under the indenture governing the senior secured notes.*

On June 2, 2014, Yellow Media Limited made a mandatory redemption payment of $73.5 million on the senior secured notes.

Asset-Based Loan

In August 2013, the Company, through its subsidiary YPG Financing Inc., entered into a five-year $50 million asset-based loan ("ABL") expiring in August 2018. The ABL will be used for general corporate purposes. Through the ABL, the Company has access to the funds in the form of prime rate loans, Banker's acceptance ("BA") equivalent loans or letters of credit. The ABL is secured by a first priority lien over the receivables of the Company. The ABL is subject to an availability reserve of $5 million if the Company's trailing twelve-month fixed charge coverage ratio is below 1.1 times. As at September 30, 2014, the fixed charge coverage ratio was below 1.1 times. As such, $45 million of the ABL was available and was undrawn as at September 30, 2014. Interest is calculated based either on the BA Rate or the Canadian Prime Rate plus an applicable margin.

As at September 30, 2014, the Company was in compliance with all covenants under the loan agreement governing the ABL.

6. EXCHANGEABLE DEBENTURES

As at		September 30, 2014		December 31, 2013
Face value of exchangeable debentures	$	107,089	$	107,500
Less unaccreted interest		(18,483)		(19,566)
	$	88,606	$	87,934

During the three and nine-month periods ended September 30, 2014, $nil and $0.4 million of exchangeable debentures were exchanged for nil and 21,584 common shares of Yellow Media Limited, respectively.

7. RESTRUCTURING AND SPECIAL CHARGES

Yellow Media Limited recorded restructuring and special charges of $2.7 million and $12.6 million for the three and nine-month periods ended September 30, 2014, respectively (2013 - $4 million and $10.2 million, respectively). The charge for the three and nine-month periods ended September 30, 2014 was associated primarily with internal reorganizations and workforce reductions. For the three and nine-month periods ended September 30, 2014, Yellow Media Limited utilized $4.1 million and $21 million, respectively, of its restructuring and special charges provision (2013 - $5.8 million and $13.7 million, respectively).

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE INFORMATION - UNAUDITED)

8. POST-EMPLOYMENT BENEFITS

Yellow Media Limited recorded an actuarial loss of $30.1 million in other comprehensive (loss) income, net of income taxes of $10.9 million, for the three-month period ended September 30, 2014 (2013 – gain of $21.8 million, net of income taxes of $7.8 million), primarily as a result of a decrease in the discount rate used to measure the post-employment benefits obligation from 4.25% to 4% as well as a change in the mortality assumptions. The Company recorded an actuarial loss of $52 million in other comprehensive (loss) income, net of income taxes of $18.8 million, for the nine-month period ended September 30, 2014 (2013 – gain of $75.7 million, net of income taxes of $27.1 million), primarily as a result of a decrease in the discount rate used to measure the post-employment benefits obligation from 4.75% to 4% as well as a change in the mortality assumptions, partially offset by a gain due to the plan assets' performance.

During the three and nine-month periods ended September 30, 2013, the Company amended the retirement and post-employment benefit plans for certain employees which resulted in a recovery of past service costs of $0.2 million and $7.3 million, respectively, which was included in operating costs.

9. SHAREHOLDERS' CAPITAL

COMMON SHARES

	For the nine-month period ended September 30, 2014		
	Number of Shares		Amount
Balance, December 31, 2013	27,955,077	$	4,029,869
Exchange of exchangeable debentures (Note 6)	21,584		442
Balance, September 30, 2014	**27,976,661**	**$**	**4,030,311**

WARRANTS

The Company has a total of 2,995,506 common share purchase warrants outstanding as at September 30, 2014 and December 31, 2013.

EARNINGS PER SHARE

The following tables reconcile the weighted average number of shares outstanding used in computing basic earnings per share to weighted average number of shares outstanding used in computing diluted earnings per share as well as the net earnings attributable to common shareholders to the net earnings adjusted for any dilutive effect:

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2014	2013	2014	2013
Weighted average number of shares outstanding used in computing basic earnings per share	**26,955,327**	27,745,677	**27,185,781**	27,857,092
Dilutive effect of restricted share units and performance share units	**1,021,334**	209,400	**780,439**	97,985
Dilutive effect of stock options	**113,260**	–	**145,417**	–
Dilutive effect of exchangeable debentures	**5,624,422**	5,646,008	**5,624,422**	5,646,008
Weighted average number of shares outstanding used in computing diluted earnings per share	**33,714,343**	33,601,085	**33,736,059**	33,601,085

	For the three-month periods ended September 30,				For the nine-month periods ended September 30,			
		2014		2013		2014		2013
Net earnings available to common shareholders of Yellow Media Limited used in the computation of basic and diluted earnings per share	**$**	**26,542**	$	41,775	**$**	**93,315**	$	145,396
Impact of assumed conversion of exchangeable debentures, net of applicable taxes		**1,828**		1,811		**5,472**		5,429
Net earnings adjusted for dilutive effect	**$**	**28,370**	$	43,586	**$**	**98,787**	$	150,825

For the three and nine-month periods ended September 30, 2014 and 2013, the diluted earnings per share calculation did not take into consideration the potentially dilutive effect of the warrants as they were not dilutive.

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE INFORMATION - UNAUDITED)

10. STOCK-BASED COMPENSATION PLANS

Yellow Media Limited's stock-based compensation plans consist of restricted share units, performance share units, deferred share units and stock options of Yellow Media Limited.

Restricted Share Unit and Performance Share Unit Plan

2013

On May 6, 2013, Yellow Media Limited adopted a restricted share unit and performance share unit plan (the "RSU and PSU Plan") to reward the key employees and officers of Yellow Media Limited (the "Participants"). Following the implementation of the RSU and PSU Plan, Yellow Media Limited granted to Participants a number of restricted share units ("RSUs") and/or performance share units ("PSUs"), as applicable. The RSUs are time-based awards and will vest upon the continuous employment of the Participants for a period of 36 months starting from the date of the grant; or such other period not exceeding 36 months determined by the Board of Directors. The PSUs are performance-based awards and will vest upon confirmation by the Board of Directors of the achievement of specified performance targets and upon the continuous employment of the Participants for a period of 36 months starting from the date of the grant; or such other period not exceeding 36 months determined by the Board of Directors. The PSUs for which the performance targets have not been achieved shall automatically be forfeited and cancelled.

Pursuant to the terms of the RSU and PSU Plan, if the RSU and PSU Plan is funded, Participants will receive, upon vesting of the RSUs and PSUs, common shares of the Company, with certain exceptions. In the event the RSU and PSU Plan is unfunded, Yellow Media Limited will pay to the Participant an amount in cash, equivalent to the number of RSUs or PSUs that have vested.

The number of PSUs that vest could potentially reach up to one-and-a-half times the actual number of PSUs awarded if the actual performance reaches the maximum level of performance targets.

2014

During the three and nine-month periods ended September 30, 2014, nil and 571,322 common shares of Yellow Media Limited, respectively (nil and 209,400 for the three and nine-month periods ended September 30, 2013) were purchased on the open market of the TSX by the trustee appointed under the RSU and PSU Plan at a cost of $nil and $12.5 million, respectively and are restricted for the purpose of funding the RSU and PSU Plan ($nil and $2.4 million for the three and nine-month periods ended September 30, 2013). The total number of common shares of Yellow Media Limited held by the trustee for the purpose of funding the RSU and PSU Plan amounted to 1,020,733 as at September 30, 2014.

The following table summarizes the status of the RSU and PSU grants during the nine-month periods ended September 30:

		2014		2013
Number of RSUs and PSUs	RSUs	PSUs	RSUs	PSUs
Outstanding, beginning of period	252,655	131,776	–	–
Granted	198,008	286,609	300,871	140,669
Redeemed	(5,861)	–	–	–
Forfeited	(33,058)	(50,434)	(27,566)	(4,743)
Outstanding, end of period	411,744	367,951	273,305	135,926
Weighted average remaining life (years)	1.7	2	2.3	2.3

As at September 30, 2014, there was an additional 183,936 common shares restricted for the PSUs set aside (2013 – 70,329 common shares), representing the portion which provides for a payout in excess of 100% and limited to a maximum payout of 150%.

During the three and nine-month periods ended September 30, 2014, an expense of $1 million and $3.1 million, respectively ($0.5 million and $0.8 million for the three and nine-month periods ended September 30, 2013, respectively) was recorded in the interim condensed consolidated income statement in relation to the RSU and PSU Plan.

Deferred Share Unit Plan

2013

On June 12, 2013, as part of the implementation of a revised Board of Directors compensation structure, Yellow Media Limited adopted a deferred share unit plan (the "DSU Plan"). The DSU Plan was amended in October 2013 to provide for the participation by eligible employees as designated by the Board. The Company shall settle the vested DSUs in cash or in common shares of Yellow Media Limited at the discretion of the Company when a Director leaves the Board or an eligible employee ceases employment with the Company.

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE INFORMATION - UNAUDITED)

2014

The following table summarizes the status of the DSU grants during the nine-month periods ended September 30:

	2014	2013
Number of DSUs	DSUs	DSUs
Outstanding, beginning of period	100,557	–
Granted	44,947	91,747
Redeemed	–	–
Forfeited	–	–
Outstanding, end of period	145,504	91,747
Vested, end of period	134,267	78,502

During the three and nine-month periods ended September 30, 2014, a recovery of $0.2 million and $33 thousand, respectively (an expense of $0.2 million and $0.9 million for the three and nine-month periods ended September 30, 2013, respectively) was recorded in the interim condensed consolidated income statement in relation to the DSU Plan. As at September 30, 2014, a liability of $2 million ($2.1 million as at December 31, 2013) related to the DSU Plan is recorded in trade and other payables in the interim condensed consolidated statement of financial position.

Stock Options

2013

On December 20, 2012, as part of the implementation of Yellow Media Limited's recapitalization transaction, a new stock option plan (the "Stock Option Plan") was adopted. The Stock Option Plan is intended to attract and retain the services of selected employees of Yellow Media Limited who are in a position to make a material contribution to the successful operation of the business, provide meaningful incentive to management to lead Yellow Media Limited through the transformation of its business and to more closely align the interests of management with those of the shareholders of Yellow Media Limited. A maximum of 1,290,612 stock options may be granted under the Stock Option Plan. On May 6, 2013, 376,000 stock options were granted to selected employees of Yellow Media Limited. These stock options vest 50% in February 2015, 25% in February 2016 and 25% in February 2017.

2014

During the three and nine-month periods ended September 30, 2014, nil and 195,800 stock options, respectively, were granted to selected employees. These stock options vest 50% in February 2016, 25% in February 2017 and 25% in February 2018.

The following table summarizes the status of the stock option grants during the nine-month periods ended September 30:

		2014		2013
	Number of options	Weighted average exercise price per option	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	376,000	$10.12	–	–
Granted	195,800	$24.35	376,000	$10.12
Forfeited	(91,600)	$14.42	–	–
Outstanding, end of period	480,200	$15.10	376,000	$10.12
Exercisable, end of period	–	–	–	–

Stock options were valued using a binomial option pricing model. Expected volatility is based on the historical share price volatility over the average expected life of the stock options granted. Key inputs into the valuation model were:

- Weighted average grant date share price: $14.25
- Weighted average exercise price: $14.99
- Weighted average expected volatility: 37%
- Contractual life: 7 years
- Weighted average risk-free interest rate: 2.1%
- Weighted average remaining life: 5.9 years

An expense of $0.4 million and $0.9 million was recorded for the three and nine-month periods ended September 30, 2014, respectively ($0.2 million and $0.3 million for the three and nine-month periods ended September 30, 2013, respectively) in the interim condensed consolidated income statement in relation to the Stock Option Plan.

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE INFORMATION - UNAUDITED)

11. FINANCIAL CHARGES, NET

The significant components of the financial charges are as follows:

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2014	2013	2014	2013
Interest on long-term debt and exchangeable debentures	$ 15,394	$ 20,037	$ 49,027	$ 60,290
Net interest on the defined benefit obligation	2,053	2,990	6,168	9,027
Reclassification of accumulated foreign currency translation loss (Note 4)	–	–	1,598	–
Loss on settlement of note receivable (Note 12)	–	–	1,150	–
Gain on business acquisition (Note 3)	–	–	(3,613)	–
Loss on repurchase of senior secured notes	–	320	–	320
Interest expense (income), standby fees and other financial charges, net	82	(623)	(881)	(1,262)
Other, net	(1,520)	374	1,425	994
	$ 16,009	23,098	$ 54,874	$ 69,369

12. FAIR VALUE

FAIR VALUE HIERARCHY

The three levels of fair value hierarchy are as follows:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs used in a valuation technique are not based on observable market data in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

The following table summarizes the financial instruments measured at fair value in the interim condensed consolidated statement of financial position, as well as the reconciliation of Level 3 fair value measurements for the nine-month period ended September 30, 2014:

	For the nine-month period ended September 30, 2014		
	Investment – available-for-sale	Put option – financial liability	Total
As at December 31, 2013	$ 3,520	$ (18,472)	$ (14,952)
Gain on fair value of financial liability (put option) (Note 3)	–	2,344	2,344
Reversal of financial liability (Note 3)	–	16,128	16,128
As at September 30, 2014	**$ 3,520**	**$ –**	**$ 3,520**

Yellow Media Limited's available-for-sale investment is comprised of a privately held equity security and is carried at fair value based on estimates that are based on market rates prevailing at the statement of financial position date. The available-for-sale investment is presented in financial and other assets in the interim condensed consolidated statement of financial position.

FAIR VALUES:

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The fair values of cash and cash equivalents, trade and other receivables, trade and other payables, and the current portion of provisions are approximately equal to their carrying values due to their short-term maturity.

The fair values of the senior secured notes and the exchangeable debentures are evaluated based on quoted market prices at the statement of financial position date.

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE INFORMATION - UNAUDITED)

These estimates are significantly affected by assumptions, including the amount and timing of estimated future cash flows and discount rates, all of which reflect varying degrees of risk.

In 2011, Yellow Media Limited sold Trader Corporation. The purchase price consideration included a note receivable of $15 million. The note receivable was to mature in 2020. Interest and principal on the note receivable was subordinated to the senior debt of Trader Corporation. In May 2014, Yellow Media settled this note receivable, which had a carrying value of $15.3 million, including accrued interest of $3.4 million, for $14.1 million, and recorded a loss of $1.2 million in financial charges (refer to Note 11 – Financial charges, net). The note receivable, including accrued interest, was presented in financial and other assets in the consolidated statement of financial position as at December 31, 2013.

The following schedule represents the carrying value and the fair value of other financial instruments not measured at fair value in the interim condensed consolidated statement of financial position:

As at		September 30, 2014	
	Level	Carrying Value	Fair Value
Current portion of long-term debt (Note 5)	1	$ 78,427	$ 82,969
Non-current portion of long-term debt (Note 5)	1	$ 495,096	$ 523,863
Exchangeable debentures (Note 6)	1	$ 88,606	$ 104,947

13. COMPARATIVE FIGURES

Yellow Media Limited reclassified certain items in the interim condensed consolidated statements of cash flows in the cash flows from operating activities section for the comparative period last year to conform to the current year's presentation. This reclassification had no impact on the total cash flows from operating activities.