

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW PAGES LIMITED

September 30, 2015 and 2014

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(IN THOUSANDS OF CANADIAN DOLLARS - UNAUDITED)

As at	September 30, 2015	December 31, 2014
ASSETS		(audited)
CURRENT ASSETS		
Cash	\$ 107,705	\$ 102,776
Trade and other receivables	124,718	132,278
Prepaid expenses	9,004	8,220
Deferred publication costs	62,018	69,852
Income taxes receivable	15,427	47,798
TOTAL CURRENT ASSETS	318,872	360,924
NON-CURRENT ASSETS		
Deferred publication costs	7,696	8,153
Financial and other assets (Note 12)	4,213	4,366
Property and equipment	32,155	36,431
Intangible assets	1,338,910	1,334,967
Goodwill (Note 3)	49,669	–
Deferred income taxes	6,296	4,719
TOTAL NON-CURRENT ASSETS	1,438,939	1,388,636
TOTAL ASSETS	\$ 1,757,811	\$ 1,749,560
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade and other payables	\$ 79,440	\$ 82,048
Provisions	58,558	65,840
Deferred revenues	25,067	28,461
Current portion of long-term debt (Note 5)	106,102	103,152
TOTAL CURRENT LIABILITIES	269,167	279,501
NON-CURRENT LIABILITIES		
Provisions	3,087	2,577
Deferred credits and other	7,227	8,936
Deferred income taxes	79,993	53,386
Post-employment benefits (Note 8)	189,305	227,262
Long-term debt (Note 5)	367,320	404,759
Exchangeable debentures (Note 6)	90,084	88,959
TOTAL NON-CURRENT LIABILITIES	737,016	785,879
TOTAL LIABILITIES	1,006,183	1,065,380
CAPITAL AND RESERVES	6,599,049	6,600,178
DEFICIT	(5,847,421)	(5,915,998)
TOTAL EQUITY	751,628	684,180
TOTAL LIABILITIES AND EQUITY	\$ 1,757,811	\$ 1,749,560

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,	2015	2014	2015	2014
Revenues	\$ 210,593	\$ 218,427	\$ 621,266	\$ 662,209
Operating costs	146,783	143,165	425,077	411,065
Income from operations before depreciation and amortization, and restructuring and special charges	63,810	75,262	196,189	251,144
Depreciation and amortization	21,161	19,723	60,045	56,073
Restructuring and special charges (Note 7)	9,113	2,746	13,666	12,645
Income from operations	33,536	52,793	122,478	182,426
Financial charges, net (Note 11)	14,775	16,009	45,630	54,874
Earnings before income taxes and earnings from investments in associates	18,761	36,784	76,848	127,552
Provision for income taxes	5,606	10,242	21,659	34,415
Earnings from investments in associates	-	-	-	(178)
Net earnings	\$ 13,155	\$ 26,542	\$ 55,189	\$ 93,315
Basic earnings per share	\$ 0.49	\$ 0.98	\$ 2.07	\$ 3.43
Weighted average shares outstanding – basic earnings per share (Note 9)	26,623,788	26,955,327	26,698,094	27,185,781
Diluted earnings per share	\$ 0.44	\$ 0.84	\$ 1.80	\$ 2.93
Weighted average shares outstanding – diluted earnings per share (Note 9)	33,730,587	33,714,343	33,716,880	33,736,059

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(IN THOUSANDS OF CANADIAN DOLLARS – UNAUDITED)

For the three and the nine-month periods ended September 30,	2015	2014	2015	2014
Net earnings	\$ 13,155	\$ 26,542	\$ 55,189	\$ 93,315
Other comprehensive income (loss):				
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 gains (losses) (Note 8)	6,927	(40,909)	18,260	(70,743)
Income taxes relating to items that will not be reclassified subsequently	(1,848)	10,853	(4,872)	18,768
	5,079	(30,056)	13,388	(51,975)
Other comprehensive income (loss)	5,079	(30,056)	13,388	(50,377)
Total comprehensive income (loss)	\$ 18,234	\$ (3,514)	\$ 68,577	\$ 42,938

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
Balance, December 31, 2014	\$ 4,030,325	\$ (18,981)	\$ 1,456	\$ 3,619	\$ 126,706
Other comprehensive income	–	–	–	–	–
Net earnings for the period	–	–	–	–	–
Total comprehensive income	–	–	–	–	–
Restricted shares settled	–	305	–	–	(305)
Restricted shares (Note 10)	–	(6,838)	–	–	4,728
Stock options granted (Note 10)	–	–	–	–	558
Exercise of stock options (Note 10)	576	–	–	–	(153)
Balance, September 30, 2015	\$ 4,030,901	\$ (25,514)	\$ 1,456	\$ 3,619	\$ 131,534

	Shareholders' Capital	Restricted Shares	Warrants	Compound Financial Instruments ¹	Stock-based Compensation and Other Reserves
Balance, December 31, 2013	\$ 4,029,869	\$ (6,630)	\$ 1,456	\$ 3,633	\$ 121,188
Other comprehensive income (loss)	–	–	–	–	–
Net earnings for the period	–	–	–	–	–
Total comprehensive income	–	–	–	–	–
Restricted shares settled	–	86	–	–	(86)
Restricted shares (Note 10)	–	(12,450)	–	–	3,093
Stock options granted (Note 10)	–	–	–	–	927
Exchange of exchangeable debentures (Note 6)	442	–	–	(14)	14
Balance, September 30, 2014	\$ 4,030,311	\$ (18,994)	\$ 1,456	\$ 3,619	\$ 125,136

¹ The equity component of the exchangeable debentures presented above is net of income taxes of \$1.3 million (2014 - \$1.3 million).

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

2015

Reduction of Capital Reserve	Total Capital and Reserves	Deficit	Total Equity
\$ 2,457,053	\$ 6,600,178	\$ (5,915,998)	\$ 684,180
–	–	13,388	13,388
–	–	55,189	55,189
–	–	68,577	68,577
–	–	–	–
–	(2,110)	–	(2,110)
–	558	–	558
–	423	–	423
\$ 2,457,053	\$ 6,599,049	\$ (5,847,421)	\$ 751,628

2014

Reduction of Capital Reserve	Foreign Currency Translation (Notes 4 and 11)	Total Capital and Reserves	Deficit	Total Equity
\$ 2,457,053	\$ (1,598)	\$ 6,604,971	\$ (6,060,476)	\$ 544,495
–	1,598	1,598	(51,975)	(50,377)
–	–	–	93,315	93,315
–	1,598	1,598	41,340	42,938
–	–	–	–	–
–	–	(9,357)	–	(9,357)
–	–	927	–	927
–	–	442	–	442
\$ 2,457,053	\$ –	\$ 6,598,581	\$ (6,019,136)	\$ 579,445

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS OF CANADIAN DOLLARS – UNAUDITED)

For the nine-month periods ended September 30,	2015	2014
OPERATING ACTIVITIES		
Net earnings	\$ 55,189	\$ 93,315
Adjusting items		
Depreciation and amortization	60,045	56,073
Restructuring and other special charges (Note 7)	13,666	12,645
Stock-based compensation expense	5,236	3,987
Earnings from investments in associates	–	(178)
Provision for income taxes recognized in net earnings	21,659	34,415
Financial charges recognized in net earnings	45,630	54,874
Past service costs (Note 8)	(6,618)	–
Other non-cash items	4,959	(448)
Change in operating assets and liabilities	(249)	3,271
Funding of post-employment benefit plans in excess of costs	(19,545)	(11,863)
Restructuring and other special charges paid (Note 7)	(18,072)	(21,023)
Income taxes received (paid), net	32,490	(51,544)
Interest paid	(39,241)	(47,583)
	155,149	125,941
INVESTING ACTIVITIES		
Additions to intangible assets	(53,436)	(44,059)
Acquisition of property and equipment	(4,817)	(5,456)
Business acquisitions, net of cash acquired (Note 3)	(51,063)	(22,698)
Proceeds from the settlement of a note receivable (Note 12)	–	14,100
	(109,316)	(58,113)
FINANCING ACTIVITIES		
Repayment of long-term debt	(34,489)	(73,945)
Purchase of restricted shares (Note 10)	(6,838)	(12,450)
Issuance of common shares upon exercise of stock options	423	–
	(40,904)	(86,395)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,929	(18,567)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	102,776	202,287
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 107,705	\$ 183,720
Cash and cash equivalents consist of:		
Cash	\$ 107,705	\$ 163,720
Banker's acceptances	–	20,000
	\$ 107,705	\$ 183,720

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

1. DESCRIPTION

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

Yellow Pages Limited’s registered head office is located at 16 Place du Commerce, Montreal, Québec, Canada, H3E 2A5 and the common shares of Yellow Pages Limited are 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, 2015 and 2014 and authorized their publication on November 11, 2015.

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 International Accounting Standard (“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 consistent with International Financial Reporting Standards (“IFRS”) and are the same as those applied by Yellow Pages Limited in its audited consolidated financial statements as at and for the year ended December 31, 2014. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2014.

2.2. 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 Pages Limited’s accounting periods beginning on or after January 1, 2016. The new standards which are considered to be relevant to Yellow Pages Limited’s operations are as follows:

Amendments to IAS 16 – *Property, Plant and Equipment*, and IAS 38 – *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization*

In May 2014, the International Accounting Standards Board (“IASB”) issued Amendments to IAS 16 – *Property, Plant and Equipment* and IAS 38 – *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization* to clarify that the use of revenue-based methods to calculate depreciation is not appropriate as revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the related asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption may be rebutted in certain limited circumstances. These amendments must be applied prospectively for annual periods beginning on or after January 1, 2016.

The Amendments to IAS 16 and IAS 38 will not have a significant impact on the interim condensed consolidated financial statements of Yellow Pages Limited.

IAS 1 – *Presentation of financial statements*

In December 2014, the IASB issued amendments to IAS 1 – *Presentation of financial statements* as part of its initiative to improve presentation and disclosure in financial reports. The amendments to IAS 1 clarify the existing presentation and disclosure requirements as they relate to materiality, order of the notes, subtotals, accounting policies and disaggregation. The amendments also provide additional guidance on the application of professional judgement to disclosure requirements when preparing the notes to the financial statements.

These amendments are effective for annual periods beginning on or after January 1, 2016, and are not expected to have a significant impact on the financial statements of Yellow Pages Limited.

IFRS 15 – *Revenue from Contracts with Customers*

In May 2014, the IASB issued 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 revenue is recognized at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services, applying the following five steps:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when (or as) the company satisfies a performance obligation.

This new standard also provides guidance relating to the accounting for contract costs as well as for the measurement and recognition of gains and losses arising from the sale of certain non-financial assets. Additional disclosures will also be required under the new standard, which is effective for annual reporting periods beginning on or after January 1, 2018 with earlier adoption permitted. For comparative amounts, companies have the option of using either a full retrospective approach or a modified retrospective approach as set out in the new standard. Yellow Pages Limited continues to evaluate the impact this standard will have on its interim condensed consolidated financial statements.

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 Pages Limited continues to evaluate the impact this standard will have on its interim condensed consolidated financial statements.

3. BUSINESS ACQUISITIONS

2015

In May 2015, Yellow Pages Homes Limited, a wholly-owned subsidiary of the Company, acquired the assets of Western Media Group from TC Transcontinental for a net purchase price of \$0.9 million. The purchased assets include multi-platform brands in Western Canada, vanmag.com, westernlivingmag.com as well as Western Living Magazine and Vancouver Magazine. These properties generate local lifestyle content specific to the Western Canada region, in the restaurants, homes and lifestyle categories. The fair value of \$0.9 million is mainly comprised of intangible assets.

On July 1, 2015, Yellow Pages Limited acquired all the shares of the ComFree/DuProprio (“CFDP”) network from Square Victoria Digital Properties Inc. for a purchase price of \$50.2 million. The acquisition of CFDP, a leader in connecting home sellers and buyers in Canada, will provide Yellow Pages with an increased presence in the real estate vertical, access to exclusive listings and the platforms required to transact directly with Canadians. The acquisition was fully funded with cash on hand. Transaction costs of \$1.3 million were incurred during the nine-month period ended September 30, 2015, and are included in Restructuring and special charges (refer to Note 7 – Restructuring and special charges).

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

	July 1, 2015
Fair value of business acquired	
Trade and other receivables	\$ 1,461
Other assets	852
Property and equipment	1,339
Intangible assets	1,414
Goodwill	49,669
Deferred income tax assets, net	1,347
Trade and other payables	(2,139)
Provisions	(2,138)
Deferred revenues	(1,594)
	\$ 50,211

As at September 30, 2015, the initial purchase allocation for the acquisition of all the shares of CFDP is preliminary, and will be finalized in the upcoming quarters. As a result, the excess of the purchase price over the fair value of the net assets acquired, which has been allocated to goodwill, may be adjusted retrospectively in future reporting periods.

2014

On June 1, 2014, Yellow Pages Limited acquired the remaining shares of 411 Local Search Corp. (“411”) 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	(16,128)
Fair value for 100% ownership	\$ 14,589
Fair value of business acquired	
Cash acquired	\$ 3,642
Intangible assets	10,636
Other assets	1,277
Deferred income tax assets, net	1,775
Trade and other payables	(1,151)
Deferred revenues	(1,590)
Intangible assets	\$ 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 financial liability was also re-measured at its fair value as at the acquisition date and resulted in a gain of \$2.3 million. The net gain of \$3.6 million was included in financial charges (refer to Note 11 – Financial charges, net).

4. INVESTMENT IN ASSOCIATES

In May 2014, Yellow Pages 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 Pages Limited 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, 2015	December 31, 2014
Senior secured notes	\$ 472,805	\$ 507,014
Obligations under finance leases	617	897
	\$ 473,422	\$ 507,911
Less current portion ¹	106,102	103,152
Non-current portion	\$ 367,320	\$ 404,759

¹ The current portion may vary subject to the Excess Cash Flow clause under the indenture governing the senior secured notes.

6. EXCHANGEABLE DEBENTURES

As at	September 30, 2015	December 31, 2014
Face value of exchangeable debentures	\$ 107,089	\$ 107,089
Less unaccreted interest	17,005	18,130
	\$ 90,084	\$ 88,959

During the nine-months period ended September 30, 2014, \$0.4 million of exchangeable debentures were exchanged for 21,584 common shares of Yellow Pages Limited.

7. RESTRUCTURING AND SPECIAL CHARGES

Yellow Pages Limited recorded restructuring and special charges of \$9.1 million and \$13.7 million for the three and nine-month periods ended September 30, 2015, respectively (2014 - \$2.7 million and \$12.6 million, respectively) relating primarily to internal reorganizations and workforce reductions, as well as transaction costs associated with business acquisitions. For the three and nine-month periods ended September 30, 2015, Yellow Pages Limited utilized \$5.8 million and \$18.1 million, respectively, of the restructuring and special charges provision (2014 - \$4.1 million and \$21 million, respectively).

Subsequent to the quarter ended September 30, 2015, Yellow Pages Limited further reduced its workforce, which will result in restructuring and special charges of approximately \$15 million in the fourth quarter of 2015.

8. POST-EMPLOYMENT BENEFITS

Yellow Pages Limited recorded an actuarial gain of \$5.1 million in other comprehensive income, net of income taxes of \$1.8 million, for the three-month period ended September 30, 2015, primarily as a result of an increase in the discount rate used to measure the post-employments benefits obligation from 4% to 4.25%, offset by a loss due to the plan assets' performance. Yellow Pages Limited recorded an actuarial loss of \$30.1 million in other comprehensive loss, net of income taxes of \$10.9 million, for the three-month period ended September 30, 2014 primarily as a result of a decrease in the discount rate used to measure the post-employment benefits obligation from 4.25% to 4% and a change in mortality assumptions.

Yellow Pages Limited recorded an actuarial gain of \$13.4 million in other comprehensive income, net of income taxes of \$4.9 million, for the nine-month period ended September 30, 2015, primarily as a result of an increase in the discount rate used to measure the post-employments benefits obligation from 4% to 4.25%, partly offset by a loss due to the plan assets' performance. Yellow Pages Limited recorded an actuarial loss of \$52 million in other comprehensive loss, net of income taxes of \$18.8 million, for the nine-month period ended September 30, 2014, primarily as a result of a decrease in the discount rate used to measure the post-employments 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, 2015, the Company amended the retirement and post-employment benefit plans for certain employees which resulted in a recovery of past service costs of \$3.1 million and \$6.6 million, respectively (\$nil for the three and nine-month periods ended September 30, 2014), which was included in operating costs.

9. SHAREHOLDERS' CAPITAL

Common shares

	For the nine-month period ended September 30, 2015	
	Number of Shares	Amount
Balance, December 31, 2014	27,976,661	\$ 4,030,325
Exercise of stock options (Note 10)	41,750	576
Exercise of common share purchase warrants	8	–
Balance, September 30, 2015	28,018,419	\$ 4,030,901

Warrants

During the nine-month period ended September 30, 2015, 8 common shares purchase warrants (“Warrants”) were exercised in exchange for 8 common shares of Yellow Pages Limited. As at September 30, 2015 and December 31, 2014, the Company had a total of 2,995,498 and 2,995,506 Warrants outstanding, respectively.

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 to the net earnings adjusted for any dilutive effect:

For the three and nine-month periods ended September 30,	2015	2014	2015	2014
Weighted average number of shares outstanding used in computing basic earnings per share	26,623,788	26,955,327	26,698,094	27,185,781
Dilutive effect of restricted share units and performance share units	1,390,501	1,021,334	1,303,621	780,439
Dilutive effect of stock options	91,876	113,260	90,743	145,417
Dilutive effect of exchangeable debentures	5,624,422	5,624,422	5,624,422	5,624,422
Weighted average number of shares outstanding used in computing diluted earnings per share	33,730,587	33,714,343	33,716,880	33,736,059
For the three and nine-month periods ended September 30,	2015	2014	2015	2014
Net earnings used in the computation of basic earnings per share	\$ 13,155	\$ 26,542	\$ 55,189	\$ 93,315
Impact of assumed conversion of exchangeable debentures, net of applicable taxes	1,854	1,828	5,536	5,472
Net earnings adjusted for dilutive effect used in the computation of diluted earnings per share	\$ 15,009	\$ 28,370	\$ 60,725	\$ 98,787

For the three and nine-month periods ended September 30, 2015 and 2014, the diluted earnings per share calculation did not take into consideration the potential dilutive effect of the Warrants as well as certain stock options that are not in the money as they are not dilutive.

10. STOCK-BASED COMPENSATION PLANS

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

Restricted Share Unit and Performance Share Unit Plan

During the three and nine-month periods ended September 30, 2015, 58,800 and 417,669 common shares of Yellow Pages Limited, respectively (2014 - nil and 571,322, respectively) were purchased on the open market of the TSX by the trustee appointed under the restricted share unit and performance share unit plan (the "RSU and PSU Plan") at a cost of \$1.1 million and \$6.8 million, respectively (2014 - \$nil and \$12.5 million, respectively) and are restricted for the purpose of funding of the RSU and PSU Plan. The total number of common shares of Yellow Pages Limited held by the trustee for the purpose of funding the RSU and PSU Plan amounted to 1,415,730 as at September 30, 2015.

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

Number of	2015		2014	
	RSUs	PSUs ¹	RSUs	PSUs ¹
Outstanding, beginning of period	399,238	363,290	252,655	131,776
Granted	265,716	360,843	198,008	286,609
Settled	(20,928)	—	(5,861)	—
Forfeited	(85,686)	(147,641)	(33,058)	(50,434)
Outstanding, end of period	558,340	576,492	411,744	367,951
Weighted average remaining life (years)	1.3	1.7	1.7	2

¹ The outstanding number of PSUs represents a payout of 100%. In addition, the potential payout in excess of 100% and limited to a maximum payout of 150% amounted to 288,173 common shares as at September 30, 2015 (2014 - 183,936 common shares).

During the three and nine-month periods ended September 30, 2015, an expense of \$0.3 million and \$4.7 million, respectively (2014 - \$1 million and \$3.1 million, respectively) was recorded in the interim condensed consolidated income statement in operating costs in relation to the RSU and PSU Plan.

Deferred Share Unit Plan

The following table summarizes the status of the deferred share unit (“DSU”) grants during the nine-month periods ended September 30:

	2015		2014	
	Number of DSUs	Liability ¹	Number of DSUs	Liability ¹
Outstanding, beginning of period	151,141	\$ 2,959	100,557	\$ 2,067
Granted ²	41,823	600	44,947	713
Variation due to change in stock price	–	(650)	–	(746)
Outstanding, end of period	192,964	\$ 2,909	145,504	\$ 2,034
Vested, end of period	182,508	\$ 2,909	134,267	\$ 2,034

¹ The liability related to the deferred share unit plan (the “DSU Plan”) is recorded in trade and other payables, and the expense related to the units vested and the variation due to changes in stock price is included in operating costs.

² The liability related to the DSUs granted represents the portion that is vested as at September 30.

Stock Option Plan

The following table summarizes the status of the stock option grants under the stock option plan (the “Stock Option Plan”) during the nine-month periods ended September 30:

	2015		2014	
	Number of options	Weighted average exercise price per option	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	480,200	\$ 15.10	376,000	\$ 10.12
Granted	243,300	\$ 16.50	195,800	\$ 24.35
Exercised	(41,750)	\$ 10.12	–	\$ –
Forfeited	(113,300)	\$ 16.05	(91,600)	\$ 14.42
Outstanding, end of period	568,450	\$ 15.88	480,200	\$ 15.10
Exercisable, end of period	123,500	\$ 10.12	–	\$ –

The following table provides additional information about Yellow Pages Limited’s Stock Option Plan as at September 30:

Exercise price	2015		2014	
	Number of options outstanding	Weighted average remaining life	Number of options outstanding	Weighted average remaining life
\$10.12	224,250	4.6	311,500	5.6
\$16.44	195,900	6.4	–	–
\$17.96	9,200	6.7	–	–
\$19.61	7,700	5.7	7,700	6.7
\$20.33	4,900	5.7	4,900	6.7
\$24.65	126,500	5.4	156,100	6.4
Outstanding, end of period	568,450	5.5	480,200	5.9
Exercisable, end of period	123,500	4.6	–	–

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 options granted. The following table shows the key inputs into the valuation model for the nine-month periods ended September 30:

	2015	2014
Weighted average grant date share price	\$ 15.90	\$ 25.00
Weighted average exercise price	\$ 16.50	\$ 24.35
Expected volatility	38%	30%
Contractual life	7 years	7 years
Risk-free interest rate	1.44%	2.40%
Weighted average fair value per option	\$ 6.16	\$ 8.98

A recovery of \$47 thousand and an expense \$0.6 million was recorded during the three and nine-month periods ended September 30, 2015, respectively (an expense of \$0.4 million and \$0.9 million for the three and nine-month periods ended September 30, 2014, respectively) in relation to the Stock Option Plan.

11. FINANCIAL CHARGES, NET

The significant components of the financial charges are as follows:

For the three and nine-month periods ended September 30,	2015	2014	2015	2014
Interest on long-term debt and exchangeable debentures	\$ 13,076	\$ 15,394	\$ 40,545	\$ 49,027
Net interest on the defined benefit obligation	2,130	2,053	6,368	6,168
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)
Other, net	(431)	(1,438)	(1,283)	544
	\$ 14,775	\$ 16,009	\$ 45,630	\$ 54,874

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 statements of financial position:

	Investment – available-for-sale
As at December 31, 2014 and September 30, 2015	\$ 3,520

Yellow Pages Limited's available-for-sale investment is comprised of a privately held equity security and is carried at fair value based on estimates 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 statements 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 value of cash, trade and other receivables, and trade and other payables is approximately equal to their carrying values due to their short-term maturity. The fair value of the senior secured notes and the exchangeable debentures is evaluated based on quoted market prices at the statement of financial position date.

The following schedule represents the carrying values and the fair values of other financial instruments not measured at fair value on the statement of financial position as at September 30, 2015:

	Level	Carrying Value	Fair Value
Current portion of long-term debt (Note 5)	1	\$ 106,102	\$ 111,494
Non-current portion of long-term debt (Note 5)	1	\$ 367,320	\$ 386,017
Exchangeable debentures (Note 6)	1	\$ 90,084	\$ 112,443

In May 2014, Yellow Pages Limited settled a note receivable with 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).

13. COMPARATIVE FIGURES

Yellow Pages 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 to conform to the current year's presentation. This reclassification has no impact on the total cash flows from operating activities.