MANAGEMENT'S DISCUSSION AND ANALYSIS

August 6, 2014

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 Limited and its subsidiaries for the three and six-month periods ended June 30, 2014 and should be read in conjunction with our audited consolidated financial statements and management's discussion and analysis for the year ended December 31, 2013 as well as our unaudited interim condensed financial statements and accompanying notes for the period ended June 30, 2014. 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", the "Corporation", "Yellow Media" and "YPG" refer to Yellow Media Limited and its subsidiaries (including YPG Financing Inc. (formerly Yellow Media Inc.), Yellow Pages Group Corp., 411 Local Search Corp. (411), Wall2Wall Media Inc. (Wall2Wall), YPG (USA) Holdings, Inc. and Yellow Pages Group, LLC (the latter two collectively YPG USA)).

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 made the following assumptions:

- 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 we will be able to introduce, sell and provision new products and services;
- 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 we will be able to grow traffic across our owned and operated digital properties at the currently anticipated rate;
- that the decline in print revenues will not materially accelerate beyond what is currently anticipated;
- that digital growth will not be materially slower than what is currently anticipated;
- that we will be able to acquire new customers at the currently anticipated rate; 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 forward-looking 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 at 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 the following sections of our MD&A for the year ended December 31, 2013:

- Substantial competition could reduce the market share of the Corporation and could have a material adverse effect on the Corporation, its business, results from operations and financial condition;
- A higher than anticipated rate of decline in print revenue resulting from changes in preferences and consumer habits could have a material adverse effect on the Corporation, its business, results from operations and financial condition;

- The inability of the Corporation to successfully enhance and expand its offering of digital and new media products could have a material adverse effect on the Corporation, its business, results from operations and financial condition;
- The inability of the Corporation to generate sufficient funds from operations, debt financings, equity financings or refinancing transactions could have a material adverse effect on the Corporation, its business, results from operations and financial condition;
- The Corporation's substantial indebtedness could adversely affect its efforts to refinance or reduce its indebtedness and could have a material adverse effect on the Corporation, its business, results from operations and financial condition;
- Incremental contributions by the Corporation to its pension plans could have a material adverse effect on the Corporation, its business, results from operations and financial condition;
- Failure by either the Corporation or the Telco Partners to fulfill the obligations set forth in the agreements between the Corporation and the Telco Partners could result in a material adverse effect on the Corporation, its business, results from operations and financial condition;
- Failure by the Corporation to adequately protect and maintain its brands and trademarks, as well as third party infringement of such, could have a material adverse effect on the Corporation, its business, results from operations and financial condition;
- Work stoppages and other labor disturbances could have a material adverse effect on the Corporation, its business, results from operations and financial condition;
- Challenge by tax authorities of the Corporation's position on certain income tax matters could have a material adverse effect on the Corporation, its business, results from operations and financial condition;
- The loss of key relationships or changes in the level or service provided by digital portals, search engines, individual websites, mobile manufacturers and Operating Systems providers could have a material adverse effect on the Corporation, its business, results from operations and financial condition;
- The failure of the Corporation's computers and communications systems could have a material adverse effect on the Corporation, its business, results from operations and financial condition;
- The Corporation's inability to attract and retain key personnel could have a material adverse effect on the Corporation, its business, results from operations and financial condition;
- The inability of the Corporation to develop IT platforms required to execute the Return to Growth Plan;
- The Corporation might be required to record additional impairment charges;
- The inability of the Corporation to attract and retain customers could have a material adverse effect on the Corporation, its business, results from operations and financial condition;
- A higher than anticipated proportion of revenues coming from the Corporation's digital products with lower margin, such as websites, search engine optimization (SEO) and search engine marketing (SEM), could have a material effect on the Corporation, its business, financial condition and results from operations; and
- The Corporation's business depends on the usage of its online and mobile properties and failure to grow traffic across the Corporation's digital properties could impair its ability to grow revenues and expand its business.

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. 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 at 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 laws.

DEFINITIONS RELATIVE TO UNDERSTANDING OUR RESULTS

Income from Operations before Depreciation and Amortization, Impairment of Intangible Assets and Property, Plant and Equipment and Restructuring and Special Charges (EBITDA)

We report on our EBITDA (Income from operations before depreciation and amortization, impairment of intangible assets and property, plant and equipment and restructuring and special charges). EBITDA is not a performance measure defined under IFRS and is not considered an alternative to income (loss) from operations or net earnings in the context of measuring Yellow Media'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, taxes, interest payments, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed on page 15 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, as reported in accordance with IFRS less an adjustment for capital expenditures. Free cash flow is not a standardized measure and is not comparable with that of other public companies.

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. Free Cash Flow
5. Critical Assumptions
6. Risks and Uncertainties
7. Controls and Procedures

1. OUR BUSINESS, MISSION, STRATEGY AND CAPABILITY TO DELIVER RESULTS

OUR BUSINESS

Yellow Media is a Canadian digital media and print company, offering businesses comprehensive media solutions to meet their key marketing objectives and providing consumers with platforms to access reliable local business information. The Company offers small and medium-sized enterprises (SMEs) personalized marketing solutions comprised of digital and traditional marketing products. These include online and mobile priority placement, search engine solutions, websites, social media, digital display advertising, videos and print advertising. We also provide national-scale businesses with high-end digital marketing and performance media services. Through our sales force of approximately 1,100 media consultants and sales support staff, the Company serves approximately 265,000 local businesses across Canada.

Yellow Media holds one of the largest databases of rich and curated, local business information in Canada. Our customers' local business information reaches Canadian audiences via a variety of owned and operated digital and print media, and through various local search networks. We own and operate some of Canada's leading properties and publications including YP.ca™, Canada411.ca™, RedFlagDeals.com™, Canpages.ca™, 411™ and Yellow Pages™ print directories, as well as the YP, ShopWise and RedFlagDeals mobile search applications. During the second quarter of 2014, our desktop and mobile properties for finding local businesses and deals attracted over 102.4 million total visits. The Company also owns and operates a public application programing interface (API) known as YellowAPI.com, which contains 1.5 million Canadian business listings and enhanced content on over 265,000 businesses.

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, 2013.

2. RESULTS

This section provides an overview of our financial performance during the second quarter of 2014 compared to the same period in 2013. We present several metrics to help our investors better understand our performance. Some of these metrics are not measures recognized by IFRS. Definitions of these financial metrics are provided on page 3 of this MD&A and are important aspects which should be considered when analyzing our performance.

OVERALL

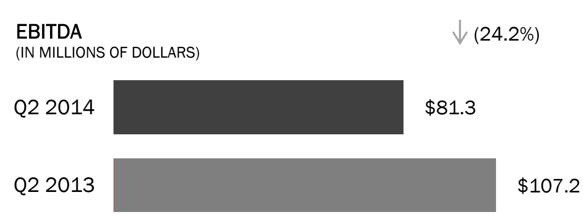
- Revenues decreased by $22.6 million or 9.3% to $220.6 million compared to the second quarter of 2013.
- Income from operations before depreciation and amortization and restructuring and special charges (EBITDA) decreased by $26 million or 24.2% to $81.3 million compared to the second quarter of 2013.

HIGHLIGHTS

(IN THOUSANDS OF CANADIAN DOLLARS– EXCEPT SHARE INFORMATION)

	Three-month periods ended June 30,	
	2014	2013
Revenues	$ 220,579	$ 243,183
Income from operations before depreciation and amortization and restructuring and special charges (EBITDA)	$ 81,261	$ 107,234
Net earnings	$ 27,551	$ 50,326
Basic earnings per share attributable to common shareholders	$ 1.01	$ 1.81
Cash flows from operating activities	$ 57,823	$ 86,457
Free cash flow[1]	$ 42,083	$ 68,463

[1] *Please refer to Section 4 for a reconciliation of free cash flow.*



PERFORMANCE RELATIVE TO BUSINESS STRATEGY

The Company's mission is to champion the local neighbourhood economy by enabling Canada's businesses and its consumers to connect, interact and build relationships. In conjunction, Yellow Media strives to become Canada's leading local digital company, fostering strong business relationships between SMEs and consumers nationally. The realization of this objective will come in multiple, distinct phases.

Fiscal year 2013 marked the completion of the Company's first phase of digital transformation. Supported by a healthier capital structure resulting from the implementation of the recapitalization transaction in December 2012, the Company's first phase of transformation was focused on building the digital foundation required to best meet its long-term objective of becoming Canada's leading local digital company. This was accomplished through the development of new technologies, processes and systems, targeted investments in user and customer experiences, branding as well as in its employees.

The Company's Return to Growth Plan was established in early 2014 to efficiently guide the Company as it executes upon its second phase of transformation. By leveraging the investments made in 2013, as well as the Company's strengthened digital foundation, the Return to Growth Plan is centered on increasing the awareness and perception of the YP brand amongst users and customers, improving the user experience across YP's media properties, evolving the Company's digital solutions, and enhancing the end-to-end customer journey. Successful execution of the Return to Growth Plan will improve Yellow Media's relationship with Canadian SMEs and consumers, with the objective of returning the Company to a growth in customer count by 2017, achieving revenue and EBITDA growth by 2018, and, ultimately, gaining a leadership position within Canada's local digital advertising market. In the long-term, completion of the Return to Growth Plan is intended to provide Yellow Media with a strengthened platform onto which it can diversify, start new digital businesses and meet its objective of becoming Canada's leading local digital company.

To ensure successful execution of Yellow Media's second phase of digital transformation and the Return to Growth Plan, the Company has identified the following key areas of focus for 2014:

- Extend the Brand Promise – Launch targeted advertising campaigns to increase digital brand awareness and perception among consumer audiences and SMEs, as well as underscore the brand's digital transformation;

- Attract Valuable Audiences – Grow digital audiences by delivering a valuable user experience, improving the quality, completeness and relevance of its content, and providing compelling digital properties aimed at addressing local neighborhood discovery;

- Respond to Customer Needs – Provide valuable digital solutions, an improved sales experience, superior execution of clients' marketing campaigns, as well as enhanced customer service to promote customer retention and acquisition;

- Invest in Employees – Support the Company's digital transformation by attracting and retaining the required expertise in information technology (IT), digital media, and customer service while providing the necessary training to increase digital skillsets across the organization; and

- Improve Efficiencies – Implement technologies that will optimize processes, streamline business operations, and, ultimately, promote profitability.

Extend the Brand Promise

Strengthening the perception and awareness of the Yellow Pages brand among consumer audiences and local businesses is critical in growing traffic across Yellow Media's digital media as well as supporting customer acquisition. During the second quarter of 2014, Yellow Media repositioned its "yellowpages.ca" search property to "YP.ca". The introduction of the YP acronym to identify Yellow Media's flagship properties is more modern, easier to remember and better reflective of the Company's digital transformation, while remaining linked to the Company's 100-year brand heritage of connecting businesses and consumers nationwide.

The Company leveraged its new brand repositioning through various national and local business-to-consumer (B2C) advertising initiatives across Canada. From April to June 2014, the Company ran a national television and digital campaign introducing Canadians to the improved content and search functionalities available on the YP mobile application. Most recently, Yellow Media ran an extensive local, out-of-home, multi-media advertising campaign in Toronto, Montreal, Calgary and Vancouver. This local campaign ran in June and July 2014 and consisted of outdoor billboards, event promotions, digital and mobile advertisements, as well as advertisements in transit shelters, on public transportation, and in restaurants and terraces to promote the download and use of the YP mobile application across Canada's largest urban markets. Both the national and local campaigns contributed positively to the usage of the YP mobile application, with average weekly mobile downloads and visits having increased by 65% and 20%, respectively, when compared to pre-campaign periods.

Yellow Media continues to engage in various forms of business-to-business (B2B) advertising to promote customer awareness and adoption of the Company's digital products and services. During the second quarter of 2014, the Company executed radio and digital advertising campaigns in Montreal and Calgary to introduce SMEs to its Booster Pack bundled solution. The Booster Pack is currently being sold through the Company's Acquisition call centers, allowing prospective customers to gain digital exposure at entry-level pricing via packages including a virtual profile and online and mobile priority placement. This radio and digital advertising campaign was further supplemented with the extension of Digital Seminar Series in Alberta and Atlantic Canada. These events have already reached over 1,000 SMEs, informing local businesses of the latest digital marketing trends as well as the products and services offered by YPG to help them succeed in today's digital economy.

Attract Valuable Audiences

Enhancements continue to be made across the Company's owned and operated digital platforms to attract and grow digital audiences. During the second quarter of 2014, the total digital visits metric, which measures the number of visits made across the YP, RedFlagDeals and ShopWise desktop and mobile properties, grew to 102.4 million. This compares to 100.1 million visits for the same period last year.

The Company is focused on evolving its mobile and tablet properties and providing shoppers with a better on-the-go local search experience. New releases of the YP mobile application on iPhone, iPad and Android were launched during the second quarter of 2014, providing users with an improved user interface, more relevant search results, a richer database of local business information and quicker search response times. In recognition of these enhancements, the YP application received various acknowledgments on the App Store, including "Editor's Choice" and "Best New App" in May 2014, "Best of May 2014", and "Top Canadian-Made App" in June 2014. To provide users with a more verticalized search experience, the Company enriched its ShopWise mobile application to include personalization features that allow users to select preferred categories of deals to appear on the homepage, while also having launched a RedFlagDeals.com mobile application on Android.

Improving the quality, completeness and relevance of the content available on its online and mobile properties also remains critical in improving the user experience and growing digital traffic. The Company completed the Online Merchant Management project in mid-July 2014, thereby eliminating stale, obsolete and duplicate information from its existing database of business listings. As at June 30, 2014, 74,000 new merchant profiles were created for publication on Yellow Media's digital properties with close to 100% of business listings having been geo-coded, and a growing percentage of merchant profiles now containing access to local deals, website addresses, and richer customer ratings and reviews.

Responding to Customer Needs

Increasing the customer count is a key factor in promoting revenue and EBITDA growth. As at June 30, 2014, the Company's customer count totalled 265,000, compared to 291,000 customers as at the same period last year. With the goal of returning the Company to a growth in customer count by 2017, Yellow Media continues to actively invest in accelerating the annual run-rate of customer acquisition and delivering an enhanced end-to-end customer journey. For the trailing twelve-month period ended June 30, 2014, YPG acquired 18,400 new customers, compared to 15,300 for the same period last year, and 16,500 for the twelve-month period ended March 31, 2014. Promoted by this growth in customer acquisition, digital-only customers increased to 29,400 as at June 30, 2014, compared to 19,700 at the same period last year. To best support its customer acquisition efforts, the Company continues to grow its Acquisition sales channels through the hiring of new call center sales representatives, as well as develop new product offers and sales programs to increase incoming leads and conversion rates. A new Customer Relationship Management platform is currently being implemented companywide to support these initiatives, allowing for an improved lead assignment process and the ability to efficiently track, assess and manage how leads are worked and converted across each sales channel.

On June 1, 2014, Yellow Media 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. YPG initially acquired a 30% equity interest in 411 on March 9, 2010. 411 is the operator of 411.ca, an online search engine dedicated to finding people and local businesses in Canada. With a sales force of 60 call center representatives servicing approximately 15,000 digital customers across Canada, 411 holds a proven track record in lead generation, lead conversion and customer acquisition. The acquisition of 411 complements Yellow Media's Return to Growth Plan, allowing the Company to leverage the expertise of 411's sales team to best support its customer acquisition efforts.

Yellow Media continues to adapt its customer-facing tools to suit the ever-changing needs of local businesses. During the second quarter of 2014, the Company launched a new version of its B2B 360º Solution website entitled the 360º Business Centre (http://businesscentre.yp.ca/). Equipped with a simplified architecture and a more appealing design, the 360º Business Centre makes it easier for existing and prospective customers to understand how YPG's digital products work and perform. Over the coming quarters, the 360º Business Centre will evolve to provide customers with access to a personalized and secure self-serve portal that will allow them to create and manage their profile, view and pay their bills, and monitor the performance of their marketing campaigns via Yellow Pages Analytics. In conjunction with the launch of the 360º Business Center, a new version of Yellow Pages Analytics was developed, now featuring an easier-to-navigate interface, enhanced performance monitoring of customers' marketing activity, as well as the introduction of a Revenue Calculator to provide customers with insight as to the contacts and revenues generated from their respective marketing campaigns.

The adoption of the Yellow Pages 360º Solution helps promote customer retention, as it provides SMEs with comprehensive, dedicated access to online, mobile and print media placement, customized search engine solutions, website services, social media presence and digital display advertising. As at June 30, 2014, Yellow Pages 360º Solution customers (defined as YPG customers who purchase three product categories or more) held a 91% renewal rate, compared to 83% for non-Yellow Pages 360º Solution customers. The overall customer renewal rate remained stable versus the same period last year, reaching 85% as at June 30, 2014.

The customer penetration of the Yellow Pages 360º Solution grew to 32.9% as at June 30, 2014, compared to 21.1% as at the same period last year. The successful sales execution of the Yellow Pages 360º Solution continues to promote the active migration of print customers towards the Company's digital products and services. Online priority placement remains the Company's highest penetrated digital product offering, with customer penetration having increased to 53% as at June 30, 2014, compared to 40% for the same period last year. Mobile priority placement and digital services are presently the fastest growing digital offerings, with customer penetration reaching 21% and 9%, respectively, as at June 30, 2014. This compares to customer penetration of 10% for mobile priority placement and 8% for digital services as at June 30, 2013.

CUSTOMER PENETRATION[1]

	Three-month periods ended June 30,	
	2014	2013
Print	89%	93%
Owned and Operated Digital Media[2]	62%	60%
Online priority placement	53%	40%
Mobile priority placement	21%	10%
Legacy	7%	21%
Digital Services[3]	9%	8%

[1] *YPG only, excludes Mediative, 411 and Wall2Wall.*

[2] *Percentage of YPG customers purchasing at least one Online priority placement, Mobile priority placement, Virtual Business Profile, HD Video, and/or Legacy product.*

[3] *Percentage of YPG customers purchasing at least one Website, SEO, SEM, Facebook Solution, and/or Smart Digital Display product.*

CUSTOMER RENEWAL AND ACQUISITION

	Twelve-month periods ended June 30,	
	2014	2013
Customer count[4]	265,000	291,000
Customer renewal rate[5]	85%	85%
New customers[5]	18,400	15,300

[4] *Excludes the contribution of 411 and Wall2Wall.*

[5] *YPG only, excludes Mediative, 411 and Wall2Wall.*

Invest in Employees

Yellow Media continues to recruit and develop the talent and expertise required to successfully execute the Return to Growth Plan. During the second quarter of 2014, the Company created a talent-acquisition Center of Excellence responsible for the near-term recruitment of professionals in the domains of IT, digital media and customer service. A new Vice President and Chief Human Resources Officer was also appointed to review all employee related investments and ensure they support the delivery of the Return to Growth Plan. In conjunction, Yellow Media launched employee conferences dedicated to promoting corporate mobilization across the organization. Throughout the second quarter of 2014, the executive management team hosted events for all employees to inform them of the objectives and projects underlying the Plan, as well as their respective roles and responsibilities in supporting its implementation.

Improve Efficiencies

Operational excellence continues to be promoted across the organization to support long-term profitability and the efficient delivery of the Return to Growth Plan. Given declines in print revenues, numerous initiatives are being undertaken across the print franchise to protect cash flows and help fund the Company's digital transformation. The Company is currently consolidating and replacing its legacy print publishing systems across Canada, while also reviewing its existing print distribution model to promote manufacturing and distribution cost savings nationally. In addition, the Company is enhancing core platforms and infrastructure, having consolidated eight of its IT data centers and replaced legacy telephony systems and exchange servers. These projects are expected to generate an aggregate of approximately $15 million of annualized cost savings by late 2015.

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,	
	2014	2013	**2014**	2013
Revenues	**$ 220,579**	$ 243,183	**$ 443,782**	$ 496,460
Operating costs	**139,318**	135,949	**267,900**	273,748
Income from operations before depreciation and amortization and restructuring and special charges	**81,261**	107,234	**175,882**	222,712
Depreciation and amortization	**18,146**	14,779	**36,350**	28,469
Restructuring and special charges	**6,784**	–	**9,899**	6,193
Income from operations	**56,331**	92,455	**129,633**	188,050
Financial charges, net	**19,453**	22,448	**38,865**	46,271
Earnings before income taxes and loss (earnings) from investments in associates	**36,878**	70,007	**90,768**	141,779
Provision for income taxes	**9,261**	19,737	**24,173**	38,154
Loss (earnings) from investments in associates	**66**	(56)	**(178)**	(166)
Net earnings	**$ 27,551**	$ 50,326	**$ 66,773**	$ 103,791
Basic earnings per share attributable to common shareholders	**$ 1.01**	$ 1.81	**$ 2.45**	$ 3.71
Diluted earnings per share attributable to common shareholders	**$ 0.87**	$ 1.55	**$ 2.09**	$ 3.19
Total assets			**$ 1,727,894**	$ 1,802,851
Long-term debt (including current portion, excluding exchangeable debentures)			**$ 573,669**	$ 775,248
Exchangeable debentures			**$ 88,259**	$ 87,305

ANALYSIS OF CONSOLIDATED OPERATING AND FINANCIAL RESULTS

Revenues

Revenues decreased by 9.3% to $220.6 million during the second quarter of 2014 compared with $243.2 million for the same period last year, while decreasing by 10.6% to $443.8 million for the six-month period ended June 30, 2014 compared with $496.5 million for the same period last year. Revenues remain adversely impacted by the overall loss of customers, as well as the reduction of print advertising spend amongst larger customers (see Spending Dynamics table below). Yellow Media will continue to actively invest in accelerating the annual run-rate of customer acquisition and delivering an enhanced end-to-end customer journey, with the objective of returning to a growth in customer count by 2017.

Print revenues continue to experience ongoing declines, decreasing 22.5% year-over-year to reach $112.2 million during the second quarter of 2014 and decreasing 22.6% year-over-year to reach $231.5 million for the six-month period ended June 30, 2014.

Digital revenues across our core YPG operations, which exclude the impact of Mediative, 411 and Wall2Wall, increased by 10.8% year-over-year for the second quarter of 2014 and by 10.7% for the six-month period ended June 30, 2014. Consolidated digital revenues reached $108.4 million in the second quarter of 2014 and $212.3 million for the six-month period ended June 30, 2014, representing a growth of 10.1% and 7.6% respectively. During the second quarter of 2014, consolidated digital revenues represented 49.1% of total revenues, up from 40.5% during the same period in 2013. Growth in digital revenues continues to result from the ongoing migration of traditional media customers towards digital products and services, as well as continued adoption of the Yellow Pages™ 360º Solution across the Company's sales channels. As at June 30, 2014, the penetration of the Yellow Pages 360º Solution offering amongst our customer base grew to 32.9% as compared to 21.1% as at June 30, 2013. This factor led to an improvement in Revenue Generating Units[1,2] (RGU) per customer from 1.76 in the second quarter of 2013 to 1.85 in the second quarter of 2014.

1 *YPG customers only, excluding the impact of Mediative, 411 and Wall2Wall customers.*

2 *Revenue Generating Units measures the number of product groups selected by YPG customers.*

SPENDING DYNAMICS

	Twelve-month periods ended June 30,	
	2014	2013
Amongst Renewing Customers[1]		
Increase in spending[2]		
Customer distribution	**26%**	36%
% of revenues	**29%**	32%
Stable spending[3]		
Customer distribution	**55%**	45%
% of revenues	**27%**	23%
Decrease in spending[4]		
Customer distribution	**19%**	19%
% of revenues	**44%**	45%
Average Revenue per Customer (ARPC)[5]	**$ 3,239**	$ 3,257

1 YPG customers only, excluding the impact of Mediative, 411 and Wall2Wall customers.

2 Renewing YPG customers experiencing an increase in spending over 5%, on a year-over-year basis.

3 Renewing YPG customers experiencing an increase in spending between 0% and 5%, on a year-over-year basis.

4 Renewing YPG customers experiencing a decrease in spending on a year-over-year basis.

5 Excludes the contribution of 411 and Wall2Wall.

OPERATIONAL INDICATORS

	As at June 30,	
	2014	2013
Yellow Pages 360° Solution Penetration[6]	**32.9%**	21.1%
RGU per customer[6]	**1.85**	1.76
Digital only customers[6]	**29,400**	19,700
Digital revenues (in thousands of Canadian dollars)[7]	**$ 108,353**	$ 98,407
Consolidated digital revenues as a percentage of total revenues[7]	**49.1%**	40.5%

6 YPG customers only, excluding the impact of Mediative, 411 and Wall2Wall customers.

7 For the three-month periods ended June 30.

EBITDA

EBITDA decreased by $25.9 million to $81.3 million during the second quarter of 2014 compared with $107.2 million for the same period in 2013 and decreased by $46.8 million to $175.9 million for the six-month period ended June 30, 2014 compared with $222.7 million for the same period last year. The decrease in EBITDA is due mainly to lower revenues combined with a lower EBITDA margin. Our EBITDA margin for the second quarter of 2014 was 36.8% compared to 44.1% for the same period in 2013 and was 39.6% for the six-month period ended June 30, 2014 compared with 44.9% for the same period last year. Lower revenues, investments related to the Return to Growth Plan and increased employee related expenses were the main contributors to the decrease in EBITDA margin for the three and six-month periods ended June 30, 2014, partially offset by lower bad debts resulting from an improved collection experience.

Cost of sales decreased by $4.9 million to $74.7 million during the second quarter of 2014 compared with $79.6 million for the same period in 2013 and decreased by $9.3 million to $148.9 million during the six-month period ended June 30, 2014 compared with $158.2 million for the same period last year. The decrease for the three and the six-month periods ended June 30, 2014 results mainly from lower sales costs associated with lower revenues, lower print manufacturing costs, workforce reductions associated with our legacy business and supplier contract renegotiations. These cost savings were partly offset by an increase in provisioning and fulfillment costs of our digital products and services.

Gross profit margin decreased to 66.1% for the second quarter of 2014 compared to 67.3% for the same period in 2013 and decreased to 66.5% for the six-month period ended June 30, 2014 compared to 68.1% for the same period last year. The decrease is mainly due to a decline in print margins.

General and administrative expenses increased by $8.2 million to $64.6 million during the second quarter of 2014 compared with $56.4 million for the same period in 2013. The increase is primarily due to investments related to the transformation as well as increased employee related expenses, partially offset by lower bad debts. General and administrative expenses increased by $3.5 million to $119 million during the six-month period ended June 30, 2014 compared with $115.5 million for the same period last year. The increase for the six-month period ended June 30, 2014 is attributable to investments related to the transformation and increased employee related expenses, partially offset by lower bad debts as well as a non-recurring benefit associated with the outcome of a litigation.

Depreciation and amortization

Depreciation and amortization increased to $18.1 million during the second quarter of 2014 from $14.8 million in the second quarter of 2013 and to $36.4 million for the six-month period ended June 30, 2014 compared with $28.5 million for the same period last year. The increase is due to capital expenditures in connection with the deployment of platforms as the Company continues its business transformation.

Restructuring and special charges

During the three and six-month periods ended June 30, 2014, we recorded restructuring and special charges of $6.8 million and $9.9 million, respectively, associated primarily with internal reorganizations and workforce reductions in our legacy business. The majority of the $6.2 million charge recorded during the first quarter of 2013 related to the separation package of the Company's former President and Chief Executive Officer.

Financial charges

Financial charges decreased by $2.9 million to $19.5 million during the second quarter of 2014 compared with $22.4 million for the same period in 2013 and decreased by $7.4 million to $38.9 million during the six-month period ended June 30, 2014 compared with $46.3 million for the same period last year. The decrease is mainly attributable to a lower level of indebtedness. During the second quarter of 2014, we recorded a gain of $3.6 million associated with the acquisition of the remaining interest in 411, which was mainly offset by a loss of $1.2 million resulting from the settlement of a note receivable which had a carrying value of $15.3 million for cash proceeds of $14.1 million and the reclassification of an accumulated foreign currency translation loss from equity to net earnings of $1.6 million. As at June 30, 2014 and 2013, the effective average interest rate on our debt portfolio was 9.1%.

Provision for income taxes

The combined statutory provincial and federal tax rates were 26.5% and 26.4% for the three and six-month periods ended June 30, 2014 and 2013, respectively. The Company recorded an expense of 25.1% and 26.6% of earnings for the three and six-month periods ended June 30, 2014, respectively. The difference between the effective and the statutory rates in the second quarter of 2014 is due to the gain on business acquisition related to 411 of $3.6 million that is not taxable. For the six-month period ended June 30, 2014, the impact of the gain on business acquisition was offset by certain expenses that are not deductible for tax purposes. Excluding these items, the effective tax rates for the three and six-month periods ended June 30, 2014 would have been in line with the statutory rates.

The Company recorded an expense of 28.2% and 26.9% of earnings for the three and six-month periods ended June 30, 2013, respectively. The difference between the effective and the statutory rates in the second quarter of 2013 is due to the non-deductibility of certain payments for tax purposes. In the second quarter of 2013, an additional deferred income tax liability was recorded due to the increase of the statutory tax rate of the province of British Columbia.

Earnings from investments in associates

On June 1, 2014, we acquired the remaining 70% interest in 411. We recorded a loss of $0.1 million during the second quarter, for the period from April 1, 2014 up to the acquisition date (earnings of $0.1 million for the three-month period ended June 30, 2013). For the six-month period ended June 30, 2014 and 2013, we recorded earnings of $0.2 million. Our earnings from our investments in associates for the six-month period ended June 30, 2013 included the amortization of intangible assets in connection with this equity investment.

Net earnings

We recorded net earnings of $27.6 million during the second quarter of 2014 compared with $50.3 million for the same period last year. For the six-month period ended June 30, 2014, net earnings decreased to $66.8 million from $103.8 million for the same period last year. The decrease for the quarter and for the six-month period ended June 30, 2014 is mainly due to a lower reported EBITDA.

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

QUARTERLY RESULTS

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

	2014		2013				2012[1]	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	$ 220,579	$ 223,203	$ 237,951	$ 237,350	$ 243,183	$ 253,277	$ 264,447	$ 267,711
Operating costs	139,318	128,582	146,698	135,203	135,949	137,799	122,770	129,821
Income from operations before depreciation and amortization, impairment of intangible assets and property, plant and equipment and restructuring and special charges (EBITDA)	81,261	94,621	91,253	102,147	107,234	115,478	141,677	137,890
EBITDA margin	36.8%	42.4%	38.3%	43%	44.1%	45.6%	53.6%	51.5%
Depreciation and amortization	18,146	18,204	16,106	15,589	14,779	13,690	23,395	26,597
Impairment of intangible assets and property, plant and equipment	–	–	–	–	–	–	300,000	–
Restructuring and special charges	6,784	3,115	13,134	4,011	–	6,193	18,111	26,812
Income (loss) from operations	56,331	73,302	62,013	82,547	92,455	95,595	(199,829)	84,481
(Gain) loss on settlement of debt	–	–	–	–	–	–	(994,894)	10,818
Net earnings	27,551	39,222	30,964	41,775	50,326	53,465	821,850	22,236
Basic earnings per share attributable to common shareholders[2]	$ 1.01	$ 1.43	$ 1.11	$ 1.51	$ 1.81	$ 1.91	$ 29.24	$ 0.59
Diluted earnings per share attributable to common shareholders[2]	$ 0.87	$ 1.22	$ 0.97	$ 1.30	$ 1.55	$ 1.64	$ 28.50	$ 0.59

[1] *Revised to reflect the adoption of IAS 19 (Revised), Employee Benefits, effective January 1, 2013, and requiring retrospective application. Please refer to Note 2 of the Consolidated Financial Statements of Yellow Media Limited for the year ended December 31, 2013.*

[2] *Pursuant to the closing of the recapitalization transaction on December 20, 2012, the common shares of YPG Financing Inc. were exchanged for new common shares of Yellow Media Limited in accordance with the terms of the plan of arrangement implementing the recapitalization transaction. As a result, the weighted average number of common shares outstanding for 2012 has been adjusted to reflect the recapitalization.*

Revenues decreased throughout the quarters due to the overall loss of customers and the reduction of print advertising spend amongst larger customers, partially offset by an increase in revenues of our digital products. Revenues for the fourth quarter of 2013 increased slightly from the previous quarter. This was impacted by non-recurring print revenues as well as higher revenues at Mediative associated with the holiday shopping period.

In the fourth quarter of 2012, first quarter of 2013, and second quarter of 2013, we recorded non-cash benefits of $13.3 million, $2.6 million and $4.6 million, respectively, related to amendments to our pension and post-retirement benefit plans. Our EBITDA margin decreased throughout 2013, primarily reflecting lower print revenues, the loss of margin from a change in product mix and investments made to support our business transformation, partly offset by continuous improvements in the collection experience of our trade receivables resulting from lower bad debts. The fourth quarter of 2013 was also negatively impacted by non-recurring legal provisions and a sales tax assessment. Our EBITDA margin sequentially increased in the first quarter of 2014 mainly due to a non-recurring benefit associated with the outcome of a litigation. In the second quarter of 2014, our EBITDA margin decreased primarily due to lower revenues and investments related to the Return to Growth Plan, partially offset by lower bad debts.

Workforce reductions and cost containment initiatives resulted in restructuring and special charges impacting certain of our quarterly results presented above. Net earnings for 2012 was affected by depreciation and amortization of intangible assets related to the acquisition of Canpages. The decrease in 2013 of depreciation and amortization compared to 2012 was also due to a lower cost base of assets to depreciate and amortize following the $300 million impairment recorded in the fourth quarter of 2012. The increase in depreciation and amortization quarter-over-quarter starting in the second quarter of 2013 is due to increased capital expenditures in connection with the deployment of platforms as the Company continues its business transformation.

During the fourth quarter of 2012, we recorded a gain of $978.6 million on the settlement of debt pursuant to the recapitalization, net of related fees of $69.5 million, write-off of deferred financing costs of $16.3 million, deferred gains of $5.5 million, an equity component of $7.2 million and a derivative component of $0.6 million, associated with our previous debt instruments. Upon closing of the recapitalization transaction in the fourth quarter of 2012, $5.5 million and $10.8 million of recapitalization costs recorded in the second and third quarters of 2012, respectively, were reclassified to the gain on settlement of debt. The change in presentation of recapitalization costs and income from operations were made in the prior periods to conform to the December 31, 2013 presentation.

3. LIQUIDITY AND CAPITAL RESOURCES

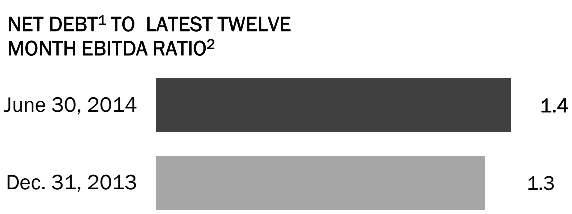
This section examines the Company's capital structure, sources of liquidity and various financial instruments including its debt instruments.

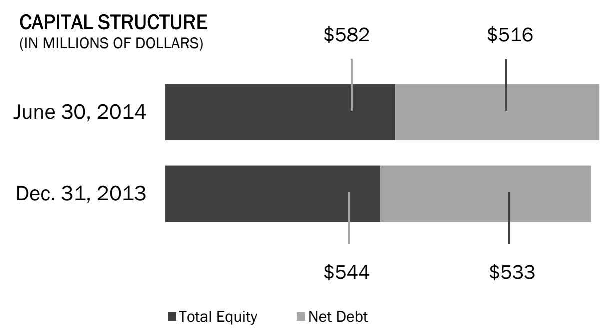
FINANCIAL POSITION

CAPITAL STRUCTURE

(IN THOUSANDS OF CANADIAN DOLLARS)

	As at June 30, 2014		As at December 31, 2013	
Cash and cash equivalents	$	146,225	$	202,287
Senior secured notes	$	573,062	$	646,577
Obligations under finance leases		607		891
Exchangeable debentures		88,259		87,934
Net debt, net of cash and cash equivalents[1]	$	515,703	$	533,115
Equity attributable to the shareholders		581,584		544,495
Total capitalization	$	1,097,287	$	1,077,610
Net debt to total capitalization		47%		49.5%





As at June 30, 2014, Yellow Media had $515.7 million of net debt, compared to $533.1 million as at December 31, 2013.

The net debt to Latest Twelve Month EBITDA[2] ratio as at June 30, 2014 was 1.4 times compared to 1.3 times as at December 31, 2013. The increase is mainly due to lower EBITDA.

[1] *Net debt is a non-IFRS measure defined as long-term external debt, net of cash and cash equivalents, as reported in accordance with IFRS.*

[2] *Latest twelve month income from operations before depreciation and amortization and restructuring and special charges, (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 3 for a definition of EBITDA.*

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 June 30, 2014, the fixed charge coverage ratio fell below 1.1 times. As such, $45 million of the ABL was available and was undrawn as at June 30, 2014. Interest is calculated based either on the BA Rate or the Canadian Prime Rate plus an applicable margin.

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

Senior Secured Notes

On December 20, 2012, the Company, through its subsidiary YPG Financing Inc., issued $800 million of 9.25% senior secured notes (the Senior Secured Notes) maturing November 30, 2018. Interest on the Senior Secured Notes is payable in cash, quarterly in arrears, in equal instalments on the last day of February, May, August and November of each year.

The Company repaid $153.4 million of its Senior Secured Notes in 2013 and $73.5 million during the second quarter of 2014.

As at June 30, 2014, the Company was in compliance with all covenants under the indenture governing the Senior Secured Notes.

Mandatory Redemption

Pursuant to the indenture governing the Senior Secured Notes, the Company is required to use an amount equal to 75% of its consolidated Excess Cash Flow for the immediately preceding six-month period ending March 31 or September 30, as applicable, to redeem on a semi-annual basis on the last day of May and November of each year, commencing on May 31, 2013, the Senior Secured Notes at a redemption price equal to 100% of the principal amount thereof from holders on a pro rata basis, subject to the Company maintaining a minimum cash balance of $75 million immediately following the mandatory redemption payment. The $75 million minimum cash balance condition is subject to a reduction in certain cases provided in the indenture governing the Senior Secured Notes. Excess Cash Flow, as defined in the indenture governing the Senior Secured Notes, means the aggregate cash flow from operating activities adjusted for, among other things, payments relating to interest, taxes, long-term employee compensation plans, certain pension plan contribution payments and the acquisition of property, plant and equipment and intangible assets. The Company is required to make minimum annual aggregate mandatory redemption payments of $75 million in 2014, $50 million in 2015, or if the redemption payments made in 2014 exceed $75 million, $50 million less such excess redemption payment. The minimum annual aggregate mandatory redemption payments for 2014 and 2015 are not subject to the condition that the Company maintain a minimum cash balance of $75 million immediately following such payments.

For purposes of determining the consolidated Excess Cash Flow, deductions for capital expenditures and information systems/ information technology expenses are each subject to an annual deduction limit of $50 million. Under other circumstances, the Company may also have to make additional repayments on the Senior Secured Notes (refer to the indenture governing the Senior Secured Notes).

The Company made a mandatory redemption payment of $73.5 million on June 2, 2014 and as such, has sufficient financial liquidity to meet the minimum annual aggregate mandatory redemption payments of $75 million in 2014.

Optional Redemption

The Company may redeem all or part of the Senior Secured Notes at its option, upon not less than 30 nor more than 60 days prior notice, at a redemption price equal to:

- In the case of a redemption occurring prior to May 31, 2017, 105% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date; or
- In the case of a redemption occurring on or after May 31, 2017, 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date.

Exchangeable Debentures

On December 20, 2012, the Company, through its subsidiary YPG Financing Inc., issued $107.5 million of senior subordinated exchangeable debentures (Exchangeable Debentures) due November 30, 2022.

Interest on the Exchangeable Debentures accrues at a rate of 8% per annum if, for the applicable interest period, it is paid in cash or 12% per annum, for the applicable interest period, if the Company makes a Payment in Kind (PIK) election to pay interest in respect of all or any part of the then outstanding Exchangeable Debentures in additional Exchangeable Debentures. Interest on the Exchangeable Debentures is payable semi-annually in arrears in equal instalments on the last day of May and November of each year.

As at June 30, 2014, the Company was in compliance with all covenants under the indenture governing the Exchangeable Debentures.

Exchange Option

The Exchangeable Debentures are exchangeable at the holder's option into common shares at any time at an exchange price per common share equal to $19.04, subject to adjustment for specified transactions.

During the three and six-month periods ended June 30, 2014, $0.4 million of exchangeable debentures were exchanged for 20,797 common shares and 21,584 common shares of Yellow Media Limited, respectively.

Optional Redemption

The Company may, at any time on or after the date on which all of the Senior Secured Notes have been repaid in full, redeem all or part of the Exchangeable Debentures at its option, upon, not less than 30 nor more than 60 days' prior notice, at a redemption price equal to:

- In the case of a redemption occurring prior to May 31, 2021, 110% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date; or
- In the case of a redemption occurring on or after May 31, 2021, 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date.

CREDIT RATINGS

DBRS LIMITED	STANDARD AND POOR'S RATING SERVICES
B (low)/Issuer rating – stable trend	B/Corporate credit rating – stable outlook
CCC (high)/Credit rating for Senior Secured Notes	B+/Credit rating for Senior Secured Notes
CCC/Credit rating for Exchangeable Debentures	CCC+/Credit rating for Exchangeable Debentures

See the Company's Annual Information Form dated March 25, 2014 for additional information.

Liquidity

The Company's principal source of liquidity is cash generated from operations and cash on hand. The Company expects to generate sufficient liquidity to fund capital expenditures, working capital requirements and current obligations, including the mandatory repayments on the Senior Secured Notes. The Company had approximately $143.9 million of cash and cash equivalents as at August 5, 2014 and $45 million available under the ABL.

Share data

As at August 6, 2014, outstanding share data was as follows:

OUTSTANDING SHARE DATA

	As at August 6, 2014	As at June 30, 2014	As at December 31, 2013
Common shares outstanding	**27,976,661**	27,976,661	27,955,077
Exchangeable Debentures outstanding[1]	**5,624,422**	5,624,422	5,646,008
Common shares warrants outstanding	**2,995,506**	2,995,506	2,995,506

[1] *As at August 6, 2014, Yellow Media had $107.1 million principal amount of Exchangeable Debentures outstanding, which amount is exchangeable into 5,624,422 common shares of Yellow Media Limited at an exchange price of $19.04, subject to adjustment for specified transactions pursuant to the indenture governing the Exchangeable Debentures.*

Options

On December 20, 2012, as part of the implementation of Yellow Media'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 (the Participants) of Yellow Media 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 through the transition and 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 options may be granted under the Stock Option Plan.

On May 6, 2013, 376,000 options were granted to the Participants. The options have an exercise price of $10.12 and vest 50% in February 2015, 25% in February 2016 and 25% in February 2017.

On February 25, 2014, 183,200 options were granted to the Participants. The options have an exercise price of $24.65 and vest 50% in February 2016, 25% in February 2017 and 25% in February 2018.

During the second quarter of 2014, a total of 12,600 options was granted to certain Participants. The options have a weighted average exercise price of $19.89 and vest 50% in February 2016, 25% in February 2017 and 25% in February 2018. During the second quarter of 2014, 31,300 options were forfeited with a weighted average exercise price per option of $15.83. These options were expected to vest between February 2016 and February 2018.

The options expire seven years after the grant date and Participants are required to hold 25% of the common shares received pursuant to the exercise of the options until the Participants meet the ownership guidelines which apply to their respective levels.

SOURCES AND USES OF CASH

(IN THOUSANDS OF CANADIAN DOLLARS)

	Six-month periods ended June 30,			
		2014		2013
Cash flows from operating activities				
Cash flows from operations	$	72,675	$	149,633
Change in operating assets and liabilities		(3,942)		23,412
	$	68,733	$	173,045
Cash flows used in investing activities				
Additions to intangible assets	$	(27,197)	$	(29,193)
Acquisition of property, plant and equipment		(2,751)		(7,748)
Business acquisition, net of cash acquired		(22,698)		(3,581)
Proceeds from the settlement of a note receivable		14,100		—
Other		—		198
	$	(38,546)	$	(40,324)
Cash flows used in financing activities				
Purchase of restricted shares	$	(12,450)	$	(2,405)
Repayment of long-term debt		(73,799)		(26,360)
Deferred consideration		—		(5,624)
Recapitalization costs		—		(6,629)
Other		—		(133)
	$	(86,249)	$	(41,151)

Cash flows from operating activities

Cash flows from operations

Cash flows from operations decreased by $76.9 million from $149.6 million for the six-month period ended June 30, 2013 to $72.7 million in the first six months of 2014, mainly due to lower cash EBITDA of $45.9 million, higher income taxes paid of $23.1 million as Yellow Media was not required to pay income tax installments in 2013 and higher restructuring and special charges payments of $9 million primarily related to the November 2013 workforce realignment.

Change in operating assets and liabilities

The change in operating assets and liabilities for the six-month period ended June 30, 2014 generated an outflow of $3.9 million compared with an inflow of $23.4 million for the same period last year. During the six-month period ended June 30, 2013, an improved collection experience of our trade receivables contributed mainly to the inflow. The outflow for the six-month period ended June 30, 2014 is due principally to the payment of the 2013 variable employee compensation.

Cash flows used in investing activities

Cash used in investing activities amounted to $38.5 million for the six-month period ended June 30, 2014 compared with $40.3 million for the same period last year. During the first six months of 2014, we invested in software development and IT equipment in the amount of $27.2 million and $2.8 million, respectively, which in total was less than the corresponding amounts of $29.2 million and $7.7 million, respectively, spent during the same period last year. The decrease year-over-year is due to the timing of investments in our initiatives. During the second quarter of 2014, we acquired the remaining interest in 411 for a net consideration of $22.7 million, which was offset by cash proceeds of $14.1 million received resulting from the settlement of a note receivable which had a carrying value of $15.3 million.

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,	
	2014	2013	2014	2013
Sustaining	$ 4,219	$ 6,004	$ 6,126	$ 13,480
Growth	15,771	9,647	26,315	19,581
Total	$ 19,990	$ 15,651	$ 32,441	$ 33,061
Adjustment to reflect expenditures on a cash basis	(4,250)	2,343	(2,493)	3,058
Acquisition of property, plant, equipment and intangible assets, net of lease inducements	$ 15,740	$ 17,994	$ 29,948	$ 36,119

Sustaining capital expenditures are related to the ongoing operations required to maintain the integrity of the infrastructure. It also includes investments in leasehold improvements during the first six-months of 2013 as we reconfigured certain premises to accommodate our growing digital fulfillment teams. Sustaining capital expenditures amounted to $4.2 million for the three-month period ended June 30, 2014, compared to $6 million for the same period last year.

Growth capital expenditures relate to the development and implementation of new technology and software aimed at new initiatives as we continue our transformation to become a leading local digital company in Canada. During the second quarter of 2014, these amounted to $15.8 million compared to $9.6 million for the same period last year. During the second quarter of 2014, our capital expenditures were mainly composed of investments in our sales tools and media platforms, in the consolidation of our legacy print publishing platforms and in key infrastructure platforms such as telephony and our new data centers.

The total capital expenditures for 2014 are expected to range between $85 and $90 million, primarily related to the development of IT platforms to support growth in digital audiences, increased customer acquisition, improvements to the end-to-end customer journey, business efficiency and new product introduction.

Cash flows used in financing activities

Cash used in financing activities amounted to $86.2 million during the six-month period ended June 30, 2014 compared to $41.2 million for the same period last year. During the second quarter, we repaid $73.5 million of the Senior Secured Notes. During the first six months of 2014, we purchased common shares of Yellow Media Limited on the open market to fund the Restricted Share Unit and Performance Share Unit Plan at a cost of $12.5 million compared to $2.4 million during the same period last year. During the first six-months of 2013, we paid $6.6 million of costs associated with our 2012 recapitalization and $5.6 million relative to earn-outs to former owners of acquired businesses.

FINANCIAL AND OTHER INSTRUMENTS

(See Note 21 of the Consolidated Financial Statements of the Company for the year ended December 31, 2013).

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, long-term debt and Exchangeable Debentures.

Derivative Instruments

There is no carrying value of embedded derivatives as at June 30, 2014. The carrying value is calculated, as is customary in the industry, using discounted cash flows based on quarter-end market rates.

4. FREE CASH FLOW

FREE CASH FLOW

(IN THOUSANDS OF CANADIAN DOLLARS)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2014	2013	2014	2013
Cash flow from operating activities	$ 57,823	$ 86,457	$ 68,733	$ 173,045
Capital expenditures, net of lease inducements	15,740	17,994	29,948	36,904
Free cash flow	$ 42,083	$ 68,463	$ 38,785	$ 136,141

5. CRITICAL ASSUMPTIONS

When we prepare our consolidated 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, 2013. These critical assumptions and estimates relate to intangible assets, property, plant and equipment, employee future benefits and income taxes. Please refer to Section 5 – Critical Assumptions of our MD&A for the year ended December 31, 2013.

ACCOUNTING STANDARDS

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 the interim condensed consolidated financial statements for the three and six-month periods ended June 30, 2014 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 will be included in IFRS 9 — *Financial Instruments*. The amendments require retrospective application.

Standards, interpretations and amendments to published standards that are issued but not yet effective

IFRS 9 — Financial Instruments

This new standard replaces the requirements in IAS 39 — *Financial Instruments: Recognition and Measurement* for classification and measurement of financial assets and liabilities. IFRS 9 is the first part of a multi-phase project to replace IAS 39. The IASB intends to make further changes in financial instruments accounting, and has separated its project to amend IFRS 9 into three phases: classification and measurement, impairment methodology and hedge accounting. IFRS 9 introduces new requirements for classifying and measuring financial assets, new requirements on accounting for financial liabilities and includes a new general hedge accounting model. The IASB intends to expand IFRS 9 to add new requirements for impairment of financial assets measured at amortized cost and include limited amendments to the classification and measurement requirements.

The current version of IFRS 9 does not include a mandatory effective date but is available for early adoption. An effective date will be added when all phases of the project are complete and a final version of IFRS 9 is issued. At its February 2014 meeting, the IASB tentatively decided that the mandatory effective date of IFRS 9 would be no earlier than annual periods beginning on or after January 1, 2018. Yellow Media Limited continues to actively monitor this standard and to evaluate the impact this standard will have on the presentation of 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 actively monitor this standard and to evaluate the impact this standard will have on the presentation of its consolidated financial statements.

6. RISKS AND UNCERTAINTIES

Please refer to the Risks and Uncertainties section of our MD&A for the year ended December 31, 2013 and our Annual Information Form dated March 25, 2014 for a complete description of the risk factors to which the Company may be exposed, including, for example, "Substantial competition could reduce the market share of the Corporation and could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "A higher than anticipated rate of decline in print revenue resulting from changes in preferences and consumer habits could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The inability of the Corporation to successfully enhance and expand its offering of digital and new media products could have a material adverse effect on the Corporation, its business, results from operations and financial condition", "The inability of the Corporation to generate sufficient funds from operations, debt financings, equity financings or refinancing transactions could have a material adverse effect on the Corporation, its business, results from operations and financial condition".

Understanding and managing risks are important parts of the Company'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 the Company's risks, 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.

The Company has put in place certain guidelines in order to seek to manage the risks to which it may be exposed. Despite these guidelines, the Company cannot provide assurances that any such efforts will be successful. Our risks and uncertainties have not changed since the release of our MD&A for the year ended December 31, 2013. For more information, please refer to the corresponding section in our MD&A for the year ended December 31, 2013.

7. CONTROLS AND PROCEDURES

There were no changes to the Corporation's internal controls over financial reporting that occurred during the period beginning on January 1, 2014 and ended on June 30, 2014 that have materially affected or are reasonable likely to materially affect the Corporation's internal controls over financial reporting.