MANAGEMENT'S DISCUSSION AND ANALYSIS

November 12, 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 nine-month periods ended September 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 September 30, 2014. Quarterly reports, the annual report and supplementary information can be found under the "Financial Reports" section of our corporate web site: http://corporate.yp.ca. 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 "YP" 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 YP 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 YP. 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, business acquisitions, 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 and print media 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. Yellow Media also provides national-scale businesses with high-end digital marketing and performance media services. Through our sales force of approximately 1,100 media account consultants (MACs) and sales support staff, the Company serves approximately 260,000 local businesses across Canada.

Yellow Media holds one of the largest databases of rich and curated local business information in Canada, which reaches Canadian audiences via a variety of owned and operated digital and print media, as well as through various local search networks. The Company owns and operates some of Canada's leading publications and properties including the Yellow Pages™ print directories, YP.ca™, Canada411.ca™, RedFlagDeals.com™, Canpages.ca™ and 411.ca desktop websites as well as the YP, YP Shopwise™, RedFlagDeals and Canada411 mobile search applications.

To review Yellow Media's 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 third 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

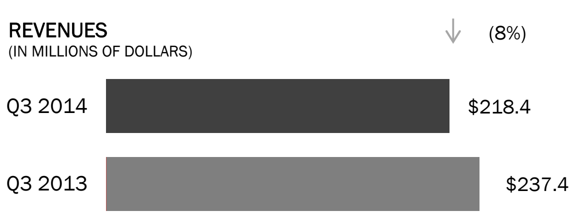
- Revenues decreased by $18.9 million or 8% to $218.4 million compared to the third quarter of 2013.
- Income from operations before depreciation and amortization and restructuring and special charges (EBITDA) decreased by $26.9 million or 26.3% to $75.3 million compared to the third quarter of 2013.
- Consolidated digital revenues represented 52% of consolidated revenues, up from 42.8% during the same period in 2013.

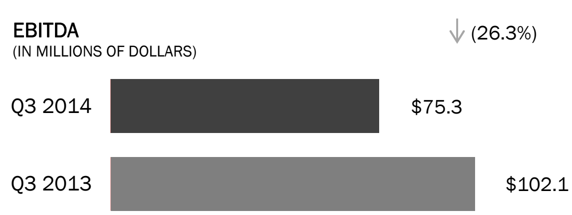
HIGHLIGHTS

(IN THOUSANDS OF CANADIAN DOLLARS– EXCEPT SHARE INFORMATION)

	Three-month periods ended September 30,	
	2014	2013
Revenues	$ 218,427	$ 237,350
Income from operations before depreciation and amortization and restructuring and special charges (EBITDA)	$ 75,262	$ 102,147
Net earnings	$ 26,542	$ 41,775
Basic earnings per share attributable to common shareholders	$ 0.98	$ 1.51
Cash flows from operating activities	$ 57,208	$ 79,191
Free cash flow[1]	$ 37,641	$ 64,260

[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. This objective will be realized through multiple, distinct phases.

Fiscal year 2013 marked the completion of the Company's first phase of digital transformation, whereby the Company invested in the development of new technologies, processes and systems, as well as in branding and its employees, to strengthen its digital foundation. In early 2014, the Company established the Return to Growth Plan to efficiently guide the execution of its second phase of transformation and strengthen its relationship with Canadian SMEs and consumers. By achieving a growth in customer count by 2017, the Return to Growth Plan is aimed at returning Yellow Media to revenue and EBITDA growth in 2018. Successful execution of the Return to Growth Plan will allow Yellow Media to gain a leadership position within Canada's local digital advertising market and ultimately provide it with a strengthened platform onto which it can diversify, start new digital businesses and meet its long-term objective of becoming Canada's leading local digital company.

To ensure successful implementation 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 – Deliver an enhanced user experience, improve the quality, completeness and relevance of content, and provide compelling digital properties for local neighborhood discovery to promote growth in digital audiences;
- 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 accelerate customer acquisition and protect customer retention;
- Invest in Employees – Support the Company's digital transformation by attracting and retaining the required expertise in information technology, digital media, sales 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 promote profitability.

Extend the Brand Promise

By contributing to changing the perception of Yellow Pages among consumers and SMEs, branding initiatives are essential in helping Yellow Media gain a leadership position within the local digital advertising market. Throughout 2014, targeted business-to-consumer (B2C) and business-to-business (B2B) campaigns have been launched nationally to improve the brand's digital perception, increase the use of YP's digital properties, and better support customer acquisition and the adoption of the Company's digital solutions.

On the B2C front, the Company has already invested in a number of multimedia campaigns to grow awareness and adoption of the YP mobile application. Following a television advertisement campaign that ran nationally from April to June 2014, the Company completed an extensive out-of-home advertising campaign across Canada's largest urban markets. Named the Local Market Attack, this campaign was comprised of outdoor billboards, event promotions, digital pre-rolls and advertisements in highly trafficked urban centers within Toronto, Montreal, Calgary and Vancouver. The Local Market Attack saw success across each of these markets, resulting in strong brand recollection, material uplift in key brand perception metrics, as well as growth in the number of downloads of the YP mobile application. A second wave of digital advertising is currently taking place in these same markets to raise awareness and usage of the Gas Price and Deals features available on the YP mobile application.

To increase customer acquisition and the adoption of YP's digital solutions, the Company continues to engage in various B2B initiatives across Canada. The Company is currently extending a radio campaign in Vancouver, which already took place in Montreal, Toronto and Calgary earlier this year, to promote its website and Facebook offerings. In addition, content marketing initiatives continue to be rolled out nationally, designed to educate current and prospective customers on the latest trends in digital marketing as well as YP's digital suite of products and services.

As an extension to its B2C and B2B campaigns, Yellow Media is in the process of enhancing its brand architecture. Under the new architecture, most of the Company's properties and solutions will be rebranded "YP" or "Yellow Pages", making them easier to remember while promoting top-of-mind awareness. As the "Yellow Pages" brand remains highly recognized and respected in Canada, this redesigned architecture will also leverage the brand's 100-year heritage of connecting businesses and consumers nationwide. To date, the Company has simplified its "yellowpages.ca" search property to "YP.ca." Its corporate identity was also changed from "Yellow Pages Group" to "Yellow Pages," and is presently being reflected across the Company's corporate website, employee e-mail addresses, stationary and external signage.

Attract Valuable Audiences

Growing traffic across Yellow Media's digital properties is key in delivering valuable return on investment (ROI) to existing and prospective customers. Total digital visits, which measures the number of visits made across the YP, RedFlagDeals and YP Shopwise desktop and mobile properties, grew to 110.2 million during the third quarter of 2014. This compares to 100.4 million visits for the same period last year.

Having complete, rich and relevant content is fundamental to providing users with compelling search properties for local neighbourhood discovery. Throughout 2014, the Company continued to improve the completeness and relevance of all content available on its platforms. As at September 30, 2014, approximately 215,000 new merchant profiles were created for publication on Yellow Media's digital properties, as compared to 74,000 as at June 30, 2014. New editorial content was also made available on YP.ca to promote a stronger level of user engagement. During the third quarter of 2014, a collection of articles focused on assisting users in making educated and informed shopping decisions, known as Smart Tips, was published across YP's digital properties. The "Best of the Neighbourhood" caption was also introduced, allowing for the discovery of top-ranked local businesses in and around users' neighbourhoods.

The Company is presently developing new verticals to deliver a more targeted search experience in underpenetrated categories such as shopping, restaurants, real estate and leisure. In October 2014, Yellow Media launched an updated version of its Shopwise mobile application on iOS and Android. Rebranded YP Shopwise and featured as "Best New App" on the App Store, the mobile application now contains a redesigned homepage, easier-to-navigate functionalities and flyers from approximately 50 retailers available for download.

Responding to Customer Needs

Increasing Yellow Media's customer count is a key driver in delivering long-term, sustainable revenue and EBITDA growth. As at September 30, 2014, the Company's customer count totalled 260,000 compared to 283,000 customers as at the same period last year. Accelerating customer acquisition is at the core of the Company's ability to return to a growing customer base. For the trailing twelve-month period ended September 30, 2014, YP acquired 20,200 new customers, compared to 14,800 for the same period last year and 18,400 for the twelve-month period ended June 30, 2014. The acceleration in customer acquisition is fueled by an expanding sales team, introduction of new sales incentive programs and entry-level digital product offerings, as well as the gradual roll out of a new Customer Relationship Management platform to optimize lead assignment and management across sales channels.

The adoption of the YP™ 360º Solution remains a key lever in supporting customer retention, providing SMEs with access to a full suite of digital solutions, such as online and mobile placement, customized search engine solutions, website services, social media presence and digital display advertising. The customer penetration of the YP 360º Solution, defined as customers who purchase three product categories or more, grew to 34.9% as at September 30, 2014, compared to 24% as at the same time last year. Renewal among YP 360º Solution customers is presently at 90%, as compared to 82% for non-YP 360º Solution customers and 85% across YP's entire customer base. To further improve customer satisfaction and renewal rates, tools are also being launched within the Company's sales, fulfillment and customer service functions to deliver SMEs an improved sales experience, timely and quality delivery of digital solutions, as well as quicker resolution of customer inquiries.

CUSTOMER RENEWAL AND ACQUISITION

	Twelve-month periods ended September 30,	
	2014	2013
Customer count[1]	**260,000**	283,000
Customer renewal rate[2]	**85%**	85%
New customers[2]	**20,200**	14,800

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

[2] *YP core only, excludes Mediative, 411 and Wall2Wall.*

Invest in Employees

Yellow Media is actively recruiting talent, while creating a dynamic workspace environment to foster digital innovation. During the third quarter of 2014, Yellow Media held employee events to communicate progress, promote corporate mobilization and highlight the key roles employees play as ambassadors of Yellow Media's Return to Growth Plan. The event yielded high satisfaction rates across the organization, with employees expressing an improved understanding of the Company's core initiatives, motivation to execute upon these projects, and heightened confidence in Yellow Media's ability to succeed in its digital transformation.

Improve Efficiencies

Yellow Media is deploying projects to generate cost savings and efficiencies across the organization. The Company continues to streamline its print operations by consolidating its legacy print publishing systems, better aligning directory distribution with demand, and insourcing a portion of its distribution efforts. Initiatives are also in place to promote process improvements and automation within the sales, fulfillment and customer service functions, while legacy IT platforms are presently being decommissioned and replaced to gain operating leverage.

CONSOLIDATED OPERATING AND FINANCIAL RESULTS

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

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2014	2013	2014	2013
Revenues	$ 218,427	$ 237,350	$ 662,209	$ 733,810
Operating costs	143,165	135,203	411,065	408,951
Income from operations before depreciation and amortization and restructuring and special charges	75,262	102,147	251,144	324,859
Depreciation and amortization	19,723	15,589	56,073	44,058
Restructuring and special charges	2,746	4,011	12,645	10,204
Income from operations	52,793	82,547	182,426	270,597
Financial charges, net	16,009	23,098	54,874	69,369
Earnings before income taxes and earnings from investments in associates	36,784	59,449	127,552	201,228
Provision for income taxes	10,242	18,029	34,415	56,183
Earnings from investments in associates	–	355	178	521
Net earnings	$ 26,542	$ 41,775	$ 93,315	$ 145,566
Basic earnings per share attributable to common shareholders	$ 0.98	$ 1.51	$ 3.43	$ 5.22
Diluted earnings per share attributable to common shareholders	$ 0.84	$ 1.30	$ 2.93	$ 4.49
Total assets			$ 1,759,226	$ 1,841,026
Long-term debt (including current portion, excluding exchangeable debentures)			$ 573,523	$ 766,792
Exchangeable debentures			$ 88,606	$ 87,616

ANALYSIS OF CONSOLIDATED OPERATING AND FINANCIAL RESULTS

Revenues

Revenues decreased by 8% to $218.4 million during the third quarter of 2014 compared with $237.4 million for the same period last year, while decreasing by 9.8% to $662.2 million for the nine-month period ended September 30, 2014 compared with $733.8 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 among larger customers (see Spending Dynamics table below). To offset existing trends and return to a growth in customer count by 2017, Yellow Media continues to invest in accelerating the annual run-rate of customer acquisition and deliver an improved experience to current and prospective customers.

Albeit declining, print revenues remain in line with expectations and decline rates are showing signs of stabilization, decreasing 22.8% year-over-year to reach $104.8 million during the third quarter of 2014 and decreasing 22.7% year-over-year to reach $336.3 million for the nine-month period ended September 30, 2014. Over the course of 2014, the Company has launched the Print Product Simplification (PPS) initiative to support print revenues. By increasing print advertisement sizes at little to no incremental cost to the customer, PPS protects customer renewal while preserving content and usage of the print directory. PPS also simplifies the selling process for our MACs by reducing the number of print offers available to customers.

Consolidated digital revenues reached $113.6 million in the third quarter of 2014 and $325.9 million for the nine-month period ended September 30, 2014, representing a growth of 11.9% and 9%, respectively. A key milestone was achieved during the third quarter of 2014 as consolidated digital revenues exceeded 50%, representing 52% of consolidated revenues, up from 42.8% during the same period in 2013. Digital revenues across the Company's core YP operations, which exclude the impact of Mediative, 411 and Wall2Wall, increased by 8.7% year-over-year for the third quarter of 2014 and by 10% for the nine-month period ended September 30, 2014.

Digital revenue growth continues to be driven by the migration of customers' print spend towards digital solutions. Digital revenue growth is also supported by customer acquisition, as the majority of new customers only purchase digital products. As at September 30, 2014, digital-only customers grew to 32,700, compared to 21,300 as at the same period last year. Digital-only customers represented 13% of YP's customer base as at September 30, 2014, up from 8% as at the same time last year.

As at September 30, 2014, 55% of YP's customers were purchasing our owned and operated online priority placement products, compared to 43% as at the same period last year. Mobile priority placement and digital services also remain fast-growing digital offerings, with customer penetration reaching 23% and 10%, respectively, as at September 30, 2014. This compares to customer penetration of 12% for mobile priority placement and 8% for digital services as at September 30, 2013. Supported by the continued adoption of the YP 360° Solution across the Company's sales channels, Revenue Generating Units[1,2] (RGU) per customer continued to experience growth, increasing from 1.78 in the third quarter of 2013 to 1.86 in the third quarter of 2014.

CUSTOMER PENETRATION[1]

	Three-month periods ended September 30,	
	2014	2013
Print	87%	92%
Owned and Operated Digital Media[3]	63%	61%
Online priority placement	55%	43%
Mobile priority placement	23%	12%
Legacy	6%	18%
Digital Services[4]	10%	8%

SPENDING DYNAMICS

	Twelve-month periods ended September 30,	
	2014	2013
Amongst Renewing Customers[1]		
Increase in spending[5]		
Customer distribution	27%	30%
% of revenues	29%	30%
Stable spending[6]		
Customer distribution	55%	51%
% of revenues	29%	25%
Decrease in spending[7]		
Customer distribution	18%	19%
% of revenues	42%	45%
Average Revenue per Customer (ARPC)[8]	$ 3,226	$ 3,256

OPERATIONAL INDICATORS

	As at September 30,	
	2014	2013
YP 360° Solution Penetration[1]	34.9%	24%
RGU per customer[1]	1.86	1.78
Digital-only customers[1]	32,700	21,300
Digital revenues (in thousands of Canadian dollars)[9]	$ 113,617	$ 101,578
Consolidated digital revenues as a percentage of total revenues[9]	52%	42.8%

1 *YP core only, excludes Mediative, 411 and Wall2Wall.*

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

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

4 *Percentage of YP customers purchasing at least one Website, SEO, SEM, Facebook Solution, and/or Smart Digital Display product.*

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

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

7 *Renewing YP customers experiencing a decrease in spending on a year-over-year basis.*

8 *Excludes the contribution of 411 and Wall2Wall.*

9 *For the three-month periods ended September 30.*

EBITDA

EBITDA decreased by $26.9 million to $75.3 million during the third quarter of 2014 compared with $102.1 million for the same period in 2013 and decreased by $73.7 million to $251.1 million for the nine-month period ended September 30, 2014 compared with $324.9 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 third quarter of 2014 was 34.5% compared to 43% for the same period in 2013 and was 37.9% for the nine-month period ended September 30, 2014 compared with 44.3% for the same period last year. Lower revenues and investments related to the Return to Growth Plan were the main contributors to the decrease in EBITDA margin for the three and nine-month periods ended September 30, 2014.

Cost of sales decreased by $0.1 million to $78.5 million during the third quarter of 2014 compared with $78.6 million for the same period in 2013 and decreased by $9.5 million to $227.4 million during the nine-month period ended September 30, 2014 compared with $236.9 million for the same period last year. The decrease for the three and the nine-month periods ended September 30, 2014 results mainly from lower sales costs associated with lower revenues, lower print manufacturing costs and workforce reductions associated with our legacy business. These cost savings were partly offset by an increase in provisioning and fulfillment costs of our digital products and services as well as expenses related to 411.

Gross profit margin decreased to 64.1% for the third quarter of 2014 compared to 66.9 % for the same period in 2013 and decreased to 65.7% for the nine-month period ended September 30, 2014 compared to 67.7 % for the same period last year. The decrease is mainly due to a decline in revenues.

General and administrative expenses increased by $8.1 million to $64.7 million during the third quarter of 2014 compared with $56.6 million for the same period in 2013. The increase is primarily due to branding and technology investments related to the digital transformation. General and administrative expenses increased by $11.6 million to $183.7 million during the nine-month period ended September 30, 2014 compared with $172.1 million for the same period last year. The increase for the nine-month period ended September 30, 2014 is attributable to investments related to the digital 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 $19.7 million during the third quarter of 2014 from $15.6 million in the third quarter of 2013 and to $56.1 million for the nine-month period ended September 30, 2014 compared with $44.1 million for the same period last year. The increase is due to capital expenditures in connection with the deployment of systems and platforms as the Company executes its digital transformation.

Restructuring and special charges

During the three and nine-month periods ended September 30, 2014, we recorded restructuring and special charges of $2.7 million and $12.6 million, respectively, associated primarily with internal reorganizations and workforce reductions.

During the first quarter of 2013, we recorded restructuring and special charges of $6.2 million. The majority of this charge is related to the separation package of the Company's former President and Chief Executive Officer. During the third quarter of 2013, we recorded additional restructuring and special charges of $4 million, which related to a workforce reduction as well as the renegotiation of certain contractual obligations.

Financial charges

Financial charges decreased by $7.1 million to $16 million during the third quarter of 2014 compared with $23.1 million for the same period in 2013 and decreased by $14.5 million to $54.9 million during the nine-month period ended September 30, 2014 compared with $69.4 million for the same period last year. The decrease for the three and nine-month periods ended September 30, 2014 is mainly attributable to a lower level of indebtedness. In addition, 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 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 September 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 nine-month periods ended September 30, 2014 and 2013, respectively. The Company recorded an expense of 27.8% and 27% of earnings for the three and nine-month periods ended September 30, 2014, respectively.

The Company recorded an expense of 30.3% and 27.9% of earnings for the three and nine-month periods ended September 30 2013, respectively. The difference between the effective and the statutory rates in 2013 and 2014 is due to the non-deductibility of certain expenses for tax purposes.

Earnings from investments in associates

On June 1, 2014, we acquired the remaining 70% interest in 411 and recorded a loss of $0.1 million during the second quarter for the period from April 1, 2014 up to the acquisition date. For the three and nine-month periods ended September 30, 2014, we recorded earnings of $nil and $0.2 million, respectively, as compared to $0.4 million and $0.5 million, respectively, for the same periods last year. Our earnings from our investments in associates for the nine-month period ended September 30, 2013 included the amortization of intangible assets in connection with this equity investment.

Net earnings

We recorded net earnings of $26.5 million during the third quarter of 2014 compared with $41.8 million for the same period last year. For the nine-month period ended September 30, 2014, net earnings decreased to $93.3 million from $145.6 million for the same period last year. The decrease for the quarter and for the nine-month period ended September 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]
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	$ 218,427	$ 220,579	$ 223,203	$ 237,951	$ 237,350	$ 243,183	$ 253,277	$ 264,447
Operating costs	143,165	139,318	128,582	146,698	135,203	135,949	137,799	122,770
Income from operations before depreciation and amortization, impairment of intangible assets and property, plant and equipment and restructuring and special charges (EBITDA)	75,262	81,261	94,621	91,253	102,147	107,234	115,478	141,677
EBITDA margin	34.5%	36.8%	42.4%	38.3%	43%	44.1%	45.6%	53.6%
Depreciation and amortization	19,723	18,146	18,204	16,106	15,589	14,779	13,690	23,395
Impairment of intangible assets and property, plant and equipment	–	–	–	–	–	–	–	300,000
Restructuring and special charges	2,746	6,784	3,115	13,134	4,011	–	6,193	18,111
Income (loss) from operations	52,793	56,331	73,302	62,013	82,547	92,455	95,595	(199,829)
Gain on settlement of debt	–	–	–	–	–	–	–	(994,894)
Net earnings	26,542	27,551	39,222	30,964	41,775	50,326	53,465	821,850
Basic earnings per share attributable to common shareholders	$ 0.98	$ 1.01	$ 1.43	$ 1.11	$ 1.51	$ 1.81	$ 1.91	$ 29.24
Diluted earnings per share attributable to common shareholders	$ 0.84	$ 0.87	$ 1.22	$ 0.97	$ 1.30	$ 1.55	$ 1.64	$ 28.50

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.*

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 were favourably 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 and 2014, primarily reflecting lower print revenues, the loss of margin from a change in product mix and investments made to support our digital transformation, partly offset by 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.

Workforce reductions and cost containment initiatives resulted in restructuring and special charges impacting certain of our quarterly results presented above. The decrease in the first quarter of 2013 of depreciation and amortization compared to the fourth quarter of 2012 was 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.

3. LIQUIDITY AND CAPITAL RESOURCES

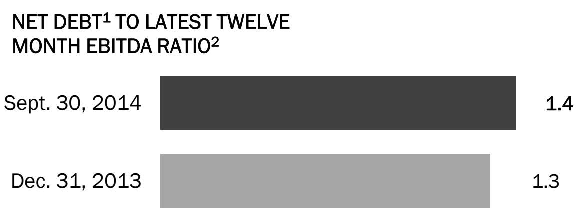
This section examines the Company's capital structure, sources of liquidity and various financial instruments including its debt instruments.

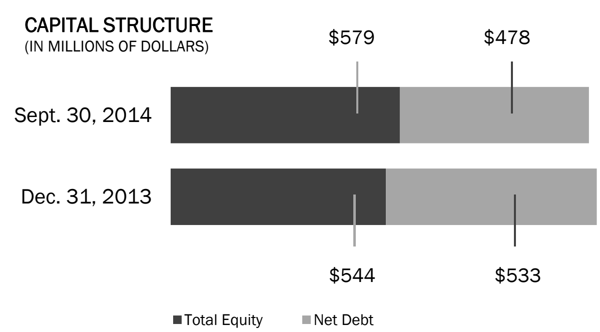
FINANCIAL POSITION

CAPITAL STRUCTURE

(IN THOUSANDS OF CANADIAN DOLLARS)

	As at September 30, 2014	As at December 31, 2013
Cash and cash equivalents	$ 183,720	$ 202,287
Senior secured notes	$ 573,062	$ 646,577
Obligations under finance leases	461	891
Exchangeable debentures	88,606	87,934
Net debt, net of cash and cash equivalents[1]	$ 478,409	$ 533,115
Equity attributable to the shareholders	579,445	544,495
Total capitalization	$ 1,057,854	$ 1,077,610
Net debt to total capitalization	45.2%	49.5%





As at September 30, 2014, Yellow Media had $478.4 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 September 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 September 30, 2014, the fixed charge coverage ratio was below 1.1 times. As such, $45 million of the ABL was available and was undrawn as at September 30, 2014. Interest is calculated based either on the BA Rate or the Canadian Prime Rate plus an applicable margin.

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

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.

To date, the Company repaid $226.9 million of its Senior Secured Notes, of which $153.4 million was repaid in 2013 and $73.5 million during the second quarter of 2014.

As at September 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 mandatory redemption payments of $118.4 million in 2013 and $73.5 million on June 2, 2014. Yellow Media anticipates making a mandatory redemption payment of $66 million on December 1, 2014. Following this payment, the Company will have completed its minimum aggregate mandatory redemption payments for 2014 and 2015.

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.

In the fourth quarter of 2013, the Company exercised its option to redeem $27 million of Senior Secured Notes at a redemption price of $1,050 per $1,000 principal amount of Senior Secured Notes and accrued and unpaid interest of $15.16 per $1,000 principal amount of Senior Secured Notes for a total cash consideration of $28.4 million. A loss of $1.4 million was recorded in net earnings in financial charges.

Open Market Purchase

During the third quarter of 2013, the Company purchased on the open market $8 million of Senior Secured Notes for a total cash consideration of $8.3 million. A loss of $0.3 million was recorded in net earnings in financial charges.

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 September 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 nine-month periods ended September 30, 2014, $nil and $0.4 million of Exchangeable Debentures were exchanged for nil and 21,584 common shares of Yellow Media Limited, respectively.

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 – positive trend	B/Corporate credit rating – stable outlook
B (low)/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. As at November 11, 2014, the Company had approximately $184.2 million of cash and cash equivalents and $45 million available under the ABL.

Share data

As at November 12, 2014, outstanding share data was as follows:

OUTSTANDING SHARE DATA

	As at November 12, 2014	As at September 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 share purchase warrants outstanding	**2,995,506**	2,995,506	2,995,506

[1] *As at November 12, 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 three and nine-month periods ended September 30, 2014, 60,300 and 91,600 options, respectively, were forfeited with a weighted average exercise price per option of $13.69 and $14.42, respectively. These options were expected to vest between February 2015 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)

	Nine-month periods ended September 30,	
	2014	2013
Cash flows from operating activities		
Cash flows from operations	$ 114,358	$ 229,561
Change in operating assets and liabilities	11,583	22,675
	$ 125,941	$ 252,236
Cash flows used in investing activities		
Additions to intangible assets	$ (44,059)	$ (40,989)
Acquisition of property, plant and equipment	(5,456)	(11,044)
Business acquisition, net of cash acquired	(22,698)	(3,581)
Proceeds from the settlement of a note receivable	14,100	–
Other	–	359
	$ (58,113)	$ (55,255)
Cash flows used in financing activities		
Repayment of long-term debt	$ (73,945)	$ (26,476)
Purchase of restricted shares	(12,450)	(2,405)
Repurchase of long-term debt	–	(8,320)
Deferred consideration	–	(5,624)
Recapitalization costs	–	(6,641)
Other	–	(528)
	$ (86,395)	$ (49,994)

Cash flows from operating activities

Cash flows from operations

Cash flows from operations decreased by $115.2 million from $229.6 million for the nine-month period ended September 30, 2013 to $114.4 million for the same period in 2014, mainly due to lower cash EBITDA of $75.6 million, higher income taxes paid of $31.7 million as Yellow Media was not required to pay income tax installments in 2013 and higher restructuring and special charges payments of $7.3 million primarily related to the November 2013 workforce realignment.

Change in operating assets and liabilities

The change in operating assets and liabilities for the nine-month period ended September 30, 2014 generated an inflow of $11.6 million compared with $22.7 million for the same period last year. During the nine-month period ended September 30, 2013, an improved collection experience of our trade receivables contributed mainly to the inflow. The net inflow for the nine-month period ended September 30, 2014 is due primarily to the favourable timing in the payment of accounts payable and certain provisions as well as a decrease in our trade receivables resulting from lower revenues.

Cash flows used in investing activities

Cash used in investing activities amounted to $58.1 million for the nine-month period ended September 30, 2014 compared with $55.3 million for the same period last year. During the nine-month period ended September 30, 2014, we invested in software development and IT equipment in the amount of $44.1 million and $5.5 million, respectively, which in total was less than the corresponding amounts of $41 million and $11 million, respectively, spent during the same period last year. The decrease year-over-year is due to the timing of payments of 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 partly 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 September 30,		Nine-month periods ended September 30,	
	2014	2013	2014	2013
Sustaining	$ 3,559	$ 3,518	$ 9,685	$ 14,195
Growth	15,282	10,931	41,597	33,315
Total	$ 18,841	$ 14,449	$ 51,282	$ 47,510
Adjustment to reflect expenditures on a cash basis	726	580	(1,767)	3,638
Acquisition of property, plant, equipment and intangible assets, net of lease inducements	$ 19,567	$ 15,029	$ 49,515	$ 51,148

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 nine months of 2013 as we reconfigured certain premises to accommodate our growing digital fulfillment teams. Sustaining capital expenditures amounted to $3.6 million for the three-month period ended September 30, 2014, compared to $3.5 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 third quarter of 2014, these amounted to $15.3 million compared to $10.9 million for the same period last year. During the third quarter of 2014, our capital expenditures were mainly composed of investments in our sales and media platforms, in the consolidation of our legacy print publishing platforms, in key infrastructure projects, such as our new data centers, as well as in the automation and streamlining of our digital fulfillment operations.

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 efficiencies and new product introduction.

Cash flows used in financing activities

Cash used in financing activities amounted to $86.4 million during the nine-month period ended September 30, 2014 compared to $50 million for the same period last year. During the first nine months of 2014, we repaid $73.5 million of the Senior Secured Notes compared to a repayment of $26.1 million and a repurchase of $8 million during the same period last year. During the nine-month period ended September 30, 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 nine-month period ended September 30, 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 September 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 September 30,		Nine-month periods ended September 30,	
	2014	2013	2014	2013
Cash flow from operating activities	$ 57,208	$ 79,191	$ 125,941	$ 252,236
Capital expenditures, net of lease inducements	19,567	14,931	49,515	51,835
Free cash flow	$ 37,641	$ 64,260	$ 76,426	$ 200,401

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 nine-month periods ended September 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 is 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

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

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

IFRS 15 — *Revenue from Contracts with Customers*

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

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

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 September 30, 2014 that have materially affected or are reasonably likely to materially affect the Corporation's internal controls over financial reporting.