INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW MEDIA LIMITED

June 30, 2014

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(IN THOUSANDS OF CANADIAN DOLLARS - UNAUDITED)

	As at June 30, 2014	As at December 31, 2013
ASSETS		(audited)
CURRENT ASSETS		
Cash and cash equivalents	$ 146,225	$ 202,287
Trade and other receivables	136,991	142,446
Prepaid expenses	12,518	6,835
Deferred publication costs	69,854	71,018
TOTAL CURRENT ASSETS	365,588	422,586
NON-CURRENT ASSETS		
Deferred publication costs	7,604	7,378
Financial and other assets (Note 12)	4,352	19,096
Investments in associates (Notes 3 and 4)	–	2,780
Property, plant and equipment	28,239	29,489
Intangible assets	1,316,189	1,310,494
Deferred income taxes	5,922	2,211
TOTAL NON-CURRENT ASSETS	1,362,306	1,371,448
TOTAL ASSETS	$ 1,727,894	$ 1,794,034
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade and other payables	$ 90,054	$ 78,824
Income taxes payable	87	25,782
Provisions	50,841	70,632
Financial liability (Note 12)	–	18,472
Deferred revenues	32,760	34,145
Current portion of long-term debt (Note 5)	45,141	89,051
TOTAL CURRENT LIABILITIES	218,883	316,906
NON-CURRENT LIABILITIES		
Provisions	7,929	6,031
Deferred credits and other	10,143	14,349
Deferred income taxes	32,455	31,535
Income taxes payable	51,429	55,419
Post-employment benefits	208,684	178,948
Long-term debt (Note 5)	528,528	558,417
Exchangeable debentures (Note 6)	88,259	87,934
TOTAL NON-CURRENT LIABILITIES	927,427	932,633
TOTAL LIABILITIES	1,146,310	1,249,539
CAPITAL AND RESERVES	6,597,206	6,604,971
DEFICIT	(6,015,622)	(6,060,476)
TOTAL EQUITY	581,584	544,495
TOTAL LIABILITIES AND EQUITY	$ 1,727,894	$ 1,794,034

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

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS

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

For the three and 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 (Note 7)	6,784	–	9,899	6,193
Income from operations	56,331	92,455	129,633	188,050
Financial charges, net (Note 11)	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
Net earnings attributable to:				
Common shareholders of Yellow Media Limited	$ 27,551	$ 50,326	$ 66,773	$ 103,621
Non-controlling interests	–	–	–	170
	$ 27,551	$ 50,326	$ 66,773	$ 103,791
Basic earnings per share attributable to common shareholders	$ 1.01	$ 1.81	$ 2.45	$ 3.71
Weighted average shares outstanding – basic earnings per share (Note 9)	27,188,087	27,872,822	27,302,919	27,913,722
Diluted earnings per share attributable to common shareholders	$ 0.87	$ 1.55	$ 2.09	$ 3.19
Weighted average shares outstanding – diluted earnings per share (Note 9)	33,666,457	33,601,085	33,684,014	33,601,085

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(IN THOUSANDS OF CANADIAN DOLLARS – UNAUDITED)

For the three and the six-month periods ended June 30,	2014	2013	2014	2013
Net earnings	$ 27,551	$ 50,326	$ 66,773	$ 103,791
Other comprehensive (loss) income:				
Items that may be reclassified subsequently to net earnings				
Reclassification adjustment of accumulated foreign currency translation loss realized upon disposition of investment in associate (Note 4)	1,598	–	1,598	–
Items that will not be reclassified subsequently to net earnings				
Actuarial (losses) gains (Note 8)	(10,162)	20,660	(29,834)	73,111
Income taxes relating to items that will not be reclassified subsequently	2,696	(5,460)	7,915	(19,260)
	(7,466)	15,200	(21,919)	53,851
Other comprehensive (loss) income	(5,868)	15,200	(20,321)	53,851
Total comprehensive income	$ 21,683	$ 65,526	$ 46,452	$ 157,642
Total comprehensive income attributable to:				
Common shareholders of Yellow Media Limited	$ 21,683	$ 65,526	$ 46,452	$ 157,472
Non-controlling interests	–	–	–	170
	$ 21,683	$ 65,526	$ 46,452	$ 157,642

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(IN THOUSANDS OF CANADIAN DOLLARS – UNAUDITED)

For the six-month periods ended June 30,

	Shareholders' capital (Note 9)	Restricted shares	Warrants	Compound financial instruments[1]	Stock-based compensation and other reserves	Reduction of capital reserve
Balance, December 31, 2013	$ 4,029,869	$ (6,630)	$ 1,456	$ 3,633	$ 121,188	$ 2,457,053
Other comprehensive loss (income)	–	–	–	–	–	–
Net earnings for the period	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	–
Stock options (Note 10)	–	–	–	–	573	–
Restricted shares vested	–	62	–	–	(62)	–
Restricted shares (Note 10)	–	(12,450)	–	–	2,072	–
Exchange of exchangeable debentures (Note 6)	442	–	–	(14)	14	–
Balance, June 30, 2014	**$ 4,030,311**	**$ (19,018)**	**$ 1,456**	**$ 3,619**	**$ 123,785**	**$ 2,457,053**

	Shareholders' capital	Restricted shares	Warrants	Compound financial instruments[1]	Stock-based compensation and other reserves	Reduction of capital reserve
Balance, December 31, 2012	$ 4,029,869	$ –	$ 1,456	$ 3,633	$ 116,701	$ 2,457,053
Other comprehensive income	–	–	–	–	–	–
Net earnings for the period	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	–
Stock options (Note 10)	–	–	–	–	101	–
Restricted shares (Note 10)	–	(2,405)	–	–	125	–
Dividend to non-controlling interest	–	–	–	–	–	–
Deferred consideration	–	–	–	–	2,476	–
Balance, June 30, 2013	$ 4,029,869	$ (2,405)	$ 1,456	$ 3,633	$ 119,403	$ 2,457,053

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

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

2014

Foreign currency translation (Notes 4 and 11)	Capital and Reserves	Deficit	Equity attributable to shareholders	Total Equity
$ (1,598)	$ 6,604,971	$ (6,060,476)	$ 544,495	$ 544,495
1,598	1,598	(21,919)	(20,321)	(20,321)
–	–	66,773	66,773	66,773
1,598	1,598	44,854	46,452	46,452
–	573	–	573	573
–	–	–	–	–
–	(10,378)	–	(10,378)	(10,378)
–	442	–	442	442
$ –	**$ 6,597,206**	**$ (6,015,622)**	**$ 581,584**	**$ 581,584**

2013

Foreign currency translation	Capital and Reserves	Deficit	Equity attributable to shareholders	Non-controlling interests	Total Equity
$ (1,598)	$ 6,607,114	$ (6,321,365)	$ 285,749	$ 411	$ 286,160
–	–	53,851	53,851	–	53,851
–	–	103,621	103,621	170	103,791
–	–	157,472	157,472	170	157,642
–	101	–	101	–	101
–	(2,280)	–	(2,280)	–	(2,280)
–	–	–	–	(83)	(83)
–	2,476	(1,978)	498	(498)	–
$ (1,598)	$ 6,607,411	$ (6,165,871)	$ 441,540	$ –	$ 441,540

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS OF CANADIAN DOLLARS – UNAUDITED)

For the six-month periods ended June 30,	2014	2013
OPERATING ACTIVITIES		
Net earnings	$ 66,773	$ 103,791
Adjusting items		
Depreciation and amortization	36,350	28,469
Restructuring and special charges (Note 7)	9,899	6,193
Stock-based compensation expense	2,814	1,079
Earnings from investments in associates	(178)	(166)
Income taxes recognized in net earnings	24,173	38,154
Financial charges recognized in net earnings	38,865	46,271
Past service costs (Note 8)	–	(7,138)
Other non-cash items	(6,164)	1,778
Change in operating assets and liabilities	(3,942)	23,412
Funding of post-employment benefit plans in excess of costs	(4,213)	(3,262)
Restructuring and special charges paid (Note 7)	(16,949)	(7,917)
Income taxes paid, net	(44,412)	(21,295)
Interest paid	(34,283)	(36,324)
	68,733	173,045
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 (Note 3)	(22,698)	(3,581)
Proceeds from the settlement of a note receivable (Note 12)	14,100	–
Other	–	198
	(38,546)	(40,324)
FINANCING ACTIVITIES		
Purchase of restricted shares (Note 10)	(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)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(56,062)	91,570
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	202,287	106,807
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 146,225	$ 198,377
Cash and cash equivalents consist of:		
Cash	$ 128,525	$ 69,374
Banker's acceptances, bearer deposit notes, term deposits and treasury bills	17,700	129,003
	$ 146,225	$ 198,377

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

1. DESCRIPTION

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

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

The Board of Directors (the "Board") approved the unaudited interim condensed consolidated financial statements for the three and six-month periods ended June 30, 2014 and 2013 and authorized their publication on August 6, 2014.

2. BASIS OF PRESENTATION AND UPCOMING REVISED STANDARDS

2.1. STATEMENT OF COMPLIANCE

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

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

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

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

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

IFRIC 21 — *Levies*

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

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

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

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

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

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

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

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

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

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

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.

3. BUSINESS ACQUISITION

2014

On June 1, 2014, Yellow Media Limited acquired the remaining shares of 411 Local Search Corp. ("411") as a result of the exercise of a put option by the other shareholders of 411 requiring the Company to acquire the remaining 70% interest in 411 for a purchase price of $22.7 million, net of cash acquired of $3.6 million. 411 is the operator of 411.ca, an online search engine to find people and local businesses in Canada. The acquisition was financed with cash on hand.

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

		June 1, 2014
Cash purchase consideration for 70% ownership	$	26,340
Previously held equity investment at fair value		4,377
Reversal of financial liability (Note 12)		(16,128)
Fair value for 100% ownership	**$**	**14,589**
Fair value of business acquired		
Trade and other receivables	$	667
Prepaid expenses		94
Property, plant and equipment		516
Intangible assets		327
Deferred income tax assets		3,936
Trade and other payables		(1,151)
Deferred revenues		(1,590)
	$	**2,799**
Cash acquired		3,642
Fair value of net identifiable assets acquired	**$**	**6,441**
Intangible assets	**$**	**8,148**

As at June 30, 2014, the initial purchase price allocation for the acquisition of the remaining shares of 411 is preliminary, pending completion of a comprehensive valuation of the net assets acquired. The interim condensed consolidated financial statements as at June 30, 2014 reflect Yellow Media Limited management's best estimate of the purchase price allocation, which includes provisional amounts. As a result, the excess of the purchase price over the fair value of net assets acquired, which has been allocated to intangible assets, may be adjusted retrospectively in future reporting periods.

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

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

4. INVESTMENTS IN ASSOCIATES

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

5. LONG-TERM DEBT

The long-term debt is comprised of the following:

As at		June 30, 2014		December 31, 2013
Senior secured notes	$	573,062	$	646,577
Obligations under finance leases		607		891
	$	573,669	$	647,468
Less current portion[1]		45,141		89,051
Non-current portion	$	528,528	$	558,417

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

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

Asset-Based Loan

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

6. EXCHANGEABLE DEBENTURES

As at		June 30, 2014		December 31, 2013
Face value of exchangeable debentures	$	107,089	$	107,500
Less unaccreted interest		(18,830)		(19,566)
	$	88,259	$	87,934

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

7. RESTRUCTURING AND SPECIAL CHARGES

Yellow Media Limited recorded restructuring and special charges of $6.8 million and $9.9 million for the three and six-month periods ended June 30, 2014, respectively (2013 - $nil and $6.2 million, respectively). The charge for the three and six-month periods ended June 30, 2014 was associated primarily with internal reorganizations and workforce reductions in our legacy business. For the three and six-month periods ended June 30, 2014, Yellow Media Limited utilized $4.5 million and $16.9 million, respectively, of its restructuring and special charges provision (2013 - $4.7 million and $7.9 million, respectively).

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

8. POST-EMPLOYMENT BENEFITS

Yellow Media Limited recorded an actuarial loss of $7.5 million in other comprehensive (loss) income, net of income taxes of $2.7 million, for the three-month period ended June 30, 2014, primarily as a result of a decrease in the discount rate used to measure the post-employment benefits obligation from 4.5% to 4.25%, partially offset by a gain due to the plan assets' performance. Yellow Media Limited recorded an actuarial gain of $15.2 million, net of income taxes of $5.5 million, for the three-month period ended June 30, 2013 primarily as a result of an increase in the discount rate from 4.25% to 4.5% and a gain due to the plan assets' performance.

Yellow Media Limited recorded an actuarial loss of $21.9 million in other comprehensive (loss) income, net of income taxes of $7.9 million, for the six-month period ended June 30, 2014, primarily as a result of a decrease in the discount rate used to measure the post-employment benefits obligation from 4.75% to 4.25% as well as a change in the mortality assumptions, partially offset by a gain due to the plan assets' performance. Yellow Media Limited recorded an actuarial gain of $53.9 million, net of income taxes of $19.3 million, for the six-month period ended June 30, 2013, primarily as a result of an increase in the discount rate from 4 % to 4.5% and a gain due to the plan assets' performance.

During the three and six-month periods ended June 30, 2013, the Company amended the retirement and post-employment benefit plans for certain employees which resulted in a recovery of past service costs of $4.6 million and $7.1 million, respectively, which was included in operating costs.

9. SHAREHOLDERS' CAPITAL

COMMON SHARES

	Number of Shares		Amount
Balance, December 31, 2013	27,955,077	$	4,029,869
Exchange of exchangeable debentures (Note 6)	21,584		442
Balance, June 30, 2014	27,976,661	$	4,030,311

WARRANTS

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

EARNINGS PER SHARE

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

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2014	2013	2014	2013
Weighted average number of shares outstanding used in computing basic earnings per share	27,188,087	27,872,822	27,302,919	27,913,722
Dilutive effect of restricted share units and performance share units	778,290	82,255	657,995	41,355
Dilutive effect of stock options	75,658	–	98,678	–
Dilutive effect of exchangeable debentures	5,624,422	5,646,008	5,624,422	5,646,008
Weighted average number of shares outstanding used in computing diluted earnings per share	33,666,457	33,601,085	33,684,014	33,601,085

	For the three-month periods ended June 30,				For the six-month periods ended June 30,			
		2014		2013		2014		2013
Net earnings available to common shareholders of Yellow Media Limited used in the computation of basic and diluted earnings per share	$	27,551	$	50,326	$	66,773	$	103,621
Impact of assumed conversion of exchangeable debentures, net of applicable taxes		1,823		1,815		3,644		3,618
Net earnings adjusted for dilutive effect	$	29,374	$	52,141	$	70,417	$	107,239

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

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

10. STOCK-BASED COMPENSATION PLANS

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

Restricted Share Unit and Performance Share Unit Plan

2013

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

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

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

2014

As at June 30, 2014, 203,097 common shares restricted for the PSUs were set aside for a possible payout of up to 150%.

During the three and six-month periods ended June 30, 2014, 394,233 common shares and 571,322 common shares of Yellow Media Limited, respectively (209,400 for the three and six-month periods ended June 30, 2013) were purchased on the open market of the TSX by the trustee appointed under the RSU and PSU Plan at a cost of $8 million and $12.5 million, respectively and are restricted for the purpose of funding the RSU and PSU Plan ($2.4 million for the three and six-month periods ended June 30, 2013). The total number of common shares of Yellow Media Limited held by the trustee for the purpose of funding the RSU and PSU Plan amounted to 1,021,523 as at June 30, 2014.

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

		2014		2013
Number of RSUs and PSUs	RSUs	PSUs	RSUs	PSUs
Outstanding, beginning of period	252,655	131,776	–	–
Granted	190,121	278,722	294,030	140,669
Vested	(4,281)	–	–	–
Forfeited	(18,373)	(4,365)	(2,371)	–
Outstanding, end of period	420,122	406,133	291,659	140,669
Weighted average remaining life (years)	1.9	2.2	2.5	2.5

Deferred Share Unit Plan

2013

On June 12, 2013, as part of the implementation of a revised Board of Directors compensation structure, Yellow Media Limited adopted a deferred share unit plan (the "DSU Plan") and each Director of Yellow Media Limited was granted a one-time deferred share unit ("DSU") award of $75,000, for joining the Board of Directors, such grant representing a total amount of $675,000, or a total amount of 58,536 DSUs at a grant price of $11.53. The 58,536 DSUs vested immediately upon being granted. The DSU Plan was amended in October 2013 to provide for the participation by eligible employees as designated by the Board. The Company shall settle the vested DSUs in cash or in common shares of the Company at its discretion when a Director leaves the Board or an eligible employee ceases employment with the Company.

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

2014

During the three and six-month periods ended June 30, 2014, the Company granted to Directors and eligible employees of Yellow Media Limited 44,947 DSUs, which vest over a period of twelve months, ending on December 31, 2014, bringing the total number of DSUs granted and outstanding to 145,504 as at June 30, 2014.

During the three and six-month periods ended June 30, 2014, an expense of $0.7 million and $2.2 million, respectively ($1 million for the three and six-month periods ended June 30, 2013) was recorded in the consolidated income statement in relation to the RSU and PSU Plan as well as the DSU Plan. As at June 30, 2014, a liability of $2.2 million ($2.1 million as at December 31, 2013) related to the DSU Plan is recorded in trade and other payables.

Stock Options

2013

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

2014

During the three and six-month periods ended June 30, 2014, 12,600 and 195,800 options, respectively, were granted to selected employees. These options vest 50% in February 2016, 25% in February 2017 and 25% in February 2018.

For the six-month periods ended June 30,	2014		2013	
	Number of options	Weighted average exercise price per option	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	376,000	$10.12	–	–
Granted	195,800	$24.35	376,000	$10.12
Forfeited	(31,300)	$15.83	–	–
Outstanding, end of period	540,500	$14.94	376,000	$10.12
Exercisable, end of period	–	–	–	–

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

- Weighted average grant date share price: $14.25
- Weighted average exercise price: $14.99
- Weighted average expected volatility: 37%
- Contractual life: 7 years
- Weighted average risk-free interest rate: 2.1%
- Weighted average remaining life: 6.1 years

An expense of $0.3 million and $0.6 million was recorded for the three and six-month periods ended June 30, 2014, respectively ($0.1 million for the three and six-month periods ended June 30, 2013) in relation to the Stock Option Plan.

11. FINANCIAL CHARGES, NET

The significant components of the financial charges are as follows:

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2014	2013	2014	2013
Interest on long-term debt and exchangeable debentures	$ 16,531	$ 19,833	$ 33,633	$ 40,253
Net interest on the defined benefit obligation	2,053	3,019	4,115	6,037
Reclassification of accumulated foreign currency translation loss (Note 4)	1,598	–	1,598	–
Loss on settlement of note receivable (Note 12)	1,150	–	1,150	–
Gain on business acquisition (Note 3)	(3,613)	–	(3,613)	–
Interest (income) expense, standby fees and other financial charges, net	(383)	(663)	(963)	(639)
Other, net	2,117	259	2,945	620
	$ 19,453	22,448	$ 38,865	$ 46,271

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

12. FAIR VALUE

FAIR VALUE HIERARCHY

The three levels of fair value hierarchy are as follows:

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

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

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

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

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

FAIR VALUES:

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

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

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

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

In May 2014, Yellow Media settled a note receivable with a carrying value of $15.3 million, including accrued interest of $3.4 million, for $14.1 million, and recorded a loss of $1.2 million in financial charges (refer to Note 11 – Financial charges, net). The note receivable including accrued interest was presented in Financial and other assets in the consolidated statement of financial position as at December 31, 2013.

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

	June 30, 2014		
	Level	Carrying Value	Fair Value
Long-term debt due within one year	1	$ 45,141	$ 47,855
Long-term debt	1	$ 528,528	$ 560,556
Exchangeable debentures	1	$ 88,259	$ 110,837

13. COMPARATIVE FIGURES

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