

Annual Report

2019



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Message to Shareholders

February 13, 2020

Dear Shareholders,

During 2019, your management team and all of our YP colleagues continued to strengthen and increase the value of our company. It was a year of notable accomplishments, including:

- **Generated consistent improvements in ‘bending the revenue curve.’** Every quarter of the year, our initiatives produced an improved year-on-year rate of revenue change in our YP segment.
- **Produced strong profitability.** For the full year, our profit (measured as Adjusted EBITDA¹) was 40.0% of revenues.
- **Reduced debt dramatically.** We reduced our Net debt excluding lease obligations¹ by 70%, to only \$54 million at year end, including fully repaying our Senior Secured Notes three years ahead of maturity. Our Net debt excluding lease obligations at year end was \$302 million less than it was only eight quarters earlier.
- **Announced intention to fully repay debt.** We intend to fully repay all of our remaining debt, our exchangeable debentures, on or shortly after May 31, 2021.
- **Announced intention to initiate regular cash dividend.** We intend to initiate a regular quarterly dividend of 11 cents per common share per quarter, beginning in the second quarter of 2020.
- **Continue to invest for the future.** We continue to invest in our business, at levels we believe are optimal, including significant expansion of our tele-sales force to support further ‘bending of the revenue curve’.

In two short years, we believe we have produced strong results and set our company on a promising course. Thank you for your continued support.



David A. Eckert

President and Chief Executive Officer

⁽¹⁾ Adjusted EBITDA is equal to Income from operations before depreciation and amortization, and restructuring and other charges (defined herein as Adjusted EBITDA), as shown in Yellow Pages Limited’s consolidated statements of income. Net debt excluding lease obligations is comprised of Senior Secured Notes (including current portion) and Exchangeable debentures less Cash and restricted cash as presented in our consolidated statements of financial position. Adjusted EBITDA and Net debt excluding lease obligations are non-GAAP financial measures and do not have any standardized meaning under IFRS. Therefore, they are unlikely to be comparable to similar measures presented by other public companies. We use net debt excluding lease obligations as an indicator of the Company’s ability to cover financial obligations and reduce debt and associated interest charges as it represents the amount of debt excluding lease obligations that is not covered by available cash. We believe that certain investors and analysts use net debt excluding lease obligations to determine a company’s financial leverage. The most comparable IFRS financial measure is total debt, as presented in the capital disclosures note in our annual consolidated financial statements. The table below provides a reconciliation of total debt to net debt excluding lease obligations.

Net debt excluding lease obligations

(In thousands of Canadian dollars)

As at	December 31, 2019	December 31, 2018
Senior Secured Notes	\$ –	\$ 167,489
Exchangeable debentures	98,537	96,179
Lease obligations	57,885	75,320
Total debt	\$ 156,422	\$ 338,988
Lease obligations	(57,885)	(75,320)
Cash and restricted cash	(44,408)	(81,452)
Net debt excluding lease obligations	\$ 54,129	\$ 182,216

Management's Discussion and Analysis

February 12, 2020

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 Pages Limited and its subsidiaries for the years ended December 31, 2019 and 2018 and should be read in conjunction with our Audited Consolidated Financial Statements and accompanying notes for the years ended December 31, 2019 and 2018. Please also refer to Yellow Pages Limited's press release announcing its results for year ended December 31, 2019 issued on February 13, 2020. Quarterly reports, the Annual Report, Supplemental Disclosure and the Annual Information Form (AIF) can be found on SEDAR at www.sedar.com and under the "Investor Relations – Reports & Filings" section of our corporate website: <https://corporate.yip.ca/en>. Press releases are available on SEDAR and under the "News – Press Releases" section of our corporate website.

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and the financial information herein was derived from those statements.

All amounts in this MD&A are in Canadian dollars, unless otherwise specified. Please refer to the section "Definitions Relative to Understanding Our Results" for a list of defined non-IFRS financial measures and key performance indicators.

Our reporting structure reflects how we manage our business and how we classify our operations for planning and for measuring our performance.

In this MD&A, the words "we", "us", "our", the "Company", the "Corporation", "Yellow Pages" and "YP" refer to Yellow Pages Limited and its subsidiaries (including Yellow Pages Digital & Media Solutions Limited, 411 Local Search Corp. (411.ca), Yellow Pages Homes Limited (Yellow Pages NextHome) sold as of July 23, 2018, YPG (USA) Holdings, Inc. and Yellow Pages Digital & Media Solutions LLC (the latter two collectively YP USA), Bookenda Limited (Bookenda) sold as of April 30, 2019, YP Dine Solutions Limited (YP Dine) sold as of April 30, 2019, 9059-2114 Québec Inc. and ByTheOwner Inc. (the latter two collectively ComFree/DuProprio) sold as of July 6, 2018, Juice DMS Advertising Limited sold as of December 31, 2018 and Juice Mobile USA LLC dissolved as of December 20, 2018 (the latter two collectively JUICE), and 9778748 Canada Inc. (Totem) sold as of May 31, 2018).

Caution Regarding Forward-Looking Information

This MD&A contains assertions about the objectives, strategies, financial condition, including potential repayment of the Company's exchangeable debentures in full on or shortly after May 31, 2021, at par, the initiation of a quarterly common share dividend of \$0.11 per common share beginning in the second quarter of 2020, results of operations and businesses of YP. These statements are considered "forward-looking" because they are based on current expectations, as at February 12, 2020, about our business and the markets we operate in, and on various estimates and assumptions.

Forward-looking information and statements are based on several assumptions which may lead to actual results that differ materially from our expectations expressed in, or implied by, such forward-looking information and statements, and that our business strategies, objectives and plans may not be achieved. As a result, we cannot guarantee that any forward-looking statement will materialize and we caution you against relying on any of these forward-looking statements. Forward-looking information and statements are included in this MD&A for the purpose of assisting investors and others in understanding our business strategies, objectives and plans. Readers are cautioned that such information may not be appropriate for other purposes. In making certain forward-looking statements, we have made the following assumptions:

- that general economic conditions in Canada will not deteriorate;
- that we will be able to attract and retain key personnel in key positions;
- that we will be able to introduce, sell and provision the products and services that support our customer base and drive improvement in average revenue per customer ("ARPC");
- that the decline in print revenues will remain at or below 25% per annum;
- that YP segment gross profit margins will not deteriorate materially from current levels;
- that continuing reductions in spending will mitigate the cash flow impact of revenue declines on cash flows; and
- that exposure to foreign exchange risk arising from foreign currency transactions will remain insignificant.

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. 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. 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 and could have a material adverse effect on the Corporation, its business, results from operations and financial condition, including, but not limited to, the following risk factors discussed under the “Risks and Uncertainties” section of this MD&A, and those described in the “Risk Factors” section of our AIF:

- Failure by the Corporation to stabilize or grow its revenues and customer base;
- The inability of the Corporation to attract, retain and upsell customers;
- Substantial competition could reduce the market share of the Corporation;
- A higher than anticipated rate of decline in print revenue resulting from changes in preferences and consumer habits;
- The inability of the Corporation to successfully enhance and expand its offering of digital marketing and media products;
- The inability of the Corporation to supply the relationships and technologies required to appropriately service the needs of its customers;
- A prolonged economic downturn in principal markets of the Corporation;
- A higher than anticipated proportion of revenues coming from the Corporation's digital products with lower margins, such as services and resale;
- The Corporation's inability to attract and retain key personnel;
- The Corporation's business depends on the usage of its online and mobile properties and failure to protect traffic across the Corporation's digital properties could impair its ability to grow revenues and expand its business;
- Failure by either the Corporation or the Telco Partners to fulfill their obligations set forth in the agreements between the Corporation and the Telco Partners;
- Successfully prosecuted legal action against the Corporation;
- Work stoppages and other labour disturbances;
- Challenge by tax authorities of the Corporation's position on certain income tax matters;
- The loss of key relationships or changes in the level or service provided by mapping applications and search engines;
- The failure of the Corporation's computers and communication systems;
- The inability of the Corporation to generate sufficient funds from operations, debt financings, equity financings or refinancing transactions; and
- Incremental contributions by the Corporation to its pension plans.

Definitions Relative to Understanding Our Results

Income from Operations before Depreciation and Amortization, Impairment of Intangible Assets and Goodwill, and Restructuring and Other Charges (Adjusted EBITDA and Adjusted EBITDA Margin)

We report on our Income from operations before depreciation and amortization, impairment of intangible assets and goodwill, and restructuring and other charges (defined herein as Adjusted EBITDA) as shown in Yellow Pages Limited's consolidated statements of income. Adjusted EBITDA and Adjusted EBITDA margin are not performance measures defined under IFRS and are not considered to be an alternative to income from operations or net earnings in the context of measuring Yellow Pages' performance.

Adjusted EBITDA and Adjusted EBITDA margin do not have a standardized meaning and are therefore not likely to be comparable with similar measures used by other publicly traded companies. Adjusted EBITDA and Adjusted EBITDA margin should not be used as exclusive measures of cash flow since they do not account for the impact of working capital changes, income taxes, interest payments, pension funding, capital expenditures, business acquisitions, debt principal reductions and other sources and uses of cash, which are disclosed on page 29 of this MD&A.

Adjusted EBITDA is derived from revenues less operating costs, as shown in Yellow Pages Limited's consolidated statements of income (loss). Adjusted EBITDA margin is defined as the percentage of Adjusted EBITDA to revenues. We use Adjusted EBITDA and Adjusted EBITDA margin to evaluate the performance of our business as these reflect its ongoing profitability. We believe that certain investors and analysts use Adjusted EBITDA and Adjusted EBITDA margin to measure a Company's ability to service debt and to meet other payment obligations or as a common measurement to value companies in the media and marketing solutions industry as well as to evaluate the performance of a business.

Adjusted EBITDA less CAPEX

Adjusted EBITDA less CAPEX is a non-IFRS financial measure and does not have any standardized meaning under IFRS. Therefore, it is unlikely to be comparable to similar measures presented by other publicly traded companies. We define Adjusted EBITDA less CAPEX as Adjusted EBITDA, as defined above, less CAPEX, which we define as additions to intangible assets and additions to property and equipment less lease incentives received as reported in the Investing Activities section of the Company's consolidated statements of cash flows. We use Adjusted EBITDA less CAPEX as the key performance measure for our business as it reflects cash generated from business activities. We believe that certain investors and analysts use Adjusted EBITDA less CAPEX to evaluate the performance of businesses in our industry. Adjusted EBITDA less CAPEX is also one component in the determination of short-term incentive compensation for all management employees.

The most comparable IFRS financial measure to Adjusted EBITDA less Capex is Income from operations before depreciation and amortization, impairment of intangible assets and goodwill, and restructuring and other charges (defined above as Adjusted EBITDA) as shown in Yellow Pages Limited's consolidated statements of income (loss). Refer to page 6 and page 12 of this MD&A for a reconciliation of CAPEX and Adjusted EBITDA less CAPEX, respectively.

This MD&A is divided into the following sections:

1. Our Business and Customer Offerings
2. Results
3. Liquidity and Capital Resources
4. Critical Assumptions and Estimates
5. Risks and Uncertainties
6. Controls and Procedures

1. Our Business and Customer Offerings

Our Business

Yellow Pages, a leading digital media and marketing solutions provider in Canada, offers targeted tools to local businesses, national brands and consumers allowing them to interact and transact within today's digital economy.

Customer Offerings

Yellow Pages offers, through its YP segment, small and medium-sized enterprises (SMEs) across Canada full-serve access to one of the country's most comprehensive suites of digital and traditional marketing solutions, notably online and mobile priority placement on Yellow Pages digital media properties, content syndication, search engine solutions, website fulfillment, social media campaign management, digital display advertising, video production as well as print advertising. The Company's dedicated sales force and customer care team of over 300 professionals offer this full suite of marketing solutions to local businesses across the country, while also supporting the evolving needs of its existing customer base of 153,300 SMEs.

Media Properties

The Company's media properties, primarily desktop, mobile and print, continue to serve as effective marketplaces for Canadian local merchants, brands and consumers. The Company's network of media properties enables Canadians to discover businesses in their neighbourhoods across the services, real estate, dining and retail verticals. Descriptions of the Company's digital media properties, listed by segment, are found below:

YP segment

- YP™ – Available both online at YP.ca and as a mobile application, YP allows users to discover and transact within their local neighbourhoods through comprehensive merchant profiles, relevant editorial content, reviews and booking functionalities;
- Canada411 (C411) – One of Canada's most frequented and trusted online and mobile destinations for personal and local business information;
- The Corporation is the official directory publisher for Bell, Telus, Bell Aliant, MTS Allstream, and a number of other incumbent telephone companies; and
- 411.ca – A digital directory service to help users find and connect with people and local businesses.

Other segment

- YP Dine™ (sold as of April 30, 2019) – A digital property allowing users to discover, search for and book local restaurants in addition to offering online ordering capabilities;
- Bookenda.com (sold as of April 30, 2019) – An online transaction platform for users and merchants to interact and manage bookings and orders;
- RedFlagDeals.com™ (sold as of August 22, 2018) – A Canadian provider of online and mobile promotions, deals, coupons and shopping forums;
- Yellow Pages NextHome (sold as of July 23, 2018) – Provided Canadians with information in making informed home buying, selling, and/or renting decisions;
- ComFree/DuProprio (sold as of July 6, 2018) – A Quebec real estate digital destination offering homeowners a professional and cost-effective service to market and sell their homes; and
- Western Media Group (sold as of May 31, 2018) – Magazines generating local lifestyle content specific to the Western Canada region, in the restaurants, real estate and lifestyle categories.

Key Analytics

The success of our business is dependent upon continuing to improve operating profitability and capital spending efficiency. Longer-term improvements in profitability are dependent upon growth in digital revenues and retaining and growing our customer base. Key analytics for the year ended December 31, 2019 include:

- Adjusted EBITDA – Adjusted EBITDA decreased to \$161.3 million, or 40.0% of revenues for the year ended December 31, 2019, compared to \$192.6 million or 33.4% of revenues for the same period last year;
- Adjusted EBITDA less CAPEX – Adjusted EBITDA less CAPEX decreased to \$151.6 million for the year ended December 31, 2019 compared to \$180.5 million for the same period last year;
- YP Digital Revenues – YP digital revenues decreased 16.5% year-over-year and amounted to \$298.8 million for the year ended December 31, 2019;
- YP Customer Count¹ and ARPC² – YP customer count decreased to 153,300 customers for the year ended December 31, 2019, as compared to 186,700 customers for same period last year. The customer count reduction of 33,400 for the year ended December 31, 2019 compares to a decline of 40,600 in the comparable period of the previous year. YP ARPC for the year ended December 31, 2019 was \$2,567 as compared to \$2,488 for the year ended December 31, 2018 representing an increase of 3.2%.

¹ YP Customer Count is defined as the number of customers advertising through one of our products as at the end of the reporting period on a trailing twelve month basis excluding 411.ca customers.

² YP ARPC is defined as the YP average contracted revenue per customer on a trailing twelve month basis excluding 411.ca.

CAPEX

(In thousands of Canadian dollars)

For the three-month periods and years ended December 31,	2019		2018	
Additions to intangible assets	\$ 1,973	\$ 3,201	\$ 9,647	\$ 14,287
Additions to property and equipment	8	839	91	1,899
Less lease incentives received	–	–	–	(4,150)
CAPEX	\$ 1,981	\$ 4,040	\$ 9,738	\$ 12,036

Headcount¹

As at December 31,	2019	2018	Change
YP	768	964	(196)
Other	–	46	(46)
Total Headcount	768	1,010	(242)

¹ The Company defines headcount as total employees excluding employees on short term and long term disability leave, and on maternity leave.

2. Results

This section provides an overview of our financial performance in 2019 compared to 2018 and 2017. We present several metrics to help investors better understand our performance, including certain metrics which are not measures recognized by IFRS. Definitions of these non-IFRS financial metrics are provided on page 3 of this MD&A and are important aspects which should be considered when analyzing our performance.

Highlights

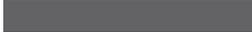
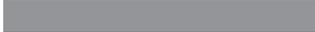
(In thousands of Canadian dollars, except per share and percentage information)

For the years ended December 31,	2019	2018	2017 (Restated)¹
Revenues	\$ 403,213	\$ 577,195	\$ 727,967
Income from operations before depreciation and amortization, impairment of intangibles assets and goodwill and restructuring and other charges (Adjusted EBITDA)	\$ 161,345	\$ 192,565	\$ 183,109
Adjusted EBITDA margin	40.0%	33.4%	25.2%
Net earnings (loss)	\$ 94,669	\$ 82,809	\$ (594,482)
Basic earnings (loss) per share	\$ 3.57	\$ 3.13	\$ (22.52)
CAPEX	\$ 9,738	\$ 12,036	\$ 60,885
Adjusted EBITDA less CAPEX	\$ 151,607	\$ 180,529	\$ 122,224
Cash flows from operating activities	\$ 144,759	\$ 134,659	\$ 116,577

¹ Restated to reflect the adoption of new international financial reporting standards with an effect on the consolidated financial statements.

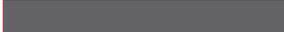
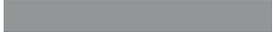
Revenues

(In thousands of Canadian dollars)

2019		\$403,213
2018		\$577,195
2017		\$727,967

Adjusted EBITDA

(In thousands of Canadian dollars)

2019		\$161,345
2018		\$192,565
2017		\$183,109

Adjusted EBITDA less CAPEX

(In thousands of Canadian dollars)

2019		\$151,607
2018		\$180,529
2017		\$122,224

Cash Flows from Operating Activities

(In thousands of Canadian dollars)

2019		\$144,759
2018		\$134,659
2017		\$116,577

Consolidated Operating and Financial Results

(In thousands of Canadian dollars, except per share and percentage information)

For the years ended December 31,	2019	% of Revenues	2018	% of Revenues	2017 (Restated)¹	% of Revenues
Revenues	\$ 403,213		\$ 577,195		\$ 727,967	
Cost of sales ²	158,674	39.4%	237,541	41.2%	344,447	47.3%
Gross profit ²	244,539	60.6%	339,654	58.8%	383,520	52.7%
Other operating costs ²	83,194	20.6%	147,089	25.5%	200,411	27.5%
Income from operations before depreciation and amortization, impairment of intangible assets and goodwill and restructuring and other charges (Adjusted EBITDA)	161,345	40.0%	192,565	33.4%	183,109	25.2%
Depreciation and amortization	39,109	9.7%	76,094	13.2%	112,965	15.5%
Impairment of intangible assets and goodwill	–	–	–	–	507,032	69.7%
Restructuring and other charges	12,499	3.1%	15,862	2.7%	34,400	4.7%
Income (loss) from operations	109,737	27.2%	100,609	17.4%	(471,288)	(64.7%)
Financial charges, net	39,600	9.8%	54,729	9.5%	53,946	7.4%
Loss (gain) on sale of businesses	367	0.1%	(6,129)	(1.1%)	–	–
Impairment of available-for-sale investments	–	–	–	–	3,720	0.5%
Earnings (loss) before income taxes and loss from investment in a jointly controlled entity	69,770	17.3%	52,009	9.0%	(528,954)	(72.7%)
(Recovery of) provision for income taxes	(24,899)	(6.2%)	(30,800)	(5.3%)	63,424	8.7%
Loss from investment in a jointly controlled entity	–	–	–	–	2,104	0.3%
Net earnings (loss)	\$ 94,669	23.5%	\$ 82,809	14.3%	\$ (594,482)	(81.7%)
Basic earnings (loss) per share	\$ 3.57		\$ 3.13		\$ (22.52)	
Diluted earnings (loss) per share	\$ 3.16		\$ 2.78		\$ (22.52)	

As at December 31,	2019	2018	2017 (Restated)²
Total assets	\$ 326,878	\$ 442,369	\$ 601,527
Senior Secured Notes (including current portion)	\$ –	\$ 167,489	\$ 308,898
Exchangeable debentures	\$ 98,537	\$ 96,179	\$ 94,067
Total Senior Secured Notes and Exchangeable debentures to total assets	30.1%	59.6%	67.0%

¹ Restated to reflect the adoption of new international financial reporting standards with an effect on the consolidated financial statements.

² Certain comparative information has been restated to conform with the 2019 presentation.

Segmented Information

Following the organizational changes made throughout fiscal year 2018 including the disposal or liquidation of several affiliates, the Company made changes during the first quarter of 2019 to how it manages its business to assess performance and allocate resources. The Company's operations have been categorized into two reportable segments: YP and Other. The comparative figures have been restated to reflect the changes to the reportable segments.

The YP segment provides small and medium-sized businesses across Canada digital and traditional marketing solutions, including online and mobile priority placement on Yellow Pages owned and operated media, content syndication, search engine solutions, website fulfillment, social media campaign management, digital display advertising, video production and print advertising. This segment also includes the 411.ca digital directory service helping users find and connect with people and local businesses, which was integrated with the Company's wholly-owned subsidiary, Yellow Pages Digital & Media Solutions Limited, as at September 30, 2019.

The Other segment includes YP Dine digital property allowing users to discover, search for and book local restaurants until its sale on April 30, 2019. This segment also includes Mediative until its liquidation on January 31, 2019. Mediative's offers included dedicated marketing and performance media services to national clients Canada-wide. The operations of the businesses sold in 2018 are also included in this segment until their respective disposal date, namely:

- Totem which provided customized content creation and delivery for global brands until its sale on May 31, 2018;
- Western Media Group, magazines generating local lifestyle content specific to the Western Canada region until its sale as of May 31, 2018;
- RedFlagDeals.com™, a Canadian provider of online and mobile promotions, deals, coupons and shopping forums, until its sale on August 22, 2018;
- ComFree/DuProprio (CFDP) provided homeowners in Canada with media to sell their homes in a cost-effective manner until its sale on July 6, 2018;
- Yellow Pages NextHome until its sale on July 23, 2018; and
- JUICE Mobile's proprietary Programmatic Direct and Real-Time Bidding platforms that facilitated the automatic buying and selling of mobile advertising between brands and advertisers, until its sale on December 31, 2018.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Company accounts for transactions between reportable segments in the same manner it accounts for transactions with external customers and eliminates them on consolidation.

Analysis of Consolidated and Segmented Operating and Financial Results

Fiscal year 2019 versus 2018

Revenues

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,	2019	2018	% Change
Digital	\$ 298,762	\$ 357,705	(16.5%)
Print	103,177	127,897	(19.3%)
YP	\$ 401,939	\$ 485,602	(17.2%)
Digital	1,274	84,534	(98.5%)
Print	-	8,043	(100.0%)
Other	1,274	92,577	(98.6%)
Digital	-	(958)	nm
Print	-	(26)	nm
Intersegment eliminations	-	(984)	nm
Digital	\$ 300,036	\$ 441,281	(32.0%)
Print	\$ 103,177	\$ 135,914	(24.1%)
Total revenues	\$ 403,213	\$ 577,195	(30.1%)

Total revenues for the year ended December 31, 2019 decreased by \$174.0 million or 30.1% year-over-year and amounted to \$403.2 million as compared to \$577.2 million for the same period last year. The decline in total revenues was due to the divestitures in the Other segment as well as lower digital and print revenues in the YP segment.

Total digital revenues decreased by \$141.2 million or 32.0% year-over-year and amounted to \$300.0 million for the year ended December 31, 2019 compared to \$441.3 million for the year ended December 31, 2018. The digital revenue decline was attributable to the divestitures in the Other segment as well as lower revenues in the YP segment.

Total print revenues decreased by \$32.7 million or 24.1% year-over-year and amounted to \$103.2 million for the year ended December 31, 2019. The print revenue decline for the year ended December 31, 2019 is a result of lower revenues in the YP segment and the divestitures in the Other segment.

Reportable Segments Revenues

YP

Revenues for the YP segment for the year ended December 31, 2019 decreased by \$83.7 million or 17.2% year-over-year and amounted to \$401.9 million compared to \$485.6 million for the same period last year. The decrease for the year ended December 31, 2019 is mainly due to the decline of our higher margin YP digital media and print products and to a lesser extent to our lower margin digital services products, thereby creating pressure on our gross profit margins.

Digital revenues decreased 16.5% year-over-year and amounted to \$298.8 million for the year ended December 31, 2019, compared to \$357.7 million for the same period last year. Digital revenues were adversely impacted by a decline in the number of digital customers partially offset by a sixth consecutive quarter of higher spend per customer. The lower digital customer count is mostly attributable to a lower level of acquisition, driven in part by our focus on profitability.

Print revenues decreased by 19.3% year-over-year to \$103.2 million for the year ended December 31, 2019. The results were adversely impacted by a decline in the number of print customers and lower spend per customer.

Other

Other revenues amounted to \$1.3 million for the year ended December 31, 2019 as compared to \$92.6 million for the same period last year. The decline in other revenues is due to the divestitures.

Gross Profit¹

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,	2019	% of Revenues	2018	% of Revenues	% Change
YP	\$ 243,889	60.7%	\$ 306,157	63.0%	(20.3%)
Other	650	51.0%	33,660	36.4%	(98.1%)
Intersegment eliminations	-	-	(163)	nm	nm
Total gross profit	\$ 244,539	60.6%	\$ 339,654	58.8%	(28.0%)

¹ Certain comparative information has been restated to conform with the 2019 presentation.

Gross profit for the year ended December 31, 2019 decreased to \$244.5 million or 60.6% of total revenues compared to \$339.7 million, or 58.8% of total revenues, for the same period last year. The decrease in gross profit is due to the pressures from lower overall revenues and change in product mix in the YP segment and to the divestitures in the Other segment. The increase in gross profit as a percentage of revenues is due to the dilutive effect on profitability of the lower margin Other segment in 2018.

Reportable Segments Gross Profit**YP**

Gross profit for the year ended December 31, 2019 totalled \$243.9 million, or 60.7% of revenues, compared to \$306.2 million, or 63.0% of revenues, for the same period in 2018. The decrease in gross profit and gross profit as a percentage of revenues is a result of the pressures from lower overall revenues and change in product mix as well as investments in customer care starting in the second quarter of 2019 and investments in new customer acquisitions in the fourth quarter of 2019. The revenue pressures and customer care and new customer acquisition investments were partially offset by higher efficiencies in sales and operations from optimizations and cost reductions, as well as an increased focus on the profitability of our products and services. These measures included workforce reductions primarily in non-customer facing areas in the first quarter of 2018 and call center consolidations and optimization of our servicing model in the second quarter of 2018.

Other

Gross profit for the Other segment totalled \$0.7 million, for the year ended December 31, 2019, as compared to \$33.7 million, or 36.4% of revenues, for the same period last year. The decrease in gross profit margin for the year ended December 31, 2019 is due to divestitures.

Adjusted EBITDA

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,	2019	% of Revenues	2018	% of Revenues	% Change
YP	\$ 161,014	40.1%	\$ 185,026	38.1%	(13.0%)
Other	331	nm	7,539	8.1%	(95.6%)
Total Adjusted EBITDA	\$ 161,345	40.0%	\$ 192,565	33.4%	(16.2%)

For the year ended December 31, 2019, Adjusted EBITDA decreased by \$31.2 million or 16.2% to \$161.3 million, compared to \$192.6 million for the same period last year. The Company's Adjusted EBITDA margin amounted to 40.0% for the year ended December 31, 2019 compared to 33.4% for the same period last year. The decrease in Adjusted EBITDA was the result of the revenue pressures in the YP segment as well as the divestitures in the Other segment. The increase in Adjusted EBITDA margin for the year ended December 31, 2019 is mainly due to the dilutive effect on profitability of the lower margin Other segment in 2018 and reductions in both our cost of sales and other operating costs. The reductions fully offset the revenue pressures in the YP segment for the year ended December 31, 2019.

Reportable Segments Adjusted EBITDA

YP

Adjusted EBITDA for the YP segment for the year ended December 31, 2019 totalled \$161.0 million compared to \$185.0 million for the same period in 2018. The decrease in Adjusted EBITDA is a result of lower overall revenues, pressures from the change in product mix and investments in customer care. The Adjusted EBITDA margin for the YP segment for the year ended December 31, 2019 increased to 40.1% from 38.1% for the same period last year. The increase in Adjusted EBITDA margin for the year ended December 31, 2019 is due to the revenue pressures and investments in customer care and investments in new customer acquisition being fully offset by an increased focus on the profitability of our products and services and reductions in both our costs of sales and other operating costs. The decrease in cost of sales was mainly due to workforce reductions primarily in non-customer facing areas in the first quarter of 2018 and to call center consolidations and optimization of our servicing model in the second quarter of 2018. The decrease in other operating costs included reductions in our workforce and associated employee expenses, reductions in the Company's office space footprint, other spending reductions across the segment as well as an adjustment to the variable compensation expense in the first quarter of 2019 mainly due to employee attrition and previous year performances.

Other

Adjusted EBITDA for the Other segment for the year ended December 31, 2019, amounted to \$0.3 million. This compares to \$7.5 million, or 8.1% of revenues, for the same period last year. The year-over-year decrease is due to the divestitures.

Adjusted EBITDA less CAPEX

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,	2019	2018	% Change
Adjusted EBITDA	\$ 161,014	\$ 185,026	(13.0%)
CAPEX	9,460	9,556	(1.0%)
YP	\$ 151,554	\$ 175,470	(13.6%)
Adjusted EBITDA	331	7,539	(95.6%)
CAPEX	278	2,480	(88.8%)
Other	53	5,059	(99.0%)
Adjusted EBITDA	\$ 161,345	\$ 192,565	(16.2%)
CAPEX	\$ 9,738	\$ 12,036	(19.1%)
Total Adjusted EBITDA less CAPEX	\$ 151,607	\$ 180,529	(16.0%)

For the year ended December 31, 2019, Adjusted EBITDA less CAPEX decreased by \$28.9 million or 16.0% to \$151.6 million compared to \$180.5 million for the same period last year. Adjusted EBITDA less CAPEX for the year ended December 31, 2019 was mainly impacted by lower Adjusted EBITDA partially offset by decreased spending on software development and was further negatively impacted by lease incentives received in 2018.

Reportable Segments Adjusted EBITDA less CAPEX

YP

Adjusted EBITDA less CAPEX for the year ended December 31, 2019 totalled \$151.6 million compared to \$175.5 million for the same period last year. The decrease for the year ended December 31, 2019 is mainly due to lower Adjusted EBITDA, partially offset by decreased spending on software development and was further negatively impacted by lease incentives received in 2018.

Other

Adjusted EBITDA less CAPEX for the Other segment for the year ended December 31, 2019 is minimal, as compared to \$5.1 million in the same period last year. The year-over-year decrease is a result of the divestitures.

Depreciation and Amortization

Depreciation and amortization decreased to \$39.1 million for the year ended December 31, 2019 compared to \$76.1 million for the same period last year primarily due to lower software development expenditures.

Restructuring and Other Charges

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,	2019	2018
Severance, benefits and outplacement	\$ 10,767	\$ 31,231
Settlement of litigation	(99)	(14,095)
Impairment of right-of-use assets and future operation costs related to lease contracts for offices closed	371	(2,029)
Pension settlement (recovery) costs and past service (recovery) costs, net	(980)	755
Other fees	2,440	-
Total restructuring and other charges	\$ 12,499	\$ 15,862

The Company recorded restructuring and other charges of \$12.5 million for the year ended December 31, 2019 consisting of restructuring charges of \$12.1 million relating to workforce reductions, a \$1.9 million charge related to future operation costs provisioned related to lease contracts for office closures, a \$0.3 million charge related to software disposal, offset by a net recovery of \$1.8 million from more favorable lease recoveries than anticipated.

During the year ended December 31, 2018, the Company recorded restructuring and other charges of \$15.9 million consisting of restructuring charges of \$32.0 million mainly due to workforce reductions, offset by the \$14.1 million impact of a favorable litigation settlement on a contractual obligation with a vendor. Additionally, the restructuring charges were offset by a net recovery of \$1.6 million from more favorable lease recoveries than anticipated partially offset by the impairment of right-of-use assets and a net recovery of \$0.4 million from future operation costs related to lease contracts for office closures.

Financial Charges

Financial charges decreased to \$39.6 million for the year ended December 31, 2019 compared to \$54.7 million for the same period last year. The decrease is primarily due to a lower level of indebtedness due to repayments of the Senior Secured Notes. The Company's effective average annual interest rate on our debt portfolio excluding capital leases as at December 31, 2019 was 9.0% (2018 – 9.2%).

Provision for (Recovery of) Income Taxes

The combined statutory provincial and federal tax rates were 26.8% for the year ended December 31, 2019 and 26.9% for the same period in 2018. The Company recorded a recovery of income tax of \$24.9 million for the year ended December 31, 2019, comprised of recognition of previously unrecognized tax attributes and temporary differences of \$44.2 million. The Company recorded an income tax recovery of 35.7% of earnings for the year ended December 31, 2019 (2018 – an income tax recovery of 59.2%). These recoveries are non-cash items.

In comparison, the Company recorded a recovery of income taxes of \$30.8 million for the year ended December 31, 2018, comprised of recognition of previously unrecognized tax attributes of \$8.5 million and a resolution of uncertain tax positions of \$38.6 million. These recoveries are non-cash items.

The Company recorded an income tax recovery of 35.7% of earnings for the year ended December 31, 2019 this compares to an income tax recovery of 59.2% recorded for the year ended 2018. The difference between the effective and the statutory rates for the year ended December 31, 2019 is mainly due to recognition of previously unrecognized tax attributes and temporary differences and non-deductibility of certain expenses for tax purposes. The difference between the effective and the statutory rates for the year ended December 31, 2018 is mainly due to recognition of previously unrecognized tax attributes, a resolution of uncertain tax positions and non-deductibility of certain expenses for tax purposes.

Net earnings

The Company recorded net earnings of \$94.7 million for the year ended December 31, 2019 as compared to \$82.8 million for the same period last year. The increase in net earnings for the year ended December 31, 2019 compared to the same period last year is mainly due to the lower depreciation and amortization expenses and lower financial charges from a reduced level of indebtedness due to repayment of the Senior Secured Notes partially offset by lower Adjusted EBITDA and lower recovery of income taxes.

Fiscal year 2018 versus 2017

Revenues

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,	2018	2017 (Restated) ¹	% Change
Digital	\$ 357,705	\$ 417,466	(14.3%)
Print	127,897	165,674	(22.8%)
YP	\$ 485,602	\$ 583,140	(16.7%)
Digital	84,534	125,026	(32.4%)
Print	8,043	21,253	(62.2%)
Other	92,577	146,279	(36.7%)
Digital	(958)	(1,385)	(30.8%)
Print	(26)	(67)	nm
Intersegment eliminations	(984)	(1,452)	(32.2%)
Digital	\$ 441,281	\$ 541,107	(18.4%)
Print	\$ 135,914	\$ 186,860	(27.3%)
Total revenues	\$ 577,195	\$ 727,967	(20.7%)

¹ Restated to reflect the adoption of new international financial reporting standards with an effect on the consolidated financial statements.

For the year ended December 31, 2018, total revenues amounted to \$577.2 million as compared to \$728.0 million for the same period last year representing a decrease of 20.7% year-over-year or \$150.8 million of which \$33.3 million is attributable to the divested businesses in the Other segment. Other than the decrease resulting from the divestitures, the decline in total revenues for the year ended December 31, 2018 was due to digital revenue declines in all segments and YP segment print revenue decline.

For the year ended December 31, 2018, total digital revenues amounted to \$441.3 million or 76.5% of revenues, representing a decrease of 18.4% year-over-year or \$99.8 million of which \$20.0 million is attributable to the divested businesses in the Other segment. This compares to \$541.1 million or 74.3% of revenues for the year ended December 31, 2017. Other than the decrease resulting from the divestitures, the digital revenue decline for the year ended December 31, 2018 was attributable to lower revenues in both segments.

For the year ended December 31, 2018, total print revenues amounted to \$135.9 million representing a decrease of 27.3% year-over-year or \$50.9 million of which \$13.2 million was attributable to the divested businesses. Other than the decrease resulting from the divestitures, the print revenue decline for the year ended December 31, 2018 was attributable to the YP segment.

Reportable Segments Revenues

YP

Revenues for the YP segment for the year ended December 31, 2018 decreased by \$97.5 million or 16.7% to \$485.6 million from \$583.1 million for the same period in 2017. The decrease for the year ended December 31, 2018 was mainly due to the decline of our higher margin YP digital media and print products and, to a lesser extent, our lower margin digital services products. This change in product mix created pressure on our gross profit margins.

Digital revenues decreased 14.3% year-over-year and amounted to \$357.7 million for the year ended December 31, 2018, compared to \$417.5 million for the same period last year. Digital revenues were adversely impacted by a decline in the number of digital customers offset in part by a higher spend per customer. The lower digital customer count is attributable to both a lower level of customer acquisition in 2018, driven in part by our focus on profitability, and by higher churn, mainly caused by the surge in customer acquisition in 2016 and 2017 of customers purchasing low end solutions which typically have higher churn rates.

Print revenues decreased by 22.8% year-over-year to \$127.9 million for the year ended December 31, 2018. The results were adversely impacted by a decline in the number of print customers and lower spend per customer.

Other

Other revenues decreased by \$53.7 million, of which \$33.3 million is attributable to the divested businesses, to \$92.6 million for the year ended December 31, 2018 from \$146.3 million for the same period in 2017. The decline in Other revenues was mainly a result of the Company divesting the business operations of Comfree in July 2018, the closure of certain US operations to improve profitability, the sale of Totem as of May 31, 2018 as well as the wind down of the Mediative activities.

Gross Profit¹

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,	2018	% of Revenues	2017 (Restated) ²	% of Revenues	% Change
YP	\$ 306,157	63.0%	\$ 339,477	58.2%	(9.8%)
Other	33,660	36.4%	44,537	30.4%	(24.4%)
Intersegment eliminations	(163)	nm	(495)	nm	(67.1%)
Total gross profit	\$ 339,654	58.8%	\$ 383,519	52.7%	(11.4%)

¹ Certain comparative information has been restated to conform to the 2019 presentation.

² Restated to reflect the adoption of new international financial reporting standards with an effect on the consolidated financial statements.

Gross profit for the year ended December 31, 2018 amounted to \$339.7 million or 58.8% of total revenues representing a decrease of \$43.9 million year-over-year of which \$14.2 million is attributable to the divested businesses. This compares to \$383.5 million or 52.7% of total revenues for the same in 2017. The increase in gross profit as a percentage of revenues was due to cost reduction measures and focus on profitability of our products and services offsetting the pressures from reduced revenues and change in product mix.

Reportable Segments Gross Profit

YP

Gross profit for the year ended December 31, 2018 was \$306.2 million, or 63.0% of revenues as compared to \$339.5 million, or 58.2% of revenues for the same period in 2017. The decrease in gross profit is a result of reduced revenues and change in product mix. Gross profit as a percentage of revenues increased as the revenue pressures were more than offset by cost reduction measures and focus on profitability of our products and services. These measures included workforce reductions primarily in non-customer facing areas in the first quarter of 2018, call center consolidations and optimization of our servicing model in the second quarter of 2018 as well as increased focus on profitable sales throughout 2018.

Other

Gross profit for the Other segment amounted to \$33.7 million, or 36.4% of revenues, for the year ended December 31, 2018 as compared to \$44.5 million, or 30.4% of revenues, for the year ended December 31, 2017. The decrease in gross profit for the year ended December 31, 2018 is due to lower revenues partially offset by an improvement in gross profit as a percentage of revenues due to cost reductions.

Adjusted EBITDA

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,	2018	% of Revenues	2017 (Restated) ¹	% of Revenues	% Change
YP	\$ 185,026	38.1%	\$182,590	31.3%	1.3%
Other	7,539	8.1%	519	0.4%	nm
Total Adjusted EBITDA	\$ 192,565	33.4%	\$183,109	25.2%	5.2%

¹ Restated to reflect the adoption of new international financial reporting standards with an effect on the consolidated financial statements.

For the year ended December 31, 2018, Adjusted EBITDA increased by \$9.5 million or 5.2% to \$192.6 million compared to \$183.1 million for the same period in 2017. Our Adjusted EBITDA margin amounted to 33.4% for the year ended December 31, 2018 compared to 25.2% for the year ended December 31, 2017. The increase in Adjusted EBITDA and Adjusted EBITDA margin for the year ended December 31, 2018 was mainly the result of reductions in our cost structure including reductions in our workforce and associated employee costs, reductions in the Company's office space footprint, and other spending reductions across the Company.

Reportable Segments Adjusted EBITDA**YP**

Adjusted EBITDA for the YP segment for the year ended December 31, 2018 increased to \$185.0 million from \$182.6 million for the same period in 2017. The Adjusted EBITDA margin for the YP segment for the year ended December 31, 2018 amounted to 38.1% compared to 31.3% for the same period in 2017. Despite overall lower revenues and the pressures on margins, our Adjusted EBITDA and Adjusted EBITDA margin grew due to an increased focus on the profitability of our products and services and reductions in our cost structure including reductions in our workforce and associated employee costs, reductions in the Company's office space footprint, and other spending reductions across the segment.

Other

Adjusted EBITDA for the Other segment for the year ended December 31, 2018, amounted to \$7.5 million, or 8.1% of revenues. This compares to \$0.5 million, or 0.4% of revenues, for the same periods in 2017. The increase in the Adjusted EBITDA and Adjusted EBITDA margin for the year ended December 31, 2018 was impacted by the closure of certain US operations to improve profitability and reductions in our workforce and associated employee costs. The Adjusted EBITDA for the year ended December 31, 2018 also improved relative to the same period in 2017 due to a non-recurring contract termination fee incurred in the first quarter of 2017.

Adjusted EBITDA less CAPEX

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,	2018	2017 (Restated) ¹	% Change
Adjusted EBITDA	\$ 185,026	\$ 182,590	1.3%
CAPEX	9,556	53,772	(82.2%)
YP	\$ 175,470	\$ 128,818	36.2%
Adjusted EBITDA	7,539	519	nm
CAPEX	2,480	7,113	(65.1%)
Other	5,059	(6,594)	nm
Adjusted EBITDA	\$ 192,565	\$ 183,109	5.2%
CAPEX	\$ 12,036	\$ 60,885	(80.2%)
Total Adjusted EBITDA less CAPEX	\$ 180,529	\$ 122,224	47.7%

¹ Restated to reflect the adoption of new international financial reporting standards with an effect on the consolidated financial statements.

For the year ended December 31, 2018, Adjusted EBITDA less CAPEX increased by \$58.3 million or 47.7% to \$180.5 million compared to \$122.2 million for the same period in 2017. The increase in Adjusted EBITDA less CAPEX for the year ended December 31, 2018 was mainly impacted by higher Adjusted EBITDA and decreased spending on software development, office and computer equipment and leasehold improvements associated with office relocations.

Reportable Segments Adjusted EBITDA less CAPEX**YP**

Adjusted EBITDA less CAPEX for the year ended December 31, 2018 totalled \$175.5 million compared to \$128.8 million for the year ended December 31, 2017. The increase for the year ended December 31, 2018 is mainly due to higher Adjusted EBITDA and lower capital expenditures in software development and lower spend in office and computer equipment and leasehold improvements associated with office relocations.

Other

Adjusted EBITDA less CAPEX for the Other segment for the year ended December 31, 2018 increased to \$5.1 million as compared to a loss of \$6.6 million in the same period in 2017. The improvements in Adjusted EBITDA less CAPEX were due to increased Adjusted EBITDA as well as reduced capital expenditures on software development.

Depreciation and Amortization

Depreciation and amortization decreased to \$76.1 million for the year ended December 31, 2018 compared to \$113.0 million for the year ended December 31, 2017 primarily due to the lower opening intangible asset balance following the impairment recorded in the fourth quarter of 2017 and decreased spend in software development.

Restructuring and Other Charges

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,	2018	2017 (Restated) ¹
Severance, benefits and outplacement	\$ 31,231	\$ 15,098
Settlement of litigation	(14,095)	–
Impairment (recovery) of right-of-use assets and future operating costs related to lease contracts for offices closed	(2,029)	17,188
Pension settlement costs and past service costs, net	755	1,332
Transaction costs	–	601
Other fees	–	181
Total restructuring and other charges	\$ 15,862	\$ 34,400

¹ Restated to reflect the adoption of new international financial reporting standards with an effect on the consolidated financial statements.

The Company recorded restructuring and other charges of \$15.9 million for the year ended December 31, 2018 (2017 – \$34.4 million) consisting of restructuring charges of \$31.2 million associated with workforce reductions, offset by the \$14.1 million impact of a favorable litigation settlement on a contractual obligation with a vendor. Additionally, the restructuring and other charges were offset by a net recovery of \$2.0 million related to the impairment of right-of-use assets and future operating costs provisioned for lease contracts for office closures. Included in this amount is a net recovery of \$7.3 million as a result of a more favorable lease recovery than anticipated, partially offset by the impairment of right-of-use assets and future operating costs related to lease contracts for office closures. For the year ended December 31, 2017, we recorded restructuring and other charges of \$34.4 million associated primarily with internal reorganizations and workforce reductions of \$15.1 million and with office closures of \$17.2 million. Transaction costs of \$0.6 million are comprised mainly of acquisition related costs.

Financial Charges

Financial charges increased to \$54.7 million for the year ended December 31, 2018 compared to \$53.9 million for the same period in 2017. The increase was primarily due to the issuance of the \$315.0 million principal amount 10.00% Senior Secured Notes on October 19, 2017, which accrued interest at a higher rate than the prior Senior Secured Notes. The Company's effective average annual interest rate on our debt portfolio excluding capital leases as at December 31, 2018 was 9.2% (2017 – 8.5%).

(Recovery of) provision for income taxes

The combined statutory provincial and federal tax rates was 26.9% for the year ended December 31, 2018 and 26.8% for the same period in 2017. The Company recorded a recovery of income taxes of \$30.8 million for the year ended December 31, 2018, comprised of recognition of previously unrecognized tax attributes of \$8.5 million and a resolution of uncertain tax positions of \$38.6 million. These recoveries are non-cash items.

In comparison, the Company recorded a provision for income taxes of \$63.4 million for the year ended December 31, 2017, comprised of a recovery of income taxes of \$134.5 million and a valuation allowance of the same amount associated with an impairment loss of \$500.0 million on certain of its intangible assets and goodwill recorded during the fourth quarter of 2017. Furthermore, the Company recognized a reversal of tax attributes and deductible temporary differences representing an income tax expense of approximately \$70.0 million during the fourth quarter of 2017. These expenses are non-cash items.

The Company recorded an income tax recovery of 59.2% of earnings for the year ended December 31, 2018 compared to a provision for income taxes of (12%) on the losses for the year ended December 31, 2017. The difference between the effective and the statutory rates for the year ended December 31, 2018 is mainly due to recognition of previously unrecognized tax attributes, a resolution of uncertain tax positions and non-deductibility of certain expenses for tax purposes. The difference between the effective and the statutory rates in 2017 is mainly due to the reversal and the non-recognition of tax attributes and deductible temporary differences from the current and previous years.

Net earnings (loss)

Net earnings increased to \$82.8 million for the year ended December 31, 2018 from a net loss of \$594.5 million for the year ended December 31, 2017. Notwithstanding the impairment charge of \$507.0 million recorded in 2017, the improvement in net earnings is mainly due to higher Adjusted EBITDA, decreased depreciation and amortization expenses and restructuring and other charges, a gain on the sale of businesses and the recovery of income taxes.

Summary of Consolidated Quarterly Results

The following table shows selected consolidated financial data of Yellow Pages for the eight most recent quarters.

(In thousands of Canadian dollars, except per share and percentage information)

	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
YP revenues	\$ 93,507	\$ 98,147	\$ 106,610	\$ 103,675	\$ 110,782	\$ 117,647	\$ 129,339	\$ 127,834
Other revenues and Intersegment Eliminations	–	–	162	1,112	13,737	12,503	33,873	31,480
Total revenues	\$ 93,507	\$ 98,147	\$ 106,772	\$ 104,787	\$ 124,519	\$ 130,150	\$ 163,212	\$ 159,314
Operating costs	58,751	60,361	63,350	59,406	83,370	83,889	105,990	111,381
Income from operations before depreciation and amortization, and restructuring and other charges (Adjusted EBITDA)	34,756	37,786	43,422	45,381	41,149	46,261	57,222	47,933
Adjusted EBITDA margin	37.2%	38.5%	40.7%	43.3%	33.0%	35.5%	35.1%	30.1%
Depreciation and amortization	8,678	9,221	10,082	11,128	17,063	18,945	19,202	20,884
Restructuring and other charges (recovery)	5,719	2,347	1,571	2,862	1,198	5,220	(1,754)	11,198
Income from operations	20,359	26,218	31,769	31,391	22,888	22,096	39,774	15,851
Financial charges, net	7,360	7,019	11,456	13,765	13,516	13,074	13,977	14,162
Loss (gain) on sale of businesses	10	160	197	–	(205)	(6,827)	903	–
(Recovery of) provision for income taxes	(40,608)	5,200	5,543	4,966	(30,380)	(11,276)	8,248	2,608
Net earnings (loss)	\$ 53,597	\$ 13,839	\$ 14,573	\$ 12,660	\$ 39,957	\$ 27,125	\$ 16,646	\$ (919)
Basic earnings (loss) per share	\$ 2.02	\$ 0.52	\$ 0.55	\$ 0.48	\$ 1.51	\$ 1.03	\$ 0.63	\$ (0.03)
Diluted earnings (loss) per share	\$ 1.70	\$ 0.49	\$ 0.51	\$ 0.45	\$ 1.28	\$ 0.89	\$ 0.56	\$ (0.03)

Sequential quarterly revenue trends are impacted by the YP segment's print publication distribution schedules, with the second quarter being the strongest quarter. Year-over-year the quarterly revenues have decreased principally due to revenue declines in the YP segment associated with overall loss of customers partially offset by an increasing ARPC over the last six quarters. The decline in revenues of the Other segment is a result of the divestitures or liquidation of unprofitable or non-synergistic businesses throughout 2018 and during the first two quarters of 2019.

Operating costs decreased over the periods due to lower revenues, an increased focus on the profitability of our products and services, reductions in our cost structure during 2018 and over the course of 2019. These measures related to workforce reductions primarily in non-customer facing areas in the first quarter of 2018, to call center consolidations and optimization of our servicing model in the second quarter of 2018, reductions in our workforce and associated employee expenses, reductions in the Company's office space footprint, cost optimizations in technology infrastructure and other spending reductions across the YP segment. These cost reductions initiatives were partially offset by investments in customer care and new customer acquisitions starting in the third quarter of 2019. The first quarter of 2019 also benefited by an adjustment to the variable compensation expenses mainly due to employee attrition and previous year performances. Furthermore, operating costs for the second half of 2018 were also reduced by the divestiture of businesses and this continued through 2019 with the completion of the liquidation of Mediative division in the first quarter and the sale of YP Dine and Bookenda in the second quarter.

The Adjusted EBITDA margin showed continued improvement in the first two quarters of 2019 as reductions in our cost structure and emphasis on the profitability of our products and services more than offset the pressures from lower overall revenues and change in product mix in the YP segment. The Adjusted EBITDA margins decreased in the third and fourth quarter of 2019 due to the revenue pressures and investments in customer care and new customer acquisitions.

Depreciation and amortization have been decreasing due to lower intangible assets resulting from decreasing software development expenditures as well as lower intangible assets following the impairment recorded in the fourth quarter of 2017.

The Company's restructuring and other charges mainly relate to workforce reductions and impairments of right-of-use assets and future operating costs related to lease contracts for offices closed. The second quarter of 2018 benefited from a net recovery of \$7.3 million relating to the impairment of right-of-use assets and future operating costs provisioned for lease contracts for office closures as a result of a more favorable lease recovery than anticipated.

The financial charges have been declining as a result of lower indebtedness.

Net earnings were stable during the first three quarters of 2019, while the fourth quarter benefited from recording a recovery of income taxes of \$40.6 million, comprised of the recognition of previously unrecognized tax attributes of \$44.2 million. The net earnings in the fourth quarter of 2018 benefited from the reversal of income tax provisions of \$21.4 million related to previous taxation years and to the recognition of previously unrecognized tax attributes for \$8.5 million. The net earnings in the third quarter of 2018 benefited from the impact of the net gain on sale of businesses of \$6.8 million as well as the benefit of the reversal of income tax provisions of \$18.3 million related to previous taxation years.

ANALYSIS OF FOURTH QUARTER 2019 RESULTS

Revenues

(In thousands of Canadian dollars, except percentage information)

For the three-month periods ended December 31,	2019	2018	% Change
Digital	\$ 70,162	\$ 82,722	(15.2%)
Print	23,345	28,060	(16.8%)
YP	\$ 93,507	\$ 110,782	(15.6%)
Digital	-	13,989	(100.0%)
Print	-	-	-
Other	-	13,989	(100.0%)
Digital	-	(252)	nm
Print	-	-	-
Intersegment eliminations	-	(252)	nm
Digital	\$ 70,162	\$ 96,459	(27.3%)
Print	\$ 23,345	\$ 28,060	(16.8%)
Total revenues	\$ 93,507	\$ 124,519	(24.9%)

Total revenues for the three-month period ended December 31, 2019 decreased by \$31.0 million or 24.9% year-over-year and amounted to \$93.5 million as compared to \$124.5 million for the same period last year. The decline in total revenues for the quarter ended December 31, 2019 was due to lower digital and print revenues in the YP segment as well as the divestitures in the Other segment.

Total digital revenues decreased by \$26.3 million or 27.3% year-over-year and amounted to \$70.2 million during the fourth quarter of 2019 compared to \$96.5 million for the same period last year. The digital revenue decline for the three-month period ended December 31, 2019 was attributable the divestitures in the Other segment as well as lower revenues in the YP segment.

Total print revenues decreased by \$4.7 million or 16.8% year-over-year and amounted to \$23.3 million during the fourth quarter ended December 31, 2019. The print revenue decline for the three-month period ended December 31, 2019 is a result of lower revenues to the YP segment.

Reportable Segments Revenues

YP

Revenues for the YP segment for the fourth quarter of 2019 decreased by \$17.3 million or 15.6% year-over-year and amounted to \$93.5 million compared to \$110.8 million for the same period last year. The decrease for the quarter ended December 31, 2019 is mainly due to the decline of our higher margin YP digital media and print products and to a lesser extent to our lower margin digital services products, thereby creating pressure on our gross profit margins.

Digital revenues decreased 15.2% year-over-year and amounted to \$70.2 million for the fourth quarter of 2019, this compares to \$82.7 million for the same period last year. Digital revenues were adversely impacted by a decline in the number of digital customers partially offset by a sixth consecutive quarter of higher spend per customer. The lower digital customer count is mostly attributable to a lower level of customer acquisition, driven in part by our focus on profitability.

Print revenues decreased by 16.8% year-over-year to \$23.3 million during the fourth quarter of 2019. The results were adversely impacted by a decline in the number of print customers and lower spend per customer.

Other

Due to the divestitures there were no revenues generated by the Other segment during the fourth quarter of 2019, resulting in a year-over-year decline of \$14.0 million in Other revenues.

Gross Profit¹

(In thousands of Canadian dollars, except percentage information)

For the three-month periods ended December 31,	2019	% of Revenues	2018	% of Revenues	% Change
YP	\$ 54,799	58.6%	\$ 69,963	63.2%	(21.7%)
Other	-	-	4,534	32.4%	(100.0%)
Intersegment eliminations	-	-	(70)	nm	nm
Total gross profit	\$ 54,799	58.6%	\$ 74,427	59.8%	(26.4%)

¹ Certain comparative information has been restated to conform with the 2019 presentation.

Gross profit decreased to \$54.8 million, or 58.6% of total revenues, for the fourth quarter of 2019 compared to \$74.4 million or 59.8% of total revenues, for the same period last year. The decrease in gross profit is due to the pressures from lower overall revenues and change in product mix in the YP segment and to the divestitures in the Other segment.

Reportable Segments Gross Profit

YP

Gross profit for the YP segment for the three-month period ended December 31, 2019 totalled \$54.8 million, or 58.6% of revenues, compared to \$70.0 million, or 63.2% of revenues, for the same period last year. The decrease in gross profit and gross profit as a percentage of revenues for the three-month period ended December 31, 2019 is a result of the pressures from lower overall revenues and change in product mix as well as investments in customer care and investments in new customer acquisition. The revenue pressures and customer care and new customer acquisition investments were partially offset by higher efficiencies in sales and operations from optimization and cost reductions, as well as an increased focus on the profitability of our products and services.

Other

Due to the divestitures there was no gross profit generated by the Other segment during the fourth quarter of 2019, resulting in a year-over-year decline of \$4.5 million in Other gross profit.

Adjusted EBITDA

(In thousands of Canadian dollars, except percentage information)

For the three-month periods ended December 31,	2019	% of Revenues	2018	% of Revenues	% Change
YP	\$ 34,756	37.2%	\$ 38,853	35.1%	(10.5%)
Other	-	-	2,296	16.4%	(100.0%)
Total Adjusted EBITDA	\$ 34,756	37.2%	\$ 41,149	33.0%	(15.5%)

Adjusted EBITDA decreased by \$6.4 million to \$34.8 million during the fourth quarter of 2019, compared to \$41.1 million during the same period last year. The Company's Adjusted EBITDA margin for the three-month period ended December 31, 2019 was 37.2% compared to 33.0% for the same period last year. The decrease in Adjusted EBITDA for the three-month period ended December 31, 2019 is the result of the revenue pressures in the YP segment as well as the divestitures in the Other segment. The increase in Adjusted EBITDA margin is mainly due to reductions in both our cost of sales and other operating costs which fully offset the revenue pressures in the YP segment as well as the dilutive effect on profitability of the lower margin Other segment in 2018.

Reportable Segments Adjusted EBITDA**YP**

Adjusted EBITDA for the YP segment for the fourth quarter of 2019 totalled \$34.8 million compared to \$38.9 million for the same period last year. The decrease in Adjusted EBITDA is a result of lower overall revenues, pressures from the change in product mix and investments in customer care and investments in new customer acquisition. The Adjusted EBITDA margin for the YP segment for the fourth quarter of 2019 was 37.2% compared to 35.1% for the same period last year. The increase in Adjusted EBITDA margin for the fourth quarter is due to the revenue pressures and investments in customer care and investments in new customer acquisition being more than offset by an increased focus on the profitability of our products and services and reductions in both our cost of sales and other operating costs. The decrease in other operating costs included reductions in our workforce and associated employee expenses, reductions in the Company's office space footprint and other spending reductions across the segment.

Other

Due to the divestitures there was no Adjusted EBITDA generated by the Other segment during the fourth quarter of 2019, resulting in a year-over-year decline of \$2.3 million in Other Adjusted EBITDA.

Adjusted EBITDA less CAPEX

(In thousands of Canadian dollars, except percentage information)

For the three-month periods ended December 31,	2019	2018	% Change
Adjusted EBITDA	\$ 34,756	\$ 38,853	(10.5%)
CAPEX	1,981	3,801	(47.9%)
YP	\$ 32,775	\$ 35,052	(6.5%)
Adjusted EBITDA	-	2,296	(100.0%)
CAPEX	-	239	(100.0%)
Other	-	2,057	(100.0%)
Adjusted EBITDA	\$ 34,756	\$ 41,149	(15.5%)
CAPEX	\$ 1,981	\$ 4,040	(51.0%)
Total Adjusted EBITDA less CAPEX	\$ 32,775	\$ 37,109	(11.7%)

Adjusted EBITDA less CAPEX decreased by \$4.3 million or 11.7% to \$32.8 million during the fourth quarter of 2019 compared to \$37.1 million during the same period in 2018. Adjusted EBITDA less CAPEX for the three-month period ended December 31, 2019 was mainly impacted by lower Adjusted EBITDA partially offset by decreased spending on software development.

Reportable Segments Adjusted EBITDA less CAPEX

YP

Adjusted EBITDA less CAPEX for the YP segment for the three-month period ended December 31, 2019 totalled \$32.8 million compared to \$35.1 million for the same period last year. The decrease for the three-month period ended December 31, 2019 is mainly due to lower Adjusted EBITDA, partially offset by lower capital expenditures in software development.

Other

Adjusted EBITDA less CAPEX for the Other segment for the three-month period ended December 31, 2019, is \$nil, as compared to Adjusted EBITDA less CAPEX of \$2.1 million for the same period last year. The year-over-year decrease is a result of the divestitures.

Depreciation and Amortization

Depreciation and amortization decreased to \$8.7 million for the three-month period ended December 31, 2019 compared to \$17.1 million for the same period last year. The decrease is primarily due to lower software development expenditures.

Restructuring and Other charges

(In thousands of Canadian dollars)

For the three-month periods ended December 31,	2019	2018
Severance, benefits and outplacement	\$ 5,844	\$ 5,387
Settlement of litigation	–	(3,537)
Impairment of right-of-use assets and future operation costs related to lease contracts for offices closed	(336)	468
Pension settlement costs and past service costs (recovery), net	(980)	(1,120)
Other fees	1,191	–
Total restructuring and other charges	\$ 5,719	\$ 1,198

The Company recorded restructuring and other charges of \$5.7 million for the three-month period ended December 31, 2019 consisting of restructuring charges of \$6.0 million relating to workforce reductions, a \$0.8 million charge related to future operation costs provisioned related to lease contracts for office closures, offset by a \$1.1 million recovery from more favorable lease recoveries than anticipated. For the three-month period ended December 31, 2018, we recorded restructuring and other charges of \$1.2 million associated primarily with internal reorganizations and workforce reductions offset by the \$3.5 million impact of a favorable litigation settlement on a contractual obligation with a vendor.

Financial Charges

Financial charges decreased to \$7.4 million for the fourth quarter of 2019 compared to \$13.5 million for the same period in 2018. The decrease is primarily due to a lower level of indebtedness due to repayments of the Senior Secured Notes.

Recovery of Income Taxes

The combined statutory provincial and federal tax rates were 26.8% and 26.9% for the three-month periods ended December 31, 2019 and 2018, respectively. During the fourth quarter ended December 31, 2019, the Company recorded a recovery for income tax of \$40.6 million, comprised of recognition of previously unrecognized tax attributes and temporary differences of \$44.2 million. These recoveries were non-cash items.

In comparison, the Company recorded a recovery for income taxes of \$30.4 million during the fourth quarter ended December 31, 2018, comprised of recognition of previously unrecognized tax attributes of \$11.9 million and a resolution of uncertain tax positions of \$21.4 million. These recoveries were non-cash items.

The difference between the effective and the statutory rates for the fourth quarter of 2019 is mainly due to recognition of previously unrecognized tax attributes and temporary differences. The difference between the effective and the statutory rates for the fourth quarter of 2018 is mainly due to the recognition of previously unrecognized tax attributes and a resolution of uncertain tax positions.

Net earnings

We recorded net earnings of \$53.6 million and \$40.0 million during the three-month periods ended December 31, 2019 and 2018, respectively. The improvement in net earnings is mainly due to decreased depreciation and amortization expenses due to lower software development expenditures, lower financial charges from a reduced level of indebtedness and higher recovery of income taxes partially offset by lower Adjusted EBITDA and increase in restructuring and other charges.

3. Liquidity and Capital Resources

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

Capital Structure

(In thousands of Canadian dollars, except percentage information)

As at December 31,	2019	2018
Cash and restricted cash	\$ 44,408	\$ 81,452
Senior Secured Notes	\$ –	\$ 167,489
Exchangeable debentures	98,537	96,179
Lease obligations	57,885	75,320
Total debt	\$ 156,422	\$ 338,988
Deficiency	(16,660)	(119,164)
Total capitalization	\$ 139,762	\$ 219,824
Total debt net of cash and restricted cash, to total capitalization	80.1%	117.2%

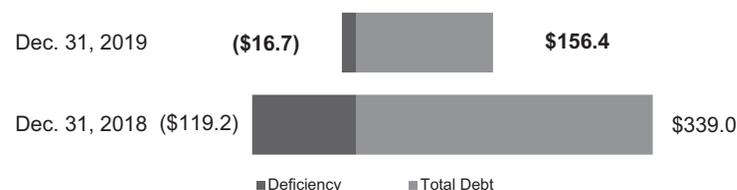
As at December 31, 2019, Yellow Pages had \$112.0 million of debt net of cash and restricted cash, compared to \$257.5 million as at December 31, 2018.

The total debt net of cash and restricted cash to latest Twelve-Month Adjusted EBITDA¹ ratio as at December 31, 2019 was 0.7 times compared to 1.3 times as at December 31, 2018. The decrease is mainly due to elimination and reduction in Senior Secured Notes and lease obligations.

Total Debt Net of Cash and Restricted Cash to Latest Twelve-Month Adjusted EBITDA¹ Ratio



Capital Structure (In millions of Canadian dollars)



¹ Latest twelve-month income from operations before depreciation and amortization, and restructuring and other charges (Latest Twelve-Month Adjusted EBITDA). Latest Twelve-Month Adjusted 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 Adjusted EBITDA.

Asset-Based Loan

On October 19, 2017, the Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, renewed its five-year \$50.0 million asset-based loan (ABL) and extended the term of the ABL to August 2022. At the request of the Company, the ABL agreement was amended on November 18, 2019 to reduce the total commitment from \$50.0 million to \$25.0 million. The ABL is being 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 subject to an availability reserve of \$5.0 million if the Company's trailing twelve-month fixed charge coverage ratio is below 1.1 times. As at December 31, 2019, the Company fixed charge coverage ratio was 1.5 times. The Company had \$3.4 million of letters of credit issued and outstanding under the ABL. As such, \$21.6 million of the ABL was available as at December 31, 2019. As at December 31, 2019, the Company was in compliance with all covenants under the loan agreement governing the ABL.

Senior Secured Notes

On October 19, 2017, Yellow Pages Limited, through its wholly-owned subsidiary, Yellow Pages Digital & Media Solutions Limited, issued \$315.0 million aggregate principal amount of 10.00% Senior Secured Notes (the "Notes") due November 1, 2022 at an issue price of \$980 per \$1,000 principal amount of the Notes, or \$6.3 million discount. The Notes accrue interest at a rate of 10.00% per annum and are payable in semi-annual instalments in arrears on May 1 and November 1 of each year.

Mandatory Redemption

Pursuant to the indenture governing the Notes, the Company was required to use an amount equal to 100% of its consolidated Excess Cash Flow, as defined in the indenture, and any designated net proceeds from asset sales for the immediately preceding mandatory redemption period to redeem the Notes, on a semi-annual basis on the last day (or first following business day) of May and November of each year, at a redemption price equal to 100% of the principal amount, subject to the Company maintaining a minimum cash balance of \$20.0 million on the last day of the mandatory redemption period. The Company was required to use 75% of its consolidated Excess Cash Flow to redeem the Notes if the consolidated leverage ratio on the last day of the mandatory redemption period is no greater than 1.5 to 1. In 2019, the Company made in aggregate mandatory principal redemption payments of \$100.7 million on the Notes.

Optional Redemption

From November 1, 2018 to October 31, 2019, the Company had the option to redeem all or part of the Notes at 102% of the aggregate principal amount, plus accrued and unpaid interest. From November 1, 2019 to October 31, 2020, the Company had the option to redeem all or part of the Notes at 101% of the aggregate principal amount, plus accrued and unpaid interest. Beginning November 1, 2020, the Company would have had the option to redeem all or part of the Notes at 100% of the aggregate principal amount, plus accrued and unpaid interest. In 2019, the Company made in aggregate optional principal redemption payments of \$69.6 million.

With the mandatory and optional redemption payments made during the year, the Company has fully repaid the outstanding balance of the Notes as at December 31, 2019.

Exchangeable Debentures

On December 20, 2012, the Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, issued \$107.5 million of senior subordinated exchangeable debentures (the Exchangeable Debentures) due November 30, 2022. As at December 31, 2019, and December 31, 2018, the face value of the Exchangeable Debentures was \$107.1 million. As at December 31, 2019, the value of the Exchangeable Debentures less unaccreted interest was \$98.5 million compared to \$96.2 million as at December 31, 2018.

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 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.

The indenture governing the Exchangeable Debentures contains restrictive covenants, including restrictions on the incurrence of additional indebtedness, the payment of dividends and other payment restrictions, the creation of liens, sale and leaseback transactions, mergers, consolidations and sales of assets and certain transactions with affiliates. The indenture does not contain the obligation to maintain financial ratios. Financial ratio restrictions only apply upon incurrence of indebtedness and other transactions.

The indenture does permit the Company to make restricted payments, including payment of dividends and common stock buyback, in an aggregate amount not to exceed \$20.0 million since the date of the indenture. To-date, the Company has made no restricted payments since the indenture went into effect. As at December 31, 2019, 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.

Optional Redemption

The Company may, at any time on or after the date on which all of the 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.

The Company intends to make an optional redemption payment to fully repay its Exchangeable Debentures on or shortly after May 31, 2021 according to the terms above (i.e. at a redemption price of 100%).

The redemption option for cash is an embedded derivative and is recorded at fair value on the consolidated statements of financial position with changes in fair value recognized in financial charges. The fair value was insignificant as at December 31, 2019 (2018 – \$nil).

Credit Ratings

DBRS Limited	Standard and Poor's Global Ratings
B (high)/Issuer rating – stable outlook	B-/Corporate credit rating – positive outlook
B (high)/Credit rating for Exchangeable Debentures	B/Credit rating for Exchangeable Debentures

Liquidity

The Company's principal source of liquidity is cash generated from operations and cash on hand. The Company expects to generate sufficient liquidity in the short term and the long term to fund capital expenditures, working capital requirements and current obligations, and service its outstanding debt obligations. As at December 31, 2019, the Company had approximately \$44.4 million of cash and \$21.6 million available under the ABL.

Options

On December 20, 2012, as part of the implementation of Yellow Pages 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 Pages 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 Pages through the transition and transformation of its business and to more closely align the interests of management with those of the shareholders of Yellow Pages Limited. On May 11, 2018, an amendment to the Stock Option Plan was approved, increasing the maximum number of common shares authorized for issuance upon the exercise of options by 1,516,320, from 1,290,612 to 2,806,932. The stock options expire approximately seven years after the grant date and Participants are required to hold 25% of the common shares received pursuant to the exercise of the stock options until the Participants meet the ownership guidelines which apply to their respective position.

Share Data

Outstanding Share Data

As at	February 12, 2020	December 31, 2019	December 31, 2018
Common shares outstanding	28,075,308	28,075,308	28,075,308
Exchangeable Debentures outstanding ¹	5,624,422	5,624,422	5,624,422
Common share purchase warrants outstanding	2,995,484	2,995,484	2,995,484
Stock options outstanding ²	1,983,102	1,983,102	1,347,052

¹ As at February 12, 2020, Yellow Pages had \$107.1 million principal amount of Exchangeable Debentures outstanding, which amount is exchangeable into 5,624,422 common shares of Yellow Pages Limited at an exchange price of \$19.04, subject to adjustment for specified transactions pursuant to the indenture governing the Exchangeable Debentures.

² Included in the stock options outstanding balance of 1,983,102 and 1,983,102 as at February 12, 2020 and December 31, 2019, are nil stock options exercisable as at those dates. Included in the stock options outstanding balance of 1,347,052 as at December 31, 2018 are 60,425 stock options exercisable as at that date.

Dividend Policy

On February 12, 2020, the Board approved management's intention to declare and pay dividends of \$0.11 per common share per quarter starting in the second quarter of 2020.

YP's dividend payout policy and the declaration of dividends on any of the Company's outstanding shares are subject to the discretion of the Board and, consequently, there can be no guarantee that the dividend payout policy will be maintained or that dividends will be declared. Dividend decisions will continue to be dependent on YP's operations and financial results subject to the Board's assessment on a quarterly basis which are, in turn, subject to various assumptions and risks, including those set out in this MD&A.

Contractual Obligations and Other Commitments

(in thousands of Canadian dollars)

	Total	Payments due for the years following December 31, 2019			
		1 year	2 – 3 years	4 – 5 years	After 5 years
Lease obligations ^{1,2}	\$ 57,886	\$ 2,767	\$ 5,604	\$ 7,001	\$ 42,514
Exchangeable Debentures ¹	107,089	–	107,089	–	–
Operating portion of lease obligations	73,366	5,036	10,239	10,615	47,476
Other	45,296	18,667	20,187	5,229	1,213
Total contractual obligations	\$ 283,637	\$ 26,470	\$ 143,119	\$ 22,845	\$ 91,203

¹ Principal amount.

² Net present value.

Lease obligations

We entered into finance lease agreements for premises. As at December 31, 2019, minimum payments under these finance leases up to 2033 total \$57.9 million.

Operating portion of lease obligations

We rent our premises and office equipment under various leases for which an operating portion is recognized. As at December 31, 2019, minimum payments for the operating portion under these leases up to 2033 total \$73.4 million.

Purchase obligations

We use the services of outside suppliers to distribute and print our directories and have entered into long-term agreements with a number of these suppliers. These agreements expire between 2020 and 2032. We also have purchase obligations under service contracts for both operating and capital expenditures. As at December 31, 2019, we have an obligation to purchase services for \$45.3 million over the next five years and thereafter. Cash from operations will be used to fund these purchase obligations.

Pension Obligations

YP sponsors a pension plan registered with the Canada Revenue Agency and the Financial Services Commission of Ontario with defined benefit (DB) for employees hired prior to January 1, 2006, and defined contribution (DC) components for the non-Québec based employees hired on or after January 1, 2006 (the YP Pension Plan) as well as a DC plan registered with the Régie des Rentes du Québec (the YP Québec Plan), for the Québec based employees hired on or after January 1, 2006. Both plans together cover substantially all employees of the Company.

As at December 31, 2019, the DB component of the YP Pension Plan's assets market value totalled \$481.7 million and were invested in a diversified portfolio of Canadian fixed income securities and Canadian and international equity securities. Its rate of return on assets was 19.54% for 2019, 0.26% above our benchmark portfolio.

The most recent actuarial valuation of the DB component of the YP Pension Plan for funding purposes was performed as at December 31, 2017. This is the first valuation prepared with the new Ontario funding basis that eliminates solvency deficit contribution requirement if the plan is above 85% solvent. It also includes a requirement to fund on a going-concern basis a Provision for Adverse Deviation (PfAD) that is determined based on plan characteristics. There is no solvency contribution (above 85% solvent) but an annual contribution to cover the PfAD is required at \$1.8 million for a 10-year period starting in 2019. The next actuarial valuation for funding purposes will be prepared no later than December 31, 2020.

In 2019, the Company made annual contributions equivalent to the current service cost (the Annual Employer Cost) of \$10.2 million, including \$1.8 million to fund the deficit. Total cash payments are expected to amount to \$9.6 million for 2020.

Sources and Uses of Cash

(In thousands of Canadian dollars)

For the years ended December 31,	2019	2018
Cash flows from operating activities		
Cash flows from operations, excluding change in operating assets and liabilities	\$ 113,346	\$ 103,231
Change in operating assets and liabilities	31,413	31,428
	\$ 144,759	\$ 134,659
Cash flows used in investing activities		
Additions to intangible assets	\$ (9,647)	\$ (14,287)
Additions to property and equipment	(91)	(1,899)
Lease incentives received	-	4,150
Payments received from net investment in subleases	466	211
Proceeds on sale of businesses	1,936	63,665
Business acquisition	(400)	(400)
	\$ (7,736)	\$ 51,440
Cash flows used in financing activities		
Repayment of senior secured notes	\$ (170,231)	\$ (144,769)
Payment of lease obligations	(3,836)	(6,283)
	\$ (174,067)	\$ (151,052)
NET (DECREASE) INCREASE IN CASH AND RESTRICTED CASH	\$ (37,044)	\$ 35,047
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	81,452	46,405
CASH AND RESTRICTED CASH, END OF YEAR	\$ 44,408	\$ 81,452

Cash flows from operating activities

Cash flows from operating activities increased by \$10.1 million to \$144.8 million from \$134.7 million for the year ended December 31, 2019 mainly due to lower payments for restructuring and other charges of \$18.4 million, lower interest paid of \$20.3 million due to a lower level of indebtedness due to repayments of the Senior Secured Notes and lower funding of post-employment benefit plans of \$1.4 million, mainly offset by lower Adjusted EBITDA of \$31.2 million.

Cash flows used in investing activities

Cash flows used in investing activities decreased by \$59.2 million mainly due to lower proceeds received on sale of businesses of \$61.7 million and lower lease incentives received of \$4.2 million, partially offset by lower investments in software development and property and equipment of \$6.4 million.

Cash flows used in financing activities

Cash flows used in financing activities amounted to \$174.1 million for the year ended December 31, 2019 as compared to \$151.1 million for the same period last year. During 2019, a payment of \$170.2 million was made on the Senior Secured Notes compared to \$144.8 million during the same period last year.

Financial and other instruments

(See Note 24 of the Audited Consolidated Financial Statements of the Company for the years ended December 31, 2019 and 2018).

The Company's financial instruments primarily consist of cash and restricted cash, trade and other receivables, net investment in subleases, trade and other payables, lease obligations, Senior Secured Notes and Exchangeable Debentures.

The redemption option on the Exchangeable Debentures is an embedded derivative and is recorded at fair value on the consolidated statements of financial position with changes in fair value recognized in financial charges. The fair value was insignificant as at December 31, 2019 (2018 – \$nil).

4. Critical Assumptions and Estimates

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.

In this section, we provide detailed information on these important estimates and assumptions which are under continuous evaluation by the Company.

Allowance for revenue adjustments

The Company records an allowance for revenue adjustments as a reduction to revenue, this reflects an estimate of claims expected from customers. The Company updates its estimate of the allowance for revenue adjustments based on historical experience related to claims, as well as client-related factors. This significant estimate could affect Yellow Pages Limited's future results if actual claims are higher or lower than previously anticipated.

Estimate of the lease term

When the Company recognizes a lease, it assesses the lease term based on the conditions of the lease and assesses whether it will extend the lease at the end of the lease contract, or exercise an early termination option. The Company determined that the term of its leases are the original lease term as it is not reasonably certain that the extension of termination options will be exercised. This significant estimate could affect Yellow Pages Limited's future results if the Company extends the lease or exercises an early termination option.

Assessment of whether a right-of-use asset is impaired

The Company assesses whether a right-of-use asset is impaired, particularly when it vacates an office space and it must determine the recoverability of the asset, depending on its capacity to sublease the assets or surrender the lease and recover its costs. The Company will examine its lease conditions as well as local market conditions and estimate its recoverability potential for each vacated premise. The determination of the lease cost recovery rate involves significant management estimates based on market availability of similar office space and local market conditions. This significant estimate could affect Yellow Pages Limited's future results if the Company succeeds in subleasing their vacated offices at a higher or lower rate or at different dates than initially anticipated.

Measurement of ECL allowance for trade receivables

In relation to the impairment of trade receivables (including contract assets), the Company uses the ECL model, which requires the Company to account for the ECL and changes in the ECL at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. The ECL related to doubtful accounts for trade receivables (also referred to as allowance for doubtful accounts) is established based on various factors, including amongst others the age of the exposure and in some case the customer's solvency. This significant estimate could affect the Company's future results if there is a sudden change in economic conditions or customer solvency.

Determining the discount rate for leases

IFRS 16 requires the Company to discount the lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate ("IBR"). The Company generally used its IBR rate when recording leases initially, since the implicit rates were not readily available due to information not being available from the Lessor regarding the fair value of underlying assets and direct costs incurred by the Lessor related to the leased assets. The IBR for each lease was based on the commencement date of the lease and recalculated at the remeasurement date where applicable.

Useful lives of intangible assets and property and equipment

Yellow Pages Limited reviews the estimated useful lives of its intangible assets and property and equipment at the end of each reporting period. At the end of the current reporting period, management determined that the useful lives of its intangible assets and property and equipment were adequate.

Employee future benefits

The present value of the defined benefit obligation is determined by employing the projected benefit method prorated on service using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Determination of the net benefit costs (recovery) requires assumptions such as the discount rate to measure defined benefit obligations and expected return on plan assets, the projected age of employees upon retirement, the expected rate of future compensation and the expected healthcare cost trend rate. Actual results may differ from results which are estimated based on assumptions.

Income taxes

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of Yellow Pages Limited's ability to utilize the underlying future tax deductions against future taxable income before they expire. Yellow Pages Limited's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of Yellow Pages Limited's ability to utilize the underlying future tax deductions changes, Yellow Pages Limited would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined. The carrying value of deferred tax assets is reviewed at each reporting date, remeasured to the extent that probable sufficient taxable profits will be available, or reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered in the foreseeable future.

Significant judgments

Uncertain tax provisions

Yellow Pages Limited is subject to taxation in numerous jurisdictions. Significant judgment is required in determining the consolidated provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Yellow Pages Limited maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors.

Yellow Pages Limited reviews the adequacy of these provisions at each statement of financial position date and reassesses its provisions if it receives information that may reduce or increase it. However, it is possible that at some future date an additional liability could result from audits by tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made. This estimate was not material for the year-ended December 31, 2019, but was significant for the year ended December 31, 2018.

Accounting Standards

Standards, interpretations and amendments to published standards adopted with no effect on the consolidated financial statements

The Company adopted, effective January 1, 2019, the narrow amendments to IAS 12- Income Taxes and IAS 23- Borrowing Costs, stemming from the Annual Improvements 2015-2017 Cycle project. The adoption of these narrow amendments did not have a significant impact on the Company's consolidated financial statements.

Standards, interpretations and amendments to published standards adopted with an effect on the consolidated financial statements

IFRIC 23 – *Uncertainty over Income Tax Treatments*

The Company has applied IFRIC 23 – Uncertainty over Income Tax Treatments effective for annual periods beginning on or after January 1, 2019. This interpretation paper clarifies that in determining its taxable profit or loss when there is uncertainty over income tax treatments, an entity must use judgment and apply the tax treatment that is most likely to be accepted by the tax authorities. In assessing the likelihood that the tax treatment will be accepted, the entity assumes that the tax treatment will be examined by the relevant tax authorities having full knowledge of all relevant information. The adoption of IFRIC 23 has not had a significant impact on the consolidated financial statements of Yellow Pages Limited.

Amendments to IAS 19 – *Employee Benefits*

Yellow Pages Limited has applied the amendments to IAS 19 effective for annual periods beginning on or after January 1, 2019. These amendments address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

There was no impact to the Company's consolidated financial statements for the year ended December 31, 2019 as a result of the adoption of these amendments to IAS 19.

5. Risks and Uncertainties

The following section examines the major risks and uncertainties that could materially affect YP's future business results.

Understanding and managing risks are important parts of YP'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 risks at YP, 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.

YP has put in place certain guidelines in order to seek to manage the risks to which it may be exposed. Please refer to the "Risk Factors" section of our AIF for a complete description of these risk factors. Despite these guidelines, the Company cannot provide assurances that any such efforts will be successful.

Failure by the Corporation to stabilize or grow its revenues and customer base could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation's revenues remain adversely impacted by a lower customer count. Failure to provide existing customers with marketing solutions that meet their key marketing objectives and generate return on investment may limit the Corporation's ability to retain existing customers. In addition, the inability of the Corporation's customer acquisition strategies and channels to find and attract new customers may limit the Corporation's ability to grow its total customer count. These events could have a material adverse effect on the Corporation, its business, results from operations and financial condition.

The inability of the Corporation to attract, retain and upsell customers could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation's revenues remain adversely impacted by a lower customer count. Failure to provide existing customers with marketing solutions that meet their key marketing objectives and generate return on investment may limit the Corporation's ability to retain existing customers. In addition, the inability of the Corporation's customer acquisition strategies and channels to find and attract new customers may limit the Corporation's ability to grow its total customer count. These events could have a material adverse effect on the Corporation, its business, results from operations and financial condition.

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

The Corporation competes with other directory, advertising media and classified advertising businesses and across various media and platforms. This includes the internet, newspapers, television, radio, mobile telecommunication devices, magazines, billboards and direct mail advertising. In particular, the directories business faces substantial competition due to increased online penetration, through the use of online search engines and social networking organizations. The Corporation may not be able to compete effectively with these online competitors, some of which may have greater resources. The Corporation's internet strategy and its directories business may be adversely affected if major search engines build local sales forces or otherwise begin to more effectively reach local businesses for local commercial search services. These competitors may reduce their prices to increase their market share or may be able to offer their services at lower costs than the Corporation can.

The Corporation may be forced to reduce its prices or offer and perform other services in order to remain competitive. The Corporation's failure to compete effectively with its current or future competitors could have a number of impacts such as a reduction in its advertiser base, lower rates and increased costs. This 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 Corporation could be materially adversely affected if the usage of print telephone directories declines at a rate higher than anticipated. The development of new technologies and the widespread use of the internet is causing changes in preferences and consumer habits. The usage of internet-based products providing information, formerly exclusively available in print directories, has increased rapidly. The internet has become increasingly accessible as an advertising medium for businesses of all sizes. Further, the use of the internet, including as a means to transact commerce through mobile devices, has resulted in new technologies and services that compete with traditional advertising mediums. In particular, this has a significant impact on print products, and the decrease in usage gradually leads to lower advertising revenues. References to print business directories may decline faster than expected as users increasingly turn to digital and interactive media delivery devices for local commercial search information.

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 transition from print to digital causes uncertainties surrounding whether and when new product introductions will compensate for the declining trend in print revenues. If revenue from the Corporation's digital products does not increase significantly, the Corporation's cash flow, results of operations and financial condition will be materially adversely affected.

The Corporation expects to derive a greater portion of its total revenue from its digital and other new media products, as directory usage continues to shift from print directories to digital and other new media products.

The Corporation's transformational expansion towards digital and new media products is subject to a variety of challenges and risks, including the following:

- the Corporation may not continue to grow usage on its digital properties at the same rate as other providers or may grow at a slower rate than currently anticipated;
- internet usage as a source of information and a medium for advertising may not continue to grow, or may grow at a slower rate than currently anticipated, as a result of factors that the Corporation cannot predict or control;
- the Corporation may incur substantial additional costs and expenses related to investments in its information technology, modifications to existing products and development of new products and this may reduce profit margins in the future;

- the Corporation may be unable to develop and market new products in a timely and efficient manner, as the Corporation's markets are characterized by rapidly changing technology, introductions and enhancements to existing products and shifting advertising customer and end-user demands, including technology preferences;
- the Corporation may be unable to improve its information technology systems so as to efficiently manage increased levels of traffic on the Corporation's digital properties and provide new services and products;
- the Corporation may be unable to keep apprised of changes to search engines' terms of service or algorithms, which could cause the Corporation's digital properties, or its advertising customers' digital properties, to be excluded from or ranked lower in search results or make it more difficult or more expensive for the Corporation to provide search engine marketing and search engine optimisation solutions to its advertising customers;
- the Corporation's advertising customers may be unwilling to grow their investment in digital advertising; and
- the Corporation may be unable to increase or maintain the prices of its products and services in the future.

If any of the above-mentioned risks were to occur, the Corporation's digital revenue, as well as its business, results from operations and financial condition could be materially adversely affected.

The inability of the Corporation to supply the relationships and technologies required to appropriately service the needs of its customers could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation anticipates that it will continue to depend on various third-party relationships in order to grow its business, such as technology and content providers, real-time advertising exchanges and other strategic partners. The Corporation may not be able to maintain such relationships and these third parties may experience disruptions or performance problems, which could negatively affect the Corporation's efficiency and reputation.

In addition, the Corporation relies heavily on information technology systems to manage critical functions of its digital and mobile marketing solutions. The future success of the Corporation will depend in part upon its ability to continuously enhance and improve its existing solutions in a timely manner with features and pricing that meet changing advertiser needs. As marketing via new digital advertising channels, such as mobile advertising is emerging, it may evolve in unexpected ways, and the failure of the Corporation to adapt successfully to market evolution could have a material adverse effect on the Corporation, its business, results of operations and financial condition.

A prolonged economic downturn in principal markets of the Corporation could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation derives revenues principally from the sale of advertising in Yellow Pages print and digital directories across Canada. The Corporation's advertising revenues, as well as those of directories publishers in general, typically do not fluctuate widely with economic cycles. However, a prolonged economic downturn or recession affecting the Corporation's markets, or any deterioration in general economic conditions, could have a material adverse effect on the Corporation's business. The adverse effects of an economic downturn or recession on the Corporation could be compounded by the fact that the majority of the Corporation's customers are SMEs. Such businesses have fewer financial resources and higher rates of failure than larger businesses, and may be more vulnerable to prolonged economic downturns. Therefore, these SMEs may be more likely to reduce or discontinue advertising with the Corporation, which 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 margins, such as services and resale, could have a material adverse effect on the Corporation's profitability

Digital advertising sold on the Corporation's owned and operated media currently operate at the highest level of profitability relative to digital service (websites, search engine optimization, content syndication and Facebook) solutions and resale (SEM) solutions. Revenues sourced from digital service and resale solutions that are proportionally materially higher than anticipated may have an adverse impact on the Corporation's profitability.

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 success of the Corporation depends on the abilities, experience and personal efforts of senior management of the Corporation, including their ability to retain and attract skilled employees. The Corporation is also dependent on the number and experience of its sales representatives and ISIT employees. The loss of the services of such key personnel could have a material adverse effect on the Corporation, its business, its results from operations and financial condition.

The Corporation's business depends on the usage of its online and mobile properties and failure to protect traffic across the Corporation's digital properties could impair its ability to grow revenues and expand its business

The success of numerous of our customers' marketing campaigns is dependent on how well they can attract valuable audiences. The Corporation will invest in order to protect digital audiences across its network of online and mobile properties by enhancing the quality, completeness and relevance of the content distributed to its properties, and by providing compelling verticalized sites and applications for local discovery. The Corporation may not be able to protect or grow traffic across its digital properties and such investments may not prove to be cost-effective. There can be no assurance that current traffic or potential growth in traffic across the Corporation's digital properties may maintain or increase advertising customer renewal rates and/or annual spending, or lead to a measurable increase in advertising customers.

Failure by either the Corporation or the Telco Partners to fulfill their 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

We have three billing and collection services agreements. The agreement with Bell Canada ("Bell") expires on December 31, 2020 and the agreement with Northwestel Inc., an affiliate of Bell expires, November 29, 2032. The agreement with TELUS Communications Inc. (TELUS) expires in 2031. Through these agreements, our billing is included as a separate line item on the telephone bills of Bell and TELUS customers who use our services. Bell and TELUS (the Telco Partners) contract with third parties to conduct monthly billing of customers who use them as their local telephone service providers. In addition, the Telco Partners provide collection services for the Corporation with those customers who are also their customers. Additionally, the Corporation has entered into publishing agreements with each Telco Partner. If the Corporation fails to perform its obligations under these agreements and the agreements are consequently terminated by such Telco Partner, other agreements with such Telco Partners may also be terminated, including the Bell Canada Trademark License Agreement, the TELUS Trademark License Agreement, the MTS Inc. Branding and Trademark Agreement and the Bell Canada Inc. Branding and Trademark Agreement, as well as non-competition covenants we benefit from with such Telco Partners.

We have agreements with outside service suppliers to print and distribute our directories and publications. These agreements are for services that are integral to our business.

The failure of the Telco Partners or any of our other suppliers to fulfill their contractual obligations under these agreements could result in a material adverse effect on our business.

Customers who do not use the Telco Partners as their local telephone provider as well as all new customers are billed directly by the Corporation.

Successfully prosecuted legal action against the Corporation, could adversely affect the results of operations and financial condition of the Corporation.

From time to time, the Corporation may be the subject of litigation arising out of its operations. The Corporation is not currently a party to any material litigation. However, if any legitimate cause of action arose which was successfully prosecuted against the Corporation, the results of operations and financial condition could be adversely affected. Claims under such litigation may be material or may be indeterminate. Various types of claims may be made including, without limitation, breach of contract, negligence, tax and employment matters. The outcome of such litigation is uncertain and may materially impact the Corporation's financial condition or results of operations and the Corporation may be required to incur significant expenses or devote significant resources in defense against any such litigation. Moreover, unfavorable outcomes or settlements of litigation could encourage the commencement of additional litigation.

Work stoppages and other labour disturbances could have a material adverse effect on the Corporation, its business, results from operations and financial condition

Certain non-management employees of the Corporation are unionized. The Corporation currently has seven union agreements. Each of the union agreements have been successfully renegotiated, four of which expire on December 31, 2021, two others on June 30, 2022 and the last on March 31, 2023.. If the Corporation is unable to renew the agreements with its unionized staff as they come up for renegotiation from time to time, it could result in additional work stoppages and other labour disturbances, which could have a material adverse effect on our business.

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

In the normal course of the Corporation's activities, the tax authorities are carrying out ongoing reviews. In that respect, the Corporation is of the view that all expenses claimed by the different entities of the group are reasonable and deductible and that the cost amount and capital cost allowance claims of such entities' depreciable properties have been correctly determined. There is no assurance that the tax authorities may not challenge these positions. Such challenge, if successful, may 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 of service provided by mapping applications and search engines could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation has entered into agreements with mapping applications and search engines to promote its online directories. These agreements facilitate access to the Corporation's content and customer advertising, allow the Corporation to generate a higher volume of traffic than it would on its own as well as generate business leads for its advertisers, while retaining the client relationship. Loss of key relationships or changes in the level of service provided by the mapping applications and search engines could impact performance of the Corporation's internet marketing solutions. In addition, internet marketing services are provided by many other competitors within the markets the Corporation serves and its clients could choose to work with other, sometimes larger providers of these services, or with other search engines directly. The foregoing 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 business activities rely significantly on the efficient and uninterrupted operation of computers and communications systems as well as those of third parties. The Corporation's media properties, sales and advertising processing, data storage, production, billing, collection and day-to-day operations could be adversely impaired by cyber-attacks, or the failure of such technology, which could in turn have a material adverse effect on the Corporation, its business, results from operations and financial condition.

In addition, the Corporation's computer and ISIT systems may be vulnerable to damage or interruption from a variety of sources and its disaster recovery systems may be deemed ineffective. Any failure of these systems could impair the Corporation's business. This 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 ability of the Corporation to make scheduled payments under its indebtedness will depend on, among other things, its future operating performance. There can be no assurance that the Corporation will be able to generate sufficient cash from its operations to pay its debt obligations. The Corporation's ability to generate sufficient funds from operations, debt financings, equity financings or refinancing transactions is, to a large extent, subject to economic, financial, competitive, operational and other factors, many of which are beyond the Corporation's control.

There can be no assurance that the Corporation will continue to be able to obtain on a timely basis sufficient funds on terms acceptable to the Corporation to provide adequate liquidity and to finance the operating and capital expenditures necessary to overcome the challenges associated with the evolution of its business and support its business strategy if cash flows from operations and cash on hand are insufficient.

Failure to generate sufficient funds, whether from operations or debt or equity financings or refinancing transactions, could require the Corporation to delay or abandon some of its anticipated expenditures or to modify its business strategy and could have a material adverse effect on the Corporation, its business, results from operations and financial condition. Furthermore, competitors with greater liquidity or their ability to raise money more easily and on less onerous terms could create a competitive disadvantage for the Corporation.

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

The Corporation may be required to make incremental contributions to its pension plans in the future depending on various factors including future returns on pension plan assets, long-term interest rates and changes in pension regulations, which may have a materially negative effect on the Corporation's liquidity and results from operations.

The funding requirements of the Corporation's pension plans, resulting from valuations of its pension plan assets and liabilities, depend on a number of factors, including actual returns on pension plan assets, long-term interest rates, plan demographic and pension regulations. Changes in these factors could cause actual future contributions to significantly differ from the Corporation's current estimates and could require the Corporation to make incremental contributions to its pension plans in the future and, therefore, could have a materially negative effect on the Corporation's liquidity, business, results from operations and financial condition.

There is no assurance that the Corporation's pension plans will be able to earn their assumed rate of return. A material portion of the Corporation's pension plans' assets is invested in public equity securities. As a result, the ability of the Corporation's pension plans to earn the rate of return that management has assumed depends significantly on the performance of capital markets. The market conditions also impact the discount rate used to calculate the Corporation's solvency obligations and thereby could also significantly affect the Corporation's cash funding requirements.

6. Controls and Procedures

As a public entity, we must take steps to ensure that material information regarding our reports filed or submitted under securities legislation fairly presents the financial information of YP. Responsibility for this resides with management, including the President and Chief Executive Officer and the Chief Financial Officer. Management is responsible for establishing, maintaining and evaluating disclosure controls and procedures, as well as internal control over financial reporting.

Disclosure Controls and Procedures (DC&P)

The evaluation of the design and effectiveness of DC&P (as defined in National Instrument 52-109) was performed under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. They concluded that the Company's DC&P were effective, as at December 31, 2019.

Internal Control over Financial Reporting (ICFR)

The design and effectiveness of ICFR (as defined in National Instruments 52-109) were evaluated under the supervision of the President and Chief Executive Officer and Chief Financial Officer. Based on the evaluations, they concluded that the Company's ICFR was effective, as at December 31, 2019.

During the quarter beginning on October 1, 2019 and ended on December 31, 2019, no changes were made to the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Yellow Pages Limited

Opinion

We have audited the consolidated financial statements of Yellow Pages Limited (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis; and
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Gianmarco Lombardi.

(signed) Deloitte LLP¹

Montréal, Québec
February 12, 2020

¹CPA auditor, CA, public accountancy permit No. A125494

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

As at	December 31, 2019	December 31, 2018
ASSETS		
CURRENT ASSETS		
Cash and restricted cash (Note 5)	\$ 44,408	\$ 81,452
Trade and other receivables (Notes 6 and 24)	87,250	132,534
Prepaid expenses	5,563	6,330
Deferred publication costs	2,492	2,191
Net investment in subleases (Note 8)	926	13
Income taxes receivable (Note 16)	344	668
TOTAL CURRENT ASSETS	140,983	223,188
NON-CURRENT ASSETS		
Deferred commissions (Note 7)	3,610	8,518
Financial and other assets (Notes 14 and 24)	829	6,685
Right-of-use assets (Note 8)	14,060	32,583
Net investment in subleases (Note 8)	25,611	7,379
Property and equipment (Note 9)	12,309	29,518
Intangible assets (Note 10)	89,749	117,096
Deferred income taxes (Note 16)	39,727	17,402
TOTAL NON-CURRENT ASSETS	185,895	219,181
TOTAL ASSETS	\$ 326,878	\$ 442,369
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade and other payables (Note 11)	\$ 33,662	\$ 47,520
Provisions (Note 12)	26,644	37,673
Deferred revenues (Note 6)	2,667	3,190
Current portion of lease obligations (Note 8)	2,767	4,352
Current portion of senior secured notes (Note 14)	-	90,000
TOTAL CURRENT LIABILITIES	65,740	182,735
NON-CURRENT LIABILITIES		
Provisions (Note 12)	1,576	1,810
Post-employment benefits (Note 13)	122,567	132,352
Lease obligations (Note 8)	55,118	70,968
Senior secured notes (Note 14)	-	77,489
Exchangeable debentures (Note 15)	98,537	96,179
TOTAL NON-CURRENT LIABILITIES	277,798	378,798
TOTAL LIABILITIES	343,538	561,533
CAPITAL AND RESERVES	6,595,802	6,595,147
DEFICIT	(6,612,462)	(6,714,311)
TOTAL DEFICIENCY	(16,660)	(119,164)
TOTAL LIABILITIES AND DEFICIENCY	\$ 326,878	\$ 442,369

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

Approved on behalf of Yellow Pages Limited by

(Signed)
Susan Kudzman, Director and Chair of the Board

(Signed)
Rob Hall, Director and Chair of the Audit Committee

Consolidated Statements of Income

(in thousands of Canadian dollars, except share and per share information)

For the years ended December 31,	2019	2018
Revenues (Note 18)	\$ 403,213	\$ 577,195
Operating costs (Note 20)	241,868	384,630
Income from operations before depreciation and amortization, and restructuring and other charges	161,345	192,565
Depreciation and amortization (Notes 8, 9 and 10)	39,109	76,094
Restructuring and other charges (Note 12)	12,499	15,862
Income from operations	109,737	100,609
Financial charges, net (Note 21)	39,600	54,729
Loss (gain) on sale of businesses (Note 4)	367	(6,129)
Earnings before income taxes	69,770	52,009
Recovery of income taxes (Note 16)	(24,899)	(30,800)
Net earnings	\$ 94,669	\$ 82,809
Basic earnings per share	\$ 3.57	\$ 3.13
Weighted average shares outstanding – basic earnings per share (Note 17)	26,523,234	26,423,158
Diluted earnings per share	\$ 3.16	\$ 2.78
Weighted average shares outstanding – diluted earnings per share (Note 17)	32,526,598	32,636,146

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

Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars)

For the years ended December 31,	2019	2018
Net earnings	\$ 94,669	\$ 82,809
Other comprehensive income:		
Items that will not be reclassified subsequently to net earnings		
Net change in fair value of equity investments reported in other comprehensive income ("FVOCI") (Note 24)	-	(5,502)
Actuarial gains (Note 13)	9,814	11,461
Income taxes relating to items that will not be reclassified subsequently to net earnings	(2,634)	(3,079)
Other comprehensive income	7,180	2,880
Total comprehensive income	\$ 101,849	\$ 85,689

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

Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)

For the years ended December 31,

	2019									
	Shareholders' capital (Note 17)	Restricted shares	Warrants	Compound financial instruments ¹	Stock-based compensation and other reserves	Reduction of capital reserve	Total capital and reserves	Deficit	Total deficiency	
Balance, December 31, 2018	\$ 4,031,685	\$ (23,421)	\$ 1,456	\$ 3,619	\$ 124,755	\$ 2,457,053	\$ 6,595,147	\$ (6,714,311)	\$ (119,164)	
Other comprehensive income	-	-	-	-	-	-	-	7,180	7,180	
Net earnings	-	-	-	-	-	-	-	94,669	94,669	
Total comprehensive income	-	-	-	-	-	-	-	101,849	101,849	
Restricted shares settled	-	2,000	-	-	(2,000)	-	-	-	-	
Restricted shares (Note 19)	-	-	-	-	(515)	-	(515)	-	(515)	
Stock options (Note 19)	-	-	-	-	1,170	-	1,170	-	1,170	
Balance, December 31, 2019	\$ 4,031,685	\$ (21,421)	\$ 1,456	\$ 3,619	\$ 123,410	\$ 2,457,053	\$ 6,595,802	\$ (6,612,462)	\$ (16,660)	
	2018									
	Shareholders' Capital (Note 17)	Restricted shares	Warrants	Compound financial instruments ¹	Stock-based compensation and other reserves	Reduction of capital reserve	Total capital and reserves	Deficit	Total deficiency	
Balance, December 31, 2017, as previously reported	\$ 4,031,685	\$ (27,572)	\$ 1,456	\$ 3,619	\$ 129,280	\$ 2,457,053	\$ 6,595,521	\$ (6,814,317)	\$ (218,796)	
Adjustment for IFRS 15	-	-	-	-	-	-	-	26,050	26,050	
Adjustment for IFRS 16	-	-	-	-	-	-	-	(7,133)	(7,133)	
Restated balance December 31, 2017	4,031,685	(27,572)	1,456	3,619	129,280	2,457,053	6,595,521	(6,795,400)	(199,879)	
Adjustment for IFRS 9	-	-	-	-	-	-	-	(4,600)	(4,600)	
Restated balance, January 1, 2018	4,031,685	(27,572)	1,456	3,619	129,280	2,457,053	6,595,521	(6,800,000)	(204,479)	
Other comprehensive income	-	-	-	-	-	-	-	2,880	2,880	
Net earnings	-	-	-	-	-	-	-	82,809	82,809	
Total comprehensive income	-	-	-	-	-	-	-	85,689	85,689	
Restricted shares settled	-	4,151	-	-	(4,151)	-	-	-	-	
Restricted shares (Note 19)	-	-	-	-	(810)	-	(810)	-	(810)	
Stock options (Note 19)	-	-	-	-	436	-	436	-	436	
Balance, December 31, 2018	\$ 4,031,685	\$ (23,421)	\$ 1,456	\$ 3,619	\$ 124,755	\$ 2,457,053	\$ 6,595,147	\$ (6,714,311)	\$ (119,164)	

¹ The equity component of the exchangeable debentures presented above is net of income taxes of \$1.3 million (2018 - \$1.3 million).

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

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

For the years ended December 31,	2019	2018
OPERATING ACTIVITIES		
Net earnings	\$ 94,669	\$ 82,809
Adjusting items		
Stock-based compensation expense (recovery) equity settled	655	(374)
Depreciation and amortization	39,109	76,094
Restructuring and other charges	12,499	15,862
Financial charges, net	39,600	54,729
Loss (gain) on sale of businesses	367	(6,129)
Recovery of income taxes	(24,899)	(30,800)
Change in operating assets and liabilities	31,413	31,428
Funding of post-employment benefit plans in excess of costs	(4,043)	(5,423)
Restructuring and other charges paid (Note 12)	(17,994)	(36,358)
Interest paid	(26,881)	(47,229)
Income taxes received, net	264	50
	144,759	134,659
INVESTING ACTIVITIES		
Additions to intangible assets	(9,647)	(14,287)
Additions to property and equipment	(91)	(1,899)
Lease incentives received (Note 8)	-	4,150
Payments received from net investment in subleases	466	211
Proceeds on sale of businesses (Notes 4 and 5)	1,936	63,665
Business acquisition	(400)	(400)
	(7,736)	51,440
FINANCING ACTIVITIES		
Repayment of senior secured notes (Note 14)	(170,231)	(144,769)
Payment of lease obligations (Note 8)	(3,836)	(6,283)
	(174,067)	(151,052)
NET (DECREASE) INCREASE IN CASH AND RESTRICTED CASH	(37,044)	35,047
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	81,452	46,405
CASH AND RESTRICTED CASH, END OF YEAR (Note 5)	\$ 44,408	\$ 81,452
Supplemental disclosure of cash flow information (Note 22)		

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

1. Description

Yellow Pages Limited, through its subsidiaries, offers local and national businesses access to digital and print media and marketing solutions to reach consumers in all the provinces and territories of Canada. References herein to Yellow Pages Limited (or the “Company”) represent the financial position, financial performance, cash flows and disclosures of Yellow Pages Limited and its subsidiaries on a consolidated basis.

Yellow Pages Limited’s registered head office is located at 1751 Rue Richardson, Montreal, Québec, Canada, H3K 1G6 and the common shares of Yellow Pages Limited are listed on the Toronto Stock Exchange (“TSX”) under the symbol “Y”.

The Board of Directors (the “Board”) approved the consolidated financial statements for the years ended December 31, 2019 and 2018 on February 12, 2020 for publication on February 13, 2020.

2. Revised standards

2.1 Standards, interpretations and amendments to published standards adopted with no effect on the consolidated financial statements

The Company adopted, effective January 1, 2019, the narrow amendments to IAS 12 – *Income Taxes* and IAS 23– *Borrowing Costs*, stemming from the Annual Improvements 2015-2017 Cycle project. The adoption of these narrow amendments did not have a significant impact on the consolidated financial statements of Yellow Pages Limited.

IFRIC 23 – *Uncertainty over Income Tax Treatments*

The Company has applied IFRIC 23 – *Uncertainty Over Income Tax Treatments* effective for annual periods beginning on or after January 1, 2019. This interpretation paper clarifies that in determining its taxable profit or loss when there is uncertainty over income tax treatments, an entity must use judgment and apply the tax treatment that is most likely to be accepted by the tax authorities. In assessing the likelihood that the tax treatment will be accepted, the entity assumes that the tax treatment will be examined by the relevant tax authorities having full knowledge of all relevant information. The adoption of IFRIC 23 has not had a significant impact on the consolidated financial statements of Yellow Pages Limited.

Amendments to IAS 19 – *Employee Benefits*

Yellow Pages Limited has applied the amendments to IAS 19 effective for annual periods beginning on or after January 1, 2019. The amendments address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments to IAS 19 have not had a significant impact on the consolidated financial statements of Yellow Pages Limited.

3. Basis of presentation and significant accounting policies

3.1 Statement of compliance

These consolidated financial statements of Yellow Pages Limited and its subsidiaries were prepared by management in accordance with IFRS. These financial statements have been prepared in accordance with the following significant accounting policies that have been applied consistently to all periods presented throughout the consolidated entities.

3.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain assets and liabilities (including derivative instruments) at fair value as explained in the policies below.

3.3 Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of Yellow Pages Limited.

3.4 Basis of consolidation

3.4.1 Subsidiaries

Subsidiaries that are directly controlled by Yellow Pages Limited or indirectly controlled through other consolidated subsidiaries are fully consolidated. Subsidiaries are all entities over which Yellow Pages Limited exercises control.

Subsidiaries are fully consolidated from the effective date of acquisition up to the effective date of disposal. Intercompany assets, liabilities, and transactions between fully consolidated companies are eliminated. Gains and losses on internal transactions with controlled companies are fully eliminated. Accounting policies and methods are modified where necessary to ensure consistency of accounting treatment at the Yellow Pages Limited level.

3.4.2 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by Yellow Pages Limited in exchange for control of the acquired entity. Transaction costs associated with business acquisitions are recognized in the statement of income, as incurred.

3.5 Cash and restricted cash

3.5.1 Cash

Cash consists of funds on deposit and, from time to time, highly liquid investments with a purchased maturity of three months or less.

3.5.2 Restricted cash

Restricted cash is cash where specific restrictions exist on the Company's ability to use this cash. Restricted cash consisted primarily of cash held in escrow, which was subject to the terms of the Senior Secured Notes.

3.6 Financial instruments

Financial assets and financial liabilities are recognized in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

3.6.1 Financial assets

Initial recognition and measurement

Financial assets are classified into the following specified categories: “amortized cost”; “fair value through other comprehensive income for equity investment” (“FVOCI – equity investment”); and “fair value through profit or loss” (“FVTPL”).

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Company’s business model for managing them.

The Company’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

Financial asset at amortized cost

The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate (“EIR”) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company’s financial assets at amortized cost include trade and other receivables, net investment in subleases, and cash and restricted cash.

Financial assets at fair value through other comprehensive income for equity investment (“FVOCI – equity investment”)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under IAS 32 — *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI.

The Company elected to classify irrevocably its equity investments (presented in financial and other assets) under this category.

Financial asset at fair value through profit or loss (“FVTPL”)

Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

The Company has a loan receivable associated with a forward contract under this category. The loan receivable is included in other receivables.

Derecognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

There is no reclassification on derecognition of equity investments at FVOCI.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit losses (“ECL”) model. The ECL model requires the Company to account for the ECL and changes in the ECL at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. For trade receivables (including contract assets), the Company applied the simplified approach permitted under IFRS 9, which requires lifetime ECL to be recognized from initial recognition. While cash and restricted cash, other receivables and net investment in subleases are also subject to the impairment requirements under IFRS 9, the identified ECL was immaterial. The lifetime ECL related to doubtful accounts for trade receivables (also referred to as allowance for doubtful accounts) is established based on various factors, including amongst others the age of the exposure and in some case the customer’s solvency.

At each reporting date, the Company assesses whether financial assets are credit impaired. The Company will consider a financial asset to be in default when the indebted party is unlikely to pay its obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any). The Company elected to consider that default does not occur when a financial asset is 90 days past due as the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate and that default risk is not necessarily increased. In assessing whether an indebted party is in default, the Company will consider indicators that are qualitative (e.g. breach of conditions), quantitative (e.g. overdue status), and data developed internally and obtained from external sources. Inputs into the assessment of whether a financial asset is in default and their significance may vary over time to reflect circumstances. The same factors are considered when determining whether to write-off amounts charged to the ECL allowance for trade receivables against the customer accounts receivable. The assessment of the probability of default and loss given default is based on historical data adjusted for current customer circumstances. No customer accounts receivable are written-off directly to the bad debt expense.

3.6.2 Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities designated at fair value through profit or loss (“FVTPL”), loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, at fair value less transaction costs.

The Company’s financial liabilities include trade and other payables, lease obligations, loans and borrowings including bank overdrafts, and derivative financial instruments.

Yellow Pages Limited recognizes all financial liabilities, specifically senior secured notes, exchangeable debentures, and trade and other payables, initially at fair value less transaction costs and subsequently at amortized cost, using the effective interest method.

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if it is separated from the host when certain conditions are met and accounted for as a separate derivative. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

The Company currently possesses an embedded derivative in the form of a redemption option for cash for the Company’s exchangeable debentures.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance charges in the statement of profit or loss. This category applies to Senior Secured Notes and exchangeable debentures.

Derecognition

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

3.7 Deferred publication costs

Deferred publication costs are recognized for direct and incremental publication costs incurred during the sale, manufacturing and distribution of telephone print directories as well as the sale, provisioning and fulfillment of digital products and services. The intangible asset represents costs that will be recovered in future periods, when the related directories revenues, digital products and services revenues are recognized. An intangible asset is capitalized when the following conditions are met:

- Yellow Pages Limited has control over the contract for which the costs were incurred;
- The control results from past events;
- Future economic benefits are expected to flow to Yellow Pages Limited; and
- The asset is identifiable, non-monetary and without physical substance.

Deferred publication costs are initially measured at cost and are recognized in operating costs upon delivery of the publication or fulfillment of the digital products and services.

3.8 Deferred commissions

Deferred commissions paid represent costs to obtain new sales contracts. These costs are amortized on a straight-line basis over a two-year period as this reflects the expected period of benefit. The Company recognizes as an expense the commissions paid for contract renewals with revenue recognized within one year or less.

3.9 Property and equipment

Property and equipment are recognized at cost less accumulated depreciation and impairment losses. The various components of property and equipment are depreciated separately based on their estimated useful lives and therefore, their depreciation periods are significantly different. The cost of an asset includes the expenses that are directly attributable to its acquisition.

Subsequent costs are included in the carrying value of the asset or recognized as a separate component, where necessary, if it is probable that future economic benefits will flow to Yellow Pages Limited and the cost of the asset can be reliably measured. All other repair and maintenance costs are expensed in the year they are incurred. Depreciation is calculated using the straight-line method, based on the capitalized costs, less any residual value over a period corresponding to the useful life of each asset.

As at December 31, 2019, the expected useful lives are as follows:

Office equipment	10 years
Computer equipment	3 years
Other equipment	3 – 12 years
Leasehold improvements	Shorter of term of lease or useful life

The residual value, the depreciation method and the useful life of an asset are reviewed at a minimum annually. Property and equipment are tested for impairment when an indication of impairment loss exists. When the asset's recoverable amount is less than its net carrying value, an impairment loss is recognized. Where an individual asset does not generate independent cash inflows, Yellow Pages Limited determines the recoverable amount of the cash generating units ("CGUs") or group of CGUs to which the asset belongs.

3.10 Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset;
- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset.

At inception, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone prices.

3.10.1 As a lessee

The Company recognizes a right-of-use asset and a lease obligation at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease obligation. Right-of-use assets are tested for impairment in accordance with IAS 36 – *Impairment of Assets*, and impairments are recorded in restructuring and other charges on the consolidated statements of income.

The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate ("IBR") as the discount rate.

The lease obligation is subsequently measured at amortized cost using the effective interest method (EIR) and is adjusted for accrued interest and lease payments when there is a change in future lease payments arising from a change in an index or rate. It is remeasured if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if there are modifications to the lease conditions such as a change of square footage of a lease, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease obligation is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, as permitted, the Company has opted to recognize a lease expense on a straight-line basis. This expense is presented within Operating Costs in the consolidated statements of income. The amounts related to these low value leases are immaterial.

3.10.2 As a lessor

When the Company acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Company assessed and classified its subleases as finance leases, and therefore derecognized the right-of-use assets relating to the respective head leases being sublet, recognized lease receivables equal to the net investment in the subleases, retained the previously recognized lease obligations in its capacity as lessee, recognized the related interest expense thereafter and recognized interest income on the subleases receivable in its capacity as finance lessor.

3.11 Intangibles assets

Intangible assets acquired through a business combination are identified and recognized separately from goodwill where they arise from legal or contractual rights or are capable of being separated from the acquiree and sold, transferred, licensed or exchanged. The cost of such intangible assets is deemed to be their fair value at the acquisition date. Intangible assets not acquired through a business combination are reported at cost less accumulated amortization and accumulated impairment losses.

Internally-generated intangible assets, consisting of software used by the Company, are recognized to the extent the criteria in IAS 38 *Intangible Assets* are met. Development costs for internally-generated intangible assets are capitalized at cost if, and only if, Yellow Pages Limited can demonstrate:

- the technical feasibility of completing the asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditures are charged to the statement of income in the period in which they are incurred.

Internally-generated intangible assets include the cost of software tools and licenses used in the development of Yellow Pages Limited's systems, as well as all directly attributable payroll and consulting costs. These items are not amortized until the assets are available for use.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. Intangibles assets are amortized, as follows:

Non-competition agreements	Straight-line over shorter of 7 years or life of agreement
Customer-related intangible assets	Straight-line over a period not exceeding 3 years
Trademarks	Straight-line over 10 years
Domain names	Straight-line over 4 – 12 years
Software	Straight-line over 3 years

The estimated useful life and amortization method are reviewed at the end of each reporting period or annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is de-recognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from the de-recognition of an intangible asset, measured as the difference between the net disposal proceeds or fair value, as applicable, and the carrying value of the asset, are recognized in the statement of income when the asset is de-recognized.

3.12 Goodwill

Goodwill arising on the acquisition of a subsidiary is recognized as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the purchase consideration over the fair value of identifiable net assets acquired.

Goodwill is not amortized. It is reviewed for impairment at least annually or sooner if indicators of impairment exist. Any impairment loss is recognized immediately in the statement of income and is not subsequently reversed.

As a result of the impairment losses recorded on goodwill in prior years and the disposal of the remaining goodwill in 2018 concurrently with the disposal of ComFree/DuProprio ("CFDP"), the Company no longer has goodwill.

3.13 Impairment of tangible and intangible assets

At each reporting date, Yellow Pages Limited determines whether there are any indications that the carrying values of its finite life tangible and intangible assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, Yellow Pages Limited estimates the recoverable amount of the CGU or group of CGUs to which the asset belongs. A CGU is the smallest identifiable group of assets that generate cash inflows that are independent of those from other assets.

Intangible assets with indefinite useful lives, intangible assets not yet available for use and goodwill, if any, are tested for impairment annually, and whenever there is an indication that the asset may be impaired. A majority of the Company's intangible assets do not have cash inflows independent of those from other assets and as such, are tested within their respective CGUs.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying value, the carrying value of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of income.

If the recoverable amount of a CGU or group of CGUs is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of goodwill and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The Company does not reduce the carrying value of an asset below the highest of its fair value less costs of disposal and its value in use.

3.14 Trade and other payables

Trade and other payables, including accruals, are recorded when Yellow Pages Limited is required to make future payments as a result of purchases of assets or services. Trade and other payables are carried at amortized cost.

3.15 Provisions

Provisions are recognized when Yellow Pages Limited has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as a financial charge. Provisions are reversed when new external factors, such as market conditions, or internal factors indicates that the recoverable amount is higher or lower than originally anticipated.

3.15.1 Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where Yellow Pages Limited has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

3.15.2 Restructuring

A restructuring provision is recognized when Yellow Pages Limited has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

3.16 Employee benefits

3.16.1 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the statement of income when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

3.16.2 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Yellow Pages Limited's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted from the obligation. The discount rate is the yield at the reporting date on high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability adjusted for a spread to reflect any additional credit risk and that are denominated in the currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected benefit method prorated on service.

Yellow Pages Limited recognizes all actuarial gains and losses arising subsequently from defined benefit plans in OCI. Re-measurement, comprising actuarial gains and losses, the effects of changes to the asset ceiling, if applicable, and the return on plan assets, excluding net interest on the defined benefit obligation, is reflected immediately in the statement of financial position with a charge or credit recognized in OCI. Re-measurement recognized in OCI is reflected immediately in retained earnings and will not be classified to the statement of income. Past service costs are recognized in the statement of income in the period a plan amendment is announced to employees. The net interest amount, which is calculated by applying the discount rate to the net defined liability or asset of defined benefit plans, is included within net financial charges while service costs are recorded in operating expenses.

3.16.3 Other long-term employee benefits

Yellow Pages Limited's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related asset is deducted. The discount rate is the yield at the reporting date on high quality corporate bonds that have terms to maturity approximating the terms of the related obligation. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognized in the period in which they arise.

3.16.4 Termination benefits

Termination benefits are recognized as an expense when Yellow Pages Limited can no longer withdraw the offer of those benefits, or if earlier, when there is no realistic possibility of withdrawal from a formal detailed plan to either terminate employment before the normal retirement date, or from providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if Yellow Pages Limited has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

3.16.5 Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid if Yellow Pages Limited has a present legal or constructive obligation to pay this amount as a result of a past service provided by the employee and the obligation can be estimated reliably.

3.16.6 Share-based payment transactions

Yellow Pages Limited's restricted share units, performance share units, deferred share units, stock options and share appreciated rights granted to employees and directors are measured at the fair value of the equity instruments at the grant date.

The restricted share units, performance share units and deferred share units granted may be settled in cash or equity at the Company's option. If the restricted share unit and performance share unit plan is funded, eligible employees will receive, upon vesting of the instruments, common shares. The funded portion of these plans is treated

as equity-settled instruments and recorded accordingly in equity. In the event these plans are unfunded, Yellow Pages Limited will pay to the eligible employees and directors, upon vesting of the instruments, an amount in cash. The unfunded portion of these plans is treated as cash-settled instruments and recorded as a liability. The share appreciation rights are settled in cash and recorded accordingly as a liability. At each reporting period, the liabilities from these plans is re-measured at fair value with any changes recorded in operating costs. Certain of the Company's stock options may be settled in cash upon certain conditions being met. These stock options are recorded as a liability, which is re-measured at fair value at each reporting period with any changes recorded in operating costs.

The fair value determined at the grant date of the share-based instruments is expensed on a straight-line basis over the vesting period, based on Yellow Pages Limited's estimate of share-based instruments that will eventually vest. At each reporting period, Yellow Pages Limited revises its estimate of the number of share-based instruments expected to vest. The impact of the revision of the original estimate, if any, is recognized in the statement of income, with a corresponding adjustment to the reserve.

3.17 Equity instruments issued by Yellow Pages Limited

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by Yellow Pages Limited are recorded at the proceeds received, net of direct issue costs.

Transaction costs incurred by Yellow Pages Limited in issuing, acquiring or reselling its own equity instruments are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

3.18 Operating segments

Disclosure of segment information is reported in a manner consistent with the internal reports regularly reviewed by Yellow Pages Limited's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the President and Chief Executive Officer. The Company's operations are divided into two reportable segments: YP and Other. The accounting policies the Company uses for its reportable segments are the same as those used in its consolidated financial statements.

3.19 Revenues

Yellow Pages Limited's revenues consist of contract-based fees made up of a significant volume of low-dollar value transactions and relate to digital and print revenues. The Company's revenues are measured at the fair value of the consideration received or receivable after deduction of an allowance for revenue adjustments and sales taxes. The consideration amounts are generally fixed.

Revenues from print products are recognized at a point in time upon delivery of the print directories. Print revenues are generally billed on a monthly basis over the year of publication.

Digital revenues from classified and display advertisements are recognized into income over the term of the contract on a monthly basis from the point at which service is first provided over the life of the contract, which is generally 12 months, since the customer receives and consumes the benefits of the advertisement simultaneously over the period of display of the advertisement. Certain revenues, such as website and video design fees, are recognized at a point in time upon completion of the design of the website and video since the satisfaction of performance obligation is completed at that time.

Payments terms for all customers are generally due upon receipt of the invoice. The disaggregation of revenue by product group and segment has been disclosed in the *Segmented Information* note.

The allowance for revenue adjustments is recorded as a reduction of revenue and reflects an estimate for claims expected from customers. This estimate is based in part on the Company's historical claims experience.

3.20 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized in profit or loss in the period in which they are incurred. The Company currently has not capitalized any borrowing costs.

3.21 Taxation

Income tax expense represents the sum of the current and deferred tax.

3.21.1 Current income tax

Taxable profit differs from profit as reported in the consolidated statement of income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Yellow Pages Limited's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

3.21.2 Deferred tax

Deferred tax is recognized on differences between the carrying values of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where Yellow Pages Limited is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying value of deferred tax assets is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Yellow Pages Limited expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and Yellow Pages Limited intends to settle its tax assets and liabilities on a net basis.

3.21.3 Current and deferred tax for the period

Current and deferred taxes are recognized as an expense or income in the statement of income, except when they relate to items that are recognized outside net earnings (whether in OCI or directly in equity), in which case the tax is also recognized outside net earnings, or where they arise from the initial accounting for a business combination. In the case of a business combination, the applicable tax effects are taken into account in the accounting for the business combination.

3.22 Significant estimates and judgments

The preparation of consolidated financial statements requires management to make estimates and assumptions that can affect the carrying value of certain assets and liabilities, income and expenses and the information disclosed in the notes to the consolidated financial statements. Management reviews these estimates and assumptions on a regular basis to ensure their pertinence with respect to past experience and the current economic situation. Items in future financial statements could differ from current estimates as a result of changes in these assumptions. The impact of changes in accounting estimates is recognized during the period in which the change took place and all affected future periods.

The estimates and judgments made by management that are critical to the determination of the carrying value of assets and liabilities are addressed below.

Significant estimates

Allowance for revenue adjustments

The Company records an allowance for revenue adjustments as a reduction to revenue, this reflects an estimate of claims expected from customers. The Company updates its estimate of the allowance for revenue adjustments based on historical experience related to claims, as well as client-related factors. This significant estimate could affect Yellow Pages Limited's future results if actual claims are higher or lower than previously anticipated.

Estimate of the lease term

When the Company recognizes a lease, it assesses the lease term based on the conditions of the lease and assesses whether it will extend the lease at the end of the lease contract, or exercise an early termination option. The Company determined that the term of its leases are the original lease term as it is not reasonably certain that the extension or early termination options will be exercised. This significant estimate could affect Yellow Pages Limited's future results if the Company extends the lease or exercises an early termination option.

Assessment of whether a right-of-use asset is impaired

The Company assesses whether a right-of-use asset is impaired, particularly when it vacates an office space and it must determine the recoverability of the asset, to the extent that the Company can sublease the assets or surrender the lease and recover its costs. The Company will examine its lease conditions as well as local market conditions and estimate its recoverability potential for each vacated premise. The determination of the lease cost recovery rate involves significant management estimates based on market availability of similar office space and local market conditions. This significant estimate could affect Yellow Pages Limited's future results if the Company succeeds in subleasing their vacated offices at a higher or lower rate or at different dates than initially anticipated.

Measurement of ECL allowance for trade receivables

In relation to the impairment of trade receivables (including contract assets), the Company uses the ECL model, which requires the Company to account for the ECL and changes in the ECL at each reporting date to reflect changes in credit risk since initial recognition of the trade receivable. The ECL related to doubtful accounts for trade receivables (also referred to as allowance for doubtful accounts) is established based on various factors, including amongst others the age of the exposure and in some case the customer's solvency. This significant estimate could affect the Company's future results if there is a sudden change in economic conditions or customer solvency.

Determining the discount rate for leases

IFRS 16 requires the Company to discount the lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its IBR. The Company generally used its IBR rate when recording leases initially, since the implicit rates were not readily available due to information not being available from the Lessor regarding the fair value of underlying assets and direct costs incurred by the Lessor related to the leased assets. The IBR for each lease was determined on the commencement date of the lease and recalculated at the remeasurement date where applicable.

Useful lives of intangible assets and property and equipment

Yellow Pages Limited reviews the estimated useful lives of its intangible assets and property and equipment at the end of each reporting period. At the end of the current reporting period, management determined that the useful lives of its intangible assets and property and equipment were adequate.

Employee future benefits

The present value of the defined benefit obligation is determined by employing the projected benefit method prorated on service using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Determination of the net benefit costs (recovery) requires assumptions such as the discount rate to measure defined benefit obligations and expected return on plan assets, the projected age of employees upon retirement, the expected rate of future compensation and the expected healthcare cost trend rate. Actual results may differ from results which are estimated based on assumptions.

Income taxes

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of Yellow Pages Limited's ability to utilize the underlying future tax deductions against future taxable income before they expire. Yellow Pages Limited's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of Yellow Pages Limited's ability to utilize the underlying future tax deductions changes, Yellow Pages Limited would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined. The carrying value of deferred tax assets is reviewed at each reporting date, remeasured to the extent that probable sufficient taxable profits will be available, or reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered in the foreseeable future.

Significant judgments

Uncertain tax provisions

Yellow Pages Limited is subject to taxation in numerous jurisdictions. Significant judgment is required in determining the consolidated provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Yellow Pages Limited maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors.

Yellow Pages Limited reviews the adequacy of these provisions at each statement of financial position date and reassesses its provisions if it receives information that may reduce or increase it. However, it is possible that at some future date an additional liability could result from audits by tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made. This estimate was not material for the year-ended December 31, 2019, but was significant for the year ended December 31, 2018.

4. Loss (gain) on sale of businesses

On April 30, 2019, the Company sold its business in restaurant booking and table management through the asset sales of YP Dine, Bookenda and its 40% interest in the Bookenda International business for a total consideration of \$2.1 million (including a working capital adjustment). Of this amount, \$0.2 million remains in escrow, and will be released twelve (12) months after the sale. The sale resulted in the recognition of a \$0.4 million loss in the consolidated statements of income. The net carrying value of the assets and liabilities at the time of disposal was \$1.9 million, consisting primarily of intangible assets.

Effective May 31, 2018, Yellow Pages disposed of Totem and Western Media Group, two affiliates of the Company, which resulted in the recognition of a \$0.7 million gain in the consolidated statements of income.

On July 6, 2018, the Company's wholly-owned subsidiary, Yellow Pages Digital & Media Solutions Limited, sold CFDP to Purplebricks Group PLC ("PB") for cash consideration of \$51.0 million on a cash free debt free basis, subject to a working capital adjustment. An amount of \$1.8 million has been placed in escrow, and is expected to be received eighteen months following the sale, provided there are no outstanding legal claims. A loss of \$0.8 million was recorded in the consolidated statements of income.

On July 23, 2018 Yellow Pages Limited disposed of Yellow Pages NextHome business for a nominal amount. A loss of \$0.7 million was recorded in the consolidated statements of income.

On August 22, 2018 Yellow Pages Limited sold the assets related to the operations of its RedFlagDeals division to VerticalScope Inc. for cash of \$12.0 million. A gain of \$7.5 million was recorded in the consolidated statements of income.

On December 31, 2018, Yellow Pages Limited sold its JUICE Mobile assets excluding working capital for \$1.0 million. A loss of \$0.6 million was recorded in the consolidated statements of income.

The Company recorded an aggregate of \$0.5 million (2018 - \$1.3 million) of transaction and other related costs on the sale of businesses described above in 2019, netted against the loss (gain) on sale of businesses.

The carrying value of the assets and liabilities at the time of disposal of CFDP, the assets related to the operation of the RedFlagDeals division, Yellow Pages NextHome business, Totem, Western Media Group, and JUICE in 2018 are as follows:

Assets	CFDP	Other	Total
Prepaid expenses	\$ –	\$ 198	\$ 198
Property and equipment	1,009	300	1,309
Right-of-use assets	989	51	1,040
Intangible assets	30,728	6,679	37,407
Goodwill	26,829	–	26,829
	\$ 59,555	\$ 7,228	\$ 66,783
Liabilities			
Deferred income taxes	\$ 7,267	\$ –	\$ 7,267
Lease obligations	1,004	56	1,060
Other	8	421	429
	\$ 8,279	\$ 477	\$ 8,756
Net assets and liabilities	\$ 51,276	\$ 6,751	\$ 58,027
Net cash inflow			
Cash consideration	\$ 49,215	\$ 14,450	\$ 63,665

5. Restricted cash

As at December 31, 2019, the restricted cash balance is \$nil.

As at December 31, 2018, cash amounting to \$1.4 million was restricted for use by the Company and its subsidiaries, primarily in respect of cash held in escrow, subject to the terms of the Senior Secured Notes agreement. This amount was included in the scheduled Senior Secured Notes redemption payment made on May 31, 2019.

6. Contract assets and liabilities

The following table provides information about contract assets, which are included in trade and other receivables.

As at	December 31, 2019	December 31, 2018
Contract assets	\$ 41,785	\$ 51,601
Allowance for revenue adjustments and ECL	(3,703)	(3,656)
Contract assets net of allowance for revenue adjustments and ECL	\$ 38,082	\$ 47,945

The contract assets, which are included in trade and other receivables, consist of payments for print products on delivered directories that are not yet due from the customer and represent the Company's right to consideration for the services rendered. Any amount previously recognized as a contract asset is reclassified to trade receivables once it is invoiced to the customer.

The year-over-year changes in contract assets are primarily related to the fluctuation in print revenue.

The revenues related to the performance obligations that are unsatisfied (or partially unsatisfied at the reporting date) are expected to be recognized over the next twelve (12) months.

The contract liabilities consist of deferred revenues which primarily relate to the advanced consideration received from customers for which revenue is recognized over time.

7. Deferred commissions

	2019	2018
Deferred commissions, opening balance	\$ 8,518	\$ 16,879
Additions – costs to obtain contracts	3,129	7,255
Amortization recorded in operating costs	(8,037)	(15,616)
Deferred commissions, closing balance	\$ 3,610	\$ 8,518

Deferred commissions paid to sales representatives represent costs to obtain new sales contracts. These costs are amortized on a straight-line basis over a two-year period as this reflects the expected period of the benefit. The Company recognizes the commissions paid to sales representatives for contract renewals with revenue recognized within one year or less as an expense.

8. Leases

During the year ended December 31, 2019, the Company surrendered the leases of some vacated office locations resulting in a decrease in right-of-use assets and property and equipment related to these office locations, consisting mainly of leasehold improvements and office equipment as well as a decrease in lease obligations. The Company also subleased some office spaces previously vacated, resulting in a decrease in right-of-use assets and property and equipment related to these office locations consisting mainly of leasehold improvements and office equipment as well as an increase in net investment in subleases.

The impact of the transactions described above resulted in the following:

- A reduction in right-of-use assets of \$17.5 million (2018 - \$15.9 million);
- A reduction in lease obligations of \$14.1 million (2018 - \$9.9 million);
- An increase in net investment in subleases of \$19.3 million (2018 - \$7.6 million); and
- A reduction in property and equipment of \$14.1 million (2018 - \$nil).

As a result of the transactions described above the Company recorded a net recovery of \$1.8 million (2018 – net recovery of \$1.6 million) to restructuring and other charges for the year ended December 31, 2019.

Lease obligations

The following table summarizes the continuity of the lease obligations:

As at	December 31, 2019	December 31, 2018
Lease obligations, opening balance	\$ 75,320	\$ 86,179
Additions	496	1,180
Lease incentives received	–	4,150
Surrenders or disposals of right-of-use assets	(14,095)	(9,906)
Payment of lease obligations	(3,836)	(6,283)
Lease obligations, closing balance	\$ 57,885	\$ 75,320
Less current portion	2,767	4,352
Non-current portion	\$ 55,118	\$ 70,968

Maturity analysis – contractual undiscounted cash flows

As at	December 31, 2019	December 31, 2018
Less than one year	\$ 7,109	\$ 10,097
One to five years	27,809	34,084
More than five years	57,587	82,566
Total undiscounted lease obligations	\$ 92,505	\$ 126,747

Amounts recognized in the consolidated statements of income

For the years ended	December 31, 2019	December 31, 2018
Depreciation expense on right-of-use assets	\$ (1,542)	\$ (2,793)
Interest expense on lease obligations	\$ (4,799)	\$ (6,409)
Interest income on investment in subleases	\$ 1,582	\$ 216

8.1 As a lessee

The Company leases offices, which typically run for a period of 15 to 18 years. Some leases include an option to renew the lease for an additional period of five years after the end of the contract term.

8.1.1 Right-of-use assets¹

	2019	2018
Right-of-use assets, opening balance	\$ 32,583	\$ 50,644
Additions	496	1,180
Depreciation expense	(1,542)	(2,793)
Impairment	–	(1,627)
Surrenders or disposals ²	(17,477)	(14,821)
Right-of-use assets, closing balance	\$ 14,060	\$ 32,583

¹ Right-of-use assets consist almost entirely of office spaces.

² In 2019, the Company wrote-off office equipment under finance leases of \$7.9 million cost and equivalent accumulated depreciation, therefore the impact on the net book value of the right-of-use-assets was \$nil.

8.2 As a lessor

The Company subleases offices that it originally leased in 2014, 2015 and 2017. The Company has classified these subleases as finance leases, because the subleases cover the remaining term of the respective head lease.

8.2.1 Net investment in subleases

	2019	2018
Net investment in subleases, opening balance	\$ 7,392	\$ –
Additions	19,287	7,603
Accretion of net investment in subleases	324	–
Payment received from sub-lessees	(466)	(211)
Net investment in subleases, closing balance	\$ 26,537	\$ 7,392
Less current portion	926	13
Non-current portion	\$ 25,611	\$ 7,379

8.2.2 Maturity analysis – contractual undiscounted cash flows

As at	December 31, 2019	December 31, 2018
Less than one year	\$ 3,022	\$ 919
One to two years	3,066	870
Two to three years	3,128	796
Three to four years	3,143	810
Four to five years	3,255	817
More than five years	27,919	9,468
Total undiscounted lease payments receivable	\$ 43,533	\$ 13,680
Unearned finance income	16,996	6,288
Net investment in subleases	\$ 26,537	\$ 7,392

9. Property and equipment

	2019					
	Office equipment	Computer equipment	Other equipment	Leasehold improvements	Total	
Cost						
As at December 31, 2018	\$ 20,112	\$ 43,052	\$ 492	\$ 51,336	\$	114,992
Additions	25	91	–	–		116
Disposals, write-offs and transfers	(12,193)	(1,688)	(81)	(36,082)		(50,044)
As at December 31, 2019	\$ 7,944	\$ 41,455	\$ 411	\$ 15,254	\$	65,064
Accumulated depreciation						
As at December 31, 2018	\$ 12,096	\$ 38,561	\$ 333	\$ 34,484	\$	85,474
Depreciation expense	241	2,222	6	806		3,275
Disposals, write-offs and transfers	(5,670)	(1,521)	–	(28,803)		(35,994)
As at December 31, 2019	\$ 6,667	\$ 39,262	\$ 339	\$ 6,487	\$	52,755
Net book value as at December 31, 2019	\$ 1,277	\$ 2,193	\$ 72	\$ 8,767	\$	12,309
<hr/>						
	2018					
	Office equipment	Computer equipment	Other equipment	Leasehold improvements	Total	
Cost						
As at December 31, 2017	\$ 26,213	\$ 46,140	\$ 683	\$ 56,887	\$	129,923
Additions	85	1,161	–	–		1,246
Disposals, write-offs and transfers	(6,186)	(4,249)	(191)	(5,551)		(16,177)
As at December 31, 2018	\$ 20,112	\$ 43,052	\$ 492	\$ 51,336	\$	114,992
Accumulated depreciation						
As at December 31, 2017	\$ 10,207	\$ 35,697	\$ 399	\$ 32,654	\$	78,957
Depreciation expense	2,067	4,288	115	2,883		9,353
Disposals, write-offs and transfers	(178)	(1,424)	(181)	(1,053)		(2,836)
As at December 31, 2018	\$ 12,096	\$ 38,561	\$ 333	\$ 34,484	\$	85,474
Net book value as at December 31, 2018	\$ 8,016	\$ 4,491	\$ 159	\$ 16,852	\$	29,518

10. Intangible assets and goodwill

2019									
	Trademarks and domain names	Non- competition agreements	Customer- related intangible assets	Software ¹	Total Intangible assets	Goodwill	Total intangible assets		
Cost									
As at December 31, 2018	\$ 90,689	\$ 259,669	\$ –	\$ 381,967	\$ 732,325	\$ –	\$ 732,325		
Additions			–	9,647	9,647	–	9,647		
Disposals, write-offs and transfers ²	(78)	(686)	–	(132,789)	(133,553)	–	(133,553)		
As at December 31, 2019	\$ 90,611	\$ 258,983	\$ –	\$ 258,825	\$ 608,419	\$ –	\$ 608,419		
Accumulated amortization									
As at December 31, 2018	\$ 20,062	\$ 259,669	\$ –	\$ 335,498	\$ 615,229	\$ –	\$ 615,229		
Amortization expense	7,823	–	–	26,469	34,292	–	34,292		
Disposals, write-offs and transfers	(78)	(686)	–	(130,087)	(130,851)	–	(130,851)		
As at December 31, 2019	\$ 27,807	\$ 258,983	\$ –	\$ 231,880	\$ 518,670	\$ –	\$ 518,670		
Net book value as at December 31, 2019	\$ 62,804	\$ –	\$ –	\$ 26,945	\$ 89,749	\$ –	\$ 89,749		
2018									
	Trademarks and domain names	Non- competition agreements	Customer- related intangible assets	Software ¹	Total Intangible assets	Goodwill	Total intangible assets and goodwill		
Cost									
As at December 31, 2017	\$ 110,518	\$ 261,943	\$ 10,698	\$ 403,128	\$ 786,287	\$ 26,829	\$ 813,116		
Additions	–	–	–	13,605	13,605	–	13,605		
Disposals, write-offs and transfers	(19,829)	(2,274)	(10,698)	(34,766)	(67,567)	(26,829)	(94,396)		
As at December 31, 2018	\$ 90,689	\$ 259,669	\$ –	\$ 381,967	\$ 732,325	\$ –	\$ 732,325		
Accumulated amortization									
As at December 31, 2017	\$ 12,308	\$ 261,218	\$ 9,399	\$ 310,010	\$ 592,935	\$ –	\$ 592,935		
Amortization expense	7,817	250	767	55,114	63,948	–	63,948		
Disposals, write-offs and transfers	(63)	(1,799)	(10,166)	(29,626)	(41,654)	–	(41,654)		
As at December 31, 2018	\$ 20,062	\$ 259,669	\$ –	\$ 335,498	\$ 615,229	\$ –	\$ 615,229		
Net book value as at December 31, 2018	\$ 70,627	\$ –	\$ –	\$ 46,469	\$ 117,096	\$ –	\$ 117,096		

¹ Software under development amounted to \$1.9 million (2018 - \$7.7 million).

² Disposals and write-offs mainly relate to decommissioned software.

Impairment of intangible assets and goodwill

As a majority of the intangible assets do not generate cash inflows that are largely independent of those from other assets or group of assets, the Company performs its impairment analysis of its intangible assets at the CGU level. Following the organizational changes made throughout fiscal 2018 and during the first quarter of 2019, the Company has one remaining group of CGUs to which assets belong: YP (refer to Note 18).

2019

The Company did not have goodwill and indefinite life intangible assets subject to annual impairment during the year ended December 31, 2019. In 2019, an assessment of indicators of impairment was performed on the finite life intangible assets and no further impairment analysis was required.

Yellow Pages Limited has accumulated impairment losses on intangible assets, goodwill, and property and equipment in the amounts of \$1,379.6 million, \$5,866.3 million and \$21.9 million, respectively.

2018

As a result of the impairment losses recorded on goodwill in prior years and the disposal of the remaining goodwill in 2018 concurrently with the sale of CFDP, the Company no longer has goodwill and indefinite life intangible assets subject to annual impairment. Thus, in 2018 an assessment of indicators of impairment was performed on the finite life intangible assets and no further impairment analysis was required.

11. Trade and other payables

As at	December 31, 2019	December 31, 2018
Trade	\$ 18,557	\$ 30,040
Accrued interest on senior secured notes and exchangeable debentures	723	3,567
Payroll related	4,123	5,086
Long-term incentive plans	5,106	2,287
Other accrued liabilities	5,153	6,540
	\$ 33,662	\$ 47,520

12. Provisions

Yellow Pages Limited recorded restructuring and other charges of \$12.5 million for the year ended December 31, 2019 consisting of restructuring charges of \$12.1 million relating to workforce reductions, a \$1.9 million charge related to future operation costs provisioned related to lease contracts for office closures, a \$0.3 million charge related to software disposal offset by a net recovery of \$1.8 million from more favorable lease recoveries than anticipated.

During the year ended December 31, 2018, Yellow Pages Limited recorded restructuring and other charges of \$15.9 million consisting of restructuring charges of \$32.0 million mainly due to workforce reductions, offset by the \$14.1 million impact of a favorable litigation settlement on a contractual obligation with a vendor. Additionally, the restructuring charges were offset by a net recovery of \$1.6 million from more favorable lease recoveries than anticipated partially offset by the impairment of right-of-use assets and a net recovery of \$0.4 million from future operation costs related to lease contracts for office closures.

The provisions for restructuring and other charges represent the present value of the best estimate of the future outflow of economic benefits that will be required to settle the provisions and may vary as a result of new events affecting the severances and charges that will need to be paid.

Other provisions include provisions primarily for vacation and short-term incentive plans.

	Provisions for restructuring	Provisions for other charges	Other provisions	Total provisions
As at December 31, 2018	\$ 9,131	\$ 4,586	\$ 25,766	\$ 39,483
Charges ¹	10,839	2,509	13,202	26,550
Payments	(12,541)	(5,453)	(19,819)	(37,813)
As at December 31, 2019	\$ 7,429	\$ 1,642	\$ 19,149	\$ 28,220
Less current portion	6,187	1,513	18,944	26,644
Non-current portion	\$ 1,242	\$ 129	\$ 205	\$ 1,576

¹ Included in the restructuring and other charges of \$12.5 million on the statement of income is a net recovery of \$0.8 million not affecting the provision.

	Provisions for restructuring	Provisions for other charges	Other provisions	Total provisions
As at December 31, 2017	\$ 10,081	\$ 20,474	\$ 23,076	\$ 53,631
Charges (recovery) ¹	30,838	(11,318)	25,467	44,987
Payments	(31,788)	(4,570)	(19,286)	(55,644)
Disposals			(3,491)	(3,491)
As at December 31, 2018	\$ 9,131	\$ 4,586	\$ 25,766	\$ 39,483
Less current portion	8,384	3,710	25,579	37,673
Non-current portion	\$ 747	\$ 876	\$ 187	\$ 1,810

¹ Included in the restructuring and other charges of \$15.9 million on the statement of income is a net recovery of \$3.6 million not affecting the provision.

13. Post-employment benefits

Yellow Pages Limited maintains pension plans with defined benefit and defined contribution components which cover substantially all of the employees of Yellow Pages Limited. Yellow Pages Limited maintains unfunded supplementary defined benefit pension plans for certain executives and also maintains other retirement and post-employment benefits (“other benefits”) plans which cover substantially all of its employees.

The defined benefit plans typically expose the Company to actuarial risks such as investment, interest rate, longevity and salary risks.

Investment risk	The present value of the defined benefit plan obligation is calculated using a discount rate determined by reference to high quality corporate bond yields; if the actual return on plan assets is below the assumed rate, it will create a plan deficit. Currently, the defined benefit plan has a relatively balanced investment in equity securities and debt instruments. Due to the long-term nature of the defined benefit plan obligation, the pension committee considers it appropriate that a reasonable portion of the plan assets should be invested in equity instruments to leverage the return generated by the fund.
Interest risk	A decrease in the bond interest rate will increase the defined benefit plan obligation, particularly on a solvency basis. Although this will be partially offset by an increase in the return of the defined benefit plan's investments, the impact may be material as pension liabilities are sensitive to variations in interest rates.
Longevity risk	The present value of the defined benefit plan obligation is calculated based on assumptions regarding mortality rates of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the defined benefit obligation.
Inflation risk	The present value of the defined benefit plan obligation is calculated by reference to the inflation rate. As such, a higher inflation rate than projected will increase the defined benefit plan's liability.

The present value of the defined benefit obligation and the related current service cost and past service costs were measured using the projected benefit method prorated on service. This was based on the actuarial valuation and the present value of the defined benefit plan obligation which was carried out by Morneau Shepell, Fellows of the

Canadian Institute of Actuaries and Society of Actuaries, as at December 31, 2017, and extrapolated to December 31, 2019. For funding purposes, an actuarial valuation of the defined benefit component of the Yellow Pages pension plans was also performed as at December 31, 2017. The actuarial valuation for the other benefits was performed as at December 31, 2018 and the results were extrapolated to December 31, 2019.

The changes in the defined benefit obligations and in the fair value of assets and the reconciliation of the funded status of the defined benefit plans to the amount recorded on the consolidated statements of financial position as at December 31, 2019 and 2018 were as follows:

As at	December 31, 2019		December 31, 2018	
	Pension benefits ¹	Other benefits	Pension benefits ¹	Other benefits
Fair value of plan assets, beginning of year	\$ 443,861	\$ –	\$ 507,022	\$ –
Employer contributions	5,025	2,374	8,119	2,152
Employee contributions	673	–	868	–
Interest income	16,093	–	16,594	–
Return on plan assets excluding interest income (actuarial gains)	66,115	–	(24,169)	–
Benefit payments	(47,320)	(2,374)	(43,614)	(2,152)
Assets distributed on settlement	–	–	(20,318)	–
Administration costs	(418)	–	(641)	–
Fair value of plan assets, end of year	\$ 484,029	\$ –	\$ 443,861	\$ –
Accrued benefit obligation, beginning of year	\$ 543,106	\$ 33,107	\$ 611,163	\$ 39,231
Current service cost	2,974	6	4,313	18
Employee contributions	673	–	868	–
Benefit payments	(47,320)	(2,374)	(43,614)	(2,152)
Defined benefit obligation extinguished on settlement	–	–	(18,679)	–
Interest cost	19,939	1,164	20,249	1,330
Recovery of past service costs	–	(980)	(634)	(250)
Actuarial (gains) losses due to:				
Experience adjustments	(1,026)	–	2,058	928
Changes in financial assumptions	54,394	2,933	(32,618)	(5,998)
Defined benefit obligation, end of year	\$ 572,740	\$ 33,856	\$ 543,106	\$ 33,107
Net defined benefit obligation	\$ (88,711)	\$ (33,856)	\$ (99,245)	\$ (33,107)

¹ Including unfunded supplementary defined benefit pension plans.

While all the plans are not considered fully funded for financial reporting purposes, registered plans are funded in accordance with the applicable statutory funding rules and regulations governing the particular plans.

The significant assumptions adopted in measuring Yellow Pages Limited's pension and other benefit obligations as at December 31, 2019 and 2018 were as follows:

As at	December 31, 2019		December 31, 2018	
	Pension benefits	Other benefits	Pension benefits	Other benefits
Post-employment benefit obligation				
Discount rate, end of year	3.10%	3.10%	3.80%	3.80%
Rate of compensation increase ¹	1.90%	n.a	1.90%	n.a
Inflation Rate	1.40%	2.00%	1.40%	2.00%
Net benefit plan costs				
Discount rate (current service cost), end of preceding year	3.90%	3.80%	3.50%	3.50%
Discount rate (interest expense), end of preceding year	3.80%	3.80%	3.50%	3.50%
Rate of compensation increase ¹	1.90%	n.a	2.25%	n.a
Inflation Rate	1.40%	2.00%	1.75%	1.75%
Weighted average duration (years)	15	13	14	12

¹ As at December 31, 2019 and December 31, 2018: 1.40% plus a productivity, merit and promotional scale.

For measurement purposes, actual per capita cost of covered medical care benefits was used for 2019. The rate of increase of the cost of medical care was assumed at 5.28% for the next 4 years followed by a linear decrease to 3.42% by 2040 and to remain at that level thereafter. For dental care benefits, actual per capita cost was used for 2019. The rate of increase of the cost of dental care was assumed at 4.00% for the next 4 years followed by a linear decrease to 3.57% by 2040 and to remain at that level thereafter.

The following table shows how the defined benefit obligation as at December 31, 2019 would have been affected by changes that were reasonably possible at that date in each significant actuarial assumption:

	Pension benefits	Other benefits
Decrease of 0.25% in discount rate, end of year	\$ 22,848	\$ 1,149
Increase of 0.25% in the inflation rate	\$ 8,075	\$ –
Increase of 1% in health care cost trend rates	\$ n.a	\$ 2,212

The net benefit plan costs included in the statements of income and other comprehensive income are comprised of the following components:

For the years ended December 31,	2019		2018	
	Pension benefits	Other benefits	Pension benefits	Other benefits
Current service cost ¹	\$ 2,974	\$ 6	\$ 4,313	\$ 18
Administration costs ¹	418	–	641	–
Recovery of past service costs ²	–	(980)	(634)	(250)
Loss on settlement ²	–	–	1,639	–
Service cost	\$ 3,392	\$ (974)	\$ 5,959	\$ (232)
Interest cost	\$ 19,939	\$ 1,164	\$ 20,249	\$ 1,330
Interest income	(16,093)	–	(16,594)	–
Net interest on the net defined benefit obligation (Note 21)	\$ 3,846	\$ 1,164	\$ 3,655	\$ 1,330
Net benefit costs recognized in the statement of income	\$ 7,238	\$ 190	\$ 9,614	\$ 1,098
Actuarial (gains) losses recognized in OCI	\$ (12,747)	\$ 2,933	\$ (6,391)	\$ (5,070)
Total net benefit plan (recovery) costs for the Yellow Pages (“YP”) defined benefit plans	\$ (5,509)	\$ 3,123	\$ 3,223	\$ (3,972)
Net benefit plan costs for the YP defined contribution plans ¹	2,792	–	3,887	–
Total net benefit plan (recovery) costs	\$ (2,717)	\$ 3,123	\$ 7,110	\$ (3,972)

¹ Included in operating costs.

² Included in restructuring and other charges.

As a result of workforce reductions during the year ended December 31, 2018, the number of employees covered by the pension plans decreased, and these restructurings gave rise to a recovery of past service cost as at November 30, 2018, May 31, 2018 and January 16, 2018. The assets distributed on settlement and the defined benefit obligation extinguished on settlement of \$20.3 million and \$18.7 million, respectively, during the year ended December 31, 2018, corresponds to the pension values paid out of the plan assets and the obligation recorded for the members who were terminated as part of prior restructurings. The difference between these two amounts represents the loss on settlement of \$1.6 million recognized in 2018. No significant workforce reductions occurred during the year ended

December 31, 2019.

For the postretirement plan, the May 16, 2019 announcement regarding the elimination of the British Columbia Medical Services Plan (“MSP”) premiums gave rise to a recovery of past service cost of \$1.0 million in 2019.

Plan assets include primarily Canadian and foreign equities, government and corporate bonds, debentures and secured mortgages. Plan assets are held in trust and the asset allocation was as follows as at December 31, 2019 and 2018:

(in percentages - %)	December 31, 2019	December 31, 2018
Fair value of the plan assets:		
Pooled fund units		
Canadian pooled equity funds	7.5	8.0
Global pooled equity funds	30.0	33.0
Emerging markets pooled equity funds	12.5	14.5
Canadian pooled fixed-income funds	44.5	44.5
Pooled real estate funds	4.0	–
Pooled private equity funds	0.5	–
Pooled infrastructure funds	0.5	–
Cash and cash equivalents	0.5	–

As at December 31, 2019 and 2018, the publicly traded equity securities did not directly include any shares of Yellow Pages Limited.

The total cash payments for pension and other benefit plans made by Yellow Pages Limited amounted to \$10.2 million for 2019 (2018 – \$14.5 million). Total cash payments for pension and other benefit plans expected in 2020 amount to approximately \$9.6 million.

Yellow Pages Limited's funding policy is to make contributions to its pension plans based on various actuarial cost methods as permitted by pension regulatory bodies. Yellow Pages Limited is responsible to adequately fund the plans. Contributions reflect actuarial assumptions concerning future investment returns, salary projections and future service benefits.

In addition, Yellow Pages Limited recorded an expense for provincial, federal and state pension plans of \$3.0 million for the year ended December 31, 2019 (2018 – \$5.7 million). As at December 31, 2019, Yellow Pages Limited had recognized an accumulated balance of \$50.6 million, net of income taxes of \$16.2 million, in actuarial losses in OCI.

14. Senior secured notes

The table below represents the continuity of the Senior secured notes:

As at	December 31, 2019	December 31, 2018
Senior secured notes, opening balance	\$ 167,489	\$ 308,898
Repayment of senior secured notes	(170,231)	(144,769)
Discount accretion for the year ¹	2,742	3,360
Senior secured notes, closing balance	\$ –	\$ 167,489

¹ The variance of unaccreted discount for the years ended December 31, 2019 and December 31, 2018, respectively.

The Senior secured notes is comprised of the following:

As at	December 31, 2019	December 31, 2018
Principal amount of the senior secured notes (at maturity, November 1, 2022)	\$ –	\$ 170,231
Less unaccreted discount	–	2,742
	\$ –	\$ 167,489
Less current portion ¹	–	90,000
Non-current portion	\$ –	\$ 77,489

¹ The current portion of the Senior Secured Notes may vary subject to the Excess Cash Flow clause as well as the minimum cash balance requirement on the last day of the mandatory redemption period under the indenture governing the Senior Secured Notes.

Asset-Based Loan

On October 19, 2017, the Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, renewed its five-year \$50.0 million asset-based loan (ABL) and extended the term of the ABL to August 2022. The ABL agreement was amended on November 18, 2019 to reduce the total commitment from \$50.0 million to \$25.0 million. The ABL is 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 subject to an availability reserve of \$5.0 million if the Company's trailing twelve-month fixed charge coverage ratio is below 1.1 times. As at December 31, 2019, the Company's fixed charge coverage ratio was 1.5 times and the Company had \$3.4 million of letters of credit issued and outstanding under the ABL. As such, \$21.6 million of the ABL was available as at December 31, 2019. Interest is calculated based either on the BA Rate or the Prime Rate plus an applicable margin.

The loan agreement governing the ABL contains restrictive covenants, including restrictions on the incurrence of additional indebtedness, the payment of dividends and other payment restrictions, the creation of liens, sale and leaseback transactions, mergers, consolidations and sales of assets, and certain transactions with affiliates and its business activities.

As at December 31, 2019, the Company was in compliance with all covenants under the loan agreement governing the ABL.

Senior Secured Notes

On October 19, 2017, Yellow Pages Limited, through its wholly-owned subsidiary, Yellow Pages Digital & Media Solutions Limited, issued \$315.0 million aggregate principal amount of 10.00% Senior Secured Notes (the “Notes”) due November 1, 2022 at an issue price of \$980 per \$1,000 principal amount of the Notes, a \$6.3 million discount. The Notes accrued interest at a rate of 10.00% per annum and were payable in semi-annual instalments in arrears on May 1 and November 1 of each year.

Mandatory Redemption

Pursuant to the indenture governing the Notes, the Company was required to use an amount equal to 100% of its consolidated Excess Cash Flow, as defined in the indenture, and any designated net proceeds from asset sales for the immediately preceding mandatory redemption period to redeem the Notes, on a semi-annual basis on the last day (or first following business day) of May and November of each year, at a redemption price equal to 100% of the principal amount, subject to the Company maintaining a minimum cash balance of \$20.0 million on the last day of the mandatory redemption period. The Company was required to use 75% of its consolidated Excess Cash Flow to redeem the Notes if the consolidated leverage ratio on the last day of the mandatory redemption period is no greater than 1.5 to 1. In 2019, the Company made, in aggregate, mandatory principal redemption payments of \$100.7 million on the Notes.

Optional Redemption

From November 1, 2018 to October 31, 2019, the Company had the option to redeem all or part of the Notes at 102% of the aggregate principal amount, plus accrued and unpaid interest. From November 1, 2019 to October 31, 2020, the Company had the option to redeem all or part of the Notes at 101% of the aggregate principal amount, plus accrued and unpaid interest. Beginning November 1, 2020, the Company would have had the option to redeem all or part of the Notes at 100% of the aggregate principal amount, plus accrued and unpaid interest. In 2019, the Company made, in aggregate, optional principal redemption payments of \$69.6 million.

With the mandatory and optional redemption payments made during the year, the Company has fully repaid the outstanding balance of the Notes as at December 31, 2019.

15. Exchangeable debentures

As at	December 31, 2019	December 31, 2018
Principal amount of exchangeable debentures (at maturity, November 1, 2022)	\$ 107,089	\$ 107,089
Less unaccreted interest	8,552	10,910
	\$ 98,537	\$ 96,179

The table below represents the continuity of the Exchangeable debentures:

As at	December 31, 2019	December 31, 2018
Exchangeable debentures, opening balance	\$ 96,179	\$ 94,067
Interest accretion for the period ¹	2,358	2,112
Exchangeable debentures, closing balance	\$ 98,537	\$ 96,179

¹ The variance of unaccreted interest for years ended December 31, 2019 and December 31, 2018, respectively.

On December 20, 2012, the Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, issued \$107.5 million of senior subordinated exchangeable debentures (the “Exchangeable Debentures”) due November 30, 2022. As at December 31, 2019 and 2018, the face value of the Exchangeable Debentures was \$107.1 million. As at December 31, 2019, the value of the Exchangeable Debentures less unaccreted interest was \$98.5 million compared to \$96.2 million as at December 31, 2018.

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 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.

The indenture governing the Exchangeable Debentures contains restrictive covenants, including restrictions on the incurrence of additional indebtedness, the payment of dividends and other payment restrictions, the creation of liens, sale and leaseback transactions, mergers, consolidations and sales of assets and certain transactions with affiliates. The indenture does not contain the obligation to maintain financial ratios. Financial ratio restrictions only apply upon incurrence of indebtedness and other transactions.

The indenture does permit the Company to make restricted payments, including payment of dividends and common stock buyback, in an aggregate amount not to exceed \$20.0 million since the date of the indenture. To-date, the Company has made no restricted payments since the indenture went into effect.

As at December 31, 2019, 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. The conversion option was valued at \$3.6 million, net of income taxes of \$1.3 million, at the date of issuance and is included in Equity. The liability portion is being accreted such that the liability at maturity equals the principal amount less exchanges.

Optional Redemption

The Company may, at any time on or after the date on which all of the Notes have been repaid in full, redeem all or part of the Exchangeable Debentures at its option, upon not less than 30 but no 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.

The redemption option for cash is an embedded derivative and is recorded at fair value on the consolidated statements of financial position with changes in fair value recognized in financial charges. The fair value was insignificant as at December 31, 2019 (December 31, 2018 – \$nil).

16. Income taxes

A reconciliation of income taxes at Canadian statutory rates with reported income taxes is as follows:

	For the years ended December 31,	
	2019	2018
Earnings before income taxes	\$ 69,770	\$ 52,009
Combined Canadian federal and provincial tax rates ¹	26.84%	26.94%
Income tax expense (recovery) at statutory rates	\$ 18,726	\$ 14,011
Increase (decrease) resulting from:		
Resolution of uncertain tax positions	–	(37,074)
Recognition of previously unrecognized tax attributes and temporary differences	(44,241)	(8,512)
Non-deductible expenses for tax purposes	616	492
Change in estimate relating to prior periods	–	283
Recovery of income taxes	\$ (24,899)	\$ (30,800)

¹ The combined applicable statutory tax rate decreased by 0.10% resulting mainly from the provincial allocation of revenues earned and the decrease in the Quebec and Alberta statutory tax rates.

(Recovery of) provision for income taxes includes the following amounts:

For the years ended December 31,	2019	2018
Current	\$ –	\$ 2,348
Deferred	(24,899)	(33,148)
	\$ (24,899)	\$ (30,800)

Deferred income tax (assets) liabilities are attributable to the following items:

	Deferred financing costs	Non-capital losses carry forward	Deferred revenues	Post-employment benefits	Accrued liabilities	Property and equipment and lease incentives	Exchangeable Debentures	Intangible assets	Deferred income tax (assets) liabilities, net
Balance, December 31, 2018	\$ 2,398	\$ (16,269)	\$ –	\$ (6,574)	\$ –	\$ –	\$ 3,043	\$ –	\$ (17,402)
Expense (benefit) to statement of income	(3,391)	4,489	(710)	3,940	(8,613)	–	(670)	(19,944)	(24,899)
Expense to OCI	–	–	–	2,634	–	–	–	–	2,634
Other	–	–	–	–	–	–	–	(60)	(60)
Balance, December 31, 2019	\$ (993)	\$ (11,780)	\$ (710)	\$ –	\$ (8,613)	\$ –	\$ 2,373	\$(20,004)	\$ (39,727)

	Deferred financing costs	Non-capital losses carry forward	Deferred revenues	Post-employment benefits	Accrued liabilities	Property and equipment and lease incentives	Exchangeable Debentures	Intangible assets	Deferred income tax (assets) liabilities, net
Balance, December 31, 2017	\$ 3,732	\$ (5,504)	\$ (3,164)	\$ (41,490)	\$ (10,850)	\$ 11,507	\$ 3,610	\$ 63,774	\$ 21,615
Acquisitions (Dispositions)	–	–	–	417	–	9	–	(7,692)	(7,266)
Expense (Benefit) to statement of income	(1,334)	(10,765)	3,164	31,411	10,850	(11,516)	(567)	(54,391)	(33,148)
Expense to OCI	–	–	–	3,088	–	–	–	(21)	3,067
Other	–	–	–	–	–	–	–	(1,670)	(1,670)
Balance, December 31, 2018	\$ 2,398	\$ (16,269)	\$ –	\$ (6,574)	\$ –	\$ –	\$ 3,043	\$ –	\$ (17,402)

As at December 31, 2019, the Company and its subsidiaries have not recognized deferred income tax assets with respect to US operating losses of \$204.7 million, which expire gradually between 2028 and 2037 and indefinitely when incurred after 2017, Canadian capital losses of \$9.7 million which can be utilized indefinitely and US capital losses of \$5.2M which expire in 2024.

As at December 31, 2019, the Company and its subsidiaries have not recognized deductible temporary differences of \$675.7 million (2018 – \$897.8 million).

17. Shareholders' capital

Common shares – Issued

For the year ended December 31, 2019	Number of Shares	Amount
Balance, December 31, 2018	28,075,308	\$ 4,031,685
Exchange of common share purchase warrants	–	–
Balance, December 31, 2019	28,075,308	\$ 4,031,685

For the year ended December 31, 2018	Number of Shares	Amount
Balance, December 31, 2017	28,075,306	\$ 4,031,685
Exchange of common share purchase warrants	2	–
Balance, December 31, 2018	28,075,308	\$ 4,031,685

Yellow Pages is authorized to issue an unlimited number of common shares.

The holders of the common shares of Yellow Pages are entitled to one vote per common share at all meetings of shareholders of the Company. The holders of the common shares of Yellow Pages are entitled to receive any dividend declared by the Board of Directors of the Company on the common shares. In the event of the liquidation, dissolution or winding-up of Yellow Pages, whether voluntary or involuntary, the holders of the common shares of Yellow Pages are entitled to receive, after payment of all liabilities of Yellow Pages and subject to the preferential rights of any class of shares of Yellow Pages ranking in priority to the common shares of Yellow Pages, the remaining assets and property of Yellow Pages.

The total number of common shares of Yellow Pages Limited held by the trustee for the purpose of funding the RSU and PSU Plan amounted to 1,511,649 as at December 31, 2019 (see Note 19).

Under the Stock Option Plan, the maximum number of common shares authorized for issuance upon the exercise of options is 2,806,932 (see Note 19).

Warrants

On December 20, 2012, the Company issued 2,995,506 common share purchase warrants (“Warrants”).

During the year ended December 31, 2018, 2 Warrants, were exercised in exchange for 2 common shares of Yellow Pages Limited. As at December 31, 2019 and 2018, the Company had a total of 2,995,484 Warrants outstanding.

Each Warrant is transferable and entitles the holder to purchase one common share of Yellow Pages Limited at an exercise price of \$28.16 per Warrant payable in cash at any time on or prior to December 20, 2022. The fair value of the Warrants on December 20, 2012 was \$1.5 million.

The fair value of the Warrants was calculated using a binomial option pricing model with the following assumptions:

Risk free interest rate	2.27%
Expected life	10 years
Expiry date	December 20, 2022
Expected volatility	33.5%

Earnings per share

The following table presents the weighted average number of shares used in computing earnings per share to the weighted average number of shares outstanding used in computing diluted earnings per share as well as net earnings used in the computation of basic earnings per share to net earnings adjusted for any dilutive effect:

For the years ended December 31,	2019	2018
Weighted average number of shares outstanding used in computing basic earnings per share	26,523,234	26,423,158
Dilutive effect of restricted share units and performance share units	378,942	588,566
Dilutive effect of exchangeable debentures	5,624,422	5,624,422
Weighted average number of shares outstanding used in computing diluted earnings per share¹	32,526,598	32,636,146

For the years ended December 31,	2019	2018
Net earnings used in the computation of basic earnings per share	\$ 94,669	\$ 82,809
Impact of assumed conversion of exchangeable debentures, net of applicable taxes	7,993	7,802
Net earnings used in the computation of diluted earnings per share	\$ 102,662	\$ 90,611

¹ The weighted average number of shares outstanding used in the earnings per share calculation is reduced by the shares held by the trustee for the purpose of funding the restricted share unit and performance share unit plan (the "RSU and PSU Plan").

For the years ended December 31, 2019 and 2018, the diluted earnings per share calculation did not take into consideration the potential dilutive effect of the Warrants as well as stock options that are not in the money and therefore are not dilutive.

18. Segmented information

Following the organizational changes made throughout fiscal year 2018 including the disposal or liquidation of several affiliates, the Chief Operating Decision Maker made changes during the first quarter of 2019 to how the business is reviewed, performance is assessed and resources are allocated. The Company's operations are now categorized into two reportable segments: YP and Other. The comparative figures have been restated to reflect the changes to the reportable segments.

The YP segment provides small and medium-sized businesses across Canada digital and traditional marketing solutions, including online and mobile priority placement on Yellow Pages owned and operated media, content syndication, search engine solutions, website fulfillment, social media campaign management and digital display advertising, video production and print advertising. This segment also includes the 411.ca digital directory service helping users find and connect with people and local businesses which was integrated with the Company's wholly-owned subsidiary, Yellow Pages Digital & Media Solutions Limited, as at September 30, 2019.

The Other segment includes YP Dine digital property allowing users to discover, search for and book local restaurants in addition to offering online ordering capabilities until its sale on April 30, 2019. This segment also includes Mediative until its liquidation on January 31, 2019. Mediative's offers included dedicated marketing and performance media services to national clients Canada-wide. The operations of the businesses sold in 2018 are also included in this segment until their respective disposal date, namely:

- Totem which provided customized content creation and delivery for global brands until the operations were sold as of May 31, 2018;
- Western Media Group, magazines generating local lifestyle content specific to the Western Canada region until its sale as of May 31, 2018;
- RedFlagDeals.com™, a Canadian provider of online and mobile promotions, deals, coupons and shopping forums, until its sale on August 22, 2018;
- ComFree/DuProprio (CFDP) provided homeowners in Canada with media to sell their homes in a cost-effective manner, sold as of July 6, 2018;
- Yellow Pages NextHome sold as of July 23, 2018; and
- JUICE Mobile's proprietary Programmatic Direct and Real-Time Bidding platforms that facilitate the automatic buying and selling of mobile advertising between brands and advertisers, until its sale on December 31, 2018.

Segment results include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. The Company accounts for transactions between reportable segments in the same manner it accounts for transactions with external customers and eliminates them on consolidation. The President and Chief Executive Officer ("CEO") is the Chief Operating Decision Maker and he uses Income from operations before depreciation and amortization, and restructuring and other charges less additions to intangible assets, and property and equipment, to measure the performance of each segment. The Chief Operating Decision Maker also reviews revenues by similar products and services, such as Print and Digital.

Print revenues are recognized at a point in time, whereas 99% of digital revenues were recognized over the term of the contract and 1% at a point in time for the year ended December 31, 2019, compared to 93% of digital revenues that were recognized over the term of the contract and 7% at a point in time for the same period last year. The year-over-year change is mainly due to the divestitures of affiliates throughout 2018, which had digital revenues recognized at a point in time.

The following tables present financial information for the years ended December 31, 2019 and 2018.

For the year ended December 31, 2019

	YP	Other	Intersegment eliminations	Yellow Pages Limited
Revenues				
Digital	\$ 298,762	\$ 1,274	\$ –	\$ 300,036
Print	103,177	–	–	103,177
Total revenues	401,939	1,274	–	403,213
Operating costs	240,925	943	–	241,868
Income from operations before depreciation and amortization, and restructuring and other charges	\$ 161,014	\$ 331	\$ –	\$ 161,345
Depreciation and amortization				39,109
Restructuring and other charges				12,499
Financial charges, net				39,600
Loss on sale of businesses				367
Recovery of income taxes				(24,899)
Net earnings				\$ 94,669
Additions to intangible assets and property and equipment	\$ 9,460	\$ 278	\$ –	\$ 9,738

For the year ended December 31, 2018

	YP	Other	Intersegment eliminations	Yellow Pages Limited
Revenues				
Digital	\$ 357,705	\$ 84,534	\$ (958)	\$ 441,281
Print	127,897	8,043	(26)	135,914
Total revenues	485,602	92,577	(984)	577,195
Operating costs	300,576	85,038	(984)	384,630
Income from operations before depreciation and amortization, and restructuring and other charges	\$ 185,026	\$ 7,539	\$ –	\$ 192,565
Depreciation and amortization				76,094
Restructuring and other charges				15,862
Financial charges, net				54,729
Gain on sale of businesses				(6,129)
Recovery of income taxes				(30,800)
Net earnings				\$ 82,809
Additions to intangible assets and property and equipment, net of lease incentives received	\$ 9,556	\$ 2,480	\$ –	\$ 12,036

19. Stock-based compensation plans

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

Restricted Share Unit and Performance Share Unit Plan

On May 6, 2013, Yellow Pages Limited adopted a restricted share unit and performance share unit plan (the "RSU and PSU Plan") to reward key employees and officers of Yellow Pages Limited (the "Participants"). Following the implementation of the RSU and PSU Plan, Yellow Pages Limited granted to Participants a number of restricted share units ("RSUs") and/or performance share units ("PSUs"), as applicable, based on the volume weighted average trading price of the common shares for the five days immediately preceding the grant date. 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. 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.

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 acquired on the open market. In the event the RSU and PSU Plan is unfunded, Yellow Pages Limited will pay to the Participant an amount in cash, equivalent to the number of RSUs or PSUs that have vested.

During the years ended December 31, 2019 and 2018, nil common shares of Yellow Pages Limited were purchased on the open market of the TSX by the trustee appointed under the RSU and PSU Plan for the purpose of funding of the RSU and PSU Plan. The total number of common shares of Yellow Pages Limited held by the trustee for the purpose of funding the RSU and PSU Plan amounted to 1,511,649 as at December 31, 2019.

The following table summarizes the continuity of the RSUs and PSUs during the years ended December 31:

Number of	2019		2018	
	RSUs	PSUs ¹	RSUs	PSUs ¹
Outstanding, beginning of year	399,503	189,063	763,624	795,811
Granted	87,684	–	90,344	–
Additional payout related to achievement of performance targets ²	–	(49,774)	–	(59,339)
Settled	(94,153)	–	(162,574)	(36,340)
Forfeited	(74,498)	(78,883)	(291,891)	(511,069)
Outstanding, end of year	318,536	60,406	399,503	189,063
Weighted average remaining life (years)	0.9	0.1	1.4	0.8

¹ The outstanding number of PSUs represents a payout of 100%. In addition, the potential payout in excess of 100% and limited to a maximum payout of 150% pursuant to the achievement of certain performance targets, amounted to 30,186 common shares as at December 31, 2019 (2018 – 94,514 common shares).

² The reduction in payout is related to the under-achievement of certain performance targets resulting in a reduction of 100% for the year ended December 31, 2019 (2018 – 62%).

During the year ended December 31, 2019, a recovery of \$0.5 million (2018 – an expense of \$1.4 million) was recorded in the consolidated statements of income in operating costs in relation to the RSU and PSU Plan.

Deferred Share Unit Plan

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

The following table summarizes the continuity of the DSUs during the years ended December 31:

	2019		2018	
	Number of DSUs	Liability ¹	Number of DSUs	Liability ¹
Outstanding, beginning of year	255,755	\$ 1,557	332,245	\$ 2,793
Granted ²	69,680	433	126,338	1,021
Forfeited	–	–	(34,451)	(303)
Settled	–	–	(168,377)	(1,372)
Variation due to change in stock price	–	958	–	(582)
Outstanding and vested, end of year	325,435	\$ 2,948	255,755	\$ 1,557

¹ The liability related to the DSU Plan is recorded in trade and other payables, and the expense related to the units vested and the variation due to changes in stock price is included in operating costs.

² The liability related to the DSUs granted represents the portion that is vested at December 31.

Stock options

On December 20, 2012, as part of the implementation of Yellow Pages 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 Pages 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 Pages Limited through the transformation of its business and to more closely align the interests of management with those of the shareholders of Yellow Pages Limited. A maximum of 1,290,612 stock options may be granted under the Stock Option Plan. On May 11, 2018, an amendment to the Stock Option Plan was approved, increasing the maximum number of common shares authorized for issuance upon the exercise of options, from 1,290,612 to 2,806,932.

Stock options granted that are payable in cash upon certain conditions being met are presented as a liability.

The following table summarizes the continuity of the stock options presented as a liability during the years ended December 31:

	2019		2018	
	Number of options	Liability ¹	Number of options	Liability ¹
Outstanding, beginning of year	701,875	\$ 365	701,875	\$ 194
Variation due to change in fair value and vesting	–	713	–	171
Outstanding, end of year	701,875	\$ 1,078	701,875	\$ 365
Vested, end of year	545,903	\$ 1,078	311,944	\$ 365

¹ The liability related to the stock options is recorded in trade and other payables, and the expense related to the vested options and the variation due to change in fair value are included in operating costs.

The following table summarizes the continuity of all stock options under the Stock Option Plan during the years ended December 31:

	2019		2018	
	Number of options	Weighted average exercise price per option	Number of options	Weighted average exercise price per option
Outstanding, beginning of year	1,347,052	\$ 8.39	1,024,550	\$ 10.11
Granted	884,784	\$ 5.86	801,202	\$ 7.70
Forfeited	(248,734)	\$ 9.61	(478,700)	\$ 10.91
Outstanding, end of year	1,983,102	\$ 7.11	1,347,052	\$ 8.39
Exercisable, end of year	–	\$ –	60,425	\$ 18.22

The following table provides additional information about Yellow Pages Limited's Stock Option Plan as at December 31:

Exercise price	2019		2018	
	Number of options outstanding	Weighted average remaining life	Number of options outstanding	Weighted average remaining life
\$5.86	762,777	3.2	–	–
\$7.61	495,256	2.1	550,588	3.1
\$7.97	701,875	0.7	701,875	1.7
\$10.12	–	–	11,375	1.3
\$10.47	19,869	2.6	25,239	3.6
\$16.44	–	–	13,525	3.2
\$17.83	3,325	3.2	17,050	4.2
\$19.61	–	–	7,700	2.5
\$20.33	–	–	4,900	2.4
\$24.65	–	–	14,800	2.2
Outstanding, end of year	1,983,102	2.0	1,347,052	2.4
Exercisable, end of year	–	–	60,425	2.6

Stock options were valued using a binomial option pricing model. Expected volatility is determined by the implied volatility from the current market price of the Company's outstanding warrants. The following table shows the key inputs into the valuation model for the years ended December 31:

	2019	2018
Weighted average grant date share price	\$ 5.86	\$ 7.68
Exercise price	\$ 5.86	\$ 7.70
Expected volatility	61.1%	43.2%
Option life	4 years	4 years
Risk-free interest rate	2.18%	2.41%
Weighted average remaining life	3.2 years	3.2 years

During the year ended December 31, 2019, an expense of \$1.9 million (2018 – \$0.6 million) was recorded in the consolidated statements of income in operating costs in relation to the Stock Option Plan for both the cash-settled and equity-settled options.

Share appreciation rights plan

On September 15, 2017, Yellow Pages Limited adopted a share appreciation rights plan (the "SAR Plan") to provide incentive compensation to key employees and officers of Yellow Pages Limited (the "Participants") who are in a position to make a material contribution to the successful operation of the business and to more closely align the interests of management with those of shareholders of Yellow Pages Limited. The SARs are time-based awards and will vest upon the continuous employment of the Participants at a date determined by the Board of Directors. Pursuant to the terms of the SAR Plan, the Participants will receive, upon vesting of the SARs, a payment in cash representing the excess of the fair value of Yellow Pages Limited's shares on the vesting date less the fair value of Yellow Pages Limited's shares on the grant date.

The following table summarizes the continuity of the share appreciation rights (“SARs”) during the years ended December 31:

	2019		2018	
	Number of SARs	Liability ¹	Number of SARs	Liability ¹
Outstanding, beginning of period	701,875	\$ 365	701,875	\$ 194
Variation due to change in fair value and vesting	–	713	–	171
Outstanding, end of period	701,875	\$ 1,078	701,875	\$ 365
Vested, end of period	545,903	\$ 1,078	311,944	\$ 365

¹ The liability related to the SAR Plan is recorded in trade and other payables, and the expense related to the units vested and the variation due to change in fair value are included in operating costs.

SARs were valued using a binomial option pricing model. Expected volatility is determined by the implied volatility from the current market price of the Company’s outstanding warrants. The following table shows the key inputs into the valuation model as at December 31:

	2019	2018
Weighted average grant date share price	\$ 9.12	\$ 9.12
Exercise price	\$ 7.97	\$ 7.97
Expected volatility	41.0%	41.0%
SAR life	3 years	3 years
Risk-free interest rate	2.04%	2.04%
Weighted average remaining life	0.7 years	1.7 years

20. Operating costs

For the years ended December 31,	2019	2018
Salaries, commissions and benefits	\$ 112,965	\$ 181,808
Supply chain and logistics ¹	73,738	112,365
Other goods and services ²	18,085	37,592
Information systems	26,027	37,494
Remeasurement of ECL, net of recovery (Note 24)	11,053	15,371
	\$ 241,868	\$ 384,630

¹ Supply chain and logistics costs relate to external supplier costs for manufacturing and distribution of our print and online products.

² Other goods and services include promotion and advertising costs, real estate, office services, consulting services including contractors and professional fees.

21. Financial charges, net

The significant components of the financial charges are as follows:

For the years ended December 31,	2019	2018
Interest on senior secured notes and exchangeable debentures	\$ 24,661	\$ 42,963
Amortization of financing costs	6,013	1,617
Optional redemption price premium on senior secured notes	1,091	–
Interest on lease obligations net of interest income on investment in subleases	3,217	6,193
Net interest on the defined benefit obligations	5,010	4,985
Other, net	(392)	(1,029)
	\$ 39,600	\$ 54,729

22. Supplemental disclosure of cash flow information

The following are non-cash transactions:

For the years ended December 31,	2019	2018
Additions to property and equipment included in trade and other payables	\$ –	\$ 253
Additions to intangible assets included in trade and other payables	\$ 467	\$ 690

23. Commitments and contingencies

a) As at December 31, 2019, Yellow Pages Limited has commitments under purchase and service contract obligations for both operating and capital expenditures for each of the next five years and thereafter, and in the aggregate of:

	Total commitments
2020	\$ 23,703
2021	17,658
2022	12,768
2023	8,791
2024	6,334
Thereafter	48,689
	\$ 117,943

b) Yellow Pages Limited has three billing and collection services agreements. The agreement with Bell Canada (“Bell”) expires on December 31, 2020 and the agreement with Northwestel Inc., an affiliate of Bell expires, November 29, 2032. The agreement with TELUS Communications Inc. (“TELUS”) expires in 2031.

Pursuant to publication agreements with Bell and TELUS, Yellow Pages Limited produces alphabetical listing telephone directories for each of these companies in order for them to meet their regulatory obligations.

The Company also entered into several other agreements with Bell and TELUS, providing for the use of listing information and trademarks for the publications of directories. If the Company materially fails to perform its obligations under the publication agreements mentioned above and as a result these publication agreements are terminated in accordance with their terms, these other listing information and trademark licenses with Bell and TELUS, as the case may be, may also be terminated. These other agreements with Bell and TELUS will terminate between 2031 and 2037.

c) Yellow Pages Limited entered into directory printing agreements with its printing suppliers to print, bind and furnish alphabetical, classified and combined directories as well as other publications. It also entered into distribution agreements.

d) Yellow Pages Limited is subject to various claims and proceedings which have been instituted against it during the normal course of business for which certain of the claims are provided for and included in trade and other payables, and provisions based on management's best estimate of the likelihood of the outcome. Management believes that the disposition of the matters pending or asserted is not expected to have any material adverse effect on the financial position, financial performance or cash flows of Yellow Pages Limited.

24. Financial risk management

Credit Risk

Credit risk stems primarily from the potential inability of a customer or counterparty to a financial instrument to meet its contractual obligations. Yellow Pages Limited is exposed to credit risk with respect to cash, trade receivables from customers and investment in subleases. The carrying value of financial assets represents Yellow Pages Limited's maximum exposure.

Credit risk associated with cash is minimized substantially by ensuring that these financial assets are placed with creditworthy counterparties. An ongoing review is performed to evaluate changes in the status of counterparties.

Yellow Pages Limited's extension of credit to customers involves judgment. Yellow Pages Limited has established internal controls designed to mitigate credit risk, including a formal credit policy managed by its credit department. New customers, customers increasing their advertising spend by a certain threshold and customers not respecting payment terms are subject to a specific vetting and approval process.

Yellow Pages Limited considers that it has limited exposure to concentration of credit risk with respect to trade receivables from customers due to its large and diverse customer base operating in numerous industries and its geographic diversity. There are no individual customers that account for 10% or more of revenues and there are no trade receivables from any one individual customer that exceeds 10% of the total balance of trade receivables at any point in time during the year.

Bell and TELUS provide Yellow Pages Limited with customer collection services with respect to advertisers who are also their customers. As such, they receive money from customers on behalf of Yellow Pages Limited. Yellow Pages Limited retains the ultimate collection risk on these receivables.

The components of trade and other receivables are as follows:

As at	December 31, 2019	December 31, 2018
Current	\$ 58,309	\$ 85,331
Past due less than 180 days	12,400	21,975
Past due over 180 days	7,876	11,238
Trade receivables	\$ 78,585	\$ 118,544
Other receivables¹	\$ 8,665	\$ 13,990
Trade and other receivables	\$ 87,250	\$ 132,534

¹ Other receivables as at December 31, 2019 included a loan receivable associated with a forward contract. Other receivables as at December 31, 2018 included a loan receivable associated with a forward contract and accrued receivables related to JUICE and Mediative.

The following table provides information about the exposure to credit risk and the ECL allowance for trade receivables (including contract assets).

For the years ended December 31,	2019			2018		
	Expected credit loss rate	Gross carrying amount ¹	ECL allowance	Expected credit loss rate	Gross carrying amount ¹	ECL allowance
Current	4.4%	\$ 61,006	\$ 2,697	3.1%	\$ 88,100	\$ 2,769
Past due less than 180 days	21.8%	15,856	3,456	16.2%	26,211	4,236
Past due over 180 days	59.2%	19,303	11,427	54.6%	24,771	13,533
Total		\$ 96,165	\$ 17,580		\$ 139,082	\$ 20,538

¹ The gross carrying value is net of the allowance for revenue adjustments.

The following table shows the movement in ECL allowance that has been recognized for trade receivables (including contract assets).

As at	December 31, 2019	December 31, 2018
Balance, beginning of the year	\$ 20,538	\$ 21,664
Remeasurement of ECL allowance, net of recovery (bad debt expense)	11,053	15,371
Amounts written-off	(14,011)	(16,497)
Balance, end of year	\$ 17,580	\$ 20,538

Yellow Pages Limited estimates the loss allowance on the net investment in subleases at the end of the reporting period at an amount equal to lifetime ECL. None of the net investment in subleases at the end of the reporting period is past due, and taking into account the historical default experience and the future prospects of the industries in which the lessees operate, together with the value of collateral held over the net investment in subleases, the ECL on net investment in subleases is immaterial.

(i) Interest Rate Risk

Yellow Pages Limited is exposed to interest rate risks resulting from fluctuations in interest rates on its ABL with rates which are generally based on the Prime rate or Canadian BA rate. Yellow Pages Limited does not use derivative instruments to reduce its exposure to interest rate risk. The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the necessary liquidity to conduct its day-to-day operations.

Yellow Pages Limited may also be exposed to fluctuations in long-term interest rates relative to the refinancing of its debt obligations upon their maturity. The interest rate on new long-term debt issuances will be based on the prevailing rates at the time of the refinancing, and will also depend on the tenor of the new debt issued. There are no upcoming maturities that will require refinancing. Changes in interest rates will also affect the fair value of future cash flows of Yellow Pages Limited's fixed rate debt. As interest rates on the Exchangeable Debentures are fixed, the Company is not exposed to interest rate fluctuation risk.

(ii) Foreign Exchange Risk

Yellow Pages Limited is exposed to foreign exchange risk arising from various currency transactions, which are not significant. Foreign exchange transaction risk arises primarily from commercial transactions that are denominated in a currency that is not the functional currency of Yellow Pages Limited's business unit that is party to the transaction. Yellow Pages Limited is exposed to fluctuations in the U.S. dollar. The effect on net earnings from existing U.S. dollar exposures of a one point increase or decrease in the Canadian/U.S. dollar exchange rate is not significant. The Company's expenditures, net of revenues, denominated in U.S. dollars were approximately \$9.5 million for the year ended December 31, 2019 (2018 – \$14.7 million). As at December 31, 2019, there were no foreign currency contracts outstanding.

Liquidity Risk

Liquidity risk is the exposure of Yellow Pages Limited to the risk of not being able to meet its financial obligations as they become due.

Yellow Pages Limited manages this risk by maintaining detailed cash forecasts and long-term operating and strategic plans. The management of liquidity requires a constant monitoring of expected cash inflows and outflows which is achieved through a detailed forecast of the Company's liquidity position to ensure adequate and efficient use of cash resources.

The Company expects to meet its financial obligations through internally generated cash and cash on hand.

The following are the contractual maturities of the financial liabilities and assets and related capital amounts:

	Payments due for the years following December 31, 2019			
	Total	1 year	2 – 3 years	4 – 5 years
Non-derivative financial liabilities				
Exchangeable debentures ¹	\$ 107,089	\$ –	\$ 107,089	\$ –
Trade and other payables	33,662	33,662	–	–
Provisions	28,220	26,644	1,535	41
Total, net	\$ 168,971	\$ 60,306	\$ 108,624	\$ 41

¹ Principal amount.

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 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.

During the year ended December 31, 2017, the Company invested \$5.4 million in Melian Labs, Inc., which operates an all-in-one commerce platform, MyTime, which includes online booking, automated marketing, point of sale and analytics for local businesses. During the first quarter of 2018, this investment was written down in Net change in FVOCI to the expected realizable value following management's decision to no longer invest in this business and relinquish all its equity interest.

The fair value of the exchangeable debentures is evaluated based on quoted market prices as at the statement of financial position date. The Company has not adopted any hedge accounting during the period.

The following schedule represents the carrying values and the fair values of financial instruments not measured at fair value in the consolidated statement of financial position as at December 31, 2019. The fair value of cash and restricted cash, trade and other receivables, and trade and other payables are not included, as their carrying amount is a reasonable approximation of fair value due to their short-term maturity, and the fair value of net investment in subleases is not included below since the economic conditions which may have influenced their fair value have not significantly changed and therefore their carrying amount is a reasonable approximation of their fair value at December 31, 2019.

	Level	Carrying Value	Fair Value
Exchangeable debentures	1	\$ 98,537	\$ 109,231

25. Capital disclosures

Yellow Pages Limited's objective in managing capital is to ensure sufficient liquidity to cover financial obligations and investment requirements. Reducing debt and associated interest charges is one of the Company's primary financial goals which will improve its financial flexibility and support the implementation of its strategic objectives.

Yellow Pages Limited monitors its capital structure and makes adjustments based on the objectives described above in response to changes in economic conditions and the risk characteristics of the underlying assets and the Company's working capital requirements.

The primary measure used by Yellow Pages Limited to monitor its financial leverage is its ratio of net debt to Latest Twelve Month Adjusted EBITDA³. Yellow Pages Limited also uses other financial metrics to monitor its financial leverage including Fixed Charge Coverage Ratio and net debt to total capitalization.

Yellow Pages Limited's capital is comprised of net debt, Exchangeable Debentures and equity attributable to shareholders of Yellow Pages Limited as follows:

As at	December 31, 2019	December 31, 2018
Cash and restricted cash	\$ 44,408	\$ 81,452
Senior secured notes ¹ (Note 14)	\$	\$ 167,489
Exchangeable debentures ² (Note 15)	98,537	96,179
Lease obligations (Note 8)	57,885	75,320
Total debt	\$ 156,422	\$ 338,988
Deficiency	(16,660)	(119,164)
Total capitalization	\$ 139,762	\$ 219,824
Total debt net of cash and restricted cash, to total capitalization	80.1%	117.2%
For the years ended December 31,	2019	2018
Latest Twelve Month Adjusted EBITDA ³	\$ 161,345	\$ 192,565
The total debt net of cash and restricted cash to latest Twelve-Month Adjusted EBITDA ratio ³	0.7	1.3

¹ Represents the principal amount less unaccreted discount on the Senior secured notes.

² Represents the principal amount less unaccreted interest on the Exchangeable debentures.

³ Latest twelve month income from operations before depreciation and amortization, and restructuring and other charges ("Latest Twelve Month Adjusted EBITDA"). Latest Twelve Month Adjusted EBITDA is a non-IFRS measure and may not be comparable with similar measures used by other publicly traded companies.

26. Guarantees

In the normal course of operations, Yellow Pages Limited has entered into agreements which are customary in the industry that provide for indemnifications and guarantees to counterparties in transactions involving business acquisitions, business dispositions and sale of assets. Yellow Pages Limited has entered into agreements which contain indemnification of its directors and officers indemnifying them against expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of Yellow Pages Limited. Yellow Pages Limited benefits from directors' and officers' liability insurance which it has purchased. No amount has been accrued in the consolidated statements of financial position as at December 31, 2019 and 2018 with respect to these indemnities.

The nature of these guarantees prevents Yellow Pages Limited from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties.

27. List of subsidiaries

As at	Principal activity	Proportion of ownership	
		December 31,	
Canada		2019	2018
Yellow Pages Digital & Media Solutions Limited	Digital and print media marketing solutions provider	100%	100%
411 Local Search Corp. ¹	Digital media marketing solutions provider	100%	100%
YP Dine Solutions Limited ²	Local digital restaurant guides provider	100%	100%
Bookenda Limited ²	Booking and reservation management system provider	100%	100%
USA			
YPG (USA) Holdings, Inc.	Holding company	100%	100%
Yellow Pages Digital & Media Solutions, LLC	Operational support services provider	100%	100%

¹ Effective September 30, 2019, 411 Local Search Corp. was liquidated into Yellow Pages Digital & Media Solutions Limited.

² On December 31, 2019, YP Dine Solutions Limited and 4400348 Canada Inc. ("Bookenda Limited") were liquidated into Yellow Pages Digital & Media Solutions Limited.

28. Related party disclosures

Key management personnel compensation

Yellow Pages Limited's key management personnel have authority and responsibility for planning, directing and controlling the Company's activities and consist of Yellow Pages Limited's executive team and the Board of Directors.

Total compensation expense for key management personnel, and the composition thereof, is as follows:

For the years ended December 31	2019	2018
Salary, fees and other short-term employee benefits	\$ 6,380	\$ 6,621
Post-employment benefits	111	63
Stock-based compensation	2,079	2,177
Termination benefits	841	–
	\$ 9,411	\$ 8,861

Executive Team

David A. Eckert

President and Chief Executive Officer

John R. Ireland

Senior Vice-President, Organizational Effectiveness

Franco Sciannamblo

Senior Vice-President, Chief Financial Officer

Sherilyn King

Vice President of Sales and Customer Service

Treena Cooper

Vice President, Secretary, and General Counsel

Board of Directors

Susan Kudzman

Director and Chair of the Board

David A. Eckert

Director
President and Chief Executive Officer

Craig Forman

Director
Chair of the Corporate Governance and Nominating Committee

Robert Hall

Director
Chair of the Audit Committee

Donald H. Morrison

Director

Kalpana Raina

Director

Paul W. Russo

Director
Chair of the Human Resources and Compensation Committee

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Investor Relations

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Deloitte LLP

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YPG.DB Senior Subordinated Unsecured Exchangeable Debentures
Y.WT Warrants

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