MANAGEMENT'S DISCUSSION AND ANALYSIS

February 11, 2016

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, 2015 and 2014 and should be read in conjunction with our Audited Consolidated Financial Statements and accompanying notes for the years ended December 31, 2015 and 2014. 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: http://corporate.yp.ca.

The financial information presented herein has been prepared on the basis of International Financial Reporting Standards (IFRS) for financial statements and is expressed in Canadian dollars, unless otherwise stated. The audited IFRS-related disclosures and values in this MD&A have been prepared using the standards and interpretations currently issued and effective at the end of our reporting period, December 31, 2015.

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), YPG (USA) Holdings, Inc. and Yellow Pages Digital & Media Solutions LLC (the latter two collectively YP USA), Bookenda Limited, formerly 4400348 Canada Inc. (Bookenda), YP Dine Solutions Limited (YP Dine), and 9059-2114 Québec Inc. and ByTheOwner Inc. (the latter two collectively ComFree/DuProprio)).

FORWARD-LOOKING INFORMATION

This MD&A contains assertions about the objectives, strategies, financial condition, results of operations and businesses of YP. These statements are considered "forward-looking" because they are based on current expectations of our business, on the markets we operate in, and on various estimates and assumptions.

Forward-looking information and statements are based on a number of assumptions which may prove to be incorrect. In making certain forward-looking statements, we have made the following assumptions:

- that general economic conditions in Canada will not materially deteriorate beyond currently anticipated levels;
- that investments in branding will evolve legacy perceptions and boost awareness of our digital media platforms and marketing solutions;
- that we will be able to acquire new customers at the currently anticipated rate and currently anticipated Average Revenue per Customer (ARPC);
- that customer retention rates will not be materially lower than currently anticipated;
- that print decline rates stabilize;
- that we will be able to introduce, sell and provision new products and services that will generate the anticipated return on investment (ROI) for customers;
- that investments in new content and digital experiences across our owned and operated properties will protect digital audiences;
- that the revenue mix between our digital owned and operated, services and resale solutions will not materially change from currently anticipated levels;
- that exposure to foreign exchange risk arising from foreign currency transactions will remain insignificant;
- that we will be able to realize efficiency gains; and
- that we will be able to attract and retain key personnel in key positions.

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:

- 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 attract, retain and upsell customers;
- The inability of the Corporation to successfully enhance and expand its offering of digital and new media products;
- A higher than anticipated proportion of revenues coming from the Corporation's digital products with lower margin, such as services and resale;
- 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 inability of the Corporation to generate sufficient funds from operations, debt financings, equity financings or refinancing transactions;
- The Corporation's substantial indebtedness could adversely affect its efforts to refinance;
- Incremental contributions by the Corporation to its pension plans;
- Failure by either the Corporation or the Telco Partners (as defined herein) to fulfill the obligations set forth in the agreements between the Corporation and the Telco Partners;
- Failure by the Corporation to adequately protect and maintain its brands and trademarks, as well as third party infringement of such;
- Work stoppages and other labour disturbances;
- The Corporation's inability to attract and retain key personnel;
- 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 digital portals, search engines, individual websites, mobile manufacturers and Operating Systems providers;
- The failure of the Corporation's computers and communications systems;
- The inability of the Corporation to develop information and technology systems and platforms required to execute the Corporation's Return to Growth Plan;
- The inability of the Corporation to realize operational efficiencies and cost savings across its operations; and
- The Corporation might be required to record additional impairment charges.

DEFINITIONS RELATIVE TO UNDERSTANDING OUR RESULTS

Income from Operations before Depreciation and Amortization, and Restructuring and Special Charges (Adjusted EBITDA)

We report on our Income from operations before depreciation and amortization, and restructuring and special charges (Adjusted EBITDA). Adjusted EBITDA is not a performance measure defined under IFRS and is not considered an alternative to income from operations or net earnings in the context of measuring Yellow Pages' performance. Adjusted EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other publicly traded companies. Adjusted EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, taxes, interest payments, capital expenditures, business acquisitions, debt principal reductions and other sources and uses of cash, which are disclosed on page 20 of this MD&A.

We define Adjusted EBITDA as revenues less operating costs, as shown in Yellow Pages Limited's consolidated income statements. We use Adjusted EBITDA to evaluate the performance of our business as it reflects its ongoing profitability. We believe that certain investors and analysts use Adjusted EBITDA 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. We believe that certain investors and analysts also use Adjusted EBITDA to evaluate the performance of our business. Adjusted EBITDA is also one component in the determination of short-term incentive compensation for all management employees.

Free cash flow

Free cash flow is a non-IFRS measure generally used as an indicator of financial performance. It should not be seen as a substitute for cash flow from operating activities. Free cash flow is defined as cash flow from operating activities, as reported in accordance with IFRS, less an adjustment for capital expenditures. Free cash flow is not a standardized measure and is not comparable with that of other public companies.

This MD&A is divided into the following sections:

1. Our Business, Mission, Strategy and Capability to Deliver Results
2. Results
3. Liquidity and Capital Resources
4. Free Cash Flow
5. Critical Assumptions
6. Risks and Uncertainties
7. Controls and Procedures

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

OUR BUSINESS

Yellow Pages is a leading media and marketing solutions company in Canada, offering small and medium-sized enterprises (SMEs) services to help them connect with local consumers. The Company provides SMEs full-serve access to one of the country's most comprehensive suites of digital and traditional marketing solutions, which include products such as 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. Through its extensive sales force, the Company acts as dedicated marketing professionals for approximately 245,000 local businesses across Canada. This large and primarily face-to-face sales force is broken down into various channels, each dedicated to offering customers a specialized level of service based on size and spend.

Via its Mediative division, Yellow Pages offers dedicated marketing and performance media services to national clients Canada-wide. Operating an extensive publisher network and one of the country's largest pools of high-intent consumer data, Mediative provides national brands and enterprises with innovative marketing solutions that reach, engage and convert potential customers.

In addition, Yellow Pages offers digital advertising solutions to the Canadian real estate industry, helping home buyers and sellers connect and transact with one another. Through ComFree/DuProprio (CFDP) and Yellow Pages NextHome, the Company services the real estate industry, including new construction leaders, landlords and property management firms, by providing digital advertising solutions to help them connect with prospective buyers, sellers and renters. CFDP positions Yellow Pages as a leader in the Canadian consumer-to-consumer digital real estate marketplace, empowering consumers by providing them with trusted media and solutions to sell their homes in a proven and cost-effective manner.

Yellow Pages owns and operates one of Canada's largest and richest databases of local merchant information. This content reaches audiences via a number of desktop, mobile and print properties, which continue to serve as effective advertising platforms to SMEs and national retailers. To help Canadians discover everything their neighbourhood has to offer, the Company's network of media properties is becoming increasingly specialized across the high value search verticals of services, real estate, dining and retail. A description of the Company's existing digital media properties is found below:

- YP™ – Available both online at YP.ca and as a mobile application, YP allows users to discover their local neighbourhoods through comprehensive merchant profiles and relevant editorial content;
- YP Shopwise™ – Mobile application offering geo-localized deals and flyers, as well as access to product catalogues from local and national retailers Canada-wide;
- RedFlagDeals.com™ – Canada's leading provider of online and mobile promotions, deals, coupons and shopping tools;
- CFDP – Currently the fourth most-visited network of real estate digital properties in Canada and Québec's leading real estate site, CFDP offers homeowners a proven, professional and cost effective service to market and sell their homes;
- YP Dine™ – Mobile application that allows users to discover, search for and book local restaurants based on time of day, mood, purpose and expert suggestions, in addition to offering online food ordering and delivery functionalities;
- Bookenda.com – Digital property offering a leading online transaction platform for users and merchants to easily interact and manage bookings;
- dine.TO – Provides users in the Greater Toronto Area with an extensive database of online local restaurant listings, reviews, deals, playlists and events, as well as real-time online ordering capabilities;
- Yellow Pages NextHome – Provides Canadians with valuable information to help them make the right buying, selling, and/or renting decision. Digital properties operating under the Yellow Pages NextHome umbrella include YP NextHome Rent and YP NextHome New Construction;
- Canada411 (C411) – One of Canada's most frequented and trusted online and mobile destinations for personal and local business information; and
- 411.ca – Digital directory service to help users find and connect with people and local businesses.

MISSION

We exist to champion the local neighbourhood economy by enabling Canada's businesses and consumers to connect, interact and build relationships in order to create local opportunities.

STRATEGY AND CAPABILITY TO DELIVER RESULTS

Our objective is to become the leading local digital company in Canada by fostering strong business relationships between Canadian businesses and consumers, while also developing an unparalleled local media presence across the country.

The Return to Growth Plan (the Plan) was introduced in early 2014 to grow Yellow Pages into a leading Canadian digital company. The Plan sets out to accomplish these objectives by (1) strengthening the Company's digital brand perception among Canadians, (2) growing adoption and usage of its network of digital media properties, and (3) enhancing its value proposition to local and national merchants as it relates to effective digital marketing. As a result of these achievements, Yellow Pages anticipates returning to a growth in its customer count by 2017, and ultimately, growth in revenues and profitability (Adjusted EBITDA) by 2018. In parallel, the Plan is expected to realize operational efficiencies across the organization and deliver the required financial liquidity to fully deleverage the balance sheet by 2018.

Yellow Pages has made significant progress in the execution of the Plan and its growth into a digital company:

- Digital Revenues – Consolidated digital revenues grew 9.8% year-over-year to reach $486.3 million in 2015. For the fourth quarter ended December 31, 2015, digital revenues grew 10.5% year-over-year to $129.2 million, representing 62% of consolidated revenues;
- Adjusted EBITDA – Adjusted EBITDA totalled $260.7 million or 31.4% of revenues in 2015, relative to $316 million or 36% of revenues in 2014. Fuelled by digital revenue growth and lower employee related expenses, Adjusted EBITDA for the fourth quarter ended December 31, 2015, reached $64.5 million or 30.9% of revenues, as compared to $64.8 million or 30.1% of revenues for the same period last year;
- Debt Repayment – Yellow Pages repaid $100.3 million of its 9.25% senior secured notes in 2015 and $393.3 million since their issuance on December 20, 2012. As at December 31, 2015, the Company had net debt of $430.6 million;
- Customer Count – The Company's customer count reached 245,000 customers as at December 31, 2015 as compared to 256,000 customers as at December 31, 2014. Improvements to customer count metrics continue to be fuelled by accelerated customer acquisition and stable retention rates. For the twelve-month period ended December 31, 2015, the Company acquired 30,800 new customers, up from 22,100 customers in 2014 and surpassing Yellow Pages' 2015 customer acquisition target of 30,000. Customer retention reached 85% in 2015, an improvement relative to 84% last year; and
- Digital Visits – Total digital visits grew 9.4% year-over-year to reach 464 million in 2015, up from 424.1 million in 2014. Total digital visits measures the number of visits made across the YP, YP Shopwise, YP Dine, RedFlagDeals, C411, Bookenda and dine.TO online and mobile properties, as well as visits made across the properties of the Company's application syndication partners.

These achievements were made possible by the successful and timely execution of various initiatives underlying Yellow Pages' Return to Growth Plan, which include:

Extending its Brand Promise

Various branding initiatives were launched over the course of 2015 to grow awareness and adoption of Yellow Pages' digital media and marketing offerings.

The Company held a number of media campaigns in 2015 to advertise its suite of mobile applications. With a focus on the YP and YP Shopwise mobile applications, these multimedia campaigns were rolled out in Vancouver, Calgary, Toronto and Montreal to showcase the applications' unique ability to quickly and easily connect Canadians with local merchants.

In further support of local shopping and the growth of local economies, Yellow Pages hosted its third annual Shop The Neighbourhood (STN) event on Saturday, November 28, 2015 across 400 Canadian neighbourhoods. Held during a weekend when many Canadians shop at U.S. retailers to take advantage of Black Friday and Cyber Monday deals, STN garnered the participation of over 12,500 local Canadian merchants who offered 6,300 deals exclusive to the YP Shopwise mobile application. For the first time in the event's history, STN introduced Beacon technologies in various neighbourhoods, allowing participating merchants to push deal-related notifications to YP Shopwise users while they shopped on location.

The Company will continue to strengthen its brand promise in 2016. Comprised of various forms of multimedia campaigns Canada-wide, these initiatives will serve to shift Yellow Pages' perception among SMEs and consumers, drive additional merchants to invest in the Company's marketing solutions, and protect usage across Yellow Pages' verticalized suite of desktop and mobile destinations.

Strengthening its Media Assets

Total digital visits (TDV) grew to 464 million for the year ended December 31, 2015, up 9.4% from 424.1 million visits in 2014. For the fourth quarter ended December 31, 2015, TDV totaled 118.2 million, up from 117.4 million for the same period last year. TDV performance during the fourth quarter of 2015 was principally impacted by a change to the layout of Google's mobile web search results pages, which pushed the organic results for all mobile web publishers lower on Google's search pages. The ranking of Yellow Pages' listings on Google's mobile web search results pages remained relatively unchanged despite this layout change, a reflection of the relevancy and quality of the Company's listings.

The Company will continue to improve the quality, completeness and relevance of the user experience across its digital media properties.

The richness of Yellow Pages' content has been recognized by Apple Maps in 2015, who has started syndicating the Company's business information (including addresses, phone numbers, hours of operations, geo-coordinates, website URLs, photos, ratings and reviews) across its Canadian mobile search engine results pages.

Yellow Pages also introduced new mobile applications in 2015 to better address the verticalized needs of Canadian consumers. Supported by the acquisitions of Bookenda and dine.TO in December 2014, YP Dine was launched nationally in June 2015 to act as Canadians' trusted dining application. YP Dine allows users to search from an extensive database of Canadian restaurants, filter their selections based on time of day, mood, activity, and expert reviews, and leverage Bookenda's technologies to book a table directly from their mobile phones. Recognizing the application's unique user proposition, YP Dine was selected by Apple as one of 2015's best new mobile applications.

Most recently, Yellow Pages acquired CFDP on July 1, 2015, growing the Company into a leading digital real estate marketplace. Operating under the DuProprio and ComFree banners in Quebec and the rest of Canada, respectively, CFDP operates online and mobile properties that connect home buyers with home sellers without intermediation from traditional real estate brokers. CFDP is currently the fourth most visited digital network of real estate properties in Canada and Quebec's leading real estate site, holding a 17% share of the province's listings market. The acquisition extends Yellow Pages' reach of Canadian home buyers and sellers, while also providing them with the platforms and technologies required to buy and sell their homes in a proven, cost effective manner.

In 2016, a deeper focus will be placed on integrating and improving transactional functionalities across the Company's mobile applications. These enhancements will impact Yellow Pages' existing verticals, growing the Company's digital media network into a trusted destination for Canadians to quickly and easily solve their everyday needs. By providing Canadians with mobile technologies that help them make smarter shopping decisions and get closer to the transaction, the Company aims to create more engaged audiences, grow direct traffic, and deliver richer return on investment for merchants leveraging Yellow Pages' mobile media as a key marketing platform.

Enhancing its Customer Value Proposition

The Company's customer count reached 245,000 customers as at December 31, 2015 as compared to 256,000 customers as at December 31, 2014, representing a net customer count decline of 11,000 customers in 2015, down significantly from 20,000 and 33,000 net customers lost in 2014 and 2013, respectively. Growth in the customer count is critical to delivering sustainable digital revenue growth and consequently, allowing Yellow Pages to return to revenue and Adjusted EBITDA growth by 2018.

Yellow Pages acquired 30,800 new customers during the twelve-month period ended December 31, 2015, exceeding internal targets and last year's acquisition of 22,100 new customers. New technologies, incentive programs and marketing solutions, as well as a stronger sales culture, have each played a key role in accelerating customer acquisition. Over the course of 2015, the Company deployed a new customer relationship management platform to optimize lead assignment, conversion rates, and the productivity of Yellow Pages' sales representatives. The Company's sales representatives are now equipped with technologies and customer-facing tools that improve the way they sell and consult, utilizing proprietary market intelligence to build value-enhancing digital marketing programs for clients. The launch of the Presence solution in April 2015 also encouraged new customer acquisition, helping SMEs syndicate their business listings across the web at entry-level pricing.

The renewal rate among customers grew to 85% for the year ended December 31, 2015. This compares to a renewal rate of 84% for year ended December 31, 2014, an improvement that exceeded internal targets and was supported by the delivery of enhanced ROI and a richer customer experience. New processes and technologies were introduced across the Company's sales, customer service and fulfillment teams to improve the quality of the services offered to merchants. In conjunction, new self-serve features were made available to customers within the Company's business-to-business 360º Business Centre (http://businesscentre.yp.ca/), offering merchants the ability to update their business profile and track the performance of their marketing campaigns in real time.

CUSTOMER ACQUISITION AND RENEWAL[1]

For the years ended December 31,	2015	2014
Customer count	245,000	256,000
New customers	30,800	22,100
Customer renewal rate	85%	84%

1 *YP core only, excludes the contribution of Mediative, 411.ca, Yellow Pages NextHome and CFDP.*

Increasing the size of the customer base will remain a critical component of Yellow Pages' Return to Growth Plan. The Company anticipates returning to a growth in the customer count, at latest, by 2017, supported by initiatives that accelerate customer acquisition and protect client renewal.

New technologies, such as the adoption of strategic and fact-based selling strategies among our face-to-face and telephony sales channels, will be implemented to support higher lead conversion rates. In conjunction, processes related to sales, fulfillment and customer service will be further automated to improve the quality of merchants' digital marketing programs.

Gaining Efficiencies

Yellow Pages seeks opportunities to gain efficiencies across its print and digital operations. The Company has reduced print manufacturing and distribution costs by eliminating systematic door-to-door distribution of the print directory and rather, having directories made available through public street boxes and retailer racks. Yellow Pages has also finalized a comprehensive organizational review (the Corporate Realignment) during the second half of 2015, building a leaner, more agile and collaborative organization. The Corporate Realignment follows suit to the progress Yellow Pages has made in the execution of its Plan, specifically from interdependencies built between Yellow Pages' information technology, strategy and marketing functions and the decommissioning of legacy systems, platforms and processes. The Corporate Realignment reduced the Company's workforce by approximately 300 employees during the third and fourth quarters of 2015, affecting roles that have been integrated within other functions or that are no longer aligned with Yellow Pages' digital reality.

Operational efficiencies will continue to be realized over the course of 2016, sourced from the ongoing optimization of print operations, in addition to costs savings realized from the insourcing and automation of various fulfillment functions.

OUTLOOK

The Company affirms its long-term financial outlook relative to the Return to Growth Plan. The Plan serves to grow Yellow Pages into a leading Canadian digital company, ultimately returning the Company to consolidated revenue and Adjusted EBITDA growth by 2018. For the year ending December 31, 2016, Yellow Pages anticipates delivering:

- Year-over-year organic digital revenue growth in the high single digits;
- Adjusted EBITDA margins of 30%;
- Capital expenditures, net of related lease incentives, of $60 million; and
- Repayment of approximately $100 million of its 9.25% senior secured notes.

As part of establishing the above guidance, the Company made a number of assumptions:

- Economic conditions in Canada do not materially deteriorate beyond currently anticipated levels;
- Exposure to foreign exchange risk arising from foreign currency transactions remains insignificant. Annual expenditures, net of revenues, denominated in U.S. dollars, are approximately $30 million;
- Canadian local digital advertising market experiences growth of 10% per year;
- Print decline rates stabilize;
- We will be able to introduce, sell and provision new products and services that will generate the anticipated ROI for customers;
- The revenue mix between the Company's digital owned and operated, services and resale solutions will not materially change from currently anticipated levels;
- The Company will be able to further accelerate customer acquisition levels at currently anticipated ARPC and, over time, retain and upsell newly acquired customers;
- Investments in branding will evolve legacy perceptions and boost awareness of our digital media platforms;
- Investments in new content and digital experiences across our owned and operated properties will protect digital audiences; and
- The Company will be able to realize efficiency gains.

The Company cautions that the assumptions used to prepare the Outlook provided above, although currently reasonable, may prove to be incorrect or inaccurate. Accordingly, our actual results may differ materially from our expectations as set forth in this section. The Outlook provided above should be read in conjunction with, and is qualified by, the section Forward-Looking Information beginning on page 1 of this MD&A.

2. RESULTS

This section provides an overview of our financial performance in 2015 compared to 2014 and 2013. We present several metrics to help investors better understand our performance. Some of these metrics are not measures recognized by IFRS. Definitions of these financial metrics are provided on page 3 of this MD&A and are important aspects which should be considered when analyzing our performance.

OVERALL

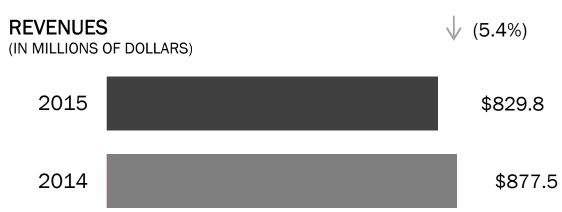
- Revenues decreased by $47.8 million or 5.4% to $829.8 million compared to the previous year.
- Digital revenues grew 9.8% year-over-year to reach $486.3 million in 2015. For the year ended December 31, 2015, digital revenues represented 58.6% of consolidated revenues, up from 50.5% for the same period in 2014.
- Income from operations before depreciation and amortization and restructuring and special charges (Adjusted EBITDA) decreased by $55.3 million or 17.5% to $260.7 million for the year ended December 31, 2015 compared to the same period in 2014.

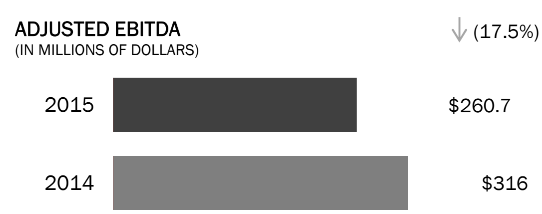
HIGHLIGHTS

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

For the years ended December 31,	2015	2014
Revenues	$ 829,771	$ 877,528
Income from operations before depreciation and amortization, and restructuring and special charges (Adjusted EBITDA)	$ 260,687	$ 315,976
Adjusted EBITDA margin	31.4%	36%
Net earnings	$ 61,055	$ 188,540
Basic earnings per share	$ 2.29	$ 6.95
Cash flows from operating activities	$ 197,566	$ 156,507
Free cash flow[1]	$ 122,145	$ 72,557

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





CONSOLIDATED OPERATING AND FINANCIAL RESULTS
(IN THOUSANDS OF CANADIAN DOLLARS – EXCEPT PER SHARE INFORMATION)

For the years ended December 31,	2015	2014	2013
Revenues	$ 829,771	$ 877,528	$ 971,761
Operating costs	569,084	561,552	555,649
Income from operations before depreciation and amortization, restructuring and special charges	260,687	315,976	416,112
Depreciation and amortization	80,837	78,076	60,164
Restructuring and special charges	30,834	18,359	23,338
Income from operations	149,016	219,541	332,610
Financial charges, net	60,922	72,116	93,357
Earnings before income taxes and earnings from investments in associates	88,094	147,425	239,253
Provision for (recovery of) income taxes	27,039	(40,937)	63,421
Earnings from investments in associates	–	(178)	(698)
Net earnings	$ 61,055	$ 188,540	$ 176,530
Basic earnings per share attributable to common shareholders	$ 2.29	$ 6.95	$ 6.34
Diluted earnings per share attributable to common shareholders	$ 2.05	$ 5.81	$ 5.46

As at December 31,	2015	2014	2013
Total assets	$ 1,710,627	$ 1,749,560	$ 1,794,034
Long-term debt (including current portion, excluding exchangeable debentures)	$ 407,353	$ 507,911	$ 647,468
Exchangeable debentures	$ 90,478	$ 88,959	$ 87,934

ANALYSIS OF CONSOLIDATED OPERATING AND FINANCIAL RESULTS

FISCAL YEAR 2015 VERSUS 2014

Revenues

Revenues decreased by 5.4% year-over-year to reach $829.8 million in 2015. This compares to $877.5 million for the same period last year. Revenues remain adversely impacted by a lower customer count within Yellow Pages' core business, in addition to a decrease in print spending among renewing customers.

Digital revenues are a growing contribution of the Company's consolidated revenue base. Digital revenues grew by 9.8% year-over-year to reach $486.3 million in 2015, or 58.6% of revenues, as compared to $442.8 million, or 50.5% of revenues, for the same period last year. Growth in digital revenues was principally driven by accelerated customer acquisition and growth in digital spending among the Company's renewing customers, as well as the acquisition of CFDP on July 1, 2015. Excluding CFDP, digital revenues for the year ended December 31, 2015 grew by approximately 6% year-over-year.

Yellow Pages' customer count reached 245,000 as at December 31, 2015, relative to 256,000 customers as at December 31, 2014. This represents a net customer count decline of 11,000 customers in 2015, down significantly from 20,000 net customers lost in 2014. Accelerated customer acquisition as well as improved customer retention rates, have helped deliver this performance. Yellow Pages acquired 30,800 new customers during the twelve-month period ended December 31, 2015, exceeding internal targets and last year's acquisition of 22,100 new customers. The customer renewal rate also grew to 85% for the year ended December 31, 2015, up from 84% in 2014 (for further details, see Strategy and Capability to Deliver Results: Enhancing its Customer Value Proposition).

The Company remains committed to upselling digital customers and helping them build more comprehensive marketing programs. For the year ended December 31, 2015, 44% of renewing customers experienced a year-over-year increase in annual spending, as compared to 31% of customers over the same period last year. The upselling of digital customers is a core component of Yellow Pages' ability to deliver long-term sustainable digital revenue growth, particularly as new customers are acquired at low, entry-level ARPC.

Fuelled by customer acquisition and growth in digital spending among renewing customers, digital-only customers grew to 54,500, or 22% of the customer base, as at December 31, 2015. This compared to 37,000 digital-only customers, or 14% of the customer base, as at the same period last year. The Company's online and mobile priority placement solutions remain the most adopted by SMEs, with penetration reaching 61% and 27%, respectively, as at December 31, 2015. This compares favourably to customer penetration of 57% and 24%, respectively, as at the same time last year.

Print revenues decreased 21% year-over-year to reach $343.4 million in 2015, adversely impacted by a decline in the number of print customers and the migration of print marketing spending to digital. Print revenue decline rates have, however, stabilized, in part supported by content enhancement and pricing initiatives that have protected usage of the print directory and encouraged renewal of print advertising spending among customers.

CUSTOMER PENETRATION[1]

As at December 31,	2015	2014
Print	78%	85%
Owned and Operated Digital Media[2]	66%	63%
Online priority placement	61%	57%
Mobile priority placement	27%	24%
Legacy	1%	4%
Digital Services[3]	10%	10%

SPENDING DYNAMICS[1]

For the years ended December 31,	2015	2014
Amongst Renewing Customers[1]		
Increase in spending[4]		
Customer distribution	44%	31%
% of revenues	32%	30%
Stable spending[5]		
Customer distribution	39%	51%
% of revenues	27%	30%
Decrease in spending[6]		
Customer distribution	17%	18%
% of revenues	41%	40%
Average Revenue per Customer (ARPC)[7]	$ 2,930	$ 3,063

OPERATIONAL INDICATORS

As at December 31,	2015	2014
YP 360° Solution Penetration[1]	38%	36.6%
Digital-only customers[1]	54,500	37,000
Digital revenues (in thousands of Canadian dollars)[8]	$ 486,346	$ 442,830
Digital revenues as a percentage of total revenues[8]	58.6%	50.5%

1 *YP core only, excludes the contribution of Mediative, 411.ca, Yellow Pages NextHome and CFDP.*

2 *Percentage of YP customers purchasing at least one Online Priority Placement, Mobile Priority Placement, PresenceEssential/PresencePro, Content, Video, and/or Legacy product.*

3 *Percentage of YP customers purchasing at least one PresenceExtended, Website, Search Engine Optimization (SEO), Search Engine Marketing (SEM), Facebook Solution, and/or Smart Digital Display product.*

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

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

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

7 *The ARPC for the year ended December 31, 2014 was restated to exclude the contribution of Mediative.*

8 *For the years ended December 31.*

Adjusted EBITDA

Adjusted EBITDA decreased by $55.3 million to $260.7 million during 2015, compared with a decline of $100.1 million to $316 million for the same period in 2014. This represents a year-over-year decline of 17.5% during 2015, as compared to a year-over-year decline of 24.1% the year prior. Our Adjusted EBITDA margin for 2015 was 31.4% compared to 36% for 2014. The decrease in Adjusted EBITDA and Adjusted EBITDA margin for the year ended December 31, 2015 is due mainly to lower print revenues and a change in product mix, partly offset by cost saving initiatives and lower employee related expenses. The Adjusted EBITDA margin was also adversely impacted by the Company's Mediative, 411.ca and CFDP operations, which operate at lower Adjusted EBITDA margins relative to Yellow Pages' core business.

Cost of sales increased by $12.9 million to $319.8 million in 2015, as compared to $306.9 million for the same period in 2014. The increase for the year is due primarily to the acquisitions of 411.ca and CFDP on June 1, 2014 and July 1, 2015, respectively, and a change in product mix, partly offset by cost savings generated from print optimization initiatives.

Gross profit margin decreased to 61.5% in 2015 compared to 65% in 2014. The decrease is primarily due to a change in product mix and the acquisitions of 411.ca and CFDP.

General and administrative expenses decreased by $5.4 million to $249.3 million during 2015 compared with $254.7 million for the year ended December 31, 2014. The decrease is mainly attributable to cost savings associated with the Corporate Realignment, employee related expenses and amendments to our pension and post-retirement benefit plans, partly offset by expenses associated with 411.ca and CFDP.

Depreciation and amortization

Depreciation and amortization increased to $80.8 million during 2015 compared to $78.1 million in 2014. The increase is due to higher capital expenditures in connection with the deployment of systems and platforms as the Company executes its digital transformation.

Restructuring and special charges

In 2015, we recorded restructuring and special charges of $30.8 million associated primarily with workforce reductions related to the Corporate Realignment, internal reorganizations, transaction costs associated with business acquisitions, and contract termination costs, partially offset by a curtailment gain related to workforce reductions. In 2014, we recorded restructuring and special charges of $18.4 million associated primarily with internal reorganizations and workforce reductions, partially offset by a net curtailment gain related to workforce reductions.

Financial charges

Financial charges decreased by $11.2 million to $60.9 million during 2015 compared with $72.1 million for 2014. The decrease is mainly attributable to a lower level of indebtedness. As at December 31, 2015 and 2014, the effective average interest rate on our debt portfolio was 9%.

Provision for (recovery of) income taxes

The combined statutory provincial and federal tax rates were 26.70% and 26.56% for the years ended December 31, 2015 and 2014, respectively. The Company recorded an expense of $27 million for the year compared to a recovery of $40.9 million in 2014. The Company recorded an expense of 30.69% on earnings for the year ended December 31, 2015 and a recovery of 27.77% on earnings for the year ended December 31, 2014.

The difference between the effective and the statutory rates in 2015 is due to the non-deductibility of certain expenses for tax purposes. The difference between the effective and the statutory rates in 2014 is primarily due to a recovery of income taxes of $84.8 million related to the cancellation of certain income tax liabilities in the fourth quarter of 2014 following the settlement of tax assessments with the Canada Revenue Agency.

Earnings from investments in associates

On June 1, 2014, we acquired the remaining 70% interest in 411.ca, whose results are now consolidated within YP. We recorded earnings of $0.2 million for the period from January 1, 2014 up to the acquisition date.

Net earnings

We recorded net earnings of $61.1 million during 2015 compared with $188.5 million for 2014. The decrease for the year is principally explained by lower Adjusted EBITDA and higher restructuring and special charges, in addition to a recovery of income taxes of $84.8 million during the fourth quarter of 2014 related to the cancellation of certain income tax liabilities following the settlement of tax assessments.

FISCAL 2014 VERSUS 2013

Revenues

Revenues decreased by 9.7% to $877.5 million during 2014 compared with $971.8 million for 2013. Revenues were mostly impacted by the overall loss of customers. To offset existing trends and return to a growth in customer count by 2017, Yellow Pages invested in accelerating the annual run-rate of customer acquisition and delivering an improved experience to current and prospective customers.

In 2014, consolidated print revenues decreased 23.1% year-over-year to reach $434.7 million. To support print revenues, the Company launched the Print Product Simplification (PPS) initiative in 2014 in select rural markets. By increasing print advertisement sizes at little to no incremental cost to the customer, PPS protects customer renewal while preserving content and promoting usage of the print directory. PPS also simplifies the selling process for our MACs by reducing the number of print offers available to customers.

Consolidated digital revenues reached $442.8 million in 2014 representing an increase of 9%. A key milestone was achieved during 2014 as consolidated digital revenues exceeded 50% of revenues. For the year ended December 31, 2014, consolidated digital revenues represented 50.5% of consolidated revenues, up from 41.8% for the same period last year. Digital revenues across the Company's core YP operations, which exclude the impact of Mediative, 411.ca and YP Next Home, increased by 9.1% year-over-year. This growth was driven by the ongoing migration of customers' print spend towards digital solutions, as well as accelerated customer acquisition, as the majority of new customers only purchase digital products. As at December 31, 2014, digital-only customers grew to 37,000, compared to 23,900 as at the same date last year. Digital-only customers represented 14.5% of YP's customer base as at December 31, 2014, up from 8.7% as at the same time last year.

As at December 31, 2014, 57.3% of YP's customers were purchasing our owned and operated online priority placement products, compared to 47.1% as at the same date last year. Adoption of our mobile priority placement products also saw growth, with customer penetration reaching 24.1% as at December 31, 2014, as compared to 14.9% for the prior year. Yellow Pages invested in growing traffic across its network of digital solutions to promote customer adoption, retention and ROI across its owned and operated priority placement products.

Adjusted EBITDA

Adjusted EBITDA decreased by $100.1 million to $316 million during 2014 compared with $416.1 million in 2013. The decrease in Adjusted EBITDA was due mainly to lower revenues combined with a lower Adjusted EBITDA margin. Our Adjusted EBITDA margin for 2014 was 36% compared to 42.8% for 2013. Lower revenues and incremental investments related to the Return to Growth Plan were the main contributors to the decrease in Adjusted EBITDA margin for 2014.

Cost of sales decreased by $10.7 million to $306.9 million during 2014 compared with $317.6 million for 2013. The decrease for the year resulted from lower sales costs associated with lower revenues, lower print manufacturing costs and workforce reductions associated with our declining legacy business. These cost savings were partly offset by an increase in provisioning and fulfillment costs of our digital products and services as well as expenses related to 411.ca.

Gross profit margin decreased to 65% for 2014 compared to 67.3% for 2013. The decrease is primarily due to a decline in print revenues.

General and administrative expenses increased by $16.6 million to $254.7 million during 2014 compared with $238.1 million for the same period in 2013. The increase was mainly attributable to investments related to the digital transformation, partially offset by lower bad debts as well as a non-recurring benefit associated with the positive outcome of a litigation.

Depreciation and amortization

Depreciation and amortization increased to $78.1 million during 2014 from $60.2 million in 2013. The increase was due to higher capital expenditures in connection with the deployment of systems and platforms as the Company executed its digital transformation.

Restructuring and special charges

In 2014, we recorded restructuring and special charges of $18.4 million associated primarily with internal reorganizations and workforce reductions, partially offset by a curtailment gain related to workforce reductions. In 2013, we recorded restructuring and special charges of $23.3 million associated with a workforce reduction of approximately 300 employees, the termination and renegotiation of certain contractual obligations and the departure of the former President and Chief Executive Officer.

Financial charges

Financial charges decreased by $21.2 million to $72.1 million during 2014 compared with $93.4 million for 2013. The decrease for the year ended December 31, 2014 was mainly attributable to a lower level of indebtedness and higher interest income on the defined benefit plan's assets. As at December 31, 2014, the effective average interest rate on our debt portfolio was 9% compared to 9.1% for 2013.

(Recovery of) provision for income taxes

The combined statutory provincial and federal tax rates were 26.56% and 26.46% for the years ended December 31, 2014 and 2013, respectively. The Company recorded a recovery of $40.9 million for the year compared to an expense of $63.4 million in 2013.

The difference between the effective and the statutory rates in 2014 is primarily due to a recovery of incomes taxes of $84.8 million related to the cancellation of certain income tax liabilities in the fourth quarter of 2014 following the settlement of tax assessments with the Canada Revenue Agency.

The difference between the effective and the statutory rates in 2013 is due to the non-deductibility of certain expenses for tax purposes.

Earnings from investments in associates

On June 1, 2014, we acquired the remaining 70% interest in 411.ca. During 2014, we recorded earnings of $0.2 million for the period from January 1, 2014 up to the acquisition date as compared to $0.7 million for the year ended December 31, 2013. Our earnings from our investments in associates for the year ended December 31, 2013 included the amortization of intangible assets in connection with this equity investment.

Net earnings

We recorded net earnings of $188.5 million during 2014 compared with $176.5 million for 2013. This was principally explained by lower Adjusted EBITDA, more than offset by a recovery of income taxes of $84.8 million related to the cancellation of certain income tax liabilities in the fourth quarter of 2014 following the settlement of tax assessments.

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

QUARTERLY RESULTS

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

				2015				2014
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	$ 208,505	$ 210,593	$ 204,771	$ 205,902	$ 215,319	$ 218,427	$ 220,579	$ 223,203
Operating costs	144,007	146,783	143,178	135,116	150,487	143,165	139,318	128,582
Income from operations before depreciation and amortization, and restructuring and special charges (Adjusted EBITDA)	64,498	63,810	61,593	70,786	64,832	75,262	81,261	94,621
Adjusted EBITDA margin	30.9%	30.3%	30.1%	34.4%	30.1%	34.5%	36.8%	42.4%
Depreciation and amortization	20,792	21,161	20,212	18,672	22,003	19,723	18,146	18,204
Restructuring and special charges	17,168	9,113	2,551	2,002	5,714	2,746	6,784	3,115
Income from operations	26,538	33,536	38,830	50,112	37,115	52,793	56,331	73,302
Net earnings	5,866	13,155	16,510	25,524	95,225	26,542	27,551	39,222
Basic earnings per share attributable to common shareholders	$ 0.22	$ 0.49	$ 0.62	$ 0.95	$ 3.53	$ 0.98	$ 1.01	$ 1.43
Diluted earnings per share attributable to common shareholders	$ 0.21	$ 0.44	$ 0.54	$ 0.81	$ 2.88	$ 0.84	$ 0.87	$ 1.22

Revenues decreased throughout the quarters, principally impacted by an overall loss of customers, as well as a decline in print spending among renewing customers. Revenues in the third and fourth quarters of 2015 were favourably impacted by the acquisition of CFDP on July 1, 2015.

Our Adjusted EBITDA margin decreased in 2015 relative to 2014 reflecting declining print revenues and the loss of margin from a change in product mix. Starting in the second quarter of 2014, our Adjusted EBITDA margin was also negatively impacted by an increasing level of investments related to the Plan. Our Adjusted EBITDA margin increased in the first quarter of 2015, principally related to the timing of various investments related to the execution of the Company's digital transformation as well as a favourable impact related to amendments to our pension and post-retirement benefit plans. Adjusted EBITDA margins remained relatively stable starting in the second quarter of 2015, as print revenue declines, changes in the product mix and the acquisition of CFDP were offset by cost savings initiatives, lower employee related expenses and amendments to our pension and post-retirement benefit plans.

Operating costs in the first quarter of 2014 were favourably impacted by a non-recurring benefit associated with the positive outcome of a litigation. Operating costs in the first and third quarters of 2015 were positively impacted by amendments to our pension and post-retirement benefit plans, while operating costs in the fourth quarter of 2015 were favourably impacted by lower employee related costs. Operating costs in the third and fourth quarters of 2015 were increased by the costs associated with CFDP, acquired on July 1, 2015.

Depreciation and amortization increased quarter-over-quarter, with the exception of the first quarter of 2015, as a result of increased capital expenditures in connection with the deployment of platforms related to the Company's digital transformation. The decrease in the first quarter of 2015 is mainly due to certain intangible assets being fully amortized.

As the Company advances in the deployment of the Plan and its transformation from a print centric to a digital centric organization, it initiated workforce reductions and cost containment initiatives resulting in restructuring and special charges over the quarters.

Our net earnings for the fourth quarter of 2015 were negatively impacted by lower Adjusted EBITDA and higher restructuring charges, whereas our net earnings for the fourth quarter of 2014 were favourably impacted by a recovery of income taxes of $84.8 million related to the cancellation of certain income tax liabilities following the settlement of tax assessments.

ANALYSIS OF FOURTH QUARTER 2015 RESULTS

Revenues

Revenues decreased by 3.2% to $208.5 million during the fourth quarter of 2015, as compared to $215.3 million for the same period last year. Revenues remained adversely impacted by a lower customer count within Yellow Pages' core business, in addition to a decrease in print spending among renewing customers.

Digital revenues reached $129.2 million in the fourth quarter of 2015 representing a growth of 10.5% compared to the same period last year. For the fourth quarter ended December 31, 2015, consolidated digital revenues represented 62% of consolidated revenues, up from 54.3% for the same period last year. Digital revenue growth was favourably impacted by the acquisition of CFDP, accelerated customer acquisition, as well as continued growth in digital spending among Yellow Pages' renewing customers. Excluding CFDP, digital revenues for the quarter ended December 31, 2015 grew by approximately 4% year-over-year. This performance was principally impacted by softer than anticipated growth in the Company's national channel, Mediative, following a delay in the addition of new publishers to Mediative's Advertising Network.

Print revenues decreased 19.4% year-over-year to reach $79.3 million during the fourth quarter of 2015, exhibiting stable annual declines.

Adjusted EBITDA

Adjusted EBITDA remained relatively stable, reaching $64.5 million during the fourth quarter of 2015 compared with $64.8 million for the same period in 2014. Adjusted EBITDA in the fourth quarter of 2015 was favourably impacted by the Corporate Realignment and lower employee related expenses, offset by lower revenues. Our Adjusted EBITDA margin for the fourth quarter of 2015 was 30.9% compared to 30.1% for the same period in 2014, favourably impacted by the corporate realignment and employee related expenses, offset by the acquisition of CFDP, which operates at a lower Adjusted EBITDA margin.

Cost of sales increased by $2.6 million to $82.1 million during the fourth quarter of 2015 compared with $79.5 million for the same period in 2014. The increase for the fourth quarter of 2015 results mainly from the acquisition of CFDP, partly offset by cost savings generated from print optimization initiatives.

Gross profit margin decreased to 60.6% for the fourth quarter of 2015 compared to 63.1% for the same period in 2014. The decrease is mainly due to the acquisition of CFDP.

General and administrative expenses decreased by $9 million to $61.9 million during the fourth quarter of 2015 compared with $71 million for the same period in 2014. The decrease is primarily due to the Corporate Realignment and employee related expenses, partly offset by the acquisition of CFDP.

Depreciation and amortization

Depreciation and amortization decreased to $20.8 million during the fourth quarter of 2015 from $22 million in the fourth quarter of 2014. The decrease is due to the timing of completion related to capital expenditures in connection with software development and ISIT equipment.

Restructuring and special charges

During the fourth quarter of 2015, we recorded restructuring and special charges of $17.2 million associated primarily with workforce reductions related to the Corporate Realignment and contract termination costs, partially offset by a curtailment gain related to the workforce reductions. During the fourth quarter of 2014, we recorded restructuring and special charges of $5.7 million, which was mainly comprised of internal reorganizations and workforce reductions, partially offset by a curtailment gain related to a workforce reduction.

Financial charges

Financial charges decreased by $1.9 million to $15.3 million during the fourth quarter of 2015 compared with $17.2 million for the same period in 2014. The decrease for the fourth quarter of 2015 is mainly attributable to a lower level of indebtedness.

Provision for (recovery of) income taxes

The combined statutory provincial and federal tax rates were 26.70% and 26.56% for the three-month periods ended December 31, 2015 and 2014, respectively. The Company recorded an expense of 47.8% for the fourth quarter of 2015 compared to a recovery of 379.2% for the fourth quarter of 2014.

The difference between the effective and the statutory rates for the fourth quarter of 2015 is due to the recognition of previously unrecognized tax attributes on assets of our foreign subsidiaries as well as non-taxable and non-deductible items.

The difference between the effective and the statutory rates for the fourth quarter of 2014 is primarily due to a recovery of incomes taxes of $84.8 million related to the cancellation of certain income tax liabilities in the fourth quarter of 2014 following the settlement of tax assessments with the Canada Revenue Agency.

Net earnings

We recorded net earnings of $5.9 million during the fourth quarter of 2015 compared with $95.2 million for the same period last year. During the fourth quarter of 2014, we recorded a recovery of income taxes of $84.8 million related to the cancellation of certain income tax liabilities following the settlement of tax assessments. In addition, lower Adjusted EBITDA and higher restructuring and special charges during the fourth quarter of 2015 also contributed to the decrease year-over-year.

3. LIQUIDITY AND CAPITAL RESOURCES

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

FINANCIAL POSITION

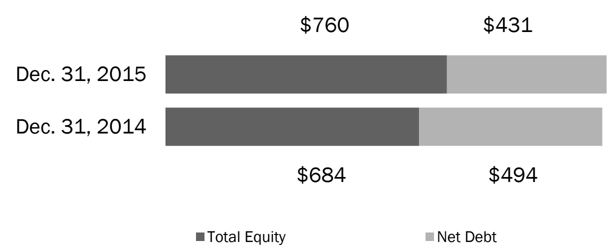
CAPITAL STRUCTURE

(IN THOUSANDS OF CANADIAN DOLLARS – EXCEPT PERCENTAGE INFORMATION)

As at	December 31, 2015	December 31, 2014
Cash	$ 67,253	$ 102,776
Senior secured notes	$ 406,733	$ 507,014
Exchangeable debentures	90,478	88,959
Obligations under finance leases	620	897
Net debt[1]	$ 430,578	$ 494,094
Equity	759,524	684,180
Total capitalization	$ 1,190,102	$ 1,178,274
Net debt to total capitalization	36.2%	41.9%

NET DEBT[1] TO LATEST TWELVE MONTH ADJUSTED EBITDA RATIO [2]

CAPITAL STRUCTURE
(IN MILLIONS OF DOLLARS)



As at December 31, 2015, Yellow Pages had $430.6 million of net debt, compared to $494.1 million as at December 31, 2014.

The net debt to Latest Twelve Month Adjusted EBITDA[1,2] ratio as at December 31, 2015 was 1.7 times compared to 1.6 times as at December 31, 2014. The increase is due to the acquisition of CFDP, which resulted in a cash outflow of $50 million during the second quarter of 2015.

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

2 *Latest twelve month income from operations before depreciation and amortization, and restructuring and special charges (Latest Twelve Month 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

In August 2013, the Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, entered into a five-year $50 million asset-based loan (ABL) expiring in August 2018. 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 secured by a first priority lien over the receivables of the Company. The ABL is subject to an availability reserve of $5 million if the Company's trailing twelve-month fixed charge coverage ratio is below 1.1 times. As at December 31, 2015, the Company had $4.2 million of letters of credit issued and outstanding under the ABL. As such, $45.8 million of the ABL was available as at December 31, 2015. Interest is calculated based either on the BA Rate or the Canadian Prime Rate plus an applicable margin.

As at December 31, 2015, the Company was in compliance with all covenants under the loan agreement governing the ABL.

Senior Secured Notes

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

The Company repaid a total of $100.3 million in 2015 and $393.3 million since December 20, 2012 of its Senior Secured Notes, thereby reducing the balance from $800 million to $406.7 million as at December 31, 2015.

As at December 31, 2015, the Company was in compliance with all covenants under the indenture governing the Senior Secured Notes.

Mandatory Redemption

Pursuant to the indenture governing the Senior Secured Notes, the Company is required to use an amount equal to 75% of its consolidated Excess Cash Flow for the immediately preceding six-month period ending March 31 or September 30, as applicable, to redeem on a semi-annual basis on the last day of May and November of each year, commencing on May 31, 2013, at a redemption price equal to 100% of the principal amount thereof from holders on a pro rata basis, subject to the Company maintaining a minimum cash balance, including availability on the ABL, of $75 million immediately following the mandatory redemption payment, subject to certain conditions. The $75 million minimum cash balance condition is subject to a reduction in certain cases as provided in the indenture governing the Senior Secured Notes. Excess Cash Flow, as defined in the indenture governing the Senior Secured Notes, means the aggregate cash flow from operating activities adjusted for, among other things, payments relating to interest, taxes, long-term employee compensation plans, certain pension plan contribution payments and the acquisition of property and equipment and intangible assets. For purposes of determining the consolidated Excess Cash Flow, deductions for capital expenditures and information systems/information technology expenses are each subject to an annual deduction limit of $50 million. Under other circumstances, the Company may also have to make additional repayments on the Senior Secured Notes (refer to the indenture governing the Senior Secured Notes).

The Company was required to make minimum annual aggregate mandatory redemption payments of $125 million for 2014 and 2015 combined. The Company made mandatory redemption payments of $139.6 million in 2014, thereby exceeding the $125 million minimum aggregate mandatory redemption payment. As such, the Company has completed its minimum aggregate mandatory redemption payments and is only required to use an amount equal to 75% of its consolidated Excess Cash Flow to redeem on a semi-annual basis the Senior Secured Notes.

Optional Redemption

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

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

Exchangeable Debentures

On December 20, 2012, the Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, issued $107.5 million of senior subordinated exchangeable debentures (the Exchangeable Debentures) due November 30, 2022.

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

As at December 31, 2015, 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 Senior Secured Notes have been repaid in full, redeem all or part of the Exchangeable Debentures at its option, upon not less than 30 nor more than 60 days' prior notice, at a redemption price equal to:

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

CREDIT RATINGS

DBRS LIMITED	STANDARD AND POOR'S RATING SERVICES
B/Issuer rating – positive trend	B/Corporate credit rating – stable outlook
B (high)/Credit rating for Senior Secured Notes	BB-/Credit rating for Senior Secured Notes
CCC (high)/Credit rating for Exchangeable Debentures	CCC+/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 to fund capital expenditures, working capital requirements and current obligations, including the mandatory repayments on the Senior Secured Notes. As at February 10, 2016, the Company had approximately $64.3 million of cash and $45.8 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. A maximum of 1,290,612 stock options may be granted under the Stock Option Plan.

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 11, 2016	December 31, 2015	December 31, 2014
Common shares outstanding	28,063,919	28,063,919	27,976,661
Exchangeable Debentures outstanding[1]	5,624,422	5,624,422	5,624,422
Common share purchase warrants outstanding	2,995,498	2,995,498	2,995,506
Stock options outstanding[2]	522,950	522,950	480,200

[1] *As at February 11, 2016, 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 522,950 as at February 11, 2016 and December 31, 2015 are 117,000 and 78,000 stock options exercisable as at those same dates. There were no stock options exercisable as at December 31, 2014.*

Contractual Obligations and Other Commitments

Contractual obligations

(in thousands of Canadian dollars)

		Payments due for the years following December 31, 2015			
	Total	1 year	2 – 3 years	4 – 5 years	After 5 years
Long-term debt[1,2]	$ 406,733	$ 98,268	$ 308,465	$ —	$ —
Obligations under finance leases[1]	620	262	272	86	—
Exchangeable Debentures[1]	107,089	—	—	—	107,089
Operating leases	145,726	21,771	28,796	12,921	82,238
Other	69,462	39,881	24,699	850	4,032
Total contractual obligations	$ 729,630	$ 160,182	$ 362,232	$ 13,857	$ 193,359

1 *Principal amount.*

2 *The repayment of the Senior Secured Notes may vary subject to the Excess Cash Flow under the indenture governing the Senior Secured Notes.*

Obligations under finance leases

We enter into finance lease agreements for office equipment and software. As at December 31, 2015, minimum payments under these finance leases up to 2019 totalled $0.6 million.

Operating leases

We rent our premises and office equipment under various operating leases. As at December 31, 2015, minimum payments under these operating leases up to 2034 totalled $145.7 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 2016 and 2038. We also have purchase obligations under service contracts for both operating and capital expenditures. As at December 31, 2015, we have an obligation to purchase services for $69.4 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, 2015, the DB component of the YP Pension Plan's assets totalled $486.4 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 5% for 2015, 0.7% above our benchmark portfolio.

The most recent actuarial valuation of the defined benefit component of the YP Pension Plan for funding purposes was performed as at May 31, 2015. The May 2015 valuation resulted in a solvency deficit of $100.5 million to be funded over a five-year period. The next actuarial valuation will be due no later than May 31, 2016.

In 2015, the Company made annual contributions equivalent to the current service cost (the Annual Employer Cost) of $44.6 million, including $29.3 million to fund the deficit. Total cash payments are expected to amount to $41.4 million for 2016, of which $26.5 million will be to fund the deficit.

SOURCES AND USES OF CASH

(IN THOUSANDS OF CANADIAN DOLLARS)

For the years ended December 31,	2015	2014
Cash flows from operating activities		
Cash flows from operations	$ 208,270	$ 163,013
Change in operating assets and liabilities	(10,704)	(6,506)
	$ 197,566	$ 156,507
Cash flows used in investing activities		
Additions to intangible assets	$ (69,190)	$ (69,179)
Acquisition of property and equipment	(6,231)	(14,771)
Business acquisitions, net of cash acquired	(51,063)	(33,504)
Proceeds from the settlement of a note receivable	—	14,100
Other	—	(116)
	$ (126,484)	$ (103,470)
Cash flows used in financing activities		
Repayment of long-term debt	$ (100,650)	$ (140,098)
Purchase of restricted shares	(6,838)	(12,450)
Issuance of common shares upon exercise of stock options	883	—
	$ (106,605)	$ (152,548)

Cash flows from operating activities

Cash flows from operations

Cash flows from operations increased by $45.3 million from $163 million for the year ended December 31, 2014 to $208.3 million for the same period in 2015. Cash flows generated from income taxes increased by $98.2 million, mainly due to net income taxes received of $46.7 million in 2015 as a result of a tax settlement covering prior years, compared to net income taxes paid of $51.5 million during the year ended December 31, 2014 relative to the 2013 taxation year for which no installments had been made as well as installments for 2014. This amount was offset by lower cash Adjusted EBITDA of $56.8 million.

Change in operating assets and liabilities

The change in operating assets and liabilities for the year ended December 31, 2015 generated an outflow of $10.7 million compared with $6.5 million for the same period last year. The outflow for the year ended December 31, 2015 is due principally to the increased level of payment of variable compensation, partially offset by lower deferred publication costs resulting from a new print directory distribution model implemented in 2015. During the year ended December 31, 2014, operating assets and liabilities remained relatively stable.

Cash flows used in investing activities

Cash used in investing activities amounted to $126.5 million for the year ended December 31, 2015 compared with $103.5 million for the same period last year. During the year ended December 31, 2015, we invested in software development and ISIT equipment in the amount of $69.2 million and $6.2 million, respectively, as compared to $69.2 million and $14.8 million, respectively, during the same period last year. Capital expenditures incurred in 2014 and 2015 are related to investments required to maintain the integrity of our infrastructure as well as the development and implementation of new technologies and software aimed at accelerating our transformation into Canada's leading local digital company.

On July 1, 2015, we acquired all the shares of the CFDP network for a purchase price of $50.2 million. In 2014, we acquired the remaining interest in 411.ca for a net consideration of $22.7 million, as well as the shares of Bookenda and the assets of dine.TO for a total consideration of $10.8 million. These investing activities were partly offset by cash proceeds of $14.1 million received as a result of the settlement of a note receivable.

Cash flows used in financing activities

Cash used in financing activities amounted to $106.6 million during the year ended December 31, 2015 compared to $152.5 million for the same period last year. During the year, we repaid $100.3 million of the Senior Secured Notes compared to $139.6 million for the same period last year. During the year ended December 31, 2015, we purchased common shares of Yellow Pages Limited on the open market to fund the Restricted Share Unit and Performance Share Unit Plan at a cost of $6.8 million compared to $12.5 million during the same period last year. During the year ended December 31, 2015, 87,250 stock options were exercised for cash proceeds of $0.9 million.

FINANCIAL AND OTHER INSTRUMENTS

(See Note 22 of the Audited Consolidated Financial Statements of the Company for the years ended December 31, 2015 and 2014).

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

Derivative Instruments

There is no carrying value of embedded derivatives as at December 31, 2015. The carrying value is calculated, as is customary in the industry, using discounted cash flows based on quarter-end market rates.

4. FREE CASH FLOW

FREE CASH FLOW
(IN THOUSANDS OF CANADIAN DOLLARS)

	For the three-month periods ended December 31, 2015	For the three-month periods ended December 31, 2014	For the years ended December 31, 2015	For the years ended December 31, 2014
Cash flow from operating activities	$ **42,417**	$ 30,566	$ **197,566**	$ 156,507
Capital expenditures, net of lease incentives	**17,168**	34,435	**75,421**	83,950
Free cash flow	$ **25,249**	$ (3,869)	$ **122,145**	$ 72,557

5. CRITICAL ASSUMPTIONS

When we prepare our consolidated financial statements in accordance with IFRS, we must make certain estimates and assumptions about our business. These estimates and assumptions in turn affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements.

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

Intangible assets, goodwill and property and equipment

The values associated with identifiable intangible assets and goodwill involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives. These significant estimates require considerable judgment which could affect Yellow Pages' future results if the current estimates of future performance and fair values change. These determinations may affect the amount of amortization expense on identifiable intangible assets recognized in future periods and impairment of goodwill, intangible assets and property and equipment.

Yellow Pages assesses impairment by comparing the recoverable amount of an identifiable intangible asset or goodwill with its carrying value. The determination of the recoverable amount involves significant management judgment.

Yellow Pages performed its annual test for impairment of goodwill and indefinite life intangible assets in accordance with the policy described in Note 3.12 of the Audited Consolidated Financial Statements of Yellow Pages Limited for the years ended December 31, 2015 and 2014.

The recoverable amount of the cash generating units (CGUs) was determined based on the value-in-use approach using a discounted cash flow model which relies on significant key assumptions, including after-tax cash flows forecasted over an extended period of time, terminal growth rates and discount rates. We use published statistics or seek advice where possible when determining the assumptions we use. Details of Yellow Pages' impairment reviews are disclosed in Note 4 of the Audited Consolidated Financial Statements of Yellow Pages Limited for the years ended December 31, 2015 and 2014.

Employee future benefits

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows 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 benefit expense requires assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the projected age of employees upon retirement, the expected rate of future compensation and the expected healthcare cost trend rate. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. 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' ability to utilize the underlying future tax deductions against future taxable income before they expire. Yellow Pages' assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of Yellow Pages' ability to utilize the underlying future tax deductions changes, Yellow Pages 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.

Yellow Pages 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 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 reviews the adequacy of these provisions at each statement of financial position date. 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.

ACCOUNTING STANDARDS

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory for Yellow Pages Limited's accounting periods beginning on or after January 1, 2016. The new standards which are considered to be relevant to Yellow Pages Limited's operations are as follows:

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

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

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

IAS 1 — *Presentation of financial statements*

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

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

IFRS 15 — *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 — *Revenue from Contracts with Customers*. This new standard outlines a single comprehensive model for companies to use when accounting for revenue arising from contracts with customers. It supersedes the IASB's current revenue recognition standards, including IAS 18 — *Revenue* and related interpretations. The core principle of IFRS 15 is that revenue is recognized at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services, applying the following five steps:

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

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

IFRS 9 — *Financial Instruments*

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

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

IFRS 16 — *Leases*

In January 2016, the IASB issued IFRS 16 — *Leases*. It supersedes the IASB's current lease standard, IAS 17, which required lessees and lessors to classify their leases as either finance leases or operating leases and to account for those two types of leases differently. It did not require lessees to recognize assets and liabilities arising from operating leases, but it did require lessees to recognize assets and liabilities arising from finance leases.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months and for which the underlying asset is not of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

IFRS 16 contains disclosure requirements for lessees and lessors. This new standard will come into effect for annual periods beginning on or after January 1, 2019. Earlier application is permitted for companies that apply IFRS 15 — *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16. Yellow Pages Limited continues to assess the impact this standard will have on its consolidated financial statements.

6. 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.

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.

We actively monitor and assess our competition and determine our competitiveness within each of our markets. We address this competition by ensuring we best meet customer needs through targeted offers and pricing.

We continuously enhance our value proposition with initiatives targeting the following objectives:

- Enhancement of our product offerings and extension of our services to customers;
- Improvement of user experience; and
- Growth of traffic to our network of properties.

We also use multimedia campaigns to promote our brand and deliver our message to the market reinforcing the value our segments offer.

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 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 influence 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 characterised 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 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 continuing transition in the media and publishing industries towards more digital and targeted content is driving us to develop new products that leverage the demand for new media while ensuring that our print products remain a key component of our advertisers' media mix.

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.

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 transformation 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.

The Corporation's substantial indebtedness could adversely affect its efforts to refinance or reduce its indebtedness and could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation's substantial amount of debt could have material adverse effects on the Corporation, its business, results from operations and financial condition. For example, it could:

- increase the Corporation's vulnerability to adverse economic and industry conditions;
- require the Corporation to dedicate a substantial portion of its cash flows from operations to make payments on its debt, thereby reducing funds available for operations, future business opportunities or other purposes;
- limit the Corporation's flexibility in planning for, or reacting to, changes in its business and its industry;
- place the Corporation at a competitive disadvantage compared to its competitors that have less debt; and
- limit the Corporation's ability to obtain additional financing, if needed, for working capital, capital expenditures, acquisitions, debt service requirements or other purposes.

In addition, the indenture governing the Senior Secured Notes, the indenture governing the Exchangeable Debentures and the ABL contain a number of financial and other 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. A failure to comply with such obligations could result in a default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the indenture governing the Senior Secured Notes, the indenture governing the Exchangeable Debentures or the ABL, as the case may be, were to be accelerated, there can be no assurance that the Corporation would have sufficient liquidity or access to capital to repay in full that indebtedness.

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 is currently and 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 Corporation is currently making incremental contributions to its pension plans to reduce its actuarial solvency deficits.

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.

Failure by either the Corporation or the Telco Partners to fulfill the obligations set forth in the agreements between the Corporation and the Telco Partners could result in a material adverse effect on the Corporation, its business, results from operations and financial condition

We have a Billing and Collection Services Agreement with Bell Canada (up to 2017), with TELUS (up to 2031), with MTS Inc. (up to 2036) and with Bell Canada Inc. (as successor to Bell Aliant Regional Communications LP) (up to 2037). Through these agreements, our billing is included as a separate line item on the telephone bills of Bell, TELUS, MTS Inc. and Bell Canada Inc. customers who use our services. Bell Canada, TELUS, MTS Inc. and Bell Canada Inc. (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. Our internal billing and collection services are cost-effective and can be grown as our customer base expands.

Failure by the Corporation to adequately protect and maintain its brands and trademarks, as well as third party infringement of such, could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation relies heavily on its existing brands and trademarks for a significant portion of its revenues. Failure to adequately maintain the strength and integrity of these brands and trademarks, or to develop new brands and trademarks, could adversely affect our results from operations and our financial condition.

It is possible that third parties could infringe upon, misappropriate or challenge the validity of the Corporation's trademarks or our other intellectual property rights. This could have a material adverse effect on our business, our financial condition or our operating results. The actions that the Corporation takes to protect its trademarks and other proprietary rights may not be adequate. Litigation may be necessary to enforce or protect the Corporation's intellectual property rights, its trade secrets or to determine the validity and scope of the proprietary rights of others. We cannot ensure that we will be able to prevent infringement of our intellectual property rights or misappropriation of our proprietary information.

Any such infringement or misappropriation could harm any competitive advantage we currently derive, or may derive, from our proprietary rights. Third parties may assert infringement claims against the Corporation. Any such claims and any resulting litigation could subject the Corporation to significant liability for damages. An adverse judgment arising from any litigation of this type could require the Corporation to design around a third party's patent or to license alternative technology from another party. In addition, litigation may be time-consuming and expensive to defend against and could result in the diversion of the Corporation's time and resources. Any claims from third parties may also result in limitations on the Corporation's ability to use the intellectual property subject to these claims.

We devote significant resources to the development and protection of our trademarks and take a proactive approach to protecting our brand exclusivity.

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. Current union agreements range between one to five years in duration and are subject to expiration at various dates in the future. Four of these agreements have expired and are being renegotiated. If the Corporation is unable to renew these agreements as they come up for renegotiation from time to time, it could result in work stoppages and other labour disturbances which could have a material adverse effect on our business. Additionally, if a greater percentage of the Corporation's workforce becomes unionized, this could have a material adverse effect on our business, results from operations and financial condition.

We manage labour relations risk by ensuring that collective agreements' expiration dates are strategically positioned to minimize potential disruptions on both a regional (geographic) or on a functional (sales and clerical) basis. Also, every negotiation process to renew a collective agreement includes a cross-functional team in which all business units are represented. This team has the responsibility to develop and ultimately implement an effective contingency plan that would allow the Corporation to continue its day to day operations with minimal disruptions in the event of a labour dispute.

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 internet portals, search engines and individual websites could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation has entered into agreements with several internet portals, search engines and individual websites to promote its online directories. These agreements make the Corporation's content and customer advertising more easily accessible by these portals, search engines and individual websites. These agreements 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. In return, the portals, search engines and individual websites obtain business through the Corporation from advertisers who would not otherwise transact with them. Loss of key relationships or changes in the level of service provided by these internet portals, search engines and individual websites 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 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 Corporation has in place redundant facilities as well as a disaster recovery plan designed to restore the operability of the target system, application, or computer facility infrastructure at an alternate site after an emergency.

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.

We continually invest in our workforce to develop a strong digital culture. We offer training programs, tools and resources to elevate digital literacy and promote change management across all facets of the organization.

The Corporation might be required to record additional impairment charges

The Corporation may be subject to impairment losses that would reduce its reported assets and earnings. Economic, legal, regulatory, competitive, contractual and other factors may affect the value of identifiable intangible assets. If any of these factors impair the value of these assets, accounting rules would require the Corporation to reduce their carrying value and recognize an additional charge, which would reduce the reported assets and earnings of the Corporation in the year the impairment charge is recognized.

Declines in, or changes to, the real estate industry could have a material adverse effect on the Corporation, its business, results from operations and financial condition

On July 1, 2015, Yellow Pages acquired CFDP, growing the Corporation into a leading digital real estate marketplace. As a result of the acquisition, the Corporation has a greater presence in the real estate listing business. The CFDP business and financial performance are affected by the health of, and changes to, the real estate industry. Home-buying patterns are sensitive to economic conditions and tend to decline or grow more slowly during economic downturns. A decrease in real estate activities could lead to reductions in the purchase of package offerings by home sellers. CFDP is subject to rules and regulations in the real estate industry, which may change from time to time in a way that may restrict or complicate CFDP's ability to deliver its products and harm CFDP's business and operating results. Declines or disruptions in the real estate market could reduce demand for CFDP's products and could harm its business and operating results. This could have a material adverse effect on the Corporation, its business, results from operations and financial condition.

7. CONTROLS AND PROCEDURES

As a public entity, we must take every step 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, 2015.

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, 2015.

During the quarter beginning on October 1, 2015 and ended on December 31, 2015, no changes were made to the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.