Management's Discussion and Analysis

February 13, 2019

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, 2018 and 2017 and should be read in conjunction with our Audited Consolidated Financial Statements and accompanying notes for the years ended December 31, 2018 and 2017. Please also refer to Yellow Pages Limited's press release announcing its results for year ended December 31, 2018 issued on February 13, 2019. 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. Press releases are available on SEDAR and under the "News – Press Releases" section of our corporate website.

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and the financial information herein was derived from those statements. All amounts in this MD&A are in Canadian dollars, unless otherwise specified. Please refer to the section "Definitions Relative to Understanding Our Results" for a list of defined non-IFRS financial measures and key performance indicators.

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

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

Caution Regarding Forward-Looking Information

This MD&A contains assertions about the objectives, strategies, financial condition, results of operations and businesses of YP. These statements are considered "forward-looking" because they are based on current expectations, as at February 13, 2019, about our business and the markets we operate in, and on various estimates and assumptions.

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

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

Forward-looking information and statements are also based upon the assumption that none of the identified risk factors that could cause actual results to differ materially from the anticipated or expected results described in the forward-looking information and statements will occur.

When used in this MD&A, such forward-looking statements may be identified by words such as "aim", "anticipate", "believe", "could", "estimate", "expect", "goal", "intend", "objective", "may", "plan", "predict", "seek", "should", "strive", "target", "will", "would" and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as at the date of this MD&A. The Corporation assumes no obligation to update or revise them to reflect new events or circumstances, except as may be required pursuant to securities laws. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future results or performance, and will not necessarily be accurate indications of whether or not such results or performance will be achieved. A number of factors could cause actual results or performance to differ materially from the results or performance discussed in the forward-looking statements and could have a material adverse effect on the Corporation, its business, results from operations and financial condition, including, but not limited to, the following risk factors discussed under the "Risks and Uncertainties" section of this MD&A, and those described in the "Risk Factors" section of our AIF:

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

Definitions Relative to Understanding Our Results

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

We report on our Income from operations before depreciation and amortization, impairment of intangible assets and goodwill, and restructuring and other charges (Adjusted EBITDA). Adjusted EBITDA and Adjusted EBITDA margin are not performance measures defined under IFRS and are not considered to be an alternative to income from operations or net earnings in the context of measuring Yellow Pages performance. Adjusted EBITDA and Adjusted EBITDA margin do not have a standardized meaning and are therefore not likely to be comparable with similar measures used by other publicly traded companies. Adjusted EBITDA and Adjusted EBITDA margin should not be used as exclusive measures of cash flow since they do not account for the impact of working capital changes, income taxes, interest payments, pension funding, capital expenditures, business acquisitions, debt principal reductions and other sources and uses of cash, which are disclosed on page 32 of this MD&A.

We define Adjusted EBITDA as revenues less operating costs, as shown in Yellow Pages Limited's consolidated statements of income (loss). Adjusted EBITDA margin is defined as the percentage of Adjusted EBITDA to revenues. We use Adjusted EBITDA and Adjusted EBITDA margin to evaluate the performance of our business as these reflect its ongoing profitability. We believe that certain investors and analysts use Adjusted EBITDA and Adjusted EBITDA margin to measure a company's ability to service debt and to meet other payment obligations or as a common measurement to value companies in the media and marketing solutions industry as well as to evaluate the performance of a business. Adjusted EBITDA is also one component in the determination of short-term incentive compensation for all management employees.

Adjusted EBITDA less CAPEX

Adjusted EBITDA less CAPEX is a non-IFRS financial measure and does not have any standardized meaning under IFRS. Therefore, it is unlikely to be comparable to similar measures presented by other publicly traded companies. We define Adjusted EBITDA less CAPEX as Adjusted EBITDA, or revenues less operating costs, as shown in Yellow Pages Limited's consolidated statements of income (loss), less additions to intangible assets and to property and equipment, net of lease incentives received, as reported in the Investing Activities section of the Company's consolidated statements of cash flows. We use Adjusted EBITDA less CAPEX as the key performance measure for our business as it reflects cash generated from business activities. We believe that certain investors and analysts use Adjusted EBITDA less CAPEX to evaluate the performance of businesses in our industry. Please refer to Section 1 – *Our Business and Customer Offerings* for a reconciliation of additions to intangible assets and property equipment net of lease incentives received to CAPEX.

This MD&A is divided into the following sections:

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

1. Our Business and Customer Offerings

Our Business

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

Customer Offerings

Yellow Pages offers, through its YP segment, small and medium-sized enterprises (SMEs) across Canada full-serve access to one of the country's most comprehensive suites of digital and traditional marketing solutions, notably online and mobile priority placement on Yellow Pages digital media properties, content syndication, search engine solutions, website fulfillment, social media campaign management, digital display advertising, video production as well as print advertising. The Company's dedicated sales force of over 300 professionals offers this full suite of marketing solutions to local businesses across the country, while also supporting the evolving needs of its existing customer base of 188,000 SMEs. This segment included the operations of RedFlagDeals.com™, Canada's leading provider of online and mobile promotions, deals, coupons and shopping forums, until its sale on August 22, 2018.

The Company's Agency segment provided marketing solutions that extend beyond SMEs, focusing on the national advertising needs of brands and publishers. The Agency segment will no longer have operations as a result of the sale of Totem as of May 31, 2018, the sale of its JUICE assets for $1.0 million excluding working capital as of December 31, 2018 and through the liquidation of its Mediative division by January 31, 2019. Mediative operated an extensive publisher network and one of the country's largest pools of consumer data, providing national brands and enterprises with marketing solutions that reached potential customers. JUICE, a mobile advertising technology company, facilitated the automatic buying and selling of mobile advertising between brands and publishers through Programmatic Direct and Real-Time Bidding platforms. Totem provided customized content creation and delivery for global brands.

The Real Estate segment provided homeowners in Canada with media to sell their homes in a proven and cost-effective manner as well as published locally-targeted real estate listings. As a result of the sale of ComFree/DuProprio (CFDP) as of July 6, 2018 and Yellow Pages NextHome as of July 23, 2018, the Company divested all of the operations of its Real Estate segment. This segment included the operations of these businesses up to their sale.

Yellow Pages Other segment includes the 411.ca digital directory service and included Western Media Group until the divestiture of that business for a nominal amount as of May 31, 2018.

YP Media Properties

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

<u>YP Segment</u>

- YP™ – Available both online at YP.ca and as a mobile application, YP allows users to discover and transact within their local neighbourhoods through comprehensive merchant profiles, relevant editorial content, reviews and booking functionalities;
- Canada411 (C411) – One of Canada's most frequented and trusted online and mobile destinations for personal and local business information;
- YP Dine™ – A digital property allowing users to discover, search for and book local restaurants based on time of day, mood, purpose and expert suggestions, in addition to offering online ordering capabilities;
- Bookenda.com – A leading online transaction platform for users and merchants to interact and manage bookings and orders;
- YP Shopwise™ – A mobile application offering geo-localized deals and flyers, as well as access to product catalogues from local and national retailers;
- The Corporation is the official directory publisher for Bell, Telus, Bell Aliant, MTS Allstream, and a number of other incumbent telephone companies; and
- The Company also operated RedFlagDeals.com™, Canada's leading provider of online and mobile promotions, deals, coupons and shopping forums, until its sale on August 22, 2018.

Real Estate Segment

- The Company divested the business operations associated with both of its Real Estate segment media properties in separate transactions in July 2018.
- ComFree/DuProprio (sold as of July 6, 2018) – Currently Quebec's leading real estate digital destination and one of the top five most-visited networks of real estate digital properties in Canada, CFDP offers homeowners a professional and cost-effective service to market and sell their homes; and
- Yellow Pages NextHome (divested as of July 23, 2018) – Provides Canadians with helpful information in making informed home buying, selling, and/or renting decisions. Digital properties operated under the Yellow Pages NextHome umbrella include YP NextHome Rent and YP NextHome New Construction.

Other segment

- 411.ca – A digital directory service to help users find and connect with people and local businesses, and until the sale as of May 31, 2018 of Western Media Group, magazines generating local lifestyle content specific to the Western Canada region, in the restaurants, real estate and lifestyle categories.

Key Analytics

The long-term success of our digital-first business is dependent upon maintaining and growing our digital revenues and customer base and overall profitability. Key analytics for the year ended December 31, 2018 include:

- Adjusted EBITDA – Adjusted EBITDA totalled $192.6 million, or 33.4% of revenues for the year ended December 31, 2018, compared to $183.1 million or 25.2% of revenues for the same period last year;
- Adjusted EBITDA less CAPEX – Adjusted EBITDA less CAPEX amounted to $180.5 million for the year ended December 31, 2018 compared to $122.2 million for the year ended December 31, 2017;
- Digital Revenues – Consolidated digital revenues decreased 18.4% year-over-year, impacted significantly by our divestitures, and amounted to $441.3 million for the year ended December 31, 2018, representing 76.5% of consolidated revenues;
- YP Segment Customer Count and ARPC – YP Segment customer count decreased to 188,000 customers for the year ended December 31, 2018, as compared to 229,000 customers for same period last year. The customer count reduction of 41,000 for the year ended December 31, 2018 compares to a decline of 12,500 in the comparable period of the previous year. YP Segment ARPC for the year ended December 31, 2018 was $2,488 as compared to $2,464 for the year ended December 31, 2017 representing an increase of 1%.

CAPEX

(In thousands of Canadian dollars)

For the three-month periods and years ended December 31,		2018		2017		2018		2017
Additions to intangible assets	**$**	**3,201**	$	8,670	**$**	**14,287**	$	37,297
Additions to property and equipment		**839**		13,018		**1,899**		30,412
Less lease incentives received		**–**		(5,797)		**(4,150)**		(6,824)
CAPEX	**$**	**4,040**	$	15,891	**$**	**12,036**	$	60,885

Headcount[1]

As at	December 31, 2018	December 31, 2017	Change
YP	**912**	1,882	(970)
Agency	**27**	181	(154)
Real estate	**–**	463	(463)
Other	**71**	178	(107)
Total Headcount	**1,010**	2,704	(1,694)

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

2. Results

This section provides an overview of our financial performance in 2018 compared to 2017. We present several metrics to help investors better understand our performance, including certain metrics which are not measures recognized by IFRS. Definitions of these non-IFRS financial metrics are provided on pages 2 and 3 of this MD&A and are important aspects which should be considered when analyzing our performance.

Highlights

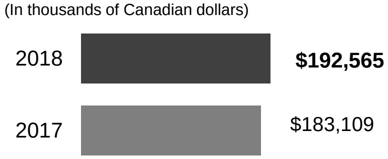
(In thousands of Canadian dollars, except per share and percentage information)

For the years ended December 31,		2018		2017 (Restated)[1]
Revenues	**$**	**577,195**	$	727,967
Income from operations before depreciation and amortization, impairment of intangible assets and goodwill and restructuring and other charges (Adjusted EBITDA)	**$**	**192,565**	$	183,109
Adjusted EBITDA margin		**33.4%**		25.2%
Net earnings (loss)	**$**	**82,809**	$	(594,482)
Basic earnings (loss) per share	**$**	**3.13**	$	(22.52)
CAPEX	**$**	**12,036**	$	60,885
Adjusted EBITDA less CAPEX	**$**	**180,529**	$	122,224
Cash flows from operating activities	**$**	**134,659**	$	116,577

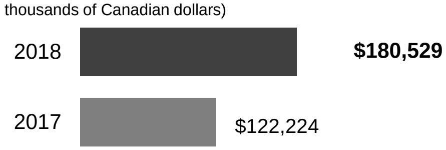
[1] *Restated to reflect the application of amendments to published standards with an effect on the consolidated financial statements. See Note 2 of the Audited Consolidated Financial Statements.*

Revenues
(In thousands of Canadian dollars)

Adjusted EBITDA
(In thousands of Canadian dollars)



Adjusted EBITDA less CAPEX
(In thousands of Canadian dollars)



Cash Flows from Operating Activities
(In thousands of Canadian dollars)

Consolidated Operating and Financial Results

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

For the years ended December 31,		2018	% of Revenues		2017 (Restated)[1]	% of Revenues
Revenues	$	**577,195**		$	727,967	
Cost of sales		**237,319**	**41.1%**		344,148	47.3%
Gross profit		**339,876**	**58.9%**		383,819	52.7%
Other operating costs		**147,311**	**25.5%**		200,710	27.6%
Income from operations before depreciation and amortization, impairment of intangible assets and goodwill and restructuring and other charges (Adjusted EBITDA)		**192,565**	**33.4%**		183,109	25.2%
Depreciation and amortization		**76,094**	**13.2%**		112,965	15.5%
Impairment of intangible assets and goodwill		**–**	**–**		507,032	69.7%
Restructuring and other charges		**15,862**	**2.7%**		34,400	4.7%
Income (loss) from operations		**100,609**	**17.4%**		(471,288)	(64.7%)
Financial charges, net		**54,729**	**9.5%**		53,946	7.4%
Gain on sale of businesses		**(6,129)**	**(1.1%)**		–	–
Impairment of available-for-sale investments		**–**	**–**		3,720	0.5%
Earnings (loss) before income taxes and loss from investment in a jointly controlled entity		**52,009**	**9.0%**		(528,954)	(72.7%)
(Recovery of) provision for income taxes		**(30,800)**	**(5.3%)**		63,424	8.7%
Loss from investment in a jointly controlled entity		**–**	**–**		2,104	0.3%
Net earnings (loss)	**$**	**82,809**	**14.3%**	$	(594,482)	(81.7%)
Basic earnings (loss) per share	**$**	**3.13**		$	(22.52)	
Diluted earnings (loss) per share	**$**	**2.78**		$	(22.52)	

As at December 31,		2018		2017 (Restated)[1]
Total assets	**$**	**442,369**	$	601,527
Senior Secured Notes (including current portion)	**$**	**167,489**	$	308,898
Exchangeable debentures	**$**	**96,179**	$	94,067
Total Senior Secured Notes and Exchangeable debentures to total assets		**59.6%**		67.0%

[1] *Restated to reflect the application of amendments to published standards with an effect on the consolidated financial statements. See Note 2 of the Audited Consolidated Financial Statements.*

Segmented Information

The Company manages its business, assesses performance and allocates resources relative to four reportable segments: YP, Agency, Real Estate and Other.

The YP segment provides small and medium-sized businesses across Canada digital and traditional marketing solutions, including online and mobile priority placement on Yellow Pages owned and operated media, content syndication, search engine solutions, website fulfillment, social media campaign management and digital display advertising, video production and print advertising. This segment included the operations of RedFlagDeals.com™, Canada's leading provider of online and mobile promotions, deals, coupons and shopping forums, until its sale on August 22, 2018.

The Company's Agency segment provided marketing solutions that extend beyond SMEs, focusing on the national advertising needs of brands and publishers. The Agency segment will no longer have operations as a result of the sale of Totem as of May 31, 2018, the sale of its JUICE assets for $1.0 million excluding working capital as of December 31, 2018 and through the liquidation of its Mediative division by January 31, 2019. Mediative operated an extensive publisher network and one of the country's largest pools of consumer data, providing national brands and enterprises with marketing solutions that reached potential customers. JUICE, a mobile advertising technology company, facilitated the automatic buying and selling of mobile advertising between brands and publishers through Programmatic Direct and Real-Time Bidding platforms. Totem provided customized content creation and delivery for global brands.

The Real Estate segment provided homeowners in Canada with media to sell their homes in a proven and cost-effective manner as well as published locally-targeted real estate listings. As a result of the sale of ComFree/DuProprio (CFDP) as of July 6, 2018 and Yellow Pages NextHome as of July 23, 2018, the Company divested all of the operations of its Real Estate segment. This segment included the operations of these businesses up to their sale.

The Other segment includes the 411.ca digital directory service and, until the sale as of May 31, 2018, of Western Media Group, magazines generating local lifestyle content specific to the Western Canada region, in the restaurants, real estate and lifestyle categories.

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

Analysis of Consolidated and Segmented Operating and Financial Results

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,	2018	2017 (Restated)[1]	% Change
YP	**$ 476,792**	$ 570,870	(16.5%)
Print	**127,897**	165,674	(22.8%)
Digital	**348,895**	405,196	(13.9%)
Agency	**52,827**	78,104	(32.4%)
Print	**2,017**	5,416	(62.8%)
Digital	**50,810**	72,688	(30.1%)
Real Estate	**35,679**	61,162	(41.7%)
Print	**4,863**	11,913	(59.2%)
Digital	**30,816**	49,249	(37.4%)
Other	**14,368**	22,555	(36.3%)
Print	**1,163**	3,924	(70.4%)
Digital	**13,205**	18,631	(29.1%)
Intersegment eliminations	**(2,471)**	(4,724)	(47.7%)
Print	**(26)**	(67)	(61.1%)
Digital	**(2,445)**	(4,657)	(47.5%)
Total revenues	**$ 577,195**	$ 727,967	(20.7%)
Print	**$ 135,914**	$ 186,860	(27.3%)
Digital	**$ 441,281**	$ 541,107	(18.4%)

[1] *Restated to reflect the application of amendments to published standards with an effect on the consolidated financial statements. See Note 2 of the Audited Consolidated Financial Statements.*

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

For the year ended December 31, 2018, total digital revenues amounted to $441.3 million or 76.5% of revenues, representing a decrease of 18.4% year-over-year or $99.8 million of which $20.0 million is attributable to the divested businesses. This compares to $541.1 million or 74.3% of revenues for the year ended December 31, 2017. Other than the decrease resulting from the divestitures, the digital revenue decline for the year ended December 31, 2018 was mainly attributable to the YP segment where the results were adversely impacted by a decline in the number of digital customers partially offset by a higher spend per customer. The lower digital customer count is attributable to both a lower level of customer acquisition in 2018, driven in part by our focus on profitability, and by higher churn, mainly caused by the surge in customer acquisition in 2016 and 2017 of customers purchasing low end solutions which typically have higher churn rates. Revenue was further impacted by the closure of certain US operations in the Agency segment to improve profitability as well as the wind down of the Mediative activities in the fourth quarter of 2018.

For the year ended December 31, 2018, total print revenues amounted to $135.9 million representing a decrease of 27.3% year-over-year or $50.9 million of which $13.2 million was attributable to the divested businesses. Other than the decrease resulting from the divestitures, the print revenue decline for the year ended December 31, 2018 is attributable to the YP segment where results were adversely impacted by a decline in the number of print customers and lower average spend by customer.

Reportable Segments Revenues

YP

Revenues for the YP segment for the year ended December 31, 2018 decreased by $94.1 million or 16.5% to $476.8 million from $570.9 million for the same period in 2017. The decrease for the year ended December 31, 2018 is mainly due to the decline of our higher margin YP digital media and print products and, to a lesser extent, our lower margin digital services products. This change in product mix created pressure on our gross profit margins. 2018 was further impacted by the sale of RedFlagDeals.com™ on August 22, 2018.

Digital revenues decreased 13.9% year-over-year, or 13.6% excluding the sale of RedFlagDeals.com™, and amounted to $348.9 million for the year ended December 31, 2018, compared to $405.2 million for the same period last year. Digital revenues were adversely impacted by a decline in the number of digital customers offset in part by a higher spend per customer. The lower digital customer count is attributable to both a lower level of customer acquisition in 2018, driven in part by our focus on profitability, and by higher churn, mainly caused by the surge in customer acquisition in 2016 and 2017 of customers purchasing low end solutions which typically have higher churn rates.

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

Agency

Agency revenues for the year ended December 31, 2018 decreased 32.4% year-over-year and amounted to $52.8 million as compared to $78.1 million for the same period last year. The decrease in Agency revenues for the year ended December 31, 2018 was impacted by the closure of certain US operations to improve profitability, the sale of Totem as of May 31, 2018 as well as the wind down of the Mediative activities. Excluding the impact of the closure of certain US operations and the sale of Totem, the Agency segment revenues decreased 25.6% for the year ended December 31, 2018.

Real Estate

Revenues for the year ended December 31, 2018 were $35.7 million as compared to $61.2 million for the same period last year. The decline for the year ended December 31, 2018 is a result of the Company divesting the business operations associated with both of its Real Estate segment media properties in separate transactions in July 2018.

Other

Other revenues decreased by $8.2 million to $14.4 million for the year ended December 31, 2018 from $22.6 million for the same period last year. The decline in Other revenues is mainly due to a reduced advertiser count resulting from lower new customer acquisition at 411.ca and the divestiture of Western Media Group as of May 31, 2018.

Gross Profit

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,	2018	%	2017 (Restated)[1]	%	% Change
YP	**$ 302,954**	63.5%	$ 333,890	58.5%	(9.3%)
Agency	**12,437**	23.5%	11,791	15.1%	5.5%
Real Estate	**17,256**	48.4%	28,815	47.1%	(40.1%)
Other	**7,392**	51.4%	9,818	43.5%	(24.7%)
Intersegment eliminations	**(163)**	nm	(495)	nm	(67.1%)
Total gross profit	**$ 339,876**	58.9%	$ 383,819	52.7%	(11.4%)

[1] *Restated to reflect the application of amendments to published standards with an effect on the consolidated financial statements. See Note 2 of the Audited Consolidated Financial Statements.*

Gross profit for the year ended December 31, 2018 amounted to $339.9 million or 58.9% of total revenues representing a decrease of $43.9 million year-over-year of which $14.2 million is attributable to divested businesses. This compares to $383.8 million or 52.7% of total revenues for the same period last year. The increase in gross profit as a percentage of revenues is due to cost reduction measures and focus on profitability of our products and services offsetting the pressures from reduced revenues and change in product mix.

Reportable Segments Gross Profit

YP

Gross profit for the year ended December 31, 2018 was $303.0 million, or 63.5% of revenues as compared to $333.9 million, or 58.5% of revenues for the same period in 2017. The decrease in gross profit is a result of reduced revenues and change in product mix. Gross profit as a percentage of revenues increased as the impact of reduced revenues was more than offset by cost reduction measures and focus on profitability of our products and services. These measures included workforce reductions primarily in non-customer facing areas in the first quarter of 2018, call center consolidations and optimization of our servicing model in the second quarter of 2018 as well as increased focus on profitable sales throughout 2018.

Agency

Agency gross profit for the year ended December 31, 2018 totalled $12.4 million, or 23.5% of revenues, as compared to $11.8 million, or 15.1% of revenues, for the same period last year. The gross profit in the Agency segment for the year ended December 31, 2018 was favorably impacted by the closure of certain US operations to improve profitability and by other cost reduction initiatives. The results for the year ended December 31, 2018 also improved relative to the same period last year due to a non-recurring contract termination fee incurred in the first quarter of 2017.

Real Estate

Real Estate gross profit for the year ended December 31, 2018 amounted to $17.3 million, or 48.4% of revenues, as compared to $28.8 million, or 47.1% of revenues, for the same period last year. The decrease in gross profit for the year ended December 31, 2018 is a result of the Company divesting the business operations associated with both of its Real Estate segment media properties in separate transactions in July 2018.

Other

Gross profit for the Other segment amounted to $7.4 million, or 51.4% of revenues, for the year ended December 31, 2018 as compared to $9.8 million, or 43.5% of revenues, for the same period last year. The decrease in gross profit for the year ended December 31, 2018 is due to lower revenues partially offset by an improvement in gross profit as a percentage of revenues due to cost reductions. The results were further impacted by the sale of Western Media Group as of May 31, 2018.

Other Operating Costs

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,	2018	2017 (Restated)[1]	% Change
YP	**$ 118,225**	$ 154,120	(23.3%)
Agency	**9,313**	15,346	(39.3%)
Real Estate	**14,333**	24,066	(40.4%)
Other	**5,603**	7,673	(27.0%)
Intersegment eliminations	**(163)**	(495)	(67.1%)
Total other operating costs	**$ 147,311**	$ 200,710	(26.6%)

[1] *Restated to reflect the application of amendments to published standards with an effect on the consolidated financial statements. See Note 2 of the Audited Consolidated Financial Statements.*

For the year ended December 31, 2018, total other operating costs decreased by $53.4 million or 26.6% to $147.3 million from $200.7 million for the same period last year. The decrease in total other operating costs for the year ended December 31, 2018 was mainly the result of reductions in our cost structure including reductions in our workforce and associated employee costs, reductions in the Company's office space footprint, and other spending reductions across the Company as well as the impact from divestitures.

Reportable Segments Other Operating Costs

YP

Other operating costs for the YP segment for the year ended December 31, 2018 totalled $118.2 million, as compared to $154.1 million for the same period last year. The decrease for the year ended December 31, 2018 is mainly the result of reductions in our cost structure including reductions in our workforce and associated employee costs, reductions in the Company's office space footprint, and other spending reductions across the segment.

Agency

Other operating costs for the Agency segment for the year ended December 31, 2018 amounted to $9.3 million. This compares to $15.3 million for the same period last year. The decrease in other operating costs for the year ended December 31, 2018 for the Agency segment is due primarily to a reduction in our workforce and associated employee costs, the closure of certain US operations to improve profitability as well as the sale of Totem as of May 31, 2018.

Real Estate

Other operating costs amounted to $14.3 million for the year ended December 31, 2018, compared to $24.1 million for the same period last year as a result of the Company divesting the business operations associated with both of its Real Estate segment media properties in separate transactions in July 2018.

Other

Other operating costs for the Other segment amounted to $5.6 million for the year ended December 31, 2018 compared to $7.7 million for the same period last year. The decrease in other operating costs for the year ended December 31, 2018 is due to lower employee related costs, overall cost reductions and the sale of WMG as of May 31, 2018.

Adjusted EBITDA

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,	2018	%	2017 (Restated)[1]	%	% Change
YP	**$ 184,729**	**38.7%**	$ 179,770	31.5%	2.8%
Agency	**3,124**	**5.9%**	(3,555)	(4.6%)	(187.9%)
Real Estate	**2,923**	**8.2%**	4,749	7.8%	(38.5%)
Other	**1,789**	**12.5%**	2,145	9.5%	(16.6%)
Total Adjusted EBITDA	**$ 192,565**	**33.4%**	$ 183,109	25.2%	5.2%

[1] *Restated to reflect the application of amendments to published standards with an effect on the consolidated financial statements. See Note 2 of the Audited Consolidated Financial Statements.*

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

Reportable Segments Adjusted EBITDA

YP

Adjusted EBITDA for the YP segment for the year ended December 31, 2018 increased to $184.7 million from $179.8 million for the same period in 2017. The Adjusted EBITDA margin for the YP segment for the year ended December 31, 2018 amounted to 38.7% compared to 31.5% for the same period last year. Despite overall lower revenues and the pressures on margins, our Adjusted EBITDA and Adjusted EBITDA margin grew due to an increased focus on the profitability of our products and services and reductions in our cost structure including reductions in our workforce and associated employee costs, reductions in the Company's office space footprint, and other spending reductions across the segment.

Agency

Agency Adjusted EBITDA for the year ended December 31, 2018 amounted to $3.1 million, or 5.9% of revenues, as compared to a loss of $3.6 million for the same period last year. The increase in the Agency Adjusted EBITDA and Adjusted EBITDA margin for the year ended December 31, 2018 was impacted by the closure of certain US operations to improve profitability and reductions in our workforce and associated employee costs. The Adjusted EBITDA for the year ended December 31, 2018 also improved relative to the same period last year due to a non-recurring contract termination fee incurred in the first quarter of 2017.

Real Estate

Real Estate Adjusted EBITDA for the year ended December 31, 2018 amounted to $2.9 million, or 8.2% of revenues, as compared to $4.7 million, or 7.8% of revenues, for the same period last year. The decrease for the year ended December 31, 2018 is a result of the Company divesting the business operations associated with both of its Real Estate segment media properties in separate transactions in July 2018.

Other

Adjusted EBITDA for the Other segment for the year ended December 31, 2018, amounted to $1.8 million, or 12.5% of revenues. This compares to $2.1 million, or 9.5% of revenues, for the same periods last year.

Adjusted EBITDA less CAPEX

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,	2018	2017 (Restated)[1]	% Change
YP	**$ 173,965**	$ 124,694	39.5%
Adjusted EBITDA	**184,729**	179,770	2.8%
CAPEX	**10,764**	55,076	(80.5%)
Agency	**2,864**	(5,515)	(151.9%)
Adjusted EBITDA	**3,124**	(3,555)	(187.9%)
CAPEX	**260**	1,960	(86.7%)
Real Estate	**2,460**	3,441	(28.5%)
Adjusted EBITDA	**2,923**	4,749	(38.5%)
CAPEX	**463**	1,308	(64.6%)
Other	**1,240**	(396)	(412.6%)
Adjusted EBITDA	**1,789**	2,145	(16.6%)
CAPEX	**549**	2,541	(78.3%)
Total Adjusted EBITDA less CAPEX	**$ 180,529**	$ 122,224	47.7%
Adjusted EBITDA	**$ 192,565**	$ 183,109	5.2%
CAPEX	**$ 12,036**	$ 60,885	(80.2%)

[1] *Restated to reflect the application of amendments to published standards with an effect on the consolidated financial statements. See Note 2 of the Audited Consolidated Financial Statements.*

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

Reportable Segments Adjusted EBITDA less CAPEX

YP

Adjusted EBITDA less CAPEX for the year ended December 31, 2018 totalled $174.0 million compared to $124.7 million for the same period last year. The increase for the year ended December 31, 2018 is mainly due to higher Adjusted EBITDA and lower capital expenditures in software development and lower spend in office and computer equipment and leasehold improvements associated with office relocations.

Agency

Agency Adjusted EBITDA less CAPEX for the year ended December 31, 2018 amounted to $2.9 million as compared to a loss of $5.5 million for the same period last year. The improvements in Adjusted EBITDA less CAPEX were due to increased Adjusted EBITDA as well as reduced capital expenditures on software development.

Real Estate

Adjusted EBITDA less CAPEX for the Real Estate segment amounted to $2.5 million for the year ended December 31, 2018 as compared to $3.4 million for the same period last year. The decrease is due primarily to lower Adjusted EBITDA as a result of the Company divesting the business operations associated with both of its Real Estate segment media properties in separate transactions in July 2018.

Other

Adjusted EBITDA less CAPEX for the Other segment for the year ended December 31, 2018 increased to $1.2 million as compared to a loss of $0.4 million in the same period last year due to lower spend on leasehold improvements associated with the 411 office relocation in 2017.

Depreciation and Amortization

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

Restructuring and Other Charges

(In thousands of Canadian dollars, except percentage information)

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

[1] *Restated to reflect the application of amendments to published standards with an effect on the consolidated financial statements. See Note 2 of the Audited Consolidated Financial Statements.*

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

Financial Charges

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

(Recovery of) provision for income taxes

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

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

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

Net earnings (loss)

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

Summary of Consolidated Quarterly Results

Quarterly Results

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

				2018				2017 (Restated)[1]
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	**$ 124,519**	$ 130,150	$ 163,212	$ 159,314	$ 178,549	$ 175,695	$ 193,515	$ 180,208
Operating costs	**83,370**	83,889	105,990	111,381	132,860	129,751	143,573	138,674
Income from operations before depreciation and amortization, impairment of intangible assets and goodwill, and restructuring and other charges (Adjusted EBITDA)	**41,149**	46,261	57,222	47,933	45,689	45,944	49,942	41,534
Adjusted EBITDA margin	**33.0%**	35.5%	35.1%	30.1%	25.6%	26.1%	25.8%	23.0%
Depreciation and amortization	**17,063**	18,945	19,202	20,884	26,205	29,915	29,262	27,583
Impairment of intangible assets and goodwill	–	–	–	–	507,032	–	–	–
Restructuring and other charges (recovery)	**1,198**	5,220	(1,754)	11,198	17,552	6,784	2,778	7,286
Income (loss) from operations	**22,888**	22,096	39,774	15,851	(505,100)	9,245	17,902	6,665
Financial charges, net	**13,516**	13,074	13,977	14,162	16,221	12,492	12,808	12,425
(Gain) loss on sale of businesses	**(205)**	(6,827)	903	–	–	–	–	–
Impairment of available-for-sale investments	–	–	–	–	–	3,720	–	–
(Recovery of) provision for income taxes	**(30,380)**	(11,276)	8,248	2,608	63,014	(902)	2,344	(1,032)
Loss from investment in a jointly controlled entity	–	–	–	–	267	1,116	362	359
Net earnings (loss)	**$ 39,957**	$ 27,125	$ 16,646	$ (919)	$ (584,602)	$ (7,181)	$ 2,388	$ (5,087)
Basic earnings (loss) per share	**$ 1.51**	$ 1.03	$ 0.63	$ (0.03)	$ (22.26)	$ (0.27)	$ 0.09	$ (0.19)
Diluted earnings (loss) per share	**$ 1.28**	$ 0.89	$ 0.56	$ (0.03)	$ (22.26)	$ (0.27)	$ 0.09	$ (0.19)

1 *Restated to reflect the application of amendments to published standards with an effect on the consolidated financial statements. See Note 2 of the Audited Consolidated Financial Statements.*

Sequential quarterly revenue trends are impacted by the YP segment's print publication distribution schedules, with the second quarter being the strongest quarter, and seasonality in the Agency segment, with the fourth quarter historically being the strongest quarter with the exception of 2018 due to the wind down of Mediative activities in the segment. Year-over-year the quarters have decreased principally due to revenue declines in the YP segment associated with overall loss of customers, and declining ARPC, except for the fourth quarter of 2018 where ARPC improved by 1%. The third and fourth quarters of 2018 were further impacted by the divestiture of businesses.

Operating costs in 2018 decreased as a result of reductions in our cost structure relating to workforce reductions and associated costs, reductions in the Company's office space footprint, cost optimizations in technology infrastructure and other spending reductions across the Company and emphasis on the profitability of our products and services. The second half of 2018 was also impacted by the divestiture of businesses. Throughout the quarters in 2017, operating costs were consistent with the movement in revenues as the pressure from a shift in the sales mix toward products with higher proportionate delivery costs was mitigated by workforce reductions and other cost saving initiatives. In addition, the first half of 2017 was negatively impacted by higher consulting expenditures and a non-recurring contract termination fee incurred in the first quarter.

The Adjusted EBITDA margin improved in 2018 as reductions in our cost structure and emphasis on the profitability of our products and services more than offset the impact of the decline in revenues. The Adjusted EBITDA margin remained relatively stable throughout 2017 as the pressure from a shift in the sales mix toward products with higher proportionate delivery costs was mitigated by workforce reductions and other cost saving initiatives. In addition, the first half of 2017 was negatively impacted by higher consulting expenditures and a non-recurring contract termination fee incurred in the first quarter.

Depreciation and amortization have been decreasing due to lower intangible assets resulting from decreasing software development expenditures. 2018 was further impacted by lower intangible assets following the impairment recorded in the fourth quarter of 2017.

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

Financial charges increased starting in the fourth quarter of 2017 due to the issuance of the 10.00% Senior Secured Notes on October 19, 2017 and the repayment of the 9.25% senior secured notes on November 18, 2017. The fourth quarter of 2017 was further impacted by increased interest due to the overlap of both Senior Secured Notes for a period of time.

The net earnings in the fourth quarter of 2018 benefited from the reversal of income tax provisions of $21.4 million related to previous taxation years and to the recognition of previously unrecognized tax attributes for $8.5 million. The net earnings in the third quarter of 2018 benefited from the impact of the net gain on sale of businesses of $6.8 million as well as the benefit of the reversal of income tax provisions of $18.3 million related to previous taxation years. Our net loss for the fourth quarter of 2017 was due to the impairment charge of $507.0 million related to certain of our intangible assets and goodwill and impacted by the reversal of tax attributes and deductible temporary differences representing an income tax expense of $75.0 million. Our net loss for the third quarter of 2017 was due to an impairment charge on certain of our available-for-sale investments and the write-off of our investment in a jointly controlled entity resulting from the shutdown of its operations.

ANALYSIS OF FOURTH QUARTER 2018 RESULTS

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

For the three-month periods ended December 31,	**2018**	**% of Revenues**	2017 (Restated)[1]	% of Revenues
Revenues	**$ 124,519**		$ 178,549	
Cost of sales	**50,007**	**40.2%**	85,992	48.2%
Gross profit	**74,512**	**59.8%**	92,557	51.8%
Other operating costs	**33,363**	**26.8%**	46,868	26.2%
Income from operations before depreciation and amortization, impairment of intangible assets and goodwill and restructuring and other charges (Adjusted EBITDA)	**41,149**	**33.0%**	45,689	25.6%
Depreciation and amortization	**17,063**	**13.7%**	26,205	14.7%
Impairment of intangible assets and goodwill	**–**	**–**	507,032	284.0%
Restructuring and other charges	**1,198**	**1.0%**	17,552	9.8%
Income (loss) from operations	**22,888**	**18.4%**	(505,100)	(282.9%)
Financial charges, net	**13,516**	**10.9%**	16,221	9.1%
Gain on sale of businesses	**(205)**	**(0.2%)**	–	–
Earnings (loss) before income taxes and loss from investment in a jointly controlled entity	**9,577**	**7.7%**	(521,321)	(292.0%)
(Recovery of) provision for income taxes	**(30,380)**	**(24.4%)**	63,014	35.3%
Loss from investment in a jointly controlled entity	**–**	**–**	267	0.1%
Net earnings (loss)	**$ 39,957**	**32.1%**	$ (584,602)	(327.4%)
Basic earnings (loss) per share	**$ 1.51**		$ (22.26)	
Diluted earnings (loss) per share	**$ 1.28**		$ (22.26)	

[1] *Restated to reflect the application of amendments to published standards with an effect on the consolidated financial statements. See Note 2 of the Audited Consolidated Financial Statements.*

Revenues

(In thousands of Canadian dollars, except percentage information)

For the three-month periods ended December 31,	2018	2017 (Restated)[1]	% Change
YP	**$ 108,628**	$ 134,893	(19.5%)
Print	**28,060**	37,351	(24.9%)
Digital	**80,568**	97,542	(17.4%)
Agency	**13,315**	27,164	(51.0%)
Print	–	1,105	(100.0%)
Digital	**13,315**	26,059	(48.9%)
Real Estate	–	12,671	(100.0%)
Print	–	2,435	(100.0%)
Digital	–	10,236	(100.0%)
Other	**2,809**	5,597	(49.8%)
Print	–	1,136	(100.0%)
Digital	**2,809**	4,461	(37.0%)
Intersegment eliminations	**(233)**	(1,776)	(86.9%)
Print	–	(15)	(99.4%)
Digital	**(233)**	(1,761)	(86.8%)
Total revenues	**$ 124,519**	$ 178,549	(30.3%)
Print	**$ 28,060**	$ 42,012	(33.2%)
Digital	**$ 96,459**	$ 136,537	(29.4%)

1 *Restated to reflect the application of amendments to published standards with an effect on the consolidated financial statements. See Note 2 of the Audited Consolidated Financial Statements.*

For the three-month period ended December 31, 2018, total revenues amounted to $124.5 million as compared to $178.5 million for the same period last year representing a decrease of 30.3% year-over year or $54.0 million of which $16.2 million is attributable to divested businesses. Other than the decrease resulting from the divestitures, the decline in total revenues for the quarter ended December 31, 2018 was due to digital revenue decline in all segments and YP segment print revenue decline.

For the three-month period ended December 31, 2018, total digital revenues amounted to $96.5 million or 77.5% of total revenues, representing a decrease of 29.4% year-over-year or $40.1 million of which $11.6 million is attributable to divested businesses. This compares to $136.5 million or 76.5% of revenues for the same period last year. Other than the decrease resulting from the divestitures, the digital revenue decline for the three-month period ended December 31, 2018 was mainly due to the YP segment where the results were adversely impacted by a decline in digital customer count partially offset by a higher spend per customer. The lower digital customer count is attributable to both a lower level of customer acquisition in 2018, driven in part by our focus on profitability, and by higher churn, mainly caused by the surge in customer acquisition in 2016 and 2017 of customers purchasing low end solutions which typically have higher churn rates. Revenue was further impacted by the wind down of the Mediative activities and by the closure of certain US operations in the Agency segment to improve profitability.

For the three-month period ended December 31, 2018, total print revenues amounted to $28.1 million representing a decrease of 33.2% year-over-year or $14.0 million of which $4.7 million was attributable to the divested businesses. Other than the decrease resulting from the divestitures, the print revenue decline for the quarter ended December 31, 2018 is attributable to the YP segment where results were adversely impacted by a decline in the number of print customers and lower average spend by customers.

Reportable Segments Revenues

YP

Revenues for the YP segment for the three-month period ended December 31, 2018 decreased by $26.3 million or 19.5% to $108.6 million from $134.9 million for the same period in 2017. The decrease for the three-month period ended December 31, 2018 is mainly due to the decline of our higher margin YP digital media and print products and, to a lesser extent, our lower margin digital services products. This change in product mix created pressure on our gross profit margins. 2018 was further impacted by the sale of RedFlagDeals.com™ on August 22, 2018.

Digital revenues decreased 17.4% year-over-year, or 16.4% excluding the sale of RedFlagDeals.com™, and amounted to $80.6 million for the three-month period ended December 31, 2018, compared to $97.5 million for the same period last year. Digital revenues were adversely impacted by a decline in the number of digital customers offset in part by a higher spend per customer. The lower digital customer count is attributable to both a lower level of customer acquisition in 2018, driven in part by our focus on profitability, and by higher churn, mainly caused by the surge in customer acquisition in 2016 and 2017 of customers purchasing low end solutions which typically have higher churn rates.

Print revenues decreased by 24.9% year-over-year to $28.1 million for the three-month period ended December 31, 2018. The results were adversely impacted by a decline in the number of print customers and lower spend per customer.

Agency

Agency revenues for the three-month period ended December 31, 2018 decreased 51.0% year-over-year and amounted to $13.3 million as compared to $27.2 million for the same period last year. The decrease in Agency revenues for the three-month period ended December 31, 2018 was impacted by the closure of certain US operations to improve profitability as well as the sale of Totem as of May 31, 2018. Excluding these impacts, the Agency segment revenues decreased 49.1% for the year ended December 31, 2018. The revenues decline for the three-month period ended December 31, 2018 was accelerated by the wind down of the Mediative activities.

Real Estate

Revenues in the Real Estate segment amounted to nil for the three-month period ended December 31, 2018 as compared to $12.7 million for the same period last year as a result of the Company divesting the business operations associated with both of its Real Estate segment media properties in separate transactions in July 2018.

Other

Other revenues for the three-month period ended December 31, 2018 amounted to $2.8 million as compared to $5.6 million for the same period last year. The decline in Other revenues is mainly due to a reduced advertiser count resulting from the decline in customer acquisition at 411.ca and the divestiture of Western Media Group as of May 31, 2018.

Gross Profit

(In thousands of Canadian dollars, except percentage information)

For the three-month periods ended December 31,		**2018**	**%**	2017 (Restated)[1]	%	% Change
YP	**$**	**68,886**	**63.4%**	$ 80,825	59.9%	(14.8%)
Agency		**4,008**	**30.1%**	4,131	15.2%	(3.0%)
Real Estate		**–**	**–**	5,127	40.5%	(100.0%)
Other		**1,688**	**60.1%**	2,648	47.3%	(36.3%)
Intersegment eliminations		**(70)**	**nm**	(174)	nm	(59.8%)
Total gross profit	**$**	**74,512**	**59.8%**	$ 92,557	51.8%	(19.5%)

[1] *Restated to reflect the application of amendments to published standards with an effect on the consolidated financial statements. See Note 2 of the Audited Consolidated Financial Statements.*

Gross profit for the three-month period ended December 31, 2018 amounted to $74.5 million or 59.8% of total revenues representing a decrease of $18.0 million year-over-year of which $6.8 million is attributable to the divested businesses. This compares to $92.6 million or 51.8% of total revenues for the same period last year. The increase in gross profit as a percentage of revenues is mainly due to the Company's cost reduction measures and focus on profitability of its products and services offsetting the pressures from reduced revenues and change in product mix.

Reportable Segments Gross Profit

YP

YP gross profit for the three-month period ended December 31, 2018 totalled $68.9 million, or 63.4% of revenues, compared to $80.8 million, or 59.9% of revenues, for the same period last year. The decrease in gross profit is a result of reduced revenues and change in product mix. Gross profit as a percentage of revenues increased as the impact of reduced revenues was more than offset by cost reduction measures and focus on profitability of our products and services. These measures included workforce reductions primarily in non-customer facing areas in the first quarter of 2018, call center consolidations and optimization of servicing models in the second quarter of 2018 as well as increased focus on profitability throughout 2018.

Agency

Agency gross profit for the three-month period ended December 31, 2018 amounted to $4.0 million, or 30.1% of revenues, as compared to $4.1 million, or 15.2% of revenues, for the same period last year. The improved profitability from the closure of certain US operations and by other cost reduction initiatives was offset by the wind down of the Mediative activities and by the impact of the sales of Totem as of May 31, 2018.

Real Estate

Gross profit for the Real Estate segment amounted to nil, for the three-month period ended December 31, 2018 as compared to $5,1 million, or 40.5% of revenues, for the same period last year as a result of the Company divesting the business operations associated with both of its Real Estate segment media properties in separate transactions in July 2018.

Other

Gross profit for the Other segment totalled $1.7 million, or 60.1% of revenues, for the three-month period ended December 31, 2018, as compared to $2.6 million, or 47.3% of revenues, for the same period last year. The decrease in gross profit for the three-month period ended December 31, 2018 is due to lower revenues partially offset by an improvement in gross margin as percentage of revenue due to cost reductions. The results were further impacted by the sale of Western Media Group as of May 31, 2018.

Other Operating Costs

(In thousands of Canadian dollars, except percentage information)

For the three-month periods ended December 31,		2018		2017 (Restated)[1]	% Change
YP	**$**	**30,517**	$	36,359	(16.1%)
Agency		**1,826**		2,953	(38.2%)
Real Estate		–		5,858	(100.0%)
Other		**1,090**		1,872	(41.8%)
Intersegment eliminations		**(70)**		(174)	(59.8%)
Total other operating costs	**$**	**33,363**	$	46,868	(28.8%)

[1] *Restated to reflect the application of amendments to published standards with an effect on the consolidated financial statements. See Note 2 of the Audited Consolidated Financial Statements.*

Other operating costs, which represent indirect costs, amounted to $33.4 million for the three-month period ended December 31, 2018, compared to $46.9 million in 2017 for the same period last year. The decrease in total other operating costs for the three-month period ended December 31, 2018 was mainly the result of reductions in our cost structure including reductions in our workforce and associated employee costs, reductions in the Company's office space footprint, and other spending reductions across the Company as well as the impact from divestitures.

Reportable Segments Other Operating Costs

YP

Other operating costs for the YP segment for the three-month period ended December 31, 2018 totalled $30.5 million as compared to $36.4 million for the same period last year. The decrease for the three-month period ended December 31, 2018 is mainly the result of reductions in our cost structure including reductions in our workforce and associated employee costs, reductions in the Company's office space footprint, and other spending reductions across the segment.

Agency

Other operating costs for the Agency segment for the three-month period ended December 31, 2018 amounted to $1.8 million. This compares to $3.0 million for the same period last year. The decrease in other operating costs for the three-month period ended December 31, 2018 for the Agency segment is due primarily to a reduction in our workforce and associated employee costs, the closure of certain US operations to improve profitability, the wind down of the Mediative activities as well as the sale of Totem as of May 31, 2018.

Real Estate

Other operating costs for the Real Estate segment amounted to nil during the three-month period ended December 31, 2018 as compared to $5.9 million for the same period last year as a result of the Company divesting the business operations associated with both of its Real Estate segment media properties in separate transactions in July 2018.

Other

Other operating costs for the Other segment amounted to $1.1 million for the three-month period ended December 31, 2018 compared to $1.9 million for the same period last year. The decrease is due to lower employee related costs, overall cost reductions and the sale of WMG as of May 31, 2018.

Adjusted EBITDA

(In thousands of Canadian dollars, except percentage information)

For the three-month periods ended December 31,		2018	%		2017 (Restated)[1]	%	% Change
YP	**$**	**38,369**	35.3%	$	44,466	33.0%	(13.7%)
Agency		**2,182**	16.4%		1,178	4.3%	85.2%
Real Estate		**–**	0.0%		(731)	(5.8%)	(100.0%)
Other		**598**	21.3%		776	13.9%	(22.9%)
Total Adjusted EBITDA	**$**	**41,149**	33.0%	$	45,689	25.6%	(9.9%)

[1] *Restated to reflect the application of amendments to published standards with an effect on the consolidated financial statements. See Note 2 of the Audited Consolidated Financial Statements.*

Adjusted EBITDA decreased by $4.5 million to $41.1 million during the three-month period ended December 31, 2018, compared to $45.7 million during the same period last year. Our Adjusted EBITDA margin for the three-month period ended December 31, 2018 was 33.0% compared to 25.6% for the same period last year. The decrease in Adjusted EBITDA for the three-month period ended December 31, 2018 was impacted by lower overall revenues and unfavourable changes in product mix. However revenue pressures were mostly offset by an increase in Adjusted EBITDA margin as a percentage of revenues due to reductions in our cost structure including reductions in our workforce and associated employee costs, reductions in our office space footprint, and other spending reductions across the Company.

Reportable Segments Adjusted EBITDA

YP

Adjusted EBITDA for the YP segment for the three-month period ended December 31, 2018 totalled $38.4 million, or 35.3% of revenues, compared to $44.5 million, or 33.0% of revenues, for the same period last year. The decrease in Adjusted EBITDA for the three-month period ended December 31, 2018 is due to lower overall revenues and unfavourable changes in product mix. However revenue pressures were mostly offset by an increase in Adjusted EBITDA margin as a percentage of revenues due to reductions in our cost structure including reductions in our workforce and associated employee costs, reductions in our office space footprint, and other spending reductions across the Company.

Agency

Agency Adjusted EBITDA for the three-month period ended December 31, 2018 amounted to $2.2 million, or 16.4% of revenues, as compared to $1.2 million, or 4.3% of revenues, for the same period last year. The increase in the Agency Adjusted EBITDA and Adjusted EBITDA margin for the three-month period ended December 31, 2018 was due to the closure of certain US operations improving profitability and reductions in our workforce and associated employee costs partially offset by the wind down of the Mediative activities.

Real Estate

Adjusted EBITDA for the Real Estate segment was nil for the three-month period ended December 31, 2018 as compared to a loss of $0.7 million, for the same period last year as a result of the Company divesting the business operations associated with both of its Real Estate segment media properties in separate transactions in July 2018.

Other

Adjusted EBITDA for the Other segment for the three-month period ended December 31, 2018, amounted to $0.6 million, or 21.3% of revenues as compared to $0.8 million, or 13.9% of revenues, for the same period last year. The decrease in Adjusted EBITDA for the three-month period December 31, 2018 is mainly due to lower revenues largely offset by an improved Adjusted EBITDA margin resulting from cost reductions.

Adjusted EBITDA less CAPEX

(In thousands of Canadian dollars, except percentage information)

For the three-month periods ended December 31,	2018	2017 (Restated)[1]	% Change
YP	**$ 34,443**	$ 29,129	18.2%
Adjusted EBITDA	**38,369**	44,466	(13.7%)
CAPEX	**3,926**	15,337	(74.4%)
Agency	**2,162**	1,219	77.4%
Adjusted EBITDA	**2,182**	1,178	85.2%
CAPEX	**20**	(41)	(148.8%)
Real Estate	–	(1,408)	(100.0%)
Adjusted EBITDA	–	(731)	(100.0%)
CAPEX	–	677	(100.0%)
Other	**504**	858	(41.5%)
Adjusted EBITDA	**598**	776	(22.9%)
CAPEX	**94**	(82)	(217.1%)
Total Adjusted EBITDA less CAPEX	**$ 37,109**	$ 29,798	24.5%
Adjusted EBITDA	**$ 41,149**	$ 45,689	(9.9%)
CAPEX	**$ 4,040**	$ 15,891	(74.6%)

[1] *Restated to reflect the application of amendments to published standards with an effect on the consolidated financial statements. See Note 2 of the Audited Consolidated Financial Statements.*

Adjusted EBITDA less CAPEX increased by $7.3 million to $37.1 million for the three-month period ended December 31, 2018 compared to $29.8 million during the same period in 2017. The increase in Adjusted EBITDA less CAPEX for the three-month period ended December 31, 2018 was due to decreased spending on software development, office and computer equipment and leasehold improvements associated with office relocations partially offset by lower Adjusted EBITDA.

Reportable Segments Adjusted EBITDA less CAPEX

YP

Adjusted EBITDA less CAPEX for the YP segment for the three-month period ended December 31, 2018 totalled $34.4 million compared to $29.1 million for the same period last year. The increase in Adjusted EBITDA less CAPEX for the three-month period ended December 31, 2018 is mainly due to lower capital expenditures on software development, office and computer equipment and leasehold improvements associated with office relocations partially offset by lower Adjusted EBITDA.

Agency

Agency Adjusted EBITDA less CAPEX for the three-month period ended December 31, 2018 amounted to $2.2 million as compared to $1.2 million for the same period last year. The improvements in Adjusted EBITDA less CAPEX were due to increased Adjusted EBITDA.

Real Estate

Adjusted EBITDA less CAPEX for the Real Estate segment was nil for the three-month period ended December 31, 2018 as compared to a loss of $1.4 million for the same period last year as a result of the Company divesting the business operations associated with both of its Real Estate segment media properties in separate transactions in July 2018.

Other

Adjusted EBITDA less CAPEX for the Other segment amounted to $0.5 million for the three-month period ended December 31, 2018 as compared to $0.9 million for the same period last year.

Depreciation and Amortization

Depreciation and amortization decreased to $17.1 million for the three-month period ended December 31, 2018 compared to $26.2 million for the same period last year. The decrease is primarily due to the lower opening intangible asset balance following the impairment recorded in the fourth quarter of 2017 and decreased spend on software development.

Restructuring and Other charges

For the three-month periods ended December 31,		**2018**		2017 (Restated)[1]
Severance, benefits and outplacement	**$**	**5,387**	$	3,574
Settlement of litigation		**(3,537)**		–
Impairment of right-of-use assets and future operation costs related to lease contracts for offices closed		**468**		13,555
Pension settlement costs and past service costs (recovery), net		**(1,120)**		557
Other fees		–		(134)
Total restructuring and other charges	**$**	**1,198**	$	17,552

[1] *Restated to reflect the application of amendments to published standards with an effect on the consolidated financial statements. See Note 2 of the Audited Consolidated Financial Statements.*

For the three-month period ended December 31, 2018, we recorded restructuring and other charges of $1.2 million associated primarily with internal reorganizations and workforce reductions offset by the $3.5 million impact of a favorable litigation settlement on a contractual obligation with a vendor. For the three-month period ended December 31, 2017, we recorded restructuring and other charges of $17.6 million which was comprised primarily of lease contracts associated with office closures as well as internal reorganizations and workforce reductions.

Financial Charges

Financial charges decreased by $2.7 million to $13.5 million for the fourth quarter ended December 31, 2018 compared to $16.2 million for the same period in 2017. The decrease is explained by higher interest rate on the Senior Secured Notes issued in in the fourth quarter of 2017 as well as the overlap of interest of both Senior Secured

Notes held for a time in the fourth quarter of 2017. The Company used the net proceeds from the sale of the 10.00% Senior Secured Notes to redeem on November 18, 2017 all of its 9.25% senior secured notes due November 30, 2018.

Provision for (Recovery of) Income Taxes

The combined statutory provincial and federal tax rates were 26.9% and 26.8% for the three-month periods ended December 31, 2018 and 2017, respectively. During the fourth quarter ended December 31, 2018, the Company recorded a recovery for income taxes of $30.4 million comprised of recognition of previously unrecognized tax attributes of $11.9 million and a resolution of uncertain tax positions of $21.4 million. These recoveries are non-cash items.

In comparison, the Company recorded an expense of income taxes of $63.0 million during the fourth quarter ended December 31, 2017, comprised of a recovery of income taxes of $134.5 million and a valuation allowance of the same amount associated with an impairment loss of $500.0 million on its intangible assets and goodwill recorded during the fourth quarter of 2017. Furthermore, the Company recognized a reversal of tax attributes and deductible temporary differences representing an income tax expense of approximately $70.0 million during the fourth quarter of 2017. These expenses are non-cash items.

The difference between the effective and the statutory rates for the fourth quarter of 2018 is mainly due to recognition of previously unrecognized tax attributes and a resolution of uncertain tax positions. The difference between the effective and the statutory rates for the fourth quarter of 2017 is mainly due to the reversal and the non-recognition of tax attributes and deductible temporary differences from the current and previous years.

Net earnings (loss)

We recorded net earnings of $40.0 million and a net loss of $584.6 million during the three-month periods ended December 31, 2018 and 2017, respectively. The improvement in net earnings, notwithstanding the $507.0 million impairment charge recorded in the three-month period ended December 31, 2017, is mainly due to decreased depreciation and amortization expenses, restructuring and other charges and a recovery of income taxes.

3. Liquidity and Capital Resources

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

Capital Structure

(In thousands of Canadian dollars, except percentage information)

As at December 31,		2018		2017 (Restated)[1]
Cash and restricted cash	**$**	**81,452**	$	46,405
Senior Secured Notes	**$**	**167,489**	$	308,898
Exchangeable debentures		**96,179**		94,067
Lease obligations		**75,320**		86,179
Total debt	**$**	**338,988**	$	489,144
Deficiency		**(119,164)**		(199,879)
Total capitalization	**$**	**219,824**	$	289,265
Total debt net of cash and restricted cash, to total capitalization		**117.2%**		153.1%

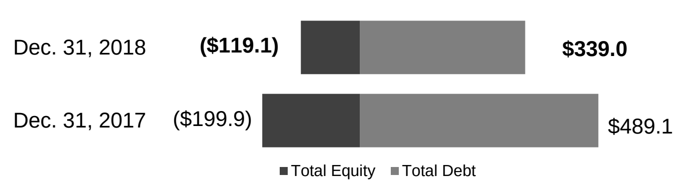
[1] *Restated to reflect the application of amendments to published standards with an effect on the consolidated financial statements. See Note 2 of the Audited Consolidated Financial Statements.*

As at December 31, 2018, Yellow Pages had $257.5 million of debt net of cash and restricted cash, compared to $442.7 million as at December 31, 2017.

The total debt net of cash and restricted cash to latest Twelve-Month Adjusted EBITDA[2] ratio as at December 31, 2018 was 1.3 times compared to 2.4 times as at December 31, 2017. The decrease is mainly due to higher Adjusted EBITDA and the mandatory debt redemption principal payments of $144.8 million made in 2018.

Total Debt Net of Cash and Restricted Cash to Latest Twelve-Month Adjusted EBITDA[2] Ratio

Capital Structure
(In millions of Canadian dollars)



[2] *Latest twelve-month income from operations before depreciation and amortization, impairment of intangible assets and goodwill, and restructuring and other charges (Latest Twelve-Month Adjusted EBITDA). Latest Twelve-Month Adjusted EBITDA is a non-IFRS measure and may not be comparable with similar measures used by other publicly traded companies. Please refer to page 3 for a definition of Adjusted EBITDA.*

Asset-Based Loan

On October 19, 2017, the Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, renewed its five-year $50.0 million asset-based loan (ABL) and extended the term of the ABL to August 2022 as well as reduced certain rates and fees. 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. Interest is calculated based either on the BA Rate or the Prime Rate plus an applicable margin. The ABL is subject to an availability reserve of $5.0 million if the Company's trailing twelve-month fixed charge coverage ratio is below 1.1 times. As at December 31, 2018, the Company's fixed charge coverage ratio was below 1.1 times and the Company had $4.4 million of letters of credit issued and outstanding under the ABL, and a $9.9 million deficiency in qualified collateral. As such, $30.7 million of the ABL was available as at December 31, 2018. As at December 31, 2018, the Company was in compliance with all covenants under the loan agreement governing the ABL.

10.00% Senior Secured Notes

On October 19, 2017, Yellow Pages Limited, through its wholly-owned subsidiary, Yellow Pages Digital & Media Solutions Limited, issued $315.0 million aggregate principal amount of 10.00% Senior Secured Notes (the Notes) due November 1, 2022 at an issue price of $980 per $1,000 principal amount of the Notes, or $6.3 million discount. The Notes accrued interest from October 19, 2017 at a rate of 10.00% per annum, payable in semi-annual instalments in arrears on May 1 and November 1 of each year commencing May 1, 2018.

Mandatory Redemption

Pursuant to the indenture governing the Notes, the Company is required to use an amount equal to 100% of its consolidated Excess Cash Flow and any designated net proceeds from asset sales for the immediately preceding mandatory redemption period to redeem the Notes, on a semi-annual basis on the last day of May and November of each year, commencing on May 31, 2018, at a redemption price equal to 100% of the principal amount, subject to the Company maintaining a minimum cash balance of $20.0 million on the last day of the mandatory redemption period. The Company is required to use 75.0% of its consolidated Excess Cash Flow to redeem the Notes if the consolidated leverage ratio on the last day of the mandatory redemption period is no greater than 1.5 to 1. Excess Cash Flow, as defined in the indenture governing the Notes, means adjusted cash flows from operating activities, adjusted for the following items, as reported in the Company's consolidated statement of cash flows: capital expenditures subject to certain maximum amounts as provided in the indenture governing the Notes, repayment of the Notes other than in connection with a mandatory redemption and any principal payments made in respect of the Company's lease liability. In 2018, the Company made in aggregate principal mandatory redemption payments of $144.8 million on the Notes.

Optional Redemption

From November 1, 2018 to October 31, 2019, the Company may, at its option, redeem all or part of the Notes at 102% of the aggregate principal amount, plus accrued and unpaid interest. From November 1, 2019 to October 31, 2020, the Company may, at its option, redeem all or part of the Notes at 101% of the aggregate principal amount, plus accrued and unpaid interest. Beginning on November 1, 2020, the Company may, at its option, redeem all or part of the Notes at 100% of the aggregate principal amount, plus accrued and unpaid interest.

The Notes are guaranteed by Yellow Pages Limited and its subsidiaries, other than Yellow Pages Digital & Media Solutions Limited as issuer of the Notes, (collectively, the Guarantors) and secured by first-priority liens and security interests, subject to permitted liens, in substantially all of the assets (other than the assets securing the Company's ABL) now owned or hereafter acquired by Yellow Pages Digital & Media Solutions Limited and the Guarantors, and second-priority liens and security interests, subject to permitted liens, in the assets securing the ABL. The Notes are senior secured obligations of Yellow Pages Digital & Media Solutions Limited. The Notes rank equally in right of payment with all indebtedness of Yellow Pages Digital & Media Solutions Limited that is not expressly subordinated in right of payment to the Notes, and rank senior in right of payment to all existing and future subordinated indebtedness of Yellow Pages Digital & Media Solutions Limited.

Certain Covenants

The indenture governing the Notes limits or affects the Company's ability to, among other things, incur additional indebtedness, pay dividends or make other distributions or repurchase or redeem certain indebtedness or capital stock, make loans and investments, sell assets, incur certain liens, enter into transactions with affiliate and consolidate, merge or sell all or substantially all of its assets. Such covenants are subject to certain limitations and exceptions as provided in the indenture governing the Notes.

As at December 31, 2018, the Company was in compliance with all covenants under the indenture governing the Notes.

Exchangeable Debentures

On December 20, 2012, the Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, issued $107.5 million of senior subordinated exchangeable debentures (the Exchangeable Debentures) due November 30, 2022. As at December 31, 2018, and December 31, 2017, the face value of the

Exchangeable Debentures was $107.1 million. As at December 31, 2018, the value of the Exchangeable Debentures less unaccreted interest was $96.2 million compared to $94.1 million as at December 31, 2017.

Interest on the Exchangeable Debentures accrues at a rate of 8.0% per annum if, for the applicable interest period, it is paid in cash or 12.0% per annum, for the applicable interest period, if the Company makes a Payment in Kind election to pay interest in respect of all or any part of the then outstanding Exchangeable Debentures in additional Exchangeable Debentures. Interest on the Exchangeable Debentures is payable semi-annually in arrears in equal instalments on the last day of May and November of each year.

As at December 31, 2018, the Company was in compliance with all covenants under the indenture governing the Exchangeable Debentures.

Exchange Option

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

Optional Redemption

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

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

The redemption option for cash is an embedded derivative and is recorded at fair value on the consolidated statements of financial position with changes in fair value recognized in financial charges. The fair value was $nil as at December 31, 2018 (2017 – $nil).

Credit Ratings

DBRS Limited	Standard and Poor's Rating Services
B (high)/Issuer rating – stable outlook	B-/Corporate credit rating – stable outlook
BB (low)/Credit rating for Senior Secured Notes	B+/Credit rating for Senior Secured Notes
B (low)/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 in the short term and the long term to fund capital expenditures, working capital requirements and current obligations, and service its outstanding debt obligations. As at December 31, 2018, the Company had approximately $81.5 million of cash and restricted cash and $30.7 million available under the ABL.

Options

On December 20, 2012, as part of the implementation of Yellow Pages recapitalization transaction, a new stock option plan (the Stock Option Plan) was adopted. The Stock Option Plan is intended to attract and retain the services of selected employees (the Participants) of Yellow Pages who are in a position to make a material contribution to the successful operation of the business, provide meaningful incentive to management to lead Yellow Pages through the transition and transformation of its business and to more closely align the interests of management with those of the shareholders of Yellow Pages Limited. On November 7, 2017, an amendment to the Stock Option Plan was implemented to increase the maximum number of common shares authorized for issuance upon the exercise of options by 1,516,320, from 1,290,612 to 2,806,932.The stock options expire approximately seven years after the grant date and Participants are required to hold 25% of the common shares received pursuant to the exercise of the stock options until the Participants meet the ownership guidelines which apply to their respective position.

Share Data

Outstanding Share Data

As at	February 12, 2019	December 31, 2018	December 31, 2017
Common shares outstanding	28,075,308	28,075,308	28,075,306
Exchangeable Debentures outstanding[1]	5,624,422	5,624,422	5,624,422
Common share purchase warrants outstanding	2,995,484	2,995,484	2,995,486
Stock options outstanding[2]	1,331,305	1,347,052	1,024,550

1 *As at February 12, 2019, Yellow Pages had $107.1 million principal amount of Exchangeable Debentures outstanding, which amount is exchangeable into 5,624,422 common shares of Yellow Pages Limited at an exchange price of $19.04, subject to adjustment for specified transactions pursuant to the indenture governing the Exchangeable Debentures.*

2 *Included in the stock options outstanding balance of 1,331,305 and 1,347,052 as at February 12, 2019 and December 31, 2018, respectively, are 52,950 and 60,425 stock options exercisable as at those dates. Included in the stock options outstanding balance of 1,024,550 as at December 31, 2017 are 281,325 stock options exercisable as at that date.*

Contractual Obligations and Other Commitments

(in thousands of Canadian dollars)

			Payments due for the years following December 31, 2018							
		Total		**1 year**		**2 – 3 years**		**4 – 5 years**		**After 5 years**
Senior Secured Notes[1,2]	**$**	**170,231**	$	90,000	$	–	$	80,231	$	–
Lease obligations[1]		**75,320**		4,352		6,628		6,817		57,523
Exchangeable Debentures[1]		**107,089**		–		–		107,089		–
Operating portion of lease obligations		**76,180**		4,250		10,061		10,343		51,526
Other		**22,279**		12,986		6,773		405		2,115
Total contractual obligations	**$**	**451,099**	$	111,588	$	23,462	$	204,885	$	111,164

1 *Principal amount.*

2 *The repayment of the Notes may vary subject to the Excess Cash Flow clause as well as the minimum cash balance requirement on the last day of the mandatory redemption period under the indenture governing the Notes.*

Lease obligations

We entered into finance lease agreements for premises. As at December 31, 2018, minimum payments under these finance leases up to 2034 total, on a net present value basis, $75.3 million.

Operating portion of lease obligations

We rent our premises and office equipment under various leases for which an operating portion is recognized. As at December 31, 2018, minimum payments for the operating portion under these leases up to 2034 total $76.2 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 2019 and 2038. We also have purchase obligations under service contracts for both operating and capital expenditures. As at December 31, 2018, we have an obligation to purchase services for $22.3 million over the next five years and thereafter. Cash from operations will be used to fund these purchase obligations.

Pension Obligations

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

As at December 31, 2018, the DB component of the YP Pension Plan's assets market value totalled $441.7 million and were invested in a diversified portfolio of Canadian fixed income securities and Canadian and international equity securities. Its rate of return on assets was -1.5% for 2018, 0.9% below our benchmark portfolio.

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

In 2018, the Company made annual contributions equivalent to the current service cost (the Annual Employer Cost) of $14.5 million, including $4.6 million to fund the deficit. Total cash payments are expected to amount to $10.4 million for 2019.

Sources and Uses of Cash

(In thousands of Canadian dollars)

For the years ended December 31,		2018		2017 (Restated)[1]
Cash flows from operating activities				
Cash flows from operations, excluding change in operating assets and liabilities	$	**103,231**	$	110,216
Change in operating assets and liabilities		**31,428**		6,361
	$	**134,659**	$	116,577
Cash flows used in investing activities				
Additions to intangible assets	$	**(14,287)**	$	(37,297)
Additions to property and equipment		**(1,899)**		(30,412)
Lease incentives received		**4,150**		6,824
Payments received from net investment in subleases		**211**		–
Proceeds on sale of businesses		**63,665**		–
Purchase of available-for-sale investments		–		(5,452)
Investment in a jointly controlled entity		–		(680)
Business acquisition		**(400)**		(400)
	$	**51,440**	$	(67,417)
Cash flows used in financing activities				
Issuance of long-term debt, net of discount	$	–	$	308,700
Repayment of Senior Secured Notes		**(144,769)**		(309,669)
Debt issuance costs		–		(7,716)
Purchase of restricted shares		–		(3,129)
Payment of lease obligation		**(6,283)**		(8,201)
	$	**(151,052)**	$	(20,015)
NET INCREASE IN CASH AND RESTRICTED CASH	$	**35,047**	$	29,145
CASH AND RESTRICTED CASH, BEGINNING OF YEAR		**46,405**		17,260
CASH AND RESTRICTED CASH, END OF YEAR	$	**81,452**	$	46,405

[1] *Restated to reflect the application of amendments to published standards with an effect on the consolidated financial statements. See Note 2 of the Audited Consolidated Financial Statements.*

Cash flows from operating activities

Cash flows from operating activities increased by $18.1 million to $134.7 million for the year ended December 31, 2018. Cash flows benefited by an additional $25.1 million generated by the change in operating assets and liabilities as well as $9.5 million higher Adjusted EBITDA and $7.0 million lower funding of post-employment benefit plans in excess of costs partially offset by $16.3 million higher payments for restructuring and other charges payments and $5.3 million higher interest paid. The restructuring and other charges relate to the workforce reductions, office closures, and asset impairments taken in 2018 and the higher interest paid is mainly due to the higher interest rate on the senior notes.

Cash flows from (used in) investing activities

Cash flows from investing activities amounted to $51.4 million for the year ended December 31, 2018 as compared to net cash used of $67.4 million for the same period last year. This increase of $118.9 million is mainly due to proceeds received on sale of businesses of $63.7 million, decreased spending on office and computer equipment and leasehold improvements, net of lease incentives, associated with office relocations of $25.8 million and decrease in spending of $23.0 million in software development costs.

Cash flows used in financing activities

Cash flows used in financing activities amounted to $151.1 million for the year ended December 31, 2018 due primarily to the mandatory redemption of the Senior Secured Notes of $144.8 million. Cash flows used in financing activities amounted to $20.0 million for the year ended December 31, 2017 due to the refinancing of its senior secured notes and related transactional fees of $7.7 million and also due to the purchase of the 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 $3.1 million.

Financial and other instruments

(See Note 24 of the Audited Consolidated Financial Statements of the Company for the years ended December 31, 2018 and 2017).

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

The redemption option on the Exchangeable Debentures is an embedded derivative and is recorded at fair value on the consolidated statements of financial position with changes in fair value recognized in financial charges. The fair value was $nil as at December 31, 2018 and 2017.

4. Critical Assumptions and Estimates

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

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

Estimate of the lease term

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

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

The Company assesses whether a right-of-use asset is impaired in accordance with IAS 36 – Impairment of assets, particularly when it vacates an office space and it must determine the recoverability of the asset, depending on its capacity to sublease the assets or surrender the lease and recover its costs. The Company will examine its lease conditions as well as local market conditions and estimate its recoverability potential for each vacated premise. The determination of the lease cost recovery rate involves significant management estimates based on market availability of similar office space and local market conditions. This significant estimate could affect Yellow Pages Limited's future results if the Company succeeds in subleasing their vacated offices at a higher or lower rate or at different dates than initially anticipated.

Measurement of ECL allowance for trade receivables, contract assets and net investment in subleases

In relation to the impairment of financial assets, the Company uses the expected credit loss model, which requires the Company to account for expected credit losses ("ECL") and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

At each reporting date, the Company assesses whether financial assets are credit impaired. The Company will consider a financial asset to be in default when the indebted party is unlikely to pay its obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any). The Company elected to consider that default does not occur when a financial asset is 90 days past due as the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate and that default risk is not necessarily increased. In assessing whether an indebted party is in default, the Company will consider indicators that are qualitative (e.g. breach of conditions), quantitative (e.g. overdue status), and data developed internally and obtained from external sources. Inputs into the assessment of whether a financial asset is in default and their significance may vary over time to reflect circumstances.

Determining the discount rate for leases

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

Intangible assets and goodwill

The valuations associated with measuring the recoverability of indefinite life intangible assets and goodwill for impairment analysis purposes involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates, terminal growth rates and asset lives. These significant estimates could affect Yellow Pages Limited's future results if the current estimates of future performance and fair values change.

Yellow Pages Limited assesses impairment by comparing the recoverable amount of a CGU or group of CGUs to which an indefinite life intangible asset and goodwill belongs, with its carrying value. The determination of the recoverable amount involves significant management estimates. As a result of the impairment losses recorded on goodwill in prior years and the disposal of the remaining goodwill in 2018 concurrently with the sale of CFDP, the Company no longer has goodwill subject to impairment and no longer has indefinite life intangible assets. Thus, in 2018 only an assessment of indicators of impairment was performed on the finite life intangible assets.

Useful lives of intangible assets and property and equipment

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

Employee future benefits

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

Income taxes

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

Significant judgments

Uncertain tax provisions

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

Yellow Pages Limited reviews the adequacy of these provisions at each statement of financial position date and reassesses its provisions if it receives information that may reduce or increase it. However, it is possible that at some future date an additional liability could result from audits by tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Accounting Standards

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

The following revised standards are effective for annual periods beginning on January 1, 2018 and their adoption has not had any impact on the amounts reported in these consolidated financial statements but may affect the accounting for future transactions or arrangements:

Amendments to IFRS 2 – *Share-based Payment*

In June 2016, the International Accounting Standards Board ("IASB") published amendments to IFRS 2 – *Share-based Payment*. The amendments clarify that the accounting for the effects of vesting and non-vesting conditions on cash-settled share-based payments follow the same approach as for equity-settled share-based payments. The amendments also clarify the classification of share-based payment transactions with net settlement features as well as require additional disclosures for these transactions. They are effective for annual periods beginning on or after January 1, 2018, applied prospectively, with earlier adoption permitted. The amendments to IFRS 2 did not have a significant impact on the consolidated financial statements of Yellow Pages Limited.

IFRIC 22 – *Foreign Currency Transactions and Advance Consideration*

In December 2016, the IASB issued an interpretation paper IFRIC 22 – *Foreign Currency Transactions and Advance Consideration*. This interpretation paper clarifies that the foreign exchange rate applicable to transactions involving advance consideration paid or received is the rate at the date that the advance consideration is paid or received and a non-monetary asset or liability is recorded, and not the later date at which the related asset or liability is recognized in the financial statements. This interpretation is applicable for annual periods beginning on or after January 1, 2018, and can be applied either prospectively or retrospectively, at the option of the entity. IFRIC 22 did not have a significant impact on the consolidated financial statements of Yellow Pages Limited.

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

IFRS 15 – *Revenue from Contracts with Customers*

Yellow Pages Limited has applied IFRS 15 – *Revenue from Contracts with Customers* effective for annual reporting periods beginning on or after January 1, 2018. Under IFRS 15, revenues from print products are recognized upon delivery of the print directories instead of over the term of the publication period of twelve months. Similarly, publication costs and commissions will be deferred and recognized upon delivery of the publication. Previously, the deferred publication costs and commissions were deferred and amortized over the economic life of the directory, digital products and services. The recognition of revenue for the digital products has not been materially impacted by the adoption of this standard and will continue to be recognized into income on a monthly basis from the point at which service is first provided over the life of the contract. Certain revenues, such as website and video design fees, continue to be recognized upon completion of the design of the website and video. Applying the practical expedient under IFRS 15, the Company recognizes as an expense the commissions paid for contract renewals with revenue recognized over one year or less. However, costs to obtain contracts relating to the commission fees paid as a result of obtaining new sales contracts are amortized on a straight-line basis over a two-year period as this reflects the expected period of benefit. Yellow Pages Limited has applied IFRS 15 in accordance with the full retrospective approach.

The revenue recognition policy and the amount of adjustment for each financial statement line item affected by the application of IFRS 15 for the prior periods are disclosed in the Consolidated Financial Statements.

IFRS 16 – ***Leases***

Yellow Pages Limited has early adopted IFRS 16 – *Leases* on January 1, 2018, which is effective for annual reporting periods beginning on or after January 1, 2019. Previously, the Company classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company and classified operating lease payments as operating costs. Under IFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease obligation representing its obligation to make lease payments. The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease obligation is subsequently measured at amortized cost using the effective interest rate method, and is subsequently adjusted for interest and lease payments. Onerous leases for base rent previously accrued in provisions are now tested for impairment in accordance with IAS 36 – Impairment of Assets. Impairments of right-of-use assets continue to be recorded in restructuring and other charges on the consolidated statements of income (loss). Yellow Pages Limited has applied IFRS 16 in accordance with the full retrospective approach.

At the transition date, we identified and reviewed each contract which had a lease. The leases identified related mainly to leases for office space. Given that the Company decided to apply IFRS 16 retrospectively, we also obtained all modifications to the leases in order to present the information retrospectively.

Under IFRS 16, the Company is required to assess the classification of a sublease as a finance or operating lease, with reference to the right-of-use asset and not the underlying asset. For the year ended December 31, 2018, the Company assessed and classified its subleases as finance leases under IFRS 16, and therefore derecognized the right-of-use assets relating to the head leases being sublet, and recognized lease receivables equal to the net investment in the subleases, recognized a gain in restructuring and other charges equal to the difference between the right of use assets and net investment in the subleases, retained the previously recognized lease obligations in its capacity as lessee, recognized the related interest expense thereafter, and recognized interest income on the subleases receivables in its capacity as finance lessor. The Company did not have net investments in subleases prior to adoption of IFRS 16.

The amount of adjustment for each financial statement line item affected by the application of IFRS 16 for the prior periods is disclosed in the 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*. IFRS 9 introduces new requirements for the classification and measurement of financial assets and liabilities, impairment for financial assets and general hedge accounting. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below. The Company has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in deficit as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

The classification and measurement of financial assets is determined on the basis of the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity financial assets are subsequently measured at fair value through profit or loss unless the Company has made an irrevocable election to measure them at fair value through other comprehensive income. The change in fair value of equity financial assets designated as such shall not be subsequently transferred to profit or loss upon their disposal. On transition to IFRS 9, the Company has made the irrevocable election to present fair value gains and losses on equity investments in other comprehensive income ("OCI").

The comparison between the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets is disclosed in the Consolidated Financial Statements. There were no changes to the measurement categories under IFRS 9 for the Company's financial liabilities as at January 1, 2018.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model. The expected credit loss model requires the Company to account for expected credit losses ("ECL") and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. For trade receivables, contract assets and net investment in subleases, the Company applied the simplified approach permitted under IFRS 9, which requires lifetime ECL to be recognized from initial recognition.

At each reporting date, the Company assesses whether financial assets are credit impaired. The Company will consider a financial asset to be in default when the indebted party is unlikely to pay its obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any). The Company elected to consider that default does not occur when a financial asset is 90 days past due as the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate and that default risk is not necessarily increased. In assessing whether an indebted party is in default, the Company will consider indicators that are qualitative (e.g. breach of conditions), quantitative (e.g. overdue status), and data developed internally and obtained from external sources. Inputs into the assessment of whether a financial asset is in default and their significance may vary over time to reflect circumstances.

For assets in the scope of IFRS 9 impairment model, expected credit losses are generally expected to increase. The amount of impairment allowance, as well as the measurement categories affected by the application of IFRS 9 are disclosed in the Consolidated Financial Statements.

Standards, interpretations and amendments to published standards that are issued but not yet effective with effect on the consolidated financial statements

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, 2019. The new standards which are considered to be relevant to Yellow Pages Limited's operations are as follows:

IFRIC 23 – ***Uncertainty over Income Tax Treatments***

In June 2017, the IASB issued an interpretation paper IFRIC 23 – *Uncertainty over Income Tax Treatments*. This interpretation paper clarifies that in determining its taxable profit or loss when there is uncertainty over income tax treatments, an entity must use judgment and apply the tax treatment that is most likely to be accepted by the tax authorities. In assessing the likelihood that the tax treatment will be accepted, the entity assumes that the tax treatment will be examined by the relevant tax authorities having full knowledge of all relevant information. This interpretation is applicable for annual periods beginning on or after January 1, 2019, with early adoption accepted. IFRIC 23 is not expected to have a significant impact on the consolidated financial statements of Yellow Pages Limited.

Amendments to IAS 19 – ***Employee Benefits***

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

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

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

5. Risks and Uncertainties

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

Understanding and managing risks are important parts of YP's strategic planning process. The Board requires that our senior management identify and properly manage the principal risks related to our business operations. To understand and manage risks at YP, our Board and senior management analyze risks in three major categories:

1. Strategic risks - which are primarily external to the business;
2. Financial risks - generally related to matters addressed in the Financial Risk Management Policy and in the Pension Statement of Investment Policy and Procedures; and
3. Operational risks - related principally to risks across key functional areas of the organization.

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

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

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

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

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

Substantial competition could reduce the market share of the Corporation and could have a material adverse effect on the Corporation, its business, results from operations and financial condition

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

The Corporation may be forced to reduce its prices or offer and perform other services in order to remain competitive. The Corporation's failure to compete effectively with its current or future competitors could have a number of impacts such as a reduction in its advertiser base, lower rates and increased costs. This could have a material adverse effect on the Corporation, its business, results from operations and financial condition.

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

The Corporation could be materially adversely affected if the usage of print telephone directories declines at a rate higher than anticipated. The development of new technologies and the widespread use of the internet is causing changes in preferences and consumer habits. The usage of internet-based products providing information, formerly exclusively available in print directories, has increased rapidly. The internet has become increasingly accessible as an advertising medium for businesses of all sizes. Further, the use of the internet, including as a means to transact commerce through mobile devices, has resulted in new technologies and services that compete with traditional advertising mediums. In particular, this has a significant impact on print products, and the decrease in usage gradually leads to lower advertising revenues. References to print business directories may decline faster than expected as users increasingly turn to digital and interactive media delivery devices for local commercial search information.

The inability of the Corporation to successfully enhance and expand its offering of digital and new media products could have a material adverse effect on the Corporation, its business, results from operations and financial condition

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

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

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

- the Corporation may not continue to grow usage on its digital properties at the same rate as other providers or may grow at a slower rate than currently anticipated;
- internet usage as a source of information and a medium for advertising may not continue to grow, or may grow at a slower rate than currently anticipated, as a result of factors that the Corporation cannot predict or control;
- the Corporation may incur substantial additional costs and expenses related to investments in its information technology, modifications to existing products and development of new products and this may reduce profit margins in the future;
- the Corporation may be unable to develop and market new products in a timely and efficient manner, as the Corporation's markets are characterized by rapidly changing technology, introductions and enhancements to existing products and shifting advertising customer and end-user demands, including technology preferences;
- the Corporation may be unable to improve its information technology systems so as to efficiently manage increased levels of traffic on the Corporation's digital properties and provide new services and products;
- the Corporation may be unable to keep apprised of changes to search engines' terms of service or algorithms, which could cause the Corporation's digital properties, or its advertising customers' digital properties, to be excluded from or ranked lower in search results or make it more difficult or more expensive for the Corporation to provide search engine marketing and search engine optimisation solutions to its advertising customers;
- the Corporation's advertising customers may be unwilling to grow their investment in digital advertising; and
- the Corporation may be unable to increase or maintain the prices of its products and services in the future.

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

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

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

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

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

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

A higher than anticipated proportion of revenues coming from the Corporation's digital products with lower margins, such as services and resale, could have a material adverse effect on the Corporation's profitability

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

The Corporation's inability to attract and retain key personnel could have a material adverse effect on the Corporation, its business, results from operations and financial condition

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

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

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

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

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

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

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

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

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

Certain non-management employees of the Corporation are unionized. The Corporation currently has six union agreements, one of which has expired and one shall expire on March 31, 2019. The parties of four of the six have successfully renegotiated new agreements with three year terms. If the Corporation is unable to renew the agreements with its unionized staff as they come up for renegotiation from time to time, it could result in additional work stoppages and other labour disturbances, which could have a material adverse effect on our business.

Challenge by tax authorities of the Corporation's position on certain income tax matters could have a material adverse effect on the Corporation, its business, results from operations and financial condition

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

The loss of key relationships or changes in the level of service provided by mapping applications and search engines could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation has entered into agreements with mapping applications and search engines to promote its online directories. These agreements facilitate access to the Corporation's content and customer advertising, allow the Corporation to generate a higher volume of traffic than it would on its own as well as generate business leads for its advertisers, while retaining the client relationship. Loss of key relationships or changes in the level of service provided by the mapping applications and search engines could impact performance of the Corporation's internet marketing solutions. In addition, internet marketing services are provided by many other competitors within the markets the Corporation serves and its clients could choose to work with other, sometimes larger providers of these services, or with other search engines directly. The foregoing could have a material adverse effect on the Corporation, its business, results from operations and financial condition.

The failure of the Corporation's computers and communications systems could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation's business activities rely significantly on the efficient and uninterrupted operation of computers and communications systems as well as those of third parties. The Corporation's media properties, sales and advertising processing, data storage, production, billing, collection and day-to-day operations could be adversely impaired by the failure of such technology, which could in turn have a material adverse effect on the Corporation, its business, results from operations and financial condition.

In addition, the Corporation's computer and ISIT systems may be vulnerable to damage or interruption from a variety of sources and its disaster recovery systems may be deemed ineffective. Any failure of these systems could impair the Corporation's business. This could have a material adverse effect on the Corporation, its business, results from operations and financial condition.

The inability of the Corporation to generate sufficient funds from operations, debt financings, equity financings or refinancing transactions could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The ability of the Corporation to make scheduled payments under its indebtedness will depend on, among other things, its future operating performance. There can be no assurance that the Corporation will be able to generate sufficient cash from its operations to pay its debt obligations. The Corporation's ability to generate sufficient funds from operations, debt financings, equity financings or refinancing transactions is, to a large extent, subject to economic, financial, competitive, operational and other factors, many of which are beyond the Corporation's control.

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

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

Incremental contributions by the Corporation to its pension plans could have a material adverse effect on the Corporation, its business, results from operations and financial condition

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

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

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

6. Controls and Procedures

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

Disclosure Controls and Procedures (DC&P)

The evaluation of the design and effectiveness of DC&P (as defined in National Instrument 52-109) was performed under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. They concluded that the Company's DC&P were effective, as at December 31, 2018.

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, 2018.

During the quarter beginning on October 1, 2018 and ended on December 31, 2018, no changes were made to the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.