

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW PAGES LIMITED

March 31, 2017 and 2016

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Interim Condensed Consolidated Statements of Financial Position

(In thousands of Canadian dollars - Unaudited)

| As at | March 31, 2017 | December 31, 2016 |
|--|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 15,718 | \$ 17,260 |
| Trade and other receivables | 109,698 | 114,854 |
| Prepaid expenses | 12,092 | 8,934 |
| Deferred publication costs | 60,798 | 61,144 |
| Income taxes receivable | 2,699 | 3,057 |
| TOTAL CURRENT ASSETS | 201,005 | 205,249 |
| NON-CURRENT ASSETS | | |
| Deferred publication costs | 7,415 | 7,936 |
| Financial and other assets (Note 12) | 4,057 | 4,008 |
| Investment in an associate (Note 4) | 1,128 | 1,157 |
| Property and equipment | 34,507 | 36,194 |
| Intangible assets | 727,402 | 740,932 |
| Goodwill | 45,342 | 45,342 |
| Deferred income taxes | 55,542 | 59,119 |
| TOTAL NON-CURRENT ASSETS | 875,393 | 894,688 |
| TOTAL ASSETS | \$ 1,076,398 | \$ 1,099,937 |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES | | |
| Trade and other payables | \$ 70,662 | \$ 79,493 |
| Provisions | 40,990 | 53,010 |
| Deferred revenues | 19,867 | 18,927 |
| Current portion of long-term debt (Note 5) | 50,228 | 75,161 |
| TOTAL CURRENT LIABILITIES | 181,747 | 226,591 |
| NON-CURRENT LIABILITIES | | |
| Provisions | 3,701 | 4,327 |
| Deferred lease inducements | 11,612 | 11,821 |
| Deferred income taxes | 6,787 | 7,081 |
| Post-employment benefits (Note 8) | 141,690 | 154,172 |
| Long-term debt (Note 5) | 259,764 | 234,867 |
| Exchangeable debentures (Note 6) | 92,630 | 92,174 |
| TOTAL NON-CURRENT LIABILITIES | 516,184 | 504,442 |
| TOTAL LIABILITIES | 697,931 | 731,033 |
| CAPITAL AND RESERVES | 6,599,179 | 6,597,891 |
| DEFICIT | (6,220,712) | (6,228,987) |
| TOTAL EQUITY | 378,467 | 368,904 |
| TOTAL LIABILITIES AND EQUITY | \$ 1,076,398 | \$ 1,099,937 |

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

Interim Condensed Consolidated Statements of Income

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

| For the three-month periods ended March 31, | 2017 | 2016 |
|--|---------------|------------------|
| Revenues | \$ 189,508 | \$ 203,627 |
| Operating costs | 143,033 | 141,734 |
| Income from operations before depreciation and amortization, and restructuring and special charges | 46,475 | 61,893 |
| Depreciation and amortization | 25,780 | 24,859 |
| Restructuring and special charges (Note 7) | 7,286 | 4,258 |
| Income from operations | 13,409 | 32,776 |
| Financial charges, net (Note 11) | 11,330 | 14,196 |
| Earnings before income taxes and loss from investment in associate | 2,079 | 18,580 |
| Provision for income taxes | 1,062 | 5,429 |
| Loss from investment in an associate | 359 | – |
| Net earnings | \$ 658 | \$ 13,151 |
| Basic earnings per share | \$ 0.02 | \$ 0.49 |
| Weighted average shares outstanding – basic earnings per share (Note 9) | 26,443,924 | 26,659,035 |
| Diluted earnings per share | \$ 0.02 | \$ 0.45 |
| Weighted average shares outstanding – diluted earnings per share (Note 9) | 27,548,488 | 33,655,534 |

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

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

(In thousands of Canadian dollars - Unaudited)

| For the three-month periods ended March 31, | 2017 | 2016 |
|---|-----------------|-------------------|
| Net earnings | \$ 658 | \$ 13,151 |
| Other comprehensive (loss) income: | | |
| Items that will be reclassified subsequently to net earnings | | |
| Net change in fair value of derivatives designated as cash flow hedges (Note 12) | (400) | – |
| Reclassification to earnings of derivatives designated as cash flow hedges (Note 12) | (99) | – |
| Income taxes relating to items that will be reclassified subsequently to net earnings | 133 | – |
| | (366) | – |
| Items that will not be reclassified subsequently to net earnings | | |
| Actuarial gains (losses) (Note 8) | 10,415 | (29,035) |
| Income taxes relating to items that will not be reclassified subsequently to net earnings | (2,798) | 7,802 |
| | 7,617 | (21,233) |
| Other comprehensive income (loss) | 7,251 | (21,233) |
| Total comprehensive income (loss) | \$ 7,909 | \$ (8,082) |

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

Interim Condensed Consolidated Statements of Changes in Equity

(In thousands of Canadian dollars - Unaudited)

For the three-month periods ended March 31,

| | 2017 | | | | | | | | | |
|-------------------------------------|--------------------------------------|----------------------|-----------------|---|--|------------------------------------|-------------------------------|-----------------------|-------------------|--|
| | Shareholders' Capital (Note 9) | Restricted Shares | Warrants | Compound Financial Instruments ¹ | Stock-based Compensation and Other Reserves | Reduction of Capital Reserve | Total Capital and Reserves | Deficit | Total Equity | |
| Balance, December 31, 2016 | \$ 4,031,685 | \$ (31,848) | \$ 1,456 | \$ 3,619 | \$ 135,926 | \$ 2,457,053 | \$ 6,597,891 | \$ (6,228,987) | \$ 368,904 | |
| Other comprehensive (loss) income | - | - | - | - | (366) | - | (366) | 7,617 | 7,251 | |
| Net earnings for the period | - | - | - | - | - | - | - | 658 | 658 | |
| Total comprehensive (loss) income | - | - | - | - | (366) | - | (366) | 8,275 | 7,909 | |
| Restricted shares settled | - | 5,831 | - | - | (5,831) | - | - | - | - | |
| Restricted shares (Note 10) | - | - | - | - | 1,494 | - | 1,494 | - | 1,494 | |
| Stock options (Note 10) | - | - | - | - | 160 | - | 160 | - | 160 | |
| Balance, March 31, 2017 | \$ 4,031,685 | \$ (26,017) | \$ 1,456 | \$ 3,619 | \$ 131,383 | \$ 2,457,053 | \$ 6,599,179 | \$ (6,220,712) | \$ 378,467 | |
| | 2016 | | | | | | | | | |
| | Shareholders' Capital (Note 9) | Restricted Shares | Warrants | Compound Financial Instruments ¹ | Stock-based Compensation and Other Reserves | Reduction of Capital Reserve | Total Capital and Reserves | Deficit | Total Equity | |
| Balance, December 31, 2015 | \$ 4,031,528 | \$ (24,965) | \$ 1,456 | \$ 3,619 | \$ 132,275 | \$ 2,457,053 | \$ 6,600,966 | \$ (5,841,442) | \$ 759,524 | |
| Other comprehensive loss | - | - | - | - | - | - | - | (21,233) | (21,233) | |
| Net earnings for the period | - | - | - | - | - | - | - | 13,151 | 13,151 | |
| Total comprehensive loss | - | - | - | - | - | - | - | (8,082) | (8,082) | |
| Restricted shares settled | - | 3,474 | - | - | (3,474) | - | - | - | - | |
| Restricted shares (Note 10) | - | (5,786) | - | - | 1,655 | - | (4,131) | - | (4,131) | |
| Stock options (Note 10) | - | - | - | - | 331 | - | 331 | - | 331 | |
| Exercise of stock options (Note 10) | 157 | - | - | - | (42) | - | 115 | - | 115 | |
| Balance, March 31, 2016 | \$ 4,031,685 | \$ (27,277) | \$ 1,456 | \$ 3,619 | \$ 130,745 | \$ 2,457,053 | \$ 6,597,281 | \$ (5,849,524) | \$ 747,757 | |

¹ The equity component of the exchangeable debentures presented above is net of income taxes of \$1.3 million (2016 - \$1.3 million).

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

Interim Condensed Consolidated Statements of Cash Flows

(In thousands of Canadian dollars - Unaudited)

| For the three-month periods ended March 31, | 2017 | 2016 |
|--|------------------|------------------|
| OPERATING ACTIVITIES | | |
| Net earnings | \$ 658 | \$ 13,151 |
| Adjusting items | | |
| Depreciation and amortization | 25,780 | 24,859 |
| Restructuring and special charges (Note 7) | 7,286 | 4,258 |
| Stock-based compensation (recovery) expense | (519) | 3,312 |
| Provision for income taxes recognized in net earnings | 1,062 | 5,429 |
| Loss from investment in an associate | 359 | – |
| Financial charges recognized in net earnings | 11,330 | 14,196 |
| Other non-cash items | 2,655 | 2,714 |
| Change in operating assets and liabilities | (17,746) | (15,431) |
| Funding of post-employment benefit plans in excess of costs | (3,603) | (4,367) |
| Restructuring and special charges paid (Note 7) | (6,082) | (12,473) |
| Income taxes paid, net | (86) | (1,931) |
| Interest paid | (7,312) | (9,469) |
| | 13,782 | 24,248 |
| INVESTING ACTIVITIES | | |
| Additions to intangible assets | (9,577) | (15,070) |
| Additions to property and equipment | (5,281) | (355) |
| Investment in an associate (Note 4) | (330) | – |
| Business acquisition (Note 3) | – | (35,271) |
| Other | (100) | – |
| | (15,288) | (50,696) |
| FINANCING ACTIVITIES | | |
| Repayment of long-term debt | (36) | (80) |
| Purchase of restricted shares (Note 10) | – | (5,786) |
| Issuance of common shares upon exercise of stock options (Note 10) | – | 115 |
| | (36) | (5,751) |
| NET DECREASE IN CASH | (1,542) | (32,199) |
| CASH, BEGINNING OF PERIOD | 17,260 | 67,253 |
| CASH, END OF PERIOD | \$ 15,718 | \$ 35,054 |

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

1. Description

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

Yellow Pages Limited’s registered head office is located at 16, Place du Commerce, Montreal, Québec, Canada, H3E 2A5 and the common shares of Yellow Pages Limited are listed on the Toronto Stock Exchange (“TSX”) under the symbol “Y”.

The Board of Directors (the “Board”) approved the unaudited interim condensed consolidated financial statements for the three-month periods ended March 31, 2017 and 2016 and authorized their publication on May 10, 2017.

2. Basis of Presentation

2.1 Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 – *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. The accounting policies and methods of computation applied in these interim condensed consolidated financial statements are consistent with International Financial Reporting Standards (“IFRS”) and are the same as those applied by Yellow Pages Limited in its audited consolidated financial statements as at and for the years ended December 31, 2016 and 2015, except for new standards adopted during the three-months ended March 31, 2017, as described below. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2016 and 2015.

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

The following revised standards are effective for annual periods beginning on January 1, 2017 and their adoption has not had any impact on the amounts reported in these interim condensed consolidated financial statements but may affect the accounting for future transactions or arrangements:

Amendments to IAS 7 – *Statement of Cash Flows*

In January 2016, the International Accounting Standards Board (“IASB”) published amendments to IAS 7 – *Statement of Cash Flows*. The amendments are intended to improve information provided to users of financial statements about an entity’s financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates and changes in fair value.

Amendments to IFRS 12 – *Disclosure of Interest in Other Entities*

In December 2016, the IASB issued amendments to IFRS 12 – *Disclosure of Interest in Other Entities* as part of its 2014-2016 Annual Improvements Cycle. The amendment clarifies that the requirement to disclose summarised financial information does not apply for interests in subsidiaries, associates or joint ventures which are classified, or included in a disposal group that is classified as held for sale in accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*.

2.3 Standards, interpretations and amendments to published standards that are issued but not yet effective

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory for Yellow Pages Limited’s accounting periods beginning on or after January 1, 2018. The new standards which are considered to be relevant to Yellow Pages Limited’s operations are as follows:

IFRS 15 – Revenue from Contracts with Customers

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

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

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

On April 12, 2016, the IASB published the final clarifications to IFRS 15. The amendments are effective for annual reporting periods beginning on or after January 1, 2018, with earlier adoption permitted. The amendments do not change the underlying principles of the standard yet clarify how the principles should be applied.

The adoption of IFRS 15 is expected to have an impact on the timing of recognition of revenues for print products as well as the deferral of related publication costs and the inclusion of required disclosures in the interim condensed consolidated financial statements of Yellow Pages Limited. Management is in the process of quantifying the accounting impact of the adoption of IFRS 15 and progress made to date is consistent with management's planned timeline. Management expects to complete this evaluation prior to the fourth quarter of 2017.

IFRS 9 – Financial Instruments

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

Additional disclosures will also be required under the new standard. The new standard will come into effect for annual periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 9 is not expected to have a significant impact on the interim condensed consolidated financial statements of Yellow Pages Limited.

IFRS 16 – Leases

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

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

IFRS 16 contains disclosure requirements for lessees and lessors. This new standard will come into effect for annual periods beginning on or after January 1, 2019.

Earlier application is permitted for companies that apply IFRS 15 – *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

Based on its preliminary assessment, Yellow Pages Limited has identified lease contracts, mainly for rental properties, for which recognition will change under IFRS 16. The recognition of the leased assets and their related liabilities will increase income from operations before depreciation and amortization, restructuring and special charges, with an equivalent combined increase in depreciation and amortization and financial charges as at the date of application of IFRS 16. Management is in the process of quantifying the accounting impact of the adoption of IFRS 16 and progress made to date is consistent with management’s planned timeline.

Amendments to IFRS 2 – *Share-based Payment*

In June 2016, the IASB published amendments to IFRS 2 – *Share-based Payment*. The amendments clarify that the accounting for the effects of vesting and non-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 requiring 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 are not expected to have a significant impact on the interim condensed 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 is not expected to have a significant impact on the interim condensed consolidated financial statements of Yellow Pages Limited.

3. Business acquisition

2016

On March 17, 2016, Yellow Pages Limited acquired the net assets of Juice DMS Advertising Limited and Juice Mobile USA LLC (the latter two collectively “JUICE Mobile”), for a purchase price of \$35.3 million. The acquisition of JUICE Mobile, a premium advertising technology company whose programmatic platforms facilitate the automatic buying and selling of mobile advertising between brands and publishers, positioned Yellow Pages Limited as a desktop and mobile national advertising agency, expanding the Company’s reach of brands and media publishers. The acquisition was fully funded with cash on hand. Transaction costs of \$1.2 million were incurred during the three-month period ended March 31, 2016, and are included in restructuring and special charges.

The following table summarizes the transaction and the purchase price allocation, which was finalized in 2016:

| | March 17, 2016 |
|---------------------------------|-----------------------|
| Fair value of business acquired | |
| Trade and other receivables | \$ 9,003 |
| Other assets | 644 |
| Intangible assets | 15,220 |
| Goodwill | 18,513 |
| Trade and other payables | (7,802) |
| Other liabilities | (307) |
| | \$ 35,271 |

4. Investment in an associate

On October 3, 2016, Yellow Pages Digital & Media Solutions Limited acquired a 50% ownership in 9778730 Canada Inc., which holds 100% of Coupgon Inc., a digital coupon solutions provider, for cash consideration of \$1.2 million. Additional investments during the three-month period ended March 31, 2017 amounted to \$0.3 million. The Company's ownership remains unchanged at 50%, subsequent to the additional investments. The difference between the acquisition price and the fair value of the net assets acquired was insignificant. The investment is being accounted for using the equity method.

5. Long-term debt

Long-term debt is comprised of the following:

| As at | March 31, 2017 | December 31, 2016 |
|-----------------------------------|-------------------|-------------------|
| Senior secured notes | \$ 309,669 | \$ 309,669 |
| Obligations under finance leases | 323 | 359 |
| | \$ 309,992 | \$ 310,028 |
| Less current portion ¹ | 50,228 | 75,161 |
| Non-current portion | \$ 259,764 | \$ 234,867 |

¹ The current portion of the senior secured notes may vary subject to the Excess Cash Flow clause as well as the minimum cash balance requirement post Mandatory Redemptions under the indenture governing the senior secured notes.

6. Exchangeable debentures

| As at | March 31, 2017 | December 31, 2016 |
|---------------------------------------|----------------|-------------------|
| Face value of exchangeable debentures | \$ 107,089 | \$ 107,089 |
| Less unaccrued interest | 14,459 | 14,915 |
| | \$ 92,630 | \$ 92,174 |

7. Restructuring and special charges

During the three-month period ended March 31, 2017, Yellow Pages Limited recorded restructuring and special charges of \$7.3 million (2016 – \$4.3 million), relating primarily to internal reorganizations and workforce reductions. For the three-month period ended March 31, 2017, Yellow Pages Limited made restructuring and special charges payments of \$6.1 million (2016 – \$12.5 million).

8. Post-employment benefits

Yellow Pages Limited recorded an actuarial gain of \$7.6 million in other comprehensive income, net of income taxes of \$2.8 million, for the three-month period ended March 31, 2017, primarily as a result of a gain due to the plan assets' performance. The discount rate used to measure the post-employment benefits obligation was 3.75% as at March 31, 2017 and December 31, 2016. Yellow Pages Limited recorded an actuarial loss of \$21.2 million in other comprehensive loss, net of income tax recovery of \$7.8 million, for the three-month period ended March 31, 2016, primarily as a result of a decrease in the discount rate used to measure the post-employment benefits obligation from 4% to 3.75%.

9. Shareholders' capital

Common shares

| For the three-month period ended March 31, 2017 | Number of Shares | Amount |
|--|-------------------------|---------------------|
| Balance, December 31, 2016 | 28,075,304 | \$ 4,031,685 |
| Exchange of common share purchase warrants | 2 | – |
| Balance, March 31, 2017 | 28,075,306 | \$ 4,031,685 |

Warrants

During the three-month period ended March 31, 2017, 2 common share purchase warrants (“Warrants”) were exercised in exchange for 2 common shares of Yellow Pages Limited. As at March 31, 2017 and December 31, 2016, the Company had a total of 2,995,486 and 2,995,488 Warrants outstanding, respectively.

Earnings per share

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

| For the three-month periods ended March 31, | 2017 | 2016 |
|---|-------------------|-------------|
| Weighted average number of shares outstanding used in computing basic earnings per share | 26,443,924 | 26,659,035 |
| Dilutive effect of restricted share units and performance share units | 1,067,685 | 1,303,561 |
| Dilutive effect of stock options | 36,879 | 68,516 |
| Dilutive effect of exchangeable debentures | – | 5,624,422 |
| Weighted average number of shares outstanding used in computing diluted earnings per share | 27,548,488 | 33,655,534 |

| For the three-month periods ended March 31, | 2017 | 2016 |
|--|---------------|-------------|
| Net earnings used in the computation of basic earnings per share | \$ 658 | \$ 13,151 |
| Impact of assumed conversion of exchangeable debentures, net of applicable taxes | – | 1,869 |
| Net earnings adjusted for dilutive effect used in the computation of diluted earnings per share | \$ 658 | \$ 15,020 |

For the three-month period ended March 31, 2017, the diluted earnings per share calculation did not take into consideration the potential dilutive effect of the exchangeable debentures as they are not dilutive. For the three-month periods March 31, 2017 and 2016, the diluted earnings per share calculation did not take into consideration the potential dilutive effect of the Warrants as well as certain stock options that are not in the money as they are not dilutive.

10. Stock-Based Compensation Plans

During the three-month period ended March 31, 2016, 308,000 common shares of Yellow Pages Limited were purchased on the open market of the TSX by the trustee appointed under the restricted share unit and performance share unit plan (the “RSU and PSU Plan”) at a cost of \$5.8 million and are restricted for the purpose of funding of the RSU and PSU Plan. The total number of common shares of Yellow Pages Limited held by the trustee for the purpose of funding the RSU and PSU Plan amounted to 1,375,658 as at March 31, 2017.

The following table summarizes the continuity of the RSUs and PSUs during the three-month periods ended March 31:

| Number of | 2017 | | 2016 | |
|--|----------------|-------------------|----------------|-------------------|
| | RSUs | PSUs ¹ | RSUs | PSUs ¹ |
| Outstanding, beginning of period | 444,355 | 596,114 | 464,924 | 520,117 |
| Granted | 104,313 | 243,398 | 197,053 | 271,220 |
| Additional payout related to achievement of performance targets ² | – | 20,043 | – | 26,259 |
| Settled | (123,220) | (187,627) | (151,516) | (85,947) |
| Forfeited | (10,820) | (20,521) | (2,705) | (2,844) |
| Outstanding, end of period | 414,628 | 651,407 | 507,756 | 728,805 |
| Weighted average remaining life (years) | 1.4 | 1.4 | 1.9 | 1.9 |

¹ The outstanding number of PSUs represents a payout of 100%. In addition, the potential payout in excess of 100% and limited to a maximum payout of 150% pursuant to the achievement of certain performance targets, amounted to 325,657 common shares as at March 31, 2017 (2016 – 364,322 common shares).

² The additional payout is related to the achievement of certain performance targets in excess of 100% and amounted to an additional 12% for the three-month period ended March 31, 2017 (2016 – 44%).

During the three-month period ended March 31, 2017, an expense of \$1.5 million (2016 – \$1.7 million) was recorded in the interim condensed consolidated statement of income in operating costs in relation to the RSU and PSU Plan.

Deferred Share Unit Plan

The following table summarizes the continuity of the deferred share units (“DSU”) during the three-month periods ended March 31:

| | 2017 | | 2016 | |
|--|----------------|------------------------|----------------|------------------------|
| | Number of DSUs | Liability ¹ | Number of DSUs | Liability ¹ |
| Outstanding, beginning of period | 246,892 | \$ 4,368 | 192,964 | \$ 2,947 |
| Granted ² | 47,704 | 209 | 53,928 | 206 |
| Variation due to change in stock price | – | (2,382) | – | 1,120 |
| Outstanding, end of period | 294,596 | \$ 2,195 | 246,892 | \$ 4,273 |
| Vested, end of period | 258,818 | \$ 2,195 | 206,446 | \$ 4,273 |

¹ The liability related to the deferred share unit plan (the “DSU Plan”) is recorded in trade and other payables, and the expense related to the units vested and the variation due to changes in stock price is included in operating costs.

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

Stock options

The following table summarizes the continuity of the stock options under the stock option plan (the “Stock Option Plan”) during the three-month periods ended March 31:

| | 2017 | | 2016 | |
|-----------------------------------|-------------------|--|-------------------|--|
| | Number of options | Weighted average exercise price per option | Number of options | Weighted average exercise price per option |
| Outstanding, beginning of period | 630,950 | \$ 16.73 | 522,950 | \$ 16.38 |
| Granted | – | \$ – | 251,700 | \$ 17.83 |
| Exercised | – | \$ – | (11,375) | \$ 10.12 |
| Outstanding, end of period | 630,950 | \$ 16.73 | 763,275 | \$ 16.95 |
| Exercisable, end of period | 366,500 | \$ 15.74 | 180,250 | \$ 15.22 |

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

| Exercise price | 2017 | | 2016 | |
|-----------------------------------|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
| | Number of options outstanding | Weighted average remaining life | Number of options outstanding | Weighted average remaining life |
| \$10.12 | 167,375 | 3.1 | 167,375 | 4.1 |
| \$16.44 | 166,050 | 4.9 | 195,900 | 5.9 |
| \$17.83 | 163,000 | 5.9 | 251,700 | 6.9 |
| \$17.96 | 4,600 | 5.2 | 9,200 | 6.2 |
| \$19.61 | 7,700 | 4.2 | 7,700 | 5.2 |
| \$20.33 | 4,900 | 4.2 | 4,900 | 5.2 |
| \$24.65 | 117,325 | 3.9 | 126,500 | 4.9 |
| Outstanding, end of period | 630,950 | 4.5 | 763,275 | 5.7 |
| Exercisable, end of period | 366,500 | 3.8 | 180,250 | 4.4 |

Stock options were valued using a binomial option pricing model. Expected volatility is based on the historical share price volatility over the average expected life of the options granted. The following table shows the key inputs into the valuation model for the three-month periods ended March 31:

| | 2017 | 2016 |
|---|------|-----------|
| Weighted average grant date share price | \$ – | \$ 18.28 |
| Exercise price | \$ – | \$ 17.83 |
| Expected volatility | – | 35% |
| Option life | – | 7 years |
| Risk-free interest rate | – | 1.02% |
| Weighted average remaining life | – | 6.9 years |

An expense of \$0.2 million was recorded during the three-month period ended March 31, 2017 (2016 – \$0.3 million) in relation to the Stock Option Plan.

11. Financial charges, net

The significant components of the financial charges, net are as follows:

| For the three-month periods ended March 31, | 2017 | 2016 |
|--|-----------|-----------|
| Interest on long-term debt and exchangeable debentures | \$ 9,303 | \$ 11,548 |
| Net interest on the defined benefit obligations | 1,420 | 1,766 |
| Other, net | 607 | 882 |
| | \$ 11,330 | \$ 14,196 |

12. Fair value

Fair value hierarchy

The three levels of fair value hierarchy are as follows:

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

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

The following table summarizes the financial instruments measured at fair value in the interim condensed consolidated statements of financial position, classified using the fair value hierarchy:

| As at | Level | March 31, 2017 | December 31, 2016 |
|-------------------------------------|-------|----------------|-------------------|
| Financial asset or liability | | | |
| Investment – available-for-sale | 3 | \$ 3,520 | \$ 3,520 |
| Foreign currency forward contracts | 2 | \$ 497 | \$ 996 |

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

In order to mitigate foreign exchange risk, Yellow Pages Limited entered into foreign currency forward contracts and designated them as cash flow hedges for accounting purposes. The foreign currency forward contracts are presented in prepaid expenses in the interim condensed consolidated statements of financial position as at March 31, 2017 and December 31, 2016.

Fair values

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

The fair value of cash, trade and other receivables, and trade and other payables is approximately equal to their carrying values due to their short-term maturity. The fair value of the senior secured notes and the exchangeable debentures is evaluated based on quoted market prices as at the statement of financial position date.

The following schedule represents the carrying values and the fair values of financial instruments not measured at fair value in the interim condensed consolidated statement of financial position as at March 31, 2017:

| | Level | Carrying Value | | Fair Value |
|---------------------------------------|-------|----------------|---------|------------|
| Current portion of long-term debt | 1 | \$ | 50,228 | \$ 50,808 |
| Non-current portion of long-term debt | 1 | \$ | 259,764 | \$ 262,768 |
| Exchangeable debentures | 1 | \$ | 92,630 | \$ 106,018 |