

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW PAGES LIMITED

March 31, 2021 and 2020

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Interim Condensed Consolidated Statements of Financial Position

(in thousands of Canadian dollars – Unaudited)

As at	March 31, 2021	December 31, 2020
ASSETS		
CURRENT ASSETS		
Cash	\$ 170,943	\$ 153,492
Trade and other receivables (Note 3)	53,624	64,430
Prepaid expenses	4,115	4,826
Deferred publication costs	2,361	2,115
Net investment in subleases	1,224	1,206
TOTAL CURRENT ASSETS	232,267	226,069
NON-CURRENT ASSETS		
Deferred commissions	1,843	1,921
Financial and other assets	4,303	4,009
Right-of-use assets	10,797	11,081
Net investment in subleases	25,276	25,609
Property and equipment	6,266	6,609
Intangible assets	67,888	70,700
Deferred income taxes	12,765	21,915
TOTAL NON-CURRENT ASSETS	129,138	141,844
TOTAL ASSETS	\$ 361,405	\$ 367,913
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade and other payables	\$ 35,630	\$ 35,056
Income taxes payable	895	–
Provisions	12,377	22,076
Deferred revenues	1,321	1,496
Current portion of lease obligations	3,106	3,011
TOTAL CURRENT LIABILITIES	53,329	61,639
NON-CURRENT LIABILITIES		
Provisions	925	986
Post-employment benefits (Note 6)	98,893	125,009
Lease obligations	49,083	49,863
Exchangeable debentures (Note 4 and 15)	101,760	101,115
TOTAL NON-CURRENT LIABILITIES	250,661	276,973
TOTAL LIABILITIES	303,990	338,612
CAPITAL AND RESERVES	6,548,874	6,555,780
DEFICIT	(6,491,459)	(6,526,479)
TOTAL EQUITY	57,415	29,301
TOTAL LIABILITIES AND EQUITY	\$ 361,405	\$ 367,913

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,	2021	2020
Revenues (Note 9)	\$ 73,514	\$ 88,308
Operating costs (Note 8)	46,931	55,745
Income from operations before depreciation and amortization, and restructuring and other charges	26,583	32,563
Depreciation and amortization	5,092	7,601
Restructuring and other charges (Note 5)	1,056	3,315
Income from operations	20,435	21,647
Financial charges, net (Note 11)	3,795	4,181
Loss on sale of business (Note 14)	–	498
Earnings before income taxes	16,640	16,968
Provision for income taxes (Note 12)	4,505	4,565
Net earnings	\$ 12,135	\$ 12,403
Basic earnings per share	\$ 0.46	\$ 0.47
Weighted average shares outstanding – basic earnings per share (Note 7)	26,405,287	26,501,932
Diluted earnings per share	\$ 0.44	\$ 0.44
Weighted average shares outstanding – diluted earnings per share (Note 7)	32,348,152	32,747,871

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

Interim Condensed Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars – Unaudited)

For the three-month periods ended March 31,	2021	2020
Net earnings	\$ 12,135	\$ 12,403
Other comprehensive income:		
Items that will not be reclassified subsequently to net earnings		
Actuarial gains (Note 6)	25,966	36,721
Income taxes relating to items that will not be reclassified subsequently to net earnings	(6,847)	(9,760)
Other comprehensive income	19,119	26,961
Total comprehensive income	\$ 31,254	\$ 39,364

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,

	2021								
	Shareholders' capital (Note 7)	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, 2020	\$ 3,992,754	\$ (19,318)	\$ 1,456	\$ 3,617	\$ 120,218	\$ 2,457,053	\$ 6,555,780	\$ (6,526,479)	\$ 29,301
Other comprehensive income	–	–	–	–	–	–	–	19,119	19,119
Net earnings	–	–	–	–	–	–	–	12,135	12,135
Total comprehensive income	–	–	–	–	–	–	–	31,254	31,254
Repurchase of common shares	(7,318)	–	–	–	–	–	(7,318)	6,683	(635)
Shares issued under the stock option plan	61	–	–	–	(16)	–	45	–	45
Dividends to shareholders	–	–	–	–	12	–	12	(2,917)	(2,905)
Restricted shares settled	–	545	–	–	(545)	–	–	–	–
Restricted shares (Note 10)	–	–	–	–	77	–	77	–	77
Stock options (Note 10)	–	–	–	–	(701)	–	(701)	–	(701)
Common shares subject to repurchase	–	–	–	–	979	–	979	–	979
Balance, March 31, 2021	\$ 3,985,497	\$ (18,773)	\$ 1,456	\$ 3,617	\$ 120,024	\$ 2,457,053	\$ 6,548,874	\$ (6,491,459)	\$ 57,415
	2020								
	Shareholders' capital (Note 7)	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, 2019	\$ 4,031,685	\$ (21,421)	\$ 1,456	\$ 3,619	\$ 123,410	\$ 2,457,053	\$ 6,595,802	\$ (6,612,462)	\$ (16,660)
Other comprehensive income	–	–	–	–	–	–	–	26,961	26,961
Net earnings	–	–	–	–	–	–	–	12,403	12,403
Total comprehensive income	–	–	–	–	–	–	–	39,364	39,364
Restricted shares settled	–	2,004	–	–	(2,004)	–	–	–	–
Restricted shares (Note 10)	–	–	–	–	226	–	226	–	226
Stock options (Note 10)	–	–	–	–	446	–	446	–	446
Balance, March 31, 2020	\$ 4,031,685	\$ (19,417)	\$ 1,456	\$ 3,619	\$ 122,078	\$ 2,457,053	\$ 6,596,474	\$ (6,573,098)	\$ 23,376

¹ The equity component of the exchangeable debentures presented above is net of income taxes of \$1.3 million (2020 - \$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,	2021	2020
OPERATING ACTIVITIES		
Net earnings	\$ 12,135	\$ 12,403
Adjusting items		
Stock-based compensation (recovery) expense – equity settled	(624)	672
Depreciation and amortization	5,092	7,601
Restructuring and other charges	1,056	3,315
Financial charges, net	3,795	4,181
Loss on sale of business (Note 14)	–	498
Provision for income taxes	4,505	4,565
Change in operating assets and liabilities	442	(466)
Funding of post-employment benefit plans in excess of costs	(926)	(1,070)
Restructuring and other charges paid	(2,332)	(3,939)
Interest paid	(587)	(612)
	22,556	27,148
INVESTING ACTIVITIES		
Additions to intangible assets	(1,206)	(1,147)
Additions to property and equipment	(34)	(84)
Payments received from net investment in subleases	315	215
Proceeds on sale of business (Note 14)	–	1,000
	(925)	(16)
FINANCING ACTIVITIES		
Repurchase of common shares (Note 7)	(635)	–
Issuance of common shares (Note 7)	45	–
Payment of lease obligations	(685)	(676)
Dividends paid	(2,905)	–
	(4,180)	(676)
NET INCREASE IN CASH	17,451	26,456
CASH, BEGINNING OF YEAR	153,492	44,408
CASH, END OF PERIOD	\$ 170,943	\$ 70,864

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

The Board of Directors (the “Board”) approved the interim condensed consolidated financial statements for the three-month periods ended March 31, 2021 and 2020 on May 12, 2021 for publication on May 13, 2021.

2. Basis of presentation and significant accounting policies

2.1 Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards (“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, 2020 and 2019, except as noted below. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2020 and 2019.

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

Amendments to IAS 1 - *Presentation of Financial Statements*

The amendments to IAS 1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least twelve months and make explicit that only rights in place at the end of the reporting period should affect the classification of a liability. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and are to be applied retrospectively. The Company is assessing the impact of adopting these amendments on its financial statements.

3. Trade and other receivables¹

As at	March 31, 2021	December 31, 2020
Current	\$ 38,607	\$ 44,686
Past due less than 180 days	5,234	7,138
Past due over 180 days	4,268	5,980
Trade receivables	\$ 48,109	\$ 57,804
Other receivables²	\$ 5,515	\$ 6,626
Trade and other receivables	\$ 53,624	\$ 64,430

¹ Trade and other receivables are presented net of allowance for revenue adjustments and ECL of \$32.8 million as at March 31, 2021 and \$34.3 million as at December 31, 2020.

² Other receivables as at March 31, 2021 and December 31, 2020 included a loan receivable of \$4.4 million associated with a forward contract.

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

As at	March 31, 2021	December 31, 2020
Contract assets	\$ 28,560	\$ 31,210
Allowance for revenue adjustments and ECL	(2,438)	(2,892)
Contract assets net of allowance for revenue adjustments and ECL	\$ 26,122	\$ 28,318

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

The change in contract assets for the three-month period ended March 31, 2021 is primarily related to the fluctuation in print revenue.

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

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

4. Exchangeable debentures

As at	March 31, 2021	December 31, 2020
Principal amount of exchangeable debentures (at maturity, November 30, 2022)	\$ 107,033	\$ 107,033
Less unaccreted interest	5,273	5,918
	\$ 101,760	\$ 101,115

The Company entered a Normal Course Issuer Bid ("NCIB") on April 20, 2020, to purchase up to \$6.6 million principal amount of its Exchangeable Debentures for cancellation on or before April 19, 2021. As at March 31, 2021, YP had purchased Exchangeable Debentures under this NCIB program, with a carrying value of \$52 thousand for cash and a face value of \$56 thousand. Purchases were made in accordance with the NCIB at the prevailing market price at the time of acquisition.

5. Restructuring and other charges

Yellow Pages Limited recorded restructuring and other charges of \$1.1 million during the first quarter of 2021 consisting mainly of restructuring charges of \$1.2 million associated with workforce reductions and a \$0.2 million recovery related to future operation costs provisioned related to lease contracts of previously vacated office space.

Yellow Pages Limited recorded restructuring and other charges of \$3.3 million during the first quarter of 2020 consisting mainly of restructuring charges of \$0.6 million associated with workforce reductions, a \$1.3 million charge related to future operation costs provisioned related to lease contracts for office closures, and a \$1.3 million charge related to property and equipment disposals and impairment of right-of-use assets related to vacated office space.

6. Post-employment benefits

Yellow Pages Limited recorded an actuarial gain of \$19.1 million in other comprehensive income, net of income taxes of \$6.8 million for the three-month period ended March 31, 2021. A gain of \$50.1 million resulting from the increase in the discount rate from 2.60% to 3.30%, partially offset by the increase in the inflation rate from 1.50% to 1.70% and a loss of \$24.1 million due to the lower than expected actual return on plan assets.

Yellow Pages Limited recorded an actuarial gain of \$27.0 million in other comprehensive income, net of income taxes of \$9.8 million for the three-month period ended March 31, 2020. A gain of \$84.4 million resulting from the increase in the discount rate from 3.10% to 3.80% and the decrease in the inflation rate from 1.40% to 0.90% was partially offset by a loss of \$47.6 million due to the lower than expected actual return on plan assets.

7. Shareholders' capital

Common shares – Issued

For the three-month period ended March 31, 2021	Number of Shares	Amount
Balance, December 31, 2020	27,828,906	\$ 3,992,754
Common shares repurchased	(50,960)	(7,318)
Shares issued under stock option plan	5,868	61
Exchange of common share purchase warrants	1	–
Balance, March 31, 2021	27,783,815	\$ 3,985,497

For the year ended December 31, 2020	Number of Shares	Amount
Balance, December 31, 2019	28,075,308	\$ 4,031,685
Common shares repurchased	(273,190)	(39,231)
Shares issued under stock option plan	26,788	300
Balance, December 31, 2020	27,828,906	\$ 3,992,754

Share repurchases

The Company entered into a normal course issuer bid (“NCIB”), commencing August 10, 2020, to purchase up to \$5.0 million of Common Shares in the open market for cancellation, on or before August 9, 2021. For the three-month period ended March 31, 2021, the Company purchased under this NCIB program 50,960 common shares for cash of \$0.6 million. The related historical carrying value of these shares was reclassified from shareholder’s capital to deficit.

Warrants

As at December 31, 2020, the Company had a total of 2,995,484 warrants outstanding for an amount of \$1.5 million. During the three-month period ended March 31, 2021, 1 warrant was exercised in exchange for 1 common share of Yellow Pages Limited. As at March 31, 2021, the Company had a total of 2,995,483 warrants outstanding for an amount of \$1.5 million.

Earnings per share

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

For the three-month periods ended March 31,	2021	2020
Weighted average number of shares outstanding used in computing basic per share ¹	26,405,287	26,501,932
Dilutive effect of restricted share units and performance share units	115,043	295,854
Dilutive effect of stock options	206,341	325,663
Dilutive effect of exchangeable debentures	5,621,481	5,624,422
Weighted average number of shares outstanding used in computing diluted earnings per share¹	32,348,152	32,747,871

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

For the three-month periods ended March 31,	2021	2020
Net earnings used in the computation of basic earnings per share	\$ 12,135	\$ 12,403
Impact of assumed conversion of exchangeable debentures, net of applicable taxes	2,051	2,039
Total net earnings used in the computation of diluted earnings per share	\$ 14,186	\$ 14,442

For the three-month periods ended March 31, 2021 and March 31, 2020, the diluted earnings per share calculation did not take into consideration the potential dilutive effect of the Warrants as well as stock options that are not in the money and therefore are not dilutive.

8. Operating costs

During the three-month period ended March 31, 2021, the Company applied for the Canada Emergency Wage Subsidy offered by the Government of Canada. The Company was eligible for the subsidy as it met the criteria for certain periods. Yellow Pages Limited received non-refundable contributions of \$0.7 million during the three-month period ended March 31, 2021 (2020 - \$nil) for admissible salaries related to its workforce. The contributions are recorded as a reduction to operating costs in the interim condensed consolidated statements of income.

9. Revenues

The Company reviews revenues by similar products and services, such as Print and Digital.

Print revenues are recognized at a point in time, whereas 100% of digital revenues were recognized over the term of the contract for the three-month period ended March 31, 2021 and 99% of digital revenues were recognized over the term of the contract and 1% at a point in time for the three-month period ended March 31, 2020 respectively.

The following table presents revenue information by similar products and services:

For the three-month periods ended March 31,	2021	2020
Digital	\$ 57,000	\$ 67,610
Print	16,514	20,698
Total revenues	\$ 73,514	\$ 88,308

10. Stock-based compensation plans

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

Restricted Share Unit and Performance Share Unit Plan

The total number of common shares of Yellow Pages Limited held by the trustee for the purpose of funding the restricted share unit and performance share unit plan (the "RSU and PSU Plan") amounted to 1,365,931 as at March 31, 2021.

The following table summarizes the continuity of the RSUs presented as a liability during the three-month periods ended March 31:

	2021		2020	
	Number of RSUs	Liability ¹	Number of RSUs	Liability ¹
Outstanding, beginning of period	327,617	\$ 831	156,839	\$ 972
Dividends credited ²	2,982	13	–	–
Variation due to change in fair value and vesting	–	465	–	104
Outstanding, end of period³	330,599	\$ 1,309	156,839	\$ 1,076

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

² Dividends in the form of additional RSUs are credited to the participant's account on each dividend payment date and are equivalent in value to the dividend paid on common shares.

³ The number of restricted shares vested as of March 31, 2021 is 106,662 (2020 – 135,056)

The following table summarizes the continuity of all RSUs and PSUs, including those shown in the table above, during the three-month periods ended March 31:

Number of	2021		2020	
	RSUs ¹	PSUs	RSUs ¹	PSUs
Outstanding, beginning of period	448,965	–	318,536	60,406
Granted	26,512	–	37,724	–
Reduction in payout related to under-achievement of targets ²	–	–	–	(15,105)
Settled	(33,855)	–	(60,406)	(45,301)
Dividends credited ³	4,021	–	–	–
Outstanding, end of period	445,643	–	295,854	–
Weighted average remaining life (years)	1.63	–	1.07	–

¹ Included in the RSUs outstanding balance as at March 31, 2021 are 330,599 RSUs granted in July 2020 as well as dividends credited related to this grant, representing a liability of \$1.3 million (2020 – \$1.1 million) 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 reduction in payout is related to the under-achievement of certain performance targets resulting in a reduction of 25% for the three-month period ended March 31, 2020.

³ Dividends in the form of additional RSUs are credited to the participant's account on each dividend payment date and are equivalent in value to the dividend paid on common shares.

During the three-month period ended March 31, 2021, an expense of \$ 0.6 million (2020 – an expense of \$0.2 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 (“DSUs”) during the three-month periods ended March 31:

	2021		2020	
	Number of DSUs	Liability ¹	Number of DSUs	Liability ¹
Outstanding, beginning of period	339,808	\$ 4,257	325,435	\$ 2,948
Granted ²	30,704	97	53,719	121
Dividends credited ³	3,372	41	–	–
Variation due to change in stock price	–	(90)	–	(613)
Outstanding and vested, end of period⁴	373,884	\$ 4,305	379,154	\$ 2,456

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

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

³ Dividends in the form of additional DSUs are credited to the participant’s account on each dividend payment date and are equivalent in value to the dividend paid on common shares.

⁴ The number of DSUs vested as of March 31, 2021 is 350,856 (2020 – 338,864).

During the three-month period ended March 31, 2021, an expense of \$48 thousand (2020 – a recovery of \$0.5 million) was recorded in the interim condensed consolidated statement of income in operating costs in relation to the Deferred Share Unit Plan.

Stock options

On March 23, 2021, the Board approved an amendment to the 2012 Stock Option Plan to increase the insider participation limits and the maximum number of shares issuable to one person from 5% of the issued and outstanding shares to 10% of the issued and outstanding shares. In addition, the 2012 Stock Option Plan was amended to provide that any Shares repurchased by the Company for cancellation pursuant to a NCIB will not constitute non-compliance with these limits for any Options outstanding prior to such purchase of Shares for cancellation.

At the Annual and Special Meeting of Shareholders held on May 13, 2020 an amendment to the 2012 Stock Option Plan was approved to provide for a cashless exercise feature, payable in cash, without a full deduction of the underlying shares from the plan reserve. Subject to approval of the Board or the Human Resources and Compensation Committee at the time of exercise, an option holder may elect to surrender an exercisable option for cancellation in exchange for a cash payment equal to the amount by which the fair market value of the share on the date of surrender exceeds the exercise price. The underlying shares in respect of the surrendered option will be added back to the plan reserve.

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

The following table summarizes the continuity of the stock options presented as a liability during the three-month periods ended March 31:

	2021		2020	
	Number of options	Liability ¹	Number of options	Liability ¹
Outstanding, beginning of year	1,567,847	\$ 1,703	701,875	\$ 1,078
Stock options reclassified from equity-settled to cash settled ²	351,088	1,106	–	–
Settled	(205,095)	(931)	–	–
Variation due to change in fair value and vesting	–	997	–	(533)
Outstanding, end of period³	1,713,840	\$ 2,875	701,875	\$ 545

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

² On February 10, 2021, a modification adding a cash alternative to the settlement of certain stock options resulted in an obligation to settle in cash. A re-class from equity to liability was recorded at the modification date, based on the difference between the fair value of the shares at the modification date and the exercise price of the option. The variation due to change in fair value subsequent to the modification date is included in operating costs.

³ The number of stock options vested as of March 31, 2021 is 784,599 (2020 – 604,392).

The following table summarizes the continuity of all stock options under the Stock Option Plan during the three-month periods ended March 31:

	2021		2020	
	Number of options	Weighted average exercise price per option	Number of options	Weighted average exercise price per option
Outstanding, beginning of year	2,717,779	\$ 8.71	1,983,102	\$ 7.11
Granted	519,276	\$ 11.86	436,582	\$ 12.10
Exercised	(5,868)	\$ 7.61	–	\$ –
Settled	(205,095)	\$ 7.61	–	\$ –
Outstanding, end of period	3,026,092	\$ 9.33	2,419,684	\$ 8.01
Exercisable, end of period	145,993	\$ 10.84	3,325	\$ 17.82

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

	2021	2020
Weighted average grant date share price	\$ 11.86	\$ 12.10
Exercise price	\$ 11.86	\$ 12.10
Expected volatility	54.2%	47.1%
Option life	2.7 years	2.8 years
Risk-free interest rate	0.66%	1.54%
Weighted average remaining life	2.6 years	2.7 years

During the three-month period ended March 31, 2021, an expense of \$1.4 million (2020 – a recovery of \$0.1 million) was recorded in the interim condensed consolidated statement of income in operating costs in relation to the Stock Option Plan.

Share appreciation rights plan

The following table summarizes the continuity of the share appreciation rights (“SARs”) during the three-month periods ended March 31:

	2021		2020	
	Number of SARs	Liability ¹	Number of SARs	Liability ¹
Outstanding, beginning of year	174,165	\$ 190	701,875	\$ 1,078
Variation due to change in fair value and vesting	–	106	–	(533)
Outstanding, end of period²	174,165	\$ 296	701,875	\$ 545

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

² The number of SARs vested as of March 31, 2021 is 70,956 (2020 – 604,392)

During the three-month period ended March 31, 2021, an expense of \$0.1 million (2020 – an expense of \$0.2 million) was recorded in the interim condensed consolidated statement of income in operating costs in relation to the SARs plan.

11. Financial charges, net

The significant components of the financial charges are as follows:

For the three-month periods ended March 31,	2021	2020
Interest on exchangeable debentures	\$ 2,803	\$ 2,795
Interest on lease obligations, net of interest income on investment in subleases	559	584
Net interest on the defined benefit obligations	811	951
Redemption option of the exchangeable debentures	(311)	–
Other, net	(67)	(149)
Financial charges, net	\$ 3,795	\$ 4,181

12. Income taxes

The combined statutory provincial and federal tax rates were 26.37% for the three-month period ended March 31, 2021 and 26.58% for the same period in 2020. The Company recorded an expense of \$4.5 million for the three-month period ended March 31, 2021 (2020 – \$4.6 million). The Company recorded an expense of 27.1% for the three-month period ended March 31, 2021 (2020 – 26.9%).

The difference between the effective and the statutory rates for the three-month periods ended March 31, 2021 and 2020 is due to the non-deductibility of certain expenses for tax purposes.

13. Financial Instruments - Fair values and Risk Management

Fair value hierarchy

The three levels of fair value hierarchy are as follows:

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

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

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

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

The redemption option on the exchangeable debentures is recorded at fair value on the interim condensed consolidated statements of financial position as Financial and other assets with changes in fair value recognized in financial charges. The fair value as at March 31, 2021 was \$2.9 million and was \$2.6 million at December 31, 2020.

The following schedule represents the carrying value and the fair value of financial instrument not measured at fair value in the interim condensed consolidated statement of financial position as at March 31, 2021. The fair value of cash, trade and other receivables, and trade and other payables are not included, as their carrying amount is a reasonable approximation of fair value due to their short-term maturity:

	Level	Carrying Value	Fair Value
Exchangeable debentures	1	\$ 107,760	\$ 107,472

Asset-Based Loan

The Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, has an asset-based loan (ABL) with a term of the ABL to August 2022 and a total commitment of \$25.0 million. The ABL is being used for general corporate purposes. Through the ABL, the Company has access to the funds in the form of prime rate loans, Banker's acceptance (BA) equivalent loans or letters of credit. The ABL is subject to an availability reserve of \$5.0 million if the Company's trailing twelve-month fixed charge coverage ratio is below 1.1 times. As at March 31, 2021, the Company's fixed charge coverage ratio was 3.2 times. The Company had \$3.4 million of letters of credit issued and outstanding under the ABL and a \$2.2 million deficiency in qualified collateral. As such, \$19.4 million of the ABL was available as at March 31, 2021. As at March 31, 2021, the Company was in compliance with all covenants under the loan agreement governing the ABL.

14. Loss on sale of business

On July 6, 2018, the Company's wholly-owned subsidiary, Yellow Pages Digital & Media Solutions Limited, sold ComFree/DuProprio ("CFDP") to Purplebricks Group PLC ("PB") for cash consideration of \$51.0 million on a cash free debt free basis, subject to a working capital adjustment. Of the \$1.8 million balance that had been placed in escrow, an amount of \$1.0 million was received by the Company on February 18, 2020. The Company recorded a loss on sale of business of \$0.5 million related to the amount in escrow it no longer expects to receive, in the interim condensed consolidated statements of income for the three-month period ended March 31, 2020. The remaining balance was received during the fourth quarter of 2020.

15. Subsequent events

On April 23, 2021, the Company announced that it would fully repay the principal amount of Exchangeable Debentures of \$107.0 million at par plus any accrued and unpaid interest on May 31, 2021.