UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW PAGES LIMITED

June 30, 2018 and 2017

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Interim Condensed Consolidated Statements of Financial Position

(in thousands of Canadian dollars – Unaudited)

As at	June 30, 2018	December 31, 2017	January 1, 2017
ASSETS		(Restated – Note 2)	(Restated – Note 2)
CURRENT ASSETS			
Cash	**$ 64,984**	$ 46,405	$ 17,260
Trade and other receivables (Note 3)	**153,807**	187,524	191,067
Prepaid expenses	**8,437**	8,760	8,934
Deferred publication costs	**2,908**	3,977	4,524
Income taxes receivable	**3,314**	3,214	3,057
Assets held for sale (Note 4)	**63,783**	–	–
TOTAL CURRENT ASSETS	**297,233**	249,880	224,842
NON-CURRENT ASSETS			
Deferred commissions (Note 5)	**12,633**	16,879	19,955
Financial and other assets (Note 16)	**7,044**	13,338	4,008
Investment in jointly controlled entity	–	–	1,157
Property and equipment	**44,435**	50,966	35,864
Right-of-use assets	**38,721**	50,644	40,937
Net investment in sublease	**4,641**	–	–
Intangible assets	**136,950**	193,352	740,932
Goodwill	–	26,829	45,342
Deferred income taxes	**2,621**	2,487	49,447
TOTAL NON-CURRENT ASSETS	**247,045**	354,495	937,642
TOTAL ASSETS	**$ 544,278**	$ 604,375	$ 1,162,484
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	**$ 52,500**	$ 83,627	$ 79,494
Provisions	**33,195**	45,251	51,684
Deferred revenues (Note 3)	**4,932**	7,530	8,131
Current portion of lease obligations (Note 6)	**5,012**	1,888	9,045
Current portion of senior secured notes (Note 7)	**114,000**	54,939	75,161
Liabilities held for sale (Note 4)	**16,680**	–	–
TOTAL CURRENT LIABILITIES	**226,319**	193,235	223,515
NON-CURRENT LIABILITIES			
Provisions	**2,431**	8,380	3,343
Deferred income taxes	**30,270**	24,102	7,108
Post-employment benefits (Note 10)	**132,209**	143,372	154,172
Lease obligations (Note 6)	**75,106**	84,291	52,607
Senior secured notes (Note 7)	**165,154**	253,959	234,508
Exchangeable debentures (Note 8)	**95,094**	94,067	92,174
TOTAL NON-CURRENT LIABILITIES	**500,264**	608,171	543,912
TOTAL LIABILITIES	**726,583**	801,406	767,427
CAPITAL AND RESERVES	**6,596,757**	6,595,521	6,597,891
DEFICIT	**(6,779,062)**	(6,792,552)	(6,202,834)
TOTAL DEFICIENCY	**(182,305)**	(197,031)	395,057
TOTAL LIABILITIES AND DEFICIENCY	**$ 544,278**	$ 604,375	$ 1,162,484

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

Interim Condensed Consolidated Statements of Income (Loss)

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

For the three and six-month periods ended June 30,	2018	2017	2018	2017
		(Restated – Note 2)		(Restated – Note 2)
Revenues	$ **163,212**	$ 193,515	$ **322,526**	$ 373,723
Operating costs	**105,990**	143,573	**217,371**	282,247
Income from operations before depreciation and amortization, and restructuring and other charges (recovery)	**57,222**	49,942	**105,155**	91,476
Depreciation and amortization	**19,202**	29,262	**40,086**	56,845
Restructuring and other charges (recovery) (Note 9)	**(1,754)**	2,778	**9,444**	10,064
Income from operations	**39,774**	17,902	**55,625**	24,567
Financial charges, net (Note 14)	**13,977**	12,808	**28,139**	25,233
Loss on sale of subsidiaries (Notes 4 and 15)	**903**	–	**903**	–
Earnings (loss) before income taxes and loss from investment in a jointly controlled entity	**24,894**	5,094	**26,583**	(666)
Provision for income taxes	**8,248**	2,344	**10,856**	1,312
Loss from investment in a jointly controlled entity	–	362	–	721
Net earnings (loss)	$ **16,646**	$ 2,388	$ **15,727**	$ (2,699)
Basic earnings (loss) per share	$ 0.63	$ 0.09	$ 0.60	$ (0.10)
Weighted average shares outstanding – basic earnings (loss) per share (Note 11)	26,446,467	26,663,288	26,386,176	26,554,212
Diluted earnings (loss) per share	$ 0.56	$ 0.09	0.57	$ (0.10)
Weighted average shares outstanding – diluted earnings (loss) per share (Note 11)	33,205,690	28,075,306	27,520,977	26,554,212

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 and six-month periods ended June 30,	2018	2017	2018	2017
		(Restated – Note 2)		(Restated – Note 2)
Net earnings (loss)	**$ 16,646**	$ 2,388	**$ 15,727**	$ (2,699)
Other comprehensive income (loss):				
Items that will be reclassified subsequently to net earnings (loss)				
Net change in fair value of derivatives designated as cash flow hedges	–	(382)	–	(782)
Reclassification to earnings of derivatives designated as cash flow hedges	–	(302)	–	(401)
Income taxes relating to items that will be reclassified subsequently to net earnings (loss)	–	184	–	317
	–	(500)	–	(866)
Items that will not be reclassified subsequently to net earnings (loss)				
Net change in fair value of equity investments reported in other comprehensive income (“FVOCI”) (Note 16)	–	–	**(5,514)**	–
Actuarial gains (losses) (Note 10)	**7,977**	(15,542)	**10,752**	(5,127)
Income taxes relating to items that will not be reclassified subsequently to net earnings	**(2,148)**	4,175	**(2,875)**	1,377
	5,829	(11,367)	**2,363**	(3,750)
Other comprehensive income (loss)	**5,829**	(11,867)	**2,363**	(4,616)
Total comprehensive income (loss)	**$ 22,475**	$ (9,479)	**$ 18,090**	$ (7,315)

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 six-month periods ended June 30,

2018

	Shareholders' capital (Note 10)	**Restricted shares**	**Warrants**	**Compound financial instruments[1]**	**Stock-based compensation and other reserves**	**Reduction of capital reserve**	**Total capital and reserves**	**Deficit**	**Total deficiency**
Balance, December 31, 2017, as previously reported	4,031,685	(27,572)	1,456	3,619	129,280	2,457,053	**6,595,521**	(6,814,317)	**(218,796)**
Adjustment for IFRS 15 (Note 2)	–	–	–	–	–	–	**–**	28,898	**28,898**
Adjustment for IFRS 16 (Note 2)	–	–	–	–	–	–	**–**	(7,133)	**(7,133)**
Restated balance, December 31, 2017	**4,031,685**	**(27,572)**	**1,456**	**3,619**	**129,280**	**2,457,053**	**6,595,521**	**(6,792,552)**	**(197,031)**
Adjustment for IFRS 9 (Note 2)	–	–	–	–	–	–	**–**	(4,600)	**(4,600)**
Restated balance, January 1, 2018	**4,031,685**	**(27,572)**	**1,456**	**3,619**	**129,280**	**2,457,053**	**6,595,521**	**(6,797,152)**	**(201,631)**
Other comprehensive income	–	–	–	–	–	–	–	2,363	2,363
Net earnings	–	–	–	–	–	–	–	15,727	15,727
Total comprehensive income	–	–	–	–	–	–	–	18,090	18,090
Restricted shares settled	–	3,749	–	–	(3,749)	–	–	–	–
Restricted shares (Note 13)	–	–	–	–	1,005	–	1,005	–	1,005
Stock options (Note 13)	–	–	–	–	231	–	231	–	231
Balance, June 30, 2018	**4,031,685**	**(23,823)**	**1,456**	**3,619**	**126,767**	**2,457,053**	**6,596,757**	**(6,779,062)**	**(182,305)**

2017

	Shareholders' capital	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, as previously reported	4,031,685	(31,848)	1,456	3,619	135,926	2,457,053	6,597,891	(6,228,987)	368,904
Adjustment for IFRS 15 (Note 2)	–	–	–	–	–	–	–	31,042	31,042
Adjustment for IFRS 16 (Note 2)	–	–	–	–	–	–	–	(4,889)	(4,889)
Restated balance at December 31, 2016 and January 1, 2017	4,031,685	(31,848)	1,456	3,619	135,926	2,457,053	6,597,891	(6,202,834)	395,057
Other comprehensive loss	–	–	–	–	(866)	–	(866)	(3,750)	(4,616)
Restated net loss (Note 2)	–	–	–	–	–	–	–	(2,699)	(2,699)
Restated total comprehensive loss	–	–	–	–	(866)	–	(866)	(6,449)	(7,315)
Restricted shares settled	–	6,409	–	–	(6,409)	–	–	–	–
Restricted shares (Note 13)	–	(3,129)	–	–	2,935	–	(194)	–	(194)
Stock options (Note 13)	–	–	–	–	283	–	283	–	283
Restated balance, June 30, 2017	4,031,685	(28,568)	1,456	3,619	131,869	2,457,053	6,597,114	(6,209,283)	387,831

[1] *The equity component of the exchangeable debentures presented above is net of income taxes of $1.3 million (2017 - $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 six-month periods ended June 30,	2018	2017
		(Restated – Note 2)
OPERATING ACTIVITIES		
Net earnings (loss)	**$ 15,727**	$ (2,699)
Adjusting items		
Stock-based compensation expense – equity settled	**1,236**	3,218
Depreciation and amortization	**40,086**	56,845
Restructuring and other charges	**9,444**	10,064
Financial charges, net	**28,139**	25,233
Loss on sale of subsidiaries	**903**	–
Provision for income taxes	**10,856**	1,312
Loss from investment in a jointly controlled entity	–	721
Change in operating assets and liabilities	**480**	615
Funding of post-employment benefit plans in excess of costs	**(4,086)**	(5,498)
Restructuring and other charges paid	**(20,826)**	(13,689)
Interest paid	**(24,820)**	(21,444)
Income taxes paid, net	**(157)**	(51)
	56,982	54,627
INVESTING ACTIVITIES		
Additions to intangible assets	**(8,176)**	(19,102)
Additions to property and equipment	**(1,072)**	(7,979)
Lease incentives received	**3,437**	338
Payments received from net investment in sublease	**182**	–
Proceeds on sale of subsidiaries	**750**	–
Purchase of available-for-sale investments	–	(5,453)
Investment in a jointly controlled entity	–	(530)
	(4,879)	(32,726)
FINANCING ACTIVITIES		
Repayment of senior secured notes	**(30,244)**	(17,421)
Purchase of restricted shares (Note 13)	–	(3,129)
Payment of lease obligations	**(3,280)**	(4,024)
	(33,524)	(24,574)
NET INCREASE (DECREASE) IN CASH	**18,579**	(2,673)
CASH, BEGINNING OF YEAR	**46,405**	17,260
CASH, END OF PERIOD	**$ 64,984**	$ 14,587

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 and six-month periods ended June 30, 2018 and 2017 and authorized their publication on August 9, 2018.

2. Basis of presentation

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, 2017 and 2016, except for new standards adopted from January 1, 2018 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, 2017 and 2016.

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, 2018 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 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.

2.3 Standards, interpretations and amendments to published standards adopted with an effect on the interim condensed 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 (adjustment a). Similarly, publication costs and commissions will be deferred and recognized upon delivery of the publication (adjustment b). 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 to media account consultants for contract renewals with revenue recognized over one year or less. However, costs to obtain contracts relating to the commission fees paid to media account consultants 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 (adjustment c). Yellow Pages Limited has applied IFRS 15 in accordance with the full retrospective approach.

(all tabular amounts are in thousands of Canadian dollars, except share information - Unaudited)

The amount of adjustment for each financial statement line item affected by the application of IFRS 15 for the prior periods is presented below.

Impact of the application of IFRS 15

Impact on net (liabilities) assets as at:

	Adjustment note	December 31, 2017	January 1, 2017
Net (liabilities) assets[1] as previously reported		$ (218,796)	$ 368,904
Differences increasing (decreasing) net assets (liabilities)			
Trade and other receivables	(a)	63,473	76,213
Deferred publication costs	(b)	(49,602)	(56,620)
Deferred commissions (previously presented in deferred publication costs)	(c)	10,102	12,019
Deferred revenues	(a)	7,211	10,796
Deferred income taxes		(2,286)	(11,366)
Net (liabilities) assets		$ (189,898)	$ 399,946

1 *Represents total assets less total liabilities as presented in the consolidated statements of financial position.*

Impact on net earnings for the three and six-month periods ended June 30, 2017:

	Adjustment note	Three-month period ended June 30, 2017	Six-month period ended June 30, 2017
Net earnings as previously reported		$ 820	$ 1,478
Differences increasing (decreasing) reported net earnings (loss)			
Revenues	(a)	2,296	(7,004)
Operating costs	(b), (c)	492	2,213
Provision for income taxes		(757)	1,287
Net earnings (loss)		$ 2,851	$ (2,026)

Impact on basic earnings per share for the three and six-month periods ended June 30, 2017:

	Three-month period ended June 30, 2017	Six-month period ended June 30, 2017
Basic earnings per share as previously reported	$ 0.03	$ 0.06
IFRS 15	0.08	(0.13)
Basic earnings (loss) per share	$ 0.11	$ (0.07)

(all tabular amounts are in thousands of Canadian dollars, except share information - Unaudited)

Impact on diluted earnings (loss) per share for the three and six-month periods ended June 30, 2017:

	Three-month period ended June 30, 2017	Six-month period ended June 30, 2017
Diluted earnings per share as previously reported	$ 0.03	$ 0.05
IFRS 15	0.08	(0.12)
Diluted earnings (loss) per share	$ 0.11	$ (0.07)

The application of IFRS 15 resulted in a $31.0 million reduction of the Company's deficit, and an increase in total equity of $31.0 million as at January 1, 2017.

There was no impact on other comprehensive income (loss) as at June 30, 2017 and December 31, 2017 associated with the application of IFRS 15.

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 (adjustment a) and a lease obligation representing its obligation to make lease payments (adjustment b). The right-of-use asset is initially measured at cost and subsequently depreciated. Initial measurement of costs is determined by the amount of the initial measurement of the lease obligations, less any lease inducements receivable and any lease payments made at or before the commencement date, plus any initial direct costs, and any restoration costs. 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. The Company uses its incremental borrowing rate as the discount rate. The lease obligation is measured at amortized cost using the effective interest rate method and is subsequently adjusted for interest and lease payments. Onerous leases previously accrued in provisions are now impairing right-of-use assets (adjustment c). Yellow Pages Limited has applied IFRS 16 in accordance with the full retrospective approach.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under previous standards were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2018.

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. The Company assessed and classified its sublease as a finance lease under IFRS 16, and therefore derecognized the right-of-use asset relating to the head lease being sublet, and recognized a lease receivable equal to the net investment in the sublease, retained the previously recognized lease obligation in its capacity as lessee, recognized the related interest expense thereafter, and recognized interest income on the sublease receivable in its capacity as finance lessor.

(all tabular amounts are in thousands of Canadian dollars, except share information - Unaudited)

The amount of adjustment for each financial statement line item affected by the application of IFRS 16 for the prior periods is presented below.

Impact of the application of IFRS 16

Impact on net (liabilities) assets as at:

	Adjustment note	December 31, 2017	January 1, 2017
Net (liabilities) assets as previously reported		$ (218,796)	$ 368,904
Differences increasing (decreasing) net assets (liabilities)			
Property and equipment (reclassification of pre-IFRS 16 right-of-use assets)	(a)	(195)	(330)
Right-of-use assets	(a)	50,644	40,937
Provisions	(c)	8,299	2,310
Long-term debt (reclassification of pre-IFRS 16 lease obligations)	(b)	215	359
Lease obligations	(b)	(86,179)	(61,652)
Deferred lease inducements	(a), (b)	17,749	11,821
Deferred income taxes		2,334	1,666
Net (liabilities) assets		$ (225,929)	$ 364,015

Impact on net earnings for the three and six-month periods ended June 30, 2017:

	Adjustment note	Three-month period ended June 30, 2017	Six-month period ended June 30, 2017
Net earnings as previously reported		$ 820	$ 1,478
Differences increasing (decreasing) reported net earnings (loss)			
Operating costs	(b)	2,729	5,367
Depreciation and amortization	(a)	(1,916)	(3,719)
Financial charges, net	(b)	(1,479)	(2,574)
Provision for income taxes		203	253
Net earnings		$ 357	$ 805

Impact on basic earnings per share for the three and six-month periods ended June 30, 2017:

	Three-month period ended June 30, 2017	Six-month period ended June 30, 2017
Basic earnings per share as previously reported	$ 0.03	$ 0.06
IFRS 16	(0.02)	(0.03)
Basic earnings per share	$ 0.01	$ 0.03

(all tabular amounts are in thousands of Canadian dollars, except share information - Unaudited)

Impact on diluted earnings per share for the three and six-month periods ended:

	Three-month period ended June 30, 2017	Six-month period ended June 30, 2017
Diluted earnings per share as previously reported	$ 0.03	$ 0.05
IFRS 16	(0.02)	(0.03)
Diluted earnings per share	$ 0.01	$ 0.02

The application of IFRS 16 resulted in a $4.9 million increase of the Company's deficit, and a decrease in total equity of $4.9 million as at January 1, 2017.

There was no impact on other comprehensive income (loss) as at June 30, 2017 and December 31, 2017 associated with the adoption of IFRS 16.

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 following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as at January 1, 2018. There were no changes to the measurement categories under IFRS 9 for the Company's financial liabilities as at January 1, 2018 and therefore the Company's financial liabilities are not presented in the table below.

As at January 1, 2018	**Original classification under IAS 39**	**New Classification under IFRS 9**	**Original Carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Financial assets				
Cash	Loans and receivables	Amortized cost	$ 46,405	$ 46,405
Trade and other receivables	Loans and receivables	Amortized cost	124,051	119,451
Investments	Available-for-sale	FVOCI – equity instrument	5,502	5,502
Total			**$ 175,958**	**$ 171,358**

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. 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. Therefore, it is no longer necessary for a credit event to have occurred before credit losses are recognized. For trade receivables and contract assets, the Company applied the simplified approach permitted under IFRS 9, which requires lifetime ECL to be recognized from initial recognition. While cash and other receivables are also subject to the impairment requirements under IFRS 9, the identified expected credit loss was immaterial.

(all tabular amounts are in thousands of Canadian dollars, except share information - Unaudited)

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 Company has determined that the application of IFRS 9's impairment requirements as at January 1, 2018 results in an additional expected credit loss allowance as follows.

Loss allowance at December 31, 2017 under IAS 39	$	**17,064**
Additional expected credit loss allowance recognized as at January 1, 2018 on:		
Trade and other receivables as at January 1, 2018		2,800
Contract assets recognized on adoption of IFRS 15		1,800
Expected credit loss allowance at January 1, 2018 under IFRS 9	$	21,664

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

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. Yellow Pages is evaluating the impact this interpretation paper will have on its consolidated financial statements.

3. Contract assets and liabilities

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

As at		**June 30, 2018**		December 31, 2017 (Restated – Note 2)		January 1, 2017 (Restated – Note 2)
Contract assets	$	**63,789**	$	68,473	$	81,213
Less provisions for impairment		**1,561**		1,677		1,989
Contract asset net of provisions for impairment	$	**62,228**	$	66,796	$	79,224

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 and other receivables at the point at which it is invoiced to the customer.

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

(all tabular amounts are in thousands of Canadian dollars, except share information - Unaudited)

4. Disposal group held for sale

The assets and liabilities of ComFree/Du Proprio network ("CFDP"), part of the Real Estate segment, have been classified as held for sale following the commitment from management in June 2018 to sell the shares in the business. The sale was completed on July 6, 2018.

As at June 30, 2018, the disposal group comprised assets of $63.8 million and liabilities of $16.7 million, detailed as follows:

Assets held for sale		
Trade and other receivables	$	3,597
Prepaid expenses		419
Deferred publication costs		520
Property and equipment		1,014
Right-of-use assets		996
Intangible assets		30,725
Goodwill		25,828
Deferred income taxes		684
	$	**63,783**

Liabilities held for sale		
Trade and other payables	$	3,124
Income taxes payable		555
Provisions		2,102
Deferred revenues		2,119
Deferred income taxes		7,770
Lease obligations		1,010
	$	**16,680**

An impairment loss of $1.0 million allocated to goodwill has been recognized on the remeasurement of the assets and liabilities to write down the carrying amount of the disposal group to its fair value less costs of disposal. This impairment loss has been recorded on the interim condensed consolidated statements of income as a loss on sale of subsidiaries (Note 15).

5. Deferred Commissions

Deferred commissions paid to media account consultants represent costs to obtain new sales contracts. These costs are amortized on a straight-line basis over a two-year period as this reflects the expected period of benefit. During the three and six-month periods ended June 30, 2018, Yellow Pages Limited recorded in operating costs amortization charges related to deferred commissions of $9.0 million and $4.4 million, respectively (2017 – $5.1 million and $10.2 million, respectively). Applying the practical expedient under IFRS 15, the Company recognizes as an expense the commissions paid to media account consultants for contract renewals with revenue recognized over one year or less.

(all tabular amounts are in thousands of Canadian dollars, except share information - Unaudited)

6. Lease obligations

As at	June 30, 2018	December 31, 2017 (Restated – Note 2)	January 1, 2017 (Restated – Note 2)
Lease obligations	**$ 80,118**	$ 86,179	$ 61,652
Less current portion	**5,012**	1,888	9,045
Non-current portion	**$ 75,106**	$ 84,291	$ 52,607

7. Senior secured notes

The senior secured notes is comprised of the following:

As at	June 30, 2018	December 31, 2017 (Restated – Note 2)	January 1, 2017 (Restated – Note 2)
Principal amount of the 10.00% senior secured notes	**$ 284,756**	$ 315,000	$ 309,669
Less unaccreted discount	**5,602**	6,102	–
	$ 279,154	$ 308,898	$ 309,669
Less current portion[1]	**114,000**	54,939	75,161
Non-current portion	**$ 165,154**	$ 253,959	$ 234,508

[1] *The current portion of the 10.00% senior secured notes may vary subject to the Excess Cash Flow clause as well as the minimum cash balance requirement on the last day of the mandatory redemption period under the indenture governing the 10.00% senior secured notes.*

8. Exchangeable debentures

As at	June 30, 2018	December 31, 2017	January 1, 2017
Principal amount of exchangeable debentures	**$ 107,089**	$ 107,089	107,089
Less unaccreted interest	**11,995**	13,022	14,915
	$ 95,094	$ 94,067	$ 92,174

9. Restructuring and other charges (recovery)

Yellow Pages Limited recorded restructuring and other charges (recovery) of $(1.8) million for the three-month period ended June 30, 2018 (2017 – $2.8 million) consisting of restructuring charges of $5.5 million mainly due to workforce reductions, which were more than offset by a net recovery of $7.3 million relating to the impairment of right-of-use assets and future operation costs provisioned for lease contracts for office closures as a result of a more favorable lease recovery than anticipated.

Yellow Pages Limited recorded restructuring and other charges (recovery) of $9.4 million for the six-month period ended June 30, 2018 (2017 – $10.1 million) consisting of restructuring charges of $25.1 million mainly due to workforce reductions, offset by the $10.6 million impact of a favorable litigation settlement on a contractual obligation with a vendor. Additionally, the restructuring charges were offset by a net recovery of $5.2 million which includes the impairment of right-of-use assets and future operation costs provisioned related to lease contracts for office closures as a result of a more favorable lease recovery than anticipated ($7.3 million), partially offset by an additional impairment of right-of-use assets and future operation costs related to lease contracts for office closures.

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10. Post-employment benefits

Yellow Pages Limited recorded an actuarial gain of $5.8 million in other comprehensive income (loss), net of income tax expense of $2.2 million, for the three-month period ended June 30, 2018, primarily due to a higher than expected return on plan assets. Yellow Pages Limited recorded an actuarial loss of $11.4 million in other comprehensive income (loss), net of income tax recovery of $4.1 million, for the three-month period ended June 30, 2017, primarily as a result of a decrease in the discount rate used to measure the post-employment benefits obligation from 3.75% to 3.5%.

Yellow Pages Limited recorded an actuarial gain of $7.9 million in other comprehensive income (loss), net of income tax expense of $2.9 million, for the six-month period ended June 30, 2018, primarily due to a higher than expected return on plan assets as well as an increase in the discount rate from 3.50% to 3.60% and a decrease in the inflation rate from 1.75% to 1.70% in the first quarter of 2018. Yellow Pages Limited recorded an actuarial loss of $3.8 million in other comprehensive income (loss), net of income tax recovery of $1.3 million, for the six-month period ended June 30, 2017, as a result of a decrease in the discount rate used to measure the post-employment benefits obligation from 3.75% to 3.5%, offset by a gain due to the plan assets' performance.

11. Shareholders' capital

Common shares – Issued

For the six-month period ended June 30, 2018	**Number of Shares**		**Amount**
Balance, December 31, 2017	28,075,306	$	4,031,685
Exchange of common share purchase warrants	2		–
Balance, June 30, 2018	**28,075,308**	**$**	**4,031,685**

Warrants

During the six-month period ended June 30, 2018, 2 common share purchase warrants ("Warrants") were exercised in exchange for 2 common shares of Yellow Pages Limited (2017 – 2 Warrants). As at June 30, 2018 and December 31, 2017, the Company had a total of 2,995,484 and 2,995,486 Warrants outstanding, respectively.

Earnings per share

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

For the three and six-month periods ended June 30,	**2018**	2017	**2018**	2017
Weighted average number of shares outstanding used in computing basic earnings per share	26,446,467	26,663,288	26,386,176	26,554,212
Dilutive effect of restricted share units and performance share units	1,134,801	1,412,018	1,134,801	–
Dilutive effect of exchangeable debentures	5,624,422	–	–	–
Weighted average number of shares outstanding used in computing diluted earnings per share[1]	33,205,690	28,075,306	27,520,977	26,554,212

(all tabular amounts are in thousands of Canadian dollars, except share information - Unaudited)

For the three and six-month periods ended June 30,		**2018**		2017 (Restated – Note 2)		**2018**		2017 (Restated – Note 2)
Net earnings (loss) used in the computation of basic earnings per share	$	16,646	$	2,388	$	15,727	$	(2,699)
Impact of assumed conversion of exchangeable debentures, net of applicable taxes		1,944		–		–		–
Net earnings (loss) used in the computation of basic and diluted earnings per share	$	18,590	$	2,388	$	15,727	$	(2,699)

[1] The weighted average number of shares outstanding used in the earnings (loss) 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 six-month periods ended June 30, 2018 and June 30, 2017 and three-month period ended June 30, 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 and six-month periods ended June 30, 2018 and the three and six-month periods ended June 30, 2017, 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 as they are not dilutive.

12. Segmented information

The operations are divided into four reportable segments: YP, Agency, Real Estate and Other, which operate primarily in Canada, with substantially all of their assets also in Canada. The financial information has been prepared in the same manner as the December 31, 2017 audited financial statements except for reflecting changes for the new standards adopted on January 1, 2018 in note 2.3.

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.

The Agency segment provides national advertising services to brands and publishers, primarily through its Mediative division, and JUICE Mobile and Totem subsidiaries. Mediative offers dedicated marketing and performance media services to national clients Canada-wide. JUICE Mobile's proprietary Programmatic Direct and Real-Time Bidding platforms facilitate the automatic buying and selling of mobile advertising between brands and advertisers. This segment included the operations of Totem which provided customized content creation and delivery for global brands until the operations were sold as of May 31, 2018.

The Company divested all of the operations of its Real Estate segment through the sales of ComFree/DuProprio (CFDP) as of July 6, 2018 and Yellow Pages NextHome as of July 23, 2018, however the segment was in full operation during the periods presented. 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. It addressed the needs of the consumer in the Canadian real estate market via its ComFree/DuProprio (CFDP) and Yellow Pages NextHome subsidiaries.

Yellow Pages 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. The President and Chief Executive Officer ("CEO") is the Chief Operating Decision Maker and he uses Income from operations before depreciation and amortization, and restructuring and other charges (recovery) less capital expenditures, to measure the performance of each segment. The Chief Operating Decision Maker also reviews revenues by similar products and services, such as Print and Digital.

Print revenues are recognized at a point in time, whereas 89% of digital revenues are recognized over time of the contract and 11% at a point in time.

(all tabular amounts are in thousands of Canadian dollars, except share information - Unaudited)

The following tables present financial information for the three-month periods ended June 30, 2018 and 2017.

For the three-month period ended June 30, 2018

	YP	Agency	Real Estate	Other	Intersegment eliminations	Yellow Pages Limited
Revenues						
Print	$ 37,825	$ 904	$ 2,024	$ 669	$ (12)	**$ 41,410**
Digital	89,351	14,094	15,707	3,462	(812)	**121,802**
Total revenues	**127,176**	**14,998**	**17,731**	**4,131**	**(824)**	**163,212**
Operating costs	73,433	13,935	15,630	3,816	(824)	105,990
Income from operations before depreciation and amortization, and restructuring and other charges (recovery)	$ 53,743	$ 1,063	$ 2,101	$ 315	$ –	**$ 57,222**
Depreciation and amortization						19,202
Restructuring and other charges (recovery)						(1,754)
Financial charges, net						13,977
Loss on sale of subsidiaries						903
Provision for income taxes						8,248
Net earnings						**$ 16,646**
Additions to intangible assets and property and equipment, net of lease incentives received	$ (72)	$ 18	$ 319	$ 151	$ –	**$ 416**

For the three-month period ended June 30, 2017[1] (Restated – Note 2)

	YP	Agency	Real Estate	Other	Intersegment eliminations	Yellow Pages Limited
Revenues						
Print	$ 49,302	$ 2,250	$ 2,983	$ 1,326	$ (23)	$ 55,838
Digital	103,103	16,602	14,139	4,820	(987)	137,677
Total revenues	152,405	18,852	17,122	6,146	(1,010)	193,515
Operating costs	104,606	19,591	14,783	5,603	(1,010)	143,573
Income (loss) from operations before depreciation and amortization, and restructuring and other charges (recovery)	$ 47,799	$ (739)	$ 2,339	$ 543	$ –	$ 49,942
Depreciation and amortization						29,262
Restructuring and other charges (recovery)						2,778
Financial charges, net						12,808
Provision for income taxes						2,344
Loss from investment in a jointly controlled entity						362
Net earnings						$ 2,388
Additions to intangible assets and property and equipment, net of lease incentives received	$ 9,480	$ 626	$ 268	$ 1,511	$ –	$ 11,885

[1] *The three-month period ended June 30, 2017 was restated to reflect the adoption of IFRS 15 and 16, which were applied using the full retrospective approach.*

(all tabular amounts are in thousands of Canadian dollars, except share information - Unaudited)

The following tables present financial information for the six-month periods ended June 30, 2018 and 2017.

For the six-month period ended June 30, 2018

	YP	Agency	Real Estate	Other	Intersegment eliminations	Yellow Pages Limited
Revenues						
Print	$ 70,798	$ 2,016	$ 4,419	$ 1,163	$ (22)	**$ 78,374**
Digital	181,811	26,667	30,001	7,280	(1,607)	**244,152**
Total revenues	**252,609**	**28,683**	**34,420**	**8,443**	**(1,629)**	**322,526**
Operating costs	151,904	28,089	31,205	7,802	(1,629)	217,371
Income from operations before depreciation and amortization, and restructuring and other charges (recovery)	$ 100,705	$ 594	$ 3,215	$ 641	$ –	**$ 105,155**
Depreciation and amortization						40,086
Restructuring and other charges (recovery)						9,444
Financial charges, net						28,139
Loss on sale of subsidiaries						903
Provision for income taxes						10,856
Net earnings						**$ 15,727**
Additions to intangible assets and property and equipment, net of lease incentives received	$ 4,820	$ 144	$ 481	$ 366	$ –	**$ 5,811**

For the six-month period ended June 30, 2017[1] (Restated – Note 2)

	YP	Agency	Real Estate	Other	Intersegment eliminations	Yellow Pages Limited
Revenues						
Print	$ 89,640	$ 3,159	$ 6,750	$ 2,009	$ (35)	$ 101,523
Digital	206,520	30,219	27,731	9,496	(1,766)	272,200
Total revenues	296,160	33,378	34,481	11,505	(1,801)	373,723
Operating costs	205,547	37,855	30,043	10,603	(1,801)	282,247
Income (loss) from operations before depreciation and amortization, and restructuring and other charges (recovery)	$ 90,613	$ (4,477)	$ 4,438	$ 902	$ –	$ 91,476
Depreciation and amortization						56,845
Restructuring and other charges (recovery)						10,064
Financial charges, net						25,233
Provision for income taxes						1,312
Loss from investment in a jointly controlled entity						721
Net loss						$ (2,699)
Additions to intangible assets and property and equipment, net of lease incentives received	$ 23,128	$ 1,480	$ 389	$ 1,746	$ –	$ 26,743

[1] *The six-month period ended June 30, 2017 was restated to reflect the adoption of IFRS 15 and 16, which were applied using the full retrospective approach.*

(all tabular amounts are in thousands of Canadian dollars, except share information - Unaudited)

13. Stock-based compensation plans

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 1,134,801 as at June 30, 2018.

The following table summarizes the continuity of the RSUs and PSUs during the six-month periods ended June 30:

		2018		2017
Number of	**RSUs**	**PSUs**[1]	RSUs	PSUs[1]
Outstanding, beginning of period	**763,624**	**795,811**	444,355	596,114
Granted	**88,487**	**–**	688,029	1,041,657
Additional (reduction in) payout related to achievement of targets[2]	**–**	**(56,802)**	–	21,013
Settled	**(144,675)**	**(34,788)**	(140,680)	(196,693)
Forfeited	**(112,696)**	**(164,160)**	(33,371)	(48,443)
Outstanding, end of period	**594,740**	**540,061**	958,333	1,413,648
Weighted average remaining life (years)	**1.6**	**1.0**	2.0	2.0

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 819,780 common shares as at June 30, 2018 (2017 – 706,777 common shares).*

2 *The additional (reduction in) payout is related to the achievement of certain performance targets in excess (shortfall) of 100% and amounted to a reduction of 62% for the six-month period ended June 30, 2018 (2017 – additional 12%).*

During the three and six-month periods ended June 30, 2018, an expense of $0.8 million and $1.0 million, respectively (2017 – $1.4 million and $2.9 million, respectively) was recorded in the interim condensed consolidated statements 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 six-month periods ended June 30:

		2018		2017
	Number of DSUs	**Liability**[1]	Number of DSUs	Liability[1]
Outstanding, beginning of period	**332,245**	**$ 2,793**	246,892	$ 4,368
Granted[2]	**126,338**	**491**	97,578	589
Forfeited	**(34,451)**	**(173)**	–	–
Settled	**(52,494)**	**(444)**	–	–
Variation due to change in stock price	**–**	**223**	–	(2,671)
Outstanding, end of period	**371,638**	**$ 2,890**	344,470	$ 2,286
Vested, end of period	**320,106**	**$ 2,890**	307,185	$ 2,286

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 June 30.*

(all tabular amounts are in thousands of Canadian dollars, except share information - Unaudited)

Stock options

The following table summarizes the continuity of the stock options presented as a liability during the six-month periods ended June 30:

	2018		2017	
	Number of options	**Liability**[1]	Number of options	Liability
Outstanding, beginning of period	**701,875**	**$ 194**	–	$ –
Variation due to change in fair value and vesting	**–**	**$ 343**	–	$ –
Outstanding, end of period	**701,875**	**$ 537**	–	$ –
Vested, end of period	**194,965**	**$ 537**	–	$ –

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

The following table summarizes the continuity of all stock options under the Stock Option Plan during the six-month periods ended June 30:

	2018		2017	
	Number of options	**Weighted average exercise price per option**	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	**1,024,550**	**$ 10.11**	630,950	$ 16.73
Granted	**775,963**	**$ 7.61**	–	$ –
Forfeited	**(274,821)**	**$ 13.18**	(6,050)	$ 16.44
Outstanding, end of period	**1,525,692**	**$ 8.29**	624,900	$ 16.73
Exercisable, end of period	**60,425**	**$ 18.22**	368,200	$ 15.79

The following table provides additional information about Yellow Pages Limited's Stock Option Plan as at June 30:

	2018		2017	
Exercise price	**Number of options outstanding**	**Weighted average remaining life**	Number of options outstanding	Weighted average remaining life
$7.61	**749,242**	**3.7**	–	–
$7.97	**701,875**	**2.2**	–	–
$10.12	**11,375**	**1.9**	167,375	2.9
$16.44	**15,000**	**3.7**	160,000	4.7
$17.83	**20,800**	**4.7**	163,000	5.7
$17.96	**–**	**–**	4,600	4.9
$19.61	**7,700**	**3.0**	7,700	4.0
$20.33	**4,900**	**2.9**	4,900	3.9
$24.65	**14,800**	**2.7**	117,325	3.7
Outstanding, end of period	**1,525,692**	**3.0**	624,900	4.2
Exercisable, end of period	**60,425**	**3.1**	368,200	3.6

(all tabular amounts are in thousands of Canadian dollars, except share information - Unaudited)

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 six-month periods ended June 30:

		2018		2017
Weighted average grant date share price	**$**	**7.60**	$	–
Exercise price	**$**	**7.61**	$	–
Expected volatility		**43.3%**		–
Option life		**4 years**		–
Risk-free interest rate		**2.41%**		–
Weighted average remaining life		**3.7 years**		–

During the three and six-month periods ended June 30, 2018, an expense of $0.4 million and $0.6 million, respectively (2017 – $0.1 million and $0.3 million, respectively) was recorded in the interim condensed consolidated statements 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") under the SARs Plan during the six-month periods ended June 30:

			2018			2017
	Number of SARs		**Liability[1]**	Number of SARs		Liability
Outstanding, beginning of period	**701,875**	**$**	**194**	–	$	–
Variation due to change in fair value and vesting	**–**	**$**	**343**	–	$	–
Outstanding, end of period	**701,875**	**$**	**537**	–	$	–
Vested, end of period	**194,965**	**$**	**537**	–	$	–

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

SARs were valued using a binomial option pricing model. Expected volatility is based on the historical share price volatility over the average expected life of the SARs granted. The following table shows the key inputs into the valuation model as at June 30:

		2018		2017
Weighted average grant date share price	**$**	**9.12**	$	–
Exercise price	**$**	**7.97**		–
Expected volatility		**42.2%**		–
SAR life		**3 years**		–
Risk-free interest rate		**2.3%**		–
Weighted average remaining life		**2.3 years**		–

(all tabular amounts are in thousands of Canadian dollars, except share information - Unaudited)

14. Financial charges, net

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

For the three and six-month periods ended June 30,	2018	2017 (Restated – Note 2)	2018	2017 (Restated – Note 2)
Interest on senior secured notes and exchangeable debentures	**$ 10,725**	$ 9,633	**$ 21,496**	$ 19,392
Interest on lease obligation	**1,585**	1,479	**3,310**	2,574
Net interest on the defined benefit obligations	**1,235**	1,419	**2,472**	2,839
Other, net	**432**	277	**861**	428
	$ 13,977	$ 12,808	**$ 28,139**	$ 25,233

15. Loss on sale of subsidiaries

On July 6, 2018, the Company's affiliate, Yellow Pages Digital & Media Solutions Limited, sold CFDP to Purplebricks Group PLC ("PB") for cash consideration of $51.0 million on a cash free debt free basis, subject to a working capital adjustment. An impairment loss of $1.0 million, related to the classification of the CFDP network as a disposal group held for sale, has been recorded in the interim condensed consolidated statements of income (loss).

During the three-month period ended June 30, 2018, Yellow Pages disposed of Totem and Western Media Group, two affiliates of the Company, which resulted in the recognition of a $0.1 million gain in the interim condensed consolidated statements of income (loss).

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

As at	Level	June 30, 2018	December 31, 2017	January 1, 2017
Financial asset or liability				
Equity investments classified at FVOCI	3	**$ –**	$ 5,502	$ 5,502

Yellow Pages Limited's investments are comprised of privately held equity securities and are carried at fair value based on estimates on market rates prevailing at the statement of financial position date. The investments are presented in financial and other assets in the consolidated statements of financial position.

(all tabular amounts are in thousands of Canadian dollars, except share information - Unaudited)

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

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

The following schedule represents the carrying values and the fair values of financial instruments not measured at fair value in the consolidated statement of financial position as at June 30, 2018. 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
Senior secured notes	1	$ **279,154**	$ **292,323**
Exchangeable debentures	1	$ **95,094**	$ **107,089**

17. Subsequent event

On July 23, Yellow Pages Limited disposed of Yellow Pages Next Home business for a nominal amount. As a result, the company will no longer consolidate the business as of that date.

18. Comparative figures

Yellow Pages Limited reclassified certain items in the interim condensed consolidated financial statements to conform to the current period's presentation.