CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW PAGES LIMITED

December 31, 2015 and 2014

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Independent Auditor's Report

To the Shareholders of Yellow Pages Limited

We have audited the accompanying consolidated financial statements of Yellow Pages Limited, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Yellow Pages Limited as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) Deloitte LLP [1]

February 11, 2016
Montréal, Québec

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[1] CPA auditor, CA, public accountancy permit No. A120501

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at	December 31, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS		
Cash	$ 67,253	$ 102,776
Trade and other receivables (Note 22)	123,826	132,278
Prepaid expenses	8,728	8,220
Deferred publication costs	61,216	69,852
Income taxes receivable (Note 14)	3,192	47,798
TOTAL CURRENT ASSETS	264,215	360,924
NON-CURRENT ASSETS		
Deferred publication costs	7,348	8,153
Financial and other assets (Note 22)	4,162	4,366
Property and equipment (Note 7)	30,554	36,431
Intangible assets (Note 8)	1,369,781	1,334,967
Goodwill (Note 5)	26,829	–
Deferred income taxes (Note 14)	7,738	4,719
TOTAL NON-CURRENT ASSETS	1,446,412	1,388,636
TOTAL ASSETS	$ 1,710,627	$ 1,749,560
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade and other payables (Note 9)	$ 73,627	$ 82,048
Provisions (Note 10)	67,641	65,840
Deferred revenues	23,386	28,461
Current portion of long-term debt (Note 12)	98,530	103,152
TOTAL CURRENT LIABILITIES	263,184	279,501
NON-CURRENT LIABILITIES		
Provisions (Note 10)	4,451	2,577
Deferred credits and other	6,538	8,936
Deferred income taxes (Note 14)	94,970	53,386
Post-employment benefits (Note 11)	182,659	227,262
Long-term debt (Note 12)	308,823	404,759
Exchangeable debentures (Note 13)	90,478	88,959
TOTAL NON-CURRENT LIABILITIES	687,919	785,879
TOTAL LIABILITIES	951,103	1,065,380
CAPITAL AND RESERVES	6,600,966	6,600,178
DEFICIT	(5,841,442)	(5,915,998)
TOTAL EQUITY	759,524	684,180
TOTAL LIABILITIES AND EQUITY	$ 1,710,627	$ 1,749,560

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

Approved on behalf of Yellow Pages Limited by

Robert F. MacLellan, Director

David A. Lazzarato, Director

CONSOLIDATED INCOME STATEMENTS

For the years ended December 31,

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

	2015	2014
Revenues	$ 829,771	$ 877,528
Operating costs (Note 18)	569,084	561,552
Income from operations before depreciation and amortization, and restructuring and special charges	260,687	315,976
Depreciation and amortization (Notes 7 and 8)	80,837	78,076
Restructuring and special charges (Note 10)	30,834	18,359
Income from operations	149,016	219,541
Financial charges, net (Note 19)	60,922	72,116
Earnings before income taxes and earnings from investments in associates	88,094	147,425
Provision for (recovery of) income taxes (Note 14)	27,039	(40,937)
Earnings from investments in associates	–	(178)
Net earnings	$ 61,055	$ 188,540
Basic earnings per share	$ 2.29	$ 6.95
Weighted average shares outstanding – basic earnings per share (Note 16)	26,688,369	27,128,062
Diluted earnings per share	$ 2.05	$ 5.81
Weighted average shares outstanding – diluted earnings per share (Note 16)	33,466,228	33,709,338

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31,
(in thousands of Canadian dollars)

	2015	2014
Net earnings	$ 61,055	$ 188,540
Other comprehensive income (loss):		
Items that may be reclassified subsequently to net earnings		
Reclassification adjustment of accumulated foreign currency translation loss realized upon disposal of investment in associate (Note 6)	–	1,598
Items that will not be reclassified subsequently to net earnings		
Actuarial gains (losses) (Note 11)	18,447	(59,997)
Income taxes relating to items that will not be reclassified subsequently to net earnings	(4,946)	15,935
	13,501	(44,062)
Other comprehensive income (loss)	13,501	(42,464)
Total comprehensive income	$ 74,556	$ 146,076

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(IN THOUSANDS OF CANADIAN DOLLARS – UNAUDITED)

For the years ended December 31,

	Shareholders' Capital (Note 15)	Restricted Shares	Warrants (Note 15)	Compound Financial Instruments[1]	Stock-based Compensation and Other Reserves
Balance, December 31, 2014	$ 4,030,325	$ (18,981)	$ 1,456	$ 3,619	$ 126,706
Other comprehensive income	–	–	–	–	–
Net earnings	–	–	–	–	–
Total comprehensive income	–	–	–	–	–
Restricted shares settled	–	854	–	–	(854)
Restricted shares (Note 17)	–	(6,838)	–	–	5,915
Stock options granted (Note 17)	–	–	–	–	828
Exercise of stock options (Note 17)	1,203	–	–	–	(320)
Balance, December 31, 2015	**$ 4,031,528**	**$ (24,965)**	**$ 1,456**	**$ 3,619**	**$ 132,275**

	Shareholders' Capital (Note 15)	Restricted Shares	Warrants (Note 15)	Compound Financial Instruments[1]	Stock-based Compensation and Other Reserves
Balance, December 31, 2013	$ 4,029,869	$ (6,630)	$ 1,456	$ 3,633	$ 121,188
Other comprehensive income (loss)	–	–	–	–	–
Net earnings	–	–	–	–	–
Total comprehensive income	–	–	–	–	–
Restricted shares settled	–	99	–	–	(99)
Restricted shares (Note 17)	–	(12,450)	–	–	4,443
Stock options granted (Note 17)	–	–	–	–	1,174
Exchange of exchangeable debentures (Note 13)	456	–	–	(14)	–
Balance, December 31, 2014	$ 4,030,325	$ (18,981)	$ 1,456	$ 3,619	$ 126,706

[1] *The equity component of the exchangeable debentures presented above is net of income taxes of $1.3 million (2014 - $1.3 million).*

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

2015

Reduction of Capital Reserve	Total Capital and Reserves	Deficit	Total Equity
$ 2,457,053	$ 6,600,178	$ (5,915,998)	$ 684,180
–	–	13,501	13,501
–	–	61,055	61,055
–	–	74,556	74,556
–	–	–	–
–	(923)	–	(923)
–	828	–	828
–	883	–	883
$ 2,457,053	$ 6,600,966	$ (5,841,442)	$ 759,524

2014

Reduction of Capital Reserve	Foreign Currency Translation (Notes 6 and 19)	Total Capital and Reserves	Deficit	Total Equity
$ 2,457,053	$ (1,598)	$ 6,604,971	$ (6,060,476)	$ 544,495
–	1,598	1,598	(44,062)	(42,464)
–	–	–	188,540	188,540
–	1,598	1,598	144,478	146,076
–	–	–	–	–
–	–	(8,007)	–	(8,007)
–	–	1,174	–	1,174
–	–	442	–	442
$ 2,457,053	$ –	$ 6,600,178	$ (5,915,998)	$ 684,180

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,
(in thousands of Canadian dollars)

	2015	2014
OPERATING ACTIVITIES		
Net earnings	$ 61,055	$ 188,540
Adjusting items		
Depreciation and amortization	80,837	78,076
Restructuring and other special charges (Note 10)	30,834	18,359
Stock-based compensation expense	6,731	6,459
Earnings from investments in associates	–	(178)
Provision for (recovery of) income taxes recognized in net earnings	27,039	(40,937)
Financial charges recognized in net earnings	60,922	72,116
Past service costs (Note 11)	(6,618)	–
Other non-cash items	8,420	3,584
Change in operating assets and liabilities	(10,704)	(6,506)
Funding of post-employment benefit plans in excess of costs	(26,629)	(18,453)
Restructuring and other special charges paid (Note 10)	(26,464)	(28,230)
Income taxes received (paid), net	46,664	(51,544)
Interest paid	(54,521)	(64,779)
	197,566	156,507
INVESTING ACTIVITIES		
Additions to intangible assets	(69,190)	(69,179)
Acquisition of property and equipment	(6,231)	(14,771)
Business acquisitions, net of cash acquired (Note 5)	(51,063)	(33,504)
Proceeds from the settlement of a note receivable (Note 22)	–	14,100
Other	–	(116)
	(126,484)	(103,470)
FINANCING ACTIVITIES		
Repayment of long-term debt	(100,650)	(140,098)
Purchase of restricted shares (Note 17)	(6,838)	(12,450)
Issuance of common shares upon exercise of stock options (Note 17)	883	–
	(106,605)	(152,548)
NET DECREASE IN CASH	(35,523)	(99,511)
CASH, BEGINNING OF YEAR	102,776	202,287
CASH, END OF YEAR	$ 67,253	$ 102,776

Supplemental disclosure of cash flow information (Note 20)

The accompanying notes are an integral part of these 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".

On January 1, 2015, YPG Financing Inc. and Yellow Pages Group Corp., wholly-owned subsidiaries of the Company, amalgamated through a vertical short-form amalgamation, and the amalgamated entity bears the corporate name of Yellow Pages Digital & Media Solutions Limited. Except for the name change, the by-laws and the articles of Yellow Pages Digital & Media Solutions Limited are the same as the previous by-laws and articles of YPG Financing Inc.

The Board of Directors (the "Board") approved the consolidated financial statements for the years ended December 31, 2015 and 2014 and authorized their publication on February 11, 2016.

2. REVISED STANDARDS

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, 2016. The new standards which are considered to be relevant to Yellow Pages Limited's operations are as follows:

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

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

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

IAS 1 — *Presentation of Financial Statements*

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

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

IFRS 15 — *Revenue from Contracts with Customers*

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

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

This new standard also provides guidance relating to the accounting for contract costs as well as for the measurement and recognition of gains and losses arising from the sale of certain non-financial assets. Additional disclosures will also be required under the new standard, which is effective for annual reporting periods beginning on or after January 1, 2018 with earlier 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. Yellow Pages Limited continues to evaluate the impact this standard will have on its consolidated financial statements.

IFRS 9 — *Financial Instruments*

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

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

IFRS 16 — *Leases*

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

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

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

3. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

3.1 STATEMENT OF COMPLIANCE

These consolidated financial statements of Yellow Pages Limited and its subsidiaries were prepared by management in accordance with IFRS. These financial statements have been prepared in accordance with the following significant accounting policies which have been applied consistently to all periods presented throughout the consolidated entities.

3.2 BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain assets and liabilities (including derivative instruments) at fair value as explained in the policies below.

3.3 FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of Yellow Pages Limited.

3.4 BASIS OF CONSOLIDATION

3.4.1 Subsidiaries

Subsidiaries that are directly controlled by Yellow Pages Limited or indirectly controlled through other consolidated subsidiaries are fully consolidated. Subsidiaries are all entities over which Yellow Pages Limited exercises control.

Subsidiaries are fully consolidated from the effective date of acquisition up to the effective date of disposal. Intercompany assets and liabilities and transactions between fully consolidated companies are eliminated. Gains and losses on internal transactions with controlled companies are fully eliminated. Accounting policies and methods are modified where necessary to ensure consistency of accounting treatment at the Yellow Pages Limited level.

3.4.2 Associates

Associates are all entities over which Yellow Pages Limited has a significant influence over the entity's management and operating and financial policy, without exercising control, and generally implies holding 20% to 50% of the voting rights.

Investments in associates are accounted for using the equity method and are initially measured at cost. Subsequently, the share in profits or losses of the associate attributable to equity holders of Yellow Pages Limited is recognized in net earnings. Included in the recognized share of net earnings is the amortization of the amortizable assets based on their fair value at the acquisition date.

3.4.3 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by Yellow Pages Limited in exchange for control of the acquiree. Transaction costs associated with business acquisitions are recognized in the income statement, as incurred.

Where a business combination is achieved in stages, Yellow Pages Limited's previously held interests in the acquired entity are re-measured to fair value at the acquisition date (the date Yellow Pages Limited attains control) and the resulting gain or loss, if any, is recognized in the income statement.

3.5 CASH

Cash consist of funds on deposit and, from time to time, highly liquid investments with a purchased maturity of three months or less.

3.6 FINANCIAL ASSETS

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" ("FVTPL"), "held-to-maturity" investments, "available-for-sale" ("AFS") financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets designated as FVTPL are carried at fair value. Changes in fair value are recorded in the income statement. Held-to-maturity investments and loans and receivables are measured at amortized cost using the effective interest method. AFS financial assets are recorded at fair value on the date of acquisition, and are adjusted to fair value at each reporting date. The corresponding unrealized gains and losses are recorded in other comprehensive income ("OCI") and are reclassified to other income (expense) in the income statements when realized or when an impairment is determined.

A financial asset is de-recognized if the contractual rights to the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for de-recognition. Cash and trade and other receivables are included in the loans and receivables category.

3.6.1 Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset (liability) and of allocating interest (income) expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset (liability) or, where appropriate, a shorter period.

3.6.2 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually, are subsequently assessed for impairment on a collective basis.

3.7 DEFERRED PUBLICATION COSTS

An intangible asset is recognized for direct and incremental publication costs incurred during the sale, manufacturing and distribution of telephone print directories as well as the sale, provisioning and fulfillment of digital products and services. The intangible asset represents costs that will be recovered in future periods, when the related directories revenues are recognized. An intangible asset is capitalized when the following conditions are met:

- Yellow Pages Limited has control over the contract for which the costs were incurred;
- the control results from past events;
- future economic benefits are expected to flow to Yellow Pages Limited; and
- the asset is identifiable, non-monetary and without physical substance.

Deferred publication costs are initially measured at cost and are amortized over the same period in which the related revenues are recognized.

3.8 PROPERTY AND EQUIPMENT

Property and equipment are recognized at cost less accumulated depreciation and impairment losses. The various components of property and equipment are depreciated separately based on their estimated useful lives and therefore, their depreciation periods are significantly different. The cost of an asset includes the expenses that are directly attributable to its acquisition. All other borrowing costs are recognized in the income statement in the period in which they are incurred. Yellow Pages Limited has not capitalized any borrowing costs during the periods presented.

Subsequent costs are included in the carrying value of the asset or recognized as a separate component, where necessary, if it is probable that future economic benefits will flow to Yellow Pages Limited and the cost of the asset can be reliably measured. All other repair and maintenance costs are expensed in the year they are incurred.

Depreciation is calculated using the straight-line method, based on the capitalized costs, less any residual value over a period corresponding to the useful life of each asset. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, when shorter, the term of the relevant lease.

As at December 31, 2015, the expected useful lives are as follows:

Office equipment	10 years
Computer equipment	3 years
Other equipment	3 – 12 years
Leasehold improvements	Shorter of term of lease or useful life

The residual value, the depreciation method and the useful life of an asset are reviewed at a minimum, annually.

Property and equipment are tested for impairment when an indication of impairment loss exists. When the asset's recoverable amount is less than its net carrying value, an impairment loss is recognized. Where an individual asset does not generate independent cash inflows, Yellow Pages Limited determines the recoverable amount of the cash generating units ("CGUs") or group of CGUs to which the asset belongs.

3.9 LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as an obligation under finance lease that is included with long-term debt.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with Yellow Pages Limited's general policy on borrowing costs.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that incentives to enter into operating leases are received, such incentives are recognized as a deferred credit. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

3.10 INTANGIBLES ASSETS

Intangible assets acquired through a business combination are identified and recognized separately from goodwill where they arise from legal or contractual rights or are capable of being separated from the acquiree and sold, transferred, licensed or exchanged. The cost of such intangible assets is deemed to be their fair value at the acquisition date. Intangible assets not acquired through a business combination are reported at cost less accumulated amortization and accumulated impairment losses.

Internally-generated intangible assets, consisting of software used by the Company, are recognized to the extent the criteria in IAS 38 — *Intangible Assets* are met. Development costs for internally-generated intangible assets are capitalized at cost if, and only if, Yellow Pages Limited can demonstrate:

- the technical feasibility of completing the asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditures are charged to the income statement in the period in which they are incurred.

Internally-generated intangible assets include the cost of software tools and licenses used in the development of Yellow Pages Limited's systems, as well as all directly attributable payroll and consulting costs. These items are not amortized until the assets are available for use.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. Intangibles assets are amortized, unless their useful lives are indefinite, as follows:

Non-competition agreements	Straight-line over life of agreement
Customer-related intangible assets	Pro rata based on related revenues, not exceeding 24 months
Trademarks	Indefinite
Domain names	Indefinite or straight-line over 4 – 12 years
Software	Straight-line over 3 years

The estimated useful life and amortization method are reviewed at the end of each reporting period or annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is de-recognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from the de-recognition of an intangible asset, measured as the difference between the net disposal proceeds or fair value, as applicable, and the carrying value of the asset, are recognized in the income statement when the asset is de-recognized.

3.11 GOODWILL

Goodwill arising on the acquisition of a subsidiary is recognized as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the purchase consideration over the fair value of identifiable net assets acquired.

Goodwill is not amortized. It is reviewed for impairment at least annually or sooner if indicators of impairment exist. Any impairment loss is recognized immediately in the income statement and is not subsequently reversed.

3.12 IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS INCLUDING GOODWILL

At each reporting date, Yellow Pages Limited determines whether there are any indications that the carrying values of its tangible and intangible assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, Yellow Pages Limited estimates the recoverable amount of the CGU or group of CGUs to which the asset belongs. A CGU is the smallest identifiable group of assets that generate cash flows that are independent of those from other assets.

Intangible assets with indefinite useful lives, intangible assets not yet available for use and goodwill are tested for impairment annually, and whenever there is an indication that the asset may be impaired. A majority of the Company's intangible assets do not have cash inflows independent of those from other assets and as such, are tested within their respective CGUs.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying value, the carrying value of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in the income statement.

For the purpose of impairment testing of goodwill, goodwill is tested at the group of CGUs level which represents the lowest level where goodwill is monitored for internal management purposes. Goodwill is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

If the recoverable amount of a CGU or group of CGUs is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of goodwill and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The Company does not reduce the carrying value of an asset below the highest of its fair value less costs of disposal and its value in use.

3.13 TRADE AND OTHER PAYABLES

Trade and other payables, including accruals, are recorded when Yellow Pages Limited is required to make future payments as a result of purchases of assets or services. Trade and other payables are carried at amortized cost.

3.14 FINANCIAL LIABILITIES

The valuation of financial liabilities depends on their classification. Financial liabilities are classified as either financial liabilities “at FVTPL” or “other financial liabilities”.

Excluding derivative liabilities and financial liabilities accounted for at FVTPL, Yellow Pages Limited recognizes all financial liabilities, specifically long-term debt, exchangeable debentures, trade payables and other liabilities, initially at fair value less transaction costs and subsequently at amortized cost, using the effective interest method.

Financial liabilities designated as FVTPL are carried at fair value. Changes in fair value are recorded in the income statement. Transaction costs incurred in setting up these financial liabilities are recognized immediately as expenses in the income statement.

Yellow Pages Limited de-recognizes financial liabilities when, and only when, Yellow Pages Limited's obligations are discharged, cancelled or expire.

3.15 PROVISIONS

Provisions are recognized when Yellow Pages Limited has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as a financial charge.

3.15.1 Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where Yellow Pages Limited has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

3.15.2 Restructuring

A restructuring provision is recognized when Yellow Pages Limited has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

3.16 LONG-TERM DEBT

All long-term debt instruments are initially stated at the fair value of the consideration received after deduction of issue costs. Debt instruments are subsequently measured at amortized cost. Issue costs are charged to the income statement together with the coupon, as finance costs, on a constant-yield basis over the term of the debt instrument, or over a shorter period where the lender can require earlier repayment.

3.17 EMPLOYEE BENEFITS

3.17.1 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the income statement when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

3.17.2 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Yellow Pages Limited's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted from the obligation. The discount rate is the yield at the reporting date on high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability adjusted for a spread to reflect any additional credit risk and that are denominated in the currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected benefit method prorated on service.

Yellow Pages Limited recognizes all actuarial gains and losses arising subsequently from defined benefit plans in OCI. Re-measurement, comprising actuarial gains and losses, the effects of changes to the asset ceiling, if applicable, and the return on plan assets, excluding net interest on the defined benefit obligation, is reflected immediately in the statement of financial position with a charge or credit recognized in OCI. Re-measurement recognized in OCI is reflected immediately in retained earnings and will not be classified to the income statement. Past service costs are recognized in the income statement in the period a plan amendment is announced to employees. The net interest amount, which is calculated by applying the discount rate to the net defined liability or asset of defined benefit plans, is included within net financial charges while service costs are recorded in operating expenses.

3.17.3 Other long-term employee benefits

Yellow Pages Limited's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related asset is deducted. The discount rate is the yield at the reporting date on high quality corporate bonds that have terms to maturity approximating the terms of the related obligation. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognized in the period in which they arise.

3.17.4 Termination benefits

Termination benefits are recognized as an expense when Yellow Pages Limited can no longer withdraw the offer of those benefits, or if earlier, when there is no realistic possibility of withdrawal from a formal detailed plan to either terminate employment before the normal retirement date, or from providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if Yellow Pages Limited has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

3.17.5 Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid if Yellow Pages Limited has a present legal or constructive obligation to pay this amount as a result of a past service provided by the employee and the obligation can be estimated reliably.

3.17.6 Share-based payment transactions

Yellow Pages Limited's restricted share units, performance share units, deferred share units and stock options granted to employees and directors are measured at the fair value of the equity instruments at the grant date.

The restricted share units, performance share units and deferred share units granted may be settled in cash or equity at the Company's option. If the restricted share unit and performance share unit plan is funded, eligible employees will receive, upon vesting of the instruments, common shares. The funded portion of these plans is treated as equity-settled instruments and recorded accordingly in equity. In the event these plans are unfunded, Yellow Pages Limited will pay to the eligible employees and directors, upon vesting of the instruments, an amount in cash. The unfunded portion of these plans is treated as cash-settled instruments and recorded as a liability. At each reporting period, the liability is re-measured at fair value with any changes recorded in operating costs.

The fair value determined at the grant date of the share-based instruments is expensed on a straight-line basis over the vesting period, based on Yellow Pages Limited's estimate of share-based instruments that will eventually vest. At each reporting period, Yellow Pages Limited revises its estimate of the number of share-based instruments expected to vest. The impact of the revision of the original estimate, if any, is recognized in the income statement, with a corresponding adjustment to the reserve.

3.18 EQUITY INSTRUMENTS ISSUED BY YELLOW PAGES LIMITED

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by Yellow Pages Limited are recorded at the proceeds received, net of direct issue costs.

Transaction costs incurred by Yellow Pages Limited in issuing, acquiring or reselling its own equity instruments are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

3.19 OPERATING SEGMENTS

Disclosure of segment information is reported in a manner consistent with the internal reports regularly reviewed by Yellow Pages Limited's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the President and Chief Executive Officer. The Company currently operates under one segment.

3.20 REVENUES

Yellow Pages Limited's revenues are measured at the fair value of the consideration received or receivable after deduction of sales allowances and sales taxes.

Print directory advertising is sold in bundles that can include several related online advertising products. Print products are not sold separately. Revenues from print directory advertising as well as revenues from related online products are recognized in the income statement rateably on a monthly basis from the point at which service is first provided over the life of the contract.

Revenues from private and commercial classified advertisements and display advertisements are recognized at the time the advertisements are published either on a weekly or monthly basis. Revenues related to advertisements appearing on multiple occasions are recognized over the period the advertisements are displayed.

3.21 DERIVATIVE FINANCIAL INSTRUMENTS

Yellow Pages Limited enters from time to time into a variety of derivative financial instruments to manage interest rate risk on its long-term debt and to manage the risk of fluctuations in the share price of its common shares affecting its stock-based compensation plans.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each statement of financial position date. The resulting gain or loss is recognized in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship.

Yellow Pages Limited designates certain derivatives as either hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

3.21.1 Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in the income statement.

3.22 BORROWING COSTS

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized in profit or loss in the period in which they are incurred. The Company currently has not capitalized any borrowing costs.

3.23 TAXATION

Income tax expense represents the sum of the current and deferred tax.

3.23.1 Current income tax

Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Yellow Pages Limited's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

3.23.2 Deferred tax

Deferred tax is recognized on differences between the carrying values of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where Yellow Pages Limited is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying value of deferred tax assets is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Yellow Pages Limited expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and Yellow Pages Limited intends to settle its tax assets and liabilities on a net basis.

3.23.3 Current and deferred tax for the period

Current and deferred taxes are recognized as an expense or income in the income statement, except when they relate to items that are recognized outside net earnings (whether in OCI or directly in equity), in which case the tax is also recognized outside net earnings, or where they arise from the initial accounting for a business combination. In the case of a business combination, the applicable tax effects are taken into account in the accounting for the business combination.

3.24 SIGNIFICANT ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements requires management to make estimates and assumptions that can affect the carrying value of certain assets and liabilities, income and expenses, and the information disclosed in the notes to the consolidated financial statements. Management reviews these estimates and assumptions on a regular basis to ensure their pertinence with respect to past experience and the current economic situation. Items in future financial statements could differ from current estimates as a result of changes in these assumptions. The impact of changes in accounting estimates is recognized during the period in which the change took place and all affected future periods.

The estimates and judgments made by management that are critical to the determination of the carrying value of assets and liabilities are addressed below.

Significant estimates

Business acquisitions

As a result of the business acquisition in July 2015 of 9059-2114 Québec Inc., a holding company which owns all of the issued and outstanding shares of ByTheOwner Inc. (collectively "ComFree/DuProprio" ("CFDP")), Yellow Pages Limited measured the fair value of CFDP's intangible assets, namely its trademark, using the royalty relief method (refer to Note 5 – Business acquisitions). The measurement at fair value required significant estimation and was based on a discounted cash flow model which maximized the amount of observable market inputs as well as using forecasted cash flows, projected over a five-year period.

As a result of the business acquisition of 411 Local Search Corp. ("411") in June 2014, Yellow Pages Limited re-measured its existing financial liability as well as the fair value of 411 (refer to Note 5 – Business acquisitions). The measurement at fair value required significant estimation and was based on a discounted cash flow model which maximized the amount of observable market inputs as well as using forecasted cash flows, projected over a five-year period.

Intangible assets and goodwill

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

Yellow Pages Limited assesses impairment by comparing the recoverable amount of a CGU or group of CGUs to which an identifiable intangible asset and goodwill belongs, with its carrying value. The determination of the recoverable amount involves significant management estimates.

Yellow Pages Limited performs its annual test for impairment of indefinite life intangible assets and goodwill in the fourth quarter in accordance with the policy described in Note 3.12.

Useful lives of intangible assets and property and equipment

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

Employee future benefits

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

Income taxes

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of Yellow Pages Limited's ability to utilize the underlying future tax deductions against future taxable income before they expire. Yellow Pages Limited's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of Yellow Pages Limited's ability to utilize the underlying future tax deductions changes, Yellow Pages Limited would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined.

Significant judgments

Uncertain tax provisions

Yellow Pages Limited is subject to taxation in numerous jurisdictions. Significant judgment is required in determining the consolidated provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Yellow Pages Limited maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Yellow Pages Limited reviews the adequacy of these provisions at each statement of financial position date. However, it is possible that at some future date an additional liability could result from audits by tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

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

4. IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

As a majority of the intangible assets do not generate cash inflows that are largely independent of those from other assets or group of assets, the Company performs its impairment analysis of its intangible assets at the CGU level. The CGUs of the Company are as follows: Yellow Pages and Other (includes multiple CGUs for which the carrying value of its intangible assets with indefinite useful lives is not significant in comparison with the Company's total carrying value of intangible assets with indefinite useful lives).

Goodwill was tested for impairment at the lowest level within the Company at which the goodwill is monitored for internal management purposes: the Other CGU.

During the fourth quarters of 2014 and 2015, in the context of its annual impairment testing, the Company completed its impairment analysis and assessed the recoverability of its assets allocated to its CGUs. The Company calculated the recoverable amounts of its CGUs using valuation methods which were consistent with those used in prior periods. The recoverable amounts were determined based on the value in use approach using a discounted cash flow model. The significant key assumptions included in the forecasted cash flows are based on the Company's business plan taking into consideration growth and product mix trends.

2015

The cash flows are based on the 2016 budget approved by the Board of Directors and projected over a five-year period. Applicable terminal growth rates were applied. The forecasted cash flows also incorporated forecasted print revenue declines per annum between 16% and 22% and online revenue growth rates between 6% and 11% for the Yellow Pages and Other CGUs.

As a result of the impairment analysis, the Company determined that the recoverable amounts of if its CGUs exceeded their carrying values and accordingly, no impairment charge was recognized.

2014

The cash flows were based on the 2015 budget approved by the Board of Directors and projected over a five-year period. Applicable terminal growth rates were applied. The forecasted cash flows also incorporated forecasted print revenue declines per annum between 17% and 23% and online revenue growth rates between 7% and 12% for the Yellow Pages and Other CGUs.

As a result of the impairment analysis, the Company determined that the recoverable amounts of if its CGUs exceeded their carrying values and accordingly, no impairment charge was recognized.

Carrying values and assumptions

Cash flows beyond the five-year projections of the plan were extrapolated using the terminal growth rates stated in the table below. The allocation of the carrying value of the intangible assets as at December 31, 2015 and 2014 by CGU or group of CGUs and the key assumptions used for the value in use calculations for the December 31, 2015 and December 31, 2014 impairment analyses are presented below:

				December 31, 2015
	Yellow Pages		Other	Total
Carrying value of intangible assets by CGU				
Trademarks and domain names	$ 877,862		$ 30,374	$ 908,236
Trademarks and domain names with finite lives	2,356		6,228	8,584
Non-competition agreements	305,124		1,691	306,815
Customer-related intangible assets	2,340		645	2,985
Software	139,468		3,693	143,161
Goodwill	–		26,829	26,829
Total carrying value of goodwill and intangible assets by CGU	**$ 1,327,150**		**$ 69,460**	**$ 1,396,610**

			December 31, 2014
	Yellow Pages	Other	Total
Carrying value of intangible assets by CGU			
Trademarks and domain names	$ 877,862	$ 983	$ 878,845
Trademarks and domain names with finite lives	2,618	8,805	11,423
Non-competition agreements	323,541	16	323,557
Customer-related intangible assets	4,830	–	4,830
Software	114,096	2,216	116,312
Total carrying value of intangible assets by CGU	$ 1,322,947	$ 12,020	$ 1,334,967

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

	Yellow Pages	Other	Total
Key assumptions :			
Terminal growth rate			
December 31, 2015	-15% to 4.5%	1.5% to 4.5%	-15% to 4.5%
December 31, 2014	-15% to 5%	5%	-15% to 5%
Discount rate – post-tax			
December 31, 2015	9.9% to 15.3%	12.8%	9.9% to 15.3%
December 31, 2014	10.4% to 16.8%	12.8%	10.4% to 16.8%
Discount rate – pre-tax			
December 31, 2015	16.3% to 23.1%	15.5% to 17.3%	15.5% to 23.1%
December 31, 2014	17.1% to 24.8%	14.4% to 24.8%	14.4% to 24.8%

Sensitivity to changes in assumptions

The table below shows the percentages by which each key assumption must change in isolation in order for the estimated recoverable amount to equal to its carrying value:

	December 31, 2015
	Yellow Pages
Key assumptions :	
Terminal growth rate	-1%
Discount rate – post-tax	1%
Revenue decline per annum	-2% to -6%

Yellow Pages Limited has accumulated impairment losses on goodwill, intangible assets and property and equipment in the amounts of $5,847.8 million, $309.6 million and $10.4 million, respectively. There are no impairment charges recorded for the years ended December 31, 2015 and 2014.

5. BUSINESS ACQUISITIONS

2015

In May 2015, Yellow Pages Homes Limited, a wholly-owned subsidiary of the Company, acquired the assets of Western Media Group for a purchase price of $0.9 million. The purchased assets include multi-platform brands in Western Canada, vanmag.com, westernlivingmag.com as well as Western Living Magazine and Vancouver Magazine. These properties generate local lifestyle content specific to the Western Canada region, in the restaurants, real estate and lifestyle categories. The fair value of $0.9 million is mainly comprised of intangible assets.

On July 1, 2015, Yellow Pages Limited acquired all the shares of CFDP, for a purchase price of $50.2 million. The acquisition of CFDP, a leader in connecting home sellers and buyers in Canada, provides Yellow Pages with an increased presence in the real estate vertical, access to exclusive listings and the platforms required to transact directly with Canadians. The acquisition was fully funded with cash on hand. Transaction costs of $1.3 million were incurred during the year ended December 31, 2015, and are included in Restructuring and special charges (refer to Note 10 – Provisions).

The following table summarizes the transaction and the purchase price allocation:

		July 1, 2015
Fair value of business acquired		
Trade and other receivables	$	1,461
Other assets		851
Property and equipment		1,339
Intangible assets		32,436
Goodwill		26,829
Deferred income tax liabilities, net		(6,834)
Trade and other payables		(2,190)
Provisions		(2,087)
Deferred revenues		(1,594)
	$	**50,211**

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

CFDP's revenues of $18.2 million and a net loss of $90 thousand are included in the consolidated income statement from the date of acquisition. Yellow Pages Limited's consolidated revenues and net earnings for the year ended December 31, 2015 would have been $853.5 million and $61.7 million, respectively, had the CFDP acquisition occurred on January 1, 2015.

2014

On June 1, 2014, Yellow Pages Limited acquired the remaining shares of 411 as a result of the exercise of a put option by the other shareholders of 411, requiring the Company to acquire the remaining 70% interest in 411 for a purchase price of $22.7 million, net of cash acquired of $3.6 million. 411 is the operator of 411.ca, an online search engine to find people and local businesses in Canada. The acquisition was financed with cash on hand.

The following table summarizes the transaction and the purchase price allocation:

		June 1, 2014
Cash purchase consideration for 70% ownership	$	26,340
Previously held equity investment at fair value		4,377
Settlement of financial liability (Note 22)		(16,128)
Fair value for 100% ownership	$	14,589
Fair value of business acquired		
Cash acquired	$	3,642
Intangible assets		10,636
Other assets		1,277
Deferred income tax assets, net		1,775
Trade and other payables		(1,151)
Deferred revenues		(1,590)
	$	14,589

The previously held equity investment in 411, which was accounted for under the equity method up to the acquisition date, was re-measured at its fair value of $4.4 million and resulted in a gain of $1.4 million. The financial liability of $18.5 million as at December 31, 2013 was also re-measured at its fair value as at the acquisition date to $16.1 million, and resulted in a gain of $2.3 million (refer to Note 22 – Financial risk management). The aggregate gain of $3.6 million, net of transaction costs of $0.1 million, was included in financial charges (refer to Note 19 – Financial charges, net).

411's revenues of $10.6 million and net earnings of $0.7 million are included in the consolidated income statement from the date of acquisition. Yellow Pages Limited's consolidated revenues and net earnings for the year ended December 31, 2014 would have been $882.5 million and $187.7 million, respectively, had the 411 acquisition occurred on January 1, 2014.

On December 17, 2014, Yellow Pages Limited completed the acquisitions of the following:

- All the assets of Candia Group Inc. ("dine.TO"), which owns and operates local digital restaurant guides for the Greater Toronto Area; and
- All the shares of Bookenda Limited (formerly 4400348 Canada Inc.), a provider of a booking and reservation management system with a strong presence in the restaurant industry.

The combined total cash consideration for the two acquisitions of $10.8 million was financed with cash on hand and paid at closing. The fair value of $10.8 million included $12.2 million of intangible assets (refer to Note 8 – Intangible assets), $0.1 million of net other assets, and $1.5 million of net deferred income tax liabilities.

6. INVESTMENTS IN ASSOCIATES

In May 2014, Yellow Pages Limited disposed of its 35% share ownership in Ziplocal for $nil consideration. The carrying value of this investment was $nil as at the date of disposal. The investment in Ziplocal was accounted for using the equity method. Upon disposal, Yellow Pages Limited reclassified an accumulated foreign currency translation loss of $1.6 million from equity to financial charges (refer to Note 19 – Financial charges, net).

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

7. PROPERTY AND EQUIPMENT

	Office equipment[1]	Computer equipment	Other equipment	Leasehold improvements	Total 2015
Cost					
As at December 31, 2014	$ 31,666	$ 34,411	$ 1,908	$ 31,940	**$ 99,925**
Business acquisitions (Note 5)	296	239	196	698	**1,429**
Additions	772	2,775	72	1,273	**4,892**
Disposals, write-offs and transfers	(34)	–	(37)	–	**(71)**
As at December 31, 2015	$ 32,700	$ 37,425	$ 2,139	$ 33,911	**$ 106,175**
Accumulated depreciation					
As at December 31, 2014	$ 22,250	$ 19,121	$ 1,138	$ 20,985	**$ 63,494**
Depreciation expense	1,562	6,227	283	4,126	**12,198**
Disposals, write-offs and transfers	(34)	–	(37)	–	**(71)**
As at December 31, 2015	$ 23,778	$ 25,348	$ 1,384	$ 25,111	**$ 75,621**
Net book value as at December 31, 2015	**$ 8,922**	**$ 12,077**	**$ 755**	**$ 8,800**	**$ 30,554**

	Office equipment[1]	Computer equipment	Other equipment	Leasehold improvements	Total 2014
Cost					
As at December 31, 2013	$ 30,439	$ 24,328	$ 1,669	$ 31,153	$ 87,589
Business acquisitions (Note 5)	137	349	28	43	557
Additions	3,557	9,765	211	2,678	16,211
Disposals, write-offs and transfers	(2,467)	(31)	–	(1,934)	(4,432)
As at December 31, 2014	$ 31,666	$ 34,411	$ 1,908	$ 31,940	$ 99,925
Accumulated depreciation					
As at December 31, 2013	$ 22,925	$ 15,111	$ 984	$ 19,080	$ 58,100
Depreciation expense	1,790	4,031	154	3,811	9,786
Disposals, write-offs and transfers	(2,465)	(21)	–	(1,906)	(4,392)
As at December 31, 2014	$ 22,250	$ 19,121	$ 1,138	$ 20,985	$ 63,494
Net book value as at December 31, 2014	$ 9,416	$ 15,290	$ 770	$ 10,955	$ 36,431

[1] *The net book value of office equipment includes $0.6 million of assets held under finance leases (2014 - $0.7 million).*

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

8. INTANGIBLE ASSETS

2015	Trademarks and domain names[1]	Non-competition agreements	Customer-related intangible assets	Software[2]	**Total Intangible assets**
Cost					
As at December 31, 2014	$ 906,694	$ 530,830	$ 5,667	$ 256,486	**$ 1,699,677**
Business acquisitions (Note 5)	29,391	1,943	910	1,102	**33,346**
Additions	–	–	–	70,107	**70,107**
As at December 31, 2015	$ 936,085	$ 532,773	$ 6,577	$ 327,695	**$ 1,803,130**
Accumulated amortization					
As at December 31, 2014	$ 16,426	$ 207,273	$ 837	$ 140,174	**$ 364,710**
Amortization expense	2,839	18,685	2,755	44,360	**68,639**
As at December 31, 2015	$ 19,265	$ 225,958	$ 3,592	$ 184,534	**$ 433,349**
Net book value as at December 31, 2015	**$ 916,820**	**$ 306,815**	**$ 2,985**	**$ 143,161**	**$ 1,369,781**

2014	Trademarks and domain names[1]	Non-competition agreements	Customer-related intangible assets	Software[2]	Total Intangible assets
Cost					
As at December 31, 2013	$ 951,023	$ 536,102	$ 12,113	$ 180,637	$ 1,679,875
Business acquisitions (Note 5)	10,309	–	4,882	7,668	22,859
Additions	–	–	–	69,904	69,904
Disposals, write-offs and transfers	(54,638)	(5,272)	(11,328)	(1,723)	(72,961)
As at December 31, 2014	$ 906,694	$ 530,830	$ 5,667	$ 256,486	$ 1,699,677
Accumulated amortization					
As at December 31, 2013	$ 65,132	$ 194,081	$ 11,671	$ 98,497	$ 369,381
Amortization expense	5,932	18,464	494	43,400	68,290
Disposals, write-offs and transfers	(54,638)	(5,272)	(11,328)	(1,723)	(72,961)
As at December 31, 2014	$ 16,426	$ 207,273	$ 837	$ 140,174	$ 364,710
Net book value as at December 31, 2014	$ 890,268	$ 323,557	$ 4,830	$ 116,312	$ 1,334,967

[1] *Trademarks and domain names with indefinite useful lives amounted to $908.2 million (2014 - $878.8 million).*

[2] *Software assets under development amounted to $30 million (2014 - $57 million).*

9. TRADE AND OTHER PAYABLES

As at	**December 31, 2015**	December 31, 2014[1]
Trade	**$ 47,675**	$ 48,618
Accrued interest on long-term debt and exchangeable debentures	**3,871**	5,027
Payroll related	**7,440**	5,994
Long-term incentive plans	**2,947**	8,871
Other accrued liabilities	**11,694**	13,538
	$ 73,627	$ 82,048

[1] *Certain amounts in the prior period were reclassified to conform to the current year's presentation.*

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

10. PROVISIONS

During the year ended December 31, 2015, Yellow Pages Limited recorded restructuring and special charges of $30.8 million. The majority of these costs was associated with workforce reductions related to a corporate realignment, internal reorganizations, transaction costs associated with business acquisitions, and contract termination costs, partially offset by a curtailment gain of $1.6 million related to workforce reductions (refer to Note 11 – Post-employment benefits). During the year ended December 31, 2014, Yellow Pages Limited recorded restructuring and special charges of $18.4 million. The majority of these costs were associated with internal reorganizations and workforce reductions, partially offset by a net curtailment gain of $1.4 million related to workforce reductions (refer to Note 11 – Post-employment benefits).

The provisions for restructuring and special charges represent the present value of the best estimate of the future outflow of economic benefits that will be required to settle the provisions and may vary as a result of new events affecting the severances and charges that will need to be paid.

Other provisions include provisions primarily for vacation and short-term incentive plans.

		Provisions for restructuring		Provisions for special charges		Other provisions		**Total Provisions**
As at December 31, 2014	$	16,244	$	17,365	$	34,808	$	**68,417**
Charge[1]		27,437		5,031		31,533		**64,001**
Business acquisition (Note 5)		–		–		2,212		**2,212**
Utilized provision		(21,080)		(5,384)		(34,536)		**(61,000)**
Surplus provision		–		–		(1,538)		**(1,538)**
As at December 31, 2015	$	22,601	$	17,012	$	32,479	$	**72,092**
Less current portion		20,759		14,627		32,255		**67,641**
Non-current portion	**$**	**1,842**	**$**	**2,385**	**$**	**224**	**$**	**4,451**

[1] *Included in the restructuring and special charges of $30.8 million on the income statement is a curtailment gain of $1.6 million not affecting the provision.*

11. POST-EMPLOYMENT BENEFITS

Yellow Pages Limited maintains pension plans with defined benefit and defined contribution components which cover substantially all of the employees of Yellow Pages Limited. Yellow Pages Limited maintains unfunded supplementary defined benefit pension plans for certain executives and also maintains other retirement and post-employment benefits ("other benefits") plans which cover substantially all of its employees.

The defined benefit plans typically expose the Company to actuarial risks such as investment, interest rate, longevity and salary risks.

Investment risk	The present value of the defined benefit plan obligation is calculated using a discount rate determined by reference to high quality corporate bond yields; if the actual return on plan assets is below the assumed rate, it will create a plan deficit. Currently, the defined benefit plan has a relatively balanced investment in equity securities and debt instruments. Due to the long-term nature of the defined benefit plan obligation, the pension committee considers it appropriate that a reasonable portion of the plan assets should be invested in equity instruments to leverage the return generated by the fund.
Interest risk	A decrease in the bond interest rate will increase the defined benefit plan obligation, particularly on a solvency basis. Although this will be partially offset by an increase in the return of the defined benefit plan's investments, the impact may be material as pension liabilities are sensitive to variations in interest rates.
Longevity risk	The present value of the defined benefit plan liability is calculated based on assumptions regarding mortality rates of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the defined benefit obligation.
Salary risk	The present value of the defined benefit plan obligation is calculated by reference to the projected salaries of plan participants. As such, a higher salary increase than projected of the plan participants will increase the defined benefit plan's liability.

The present value of the defined benefit obligation and the related current service cost and past service costs were measured using the projected benefit method prorated on service. This was based on the actuarial valuation of the plan assets and the present value of the defined benefit obligation which was carried out by Morneau Shepell, Fellows of the Canadian Institute of Actuaries and Society of Actuaries, as at May 31, 2015 and extrapolated to December 31, 2015. For funding purposes, an actuarial valuation of the defined benefit component of the Yellow Pages pension plans was also performed as at May 31, 2015.

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

The changes in the defined benefit obligations and in the fair value of assets and the reconciliation of the funded status of the defined benefit plans to the amount recorded on the consolidated statements of financial position as at December 31, 2015 and 2014 were as follows:

As at	December 31, 2015		December 31, 2014	
	Pension Benefits[1]	**Other Benefits**	Pension Benefits[1]	Other Benefits
Fair value of plan assets, beginning of year	$ 474,854	$ –	$ 438,008	$ –
Employer contributions	35,224	2,014	28,212	2,029
Employee contributions	1,502	–	1,680	–
Interest income	18,838	–	20,534	–
Return on plan assets excluding interest income (actuarial gains)	3,089	–	31,103	–
Benefit payments	(44,725)	(2,014)	(35,011)	(2,029)
Assets distributed on settlement (Note 10)	–	–	(8,195)	–
Administration costs	(898)	–	(1,477)	–
Fair value of plan assets, end of year	$ 487,884	$ –	$ 474,854	$ –
Accrued benefit obligation, beginning of year	$ 660,501	$ 41,615	$ 576,664	$ 40,292
Current service cost	9,737	182	10,047	264
Employee contributions	1,502	–	1,680	–
Benefit payments	(44,725)	(2,014)	(35,011)	(2,029)
Defined benefit obligation extinguished on settlement (Note 10)	–	–	(7,541)	–
Interest cost	25,848	1,507	26,901	1,762
Curtailment gain	(1,096)	(538)	(312)	(1,701)
Past service costs	(2,449)	(4,169)	–	–
Actuarial (gains) losses due to:				
Experience adjustments	(13,516)	1,033	–	(739)
Changes in demographic assumptions	–	(53)	19,966	306
Changes in financial assumptions	(3,203)	381	68,107	3,460
Defined benefit obligation, end of year	$ 632,599	$ 37,944	$ 660,501	$ 41,615
Net defined benefit obligation	$ (144,715)	$ (37,944)	$ (185,647)	$ (41,615)

[1] *Including unfunded supplementary defined benefit pension plans.*

While all the plans are not considered fully funded for financial reporting purposes, registered plans are funded in accordance with the applicable statutory funding rules and regulations governing the particular plans.

The significant assumptions adopted in measuring Yellow Pages Limited's pension and other benefit obligations as at December 31, 2015 and 2014 were as follows:

As at	December 31, 2015		December 31, 2014	
	Pension Benefits	**Other Benefits**	Pension Benefits	Other Benefits
Post-employment benefit obligation				
Discount rate, end of year	4.00%	4.00%	4.00%	4.00%
Rate of compensation increase	2.95%	2.95%	3.00%	3.00%
Net benefit plan costs				
Discount rate, end of preceding year	4.00%	4.00%	4.75%	4.75%
Rate of compensation increase	3.00%	3.00%	3.00%	3.00%
Weighted average duration (years)	15	13	16	13

For measurement purposes, a 6.7% annual increase in the per capita cost of covered medical care benefits (the medical care cost trend rate) was assumed in 2015. The rate of increase of the cost of medical care was assumed to increase to 8.0% in 2016 and gradually decline to 5.0% by 2026 and to remain at that level thereafter. A 4.5% annual increase in per capita cost of covered dental care benefits was assumed in 2015. The rate of increase of the cost of covered dental care was assumed to increase to 6.0% in 2016 and gradually decline to 4.0% by 2026 and to remain at that level thereafter.

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

The following table shows how the defined benefit obligation as at December 31, 2015 would have been affected by changes that were reasonably possible at that date in each significant actuarial assumption:

	Pension Benefits	Other Benefits
Decrease of 0.25% in discount rate, end of year	$ 24,605	$ 1,376
Increase of 0.25% in rate of compensation	$ 2,968	$ –
Increase of 1% in health care cost trend rates	$ N/A	$ 2,761

The net benefit plan costs included in the income statements are the following components:

	For the years ended December 31,			
	2015		2014	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Current service cost	$ 9,737	$ 182	$ 10,047	$ 264
Administration costs	898	–	1,477	–
Past service costs	(2,449)	(4,169)	–	–
Service cost[1]	$ 8,186	$ (3,987)	$ 11,524	$ 264
Curtailment gain	$ (1,096)	$ (538)	$ (312)	$ (1,701)
Loss on settlement	–	–	654	–
Net curtailment (gain) loss (Note 10)	$ (1,096)	$ (538)	$ 342	$ (1,701)
Interest cost	$ 25,848	$ 1,507	$ 26,901	$ 1,762
Interest income	(18,838)	–	(20,534)	–
Net interest on the net defined benefit obligation (Note 19)	$ 7,010	$ 1,507	$ 6,367	$ 1,762
Net benefit costs (recovery) recognized in the income statement	$ 14,100	$ (3,018)	$ 18,233	$ 325
Actuarial (gains) losses recognized in other comprehensive income	$ (19,808)	$ 1,361	$ 56,970	$ 3,027
Total net benefit plan (recovery) costs for the Yellow Pages ("YP") defined benefit plans	$ (5,708)	$ (1,657)	$ 75,203	$ 3,352
Net benefit plan costs for the YP defined contribution plans[1]	7,332	–	6,500	–
Total net benefit plan costs (recovery)	$ 1,624	$ (1,657)	$ 81,703	$ 3,352

[1] *Included in operating costs*.

As a result of workforce reductions, the number of employees covered by the pension plans decreased, and this restructuring gave rise to a curtailment gain as at October 8, 2015 and a curtailment gain and loss on settlement as at March 1, 2014 (refer to Note 10 – Provisions).

During the year ended December 31, 2015, the Company amended the retirement and post-employment benefit plans for certain groups of employees. These amendments were made prospectively and applied only to certain groups of employees and included among other items for the affected employees, the elimination of post-retirement benefits, the elimination of post-retirement indexing for future service, the introduction of employee contributions and the reduction of short-term disability coverage. Certain of these amendments resulted in a recovery of past service costs in the amount of $6.6 million in 2015 (2014 - $nil).

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

Plan assets include primarily Canadian and foreign equities, government and corporate bonds, debentures and secured mortgages. Plan assets are held in trust and the asset allocation was as follows as at December 31, 2015 and 2014:

(in percentages - %)	December 31, 2015	December 31, 2014
Fair value of the plan assets:		
Canadian bonds and debentures	27.0	31.5
Canadian common stocks	11.0	11.0
Global common stocks	–	9.5
Pooled fund units		
Canadian pooled equity funds	17.5	18.0
Global pooled equity funds	31.0	21.0
Canadian pooled fixed-income funds	10.0	6.0
Pooled mortgage funds	2.0	2.0
Short-term notes and treasury bills	0.5	0.5
Cash and cash equivalents	1.0	0.5

As at December 31, 2015 and 2014, the publicly traded equity securities did not directly include any shares of Yellow Pages Limited.

The total cash payments for pension and other benefit plans made by Yellow Pages Limited amounted to $44.6 million for 2015 (2014 – $35.6 million). Total cash payments for pension and other benefit plans expected in 2016 amount to approximately $41.4 million.

Yellow Pages Limited's funding policy is to make contributions to its pension plans based on various actuarial cost methods as permitted by pension regulatory bodies. Yellow Pages Limited is responsible to adequately fund the plans. Contributions reflect actuarial assumptions concerning future investment returns, salary projections and future service benefits.

In addition, Yellow Pages Limited recorded an expense for provincial, federal and state pension plans of $9 million for the year ended December 31, 2015 (2014 – $7.7 million).

As at December 31, 2015, Yellow Pages Limited had recognized an accumulated balance of $86.3 million, net of income taxes of $29.3 million, in actuarial losses in OCI.

12. LONG-TERM DEBT

The long-term debt is comprised of the following:

As at	December 31, 2015	December 31, 2014
Senior secured notes	$ 406,733	$ 507,014
Obligations under finance leases	620	897
	$ 407,353	$ 507,911
Less current portion[1]	98,530	103,152
Non-current portion	$ 308,823	$ 404,759

[1] *The current portion of the senior secured notes may vary subject to the Excess Cash Flow clause under the indenture governing the senior secured notes.*

Asset-Based Loan

In August 2013, the Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, entered into a five-year $50 million asset-based loan ("ABL") expiring in August 2018. The ABL is used for general corporate purposes. Through the ABL, the Company has access to the funds in the form of prime rate loans, Banker's acceptance ("BA") equivalent loans or letters of credit. The ABL is secured by a first priority lien over the receivables of the Company. The ABL was subject to an availability reserve of $5 million if the Company's trailing 12-month fixed charge coverage ratio is below 1.1 times. As at December 31, 2015, the Company had $4.2 million of letters of credit issued and outstanding under the ABL. As such, $45.8 million of the ABL was available as at December 31, 2015. Interest is calculated based either on the BA Rate or the Canadian Prime Rate plus an applicable margin.

The loan agreement governing the ABL contains restrictive covenants, including restrictions on the incurrence of additional indebtedness, the payment of dividends and other payment restrictions, the creation of liens, sale and leaseback transactions, mergers, consolidations and sales of assets, and certain transactions with affiliates and its business activities.

As at December 31, 2015 and 2014, the Company was in compliance with all covenants under the loan agreement governing the ABL.

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

Senior Secured Notes

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

The Senior Secured Notes are unconditionally guaranteed on a senior secured basis by Yellow Pages Limited and all of its Restricted Subsidiaries (as such term is defined in the indenture governing the Senior Secured Notes).

The Senior Secured Notes and each Senior Secured Note guarantee are secured by a first priority lien, subject to certain permitted liens, in the collateral, which consists of all of the property of Yellow Pages Limited and the Restricted Subsidiaries, whether owned on the Effective Date or thereafter acquired, other than certain excluded property.

The indenture governing the Senior Secured Notes contains restrictive covenants, including restrictions on the incurrence of additional indebtedness, the payment of dividends and other payment restrictions, the creation of liens, sale and leaseback transactions, mergers, consolidations and sales of assets, and certain transactions with affiliates and its business activities. The indenture does not contain the obligation to maintain financial ratios. Financial ratio restrictions only apply upon incurrence of additional indebtedness and other transactions.

As at December 31, 2015 and 2014, the Company was in compliance with all covenants under the indenture governing the Senior Secured Notes.

Mandatory Redemption

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

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

Optional Redemption

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

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

Obligations under finance leases

The Company entered into several lease agreements with third parties for office equipment and for software. The obligations under finance leases are secured by a moveable hypothec on the office equipment leased.

Finance lease liabilities payable as at December 31, 2015 are as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	$ 277	$ 15	$ 262
Between one and five years	372	14	358
	$ 649	$ 29	$ 620

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

13. EXCHANGEABLE DEBENTURES

As at	December 31, 2015	December 31, 2014
Face value of exchangeable debentures	$ 107,089	$ 107,089
Less unaccreted interest	16,611	18,130
	$ 90,478	$ 88,959

On December 20, 2012, the Company through its subsidiary Yellow Pages Digital & Media Solutions Limited, issued $107.5 million of senior subordinated exchangeable debentures ("Exchangeable Debentures") due November 30, 2022. Interest on the Exchangeable Debentures accrues at a rate of 8% per annum if for the applicable interest period, it is paid in cash, or 12% per annum if the Company makes a Payment in Kind ("PIK") election to pay interest in respect of all or any part of the then outstanding Exchangeable Debentures in additional Exchangeable Debentures. Interest on the Exchangeable Debentures is payable semi-annually in arrears, and in equal instalments on the last day of May and November of each year. The initial fair value on December 20, 2012 of the Exchangeable Debentures was $91.6 million.

The Exchangeable Debentures are senior subordinated and unsecured obligations of Yellow Pages Digital & Media Solutions Limited. The Exchangeable Debentures are unconditionally guaranteed on a subordinated unsecured basis by Yellow Pages Limited and all of its Restricted Subsidiaries (as such term is defined in the indenture governing the Exchangeable Debentures).

The indenture governing the Exchangeable Debentures contains restrictive covenants, including restrictions on the incurrence of additional indebtedness, the payment of dividends and other payment restrictions, the creation of liens, sale and leaseback transactions, mergers, consolidations and sales of assets and certain transactions with affiliates. The indenture does not contain the obligation to maintain financial ratios. Financial ratio restrictions only apply upon incurrence of indebtedness and other transactions.

As at December 31, 2015 and 2014, the Company was in compliance with all covenants under the indenture governing the Exchangeable Debentures.

Exchange Option

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

The conversion option was valued at $3.6 million, net of income taxes of $1.3 million, at the date of issuance and is included in Equity. The liability portion is being accreted such that the liability at maturity equals the principal amount less exchanges.

During the year ended December 31, 2014, $0.4 million of Exchangeable Debentures at face value were exchanged for 21,584 common shares of Yellow Pages Limited with a fair value of $0.5 million.

Optional Redemption

The Company may, at any time on or after the date on which all of the Senior Secured Notes have been paid in full, redeem all or part of the Exchangeable Debentures at its option at a redemption price equal to:

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

The redemption option for cash is an embedded derivative and is recorded at fair value on the consolidated statements of financial position with changes in fair value recognized in financial charges. The fair value was $0.5 million as at December 31, 2015 (2014 - $0.1 million).

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

14. INCOME TAXES

A reconciliation of income taxes at Canadian statutory rates with reported income taxes is as follows:

	For the years ended December 31, 2015	2014
Earnings before income taxes and earnings from investments in associates	$ 88,094	$ 147,425
Combined Canadian federal and provincial tax rates[1]	26.7%	26.56%
Income tax expense at statutory rates	$ 23,521	$ 39,156
Increase (decrease) resulting from:		
Settlement of tax assessments	1,045	(84,828)
Non-deductible expenses for tax purposes	1,120	1,265
Loss on settlement of note receivable	–	886
Disposal of investment in associate	–	636
Other[2]	1,353	1,948
Provision for (recovery of) income taxes	**$ 27,039**	$ (40,937)

1 *The combined applicable statutory tax rate increased by 0.14% resulting mainly from the provincial allocation of revenues earned and the increase in the Alberta statutory tax rate.*

2 *Certain expenses were reclassified in the prior period to conform to this year's presentation.*

Provision for (recovery of) income taxes includes the following amounts:

	For the years ended December 31, 2015	2014
Current	$ 253	$ (67,829)
Deferred	26,786	26,892
	$ 27,039	$ (40,937)

In conjunction with settlements received from the Canada Revenue Agency, Yellow Pages Limited recorded in the fourth quarter of 2014 an income tax receivable in the amount of $47.8 million in the consolidated statement of financial position as well as a recovery of income taxes of $84.8 million related to the cancellation of certain income tax liabilities. As at December 31, 2015, a balance of $3.2 million remains outstanding in connection with these settlements.

Deferred income tax (assets) liabilities are attributable to the following items:

	Deferred financing costs	Non-capital losses carry forward	Deferred revenues	Post-employment benefits	Accrued liabilities	Property and equipment and lease incentives	Exchangeable Debentures	Intangible assets	Deferred income tax liabilities (assets), net
December 31, 2014	$ (34)	$ (10,826)	$ (7,607)	$ (64,226)	$ (10,520)	$ 1,525	$ 4,987	$ 135,368	$ 48,667
Business acquisitions	–	(1,383)	–	–	–	(156)	–	8,373	6,834
(Benefit) expense to income statement	(5,052)	(3,060)	1,997	7,167	(403)	9,550	(406)	16,992	26,785
Expense to OCI	–	–	–	4,946	–	–	–	–	4,946
Other	565	(719)	–	–	–	–	–	154	–
December 31, 2015	**$ (4,521)**	**$ (15,988)**	**$ (5,610)**	**$ (52,113)**	**$ (10,923)**	**$ 10,919**	**$ 4,581**	**$ 160,887**	**$ 87,232**

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

	Deferred financing costs	Non-capital losses carry forward	Deferred revenues	Post-employment benefits	Accrued liabilities	Property and equipment and lease incentives	Exchangeable Debentures	Intangible assets	Deferred income tax liabilities (assets), net
December 31, 2013	$ (4,765)	$ (4,057)	$ (9,469)	$ (48,818)	$ (13,127)	$ (4,798)	$ 5,259	$ 109,099	$ 29,324
Business acquisitions	–	(3,936)	–	–	–	–	–	3,665	(271)
Expense (benefit) to income statement	4,731	(2,833)	1,862	527	2,607	6,323	(272)	13,947	26,892
Benefit to OCI	–	–	–	(15,935)	–	–	–	–	(15,935)
Other	–	–	–	–	–	–	–	8,657	8,657
December 31, 2014	$ (34)	$ (10,826)	$ (7,607)	$ (64,226)	$ (10,520)	$ 1,525	$ 4,987	$ 135,368	$ 48,667

As at December 31, 2015, the Company had not recognized deferred income tax assets with respect to foreign operating losses of $143.3 million which expire from 2028 to 2035, Canadian capital losses of $9.1 million which can be utilized indefinitely, and deductible temporary differences of $170.5 million.

15. SHAREHOLDERS' CAPITAL

Common shares

An unlimited number of common shares are authorized to be issued.

	For the year ended December 31, 2015	
	Number of Shares	**Amount**
Balance, December 31, 2014	27,976,661	$ 4,030,325
Exercise of stock options (Note 17)	87,250	1,203
Exchange of common share purchase warrants	8	–
Balance, December 31, 2015	**28,063,919**	**$ 4,031,528**

	For the year ended December 31, 2014	
	Number of Shares	Amount
Balance, December 31, 2013	27,955,077	$ 4,029,869
Exchange of Exchangeable Debentures (Note 13)	21,584	456
Balance, December 31, 2014	27,976,661	$ 4,030,325

Warrants

On December 20, 2012, the Company issued 2,995,506 common share purchase warrants ("Warrants").

During the year ended December 31, 2015, 8 Warrants were exercised in exchange for 8 common shares of Yellow Pages Limited (2014 – nil). As at December 31, 2015 and December 31, 2014, the Company had a total of 2,995,498 and 2,995,506 Warrants outstanding, respectively.

Each Warrant is transferable and entitles the holder to purchase one common share of Yellow Pages Limited at an exercise price of $28.16 per Warrant payable in cash at any time on or prior to December 20, 2022. The fair value of the Warrants on December 20, 2012 was $1.5 million.

The fair value of the Warrants was calculated using a binomial option pricing model with the following assumptions:

Risk free interest rate	**2.27%**
Expected life	**10 years**
Expiry date	**December 20, 2022**
Expected volatility	**33.5%**

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

16. EARNINGS PER SHARE

The following table reconciles the net earnings attributable to common shareholders and the weighted average number of shares outstanding used in computing basic earnings per share to weighted average number of shares outstanding used in computing diluted earnings per share:

	For the years ended December 31,	
	2015	2014
Weighted average number of shares outstanding used in computing basic earnings per share	26,688,369	27,128,062
Dilutive effect of restricted share units and performance share units	1,082,187	813,909
Dilutive effect of stock options	71,250	142,945
Dilutive effect of Exchangeable Debentures	5,624,422	5,624,422
Weighted average number of shares outstanding used in computing diluted earnings per share	33,466,228	33,709,338

	For the years ended December 31,	
	2015	2014
Net earnings available to common shareholders of Yellow Pages Limited used in the computation of basic and diluted earnings per share	$ 61,055	$ 188,540
Impact of assumed conversion of Exchangeable Debentures, net of applicable taxes	7,393	7,291
Net earnings adjusted for dilutive effect	$ 68,448	$ 195,831

For the years ended December 31, 2015 and 2014, the diluted earnings per share calculation did not take into consideration the potential dilutive effect of the Warrants (refer to Note 15 – Shareholders' capital) as well as certain stock options that are not in the money as they are not dilutive.

17. STOCK-BASED COMPENSATION PLANS

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

Restricted Share Unit and Performance Share Unit Plan

On May 6, 2013, Yellow Pages Limited adopted a restricted share unit and performance share unit plan (the "RSU and PSU Plan") to reward key employees and officers of Yellow Pages Limited (the "Participants"). Following the implementation of the RSU and PSU Plan, Yellow Pages Limited granted to Participants a number of restricted share units ("RSUs") and/or performance share units ("PSUs"), as applicable, based on the volume weighted average trading price of the common shares for the five days immediately preceding the grant date. The RSUs are time-based awards and will vest upon the continuous employment of the Participants for a period of 36 months starting from the date of the grant or such other period not exceeding 36 months determined by the Board of Directors. The PSUs are performance-based awards and will vest upon confirmation by the Board of Directors of the achievement of specified performance targets and upon the continuous employment of the Participants for a period of 36 months starting from the date of the grant or such other period not exceeding 36 months determined by the Board of Directors. The PSUs for which the performance targets have not been achieved shall automatically be forfeited and cancelled.

Pursuant to the terms of the RSU and PSU Plan, if the RSU and PSU Plan is funded, Participants will receive, upon vesting of the RSUs and PSUs, common shares of the Company acquired on the open market. In the event the RSU and PSU Plan is unfunded, Yellow Pages Limited will pay to the Participant an amount in cash, equivalent to the number of RSUs or PSUs that have vested.

The number of PSUs that vest could potentially reach up to one-and-a-half times the actual number of PSUs awarded if the actual performance reaches the maximum level of performance targets.

During the year ended December 31, 2015, 417,669 common shares of Yellow Pages Limited (2014 - 571,322) were purchased on the open market of the TSX by the trustee appointed under the RSU and PSU Plan at a cost of $6.8 million (2014 - $12.5 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 1,378,141 as at December 31, 2015.

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

The following table summarizes the status of the RSU and PSU grants during the years ended December 31:

		2015		2014
Number of	**RSUs**	**PSUs[1]**	RSUs	PSUs[1]
Outstanding, beginning of period	399,238	363,290	252,655	131,776
Granted	265,716	360,843	198,008	286,609
Settled	(58,517)	–	(6,815)	–
Forfeited	(141,513)	(204,016)	(44,610)	(55,095)
Outstanding, end of period	464,924	520,117	399,238	363,290
Weighted average remaining life (years)	1.1	1.4	1.4	1.7

[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% amounted to 259,997 common shares as at December 31, 2015 (2014 – 181,607 common shares).*

During the year ended December 31, 2015, an expense of $5.9 million (2014 - $4.4 million) was recorded in the consolidated income statement in relation to the RSU and PSU Plan.

Deferred Share Unit Plan

On June 12, 2013, Yellow Pages Limited adopted a deferred share unit plan (the “DSU Plan”). The DSU Plan was amended in October 2013 to provide for the participation by eligible employees as designated by the Board of Directors. The Company shall settle the vested DSUs in cash or in common shares of Yellow Pages Limited acquired on the open market at the discretion of the Company when a Director leaves the Board of Directors or an eligible employee ceases employment with the Company.

The following table summarizes the status of the DSU grants during the years ended December 31:

			2015			2014
	Number of DSUs		**Liability[1]**	Number of DSUs		Liability[1]
Outstanding, beginning of period	151,141	$	2,959	100,557	$	2,067
Granted	41,823		800	50,584		1,056
Variation due to change in stock price	–		(812)	–		(164)
Outstanding and vested, end of period	192,964	$	2,947	151,141	$	2,959

[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.*

Stock Options

On December 20, 2012, as part of the implementation of Yellow Pages Limited’s Recapitalization transaction, a new stock option plan (the “Stock Option Plan”) was adopted. The Stock Option Plan is intended to attract and retain the services of selected employees of Yellow Pages Limited who are in a position to make a material contribution to the successful operation of the business, provide meaningful incentive to management to lead Yellow Pages Limited through the transformation of its business and to more closely align the interests of management with those of the shareholders of Yellow Pages Limited. A maximum of 1,290,612 stock options may be granted under the Stock Option Plan.

The following table summarizes the status of the stock option grants during the years ended December 31:

			2015			2014
	Number of options		**Weighted average exercise price per option**	Number of options		Weighted average exercise price per option
Outstanding, beginning of period	480,200	$	15.10	376,000	$	10.12
Granted	243,300	$	16.50	195,800	$	24.35
Exercised	(87,250)	$	10.12	–	$	–
Forfeited	(113,300)	$	16.05	(91,600)	$	14.42
Outstanding, end of period	522,950	$	16.38	480,200	$	15.10
Exercisable, end of period	78,000	$	10.12	–	$	–

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

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

	2015		2014	
Exercise price	Number of options outstanding	Weighted average remaining life	Number of options outstanding	Weighted average remaining life
$10.12	178,750	4.4	311,500	5.4
$16.44	195,900	6.2	–	–
$17.96	9,200	6.4	–	–
$19.61	7,700	5.5	7,700	6.5
$20.33	4,900	5.4	4,900	6.4
$24.65	126,500	5.2	156,100	6.2
Outstanding, end of period	522,950	5.3	480,200	5.6
Exercisable, end of period	78,000	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 years ended December 31:

	2015	2014
Weighted average grant share date price	$ 15.90	$ 25.00
Exercise price	$ 16.50	24.35
Expected volatility	38%	30%
Option life	7 years	7 years
Risk-free interest rate	1.44%	2.40%
Weighted average remaining life	6.2 years	6.2 years

An expense of $0.8 million was recorded during the year ended December 31, 2015 (2014 - $1.2 million) in relation to the Stock Option Plan.

18. OPERATING COSTS

	For the years ended December 31,	
	2015	2014
Salaries, commissions and benefits	$ 295,628	$ 285,025
Supply chain and logistics[1]	109,669	110,489
Other goods and services[2]	104,926	111,416
Information systems	47,679	45,533
Bad debt expense (Note 22)	11,182	9,089
	$ 569,084	$ 561,552

1 *Supply chain and logistics costs relate to external supplier costs for manufacturing and distribution of our print and online products.*

2 *Other goods and services include promotion and advertising costs, real estate, telecommunications, office services, consulting services including contractors and professional fees. Operating leases recognized in operating costs during the year amounted to $20.4 million (2014 - $19.7 million).*

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

19. FINANCIAL CHARGES, NET

The significant components of the financial charges are as follows:

	For the years ended December 31,	
	2015	2014
Interest on long-term debt and Exchangeable Debentures	$ 53,111	$ 63,897
Net interest on the defined benefit obligations (Note 11)	8,517	8,129
Reclassification of accumulated foreign currency translation loss (Note 6)	–	1,598
Gain on business acquisition (Note 5)	–	(3,613)
Loss on the settlement of note receivable (Note 22)	–	1,150
Other, net	(706)	955
	$ 60,922	$ 72,116

20. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

The following are non-cash transactions:

	For the years ended December 31,	
	2015	2014
Additions to property and equipment included in trade and other payables	$ 462	$ 1,903
Additions to intangible assets included in trade and other payables	$ 5,516	$ 4,485
Additions to property and equipment under finance leases	$ 102	$ 540
Exchange of Exchangeable Debentures (Note 13)	$ –	$ 456

21. COMMITMENT AND CONTINGENCIES

a) As at December 31, 2015, Yellow Pages Limited has commitments under various leases for premises, equipment, purchase and service contract obligations for both operating and capital expenditures for each of the next five years and thereafter, and in the aggregate of:

	Operating leases	Other	Total commitments
2016	$ 21,771	$ 39,881	$ 61,652
2017	19,487	14,185	33,672
2018	9,309	10,514	19,823
2019	6,915	426	7,341
2020	6,006	424	6,430
Thereafter	82,238	4,032	86,270
	$ 145,726	$ 69,462	$ 215,188

Under certain lease agreements, incentives for leasehold improvements exist. These lease incentives are accounted for as part of deferred credits and amount to $6.5 million.

b) Yellow Pages Limited has four billing and collection services agreements. The term of the Billing and Collection Services Agreement with Bell Canada (“Bell”) expires on December 31, 2017. The agreement with TELUS Communications Inc. (“TELUS”) expires in 2031. The agreement with MTS Inc. expires on October 2, 2016, with two automatic renewal periods for ten years. The agreement with Bell Canada Inc. (as successor to Bell Aliant Regional Communications LP) expires on April 30, 2017, with two automatic renewal periods for ten years.

Pursuant to publication agreements with each of Bell, TELUS, MTS Inc. and Bell Canada Inc., Yellow Pages Limited produces alphabetical listing telephone directories for each of these companies in order for them to meet their regulatory obligations.

The Company also entered into several other agreements with Bell, TELUS, MTS Inc. and Bell Canada Inc., providing for the use of listing information and trademarks for the publications of directories. If the Company materially fails to perform its obligations under the publication agreements mentioned above and as a result these publication agreements are terminated in accordance with their terms, these other listing information and trademark licenses with Bell, TELUS, MTS Inc. or Bell Canada Inc., as the case may be, may also be terminated. These other agreements with Bell, TELUS, MTS Inc. and Bell Canada Inc. will terminate between 2031 and 2037.

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

c) Yellow Pages Limited entered into directory printing agreements with its printing suppliers to print, bind and furnish alphabetical, classified and combined directories as well as other publications. It also entered into distribution agreements.

d) Yellow Pages Limited is subject to various claims and proceedings which have been instituted against it during the normal course of business for which certain of the claims are provided for and included in trade and other payables, and provisions based on management's best estimate of the likelihood of the outcome. Management believes that the disposition of the matters pending or asserted is not expected to have any material adverse effect on the financial position, financial performance or cash flows of Yellow Pages Limited.

22. FINANCIAL RISK MANAGEMENT

Credit Risk

Credit risk stems primarily from the potential inability of a customer or counterparty to a financial instrument to meet its contractual obligations. Yellow Pages Limited is exposed to credit risk with respect to cash and trade receivables from customers. The carrying value of financial assets represents Yellow Pages Limited's maximum exposure.

Credit risk associated with cash is minimized substantially by ensuring that these financial assets are placed with creditworthy counterparties. An ongoing review is performed to evaluate changes in the status of counterparties.

Yellow Pages Limited's extension of credit to customers involves judgment. Yellow Pages Limited has established internal controls designed to mitigate credit risk, including a formal credit policy managed by its credit department. New customers, customers increasing their advertising spend by a certain threshold and customers not respecting payment terms are subject to a specific vetting and approval process.

Yellow Pages Limited considers that it has limited exposure to concentration of credit risk with respect to trade receivables from customers due to its large and diverse customer base operating in numerous industries and its geographic diversity. There are no individual customers that account for 1% or more of revenues and there are no trade receivables from any one individual customer that exceeds 5% of the total balance of trade receivables at any point in time during the year.

Bell, TELUS, MTS Inc. and Bell Canada Inc. provide Yellow Pages Limited with customer collection services with respect to advertisers who are also their customers. As such, they receive money from customers on behalf of Yellow Pages Limited. Yellow Pages Limited retains the ultimate collection risk on these receivables.

Allowance for doubtful accounts and past due receivables are reviewed by management at each statement of financial position date. Yellow Pages Limited updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of trade receivable balances of each customer taking into account historic collection trends of past due accounts and current economic conditions. Trade receivables are written off once determined not to be collectible. Subsequent recoveries of amounts previously written off are credited to the income statement.

In 2011, Yellow Pages Limited sold Trader Corporation. The purchase price consideration included a note receivable of $15 million. The note receivable was to mature in 2020. Interest and principal on the note receivable was subordinated to the senior debt of Trader Corporation. In May 2014, Yellow Pages Limited settled this note receivable, which had a carrying value of $15.3 million, including accrued interest of $3.4 million, for $14.1 million, and recorded a loss of $1.2 million in financial charges (refer to Note 19 – Financial charges, net).

The components of trade and other receivables are as follows:

As at	December 31, 2015	December 31, 2014
Trade receivables		
Current	$ 65,147	$ 73,498
Past due less than 180 days	26,801	29,950
Past due over 180 days	4,901	5,783
Trade receivables	$ 96,849	$ 109,231
Other receivables[1]	$ 26,977	$ 23,047
Trade and other receivables	$ 123,826	$ 132,278

[1] *Other receivables is mainly comprised of sales tax receivables and a loan receivable associated with a forward contract.*

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

Yellow Pages Limited's trade receivables are stated after deducting an allowance for doubtful accounts of $12.7 million as at December 31, 2015 (2014 - $19.2 million). The movements in the allowance for doubtful accounts were as follows:

As at		December 31, 2015		December 31, 2014
Balance, beginning of year	$	19,247	$	21,122
Bad debt expense, net of recovery		11,182		9,089
Written-off		(17,746)		(10,964)
Balance, end of year	$	12,683	$	19,247

Market Risk

(i) Interest Rate Risk

Yellow Pages Limited is exposed to interest rate risks resulting from fluctuations in interest rates on its ABL with rates which are generally based on the Canadian BA rate. Yellow Pages Limited does not use derivative instruments to reduce its exposure to interest rate risk. As at December 31, 2015, the ABL had $4.2 million of letters of credit issued and outstanding. The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the necessary liquidity to conduct its day-to-day operations.

Yellow Pages Limited may also be exposed to fluctuations in long-term interest rates relative to the refinancing of its debt obligations upon their maturity. The interest rate on new long-term debt issuances will be based on the prevailing rates at the time of the refinancing, and will also depend on the tenor of the new debt issued. There are no upcoming maturities that will require refinancing. Changes in interest rates will also affect the fair value of future cash flows of Yellow Pages Limited's fixed rate debt. As interest rates on the Senior Secured Notes and Exchangeable Debentures are fixed, the Company is not exposed to interest rate fluctuation risk.

(ii) Foreign Exchange Risk

Yellow Pages Limited is exposed to foreign exchange risk arising from various currency transactions, which are not significant. Foreign exchange transaction risk arises primarily from commercial transactions that are denominated in a currency that is not the functional currency of Yellow Pages Limited's business unit that is party to the transaction. Yellow Pages Limited is exposed to fluctuations in the U.S. dollar. The effect on net earnings from existing U.S. dollar exposures of a one point increase or decrease in the Canadian/U.S. dollar exchange rate is not significant. The Company's expenditures, net of revenues, denominated in U.S. dollars were approximately $35 million for the year ended December 31, 2015.

Liquidity Risk

Liquidity risk is the exposure of Yellow Pages Limited to the risk of not being able to meet its financial obligations as they become due.

Yellow Pages Limited manages this risk by maintaining detailed cash forecasts and long-term operating and strategic plans. The management of liquidity requires a constant monitoring of expected cash inflows and outflows which is achieved through a detailed forecast of the Company's liquidity position to ensure adequate and efficient use of cash resources.

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

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

The following are the contractual maturities of the financial liabilities and related capital amounts:

	Payments due for the years following December 31, 2015				
	Total	1 year	2 – 3 years	4 – 5 years	After 5 years
Non-derivative financial liabilities					
Long-term debt[1,2]	$ 406,733	$ 98,268	$ 308,465	$ –	$ –
Obligations under finance leases[1]	620	262	272	86	–
Exchangeable Debentures[1]	107,089	–	–	–	107,089
Trade and other payables	73,627	73,627	–	–	–
Provisions	72,092	67,641	4,377	74	–
Total	**$ 660,161**	**$ 239,798**	**$ 313,114**	**$ 160**	**$ 107,089**

[1] *Principal amount.*

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

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, trade and other payables, and the current portion of provisions 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 at the statement of financial position date.

These estimates are significantly affected by assumptions including the amount and timing of estimated future cash flows and discount rates, all of which reflect varying degrees of risk.

The following schedule represents the carrying values and the fair values of financial instruments not measured at fair value on the statement of financial position:

	December 31, 2015		
	Level	Carrying Value	Fair Value
Current portion of long-term debt	1	$ 98,530	$ 103,075
Non-current portion of long-term debt	1	$ 308,823	$ 323,089
Exchangeable Debentures	1	$ 90,478	$ 109,766

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.

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

The following table summarizes the financial instruments measured at fair value using level 3 inputs in consolidated statement of financial position, as well as the reconciliation of Level 3 fair value measurements for the years ended December 31, 2014 and 2015:

	Investment – available-for-sale	Put option – financial liability	Total
As at December 31, 2013	$ 3,520	$ (18,472)	$ (14,952)
Gain on fair value of financial liability (put option) (Note 5)	–	2,344	2,344
Settlement of financial liability (Note 5)	–	16,128	16,128
As at December 31, 2014 and 2015	**$ 3,520**	**$ –**	**$ 3,520**

The fair value of the financial liability (put option) related to 411 was the difference between the price to acquire the remaining ownership interest in the associate, which was based on a fixed multiple of adjusted earnings before income taxes, depreciation and amortization, and the fair value of the investment in the associate on June 1, 2014, using similar assumptions as those used for the online products of Yellow Pages as at December 31, 2013. 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 that are based on market rates prevailing at the statements of financial position date.

23. CAPITAL DISCLOSURES

Yellow Pages Limited's objective in managing capital is to ensure sufficient liquidity to cover financial obligations and investment requirements. Reducing debt and associated interest charges is one of the Company's primary financial goals which will improve its financial flexibility and support the implementation of its strategic objectives.

Yellow Pages Limited monitors its capital structure and makes adjustments based on the objectives described above in response to changes in economic conditions and the risk characteristics of the underlying assets and the Company's working capital requirements.

The primary measure used by Yellow Pages Limited to monitor its financial leverage is its ratio of net debt to Latest Twelve Month Adjusted EBITDA[1]. Yellow Pages Limited also uses other financial metrics to monitor its financial leverage including Fixed Charge Coverage Ratio and net debt to total capitalization.

Yellow Pages Limited's capital is comprised of net debt, Exchangeable Debentures and equity attributable to shareholders of Yellow Pages Limited as follows:

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

	For the years ended December 31,	
	2015	2014
Latest Twelve Month Adjusted EBITDA[1]	**$ 260,687**	$ 315,976
Net Debt to Latest Twelve Month Adjusted EBITDA ratio[1]	**1.7**	1.6

[1] *Latest twelve month income from operations before depreciation and amortization, and restructuring and special charges ("Latest Twelve Month Adjusted EBITDA"). Latest Twelve Month Adjusted EBITDA is a non-IFRS measure and may not be comparable with similar measures used by other publicly traded companies.*

24. GUARANTEES

In the normal course of operations, Yellow Pages Limited has entered into agreements which are customary in the industry that provide for indemnifications and guarantees to counterparties in transactions involving business acquisitions, business dispositions and sale of assets. Yellow Pages Limited has entered into agreements which contain indemnification of its directors and officers indemnifying them against expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of Yellow Pages Limited. Yellow Pages Limited benefits from directors' and officers' liability insurance which it has purchased. No amount has been accrued in the consolidated statement of financial position as at December 31, 2015 and 2014 with respect to these indemnities.

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

The nature of these guarantees prevents Yellow Pages Limited from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties.

25. SEGMENTED INFORMATION

The Company operates in a single business segment which is to provide Canadians with digital and print media and marketing solutions.

As at December 31, 2015, Yellow Pages Limited had non-current assets, other than deferred tax assets, held in a foreign country (United States of America) of $2.4 million (2014 - $3.1 million).

26. LIST OF SUBSIDIARIES

	Principal activity	Proportion of ownership	
		December 31,	
Canada		**2015**	2014
Yellow Pages Digital & Media Solutions Limited	Digital and print media marketing solutions provider	**100%**	100%
Yellow Pages Homes Limited	Publisher of locally-targeted real estate listings	**100%**	100%
411 Local Search Corp.	Digital media marketing solutions provider	**100%**	100%
9059-2114 Quebec Inc. [1]	Holding company	**100%**	–
ByTheOwner Inc. [1]	Real estate and related services provider	**100%**	–
YP Dine Solutions Limited [2]	Local digital restaurant guides provider	**100%**	–
Bookenda Limited	Booking and reservation management system provider	**100%**	100%
USA			
YPG (USA) Holdings, Inc.	Holding company	**100%**	100%
Yellow Pages Digital & Media Solutions, LLC	Operational support services provider	**100%**	100%

1 *On July 1, 2015, Yellow Pages Digital & Media Solutions Limited acquired all of the issued and outstanding shares of 9059-2114 Québec Inc., a holding company which owns all of the issued and outstanding shares of ByTheOwner Inc. (refer to Note 5 – Business acquisitions).*

2 *On July 1, 2015, certain assets and liabilities relating to the business of dine.TO, which were acquired by Yellow Pages Digital & Media Solutions Limited from Candia Digital Group Inc. on December 17, 2014, were transferred to YP Dine Solutions Limited, a wholly-owned subsidiary of Yellow Pages Digital & Media Solutions Limited (refer to Note 5 – Business acquisitions).*

27. RELATED PARTY DISCLOSURES

Key management personnel compensation

Yellow Pages Limited's key management personnel have authority and responsibility for planning, directing and controlling the Company's activities and consist of Yellow Pages Limited's executive team and the Board of Directors.

Total compensation expense for key management personnel, and the composition thereof, is as follows:

	For the years ended December 31	
	2015	2014[1]
Salary, fees and other short-term employee benefits	**$ 6,038**	$ 7,051
Post-employment benefits	**389**	496
Stock-based compensation	**3,980**	3,657
Termination benefits	**1,176**	2,655
	$ 11,583	$ 13,859

1 *During 2015, management reassessed its key management personnel. The prior period has been revised to reflect this change in composition.*

Other related party transactions

	Transaction value		Balance outstanding	
For the years ended December 31,	2015	2014	2015	2014
Sales of good and services				
Associate	$ –	$ 328	$ –	$ –

All outstanding balances with this related party were based on arm's length prices and were settled in cash under standard payment conditions. None of these balances were secured.

28. COMPARATIVE FIGURES

Yellow Pages Limited reclassified certain items in the consolidated statements of cash flows in the cash flows from operating activities section for the comparative period to conform to the current year's presentation. This reclassification has no impact on the total cash flows from operating activities.