CONSOLIDATED FINANCIAL STATEMENTS OF
YELLOW PAGES LIMITED

December 31, 2016 and 2015

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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, 2016 and December 31, 2015, and the consolidated income statements, consolidated statements of comprehensive (loss) 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, 2016 and December 31, 2015, 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 14, 2017

Montréal, Québec

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(IN THOUSANDS OF CANADIAN DOLLARS)

As at	December 31, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash	**$ 17,260**	$ 67,253
Trade and other receivables (Note 22)	**114,854**	123,826
Prepaid expenses	**8,934**	8,728
Deferred publication costs	**61,144**	61,216
Income taxes receivable (Note 14)	**3,057**	3,192
TOTAL CURRENT ASSETS	**205,249**	264,215
NON-CURRENT ASSETS		
Deferred publication costs	**7,936**	7,348
Financial and other assets (Note 22)	**4,008**	4,162
Investment in associate (Note 6)	**1,157**	–
Property and equipment (Note 7)	**36,194**	30,554
Intangible assets (Note 8)	**740,932**	1,369,781
Goodwill (Notes 4 and 5)	**45,342**	26,829
Deferred income taxes (Note 14)	**59,119**	7,738
TOTAL NON-CURRENT ASSETS	**894,688**	1,446,412
TOTAL ASSETS	**$ 1,099,937**	$ 1,710,627
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade and other payables (Note 9)	**$ 79,493**	$ 73,627
Provisions (Note 10)	**53,010**	67,641
Deferred revenues	**18,927**	23,386
Current portion of long-term debt (Note 12)	**75,161**	98,530
TOTAL CURRENT LIABILITIES	**226,591**	263,184
NON-CURRENT LIABILITIES		
Provisions (Note 10)	**4,327**	4,451
Deferred credits (Note 21)	**11,821**	6,538
Deferred income taxes (Note 14)	**7,081**	94,970
Post-employment benefits (Note 11)	**154,172**	182,659
Long-term debt (Note 12)	**234,867**	308,823
Exchangeable debentures (Note 13)	**92,174**	90,478
TOTAL NON-CURRENT LIABILITIES	**504,442**	687,919
TOTAL LIABILITIES	**731,033**	951,103
CAPITAL AND RESERVES	**6,597,891**	6,600,966
DEFICIT	**(6,228,987)**	(5,841,442)
TOTAL EQUITY	**368,904**	759,524
TOTAL LIABILITIES AND EQUITY	**$ 1,099,937**	$ 1,710,627

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

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE AND PER SHARE INFORMATION)

For the years ended December 31,		2016		2015
Revenues	$	**817,979**	$	829,771
Operating costs (Note 18)		**582,788**		569,084
Income from operations before depreciation and amortization, impairment of intangible assets and restructuring and special charges		**235,191**		260,687
Depreciation and amortization (Notes 7 and 8)		**104,882**		80,837
Impairment of intangible assets (Note 4)		**600,000**		–
Restructuring and special charges (Note 10)		**22,961**		30,834
(Loss) income from operations		**(492,652)**		149,016
Financial charges, net (Note 19)		**56,130**		60,922
(Loss) earnings before income taxes and loss from investment in associate		**(548,782)**		88,094
(Recovery of) provision for income taxes (Note 14)		**(145,517)**		27,039
Loss from investment in associate		**440**		–
Net (loss) earnings	**$**	**(403,705)**	$	61,055
Basic (loss) earnings per share	**$**	**(15.23)**	$	2.29
Weighted average shares outstanding – basic (loss) earnings per share (Note 16)		**26,500,861**		26,688,369
Diluted (loss) earnings per share	**$**	**(15.23)**	$	2.05
Weighted average shares outstanding – diluted (loss) earnings per share (Note 16)		**26,500,861**		33,466,228

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(IN THOUSANDS OF CANADIAN DOLLARS)

For the years ended December 31,	2016	2015
Net (loss) earnings	**$ (403,705)**	$ 61,055
Other comprehensive income:		
Items that will be reclassified subsequently to net (loss) earnings		
Net change in fair value of derivatives designated as cash flow hedges (Note 22)	**1,125**	–
Reclassification to (loss) earnings of derivatives designated as cash flow hedges (Note 22)	**(129)**	–
Income taxes relating to items that will be reclassified subsequently to net (loss) earnings	**(267)**	–
	729	–
Items that will not be reclassified subsequently to net (loss) earnings		
Actuarial gains (Note 11)	**22,101**	18,447
Income taxes relating to items that will not be reclassified subsequently to net (loss) earnings	**(5,941)**	(4,946)
	16,160	13,501
Other comprehensive income	**16,889**	13,501
Total comprehensive (loss) income	**$ (386,816)**	$ 74,556

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(IN THOUSANDS OF CANADIAN DOLLARS)

For the years ended December 31,

	Shareholders' Capital (Note 15)	Restricted Shares	Warrants (Note 15)	Compound Financial Instruments[1]
Balance, December 31, 2015	$ 4,031,528	$ (24,965)	$ 1,456	$ 3,619
Other comprehensive income	–	–	–	–
Net loss	–	–	–	–
Total comprehensive income (loss)	–	–	–	–
Restricted shares settled	–	3,589	–	–
Restricted shares (Note 17)	–	(10,472)	–	–
Stock options granted (Note 17)	–	–	–	–
Exercise of stock options (Note 17)	157	–	–	–
Balance, December 31, 2016	**$ 4,031,685**	**$ (31,848)**	**$ 1,456**	**$ 3,619**

	Shareholders' Capital (Note 15)	Restricted Shares	Warrants (Note 15)	Compound Financial Instruments[1]
Balance, December 31, 2014	$ 4,030,325	$ (18,981)	$ 1,456	$ 3,619
Other comprehensive income	–	–	–	–
Net earnings	–	–	–	–
Total comprehensive income	–	–	–	–
Restricted shares settled	–	854	–	–
Restricted shares (Note 17)	–	(6,838)	–	–
Stock options granted (Note 17)	–	–	–	–
Exercise of stock options (Note 17)	1,203	–	–	–
Balance, December 31, 2015	$ 4,031,528	$ (24,965)	$ 1,456	$ 3,619

[1] *The equity component of the exchangeable debentures presented above is net of income taxes of $1.3 million (2015 - $1.3 million).*

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

2016

Stock-based Compensation and Other Reserves	**Reduction of Capital Reserve**	**Total Capital and Reserves**	**Deficit**	**Total Equity**
$ 132,275	$ 2,457,053	$ 6,600,966	$ (5,841,442)	$ 759,524
729	–	729	16,160	16,889
–	–	–	(403,705)	(403,705)
729	–	729	(387,545)	(386,816)
(3,589)	–	–	–	–
5,578	–	(4,894)	–	(4,894)
975	–	975	–	975
(42)	–	115	–	115
$ 135,926	**$ 2,457,053**	**$ 6,597,891**	**$ (6,228,987)**	**$ 368,904**

2015

Stock-based Compensation and Other Reserves	Reduction of Capital Reserve	Total Capital and Reserves	Deficit	Total Equity
$ 126,706	$ 2,457,053	$ 6,600,178	$ (5,915,998)	$ 684,180
–	–	–	13,501	13,501
–	–	–	61,055	61,055
–	–	–	74,556	74,556
(854)	–	–	–	–
5,915	–	(923)	–	(923)
828	–	828	–	828
(320)	–	883	–	883
$ 132,275	$ 2,457,053	$ 6,600,966	$ (5,841,442)	$ 759,524

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS OF CANADIAN DOLLARS)

For the years ended December 31,	2016	2015
OPERATING ACTIVITIES		
Net (loss) earnings	**$ (403,705)**	$ 61,055
Adjusting items		
Depreciation and amortization	**104,882**	80,837
Impairment of intangible assets	**600,000**	–
Restructuring and special charges (Note 10)	**22,961**	30,834
Stock-based compensation expense	**7,974**	6,731
(Recovery of) provision for income taxes recognized in net (loss) earnings	**(145,517)**	27,039
Loss from investment in associate	**440**	–
Financial charges recognized in net (loss) earnings	**56,130**	60,922
Past service costs (Note 11)	–	(6,618)
Other non-cash items	**9,967**	8,420
Change in operating assets and liabilities	**(9,434)**	(10,704)
Funding of post-employment benefit plans in excess of costs	**(13,165)**	(26,629)
Lease incentives received	**8,145**	–
Restructuring and special charges paid (Note 10)	**(33,885)**	(26,464)
Income taxes (paid) received, net	**(1,815)**	46,664
Interest paid	**(44,865)**	(54,521)
	158,113	197,566
INVESTING ACTIVITIES		
Additions to intangible assets	**(50,787)**	(69,190)
Additions to property and equipment	**(12,719)**	(6,231)
Business acquisitions (Note 5)	**(35,271)**	(51,063)
Investment in associate (Note 6)	**(1,597)**	–
Other	**(50)**	–
	(100,424)	(126,484)
FINANCING ACTIVITIES		
Repayment of long-term debt	**(97,325)**	(100,650)
Purchase of restricted shares (Note 17)	**(10,472)**	(6,838)
Issuance of common shares upon exercise of stock options (Note 17)	**115**	883
	(107,682)	(106,605)
NET DECREASE IN CASH	**(49,993)**	(35,523)
CASH, BEGINNING OF YEAR	**67,253**	102,776
CASH, END OF YEAR	**$ 17,260**	$ 67,253
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".

The Board of Directors (the "Board") approved the consolidated financial statements for the years ended December 31, 2016 and 2015 and authorized their publication on February 14, 2017.

2. REVISED STANDARDS

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS ADOPTED WITH NO EFFECT ON THE CONSOLIDATED FINANCIAL STATEMENTS

The following revised standards are effective for annual periods beginning on January 1, 2016 and their adoption has not had any impact on the amounts reported in these consolidated financial statements but may affect the accounting for future transactions or arrangements:

Amendments to 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.

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.

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, 2017. The new standards which are considered to be relevant to Yellow Pages Limited's operations are as follows:

IFRS 15 – *Revenue from Contracts with Customers*

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

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

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

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

Amendments to IAS 7 – ***Statement of Cash Flows***

In January 2016, the IASB published amendments to IAS 7 – *Statement of Cash Flows*. The amendments are intended to improve information provided to users of financial statements about an entity's financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates and changes in fair value. They are effective for annual periods beginning on or after January 1, 2017, applied prospectively, with earlier adoption permitted. The Amendments to IAS 7 are not expected to have a significant impact on the consolidated financial statements of Yellow Pages Limited.

Amendments to IFRS 2 – ***Share-based Payment***

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

IFRIC 22 – ***Foreign Currency Transactions and Advance Consideration***

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

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

In December 2016, the IASB issued amendments to IFRS 12 – *Disclosure of Interest in Other Entities* as part of its 2014-2016 Annual Improvements Cycle. The amendment clarifies that the requirement to disclose summarised financial information does not apply for interests in subsidiaries, associates or joint ventures which are classified, or included in a disposal group that is classified as held for sale in accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*. This amendment is effective for annual periods beginning on or after January 1, 2017, with retrospective application. The amendments to IFRS 12 are not expected to have a significant impact on the consolidated financial statements of Yellow Pages Limited.

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, 2016, 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 36 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 and other payables, 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 March 2016 of Oriole Media Corp. (doing business as JUICE Mobile), Yellow Pages Limited measured the fair value of JUICE Mobile's intangible assets, namely its software, using the income approach (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.

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.

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.

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 CGUs.

During the fourth quarters of 2015 and 2016, the Company completed its annual 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.

2016

The cash flows are based on the 2017 budget 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 20% and online revenue growth rates between 7% and 13% for the Yellow Pages and Other CGUs.

As a result of a marked acceleration in an unfavourable change in the product mix in the Yellow Pages CGU, the Company recorded an impairment loss of $600 million as the Company's carrying value of if its Yellow Pages CGU exceeded its recoverable amount. The impairment loss was applied to certain intangible assets of the Yellow Pages CGU, namely trademarks and non-competition agreements. The recoverable amount of the Yellow Pages CGU post-impairment is $703.9 million, and represents its value in use. The recoverable amount of the Other CGUs exceeded their carrying values, and accordingly, no impairment was recognized.

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE INFORMATION)

2015

The cash flows were 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 its CGUs exceeded their carrying values and accordingly, no impairment charge was recognized.

Carrying values and other 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, 2016 and 2015 by CGU or group of CGUs, prior to the impairment charge, and the other key assumptions used for the value in use calculations for the December 31, 2016 and December 31, 2015 impairment analyses are presented below:

			December 31, 2016[1]
	Yellow Pages	**Other**	**Total**
Carrying value of intangible assets and goodwill by CGU			
Trademarks and domain names	$ 877,862	$ 30,374	$ 908,236
Trademarks and domain names with finite lives	2,094	3,651	5,745
Non-competition agreements	286,866	1,365	288,231
Customer-related intangible assets	–	4,944	4,944
Software	122,843	10,933	133,776
Goodwill	–	45,342	45,342
Total carrying value of intangible assets and goodwill by CGU	**$ 1,289,665**	**$ 96,609**	**$ 1,386,274**

[1] *Prior to the impairment charge of $600 million, as discussed above*.

			December 31, 2015
	Yellow Pages	Other	Total
Carrying value of intangible assets and goodwill 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 intangible assets and goodwill by CGU	$ 1,327,150	$ 69,460	$ 1,396,610

	Yellow Pages	**Other**	**Total**
Key assumptions :			
Terminal growth rate			
December 31, 2016	-15% to 4.5%	1% to 4.5%	-15% to 4.5%
December 31, 2015	-15% to 4.5%	1.5% to 4.5%	-15% to 4.5%
Discount rate – post-tax			
December 31, 2016	8.4% to 13.6%	12.2% to 15%	8.4% to 15%
December 31, 2015	9.9% to 15.3%	12.8%	9.9% to 15.3%
Discount rate – pre-tax			
December 31, 2016	15.1% to 20.6%	14.8% to 18.6%	14.8% to 20.6%
December 31, 2015	16.3% to 23.1%	15.5% to 17.3%	15.5% to 23.1%

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE INFORMATION)

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 for the Other CGUs:

	December 31, 2016
	Other
Key assumptions :	
Terminal growth rate	-1%
Discount rate – post-tax	1%
Revenue decline per annum	-3%

Yellow Pages Limited has accumulated impairment losses on goodwill, intangible assets and property and equipment in the amounts of $5,847.8 million, $909.6 million and $10.4 million, respectively. There was no impairment loss recorded for the year ended December 31, 2015.

5. BUSINESS ACQUISITIONS

2016

On March 17, 2016, Yellow Pages Limited acquired the net assets of JUICE Mobile, for a purchase price of $35.3 million. The acquisition of JUICE Mobile, a premium advertising technology company whose programmatic platforms facilitate the automatic buying and selling of mobile advertising between brands and publishers, positioned Yellow Pages Limited as a desktop and mobile national advertising agency, expanding the Company's reach of brands and media publishers. The acquisition was fully funded with cash on hand. Transaction costs of $1.3 million were incurred during the year ended December 31, 2016, and are included in Restructuring and special charges (refer to Note 10 – Provisions).

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

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

JUICE Mobile's revenues of $31.8 million and net loss of $6.7 million are included in the consolidated income statement from the date of acquisition. Yellow Pages Limited's consolidated revenues and net loss for the year ended December 31, 2016 would have been $823.7 million and $405.5 million, respectively, had the JUICE Mobile acquisition occurred on January 1, 2016.

The Company acquired in September 2016 the net assets of 9778748 Canada Inc. ("Totem"), a creative agency specializing in customized content creation and delivery for global brands for a purchase price of $1.2 million, payable over 3 years.

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE INFORMATION)

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 included 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 was mainly comprised of intangible assets.

On July 1, 2015, Yellow Pages Limited acquired all the shares of the CFDP network from Square Victoria Digital Properties Inc. for a purchase price of $50.2 million. The acquisition of CFDP, a leader in connecting home sellers and buyers in Canada, will provide 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 were 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

CFDP's revenues of $18.2 million and a net loss of $90 thousand for the year ended December 31, 2015, 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.

6. INVESTMENT IN ASSOCIATE

On October 3, 2016, Yellow Pages Digital & Media Solutions Limited acquired a 50% ownership in 9778730 Canada Inc., which holds 100% of Coupgon Inc., a digital coupon solutions provider, for cash consideration of $1.2 million. Additional investments during the year ended December 31, 2016 amounted to $0.4 million. The difference between the acquisition price and the fair value of the net assets acquired was insignificant. The investment is being accounted for using the equity method.

(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	**2016** Total
Cost					
As at December 31, 2015	$ 32,700	$ 37,425	$ 2,139	$ 33,911	**$ 106,175**
Business acquisitions	47	159	22	314	**542**
Additions	4,586	4,180	62	8,961	**17,789**
Disposals, write-offs and transfers	(40)	(75)	(8)	(3)	**(126)**
As at December 31, 2016	$ 37,293	$ 41,689	$ 2,215	$ 43,183	**$ 124,380**
Accumulated depreciation					
As at December 31, 2015	$ 23,778	$ 25,348	$ 1,384	$ 25,111	**$ 75,621**
Depreciation expense	1,470	6,499	304	4,411	**12,684**
Disposals, write-offs and transfers	(37)	(75)	(4)	(3)	**(119)**
As at December 31, 2016	$ 25,211	$ 31,772	$ 1,684	$ 29,519	**$ 88,186**
Net book value as at December 31, 2016	**$ 12,082**	**$ 9,917**	**$ 531**	**$ 13,664**	**$ 36,194**

	Office equipment[1]	Computer equipment	Other equipment	Leasehold improvements	2015 Total
Cost					
As at December 31, 2014	$ 31,666	$ 34,411	$ 1,908	$ 31,940	$ 99,925
Business acquisitions	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

[1] *The net book value of office equipment includes $0.3 million of assets held under finance leases (2015 - $0.6 million).*

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE INFORMATION)

8. INTANGIBLE ASSETS

					2016
	Trademarks and domain names[1]	Non-competition agreements	Customer-related intangible assets	Software[2]	**Total Intangible assets**
Cost					
As at December 31, 2015	$ 936,085	$ 532,773	$ 6,577	$ 327,695	**$ 1,803,130**
Business acquisitions (Note 5)	–	200	6,230	9,720	**16,150**
Additions	–	–	–	47,457	**47,457**
Impairment (Note 4)	(452,489)	(147,511)	–	–	**(600,000)**
Disposals, write-offs and transfers	–	(3,968)	(785)	2	**(4,751)**
As at December 31, 2016	$ 483,596	$ 381,494	$ 12,022	$ 384,874	**$ 1,261,986**
Accumulated amortization					
As at December 31, 2015	$ 19,265	$ 225,958	$ 3,592	$ 184,534	**$ 433,349**
Amortization expense	2,839	18,784	4,009	66,566	**92,198**
Disposals, write-offs and transfers	–	(3,968)	(523)	(2)	**(4,493)**
As at December 31, 2016	$ 22,104	$ 240,774	$ 7,078	$ 251,098	**$ 521,054**
Net book value as at December 31, 2016	**$ 461,492**	**$ 140,720**	**$ 4,944**	**$ 133,776**	**$ 740,932**

					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

[1] *Trademarks and domain names with indefinite useful lives amounted to $456.8 million (2015 - $908.2 million).*

[2] *Software under development amounted to $10.6 million (2015 - $30 million).*

9. TRADE AND OTHER PAYABLES

As at	**December 31, 2016**	December 31, 2015[1]
Trade	**$ 60,300**	$ 53,720
Accrued interest on long-term debt and exchangeable debentures	**3,169**	3,871
Payroll related	**7,075**	7,440
Long-term incentive plans	**4,667**	2,947
Other accrued liabilities	**4,282**	5,649
	$ 79,493	$ 73,627

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

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10. PROVISIONS

During the year ended December 31, 2016, Yellow Pages Limited recorded restructuring and special charges of $23 million. The majority of these costs was associated with internal reorganizations and workforce reductions, and transaction costs associated with business acquisitions. 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 terminations, partially offset by a curtailment gain of $1.6 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, 2015	$ 22,601	$ 17,012	$ 32,479	**$ 72,092**
Charge[1]	19,198	3,640	27,831	**50,669**
Payments	(28,843)	(5,042)	(29,258)	**(63,143)**
Surplus provision	–	–	(2,417)	**(2,417)**
Reclassifications and other	–	–	136	**136**
As at December 31, 2016	$ 12,956	$ 15,610	$ 28,771	**$ 57,337**
Less current portion	10,403	13,883	28,724	**53,010**
Non-current portion	**$ 2,553**	**$ 1,727**	**$ 47**	**$ 4,327**

[1] *Included in the restructuring and special charges of $23 million on the income statement are net charges of $0.1 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 December 31, 2015 and extrapolated to December 31, 2016. For funding purposes, an actuarial valuation of the defined benefit component of the Yellow Pages pension plans was also performed as at December 31, 2015.

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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, 2016 and 2015 were as follows:

As at	**December 31, 2016**		December 31, 2015	
	Pension Benefits[1]	**Other Benefits**	Pension Benefits[1]	Other Benefits
Fair value of plan assets, beginning of year	**$ 487,884**	**$ –**	$ 474,854	$ –
Employer contributions	**17,907**	**2,002**	35,224	2,014
Employee contributions	**1,486**	**–**	1,502	–
Interest income	**19,087**	**–**	18,838	–
Return on plan assets excluding interest income (actuarial gains)	**20,456**	**–**	3,089	–
Benefit payments	**(38,952)**	**(2,002)**	(44,725)	(2,014)
Administration costs	**(955)**	**–**	(898)	–
Fair value of plan assets, end of year	**$ 506,913**	**$ –**	$ 487,884	$ –
Accrued benefit obligation, beginning of year	**$ 632,599**	**$ 37,944**	$ 660,501	$ 41,615
Current service cost	**5,526**	**21**	9,737	182
Employee contributions	**1,486**	**–**	1,502	–
Benefit payments	**(38,952)**	**(2,002)**	(44,725)	(2,014)
Interest cost	**24,672**	**1,479**	25,848	1,507
Curtailment gain	**(28)**	**(15)**	(1,096)	(538)
Past service costs	**–**	**–**	(2,449)	(4,169)
Actuarial (gains) losses due to:				
Experience adjustments	**(2,010)**	**–**	(13,516)	1,033
Changes in demographic assumptions	**–**	**–**	–	(53)
Changes in financial assumptions	**(843)**	**1,208**	(3,203)	381
Defined benefit obligation, end of year	**$ 622,450**	**$ 38,635**	$ 632,599	$ 37,944
Net defined benefit obligation	**$ (115,537)**	**$ (38,635)**	$ (144,715)	$ (37,944)

[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, 2016 and 2015 were as follows:

As at	**December 31, 2016**		December 31, 2015	
	Pension Benefits	**Other Benefits**	Pension Benefits	Other Benefits
Post-employment benefit obligation				
Discount rate, end of year	**3.75%**	**3.75%**	4.00%	4.00%
Rate of compensation increase	**2.25%**	**2.25%**	2.95%	2.95%
Net benefit plan costs				
Discount rate (current service cost), end of preceding year	**4.25%**	**4.25%**	4.00%	4.00%
Discount rate (interest expense), end of preceding year	**4.00%**	**4.00%**	4.00%	4.00%
Rate of compensation increase	**2.95%**	**2.95%**	3.00%	3.00%
Weighted average duration (years)	**15**	**13**	15	13

For measurement purposes, an 8% annual increase in the per capita cost of covered medical care benefits (the medical care cost trend rate) was assumed in 2016. The rate of increase of the cost of medical care was assumed to decrease to 7.7% in 2017 and gradually decline to 5% by 2026 and to remain at that level thereafter. A 6% annual increase in per capita cost of covered dental care benefits was assumed in 2016. The rate of increase of the cost of covered dental care was assumed to decrease to 5.8% in 2017 and gradually decline to 4% by 2026 and to remain at that level thereafter.

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The following table shows how the defined benefit obligation as at December 31, 2016 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	**$ 23,808**	**$ 1,306**
Increase of 0.25% in rate of compensation	**$ 2,696**	**$ –**
Increase of 1% in health care cost trend rates	**$ N/A**	**$ 3,032**

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

	For the years ended December 31,			
		2016		2015
	Pension Benefits	**Other Benefits**	Pension Benefits	Other Benefits
Current service cost	**$ 5,526**	**$ 21**	$ 9,737	$ 182
Administration costs	**955**	**–**	898	–
Past service costs	**–**	**–**	(2,449)	(4,169)
Service cost[1]	**$ 6,481**	**$ 21**	$ 8,186	$ (3,987)
Curtailment gain (Note 10)	**$ (28)**	**$ (15)**	$ (1,096)	$ (538)
Interest cost	**$ 24,672**	**$ 1,479**	$ 25,848	$ 1,507
Interest income	**(19,087)**	**–**	(18,838)	–
Net interest on the net defined benefit obligation (Note 19)	**$ 5,585**	**$ 1,479**	$ 7,010	$ 1,507
Net benefit costs (recovery) recognized in the income statement	**$ 12,038**	**$ 1,485**	$ 14,100	$ (3,018)
Actuarial (gains) losses recognized in OCI	**$ (23,309)**	**$ 1,208**	$ (19,808)	$ 1,361
Total net benefit plan (recovery) costs for the Yellow Pages ("YP") defined benefit plans	**$ (11,271)**	**$ 2,693**	$ (5,708)	$ (1,657)
Net benefit plan costs for the YP defined contribution plans[1]	**7,157**	**–**	7,125	–
Total net benefit plan (recovery) costs	**$ (4,114)**	**$ 2,693**	$ 1,417	$ (1,657)

[1] *Included in operating costs*.

As a result of workforce reductions during the years ended December 31, 2016 and 2015, the number of employees covered by the pension plans decreased, and these restructurings gave rise to a curtailment gain as at November 10, 2016, and October 8, 2015, respectively.

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.

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, 2016 and 2015:

(in percentages - %)	**December 31, 2016**	December 31, 2015
Fair value of the plan assets:		
Canadian bonds and debentures	**11.5**	27.0
Canadian common stocks	**9.5**	11.0
Pooled fund units		
Canadian pooled equity funds	**22.5**	17.5
Global pooled equity funds	**31.5**	31.0
Canadian pooled fixed-income funds	**24.5**	10.0
Pooled mortgage funds	**–**	2.0
Short-term notes and treasury bills	**–**	0.5
Cash and cash equivalents	**0.5**	1.0

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As at December 31, 2016 and 2015, 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 $26.8 million for 2016 (2015 – $44.6 million). Total cash payments for pension and other benefit plans expected in 2017 amount to approximately $26.7 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 $9.9 million for the year ended December 31, 2016 (2015 – $9 million).

As at December 31, 2016, Yellow Pages Limited had recognized an accumulated balance of $70.1 million, net of income taxes of $23.4 million, in actuarial losses in OCI.

12. LONG-TERM DEBT

The long-term debt is comprised of the following:

As at	**December 31, 2016**	December 31, 2015
Senior secured notes	**$ 309,669**	$ 406,733
Obligations under finance leases	**359**	620
	$ 310,028	$ 407,353
Less current portion[1]	**75,161**	98,530
Non-current portion	**$ 234,867**	$ 308,823

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

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 is 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, 2016, the Company had $7.4 million of letters of credit issued and outstanding under the ABL. As such, $42.6 million of the ABL was available as at December 31, 2016. Interest is calculated based either on the BA Rate or the 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, 2016 and 2015, the Company was in compliance with all covenants under the loan agreement governing the ABL.

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.

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As at December 31, 2016 and 2015, 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).

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.

The following table provides a reconciliation of our minimum future lease payments to the present value of our finance lease obligations as at December 31, 2016:

	Future minimum lease payments	Interest	Present value of minimum lease payments
2017	**$ 152**	**$ 9**	**$ 143**
2018 and 2019	**221**	**5**	**216**
	$ 373	**$ 14**	**$ 359**

13. EXCHANGEABLE DEBENTURES

As at	**December 31, 2016**	December 31, 2015
Face value of exchangeable debentures	**$ 107,089**	$ 107,089
Less unaccreted interest	**14,915**	16,611
	$ 92,174	$ 90,478

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

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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, 2016 and 2015, 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.

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 $0.1 million as at December 31, 2016 (2015 – $0.5 million).

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,	
	2016	2015
(Losses) earnings before income taxes and loss from investment in associate	**$ (548,782)**	$ 88,094
Combined Canadian federal and provincial tax rates[1]	**26.88%**	26.70%
Income tax (recovery) expense at statutory rates	**$ (147,509)**	$ 23,521
Increase (decrease) resulting from:		
Non-deductible expenses for tax purposes	**1,354**	1,120
Settlement of tax assessments	**273**	1,045
Other	**365**	1,353
(Recovery of) provision for income taxes	**$ (145,517)**	$ 27,039

[1] *The combined applicable statutory tax rate increased by 0.18% resulting mainly from the provincial allocation of revenues earned and the increase in the Alberta, New Brunswick and Newfoundland statutory tax rates.*

(Recovery of) provision for income taxes includes the following amounts:

	For the years ended December 31,	
	2016	2015
Current	**$ 89**	$ 254
Deferred	**(145,606)**	26,785
	$ (145,517)	$ 27,039

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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, 2015	$ (4,521)	$ (15,988)	$ (5,610)	$ (52,113)	$ (10,923)	$ 10,919	$ 4,581	$ 160,887	$ 87,232
Business acquisitions	–	–	–	–	–	–	–	128	128
Expense (benefit) to income statement	3,947	(10,686)	1,571	171	2,679	6,736	(477)	(149,547)	(145,606)
Expense to OCI	–	–	–	6,208	–	–	–	–	6,208
December 31, 2016	**$ (574)**	**$ (26,674)**	**$ (4,039)**	**$ (45,734)**	**$ (8,244)**	**$ 17,655**	**$ 4,104**	**$ 11,468**	**$ (52,038)**

	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

As at December 31, 2016, the Company had not recognized deferred income tax assets with respect to foreign operating losses of $161.4 million which expire from 2028 to 2036, Canadian capital losses of $10.3 million which can be utilized indefinitely, and deductible temporary differences of $153.8 million.

As at December 31, 2016, the Company and its subsidiaries had non-capital losses totalling approximately $96.4 million that may be applied against future taxable income. These non-capital losses expire gradually between 2027 and 2036. The Company recognized a deferred income tax asset on non-capital losses because it is probable that sufficient taxable profit will be available from current operations in the near future.

15. SHAREHOLDERS’ CAPITAL

Common shares

	For the year ended December 31, 2016	
	Number of Shares	**Amount**
Balance, December 31, 2015	28,063,919	$ 4,031,528
Exercise of stock options (Note 17)	11,375	157
Exchange of common share purchase warrants	10	–
Balance. December 31, 2016	**28,075,304**	**$ 4,031,685**

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE INFORMATION)

	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

Warrants

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

During the years ended December 31, 2016 and 2015, 10 and 8 common share purchase warrants ("Warrants"), respectively, were exercised in exchange for 10 and 8 common shares of Yellow Pages Limited, respectively. As at December 31, 2016 and 2015, the Company had a total of 2,995,488 and 2,995,498 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%**

16. EARNINGS PER SHARE

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

For the years ended December 31,	**2016**	2015
Weighted average number of shares outstanding used in computing basic (loss) earnings per share	**26,500,861**	26,688,369
Dilutive effect of restricted share units and performance share units	**–**	1,082,187
Dilutive effect of stock options	**–**	71,250
Dilutive effect of Exchangeable Debentures	**–**	5,624,422
Weighted average number of shares outstanding used in computing diluted (loss) earnings per share	**26,500,861**	33,466,228

For the years ended December 31,	**2016**	2015
Net (loss) earnings used in the computation of basic (loss) earnings per share	**$ (403,705)**	$ 61,055
Impact of assumed conversion of Exchangeable Debentures, net of applicable taxes	**–**	7,393
Net (loss) earnings adjusted for dilutive effect used in the computation of diluted (loss) earnings per share	**$ (403,705)**	$ 68,448

Yellow Pages Limited did not calculate the diluted loss per share for the year ended December 31, 2016 as the conversion of the restricted share units, performance share units, stock options and Exchangeable Debentures would not be dilutive to the loss. For the year ended December 31, 2015, 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.

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE INFORMATION)

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, 2016, 553,709 common shares of Yellow Pages Limited (2015 – 417,669) were purchased on the open market of the TSX by the trustee appointed under the restricted share unit and performance share unit plan (the "RSU and PSU Plan") at a cost of $10.5 million (2015 – $6.8 million) and are restricted for the purpose of funding of the RSU and PSU Plan. The total number of common shares of Yellow Pages Limited held by the trustee for the purpose of funding the RSU and PSU Plan amounted to 1,686,505 as at December 31, 2016.

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

		2016		2015
Number of	**RSUs**	**PSUs[1]**	RSUs	PSUs[1]
Outstanding, beginning of period	**464,924**	**520,117**	399,238	363,290
Granted	**199,427**	**327,137**	265,716	360,843
Additional payout related to achievement of performance targets[2]	**–**	**26,259**	–	–
Settled	**(159,398)**	**(85,947)**	(58,517)	–
Forfeited	**(60,598)**	**(191,452)**	(141,513)	(204,016)
Outstanding, end of period	**444,355**	**596,114**	464,924	520,117
Weighted average remaining life	**1.1**	**1.1**	1.1	1.4

1 *The outstanding number of PSUs represents a payout of 100%. In addition, the potential payout in excess of 100% and limited to a maximum payout of 150% pursuant to the achievement of certain performance targets, amounted to 297,990 common shares as at December 31, 2016 (2015 – 259,997 common shares).*

2 *The additional payout is related to the achievement of certain performance targets in excess of 100% and amounted to an additional 44% for the year ended December 31, 2016 (2015 – nil).*

During the years ended December 31, 2016, an expense of $5.6 million (2015 – $5.9 million) was recorded in the consolidated income statement in operating costs 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.

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE INFORMATION)

The following table summarizes the status of the deferred share unit ("DSU") grants during the years ended December 31:

		2016		2015
	Number of DSUs	**Liability[1]**	Number of DSUs	Liability[1]
Outstanding, beginning of period	**192,964**	**$ 2,947**	151,141	$ 2,959
Granted	**53,928**	**825**	41,823	800
Variation due to change in stock price	**–**	**596**	–	(812)
Outstanding and vested, end of period	**246,892**	**$ 4,368**	192,964	$ 2,947

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

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 under the stock option plan (the "Stock Option Plan") during the years ended December 31:

		2016		2015
	Number of options	**Weighted average exercise price per option**	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	**522,950**	**$ 16.38**	480,200	$ 15.10
Granted	**251,700**	**$ 17.83**	243,300	$ 16.50
Exercised	**(11,375)**	**$ 10.12**	(87,250)	$ 10.12
Forfeited	**(132,325)**	**$ 17.99**	(113,300)	$ 16.05
Outstanding, end of period	**630,950**	**$ 16.73**	522,950	$ 16.38
Exercisable, end of period	**186,550**	**$ 15.38**	78,000	$ 10.12

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

		2016		2015
Exercise price	**Number of options outstanding**	**Weighted average remaining life**	Number of options outstanding	Weighted average remaining life
$10.12	**167,375**	**3.3**	178,750	4.4
$16.44	**166,050**	**5.2**	195,900	6.2
$17.83	**163,000**	**6.2**	–	–
$17.96	**4,600**	**5.4**	9,200	6.4
$19.61	**7,700**	**4.5**	7,700	5.5
$20.33	**4,900**	**4.4**	4,900	5.4
$24.65	**117,325**	**4.2**	126,500	5.2
Outstanding, end of period	**630,950**	**4.8**	522,950	5.3
Exercisable, end of period	**186,550**	**3.6**	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:

	2016	2015
Weighted average grant date share price	**$ 18.28**	$ 15.90
Exercise price	**$ 17.83**	$ 16.50
Expected volatility	**35%**	38%
Option life	**7 years**	7 years
Risk-free interest rate	**1.02%**	1.44%
Weighted average remaining life	**6.16 years**	6.16 years

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE INFORMATION)

An expense of $1.0 million was recorded during the year ended December 31, 2016 (2015 – $0.8 million) in relation to the Stock Option Plan.

18. OPERATING COSTS

	For the years ended December 31,	
	2016	2015
Salaries, commissions and benefits	**$ 300,310**	$ 295,628
Supply chain and logistics[1,3]	**143,487**	125,995
Other goods and services[2,3]	**80,538**	88,600
Information systems	**45,624**	47,679
Bad debt expense (Note 22)	**12,829**	11,182
	$ 582,788	$ 569,084

[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, office services, consulting services including contractors and professional fees. Operating leases recognized in operating costs during the year amounted to $22.5 million (2015 - $20.4 million).*

[3] *Certain expenses within other goods and services in the prior period were reclassified to supply chain and logistics to conform to this year's presentation*.

19. FINANCIAL CHARGES, NET

The significant components of the financial charges are as follows:

	For the years ended December 31,	
	2016	2015
Interest on long-term debt and Exchangeable Debentures	**$ 43,776**	$ 53,111
Net interest on the defined benefit obligations (Note 11)	**7,064**	8,517
Sales taxes on tax assessment relating to financing costs	**2,372**	–
Other, net	**2,918**	(706)
	$ 56,130	$ 60,922

20. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

The following are non-cash transactions:

	For the years ended December 31,	
	2016	2015
Additions to property and equipment included in trade and other payables	**$ 5,525**	$ 462
Additions to intangible assets included in trade and other payables	**$ 2,405**	$ 5,516
Additions to property and equipment under finance leases	**$ –**	$ 102

21. COMMITMENTS AND CONTINGENCIES

a) As at December 31, 2016, 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
2017	$ 21,417	$ 31,835	**$ 53,252**
2018	18,898	16,318	**35,216**
2019	17,822	5,199	**23,021**
2020	17,137	2,551	**19,688**
2021	16,249	1,255	**17,504**
Thereafter	202,497	2,519	**205,016**
	$ 294,020	$ 59,677	**$ 353,697**

Under certain lease agreements, incentives for leasehold improvements exist. These lease incentives are accounted for in deferred credits and amount to $11.8 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 December 31, 2017. 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 2017 and 2037.

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.

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE INFORMATION)

The components of trade and other receivables are as follows:

As at	December 31, 2016	December 31, 2015
Trade receivables		
Current	**$ 66,517**	$ 65,147
Past due less than 180 days	**30,620**	26,801
Past due over 180 days	**5,243**	4,901
Trade receivables	**$ 102,380**	$ 96,849
Other receivables[1]	**$ 12,474**	$ 26,977
Trade and other receivables	**$ 114,854**	$ 123,826

[1] *Other receivables as at December 31, 2015 and 2016 included a loan receivable associated with a forward contract. The balance as at December 31, 2015 also included sales tax receivables of $16.6 million collected in 2016.*

Yellow Pages Limited's trade receivables are stated after deducting an allowance for doubtful accounts. The movements in the allowance for doubtful accounts were as follows:

As at	December 31, 2016	December 31, 2015
Balance, beginning of year	**$ 12,683**	$ 19,247
Bad debt expense, net of recovery	**12,829**	11,182
Written-off	**(11,631)**	(17,746)
Balance, end of year	**$ 13,881**	$ 12,683

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 Prime rate or Canadian BA rate. Yellow Pages Limited does not use derivative instruments to reduce its exposure to interest rate risk. 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 $33 million for the year ended December 31, 2016. In 2016, Yellow Pages Limited entered into foreign currency contracts to hedge this risk.

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 is 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, 2016				
	Total	**1 year**	**2 – 3 years**	**4 – 5 years**	**After 5 years**
Non-derivative financial liabilities					
Long-term debt[1,2]	$ 309,669	$ 75,018	$ 234,651	$ –	$ –
Obligations under finance leases[1]	359	143	216	–	–
Exchangeable Debentures[1]	107,089	–	–	–	107,089
Trade and other payables	79,493	79,493	–	–	–
Provisions	57,337	53,010	4,327	–	–
Total	**$ 553,947**	**$ 207,664**	**$ 239,194**	**$ –**	**$ 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 as well as the minimum cash balance requirement post Mandatory Redemptions 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, and trade and other payables is approximately equal to their carrying values due to their short-term maturity. The fair value of the Senior Secured Notes and the Exchangeable Debentures is evaluated based on quoted market prices as at the statement of financial position date.

The following schedule represents the carrying values and the fair values of financial instruments not measured at fair value in the consolidated statement of financial position as at December 31, 2016:

	Level	**Carrying Value**	**Fair Value**
Current portion of long-term debt	1	$ 75,161	$ 77,483
Non-current portion of long-term debt	1	$ 234,867	$ 242,129
Exchangeable Debentures	1	$ 92,174	$ 119,672

Fair value hierarchy

The three levels of fair value hierarchy are as follows:

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

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

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

As at	Level	**December 31, 2016**	December 31, 2015
Financial asset or liability			
Investment – available-for-sale	3	**$ 3,520**	$ 3,520
Foreign currency forward contracts	2	**$ 996**	$ –

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

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

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE INFORMATION)

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, 2016**		December 31, 2015
Cash	**$**	**17,260**	$	67,253
Senior Secured Notes (Note 12)	**$**	**309,669**	$	406,733
Exchangeable Debentures (Note 13)		**92,174**		90,478
Obligations under finance leases (Note 12)		**359**		620
Net debt	**$**	**384,942**	$	430,578
Equity attributable to shareholders		**368,904**		759,524
Total capitalization	**$**	**753,846**	$	1,190,102
Net debt to total capitalization		**51.1%**		36.2%

		For the years ended December 31,		
		2016		2015
Latest Twelve Month Adjusted EBITDA[1]	**$**	**235,191**	$	260,687
Net debt to Latest Twelve Month Adjusted EBITDA ratio[1]		**1.6**		1.7

[1] *Latest twelve month income from operations before depreciation and amortization, impairment of intangible assets 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 statements of financial position as at December 31, 2016 and 2015 with respect to these indemnities.

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, 2016, Yellow Pages Limited had non-current assets, other than deferred tax assets, held in a foreign country (United States of America) of $1.6 million (2015 - $2.4 million).

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE INFORMATION)

26. LIST OF SUBSIDIARIES

	Principal activity	Proportion of ownership	
		December 31,	
Canada		**2016**	2015
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.	Holding company	**100%**	100%
ByTheOwner Inc.	Real estate and related services provider	**100%**	100%
Juice DMS Advertising Limited[1]	Digital media marketing solutions provider	**100%**	–
YP Dine Solutions Limited	Local digital restaurant guides provider	**100%**	100%
Bookenda Limited	Booking and reservation management system provider	**100%**	100%
9778748 Canada Inc.[2]	Publisher	**100%**	–
USA			
YPG (USA) Holdings, Inc.	Holding company	**100%**	100%
Yellow Pages Digital & Media Solutions, LLC	Operational support services provider	**100%**	100%
Juice Mobile USA LLC[1]	Digital media marketing solutions provider	**100%**	–

[1] *On March 17, 2016, Yellow Pages Limited acquired the consolidated net assets of Oriole Media Corp. (doing business as JUICE Mobile). Oriole Media Corp. was subsequently renamed Juice DMS Advertising Limited (refer to Note 5 – Business acquisitions).*

[2] *On September 26, 2016, Yellow Pages Homes Limited acquired the net assets of 9778748 Canada Inc. (doing business as Totem. 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			
		2016		2015
Salary, fees and other short-term employee benefits	**$**	**5,354**	$	5,107
Post-employment benefits		**437**		364
Stock-based compensation		**4,306**		3,608
Termination benefits		**1,350**		–
	$	**11,447**	$	9,079

[1] *During 2016, management reassessed its key management personnel. The prior period has been revised to reflect this change in composition.*