

**UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW PAGES LIMITED**

**June 30, 2019 and 2018**

**Table of contents**

Interim Condensed Consolidated Statements of Financial Position	2
Interim Condensed Consolidated Statements of Income	3
Interim Condensed Consolidated Statements of Comprehensive Income	4
Interim Condensed Consolidated Statements of Changes in Equity	5
Interim Condensed Consolidated Statements of Cash Flows	6
Notes to the Interim Condensed Consolidated Financial Statements	7-18

## Interim Condensed Consolidated Statements of Financial Position

(in thousands of Canadian dollars – Unaudited)

As at	June 30, 2019	December 31, 2018
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and restricted cash (Note 3)	\$ 47,698	\$ 81,452
Trade and other receivables (Note 4)	103,725	132,534
Prepaid expenses	8,373	6,330
Deferred publication costs	2,618	2,191
Net investment in subleases (Note 6)	608	13
Income taxes receivable	572	668
<b>TOTAL CURRENT ASSETS</b>	<b>163,594</b>	<b>223,188</b>
NON-CURRENT ASSETS		
Deferred commissions (Note 5)	5,240	8,518
Financial and other assets	2,186	6,685
Right-of-use assets (Note 6)	17,044	32,583
Net investment in subleases (Note 6)	20,791	7,379
Property and equipment (Note 6)	15,536	29,518
Intangible assets	101,524	117,096
Deferred income taxes	8,103	17,402
<b>TOTAL NON-CURRENT ASSETS</b>	<b>170,424</b>	<b>219,181</b>
<b>TOTAL ASSETS</b>	<b>\$ 334,018</b>	<b>\$ 442,369</b>
<b>LIABILITIES AND EQUITY</b>		
CURRENT LIABILITIES		
Trade and other payables	\$ 34,540	\$ 47,520
Provisions	17,195	37,673
Deferred revenues	3,088	3,190
Current portion of lease obligations (Note 6)	2,885	4,352
Current portion of senior secured notes (Note 7)	65,000	90,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>122,708</b>	<b>182,735</b>
NON-CURRENT LIABILITIES		
Provisions	1,804	1,810
Post-employment benefits (Note 10)	136,999	132,352
Lease obligations (Note 6)	56,020	70,968
Senior secured notes (Note 7)	14,087	77,489
Exchangeable debentures (Note 8)	97,325	96,179
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>306,235</b>	<b>378,798</b>
<b>TOTAL LIABILITIES</b>	<b>428,943</b>	<b>561,533</b>
CAPITAL AND RESERVES	6,595,275	6,595,147
DEFICIT	(6,690,200)	(6,714,311)
<b>TOTAL DEFICIENCY</b>	<b>(94,925)</b>	<b>(119,164)</b>
<b>TOTAL LIABILITIES AND DEFICIENCY</b>	<b>\$ 334,018</b>	<b>\$ 442,369</b>

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

## Interim Condensed Consolidated Statements of Income

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

For the three and six-month periods ended June 30,	2019		2018	
Revenues	\$ 106,772	\$ 163,212	\$ 211,559	\$ 322,526
Operating costs	<b>63,350</b>	105,990	<b>122,756</b>	217,371
Income from operations before depreciation and amortization, and restructuring and other charges (recovery)	<b>43,422</b>	57,222	<b>88,803</b>	105,155
Depreciation and amortization	<b>10,082</b>	19,202	<b>21,210</b>	40,086
Restructuring and other charges (recovery) (Note 9)	<b>1,571</b>	(1,754)	<b>4,433</b>	9,444
Income from operations	<b>31,769</b>	39,774	<b>63,160</b>	55,625
Financial charges, net (Note 14)	<b>11,456</b>	13,977	<b>25,221</b>	28,139
Loss on sale of subsidiaries (Note 16)	<b>197</b>	903	<b>197</b>	903
Earnings before income taxes	<b>20,116</b>	24,894	<b>37,742</b>	26,583
Provision for income taxes	<b>5,543</b>	8,248	<b>10,509</b>	10,856
<b>Net earnings</b>	<b>\$ 14,573</b>	\$ 16,646	<b>\$ 27,233</b>	\$ 15,727
Basic earnings per share	<b>\$ 0.55</b>	\$ 0.63	<b>\$ 1.03</b>	\$ 0.60
Weighted average shares outstanding – basic earnings per share (Note 11)	<b>26,523,068</b>	26,446,467	<b>26,502,850</b>	26,386,176
Diluted earnings per share	<b>\$ 0.51</b>	\$ 0.56	<b>\$ 0.96</b>	\$ 0.57
Weighted average shares outstanding – diluted earnings per share (Note 11)	<b>32,670,871</b>	33,205,690	<b>32,650,653</b>	27,520,977

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

## Interim Condensed Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars – Unaudited)

For the three and six-month periods ended June 30,	2019		2018	
	2019	2018	2019	2018
<b>Net earnings</b>	\$ 14,573	\$ 16,646	\$ 27,233	\$ 15,727
<b>Other comprehensive (loss) income:</b>				
<b>Items that will not be reclassified subsequently to net earnings</b>				
Net change in fair value of equity investments reported in other comprehensive income ("FVOCI") (Note 15)	–	–	–	(5,514)
Actuarial (losses) gains (Note 10)	(5,387)	7,977	(4,271)	10,752
Income taxes relating to items that will not be reclassified subsequently to net earnings	1,449	(2,148)	1,149	(2,875)
<b>Other comprehensive (loss) income</b>	<b>(3,938)</b>	<b>5,829</b>	<b>(3,122)</b>	<b>2,363</b>
<b>Total comprehensive income</b>	<b>\$ 10,635</b>	<b>\$ 22,475</b>	<b>\$ 24,111</b>	<b>\$ 18,090</b>

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

## Interim Condensed Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars – Unaudited)

For the six-month periods ended June 30,

	2019									
	Shareholders' capital (Note 11)	Restricted shares	Warrants	Compound financial instruments <sup>1</sup>	Stock-based compensation and other reserves	Reduction of capital reserve	Total capital and reserves	Deficit	Total deficiency	
Balance, December 31, 2018	\$ 4,031,685	\$ (23,421)	\$ 1,456	\$ 3,619	\$ 124,755	\$ 2,457,053	\$ 6,595,147	\$ (6,714,311)	\$ (119,164)	
Other comprehensive loss	–	–	–	–	–	–	–	(3,122)	(3,122)	
Net earnings	–	–	–	–	–	–	–	27,233	27,233	
<b>Total comprehensive income</b>	–	–	–	–	–	–	–	<b>24,111</b>	<b>24,111</b>	
Restricted shares settled	–	1,211	–	–	(1,211)	–	–	–	–	
Restricted shares (Note 13)	–	–	–	–	(488)	–	(488)	–	(488)	
Stock options (Note 13)	–	–	–	–	616	–	616	–	616	
<b>Balance, June 30, 2019</b>	<b>\$ 4,031,685</b>	<b>\$ (22,210)</b>	<b>\$ 1,456</b>	<b>\$ 3,619</b>	<b>\$ 123,672</b>	<b>\$ 2,457,053</b>	<b>\$ 6,595,275</b>	<b>\$ (6,690,200)</b>	<b>\$ (94,925)</b>	

  

	2018									
	Shareholders' Capital (Note 11)	Restricted shares	Warrants	Compound financial instruments <sup>1</sup>	Stock-based compensation and other reserves	Reduction of capital reserve	Total capital and reserves	Deficit	Total equity	
Balance, December 31, 2017, as previously reported	\$ 4,031,685	\$ (27,572)	\$ 1,456	\$ 3,619	\$ 129,280	\$ 2,457,053	\$ 6,595,521	\$ (6,814,317)	\$ (218,796)	
Adjustment for IFRS 15	–	–	–	–	–	–	–	26,050	26,050	
Adjustment for IFRS 16	–	–	–	–	–	–	–	(7,133)	(7,133)	
Restated balance at December 31, 2017	4,031,685	(27,572)	1,456	3,619	129,280	2,457,053	6,595,521	(6,795,400)	(199,879)	
Adjustment for IFRS 9	–	–	–	–	–	–	–	(4,600)	(4,600)	
Restated balance, January 1, 2018	4,031,685	(27,572)	1,456	3,619	129,280	2,457,053	6,595,521	(6,800,000)	(204,479)	
Other comprehensive income	–	–	–	–	–	–	–	2,363	2,363	
Net earnings	–	–	–	–	–	–	–	15,727	15,727	
Total comprehensive income	–	–	–	–	–	–	–	18,090	18,090	
Restricted shares settled	–	3,749	–	–	(3,749)	–	–	–	–	
Restricted shares (Note 13)	–	–	–	–	1,005	–	1,005	–	1,005	
Stock options (Note 13)	–	–	–	–	231	–	231	–	231	
<b>Balance, June 30, 2018</b>	<b>\$ 4,031,685</b>	<b>\$ (23,823)</b>	<b>\$ 1,456</b>	<b>\$ 3,619</b>	<b>\$ 126,767</b>	<b>\$ 2,457,053</b>	<b>\$ 6,596,757</b>	<b>\$ (6,781,910)</b>	<b>\$ (185,153)</b>	

<sup>1</sup> The equity component of the exchangeable debentures presented above is net of income taxes of \$1.3 million (2018 - \$1.3 million).

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

## Interim Condensed Consolidated Statements of Cash Flows

(in thousands of Canadian dollars – Unaudited)

For the six-month periods ended June 30,	2019	2018
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 27,233	\$ 15,727
Adjusting items		
Stock-based compensation expense – equity settled	128	1,236
Depreciation and amortization	21,210	40,086
Restructuring and other charges	4,433	9,444
Financial charges, net	25,221	28,139
Loss on sale of subsidiaries	197	903
Provision for income taxes	10,509	10,856
Change in operating assets and liabilities	3,886	480
Funding of post-employment benefit plans in excess of costs	(2,228)	(4,086)
Restructuring and other charges paid	(12,092)	(20,826)
Interest paid	(16,357)	(24,820)
Income taxes received (paid), net	35	(157)
	<b>62,175</b>	<b>56,982</b>
<b>INVESTING ACTIVITIES</b>		
Additions to intangible assets	(5,295)	(8,176)
Additions to property and equipment	(111)	(1,072)
Lease incentives received	–	3,437
Payments received from net investment in subleases	148	182
Proceeds on sale of subsidiaries	1,744	750
	<b>(3,514)</b>	<b>(4,879)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of senior secured notes	(90,000)	(30,244)
Payment of lease obligations	(2,415)	(3,280)
	<b>(92,415)</b>	<b>(33,524)</b>
NET (DECREASE) INCREASE IN CASH AND RESTRICTED CASH	<b>(33,754)</b>	18,579
CASH AND RESTRICTED CASH, BEGINNING OF PERIOD	<b>81,452</b>	46,405
<b>CASH AND RESTRICTED CASH, END OF PERIOD</b>	<b>\$ 47,698</b>	<b>\$ 64,984</b>

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

## 1. Description

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

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

The Board of Directors (the “Board”) approved the interim condensed consolidated financial statements for the three and six-month periods ended June 30, 2019 and 2018 and authorized their publication on August 14, 2019.

## 2. Basis of presentation

### 2.1 Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 – *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. The accounting policies and methods of computation applied in these interim condensed consolidated financial statements are consistent with International Financial Reporting Standards (“IFRS”) and are the same as those applied by Yellow Pages Limited in its audited consolidated financial statements as at and for the years ended December 31, 2018 and 2017, except for new standards adopted on January 1, 2019 as described below. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2018 and 2017.

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

The Company adopted, effective January 1, 2019, the narrow amendments to IAS 12- *Income Taxes* and IAS 23- *Borrowing Costs*, stemming from the Annual Improvements 2015-2017 Cycle project. The adoption of these narrow amendments did not have a significant impact on the Company’s the interim consolidated financial statements.

#### **IFRIC 23 – Uncertainty Over Income Tax Treatments**

The Company has applied IFRIC 23 – *Uncertainty Over Income Tax Treatments* effective for annual periods beginning on or after January 1, 2019. This interpretation paper clarifies that in determining its taxable profit or loss when there is uncertainty over income tax treatments, an entity must use judgment and apply the tax treatment that is most likely to be accepted by the tax authorities. In assessing the likelihood that the tax treatment will be accepted, the entity assumes that the tax treatment will be examined by the relevant tax authorities having full knowledge of all relevant information. The adoption of IFRIC 23 has not had a significant impact on the interim consolidated financial statements of Yellow Pages Limited.

#### **Amendments to IAS 19 – Employee Benefits**

Yellow Pages Limited has applied the amendments to IAS 19 effective for annual periods beginning on or after January 1, 2019. The amendments address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments to IAS 19 have not had a significant impact on the interim consolidated financial statements of Yellow Pages Limited.

### 3. Restricted cash

As at December 31, 2018, cash amounting to \$1.4 million was restricted for use by the Company and its subsidiaries, primarily in respect of cash held in escrow, subject to the terms of the Senior Secured Notes agreement. This amount was included in the scheduled Senior Secured Notes redemption payment on May 31, 2019. As at June 30, 2019, the restricted cash balance is nil.

### 4. Trade and other receivables

As at	June 30, 2019	December 31, 2018
Current	\$ 68,485	\$ 85,331
Past due less than 180 days	16,794	21,975
Past due over 180 days	9,979	11,238
<b>Trade receivables</b>	<b>\$ 95,258</b>	<b>\$ 118,544</b>
<b>Other receivables<sup>1</sup></b>	<b>\$ 8,467</b>	<b>\$ 13,990</b>
<b>Trade and other receivables</b>	<b>\$ 103,725</b>	<b>\$ 132,534</b>

<sup>1</sup> Other receivables as at June 30, 2019 included a loan receivable associated with a forward contract. Other receivables as at December 31, 2018 included a loan receivable associated with a forward contract and accrued receivables related to JUICE and Mediative.

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

As at	June 30, 2019	December 31, 2018
Contract assets	\$ 48,576	\$ 51,601
Loss allowance for revenue adjustments and credit losses	(4,006)	(3,656)
Contract assets net of loss allowance for revenue adjustments and credit losses	\$ 44,570	\$ 47,945

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

The change in contract assets for the six-month period ended June 30, 2019 is primarily related to the fluctuation in print product revenue.

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



## 5. Deferred Commissions

Deferred commissions paid to sales representatives represent costs to obtain new sales contracts. These costs are amortized on a straight-line basis over a two-year period as this reflects the expected period of the benefit. During the three and six-month periods ended June 30, 2019, Yellow Pages Limited recorded amortization charges related to the costs to obtain contracts of \$2.2 million and \$4.9 million, respectively (2018 – \$4.4 million and \$9.0 million, respectively). The Company recognizes the commissions paid to sales representatives for contract renewals with revenue recognized within one year or less as an expense.

## 6. Leases

During the six-month period ended June 30, 2019, the Company surrendered the leases of some vacated office locations resulting in a decrease in right-of-use assets and property and equipment related to these office locations, consisting mainly of leasehold improvements and office equipment as well as a decrease in lease obligations. The Company also subleased some office spaces previously vacated, resulting in a decrease in right-of-use assets and property and equipment related to these office locations consisting mainly of leasehold improvements and office equipment as well as an increase in net investment in subleases.

The impact of the transactions described above resulted in following:

- A reduction in right-of-use assets of \$14.8 million;
- A reduction in lease obligations of \$14.2 million;
- An increase in net investment in subleases of \$13.8 million; and
- A reduction in property and equipment of \$12.4 million.

As a result of the transactions described above the Company recorded a recovery of \$0.7 million to restructuring and other charges (recovery) for the three and six months ended June 30, 2019.

During the three and six-month periods ended June 30, 2019, the Company also recorded an amortization charge on right-of-use assets of \$0.4 million and \$0.9 million, respectively.

## 7. Senior secured notes

The senior secured notes is comprised of the following:

As at	June 30, 2019	December 31, 2018
Principal amount of the senior secured notes (at maturity, November 1, 2022)	\$ 80,231	\$ 170,231
Less unaccrued discount	1,144	2,742
	<b>\$ 79,087</b>	<b>\$ 167,489</b>
Less current portion <sup>1</sup>	65,000	90,000
<b>Non-current portion</b>	<b>\$ 14,087</b>	<b>\$ 77,489</b>

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

## 8. Exchangeable debentures

As at	June 30, 2019	December 31, 2018
Principal amount of exchangeable debentures (at maturity, November 30, 2022)	\$ 107,089	\$ 107,089
Less unaccrued interest	9,764	10,910
	\$ 97,325	\$ 96,179

## 9. Restructuring and other charges (recovery)

Yellow Pages Limited recorded restructuring and other charges (recovery) of \$1.6 million for the three-month period ended June 30, 2019 (2018 – (\$1.8) million) consisting of restructuring charges of \$1.4 million relating to workforce reductions, and a \$0.9 million charge relating to future operation costs provisioned related to lease contracts for office closures, offset by a \$0.7 million recovery of previously recorded impairments of right-of-use assets. Yellow Pages Limited recorded restructuring and other charges (recovery) of (\$1.8) million for the three-month period ended June 30, 2018 consisting of restructuring charges of \$5.5 million mainly due to workforce reductions, which were more than offset by a net recovery of \$7.3 million relating to the impairment of right-of-use assets and future operation costs provisioned for lease contracts for office closures as a result of a more favorable lease recovery than anticipated.

Yellow Pages Limited recorded restructuring and other charges (recovery) of \$4.4 million for the six-month period ended June 30, 2019 (2018 – \$9.4 million) of which \$4.3 million consisted of restructuring charges due to workforce reductions. For the six-month period ended June 30, 2018, Yellow Pages Limited recorded restructuring and other charges of \$9.4 million consisting of restructuring charges of \$25.1 million mainly due to workforce reductions, offset by the \$10.6 million impact of a favorable litigation settlement on a contractual obligation with a vendor. Additionally, the restructuring charges were offset by a net recovery of \$5.2 million which includes the impairment of right-of-use assets and future operation costs provisioned related to lease contracts for office closures as a result of a more favorable lease recovery than anticipated (\$7.3) million, partially offset by an additional impairment of right-of-use assets and future operation costs related to lease contracts for office closures.

## 10. Post-employment benefits

Yellow Pages Limited recorded an actuarial loss of \$3.9 million in other comprehensive (loss) income, net of income tax recovery of \$1.4 million, for the three-month period ended June 30, 2019, primarily due to a decrease in the discount rate from 3.30% to 3.00% and inflation rate from 1.40% to 1.30%, partially offset by a higher than expected return on plan assets. Yellow Pages Limited recorded an actuarial gain of \$5.8 million in other comprehensive (loss) income, net of income tax expense of \$2.2 million, for the three-month period ended June 30, 2018, primarily due to a higher than expected return on plan assets.

Yellow Pages Limited recorded an actuarial loss of \$3.1 million in other comprehensive (loss) income, net of income tax recovery of \$1.1 million, for the six-month period ended June 30, 2019, primarily due to a decrease in the discount rate from 3.80% to 3.00% and inflation rate from 1.40% to 1.30%, partially offset by a higher than expected return on plan assets. Yellow Pages Limited recorded an actuarial gain of \$7.9 million in other comprehensive (loss) income, net of income tax expense of \$2.9 million, for the six-month period ended June 30, 2018, as a result of a higher than expected return on plan assets as well as an increase in the discount rate from 3.50% to 3.60% and a decrease in the inflation rate from 1.75% to 1.70% in the first quarter of 2018.

## 11. Shareholders' capital

### Common shares – Issued

As at June 30, 2019 and December 31, 2018, the Company had a total of 28,075,308 common shares outstanding for an amount of \$4,031,685.

## Warrants

During the six-month period ended June 30, 2019, no common share purchase warrants (“Warrants”) were exercised in exchange for common shares of Yellow Pages Limited (2018 – 2 Warrants). As at June 30, 2019 and December 31, 2018, the Company had a total of 2,995,484 Warrants outstanding.

## Earnings per share

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

<b>For the three and six-month periods ended June 30,</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Weighted average number of shares outstanding used in computing basic earnings per share <sup>1</sup>	<b>26,523,068</b>	26,446,467	<b>26,502,850</b>	26,386,176
Dilutive effect of restricted share units and performance share units	<b>523,381</b>	1,134,801	<b>523,381</b>	1,134,801
Dilutive effect of exchangeable debentures	<b>5,624,422</b>	5,624,422	<b>5,624,422</b>	–
<b>Weighted average number of shares outstanding used in computing diluted earnings per share<sup>1</sup></b>	<b>32,670,871</b>	33,205,690	<b>32,650,653</b>	27,520,977

<b>For the three and six-month periods ended June 30,</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net earnings used in the computation of basic earnings per share	\$ <b>14,573</b>	\$ 16,646	\$ <b>27,233</b>	\$ 15,727
Impact of assumed conversion of exchangeable debentures, net of applicable taxes	<b>1,989</b>	1,944	<b>3,969</b>	–
<b>Net earnings used in the computation of diluted earnings per share</b>	<b>\$ 16,562</b>	\$ 18,590	<b>\$ 31,202</b>	\$ 15,727

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

For the three and six-month periods ended June 30, 2019 and the three and six-month periods ended June 30, 2018, the diluted earnings per share calculation did not take into consideration the potential dilutive effect of the Warrants as well as stock options that are not in the money as they are not dilutive. For the six-month period ended June 30, 2018, the diluted earnings per share calculation did not take into consideration the potential dilutive effect of the exchangeable debentures as they were not dilutive.

## 12. Segmented information

Following the organizational changes made throughout fiscal year 2018 including the disposal or liquidation of several affiliates, the Chief Operating Decision Maker made changes during the first quarter of 2019 to how the business is reviewed, performance is assessed and resources are allocated. The Company’s operations are now categorized into two reportable segments: YP and Other. The comparative figures have been restated to reflect the changes to the reportable segments.

The YP segment provides small and medium-sized businesses across Canada digital and traditional marketing solutions, including online and mobile priority placement on Yellow Pages owned and operated media, content syndication, search engine solutions, website fulfillment, social media campaign management and digital display advertising, video production and print advertising. This segment also includes the 411.ca digital directory service helping users find and connect with people and local businesses.

The Other segment includes YP Dine digital property allowing users to discover, search for and book local restaurants in addition to offering online ordering capabilities until its sale on April 30, 2019. This segment also includes Mediative until its liquidation on January 31, 2019. Mediative’s offers included dedicated marketing and performance media services to national clients Canada-wide. The operations of the businesses sold in 2018 are also included in this segment until their respective disposal date, namely:

- JUICE Mobile's proprietary Programmatic Direct and Real-Time Bidding platforms that facilitate the automatic buying and selling of mobile advertising between brands and advertisers, until its sale on December 31, 2018;
- Totem which provided customized content creation and delivery for global brands until the operations were sold as of May 31, 2018;
- Western Media Group, magazines generating local lifestyle content specific to the Western Canada region until its sale as of May 31, 2018;
- RedFlagDeals.com™, a Canadian provider of online and mobile promotions, deals, coupons and shopping forums, until its sale on August 22, 2018;
- ComFree/DuProprio (CFDP) provided homeowners in Canada with media to sell their homes in a cost-effective manner, sold as of July 6, 2018; and
- Yellow Pages NextHome sold as of July 23, 2018.

Segment results include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. The Company accounts for transactions between reportable segments in the same manner it accounts for transactions with external customers and eliminates them on consolidation. The President and Chief Executive Officer ("CEO") is the Chief Operating Decision Maker and he uses Income from operations before depreciation and amortization, and restructuring and other charges less capital expenditures, to measure the performance of each segment. The Chief Operating Decision Maker also reviews revenues by similar products and services, such as Print and Digital.

Print revenues are recognized at a point in time, whereas 99% of digital revenues were recognized over the term of the contract and 1% at a point in time for the three and six month periods ended June 30, 2019, compared to 89% of digital revenues that were recognized over the term of the contract and 11% at a point in time for the same periods last year. The year-over-year change is mainly due to the divestitures of affiliates throughout 2018, which had digital revenues recognized at a point in time.

The following tables present financial information for the three-month periods ended June 30, 2019 and 2018.

**For the three-month period ended June 30, 2019**

	YP		Other		Intersegment eliminations		Yellow Pages Limited
Revenues							
Print	\$	30,121	\$	–	\$	–	\$ 30,121
Digital		76,489		162		–	76,651
Total revenues		106,610		162		–	106,772
Operating costs		63,235		115		–	63,350
Income from operations before depreciation and amortization, and restructuring and other charges	\$	43,375	\$	47	\$	–	\$ 43,422
Depreciation and amortization							10,082
Restructuring and other charges							1,571
Financial charges, net							11,456
Loss on sale of subsidiaries							197
Provision for income taxes							5,543
<b>Net earnings</b>							<b>\$ 14,573</b>
<b>Additions to intangible assets and property and equipment, net of lease incentives received</b>	\$	2,712	\$	70	\$	–	\$ 2,782

For the three-month period ended June 30, 2018

	YP	Other	Intersegment eliminations	Yellow Pages Limited
Revenues				
Print	\$ 37,825	\$ 3,597	\$ (12)	\$ 41,410
Digital	91,514	30,542	(254)	121,802
Total revenues	129,339	34,139	(266)	163,212
Operating costs	76,087	30,169	(266)	105,990
Income from operations before depreciation and amortization, and restructuring and other charges (recovery)	\$ 53,252	\$ 3,970	\$ –	\$ 57,222
Depreciation and amortization				19,202
Restructuring and other charges (recovery)				(1,754)
Financial charges, net				13,977
Loss on sale of subsidiaries				903
Provision for income taxes				8,248
Net earnings				\$ 16,646
Additions to intangible assets and property and equipment, net of lease incentives received	\$ (423)	\$ 839	\$ –	\$ 416

The following tables present financial information for the six-month periods ended June 30, 2019 and 2018.

For the six-month period ended June 30, 2019

	YP	Other	Intersegment eliminations	Yellow Pages Limited
Revenues				
Print	\$ 55,994	\$ –	\$ –	\$ 55,994
Digital	154,291	1,274	–	155,565
Total revenues	210,285	1,274	–	211,559
Operating costs	121,813	943	–	122,756
Income from operations before depreciation and amortization, and restructuring and other charges	\$ 88,472	\$ 331	\$ –	\$ 88,803
Depreciation and amortization				21,210
Restructuring and other charges				4,433
Financial charges, net				25,221
Loss on sale of subsidiaries				197
Provision for income taxes				10,509
Net earnings				\$ 27,233
Additions to intangible assets and property and equipment, net of lease incentives received	\$ 5,128	\$ 278	\$ –	\$ 5,406

For the six-month period ended June 30, 2018

	YP		Other		Intersegment eliminations	Yellow Pages Limited
Revenues						
Print	\$	70,799	\$	7,598	\$ (23)	\$ 78,374
Digital		186,374		58,231	(453)	244,152
Total revenues		257,173		65,829	(476)	322,526
Operating costs		157,023		60,824	(476)	217,371
Income from operations before depreciation and amortization, and restructuring and other charges	\$	100,150	\$	5,005	\$ –	\$ 105,155
Depreciation and amortization						40,086
Restructuring and other charges						9,444
Financial charges, net						28,139
Loss on sale of subsidiaries						903
Provision for income taxes						10,856
Net earnings						\$ 15,727
Additions to intangible assets and property and equipment, net of lease incentives received	\$	3,992	\$	1,819	\$ –	\$ 5,811

### 13. Stock-based compensation plans

The total number of common shares of Yellow Pages Limited held by the trustee for the purpose of funding the restricted share unit and performance share unit plan (the “RSU and PSU Plan”) amounted to 1,548,832 as at June 30, 2019.

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

Number of	2019		2018	
	RSUs	PSUs <sup>1</sup>	RSUs	PSUs <sup>1</sup>
Outstanding, beginning of period	399,503	189,063	763,624	795,811
Granted	87,684	–	88,487	–
Reduction in payout related to achievement of targets <sup>2</sup>	–	(49,774)	–	(56,802)
Settled	(56,970)	–	(144,675)	(34,788)
Forfeited	(23,539)	(22,586)	(112,696)	(164,160)
<b>Outstanding, end of period</b>	<b>406,678</b>	<b>116,703</b>	<b>594,740</b>	<b>540,061</b>
<b>Weighted average remaining life (years)</b>	<b>1.4</b>	<b>0.6</b>	<b>1.6</b>	<b>1.0</b>

<sup>1</sup> 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 58,334 common shares as at June 30, 2019 (2018 – 270,013 common shares).

<sup>2</sup> The reduction in payout is related to the under-achievement of certain performance targets resulting in a reduction of 100% for the six-month period ended June 30, 2019 (2018 – 62%).

During the three and six-month periods ended June 30, 2019, an expense of \$0.2 million and a recovery of (\$0.5) million, respectively (2018 – \$0.8 million and \$1.0 million, respectively) was recorded in the interim condensed consolidated statements of income in operating costs in relation to the RSU and PSU Plan.

## Deferred Share Unit Plan

The following table summarizes the continuity of the deferred share units (“DSUs”) during the six-month periods ended June 30:

	2019		2018	
	Number of DSUs	Liability <sup>1</sup>	Number of DSUs	Liability <sup>1</sup>
Outstanding, beginning of period	255,755	\$ 1,557	332,245	\$ 2,793
Granted <sup>2</sup>	69,680	216	126,338	491
Forfeited	–	–	(34,451)	(173)
Settled	–	–	(52,494)	(444)
Variation due to change in stock price	–	284	–	223
<b>Outstanding, end of period</b>	<b>325,435</b>	<b>\$ 2,057</b>	<b>371,638</b>	<b>\$ 2,890</b>
<b>Vested, end of period</b>	<b>290,595</b>	<b>\$ 2,057</b>	<b>320,106</b>	<b>\$ 2,890</b>

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

<sup>2</sup> The liability related to the DSUs granted represents the portion that is vested as at June 30.

## Stock options

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

	2019		2018	
	Number of options	Liability <sup>1</sup>	Number of options	Liability <sup>1</sup>
Outstanding, beginning of period	701,875	\$ 365	701,875	\$ 194
Variation due to change in fair value and vesting	–	215	–	343
<b>Outstanding, end of period</b>	<b>701,875</b>	<b>\$ 580</b>	<b>701,875</b>	<b>\$ 537</b>
<b>Vested, end of period</b>	<b>428,924</b>	<b>\$ 580</b>	<b>194,965</b>	<b>\$ 537</b>

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

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

	2019		2018	
	Number of options	Weighted average exercise price per option	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	1,347,052	\$ 8.39	1,024,550	\$ 10.11
Granted	884,784	\$ 5.86	775,963	\$ 7.61
Forfeited	(99,465)	\$ 11.30	(274,821)	\$ 13.18
<b>Outstanding, end of period</b>	<b>2,132,371</b>	<b>\$ 7.21</b>	<b>1,525,692</b>	<b>\$ 8.29</b>
<b>Exercisable, end of period</b>	<b>26,775</b>	<b>\$ 17.87</b>	<b>60,425</b>	<b>\$ 18.22</b>

Stock options were valued using a binomial option pricing model. Expected volatility is determined by the implied volatility from the current market price of the Company's outstanding warrants. The following table shows the key inputs into the valuation model for the six-month periods ended June 30:

	2019	2018
Weighted average grant date share price	\$ 5.86	\$ 7.60
Exercise price	\$ 5.86	\$ 7.61
Expected volatility	61.1%	43.3%
Option life	4 years	4 years
Risk-free interest rate	2.18%	2.41%
Weighted average remaining life	3.7 years	3.7 years

During the three and six-month periods ended June 30, 2019, an expense of \$0.5 million and \$0.8 million, respectively (2018 – \$0.4 million and \$0.6 million, respectively) was recorded in the interim condensed consolidated statements of income in operating costs in relation to the Stock Option Plan.

### Share appreciation rights plan

The following table summarizes the continuity of the share appreciation rights ("SARs") under the SARs Plan during the six-month periods ended June 30:

	2019		2018	
	Number of SARs	Liability <sup>1</sup>	Number of SARs	Liability <sup>1</sup>
Outstanding, beginning of period	701,875	\$ 365	701,875	\$ 194
Variation due to change in fair value and accretion	–	215	–	343
<b>Outstanding, end of period</b>	<b>701,875</b>	<b>\$ 580</b>	<b>701,875</b>	<b>\$ 537</b>
<b>Vested, end of period</b>	<b>428,924</b>	<b>\$ 580</b>	<b>194,965</b>	<b>\$ 537</b>

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

## 14. Financial charges, net

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

For the three and six-month periods ended June 30,	2019	2018	2019	2018
Interest on senior secured notes and exchangeable debentures	\$ 7,593	\$ 10,725	\$ 15,250	\$ 21,496
Amortization of financing costs	1,318	412	4,504	815
Optional redemption price premium on senior secured notes	791	–	791	–
Interest on lease obligation	738	1,585	1,799	3,310
Net interest on the defined benefit obligations	1,306	1,235	2,612	2,472
Other, net	(290)	20	265	46
	\$ 11,456	\$ 13,977	\$ 25,221	\$ 28,139



## 15. Financial Instruments - Fair values and Risk Management

### Fair value hierarchy

The three levels of fair value hierarchy are as follows:

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

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

During the year ended December 31, 2017, the Company invested \$5.4 million in Melian Labs, Inc., which operates an all-in-one commerce platform, MyTime, which includes online booking, automated marketing, point of sale and analytics for local businesses. During the first quarter of 2018, this investment was written down in Net change in FVOCI to the expected realizable value following management's decision to no longer invest in this business and relinquish all its equity interest. As at June 30, 2019, the fair value is \$nil.

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

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

The following schedule represents the carrying values and the fair values of financial instruments not measured at fair value in the consolidated statement of financial position as at June 30, 2019. The fair value of cash and restricted cash, trade and other receivables, and trade and other payables are not included, as their carrying amount is a reasonable approximation of fair value due to their short-term maturity:

	Level	Carrying Value	Fair Value
Senior secured notes	1	\$ 79,087	\$ 82,289
Exchangeable debentures	1	\$ 97,325	\$ 107,089

### Asset-Based Loan

On October 19, 2017, the Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, renewed its five-year \$50.0 million asset-based loan (ABL) and extended the term of the ABL to August 2022. The ABL is being used for general corporate purposes. Through the ABL, the Company has access to the funds in the form of prime rate loans, Banker's acceptance (BA) equivalent loans or letters of credit. The ABL is subject to an availability reserve of \$5.0 million if the Company's trailing twelve-month fixed charge coverage ratio is below 1.1 times. As at June 30, 2019, the Company fixed charge coverage ratio was 0.7 times. The Company had \$3.4 million of letters of credit issued and outstanding under the ABL, and a \$15.7 million deficiency in qualified collateral. As such, \$25.9 million of the ABL was available as at June 30, 2019. As at June 30, 2019, the Company was in compliance with all covenants under the loan agreement governing the ABL.

## 16. Loss on sale of subsidiaries

On April 30, 2019, the Company sold its business in restaurant booking and table management through the asset sales of YP Dine, Bookenda and its 40% interest in the Bookenda International business for a total consideration of \$2.2 million (including working capital adjustment). At close, \$0.4 million of the proceeds was placed in escrow and will be released net of claims (if any) in two installments; 50% after six (6) months and the remaining 50% after twelve (12) months. The sale resulted in the recognition of a \$0.2 million loss in the interim condensed consolidated statements of income.

On July 6, 2018, the Company's affiliate, Yellow Pages Digital & Media Solutions Limited, sold CFDP to Purplebricks Group PLC ("PB") for cash consideration of \$51.0 million on a cash free debt free basis, subject to a working capital adjustment. An impairment loss of \$1.0 million, related to the classification of the CFDP network as a disposal group held for sale, was recorded in the interim condensed consolidated statements of income for the three and six-month periods ended June 30, 2018.

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