

Management's Discussion and Analysis

May 12, 2021

This management's discussion and analysis (MD&A) is intended to help the reader understand and assess trends and significant changes in the results of operations and financial condition of Yellow Pages Limited and its subsidiaries for the three-month periods ended March 31, 2021 and 2020 and should be read in conjunction with our Audited Consolidated Financial Statements and accompanying notes for the years ended December 31, 2020 and 2019, as well as our unaudited interim condensed consolidated financial statements for the three-month periods ended March 31, 2021 and 2020. Please also refer to Yellow Pages Limited's press release announcing its results for the first quarter ended March 31, 2021 issued on May 13, 2021. Quarterly reports, the Annual Report, Supplemental Disclosure and the Annual Information Form (AIF) can be found on SEDAR at www.sedar.com and under the "Investor Relations – Reports & Filings" section of our corporate website: <https://corporate.yip.ca/en>. Press releases are available on SEDAR and under the "News – Press Releases" section of our corporate website.

The unaudited interim condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and the financial information herein was derived from those statements.

All amounts in this MD&A are in Canadian dollars, unless otherwise specified. Please refer to the section "Definitions Relative to Understanding Our Results" for a list of defined non-IFRS financial measures and key performance indicators.

Our reporting structure reflects how we manage our business and how we classify our operations for planning and for measuring our performance.

In this MD&A, the words "we", "us", "our", the "Company", the "Corporation", "Yellow Pages" and "YP" refer to Yellow Pages Limited and its subsidiaries (including Yellow Pages Digital & Media Solutions Limited, 411 Local Search Corp. (411.ca) (dissolved as of September 30, 2020), YPG (USA) Holdings, Inc. and Yellow Pages Digital & Media Solutions LLC (the latter two collectively YP USA).

Caution Regarding Forward-Looking Information

This MD&A contains assertions about the objectives, strategies, financial condition, and results of operations and businesses of YP (including, without limitation, (a) full repayment of the Company's remaining exchangeable debentures on May 31, 2021, at par, and (b) payment of a cash dividend per share per quarter to its common shareholders). These statements are considered "forward-looking" because they are based on current expectations, as at May 12, 2021, about our business and the markets we operate in, and on various estimates and assumptions.

Forward-looking information and statements are based on several assumptions which may lead to actual results that differ materially from our expectations expressed in, or implied by, such forward-looking information and statements, and that our business strategies, objectives and plans may not be achieved. As a result, we cannot guarantee that any forward-looking statement will materialize and we caution you against relying on any of these forward-looking statements. Forward-looking information and statements are included in this MD&A for the purpose of assisting investors and others in understanding our business strategies, objectives and plans. Readers are cautioned that such information may not be appropriate for other purposes. In making certain forward-looking statements, we have made the following assumptions:

- that general economic conditions in Canada will not deteriorate significantly further and will begin to recover later in the year as the COVID-19 pandemic activity restrictions are lifted;
- that we will be able to attract and retain key personnel in key positions;
- that we will be able to introduce, sell and provision the products and services that support our customer base and drive improvement in average revenue per customer ("ARPC");
- that the decline in print revenues will remain at or below 25% per annum;
- that gross profit margins will not deteriorate materially from current levels;
- that continuing reductions in spending will mitigate the cash flow impact of revenue declines on cash flows; and
- that exposure to foreign exchange risk arising from foreign currency transactions will remain insignificant.

Forward-looking information and statements are also based upon the assumption that none of the identified risk factors that could cause actual results to differ materially from the anticipated or expected results described in the forward-looking information and statements will occur.

When used in this MD&A, such forward-looking statements may be identified by words such as “aim”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “goal”, “intend”, “objective”, “may”, “plan”, “predict”, “seek”, “should”, “strive”, “target”, “will”, “would” and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as at the date of this MD&A. The Corporation assumes no obligation to update or revise them to reflect new events or circumstances, except as may be required pursuant to securities laws. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future results or performance, and will not necessarily be accurate indications of whether or not such results or performance will be achieved. A number of factors could cause actual results or performance to differ materially from the results or performance discussed in the forward-looking statements and could have a material adverse effect on the Corporation, its business, results from operations and financial condition, including, but not limited to, the following risk factors discussed under the “Risks and Uncertainties” section of this MD&A, and those described in the “Risk Factors” section of our AIF:

- Failure by the Corporation to stabilize or grow its revenues and customer base;
- The inability of the Corporation to attract, retain and upsell customers;
- Substantial competition could reduce the market share of the Corporation;
- A higher than anticipated rate of decline in print revenue resulting from changes in preferences and consumer habits;
- The inability of the Corporation to successfully enhance and expand its offering of digital marketing and media products;
- The inability of the Corporation to supply the relationships and technologies required to appropriately service the needs of its customers;
- A prolonged economic downturn in principal markets of the Corporation;
- A higher than anticipated proportion of revenues coming from the Corporation’s digital products with lower margins, such as services and resale;
- The Corporation’s inability to attract and retain key personnel;
- The Corporation’s business depends on the usage of its online and mobile properties and failure to protect traffic across the Corporation’s digital properties could impair its ability to grow revenues and expand its business;
- Failure by either the Corporation or the Telco Partners to fulfill their obligations set forth in the agreements between the Corporation and the Telco Partners;
- Successfully prosecuted legal action against the Corporation;
- Work stoppages and other labour disturbances;
- Challenge by tax authorities of the Corporation’s position on certain income tax matters;
- The loss of key relationships or changes in the level or service provided by mapping applications and search engines;
- The failure of the Corporation’s computers and communication systems;
- The inability of the Corporation to generate sufficient funds from operations, debt financings, equity financings or refinancing transactions;
- Incremental contributions by the Corporation to its pension plans;
- The impacts of COVID-19 are unpredictable; and
- An outbreak or escalation of a contagious disease may adversely affect the Corporation’s business greater than anticipated.

Definitions Relative to Understanding Our Results

Income from Operations before Depreciation and Amortization and Restructuring and Other Charges (Adjusted EBITDA and Adjusted EBITDA Margin)

We report on our Income from operations before depreciation and amortization and restructuring and other charges (defined herein as Adjusted EBITDA) as shown in Yellow Pages Limited's interim condensed consolidated statements of income. Adjusted EBITDA and Adjusted EBITDA margin are not performance measures defined under IFRS and are not considered to be an alternative to income from operations or net earnings in the context of measuring Yellow Pages performance. Adjusted EBITDA and Adjusted EBITDA margin do not have a standardized meaning and are therefore not likely to be comparable with similar measures used by other publicly traded companies. Adjusted EBITDA and Adjusted EBITDA margin should not be used as exclusive measures of cash flow since they do not account for the impact of working capital changes, income taxes, interest payments, pension funding, capital expenditures, business acquisitions, debt principal reductions and other sources and uses of cash, which are disclosed on page 13 of this MD&A.

Adjusted EBITDA is derived from revenues less operating costs, as shown in Yellow Pages Limited's interim condensed consolidated statements of income. Adjusted EBITDA margin is defined as the percentage of Adjusted EBITDA to revenues. We use Adjusted EBITDA and Adjusted EBITDA margin to evaluate the performance of our business as these reflect its ongoing profitability. We believe that certain investors and analysts use Adjusted EBITDA and Adjusted EBITDA margin to measure a company's ability to service debt and to meet other payment obligations or as a common measurement to value companies in the media and marketing solutions industry as well as to evaluate the performance of a business.

Adjusted EBITDA less CAPEX

Adjusted EBITDA less CAPEX is a non-IFRS financial measure and does not have any standardized meaning under IFRS. Therefore, it is unlikely to be comparable to similar measures presented by other publicly traded companies. We define Adjusted EBITDA less CAPEX as Adjusted EBITDA, as defined above, less CAPEX, which we define as additions to intangible assets and additions to property and equipment as reported in the Investing Activities section of the Company's interim condensed consolidated statements of cash flows. We use Adjusted EBITDA less CAPEX as the key performance measure for our business as it reflects cash generated from business activities. We believe that certain investors and analysts use Adjusted EBITDA less CAPEX to evaluate the performance of businesses in our industry. Adjusted EBITDA less CAPEX is also one component in the determination of short-term incentive compensation for all management employees.

The most comparable IFRS financial measure to Adjusted EBITDA less Capex is Income from operations before depreciation and amortization and restructuring and other charges (defined above as Adjusted EBITDA) as shown in Yellow Pages Limited's interim condensed consolidated statements of income. Refer to page 8 of this MD&A for a reconciliation of Adjusted EBITDA less CAPEX.

This MD&A is divided into the following sections:

1. Our Business and Customer Offerings
2. Results
3. Liquidity and Capital Resources
4. Critical Assumptions and Estimates
5. Risks and Uncertainties
6. Controls and Procedures

1. Our Business and Customer Offerings

Our Business

Yellow Pages, a leading digital media and marketing solutions provider in Canada, offers targeted tools to local businesses, national brands and consumers allowing them to interact and transact within today's digital economy.

Customer Offerings

Yellow Pages offers, small and medium-sized enterprises (SMEs) across Canada full-serve access to one of the country's most comprehensive suites of digital and traditional marketing solutions, notably online and mobile priority placement on Yellow Pages digital media properties, content syndication, search engine solutions, website fulfillment, social media campaign management, digital display advertising, video production, e-commerce solutions as well as print advertising. The Company's dedicated sales force and customer care team of approximately 300 professionals offer this full suite of marketing solutions to local businesses across the country, while also supporting the evolving needs of its existing customer base of 119,400 SMEs.

Media Properties

The Company's media properties, primarily desktop, mobile and print, continue to serve as effective marketplaces for Canadian local merchants, brands and consumers. The Company's network of media properties enables Canadians to discover businesses in their neighbourhoods across the services and retail verticals. Descriptions of the Company's digital media properties are found below:

- YP™ – Available both online at YP.ca and as a mobile application, YP allows users to discover and transact within their local neighbourhoods through comprehensive merchant profiles, relevant editorial content, reviews and booking functionalities;
- Canada411 (C411) – One of Canada's most frequented and trusted online and mobile destinations for personal and local business information;
- The Corporation is the official directory publisher for Bell, Telus, Bell Aliant, MTS Allstream, and a number of other incumbent telephone companies; and
- 411.ca – A digital directory service to help users find and connect with people and local businesses.

Key Analytics

The success of our business is dependent upon continuing to improve operating profitability and capital spending efficiency. Longer-term improvements in profitability are dependent upon growth in digital revenues and retaining and growing our customer base. Key analytics for the three-month period ended March 31, 2021 include:

- Adjusted EBITDA – Adjusted EBITDA declined to \$26.6 million or 36.2% of revenues for the three-month period ended March 31, 2021, relative to \$32.6 million or 36.9% of revenues for the same period last year.
- Adjusted EBITDA less CAPEX – Adjusted EBITDA less CAPEX decreased to \$25.3 million or 34.5% of revenues for the three-month period ended March 31, 2021 compared to \$31.3 million or 35.5% of revenues for the three-month period ended March 31, 2020.
- Digital Revenues – YP digital revenues decreased 15.7% year-over-year and amounted to \$57.0 million for the three-month period ended March 31, 2021.
- Customer Count¹ and ARPC² – YP's customer count decreased to 119,400 customers for the twelve-month period ended March 31, 2021, as compared to 145,700 customers for same period last year. The customer count reduction of 26,300 in the twelve months ended March 31, 2021 compares to a decline of 33,100 in the comparable period of the previous year. YP's ARPC in the twelve-month period ended March 31, 2021 was \$2,544 as compared to \$2,571 for the twelve-month period ended March 31, 2020 representing a decline of 1.0%, mainly driven by the lower print spend per customer.
- Headcount³ – Headcount decreased to 677 employees as at March 31, 2021 compared to 722 employees at March 31, 2020.

¹ Customer Count is defined as the number of customers advertising through one of our products as at the end of the reporting period on a trailing twelve-month basis excluding 411.ca customers.

² ARPC is defined as the YP average contracted revenue per customer on a trailing twelve-month basis excluding 411.ca.

³ The Company defines headcount as total employees excluding employees on short term and long-term disability leave, and on maternity leave

2. Results

This section provides an overview of our financial performance during the first quarter of 2021 compared to the same period of 2020. We present several metrics to help investors better understand our performance, including certain metrics which are not measures recognized by IFRS. Definitions of these non-IFRS financial metrics are provided on page 3 of this MD&A and are important aspects which should be considered when analyzing our performance.

Highlights

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

For the three-month periods ended March 31,	2021		2020	
Revenues	\$	73,514	\$	88,308
Income from operations before depreciation and amortization, and restructuring and other charges (Adjusted EBITDA)	\$	26,583	\$	32,563
Adjusted EBITDA margin		36.2%		36.9%
Net earnings	\$	12,135	\$	12,403
Basic earnings per share	\$	0.46	\$	0.47
CAPEX	\$	1,240	\$	1,231
Adjusted EBITDA less CAPEX	\$	25,343	\$	31,332
Adjusted EBITDA less CAPEX margin		34.5%		35.5%
Cash flows from operating activities	\$	22,556	\$	27,148

Consolidated Operating and Financial Results

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

For the three-month periods ended March 31,	% of		% of	
	2021	Revenues	2020	Revenues
Revenues	\$	73,514	\$	88,308
Cost of sales		29,564		34,421
Gross profit		43,950		53,887
Other operating costs		17,367		21,324
Income from operations before depreciation and amortization, and restructuring and other charges (Adjusted EBITDA)		26,583		32,563
Depreciation and amortization		5,092		7,601
Restructuring and other charges		1,056		3,315
Income from operations		20,435		21,647
Financial charges, net		3,795		4,181
Loss on sale of business		–		498
Earnings before income taxes		16,640		16,968
Provision for income taxes		4,505		4,565
Net earnings	\$	12,135	\$	12,403
Basic earnings per share	\$	0.46	\$	0.47
Diluted earnings per share	\$	0.44	\$	0.44
As at		March 31,		December 31,
		2021		2020
Total assets	\$	361,405	\$	367,913
Exchangeable debentures	\$	101,760	\$	101,115
Total exchangeable debentures to total assets		28.2%		27.5%

Analysis of Consolidated Operating and Financial Results

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 (Adjusted EBITDA) less capital expenditures, to measure performance. The Chief Operating Decision Maker also reviews revenues by similar products and services, such as Print and Digital.

Revenues

(In thousands of Canadian dollars, except percentage information)

For the three-month periods ended March 31,	2021	2020	% Change
Digital	\$ 57,000	\$ 67,610	(15.7%)
Print	\$ 16,514	\$ 20,698	(20.2%)
Total revenues	\$ 73,514	\$ 88,308	(16.8%)

Total revenues for the first quarter ended March 31, 2021 of \$73.5 million decreased by \$14.8 million or 16.8% as compared to \$88.3 million for the same period last year. The decrease in revenues for the three-month period ended March 31, 2021 is mainly due to the decline of our higher margin digital media and print products and to a lesser extent to our lower margin digital services products, thereby creating pressure on our gross profit margins. The results were also impacted by the COVID-19 pandemic which impacted customer spend and to a lesser extent customer renewal rates.

Total digital revenues decreased 15.7% year-over-year and amounted to \$57.0 million during the first quarter of 2021 compared to \$67.6 million for the same period last year. The revenue decline was mostly attributable to a decrease in digital customer count and to a lesser extent, lower spend per customer.

Total print revenues decreased 20.2% year-over-year and amounted to \$16.5 million during the first quarter of 2021 compared to print revenues of \$20.7 million for the same period last year. The revenue decline was mostly attributable to a decrease in the number of print customers and, to a lesser extent, lower spend per customer.

Gross Profit

(In thousands of Canadian dollars, except percentage information)

For the three-month periods ended March 31,	2021	% of Revenues	2020	% of Revenues	% Change
Total gross profit	\$ 43,950	59.8%	\$ 53,887	61.0%	(18.4%)

Gross profit for the three-month period ended March 31, 2021 totaled \$43.9 million, or 59.8% of revenues, compared to \$53.9 million, or 61.0% of revenues. The decrease in gross profit and gross profit as a percentage of revenues for the three-month period ended March 31, 2021 is a result of the pressures from lower overall revenues and change in product mix partially offset by continued optimizations and cost reductions.

Adjusted EBITDA

(In thousands of Canadian dollars, except percentage information)

For the three-month periods ended March 31,	2021	% of Revenues	2020	% of Revenues	% Change
Total Adjusted EBITDA	\$ 26,583	36.2%	\$ 32,563	36.9%	(18.4%)

Adjusted EBITDA for the three-month period ended March 31, 2021 totaled \$26.6 million compared to \$32.6 million for the same period last year. The Adjusted EBITDA margin remained relatively stable at 36.2% in the first quarter of 2021 compared to 36.9% for the same period last year. The decrease in Adjusted EBITDA is the result of the revenue pressures partially offset by efficiencies from optimization in cost of sales and reductions in other operating costs including reductions in our workforce and associated employee expenses as well a reduction in the Company's office space footprint and other spending reductions across the Company. The Company also received a \$0.7 million emergency wage subsidy during the three-month period ended March 31, 2021. Furthermore, the first quarter of 2020 was negatively impacted by an increase in bad debt expense of \$1.5 million related to the COVID-19 pandemic. Revenue pressures, coupled with increased headcount in our salesforce partially offset by continued optimization, will create some pressure on margin in upcoming quarters.

Adjusted EBITDA less CAPEX

(In thousands of Canadian dollars, except percentage information)

For the three-month periods ended March 31,	2021	2020	% Change
Adjusted EBITDA	\$ 26,583	\$ 32,563	(18.4%)
CAPEX	\$ 1,240	\$ 1,231	0.7%
Total Adjusted EBITDA less CAPEX	\$ 25,343	\$ 31,332	(19.1%)
Adjusted EBITDA less CAPEX Margin	34.5%	35.5%	

Adjusted EBITDA less CAPEX for the three-month period ended March 31, 2021 totaled \$25.3 million compared to \$31.3 million for the same period last year. The decrease for the three-month period ended March 31, 2021 is driven by the decrease in Adjusted EBITDA as CAPEX was stable year-over-year.

Depreciation and Amortization

Depreciation and amortization decreased to \$5.1 million for the three-month period ended March 31, 2021 compared to \$7.6 million for the same period last year primarily due to lower software development expenditures in recent periods.

Restructuring and Other Charges

(In thousands of Canadian dollars)

For the three-month periods ended March 31,	2021	2020
Severance, benefits and outplacement	\$ 1,209	\$ 634
Impairment of right-of-use assets and future operation costs (recoveries) related to lease contracts for offices closed	(160)	2,646
Other fees	7	35
Total restructuring and other charges	\$ 1,056	\$ 3,315

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

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

Financial Charges

Financial charges decreased to \$3.8 million for the three-month period ended March 31, 2021 compared to \$4.2 million for the same period last year. The decrease is mainly due to the recognition of a \$0.3 million increase in fair value of the redemption option of the exchangeable debentures in the first quarter ended March 31, 2021. The Company's effective average interest rate on our debt portfolio excluding lease obligations for the quarter ended March 31, 2021 was 8.0% (March 31, 2020 – 8.0%).

Provision for Income Taxes

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

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

Net earnings

Net earnings for the three-month period ended March 31, 2021, remained relatively stable at \$12.1 million as compared to net earnings of \$12.4 million for the same period last year, as lower Adjusted EBITDA was offset by lower depreciation and amortization, restructuring and other charges and financial charges.

Summary of Consolidated Quarterly Results

The following table shows selected consolidated financial data of Yellow Pages for the eight most recent quarters.
(In thousands of Canadian dollars, except per share and percentage information)

	2021	2020				2019		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
YP revenues	\$ 73,514	\$ 76,669	\$ 80,281	\$ 88,280	\$ 88,308	\$ 93,507	\$ 98,147	\$ 106,610
Other revenues and Intersegment Eliminations ¹	–	–	–	–	–	–	–	162
Total revenues	\$ 73,514	\$ 76,669	\$ 80,281	\$ 88,280	\$ 88,308	\$ 93,507	\$ 98,147	\$ 106,772
Operating costs	46,931	49,030	52,969	46,352	55,745	58,751	60,361	63,350
Income from operations before depreciation and amortization, and restructuring and other charges (Adjusted EBITDA)	26,583	27,639	27,312	41,928	32,563	34,756	37,786	43,422
Adjusted EBITDA margin	36.2%	36.0%	34.0%	47.5%	36.9%	37.2%	38.5%	40.7%
Depreciation and amortization	5,092	6,249	6,624	7,190	7,601	8,678	9,221	10,082
Restructuring and other charges	1,056	221	4,461	134	3,315	5,719	2,347	1,571
Income from operations	20,435	21,169	16,227	34,604	21,647	20,359	26,218	31,769
Financial charges, net	3,795	2,014	4,196	4,121	4,181	7,360	7,019	11,456
(Gain) loss on sale of businesses	–	–	(79)	4	498	10	160	197
Earnings before income taxes	16,640	19,155	12,110	30,479	16,968	12,989	19,039	20,116
Provision for (recovery of) income taxes	4,505	2,340	3,069	8,440	4,565	(40,608)	5,200	5,543
Net earnings	\$ 12,135	\$ 16,815	\$ 9,041	\$ 22,039	\$ 12,403	\$ 53,597	\$ 13,839	\$ 14,573
Basic earnings per share	\$ 0.46	\$ 0.63	\$ 0.34	\$ 0.83	\$ 0.47	\$ 2.02	\$ 0.52	\$ 0.55
Diluted earnings per share	\$ 0.44	\$ 0.58	\$ 0.34	\$ 0.73	\$ 0.44	\$ 1.70	\$ 0.49	\$ 0.51

¹ Prior to 2020, the Company's operations were categorized into two reportable segments: YP and Other. Subsequent to the second quarter of 2019, there are no longer any operations being reported in the Other segment.

3. Liquidity and Capital Resources

This section examines the Company's capital structure, sources of liquidity and various financial instruments including its debt instruments.

Capital Structure

(In thousands of Canadian dollars, except percentage information)

As at	March 31, 2021	December 31, 2020
Cash	\$ 170,943	\$ 153,492
Exchangeable debentures	101,760	101,115
Lease obligations	52,189	52,874
Total debt	\$ 153,949	\$ 153,989
Equity	57,415	29,301
Total capitalization	\$ 211,364	\$ 183,290
Total debt net of cash to total capitalization	n.a.	0.3%

As at March 31, 2021, Yellow Pages had a (\$17.0) million total debt net of cash (was cash positive), compared to \$0.5 million of total debt net of cash as at December 31, 2020.

The total debt net of cash to latest Twelve-Month Adjusted EBITDA¹ ratio as at March 31, 2021 was not applicable due to negative net debt compared to nil as at December 31, 2020. The improved ratio is mainly due to a higher cash balance at March 31, 2021 partially offset by lower Adjusted EBITDA.

¹ Latest twelve-month income from operations before depreciation and amortization and restructuring and other 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. Please refer to page 3 for a definition of Adjusted EBITDA.

Asset-Based Loan

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

As at March 31, 2021, the Company was in compliance with all covenants under the loan agreement governing the ABL.

Exchangeable Debentures

On December 20, 2012, the Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, issued \$107.5 million of senior subordinated exchangeable debentures (the Exchangeable Debentures) due November 30, 2022. As at March 31, 2021, and December 31, 2020, the face value of the Exchangeable Debentures was \$107.0 million. As at March 31, 2021, the value of the Exchangeable Debentures less unaccreted interest was \$101.8 million compared to \$101.1 million as at December 31, 2020.

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, for the applicable interest period, if the Company makes a Payment in Kind 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 in equal instalments on the last day of May and November of each year.

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.

The indenture permits the Company to make restricted payments, including payment of dividends and common stock buybacks and certain payments associated with management's equity-based compensation, in an aggregate amount not to exceed \$20.0 million since the date of the indenture. As at March 31, 2021, the Company has made a cumulative total of \$19.0 million of restricted payments, comprised of \$11.7 million of dividend payments, \$3.9 million related to common stock buyback and \$3.4 million related to certain management equity-based compensation payments, since the indenture went into effect. As at March 31, 2021, 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.

Optional Redemption

The Company may redeem all or part of the Exchangeable Debentures at its option, 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, 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 on the exchangeable debentures for cash is an embedded derivative and is recorded at fair value on the interim consolidated statements of financial position with changes in fair value recognized in financial charges. The fair value as at March 31, 2021 was \$2.9 million and \$2.6 million as at December 31, 2020.

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

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

Credit Ratings

Standard and Poor's Global Ratings

B-/Corporate credit rating – stable outlook

B-/Credit rating for Exchangeable Debentures

Liquidity

The Company's principal source of liquidity is cash generated from operations and cash on hand. The Company expects to generate sufficient liquidity in the short term and the long term to fund capital expenditures, working capital requirements and current obligations, and service its outstanding debt obligations. As at March 31, 2021, the Company had \$171.0 million of cash and \$19.4 million available under the ABL.

Share Data

Outstanding Share Data

As at	May 12, 2021	March 31, 2021	December 31, 2020
Common shares outstanding	27,783,815	27,783,815	27,828,906
Exchangeable Debentures outstanding ¹	5,621,481	5,621,481	5,621,481
Common share purchase warrants outstanding	2,995,483	2,995,483	2,995,484
Stock options outstanding ²	3,026,092	3,026,092	2,717,779

¹ As at May 12, 2021, Yellow Pages had \$107.0 million principal amount of Exchangeable Debentures outstanding, which amount is exchangeable into 5,621,481 common shares of Yellow Pages Limited at an exchange price of \$19.04, subject to adjustment for specified transactions pursuant to the indenture governing the Exchangeable Debentures.

² Included in the stock options outstanding balance of 3,026,092 as at May 12 and March 31, 2021 are 145,993 stock options exercisable as at those dates. Included in the stock options outstanding balance of 2,717,779 as at December 31, 2020 were nil stock options exercisable as at that date.

The Company entered into a normal course issuer bid ("NCIB"), commencing August 10, 2020, to purchase up to \$5.0 million of Common Shares in the open market for cancellation, on or before August 9, 2021. As at March 31, 2021, the Company had purchased under this NCIB program 324,150 common shares for cash of \$3.9 million.

Subsequent to full repayment of the Exchangeable Debentures on May 31, 2021 and the expiration of the current NCIB program on August 9, 2021, the Company intends to commence a new NCIB on or around August 10, 2021, subject to regulatory approval, to purchase up to 5% of the Company's outstanding shares for cancellation during a twelve month period. The Company limited aggregate purchases under its current NCIB to \$5.0 million and intends to limit aggregate purchases under the new NCIB to \$16.0 million.

Dividend Policy

On May 12th, 2021, the Company's Board of Directors (the "Board") modified its dividend policy of paying a quarterly cash dividend to its common shareholders by increasing the dividend from \$0.11 per share to of \$0.15 per share. YP's dividend payout policy and the declaration of dividends on any of the Company's outstanding common shares are subject to the discretion of the Board and, consequently, there can be no guarantee that the dividend payout policy will be maintained or that dividends will be declared. Dividend decisions will continue to be dependent on YP's operations and financial results, subject to the Board's assessment on a quarterly basis, which are, in turn, subject to various assumptions and risks, including those set out in this MD&A.

The Company paid a cash dividend on common shares of \$2.9 million, or \$0.11 per common share, during the first quarter, ended March 31, 2021.

June 1, 2021, following full repayment of the Exchangeable Debentures, the Board intends to formally declare a cash dividend of \$0.15 per common share, payable on June 30, 2021 to shareholders of record as at June 9, 2021. Future quarterly dividends will be subject to Board approval.

Pension Contributions

As of December 31, 2019, the Company's Defined Benefit Pension Plan (the "Plan") had a Prior Year Credit Balance ("PYCB") of \$7.3 million. During 2020, the Company drew down \$1.4 million of the PYCB, thereby reducing cash payments required into the Plan and leaving a PYCB of \$5.9 million as of December 31, 2020.

Total cash payments for pension and other benefit plans expected in 2021 amount to approximately \$9.5 million, including \$4.7 million (\$2.0 million cash and \$2.7 million as a drawdown of the PYCB) to fund the Plan's "wind-up deficit." On May 12, 2021, the Board approved a voluntary incremental \$4.0 million cash contribution in 2021, to bring 2021 cash payments to the Plan's wind-up deficit to \$6.0 million, as part of a deficit-reduction plan to increase the probability that the Plan will be fully funded on a wind-up basis by 2030. The deficit-reduction plan includes an intention to make cash payments to the wind-up deficit of \$6.0 million every year until 2030. The probability of achieving a wind-up ratio of 100% by 2030 is dependent upon other, uncontrollable factors, including, inter alia, market returns and discount rates. The Board will review the deficit-reduction plan annually.

Sources and Uses of Cash

(In thousands of Canadian dollars)

For the three-month periods ended March 31,	2021	2020
Cash flows from operating activities		
Cash flows from operations, excluding change in operating assets and liabilities	\$ 22,114	\$ 27,614
Change in operating assets and liabilities	442	(466)
	\$ 22,556	\$ 27,148
Cash flows used in investing activities		
Additions to intangible assets	\$ (1,206)	\$ (1,147)
Additions to property and equipment	(34)	(84)
Payments received from net investment in subleases	315	215
Proceeds on sale of business	–	1,000
	\$ (925)	\$ (16)
Cash flows used in financing activities		
Repurchase of common shares	\$ (635)	\$ –
Issuance of common shares	45	–
Payment of lease obligations	(685)	(676)
Dividends paid	\$ (2,905)	\$ –
	\$ (4,180)	\$ (676)
NET INCREASE IN CASH	\$ 17,451	\$ 26,456
CASH, BEGINNING OF YEAR	153,492	44,408
CASH, END OF PERIOD	\$ 170,943	\$ 70,864

Cash flows from operating activities

Cash flows from operating activities decreased by \$4.5 million to \$22.6 million from \$27.1 million for the three-month period ended March 31, 2020, mainly due to lower Adjusted EBITDA of \$6.0 million partially offset by lower payments for restructuring and other charges of \$1.6 million.

Cash flows used in investing activities

Cash flows used in investing activities increased by \$0.9 million year-over-year mainly due to proceeds on sale of business received in 2020.

Cash flows used in financing activities

Cash flows used in financing activities increased by \$3.5 million to \$4.2 million for the three-month period ended March 31, 2021 compared to \$0.7 million for the same period last year due mainly to the \$2.9 million payment of dividends and the repurchase of common shares for \$0.6 million in the first quarter of 2021.

Financial and Other Instruments

(See Note 21 of the Audited Consolidated Financial Statements of the Company for the years ended December 31, 2020 and 2019).

The Company's financial instruments primarily consist of cash, trade and other receivables, trade and other payables and Exchangeable Debentures.

As at March 31, 2021, the fair value of the redemption option of the exchangeable debentures was \$2.9 million and was \$2.6 million as at December 31, 2020. The fair value is calculated, using a binomial option pricing model based on quarter-end markets rates and prices as well as historical volatility data.

4. Critical Assumptions and Estimates

When we prepare our interim condensed consolidated financial statements in accordance with IFRS, we must make certain estimates and assumptions about our business. These estimates and assumptions in turn affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements.

Our critical assumptions and accounting estimates have not changed since the release of our MD&A for the years ended December 31, 2020 and 2019, except as noted below. These critical assumptions and estimates relate to estimate credit loss allowance (ECL) on trade receivables, intangible assets, property and equipment, employee future benefits and income taxes. Please refer to Section 4 – *Critical Assumptions and Estimates* for the years ended December 31, 2020 and 2019.

Accounting standards

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

Amendments to IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets*

On May 14, 2020, the International Accounting Standards Board (IASB) issued amendments to IAS 37 – *Provisions, Contingent Liabilities, and Contingent Assets*, specifying which costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments to IAS 37, clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for contracts for which an entity has not yet fulfilled all its obligations on or after January 1, 2022. Earlier application is permitted. The Company is assessing the impact of adopting these amendments on its financial statements.

5. Risks and Uncertainties

Please refer to the Risks and Uncertainties section of our MD&A for the years ended December 31, 2020 and 2019 and our Annual Information Form dated March 26, 2021 for a complete description of the risks factors to which the Corporation may be exposed, including, for example, “Substantial competition could reduce the market share of the Corporation and could have a material adverse effect on the Corporation, its business, results from operations and financial condition”, “A higher than anticipated rate of decline in print revenue resulting from changes in preferences and consumer habits could have a material adverse effect on the Corporation, its business, results from operations and financial condition”, “The inability of the Corporation to generate sufficient funds from operations, debt financings, equity financings or refinancing transactions could have a material adverse effect on the Corporation, its business, results from operations and financial condition”.

Understanding and managing risks are important parts of YP's strategic planning process. The Board requires that our senior management identify and properly manage the principal risks related to our business operations. To understand and manage risks at YP, our Board and senior management analyze risks in three major categories:

1. Strategic risks - which are primarily external to the business;
2. Financial risks - generally related to matters addressed in the Financial Risk Management Policy and in the Pension Statement of Investment Policy and Procedures; and
3. Operational risks - related principally to risks across key functional areas of the organization.

YP has put in place certain guidelines in order to seek to manage the risks to which it may be exposed. Despite these guidelines, the Company cannot provide assurances that any such efforts will be successful. Our risks and uncertainties have not changed since the release of our MD&A for the years ended December 31, 2020 and 2019, except as described in the Forward-Looking Information section of this MD&A. For more information, please refer to the corresponding section in our MD&A for the years ended December 31, 2020 and 2019 and our Annual Information Form dated March 26, 2021.

6. Controls and Procedures

As a public entity, we must take steps to ensure that material information regarding our reports filed or submitted under securities legislation fairly presents the financial information of YP. Responsibility for this resides with management, including the President and Chief Executive Officer and the Chief Financial Officer. Management is responsible for establishing, maintaining and evaluating disclosure controls and procedures, as well as internal control over financial reporting.

Disclosure Controls and Procedures (DC&P)

The evaluation of the design and effectiveness of DC&P (as defined in National Instrument 52-109) was performed under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. They concluded that the Company's DC&P were effective, as at March 31, 2021.

Internal Control over Financial Reporting (ICFR)

The design and effectiveness of ICFR (as defined in National Instruments 52-109) were evaluated under the supervision of the President and Chief Executive Officer and Chief Financial Officer. Based on the evaluations, they concluded that the Company's ICFR was effective, as at March 31, 2021.

During the quarter beginning on January 1, 2021 and ended on March 31, 2021, no changes were made to the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.