

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

**March 31, 2020 and 2019**

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## Interim Condensed Consolidated Statements of Financial Position

(in thousands of Canadian dollars – Unaudited)

As at	March 31, 2020	December 31, 2019
<b>ASSETS</b>		
CURRENT ASSETS		
Cash	\$ 70,864	\$ 44,408
Trade and other receivables (Note 3)	79,238	87,250
Prepaid expenses	5,195	5,563
Deferred publication costs	2,806	2,492
Net investment in subleases	1,063	926
Income taxes receivable	344	344
<b>TOTAL CURRENT ASSETS</b>	<b>159,510</b>	<b>140,983</b>
NON-CURRENT ASSETS		
Deferred commissions (Note 4)	2,901	3,610
Financial and other assets	822	829
Right-of-use assets	14,831	14,060
Net investment in subleases	25,333	25,611
Property and equipment	10,633	12,309
Intangible assets	84,489	89,749
Deferred income taxes	25,402	39,727
<b>TOTAL NON-CURRENT ASSETS</b>	<b>164,411</b>	<b>185,895</b>
<b>TOTAL ASSETS</b>	<b>\$ 323,921</b>	<b>\$ 326,878</b>
<b>LIABILITIES AND EQUITY</b>		
CURRENT LIABILITIES		
Trade and other payables	\$ 39,305	\$ 33,662
Provisions	13,706	26,644
Deferred revenues	2,487	2,667
Current portion of lease obligations	3,100	2,767
<b>TOTAL CURRENT LIABILITIES</b>	<b>58,598</b>	<b>65,740</b>
NON-CURRENT LIABILITIES		
Provisions	1,580	1,576
Post-employment benefits (Note 7)	85,767	122,567
Lease obligations	55,427	55,118
Exchangeable debentures (Note 5)	99,173	98,537
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>241,947</b>	<b>277,798</b>
<b>TOTAL LIABILITIES</b>	<b>300,545</b>	<b>343,538</b>
CAPITAL AND RESERVES	6,596,474	6,595,802
DEFICIT	(6,573,098)	(6,612,462)
<b>TOTAL EQUITY (DEFICIENCY)</b>	<b>23,376</b>	<b>(16,660)</b>
<b>TOTAL LIABILITIES AND EQUITY (DEFICIENCY)</b>	<b>\$ 323,921</b>	<b>\$ 326,878</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-month periods ended March 31,	2020	2019
Revenues	\$ 88,308	\$ 104,787
Operating costs	55,745	59,406
Income from operations before depreciation and amortization, and restructuring and other charges	32,563	45,381
Depreciation and amortization	7,601	11,128
Restructuring and other charges (Note 6)	3,315	2,862
Income from operations	21,647	31,391
Financial charges, net (Note 11)	4,181	13,765
Loss on sale of business (Note 14)	498	–
Earnings before income taxes	16,968	17,626
Provision for income taxes (Note 12)	4,565	4,966
<b>Net earnings</b>	<b>\$ 12,403</b>	<b>\$ 12,660</b>
Basic earnings per share	\$ 0.47	\$ 0.48
Weighted average shares outstanding – basic earnings per share (Note 8)	26,501,932	26,482,407
Diluted earnings per share	\$ 0.44	\$ 0.45
Weighted average shares outstanding – diluted earnings per share (Note 8)	32,747,871	32,670,208

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-month periods ended March 31,	2020	2019
Net earnings	\$ 12,403	\$ 12,660
<b>Other comprehensive income:</b>		
<b>Items that will not be reclassified subsequently to net earnings</b>		
Actuarial gains (Note 7)	36,721	1,116
Income taxes relating to items that will not be reclassified subsequently to net earnings	(9,760)	(300)
<b>Other comprehensive income</b>	<b>26,961</b>	<b>816</b>
<b>Total comprehensive income</b>	<b>\$ 39,364</b>	<b>\$ 13,476</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 three-month periods ended March 31,

	<b>2020</b>									
	Shareholders' capital (Note 8)	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, 2019	\$ 4,031,685	\$ (21,421)	\$ 1,456	\$ 3,619	\$ 123,410	\$ 2,457,053	\$ 6,595,802	\$ (6,612,462)	\$ (16,660)	
Other comprehensive income	–	–	–	–	–	–	–	26,961	26,961	
Net earnings	–	–	–	–	–	–	–	12,403	12,403	
<b>Total comprehensive income</b>	–	–	–	–	–	–	–	39,364	39,364	
Restricted shares settled	–	2,004	–	–	(2,004)	–	–	–	–	
Restricted shares (Note 10)	–	–	–	–	226	–	226	–	226	
Stock options (Note 10)	–	–	–	–	446	–	446	–	446	
<b>Balance, March 31, 2020</b>	<b>\$ 4,031,685</b>	<b>\$ (19,417)</b>	<b>\$ 1,456</b>	<b>\$ 3,619</b>	<b>\$ 122,078</b>	<b>\$ 2,457,053</b>	<b>\$ 6,596,474</b>	<b>\$ (6,573,098)</b>	<b>\$ 23,376</b>	

  

	<b>2019</b>									
	Shareholders' capital (Note 8)	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 income	–	–	–	–	–	–	–	816	816	
Net earnings	–	–	–	–	–	–	–	12,660	12,660	
Total comprehensive income	–	–	–	–	–	–	–	13,476	13,476	
Restricted shares settled	–	1,005	–	–	(1,005)	–	–	–	–	
Restricted shares (Note 10)	–	–	–	–	(677)	–	(677)	–	(677)	
Stock options (Note 10)	–	–	–	–	288	–	288	–	288	
<b>Balance, March 31, 2019</b>	<b>\$ 4,031,685</b>	<b>\$ (22,416)</b>	<b>\$ 1,456</b>	<b>\$ 3,619</b>	<b>\$ 123,361</b>	<b>\$ 2,457,053</b>	<b>\$ 6,594,758</b>	<b>\$ (6,700,835)</b>	<b>\$ (106,077)</b>	

<sup>1</sup> The equity component of the exchangeable debentures presented above is net of income taxes of \$1.3 million (2019 - \$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 three-month periods ended March 31,	2020	2019
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 12,403	\$ 12,660
Adjusting items		
Stock-based compensation expense (recovery) – equity settled	672	(389)
Depreciation and amortization	7,601	11,128
Restructuring and other charges	3,315	2,862
Financial charges, net	4,181	13,765
Loss on sale of business (Note 14)	498	–
Provision for income taxes	4,565	4,966
Change in operating assets and liabilities	(466)	(1,728)
Funding of post-employment benefit plans in excess of costs	(1,070)	(803)
Restructuring and other charges paid	(3,939)	(7,722)
Interest paid	(612)	(1,107)
Income taxes paid, net	–	(84)
	<b>27,148</b>	<b>33,548</b>
<b>INVESTING ACTIVITIES</b>		
Additions to intangible assets	(1,147)	(2,531)
Additions to property and equipment	(84)	(93)
Payments received from net investment in subleases	215	–
Proceeds on sale of business (Note 14)	1,000	–
	<b>(16)</b>	<b>(2,624)</b>
<b>FINANCING ACTIVITIES</b>		
Payment of lease obligations	(676)	(1,692)
	<b>(676)</b>	<b>(1,692)</b>
NET INCREASE IN CASH	<b>26,456</b>	<b>29,232</b>
CASH AND RESTRICTED CASH, BEGINNING OF PERIOD	<b>44,408</b>	<b>81,452</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 70,864</b>	<b>\$ 110,684</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-month periods ended March 31, 2020 and 2019 on May 12, 2020 for publication on May 13, 2020.

## 2. Basis of presentation and significant accounting policies

### 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, 2019 and 2018, except as noted below. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2019 and 2018.

### 2.2 Significant estimates

In the first quarter of 2020, Management has revised the assumptions and estimates it would normally use to apply the Company’s accounting policies affecting the carrying value of certain assets and the information disclosed in the notes to the interim condensed consolidated financial statements in order to reflect the estimated impact of the COVID-19 pandemic. Any estimate of the length and severity of these developments is subject to significant uncertainty, and, accordingly, estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Company’s operations, financial results and condition in future periods are also subject to significant uncertainty. The impact of these changes in accounting estimates is recognized during the period in which the change took place and all affected future periods.

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

#### Measurement of ECL allowance for trade receivables

In relation to the impairment of trade receivables (including contract assets), the Company uses the expected credit losses (“ECL”) model, which requires the Company to account for the ECL and changes in the ECL at each reporting date to reflect changes in credit risk since initial recognition of the trade receivable. The ECL related to doubtful accounts for trade receivables (also referred to as allowance for doubtful accounts) is established based on various factors, including amongst others the age of the exposure and in some cases the customer’s solvency. As a result of the COVID-19 pandemic the Company applied the policy as described above using an additional factor in assessing the credit risk applied to the ECL, based on the customer’s line of business and an estimation of the degree they may have been impacted by the pandemic. As a result, an additional ECL of \$1.5 million was recorded in the three-month period ending March 31, 2020. This significant estimate could affect the Company’s future results if there is a further significant change in economic conditions or customer solvency or any new information that may impact our assumptions.

#### Deferred tax assets

The Company updated its assumptions related to the carrying value of the deferred tax assets to reflect the estimated impact of the COVID-19 pandemic and determine whether an adjustment would be required to its valuation allowance as at March 31, 2020. As a result of this assessment, no adjustment was required.

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

### Amendments to IAS 1 - *Presentation of Financial Statements*

The amendments to IAS 1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least twelve months and make explicit that only rights in place at the end of the reporting period should affect the classification of a liability. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its financial statements.

## 3. Trade and other receivables<sup>1</sup>

As at	March 31, 2020	December 31, 2019
Current	\$ 51,377	\$ 58,309
Past due less than 180 days	14,181	12,400
Past due over 180 days	5,613	7,876
<b>Trade receivables</b>	<b>\$ 71,171</b>	<b>\$ 78,585</b>
<b>Other receivables<sup>2</sup></b>	<b>\$ 8,067</b>	<b>\$ 8,665</b>
<b>Trade and other receivables</b>	<b>\$ 79,238</b>	<b>\$ 87,250</b>

<sup>1</sup> Trade and other receivables are presented net of allowance for revenue adjustments and ECL.

<sup>2</sup> Other receivables as at March 31, 2020 and December 31, 2019 included a loan receivable associated with a forward contract.

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

As at	March 31, 2020	December 31, 2019
Contract assets	\$ 37,827	\$ 41,785
Allowance for revenue adjustments and ECL	(3,743)	(3,703)
Contract assets net of allowance for revenue adjustments and ECL	\$ 34,084	\$ 38,082

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 receivables once it is invoiced to the customer.

The change in contract assets for the three-month period ended March 31, 2020 is primarily related to the fluctuation in print 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.

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



#### 4. 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 benefit. During the three-month period ended March 31, 2020, Yellow Pages Limited recorded amortization charges related to the cost to obtain contracts of \$1.1 million (2019 – \$2.7 million). The Company recognizes the commissions paid to sales representatives for contract renewals with revenue recognized within one year or less as an expense.

#### 5. Exchangeable debentures

As at	March 31, 2019	December 31, 2019
Principal amount of exchangeable debentures (at maturity, November 30, 2022)	\$ 107,089	\$ 107,089
Less unaccreted interest	7,916	8,552
	\$ 99,173	\$ 98,537

#### 6. Restructuring and other charges

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, as well as a \$1.3 million charge related to property and equipment disposals and impairment of right-of-use assets related to vacated office space.

For the three-month period ended March 31, 2019, the Company recorded restructuring and other charges of \$2.9 million consisting mainly of restructuring charges of \$2.7 million associated with workforce reductions.

#### 7. Post-employment benefits

Yellow Pages Limited recorded an actuarial gain of \$27.0 million in other comprehensive income, net of income taxes of \$9.8 million for the three-month period ended March 31, 2020. A gain of \$84.4 million resulting from the increase in the discount rate from 3.10% to 3.80% and the decrease in the inflation rate from 1.40% to 0.90% was partially offset by a loss of \$47.6 million due to the lower than expected actual return on plan assets.

Yellow Pages Limited recorded an actuarial gain of \$0.8 million in other comprehensive income, net of income taxes of \$0.3 million for the three-month period ended March 31, 2019. A gain of \$42.3 million resulting from the higher than expected actual return on plan assets was partially offset by a loss of \$41.1 million due to the decrease in the discount rate from 3.80% to 3.30%.

#### 8. Shareholders' capital

##### Common shares – Issued

As at March 31, 2020 and December 31, 2019, the Company had a total of 28,075,308 common shares outstanding for an amount of \$4,031,685.

##### Warrants

As at March 31, 2020 and December 31, 2019, the Company had a total of 2,995,484 Warrants outstanding for an amount of \$1,455,989.

## Earnings per share

The following table presents the weighted average number of shares outstanding 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-month periods ended March 31,</b>	<b>2020</b>	<b>2019</b>
Weighted average number of shares outstanding used in computing basic per share <sup>1</sup>	<b>26,501,932</b>	26,482,407
Dilutive effect of restricted share units and performance share units	<b>295,854</b>	563,379
Dilutive effect of stock options	<b>325,663</b>	–
Dilutive effect of exchangeable debentures	<b>5,624,422</b>	5,624,422
<b>Weighted average number of shares outstanding used in computing diluted earnings per share<sup>1</sup></b>	<b>32,747,871</b>	32,670,208

<b>For the three-month periods ended March 31,</b>	<b>2020</b>	<b>2019</b>
Net earnings used in the computation of basic earnings per share	<b>\$ 12,403</b>	\$ 12,660
Impact of assumed conversion of exchangeable debentures, net of applicable taxes	<b>2,039</b>	1,981
<b>Total net earnings used in the computation of diluted earnings per share</b>	<b>\$ 14,442</b>	\$ 14,641

<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-month periods ended March 31, 2020 and March 31, 2019, 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 and therefore are not dilutive.

## 9. Segmented information

The Company's operations are categorized into two reportable segments: YP and Other.

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 which was integrated with the Company's wholly-owned subsidiary, Yellow Pages Digital & Media Solutions Limited, as at September 30, 2019.

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. Subsequent to the second quarter of 2019, there are no longer any operations being reported in this segment.

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. There were no transactions between the reportable segments for the three-month periods ended March 31, 2020 and March 31, 2019. 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-month periods ended March 31, 2020 and 2019.

The following tables present financial information for the three-month periods ended March 31, 2020 and 2019.

For the three-month period ended March 31, 2020	YP		Other		Yellow Pages Limited
Revenues					
Digital	\$	67,610	\$	–	\$ 67,610
Print		20,698		–	20,698
Total revenues		88,308		–	88,308
Operating costs		55,745		–	55,745
Income from operations before depreciation and amortization, and restructuring and other charges	\$	32,563	\$	–	\$ 32,563
Depreciation and amortization					7,601
Restructuring and other charges					3,315
Financial charges, net					4,181
Loss on sale of business					498
Provision for income taxes					4,565
<b>Net earnings</b>				<b>\$</b>	<b>12,403</b>
<b>Additions to intangible assets and property and equipment</b>	<b>\$</b>	<b>1,231</b>	<b>\$</b>	<b>–</b>	<b>\$ 1,231</b>

  

For the three-month period ended March 31, 2019	YP		Other		Yellow Pages Limited
Revenues					
Digital	\$	77,802	\$	1,112	\$ 78,914
Print		25,873		–	25,873
Total revenues		103,675		1,112	104,787
Operating costs		58,578		828	59,406
Income from operations before depreciation and amortization, and restructuring and other charges	\$	45,097	\$	284	\$ 45,381
Depreciation and amortization					11,128
Restructuring and other charges					2,862
Financial charges, net					13,765
Provision for income taxes					4,966
<b>Net earnings</b>				<b>\$</b>	<b>12,660</b>
<b>Additions to intangible assets and property and equipment</b>	<b>\$</b>	<b>2,416</b>	<b>\$</b>	<b>208</b>	<b>\$ 2,624</b>

## 10. Stock-based compensation plans

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

### Restricted Share Unit and Performance Share Unit Plan

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 1,405,942 as at March 31, 2020.

The following table summarizes the continuity of the RSUs and PSUs during the three-month periods ended March 31:

Number of	2020		2019	
	RSUs	PSUs <sup>1</sup>	RSUs	PSUs <sup>1</sup>
Outstanding, beginning of period	318,536	60,406	399,503	189,063
Granted	37,724	–	87,684	–
Reduction in payout related to achievement of targets <sup>2</sup>	–	(15,105)	–	(49,774)
Settled	(60,406)	(45,301)	(47,240)	–
Forfeited	–	–	(4,457)	(11,400)
<b>Outstanding, end of period</b>	<b>295,854</b>	<b>–</b>	<b>435,490</b>	<b>127,889</b>
<b>Weighted average remaining life (years)</b>	<b>1.07</b>	<b>–</b>	<b>1.59</b>	<b>0.83</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 nil common shares as at March 31, 2020 (2019 – 63,927 common shares).

<sup>2</sup> The reduction in payout is related to the achievement of certain performance targets resulting in a reduction of 25% for the three-month period ended March 31, 2020 (2019 – reduction of 100%).

During the three-month period ended March 31, 2020, an expense of \$0.2 million (2019 – a recovery of \$0.7 million) was recorded in the interim condensed consolidated statement 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 three-month periods ended March 31:

	2020		2019	
	Number of DSUs	Liability <sup>1</sup>	Number of DSUs	Liability <sup>1</sup>
Outstanding, beginning of period	325,435	\$ 2,948	255,755	\$ 1,557
Granted <sup>2</sup>	53,719	121	69,680	108
Variation due to change in stock price	–	(613)	–	42
<b>Outstanding, end of period</b>	<b>379,154</b>	<b>\$ 2,456</b>	<b>325,435</b>	<b>\$ 1,707</b>
<b>Vested, end of period</b>	<b>338,864</b>	<b>\$ 2,456</b>	<b>273,175</b>	<b>\$ 1,707</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 March 31.

## Stock options

The following table summarizes the continuity of the stock options presented as a liability during the three-month periods ended March 31:

	2020		2019	
	Number of options	Liability <sup>1</sup>	Number of options	Liability <sup>1</sup>
Outstanding, beginning of period	701,875	\$ 1,078	701,875	\$ 365
Variation due to change in fair value and vesting	–	(533)	–	58
<b>Outstanding, end of period</b>	<b>701,875</b>	<b>\$ 545</b>	<b>701,875</b>	<b>\$ 423</b>
<b>Vested, end of period</b>	<b>604,392</b>	<b>\$ 545</b>	<b>370,434</b>	<b>\$ 423</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 three-month periods ended March 31:

	2020		2019	
	Number of options	Weighted average exercise price per option	Number of options	Weighted average exercise price per option
Outstanding, beginning of period	1,983,102	\$ 7.11	1,347,052	\$ 8.39
Granted	436,582	\$ 12.10	884,784	\$ 5.86
Forfeited	–	\$ –	(15,747)	\$ 16.48
<b>Outstanding, end of period</b>	<b>2,419,684</b>	<b>\$ 8.01</b>	<b>2,216,089</b>	<b>\$ 7.32</b>
<b>Exercisable, end of period</b>	<b>3,325</b>	<b>\$ 17.82</b>	<b>52,950</b>	<b>\$ 18.10</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 three-month periods ended March 31:

	2020	2019
Weighted average grant date share price	\$ 12.10	\$ 5.86
Exercise price	\$ 12.10	\$ 5.86
Expected volatility	47.1%	61.1%
Option life	2.8 years	4 years
Risk-free interest rate	1.54%	2.18%
Weighted average remaining life	2.7 years	3.9 years

During the three-month period ended March 31, 2020, a recovery of \$0.1 million (2019 – an expense of \$0.3 million) was recorded in the interim condensed consolidated statement 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”) during the three-month periods ended March 31:

	2020		2019	
	Number of SARs	Liability <sup>1</sup>	Number of SARs	Liability <sup>1</sup>
Outstanding, beginning of period	701,875	\$ 1,078	701,875	\$ 365
Variation due to change in fair value and vesting	–	(533)	–	58
<b>Outstanding, end of period</b>	<b>701,875</b>	<b>\$ 545</b>	<b>701,875</b>	<b>\$ 423</b>
<b>Vested, end of period</b>	<b>604,392</b>	<b>\$ 545</b>	<b>370,434</b>	<b>\$ 423</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.

## 11. Financial charges, net

The significant components of the financial charges are as follows:

For the three-month periods ended March 31,	2020	2019
Interest on senior secured notes <sup>1</sup> and exchangeable debentures	\$ 2,778	\$ 7,657
Amortization of financing costs	17	3,186
Interest on lease obligations, net of interest income on investment in subleases	584	1,061
Net interest on the defined benefit obligations	951	1,306
Other, net	(149)	555
	<b>\$ 4,181</b>	<b>\$ 13,765</b>

<sup>1</sup> The senior secured notes were repaid in full in November 2019.

## 12. Income taxes

The combined statutory provincial and federal tax rates were 26.6% for the three-month period ended March 31, 2020 and 26.9% for the same period in 2019. The Company recorded an expense of \$4.6 million for the three-month period ended March 31, 2020 (2019 – \$5.0 million). The Company recorded an expense of 26.9% for the three-month period ended March 31, 2020 (2019 – 28.2%).

The difference between the effective and the statutory rates for the three-month periods ended March 31, 2020 and 2019 is due to the non-deductibility of certain expenses for tax purposes and the increase in the non-recognition of certain tax attributes in 2019.

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

### Fair value hierarchy

The three levels of fair value hierarchy are as follows:

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

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

The 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 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 value and the fair value of financial instrument not measured at fair value in the consolidated statement of financial position as at March 31, 2020. The fair value of cash, trade and other receivables, and trade and other payables are not included, as their carrying amount is a reasonable approximation of fair value due to their short-term maturity:

	Level	Carrying Value	Fair Value
Exchangeable debentures	1	\$ 99,173	\$ 96,380

#### 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. At the request of the Company, the ABL agreement was amended on November 18, 2019 to reduce the total commitment from \$50.0 million to \$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, 2020, the Company's fixed charge coverage ratio was 1.4 times. The Company had \$3.4 million of letters of credit issued and outstanding under the ABL. As such, \$21.6 million of the ABL was available as at March 31, 2020. As at March 31, 2020, the Company was in compliance with all covenants under the loan agreement governing the ABL.

## 14. Loss on sale of business

On July 6, 2018, the Company's wholly-owned subsidiary, Yellow Pages Digital & Media Solutions Limited, sold ComFree/DuProprio ("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. Of the \$1.8 million balance that had been placed in escrow, an amount of \$1.0 million was received by the Company on February 18, 2020. The Company recorded a loss on sale of business of \$0.5 million related to the amount in escrow it no longer expects to receive, in the interim condensed consolidated statements of income for the three-month period ended March 31, 2020. The remaining balance of \$0.3 million remains in escrow.

## 15. Subsequent events

#### Normal Course Issuer Bid

As announced on April 15, 2020, the Company entered into a Normal Course Issuer Bid ("NCIB") to purchase up to \$6.6 million principal amount of its Exchangeable Debentures starting on April 20, 2020 and ending on April 19, 2021. The price which Yellow Pages Digital & Media Solutions Limited will pay for any such Exchangeable Debentures will be the prevailing market price at the time of acquisition. All Exchangeable Debentures will be purchased for cancellation.

#### Dividend

On May 12, 2020, the Board of Directors adopted a dividend policy of paying a quarterly cash dividend to its common shareholders of \$0.11 per share. Quarterly dividends will be subject to Board approval.