

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW PAGES LIMITED

September 30, 2020 and 2019

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Interim Condensed Consolidated Statements of Financial Position

(in thousands of Canadian dollars – Unaudited)

| As at | September 30, 2020 | December 31, 2019 |
|--|--------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 124,475 | \$ 44,408 |
| Trade and other receivables (Note 3) | 70,612 | 87,250 |
| Prepaid expenses | 6,014 | 5,563 |
| Deferred publication costs | 2,458 | 2,492 |
| Net investment in subleases | 1,075 | 926 |
| Income taxes receivable | – | 344 |
| TOTAL CURRENT ASSETS | 204,634 | 140,983 |
| NON-CURRENT ASSETS | | |
| Deferred commissions | 2,156 | 3,610 |
| Financial and other assets | 1,396 | 829 |
| Right-of-use assets | 11,433 | 14,060 |
| Net investment in subleases | 24,868 | 25,611 |
| Property and equipment | 7,082 | 12,309 |
| Intangible assets | 74,856 | 89,749 |
| Deferred income taxes | 24,175 | 39,727 |
| TOTAL NON-CURRENT ASSETS | 145,966 | 185,895 |
| TOTAL ASSETS | \$ 350,600 | \$ 326,878 |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES | | |
| Trade and other payables | \$ 31,516 | \$ 33,662 |
| Provisions | 19,548 | 26,644 |
| Deferred revenues | 1,917 | 2,667 |
| Current portion of lease obligations | 2,958 | 2,767 |
| TOTAL CURRENT LIABILITIES | 55,939 | 65,740 |
| NON-CURRENT LIABILITIES | | |
| Provisions | 939 | 1,576 |
| Post-employment benefits (Note 6) | 124,599 | 122,567 |
| Lease obligations | 50,549 | 55,118 |
| Exchangeable debentures (Note 4) | 100,433 | 98,537 |
| TOTAL NON-CURRENT LIABILITIES | 276,520 | 277,798 |
| TOTAL LIABILITIES | 332,459 | 343,538 |
| CAPITAL AND RESERVES | 6,581,088 | 6,595,802 |
| DEFICIT | (6,562,947) | (6,612,462) |
| TOTAL EQUITY (DEFICIENCY) | 18,141 | (16,660) |
| TOTAL LIABILITIES AND EQUITY (DEFICIENCY) | \$ 350,600 | \$ 326,878 |

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 nine-month periods ended September 30, | 2020 | | 2019 | |
|--|-------------------|------------|-------------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Revenues | \$ 80,281 | \$ 98,147 | \$ 256,869 | \$ 309,706 |
| Operating costs (Note 8) | 52,969 | 60,361 | 155,066 | 183,117 |
| Income from operations before depreciation and amortization, and restructuring and other charges | 27,312 | 37,786 | 101,803 | 126,589 |
| Depreciation and amortization | 6,624 | 9,221 | 21,415 | 30,431 |
| Restructuring and other charges (Note 5) | 4,461 | 2,347 | 7,910 | 6,780 |
| Income from operations | 16,227 | 26,218 | 72,478 | 89,378 |
| Financial charges, net (Note 11) | 4,196 | 7,019 | 12,498 | 32,240 |
| (Gain) loss on sale of businesses (Note 13) | (79) | 160 | 423 | 357 |
| Earnings before income taxes | 12,110 | 19,039 | 59,557 | 56,781 |
| Provision for income taxes | 3,069 | 5,200 | 16,074 | 15,709 |
| Net earnings | \$ 9,041 | \$ 13,839 | \$ 43,483 | \$ 41,072 |
| Basic earnings per share | \$ 0.34 | \$ 0.52 | \$ 1.63 | \$ 1.55 |
| Weighted average shares outstanding – basic earnings per share (Note 7) | 26,636,552 | 26,528,295 | 26,634,096 | 26,511,425 |
| Diluted earnings per share | \$ 0.34 | \$ 0.49 | \$ 1.52 | \$ 1.44 |
| Weighted average shares outstanding – diluted earnings per share (Note 7) | 26,963,784 | 32,609,102 | 32,548,306 | 32,592,232 |

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

Interim Condensed Consolidated Statements of Comprehensive (Loss) Income

(in thousands of Canadian dollars – Unaudited)

| For the three and nine-month periods ended September 30, | 2020 | | 2019 | |
|---|-----------------|------------------|------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Net earnings | \$ 9,041 | \$ 13,839 | \$ 43,483 | \$ 41,072 |
| Other comprehensive (loss) income: | | | | |
| Items that will not be reclassified subsequently to net earnings | | | | |
| Actuarial (losses) gains (Note 6) | (13,649) | 4,233 | (1,622) | (38) |
| Income taxes relating to items that will not be reclassified subsequently to net earnings | 3,628 | (1,139) | 431 | 10 |
| Other comprehensive (loss) income | (10,021) | 3,094 | (1,191) | (28) |
| Total comprehensive (loss) income | \$ (980) | \$ 16,933 | \$ 42,292 | \$ 41,044 |

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 nine-month periods ended September 30,

| | 2020 | | | | | | | | | |
|---|--------------------------------------|----------------------|-----------------|---|--|------------------------------------|-------------------------------|-----------------------|---------------------|------|
| | Shareholders' capital (Note 7) | Restricted shares | Warrants | Compound financial instruments ¹ | 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 loss | – | – | – | – | – | – | – | (1,191) | (1,191) | |
| Net earnings | – | – | – | – | – | – | – | 43,483 | 43,483 | |
| Total comprehensive income | – | – | – | – | – | – | – | 42,292 | 42,292 | |
| Repurchase of exchangeable debentures (Note 4) | – | – | – | (2) | – | – | (2) | – | (2) | |
| Repurchase of common shares (Note 7) | (14,257) | – | – | – | – | – | (14,257) | 13,148 | (1,109) | |
| Dividends to shareholders | – | – | – | – | 29 | – | 29 | (5,925) | (5,896) | |
| Restricted shares settled | – | 2,049 | – | – | (2,049) | – | – | – | – | |
| Restricted shares (Note 10) | – | – | – | – | (708) | – | (708) | – | (708) | |
| Stock options (Note 10) | – | – | – | – | 224 | – | 224 | – | 224 | |
| Balance, September 30, 2020 | \$ 4,017,428 | \$ (19,372) | \$ 1,456 | \$ 3,617 | \$ 120,906 | \$ 2,457,053 | \$ 6,581,088 | \$ (6,562,947) | \$ 18,141 | |
| | | | | | | | | | | 2019 |
| | Shareholders' capital (Note 7) | Restricted shares | Warrants | Compound financial instruments ¹ | 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 | – | – | – | – | – | – | – | (28) | (28) | |
| Net earnings | – | – | – | – | – | – | – | 41,072 | 41,072 | |
| Total comprehensive income | – | – | – | – | – | – | – | 41,044 | 41,044 | |
| Restricted shares settled | – | 1,288 | – | – | (1,288) | – | – | – | – | |
| Restricted shares (Note 10) | – | – | – | – | (419) | – | (419) | – | (419) | |
| Stock options (Note 10) | – | – | – | – | 850 | – | 850 | – | 850 | |
| Balance, September 30, 2019 | \$ 4,031,685 | \$ (22,133) | \$ 1,456 | \$ 3,619 | \$ 123,898 | \$ 2,457,053 | \$ 6,595,578 | \$ (6,673,267) | \$ (77,689) | |

¹ 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 nine-month periods ended September 30, | 2020 | 2019 |
|--|-------------------|------------------|
| OPERATING ACTIVITIES | | |
| Net earnings | \$ 43,483 | \$ 41,072 |
| Adjusting items | | |
| Stock-based compensation (recovery) expense – equity settled | (484) | 431 |
| Depreciation and amortization | 21,415 | 30,431 |
| Restructuring and other charges | 7,910 | 6,780 |
| Financial charges, net | 12,498 | 32,240 |
| Loss on sale of businesses (Note 13) | 423 | 357 |
| Provision for income taxes | 16,074 | 15,709 |
| Change in operating assets and liabilities | 6,778 | 20,688 |
| Funding of post-employment benefit plans in excess of costs | (2,478) | (3,190) |
| Restructuring and other charges paid | (8,470) | (14,875) |
| Interest paid | (5,849) | (17,163) |
| Income taxes received, net | 260 | 254 |
| | 91,560 | 112,734 |
| INVESTING ACTIVITIES | | |
| Additions to intangible assets | (3,942) | (7,674) |
| Additions to property and equipment | (157) | (83) |
| Payments received from net investment in subleases | 716 | 318 |
| Proceeds on sale of businesses (Note 13) | 1,200 | 1,744 |
| Business acquisition | – | (400) |
| | (2,183) | (6,095) |
| FINANCING ACTIVITIES | | |
| Repayment of senior secured notes | – | (90,000) |
| Repurchase of exchangeable debentures (Note 4) | (56) | – |
| Repurchase of common shares (Note 7) | (1,109) | – |
| Payment of lease obligations | (2,249) | (3,188) |
| Dividends paid | (5,896) | – |
| | (9,310) | (93,188) |
| NET INCREASE IN CASH | 80,067 | 13,451 |
| CASH AND RESTRICTED CASH, BEGINNING OF PERIOD | 44,408 | 81,452 |
| CASH, END OF PERIOD | \$ 124,475 | \$ 94,903 |

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 nine-month periods ended September 30, 2020 and 2019 on November 11, 2020 for publication on November 12, 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

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 first quarter of 2020. As at September 30, 2020, the Company updated its assessment related to the additional ECL, no further adjustment was required as a result of this assessment. 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 September 30, 2020. As a result of this assessment, no adjustment was required.

2.3 Government grant

Government grants are recognized when there is reasonable assurance that the Company will comply with the conditions attaching to it and that the grant will be received. Government grants related to an expense are recognized in profit or loss as a reduction in the related expense for which the grants are intended to compensate.

In response to the negative economic impact of COVID-19, various government programs have been enacted to provide financial relief to businesses. In the second quarter of 2020, the Company determined that it qualified for the Canada Emergency Wage Subsidy (“CEWS”) program under the COVID-19 Economic Response plan for certain periods. The contribution received was recorded as a reduction to operating costs in the interim condensed consolidated statements of income.

On July 27, 2020, legislation was enacted with respect to the extension and expansion of the CEWS program, whereby the CEWS program was extended until November 21, 2020, with a potential additional extension through to December 19, 2020, with significant changes to the original program mechanics. During the third quarter ended September 30, 2020, the Company determined that it qualified for the CEWS program under the COVID-19 Economic Response plan for certain periods. The contribution received was recorded as a reduction to operating costs in the interim condensed consolidated statements of income.

On November 6, 2020, the House of Commons adopted Bill C-9 (the “Bill”) which proposes the extension of the CEWS program until June 2021 including several other revisions to the CEWS rules. The Bill will not receive Royal Assent until the Senate resumes its activities, as it is currently adjourned until 17 November 2020. The Company is evaluating the effect of these changes on its eligibility to qualify for any further subsidies.

2.4 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, 2023 and are to be applied retrospectively. The Company is assessing the impact of adopting these amendments on its financial statements.

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

On May 14, 2020, the 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.

3. Trade and other receivables¹

| As at | September 30, 2020 | December 31, 2019 ² |
|--------------------------------------|--------------------|--------------------------------|
| Current | \$ 47,718 | \$ 62,743 |
| Past due less than 180 days | 9,006 | 9,689 |
| Past due over 180 days | 6,867 | 6,153 |
| Trade receivables | \$ 63,591 | \$ 78,585 |
| Other receivables³ | 7,021 | 8,665 |
| Trade and other receivables | \$ 70,612 | \$ 87,250 |

¹ Trade and other receivables are presented net of allowance for revenue adjustments (“AFRA”) and ECL of \$35.4 million as at September 30, 2020 (\$31.6 million as at December 31, 2019).

² Certain comparative information has been restated to conform to current year presentation to more accurately allocate the AFRA to each aging bucket.

³ Other receivables as at September 30, 2020 and December 31, 2019 included a loan receivable of \$4.4 million associated with a forward contract.

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

| As at | September 30, 2020 | December 31, 2019 |
|--|--------------------|-------------------|
| Contract assets | \$ 34,971 | \$ 41,785 |
| Allowance for revenue adjustments and ECL | (3,854) | (3,703) |
| Contract assets net of allowance for revenue adjustments and ECL | \$ 31,117 | \$ 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 nine-month period ended September 30, 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. Exchangeable debentures

| As at | September 30, 2020 | December 31, 2019 |
|--|--------------------|-------------------|
| Principal amount of exchangeable debentures (at maturity, November 30, 2022) | \$ 107,033 | \$ 107,089 |
| Less unaccreted interest | 6,600 | 8,552 |
| Exchangeable debentures | \$ 100,433 | \$ 98,537 |

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. As at September 30, 2020, the Company purchased Exchangeable Debentures under this NCIB program with a carrying value of \$52 thousand for cash and a face value of \$56 thousand.

5. Restructuring and other charges

Restructuring and other charges of \$4.5 million were recorded for the three-month period ended September 30, 2020 (2019 – \$2.3 million) consisting mainly of restructuring charges of \$0.4 million associated with workforce reductions, a \$2.1 million charge related to future operation costs provisioned related to lease contracts for office closures, as well as a \$2.0 million charge related to the impairment of property and equipment and right-of-use assets related to vacated office space. For the three-month period ended September 30, 2019, the Company recorded restructuring and other charges of \$2.3 million consisting of restructuring charges of \$1.8 million relating to workforce reductions, a \$0.3 million charge relating to future operation costs provisioned related to lease contracts for office closures, as well as an impairment of right-of-use assets of \$0.2 million.

Restructuring and other charges of \$7.9 million were recorded for the nine-month period ended September 30, 2020 (2019 – \$6.8 million) consisting mainly of restructuring charges of \$2.0 million associated with workforce reductions, a \$3.2 million charge related to future operation costs provisioned related to lease contracts for office closures, as well as a \$3.7 million charge related to property and equipment disposals and impairment of property and equipment and right-of-use assets related to vacated office space, partially offset by a \$1.0 million recovery related to the surrender of vacated office space. For the nine-month period ended September 30, 2019, the Company recorded restructuring and other charges of \$6.8 million of which \$6.1 million consisted of restructuring charges due to workforce reductions and \$0.7 million related to future operation costs provisioned related to lease contracts for office closures as well as an impairment of right-of-use assets.

6. Post-employment benefits

Yellow Pages Limited recorded an actuarial loss of \$10.0 million in other comprehensive (loss) income, net of income taxes of \$3.6 million for the three-month period ended September 30, 2020. A loss of \$18.2 million resulting from the increase in the inflation rate from 1.00% to 1.30% was partially offset by a gain of \$4.6 million due to the higher than expected actual return on plan assets. Yellow Pages Limited recorded an actuarial gain of \$3.1 million in other comprehensive (loss) income, net of income tax expense of \$1.1 million, for the three-month period ended September 30, 2019, primarily due to a higher than expected return on plan assets.

Yellow Pages Limited recorded an actuarial loss of \$1.2 million in other comprehensive (loss) income, net of income taxes of \$0.4 million for the nine-month period ended September 30, 2020. A loss of \$21.0 million resulting from the decrease in the discount rate from 3.8% to 2.8% was partially offset by the decrease in the inflation rate from 1.4% to 1.3% and by a gain of \$19.4 million due to the higher than expected actual return on plan assets. Yellow Pages Limited recorded a nominal amount, as an actuarial loss in other comprehensive (loss) income, for the nine-month period ended September 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%, almost completely offset by a higher than expected return on plan assets.

7. Shareholders' capital

Common shares – Issued

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 September 30, 2020, the Company purchased under this NCIB program 99,280 common shares for cash of \$1.1 million. The related historical carrying value of these shares was reclassified from shareholder's capital to deficit.

As at September 30, 2020, the Company had a total of 27,976,028 common shares outstanding. As at December 31, 2019, the Company had a total of 28,075,308 common shares outstanding.

Warrants

As at September 30, 2020 and December 31, 2019, the Company had a total of 2,995,484 Warrants outstanding for an amount of \$1.5 million.

Earnings per share

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

| For the three and nine-month periods ended September 30, | 2020 | 2019 | 2020 | 2019 |
|---|-------------------|------------|-------------------|------------|
| Weighted average number of shares outstanding used in computing basic earnings per share ¹ | 26,636,552 | 26,528,295 | 26,634,096 | 26,511,425 |
| Dilutive effect of restricted share units and performance share units | 129,467 | 456,385 | 129,467 | 456,385 |
| Dilutive effect of stock options | 197,765 | – | 162,211 | – |
| Dilutive effect of exchangeable debentures | – | 5,624,422 | 5,622,532 | 5,624,422 |
| Weighted average number of shares outstanding used in computing diluted earnings per share¹ | 26,963,784 | 32,609,102 | 32,548,306 | 32,592,232 |

| For the three and nine-month periods ended September 30, | 2020 | 2019 | 2020 | 2019 |
|--|-----------------|-----------|------------------|-----------|
| Net earnings used in the computation of basic earnings per share | \$ 9,041 | \$ 13,839 | \$ 43,483 | \$ 41,072 |
| Impact of assumed conversion of exchangeable debentures, net of applicable taxes | – | 2,004 | 6,147 | 5,973 |
| Total net earnings used in the computation of diluted earnings per share | \$ 9,041 | \$ 15,843 | \$ 49,630 | \$ 47,045 |

¹ 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 period ended September 30, 2020, the diluted earnings per share calculation did not take into consideration the potential dilutive effect of the exchangeable debentures as they are not dilutive. For the three and nine-month periods ended September 30, 2020 and September 30, 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.

8. Operating costs

During the three and nine-month periods ended September 30, 2020, the Company applied for the Canada Emergency Wage Subsidy offered by the Government of Canada. The Company was eligible for the subsidy as it met the criteria for certain periods. Yellow Pages Limited received non-refundable contributions of \$1.2 million and \$6.0 million during the three and nine-month periods ended September 30, 2020, respectively, for admissible salaries related to its workforce. The contributions are recorded as a reduction to operating costs in the interim condensed consolidated statements of income.

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 and nine-month periods ended September 30, 2020 and 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 100% of digital revenues were recognized over the term of the contract for the three and nine-month periods ended September 30, 2020 and 99% of digital revenues were recognized over the term of the contract and 1% at a point in time for the three and nine-month periods ended September 30, 2019 respectively.

The following tables present financial information for the three and nine-month periods ended September 30, 2020 and 2019.

| For the three-month period ended September 30, 2020 | YP | Other | Yellow Pages Limited |
|--|-----------------|-------------|-------------------------|
| Revenues | | | |
| Digital | \$ 61,305 | \$ – | \$ 61,305 |
| Print | 18,976 | – | 18,976 |
| Total revenues | 80,281 | – | 80,281 |
| Operating costs | 52,969 | – | 52,969 |
| Income from operations before depreciation and amortization, and restructuring and other charges | \$ 27,312 | \$ – | \$ 27,312 |
| Depreciation and amortization | | | 6,624 |
| Restructuring and other charges | | | 4,461 |
| Financial charges, net | | | 4,196 |
| Gain on sale of business | | | (79) |
| Provision for income taxes | | | 3,069 |
| Net earnings | | | \$ 9,041 |
| Additions to intangible assets and property and equipment | \$ 1,340 | \$ – | \$ 1,340 |

| For the three-month period ended September 30, 2019 | YP | Other | Yellow Pages Limited |
|--|-----------------|-------------|-------------------------|
| Revenues | | | |
| Digital | \$ 74,309 | \$ – | \$ 74,309 |
| Print | 23,838 | – | 23,838 |
| Total revenues | 98,147 | – | 98,147 |
| Operating costs | 60,361 | – | 60,361 |
| Income from operations before depreciation and amortization, and restructuring and other charges | \$ 37,786 | \$ – | \$ 37,786 |
| Depreciation and amortization | | | 9,221 |
| Restructuring and other charges | | | 2,347 |
| Financial charges, net | | | 7,019 |
| Loss on sale of business | | | 160 |
| Provision for income taxes | | | 5,200 |
| Net earnings | | | \$ 13,839 |
| Additions to intangible assets and property and equipment | \$ 2,351 | \$ – | \$ 2,351 |

| For the nine-month period ended September 30, 2020 | YP | | Other | | Yellow Pages Limited |
|--|-----------|--------------|--------------|-----------|---------------------------------|
| Revenues | | | | | |
| Digital | \$ | 193,348 | \$ | – | \$ 193,348 |
| Print | | 63,521 | | – | 63,521 |
| Total revenues | | 256,869 | | – | 256,869 |
| Operating costs | | 155,066 | | – | 155,066 |
| Income from operations before depreciation and amortization, and restructuring and other charges | \$ | 101,803 | \$ | – | \$ 101,803 |
| Depreciation and amortization | | | | | 21,415 |
| Restructuring and other charges | | | | | 7,910 |
| Financial charges, net | | | | | 12,498 |
| Loss on sale of businesses | | | | | 423 |
| Provision for income taxes | | | | | 16,074 |
| Net earnings | | | | \$ | 43,483 |
| Additions to intangible assets and property and equipment | \$ | 4,099 | \$ | – | \$ 4,099 |

| For the nine-month period ended September 30, 2019 | YP | | Other | | Yellow Pages Limited |
|--|-----------|--------------|--------------|------------|---------------------------------|
| Revenues | | | | | |
| Digital | \$ | 228,600 | \$ | 1,274 | \$ 229,874 |
| Print | | 79,832 | | – | 79,832 |
| Total revenues | | 308,432 | | 1,274 | 309,706 |
| Operating costs | | 182,174 | | 943 | 183,117 |
| Income from operations before depreciation and amortization, and restructuring and other charges | \$ | 126,258 | \$ | 331 | \$ 126,589 |
| Depreciation and amortization | | | | | 30,431 |
| Restructuring and other charges | | | | | 6,780 |
| Financial charges, net | | | | | 32,240 |
| Loss on sale of businesses | | | | | 357 |
| Provision for income taxes | | | | | 15,709 |
| Net earnings | | | | \$ | 41,072 |
| Additions to intangible assets and property and equipment | \$ | 7,479 | \$ | 278 | \$ 7,757 |

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 (the "RSU Plan") amounted to 1,403,113 as at September 30, 2020.

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

| Number of | 2020 | | | 2019 | |
|--|-------------------|----------|-------------------|---------------|------|
| | RSUs ¹ | PSUs | RSUs ¹ | PSUs | PSUs |
| Outstanding, beginning of period | 318,536 | 60,406 | 399,503 | 189,063 | |
| Granted | 359,395 | – | 87,684 | – | |
| Reduction in payout related to under-achievement of targets ² | – | (15,105) | – | (49,774) | |
| Settled | (223,448) | (45,301) | (60,494) | – | |
| Dividends credited ³ | 9,163 | – | – | – | |
| Forfeited | (9,414) | – | (67,835) | (41,762) | |
| Outstanding, end of period | 454,232 | – | 358,858 | 97,527 | |
| Weighted average remaining life (years) | 1.88 | – | 1.05 | 0.33 | |

¹ Included in the RSUs outstanding balance as at September 30, 2020 are 324,765 RSUs granted in July 2020, representing a liability of \$0.3 million (2019 – nil) 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.

² The reduction in payout is related to the under-achievement of certain performance targets resulting in a reduction of 25% for the nine-month period ended September 30, 2020 (2019 – reduction of 100%).

³ Dividends in the form of additional RSUs are credited to the participant's account on each dividend payment date and are equivalent in value to the dividend paid on common shares.

During the three and nine-month periods ended September 30, 2020, an expense of \$1.0 million and \$1.4 million, respectively (2019 – an expense of \$0.1 million and a recovery of \$0.4 million, respectively) 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 nine-month periods ended September 30:

| | 2020 | | 2019 | |
|--|----------------|------------------------|----------------|------------------------|
| | Number of DSUs | Liability ¹ | Number of DSUs | Liability ¹ |
| Outstanding, beginning of period | 325,435 | \$ 2,948 | 255,755 | \$ 1,557 |
| Granted ² | 53,719 | 336 | 69,680 | 325 |
| Forfeited | (4,196) | – | – | – |
| Settled | (45,556) | (416) | – | – |
| Dividends credited ³ | 7,447 | 78 | – | – |
| Variation due to change in stock price | – | 688 | – | 644 |
| Outstanding, end of period | 336,849 | \$ 3,634 | 325,435 | \$ 2,526 |
| Vested, end of period | 324,468 | \$ 3,634 | 308,015 | \$ 2,526 |

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

² The liability related to the DSUs granted represents the portion that is vested as at September 30.

³ Dividends in the form of additional DSUs are credited to the participant’s account on each dividend payment date and are equivalent in value to the dividend paid on common shares.

During the three and nine-month periods ended September 30, 2020, an expense of \$0.9 million and \$1.1 million, respectively (2019 – an expense of \$0.5 million and \$1.0 million, respectively) was recorded in the interim condensed consolidated statement of income in operating costs in relation to the Deferred Share Unit Plan.

Stock options

At the Annual and Special Meeting of Shareholders held on May 13, 2020 an amendment to the 2012 Stock Option Plan was approved to provide for a cashless exercise feature, payable in cash, without a full deduction of the underlying shares from the plan reserve. Subject to approval of the Board or the Human Resources and Compensation Committee at the time of exercise, an option holder may elect to surrender an exercisable option for cancellation in exchange for a cash payment equal to the amount by which the fair market value of the share on the date of surrender exceeds the exercise price. The underlying shares in respect of the surrendered option will be added back to the plan reserve.

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

| | 2020 | | 2019 | |
|---|-------------------|------------------------|-------------------|------------------------|
| | Number of options | Liability ¹ | Number of options | Liability ¹ |
| Outstanding, beginning of period | 701,875 | \$ 1,078 | 701,875 | \$ 365 |
| Granted | 1,567,487 | 884 | – | – |
| Settled | (701,875) | (2,434) | – | – |
| Variation due to change in fair value and vesting | – | 1,051 | – | 459 |
| Outstanding, end of period | 1,567,487 | \$ 579 | 701,875 | \$ 824 |
| Vested, end of period | 159,652 | \$ 579 | 487,413 | \$ 824 |

¹ 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 nine-month periods ended September 30:

| | 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 | 2,004,069 | \$ 9.51 | 884,784 | \$ 5.86 |
| Settled | (701,875) | \$ 7.97 | – | \$ – |
| Forfeited | (538,057) | \$ 6.79 | (221,959) | \$ 8.61 |
| Outstanding, end of period | 2,747,239 | \$ 8.71 | 2,009,877 | \$ 7.25 |
| Exercisable, end of period | – | \$ – | 26,775 | \$ 17.87 |

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 nine-month periods ended September 30:

| | 2020 | 2019 |
|---|-----------|-----------|
| Weighted average grant date share price | \$ 9.51 | \$ 5.86 |
| Exercise price | \$ 9.51 | \$ 5.86 |
| Expected volatility | 60.3% | 61.1% |
| Option life | 2.5 years | 4 years |
| Risk-free interest rate | 0.80% | 2.18% |
| Weighted average remaining life | 2.2 years | 3.4 years |

During the three and nine-month periods ended September 30, 2020, an expense of \$1.3 million and \$2.2 million, respectively (2019 – an expense of \$0.5 million and \$1.3 million, respectively) 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 nine-month periods ended September 30:

| | 2020 | | 2019 | |
|---|----------------|------------------------|----------------|------------------------|
| | Number of SARs | Liability ¹ | Number of SARs | Liability ¹ |
| Outstanding, beginning of period | 701,875 | \$ 1,078 | 701,875 | \$ 365 |
| Granted | 174,165 | 527 | – | – |
| Settled | (701,875) | (2,434) | – | – |
| Variation due to change in fair value and vesting | – | 893 | – | 459 |
| Outstanding, end of period | 174,165 | \$ 64 | 701,875 | \$ 824 |
| Vested, end of period | 17,739 | \$ 64 | 487,413 | \$ 824 |

¹ 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.

During the three and nine-month periods ended September 30, 2020, an expense of \$1.5 million and \$1.4 million, respectively (2019 – an expense of \$0.2 million and \$0.5 million, respectively) was recorded in the interim condensed consolidated statement of income in operating costs in relation to the SARs plan.

11. Financial charges, net

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

| For the three and nine-month periods ended September 30, | 2020 | | 2019 | |
|--|-----------------|-----------------|------------------|------------------|
| Interest on senior secured notes ¹ and exchangeable debentures | \$ 2,810 | \$ 4,827 | \$ 8,373 | \$ 20,077 |
| Amortization of financing costs | 17 | 561 | 50 | 5,065 |
| Optional redemption price premium on senior secured notes | – | – | – | 791 |
| Interest on lease obligations, net of interest income on investment in subleases | 541 | 760 | 1,482 | 2,559 |
| Net interest on the defined benefit obligations | 951 | 1,193 | 2,853 | 3,805 |
| Other, net | (123) | (322) | (260) | (57) |
| Financial charges, net | \$ 4,196 | \$ 7,019 | \$ 12,498 | \$ 32,240 |

¹ The senior secured notes were repaid in full in November 2019.

12. 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 September 30, 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 | \$ 100,433 | \$ 109,425 |

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 September 30, 2020, the Company's fixed charge coverage ratio was 1.5 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 September 30, 2020. As at September 30, 2020, the Company was in compliance with all covenants under the loan agreement governing the ABL.

13. Loss on sale of businesses

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 \$0.4 million for the nine-month period ended September 30, 2020, related to the amount in escrow it no longer expects to receive. The remaining balance of \$0.4 million, was received on October 8, 2020.

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). Of this amount, \$0.2 million in escrow was released twelve (12) months after the sale on May 4, 2020. The sale resulted in the recognition of a \$0.4 million loss in the interim condensed consolidated statements of income for the nine-month period ended September 30, 2019.